

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 18, 2016
Pages 512 to 769



“When You Talk - We Listen!”



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1 --- Upon commencing at 9:01 a.m.

2

3 THE CHAIRPERSON: Morning, everyone.

4 Mr. Ghikas, you have a matter?

5 MR. MATT GHIKAS: Thank you. Yes, Mr.

6 -- Mr. Chairman. I just had four (4) filings that
7 were circulated last night electronically, and I just
8 thought I should reference them this morning.

9 The first one is the response to
10 Undertaking Number 2 requesting the frequency and
11 severity of the year-to-date motorcycle class
12 experience. And that would be MPI Exhibit number 28.

13

14 --- EXHIBIT NO. MPI-28: Response to Undertaking 2,
15 frequency and severity of
16 the year-to-date
17 motorcycle class
18 experience

19

20 MR. MATT GHIKAS: MPI Exhibit Number
21 29 is the response to PUB Pre-Ask Number 1.

22

23 --- EXHIBIT NO. MPI-29: Response to PUB Pre-Ask 1

24

25 MR. MATT GHIKAS: MPI Exhibit 30 is

1 the response to CMMG Pre-Ask number 1.

2

3 --- EXHIBIT NO. MPI-30: Response to CMMG Pre-Ask 1

4

5 MR. MATT GHIKAS: And Exhibit number

6 31 is the response to CMMG Pre-Ask number 2.

7

8 --- EXHIBIT NO. MPI-31: Response to CMMG Pre-Ask 2

9

10 MR. MATT GHIKAS: And that's it for
11 me. I believe those have been circulated around this
12 morning, too, in hard copy.

13

14 MPI PANEL 1, RESUMED

15

16 HEATHER REICHERT, Previously Sworn

17 LUKE JOHNSTON, Previously Sworn

18

19 THE CHAIRPERSON: Thank you.

20 Ms. McCandless...?

21 MS. KATHLEEN MCCANDLESS: Good

22 morning, Mr. Chair, members of the panel. This
23 morning I'll be continuing with my cross-examination
24 of the MPI panel.

25

1 CONTINUED CROSS-EXAMINATION BY MS. KATHLEEN

2 MCCANDLESS:

3 MS. KATHLEEN MCCANDLESS: And so
4 continuing on the -- the broad heading of operating
5 expenses, last week we spoke about the expenses by
6 element. The Corporation also separates the expenses
7 by category; yes?

8 MS. HEATHER REICHERT: Yes.

9 MS. KATHLEEN MCCANDLESS: And that
10 would include claims expense, operating expense, road
11 safety, and regulatory and appeal under the broad
12 headings?

13 MS. HEATHER REICHERT: Yes, that's
14 correct.

15 MS. KATHLEEN MCCANDLESS: Diana, could
16 you please pull up expenses Appendix 3, page 8 from
17 the filing? Now, this schedule shows the compound
18 annual growth of -- of the expense categories; yes?

19 MS. HEATHER REICHERT: Yes, that's
20 correct.

21 MS. KATHLEEN MCCANDLESS: I'm just
22 going to focus on a handful of them. A note about
23 five (5) lines down, one (1) of the major growth areas
24 is data processing. For the period from '12/'13 to
25 '15/'16, there's a growth rate of 11.1 percent,

1 '16/'17 to '18/'19, 10.3 percent, and '19/'20 to
2 '20/'21 of 6.8 percent.

3 Do you see that in front of you?

4 MS. HEATHER REICHERT: Yes, I do.

5 MS. KATHLEEN MCCANDLESS: And then
6 there's also a significant increase in the category of
7 -- if we just want to look down to "Furniture and
8 equipment."

9 In the period from '16/'17 to '18/'19,
10 that three (3) year period, there's a significant
11 growth rate there of 78.3 percent?

12 MS. HEATHER REICHERT: Yes, that's
13 true. That's a very small dollar category, and you'll
14 see there's significant decreases and then increases,
15 and that's because that's where we reflect the desktop
16 refresh. It happens every three (3) or four (4)
17 years, so that's why those numbers look as volatile as
18 they are.

19 MS. KATHLEEN MCCANDLESS: Thank you.
20 With respect to "Merchant fees," which is just one (1)
21 line below "furniture and equipment," there's a
22 significant growth in '12/'13 to '15/'16 of 5.2
23 percent, and then '16/'17 to '18/'19 of 8.1 percent?

24 MS. HEATHER REICHERT: Correct. So
25 in the period of '12/'13 to '15/'16 is when we moved

1 to online credit card payments, so there was a -- a
2 significant increase in the merchant fees as a result
3 of people using that online function. And then within
4 -- so we had to adjust, or we're trying to adjust the
5 -- the budget in '16/'17 to '18/'19 to actually
6 reflect the fact that we were starting to see that
7 increased volume.

8 And now that the budgets have been, we
9 hope, established at what the appropriate amounts are,
10 you'll see a -- a more reasonable inflationary
11 increase in the '19/'20 to '20/'21.

12 MS. KATHLEEN MCCANDLESS: Okay.
13 Diana, could you please pull up PUB/MPI-II-21? And
14 this just follows on your response, Ms. Reichert.
15 This is where -- if we scroll up the question 'A', the
16 Corporation was asked to explain that forecasted 8.1
17 percent compounded annual growth rate for merchant
18 fees.

19 And then if we scroll down, the
20 Corporation's response there is that, 'A' -- I -- and
21 I won't review the whole response, but the Corporation
22 has cited an increase in premium revenue, as well,
23 associated with the merchant fees?

24 MS. HEATHER REICHERT: Yes, that would
25 be another contributing factor, because the merchant

1 fee is based on the amount of the -- the credit card
2 payment. So if the premium goes up, the credit card
3 fee also goes up.

4 MS. KATHLEEN MCCANDLESS: And do you
5 know if the premium revenues are growing at the same
6 rate as the merchant fees?

7 MS. HEATHER REICHERT: I would say
8 not. I mean, we've only had -- two (2) years ago, we
9 had a 3.4 percent increase in the premium rates. Yes,
10 last year it was zero. So the credit card fees are
11 negotiated by contract every four (4) or five (5)
12 years, so they wouldn't necessarily go in -- in the
13 exact same trend.

14 MS. KATHLEEN MCCANDLESS: And who pays
15 for the merchant fees if the annual renewals are done
16 at the broker's office?

17 MS. HEATHER REICHERT: That is part of
18 MPI's expense. So it's reflected in our merchant fee
19 expense.

20 MS. KATHLEEN MCCANDLESS: Thank you.
21 Diana, could you, please, pull up expenses Appendix 2,
22 page 5, from the filing?

23

24 (BRIEF PAUSE)

25

1 MS. KATHLEEN MCCANDLESS: And this is
2 a ten (10) year summary of Basic total expenses by
3 category, and it's broken down into two (2) schedules.
4 The top is the claims expense, and then the bottom
5 part of the schedule is operating expense.

6 If we note in the -- the top table, for
7 claims expense and data processing increases, it
8 appears that in the period from 2012 through to 2017,
9 there's essentially a -- a doubling in that expense,
10 yes?

11 MS. HEATHER REICHERT: Yes, and that
12 would be because it was in the period, I guess it was
13 2013, that we moved to -- moving our data centres to
14 Ontario to provide for proper -- what's -- what's the
15 word, continuity. In case of -- of any issues in
16 Manitoba, our -- our data service centres are located
17 in Ontario; two (2) of them about twenty (20) miles
18 apart.

19 So when we did that we moved to a -- a
20 purchase service, if you will, in that we were paying
21 IBM to run those data ser -- data centres for us. So
22 that's why you see the significant increase in 2013,
23 and then -- and other -- other increases would be
24 relating to projects improvement initiatives that
25 incur licensing fees or maintenance fees after they're

1 implemented.

2 But the increase from 2012 to 2013 is
3 because of the data centres moving to -- to being
4 managed by IBM.

5 MS. KATHLEEN MCCANDLESS: And sorry,
6 would that explain the -- the subsequent increase then
7 from the -- from 2016 present through to a forecast of
8 18 million for 2020 and '21?

9 MS. HEATHER REICHERT: See -- yes, as
10 -- these are the base -- these are total expenses. So
11 it will include -- as I was explaining, when we
12 segregate improvement initiative's ongoing expenses so
13 that when an initiative that's not yet completed and
14 is anticipated to be completed in 2018/2019, and we
15 know we're going to increase licensing fees or
16 maintenance fees, those costs would be included in
17 that data processing line.

18 If I'm -- if I'm correct, this is total
19 expenses as opposed to just normal operating expenses.

20 MS. KATHLEEN MCCANDLESS: Thank you.
21 Now, I'll have some questions on cost containment.

22 And we heard in your evidence last week
23 that the Corporation is committed to containing
24 operating expenses by targeting some staffing
25 reductions?

1 MS. HEATHER REICHERT: That's correct.

2 MS. KATHLEEN MCCANDLESS: Diana, could
3 you please pull up MPI Exhibit Number 23, slide 79?

4

5 (BRIEF PAUSE)

6

7 MS. KATHLEEN MCCANDLESS: And included
8 in this table is the staffing strategy at the bottom
9 of the table, which explains some of the cost
10 containment measures that the Corporation's employing?

11 MS. HEATHER REICHERT: That's correct.

12 MS. KATHLEEN MCCANDLESS: Were there
13 any savings or reduction in staffing for 2016/'17?

14 MS. HEATHER REICHERT: Actually, some
15 of the Pembina service centre, the five (5) staff
16 there, we were actually able to move staff and through
17 attrition we're able to actually achieve those five
18 (5) staff savings starting in '16/'17.

19 It wouldn't be an entire year, but it
20 did start in the current fiscal year.

21 MS. KATHLEEN MCCANDLESS: Thank you.
22 How does the Corporation track the forecast targets
23 against the actual achievements in cost savings?

24 MS. HEATHER REICHERT: Essentially it
25 is by managing to -- to the budget. So what we do is

1 identify these savings, reflect them as reductions in
2 the budget for the specific line items that are -- are
3 impacted, and then we monitor against that new reduced
4 budget on -- on a monthly and -- and annual basis.

5 So when the -- when the budget is
6 achieved we've essentially saved the -- the money that
7 we removed from the -- from the budget initially.

8 MS. KATHLEEN MCCANDLESS: Thank you.

9 And there is an Innovation and Cost Containment
10 Committee, yes?

11 MS. HEATHER REICHERT: Yes, there is.

12 MS. KATHLEEN MCCANDLESS: I understand
13 its purpose is to identify process and technology
14 strategies that will lead to reduction in corporate
15 operating expenses?

16 MS. HEATHER REICHERT: That's correct.

17 MS. KATHLEEN MCCANDLESS: How often
18 does the committee meet?

19 MS. HEATHER REICHERT: It -- it does
20 vary, but I believe it's at least on a monthly basis.
21 It was more frequently initially and now it's more in
22 the sustaining mode, so I believe it's about every --
23 every month.

24 MS. KATHLEEN MCCANDLESS: Who's on the
25 committee?

1 MS. HEATHER REICHERT: It's various
2 directors and executive directors representing all the
3 different divisions within the Corporation.

4 MS. KATHLEEN MCCANDLESS: Is the
5 President a member of this committee as well?

6 MS. HEATHER REICHERT: Pardon me?

7 MS. KATHLEEN MCCANDLESS: Is the
8 President a member of the committee as well?

9 MS. HEATHER REICHERT: As in Dan
10 Guimond?

11 MS. KATHLEEN MCCANDLESS: Yes.

12 MS. HEATHER REICHERT: No, it is
13 executive directors and directors, so not VPs or the
14 CEO.

15 MS. KATHLEEN MCCANDLESS: And how are
16 the cost containment goals communicated to the
17 Corporation as a whole?

18 MS. HEATHER REICHERT: They're
19 communicated -- when it was initially established
20 there was a -- a goal that they more than achieved in
21 the first year. And then subsequent to that it's
22 based on what our budgeting targets are for the -- for
23 that particular year.

24 And then it's just generally
25 acknowledged that they -- they don't necessarily have

1 a target of 'X' million ever single year, but it's to
2 achieve whatever is absolutely possible within --
3 within the constraints of -- of time and resources.

4 MS. KATHLEEN MCCANDLESS: Thank you.
5 Diana, could you please pull up from the 2016 GRA
6 filing cost containment section, Attachment A? So
7 this is from last year's filing and it's an overview
8 of the Innovation and Cost Containment Committee.

9 And if we scroll to the table on page 2
10 of this document. This was an estimated budget reduc
11 -- or budget reduction breakdown in last year's filing
12 with respect to targeted cost containment measures,
13 yes?

14 MR. HEATHER REICHERT: Yes, that's
15 correct.

16 MS. KATHLEEN MCCANDLESS: And if we
17 look to the second line in that table, there's a
18 thirty (30) FTE reduction estimated to be a savings of
19 \$1.5 million?

20 MR. HEATHER REICHERT: That's correct.

21 MS. KATHLEEN MCCANDLESS: Then the
22 other targeted reductions total an estimated savings
23 of \$8.5 million?

24 MR. HEATHER REICHERT: That's correct.
25 That's on a corporate basis.

1 MS. KATHLEEN MCCANDLESS: Right. And
2 then, Diana, could you please pull up the cost
3 containment section from this year's filing, page 7?

4 MR. MATT GHIKAS: Just before we move
5 on, Ms. McCandless, is -- can I just confirm? Is this
6 -- is the document we just looked at on the record
7 this year or is it -- was it from the pre --

8 MS. KATHLEEN MCCANDLESS: It's from --
9 it's from last year's filing.

10 MR. MATT GHIKAS: Okay. Would it --
11 would it be a good idea then to mark it as an exhibit
12 in this hearing, too?

13 MS. KATHLEEN MCCANDLESS: Sure, we can
14 proceed to mark that as the Board's next exhibit.

15 MR. MATT GHIKAS: Thank you.

16

17 --- EXHIBIT NO. PUB-14: Cost containment section,
18 Page 7, from this year's
19 GRA filing.

20

21 CONTINUED BY MS. KATHLEEN MCCANDLESS:

22 MS. KATHLEEN MCCANDLESS: Now, Diana,
23 could you turn to the cost containment section from
24 this year's GRA, and page 7?

25 And this is a table comparing the

1 2015/'16 corporate normal operating expense budget
2 versus actual expenditures, yes?

3 MR. HEATHER REICHERT: Yes, that's
4 correct.

5 MS. KATHLEEN MCCANDLESS: And if we
6 look to the rightmost column at the bottom, it looks
7 as though actual 2015/'16 spending was \$7.2 million
8 higher than what was budgeted?

9 MR. HEATHER REICHERT: That's correct.
10 And I believe, if -- if I'm not mistaken, below, if
11 you scroll down, it -- it identifies what the 7.2 is
12 relating to. So that 7.2 million of negative various
13 to budget isn't related to any of the items that we
14 actually had removed from the budget.

15 So we achieved the reduction in the
16 budget. And then items that were unrelated to that
17 resulted in some budget negative variances, as
18 described below.

19 MS. KATHLEEN MCCANDLESS: I believe if
20 we scroll to page 8 there are some further
21 explanations for this. So special services was on
22 budget, but it had \$1.7 million of expenditures
23 related to work approved sub -- subsequent to the
24 finalization of the budget, merchant fees and postage?

25 MR. HEATHER REICHERT: Correct.

1 MS. KATHLEEN MCCANDLESS: Diana, could
2 you please pull up PUB MPI-1-6?

3

4 (BRIEF PAUSE)

5

6 MS. KATHLEEN MCCANDLESS: And this was
7 a response to a question asked on behalf of the Board
8 for a comparison of the 2015/'16 budget breakdown of
9 \$8.5 million with actual experience, explaining the
10 variances from the achievement of budgetive --
11 budgeted savings.

12 So if we scroll to the second page of
13 this response. The Corporation responded that the
14 budget reductions outlined in the 2016 volume 1 cost
15 containment were embedded in the budget and not
16 tracked separately. You see that?

17 MR. HEATHER REICHERT: Yes. I -- I
18 think that is what I was saying earlier. So, yes, I
19 see that.

20 MS. KATHLEEN MCCANDLESS: Okay. And
21 would the Corporation not want to ensure that it has
22 realized the cost containment savings?

23 MR. HEATHER REICHERT: Well, my -- my
24 opinion is we, in fact, have achieved those estimated
25 savings, so the -- the budget reductions were taken.

1 And then we monitor to that budget. And then budget
2 overages that may have resulted at the end of the year
3 were unrelated to where we had in fact achieved the
4 savings.

5 So, from my perspective, that indicates
6 to me that we were successful in achieving the -- the
7 cost containment reductions to the budget.

8

9 (BRIEF PAUSE)

10

11 MS. KATHLEEN MCCANDLESS: Thank you.
12 Diana, could you please pull up cost containment from
13 the filing, attachment A?

14

15 (BRIEF PAUSE)

16

17 MS. KATHLEEN MCCANDLESS: Now, this
18 shows the -- this table shows the targeted cost
19 savings listed from the Innovation and Cost
20 Containment Committee for this year's GRA?

21 MS. HEATHER REICHERT: That's correct.

22 MS. KATHLEEN MCCANDLESS: And if we
23 look to the cost savings for 2017/'18, the total
24 corporate targeted savings are \$3.5 million?

25 MS. HEATHER REICHERT: That's correct.

1 MS. KATHLEEN MCCANDLESS: And then,
2 looking forward to 2018/'19, there's a target of 6.3
3 million --

4 MS. HEATHER REICHERT: That's correct.

5 MS. KATHLEEN MCCANDLESS: -- for a two
6 (2) year total of 9.8 million, yes?

7 MS. HEATHER REICHERT: Correct.

8 MS. KATHLEEN MCCANDLESS: Now, if we
9 could go back to the cost containment, Attachment B
10 from last year's GRA. That's 2016.

11 And if we scroll to the -- the table
12 here, we see itemized cost reductions of 4.2 million,
13 a thirty (30) FTE reduction of 1.5 million, and other
14 compensation of 2.8 million, yes?

15 MS. HEATHER REICHERT: Correct.

16 MS. KATHLEEN MCCANDLESS: And we've --
17 we saw obviously that a large portion of the
18 Corporation's expenses is staffing, yes?

19 MS. HEATHER REICHERT: Correct.

20 MS. KATHLEEN MCCANDLESS: Now, Diana,
21 if we could look to the PUB-MPI-1-24 from last year's
22 GRA -- and I'll take Mr. Ghikas's suggestion and ask
23 that this be entered as the Board's next exhibit.
24 That would be Exhibit Number 15.

25

1 --- EXHIBIT NO. PUB-15: PUB-MPI-1-24 from 2016 GRA

2

3 MS. KATHLEEN MCCANDLESS: Now, if we
4 could scroll to question D in this IR, the Corporation
5 was asked to provide the annualized impact of the
6 thirty (30) FTE savings on 2016/'17.

7 And if we scroll to the second page,
8 there's a table showing the breakdown of those thirty
9 (30) full-time equivalent position reductions, yes?

10 MS. HEATHER REICHERT: Correct.

11 MS. KATHLEEN MCCANDLESS: And then if
12 we review the response to question D, which I believe
13 is at the bottom of this page, the Corporation's
14 response to the projected annualized impact of that
15 savings on 2016/'17 was approximately \$1.8 million --

16 MS. HEATHER REICHERT: Yes.

17 MS. KATHLEEN MCCANDLESS: -- correct?
18 So that would amount to sixty thousand dollars
19 (\$60,000) per position?

20 MS. HEATHER REICHERT: Approximately.

21 MS. KATHLEEN MCCANDLESS: And then,
22 Diana, could we please flip to the cost containment
23 section of this year's filing, Attachment A, page 1?

24 And if we look to the staffing strategy
25 targeted reduction for 2017/'18 there, we see a

1 targeted savings of 1.125 million, yes?

2 MS. HEATHER REICHERT: Correct.

3 That's for a different number of FTEs starting in
4 '17/'18 fiscal year.

5 MS. KATHLEEN MCCANDLESS: That's for
6 fifteen (15) FTEs?

7 MS. HEATHER REICHERT: Correct.

8 MS. KATHLEEN MCCANDLESS: So -- and
9 that's at seventy-five thousand dollars (\$75,000) per
10 position?

11 MS. HEATHER REICHERT: Correct.

12 MS. KATHLEEN MCCANDLESS: Diana, could
13 we just scroll to the bottom of that? And of that, we
14 see that nine hundred thousand dollars (\$900,000) in
15 that year of the -- that's 80 percent of the savings,
16 will relate to Basic, yes?

17 MS. HEATHER REICHERT: Yeah. That's
18 just a -- a general estimated allocation to Basic. So
19 to -- to help out here, when we are doing to
20 estimates, we typically use a seventy-five thousand
21 dollars (\$75,000) per FTE because at the time that
22 we're doing that estimate we don't know precisely if
23 it's a clerical position, a management position, or a
24 technical position.

25 And then, on the -- on the previous --

1 on the -- on the '16/'17, at that point we would have
2 known more precisely the nature of the positions. And
3 that's why the average appears to be different than
4 what we would typically use for the estimate.

5 So we use a broad estimate, and then we
6 refine it as we actually identify the specific FTEs.

7 MS. KATHLEEN MCCANDLESS: Thank you.
8 Could you explain how the Corporation uses vacancy
9 allowance to manage staffing costs?

10 MS. HEATHER REICHERT: Sure. So we --
11 we budget -- we provide a budget for all of the
12 positions within the organization that are -- are
13 deemed to be necessary in a -- in any given fiscal
14 year. And then we also establish a negative budget,
15 if you will, a negative salary budget, anticipating
16 that there are going to be vacancies throughout the
17 year.

18 We don't know where those vacancies are
19 going to occur, how long they're going to last, but
20 typically based on the turnover of staff, frontline
21 and other, it's anticipated that we will have
22 vacancies where budgeted positions for whatever period
23 of time are not filled during the year.

24 So it's a -- a global, if you will,
25 budget. It's in and around 6 1/2 million. And that

1 is basically to ensure that we're not grossing up the
2 salary budget beyond what we anticipate we're actually
3 going to spend in a year. So we take that gross
4 salary budget and reduce it by the vacancy allowance
5 on -- again, on an overall basis, to reflect what we
6 believe the actual salary expenditures will be in any
7 given year.

8 So that's how -- how we treat the
9 vacancy allowance. It is maintained centrally. It's
10 not any specific position, or part of a position. It
11 just is common, especially in an organization the size
12 of MPI, that with turnover, you are going to have gaps
13 when -- when positions are not filled. And so
14 therefore, we don't want to increase the salary budget
15 when we know it won't be spent during the year.

16 MS. KATHLEEN MCCANDLESS: Thank you.
17 Diana, could you please pull up from the 2016 GRA
18 PUB/MPI-II-25?

19

20 (BRIEF PAUSE)

21

22 MS. KATHLEEN MCCANDLESS: And if we
23 could have this entered as Board Exhibit number 16?

24

25 --- EXHIBIT NO. PUB-16: 2016 GRA PUB/MPI-II-25

1 CONTINUED BY MS. KATHLEEN MCCANDLESS:

2 MS. KATHLEEN MCCANDLESS: Now, with
3 respect to question 'C' in this IR, this was in
4 response to a question -- or the question was that the
5 Corporation was asked to provide a schedule of actual
6 staffing levels by category as compared to budget
7 levels.

8 And if we turn to page 5...

9

10 (BRIEF PAUSE)

11

12 MS. KATHLEEN MCCANDLESS: This
13 schedule contains information as to average actual
14 staff in 2014/'15, the staffing budget, and then at
15 the bottom of the schedule is the comparison of the
16 actual versus budget for 2014/'15.

17 Scrolling back up to the top of the
18 schedule, if we look to the right, most column under
19 "total," the Corporation had eighteen eighty-five
20 point four (1,885.4) FTE for 2014 and '15?

21 MS. HEATHER REICHERT: Correct. That
22 would be at a point in time.

23 MS. KATHLEEN MCCANDLESS: And that was
24 in last year's GRA, at which time the Corporation had
25 targeted to reduce staffing levels by thirty (30) FTE

1 for 2015/'16?

2 MS. HEATHER REICHERT: Okay. So this
3 is the 2014/'15 actuals of budget, yes?

4 MS. KATHLEEN MCCANDLESS: Yes.

5 MS. HEATHER REICHERT: Okay.

6 MS. KATHLEEN MCCANDLESS: And then for
7 the -- the next year it was targeted to reduce by
8 thirty (30)?

9 MS. HEATHER REICHERT: Correct.

10 MS. KATHLEEN MCCANDLESS: And, Diana,
11 could we please pull up PUB/MPI-II-17?

12

13 (BRIEF PAUSE)

14

15 MS. KATHLEEN MCCANDLESS: And this is
16 a response to an Information Request in which the
17 Corporation was asked to compare total corporate
18 staffing level -- levels actual by category to
19 2016/'17 budget.

20 If we talk -- turn to the top of the
21 second page of this document, here we have corporate
22 staffing levels average actual staff in 2015/'16 on an
23 FTE basis. Again, to the right-most column under
24 "total," we have one thousand eight hundred and
25 eighty-two point four (1,882.4) FTE.

1 You see that there?

2 MS. HEATHER REICHERT: Yes, I do.

3 MS. KATHLEEN MCCANDLESS: So that
4 would represent three (3) fewer FTE than the previous
5 year, 2014/'16?

6 MS. HEATHER REICHERT: Again, that
7 would be on an actual basis at a point in time. So
8 when we talk about reducing FTE, we're talking about
9 reducing the FTE budget. So that may or may not get
10 reflected again depending on when vacancies occur
11 during the year. It may or may not reflect in the
12 actuals. And again, this is an actual -- or average
13 actual staff.

14 So again, there'll be fluctuations be -
15 - because of vacancies during -- during the year. And
16 I -- I'm just noting that the sta -- the next group is
17 saying "staffing budgeted in '15/'16," but then right
18 underneath that, it says "'16/'17 total budget FTE."

19 I'm looking at that number and I
20 believe that -- that the information there is, in
21 fact, the '16/'17 budgeted FTE and not the '15/'16
22 budget. So I'm going to ask the lady in the back row
23 to confirm that for me.

24

25

(BRIEF PAUSE)

1 MS. HEATHER REICHERT: Okay.

2 MS. KATHLEEN MCCANDLESS: Okay. So
3 why does the Corporation not just take the actual
4 staff count for 2014/'15, assume a thirty (30)
5 position reduction target, and then use that as the
6 budget for the following year?

7 MS. HEATHER REICHERT: Because as I
8 was explaining, what we actually have budgeted is the
9 -- is the net, it's the budgeted amount for the
10 nineteen hundred (1,900) and -- and some odd
11 positions, less that vacancy allowance.

12 So if we then go and just reduce actual
13 FTE by thirty (30), that, in essence, is saying you're
14 -- you're reducing not only that thirty (30), but
15 you're also anticipating an additional whatever the 6
16 1/2 million of vacancy allowance equates to, like,
17 another seventy-five (75) positions.

18 So what we look at is what our budgeted
19 positions are, look at where we can reduce those
20 budgeted positions, and then what we have to -- and --
21 and this is the -- the difficulty, because we have
22 such a high vacancy allowance amount, we are
23 effectively only budgeting for a net -- it's around
24 eighteen hundred and sixty (1,860) positions, just
25 let's say eighteen hundred and sixty (1,860)

1 positions.

2 If we reduce the budget by thirty (30)
3 and don't adjust the vacancy allowance, we are
4 essentially then dropping our available funding to
5 something like less than eighteen hundred (1,800)
6 positions in the year, which, quite frankly, is not
7 operational for -- for an entity like -- like MPI.

8 So we look at the budgeted positions
9 and watch very carefully that we're still able to
10 achieve that net salary budget, which is the budgeted
11 salaries less the vacancy allowance, right. So we can
12 remove positions from the establishment. That doesn't
13 mean we're going to save additional dollars if all it
14 is doing is removing positions that were used to
15 achieve that vacancy allowance credit that -- that we
16 are also budgeting for.

17 MS. KATHLEEN MCCANDLESS: Okay. Thank
18 you. Diana, if we could just scroll to the bottom two
19 (2) tables on this page, so with the staffing budget
20 in 2015/'16 and then the comparison actual versus
21 budget for 2015/'16.

22 Pardon me. At the bottom of the
23 screen, you see the total increase is seventy-three
24 point eight (73.8) positions from the actual number of
25 the previously closed year?

1 MS. HEATHER REICHERT: Yeah, and
2 again, the -- the heading on here is saying that we're
3 comparing actual to the '16/'17 budget, which isn't --
4 isn't the -- the right comparison. The budget for
5 '15/'16 should have been reflecting a -- a smaller
6 number than the nineteen forty-four (1,944) that you
7 showed in the '14/'15 year.

8 MS. KATHLEEN MCCANDLESS: Thank you.
9 With respect to the total budget for 2016/'17 in the
10 right-most column there, of one thousand nine hundred
11 and fifty-six point two (1,956.2) FTE --

12 MS. HEATHER REICHERT: M-hm.

13 MS. KATHLEEN MCCANDLESS: -- when did
14 the Corporation determine that number?

15 MS. HEATHER REICHERT: Just a minute.

16

17 (BRIEF PAUSE)

18

19 MS. HEATHER REICHERT: Okay. So your
20 question was when was the budget, I believe, when was
21 the budget established for the FTEs for '16/'17?

22 MS. KATHLEEN MCCANDLESS: Yes.

23 MS. HEATHER REICHERT: That budget
24 would have been established during the detailed budget
25 exercise that the Corporation undergoes in the fall

1 preceding the year of the budget. So, in this case,
2 it would have been the fall of 2015 is when we do the
3 detailed budget for the '16/'17 fiscal year.

4 MS. KATHLEEN MCCANDLESS: Thank you.
5 If we look to the very bottom of the screen there's an
6 explanation of the variance there which states that
7 the budgeted FTE count includes approximately eighty-
8 two (82) FTE positions related to the vacancy
9 provision?

10 MR. HEATHER REICHERT: M-hm. Yes.

11 MS. KATHLEEN MCCANDLESS: Can you
12 explain why the Corporation would use -- or include in
13 the budget that eighty-two (82) FTE related to the
14 vacancy allowance rather than using a zero-based
15 budget based on last year's actual numbers with a
16 target for this year?

17 MR. HEATHER REICHERT: Okay, so again,
18 as -- as I was trying to explain, so we use that --
19 that general vacancy allowance to do a zero-based
20 budget, as is being suggested. So -- so you guy by
21 service centre and you say how many clerks that you
22 need and how many supervisors you need, et cetera, and
23 -- and you provide a budget for a service centre.

24 However, in establishing that budget,
25 you know that during the year there's going to be

1 turnover in the front line staff or in supervisors or
2 management or what have you during the year. And
3 depending on when people leave and how much notice
4 they give, and then how much time we have to fill
5 those positions, there can be a gap of two (2), three
6 (3), you know, months. It can be longer gaps if it's
7 for filling a management position.

8 So if we try and just give the budget
9 for -- for that service centre, not acknowledging that
10 they'll actually operate at something less than that
11 full budget, we are in fact overstating the budget and
12 we are asking for more money to be raised in our
13 revenue than what we know we're likely going to be
14 spending.

15 So that's why we set up this general
16 reduction of the overall budget, so that we are not
17 including in our expenses more money than what we know
18 we're going to likely need for salaries. So that's
19 the way of being able to manage that.

20 If we just did a straight budget for
21 every single position that's required for a service
22 centre and know that, you know, 10 percent of that
23 budget may not be spent, then we've, in essence,
24 collected in premiums 10 percent more than what -- for
25 salaries than what -- tha what -- than what we need.

1 And so this is a way of -- of managing that and -- and
2 making sure that we only collect what we believe we
3 are going to need to spend as it relates to salaries.

4

5 (BRIEF PAUSE)

6

7 MS. KATHLEEN MCCANDLESS: Thank you.

8 I'm going to ask you some questions now on the
9 compensation analysis.

10 Diana, could you please pull up PUB
11 MPI-1-32 from the 2016 GRA?

12

13 (BRIEF PAUSE)

14

15 MS. KATHLEEN MCCANDLESS: And I'd ask
16 that this be entered as PUB Exhibit Number 17.

17

18 --- EXHIBIT NO. PUB-17: PUB MPI-1-32 from the 2016
19 GRA

20

21 CONTINUED BY MS. KATHLEEN MCCANDLESS:

22 MS. KATHLEEN MCCANDLESS: Now, if we
23 turn to page 4 of this document. This is a corporate
24 compensation analysis from last year's GRA based on
25 total compensation costs. And if we scroll through

1 the whole page we'll see corporate compensation
2 analysis for normal operations, corporate
3 compensation/payroll costs, corporate total. And then
4 on the next page I believe is corporate annual
5 compensation changes, corporate total.

6 Now, if we go back up to the -- the
7 first table. This corporance -- corporate
8 compensation analysis from last year included all
9 corporate expenditures, including initiative?

10 MR. HEATHER REICHERT: Yes, I -- I
11 believe it should be all corporate.

12 MS. KATHLEEN MCCANDLESS: Thank you.
13 Looking to -- on the right-hand side of the table
14 under 2015/'16, the total compensation for 2015/'16
15 included a vacancy allowance of 6.2 million, yes?

16 MS. HEATHER REICHERT: Correct.

17 MS. KATHLEEN MCCANDLESS: For a net
18 total compensation of 157.7 million, yes?

19 MS. HEATHER REICHERT: Correct.

20 MS. KATHLEEN MCCANDLESS: Then, Diana,
21 could we please pull up expenses Appendix 7.2 from the
22 filing, page 31. Now, is it possible to put the --
23 these two (2) documents side by side, so the previous
24 page?

25

1 (BRIEF PAUSE)

2

3 MS. KATHLEEN MCCANDLESS: Now, if we
4 look to -- if we look to the left-hand side of the
5 screen, we have the corporate compensation ana --
6 analysis from the filing. And we see for 2016 actual,
7 the actual total compensation was 167.7 million, yes?

8 MS. HEATHER REICHERT: Correct.

9 MS. KATHLEEN MCCANDLESS: Okay. So
10 comparing with the analysis from last year, there's a
11 different of approximately 3.6 million, so more --
12 more in this year's filing than as estimated last
13 year?

14 MS. HEATHER REICHERT: That's correct.

15 MS. KATHLEEN MCCANDLESS: And if we
16 look to the vacancy allowance referenced in both
17 documents, we see for 2016 actual in this year filing
18 the vacancy allowance is 5.4 million?

19 MS. HEATHER REICHERT: Correct.

20 MS. KATHLEEN MCCANDLESS: And that's -
21 - so that's been reduced from last year's estimate of
22 6.28 million?

23 MS. HEATHER REICHERT: Correct.

24 MS. KATHLEEN MCCANDLESS: Can you
25 explain the underlying causes for that change?

1 MS. HEATHER REICHERT: I'm going to
2 need to take that as an undertaking. I can't right
3 off the top of my head be able to give all the
4 detailed differences between those two (2) numbers.

5 MS. KATHLEEN MCCANDLESS: Thank you.

6 MR. MATT GHIKAS: So just to clarify,
7 the undertaking is to explain the difference -- or
8 explain the variance between last year's vacancy
9 allowance number and -- or the budget -- last year's
10 budget and the actuals.

11 Is that correct?

12 MS. HEATHER REICHERT: Maybe I can
13 help and -- and restate this one. What we will
14 provide is a reconciliation between the 2015/'16
15 amount on the right-hand side of 157.8 million to the
16 2016 actual of one sixty-two point three (162.3). And
17 that will get at both compensation and vacancy
18 allowance differences.

19 MS. KATHLEEN MCCANDLESS: Yes. Thank
20 you.

21 MR. MATT GHIKAS: Thanks.

22

23 --- UNDERTAKING NO. 5: Comparing Volume II 4 E
24 expense exp. 7.2 and 2016
25 GRA PUB 1-32 "Explain the

1 variance between last
2 year's vacancy allowance,
3 and this year's.
4 Reconciliation between the
5 2015/16 amount on the
6 right side, compared to
7 162.3 million
8

9 CONTINUED BY MS. KATHLEEN MCCANDLESS:

10 MS. KATHLEEN MCCANDLESS: Looking back
11 to the -- to PUB-32 -- 1-32 from last year's GRA on
12 the right-hand side of the monitor, if we look to
13 2016/'17 under Total Compensation, it was forecasted
14 to be 170.3 million, yes?

15 MS. HEATHER REICHERT: Oh, yes, sorry.

16 MS. KATHLEEN MCCANDLESS: Then looking
17 to the expenses appendi -- appendix from this year's
18 filing on the left-hand side of the monitor, we see
19 that that number is now approximately 176 million, the
20 2017 budget?

21 MS. HEATHER REICHERT: Correct.

22 MS. KATHLEEN MCCANDLESS: So that
23 would represent an approximate \$5.7 million
24 difference?

25 MS. HEATHER REICHERT: Correct.

1 MS. KATHLEEN MCCANDLESS: Are you able
2 to provide an explanation for that variance?

3 MS. HEATHER REICHERT: I'll take that
4 also as an undertaking. There -- just off the top,
5 there will be difference between what we would have
6 been assuming as general wage increases and what
7 actually was negotiated in the contract that just
8 settled.

9 But, having said that, I'm not going to
10 -- I'm not going to guess. We'll -- we'll take an
11 undertaking. The same as the previous one (1) only
12 for 2016/'17 year.

13 MR. MATT GHIKAS: Can we just
14 reformulate that, just to make sure everybody has it
15 down?

16 MS. HEATHER REICHERT: So what we will
17 provide as an undertaking is to reconcile from the
18 right-hand side of this page, the 2016/'17 total net
19 compensation of 163.8 million to what is reflected in
20 expenses Appendix 7.2 of 169.8 million. Have I got
21 the right -- yes, I think I -- yeah, the right...

22 MS. KATHLEEN MCCANDLESS: Thank you.

23

24 --- UNDERTAKING NO. 6: MPI to reconcile 2016/'17
25 total net compensation of

1 163.8 million (Vol II 4 E
2 Expense Exp 7.2) to what
3 is reflected in (2016 GRA
4 PUB 1-32)

5

6 CONTINUED BY MS. KATHLEEN MCCANDLESS:

7 MS. KATHLEEN MCCANDLESS: And then if
8 we look again to the compensation analysis from last
9 year's GRA on the right-hand side of the monitor we
10 see for 2017/'18 about \$176.2 million was forecast for
11 total compensation in last year's GRA, yes?

12 MS. HEATHER REICHERT: Correct.

13 MS. KATHLEEN MCCANDLESS: And again
14 looking back to the left-hand side of the monitor for
15 the expenses Appendix 7.2 in the filing this year,
16 under the 2018 forecast it's now forecast at 181.7
17 million, yes?

18 MS. HEATHER REICHERT: Correct.

19 MS. KATHLEEN MCCANDLESS: And so that
20 would be an approximate \$5.5 million increase from
21 forecast last year?

22 MS. HEATHER REICHERT: Correct.

23 MS. KATHLEEN MCCANDLESS: And again
24 perhaps we could just have an undertaking to explain
25 that variance?

1 MS. HEATHER REICHERT: Yes, we'll take
2 that as an undertaking to reconcile, and again I'll do
3 it on the net -- total net compensation from the
4 right-hand side of 169.4 to the 175.3 from expense
5 Appendix 7.2.

6 MS. KATHLEEN MCCANDLESS: Thank you.

7

8 --- UNDERTAKING NO. 7: MPI to reconcile the total
9 net compensation from
10 169.4 million (Vol II 4 E
11 Expense Exp 7.2) to 175.3
12 million (2016 GRA PUB 1-
13 32)

14

15 CONTINUED BY MS. KATHLEEN MCCANDLESS:

16 MS. KATHLEEN MCCANDLESS: I'd now like
17 to ask you some questions about IT staff
18 internalization. I understand the Corporation has
19 committed to transition up to twenty-seven (27) IT
20 positions from external to internal over the next
21 three (3) years?

22 MS. HEATHER REICHERT: That's correct.

23 MS. KATHLEEN MCCANDLESS: Diana, could
24 you, please, pull up PUB-MPI-1-38?

25

1 (BRIEF PAUSE)

2

3 MS. KATHLEEN MCCANDLESS: And question
4 'B' was a request for a -- an expanded schedule to
5 reflect changes for -- in the corporate compensation
6 analysis for the forecasted twenty-seven (27) FTE/IT
7 reduction. If we could turn to the second page,
8 please? Again we have a schedule showing the
9 corporate compensation analysis for corporate total.

10 Would this table be more representative
11 of forecast payroll than expenses Appendix 7.2 that we
12 just looked to?

13 MS. HEATHER REICHERT: Sorry, which
14 schedule is this? Can you go to the top? That's
15 okay.

16

17 (BRIEF PAUSE)

18

19 MS. HEATHER REICHERT: Sorry, repeat
20 the question. Is this one more representative?

21 MS. KATHLEEN MCCANDLESS: Yes.

22 MS. HEATHER REICHERT: It should be
23 similarly representative. That total compensation
24 vacancy allowance and total net compensation I would
25 expect to be very close to Appendix 7.2.

1 MS. KATHLEEN MCCANDLESS: Would it
2 assist if we -- we put Appendix 7.2 -- we can pull it
3 back up on the screen because I will have some
4 questions --

5 MS. HEATHER REICHERT: Sure.

6 MS. KATHLEEN MCCANDLESS: -- comparing
7 the two (2).

8

9 (BRIEF PAUSE)

10

11 MS. HEATHER REICHERT: Yeah. Yeah, so
12 as I -- as I thought in -- the total net compensation
13 is the same on both schedules.

14 MS. KATHLEEN MCCANDLESS: If we look
15 to the right-hand side of the screen, which is PUB-
16 MPI-1-38, under the forecast for 2018, see the total
17 compensation there?

18 MS. HEATHER REICHERT: Yes.

19 MS. KATHLEEN MCCANDLESS: That assumes
20 an increase payroll of 183.1 million?

21 MS. HEATHER REICHERT: Increase to
22 183.2, yes.

23 MS. KATHLEEN MCCANDLESS: From the
24 expenses Appendix 7.2?

25 MS. HEATHER REICHERT: Right.

1 (BRIEF PAUSE)

2

3 MS. KATHLEEN MCCANDLESS: And then for
4 -- if we just -- Diana, could you just scroll over to
5 show the 2019 forecast? For -- from PUB-MPI-1-38
6 under the 2019 forecast there's a forecast of
7 approximately 186 million in 2018/'19; yes?

8 MR. HEATHER REICHERT: Correct. So
9 just to be clear, the schedule on the right in
10 response to the -- the request, PUB-1-whatever,
11 specifically asked us to amend this schedule to
12 reflect adding in IT staff resources.

13 So when -- when ex -- the 7.2 appendix
14 was created, those -- the additions of staff relating
15 to IT were not reflected in the compensation schedule.
16 The reason for that is, we know that the transition
17 from removing consultants and adding staff is going to
18 take time. And so we know that in the initial -- in
19 the initial phases of that we're not expecting any net
20 dollar savings to occur, so we did not adjust the
21 compensation schedule. And we minimally may have
22 adjusted the consultant expense line in the budget.

23 So that's how we had dealt with it
24 because, at that time, we didn't know how many we
25 would actually change into permanent staff and

1 expected that there would be a period of time when we
2 would have both permanent staff and consultants
3 working side-by-side and, therefore, not -- not
4 achieve any direct savings until starting in the
5 second, and then fully in the third year.

6 The other complicating factor for this
7 particular transition is that many of the consultants
8 that we currently employ work on improvement
9 initiatives, and their costs are actually capitalized
10 as part of an improvement initiative. So they aren't
11 really reflecting as -- as an expense, as a consulting
12 expense in the year that we are employing those
13 consultants. They are part of a -- of a capital
14 project.

15 So, again, it's difficult on a -- from
16 a pure accounting perspective to show when you're
17 going to achieve the savings from converting
18 consultants that work on projects to permanent staff,
19 so that's -- that's, hence, the -- the difficulty.

20 But the schedule on the right-hand side
21 is expected, obviously, to be higher than on the
22 right-hand side (sic) because it's reflecting the
23 possibility of having IT staff employed and part of
24 our compensation expense, whereas on the left-hand
25 side, that schedule did not anticipate any staff

1 expenses or savings in those -- those fiscal years.

2 MS. KATHLEEN MCCANDLESS: Thank you.
3 So the numbers included in PUB-MPI-1-38 then, those
4 are not included within the rate application?

5 MR. HEATHER REICHERT: That's correct.
6 The expense 7 point -- or expense appendix 7.2
7 reflects what's included in the general rate
8 application as -- as the forecast for compensation.

9 MS. KATHLEEN MCCANDLESS: Thank you.
10 Diana, could you please pull up PUB-MPI-1-31? And
11 this was a question posed on behalf of the Board for
12 an explanation of the change to the financial forecast
13 for 2017/'18 and 29 -- '18/'19 based on the targeted
14 hires. That's question 'B' there.

15 If we turn to page 2 of the IR
16 response. Just to paraphrase, the Corporation, in its
17 response, has indicated that it will realize a \$2.4
18 million savings related to the initiative, the IT
19 initiative in 2019/'20 -- 2019/'20; yes?

20 MR. HEATHER REICHERT: Yes. And --
21 and I want to draw attention. It says, "cash
22 savings." And that's getting at what I was trying to
23 explain. That from a cash out perspective there would
24 be savings, but from an actual accounting perspective,
25 that wouldn't necessarily be reflected in the bottom

1 line because of capitalized and consulting costs.

2

3

(BRIEF PAUSE)

4

5 MS. KATHLEEN MCCANDLESS: Okay. And
6 of this \$1.2 million relates to the hires in this
7 fiscal year, according to this response?

8 MR. HEATHER REICHERT: Yeah. So -- so
9 again you'll actually start to see the full savings in
10 year 3. You'll start to have, as it says there, cash
11 savings in -- in '16/'17, but that, again, relates to
12 the timing of the transition and how -- how long both
13 consultants and permanent staff are in -- in place
14 together.

15 MS. KATHLEEN MCCANDLESS: Does the
16 Corporation have numbers as to how many have been
17 internalized to date?

18 MS. HEATHER REICHERT: I don't off the
19 top of my head. If you want, I can do -- take that as
20 an undertaking.

21 MS. KATHLEEN MCCANDLESS: Yes, thank
22 you.

23

24 --- UNDERTAKING NO. 8: MPI to provide the number
25 of IT staff that has been

1 brought in (to replace
2 consultants) to date

3

4 CONTINUED BY MS. KATHLEEN MCCANDLESS:

5 MS. KATHLEEN MCCANDLESS: Now, Diana,
6 could we please turn to PUB/MPI-II-12?

7

8 (BRIEF PAUSE)

9

10 MS. KATHLEEN MCCANDLESS: If we scroll
11 down to the question, the Corporation was asked to
12 expand the schedule that was provided in I-38, which
13 we just reviewed, to reflect the forecasted savings of
14 \$1.2 million. And that's at 'A', there.

15 If we turn to the response at page 2,
16 and just to paraphrase, I understand the answer is, as
17 you've mentioned, that the -- in the current year, the
18 new hires are going to be working in parallel with the
19 existing consultants for knowledge transfer, yes?

20 MS. HEATHER REICHERT: Correct.

21 MS. KATHLEEN MCCANDLESS: So does the
22 Corporation anticipate any savings relating to the
23 hires this year?

24 MS. HEATHER REICHERT: As -- as it
25 says there, no, we -- we are putting in place the

1 transition so that ultimately in year three (3), after
2 full transition, we'll see cash savings, less cash
3 going out of 2.4 million.

4 MS. KATHLEEN MCCANDLESS: So is there
5 increased cost related to the new hires, then, that's
6 reflected in the schedules that we reviewed?

7 MS. HEATHER REICHERT: It's not net
8 cost. It's not reflecting savings. So we are
9 forecasting to basically manage within the same
10 dollars that we -- that we have -- like, we're
11 forecasting to -- to expend the same dollars that we
12 have in the budget and manage this transition, and
13 manage -- manage this period of time when we have both
14 salaries and consulting expenses within the forecast
15 that we have.

16 Again, keeping in mind that some of
17 those are -- are being deferred and not reflected in
18 net expenses at this point.

19 MS. KATHLEEN MCCANDLESS: Thank you.
20 Diana, could you please pull up expenses Appendix 14,
21 page 48 from the filing?

22

23 (BRIEF PAUSE)

24

25 MS. KATHLEEN MCCANDLESS: The table in

1 this screen represents the total IT expenditures made
2 by the Corporation on a corporate basis from 2011/'12
3 through to 2020/'21, yes?

4 MS. HEATHER REICHERT: That's correct.
5 The top line is "operational expenses," and then the
6 next two (2) lines are those costs that are
7 capitalized.

8 MS. KATHLEEN MCCANDLESS: So if we
9 look to the span of this nine (9) year period, it
10 appears that on -- IT spending has more than tripled
11 over the nine (9) year period, yes?

12 MS. HEATHER REICHERT: Sorry, which
13 numbers are you comparing?

14 MS. KATHLEEN MCCANDLESS: The total
15 costs at the bottom.

16 MS. HEATHER REICHERT: The total
17 costs, which are the costs of -- those are -- are one
18 (1) time costs in each of those years specific to
19 projects that are being undertaken in those years. So
20 it really is -- that's we aren't giving a compound
21 annual growth rate. They -- they aren't -- they are
22 one (1) time costs in each of those years. They are
23 not annual operating costs.

24 MS. KATHLEEN MCCANDLESS: Okay. Thank
25 you. If we turn to the next page of this document,

1 and looking at the trend under the line of data
2 processing, total data processing.

3 Do you see that in front of you?

4 MS. HEATHER REICHERT: Yes.

5 MS. KATHLEEN MCCANDLESS: So it
6 appears that one (1) of the major drivers in increase
7 in spending is the data processing costs?

8 MS. HEATHER REICHERT: Again, that --
9 that's correct. And again, you'll see the -- the
10 significant increase in the '12/'13 year, and that's
11 relating to when we converted to IBM managing our data
12 service centres.

13 Oh, I'm -- I'm sorry, actually, you see
14 that in the -- the '14/'15 actual, the IBM data --
15 data centre.

16 MS. KATHLEEN MCCANDLESS: Thank you.
17 And then another significant increase would be in
18 respect of compensation over that period?

19 MS. HEATHER REICHERT: Well,
20 compensation is varied. It's in and around ten (10),
21 eleven (11), and it continues and -- and goes up, I
22 would expect. I haven't calculated, but I would
23 expect it goes up generally with the general salary
24 increases.

25 And there may have been the addition of

1 some staff because, as you increase the IT footprint
2 within the organization, you also do need to in --
3 increase the staff to be able to maintain and keep
4 those -- those systems up -- updated.

5 MS. KATHLEEN MCCANDLESS: Thank you.
6 And then we see, about half-way down the schedule, the
7 increase in amortization of devery -- deferred
8 development costs, yes?

9 MS. HEATHER REICHERT: Absolutely.
10 And again, as projects are completed, they begin
11 amortization. And it's a short amortization period.
12 It's over five (5) years, so it is a significant
13 impact.

14 MS. KATHLEEN MCCANDLESS: Thank you.
15 Diana, could you please pull up PUB-
16 MPI-I-33 and the attachment at page 1 of that
17 document?

18

19 (BRIEF PAUSE)

20

21 MS. KATHLEEN MCCANDLESS: And I
22 understand that this schedule represents spending on
23 IT initiatives?

24 MS. HEATHER REICHERT: Yes. I believe
25 this is the deferred development by project.

1 MS. KATHLEEN MCCANDLESS: Yes?

2 MS. HEATHER REICHERT: Yes.

3 MS. KATHLEEN MCCANDLESS: And the at
4 the bottom under the total project deferred
5 development is a cost of 183.3 million?

6 MS. HEATHER REICHERT: Sorry, where's
7 -- oh, sorry. Yes, a hundred and eighty-three point
8 three (183.3), correct.

9 MS. KATHLEEN MCCANDLESS: Now, if we
10 turn to the second page of this attachment, this
11 reflects the amortization costs. If we see the -- the
12 very bottom, there's a line for total amortization --

13 MS. HEATHER REICHERT: Yes.

14 MS. KATHLEEN MCCANDLESS: -- costs.

15 MS. HEATHER REICHERT: Yes, I see
16 that, yes.

17 MS. KATHLEEN MCCANDLESS: And so the
18 projects, once in service and used and useful, they're
19 amortized over a five (5) year period?

20 MS. HEATHER REICHERT: Correct.
21 Deferred expenses are amortized over five (5) years.
22 And I believe that's all the schedule is. Capitalized
23 sticks-and-bricks type expenditures are amortized over
24 three (3) years -- or depreciated, pardon me.

25 MS. KATHLEEN MCCANDLESS: And based on

1 this schedule, the amortization costs peak in 2020/'21
2 at 27.1 million?

3 MS. HEATHER REICHERT: That -- that's
4 correct, and that should reflect -- I'm just looking
5 up -- that reflects the beginning of physical damage
6 re-engineering starting to amortize in '19/'20.

7 MS. KATHLEEN MCCANDLESS: Thank you.

8 Diana, could you -- Diana, could you
9 please go back to expenses, Appendix 14, page 49, and
10 perhaps keep page 2 of I-33 up on the screen as well,
11 if possible, and we could have them side by side.

12

13 (BRIEF PAUSE)

14

15 MS. KATHLEEN MCCANDLESS: And, Diana,
16 if we could just perhaps expand the expenses appendix
17 slightly, I'd just like to focus on -- there are a
18 couple of spots in the expenses Appendix 14 that
19 reference the amortization of deferred development
20 costs, correct?

21 MS. HEATHER REICHERT: Correct.

22 MS. KATHLEEN MCCANDLESS: Okay. And,
23 Diana, could you maybe scroll to the right a little
24 bit so we can see more of those figures?

25 There are amounts referenced with

1 respect to the amortization of deferred development
2 costs that do not seem to agree with the expense in
3 PUB-I-33. Perhaps for your -- it might be best if we
4 just do one (1) screen at a time then.

5 MS. HEATHER REICHERT: Okay. So the
6 reason for that -- if you can -- so I'm -- I'm -- the
7 -- the schedule that's currently on the screen, that
8 would be normal operating expenses. It would be
9 reflecting the deferred amortization, or amortization
10 of deferred development costs for projects that are
11 complete, and are -- are into being amortized.

12 The schedule -- the other schedule that
13 you were showing should be reflecting not only those
14 that are in normal operations and depreciating, but
15 also those that are anticipated to start depreciation
16 in '17/'18, '18/'19, '19/'20, et cetera.

17 So it's not an apples to apples
18 comparison. There will be additional amounts included
19 within the screen currently on -- sorry, the schedule
20 currently on the screen as compared to those that were
21 in the normal operations that are -- are completed
22 projects and -- and are just in their amortization
23 stage.

24 So as an example, the -- if you were to
25 look at disaster recovery, which is about seven (7),

1 eight (8) lines down, disaster recovery you can see in
2 '14/'15 it started to amortize at around twenty (20) -
3 - 2.6 million a year, and it continues to amortize for
4 five (5) years and finishes in '18/'19. That 2.6
5 million should be included in each of those years as
6 part of the previous schedule that you were looking
7 at.

8 What won't be included is those that
9 just begin subsequent to -- oh, I'm sorry, okay. This
10 -- one dash thirty-three (1-33), I'm sorry, this is
11 Basic. I'm sorry. So this is a Basic schedule, so
12 this is a proportion of. The previous one was a
13 corporate schedule.

14 So the previous schedule is corporate.
15 Only those projects that have a Basic component will
16 have some portion of their -- their depreciation or
17 amortization shown on this particular schedule.

18

19 (BRIEF PAUSE)

20

21 MS. HEATHER REICHERT: Okay. So let -
22 - if we can go back to Appendix number 14? That was
23 the corporate schedule. And if you look underneath
24 where it says "amortization deferred development
25 costs" and there's a starting amount of 7.9 million

1 under '14/'15, if you scroll down slightly there's
2 another amortization of deferred -- deferred
3 development costs, so there was two (2) categories.

4 So -- so what we need to do is take the
5 total of those two (2) amounts, and then a portion of
6 those two (2) amounts is reflected in P-I-33 (sic) as
7 it relates to the Basic. Sorry for confusing the
8 issue.

9 MS. KATHLEEN MCCANDLESS: Thank you.
10 If we go back to PUB-I-33 and page 1 of the -- the
11 appendix, on the right-hand side there's a reference
12 to the technology innovation and capabilities project.
13 It's the -- in the --

14 MS. HEATHER REICHERT: Yes, fifteen
15 (15) -- fifteen point five (15.5)?

16 MS. KATHLEEN MCCANDLESS: Yes, for
17 15.5 million.

18 MS. HEATHER REICHERT: Yeah.

19 MS. KATHLEEN MCCANDLESS: Is that the
20 same as the IT modern -- modernization?

21 MS. HEATHER REICHERT: Yes. IT
22 modernization actually in -- would include both
23 technology innovation and capabilities, and technology
24 risk management. I think we grouped both of those as
25 technology modernization and then split them out into

1 those two (2) categories. If I'm not mistaken, I
2 believe that's how we showed it.

3 MS. KATHLEEN MCCANDLESS: And it
4 appears that it's forecast to commence in earnest this
5 year?

6 MR. HEATHER REICHERT: Correct.

7 MS. KATHLEEN MCCANDLESS: But it won't
8 impact ratepayers until 2020/'21?

9 MR. HEATHER REICHERT: To the extent
10 that -- that those are deferred development costs,
11 correct. Each -- each of those will have components
12 or -- or sub-projects. So every -- every project's
13 looked at in its -- in isolation to determine, 1) if
14 it's a capitalized project.

15 We have to make certain assumptions
16 when we're looking out into the future. But when we
17 actually implement a particular project we look to
18 determine if it is a capitalized project or not, and
19 then -- and we'll start its amortization when it's
20 complete.

21 MS. KATHLEEN MCCANDLESS: Thank you.
22 There's also a provision of 22.8 million for new
23 projects which appears to be yet unidentified at the
24 very bottom of the listing there, "provision for
25 projects?"

1 MR. HEATHER REICHERT: Yes, that --
2 that's correct. Again, this is the basic allocation
3 or basic estimate going forward. So when we are doing
4 this budget we're obviously in the -- we're doing
5 these -- these budgets in the fall of 2015 looking out
6 five (5) years for the capital plan.

7 We know based on history that there are
8 always going to be a certain amount of information
9 technology or improvement initiatives. So we provide
10 an amount that we deem a provision for future
11 projects. We don't know what exactly that project
12 might -- may look like. We make assumptions as to how
13 much of those projects will be capitalized, how much
14 will be implementation expenses, et cetera. That's
15 what -- that's what you're looking at there.

16 Again, it's just to try to show as
17 complete a picture for -- for a five (5) year period
18 as possible.

19 MS. KATHLEEN MCCANDLESS: Thank you.
20 And just jumping back for one (1) quick second. In
21 the course of one (1) of your answers, a couple
22 answers ago you mentioned sticks and bricks and
23 buildings being amortized over a three (3) year
24 period?

25 MR. HEATHER REICHERT: Yes. And it's

1 not really sticks and -- it's actual computer --
2 physical equipment. So it might be servers or -- or
3 things of that nature. So when those are part of a
4 particular project, and it's usually not a significant
5 amount, but when -- when actual physical assets are
6 purchased they are started to amortize a half year in
7 the year of acquisition, and then over a three (3)
8 year period.

9 MS. KATHLEEN MCCANDLESS: Thank you.
10 Now, with respect to IT staff salaries, it's the
11 Corporation's policy to expense its internal staff
12 time and salaries for those who work the capital
13 projects?

14 MR. HEATHER REICHERT: That's correct.

15 MS. KATHLEEN MCCANDLESS: And the
16 deferred development portion relates to that amount
17 that's paid to external consultants?

18 MR. HEATHER REICHERT: That's correct.

19 MS. KATHLEEN MCCANDLESS: Diana, could
20 you please pull PUB MPI-1-27, page 2. And I
21 understand this represents a breakdown of both
22 internal and external consultant IT staff on an FTE
23 basis and on a dollar basis?

24 MR. HEATHER REICHERT: Correct.

25 MS. KATHLEEN MCCANDLESS: If we look

1 to the internal FTE count for 2015/'16, that is two
2 hundred and twenty-three (223) positions?

3 MR. HEATHER REICHERT: That's correct.

4 MS. KATHLEEN MCCANDLESS: And the
5 increase is forecast up to 2018/'19 to include the
6 twenty-seven (27) new internalized IT positions?

7 MR. HEATHER REICHERT: Correct.

8 MS. KATHLEEN MCCANDLESS: Now, Diana,
9 could you pull up expenses appendix 14, page 49, that
10 we were just looking at and keep it beside page 2 of
11 PUB MPI-1-27?

12

13 (BRIEF PAUSE)

14

15 MS. KATHLEEN MCCANDLESS: And, Diana,
16 could we scroll over to 2016/'17 and 2018/'19 on -- on
17 the expenses appendix? And then when we look over to
18 compensation, so you'll just need to move back a
19 little bit so we can see the line item there,
20 compensation for '15/'16 -- or pardon me, '16/'17 and
21 '18/'19 we have 11.2 million -- or sorry, 11 to \$12 mi
22 -- million over that period, yes, for compensation?

23 MS. HEATHER REICHERT: Okay. Sorry,
24 yes. Sorry, what were the numbers? Eleven point two
25 (11.2) --

1 MS. KATHLEEN MCCANDLESS: The range
2 from 2016/'17 up to '18/'19 is 11 to 12 million
3 approximately, yes?

4 MS. HEATHER REICHERT: Correct. And -
5 - and again, as we indicated and talked about before,
6 those numbers will not include the addition of the
7 twenty-seven (27).

8 MS. KATHLEEN MCCANDLESS: Okay. If we
9 look over to internal FTE costs in PUB/MPI 1-27, for
10 the 2016/'17 through to '18/'19 period, you see those
11 figures there?

12 MS. HEATHER REICHERT: M-hm.

13 MS. KATHLEEN MCCANDLESS: Are 20 to 22
14 million?

15 MS. HEATHER REICHERT: Yeah. Can you
16 increase the font a bit on the right-hand side?

17 MS. KATHLEEN MCCANDLESS: So my
18 question is just to explain the difference in
19 compensation figures as between the two (2) tables.

20 MS. HEATHER REICHERT: Just a minute.

21

22 (BRIEF PAUSE)

23

24 MS. HEATHER REICHERT: I think I know
25 what the difference is, but rather than speculate I'll

1 take it as an undertaking to provide an explanation of
2 the differences between -- which is -- this is
3 Appendix 14 --

4 MS. KATHLEEN MCCANDLESS: Fourteen
5 (14).

6 MS. HEATHER REICHERT: -- of the
7 expense section of compensation to PUB/MPI 1-27.

8 MS. KATHLEEN MCCANDLESS: Thank you.
9 Diana, you can close out expenses appendix 14 for the
10 time being. We see in the table here in PUB/MPI 1-27
11 that by 2019 there will still be some reliance on
12 external consultant, yes? We have a figure of ninety-
13 one (91).

14 MS. HEATHER REICHERT: Correct.

15 MS. KATHLEEN MCCANDLESS: Has the
16 Corporation identified major projects for external
17 consultants for that year?

18 MS. HEATHER REICHERT: Again, if you
19 look at the five (5) year capital plan you'll see that
20 there are continuing capital projects and then there
21 is the provision for future projects that are not
22 necessarily yet fully identified.

23 So it is anticipated that we will
24 continue to have reliance on external consultants.

25 MS. KATHLEEN MCCANDLESS: Thank you.

1 Diana, please pull up PUB/MPI 1-29.

2

3

(BRIEF PAUSE)

4

5 MS. KATHLEEN MCCANDLESS: In this
6 Information Request the Corporation was asked at
7 Question C to summarize the current contracts and
8 relationships that it had with IBM and HP, including
9 the total amounts spend under each of the contracts in
10 the last five (5) years and forecast through 2019/'20.

11 Would you please scroll to page 3,
12 which provides the response at 'C' there. And so the
13 Corporation is advised that it has master service
14 agreements in place with both - both HP and IBM, yes?

15 MS. HEATHER REICHERT: Correct.

16 MS. KATHLEEN MCCANDLESS: And the two
17 (2) tables here show the spend on these projects, yes?

18 MS. HEATHER REICHERT: Correct.

19 MS. KATHLEEN MCCANDLESS: And then at
20 the bottom of this response the Corporation has
21 indicated that forecasts are not available at this
22 time for future spend apart from what's been provided
23 earlier in the IR Response at -- at 'B'?

24 MS. HEATHER REICHERT: Correct.

25 MS. KATHLEEN MCCANDLESS: So is there

1 anywhere in expenses, Appendix 14, that we were
2 reviewing before where these IT budget items are
3 included?

4 MS. HEATHER REICHERT: If you go back
5 to Appendix 14, there should be. So part of the IBM
6 data centre, those costs, I believe, are part of that
7 master services agreement as well. So you'll see some
8 amounts there, not the total amount.

9 And then others would be -- others of
10 those costs would be capitalized as deferred
11 development costs. So you wouldn't see it on Appendix
12 number 14.

13 MS. KATHLEEN MCCANDLESS: Thank you.
14 Can you advise as to what the level is of external
15 consultants supporting ongoing operations as compared
16 to external projects?

17 MS. HEATHER REICHERT: I do not have
18 that breakdown at the top of my head, so I will take
19 it as an undertaking.

20 So the undertaking is to provide the
21 number of consultants supporting operating activities,
22 general operating activities, compared to those number
23 of consultants that are supporting improvement
24 initiatives.

25 MS. KATHLEEN MCCANDLESS: Is that

1 through the forecast?

2 MS. HEATHER REICHERT: Through the
3 forecast period, so the next five (5) years.

4 MS. KATHLEEN MCCANDLESS: Thank you.

5 MS. HEATHER REICHERT: Okay.

6

7 --- UNDERTAKING NO. 9: MPI to provide explanation
8 for the differences
9 between Expense Appendix
10 14 "compensation" to PUB
11 1-27

12

13 MS. KATHLEEN MCCANDLESS: Those are my
14 questions, and I'm noting the time. I -- I may have
15 one (1) or two (2) for clean-up after the break, but
16 likely not. So, Mr. Chair, this may be an appropriate
17 time for the morning break.

18 THE CHAIRPERSON: Okay. We'll take
19 fifteen (15) minutes.

20

21 --- Upon recessing at 10:20 a.m.

22 --- Upon resuming at 10:40 a.m.

23

24 THE CHAIRPERSON: Ms. Grammond...?

25 MR. MATT GHIKAS: Before we jump in,

1 Mr. Chairman, if -- I have -- at the break, the
2 witnesses were able to confer with -- with some of the
3 back-row people and determine that some of the
4 information that was left as undertakings prior to the
5 break was actually in the filing.

6 And so what I'd propose to do now is to
7 -- to have Ms. Reichert just simply speak to those now
8 and point out where they are in the application.

9 THE CHAIRPERSON: Sure.

10 MS. HEATHER REICHERT: Diana, if you
11 wouldn't mind pulling up from the expenses Volume II
12 Appendix 6, please, page 14.

13 So in this appendix, we compare not
14 just the compensation, but we compare all of the
15 expenses that were reflected in last year's General
16 Rate Application to what we're reflecting in this
17 year's General Rate Application.

18 On a Corporate and a Basic basis, you
19 may recall we were looking at this last week. And
20 then the explanation is provided both at a Corporate
21 and at a Basic level.

22 So what we had committed to comparing
23 and reconciling for the Board was with respect to
24 compensation. So if you look at the subtotal there
25 under -- at the fifth -- fifth row, if you will, and

1 go right over to total, you'll see one fifty-seven
2 point seven (157.7) in the 2016 GRA.

3 And then for the 2017 GRA -- and this
4 is as it relates to the fiscal year '15/'16. So in
5 the 2017 GRA, those would reflect the actuals of one
6 sixty-two point three (162.3), for a difference of
7 four point five (4.5). That was the difference that
8 we committed to explaining in the Undertaking number
9 4, I believe it was.

10 MR. MATT GHIKAS: Five (5), sorry.

11 MS. HEATHER REICHERT: Five (5).

12 MR. MATT GHIKAS: I believe it was
13 five (5).

14 MS. HEATHER REICHERT: Number 5. So
15 if you just could scroll down to the next page 15, the
16 letter 'A' there, compensation salaries. So 2.4
17 million increase compared to the 2016 GRA is mainly a
18 result of the following, and that's reflecting the
19 compensation salaries line.

20 So that's severance -- I won't -- I
21 won't read the whole explanation, but underneath 'A'
22 there, it explains all of the rationale for 2.4
23 million of the four point five (4.5) difference.

24 And then if you go down to 'B',
25 benefits was a difference of 2.1 million on that

1 previous schedule total for Corporate. And it
2 explains what -- why the increase between last year's
3 GRA and this year's GRA. So that helps, I hope, to
4 clarify for everyone.

5 So that's the '15/'16 year. If -- if
6 you just --

7 THE CHAIRPERSON: Sorry, Ms. Reichert,
8 what's the -- what's the title of this document?

9 MS. HEATHER REICHERT: This is in the
10 Volume II expenses section, and this is Appendix 6 of
11 that section. Okay. And then if you could just,
12 Diana, scroll down to page 16 -- sorry, page 17.

13 Page 17 does the exact same thing, and
14 it compares for the year '16/'17. So what we had in
15 last year's General Rate Application and what we have
16 in this year's General Rate Application. And again on
17 page 18, sub-bullet 'A' and sub-bullet 'B' will
18 explain the differences in those two (2) numbers.

19 MR. MATT GHIKAS: And that was with
20 respect to Undertaking number 6, I believe?

21 MS. HEATHER REICHERT: Yes. And then
22 Undertaking number 7 related to the year '17/'18, and
23 that's on page 20, and the explanations again are in
24 sub-bullet 'A' and 'B' on page 21. Okay. Thank you.

25

1 CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

2 MS. CANDACE GRAMMOND: Thank you, Mr.
3 Chairman. I'll have some cross-examination questions
4 now on the second quarter report, which is MPI Exhibit
5 24. So, Diana, while you're pulling that up just a
6 couple of contextual questions.

7 So this second quarter report reflects
8 the actual results for the first two (2) quarters of
9 the current year. So the -- the first two (2)
10 quarters of 2016.

11 MS. HEATHER REICHERT: That's correct.

12 MS. CANDACE GRAMMOND: And within the
13 cash coming in during that time frame we have included
14 the current rate, so renewals for the 2006/'07 --
15 2016/'17 fiscal year.

16 MS. HEATHER REICHERT: That's correct,
17 effective March 1st of 2016 --

18 MS. CANDACE GRAMMOND: Okay.

19 MS. HEATHER REICHERT: -- which
20 happened to be a zero percent overall increase.

21 MS. CANDACE GRAMMOND: Okay, thank
22 you. And also included in the first two (2) quarters
23 of the current year would be still the year two (2),
24 if I can call it that, of the previous rating year,
25 the 2015/'16 rating year, do to the staggered

1 renewals.

2 MS. HEATHER REICHERT: Correct.

3 MS. CANDACE GRAMMOND: And that was a
4 3.4 percent rate increase year.

5 MS. HEATHER REICHERT: Correct.

6 MS. CANDACE GRAMMOND: Okay. Now, as
7 is reflected in the second quarter report, and this
8 appears in a couple of places but maybe for ease of
9 reference, Diana, if you can go to page 7 of the PDF
10 which is page 6 of the actual report -- yeah, and
11 that's perfect.

12 That -- under that heading 'results of
13 operations' we see that the Corporation as a whole
14 reported a net loss of 30.9 million for the first two
15 (2) quarters of this year.

16 MS. HEATHER REICHERT: Correct.

17 MS. CANDACE GRAMMOND: And included
18 within that is a -- and this is on the second line of
19 what's on the screen, first paragraph, a net loss of
20 52.7 million in Basic.

21 MS. HEATHER REICHERT: Correct.

22 MS. CANDACE GRAMMOND: So that means
23 that the non-Basic lines, the competitive lines, had a
24 net income of about 21.8 million.

25 MS. HEATHER REICHERT: That's correct.

1 MS. CANDACE GRAMMOND: Now, the
2 Corporation is at present forecasting a loss for the
3 current year for Basic of three (3) point -- or 34.7
4 million. So I take it then that the Corporation is
5 expecting the second half of the current year to be
6 better for Basic than was the first half of the
7 current year.

8 MS. HEATHER REICHERT: If I can get
9 the reference to the 34.7. I believe that was from my
10 PowerPoint presentation on the first day --

11 MS. CANDACE GRAMMOND: It is. It --
12 it's on slide 65 of your PowerPoint. It's also in
13 PUB/MPI-2-25. That was the IR with the 4.3.

14 MS. HEATHER REICHERT: Okay.

15 MS. CANDACE GRAMMOND: So either --
16 okay, perfect. Diana's got slide 65 from your
17 original PowerPoint presentation. So there -- there's
18 the 34.7 --

19 MS. HEATHER REICHERT: Okay.

20 MS. CANDACE GRAMMOND: -- million
21 dollar projected loss. So -- so the point is, Basic
22 lost 52.7 million in the first half but the
23 Corporation's projecting a year-end result of a \$34.7
24 million loss, which would be an improvement.

25 MS. HEATHER REICHERT: That's correct.

1 The -- the main -- yes, correct.

2 MS. CANDACE GRAMMOND: Okay. And just
3 for context, Diana, if we can go back to that excerpt
4 of the second quarter report that was on the screen,
5 we see in that first paragraph as well that last year
6 -- so in -- in 2015 for the same first two (2)
7 quarters of the year Basic had a net income of 5
8 million?

9 MS. HEATHER REICHERT: Correct.

10 MS. CANDACE GRAMMOND: Now, I want to
11 talk a little bit about, not only the second quarter
12 results, but the first quarter results, as well, as
13 those results relate to changes in interest rates,
14 okay?

15 So I'm -- I'm first going to ask you to
16 go to MPI Undertaking number 1. And I don't actually
17 have the exhibit number for this. I know it was given
18 an exhibit number. And this was a document that you
19 filed late on Friday just before we broke for the
20 week.

21 So, as I say, Diana, unfortunately, I
22 don't -- there we go, Exhibit 27. Thank you. So we
23 had asked about interest rate movement. And while
24 it's not shown on this document, I think, Ms.
25 Reichert, you'll recall that the closing interest rate

1 in Q4 of the 2015/'16 fiscal year, so the quarter that
2 immediately preceded the quarter that we see on the
3 screen, the first quarter that we see on the screen,
4 was 1.19 percent?

5 MR. HEATHER REICHERT: Yes, I recall
6 it was -- I think that was the number, yes.

7 MS. CANDACE GRAMMOND: Okay. So -- so
8 if we compare March 1st of 2016 to the end of the
9 first quarter of 2016, we had movement from 1.19
10 percent to 1.32 percent?

11 MR. HEATHER REICHERT: Correct.

12 MS. CANDACE GRAMMOND: So a thirteen
13 (13) basis point increase over Q1?

14 MR. HEATHER REICHERT: Correct.

15 MS. CANDACE GRAMMOND: And as we see
16 from the screen in front of us, that movement was very
17 close to what the Corporation was budgeting. It was
18 only out by .01 of a percent?

19 MR. HEATHER REICHERT: Correct.

20 MS. CANDACE GRAMMOND: Now, if we look
21 at the first quarter report. And, Diana, that's in
22 volume 3, AI-6.

23

24 (BRIEF PAUSE)

25

1 MS. CANDACE GRAMMOND: We see -- and
2 I'll just keep going, Ms. Reichert, while Diana pulls
3 that up. In Q1 there was a corporate net income of
4 3.7 million. Thank you, Diana. I'm on page 6 of the
5 report, which might be page 7 or other of the PDF.
6 Okay, yeah, there we go. Perfect. Thank you.

7 So this is page 8 of the PDF, page 6 of
8 the physical document. First quarter of current year
9 the Corporation has net income of 3.7 million?

10 MR. HEATHER REICHERT: Correct.

11 MS. CANDACE GRAMMOND: And we see on
12 the next line that included a net loss of 5 million in
13 Basic?

14 MR. HEATHER REICHERT: Correct.

15 MS. CANDACE GRAMMOND: So we have
16 interest rates increasing by thirteen (13) basis
17 points and Basic loses 5 million in that quarter 1?

18 MR. HEATHER REICHERT: Okay, so just
19 to --

20 MS. CANDACE GRAMMOND: Sorry, before
21 you get into the why --

22 MR. HEATHER REICHERT: Yeah.

23 MS. CANDACE GRAMMOND: -- which --
24 which I didn't actually ask for yet, can you confirm
25 that that was the case?

1 MR. HEATHER REICHERT: I can confirm
2 that the Government of Canada interest rates that you
3 cited between quarter 1 and quarter 2 increase, I
4 think it was, you said there was an increase, so I can
5 confirm that.

6 MS. CANDACE GRAMMOND: Which was
7 thirteen (13) basis points?

8 MR. HEATHER REICHERT: Thirteen (13)
9 basis points. And I can confirm that our net loss in
10 the first quarter for Basic was 5 million.

11 MS. CANDACE GRAMMOND: Right. Okay,
12 thank you. And the Corporation though had income
13 during the same period. So Basic lost 5 million, but
14 the Corporation still came out with 3.7 in income?

15 MR. HEATHER REICHERT: Correct.

16 MS. CANDACE GRAMMOND: And in quarter
17 2 we see -- if, Diana, we go back to Exhibit 17,
18 Undertaking 1. Yeah. Perfect. Thank you.

19 In quarter 2, increase rates decreased
20 by thirty (30) basis points. So that's the 1.32 went
21 back down to 1.02?

22 MR. HEATHER REICHERT: Correct.

23 MS. CANDACE GRAMMOND: And in the
24 second quarter Basic had a much more significant loss,
25 right? Basic lost 5 million in the first quarter and

1 over 47 million in the second quarter?

2 MR. HEATHER REICHERT: Correct.

3 MS. CANDACE GRAMMOND: So can you
4 reconcile for us why interest rates increase in
5 quarter 1 by thirteen (13) basis points, Basic loses 5
6 million, in second quarter interest rates decrease by
7 thirty (30) basis points and Basic loses forty-seven
8 (47).

9 MS. HEATHER REICHERT: Okay. So the
10 movement in Basic income between quarters -- in the
11 quarters and between quarters is not solely related to
12 what happens with interest rates, so that's -- that's
13 one (1). And I believe, if I'm not mistaken, I did
14 talk generally in my PowerPoint presentation about the
15 results for the first six (6) months compared to
16 budget and what the major reasons were for -- for
17 differences between budget.

18 The other thing that the Board needs to
19 understand is we show the Government of Canada a ten
20 (10) year bond yield as a -- as a proxy. Like the
21 movement in that particular Government of Canada ten
22 (10) year bond yield we use as a proxy for what's
23 happening overall with the discount rate that is
24 applied to claims and what would be happening overall
25 with the -- the interest rates on our fixed income

1 bonds.

2 It's a -- it's a proxy. It's not the
3 exact interest rate that we are using, or that we are
4 achieving on our bonds, or the exact discount rate
5 that we are using to discount the claims in any given
6 period. We're just trying to pull up what our actual
7 interest rate on bonds were for each of those quarters
8 and what the, excuse me, the corresponding discount
9 rate was for each of those quarters, because that will
10 help to show that sometimes while the -- the trend of
11 the Government of Canada ten (10) year bond rate might
12 be decreasing, that may not be exactly reflected as a
13 decrease in our fixed income portfolio, or as a
14 decrease in our discount rate.

15 The trend in over a year the -- it's
16 generally a really good indication, but in year -- in
17 between quarters it's not necessarily as accurate a
18 trend.

19 MS. CANDACE GRAMMOND: So do you need
20 a minute to get that information pulled together?

21 MS. HEATHER REICHERT: One (1) second.

22 MS. CANDACE GRAMMOND: Okay.

23

24 (BRIEF PAUSE)

25

1 MS. HEATHER REICHERT: Okay. I'm just
2 trying to think how best to help everybody understand
3 this. And -- okay, so what I will put onto the record
4 is what the actual weighted average yield to maturity
5 is for our bond portfolio, which is what would be used
6 by Luke in discounting the bonds at each of those
7 quarters -- or claims, sorry. Discounting the claims
8 at each of those quarters. Okay.

9 So again, as I said, we use the
10 Government of Canada ten (10) year as a proxy just to
11 see if things are trending up or trending down,
12 because that's an easily accessible interest rate to -
13 - to get. But the actual weighted average yield to
14 maturity at the end of February 2016 was 3.56. So at
15 the beginning of the fiscal year it was at 3.56.

16 At the end of the first quarter, that
17 same weighted average yield to maturity was down to
18 3.41. So our actual bonds that are backing the claims
19 liabilities decreased by 15 basis points. So a
20 decrease in the bond interest rate would result in an
21 improvement or a gain on our bonds and a reduction in
22 our claims liability.

23 From the first quarter to the second
24 quarter, the weighted average yield to maturity moved
25 from 3.41 percent down to 3.15 percent. So that was a

1 decrease of 26 basis points in that quarter.

2 Similarly, we would see a gain on our bond valuation
3 and a loss on our claims valuation.

4 So that's part of what explains the
5 movement in the -- but the significant loss of income
6 in the second quarter. But again, that's just the
7 impact of interest rates on those quarters.

8 We had -- I think I explained we had
9 significant hail that were smaller hail incidents that
10 were not reinsured, and therefore caused losses in our
11 actual results.

12 There were other actuarial adjustments,
13 I believe, in the first or the second quarter, and --
14 yeah, I would need to -- sorry, I'm -- I'm not wanting
15 to -- to guess. But in the PowerPoint that I
16 presented the first day, there were the high-level
17 explanations of other reasons why -- why we incurred a
18 loss in the -- in the first quarter on the Basic
19 basis.

20 I hope that helps to explain.

21 MS. CANDACE GRAMMOND: It -- it does.
22 So in the first quarter under the -- the weighted
23 average interest rate that you mentioned, there was a
24 15 basis point decrease, and the Corporation lost 5
25 million, even though Government of Canada bond rates

1 had a 13 basis point increase?

2 MS. HEATHER REICHERT: That's right.

3 MS. CANDACE GRAMMOND: And --

4 MS. HEATHER REICHERT: Correct.

5 MS. CANDACE GRAMMOND: -- and the \$47
6 point million -- or 47.2 million or whatever it was
7 loss in the second quarter you're saying is partially
8 attributable to the decrease in interest rates, but is
9 also attributable to other factors such as hail, et
10 cetera?

11 MS. HEATHER REICHERT: Yeah, the first
12 and second quarter. So what I can also -- hopefully
13 this -- over the six (6) month period, just isolating
14 what the impact on an actual basis of the changes in
15 the interest rates.

16 So on the bonds, we had a gain of
17 approximately \$58.3 million in that six (6) month
18 period. That same six (6) month period, because of
19 the change in the discount rate for the claims, we had
20 an increase in our claims liabilities, therefore a
21 loss, of 82.8 million.

22 That's on a Corporate basis, so we're
23 not just talking about Basic. There would be a
24 proportion of that that relates to Basic, both a
25 proportion of the investment income or the -- the bond

1 gain that relates to Basic and a portion of the claims
2 increase that relates to Basic.

3 So on a Corporate basis, there was a
4 loss of -- what did I say that first number was, fifty
5 (50) -- 58.2 less 82.8, so 24 million loss on a
6 Corporate basis as a result of those interest rate
7 movements.

8 MS. CANDACE GRAMMOND: Okay. Can you
9 provide us with a schedule that reflects, for the
10 first two (2) quarters of the current year -- so at
11 the end of Q1 and then at the end of Q2 of 2016 --
12 both the actual and budgeted yields on the marketable
13 bond portfolio?

14 MS. HEATHER REICHERT: Yes, we can.

15

16 --- UNDERTAKING NO. 10: MPI to provide a schedule
17 reflecting external
18 consultants for ongoing
19 operations versus
20 consultants supporting
21 improvements initiatives,
22 through the next five (5)
23 years

24

25 MS. CANDACE GRAMMOND: Okay. I want

1 to go back, Diana, to the PowerPoint presentation and
2 slide 62. That's MPI Exhibit 24.

3 So, Ms. Reichert, I appreciate you've
4 been giving evidence about the -- the loss from the
5 first two (2) quarters, but I wanted to -- to go back
6 to this particular slide and just ensure that we're
7 all clear on how the numbers here tie in with the --
8 the interest rate cha -- interest rate changes, et --
9 et cetera.

10 So what we see here, and you spoke
11 about this on the first day of the hearing, at the --
12 the line item interest rate impact under the revenue
13 section, we see a -- a loss of 119.7 million, right?

14 MS. HEATHER REICHERT: Correct.

15 MS. CANDACE GRAMMOND: And then on the
16 interest rate impact line under the expense section,
17 we see a -- a positive result of 76.8 million.

18 MS. HEATHER REICHERT: Correct.

19 MS. CANDACE GRAMMOND: Which gives
20 rise to a \$42.9 million difference, and that's
21 reflected on the next slide.

22 Diana, if you can just go to sixty-
23 three (63) for a moment, we'll see the -- the note
24 about the forty-two point nine (42.9) unfavourable net
25 impact of interest rates, so that's the one nineteen

1 (119) offset by the seventy-six (76).

2 MS. HEATHER REICHERT: Correct.

3 MS. CANDACE GRAMMOND: Okay. And you
4 had -- and I -- I -- you had said on the first day,
5 and I can give you the transcript reference if
6 necessary, that it was -- that was due to interest
7 rates not increasing.

8 But wouldn't it be that interest rates
9 actually dropped, as we've been discussing? So rather
10 than them staying the same and not increasing, there
11 was an actual decrease.

12 MR. MATT GHIKAS: Could we get a
13 transcript reference, Ms. Grammond?

14 MS. CANDACE GRAMMOND: Sure.

15 MR. MATT GHIKAS: Thank you.

16

17 CONTINUED BY MS. CANDACE GRAMMOND:

18 MS. CANDACE GRAMMOND: I'll -- I'll
19 have to provide it. So we -- we can -- we can
20 continue with this thought process. So we see \$42
21 million -- or \$42.9 million unfavourable impact due to
22 interest rates in Q2. We've gone through the change
23 in the bond rate, and you've given us the change in
24 the weighted average.

25 To which do you attribute, or does the

1 Corporation attribute, the unfavourable result? Is it
2 strictly the Government of Canada bond rate decrease,
3 or is it the weighted average rate decrease?

4 MS. HEATHER REICHERT: No, it would be
5 with respect to our actual weighted average, and...

6 MS. CANDACE GRAMMOND: So -- so the
7 twenty-six (26) basis points that you spoke about a
8 moment ago.

9 MS. HEATHER REICHERT: Correct, but
10 also I -- I -- what I was -- what I -- the numbers
11 that I was giving were the changes in the interest
12 rate from one quarter to the next. This is -- this is
13 reflecting the differences between what we would have
14 budgeted, which you've asked as an undertaking, what
15 we would have budgeted the interest rates to do versus
16 what they actually did.

17 So that -- that -- so that's why, for
18 instance, when I said it was a fifty-seven (57) or \$58
19 million difference in the -- the bond income, it's not
20 -- I -- that is -- doesn't show the hundred and
21 nineteen (119), because the hundred and nineteen (119)
22 is the difference between what we were anticipating
23 the impact to bonds to be in the budget versus what
24 they actually were. And that swing was a hundred and
25 nineteen point seven (119.7).

1 MS. CANDACE GRAMMOND: Diana, can you
2 just go back to sixty-two (62) for a moment, the --
3 the immediately preceding slide?

4 So this slide reflects what you're just
5 describing, the difference between actual and budget?

6 MS. HEATHER REICHERT: Right. So --

7 MS. CANDACE GRAMMOND: And -- and so --
8 - sorry to interrupt you, but if we see what the
9 Corporation budgeted for interest rate impact, I
10 directed you earlier just to the result, the one
11 nineteen point seven (119.7), but the interest rate
12 impact that was budget is -- budgeted was a negative
13 thirty-six point nine (36.9), and similarly under
14 expenses, it was a negative twenty-six point eight
15 (26.8).

16 MS. HEATHER REICHERT: Correct. So --
17 and that makes sense, because we were forecasting for
18 interest rates to increase over the -- over the year.
19 So when you're forecasting interest rates to increase,
20 you're anticipating you'll get a benefit -- like,
21 you'll get a reduction in your claims expense because
22 of higher interest rates, and you will lose on your
23 bond valuation because the interest rates have gone
24 up.

25 So -- so hence the budget of 36.9

1 million, which is a reduction in the claims expense,
2 and a budget of twenty-six point eight (26.8), which
3 is a reduction in investment income.

4 MS. CANDACE GRAMMOND: So you would
5 have -- the Corporation would have netted 10 million
6 to the good, then, if it had --

7 MS. HEATHER REICHERT: We were --

8 MS. CANDACE GRAMMOND: -- been as
9 budgeted?

10 MS. HEATHER REICHERT: Correct. We
11 were budgeting for the first six months to net 10
12 million to the good on the basis of forecasting based
13 on the five (5) major banks and the global insight
14 that interest rates were going to increase over the
15 period. They didn't increase. They, in fact,
16 decreased over the period.

17 MS. CANDACE GRAMMOND: Right. Okay.
18 So I -- I think you've answered my earlier question
19 about the distinction between, not only interest rates
20 not increasing, but actually decreasing.

21 So that's why we have this \$42 million
22 unfavourable impact?

23 MR. HEATHER REICHERT: And we can look
24 at the transcript. But my --

25 MS. CANDACE GRAMMOND: Yeah.

1 MR. HEATHER REICHERT: -- guess is I
2 was probably saying that interest rates did not
3 increase as we were anticipating them to do.

4 MS. CANDACE GRAMMOND: Right. And
5 they in fact decreased?

6 MR. HEATHER REICHERT: And they did in
7 fact decrease.

8 MS. CANDACE GRAMMOND: Okay. Tha --
9 that's helpful. So -- so let's just talk about the --
10 the magnitude then of this change. So the Corporation
11 was budgeting for \$10 million to the good; ended up
12 with forty-two (42) of a negative impact, and -- and
13 which does seem like a significant spread.

14 Can you comment on why that loss was
15 not better mitigated?

16 MR. HEATHER REICHERT: A combination
17 of things because, again, it's impacted by what we
18 anticipated to happen in the budget and what we
19 anticipated interest rates to do within the budget
20 compared to what they actually did.

21 And the fact that, we've talked about
22 this before, we match at a corporate basis our bonds
23 to our liabilities, most of the liabilities are housed
24 within Basic, so it gets a higher proportion of the
25 claims from -- Basic has a higher proportion of

1 overall claims, so it has about 93 percent of the
2 claims, and only gets allocated about 84 percent of
3 the income.

4 So, hence, when the budget isn't
5 achieved there is a more significant impact of -- of
6 the forty-two (42) that we're referencing.

7 MS. CANDACE GRAMMOND: And -- and I'm
8 going to come to the mitigation, or the matching, in
9 corporate as -- as opposed to Basic. But maybe we'll
10 -- we'll approach it this way. Diana, can you go to
11 slide 65?

12 So this is going to be for a different
13 fiscal year, but it's a similar slide that we're
14 looking at, seeing the budgeted interest rate impact
15 both on the revenue and expense side. So what we see
16 here for the -- the current year is a difference of
17 about 16 million.

18 And I'm just offsetting the eighty-five
19 (85) and the sixty-nine (69) at the two (2) interest
20 rate impact lines. Is that correct?

21 MR. HEATHER REICHERT: The eighty-five
22 (85) and the sixty-nine (69)? Yes.

23 MS. CANDACE GRAMMOND: Would be -- in
24 other words, you're budgeting for an offset of about
25 16 million. Do I have that correct or am I incorrect?

1 MR. HEATHER REICHERT: No. I think,
2 if you're looking at that particular column, that's
3 the forecast for the 2000 --

4 MS. CANDACE GRAMMOND: That -- that's
5 what the Corporation's budgeting, right, for the
6 balance of the current fiscal year?

7 MR. HEATHER REICHERT: Sorry, that's
8 what we're forecasting for the balance of the fiscal
9 year, correct.

10 MS. CANDACE GRAMMOND: Okay.

11 MR. HEATHER REICHERT: What we're
12 budgeting for the total year is the 9.6 and -- 9.6
13 interest rate impact and the 11.4.

14 MS. CANDACE GRAMMOND: Okay. Thank
15 you for -- for correcting that. But maybe the best
16 way to look at it is the final column entitled,
17 "Better or worse," we see ultimately, again, just
18 looking at the two (2) in -- interest rate impact
19 lines, ninety-five point two (95.2) offset by eight-
20 one point two (81.2) gives rise to a difference of
21 fourteen (14), correct?

22 MR. HEATHER REICHERT: Correct.

23 MS. CANDACE GRAMMOND: Which is
24 substantially less than the forty-two point nine
25 (42.9) that we were looking at on the earlier slide?

1 MR. HEATHER REICHERT: That's right,
2 because when we're doing the forecast we're taking
3 what's actually occurred in the first six (6) months
4 and adding to it what we are budgeting to have happen
5 in the next six (6) months. So we haven't changed,
6 from the budget perspective, the fact that we were
7 still anticipating interest rates to increase over the
8 last six (6) months.

9 So it -- it's -- that's what you're
10 seeing.

11 MS. CANDACE GRAMMOND: Now, I --
12 you've commented about the better insulation, if I can
13 call it that, to the Corporation as a whole from
14 interest rate risk than the insulation to Basic alone?

15 MR. HEATHER REICHERT: That's correct.

16 MS. CANDACE GRAMMOND: And you've
17 already explained that, which -- which I was going to
18 ask you about in any event.

19 Can you tell us whether if the matching
20 at the Basic level could be improved upon, that would
21 impact the rate request that's before the Board?

22 MS. HEATHER REICHERT: Yes, so if we
23 were to match at a Basic level, that would mean that
24 we would need to have an allocation -- a higher
25 allocation of bond interest income to Basic. That

1 means that we have less available Basic funds to
2 invest in other higher yielding investments, like
3 equities or alternatives.

4 So that would mean on an overall
5 forecast basis our investment income on a Basic basis
6 would be lower forecasted income, because more of it
7 would be in lower yielding bonds and less would be in
8 higher yielding investments like equities, real
9 estate, and infrastructure.

10 So all other things being equal, we
11 would be forecasting lower investment income on Basic,
12 which would be that we would ask for a higher premium
13 rate increase. And when we calculated that on the
14 basis of an assumption that we were perfectly matched
15 at a Basic level and interest rates continued to stay
16 flat for the entire year, we did forecast that
17 scenario, and that indicated we would have had to ask
18 for a 1.7 percent additional increase in the overall
19 premium rate.

20 That's the -- that's the amount of the
21 impact that would happen to Basic. So because of how
22 we are matching at a Basic level, as we're forecasting
23 interest rates to increase Basic benefits, and that
24 helps to keep the overall premium rate increase that
25 we're asking for lower than if we were to more

1 perfectly match and then have whatever money is
2 available -- there's less money available to get
3 higher yields from equities and from alternatives.

4 MS. CANDACE GRAMMOND: Keeping with
5 the second-quarter results and turning for the moment
6 to investment income, we -- you had in one (1) of your
7 slides, Ms. Reichert, from the first day, that's again
8 slide 62, if we can just go back to that briefly,
9 reflected that net investment income, and so I'm
10 looking at the second last row of the table, for the
11 first two (2) quarters was 86.8 million in income?

12 MS. HEATHER REICHERT: That's correct.

13 MS. CANDACE GRAMMOND: And as I
14 understand it, the net investment income for the
15 Corporation as a whole, which isn't on this slide, but
16 is in the second-quarter report was one -- 101.2
17 million?

18 MS. HEATHER REICHERT: Sorry, which
19 number was that? I'm sorry, I just --

20 MS. CANDACE GRAMMOND: That's okay.
21 So -- so Basic's allocation as on this slide is
22 eighty-six point eight (86.8). The investment income
23 for the Corporation as a whole was 101.2 million?

24 MS. HEATHER REICHERT: Yeah, that --
25 that sounds right.

1 MS. CANDACE GRAMMOND: Okay. And that
2 includes an unrealized gain on the fair value through
3 profit and loss bonds of 54.4 million?

4 MS. HEATHER REICHERT: That sounds
5 right subject to check.

6 MS. CANDACE GRAMMOND: Sure. If -- if
7 you want to check that, it's in the second-quarter
8 report on page 18.

9 MS. HEATHER REICHERT: Okay.

10

11 (BRIEF PAUSE)

12

13 MS. HEATHER REICHERT: Yes. Yes.

14 MS. CANDACE GRAMMOND: Okay. And as
15 we know, Basic share is about 85 percent of that?

16 MS. HEATHER REICHERT: Right, 84/85
17 percent, correct.

18 MS. CANDACE GRAMMOND: Now, going back
19 to your PowerPoint, and sorry, Diana, for jumping
20 around, slide 65 of your PowerPoint which we looked at
21 a minute ago, this is now carrying through to the end
22 of the current fiscal year, forecast net investment
23 income of 90.8 million for the year -- or I'm sorry,
24 that -- that -- yeah, that's the net investment
25 income, right, 90.8 for the year?

1 MS. HEATHER REICHERT: That's the --
2 the -- that's the budget with revised interest rate
3 forecasts.

4 MS. CANDACE GRAMMOND: But this budget
5 includes the Q2 results?

6 MS. HEATHER REICHERT: Correct.

7 MS. CANDACE GRAMMOND: Now, I want to
8 talk a little bit about forecasts of interest rate
9 movement for the next half or the last two (2)
10 quarters of the current fiscal year. So I'm going to
11 ask, Diana, for you to pull up from the investment
12 section of the filing Appendix 13, which is on page
13 70.

14 And just while you're doing that, what
15 we're going to see is the Corporation's forecast for
16 the Standard Interest Rate Forecast at the time of the
17 filing. So page 70 of the -- this section. Right.

18 So if we just scroll a little bit,
19 we're going to see a five (5) year period here with
20 what the Standard Interest Rate Forecast would reflect
21 at the time of filing, correct?

22 MS. HEATHER REICHERT: Correct.

23 MS. CANDACE GRAMMOND: So we see, by
24 the end of the current year, 1.76, by the end of the
25 year of the application, 2.43, and so on.

1 MS. HEATHER REICHERT: Correct.

2 MS. CANDACE GRAMMOND: Now, if we look
3 from the end of the last fiscal year, which I
4 appreciate isn't shown here, but the Q4 closing rate
5 on this would have been the 1.19 percent that we spoke
6 about earlier?

7 MS. HEATHER REICHERT: Correct.

8 MS. CANDACE GRAMMOND: So if at the
9 end of the 2016 fiscal year it was at 1.19, it's
10 forecast to go to 3.3 by the end of 2018/'19, that
11 would be a 211 basis point increase?

12 MS. HEATHER REICHERT: That's correct.

13 MS. CANDACE GRAMMOND: And we have an
14 update to these forecasts. As indicated, these were
15 at the time of the filing. That's in PUB-MPI-2-7,
16 which is at tab 14 of the Board's book of documents,
17 and that's at 2-7(b).

18 MS. HEATHER REICHERT: Sorry, what was
19 the page reference?

20 MS. CANDACE GRAMMOND: It's 2-7(b).
21 So it's within tab 14, and it's page numbered 6.

22 MS. HEATHER REICHERT: Okay. Page
23 number 6?

24

25 (BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: Thank you,
2 Diana. If -- actually, Diana, can you do the side by
3 side with the other table that we had? Yeah, that's
4 perfect. Perfect.

5 So on -- just for the record, on the
6 left we have the original GRA filing, Standard
7 Interest Rate Forecast on the right. We have PUB-MPI-
8 2-7(b), which is an update to that Standard Interest
9 Rate Forecast based on August 2016 rates.

10 MS. HEATHER REICHERT: Correct. Sorry
11 correct.

12 MS. CANDACE GRAMMOND: So the 3.3
13 percent that was being forecast through to the end of
14 2018/'19 has changed to the 2.77 that we see for the
15 2018 row.

16 Is that right?

17 MS. HEATHER REICHERT: Yeah. So 3.3
18 has changed to 2.77.

19 MS. CANDACE GRAMMOND: Seven seven
20 (77).

21 MS. HEATHER REICHERT: Yes.

22 MS. CANDACE GRAMMOND: Okay. So
23 instead of a 211 basis point increase from the end of
24 2015/'16, it's a 158 basis point increase?

25 MS. HEATHER REICHERT: You know what?

1 I just want to make sure. I always hate when we don't
2 use two (2) years to denote the --

3 MS. CANDACE GRAMMOND: Yeah, I know.

4 MS. HEATHER REICHERT: -- fiscal year
5 because when I look at the schedule on the right,
6 2016, if you look at quarter 4, that is 1.20, which is
7 like the -- the 1.19. So I think we should be
8 comparing -- so if that's the '15 -- if the first set
9 of columns is '15/'16, the second set --

10 MS. CANDACE GRAMMOND: But I don't
11 think it is, and the reason is that this is a
12 forecast, which is why the two (2) quarters for 2016
13 are blank because those are in the can, right?
14 They're actuals at this point.

15 MS. HEATHER REICHERT: Okay.

16 MS. CANDACE GRAMMOND: I had the same
17 thought process --

18 MS. HEATHER REICHERT: Yeah.

19 MS. CANDACE GRAMMOND: -- that you
20 did, and I thought, Oh, I wish the -- the fiscal years
21 were listed the same. But I do think that the -- I
22 think we are comparing apples to apples on these five
23 (5) year spans.

24

25 (BRIEF PAUSE)

1 MS. HEATHER REICHERT: I'm with you.

2 MS. CANDACE GRAMMOND: Thank you. So
3 -- so the 3.3 has become 2.77 for the end of the year
4 of the application?

5 MS. HEATHER REICHERT: Correct.

6 MS. CANDACE GRAMMOND: Okay. Now, I
7 appreciate that, in the Corporation's application, it
8 is seeking not to utilize this forecast, but rather to
9 utilize the 50/50 method that we've been speaking
10 about.

11 And, Ms. Reichert, in the PowerPoint
12 that you had provided, slide 11 of Exhibit 23, we see
13 the -- a -- a graphical presentation of what that
14 50/50 would be, right? That's the green line, the --
15 sort of the mint green line in the bottom right-hand
16 corner?

17 MS. HEATHER REICHERT: Correct.

18 MS. CANDACE GRAMMOND: Now, is there
19 somewhere a numerical table like the other ones we
20 were looking at that reflects this forecast? I -- I
21 can't find it, and it doesn't mean it's not there.

22 MS. HEATHER REICHERT: Yeah. I --
23 absolutely there will be a table somewhere, and if I'm
24 not mistaken, I -- I think it should be in that two
25 (2) -- PUB-II-7 --

1 MS. CANDACE GRAMMOND: I thought --
2 well, it -- one would think it would be in II-7 or II-
3 25, but when I looked I couldn't find it. So what I
4 was going to ask, if -- if you can direct me to it,
5 that's great. If not, if it can be provided.

6 MS. HEATHER REICHERT: I'll take it as
7 an undertaking, and if we find it at the break, I will
8 give you the reference. Otherwise, we'll provide you
9 with -- with the schedule that shows the 50/50.

10 MS. CANDACE GRAMMOND: Perfect.

11

12 --- UNDERTAKING NO. 11: St. John, Halifax, and
13 Charlottetown that green
14 premium is considerably
15 less. MPI to provide any
16 commentary or be able to
17 lend any potential
18 reasons for that to be the
19 case (Came up Friday but
20 not noted in transcript)

21

22 --- UNDERTAKING NO. 12: MPI to advise as to the
23 equivalent figures for our
24 actual yield on our fixed
25 income portfolio (as

1 opposed to the GOC 10 year
2 bond)

3

4 --- UNDERTAKING NO. 13: MPI to provide a numerical
5 schedule for the August
6 50/50 interest rate
7 forecast

8

9 CONTINUED BY MS. CANDACE GRAMMOND:

10 MS. CANDACE GRAMMOND: Now, I'll
11 continue with a few questions -- or a few additional
12 questions on the second quarter report, so we'll go
13 back to that, which is MPI Exhibit 24, and in
14 particular, page 9 so that's page 10 of the PDF,
15 Diana. So this is the statement of operations. If we
16 can look at the claims expense line.

17 So under the bolded heading of "claims
18 cost" which is roughly in the middle of the screen,
19 four (4) lines down, we see claims expense, and
20 carrying that across to the right-hand side, we see
21 actual of 68.4 million for the first two (2) quarters
22 of this year?

23 MS. HEATHER REICHERT: Correct.

24 MS. CANDACE GRAMMOND: And that's on a
25 Corporate basis?

1 MS. HEATHER REICHERT: Correct.

2 MS. CANDACE GRAMMOND: And I -- as I
3 understand it, the total claims expense for Basic for
4 the same two (2) quarters was 66.2 million, and that
5 figure comes from slide 62 of your PowerPoint.

6 So does that mean that the competitive
7 lines only incurred sixty-two (62) -- or, pardon me,
8 2.2 million in claims expense? Just trying to
9 reconcile those.

10 MS. HEATHER REICHERT: Could you
11 switch to the slide --

12 MS. CANDACE GRAMMOND: Sure.

13 MS. HEATHER REICHERT: -- of my
14 PowerPoint? I --

15 MS. CANDACE GRAMMOND: Slide 62, which
16 I appreciate we've been looking at a lot, but --

17 MS. HEATHER REICHERT: Okay.

18 MS. CANDACE GRAMMOND: -- so -- so you
19 see there claims expenses for Basic being sixty-six
20 point two (66.2).

21 MS. HEATHER REICHERT: Yeah. Okay.
22 So...

23

24 (BRIEF PAUSE)

25

1 MS. HEATHER REICHERT: What I'm --
2 what I'm struggling with is that on this particular
3 schedule, you'll see that there are what -- we often
4 break down the expenses into four (4) categories. We
5 were talking about these earlier. So you have --

6 MS. CANDACE GRAMMOND: Yeah.

7 MS. HEATHER REICHERT: -- claims
8 expense, loss prevention and road safety --

9 MS. CANDACE GRAMMOND: Yeah.

10 MS. HEATHER REICHERT: -- and then you
11 have operating, and regulatory and appeal. As well,
12 this particular -- sorry, this -- this particular
13 schedule also shows commissions and premiums.

14 The previous slide that I was
15 presenting in the PowerPoint, it -- it's only showing
16 claims expense and expenses total. So those two (2)
17 amounts, sixty-six point two (66.2) and sixty-nine
18 point seven (69.7), are a hundred and thirty-five
19 (135) compared to those categories that I was going --
20 like, without getting into the -- into the weeds, your
21 analysis of taking the sixty-nine (69) Corporate and -
22 - or, pardon me, the sixty-eight point five (68.5) --

23 MS. CANDACE GRAMMOND: Sixty-eight
24 point (68.5), yeah.

25 MS. HEATHER REICHERT: -- corporate,

1 you need to add sixty-eight point five (68.5) and the
2 six point seven (6.7) for loss prevention and road
3 safety together on a Corporate basis, which is seventy
4 (70) something, seventy-five (75), and compare that to
5 the claims expenses on my slide.

6 MS. CANDACE GRAMMOND: Okay. So even
7 though the title of "claims expense" was the same, the
8 content wasn't --

9 MS. HEATHER REICHERT: Yeah.

10 MS. CANDACE GRAMMOND: -- or the --
11 the figures included wasn't?

12 MR. HEATHER REICHERT: We -- we group
13 things, unfortunately, differently just to simplify
14 the -- the slide.

15 MS. CANDACE GRAMMOND: That's fine.
16 Going back to the annual report. Or thank you, Diana,
17 for keeping that up. If we just scroll down a little
18 bit to the next table on this page.

19 This is the statement of comprehensive
20 income. We see here a net loss from operations of
21 thirty point nine (30.9). And we spoke about that
22 earlier.

23 So I'm looking at the -- the first row
24 in that particular table, right? That's the --

25 MR. HEATHER REICHERT: Correct, yeah.

1 MS. CANDACE GRAMMOND: -- thirty point
2 nine (30.9) corporate-wide loss. But we see here
3 total comprehensive income at the bottom of that table
4 at a similar number, the 30.6 million. And that's due
5 to what's in-between, right, the --

6 MR. HEATHER REICHERT: Correct.

7 MS. CANDACE GRAMMOND: -- the
8 unrealized gain on available for sale assets of sixty-
9 one point five (61.5)?

10 MR. HEATHER REICHERT: Net of sixty-
11 one (61) --

12 MS. CANDACE GRAMMOND: Sorry. Right,
13 net of the --

14 MR. HEATHER REICHERT: The net of
15 sixty-one point five (61.5), correct.

16 MS. CANDACE GRAMMOND: Okay.

17 MR. HEATHER REICHERT: Correct. So
18 that -- that -- every -- every month the equities that
19 we hold are available for sale, and they are marked to
20 market. So the market value of those at the end of
21 this particular month, the change in their market
22 value is the -- the sixty-seven point two (67.2). And
23 of that, we actually sold equities that generated a
24 gain. And that gain, when generated, moves up into
25 net income.

1 So the net investment income above the
2 line, if you will, includes the 5.6 million of actual
3 equities sold for a gain.

4 MS. CANDACE GRAMMOND: So what was the
5 underlying cause of the unrealized gain in the equity
6 portfolio?

7 MR. HEATHER REICHERT: It -- it is
8 just the market value of the equity portfolio that we
9 hold. So as the market moves, the value of our
10 equities increase or decrease with the market. So
11 they increased by 67.2 million over the first six (6)
12 months of the fiscal year.

13 MS. CANDACE GRAMMOND: And do you know
14 whether there have been any further changes to that or
15 what the -- the two (2) date changes would be to that
16 figure?

17 MR. HEATHER REICHERT: In the month of
18 September, I believe the market continued to improve.
19 I do think that we had some re-balancing that we did.
20 So we did generate some gains in the sale of -- of
21 equities in the month of September.

22 MS. CANDACE GRAMMOND: Would you be
23 able to provide an update as of September 30th?

24 MR. HEATHER REICHERT: An update as to
25 the value of our equity portfolio as at the end of

1 September, which would then -- so the increase in
2 value of our equity portfolio during the month of
3 September?

4 MS. CANDACE GRAMMOND: Including --
5 which would include realized and unrealized gains.

6 MR. HEATHER REICHERT: Yes.

7 MS. CANDACE GRAMMOND: Thank you.

8

9 --- UNDERTAKING NO. 14: To provide an update as to
10 the value of the equity
11 portfolio as at the end of
12 September including
13 realized and unrealized
14 gains

15

16 MR. HEATHER REICHERT: Essentially
17 what we'll give you is this condensed interim -- we'll
18 give you the middle section of this interim statement,
19 the middle --

20 MS. CANDACE GRAMMOND: That would be
21 perfect. Thank you.

22 MR. HEATHER REICHERT: -- middle two
23 (2) items.

24 MS. CANDACE GRAMMOND: Now, as I
25 understand it, what we're looking at here is on a

1 Corporate basis. But it would be fair to say that
2 about 85 percent of what we see here in terms of gains
3 would be attributable to Basic?

4 MR. HEATHER REICHERT: Generally
5 speaking, yes.

6 MS. CANDACE GRAMMOND: So of the 61
7 1/2 million in other comprehensive income, 85 percent
8 would be roughly 52.2 million?

9 MR. HEATHER REICHERT: Subject to
10 check, yes.

11 MS. CANDACE GRAMMOND: And so if that
12 amount were applied to the losses that Basic suffered
13 in the first two (2) quarters, there would be a --
14 roughly an offset?

15 MR. HEATHER REICHERT: Correct.

16 MS. CANDACE GRAMMOND: Now, in --
17 still in the second quarter report, and I'm nearing
18 the end of that section, on page 4, if we can go
19 there, Diana, 4 of the actual report, which is page 5
20 of the PDF. That's perfect. This is where the
21 Corporation sets out its corporate goals and -- and
22 its progress in meeting those goals.

23 We see Basic is above its total equity
24 target, having 231 million in total equity on a target
25 of 181. I believe that for the current quarter, so

1 for the third quarter of the fiscal year, that target
2 will be lowered given the adoption of the latest DCAT
3 report?

4

5 (BRIEF PAUSE)

6

7 MS. HEATHER REICHERT: Yes, correct.

8 MS. CANDACE GRAMMOND: And that's the
9 one fifty-nine (159)?

10 MS. HEATHER REICHERT: That's the one
11 fifty-nine (159), correct.

12 MS. CANDACE GRAMMOND: Okay. Those
13 are my questions with respect to the second-quarter
14 report for now, subject to further questions that
15 would arise from the undertakings that will be
16 provided.

17 And I -- I will indicate, Mr. Chairman,
18 for the record, I do have some additional questions on
19 investment income, but there are some undertakings
20 that we're waiting for even from last week, so I'll
21 just wait and ask those questions once those
22 undertakings have been answered, so we're not covering
23 ground unnecessarily.

24 I would move then to some questions on
25 capital expenditures. So we'll shift gears before the

1 lunch hour here and see how much -- how much of this
2 topic we can cover off.

3 Diana, I'm going to ask you to go to
4 the expense section of the filing, Volume II, Appendix
5 11. Thank you. And page 43.

6 So this is an appendix that reflects
7 what the Corporation was forecasting for capital
8 expenditures last year and what it's forecasting this
9 year for two (2) different fiscal years that are
10 shown.

11 That's right?

12 MS. HEATHER REICHERT: Correct.

13 MS. CANDACE GRAMMOND: So for last
14 year, for 2015/'16, the Corporation was forecasting
15 capital expenditures of 31.2 million. The actual was
16 24.2. So you were -- the Corporation was \$7 million
17 under budget?

18 MS. HEATHER REICHERT: That's correct.

19 MS. CANDACE GRAMMOND: And for the
20 current year, the 2016/'17 year, again, we see the
21 Corporation under budget by about 4.8 million?

22 MS. HEATHER REICHERT: Correct.

23 MS. CANDACE GRAMMOND: Now, can you
24 comment on the -- the decreases and why -- why we're
25 seeing that?

1 MS. HEATHER REICHERT: Can we scroll
2 down a bit? I'm hoping that -- okay, so with '15/'16
3 the -- the main reason there is that the Physical
4 Damage Centre of Excellence, which is renovations to
5 our Physical Damage Centre located on Plessis Road did
6 not start and get under way in '15/'16 as we were
7 initially anticipating that it would.

8 So that's why if you scroll up you'll
9 see there's that 3.3 million there, that was
10 anticipating that we were going to be full into
11 renovations in the '15/'16 fiscal year and that didn't
12 occur until some point in -- in '16/'17. So that's
13 the main thing for '15/'16 as it relates to the top
14 grouping.

15 And if we scroll down --

16 MS. CANDACE GRAMMOND: Sorry, I'm just
17 going to stop you there, and -- because I want to ask
18 a followup question on that. So if -- if the timing
19 of the renovations to that building was delayed, it --
20 would it be fair to say, based on this, that it was
21 delayed beyond the 2016/'17 fiscal year, because we
22 don't see that -- the full three point three (3.3)
23 being made up in that second fiscal year.

24 MS. HEATHER REICHERT: That's --
25 that's correct.

1 MS. CANDACE GRAMMOND: Okay. And --
2 and just as an aside, that building -- I think the
3 original intention of the Corporation was that a new
4 building would be constructed, but it's now going to
5 be a renovation of an existing building?

6 MS. HEATHER REICHERT: Absolutely
7 correct.

8 MS. CANDACE GRAMMOND: And the
9 Corporation expects no change to the overall cost of
10 the project?

11 MS. HEATHER REICHERT: Oh, we did, and
12 we did ref -- we did adjust the budget accordingly as
13 a result of that. So -- so there's a combination of
14 things happening here. You don't see the entire --
15 like '17/'18 will also have some expenditure relating
16 to the Physical Damage Centre of Excellence.

17 If you look at the total for the
18 amounts to be incurred for that Centre of Excellence
19 in '16/'17 and '17/'18, it will be less than what we
20 were originally forecasting to spend when we were
21 planning it as an entirely new building. And that
22 would have been during the '15/'16, '16/'17 time
23 period.

24 MS. CANDACE GRAMMOND: Okay. So thank
25 you for that. I do have some further questions, but

1 I'll -- I'll ask you to finish the other answer about
2 the changes in the forecasted budget.

3 MS. HEATHER REICHERT: So if we scroll
4 down, again, I'm hoping that -- so -- so data -- no,
5 maybe scroll a little bit further. There should be
6 implementation expense. We're lower than the 2016
7 GRA, mainly due to reduction in information security
8 strategy, and road map, and physical damage re-
9 engineering projects.

10 So there were amounts that were
11 forecasted to be expended as part of implementation
12 expense relating to those projects.

13 As it relates to -- as it relates to
14 the information security strategy and roadmap, we were
15 initially expensing that entire project. And during
16 the '15 -- or during '16/'17, we revisited that
17 project and determined that we could capitalize that
18 project.

19 So hence, it was moved out of the
20 implementation expense budget and moved into the --
21 the capital budget --

22 MS. CANDACE GRAMMOND: Thank you.

23 MS. HEATHER REICHERT: -- which is
24 going to -- if we -- if we go into 2016/'17, that will
25 help to explain some of that 1.4 million negative

1 variance in deferred development.

2 MS. CANDACE GRAMMOND: Thank you.

3 Now, we've heard reference in the proceedings to date
4 to the Physical Damage Re-engineering Project, or the
5 PDR Project. And the filing reflects that the goal of
6 that project is to have faster turn-around times for
7 repair shops and customers.

8 That's fair to say?

9 MS. HEATHER REICHERT: That's fair to
10 say, yes.

11 MS. CANDACE GRAMMOND: Can you tell us
12 a little bit about what the time frame was before and
13 what it -- it's anticipated to be after implementation
14 of the PDR Project?

15 MS. HEATHER REICHERT: The time frame
16 of the turnaround for fixing physical damage?

17 MS. CANDACE GRAMMOND: Yes.

18 MS. HEATHER REICHERT: No, I -- I
19 don't have it -- I don't have in my head what -- the
20 average turn-around time because there's so many
21 factors that -- that impact how long it takes to -- to
22 fix a car.

23 But, generally, the idea is that, by
24 having cars go directly to a repair shop for their
25 estimate, that it shortens the amount of time that

1 people will need to wait for parts. And they'll be
2 able to take their car, have it estimated, leave it
3 there, and have it fixed more quickly and then
4 released to them. That's -- that's the general
5 premise.

6 MS. CANDACE GRAMMOND: Can you provide
7 then, by way of undertaking, what the average turn-
8 around time would have been under the old system, and
9 what the average turn-around time is expected to be
10 once PDR is fully implemented?

11 MS. HEATHER REICHERT: I can -- I can
12 take that as an undertaking and -- and see if -- if we
13 have that level of detail for the future. I'm pretty
14 sure we can provide that on what it is currently.

15 MS. CANDACE GRAMMOND: Thank you.

16

17 --- UNDERTAKING NO. 15: MPI to provide average
18 turn-around time under the
19 old system and now
20 forecast under PDR

21

22 CONTINUED BY MS. CANDACE GRAMMOND:

23 MS. CANDACE GRAMMOND: Now, in last
24 year's Order, the Board had ordered the Corporation to
25 complete an independent assessment on the development

1 and roll-out of the PDR Project, including progress,
2 timing, costs, savings, et cetera.

3 We know that the Corporation maintain -
4 - or retained, rather, Gartner to -- to do that
5 assessment, and Gartner has provided a report that's
6 at the filing -- or within the filing.

7 I'm not going to go through that with
8 you in any level of detail because Mr. Geffen will be
9 here next week, and we'll be able to speak to him
10 about that. But I am going to ask you a couple of
11 questions about MPI's comments in response to the
12 Gartner Report.

13 So, Diana, if we can go to the PDR
14 section of the filing, Attachment C. So this is, as
15 the title indicates, MPI's response to the Gartner
16 Report. And if we scroll down a little bit, we're
17 going to see a chart. I unfortunately failed to put
18 the page number in my notes, but if you just go down a
19 bit, you're going to see a chart with -- there we go.
20 Yeah, perfect.

21 These are all of the Gartner
22 recommendations. I'm not going to ask you about every
23 one, but I'm going to ask you about a few of them in
24 terms of the Corporation's response.

25 So the first one is -- is number 1. So

1 the -- the Gartner observation was that the progress
2 was steady but slow due to a number of changes in
3 direction. And then MPI says, That's an accurate
4 observation. However, it was part of the plan and
5 approach.

6 Can you comment on that? Because it
7 sounds like slow and changing direction would --
8 doesn't -- isn't something that most would plan for.
9 So can -- can you comment to us about that, please?

10 MS. HEATHER REICHERT: That reference
11 would be to the fact that this is a very, very
12 complex, multifaceted project. It has many parts,
13 many sub-projects within the overall large PDR
14 Program.

15 So it's been spoken to before, how,
16 with the changing technology in the repair industry,
17 with the -- the volatility or the -- I'm trying to
18 think of the right word -- the -- the impact of change
19 or the -- the velocity -- thank you -- the velocity of
20 change that -- that is occurring has resulted in, on
21 more than one occasion needing to pause and take stock
22 of what is happening, and ensuring that the system
23 that we are building is going to still be appropriate
24 for -- for when it's actually completed. So that's
25 what this would be referring to.

1 MS. CANDACE GRAMMOND: Okay. Thank
2 you. Next, Diana, if you can scroll to number 9.

3

4 (BRIEF PAUSE)

5

6 MS. CANDACE GRAMMOND: Perfect. So
7 this was with respect to project costs and savings,
8 and -- and the costs in particular. Gartner had made
9 the comment that there was -- that there was currently
10 no budget for ongoing support and the Corporation has
11 said: That's not accurate. We had included an
12 estimate for future operational costs for new
13 technology.

14 So can you just explain where in the
15 Corporation's view Gartner went wrong with respect to
16 this observation?

17 MS. HEATHER REICHERT: I'm trying to
18 remember the specific details as it relates to this
19 recommendation. As I was mentioning before, when we
20 are budgeting for improvement initiative and we have
21 that component for ongoing -- improvement initiative
22 ongoing expenses, which is where we ensure that we
23 have the money in -- in the budgets -- in the future
24 budgets for the maintenance and licensing costs, et
25 cetera, which would include things like operational

1 cost for the new technology, so it may be that Gartner
2 just wasn't privy to the fact that there's several
3 components to the capital budget and did not get
4 reference to that improvement initiative ongoing
5 component.

6 MS. CANDACE GRAMMOND: Okay. Last one
7 for this Table number 17, if we can scroll to that?
8 This is again MPI clarifying that there was an
9 estimate for future cost.

10 Is this part and parcel of the same one
11 that we looked at? Okay.

12 MS. HEATHER REICHERT: Yes.

13 MS. CANDACE GRAMMOND: You're nodding.
14 Thank you, but --

15 MS. HEATHER REICHERT: Yes.

16 MS. CANDACE GRAMMOND: Perfect. Okay.
17 So just to talk about the -- the budget for the PDR
18 project, the record reflects, and I believe this is
19 consistent with last year, the overall cost for the
20 project is about 65 million.

21 MS. HEATHER REICHERT: For all the
22 various components, yes.

23 MS. CANDACE GRAMMOND: And that's over
24 nine (9) years?

25 MS. HEATHER REICHERT: Yeah. I think

1 it's eight (8) or nine (9) years.

2 MS. CANDACE GRAMMOND: Why don't we
3 just go to the reference and -- and then I -- I don't
4 want you to be guessing. So Gartner report, which is
5 Attachment A to the PDR section, page 25. And I'm not
6 going to ask you about Gartner's conclusions. If you
7 can just scroll down a little bit. Yeah.

8 So right under "benefits" there we see
9 the reference to the 65 million over nine (9) years
10 which will generate a steady flow of benefits starting
11 in year seven (7), and that would be the 2018/'19
12 year. That's right?

13 MS. HEATHER REICHERT: Correct.

14 MS. CANDACE GRAMMOND: I say that
15 because year eleven (11) is referenced to be the
16 2020/'21 year.

17 MS. HEATHER REICHERT: Correct, yes --
18 no, we have -- we have slated that PDR would be
19 complete in '18/'19, which -- which makes sense about
20 the nine (9) years.

21 MS. CANDACE GRAMMOND: Okay.

22 MS. HEATHER REICHERT: It was just the
23 "about nine (9) years" because of when it started and
24 all that, so.

25 MS. CANDACE GRAMMOND: Oh, and -- and

1 that's -- that's fair. So the -- the overall cost of
2 65 million and then the reference to 13.65 million in
3 benefits, and that's per year, those numbers are
4 consistent with what was presented last year.

5 MS. HEATHER REICHERT: Yes. The --
6 the 13.65 might have been slightly less but in the
7 ballpark definitely.

8 MS. CANDACE GRAMMOND: And the
9 savings, as I understand it, are starting with staff
10 reductions.

11 MS. HEATHER REICHERT: Correct.

12 MS. CANDACE GRAMMOND: And Ms.
13 McCandless has gone through has gone through staff
14 reductions with you, and I -- I'm not going to cover
15 ground that she's covered but we did see a reference
16 to a \$2.25 million savings allocation to Basic
17 relating to the PDR project. That's correct?

18 MS. HEATHER REICHERT: Correct. It
19 was on a corporate basis 2.5, and then 2.25.

20 MS. CANDACE GRAMMOND: Right. And
21 that is because the Corporation is able to decrease
22 the number of estimating clerks.

23 MS. HEATHER REICHERT: I think it's a
24 few different components. It would be estimating
25 clerks as well as I believe some -- mostly -- mostly

1 estimating clerks but there were other -- other staff
2 reductions also anticipated, so estimating clerks and
3 some call centre clerks potentially. There was --
4 there was various -- I don't have the -- I -- I don't
5 have the breakdown of the twenty-five (25).

6 MS. CANDACE GRAMMOND: But it's all
7 related to the fact that the claimant can now deal at
8 the body shop directly and circumvent direct contact
9 with the Corporation?

10 MR. HEATHER REICHERT: Correct.

11 MS. CANDACE GRAMMOND: Okay. Now, has
12 the PDR project given rise to any actual savings to
13 date, like, as we -- as we sit here today, or are we
14 still projecting cost savings in the future?

15 MR. HEATHER REICHERT: We're still
16 projecting cost savings in the future, the bulk
17 starting in -- in the '18/'19 when the twenty-five
18 (25) staff reductions were noted. That -- that's --
19 there are some reductions that are -- are being
20 attributed to the PDR that related to the repurposing
21 of the Pembina Service Centre, those five (5).

22 Those, as I've mentioned, are starting
23 this year and -- and into next year.

24 MS. CANDACE GRAMMOND: Now, the time
25 line for the PDR project has changed from its first

1 inception to now. It's -- it's extended.

2 Is that fair to say?

3 MR. HEATHER REICHERT: Yeah, it
4 extended. And then it was brought back. So it's --
5 it has shifted, fair -- fair enough.

6 MS. CANDACE GRAMMOND: Initially, it
7 was to be completed, I think, in 2017. And now it's
8 to be completed in 2021?

9 MR. HEATHER REICHERT: Correct. I
10 thought there was at one juncture another time frame
11 in there of, like, twenty (20) --

12 MS. CANDACE GRAMMOND: I think so,
13 too.

14 MR. HEATHER REICHERT: Yeah.

15 MS. CANDACE GRAMMOND: I think there
16 was one (1) in the middle.

17 MR. HEATHER REICHERT: Yeah, yeah.

18 MS. CANDACE GRAMMOND: Okay. And --
19 and so just for the purposes of the record, and re --
20 with reference back to what's up on the screen, if the
21 2020/'21 fiscal year is year 11, then current year
22 would be year 7, the 2016/'17 fiscal year --

23 MR. HEATHER REICHERT: Sure.

24 MS. CANDACE GRAMMOND: -- just doing
25 the math?

1 MR. HEATHER REICHERT: Yes.

2 MS. CANDACE GRAMMOND: Okay. Mr.
3 Chairman, I have some questions about the technology
4 modernization project, but I think I can get them
5 completed within the next ten (10) to fifteen (15)
6 minutes, if that would please the Board?

7 THE CHAIRPERSON: Yes.

8

9 CONTINUED BY MS. CANDACE GRAMMOND:

10 MS. CANDACE GRAMMOND: So, Ms.
11 Reichert, firstly, can you describe just at a high
12 level the technology modernization project?

13 MR. HEATHER REICHERT: Sure. As I was
14 mentioning before, it's been broken down into the
15 subcomponents of technology capabilities and
16 technology innovation, I think. I haven't got them
17 exactly right, but it's been broken down into
18 subcomponents.

19 Essentially what -- what the technology
20 modernization program is, it'll be a variety of
21 different projects, but the intent is that when we
22 underwent business process re-engineering and the --
23 and, more specifically, the IT optimization project,
24 which was a \$45 million, I believe, capital project at
25 that time, that was undertaken because, at the time,

1 enough attention hadn't been spent on maintaining
2 existing in -- information technology infrastructure.

3 It's like any other asset. It needs to
4 be maintained in order to continue to function in the
5 way that it needs to function. So we had what was
6 described as roof repairs that were -- you know,
7 foundational roof repair kinds of things that were
8 required. And that was the IT optimization project
9 that helped get things well managed and well
10 controlled. So that's been done.

11 And now in order to ensure that we
12 don't get to a situation where the roof is leaking
13 again, you need to have ongoing maintenance of that
14 particular asset. So a large part of the technology
15 modernization is ensuring that we are keeping the
16 existing asset functioning properly. And that means
17 increasing the capabilities of our IT staff, like,
18 making sure that they grow and increase their
19 capabilities as our IT infrastructure gets more and
20 more complex, so some relate to that.

21 It means managing the upgrades and the
22 initiatives on a -- on a proper basis so that there
23 are aspects of that. So there are a whole bunch of
24 different smaller projects, if you will, incorporated
25 within the overall umbrella or framework of technology

1 modernization that is keeping the asset well -- well
2 functioning as well as the innovation aspects of
3 looking to see what is happening in IT -- in the IT
4 world and ensuring that we are keeping up to date and
5 making sure, again, that our asset is working well
6 into the -- into the future and -- and adopting any
7 new technology that might be required to -- to be
8 adopted.

9 MS. CANDACE GRAMMOND: Thank you.
10 Diana, can you pull up PUB/MPI 2-16, Attachment A,
11 please?

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE GRAMMOND: This is the
16 project -- or Program Charter. I guess Project
17 Charter would be okay too, with respect to this issue.
18 And, Diana, I'll ask you to go to page 4 of this
19 document. Actually, it -- it might be, again, where
20 we have different numbers on the PDF. Sorry. Can you
21 go back, please, go back to where we started.

22 So we see under the heading of
23 technology, innovation, and capabilities, I think
24 that's one (1) of the aspects of the program that you
25 had referenced?

1 MS. HEATHER REICHERT: Correct.

2 MS. CANDACE GRAMMOND: The other one

3 (1) is technology risk management. Diana, can you

4 just go up a bit, so we can see the preceding page?

5 Okay. Right. So those are the two (2) broad areas?

6 MS. HEATHER REICHERT: Correct.

7 MS. CANDACE GRAMMOND: And we see at

8 pages -- in the filing there are lists of the projects

9 that are contemplated. It's not in this document, but

10 under each of those headings.

11 Is -- is that correct?

12 MS. HEATHER REICHERT: Correct.

13 MS. CANDACE GRAMMOND: And the Board

14 had specifically asked the Corporation last year to

15 provide the details of what this IT modernization

16 project would entail. And the Board provided that in

17 the filing itself --

18 MS. HEATHER REICHERT: The Corporation

19 -- the Corporation provided --

20 MS. CANDACE GRAMMOND: -- sorry --

21 MS. HEATHER REICHERT: -- that in the

22 filing itself.

23 MS. CANDACE GRAMMOND: Yeah.

24 MS. HEATHER REICHERT: Yes.

25 MS. CANDACE GRAMMOND: Right. Okay.

1 And the budget for the IT modernization project is, I
2 think, on page 5 of the document that's in front of
3 us. It's 40 million over five (5) years? Or sorry,
4 40 million over four (4) years? Yeah, right there.
5 If we add those together?

6 MS. HEATHER REICHERT: Correct.

7 MS. CANDACE GRAMMOND: And at last
8 year's hearing the budget was anticipated to be about
9 33 million over four (4) years.

10 Do you recall that?

11 MS. HEATHER REICHERT: Actually, I
12 don't recall, unless maybe one (1) was Basic and one
13 (1) was Corporate. I -- I did not think that the
14 overall budget for this particular program had -- had
15 changed. I -- I could be wrong.

16 MS. CANDACE GRAMMOND: And -- and
17 that's okay. I have the reference from last year's
18 filing. I don't want to put Diana on the spot to pull
19 that up, but we can pull that up after the lunch
20 break.

21 While we have this in front of us, can
22 you tell us why the amounts per year are increasing
23 from year one (1) to year four (4)?

24 MS. HEATHER REICHERT: Again, these
25 are capital program estimates. They are -- it's a

1 rolling five (5) year plan. They are reviewed on an
2 annual basis. So my understanding is, is that a lot
3 of the initial stuff is in identifying the entire
4 program and then as the program progresses, taking on
5 more and more activity relating to the various
6 initiatives.

7 So hence why the increasing amounts in
8 the subsequent years.

9 MS. CANDACE GRAMMOND: So what is
10 being undertaken now in the current year? We've got 6
11 million for 2016/'17.

12 MS. HEATHER REICHERT: There are
13 various things. There are activities going on as it
14 relates to data governance. Activities relating to
15 project management updating and upgrading our -- our
16 project management maintenance system. That's not the
17 right name. I'm sorry. It's to do with actually
18 managing the projects themselves.

19 I can -- I'll take an undertaking to
20 specifically, you know, break out the -- the two (2)
21 or three (3) projects that are going on as it relates
22 to this.

23 MS. CANDACE GRAMMOND: That would be
24 helpful. And just for your reference in doing that,
25 there's -- the exact dollar amounts are at PUB/MPI 1-

1 33, Attachment page 1. That's where we see the -- the
2 amounts attributable to this project on a year-over-
3 year basis, so --

4 MS. HEATHER REICHERT: Okay.

5 MS. CANDACE GRAMMOND: -- what we have
6 on this screen is a little bit more general. That
7 document's a bit more specific, so that may help you
8 in doing that.

9 What about the anticipated financial
10 benefits of this project? have those been quantified
11 by the Corporation?

12 MS. HEATHER REICHERT: Well, given the
13 nature, as I explained, what this program is set to
14 do, it is essentially like ensuring that the roof is
15 staying maintained, doesn't -- doesn't spring any
16 leaks, if you will.

17 So, basically, it's cost avoidance down
18 the road from not having looked after your assets
19 properly, and then incurring an even larger
20 expenditure or renovation in the future.

21 So there isn't specifically. Like
22 there is for something like the PDR Project, there
23 isn't specifically identified cost savings from this.
24 It's basically maintaining assets and avoiding
25 significant costs down the road.

1 MS. CANDACE GRAMMOND: There's
2 reference in the project charter document, just
3 actually underneath the table that's on the screen,
4 for annual funding beyond -- I take it beyond
5 2019/'20.

6 Without getting into the details of --
7 of what that might be, what would those ongoing costs
8 relate to if this particular project is completed? Or
9 is -- is the Corporation anticipating further projects
10 of the same nature?

11 MS. HEATHER REICHERT: We would look
12 very carefully and determine again what types of
13 projects need to continue to be undertaken to ensure
14 the -- the proper maintenance of the -- the IT
15 investment. So whether it's at this same level or
16 starts to stabilize, that would be something that
17 would be looked at as we were doing our planning.

18 MS. CANDACE GRAMMOND: And with
19 respect to capital expenditures generally, we've
20 obviously just been speaking about two (2) specific
21 projects. You had indicated in the PowerPoint on the
22 first day of the hearing that, given that MPI has a
23 new board of directors, the new board would have to
24 consider direction and -- and strategy with respect to
25 capital expenditures.

1 Are there any material changes
2 anticipated at this point in time that you can share
3 with the Public Utilities Board?

4 MS. HEATHER REICHERT: At this point,
5 our board is still very -- very new, and they are
6 still learning a lot about MPI. So we haven't yet
7 done a detailed review of the capital plan with the --
8 with the new board and received their strategic
9 direction on those areas where they want us to put
10 emphasis and priority.

11 So there really isn't anything at this
12 juncture that I can say is going to be different or
13 the same based on the new board.

14 MS. CANDACE GRAMMOND: Thank you.

15 Mr. Chairman, those are my questions on
16 capital expenditures for the time being. Since it's
17 noon, perhaps we take the lunch break?

18 THE CHAIRPERSON: Yeah. We'll --
19 we'll break for an hour. Thank you.

20

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

22 --- Upon resuming at 1:02 p.m.

23

24 THE CHAIRPERSON: Okay. If we can --
25 if we can start again, Ms. Grammond.

1 MS. CANDACE GRAMMOND: Thank you, Mr.
2 Chairman.

3 MR. MATT GHIKAS: And, Ms. Grammond,
4 before you go, I have a couple of undertakings.
5 Perhaps I can deal with those now, Mr. Chairman.

6 THE CHAIRPERSON: Yeah.

7 MR. MATT GHIKAS: The first one is the
8 response to Undertaking number 4 with reference to
9 transcript page 454 and the request to update
10 projections -- investments projections with respect to
11 the new interest rate forecasting approach. And so
12 the response provides the Updated Investments Table 1
13 and it looks like -- yes, they updated the tables with
14 respect to that response.

15

16 --- EXHIBIT NO. MPI-32: Response to Undertaking 4,
17 updated Investments Table
18 1

19

20 MR. MATT GHIKAS: The second one was -
21 - oh, and that should be Exhibit 32.

22 The second one, which should be Exhibit
23 33, we've labelled Undertaking number 11. It actually
24 wasn't numbered in the transcript, but it relates to a
25 request with respect to what -- a commentary about the

1 potential reasons for rate differences in various
2 jurisdictions, and the response is then provided in --
3 in this response that we've labelled Undertaking 11.

4

5 --- EXHIBIT NO. MPI-33: Response to Undertaking
6 11, commentary about the
7 potential reasons for rate
8 differences in various
9 jurisdictions

10

11 THE CHAIRPERSON: Thank you.

12 MR. MATT GHIKAS: Thank you.

13 THE CHAIRPERSON: Ms. Grammond...?

14 MS. CANDACE GRAMMOND: Thank you, Mr.

15 Chairman. I'm going to move into some questions on
16 benchmarking. Oh, did you have another?

17 MR. MATT GHIKAS: Sorry. I -- it's
18 not an undertaking. Actually, Ms. Reichert identified
19 that she had misspoken during the -- during the
20 previous, and perhaps she can correct herself now.

21 MS. HEATHER REICHERT: Diana, if you
22 wouldn't mind putting up slide 65 from my PowerPoint
23 presentation.

24

25

(BRIEF PAUSE)

1 MS. HEATHER REICHERT: You'll have to
2 forgive me because even for an accountant, there are
3 sometimes too many numbers floating around at these
4 hearings. So I just wanted to clarify.

5 I believe that I misspoke and said that
6 column 2017 GRA budget included the actual second
7 quarter results up to the end of August.

8 MS. CANDACE GRAMMOND: You definitely
9 said that.

10 MS. HEATHER REICHERT: Yes, and I
11 apologize because what 2017 GRA budget on this
12 schedule is, it's been updated. It was -- would have
13 been what was in the 2017 GRA filing except it's been
14 updated for actual interest rates up to August 31st
15 and 50/50 interest rate forecast to the end of the
16 year. And that's compared to what we had in last
17 year's GRA for the '16/'17 year.

18 So I apologize. I confused the -- the
19 two (2). So it's only been updated for the interest
20 rate forecast. It has not been updated for hail and
21 other things that gave rise to variances in the second
22 quarter results. Sorry about that.

23 MS. CANDACE GRAMMOND: Thank you for
24 clarifying that. We'll review. And if we have any
25 followup questions, we'll ask them in due course. So

1 I'll turn then to some questions on benchmarking.

2 Diana, if you can go to the
3 benchmarking section of the filing, page 15. We'll
4 see there a graphic that I think was included in Mr.
5 Guimond's PowerPoint. It basically sets out the four
6 (4) major be -- benchmarking areas for the
7 Corporation.

8 MR. HEATHER REICHERT: Mine.

9 MS. CANDACE GRAMMOND: Oh, was it
10 yours? Pardon me. Thank you, Diana. So, Ms.
11 Reichert, we see on the screen the -- the four (4)
12 areas basically being operational efficiency, IT
13 service delivery serving Manitobans, and community
14 impact?

15 MR. HEATHER REICHERT: Correct.

16 MS. CANDACE GRAMMOND: So I'll start
17 with some questions on the first area, the operational
18 efficiency area, which is where we -- we typically see
19 the work done through the Ward Group, correct?

20 MR. HEATHER REICHERT: That's correct.
21 That's correct.

22 MS. CANDACE GRAMMOND: So, Diana, if
23 you could go to page 22 of this section of the filing.
24 We'll see there a reference to the benchmark groups to
25 which MPI is compared by the Ward Group. That's

1 right?

2 MR. HEATHER REICHERT: Correct.

3 MS. CANDACE GRAMMOND: And so there
4 are the three (3) benchmarking groups. And there's a
5 reflection here of how many insurers are in each
6 group.

7 Can you tell us whether there are any
8 public insurers included within any of these three (3)
9 benchmark groups?

10 MR. HEATHER REICHERT: Yes. I believe
11 that in the Canadian personal Auto Benchmark Group
12 there are public insurers.

13 MS. CANDACE GRAMMOND: So SGI?

14 MR. HEATHER REICHERT: I don't think
15 I'm allowed to -- to disclose which might be in there.
16 But my understanding is that there is public insurers
17 within that benchmark group.

18 MS. CANDACE GRAMMOND: What about the
19 benchmarks at the second and third bullets?

20 MR. HEATHER REICHERT: Well, I -- if
21 I'm not mistaken, I -- I thought that the Canadian
22 Benchmark Group -- no, I -- I don't know. I just know
23 that the Auto Benchmark Group does include public
24 insurers.

25 MS. CANDACE GRAMMOND: Are you able to

1 find out whether there are any public insurers in
2 either the Canadian Benchmark Group or the US personal
3 Auto Benchmark Group?

4 MR. HEATHER REICHERT: Yes, I can --
5 I'll take that as an undertaking and see if I can
6 clarify that.

7 MS. CANDACE GRAMMOND: Thank you.

8

9 --- UNDERTAKING NO. 16: MPI to do the three (3)
10 benchmarking groups,
11 include public insurers
12 (listed on Volume 1,
13 Benchmarking, page 22)
14 Canadian Personal Auto
15 Benchmarking Group - 11
16 Canadian insurers.
17 Canadian Benchmark Group -
18 12 Canadian insurers
19 US Personal Auto Benchmark
20 Group - 10 US insurers

21

22 MS. CANDACE GRAMMOND: Now, the
23 filings that have been produced by the Corporation in
24 the benchmarking section of the filing, including the
25 appendices, are all authored by MPI as I read them?

1 MR. HEATHER REICHERT: Correct.

2 MS. CANDACE GRAMMOND: And we used to
3 have in this process a document that was actually a
4 Ward Group document.

5 Can you explain why that Ward Group
6 document is no longer filed in this proceeding?

7 MR. HEATHER REICHERT: If I recall
8 correctly, we filed a letter from the Ward Group, one
9 (1) -- one (1) hearing, specifically just as a
10 specific request. I -- I can't remember the details.

11 Subsequent to that, we actually did
12 this more robust and more complete benchmarking
13 section within our GRA filing where we went more in-
14 depth and compared a whole slate of -- of benchmarks
15 that -- that we get from the Ward Group, as well as
16 all the other categories that are included in the
17 benchmarking section.

18 So, really, it was our view that this -
19 - our benchmarking section is now much more robust
20 than just the letter that we had provided from the
21 Ward -- Ward Group.

22 MS. CANDACE GRAMMOND: And can you
23 confirm that the benchmarking results that we see in
24 this section of the filing are, in effect, prepared by
25 the Ward Group or are delivered to MPI through the

1 Ward Group?

2 MR. HEATHER REICHERT: Yes, I can
3 confirm that.

4 MS. CANDACE GRAMMOND: And the Ward
5 Group is an entity that's completely independent of
6 MPI?

7 MR. HEATHER REICHERT: Absolutely.

8 MS. CANDACE GRAMMOND: And, Diana,
9 just for context, I'll ax -- I'll ask you to scroll
10 down a little bit. I -- I don't intend to go through
11 all of the benchmark categories or anything of that
12 nature, but just keep going to one (1) of the tables
13 where we see... Yeah, that one would be fine. This
14 is just an example so the panel knows what I'm
15 referring to.

16 So MPI receives this benchmark analysis
17 from the Ward Group, as I understand it. And then
18 what does MPI do with it? How does -- how is the
19 outcome of this analysis utilized by the Corporation?

20 MR. HEATHER REICHERT: Generally what
21 we do is look at any of the trends. And if -- if
22 there were some benchmarks where we might not be
23 trending favourably, we would look into that a little
24 deeper to determine what exactly is included in that
25 particular benchmark to see if there's any insight

1 that it could give us on -- on something maybe that
2 we're doing that we should be investigating further to
3 see if we can improve our processes, or improve our --
4 our operations.

5 MS. CANDACE GRAMMOND: And has MPI had
6 discussions with the Ward Group about its ability to
7 provide specific comparisons or benchmarks as against
8 ICBC or SGI specifically?

9 MS. HEATHER REICHERT: We have, and
10 they do not -- they will not. It's not something that
11 they are -- are willing to provide.

12 MS. CANDACE GRAMMOND: And does the
13 Corporation plan to continue with the Ward Group
14 analysis in the future?

15 MS. HEATHER REICHERT: At this
16 juncture we are planning on continuing with this Ward
17 Benchmarking Report.

18 MS. CANDACE GRAMMOND: Diana, I'll ask
19 you to go back to page 15, which was that original
20 graphic showing the four (4) areas in which the
21 Corporation benchmarks.

22 With respect to the second one, the
23 green box, IT service delivery, we know that the Corp
24 -- the Corporation engages Gartner Consulting, that's
25 correct?

1 MS. HEATHER REICHERT: That's correct.

2 MS. CANDACE GRAMMOND: And that's to
3 do an annual review of the IT service delivery
4 capability including management and expenditures?

5 MS. HEATHER REICHERT: Correct.

6 MS. CANDACE GRAMMOND: And I won't ask
7 you questions about that scorecard. I'll save that
8 for Mr. Geffen who will be here next week.

9 MS. HEATHER REICHERT: Thank you.

10 MS. CANDACE GRAMMOND: Does the
11 Corporation plan to continue with the benchmarking
12 work performed by Gartner?

13 MS. HEATHER REICHERT: Yes, we do.

14 MS. CANDACE GRAMMOND: And with
15 respect to the last two (2) areas, the serving
16 Manitobans and the community impact, as I understand
17 it the serving Manitobans category really is public
18 surveys and the community impact is public polling.

19 Is that correct?

20 MS. HEATHER REICHERT: Yes, that
21 sounds -- that sounds right.

22 MS. CANDACE GRAMMOND: Can you explain
23 the basic difference between the surveys and the
24 polling? They -- they sound similar.

25 MS. HEATHER REICHERT: I -- I'm hoping

1 that in that actual section that it describes a little
2 bit more about what we do to arrive at those
3 benchmarks.

4 MS. CANDACE GRAMMOND: There's a
5 description there, absolutely, of -- of each of the
6 sections, and the surveys are of members of the public
7 of Manitobans getting feedback on service provided by
8 the Corporation and that kind of thing.

9 MS. HEATHER REICHERT: Sorry.

10 MS. CANDACE GRAMMOND: Sorry. And
11 then I was going to say there's also an explanation of
12 -- of the public polling, but it's just --

13 MS. HEATHER REICHERT: Yeah, I -- I
14 think, and I will confirm this for you, but my -- my
15 thinking is that the survey, we were actually
16 surveying customers or clients of MPI, whereas the
17 polling is a broad more public polling.

18 And so it would potentially seeking
19 responses from individuals that have not had direct
20 contact with MPI in the last year, whereas the survey,
21 I think, is specific to someone that's had a claim
22 with MPI, bodily injury, case management, something of
23 that nature, so -- so are known to have had direct
24 contact with MPI during the year.

25 Whereas the polling is much broader and

1 may or may not have someone that's had a claim with us
2 in the -- in the past year or two (2).

3 MS. CANDACE GRAMMOND: That's helpful.
4 Thank you. So I have some questions then on BI3.
5 This is another area wherein benchmarking is done.
6 And before we get into the benchmarking with respect
7 to BI3, can you explain at a high level what the
8 nature of that project was and why it was undertaken?

9 MS. HEATHER REICHERT: That was a -- a
10 project that was undertaken and implemented in 2010.
11 It was before my time with MPI, but my understanding
12 was what essentially it was doing was the process for
13 bodily injury claims management was enhanced by using
14 technology.

15 So previously there would have been
16 manual case files that would have been created and
17 case management would have been done through a manual
18 process. And that was essentially computerized, if
19 you will, which meant that there was then more
20 specific guidelines on if you are injured in this way
21 your recovery is this -- this many days.

22 There was more guidelines that were
23 consistently applied then to a particular case, and
24 reserving was -- was done on a -- on a more precise
25 and exact basis using -- using MDGuidelines and...

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: Yeah,
4 MDGuidelines and ICD-10. These are -- these are
5 international or national guidelines for injury
6 duration that you would expect in -- in various
7 situations.

8 MS. CANDACE GRAMMOND: Thank you.
9 Diana, I'll ask you to pull up PUB-MPI-1-50, please?
10 We had asked in this IR for an update on benchmarking
11 relative to BI3, and the Corporation speaks in the
12 response about two (2) of the benchmarks that have
13 been developed, and I'm going to come to those.

14 In the second line and going on to the
15 third line of the response, the Corporation has said
16 Actual post-BI3 claim's data is not fully developed.
17 Can you explain why that's the case?

18 MS. HEATHER REICHERT: When you're
19 dealing with bodily injury claims they can be long in
20 duration, or longer in duration, and typically it's
21 viewed that it takes at least five (5) to like seven
22 (7) years for a bodily injury case, or policy years to
23 develop -- to know exactly the extent of bodily
24 injuries with respect to a particular policy year.

25 MS. CANDACE GRAMMOND: Thank you. If

1 we scroll down a little bit we'll see the first
2 benchmark that MPI is utilizing, which is claim
3 retention. And if we go a bit farther down to page 2,
4 we'll see the comparison of benchmark to actual with
5 respect to that item. And I'm going to ask you to
6 talk a little bit, Ms. Reichert, about what --what we
7 see here.

8 It looks to me like the benchmarks are
9 not being met but are fairly close to being met. Can
10 you comment on that?

11 MS. HEATHER REICHERT: I'm going to
12 turn this to Mr. Johnston.

13 MS. CANDACE GRAMMOND: Sure.

14 MR. LUKE JOHNSTON: Yeah. What --
15 what we did here for the benchmark is we looked at the
16 experience prior to system implementation. And what
17 you're seeing here is just how many claims are still
18 actively receiving income replacement payment relative
19 to the total number of claimants that got income
20 replacement.

21 So in that first line, 2015/'16 pre-
22 BI3, twelve (12) months into the loss year we had an
23 average of 17.07 percent of claimants still receiving
24 payment. If you go to the actual, it's 19.85 which
25 would signal in this comparison a deterioration of --

1 of experience in terms of how long the claims are
2 staying open.

3 And you'll notice that that -- the last
4 column is calculating the difference. The important
5 point here is that these are compared at the same
6 point in time, so 12 months, 24 months, 36 months. So
7 if you look at the very last column it says "actual
8 minus benchmark" it would appear that every year the
9 benchmark has deteriorated. So that's obviously
10 concerning when you're looking at these results.

11 What -- what we've been trying to
12 understand is if you -- if you scroll to the previous
13 page -- a little bit higher -- the reason for that --
14 those bullets, in particular coverage enhancements,
15 policy changes, we're trying to figure out the impact
16 of BI3 itself versus the impact of some of these other
17 changes that were made, and that's not easy to do.

18 But like for example say there was a
19 certain type of claim that we used to not pay before,
20 and we've had a -- since had a change and decided to
21 pay that -- that type of claim, that would deteriorate
22 our benchmarking results.

23 So if you scroll back down to the
24 chart, in terms of claim persistence there seems to be
25 twenty (20) to forty (40) claims that are, you know,

1 lasting beyond the three (3) to five (5) year period
2 more than there used to be, so that's the -- the part
3 we're trying to understand.

4 The -- the business will tell that,
5 Yeah, we're following -- we're doing things right,
6 we're following the process, we're using MDGuidelines.
7 So we're trying to figure that -- that piece out.

8 MS. CANDACE GRAMMOND: Okay. If we
9 can scroll down a little farther, we'll get to the
10 second benchmark that's referenced in this IR
11 response, which is claims retention reduced by
12 residual capacity determination or CPP disability
13 benefits. So that's a bit of a mouthful.

14 Can you comment on what this benchmark
15 is actually measuring?

16 MR. LUKE JOHNSTON: So if -- if a
17 claim is going to stay open for a good reason, like
18 the claimant has a legitimate claim, the Corporation
19 obviously wants to do as much as they can fairly to
20 reduce our exposure to that loss.

21 If that means applying for Canada
22 Pension Plan disability benefits to reduce our, you
23 know, bi-weekly payments, then we should be doing
24 that, along with any other means that we can use to
25 reduce the -- the severity of that claim.

1 So this is measuring cases where we've
2 managed to reduce the actual entitlement from the
3 claimant to some amount lower based on I guess
4 collateral type of benefits that we may be -- they may
5 be entitled to.

6 MS. CANDACE GRAMMOND: Thank you.

7 Diana, if you scroll down a little bit,
8 we're going to see another table.

9 So, as I understand it, this particular
10 benchmark is divided into two (2) categories, re --
11 rehabilitation management and serious and long-term
12 care. Those benchmarks used to be 58 percent and 43
13 percent. They've now both been changed to 50 percent.

14 Do I have that correct?

15 MR. LUKE JOHNSTON: That's right.

16 MS. CANDACE GRAMMOND: And it looks
17 like, keeping in mind that shift, one (1) of the
18 benchmarks is being met as of June 30th, 2016, at
19 thirty-nine (39), and the other is not as sixty-three
20 (63).

21 But can you comment on that and -- and
22 how -- whether or not the shift in the benchmark
23 itself is a factor in that outcome?

24 MR. LUKE JOHNSTON: Yeah. Just -- on
25 first -- take this -- the fif -- the 50 percent in

1 don't want to say that the business doesn't possibly
2 have other benchmarks specifically in terms of
3 customer service-type benchmarks, like, you know, Do
4 we pay the -- you know, the benefits within a certain
5 amount of time?

6 Those type of benchmarks I'm not as
7 concerned about on the actuarial side, but none that
8 I'm personally aware of.

9 MS. CANDACE GRAMMOND: Diana, I'll ask
10 you to go to CAC-MPI-1-14. This is an IR that CAC
11 posed with respect to the cost and savings relative to
12 the BI-3 project.

13

14 (BRIEF PAUSE)

15

16 MS. CANDACE GRAMMOND: What we're
17 going to see here if we scroll a little bit down to
18 the answer -- that's perfect, thank you -- in that
19 second full paragraph, that the cost of the BI-3
20 project was 25.6 million, with an anticipated seven
21 (7) year cost savings of forty-one point nine (41.9)
22 by the end of 2017/'18 fiscal year.

23 That's correct?

24 MS. HEATHER REICHERT: That's correct.

25 MS. CANDACE GRAMMOND: And why a seven

1 (7) year anticipated cost savings time frame?

2 MS. HEATHER REICHERT: I think that
3 that again is partly due to the fact that it does take
4 many years for a bodily injury claim to -- to develop.

5 Again, when they entered into this
6 project, I believe that that was what the -- the cost
7 savings were estimated to occur over. And so that's -
8 - that's what we're using to -- to be able to indicate
9 whether or not we've achieved it, is looking at the
10 entire seven (7) year time frame.

11 MS. CANDACE GRAMMOND: Okay. We can
12 scroll a little bit further, Diana, to the last
13 paragraph of the response.

14 We see that, in that last paragraph,
15 the expected financial savings, and I'll -- I'll
16 paraphrase, are scheduled to be fully realized
17 following seven (7) years as indicated by you, Ms.
18 Reichert. I assume, then, that the Board will see an
19 update next year?

20 MR. HEATHER REICHERT: That's correct.
21 So next year being '17/'18 fiscal year will be --

22 MS. CANDACE GRAMMOND: Will be in that
23 fiscal year?

24 MR. HEATHER REICHERT: -- will be in
25 that fiscal year. So there will be an update. And I

1 can also reference the Board. So in the 2015 General
2 Rate Application, we did include in there a section
3 that was entitled -- I believe it was "value to
4 Manitobans."

5 Within that section, not only was the
6 savings from BI3 that had been achieved to date
7 indicated, but then other savings from other
8 initiatives that MPI has undertaken, streamlining
9 service centres and the like were also articulated
10 within that particular section.

11 So there is in there the -- the savings
12 as a result of reducing claims management, or case
13 managers, I guess it was, that were highlighted. So
14 bodily -- the third line there:

15 "Bodily injury improvement
16 initiative 6 -- 6 million from
17 transforming the delivery of injury
18 claims management."

19 And I believe each one (1) of these
20 numbers is further described in the section of this
21 particular -- particular section of the 2015 General
22 Rate Application.

23 MS. CANDACE GRAMMOND: Thank you.
24 Okay, I'm going to move to a different area then, Ms.
25 Reichert. I'll give you a rest, and we'll make Mr.

1 Johnston do some work, so some questions about basic
2 rate making, firstly.

3 So for many years, MPI's standard
4 approach to basic rate making has been to determine
5 the overall rate level change necessary to achieve an
6 approximately break even result based on net income?

7 MR. LUKE JOHNSTON: That's right.

8 MS. CANDACE GRAMMOND: And, in recent
9 years, for basic rate-making purposes, the net income
10 break even forecast is targeted over a two (2) year
11 period, year of application and year subsequent?

12 MR. LUKE JOHNSTON: Yes. And my -- my
13 whole time at MPI, it's been that way, yeah.

14 MS. CANDACE GRAMMOND: I think when we
15 say "in recent years," that's an observation from our
16 side of the table that it -- it appeared at some point
17 certainly since I've been here and -- and since my
18 colleagues have been here.

19 MR. LUKE JOHNSTON: So we just -- we
20 just let you know in recent years. Is that...?

21 MS. CANDACE GRAMMOND: Well, something
22 like that.

23 MR. LUKE JOHNSTON: Yeah, okay. Yeah.
24 Yeah.

25 MS. CANDACE GRAMMOND: Or -- or at

1 least it -- it's more in the forefront in -- in recent
2 years.

3 MR. LUKE JOHNSTON: Point -- point
4 taken, yes.

5 MS. CANDACE GRAMMOND: Perhaps that's
6 a -- a fair way to say it. So, from your perspective,
7 Mr. Johnston, did MPI previously target a net income
8 break even result over only one (1) year, which would
9 be the rating year?

10 MR. LUKE JOHNSTON: Again, subject to
11 me checking the older rate applications, I've been
12 here fifteen (15) years, and my recollection is that
13 we always use the -- the two (2) year break even. But
14 when I go back to the office today, I can check, like,
15 a 1995 rate application and confirm that, but that's
16 my understanding.

17 MS. CANDACE GRAMMOND: And we can
18 check at -- at our end, as well. It was our
19 understanding that the main reason for the two (2)
20 year period being utilized now is that the new rates
21 will take two (2) years to be fur -- fully earned into
22 revenue.

23 And I think we talked about that
24 already in this proceeding?

25 MR. LUKE JOHNSTON: You just reminded

1 me of something. There was a period of time when --
2 when all policies were renewed on the same day. And
3 using the exact same logic, looking at when policies
4 are earned, if they were all -- if everybody had a
5 renewal on -- on day 1 of a year, then there would be
6 no reason to look at the two (2) year period, because
7 all policies would earn over that one (1) year.

8 MS. CANDACE GRAMMOND: And do you have
9 any recollection as to when the staggered renewals
10 were put into effect?

11 MR. LUKE JOHNSTON: I -- I'd have to
12 check that. I -- I can do that if -- if you like. I
13 -- I don't remember, though.

14 MS. CANDACE GRAMMOND: No, I -- I
15 think it was more than fifteen (15) years ago.

16 MR. LUKE JOHNSTON: I believe so,
17 yeah.

18 MS. CANDACE GRAMMOND: I'm not going
19 to ask to -- to look that up. So the point is that
20 under the current framework a -- a GRA necessarily has
21 -- or sorry, successive GRAs have a one (1) year
22 overlap period.

23 Would that be fair to say? Not -- not
24 with respect to the rate specifically, but with
25 respect to the cash flow?

1 MR. LUKE JOHNSTON: That's right.
2 There is a rate indication that has already been
3 approved in a previous year will be flowing into the -
4 - the year we're currently in.

5 Just as the -- so the 3.4 percent have
6 been flowing into I guess this year, yeah, and the 0
7 percent we approved last year would be flowing into
8 the current year and the year after that, yeah.

9 MS. CANDACE GRAMMOND: And we can pull
10 up a document for -- for what I'm about to ask if --
11 if you'd prefer, but in the current GRA as amended,
12 the Corporation is forecasting a net loss of 10.8
13 million for the year of the application, 2017/'18,
14 followed by a net income of 24.1 million in 2018/'19.

15 Are you with me so far, or do you want
16 to have a document up to verify those numbers? Diana,
17 can you pull up PUB-MPI-2-25?

18 MR. LUKE JOHNSTON: That would help.
19 Thank you.

20

21 (BRIEF PAUSE)

22

23 MS. CANDACE GRAMMOND: And I'm just
24 going to find you the correct page number, because
25 this is a fairly long document. It'll be PF.1, yeah,

1 Attachment A, which is the third page from the back --
2 or fourth page -- no, sorry, never mind, PF.1.

3 So if you scroll down from the response
4 -- yeah, that's it. Thank you. If you just scroll
5 down a little bit so we can see the bottom part of the
6 table. Right.

7 So there we see the \$10.7 million loss
8 in the first shaded year, which is 2017/'18 and the
9 \$24.1 million income in 2018/'19?

10 MR. LUKE JOHNSTON: Yes. Thank --
11 thank you for that. We were guessing that the --
12 based on what we just discussed, I would expect those
13 two (2) numbers you gave to equal very close to zero
14 on average. The reason they don't is because of that
15 second last -- or -- secon -- the line right above the
16 \$10 million loss where it says "Premium Deficiency
17 adjustment."

18 So if you recall, we don't need to go
19 in spec -- into specifics, but when the Corporations
20 asked for the rate increase it ended up being 3.4
21 percent. We were in a deficient premium position.
22 Receiving that rate increase has relieved some of that
23 premium deficiency, or what we call DPAC write-down.

24 So our forecast is anticipating that
25 some of that will go away, I guess, from past rate

1 increases and the assumed rate increase we're getting
2 in -- in this year. The line above that where it says
3 negative twenty-five two one seven (-25217) and then
4 beside it twenty-four six nine seven (24697), we call
5 that our net income for rate setting purposes and
6 that's the line that we need to -- or that we've
7 applied to show break-even net income.

8 The reason we don't include that
9 premium deficiency line, because it wouldn't make
10 sense to say you're recovering from a premium
11 deficiency and therefore you should ask for less
12 money. Like it's a circular type of argument. That
13 recovery is basically saying that we're recovering
14 from pre -- prior deficient premium, so it wouldn't
15 make sense to then lower our -- our rate indication
16 and essentially give that back, if that makes sense.

17 MS. CANDACE GRAMMOND: Okay. So if I
18 understand you clearly, you're saying that when the
19 Board is looking at the Corporation's proposal and
20 breaking even over two (2) years, it should look at
21 the net income line from operations for rate setting,
22 which shows a \$25.2 million loss in year of
23 application, and a \$24.7 million income in the
24 subsequent year?

25 MR. LUKE JOHNSTON: Correct.

1 MS. CANDACE GRAMMOND: Okay. Now, you
2 would agree that the net result in a given year is
3 significantly affected by the assumed amount and
4 timing of interest rate movement over the same two (2)
5 year period?

6 MR. LUKE JOHNSTON: I would.

7 MS. CANDACE GRAMMOND: And would you
8 agree that the forecasting of interest rates needs to
9 extend out three (3) full years, so that's from the
10 end of the most recently completed fiscal year, as of
11 now 2015/'16, in order to derive the two (2) year
12 forecasted break-even result.

13 MR. LUKE JOHNSTON: I agree, yeah.

14 MS. CANDACE GRAMMOND: I also
15 understand that other comprehensive is by definition
16 not included in net income, and therefore is not
17 considered in the break even forecast that we're
18 discussing.

19 MR. LUKE JOHNSTON: That's correct.

20 MS. CANDACE GRAMMOND: Can you tell us
21 what the main components are of other comprehensive
22 income?

23

24

(BRIEF PAUSE)

25

1 MR. LUKE JOHNSTON: I'll let Ms.
2 Reichert explain. For my purposes it's mostly
3 unrealized equity gains and losses, but I know she has
4 others.

5 MS. HEATHER REICHERT: So there's main
6 -- mainly two (2) things that are in other
7 comprehensive income, and that is the -- the market
8 adjustments or market value adjustments for the equity
9 portfolio. So the changes in the market value of the
10 equity portfolios are shown through other
11 comprehensive income.

12 And then annually there's a re-
13 evaluation of the pension liability, and the changes
14 in the value of the pension liability also is
15 reflected in other comprehensive income.

16

17 (BRIEF PAUSE)

18

19 MS. CANDACE GRAMMOND: Ms. Reichert,
20 can you comment upon the relative magnitude of those
21 two (2) categories in the last fiscal year? That's
22 just for Basic.

23 MS. HEATHER REICHERT: If -- if we
24 could go to the Basic financial statements that would
25 have been in Volume III of our filing we can go right

1 to that table, and show --

2 MS. CANDACE GRAMMOND: Sure.

3 MS. HEATHER REICHERT: -- because it
4 will vary obviously depending on what's happening in
5 the market as it relates to equities, and then what's
6 happening with discount rate for pensions. So it can
7 swing quite considerably.

8 If you can go down to -- it's probably
9 -- it should be about the third or -- fourth or fifth
10 page of the numbers. Okay. Go down a bit more.
11 Okay. Statement of changes in equities.

12 So in the accumulated other
13 comprehensive income for Basic at the end of the
14 '15/'16 year, you'll see that there was a total of
15 36.5 million in the accumulated other comprehensive
16 income. That's the second column. In there -- well,
17 the -- yeah, it's -- it's only going to show the
18 changes in there.

19 So there was -- oh, how can I -- how
20 can I help you. Yeah, you know what, I'll do it as an
21 undertaking because --

22 MS. CANDACE GRAMMOND: Sure.

23 MS. HEATHER REICHERT: -- what you're
24 asking for -- actually you wanted to know what the
25 composition of other comprehensive income was, not the

1 accumulated --

2 MS. CANDACE GRAMMOND: Correct.

3 MS. HEATHER REICHERT: -- okay.

4 MS. CANDACE GRAMMOND: Right. So,
5 yeah, I had asked you about the components of other
6 comprehensive income. You had indicated, number 1,
7 change in value of equities and, number 2, change in
8 value of pension liabilities?

9 MS. HEATHER REICHERT: Yeah, so if we
10 --

11 MS. CANDACE GRAMMOND: And then I had
12 asked about the relative -- relativity between those
13 two (2).

14 MS. HEATHER REICHERT: So if -- if we
15 can go up a bit, I'm just wondering if it doesn't
16 show...

17

18 (BRIEF PAUSE)

19

20 MS. HEATHER REICHERT: Okay. There we
21 go. Good. Okay. So in other comprehensive income
22 for Basic for the '15/'16 year, the re-measurement of
23 employee future benefits was 27.4 million in the 2016
24 column, and then the net unrealized losses on
25 available for sale assets was the twenty-six point one

1 (26.1). So that shows you the relative -- the -- the
2 -- so they netted out in this particular case to a
3 \$1.2 million impact but they were -- yeah, it doesn't
4 have to be that.

5 If you look at the previous year, it
6 was a net \$35 million loss in other comprehensive
7 income that was a loss on the re-measurement of
8 employee benefits of thirty-two (32), and a loss on
9 available for sale assets of two point four (2.4), so
10 it can swing. Again, it depends on the markets and
11 interest rates.

12 MS. CANDACE GRAMMOND: And, now, we
13 understand that the Corporation's position is that
14 other comprehensive income should not be considered
15 for the purposes of rate making.

16 Can you comment on why the Corporation
17 holds the view that -- that that's the case?

18 MR. LUKE JOHNSTON: So there is an
19 existing methodology that is -- that's -- that's one
20 (1) reason.

21 Historically, you'll recall, we only
22 recently moved from an RSR based on retained earnings
23 to an RSR based on total equity, and the -- the
24 difference being there is that the -- the old measure
25 did not include cumulated and other comprehensive

1 income. So we've since moved our RSR target to
2 include the -- this item.

3 In terms of the rate indication, the --
4 or the -- sorry, the -- the forecast of net income,
5 the belief was always that excluding that would
6 promote rate stability. We're looking at that to make
7 sure that we still believe that.

8 So -- and -- and what I mean by that is
9 other comprehensive income is very volatile in terms
10 of actual results. You've -- you've heard -- I -- I
11 think we -- we had like a \$60 million swing in
12 equities in -- just in this first two (2) quarters of
13 this year.

14 However, for forecasting purposes,
15 we're not going to -- we're always going to forecast,
16 say, a 7 percent return for equities. So it's not
17 like that volatility will necessarily show up in the -
18 - in the rate forecast. So that is something that
19 we're looking into, but we haven't proposed changing
20 it in -- in this application.

21 MS. CANDACE GRAMMOND: Thank you.
22 Still with rate making, but I'm going to switch to
23 some questions about rate making in accordance with
24 accepted actuarial practice in Canada.

25 So, Mr. Johnston, pursuant to the

1 standards of practice of the Institute, the Canadian
2 Institute of Actuaries, there's a provision -- this is
3 section 2620.01, which you -- you may be familiar
4 with. My understanding is that that section reads as
5 follows, quote:

6 "The best estimate present value of
7 cashflows relating to the revenue at
8 the indicated rate should equal the
9 best estimate present value of
10 cashflows relating to the
11 corresponding claim costs and
12 expense costs, plus the present
13 value of a profit -- profit --
14 provision for profit over a
15 specified period of time."

16 Are you familiar with that provision?

17 MR. LUKE JOHNSTON: Yes, I am.

18 MS. CANDACE GRAMMOND: Would you agree
19 that the objective of rate making, in accordance with
20 accepted actuarial practice in Canada, is to equate
21 the present value of expected future cash inflows and
22 outflows for the cohort of policyholders over a
23 specified future rating or underwriting period?

24 MR. LUKE JOHNSTON: Yes, I do. That
25 is better than I would have explained it.

1 MS. CANDACE GRAMMOND: Well, I have
2 help. Would you agree that an underwriting year
3 approach with its focus on the results for a cohort of
4 policyholders is another possible approach to
5 assessing a break-even result?

6 MR. LUKE JOHNSTON: Can you repeat
7 that just to make sure I understand?

8 MS. CANDACE GRAMMOND: Sure. Would
9 you agree that an underwriting year approach with its
10 focus on the results for a cohort of policyholders is
11 another possible approach to assessing a break-even
12 result?

13 MR. LUKE JOHNSTON: Yeah -- yes, I do
14 agree.

15 MS. CANDACE GRAMMOND: Okay. I'm
16 going to ask you now about a different section in the
17 standards of practice of the Institute with respect to
18 rate making for property and casualty insurance. So
19 this is section 2620.15. And again, I'll -- I'll read
20 it to you and ask you if you're familiar with it,
21 quote:

22 "The investment return rate for
23 calculating the present value of
24 cashflows would reflect the expected
25 investment income to be earned on

1 assets that might be acquired with
2 the net cashflows resulting from the
3 revenue at the indicated rate."

4 Are you familiar with that particular
5 standard of practice?

6 MR. LUKE JOHNSTON: Yes, I am.

7 MS. CANDACE GRAMMOND: With respect to
8 the need to forecast interest rates in this rate-
9 making context, would you agree that the forecast of a
10 new money interest rate to be used for discounting
11 purpose -- purposes need only extend to approximately
12 the midpoint of the proposed rating year, or about a
13 year and a half beyond the end of the latest completed
14 fiscal year?

15

16 (BRIEF PAUSE)

17

18 MR. LUKE JOHNSTON: Can you repeat
19 that for me one (1) time if -- if you're able?

20 MS. CANDACE GRAMMOND: Yeah, for sure.
21 So in the context of 2620.15, that last quote from the
22 standards, and with respect to the idea of forecasting
23 interest rates in the rate-making context, so leaving
24 aside the other forecasting of interest rates, would
25 you agree that forecasting a new money interest rate

1 to be used for discounting purposes need only extend
2 to approximately the midpoint of the proposed rating
3 year?

4 MR. LUKE JOHNSTON: Agreed.

5 MS. CANDACE GRAMMOND: Okay. And so,
6 in this case, it would be about a year and a half
7 beyond the end of the latest completed fiscal year?

8 MR. LUKE JOHNSTON: Yes.

9 MS. CANDACE GRAMMOND: And that's
10 approximately one half of the length of forecast
11 required in the current rate making approach?

12 MR. LUKE JOHNSTON: Correct.

13 MS. CANDACE GRAMMOND: Now, you'll
14 recall the collaborative process that the Board and --
15 and MPI have undertaken over the last while. And as a
16 continuation in that collaborative process we had
17 posed PUB-MPI-1-4 in this GRA process. And you can
18 pull it up if you want, Diana, just -- just for brief
19 context. And then I'm going to go to the followup
20 question.

21 So in PUB-MPI-1-4 we had asked for the
22 Corporation's response to a number of methodological
23 and assumption setting considerations organized under
24 seven (7) topics. You'll recall this. This came from
25 an email that Mr. Pelly had sent --

1 MR. LUKE JOHNSTON: Yes, I do.

2 MS. CANDACE GRAMMOND: -- prior to.

3 Okay. So -- so with that IR in mind, in PUB-MPI-2-2;
4 which, Diana, I would ask you to pull up, we asked MPI
5 to estimate the impact of any of the proposed changes
6 in which the Corporation saw potential merit.

7 Do you recall that?

8 MR. LUKE JOHNSTON: Yes, I do.

9 MS. CANDACE GRAMMOND: Okay. And in
10 response, the Corporation suggested two (2) changes,
11 one (1) which is discount rate, that first subheading
12 on the screen, and then the other, which is lower
13 down, which was profit provision.

14 Okay, you're with me so far?

15 MR. LUKE JOHNSTON: Yes, I am.

16 MS. CANDACE GRAMMOND: Okay. So,
17 Diana, if we'd just go back up to discount rate. I'm
18 going to ask a few questions about that section. So
19 what the Corporation indicated in this response in the
20 last three (3) lines of what we see on the screen was
21 as follows.

22 If the suggested approach was
23 implemented, the interest rate would have to be
24 adjusted downwards to reflect a portfolio duration of
25 three (3) years. You're with me?

1 MR. LUKE JOHNSTON: I'm with you,
2 yeah.

3 MS. CANDACE GRAMMOND: Can you comment
4 on how that change would be consistent with the idea
5 of determining a new money interest rate for
6 discounting purposes consistent with the standards of
7 practice that we spoke about a minute ago?

8 MR. LUKE JOHNSTON: Yeah, so there's -
9 - the way -- the discount rate we're using right now
10 is -- is tied to our claim liabilities. And the claim
11 liabilities that we have are mostly lifetime injury
12 claims. So the average duration or average date of
13 those cashflows is about 10 to 11 years.

14 The associated bonds that would be
15 matched to those liabilities at a 10 to 11 year
16 duration would have a higher yield than if we had
17 shorter term cash flows only simply because, in gen --
18 usually you get a higher yield for a longer term bond.

19 If you compare the composition of the
20 claim liabilities to the composition of the claims
21 that are in a policy that we issue today, injury
22 claims would only be about 20 to 30 percent of the
23 premium. And then a smaller percentage of that would
24 represent long-term injury claims.

25 So if we were taking cash flows for a

1 new chunk of policies, those cash flows would have a
2 much shorter duration. And -- and what we're
3 indicating here is that the duration of that ca --
4 those cash flows would be about 3 years.

5 And if we were to approximate a fixed
6 income portfolio similar to ours, the type of bonds we
7 invest in today, the yield on that portfolio would be
8 -- would be much lower.

9

10 (BRIEF PAUSE)

11

12 MS. CANDACE GRAMMOND: Now, Mr.
13 Johnston, would that yield be based upon investments
14 that are already in the portfolio or investments that
15 are going to be purchased in the future?

16 MR. LUKE JOHNSTON: Investments that
17 are... My -- I'm going to have to check the standards
18 on this a little bit more closely. But preferably,
19 we'd have investments that could match to -- you know,
20 that we could benchmark to that particular series of
21 cashflows, but I'm not sure that it's nec --
22 necessarily required. I'd have to check and co -- or
23 confirm that.

24 But it's quite possible that we
25 wouldn't even have such investments, or we'd have

1 trouble matching to that particular cashflow pattern.

2 MS. CANDACE GRAMMOND: If it might
3 assist you, and I appreciate that I read to you two
4 (2) excerpts from the Standards of Practice, that you
5 didn't have them in -- you -- or them in front of you,
6 and that might have been helpful, but 2620.15, which I
7 had -- had read to you does reference investment
8 income being earned on assets that might be acquired
9 with the net cashflows resulting from the revenue at
10 the indicated rate.

11 Does that help?

12 MR. LUKE JOHNSTON: That wording would
13 imply that it's -- what you could invest in, meaning
14 that you wouldn't require them. I've seen various
15 methods used to determine that discount rate, and
16 that's a part of what's being collaborated on in -- in
17 this -- this series of questions.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE GRAMMOND: So, Mr.
22 Johnston, to come back to the IR response that's on
23 this screen and that -- those last three (3) lines
24 that -- that we were speaking about, is that answer
25 given with reference to investments that are in the

1 portfolio or that may be purchased in the future?

2 MR. LUKE JOHNSTON: My understanding
3 of the Standards as they're read is that it's -- may
4 be purchased in the future, but that would -- that,
5 again, is a part of this collaboration exercise, but
6 the wording itself, that's my understanding.

7 MS. CANDACE GRAMMOND: Diana, can you
8 scroll down a little bit. Thank you.

9

10 (BRIEF PAUSE)

11

12 MS. CANDACE GRAMMOND: So, Mr.
13 Johnston, the numbers that we see in the table on the
14 top part of the screen, are those to do with current
15 investments, or what we might see in the portfolio in
16 the future?

17 MR. LUKE JOHNSTON: My understanding
18 is that's just an example of the indicator rate change
19 at -- at various interest rates. And our expectation
20 at that time is that the revised interest rate, based
21 on the methodology proposed would decline.

22 So my -- again, my understanding of
23 this question was just to show the sensitivity of
24 that.

25 MS. CANDACE GRAMMOND: So this answer

1 and the -- the percentages that we see on the screen
2 are not tied into any particular interest rate
3 forecasting methodology, whether it's the 50/50 or the
4 -- the SIRF method?

5 MR. LUKE JOHNSTON: Correct.

6 MS. CANDACE GRAMMOND: So, Mr.
7 Johnston, would you agree that the collaborative
8 process on this point needs to continue?

9 MR. LUKE JOHNSTON: Yes, absolutely.
10 This is -- this point and the other ones are crucial
11 points in the MPI rate-making methodology, which has
12 been the same for -- for decades.

13 So we -- the Corporation is very
14 cautious to change that methodology, so we absolutely
15 want to collaborate and make sure everybody
16 understands the imp -- implications of any changes.

17

18 (BRIEF PAUSE)

19

20 MS. CANDACE GRAMMOND: Okay. Thank
21 you, Mr. Johnston. We'll continue with this IR
22 response that's on the screen, but we'll go to this
23 next section entitled "Profit Provision." So this was
24 the second part of the answer.

25 So the -- the response here with

1 respect to the profit provision illustrates the
2 Corporation's current approach to addressing this
3 component of indicated rates, and in particular that
4 it's both volatile and directly dependent on the
5 forecasting of the timing and amount of realized
6 gains, not unrealized, both in Canadian and US
7 equities.

8 Is that fair to say?

9

10 (BRIEF PAUSE)

11

12 MR. LUKE JOHNSTON: Can you say that
13 one (1) more time for me, please?

14 MS. CANDACE GRAMMOND: Okay. Par --
15 pardon me. We needed to get Diana to move the screen,
16 and I failed to do that. That's my -- my bad.
17 PUB/MPI-II-1, please, Diana. So you're just going by
18 -- moving by one (1) IR. The question will make more
19 sense shortly. Thank you.

20

21 (BRIEF PAUSE)

22

23 MS. CANDACE GRAMMOND: So, Diana, if
24 you can go to page 2 you'll find a numerical table.
25 Yeah, just a little bit farther down. Perfect.

1 So at the bottom of the screen, or near
2 the bottom of the screen is the row entitled "pension
3 expense."

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: Okay, sorry.
8 About half way down the screen there's the -- the
9 section titled "equity gains during period," and then
10 we see reference to Canadian equities, US equities,
11 realized gains, and then a total realized gain line.
12 Are you with me?

13 MR. LUKE JOHNSTON: I'm with you,
14 yeah.

15 MS. CANDACE GRAMMOND: Okay. Thank
16 you. You deserve great credit. Okay. So with
17 respect to this part of the response and those line
18 items in particular, it's my understanding that this
19 response illustrates the Corporation's current
20 approach to addressing this component of indicated
21 rates, which is both volatile and directly dependent
22 on the forecasting of the timing and the amount of
23 these realized gains.

24 MR. LUKE JOHNSTON: Yeah, so I'd --
25 I'd made quick reference of this earlier. If, for

1 example, we use total comprehensive income in the rate
2 any losses on -- in the equity market would stay in
3 the past essentially. The methodology that we have
4 now assumes a 20 percent realization of gains/losses
5 over the -- over the forecast period, so that would no
6 longer exist if -- if we used total comprehensive
7 income, for example.

8 MS. CANDACE GRAMMOND: Thank you.
9 Diana, I'm going to ask you to go back to 2-2 again.
10 Thank you. And, yeah, you're in a -- you're in a
11 perfect spot, so thank you.

12 In this excerpt of this response, just
13 at the end of that first paragraph that's on the
14 screen we see the statement:

15 "The Corporation currently operates
16 at a fairly high premium to surplus
17 ratio of approximately 4.0."

18 You with me, Mr. Johnston?

19 MR. LUKE JOHNSTON: Yes.

20 MS. CANDACE GRAMMOND: And is that
21 current ratio of 4.0 for Basic only? I appreciate the
22 answer says "the Corporation" but I wanted to -- to
23 specify that.

24 MR. LUKE JOHNSTON: If -- that would
25 make sense. Annual premiums in Basic are approaching

1 a billion, and our total equity position is around 230
2 million, so 4 sounds correct.

3 MS. CANDACE GRAMMOND: Can you comment
4 on how stable that ratio has been in recent years?

5 MR. LUKE JOHNSTON: Without numbers in
6 front of me, premiums in a monopoly would be
7 incredibly stable. The total equity position of the
8 Corporation has fluctuated. We've had very large
9 rebates in the past. We've had large up and downs in
10 equity markets and such.

11 So definitely some variability so the -
12 - the premium part of the equation would be consistent
13 and highly predicable. The total equity position
14 would be quite a bit more variable. I don't know how
15 to -- to define 'variability' in this context. It's -
16 - it's between a 3 and 5 variable but that's the best
17 way I can think of describing it.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE GRAMMOND: Mr. Johnston,
22 just to give you an idea of where we're coming from,
23 for rate making purposes you have to choose an
24 assumption for future rate making, or rating, and can
25 you give us an indication of whether the 4.0 is

1 expected to continue, or do -- do you have any comment
2 on -- on what might be included in the future?

3 MR. LUKE JOHNSTON: You would expect
4 that if we had stability in our RSR targets that --
5 you would hope that that number would stay reasonably
6 consistent.

7 But just through way of an example, if
8 the extension -- recent transfers from extension were
9 not made we might have been talking about a hundred
10 million dollars in total equity relative to a billion
11 dollars in premium, and that number would have been
12 ten (10) instead of four (4).

13 So to say at the time those forecasts
14 were made that I thought we were going to lose 150
15 million, like that wouldn't have been the intent of
16 the rate application, to lose \$150 million.

17 So again, all these, total equity in
18 particular, is -- is subject to the fluc -- the normal
19 fluctuations that we get in results.

20

21 (BRIEF PAUSE)

22

23 MS. CANDACE GRAMMOND: So -- so, Mr.
24 Johnston, just to try to sum up, do you think that the
25 4.0 is a reasonable prospective number to use for the

1 upcoming rating period?

2 MR. LUKE JOHNSTON: Well, yeah, based
3 -- if -- if we believe this best-estimate forecast,
4 which we do, then we would expect this total equity
5 position to stay very close to where it is as a result
6 of having no net income in the rating years.

7 MS. CANDACE GRAMMOND: Thank you. Now
8 still in PUB-MPI-2-2, which is up on the screen, and
9 still under this section regarding profit provision,
10 can you comment on how sensitive the overall indicated
11 rate change is to including a profit provision using
12 the Corporation's current approach to address this
13 component of indicated rates?

14

15 (BRIEF PAUSE)

16

17 MR. LUKE JOHNSTON: Just to make sure
18 I understand the question, so the question was: How
19 sensitive is --

20 MS. CANDACE GRAMMOND: The overall --

21 MR. LUKE JOHNSTON: -- the current
22 method?

23 MS. CANDACE GRAMMOND: -- the overall
24 indicated rate change to including a profit provision
25 using the Corporation's current approach.

1 MR. LUKE JOHNSTON: So the current
2 approach is again based on this net income
3 methodology. So regardless of the profitability of
4 that particular group of policies, our premium request
5 to the regulator is always going to be to restore
6 breakeven net income. So I've talked about that a
7 little bit in the past.

8 Regardless of -- like the Corporation
9 understands actuarially-based rate setting. It's not
10 that we don't understand how to do that, subject to
11 some collaboration that has to occur. But the
12 original reason for shifting to this break even
13 methodology was specifically to meet that mandate of
14 constantly breaking even.

15 So I believe it's in the 1992 rate
16 application we talked about actuarially-based rates.
17 And then we said, Okay, well, we have a bunch of other
18 funds in the bank for investment purposes, the RSR.
19 What do you do with that money?

20 Like if -- you know, if -- if the
21 Corporation is supposed to break even, and you
22 perfectly set the -- the price for the policies you're
23 issuing but you earn investment income on other funds
24 such that you don't break even, how do you set the
25 rates properly so that the Corporation will break even

1 on a net income basis?

2 And the methodology derived was the
3 current one which -- which forces us to always apply
4 for a net income of zero.

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: If -- if I can add
9 to that, the -- the idea there was that the investment
10 income benefit from any other funds we had would flow
11 to the -- the ratepayers directly and be an offset to
12 their premiums such that we break even on the fiscal
13 year net-income basis.

14 MS. CANDACE GRAMMOND: Okay. And, Mr.
15 Johnston, again, just coming back to this sensitivity
16 question, if a profit provision was included, what we
17 see on the screen says that, if there was an
18 assumption of a profit provision of 1.15 percent
19 negative, the indicated rate change would decrease
20 from 4.78 to 3.51, so a difference or decrease of 1.27
21 percent.

22 MR. LUKE JOHNSTON: Yeah, that's
23 correct.

24 MS. CANDACE GRAMMOND: And, Diana, can
25 I just ask you to shrink the page? Because I want to

1 see the table that's there and the table that's at the
2 top of the page at the same time.

3

4 (BRIEF PAUSE)

5

6 MS. CANDACE GRAMMOND: Perfect. So on
7 the right-hand side we see -- if I understand the
8 response correctly, at the top of the right-hand side
9 page we have the rates as applied for.

10 And at the bottom of the right-hand
11 side we have what the rates would be if the profit
12 provision was included?

13 MR. LUKE JOHNSTON: That's right.

14 MS. CANDACE GRAMMOND: Okay. So, as
15 indicated from the sentence that we read in, the
16 overall four point seven eight (4.78) becomes three
17 point five one (3.51) and so on and so forth depending
18 on the applicable interest rate that's used?

19 MR. LUKE JOHNSTON: That's right.

20 MS. CANDACE GRAMMOND: Okay. Okay.
21 So still with respect to this IR response and the --
22 this idea of a profit provision.

23 It's my understanding that the use of
24 total return assumptions on the relevant classes of
25 investment assets would be consistent with general

1 industry practice?

2 MR. LUKE JOHNSTON: Agree.

3 MS. CANDACE GRAMMOND: And that is an
4 issue or a point that was discussed during the
5 collaborative process?

6 MR. LUKE JOHNSTON: Was, will be,
7 agreed, yeah, yeah.

8 MS. CANDACE GRAMMOND: Fair. Fair. I
9 didn't mean to use -- to use past tense only.

10 Can you comment on why -- why a profit
11 provision couldn't be selected that reflected an
12 appropriately weighted average of the assumed total
13 return rates for the investment classes supporting
14 Basic's total equity?

15 MR. LUKE JOHNSTON: Yeah, no, that's a
16 good question. When we filed the actuarially-based
17 rates for -- I believe this is the third year, what we
18 do in -- in AI-9 -- what we do in that section is file
19 what we believe to be actuarially-based rates just
20 with a zero percent profit. And then we show another
21 example saying, well, what if we selected a profit
22 target to achieve the current definition of breakeven.

23 So another approach to that would be
24 the approach shown here where you're selecting a
25 certain profit provision possibly tied to the return

1 on the total equity. That's fine. Like, I -- like,
2 this -- all this makes sense. I guess what -- what
3 I'm getting at is so say we do this and whatever the
4 number is here, negative 1 percent profit. We put
5 that rate increase in. And we show the Board our new
6 financial statements, and it says MPI's going to make
7 \$50 million in the -- in the rating years, or the
8 opposite of that, negative. Are -- are we okay with
9 that?

10 That's never how we've -- we've done
11 things before. We've always kind of, you know,
12 tracked net income to break even. So all we're saying
13 is that we really want to make sure we understand what
14 this means and the methodology to do it and understand
15 some of the potential implications of -- of doing so,
16 and that's -- that's really it.

17 MS. CANDACE GRAMMOND: Mr. Johnston,
18 just a couple more questions on this -- this area in
19 general. That is rate making in accordance with
20 accepted actuarial practice.

21 Can you tell us whether the Corporation
22 has any concerns, either general or specific concerns,
23 with respect to full reliance on basic rate making in
24 accordance with accepted actuarial practice in Canada?
25 And that would be for the purposes of forming the

1 proposal in a GRA.

2 MR. LUKE JOHNSTON: Really just my
3 last point. The main concern is the breakeven net
4 income objective that we've -- or -- or mandate,
5 whatever the wording -- right wording is, that we've
6 had for decades, and just that we understand the
7 implications of that.

8 Do we have any problem setting, you
9 know, rates per accepted actuarial practice? No.
10 But, again, we just want to make sure that we
11 understand how that impacts both the -- I guess the
12 volatility of the Corporation's net income and -- and
13 the meaning of breakeven.

14 MS. CANDACE GRAMMOND: And I have your
15 comments about fully understanding the implications
16 and so forth. When you talk about a breakeven
17 mandate, and I know there's an IR on this that was
18 posed by CAC, the Corporation, as I saw it, pointed to
19 two (2) things. One (1) was the Kopstein Report, and
20 the other thing is the past orders of this Board.

21 Is there anything else that -- that the
22 Corporation would point to or is concerned with when
23 it talks about breakeven mandate and the -- the basis
24 for that mandate?

25

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: I -- I was just
4 reflecting on whether or not the MPIC Act says
5 anything specifically about breaking even, and it only
6 references that the Corporation needs to have
7 sufficient reserves to be able to pay the -- pay its
8 expenses.

9 So you could interpret that to being
10 not generating a profit in any given year, but just
11 having sufficient monies to -- to pay expenses. So
12 mainly it would be the Kopstein and -- and previous
13 orders of the Public Utility Board. And if I can just
14 add to what Mr. Johnston has already said?

15 So my understanding -- again I wasn't
16 at MPI when there was a whole lot of discussion around
17 breaking even and what to do with this additional
18 investment income potential, and that -- that the
19 discussion was, well, that should go back to benefit
20 in keeping rates lower, right, to keep the premium
21 rate lower. So that investment income should --
22 should help to offset that.

23 So from my perspective, all of the
24 discussion and all of the rationale that -- that
25 existed when it was determined to set rates on this

1 basis, on that break-even basis, if those factors and
2 criteria still hold today then it would be my position
3 that you would continue to set rates in that -- in the
4 same way.

5 So speaking to -- to what Mr. Johnston
6 said, absolutely we would need to understand fully
7 what has changed to make it relevant to look to change
8 the way that we are setting the rates today compared
9 to what was agreed on how to set them like twenty (20)
10 some odd years ago.

11 So again not to say that we aren't
12 willing to look and -- and to understand fully what
13 those implications are, but it isn't something that we
14 would quickly jump into without totally understanding
15 what the impact would be to Manitoba ratepayers now,
16 and in the -- in the future.

17 MS. CANDACE GRAMMOND: Assuming for
18 the purposes of this question that the Corporation
19 could fully review and consider what the implications
20 would be, and knowing that this Board has the power to
21 vary its past Orders, whether it would or not is a
22 separate question but it has the power to do that, are
23 there any specific barriers that the Corporation would
24 point to that would impede full implementation of
25 Basic rate made -- making in accordance with accepted

1 actuarial practice in Canada?

2

3

(BRIEF PAUSE)

4

5

MR. LUKE JOHNSTON: From -- from I
6 guess a technical perspective there's -- there's no --
7 there's no barriers.

8

The -- I guess to add to Ms. Reichert's
9 comments, obviously, we want to be aware of the rate
10 dislocation that may exist if we were to make such a
11 change but I think falls under our other comments,
12 just about understanding the impact.

13

MS. HEATHER REICHERT: And again not a
14 -- not from a technical perspective. But again myself
15 not fully appreciating or understanding what this
16 would do to reported net income of the Corporation and
17 knowing that we are consolidated within the overall
18 government consolidated statement, there would need to
19 be discussions with volatility potential in our net
20 income and impacts that that might have on the -- on
21 the Ministry of Finance within the overall government.

22

MS. CANDACE GRAMMOND: One (1) last
23 question, I think -- I think it's last anyways on this
24 topic. Mr. Johnston, do you have familiarity with how
25 the rate indications are derived by, or for, ICBC and

1 the Saskatchewan Auto Fund?

2 MR. LUKE JOHNSTON: Not in great --
3 great detail but my understanding is they are, per
4 accepted actuarial practice.

5 MS. CANDACE GRAMMOND: Thank you.
6 Okay. Mr. Chairman, I have a couple of more topics to
7 get through but I think I can do that before the
8 afternoon break, and then I'll be prepared to turn the
9 mic over to Mr. Williams.

10 THE CHAIRPERSON: That's -- that's
11 fine, Ms. Grammond.

12

13 CONTINUED BY MS. CANDACE GRAMMOND:

14 MS. CANDACE GRAMMOND: Thank you. I
15 had circulated over the lunch hour two (2) documents -
16 - or at some point earlier today, I think it was at
17 the lunch hour, two (2) documents, or at some point
18 earlier today, I think it was at the lunch hour, two
19 (2) documents. One has a title page called, "Canadian
20 Vision for Property and Casualty Insurer Solvency
21 Assessment." And the other is an OSFI, or Office of
22 Superintendent Financial Institution's Guideline.

23 Mr. Johnston, you have those in front
24 of you?

25 MR. LUKE JOHNSTON: Yes, I do.

1 MS. CANDACE GRAMMOND: And just what
2 we're looking at is if we deal with the -- the older
3 document first, that's the Canadian Vision document,
4 the MCT Advisory Committee, dated December of 2011.

5 Were you -- are you at all familiar
6 with this document prior to seeing this excerpt left
7 at your place today?

8 MR. LUKE JOHNSTON: If -- if I've read
9 it in the past I -- I don't recall. It hasn't been
10 lately.

11 MS. CANDACE GRAMMOND: Okay. Okay.
12 And what about the other document, the OSFI Guideline
13 excerpt.

14 Are you familiar with that document?

15 MR. LUKE JOHNSTON: Yes, I am.

16 MS. CANDACE GRAMMOND: I'm going to
17 take you through a couple of excerpts. What I'd ask
18 to do, Mr. Chairman, is mark these two (2) documents
19 as the next two (2) Board exhibits. I think we're at
20 18. Is that Mr. -- is that correct, Mr. Christle?

21 MR. DARREN CHRISTLE: Seventeen (17)
22 (sic).

23 MS. CANDACE GRAMMOND: Seventeen (17).
24 So we'll mark the Canadian Vision MCT document as
25 Board Exhibit 17.

1 --- EXHIBIT NO. PUB-18: Canadian Vision MCT
2 excerpt

3

4 MS. CANDACE GRAMMOND: And we'll mark
5 the OSFI Guideline excerpt as Board Exhibit 18.

6

7 --- EXHIBIT NO. PUB-19: OSFI Guideline excerpt

8

9 CONTINUED BY MS. CANDACE GRAMMOND:

10 MS. CANDACE GRAMMOND: Now, if we --
11 if you look at both documents you'll see highlighted
12 sections that are in the -- the grey shading.

13 Do you have that, Mr. Johnston, on your
14 --

15 MR. LUKE JOHNSTON: Yeah. Yes, I do,
16 and on the screen, yeah.

17 MS. CANDACE GRAMMOND: And have you
18 had a chance to review those shaded sections? I know
19 she can't really get it all on the screen because it's
20 been done on a manual overhead as opposed to the
21 computer.

22 MR. LUKE JOHNSTON: Yeah, I -- I
23 looked at this at lunch, yeah.

24 MS. CANDACE GRAMMOND: Okay. Okay.
25 Just making sure. So as -- as I understand it, the

1 highlighted sections in both of these documents
2 indicate that the supervisory target, 150 percent MCT
3 ratio is predicated on a 99.5 percent value at risk or
4 99 percent tail value at risk, otherwise known as a
5 conditional tail expectation, over a one (1) year time
6 horizon.

7 Would you agree?

8 MR. LUKE JOHNSTON: Yes, I would.

9 MS. CANDACE GRAMMOND: And by
10 definition, OSFI's minimum capital requirement of 100
11 percent MCT ratio would necessarily relate to a lower
12 percentile level.

13 Is that correct?

14 MR. LUKE JOHNSTON: Correct.

15 MS. CANDACE GRAMMOND: Considering
16 this context, can you comment on how the Corporation
17 supports the use of a 100 percent MCT ratio as an
18 upper Basic total equity target when its own modelling
19 of Basic risks indicates this threshold is well beyond
20 a 99.5 percent outcome level?

21 MR. LUKE JOHNSTON: Yeah, so I believe
22 we talked about this a little bit on the first day.
23 The -- MPIs proposed use of the MCT is again to give
24 an external based benchmark for our rate stabilization
25 reserve. We understand, obviously, that we've

1 collaborated on this DCAT approach and we have this
2 DCAT based target. But clearly MPI in and itself
3 cannot match the -- the quality or the information
4 that the federal regulator has in the minimum capital
5 test.

6 So we've created a model. We've done
7 our best to model MPI risks appropriately, but we're
8 suggesting that for -- for an upper target
9 perspective, not -- not the lower target where --
10 where rebuilding fees and such are -- are implemented,
11 I guess, we're just saying that in terms of industry
12 wide accepted target that's comparable to others and
13 best practice, essentially, that we should benchmark
14 ourselves to that.

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE GRAMMOND: So hearing that
19 answer, Mr. Johnston, do you attach any relevance or
20 weight to the reliability of MPI's own model and the
21 testing that has reflected an outcome that's not
22 inside of a 1 in 5,000 year event?

23 MR. LUKE JOHNSTON: Sure. We -- we --
24 again, we've collaborated on the DCAT approach and in
25 quite a bit of detail gone through all these different

1 models. But there's limitations to that. There's
2 been compromises made there. The tolerance level of
3 that analysis is lower than the MCT example that you
4 have highlighted here.

5 The scenarios have -- include
6 compromises which may or may not be included in this
7 MCT test. I won't pretend to know all the underlying
8 details of how they come up with their risk factors.

9 And there's other risks that we simply
10 have a lot of difficulty measuring here at MPI. We've
11 talked about policy liability risk and other areas
12 where I've come to hearings and talked about some of
13 these items and been challenged, you know, on the
14 credibility of those models, right?

15 And so that DCAT collaborative process
16 arrived at some methodologies to -- to measure risk.
17 But again, I don't think it could compare to the level
18 of expertise and knowledge in the minimum capital
19 tests from the federal -- federal regulatory body.

20 MS. CANDACE GRAMMOND: Thank you. I'm
21 going to move then to some questions on the lower
22 Basic total equity target.

23 Diana, can you go to PUB-MPI-1-25,
24 please?

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: So as noted,
4 this IR was posed as a continuation of the
5 collaborative process. And, Mr. Johnston, I assume
6 you're familiar with the answer.

7 Can you confirm that the response to
8 this IR reflects both the DCAT and target capital
9 analysis as originally filed in June?

10 MR. LUKE JOHNSTON: That's correct.

11 MS. CANDACE GRAMMOND: And can you
12 describe at a high level how income -- or, pardon me,
13 investment income -- describe at a high level how
14 investment income is allocated among Basic, Extension,
15 and SRE?

16 MR. LUKE JOHNSTON: Investment income?
17 So I'll try to put this as high level as possible.
18 Each line obviously has capital that supports
19 investment income. And then there's direct
20 liabilities in those lines.

21 So, for example, Basic has a very large
22 amount of claims liabilities which -- which is the
23 main reason for why it gets so much investment income.
24 So really, if you look at the total equity of the
25 liabilities directly assigned to that line and any

1 other directly assignable assets, that's how you would
2 allocate investment income.

3 And Basic gets about 85 percent of that
4 investment income, again most of which has to do with
5 all the claim liabilities in that line.

6

7 (BRIEF PAUSE)

8

9 MS. CANDACE GRAMMOND: Thank you, Mr.
10 Johnston. Now, as I understand it, one (1) of the
11 financial model enhancements that's been incorporated
12 in the DCAT that's included now before the Board is a
13 dynamic allocation of investment income among Basic,
14 Extension, and SRE throughout the forecast period.

15 Is that correct?

16 MR. LUKE JOHNSTON: Yeah, that's
17 right.

18 MS. CANDACE GRAMMOND: And again with
19 reference to PUB-MPI-1-25, which is up on the screen,
20 can you summarize the findings of the analysis
21 including, at a high level, an explanation of how
22 these results were derived and the significance of the
23 time horizon or return period to the findings?

24 MR. LUKE JOHNSTON: So the -- what we
25 used to so in the DCAT analysis is run the scenarios,

1 and then compare how big of a deviation we had from
2 the base forecast. So if we had a \$200 million
3 decline in total equity from a certain scenario, we'd
4 say that should be the DCAT target.

5 Through the collaborative exercise, I
6 always recommended that we actual restate our
7 financial position at the beginning of the rating
8 period and say how much would we need in total equity
9 on that particular day such that this scenario would
10 go exactly to zero, so, like, the absolute minimum
11 amount you'd need in the bank to stay -- to keep your
12 total equity position above zero over the forecast
13 period.

14 Was there a part 2 to that?

15 MS. CANDACE GRAMMOND: We -- we have a
16 few more questions.

17

18 (BRIEF PAUSE)

19

20 MR. LUKE JOHNSTON: Long-winded
21 answers, I end up forgetting the other part of the
22 questions.

23 MS. CANDACE GRAMMOND: Yeah. No, I --
24 fair enough. Fair enough. Okay, Diana, I'm going to
25 ask you to scroll a little bit until we get to the

1 response at (c), which is on page 5. So if we can --
2 yeah, perfect.

3 So if you can just scroll down a bit so
4 we have that top of page 5 and the bottom of page 4.
5 Okay, well, may -- yeah, if you could shrink it a
6 little bit, that would be perfect.

7 While you're working on that, Mr.
8 Johnston, at -- at part of this IR, part (c), we had
9 requested that the lower basic total equity target be
10 estimated for each of the adverse scenarios by
11 iterative adjustment.

12 And -- and what we had specifically
13 asked for was, until the forecasted total equity
14 balance under the modified lower limit worst case
15 adverse scenario approximated zero at the lowest point
16 over the selected time horizon within the forecast
17 period.

18 Do you recall that part of the
19 question?

20 MR. LUKE JOHNSTON: Yes, I do.

21 MS. CANDACE GRAMMOND: Okay. Now, the
22 table on page 5, so that's just at the bottom of the
23 screen here, summarizes the results of the iterative
24 process being applied to each of the adverse scenarios
25 which are summarized on page -- pages 3 and 4.

1 You with me so far?

2 MR. LUKE JOHNSTON: Yeah.

3 MS. CANDACE GRAMMOND: Using the four
4 (4) year one (1) in forty (40) combined scenario as an
5 example, so that's the last one in the table, we can
6 see that the iterative adjustment seems to have simply
7 increased the total equity balance by 26 million at
8 each year end.

9 And -- and if -- Diana, if you can just
10 shrink it a little bit more so we can see the bottom
11 of that. There we go. So -- so what I mean by that
12 is, if you look -- sorry, can you go back up a bit so
13 I can see the bottom? There we go. Per -- no.
14 Perfect.

15 Okay. So the total equity line, that's
16 the second from the bottom on the top part of the
17 screen, we see how the number decreases from left to
18 right, ending at a negative result of 26 million.

19 MR. LUKE JOHNSTON: Correct.

20 MS. CANDACE GRAMMOND: And then in the
21 table below, at the very bottom of the screen, the
22 four (4) year one (1) in forty (40) line item we see
23 basically decreasing from those last two (2) years
24 from thirty-two (32) to zero. But --

25 MR. LUKE JOHNSTON: Correct.

1 MS. CANDACE GRAMMOND: -- that's
2 leading to our question that the result seems to be
3 that the equity balance is decreasing by 26 million at
4 each year end?

5

6 (BRIEF PAUSE)

7

8 MS. CANDACE GRAMMOND: Sorry,
9 increasing. I said, "decreasing." I meant to say
10 increasing.

11 MR. LUKE JOHNSTON: Okay. Sorry, and
12 -- and the question is?

13 MS. CANDACE GRAMMOND: Okay, so the
14 question is: We -- the -- the Board asked this IR.
15 We asked that this iterative process be undertaken.
16 And we're using as an example only the last line item,
17 the four (4) year one (1) in forty (40) event, which
18 gets us to a zero at 2020/'21.

19 And what we're suggesting is that the
20 adjustment seems to have simply increased the total
21 equity balance by \$26 million at the end of --

22 MR. LUKE JOHNSTON: Correct.

23 MS. CANDACE GRAMMOND: -- each year?
24 Okay. Can you explain why the result of the iterative
25 adjustment is equal across all periods, considering

1 that the addition of the 26 million of total equity at
2 the start of the forecast period in this instant would
3 be expected to generate additional investment income
4 throughout the forecast period?

5 MR. LUKE JOHNSTON: That one I'll --
6 I'll take as an undertaking.

7 MS. CANDACE GRAMMOND: Sure. Thank
8 you.

9

10 --- UNDERTAKING NO. 17: MPI to explain why the
11 result of the iterative
12 adjustment is equal across
13 all periods, considering
14 that the addition of the
15 26 million of total equity
16 at the start of the
17 forecast period in this
18 instant would be expected
19 to generate additional
20 investment income
21 throughout the forecast
22 period

23

24 CONTINUED BY MS. CANDACE GRAMMOND:

25 MS. CANDACE GRAMMOND: Last question,

1 Mr. Johnston. Can you advise whether it would be
2 practical or possible for MPI to undertake to prepare
3 an updated response to this IR, PUB-MPI-1-25, to be
4 consistent with the amended DCAT and target capital
5 analysis provided on October 7th?

6 MR. LUKE JOHNSTON: I don't have to
7 run it, so I'll --

8 MS. CANDACE GRAMMOND: Well, then it's
9 a sure, yes.

10 MR. LUKE JOHNSTON: -- but that would
11 seem like a reasonable request, given the revised
12 application. What I -- so I'll say, yes, but what
13 I'll do I guess tomorrow is -- is just give you a
14 sense of how long that takes. But, yeah, we should --
15 we should be able to do that.

16 MS. CANDACE GRAMMOND: Thank you.
17 Thank you. Mr. Chairman, that concludes my cross-
18 examination for the time being. I say that because
19 we've had some undertaking responses filed that I need
20 to review, and there will be more coming that I may
21 have follow-up questions on, but I'm --

22 THE CHAIRPERSON: Thank you.

23 MS. CANDACE GRAMMOND: -- I'm prepared
24 to turn the mic over to Mr. Williams.

25 THE CHAIRPERSON: Yeah. I think we'll

1 -- we'll take a fifteen (15) minute break and then,
2 Mr. Williams, you'll be ready to proceed after that?

3 MR. BYRON WILLIAMS: Yes, thank you.

4 THE CHAIRPERSON: Okay.

5

6 --- Upon recessing at 2:32 p.m.

7 --- Upon resuming at 2:50 p.m.

8

9 THE CHAIRPERSON: Mr. Williams...?

10

11 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

12 MR. BYRON WILLIAMS: Yes, good -- good
13 afternoon, members of the panel. And I'll just
14 indicate we do monitor the hearing closely. I wasn't
15 here this morning but my coll -- or my student took
16 copious notes, and I will be trespassing a little bit
17 where My Friend, Ms. Grammond, went this afternoon but
18 to a different -- a different purpose.

19 Ms. Reichert, just to go back to the
20 big picture, and I'm going to neglect you for most of
21 the afternoon, so I wanted to give you a couple of
22 soft ones to start with. You'll recall though that
23 for the 2015/'16 year Basic operations lost around \$56
24 million. Is that fair?

25 MS. HEATHER REICHERT: Subject to

1 check I'll take your word for it.

2 MR. BYRON WILLIAMS: And recognizing
3 that it's subject to check and not wishing to strain
4 your memory too much but again for the '14/'15 year
5 Basic essentially broke even, reporting a modest net
6 income of about 2.4 -- \$4 million, subject to check?

7 MS. HEATHER REICHERT: Subject to
8 check because I think that in both '14/'15 and '15/'16
9 we transferred money into the Basic RSR. I think
10 those were the two (2) years, '14/'15 and '15/'16, so
11 I thought that -- that Basic, in fact, had lost money
12 in the '14/'15 year resulting in a deficient RSR that
13 we transferred money into.

14 MR. BYRON WILLIAMS: Okay, well, I'll
15 get you to check that. The reference I was using was
16 AI.6, pages 1 and 2, and if I misstated it you'll
17 correct me at an appropriate time.

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: And, Ms.
22 Reichert, I don't think much turns on it so let's move
23 on, and -- and not meaning to dwell too much on the
24 painful memories of '15/'16, but in terms of -- Mr.
25 Johnston's going to confirm my suggestion to you?

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: Okay. Sorry.

4 It's okay. Go ahead.

5 MR. BYRON WILLIAMS: In terms of the
6 year '15/'16, there's been considerable discussion
7 about one (1) of the key factors driving those adverse
8 rate impacts compared to budget and that was with
9 scale without trying to -- and -- and losses on the
10 comprehensive side, agreed?

11 MS. HEATHER REICHERT: In '15/'16,
12 definitely. It was a lot of small hail events that
13 caused us to have a considerable loss in that year.

14 MR. BYRON WILLIAMS: And again another
15 key factor in terms of the difference between budget
16 and actual for '15/'16 was lower than expected
17 investment income from equities and from alternative
18 assets, agreed?

19 MS. HEATHER REICHERT: That's correct.
20 We had a permanent impairment of some Canadian
21 equities in the oil and gas sector that resulted in a
22 \$33 million loss.

23 MR. BYRON WILLIAMS: And for the Basic
24 side, it was about a \$28.5 million loss?

25 MS. HEATHER REICHERT: It would have

1 been about 84/85 percent of the 33 million.

2 MR. BYRON WILLIAMS: And a third key
3 factor in terms of the variance from budget to actual
4 for '15/'16, was higher non-interest rate related PIPP
5 claims relating tp BI other indexed and BI WI, agreed?

6 MS. HEATHER REICHERT: I seem to
7 recall that, yes.

8 MR. BYRON WILLIAMS: And subject to
9 check, in the range of 34/\$35 million higher non-
10 interest PIPP claims, agreed?

11 MS. HEATHER REICHERT: Sounds right.

12 MR. BYRON WILLIAMS: Mr. Johnston, in
13 just a couple seconds -- and it is Johnston with a
14 'T', right? Because I historically mispronounce it,
15 so.

16 MR. LUKE JOHNSTON: With a 'T', yeah.

17 MR. BYRON WILLIAMS: Yeah. I'll do
18 better this year, but I will slip up, sir. We are
19 going to go -- go to accident benefit other indexed
20 and accident benefit WI in just a second -- well, in
21 just about five (5) minutes. But I want you to assist
22 me with a high-level explanation of how claims
23 incurred are calculated.

24 And I'll try and lead you through it
25 and you can feel free to elaborate. I just want to

1 start off though, Mr. Johnston, with some terms. And
2 for the purposes of forecasting claims incurred, if I
3 -- could -- could we use the term 'paid' to denote the
4 amount that has already been paid out to claim --
5 claimants in a specific time period?

6 MR. LUKE JOHNSTON: Yes, you can.

7 MR. BYRON WILLIAMS: And 'case
8 reserves' would refer to the amounts that have been
9 set aside by managers for the expected future costs of
10 a specific claim?

11 MR. LUKE JOHNSTON: That's right.

12 MR. BYRON WILLIAMS: And the term
13 'incurred', for claims forecasting purposes, includes
14 both paid, plus the unpaid at the end of the year,
15 minus the unpaid at the beginning of the year?

16 MR. LUKE JOHNSTON: Yes.

17 MR. BYRON WILLIAMS: Ms. Grammond, you
18 can feel free to snicker at me for that. And we will
19 come to the term 'incurred but not reported', or IBNR
20 in just a couple moments, okay, Mr. Johnston?

21 MR. LUKE JOHNSTON: Okay.

22 MR. BYRON WILLIAMS: And as I
23 understand it, an important technique -- an actuarial
24 technique you use in claims forecasting is the loss
25 development technique.

1 Would that be fair?

2 MR. LUKE JOHNSTON: That's fair.

3 MR. BYRON WILLIAMS: And at the heart
4 of that technique is the assumption that the
5 historical development patterns in accident year are
6 paid and incurred losses can be used to predict the --
7 predict the development of paid and incurred losses,
8 correct? In future periods.

9 MR. LUKE JOHNSTON: Yes. That's
10 right, just -- and just to expand on it, all -- all
11 that that means is if this much is -- a certain amount
12 is paid at twelve (12) months into a -- a group of
13 claims, and then that grows to twenty-four (24)
14 months, thirty (30), we'd expect that pattern of -- of
15 development to continue or be consistent unless
16 something changes with the underlying claimants over
17 time or something.

18 MR. BYRON WILLIAMS: And one (1) of
19 your key jobs, obviously, Mr. Johnston, apart from the
20 other numerous hats you wear is to be alert for -- for
21 any -- any changes in that historic loss development
22 pattern as we look at future years, agreed?

23 MR. LUKE JOHNSTON: Agreed.

24

25

(BRIEF PAUSE)

1 MR. BYRON WILLIAMS: And would I be
2 correct in suggesting that the Corporation starts its
3 claim forecasting exercise by forecasting the accident
4 year ultimate incurred losses and then it uses the
5 development assumptions to project backwards the paid
6 and incurred losses from ultimate to twelve (12)
7 months?

8 MR. LUKE JOHNSTON: Yeah, from a
9 forecasting perspective, again, I'll clarify what --
10 what this means as well. In our actuarial report,
11 every loss year that has already passed will have an
12 ultimate estimate, an estimated ultimate cost.

13 So in other words, what do -- what do
14 we think the ultimate cost of all the claims in that
15 year is going to be when they're closed and -- and
16 paid.

17 That information, specifically on PIPP
18 where the very long-term liabilities, that is
19 generally used to make the forecast for future years
20 ultimates. And then, as Mr. Williams said, we have to
21 create a series of cashflows for -- for that year
22 going back or forward, whichever way you want to look
23 at it.

24 MR. BYRON WILLIAMS: Okay. And again,
25 it's assumed that the historical ultimate losses are

1 the best predictor of future ultimate losses by
2 accident year, generally speaking, for your
3 forecasting purposes?

4 MR. LUKE JOHNSTON: In a general
5 sense, yes. And -- and -- but my -- my qualifier to
6 that is, of course, if there is a trend in the
7 behaviour of those ultimate losses -- for example,
8 they're going down over time or they're increasing at
9 a certain rate over time -- we wouldn't necessarily
10 just take the average. We would recognize the -- the
11 trend in those numbers as well.

12 MR. BYRON WILLIAMS: Thank you for
13 that -- that clarification. And I'm sure that I'll be
14 relieved, and I'm not sure if you'll be relieved or
15 not, to know that I'm not going to address how you
16 discount cashflows or do the provision for adverse
17 deviation.

18 But I want to come back to that term
19 IBNR, or incurred but not reported. You're familiar
20 with that term, sir?

21 MR. LUKE JOHNSTON: Yes, I am.

22 MR. BYRON WILLIAMS: And it'd be
23 correct to suggest that, apart from what has been paid
24 on known claims, and apart from what has been set
25 aside in case reserves for known claims, there is a

1 risk that there are claims out there that have not yet
2 been reported, agreed?

3 MR. LUKE JOHNSTON: Agreed.

4 MR. BYRON WILLIAMS: And even on those
5 claims that have been reported, there's a risk that
6 there may be additional development on those claims
7 other than what's already been reserved, correct?

8 MR. LUKE JOHNSTON: That's right. So
9 a -- a new injury claim that comes in that isn't a
10 serious loss, the case manager wouldn't expect that
11 claim to be a lifetime claim. But some of them do
12 ultimately do that.

13 MR. BYRON WILLIAMS: And to the extent
14 that there's claims out there that haven't been
15 reported or that there's additional development on
16 claims that has -- have not been reserved, there also
17 may be additional lost adjust -- loss adjustment
18 expenses, agreed?

19 MR. LUKE JOHNSTON: Correct.

20 MR. BYRON WILLIAMS: So would it be
21 correct to understand the term IBNR to represent the
22 estimated incurred but not reported loss, the
23 estimated incurred but not reported loss reserves, and
24 allocated loss adjustment expenses?

25 MR. LUKE JOHNSTON: Yes.

1 MR. BYRON WILLIAMS: And what I didn't
2 include was a premium def -- deficiency, but that from
3 time to time may be in there as well, agreed?

4 MR. LUKE JOHNSTON: Correct, yeah.

5 MR. BYRON WILLIAMS: And the claimed
6 incurred by fiscal year is calculated as the reported
7 incurred plus the change in the IBNR provision for
8 that fiscal year, correct?

9 MR. LUKE JOHNSTON: That's correct.

10 MR. BYRON WILLIAMS: With Diana's
11 assistance, I wonder if we can turn to CAC First Round
12 Information Request 1-11. Right there is fine for
13 now, Diana.

14 Mr. John -- Johnston, you'll just see
15 in the preamble that the inquiry is trying to get at
16 the -- the change in total claims incurred compared to
17 the forecast, with the suggestion that a significant
18 contributor was a change in the IBNR for all other
19 changes of \$70.7 million, agreed?

20 MR. LUKE JOHNSTON: Agreed.

21 MR. BYRON WILLIAMS: And, Diana, if we
22 can come down to the response, the -- in ter -- in
23 terms of what comprised that all other changes, Mr.
24 Johnston, a major factor would be to the revised loss
25 development factors for PIPP, or the Personal Injury

1 Protection Plan.

2 Is that right?

3 MR. LUKE JOHNSTON: Correct. Correct.

4 MR. BYRON WILLIAMS: And when we turn
5 to the next page, we'll see a summary of changes. And
6 you'll confirm, Mr. Johnston, that those changes are
7 not related to interest rates, agreed?

8 MR. LUKE JOHNSTON: If you can scroll
9 up again, just -- that's my understanding, that --
10 that are not -- yes, that's correct.

11 MR. BYRON WILLIAMS: And again, of
12 that 70 million -- \$70 million some figure we see that
13 it is comprised, in large part, of weekly indemnity at
14 42.68 million and accident benefit other indexed, or
15 AB indexed, at about 12.57 million, correct?

16 MR. LUKE JOHNSTON: That's right.

17 MR. BYRON WILLIAMS: I didn't hear
18 you, Mr. Johnston.

19 MR. LUKE JOHNSTON: Oh, sorry, that's
20 correct, yeah.

21 MR. BYRON WILLIAMS: And I'm sure
22 you're speaking clearly. It's just the fan in the ba
23 -- in the background --

24 MR. LUKE JOHNSTON: Oh, no, I'm a soft
25 speaker.

1 MR. BYRON WILLIAMS: -- plus my
2 advanced age. In essence, PIPP related to about --
3 IBNR changes amounts to about 75 percent of that 70.74
4 million total, agreed, subject to check?

5 MR. LUKE JOHNSTON: Yeah, that's
6 correct.

7 MR. BYRON WILLIAMS: Diana, I wonder
8 if we can turn to CAC 1-13, please.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: And again just
13 drawing your attention to the -- to the preamble.
14 But, Di -- Diana, just scroll down for a second just
15 to confirm, Mr. Johnston, that we're talking about
16 weekly indemnity.

17 Again you can see a discussion here,
18 Mr. Johnston, basically trying to understand a change
19 in the methodologies for two (2) par -- particular
20 years, being 2013 and 2015, and noting a large
21 reduction in outstanding case re -- reserves dues to a
22 certain amount of case de-strengthening.

23 Do you see that, sir?

24 MR. LUKE JOHNSTON: Yes, I do.

25 MR. BYRON WILLIAMS: And just

1 directing your attention to the response. In terms of
2 the explanation for the de-strengthening, the
3 Corporation pointed out that the amount of case
4 reserves for recent years was significantly lower at
5 an earlier development period than the amounts in
6 earlier years, agreed?

7 MR. LUKE JOHNSTON: Agreed. And so
8 what that means, for -- for the Board's benefit, I
9 guess, is that, at a particular lifeti - point in time
10 for the claimant, the case reserves that we used to
11 see on average are lower than they were in particular
12 prior to 2010.

13 MR. BYRON WILLIAMS: And that caught
14 your attention, Mr. Johnston, because while the
15 reserves were lower, generally speaking, the amount of
16 payments remained quite steady, agreed?

17 MR. LUKE JOHNSTON: Agreed. And the -
18 - the paid -- the paid doesn't lie. The paid is the
19 paid. So we know with certainty what's been paid.
20 And then, of course, the case estimates give us an
21 indication of what the case manager's expectations
22 are. And then the actuary needs to fill in that
23 remaining piece where -- what IBNR is required for
24 that year.

25 MR. BYRON WILLIAMS: Mr. Johnston, I

1 want to draw your attention to the table that you
2 provided in support of this assessment. That is found
3 at page 3 of CAC MPI-1-3.

4 And, Mr. Johnston, at a high level what
5 we're seeing is a comparison between paid losses and
6 case reserves for particular insurance years at
7 certain development periods being twelve (12) months,
8 twenty-four (24) months, and thirty-six (36) months,
9 agreed?

10 MR. LUKE JOHNSTON: Agreed.

11 MR. BYRON WILLIAMS: And just for an
12 example, let's take the year 2015. We see the paid
13 losses of about \$9 million. We're at the -- sorry,
14 let's focus on development month 12, the bottom line,
15 2015.

16 We see paid losses of -- of 1.9
17 million, case reserves of 9.7 million, for a ratio of
18 106 percent of case reserves to paid, agreed?

19 MR. LUKE JOHNSTON: Agreed.

20 MR. BYRON WILLIAMS: And if we go up a
21 little bit higher to -- to 2010 for that same
22 development period we'll see about ninety-nine (99) --
23 9,900,000 paid as compared to case reserves of 19.5
24 million for a ratio of 197 percent, agreed?

25 MR. LUKE JOHNSTON: Agreed.

1 MR. BYRON WILLIAMS: And, Mr.
2 Johnston, at least as I understand your evidence, the
3 Corporation is noting that the paid losses are fairly
4 close but the amount being reserved in recent years is
5 -- is significantly lower, agreed?

6 MR. LUKE JOHNSTON: Agreed. There's -
7 - the consistency of the paid is -- is reasonable
8 close to historical years. The case reserving is
9 clearly different than -- than it was 2010 and prior.

10 MR. BYRON WILLIAMS: And you said,
11 "2010 and prior," sir?

12 MR. LUKE JOHNSTON: I do. But per the
13 chart you have here, the last couple years are even
14 lower than -- than post-2010.

15 MR. BYRON WILLIAMS: And so in -- in
16 your answer -- in the written answer when you were
17 comparing the recent years versus earlier years in
18 essence, Mr. Johnston, you were comparing the 2013/'15
19 period to the 2010 period and earlier, is --

20 MR. LUKE JOHNSTON: Yeah. The reason
21 I'm selecting 2010 is because the new case management
22 system was implemented in that year, and so there --
23 we're aware that there was a change to reserving
24 practices at -- at that time. So that -- that's the
25 reason for me kind of -- not benchmarking but locking

1 in that year as my reference point.

2 MR. BYRON WILLIAMS: Okay. And by the
3 new case management, I forget the term you u -- or the
4 word you used, sir, but you're referring to BI3?

5 MR. LUKE JOHNSTON: That's correct.

6 MR. BYRON WILLIAMS: And what does
7 that acronym stand for because my memory is failing me
8 at this very moment. Don't -- don't -- yeah, go
9 ahead.

10 MR. LUKE JOHNSTON: Yeah, Bodily
11 Injury Improvement Initiative.

12 MR. BYRON WILLIAMS: Okay. Kudos to
13 Ms. Reichert for that.

14 MR. LUKE JOHNSTON: Last time I said
15 that since it was implemented.

16 MR. BYRON WILLIAMS: So, Mr. Johnston,
17 just going back to our discussion of, you know,
18 forecasting rates and being alert for changes in
19 developments, one hypothesis could be that the case
20 de-strengthening, to use a term of MPI, is an
21 indication of case reserves that are indeed under
22 strength.

23 MR. LUKE JOHNSTON: Just making sure I
24 heard you. You said case reserves that are indeed
25 under -- under strength?

1 MR. BYRON WILLIAMS: Under strength.

2 MR. LUKE JOHNSTON: Oh, so, yes. One
3 hypothesis could be that -- okay. So the reason I'm
4 hesitating here is because you can have a reserving
5 methodology where -- which we believe we do under BI3,
6 where the case managers are putting in what they are
7 supposed to be putting in. Based on that system that
8 revised methodology is lower than what they used to
9 put in, so that's -- it wouldn't -- it's not
10 intentional but different, right.

11 The difficulty here, which I think
12 you're maybe getting at, is has anything changed like
13 in reality. You -- lower case reserves have been put
14 in but has our exposure changed in any way.

15 And it is -- it's -- where I think
16 you're going with this, not to take away a question
17 but it is possible that the lower reserves represent
18 lower alternates, and the actuary needs to recognize
19 that, but it's also possible that new reserving
20 guidelines are just putting in lower numbers at the
21 initial stages and we're going to get to the exact
22 same place at the end of the day.

23 MR. BYRON WILLIAMS: And so the
24 important -- I'm going to use the word "dilemma or
25 issue" in -- in quotation marks for you is whether

1 these lower case reserves are reflecting a lower risk
2 exposure, or -- or whether there is still the same
3 exposure as -- as previous but that the case reserves
4 are indeed inadequate.

5 MR. LUKE JOHNSTON: That's correct.

6 MR. BYRON WILLIAMS: And one of the
7 reasons, sir, for the significant adjustment to the
8 IBNR was that there was some discomfort with the
9 development in terms of case reserving in the 2013
10 through '15 years.

11 MR. LUKE JOHNSTON: That is not all
12 but -- but one (1) of the reasons, yes.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: And if we can
17 turn, Mr. Johnston, to CAC-MPI-2-8, please. And you
18 can see here my client trying to pick up on -- on this
19 issue and exploring the causes related to the observed
20 de-strengthening of case reserves.

21 You see that's the thrust of the
22 question, sir?

23 MR. LUKE JOHNSTON: I do.

24 MR. BYRON WILLIAMS: Okay. And if we
25 just scroll down to the response. And, Mr. Johnson,

1 I'll just give you a second to read this, and then
2 we'll go to the other page. Just give us the high
3 sign when you've -- when you've gone through this.

4 MR. LUKE JOHNSTON: You can scroll
5 down, yeah.

6

7 (BRIEF PAUSE)

8

9 MR. LUKE JOHNSTON: Okay.

10 MR. BYRON WILLIAMS: And if we could
11 just scroll up just for a second here, as we've
12 alluded to in our prior discussion, the -- the
13 Corporation's explanation is that the -- there's the -
14 - the acronym BI3 and what it means, but that --
15 acknowledging changes to reserving practices in -- in
16 four (4) different steps.

17 I'm going to suggest to you, Mr.
18 Johnston, at the risk of asking a compound question,
19 in the initial reserving, in the subsequent reserving
20 changes to align with rehab planning, going to the
21 next page, in the step reserving permitted for the
22 first twenty-four (24) months, and after twenty-four
23 (24) months using the reserving calculator.

24 Is that fair?

25 MR. LUKE JOHNSTON: That's fair.

1 MR. BYRON WILLIAMS: And if we could
2 still scroll up, Diana -- sorry, scroll down, my
3 apologies, to the bottom here.

4 Here you see the observation by the
5 Corporation that the lower-case reserves are not
6 necessarily trans -- translating into lower overall
7 exposure, agreed?

8 MR. LUKE JOHNSTON: Agreed.

9 MR. BYRON WILLIAMS: And so using
10 strong actuarial words, indicating that the
11 Corporation's going to closely track the development
12 of claims under BI3, agreed?

13 MR. LUKE JOHNSTON: Agreed.

14 MR. BYRON WILLIAMS: So at this point
15 in time, it's not clear to you that the lower BI3
16 reserves are actually reflecting the risk exposure
17 being faced by the Corporation?

18

19 (BRIEF PAUSE)

20

21 MR. LUKE JOHNSTON: Yes, that's fair
22 that I'm not convinced that lower-case reserves under
23 BI3, particularly in the most recent years, represent
24 lower exposure. From what we've seen from 2010 to --
25 to date -- obviously the 2010, '11, '12 loss years are

1 more developed than the more recent years -- the
2 lower-case reserves do not appear to represent lower
3 exposure relative to pre-2010.

4 MR. BYRON WILLIAMS: Mr. Johnston,
5 going forward, when you said you would be tracking
6 closely developments, could you give us some insight
7 into what you'll be looking for to -- to firm up your
8 -- your opinion one way or the other?

9 MR. LUKE JOHNSTON: Yeah. So we --
10 I'm having trouble remembering the reference, but I'll
11 find it. We did the BI3 benchmarking in terms of --

12 MR. BYRON WILLIAMS: PUB-1-50.

13 MR. LUKE JOHNSTON: 1-50? Okay. So a
14 very good indicator of exposure would just be how many
15 claims are still open and receiving payments. And if
16 the new era, if we can call it that, has the same
17 amount of claims open at particular points in time,
18 that would be one (1) indication that I shouldn't
19 expect the ultimate to be different than it was
20 before.

21 If -- if case reserves started lower
22 and then thirty-six (36) months out we looked and we
23 said, Okay, well it's actually 5 percent less claims
24 at thirty-six (36) months than there used to be, then
25 that would be some evidence that maybe the ultimate is

1 going to be lower as well.

2 But per this response, we're not --
3 we're not seeing that. So, again, that's one (1) of
4 the reasons why I don't -- I'm not expecting lower
5 case reserves to translate into lower exposure.

6 MR. BYRON WILLIAMS: Mr. Johnston,
7 just to finish that point, to the extent that claims
8 actually have a longer duration, that would reinforce
9 your -- your concerns that the BI3 reserving practices
10 may not be fully reflecting risk exposure?

11 MR. LUKE JOHNSTON: Yes, to the extent
12 they're higher and you have more claims open, you'd
13 expect more exposure. And maybe just to step back a
14 little bit, maybe you're planning on going to this or
15 not, but in the first three (3) years from an actuary
16 side we largely ignore the case reserves and we -- we
17 do what we call the higher of method.

18 We look at paid losses and -- and
19 incurred. And the reason we do that is because we're
20 not very confident in the case reserves really early
21 on in the process. After year three (3) we rely much
22 more on the case manager estimates. There should be a
23 much smaller number of claims open. Most of them are
24 likely going to be longer term claims.

25 So we need that insight from case

1 managers in terms the -- you know, the detailed
2 costing of those claims. So if there are more claims
3 post-three (3) years that would be a -- an example of
4 a unexpected impact.

5 MR. BYRON WILLIAMS: Okay. Thank you,
6 Mr. Johnston. If we could just go back to CAC 2-8 for
7 a moment. And, Mr. Johnston, if you can't help me on
8 this I'll understand. But in terms of the careful
9 tracking, are there -- and those four (4) elements of
10 the key changes that we discussed, the two (2) on the
11 previous page, Diana, just on the bottom, and then
12 scroll so we can just see that fourth bullet.

13 Oh, scroll down just a bit. That'd be
14 perfect. Are there any of these particular changes
15 that are attracting your special interest, Mr.
16 Johnston, is there -- or is it the package as a whole?

17 MR. LUKE JOHNSTON: Well, early --
18 again, I'd have to get a reference, but we talked
19 about how not only was there a new claims management
20 system implemented, but there are also enhancements
21 and changes to processes over the same period of time.

22 So obviously it's easy for me to just
23 track how many claims are open. But we are aware of -
24 - I think there was referenced thirty (30) different
25 changes -- or to coverage or process. What we need to

1 understand more is how those particular changes may
2 have impacted claims persistency, because obviously we
3 don't want to say, Oh, you know, BI3 did this, or
4 whatever, when it has nothing to do with the -- that
5 system, it rather has to do with some other change
6 that may have occurred and -- and caused us to, you
7 know, pay certain claims that we never used to.

8 So that would be the other piece of
9 information that I'd want to understand as part of
10 that process.

11 MR. BYRON WILLIAMS: How do you
12 mathematically disentangle that, Mr. Johnston?

13 MR. LUKE JOHNSTON: Can you repeat
14 that?

15 MR. BYRON WILLIAMS: How do you
16 mathematically disentangle? Is there a plan?

17 MR. LUKE JOHNSTON: Is there -- how do
18 we do that? Well, you know, if it's an obvious case
19 where coverages have been enhanced it's just a matter
20 of -- of checking that, you know, the impact of that,
21 or particular type of claim that we've now decided
22 that that is something that we're going to pay that
23 would be straightforward.

24 But impacts on say, changes in how
25 staff handle claims and -- and such would be -- would

1 be difficult, for sure.

2 MR. BYRON WILLIAMS: Okay. We're
3 going to stay with this theme for a -- a little bit --
4 a little longer. I wonder if -- Diana, if you could
5 please turn to First Round Information Request CAC/MPI
6 1-29. And if you could do the split screen again for
7 the two (2) pages of this that would be great, unless
8 some are suffering with their vision. I may be the
9 prime candidate for that, but... Thank you very much.

10 Mi -- Mr. Johnston, here you have,
11 again focussing on the accident benefit other indexed
12 IBNR, CAC (Manitoba) helpfully suggesting to you --
13 selecting loss development factors using the latest
14 nine (9) volume weighted as compared to what the --
15 the Corporation did.

16 Do you see that question, sir?

17 MR. LUKE JOHNSTON: I do.

18 MR. BYRON WILLIAMS: And the Corpor --
19 MPI disagreed with that suggestion, again noting that
20 more recent observed loss development factors are
21 significantly different, agreed?

22 MR. LUKE JOHNSTON: Agreed. And this
23 -- just to separate the two (2) issues that we've been
24 talking about, what those numbers mean on the second
25 page of the top, I mean, 140 months to 152 months and

1 152 months to 164 months, so we're talking about
2 development of claims more than a decade after they've
3 been open.

4 So how do claims change value at that
5 point in time? Claimants can -- can die. It's rare
6 that someone goes back to work after they've been on
7 income replacement or -- for 15 years, but that can
8 happen in theory.

9 And then to the detriment side would be
10 re -- relapse. So if someone had an injury, they --
11 maybe we get them back to work, the injury, whatever,
12 comes back. And then they're -- they're on lifetime
13 claim again. That would be why these numbers would
14 deteriorate.

15 And -- and maybe just to even add to
16 that. What do these numbers even mean? A number of
17 1.000 there would mean that, essentially, our estimate
18 didn't change at all. We -- we had a ultimate -- or
19 an incurred estimate of 60 million, and the year after
20 was still 60 million, which would mean everything kind
21 of played out as expected.

22 If it's less than one (1), that would
23 mean we had a decrease in incurred. So maybe a claim
24 had terminated and we moved the reserves. If we have
25 an increase, that would mean that maybe less claims

1 closed than we thought or we had a relapse.

2 So when you're seeing the numbers above
3 one (1) there at the -- within the last 5 years or so,
4 that would be our cause for concern as to not want to
5 use the -- the 9 year average, for example.

6 MR. BYRON WILLIAMS: And -- thank you
7 for that answer. And -- and I think in the first
8 part, and I'll ask you to confirm that you were gently
9 admonishing me in the sense of -- or suggesting to me
10 that we had now moved from an issue of reserving
11 practices to an issue related to how long people stay
12 on -- on the system for those longer term claims?

13 MR. LUKE JOHNSTON: Yeah, the -- this
14 is a very different group of claimants than we were
15 talk -- we were just talking about under -- you know,
16 reserving under BI3. The -- these claimants would be
17 -- again, I'm talking 14, 15 plus years ago, so a
18 different issue. This is more with the -- what we
19 call the tail factors or the persistency of lifetime
20 claims and how that plays out --

21 MR. BYRON WILLIAMS: And just --

22 MR. LUKE JOHNSTON: -- rather than
23 new.

24 MR. BYRON WILLIAMS: Oh, sorry.

25 MR. LUKE JOHNSTON: Yeah.

1 MR. BYRON WILLIAMS: And I thank you
2 for that refocus. The -- the second part of your
3 answer I think you were helpfully pointing out that if
4 -- if we saw the figure of 1.000 all across or unity,
5 that would be -- mean that there's really been no
6 change in the development factors in -- in that
7 particular year, agreed?

8 MR. LUKE JOHNSTON: Agreed.

9 MR. BYRON WILLIAMS: And if we saw
10 something less than 1.0, i.e., in the first prior
11 year, 0.9787, that would suggest a positive
12 development in -- in that particular year for that par
13 -- agreed?

14 MR. LUKE JOHNSTON: Agreed. Like, so
15 a case reserve -- or a claimant's reserves were
16 removed would be an example of that, yeah.

17 MR. BYRON WILLIAMS: Okay. Thank you.
18 And above one (1) is a negative development and
19 unhappy news for my client and par -- probably that
20 claimant, as well?

21 MR. LUKE JOHNSTON: Yes, likely a
22 relapse of some sort.

23 MR. BYRON WILLIAMS: Mr. Johnston, in
24 -- I'll direct your attention to CAC-II-17, where we
25 do a follow-up to this Information Request. And

1 again, Diana -- yeah, that's fine there.

2 You see our client trying to explore,
3 sir, the causes for the significant changes and
4 differences observed in the loss development factors
5 for ABO-Other (Indexed), agreed?

6 MR. LUKE JOHNSTON: Agreed.

7 MR. BYRON WILLIAMS: And your answer -
8 - your -- the Corporation's answer at line 3 is that
9 it's due to an increase in the continuity of long-term
10 claimants in regards to the benefits received, agreed?

11 MR. LUKE JOHNSTON: Agreed.

12 MR. BYRON WILLIAMS: We'll explore
13 that answer in just a second, Mr. Johnston, but we can
14 flip to an IR but I think you'll just accept this
15 subject to check.

16 Some of that adverse development and
17 loss development factors that we've -- you've noted in
18 terms of ABO-Other, the Corporation has also noted in
19 terms of ABO-Weekly Indemnity, agreed?

20 MR. LUKE JOHNSTON: That's correct.
21 The -- the two (2) are generally very correlated to
22 each other. They're often the -- the same claimants.

23 MR. BYRON WILLIAMS: In terms of the
24 ABO-Weekly Indemnity side, sir, moving away from Other
25 for a second -- ABO-Other, have you also observed an

1 increase in the continuity of long-term claimants in
2 regard to benefits received?

3 MR. LUKE JOHNSTON: Yes.

4 MR. BYRON WILLIAMS: And in terms of
5 those words "an increase in the continuity of long-
6 term claimants in regards to benefits received," what
7 -- what does that mean colloquially, sir?

8 Does that mean their duration of their
9 time in terms of receipt of benefits is longer than
10 expected?

11 MR. LUKE JOHNSTON: So going back to
12 the table where we talked about one point zero zero
13 zero (1.000), when we ask case managers to put up
14 reserves and then eventually the actuarial department
15 just puts the reserves up themselves, when -- when
16 someone is a lifetime claimant we're -- we're tying
17 the reserve basically to their expected life
18 expectancy.

19 So if you're getting a thousand dollars
20 (\$1,000) every two (2) weeks, the reserve is basically
21 how long do we expect you to live at a thousand
22 dollars (\$1,000) every two (2) weeks. So that's --
23 that's the reserve.

24 If -- just for the moment assuming
25 there's no relapses or anything like that, if

1 claimants were essentially passing away sooner than we
2 thought they were, these -- most of these numbers
3 would be less than one (1). We'd have, not favourable
4 to them but favourable from a financial position, less
5 than we thought. And if they're greater than one (1)
6 that would mean that they're living longer than we
7 thought, again in the absence of relapses and -- and
8 other items.

9 So if these all stay at one (1)
10 consistently that gives us confidence that this life
11 expectancy table that we're using is reasonably
12 accurate. We're not -- you know, we're not going to
13 get it perfect but reasonably accurate. If they're
14 always point nine eight (.98), point nine seven (.97),
15 point nine (.9) -- we'd know that we're overstating
16 the lifetime of these people and the claim is closing
17 earlier than we thought.

18 But to date those numbers have stayed
19 fairly close to one (1), with -- with some concern
20 that they're over one (1) in recent years.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: Diana, could you
25 turn to MPI Exhibit 17, the rate stabilization reserve

1 DCAT from October 7th, 2016, and specifically pages 58
2 and 59. Thank you. Scroll -- scroll down to -- no --
3 the -- the words "mortality improvements."

4

5

(BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: Mr. Johnston,
8 you've actually given some background to this, both in
9 your discussion with My Friend, Ms. Grammond, and also
10 with a bit of a discussion with me. But I'll -- I do
11 want to take a bit of a different look at -- at how
12 the Corporation projects the costs for long-term
13 claimants.

14 And subject to check, PIPP has been
15 around, the Personal Injury Protection Plan, or no-
16 fault has been around since the mid-1990s.

17 Would that be fair, sir?

18 MR. LUKE JOHNSTON: 1994, yeah.

19 MR. BYRON WILLIAMS: And as you've
20 noted already, there -- there are sadly certain
21 injured claimants who have had to rely on PIPP
22 benefits for many years due to the severity of their
23 accidents?

24 MR. LUKE JOHNSTON: Yes, there are --
25 are still many claimants from those early years still

1 -- still open.

2 MR. BYRON WILLIAMS: And would it be
3 accurate to say that there are hundreds of claims for
4 persons who've been receipt of PIPP benefits for more
5 than ten (10) years?

6 MR. LUKE JOHNSTON: That's true.

7 MR. BYRON WILLIAMS: And can we call
8 them -- those persons long-term claimants? Is that --

9 MR. LUKE JOHNSTON: Yeah.

10 MR. BYRON WILLIAMS: -- acceptable for
11 you?

12 MR. LUKE JOHNSTON: That's -- that's a
13 fair way to put it, yeah.

14 MR. BYRON WILLIAMS: And of course,
15 some people will leave the program at a certain point
16 in time and then come back, or "relapse," I think, is
17 the term you used, sir.

18 MR. LUKE JOHNSTON: Correct.

19 MR. BYRON WILLIAMS: And others will
20 rely on PIPP benefits for the rest of their -- their
21 life, agreed?

22 MR. LUKE JOHNSTON: Correct.

23 MR. BYRON WILLIAMS: Conceivably, they
24 could rely on PIPP for forty (40) years if they --

25 MR. LUKE JOHNSTON: Sure. Yeah, they

1 -- they -- as long as a person can live, if they live
2 that long, they can still get PIPP.

3 MR. BYRON WILLIAMS: And morbid as it
4 may sound, it's an important issue for Manitoba Public
5 Insurance to estimate how long these long-term
6 claimants will remain upon the program until they
7 either cease to receive benefits or they pass on.

8 MR. LUKE JOHNSTON: That's correct,
9 and that -- that ties in very closely to the -- the
10 figures you were showing earlier of why it's important
11 that we constantly stay on top of those numbers in
12 terms of putting in the latest information, because if
13 we don't, it could become a big issue.

14 MR. BYRON WILLIAMS: And because
15 Manitoba Public Insurance has only twenty (20) --
16 roughly twenty-two (22) years of no-fault experience,
17 it does not have enough claim history on its own to
18 estimate with confidence how long persons will rely on
19 this program.

20 MR. LUKE JOHNSTON: Yeah. It -- it
21 would be difficult to -- think how anyone could have
22 enough to know how long this group of claimants would
23 live, because the types of injuries that they have and
24 the different type of unique circumstances they have
25 are not homogeneous, really, in -- in any sense.

1 This isn't like a healthy individual's
2 normal life expectancy. It -- it could be all kinds
3 of things from mental-type brain issues, to
4 quadriplegia, to any other combination of injuries.
5 So that's why we, again, we track that experience in
6 terms of making sure it's close to that one point
7 zero-zero-zero (1.000) we talked about.

8 MR. BYRON WILLIAMS: And in terms of
9 estimating those future, I guess the word is
10 'terminations', from the program, MPI uses a disabled
11 mortality table.

12 Is that right?

13 MR. LUKE JOHNSTON: That's right.

14 MR. BYRON WILLIAMS: So I want to talk
15 about that just for a second. And first of all, I
16 have to draw your attention to the title in the middle
17 of the page, 'Mortality Improvements'.

18 And I'm going to suggest to you that's
19 a bit of a counterintuitive title, sir, in the -- in
20 the sense that I take it 'mortality improvements'
21 means that people are being terminated from the
22 program more quickly either through death or through
23 the cessation of benefits.

24 Is that what that refers to, sir?

25 MR. LUKE JOHNSTON: No. It's -- the -

1 - the reason it's coined that way in the DCAT is
2 because, again, not in terms of the claimant themself,
3 but claimants -- claims closing earlier than we
4 thought would not be a DCAT scenario. It would be
5 favourable to our financial results.

6 So 'mortality improvement', on the
7 other hand, if someone that's paralyzed can now live
8 ten (10) years longer than they used to, that would be
9 a risk to the numbers we have on the books today
10 because we were -- weren't expecting that, so to
11 speak, yeah.

12 MR. BYRON WILLIAMS: Okay. So I --
13 it's not counterintuitive, it's intuitive, then.

14 MR. LUKE JOHNSTON: In this context of
15 the DCAT, yes.

16 MR. BYRON WILLIAMS: Okay. But what
17 you observe in the DCAT is that based on the results
18 of a comparison between your mortality estimates and
19 the actual claim closure, you do not believe there is
20 a significant risk that the Corporation's mortality
21 assumptions are understating the lifetimes of long-
22 term claimants?

23 MR. LUKE JOHNSTON: At this particular
24 point in time, no. But again, it's something that we
25 -- we watch closely. And the numbers that you

1 presented in the earlier IR with -- again, being
2 greater a than one (1) is -- is something that we have
3 to continually watch.

4 MR. BYRON WILLIAMS: And I wonder if
5 we can turn to the next page of this DCAT report,
6 being MPI Exhibit 17. And what we see here, sir, is
7 an examination for a number of calendar years of the
8 actual terminations of long-term claimants, i.e.,
9 those more than 10 years versus what the -- the
10 current table expected, agreed?

11 MR. LUKE JOHNSTON: Agreed.

12 MR. BYRON WILLIAMS: And at the end,
13 of course, it does also note relapses?

14 MR. LUKE JOHNSTON: That's right.

15 MR. BYRON WILLIAMS: But what this --
16 if we can compare the total, what it's suggesting to
17 us is that the actual terminations are moving at a
18 faster pace than the mortality table expected, even
19 allowing for rela -- relapses, agreed?

20 MR. LUKE JOHNSTON: Agreed. And --
21 and just keeping in mind that these are accounts, not
22 dollars, which we were looking at earlier. But yes,
23 to date actual terminations have always been greater
24 than expected, with the last couple years being much
25 closer, but so far that's always been the case.

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: May -- maybe if I
4 can just add to that. We have to recognize the
5 relapse column as well as playing into part of that
6 analysis. So -- so in the 2013 year where 22 people
7 terminated and we expected 46, we had 14 come back so
8 to speak. So again, the net total of that is -- isn't
9 46, but -- but there's a -- there's people coming in
10 as well, which is not considered in that termination
11 rate table.

12 MR. BYRON WILLIAMS: Yes, and I -- I
13 thought when we went through the table we actually
14 combined that. And perhaps I took a shortcut, sir.
15 But --

16 MR. LUKE JOHNSTON: I apologize. I --
17 I just --

18 MR. BYRON WILLIAMS: No, it's -- the
19 question was imprecise and I apologize myself. But
20 you'll still agree with me that even taking into
21 account of relapses, the actual terminations continue
22 to outpace the current table's expectations, agreed?

23 MR. LUKE JOHNSTON: Agreed.

24 MR. BYRON WILLIAMS: And that's one
25 (1) of the reasons why the Corporation has concluded

1 that it is not a significant risk that the
2 Corporation's mortality assumptions are understating
3 the lifetimes of long-term claimants, agreed?

4 MR. LUKE JOHNSTON: Agreed, with --
5 with one (1) note. So this -- this table represents
6 what's actually occurred. And so that -- that
7 information, to the extent that it, say reduces our
8 exposure or -- or changes our estimates, would be in
9 our development tables.

10 So again, when we saw the IR that had
11 the numbers around -- around 1, some .99, some 1.0
12 whatever, to the extent that this has been more
13 favourable than we expected, those estimates would
14 have been lowered in our averages going forward.

15 So an example of how that would occur
16 is let's say that -- that the mortality table was
17 somewhat conservative and put in 10 percent more in --
18 in reserves than -- than necessary for claimants, and
19 of course we wouldn't know that early on in the
20 process.

21 But then as we get experience we see a
22 lot of these factors, .99.99, whatever they end up
23 being, that would get recognized in the sense that we
24 would start anticipating that we would get that
25 experience and -- and factor that into the analysis.

1 So that -- that's the note, I guess.
2 That it's not that we're just putting in more reserves
3 than we need and not recognizing that. We are
4 absolutely recognizing that experience as it
5 materializes and adjusting our estimates.

6 MR. BYRON WILLIAMS: Now, I'm going to
7 brutalize the pronunciation of a French word, so.
8 You'll agree though, sir, that the Societe de
9 l'assurance automobile du Quebec has been offering no-
10 fault since on or about 1978, agreed?

11 MR. LUKE JOHNSTON: I will accept
12 that, yes.

13 MR. BYRON WILLIAMS: And it will have
14 a longer history with long-term claimants than
15 Manitoba Public Insurance, correct?

16 MR. LUKE JOHNSTON: Correct.

17 MR. BYRON WILLIAMS: And you're also
18 aware that insurers such as SGI have gone to the -- to
19 the SAAQ for assistance in developing their
20 expectation of the pattern of termination of long-term
21 claimants, agreed?

22 MR. LUKE JOHNSTON: That's my
23 understanding, yes.

24 MR. BYRON WILLIAMS: And in last
25 year's Board order MPI was -- was asked to seek to

1 gain insight in terms of longer tail experience from
2 outside Manitoba and, in particular, with the SAAQ,
3 agreed?

4 MR. LUKE JOHNSTON: Agreed.

5 MR. BYRON WILLIAMS: And to date, and
6 you'll correct me if I've misstated this evidence, MPI
7 has -- has not reached out to the SS -- sorry, the
8 SAAQ, i.e., Quebec.

9 What you have done is confirmed that
10 SGI does make use of the Quebec data in developing
11 their assumptions for long -- longer tailed claims,
12 agreed?

13 MR. LUKE JOHNSTON: We've done that.
14 And we've also confirmed that those parties would be
15 willing to work with us in terms of combining our data
16 setting into theirs. We just ha -- in the last fiscal
17 period, I guess, we haven't had the chance to do that
18 project in light of other priorities, but it's
19 definitely something that we want to look into. We're
20 not -- we're not avoiding it or anything.

21 And we've confirmed that the -- the
22 other parties are willing to work with us.

23 MR. BYRON WILLIAMS: And any estimate
24 of how much time that would take, Mr. Johnston?

25 MR. LUKE JOHNSTON: I honestly -- I

1 honestly don't know. So, first off, we'd have to
2 really make sure we understand what we're looking at,
3 are we looking at the same thing, is how I present the
4 data the same way that you present the data, how is
5 our coverages -- how are our coverages different.

6 So, for example, if our income
7 replacement ends at sixty-five (65) and theirs does
8 something different, it wouldn't make a lot of sense
9 to compare, you know, termination rates for that.

10 So some -- basically -- basically what
11 I'm saying is some adjustments may have to be made.
12 But I don't think that is something that couldn't be
13 solved. So -- time... I don't know. But I would
14 assume I'd have to meet with them and just share data
15 and take it from there and give you better estimate at
16 that time, but...

17 MR. BYRON WILLIAMS: Is it reasonable
18 to expect that that analysis would be done before the
19 next GRA?

20 MR. LUKE JOHNSTON: The analysis?
21 Reasonable. The implementation of any changes? I
22 would say no. The understanding how any -- so -- so
23 as you can appreciate, if you have hundreds of
24 lifetime claimants and you're considering implementing
25 a change in your mortality assumptions, that could

1 cause extreme changes to your results and potentially
2 make your past experience not irrelevant but maybe not
3 as useful as they used to be because you're on a --
4 using a different table.

5 So we would be in a position to provide
6 our analysis from that study or research but not
7 prepared to implement it, which I think would be fair
8 to all parties here to understand what that would be
9 expected to do before such a change is made.

10 MR. BYRON WILLIAMS: And did SGI, in
11 your conversations with them to the extent that you're
12 able to share, identify any challenges in
13 incorporating the -- or barriers in incorporating the
14 -- the Quebec data?

15 MR. LUKE JOHNSTON: No, they do not.
16 They were very welcoming to that -- to that idea.

17 MR. BYRON WILLIAMS: Mr. Chair, I just
18 wonder if I could be excused for two (2) minutes, just
19 to get some water, if I -- if I might, just...

20 THE CHAIRPERSON: Certainly.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: We won't comment
25 upon the environmental damage that I've inflicted.

1 But I do thank MPI for its courtesy.

2 And the panel -- just in terms of --
3 I've got about ten (10) or fifteen (15) minutes on
4 this area, and then I -- I'm struggling to recall
5 whether we finish at 4:30 or 4:00.

6 THE CHAIRPERSON: Yeah. I think we --
7 we're proposed to finish at 4:00 during the days,
8 unless we required more time, which I'm not sure we
9 will need, so.

10 Do you want to -- you know, we may want
11 to just go on the basis of finishing -- when you're
12 done this -- this area, if you think you'll take
13 fifteen (15) minutes.

14 MR. BYRON WILLIAMS: Yeah, I do. And
15 if -- if I might, I just want to have a word with My
16 Friend, because --

17 THE CHAIRPERSON: Certainly.

18 MR. BYRON WILLIAMS: -- he did
19 indicate that these particular questions, Mr. Guimond
20 might prefer to -- to answer, so I'll just stand down
21 for one (1) second, and then I'll --

22 THE CHAIRPERSON: Sure. Sure.

23 MR. BYRON WILLIAMS: -- and I
24 apologize.

25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: I'll -- I'll just
4 indicate that the area that I -- the next few minutes
5 I intend to answer -- pursue my understanding, and My
6 Friend can confirm it, is that it would be more
7 appropriate to put to Mr. Guimond, so I'm going to set
8 that aside.

9 I have a couple of short snappers that
10 I --

11 THE CHAIRPERSON: That's fine.

12 MR. BYRON WILLIAMS: -- that -- that I
13 could dig up and see what I could come up with. So
14 per -- I did have --

15 THE CHAIRPERSON: Do they have a
16 choice of who answers if they're short snappers, or --

17 MR. BYRON WILLIAMS: Yeah, we can do --

18 THE CHAIRPERSON: All right.

19 MR. BYRON WILLIAMS: -- we've done
20 that at the -- on the Hydro panels --

21 THE CHAIRPERSON: Okay.

22 MR. BYRON WILLIAMS: -- in the past,
23 but --

24 THE CHAIRPERSON: Okay. okay.

25

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Just some small
3 points. Mr. Johnston, I apologize, it probably does
4 go to you. In terms of catastrophe re-insurance, my
5 understanding is that over the -- the last couple of
6 years, the Corporation has actually been able to
7 negotiate lower rates than it -- than it forecast.

8 Is that your understanding, sir?

9 MR. LUKE JOHNSTON: That's true.

10 MR. BYRON WILLIAMS: Yeah, and I'm not
11 sure if that's you or Ms. Reichert, I apologize.

12 MR. LUKE JOHNSTON: Whoever wants to
13 congratulate themselves on doing that.

14 MR. BYRON WILLIAMS: Ms. Reichert,
15 what the heck, eh. So why? What -- what are the
16 factors enabling lower -- lower cata -- catastrophe
17 re-insurance costs than projected?

18 MS. HEATHER REICHERT: Essentially,
19 the re-insurance market has a lot of capital, and so
20 there's a lot of competition on -- on the -- the rates
21 that they're willing to -- willing to charge to
22 provide that re-insurance. So we've been able to
23 capitalize on that in the last couple of years.

24 MR. BYRON WILLIAMS: And that's on the
25 catastrophe side?

1 MS. HEATHER REICHERT: Yes, that's on
2 the catastrophe side.

3 MR. BYRON WILLIAMS: And on the
4 casualty side, are those -- are there those same
5 opportunities?

6 MS. HEATHER REICHERT: Not -- not to
7 the same extent.

8 MR. BYRON WILLIAMS: Okay.

9 MS. HEATHER REICHERT: And we don't
10 have that much in the way of casualty insurance
11 anyway, so our most benefit is on the -- on the
12 catastrophe.

13 MR. BYRON WILLIAMS: And in terms of
14 seeking to lower the -- the re-insurance cap of 15
15 million, I'm probably using the imprecise language,
16 that willingness of the catastrophe re-insurance
17 marketplace to offer its capital at -- at lower prices
18 may provide some opportunities to Manitoba Public
19 Insurance?

20 MS. HEATHER REICHERT: It hasn't
21 really demonstrated that they're willing to provide
22 much in the way of that opportunity. It is still,
23 although it was a bit easier in the last couple of
24 years to get re-insurers willing to provide us re-
25 insurance at the lower levels, like the 15 to 25

1 million, and then 25 to 50.

2 Typically, they much prefer to be
3 providing reinsurance at the higher levels. And so
4 we've seen, you know, a fair bit of reduction in those
5 rates and some in the lower levels, but not to the
6 extent where we have felt it is of a cost-benefit
7 nature to lower our reinsurance minimum, if you will,
8 down to something less than the 15 million at this --
9 at this point.

10 MR. BYRON WILLIAMS: Okay. And to
11 your knowledge, are there other insurers out in the
12 marketplace lower than the 15 million that -- that
13 you're aware of?

14 MS. HEATHER REICHERT: I don't know.

15 MR. LUKE JOHNSTON: Not to my --
16 generally, I don't think a reinsurer wants to be in a
17 layer where there's constant operation happening in
18 there. Like that, from an administrative perspective,
19 that could be expensive. I know the lower layers --
20 other -- when I say, 'layers,' I mean like say the
21 first, you know, \$10 million of a hail storm.

22 Our insurers want to be part of the
23 whole program if they're -- like they're not just
24 going to provide coverage at the working layer, as
25 they call it, and not get any play in like the higher

1 layers of coverage, which most people think are never
2 going to happen, but we buy it anyways.

3 But we -- we struggled to place our
4 first layer of coverage in the past. And like Ms.
5 Reichert said, it's been a little bit easier in recent
6 years, but I think more reinsurers would like to get
7 out of that layer than into it.

8 MR. BYRON WILLIAMS: Okay. And again,
9 just jumping around to -- to fill up another minute or
10 two (2), I can give you the reference if you require
11 it, Ms. -- Ms. Reichert, but the Corporation has
12 indicated on the record of this hearing that it's not
13 conducted a recent analysis and rationalization of
14 service fees.

15 Does that ring -- ring a bell?

16 MS. HEATHER REICHERT: Yes.

17 MR. BYRON WILLIAMS: I see you nodding
18 your head.

19 MS. HEATHER REICHERT: Yes, it does.

20 MR. BYRON WILLIAMS: Do you have any
21 insight into when the service fees charged to
22 ratepayers were last reviewed?

23 MS. HEATHER REICHERT: It has been
24 several years for some of those service fees. Again,
25 I'll reiterate what my comment was when asked about

1 this previously. So included in service fees is
2 financing fees which are based on prime plus 2 percent
3 that we charge our customers that want to pay over a
4 time period.

5 So that obviously being linked to bank
6 prime does fluctuate with the market. So it is a
7 market-based fee. That does comprise the majority of
8 the service fee revenue that we have.

9 The other types of fees -- and I think
10 I gave you an example of an NSF cheque or -- or what
11 have you -- are a set amount. Off the top of my head,
12 I -- I'm not sure when that was last increased or
13 reviewed, but again they -- they are -- they are 15,
14 \$20. And the amount of revenue generated from those
15 types of fees is not -- is not that significant.

16 So I -- I will endeavour to look at
17 what one (1) of the more -- larger contributing
18 service fees are to our overall service fee revenue,
19 and look at that in the coming year to see if there --
20 it warrants any -- any adjustment.

21 MR. BYRON WILLIAMS: And your plan is
22 to file that review with the Board?

23 MS. HEATHER REICHERT: Well, the
24 review will -- yes. If -- if we're -- yes, we will
25 file it in our General Rate Application, if we -- if

1 we've looked at that particular fee and how we've
2 compared it to -- to what others may be charging or
3 what we -- what we think is a reasonable fee for
4 whatever the particular service.

5 MR. BYRON WILLIAMS: Okay.

6 Mr. -- Mr. Chair, I think it's not that
7 profitable for me to -- to pop into another line of
8 questioning at this point in time. So if -- if it's
9 satisfactory with the Board, I'll stand down.

10 THE CHAIRPERSON: Yeah. Okay. We'll
11 -- we'll adjourn until 9:00 a.m. tomorrow morning.
12 You -- is Mr. Guimond going to be here at nine
13 o'clock?

14 MS. HEATHER REICHERT: Yes.

15 THE CHAIRPERSON: Okay. Thank you.

16

17 --- Upon adjourning at 3:58 p.m.

18

19 Certified Correct,

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22 _____

23 Sean Coleman, MR.

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