IN THE MATTER OF:

An application by The Manitoba Public Insurance Corporation to The Public Utilities Board of Manitoba for review and approval of its rate bases and premiums charged with respect to compulsory driver and vehicle insurance effective from April 1, 2023 to March 31, 2024, pursuant to s. 25(1) of *The Crown Corporations Governance and Accountability Act*, C.C.S.M. c. C336.

AND IN THE MATTER OF:

An application by The Manitoba Public Insurance Corporation to The Public Utilities Board of Manitoba for a review of Order 4/23 with respect to compulsory driver and vehicle insurance effective from April 1, 2023 to March 31, 2024, pursuant to Rule 36 of the Rules of Practice and Procedure of The Public Utilities Board.

APPLICATION TO REVIEW ORDER 4/23

February 10, 2023

MANITOBA PUBLIC INSURANCE

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RV.1 Introduction

Pursuant to Subsection 44(3) of *The Public Utilities Board* Act, C.C.S.M. c. P280 and Section 36 of The Public Utilities Board of Manitoba ("PUB") *Rules of Practice*, The Manitoba Public Insurance Corporation ("MPI") hereby applies to the PUB for a review and a rescinding, changing, altering and/or varying of certain aspects of its Order 4/23, dated January 11, 2023, issued in the context of the MPI 2023 General Rate Application ("GRA" or "Application") and, in particular, the following directives and other paragraphs therein and/or appendices thereto:

1. Directive 12.1(d);
2. Directive 12.6;
3. Directive 12.14 and Appendix A;
4. Directive 12.15;
5. Directive 12.16;
6. Directives 12.17, 12.18(c)(i) and 12.19;
7. Directive 12.18(b);
8. Directive 12.20 and 12.21;
9. Directive 12.23; and
10. Directive 12.24.

RV.2 Directives 12.1(d) – Deferral of initiatives costs

Relevant Facts

Directive 12.1(d) reads as follows:

> *"There shall be an overall 3.8% rate decrease in compulsory vehicle insurance premiums for the 2023/24 insurance year, effective April 1, 2023, for all major classes combined. This rate decrease is, as derived in accordance with Accepted Actuarial Practice in Canada, based on a Naïve interest rate forecast taking into account interest rates as at August 31, 2022. This rate decrease is a combination of the 0.05% rate decrease as requested by MPI, along with the additional impact on the AAP rate indication of the following items:*

d. The expense forecast for 2023/24 and 2024/25 for rate-setting purposes is to adjusted by the removal of all initiative expenses."[1]

Adopting the regulatory principle of maintaining intergenerational equity, Order 4/23 further adds:

"With respect to initiative expenses, the Board considers it appropriate and consistent with AAP to defer costs that are ***for systems that do not benefit current ratepayers****."*[2] (Emphasis added)

In the course of the 2023 GRA oral hearing, MPI undertook to update "Figure EXP-1, Figure EXP-2, Figure EXP-5, Figure EXP-9, Figure EXP- 38, Expenses Appendix 2, Expenses Appendix 5, Expenses Appendix 6 and 6A".[3] MPI filed its answer to the undertaking, which includes Figure 7, a table that provides the total cost of all of its initiative expenses.[4] However, what Figure 7 does not clarify (and is not meant to) is that initiative expenses related to Project NOVA represent just 14% of all initiative expenses to be incurred in 2023 and 18% of all initiative expenses in 2024. In fact, NOVA-related initiatives during this period average 16%, as demonstrated in *Figure 1* below:

Figure 1 Initiative Costs Breakdown

2023/24 Budget CMS
(Based on Jun 30 2022 Forecasts)

	2023/24					2024/25				
	Basic	Extension	SRE	DVA	Total	Basic	Extension	SRE	DVA	Total
Nova Program	1,267,095	1,267,095	2,744,612	1,992,493	**7,271,295**	2,206,643	2,206,643	4,780,563	547,938	**9,741,787**
Nova Ongoing	1,722,800	1,722,800	3,732,733	12,253,503	**19,431,836**	1,752,033	1,752,033	3,796,071	13,137,219	**20,437,356**
LPM	18,587,619	1,614,618	1,792,665	2,395,098	**24,390,000**	18,587,619	1,614,618	1,792,665	2,395,098	**24,390,000**
LPM Ongoing	-	-	-	-	**-**	3,183,049	(484,919)	(1,418,892)	8,101,474	**9,380,712**
	21,577,514	**4,604,513**	**8,270,010**	**16,641,094**	**51,093,131**	**25,729,344**	**5,088,375**	**8,950,407**	**24,181,729**	**63,949,855**

Value Management (VM) Figure VM-1 MPI details all Lean Portfolio Management (LPM) initiatives in GRA-reported projects.[5] MPI updated Figure VM-1 in response to Information Request (IR) PUB (MPI) 1-106. This updated version of Figure VM-1 shows eight LPM

[1] Order 4/23, pg. 136;
[2] *Ibid.,* at pg. 55;
[3] 2023 GRA, MPI Exhibit #96 (Undertaking 15a);
[4] *Ibid.*, pages 8-9;
[5] 2023 GRA e-Book, pg. 690;

initiatives related to Project NOVA.[6] In response to IR PUB (MPI) 1-94, MPI provided budget amounts for these LPM initiatives and confirmed that Project NOVA depends on only three of them[7], the administrative capital costs of which MPI already depreciates over time, in accordance with International Financial Reporting Standards (IFRS) for capitalization. MPI details the process it uses in the Expenses chapter of the 2023 GRA (at EXP.3.2.13). Further, Appendix 18 to the Expenses chapter identifies the amount deferred by MPI on an historical basis.

In Order 4/23, the PUB concludes as follows regarding initiative expenses:

> *"Based on MPI Exhibit #96, the total for 2023/24 is $21.6 million, and is $25,7 million for 2024/25, or an average of $23.7 million. Taking into consideration the 1,282,369 units in the 2023/24 rating year, and including the impact of discounting, the total expense cost per unit would reduce by about $18, reducing the AAP rate indication by about 1.92%. The Board therefore directs MPI to defer these integration costs, through a regulatory deferral account for rate-setting purposes. <u>The account will accumulate the integration costs and will be recovered when Project Nova is fully in-service. The period of recovery will be established in the 2024 GRA, when MPI is expected to provide an updated timeline for the delivery of Project Nova</u>."*[8] (Emphasis added)

Directive 12.1(d) defers ***all*** initiative costs, including those for initiatives unrelated to Project NOVA including, for example, the initiative related to the implementation of Generalized Linear Modelling (GLM), until NOVA is fully in-service.

Grounds

MPI respectively submits that, in issuing Directive 12.1(d), the PUB did so based on an incorrect factual finding, namely, that all initiative expenses identified in the expense forecast for the 2023/24 and 2024/25 rating years, relate to systems that do not benefit current ratepayers (i.e., systems related to Project NOVA).

[6] *Ibid.,* pg. 387;
[7] The Project NOVA-related LPM initiatives are: (1) ITBT-2021-028 3070 IT Transformation – Data Warehouse Technologies; (2) ITBT-2021-028 3064 Enterprise Monitoring; and (3) ITBT-2021-004 3035 Cryptographic Key Management (Implementation).
[8] *Supra.* 1, pgs. 55-56;

Resulting Prejudice or Damage from Existing Order

The PUB directed MPI to defer the expenses for certain initiatives related to Project NOVA when MPI already defers same in accordance with IFRS. The PUB also directed MPI to defer expenses of initiatives unrelated to Project NOVA until NOVA is fully in-service. Deferring these initiative expenses (in the manner directed by the PUB) impairs the ability of MPI to recover them from ratepayers at the time their benefits begin to flow, thereby promoting intergenerational inequity.

Further, MPI is currently unable to recover the cost of initiatives that are independent of and unrelated to Project NOVA, including initiatives required to comply with PUB directives, such as implementation of GLM for ratemaking.

Finally, MPI submits that the amount deferred will accumulate over time and will eventually grow to such a point where MPI will be left unable to recover them from ratepayers in an equitable manner without compromising rate stability.

Remedy Sought

MPI respectfully requests that Directive 12.1(d), along with the referenced findings at page 55 of Order 4/23, be varied so as to permit MPI to:

1. continue to defer expenses related to its initiatives as per its existing methodology (described above); and

2. recover from ratepayers in the 2024 GRA, the average amount the PUB directed it to defer in the 2023 GRA (i.e., $23.7 million).

In the alternative, MPI requests that Directive 12.1(d) be varied so as to require MPI to file (as part of its 2024 GRA), a breakdown of the initiative expenses allocated to Basic, which breakdown must:

1. indicate the relationship of the initiative to Project NOVA; and

2. include the total budget, the deferred amount, and the expensed amount considered for ratemaking purposes for the 2023/24 and 2024/25 rating years.

RV.3 Directive 12.6 – Fleet Program Proposal

Relevant Facts

Directive 12.6 reads as follows:

> *"In the 2024 GRA, MPI shall file an analysis and proposal for modifications to the fleet program to better reflect cost causation."*[9]

In response to IRs received in the 2022 GRA relative to the allocation of Fleet rebate expenses,[10] MPI provided the number of fleet vehicles in each of the Private Passenger, Commercial and Public major classes (both as a number of units and percentage of total units for each major class). Additionally, MPI explained the rationale for its allocation of fleet rebate costs across these three major classes, stating: "*the fleet program is both accessible and beneficial to all vehicles in the above major classes.*"[11]

In Order 21/22 (2022 GRA), the PUB varied Directive 11.5 from Order 134/21 (2022 GRA)[12], which required MPI to provide an analysis and proposal for modifications to the fleet rebate program in the 2023 GRA. The PUB varied the directive upon noting the following:

> *"MPI advises that timing and resource constraints prevent it from filing an analysis and proposal for modifications to its fleet program by the 2023 GRA, as required by this Directive. While MPI agrees that its fleet program needs to be reviewed, it submits that a proper analysis would require the use of resources currently devoted to other matters and therefore MPI cannot ensure compliance with this Directive in time for the 2023 GRA. MPI requested that the Board rescind this directive, or in the alternative, that it vary this Directive to not require compliance by the 2023 GRA."*[13]

In the 2024 GRA, MPI proposes to revisit the cost allocation methodology for fleet rebates (to ensure that they are not cross subsidized by non-fleet policies). Further, MPI proposes to file with the PUB in the 2024 GRA, a multi-year plan for how it intends to conduct a formal and more thorough review of its Fleet Program, which will surpass in scope its

[9] *Supra.* 1, pg. 137;
[10] 2023 GRA, CAC (MPI) 1-47 and CAC (MPI) 2-26;
[11] 2023 GRA, CAC (MPI) 2-26;
[12] Order 21/22, pg. 27;
[13] *Ibid.*, pg. 4;

analysis of its cost causation methodology. This plan will aim to inform the development of a revised fleet insurance framework, providing additional recommendations for improvement, that MPI anticipates will be executed over multiple years.

Grounds

Notwithstanding the significant amount of work required for it to revisit its cost allocation methodology and provide a plan for a formal review of its Fleet Program, MPI is concerned that the PUB may find its proposal to be in non-compliance with the wording, spirit or intent of Directive 12.6.

Resulting Prejudice or Damage from Existing Order

Unless the PUB confirms that the proposal of MPI to revisit the cost allocation methodology and to file in the 2024 GRA a plan for a formal review of its Fleet Program reflects the wording, spirit or intent of Directive 12.6; MPI is concerned that the PUB might find that MPI did not comply with this directive in the 2024 GRA.

Remedy Sought

In the event that the PUB does not confirm that the proposal of MPI (i.e., to revisit the cost allocation methodology and to file a plan for a formal review of its fleet program) is acceptable for the purposes of complying with Directive 12.6, MPI respectfully submits that the PUB must vary Directive 12.6 so as to:

1. remove the words "file an analysis and proposal for modifications to the fleet program to better reflect cost causation"; and

2. replace them with the words "report on any changes made to the cost allocation methodology for fleet rebates (to ensure that they are not cross subsidized by non-fleet policies) and file a proposal for how MPI intends to conduct a formal review of its Fleet Program, the goal of which review will be to provide recommendations for improvements and to inform the development of a revised fleet insurance framework."

RV.4 Directive 12.14 and Appendix A – DSR Changes

Relevant Facts

Directive 12.14 reads as follows:

> *"The Board hereby orders the following changes to the Driver Safety Rating (DSR) system:*
>
> *(a) The top of the DSR scale shall increase from DSR +16 to DSR +17 in the 2023/24 policy year;*
>
> *(b) Premium discounts for DSR Levels +15 to +17, shall increase by 3% (from 37% to 40%);*
>
> *(c) Premium discounts for DSR Levels +9 to +14 shall increase by 2%; and*
>
> *(d) Premium discounts for DSR Levels +3 to +8 shall increase by 1%."*[14]

Appendix A to Order 4/23 lists the 2022 GRA directives with which the PUB found MPI did not comply. This Appendix only lists Directive 11.15 from Order 134/21, which states:

> *"In the 2023 GRA, the Corporation shall bring forward a DSR transition plan to manage the required increase in the base rate and year-to-year rate dislocation, while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner"*[15]

In Order 4/23, the PUB further states:

> *"In its closing submission, MPI stated with respect to DSR that the relief sought in this GRA was limited to increasing the maximum merit level of the DSR Scale from +16 to +17, but with no changes to discounts. <u>This was the first indication to the Board that MPI had changed its position on the DSR scale discounts.</u>"*[16]

[14] *Supra.* 1, pgs. 138-139;
[15] *Supra.* 1, pg. 142;
[16] *Supra.* 1, pgs. 18 and 81;

"In its provisional rate request, the Corporation did request a change to vehicle premium discounts applied to DSR levels +9 to +14 and +16. MPI did not seek changes to driver premiums, but sought approval of an increase to the maximum merit level under the DSR from +16 to +17. In its closing submissions, MPI stated that it was no longer requesting any changes to vehicle premium discounts applied to DSR levels +9 to +14 and +16."[17]

"MPI's requested rate adjustment to the existing model are not sufficient and the Board finds that MPI's request in its closing submission to make no changes to any discounts is not reasonable. Further, the Board finds this is not consistent with MPI's position in the 2022 GRA that it would seek to move the discount/premiums closer to their actuarial targets over the next five years. In effect, MPI's plan was not fully compliant with Directive 11.15."[18] (emphasis added)

In its closing submissions, MPI states:

"29. The relief sought by MPI in its Legal Application also includes the addition of another merit level to the Driver Safety Rating (DSR) scale, addressed more fully in the DSR section below."[19]

"206. Addressing the divide between the current rates and the actuarially indicated rates formed part of Order 134/21 (Directive 11.15), which asked MPI to bring forward a DSR Transition Plan, including an increase to the base rate. However, as part of its application, MPI asked the PUB to defer the DSR Transition Plan given the pending adoption of Generalized Linear Modeling.

…

208. The relief sought in this GRA is limited to increasing the maximum merit level of the DSR Scale from +16 to +17 but with no changes to discounts."[20]

In the Legal Application Chapter of the GRA, MPI identifies the requested relief as:

[17] *Supra.* 1, pg. 30;
[18] *Supra.* 1, pg. 84;
[19] 2023 GRA, MPI Exhibit 126, Pg. 11;
[20] *Ibid.*, Pg. 68;

"MPI also applies for changes to vehicle premium discounts available through the Driver Safety Rating (DSR) system; chiefly, increases on the discount applied to DSR +9 to +16. The Driver Safety Rating Chapter details the requested changes, which involves:

- *increasing the maximum merit level under the DSR scale from +16 to +17 in the 2023/24 policy year;*
- *allocating the 0.9% overall rate decrease for which MPI currently applies, to the DSR vehicle discount levels with the most significant need for rate decreases based on actuarial indications; and,*
- *making no changes to DSR driver premiums.*

MPI seeks approval for the creation of DSR levels +17, +18, +19 and +20, MPI intends to make use of one new level each rating year, seeking approval of specific DSR discounts and rates in each GRA to ensure that DSR discounts and surcharges are based on actuarial indications. The Driver Safety Rating Chapter provides further analysis of the benefits and financial impact of the proposed changes to the DSR."[21]

During the oral hearing, MPI witnesses testified as follows:

"There are two (2) issues we are currently dealing with. First, as we talked about the other day at the rate-making panel, we are going to be running generalized linear models over the next couple of days -- or couple of years, I should say. So these are called GLM models.

We're going to be putting DSR levels in there as a rating variable; that means what comes out of the model could be different than what we get right now with our minimum bias model. So really hard to figure out how we're going to get to the end point when we don't know what the end point looks like yet.

The second thing we're wrestling with is understanding our database. So about a third of the population is at the highest DSR level, so that was DSR 15. And over this rating year, the majority of them are transitioning over to DSR 16.

[21] *Supra.* 4, pg. 8;

So if you look at the indication, it was showing a 56 percent discount for DSR 15; that has been highly influenced by people that are actually DSR 16, 17, 18, 19, 20.

We have to work with our data management team to understand how to subdivide the highest level, whether it's DSR 15 or now DSR 16. We have to figure out how to subdivide that and get the actuarially-based discounts for each of those sub-levels, and that's something we're still working through.

So that is -- those are the two (2) reasons that we're requesting to divert -- defer the DSR Transition Plan to be part of the GLM Transition Plan which we will be filing in the 2025 GRA."[22]

and

"MR. ROBERT WATCHMAN: Now, I want to change to the topic of the changes requested in the Application in terms of the DSR methodology and the increase in merits reading to 17.

Now, is it the -- MPI's position that the best way to reduce cross-subsidization between registered owners at different DSR levels is to move toward actuarially indicated vehicle premium discounts via incremental steps?

MS. CARA LOW: Yes, it is.

MR. ROBERT WATCHMAN: And if we could turn to appendix 3 of the DSR section.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: So, the process, it considered actuarially indicated discounts for each DSR level. And this is the same methodology that was used in the 2022 General Rate Application?

MS. CARA LOW: Yes, it is.

[22] 2023 GRA Transcript, October 25, 2022, pgs. 1084-1085, lines 3-25 and 1-18;

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And just going back to page 9 of the DSR portion of the Application, specifically figure DSR 1.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And so, this is the process that the Corporation has undertaken. And there are the -- it lists the current rate for DSR levels, the actuarially indicated rate. And then it has rates for scenarios 1 through 4.

And just in general terms, what is the difference between the four (4) scenarios?

MS. CARA LOW: Well, the difference is just what was selected for each of the DSR levels that are listed there.

MR. ROBERT WATCHMAN: But ultimately, the -- the scenario that the Corporation recommends is scenario 4?

MS. CARA LOW: Correct." (Emphasis added)

Within the DSR chapter of the 2023 GRA, Figure DSR-1 sets out the scenarios MPI considered for the allocation of the provisional 0.90% overall rate increase (with scenario 4 being the one recommended by MPI).[23] Additionally, Figure DSR-4 provides this information along with the actuarially indicated and current rates for each DSR level.[24] As seen in this figure, MPI selected higher than current discount rate percentages for DSR levels +9, +10, +11, +12, +13, +14 and +16 (i.e., between +1% and +2% higher than current).

Grounds

Unfortunately, there appears to be some confusion and ultimately a significant disconnect between the relief requested by MPI in the 2023 GRA, the evidence presented by MPI, the

[23] *Supra.* 4, pg. 2065;
[24] *Supra.* 4, pg. 2072;

restatement by MPI of the requested relief within its closing submissions and the ultimate findings of the PUB.

To be clear, MPI did not and does not wish to depart from the relief requested in the 2023 GRA and detailed in the evidence it presented at the oral hearing, namely:

- the creation of DSR levels +17, +18, +19 and +20;
- an increase in the maximum merit level under the DSR scale from +16 to +17 in the 2023/24 policy year;
- an allocation of the applied for overall rate decrease to the DSR vehicle discount levels with the most significant need for rate decreases, based on actuarial indications (i.e., DSR levels +9 to +16); and
- no changes to DSR driver premiums.

As MPI did and does still seek to move the discount/premiums closer to their actuarial targets, it respectfully submits that the PUB should find that it did comply with Directive 11.15 from Order 134/21.

In Order 4/23, the PUB did not create DSR levels +18, +19 and +20 (presumably on the basis that it believed that MPI abandoned its request for same in its closing submissions). MPI confirms that did not and does not wish to abandon its request for this relief.

Resulting Prejudice or Damage from Existing Order

Creating a new DSR level requires administrative effort and changes to *The Driver Safety Rating System Regulation*, Man. Reg. 13/2009. Despite only seeking a maximum merit level of +17, MPI requested the creation of four new DSR levels (i.e., levels +17, +18, +19 and +20) to accommodate an expansion of the DSR Scale beyond +17 in future years. Therefore, the request combines what would otherwise be multiple tasks into a single task to reduce the required administrative and regulatory effort.

Remedy Sought

MPI respectfully submits that the PUB should therefore vary, change and/or alter Directive 12.14, as well as the associated reasons referred to herein, to:

1. create DSR levels +18, +19 and +20;
2. find that MPI did comply with Directive 11.15 from Order 134/21; and
3. rescind Appendix A thereto.

RV.5 Directive 12.15 – DSR Discounts move one-fourth

Relevant Facts

Directive 12.15 reads:

> *"The Board hereby orders that in the 2024 GRA, that all DSR discounts will be moved by one fourth of the way to the actuarially indicated, rounded down to the nearest whole number."*[25]

MPI requested that there be no changes to DSR discounts, other than those specified in its 2023 GRA (i.e., DSR levels +9, +10, +11, +12, +13, +14 and +16). In effect, MPI requested that the PUB defer the DSR transition plan set out in Directive 11.15 from Order 134/21 (2022 GRA). In the testimony delivered on October 25, 2022, the DSR Panel of witnesses explained that MPI should defer the implementation of its DSR transition plan for the following reasons, namely to:

1. ensure a smooth transition to an actuarially indicated DSR scale;
2. prevent the need to make frequent and abrupt changes to the DSR scale before completely transitioning to an actuarially indicated iteration of the Scale; and

[25] *Supra.* 1, pg. 139;

3. ensure that the DSR transition plan encompasses all relevant factors.[26]

MPI witnesses explained that, as a result of the use of GLM in future GRAs, MPI expects DSR discounts to continue changing (perhaps significantly), because the DSR level of a registered owner will become a rating variable (as opposed to being part of an overriding discount scheme):

> *"There are two (2) issues we are currently dealing with. First, as we talked about the other day at the rate-making panel, we are going to be running generalized linear models over the next couple of days -- or couple of years, I should say. So these are called GLM models.*
>
> *We're going to be putting DSR levels in there as a rating variable; that means what comes out of the model could be different than what we get right now with our minimum bias model. So really hard to figure out how we're going to get to the end point when we don't know what the end point looks like yet.*
>
> *The second thing we're wrestling with is understanding our database. So about a third of the population is at the highest DSR level, so that was DSR 15. And over this rating year, the majority of them are transitioning over to DSR 16.*
>
> *So if you look at the indication, it was showing a 56 percent discount for DSR 15; that has been highly influenced by people that are actually DSR 16, 17, 18, 19, 20.*
>
> *We have to work with our data management team to understand how to subdivide the highest level, whether it's DSR 15 or now DSR 16. We have to figure out how to subdivide that and get the actuarially-based discounts for each of those sub-levels, and that's something we're still working through.*
>
> *So that is -- those are the two (2) reasons that we're requesting to divert -- defer the DSR Transition Plan to be part of the GLM Transition Plan which we will be filing in the 2025 GRA."*[27] (Emphasis added)

[26] 2023 GRA, MPI Exhibit 69, Slide 27;
[27] 2023 GRA Transcript, October 25, 2022, pgs. 1084-1085, lines 3-25 and 1-18;

In Order 4/23, the PUB states:

> *"With respect to ratemaking, the Board supports the Corporation moving towards an approach that incorporates the use of Generalized Linear Models (GLMs) and directs MPI, in the 2024 GRA, to provide an update on the progress made to date, as well as an update to the GLM project plan."*[28]

Grounds

MPI requests that Directive 12.15 from Order 4/23 be varied, changed and/or altered to remove the requirement for it to move all DSR discounts one-fourth of the way to the actuarially indicated, rounded down to the nearest whole number, on the basis that:

1. moving all DSR discounts towards their respective actuarially indicated percentage prior to the transition to the use of GLM will likely cause disruptions, resulting in abrupt changes impacting the stability, consistency and predictability of rates;

2. as the actuarially indicated percentage for each DSR level is likely to change following the transition to the use of GLM (and the use of DSR level as a rating variable), MPI cannot ensure that any present steps taken to move towards actuarially indicated percentages will comply with Directive 12.15 as it currently reads. For example, if MPI were to move all DSR discounts by one fourth of the way to the actuarially indicated number (based on the current minimum bias model, following the implementation of GLM, it may discover that its efforts were insufficient or perhaps even exceeded what the PUB directed. MPI wishes to avoid a scenario wherein DSR discounts are in a continuous state of flux over a period of years. By waiting until its GLM software is operational, MPI can establish the proper actuarially indicated rates and then take steps to reasonably progress towards them.

Resulting Prejudice or Damage from Existing Order

A failure to vary Directive 12.15 from Order 4/23, so as to remove the requirement to move all DSR discounts one-fourth of the way to the actuarially indicated, rounded down

[28] *Supra.* 1, pg. 12;

to the nearest whole number, could, in addition to increasing the administrative effort to calculate and implement the DSR levels changes, create unnecessary confusion amongst customers regarding the DSR discount scheme. MPI also seeks to avoid a scenario whereby customers at particular DSR discount levels experience a reduction in the amount of their discount despite moving higher up the DSR Scale.

Remedy Sought

MPI respectfully requests that the PUB vary Directive 12.15 by:

1. removing from it the requirement to move all DSR discounts one-fourth of the way to the actuarially indicated, rounded down to the nearest whole number; and

2. deferring the implementation of the DSR transition plan (set out in Directive 11.15 from Order 134/21) and incorporating it into the GLM transition plan (progress on which the PUB already directed MPI to update it on in the 2024 GRA).

RV.6 Directive 12.16 – Five-year plan for Rating Models

Relevant Facts

Directive 12.16 states:

> *"In the 2024 GRA, MPI shall file an update to the five-year plan filed in this GRA, which includes detailed workplan, start date, and schedule for the Corporation to bring forward about rating modes Registered Owner, Primary Driver, Listed Driver and Primary/Listed Driver Hybrid to the Board for approval."*[29]

In the 2023 GRA, MPI filed, in compliance with Directive 11.13 of Order 134/21, a five-year plan for the implementation of the primary driver rating model. In sum, the major steps in the five-year implementation plan are:

a) <u>Collection of primary driver information from registered owner;</u>

[29] *Supra.* 1, pg. 139;

b) Develop business rules;

c) Stakeholder consultations;

d) Alignment of data with NOVA Release 3;

e) System design changes to accommodate collection of primary driver information;

f) Collection of primary driver information;

g) Pricing examination;

h) Government approval to implement primary driver model (legislative changes);

i) Communication plan to customers; and

j) Launch primary driver model.[30]

During the 2023 GRA oral hearing, the following exchange occurred regarding the Gantt chart found at slide 20 of MPI Exhibit 69:

> *"BOARD MEMBER GABOR: So -- so as I understand it, this chart is nothing more than indicating this is a very complicated project with a lot of different steps. It lists a number of the steps on the left-hand side. And then, gives an example that things occur in sequence.*
>
> *But in terms of dates -- because, quite frankly, as I -- when I looked at this originally, I thought year one (1) was 2023.*
>
> *But it -- what -- you count back from 2029, it's 2024. So this is -- <u>this is nothing more than an example of this is a preliminary view of the way we're going to project manage this</u>.*

[30] 2023 GRA, MPI Exhibit 126, pg. 65;

Is that about right?

MS. SATVIR JATANA: I think you said it well. It's -- it's a body of work that's been outlined.

And as you can see, what we were trying to also illustrate that there's some body of work that can happen in parallel. Some body of work could also be impacted, depending on the options we chose.

Again, I'll go back to the data collection. If the decision is to pursue mandatory collection of data at the time of renewal, we know that that process could be a year long.

Now, if we chose a different method that also has consequences on the time line, so -- in other ways of saying this, this is high level plan that could be from current year. And we've started a body of work, I would say, with -- this year.

BOARD MEMBER GABOR: Okay. <u>A year from now, are we going to have a Gantt chart that is a little more specific, that has milestones, that we can examine?</u>

MS. SATVIR JATANA: I do hope that we can make more progress on this. And -- and we can be in a much better position next year. Although we made some progress this year. But yes, so this is subject to change pending on some of the next steps and -- and what we learn over the next few months.

BOARD MEMBER GABOR: Okay. Then, Kristen, I'm going to look -- I'm looking at Exhibit 69, same exhibit, page 24, which is called 'Progress and Next Steps'. Yeah, that one.

<u>Is it possible to put any dates to these?</u> I mean, we've got -- I guess now we're into - - we're past or -- we're in the process of building DSR model change of process, <u>you talked before about the decision on data collection method.</u>

<u>Do we have a date or a time frame for that to occur?</u>

MS. SATVIR JATANA: Yeah. Mr. Gabor, <u>very hard to commit to the date right now. For example, like, the next decision is a critical decision for us, as to how we are going to collect that data.</u>

> *And -- and depending on that decision, the following milestones very much are variable or are dependent on -- on that decision.*
>
> *So, like I stated, I do hope in the coming months we -- we can put more of a concrete time line. And this step is just outlining the data collection we're talking about here.*
>
> *BOARD MEMBER GABOR: Right.*
>
> *MS. SATVIR JATANA: So I do hope that we're in a better position in the coming months.*
>
> *BOARD MEMBER GABOR: So essentially, you can tell us -- you have an idea of the steps, but you have no -- no idea of what the time frame is to achieve those steps?*
>
> *MS. SATVIR JATANA: Not at this moment."*[31] (Emphasis added)

At Appendix 1 to the DSR chapter, MPI lists the actions needed to complete the preliminary step (i.e., the collection of primary driver information from registered owner) as follows:

> *"a) Obtain approval from the Government of Manitoba to make the necessary regulation changes to allow MPI to collect information regarding the PD from registered owners (this would be the first of two rounds of amendments required), which process requires:*
>
> *• Ministerial approval (in-principle)*
>
> *• Possible review by Treasury Board*
>
> *• Initial review by the Statutes and Regulations Review Board (SRRB), previously known as the Regulatory Accountability Committee of Cabinet*
>
> *• 45-day public consultation on proposed regulatory amendment*
>
> *• Final approval by the SRRB"*[32] (Emphasis added)

[31] 2023 GRA Transcript, October 25, 2022, pgs. 1304-1307, lines 17-25, 1-25, 1-25 and 1-13;
[32] *Supra.* 4, pg. 2075;

On January 12, 2023 (and confirmed again on February 3, 2023), the Government of Manitoba (Government) denied the request of MPI to make the regulation changes necessary to permit MPI to collect driver information from the registered owners of MPI-insured vehicles.[33] While the Government did not deny the request of MPI outright, it did inform MPI that it would not consider making any such changes "…at this time".

Given that three of the four rating models identified in Directive 12.16 (i.e., Primary Driver, Lister Driver and Primary/Listed Hybrid) require MPI to collect driver information, MPI cannot update its five-year implementation plan as per the directive. Without the regulation changes, MPI cannot collect driver information from registered owners without the knowledge and consent of those drivers. Further, MPI cannot compel the production of driver of information from owners or drivers. Without this driver information, MPI cannot conduct a pricing examination of the Primary Driver, Listed Driver or Primary/Listed Hybrid rating models. Without a pricing examination, MPI cannot accurately price policies under any of these potential rating models.

MPI previously expressed concern to the PUB that it does not have the legal authority to collect and compel the production of personal information about drivers of MPI-insured vehicles from anyone other than those drivers (whose identities would be unknown to MPI absent its collection of that personal information from the registered owner). Therefore, without this authority, MPI cannot implement any rating model that requires the collection of third party information without the consent of the individual.

MPI appreciates that the Honourable Justice Steel included the following *obiter* statement in *The Manitoba Public Insurance Corporation v. The Public Utilities Board*:

> *"With respect to the privacy of information, I would point out that section 6(2) of the MPIC Act gives MPIC the power and capacity to do all acts and things necessary for the carrying out of its functions, including the power to "prescribe the information and detail required to be set out in any form" (at section 6(2)(d); see also section 36(10(b) of The Freedom of Information and Protection of Privacy Act, CCSM c F175)..."*[34]

[33] Affidavit of Satvir Jatana, sworn February 7, 2023, paras. 6-7 and Exhibit "A";
[34] *The Manitoba Public Insurance Corporation v. The Public Utilities Board,* 2022 MBCA 86, para. 63;

However, despite this comment, MPI remains concerned that it does not have the requisite legal authority to collect and compel the production of driver information from third parties and seeks to avoid the potential consequences it could face if it proceeded without clear authority. For example, if an individual, whose personal information MPI obtained without their consent, claimed a violation of their privacy, that individual could, among other things, file written complaint against MPI to the Office of the Ombudsman of Manitoba.[35] MPI recently requested a preliminary opinion from the Ombudsman and the response provided supports the cautious approach championed by MPI.[36]

Grounds

The PUB seeks an update to the five-year transition plan MPI filed in the 2023 GRA. This update is to include a detailed workplan, start date and schedule. The PUB expects to approve updates to the plan in the 2024 GRA.

The decision by Government to decline consideration of required regulation changes (at least for the time being), means that MPI cannot update its five-year transition plan to include further details, including specific start dates and implementation schedules. At best, MPI can provide the PUB with an updated plan that includes non-specific start dates and schedules (in much the same way as it did with its initial iteration of the plan presented in the 2023 GRA). However, MPI is concerned that the PUB will find that it did not comply with Directive 12.16 unless it includes specific dates and schedules.

Resulting Prejudice or Damage from Existing Order

Without a variation of Directive 12.16, MPI is concerned that there exists a strong possibility that the PUB will conclude in the 2024 GRA that MPI did not comply with this directive (due to a lack of specificity with start dates and schedules).

Remedy Sought

MPI respectfully requests that the PUB vary, change and/or alter Directive 12.16 by deferring the production of an updated five-year transition plan to the 2026 GRA. By so

[35] *The Freedom of Information and Protection of Privacy Act, CCSM c F175*, s. 59(3)*; The Ombudsman Act*, C.C.S.M. c. c. 045, s. 15;
[36] Affidavit of Satvir Jatana, sworn February 7, 2023, paras. 3-4;

doing, MPI can continue to discuss the matter with Government and advise the PUB in the calendar year 2024 (likely as part of the 2025 GRA), whether and when it expects that required regulation changes will be forthcoming.

In the alternative, MPI requests that the PUB vary, change and/or alter Directive 12.16 to clarify its expectations, in light of the new information provided, in terms of start dates, schedules and details sought regarding steps after the initial collection of data (given that MPI cannot begin the process of collecting driver information without regulation changes).

RV.7 Directives 12.17, 12.18(c)(i) and 12.19 – Report on NOVA Funding Envelopes

Relevant Facts

Directives 12.17, 12.18(c)(i) and 12.19 state:

> *"12.17 MPI shall file with the Board a report of funding envelopes developed for Project Nova within 14 days following approval by the MPI Board of Directors"*[37]
>
> *"12.18 In the 2024 GRA, MPI shall file the following with respect to Project Nova:*
>
> *…*
>
> > *c. A report from the Project Nova independent governance consultant addressing the following topics:*
> >
> > > *i. The funding envelopes for the project, including description and size of each;"*
>
> *"19. MPI shall meet with Board staff and advisors to review all aspects of Project Nova and MPI 2.0, including but not limited to project deliverables, timeline, budget, discount rate, and any new elements added to the initiative, within 30 days after funding envelopes have been presented to the MPI Board of Directors."*

[37] *Supra.* 1, pg. 139;

Order 4/23 further states:

> *"Many of MPI's VM practices are in infancy adoption and usage. MPI's funding process is significantly changing to one whereby approval for broad funding envelopes are provided, while the allocation and usage of funds will be iterative and agile in nature. It will take multiple years for MPI to calibrate and harmonize the feedback cycle from agile budget delivery to funding envelope allocations."*[38]

The MPI Board of Directors (BoD) does not approve funding envelopes for Project NOVA. On February 10, 2022, the BoD approved the 2022 Re-baseline budget for Project NOVA, on a global basis. The President & Chief Executive Officer (CEO), Chief Transformation Officer (CTO) and Chief Information Technology Officer (CITO) may now disburse the approved budget amounts.

Grounds

MPI is unable to comply with Directive 12.17 because the BoD do not approve the funding envelopes for Project NOVA. MPI is similarly unable to comply or ensure compliance with those portions of Directives 12.18(c)(i) and 12.19 that relate to the funding envelopes described in Directive 12.17.

Resulting Prejudice or Damage from Existing Order

Without a variation of Directives 12.17, 12.18(c)(i) and 12.19, there exists a strong possibility that the PUB will conclude in the 2024 GRA that MPI did not comply with these directives.

Remedy Sought

MPI respectfully submits that the PUB must:

1. rescind Directives 12.17 and 12.18(c)(i); and

[38] *Supra.* 1, pg. 103;

2. vary, change and/or alter Directive 12.19 to remove the words "within 30 days after funding envelopes have been presented to the MPI Board of Directors" and replace same with the words "as soon as reasonably practicable".

RV.8 Directive 12.18(b) – Revised Scope of Project NOVA

Relevant Facts

Directive 12.18(b) reads:

> *"In the 2024 GRA, MPI shall file the following with respect to Project Nova:*
>
> > *(b) A revised project scope for the Board's information by April 15, 2023, or such other date as agreed upon by MPI and the Board, which provides clear definition of legacy systems modernization elements of the project specifically, the associated cost, and the target dates for achievement of those elements of the project"*[39]

In its reasons, the PUB adds:

> *"While MPI's CEO has stated that the work associated with Project Nova must be completed regardless of NPV, it remains unclear to the Board where the Corporation is making necessary investments to modernize outdated technology<u>, and where it is going beyond these necessary improvements and into modernizing the business operating model in excess of the original LSM scope</u>. The Board is also concerned with an apparent lack of management control over IT expenses.*
>
> *The Corporation should be proceeding with prudence and focusing on critical business needs, while avoiding cost overruns <u>associated with increasing the scope of Project Nova beyond the core need to modernize technologies to run the business</u>. This applies to costs associated with IT infrastructure and systems costs, as well as increased staff and consultant expenses."*[40]

With respect, Directive 12.18(b) and the supporting reasons suggest a fundamental misunderstanding of the basis for and means by which MPI seeks to modernize its legacy

[39] *Supra.* 1, pg. 139;
[40] *Supra.* 1, pgs. 9 and 110;

systems. MPI believes that a re-examination of the evidence presented to the PUB in the past four GRAs is therefore required.

In the 2019 GRA, MPI reported that it was assessing its legacy systems to determine if they were candidates for modernization[41] and confirmed that the core objectives (i.e., scope) of the legacy systems modernization (LSM) assessment were to:

> *"• Perform a detailed assessment of our core systems and their associated business processes.*
>
> *• Perform an industry survey of available technologies in both the Property & Casualty Insurance policy issuance and claims administration, and in the Driver and Vehicle Administration domain.*
>
> *• Create a set of recommendations and guidelines defining how to transform MPI's legacy systems to meet long term business needs and close identified gaps in business and IT capabilities.*
>
> *• Create an Application Strategy that outlines how MPI will address the proposed recommendations for transforming MPI's legacy systems to meet long term business needs*
>
> *• Create a detailed comprehensive Business Case that outlines the costs, benefits, and risks for implementing and then operationalizing the solution defined by the Application Strategy."*[42] (Emphasis added)

MPI also informed the PUB that its LSM assessment would focus on more than just an upgrade of its legacy systems, stating:

> *"Some of the drivers of this assessment are the evolving customer expectations on service delivery, product and service flexibility and agility, and application risk. Given the pervasiveness of our legacy systems within our technology infrastructure, the outcome of this assessment may have a significant impact on our IT roadmap and how IT capabilities are created for the next several years."*[43] (emphasis added)

[41] 2019 GRA e-book, pg. 501;
[42] *Ibid.*, pg. 510;
[43] *Ibid.*, pg. 501;

The following year, MPI rebranded LSM as "Project NOVA" and introduced it to the PUB with its 2020 GRA. In his opening address, then President and CEO, Benjamin Graham, described NOVA in the following terms:

> *"MR. BENJAMIN GRAHAM: So let's talk about NOVA. Legacy systems modernization, to me wasn't the appropriate term. It simply implied that we were upgrading Windows 7 to Windows 10. Trust me, it is a much bigger exercise than that.*
>
> *…*
>
> *It is a business-driven initiative. Like I said, it just isn't simply an upgrade of our systems. As we continue to engage more with our customers on an online platform, peoples' information is paramount, so information security, as well as technology risk needs to be addressed. Our current systems are simply not appropriate for moving into the next ten (10) to fifteen (15) years.*
>
> *…*
>
> *The key outcomes of project NOVA is around improving that customer experience, as defined by them, not as defined by us or any one of our stakeholders, but by the customer. So that will define what that customer experience will look like, t3he [sic] ability to meet their needs with new products, as well as expanding the choice on how they can access MPI and transact with us."*[44] (emphasis added)

In the 2021 GRA, Shayon Mitra, Vice President and Chief Transformation Officer (CTO) for Project NOVA, distilled the purpose of Project NOVA to the following:

> *"So, I think for the second week of September when Mr. Remillard and I had started and one (1) of our Board members had put us on the spot with the question, if you're speaking to an MPI employee or Manitoban, what is the elevator pitch for Nova? How can you describe Nova in three (3) to four (3) sentences.*
>
> *And what we have in front of you is that elevator pitch. The intent is to transform our business by empowering our -- our people and our*

[44] 2020 GRA Transcript, October 7, 2019, pgs. 198-201, lines 21-25, 23-25, 1-5, 8-15;

> *partners. This would include brokers. This would include law enforcement. This would include internal stakeholders.*
>
> *Obviously, technology is a key component, but process is another one (1) that we're looking at. And the intent behind it is to be more responsive, to become more efficient and, most importantly, to give customers more choice and a better experience. Customers, in this case, would be Manitobans."*[45] (emphasis added)

The PUB then heard that MPI cannot replace its legacy systems with commercial off-the-shelf solutions without determining whether its business processes heighten the risk of customization or extensive configuring.[46] MPI further highlighted its use of the Lean methodology to streamline its processes and increase efficiencies.[47] In the 2022 GRA, the PUB heard from Eric Herbelin, the current President and CEO, that the purpose of Project NOVA was, again, not simply about "replacing systems", but also that the project lacked certain foundational elements.[48] Siddhartha Parti, the CITO for MPI, clarified the nature of the missing foundational elements, stating:

> *"So, that would be a – like Cloud, building that data practice. Our integrations maturity on how to actually integrate the products together…"*[49]

MPI detailed the additional foundational work to be completed in its presentation to the PUB, delivered on October 31, 2022.[50] However, as set out in the exchange below, the PUB also heard from Shayon Mitra that, notwithstanding the need to address the absence of these foundational elements, the scope of Project NOVA would not change:

> *"MS. KATHLEEN MCCANDLESS: And would it be the case that adding foundational elements to Nova three (3) years into the development cycle is creating a risk for cost overruns?*
>
> *MR. SHAYON MITRA: Shayon again. Ms. McCandless, the intent is not to add that to the scope of Project Nova. So these capabilities are –*

[45] 2021 GRA Transcript, October 22, 2020, pg. 817, lines 6-25;
[46] 2021 GRA Transcript, October 22, 2020, pg. 820-821, lines 23-25 and 1-3;
[47] 2021 GRA Transcript, October 22, 2020, pg. 819-821, lines 20-25, 1-25 and 1-24;
[48] 2022 GRA Transcript, October 12, 2021, pg. 216, lines 10-19;
[49] 2022 GRA Transcript, October 14, 2021, pg. 762, lines 4-7;
[50] 2023 GRA, MPI Exhibit 85, Slide 4;

> *foundational capabilities that are being worked on are being delivered outside of Project Nova, either through the dependent projects that we had shared or with the intent of adding it to next year's capital master summary or the – the portfolio management, in parallel to delivering Project Nova.*
>
> *MS. KATHLEEN MCCANDLESS: So, essentially, it's a new project and a new budget line in addition to the Nova budget?*
>
> *MR. SHAYON MITRA: Shayon again. It would be individual initiatives of projects that would stand on their own."*[51] (emphasis added)

In the most recent GRA, Shayon Mitra reiterated the basis for shifting from LSM to Project NOVA, and confirmed that its scope remained unchanged, stating:

> *"For Project Nova the objectives have not changed since the onset. Our focus is still on modernizing our systems. It is centered around technology risk, information security, business agility, customer self-serve, cost savings and efficiency.*
>
> *…*
>
> *So, as you're aware, NOVA began as a Legacy system modernization; that's how it was envisioned at the onset. And we learned really quickly that simply moving our Legacy platforms would not suffice. We would need to do more as an organization to improve on how we service Manitobans.*
>
> *And so then the transition from a Legacy system modernization project to Project Nova started, and it became a transformational initiative and less of a Legacy system modernization.*
>
> *At the gist of it, or -- or the – at the nucleus, it is our core systems that we're looking at. We're looking at changing our property and casualty system. We're looking at changing our Legacy driver vehicle administration system.*
>
> *…*

[51] 2022 GRA Transcript, October 14, 2021, pg. 764, lines 1-19;

> *But what I want to emphasize is, as we started the transition as a Legacy system modernization project into Project Nova from the planning phases, into the execution phases, we learned quickly that there were gaps in the organization in a number of areas in capabilities.*
>
> *But at the same time as we are maturing our capabilities, it would put a lot of strain on capacity, not just on the existing capacity to continue to service Manitobans, but there's also the need to build capacity in the areas where we had capacity gaps. And that really -- sorry, in the areas where we had capability gaps.*
>
> *And -- and collectively, that added to the complexity of Project Nova…"*[52] (emphasis added)

The PUB also heard in the 2023 GRA that:

1. following the 2022 Re-baseline, certain aspects of NOVA were moved into other MPI projects;[53]

2. "NOVA 1.5" or "NOVA 2.0" are not terms that exist within the vocabulary of MPI;

3. "MPI 1.5" and "MPI 2.0" are nothing more than aspirational statements with no project plan or budget assigned;[54] and

4. the 2022 Re-baseline did not expand the scope of Project NOVA, but did increase its budget (by flattening the delivery schedule in order mitigate risks and increasing the contingency to address the fact that MPI had yet to complete discovery for Releases 3 and 4), with MPI witnesses stating the following in response to questions posed by Interveners:

> *"DR. BYRON WILLIAMS: In terms of the project that emerged after the McKinsey re-baseline, would it be fair to say that it was somewhat expanded in scope to the extent that it adopted the*

[52] 2023 GRA Transcript, October 31, 2022, pgs. 1775-1777, lines 10-25, 1-25, 1-8 (see also pg. 1811, lines 14-18 and pg. 1824-1825, lines 23-25 and 1-13);
[53] 2023 GRA Transcript, October 31, 2022, pgs. 1915-1916, lines 23-25, 1-25, 1-4;
[54] 2023 GRA Transcript, October 31, 2022, pg. 1876, lines 5-25;

recommendations from the McKinsey assessment? The control tower, et cetera.

MR. SHAYON MITRA: The scope of Project Nova did not expand as a function of the McKinsey diagnostic assessment."[55]

and

"DR. BYRON WILLIAMS: So as compared to the initial 2019 project, the scope of the 2022 re-baseline was broader, in that it included some digital services -- an expanded vision of digital services, sir?

MR. GARY DESSLER: <u>I would say not.</u> I mean, what we're referring to here is -- when we got into the details for our DVA software, we understood that we needed to augment that with how they managed the financial transactions. They expected Celtic software literally -- you know, tightly integrated with the GL for all the, what I'll call, sub-ledger details -- all the transactional details.

Celtic doesn't support that. They assume that the financial system would take care of all that. We wanted to keep that out of our GL and had it in -- so we needed a place to put that. And that's where we looked at our digital platform as being that candidate for that which was always what our original plan was for our -- the digital platform. We didn't want to customize Celtic. We didn't want to customize Duck.

And anything that would kind of fall in between, we were looking to use our digital platform as kind of the mortar between those bricks.

And so, <u>it wasn't really a scope change at the highest level. It was really we moved some work from Celtic to digital but it wasn't brand new scope to the program</u>.

…

DR. BYRON WILLIAMS: Thank you. Mr. Mitra, would it be fair to say that, as compared to the 2021 re-baseline, the deliverables and

[55] 2023 GRA Transcript, October 31, 2022, pg. 1911, lines 1-9;

releases of Project Nova have changed materially as a result of re-baseline 2022?

MR. SHAYON MITRA: Sorry, if your question is have the deliverables for Project Nova changed as a result of 2022 re-baseline?

DR. BYRON WILLIAMS: Yes.

MR. SHAYON MITRA: As I mentioned earlier, for release 3 and 4, we haven't defined the release objectives yet because we have to finish pre-discovery and discovery.

For release 1, we have not changed the -- the scope and -- and the intent is to still deliver what the minimum parameters is for release 1.

For release 2, I had mentioned that there's nineteen (19) release objectives that we have listed. And our intent is to deliver them, contingent on other strains.

So that high level scope has not significantly changed for Project Nova.

DR. BYRON WILLIAMS: And the timing of the release has obviously changed substantially between the 2021 and '22 re-baselines. Agreed?

MR. SHAYON MITRA: That is correct. So we have added twenty (20) months and -- and, along with that, there have been financial implications because of the extension, yes."[56] (Emphasis added)

In addition to confirming that the scope of Project NOVA had not changed, MPI witnesses gave evidence as to when the pre-discovery and discovery phases of Project NOVA Releases 3 and 4 would be completed, stating:

[56] 2023 GRA Transcript, October 31, 2022, pg. 1914-1917, lines 19-25, 1-25, 1-25, 1-8;

"MS. KATHLEEN MCCANDLESS: So pre-discovery is targeted to begin by the end of the calendar year? I just wanted to make sure I got your response accurate.

MR. ALEX RAMIREZ: Alex responding. By the start of the calendar year, so January 2023.

MS. KATHLEEN MCCANDLESS: So does MPI know when it plans to complete the discoveries then for R-3 and R-4?

MR. SHAYON MITRA: Shayon here. At the time of the -- the response, we were also assessing the impact on R-1, release 1, October go-live date. So if -- if -- I'm just trying to do the math. So the intent then was -- originally, we had anticipated to go live in October, and obviously, release 2 would have been a go-live date a little earlier. I -- I believe it was end of April. That meant we could have started pre-discovery and discovery by -- I think it was targeted in November of this year. To answer the question, pre-discovery could take anywhere from two (2) to three (3) months, and then discovery another two (2) to three (3) months. So our intent is to have pre-discovery and discovery done by summer of 20 -- calendar year 2023."[57]

As to what the discovery process itself entails, Shayon Mitra testified that it:

"…involves leadership from MPI, our system integrated partners, and expertise from the platforms that we leverage.

At the highest level, it really scopes what would be a minimal viable product, in other words, what we'll deliver once we go live and then it starts breaking them down into components of work, so highest level and epic which is, simply put, onboarding a new customer, the features, components that are below that, and eventually story points, which is the effort needed to deliver that.

It goes over a couple months because at -- at the onset, it start at -- it starts at a macro level. And then you go deeper. And then you iron out all the details. But you also look into the integrations needed, the -- the data architecture associated with it, the testing needed, and the list continues."[58]

[57] 2023 GRA Transcript, October 31, 2022, pgs. 1914-1915, lines 19-25, 1-22;
[58] 2023 GRA Transcript, October 19, 2022, pg. 1800, lines 8-25;

Grounds

MPI respectfully submits that Directive 12.18(b) must be rescinded, varied, changed and/or altered because it cannot comply with it, as currently worded, or at all.

MPI cannot comply with Directive 12.18(b) for two reasons:

1. MPI cannot provide a "revised project scope" because Project NOVA is not simply a larger-scoped version of the LSM project.

   Through Directive 12.18(b), the PUB compels MPI to isolate those elements of Project NOVA that relate strictly to the replacement of its legacy technology. Its rationale for so doing is not identified. MPI is unable to isolate these elements as it cannot successfully replace its legacy systems with commercial off-the-shelf solutions (that are not also highly customized or heavily configured) without also ensuring that its business processes align and are compatible with the abilities of those solutions. As per the evidence cited herein, modernizing the legacy systems of MPI necessarily requires a review and modernization of its business processes.

   The purpose of LSM/Project NOVA, *as MPI has consistently communicated to the PUB*, is not simply to modernize its core technology; it is also to improve the customer experience. Doing so requires MPI to modernize its legacy technology <u>and</u> business practices to address technology risk, expand and improve customer service options, better protect information and improve the ability of MPI to evolve over time. The high-level scope of Project NOVA cannot be revised (in this case, limited) without neglecting or abandoning some or all of these key objectives and thus ultimately causing the project to fail.

   Conversely, there is no evidence that MPI ever expanded the scope of Project NOVA from the LSM assessment. Instead, the PUB heard that:

   a. changes to the budget for Project NOVA (as set out in the 2022 Re-baseline) resulted from the decision to "flatten" the delivery of project deliverables and employ de-risking measures to ensure success;

b. MPI 2.0 is an amalgamation of a set of aspirational statements that itself does not expand the scope of Project NOVA; and

c. MPI is adding those missing foundational elements of Project NOVA through initiatives completed outside of its existing scope.

Accordingly, in responding to Directive 12.18(b), the only option available to MPI is to simply restate that the scope of Project NOVA remains the same as it was when it was known as LSM. MPI expects the PUB would find this response to be non-compliant with the wording, spirit or intent of the directive.

2. As the PUB heard in October 2022, MPI does not expect to complete the pre-discovery and discovery phases of Project NOVA Releases 3 and 4 until approximately the summer of 2023. Although MPI does not anticipate that these pre-discovery and discovery exercises will impact the high level scope of Project NOVA, it will certainly assist MPI in defining the minimum viable product for each release. Until such time as MPI has a better understanding of Releases 3 and 4, it cannot report on its expectations. Doing so by April 15, 2023 would undoubtedly result in a situation wherein MPI would be required to inform the PUB of further changes to its reporting, creating confusion, the appearance of a lack of management control and perhaps culminating in a finding that MPI did not comply with the directive.

Resulting Prejudice or Damage from Existing Order

Without a rescinding or variation of Directive 12.18(b), there exists a strong possibility that the PUB will conclude (in the context of the 2024 GRA) that MPI did not comply with this directive.

Remedy Sought

MPI respectfully requests that the PUB rescind Directive 12.18(b).

In the alternative, MPI requests that the PUB vary, change and/or alter Directive 12.18(b) to:

1. remove the words "revised project scope" and replace them with "project update";

2. remove the words "which provides clear definition of the legacy systems modernization elements of the project specifically, the associated cost, and the target dates for achievement of those elements of the project"; and

3. remove the words "April 15, 2023" and replace them with "as soon as reasonably practicable following the completion of the discovery phases for Releases 3 and 4".

RV.9 Directives 12.20 & 12.21 – External Review of ICAM and five-year Forecast with ICAM Revisions

Relevant Facts

Directive 12.20 reads:

> *"In the 2024 GRA, MPI shall file a third-party review of MPI's integrated cost allocation methodology (ICAM) and to bring forward revisions to the ICAM for approval by the Board in the 2024 GRA."*[59]

Additionally, Directive 12.21 reads:

> *"In the 2024 GRA, MPI shall file a five-year financial forecast incorporating recommended changes to the ICAM."*[60]

In its reasons, the PUB also states:

> *"In this application, MPI has changed the basis of allocating Project Nova costs. MPI based its previous Property and Casualty allocation methodology on claims incurred volumes, which allocates costs based on the claims volumes. However, as claims counts are significantly higher for the Basic line of business, MPI recognized that a disparity in cost allocations existed, which did not align the project's benefits to the correct line of business"*[61]

[59] *Supra.* 1, pg. 140;
[60] *Ibid.*, pg. 140;
[61] *Ibid.*, pg. 88;

and

> *"Cost allocations for improvement initiatives now follow a different methodology than MPI's Integrated Cost Allocation Methodology (ICAM) approved by the Board. MPI allocates each project or initiative independently. Upon approval for implementation through the VM process, MPI assesses each project individually to determine relativity against each of its four lines of business. As Project Nova affects all four lines of business, the costs associated with this project will be spread accordingly across all four lines of business. If a project is specific to a single line of business, 100% of the costs associated to the project will be allocated directly to that line of business."*[62]

and

> *"The Board last reviewed MPI's integrated cost allocation methodology (ICAM) in detail in 2012. With ten years having passed and with significant changes proposed in the allocation of Project Nova costs, the Board finds that an update to the Corporation's ICAM is required."*[63]

and

> *"CAC further submitted that the untendered contract with McKinsey to serve as general contractor was unreasonable. The Corporation was aware of its need to retain an external general contractor, and of the opportunity for accelerated tenders, but did not evaluate this option."*[64]

Grounds

While MPI does not oppose a directive to revisit its integrated cost allocation methodology (ICAM), it respectfully submits that it cannot assure it will retain an external third-party consultant on time to review and prepare a report regarding the existing ICAM prior to the filing of the 2024 GRA and both IR rounds. MPI requires sufficient time to initiate the tendering process,[65] obtain ministerial approval, select the most appropriate candidate and

[62] *Ibid.*, pg. 104;
[63] *Ibid.*, pgs. 11 and 112;
[64] *Ibid.*, pg. 106;
[65] By virtue of Manitoba Order in Counsel No. 41/2023 (February 1, 2023), MPI must follow certain policies and procedures for the procurement of goods and services where the value of the goods and services is over $50,000 over the term of the agreement;

collaborate with them on the project. MPI has initiated the process and will abide by the current policies and procedures for the procurement of services, looking to comply with the PUB Directive as early as possible; however, it does not believe that this work can feasibly be completed in time for it to be considered in any meaningful way in the 2024 GRA.

Without a completed review of its ICAM, MPI is similarly unable to file a five-year forecast incorporating any changes to its ICAM as recommended by the third-party review.

MPI submits that, absent any unforeseen issues, it believes it can obtain and file the information required to comply with Directives 12.20 and 12.21 in the 2025 GRA.

Resulting Prejudice or Damage from Existing Order

Without a variation of Directives 12.20 and 12.21, the PUB will likely conclude in the 2024 GRA that MPI did not comply with these directives.

Remedy Sought

MPI respectfully requests that the PUB vary, change and/or alter Directives 12.20 and 12.21 to replace each instance of “2024 GRA” with “2025 GRA”.

RV.10 Directive 12.23 – Investment Committee Recommendations

Relevant Facts

Directive 12.23 reads:

> *“The Corporation shall file with the Board the recommendations made by Mercer to its Investment Committee on November 10, 2022, as soon as reasonably practicable; and, by January 31, 2023, file the recommendations made by the Investment Committee to the MPI Board and the resulting decisions approved by the MPI Board.”*[66]

[66] *Ibid.*, pg. 140;

Order 4/23 also states:

> *"MPI is currently reviewing the optimization for the Basic and non-Basic portfolios, considering the merits of the additional asset classes, and evaluating the various asset mixes. MPI reported that its Investment Committee Working Group (ICWG) was scheduled to present its recommended portfolio changes to the MPI Board of Directors Investment Committee on November 10, 2022, for consideration of recommendation for approval to the MPI Board of Directors."*[67]

The Investment Committee (IC) did not meet on November 10, 2022. When it met on November 28, 2022, the IC did not discuss the recommendations of Mercer regarding the asset mixes of all of its Basic portfolios. IC is currently scheduled to receive these recommendations on February 9, 2023. As a result, the first opportunity for the MPI Board of Directors (BoD) to receive the recommendations of the IC is March 23, 2023. However, given the complexity of the recommendations, the BoD may not approve them until the following meeting, scheduled for June 22, 2023.

Grounds

MPI does not oppose the direction to file with the PUB the recommendations made by Mercer to the IC and by the IC to the BoD. However, due to the postponement of the presentation of the recommendations of Mercer to the IC, MPI cannot comply with Directive 12.23, as currently written.

Resulting Prejudice or Damage from Existing Order

Without a variation of Directive 12.23, the PUB will undoubtedly conclude in the 2024 GRA that MPI did not comply with this directive.

Remedy Sought

MPI respectfully requests that the PUB vary, change and/or alter Directive 12.23 to:

1. remove the words "on November 10, 2022"; and

[67] *Ibid.*, pg. 117;

2. remove the words "by January 31, 2023" and replace them with the words "as soon as reasonably practicable".

RV.11 Directive 12.24 – Mercer Peer Comparison Report

Relevant Facts

Directive 12.24 reads:

> *"In the 2024 GRA, MPI shall file a report from Mercer comparing MPI's investment returns against suitable peer investment managers selected by Mercer."*[68]

Order 4/23 also states:

> *"The Board notes, however, Mercer's recommendation that MPI not continue with peer comparison at the total fund return level given the significant differences in asset allocations, which are determined by each entity for their own reasons. Instead, Mercer recommended having a well-documented rationale for hiring an investment manager for a particular mandate and then comparing investment performance against a suitable benchmark, and peer investment managers."*[69]

At present, MPI already obtains a report from Ellement Consulting Group (Ellement), which report is the same or similar to the one listed in Directive 12.24.

Grounds

Directive 12.24 directs MPI to engage Mercer to prepare a report to be filed in the 2024 GRA that it already obtains from another source (i.e., Ellement). While MPI is not opposed to filing an investment management peer comparison report, it knows of no just reason why it must specifically engage Mercer to prepare this report.

Resulting Prejudice or Damage from Existing Order

Directing MPI to specifically engage with Mercer to obtain an investment management peer comparison report necessarily limits the ability of MPI to engage with others to obtain this

[68] *Ibid.*, pg. 140; and
[69] *Ibid.*, pg. 122.

information at a lower cost and/or in some other beneficial way. Further, the directive may result in an inability of MPI to comply with Manitoba Order in Council No. 41/2023 (February 1, 2023), which requires MPI to adhere to certain policies and procedures respecting the procurement of goods and services.

Remedy Sought

MPI respectfully requests that the PUB vary Directive 12.24 so as to remove the words “from Mercer” therefrom.

Date: February 10, 2023

MANITOBA PUBLIC INSURANCE
Legal & Compliance Division
900 – 234 Donald Street
Winnipeg, MB R3C 4A4

STEVE SCARFONE/
ANTHONY LAFONTAINE GUERRA
Legal Counsel