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August 15, 2018

The Public Utilities Board of Manitoba
Attention: Mr. Darren Christle
Executive Director and Board Secretary
400-330 Portage Avenue
Winnipeg, MB R3C 0C4

Dear Mr. Christle:

**Re: MPI GRA 2019/20 additional materials relied upon in support of
motion to compel responses to information requests 84 f) and 85 g)**

Pursuant to Rules 15, 16 and 22 of the PUB *Rules of Practice*, CAC Manitoba is providing notice that in support of its motion to compel responses to information requests 84 f) and 85 g), it intends to rely on the assertions made in its motion as well as the following additional information:

- Excerpts of Pre-filed evidence of Mr. Valter Viola (September 26, 2016) in the 2017-18 General Rate Application - p. 16, 17,18 which highlight his opinion on the importance of establishing a minimum risk portfolio as a proxy for the liabilities of MPI that appropriately models: 1) real interest risk and, ii) inflation risk - p. 41 which identifies the concerns of Mr. Viola about the widely known sensitivity of optimization model results to their base assumptions;
- October 2006 article of Mr. Viola at www.benefitscanada.com which was filed as part of Mr. Viola's qualifications during the 2017/18 GRA and which details the appropriate elements of a risk strategy framework including the potential role of real return bonds in terms of reducing risks;
- October 2016 Power Point filed in support of Mr. Viola's oral evidence - p. 3 which highlights his opinion that the MPI portfolio provides poor liability protection against unexpected inflation and real rate risk - p. 10, 15, 16 and 22 which discuss the role of real return bonds - p. 29 – 35 which highlight the vigorous debate in the 2017-18 GRA proceeding regarding real interest rate risk and inflation risk - p. 46 which focuses on the sensitivity of asset allocation models to assumptions;
- *Order 162/16* - p. 44, 45 and 50 which highlight the qualifications of Mr. Viola as well as the ongoing debate about whether MPI is assuming an undue level of risk for an inadequate return due to its failure to appropriately hedge against real interest rate risk and inflation risk in its portfolio; and
- Response to CAC Manitoba IR I-84 c) which confirms that the basis for making the simplifying assumptions uses a five year horizon;

The intent of this material is:

i) to establish that the debate over the appropriate approach to real interest rate risk and inflation risk is a long standing one before the PUB in which the opinion of the independent expert of CAC Manitoba versus the position taken by MPI has differed; and,

ii) given the sensitivity of optimization models to long term assumptions including volatility around the mean inflation rate, to identify the real possibility that the optimized portfolio would have had a materially different look if it was based upon a minimum risk portfolio (liability proxy) that reflected the real interest rate and inflation sensitivity of the underlying liabilities.

Rather than filing these materials in their entirety this evening and to assist the PUB, MPI and Interveners in reviewing this material, CAC Manitoba will provide a electronic version of the excerpts of these materials tomorrow including an index and page numbers.

Thank you for your consideration of these materials.

Yours truly,

BYRON WILLIAMS
DIRECTOR

BW/ab

cc: Board Counsel
Manitoba Hydro
Approved Interveners