MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2018/2019 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Robert Gabor, Q.C. - Board Chairperson

Michael Watson - Board Member

Carol Hainsworth - Board Member

Allan Morin - Board Member

Robert Vandewater - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

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Pages 169 to 380

APPEARANCES

Kathleen McCandless	)Board Counsel
Robert Watchman	)Board Counsel
Roger Cathcart	)Consultant
Alex McQuarrie	)Consultant
Steven Scarfone	)Manitoba Public
Michael Triggs	)Insurance
Byron Williams (np)	)CAC (Manitoba)
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Raymond Oakes	)CMMG
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Christian Monnin (np)	) Bike Winnipeg

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

THE CHAIRPERSON: Good morning, everyone. I believe we're at cross-examination, is that right, Ms. McCandless?

MS. KATHLEEN MCCANDLESS: Yes, Board counsel is ready to proceed with our cross-examination. Let's just wait for Mr. Johnston for a second. Thanks.

CONTINUED MPI Panel 1:

LUKE JOHNSTON, Previously Sworn

PETER YIEN, Previously Affirmed

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Good morning, Mr. Johnston, Mr. Yien.

MR. PETER YIEN: Good Morning.

MR. LUKE JOHNSTON: Good Morning.

MS. KATHLEEN MCCANDLESS: Just to begin, do you accept that the Corporation bears the onus of proof to substantiate this General Rate Application?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: In other

words, the Corporation bears the onus of establishing that the pro -- proposed fees and rates are just and reasonable?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And another way of stating that test is that the rates are to be actuarially sound and statistically driven?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. I'd just like to confirm what is sought in the rate application. I know we heard from you yesterday, but just to confirm that again today.

So the Corporation is seeking a 2.7 percent increase in Basic vehicle premium revenue, effective March 1, 2018?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: No rate stabilization reserve rebuilding fee?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: A minimum -- pardon me, a lower rate stabilization reserve total equity target based on the dynamic capital adequacy test of $201 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And a

maximum target of -- for the rate stabilization reserve of $438 million based on the 100 percent minimum capital target analysis?

MR. PETER YIEN: Minimum capital test, yes.

MS. KATHLEEN MCCANDLESS: No changes to service and transaction fees?

MR. PETER YIEN: No.

MS. KATHLEEN MCCANDLESS: And no changes to fleet rebates, or surcharges?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. I would just like to review some information regarding the changes to the driver premium through the driver safety rating system, that are expected to increase driver premium by $17.5 million revenue.

MR. PETER YIEN: Okay.

MS. KATHLEEN MCCANDLESS: Diana, could you pull up the revenue section of the filing that's Volume 2, page 23. And this figure here REV 28.

So as I understand it this is a table of current driver licence premiums by DSR level, as well as the proposed rate; yes?

MR. PETER YIEN: That is correct.

MS. KATHLEEN MCCANDLESS: And there

are two (2) columns there. The first column is for DSR level 0 to 15, so that would be on the neutral or the merit side of the scale?

MR. LUKE JOHNSTON: That's correct. The -- the positive side of the scale, 15 would be our safest drivers lowest expected claim frequency.

MS. KATHLEEN MCCANDLESS: And on the right-hand side of the table is the demerit side of the scale?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And we see the -- on the left-hand side of the scale, the current rates and the proposed rates remain the same?

MR. LUKE JOHNSTON: That's right. No -- no increases to the merit side of the DSR scale.

MS. KATHLEEN MCCANDLESS: And on the right-hand side of the table we see the proposed rate changes in -- in range -- it increases ranging anywhere from $500 at the bottom, level of a scale up to $100 at the minus 1 of the scale?

MR. LUKE JOHNSTON: That's correct. And just -- just and all -- we'll probably talk about this, but no one really stays at the same DSR level from year to year, so, no customer would be minus 5 this year and still be a minus 5 next year. They'd either go up or down. But, that's to be discussed, I'm sure.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, could you pull up from the book of documents, tab 2 and that's from the rate-making section of the filing. If we could scroll down just slightly.

This is a table showing the required rate change for the vehicle premium only?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And if we look to line 24, that's the applied for rate change by major class. So also known as the indicated rate change?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Thanks. I just -- I didn't have your book of documents. Would you mind repeating the question for me, sorry?

MS. KATHLEEN MCCANDLESS: Line 24, is the applied for rate change or also known as the indicated rate change?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And we see the overall indicated rate change at 2.7 percent, and then it varies depending on class of vehicle, private passenger, commercial, public, motorcycle, trailer and off-road vehicles; yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And then line 29, that would be the experience rate change?

MR. LUKE JOHNSTON: That's the -- line 29 is basically after we adjust for credibility and balancing in the rate model. So, just to simplify it, credibility, just make sure that -- a smaller group isn't given too much weight to their data. So, we wouldn't -- like a group like motorcycles would have less credibility in their data than a large group like passenger vehicles. So that's line 25.

Basically just saying how much weight to give to the -- to the applied for change and then balancing, just means that when we run our rate model, we have to make sure that the overall revenue after all the rules, the -- the rate rules from PUB such as the 20 percent cap balance -- balances to the revenue requirement that we need on an overall basis.

MS. KATHLEEN MCCANDLESS: So to summarize, would that be sort of after applying a series of capping rules that are in place that are intended to prevent large variations from year to year?

MR. LUKE JOHNSTON: That's right, yeah.

MS. KATHLEEN MCCANDLESS: Has there been any change in recent years to the capping rules?

MR. LUKE JOHNSTON: On an ov -- on a kind of global basis. I believe the last change was several years ago now, probably more than four (4) or five (5) years ago putting a hard 20 percent cap on combined changes from all factors.

MS. KATHLEEN MCCANDLESS: And so is it accurate to call that line 29 the experience rate change?

MR. LUKE JOHNSTON: That's fine, yes. Yeah.

MS. KATHLEEN MCCANDLESS: So ultimately that's what the Corporation is really applying for after application of the -- of the capping; yes?

MR. LUKE JOHNSTON: That's right, yes.

MS. KATHLEEN MCCANDLESS: And then within those various increases or decrease on the off-road vehicle side of things, within each class there will be an increase or decrease depending on the particular driver's experience; yes?

MR. LUKE JOHNSTON: That's right, within each -- each major class there'll be insurance uses, so all-purpose pleasure. There will also be different rate groups. So like a brand-new 2017 model your vehicle will have a higher rate group, 20 year old Dodge Caravan will have a lower rate group. All of these rating factors get updated based on our -- Manitoba information every year and -- and this is just really the average overall change.

There is kind of a bell curve looking type distribution report that would have ranges around this -- this average.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, if we could just scroll to the top so we can see the -- the heading there.

So on the left-hand side of the table under Overall, we see that the -- the units for the fleet overall is at $1,182,000?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: That's the total vehicles in the fleet?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And the fleet increases year after year?

MR. LUKE JOHNSTON: Historically, yes.

Yeah, about -- about 1 1/2 percent a year for what we call the HTA or Highway Traffic Act related vehicles; that would be private passenger, commercial, public and motorcycle. The last two (2) classes trailer and ORV are really, like a trailer is like an additional piece you would add to a vehicle; ORV being the off-road vehicles.

Those two (2) classes have grown by more than 1 1/2 percent, probably closer about 3 percent over the last decade, 3 or more percent.

MS. KATHLEEN MCCANDLESS: Thank you. And we see the largest class is the private passenger vehicle class at 817,600. So is that the largest percentage of premium revenue to the Corporation?

MR. LUKE JOHNSTON: Absolutely. I don't know off the top of my head, but I would assume 85-90 percent of the premium for sure.

MS. KATHLEEN MCCANDLESS: Now, if we look to the motorcycle rates, in last year's GRA the Corporation's proposal for motorcycle rates included dropping 2006 from the 10 year averaging on a one-time basis, and that was to -- to bring down a rate of 8.8 percent to 2.4.

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And in this

application, the Corporation's returning to that 10 year averaging for motor -- for motorcycle?

MR. LUKE JOHNSTON: That's correct. And -- and the assumptions we made last year appeared to be reasonable in the sense that we're not coming back and asking for an 8 percent or something like that but it's -- the motorcycle rates are basically the similar deal overall.

MS. KATHLEEN MCCANDLESS: And the purpose of using the 10 years is to smooth out any volatility?

MR. LUKE JOHNSTON: Yes, all classes have their serious losses smoothed out over 10 years because you can understand if a certain use or a class happens to have a few big losses in a year that could swing the rates up -- up or down really fast if you -- if you only use one (1) or two (2) years of data.

So, motorcycles specifically are mostly injury claim, so, we look at a longer-term average for -- for motorcycles.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to Tab 3 of the book of documents. And that's also from the rate-making section of the filing.

There are two (2) figures on the page,

RM-13 is the dollar distribution table for the proposed vehicle rate change. So we'll first look at that one.

And so this is broken down by relative increase or decrease based on the application for a number of vehicles and percentage of vehicles. If we look to the rightmost column on the table, it looks as though the largest percentage, so, 23.66 percent, that's at line 11, vehicles will see a rate increase of $50 to $99 based on the 2.7 percent rate application?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And then that would be followed closely by line 10 where 20.55 percent will see an increase of $20 to $49?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And if we look at line 15, .04 percent of the vehicles will see an increase of $300 or more, and the asterisk shows that that's 451 taxis.

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Can you just explain why taxis see this significant increase?

MR. LUKE JOHNSTON: Yeah. The -- the taxi rate, as you can all understand, is -- well, like all classes based on its experience and taxis generally are driving 24 hours a day. Rates can vary from 7 to $9000 a year, approximately. So, even a small percentage change can -- can generate a -- a larger dollar change and that -- and that's what -- what's happening here.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please scroll down to the next table. This is figure RM-14. And this is the percent distribution table. So rather than a dollar basis, we look at -- at the percentage basis of the overall insurance rate.

So again, if we look to the rightmost column of line 7, the largest percentage or 36.57 percent of vehicles will see an increase of less than 5 percent?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And then at line 8 the next largest group would be 23.06 percent, seeing an increase of 5 percent to 10 percent?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And then at line 6 we see 10.2 percent of the vehicles seeing no change?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And at line 5, we have 15.48 percent of the vehicles seeing a decrease of less than 5 percent?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: Now in last year's GRA the Corporation had advised the Board that the majority of its service fees had not been reviewed since DSR -- oh sorry, it was two (2) GRAs ago at 2016, that these service fees, that were previously discussed, had not been reviewed since the establishment of the fee and that a phase review of the service fee structure was going to take place the following year.

In last year's GRA, in an update to that, the Corporation was asked whether the review had begun and -- and there had not been a review at that point of the service fees.

Has anybody review started at this time?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Thanks. So my understanding is that the Basic service fee review is -- has definitely started and is close to completion.

There is also a corporate service fee review that has to be completed as well, and that is also underway.

And we're definitely expecting or targeting to have that for the next General Rate Application.

MS. KATHLEEN MCCANDLESS: Thank you. Yesterday we heard from a presenter, Mr. Ian Pfeiffer who mentioned a registration fee that he had paid for his vehicles, and that it was a per vehicle fee.

Perhaps you could just explain, on the record, what that registration fee is?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Just in response to that, Ms. McCandless, as indicated yesterday by Mr. Triggs, so the Corporation is, essentially, acting as agent for the provincial government on the collection of the registration fees. So, we assumed those duties under the Drivers and Vehicles Act on behalf of the provincial government.

So I don't know if we're in a position, quite frankly, to say what the government -- how the government makes use of that money; we're simply a collection service or, as I've indicated, an agent on behalf of the provincial government collecting those registration fees, passing them along under the legislation.

MS. KATHLEEN MCCANDLESS: So just to confirm, that fee is not part of the rates or fees that form the subject of the Application before the Board?

MR. STEVE SCARFONE: That's correct.

MS. KATHLEEN MCCANDLESS: Diana, can you please go to Tab 5 of the book of documents. This is from the pro forma section of the filing.

Now this -- this table reflects the actual financial results for Basic for 2016/17 fiscal. Based on if we scroll or -- we see in the blue there on the left-hand side, based on the applied for rate change of 2.7 percent?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And it also includes a forecast for 2017/18, which was the subject of last year's GRA and is the current year?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Can you just explain, the -- on the left-hand side of the table under 2018, there's 2017/18 content and there is 2017/18 forecast budget.

Can you explain the difference?

MR. LUKE JOHNSTON: I can. So the 2017/18 B or budget, if you scroll down to the bottom. Scroll down or look at the bottom, you'll see a -- a loss of $45.6 million. This is -- basically reflects the original forecast presented to our board, that indicated the 7.7 rate increase, not for 17/18 but, basically, the org -- original forecast.

And then if you look at 17/18 FB or forecast budget, this is the forecast after the assumed management actions. So, that would include some of the claim stretch targets that we have, the purchase of corporate bonds. It would not include driver premiums, for example, because those -- those don't -- wouldn't come into effect till 18/19.

MS. KATHLEEN MCCANDLESS: Thank you. And then, if we'll see the column under heading 2019.

So, 2018/'19 forecast so that is for the year of the application; yes?

MR. LUKE JOHNSTON: Yes, but also when we're doing the rate-making calculation, policies being sold as what we call "staggered renewals", policies are sold throughout the year. So really the effect of the '18/'19 policy year extends in '18/'19 fiscal year and '19/'20 fiscal year.

MS. KATHLEEN MCCANDLESS: Thank you. If we look on the left-hand side of the table at the 2016/'17 actual results. I am just going to walk you through some of these results here.

So, the first section under Basic shows that there were total net premiums written in 2016/'17 of $924 million.

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Under total earned revenues, we see $928 million.

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: Then there were net claims incurred of $872 million.

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: The interest rate impact on those claims incurred was $-12 million for total claims incurred of $860 million.

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And then towards the very bottom of the screen there we see total claims costs of $994 million; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Diana, could we scroll down a bit further. Thank you. And to expenses; see operating expenses of $72 million.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then our commissions premium taxes and regulatory and appeal expenses.

Can you just explain what the regulatory and appeal expenses are?

(BRIEF PAUSE)

MR. PETER YIEN: Yeah, these expenses are related to the PUB process. Automotive injury compensation appeal commissions, and any claim in advisory office, related.

MS. KATHLEEN MCCANDLESS: Thank you. And the total expenses for 2016/'17 were $140 million, yes.

MR. PETER YIEN: Yes, it is.

MR. LUKE JOHNSTON: Yeah.

MS. KATHLEEN MCCANDLESS: And so, the results of -- of that was an underwriting loss of $206 million for 2016/'17; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: If we look to investment income. There was investment income of a hundred and one, or $102 million.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: The interest rate impact on the investment income was $19 million.

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: So the net investment income was $83 million.

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So Basic's position for '16/'17 was in that loss of $123 million; yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Now Diana, if we could go to Tab 8 of the book of documents, and that's Pro Forma 4.

Now this table shows what was budgeted for 2016 and '17, at last year's GRA compared with the actual results now presented in this GRA; yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Now, if we look about the middle of the page under Column 20- '16/'17 actuals. So for the actual results, we see total earned revenues of 928 million.

And on the right-hand side then we see that there's a difference; so total earned revenues were $5.8 million less than -- than budgeted for last year; yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And if we scroll down to the underwriting income and loss. Thank you.

So as -- as discussed previously, there was an underwriting loss of about $206 million, and that was a difference of $176 million from what was budgeted at last year's GRA; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And so at the very bottom of the screen we see that as compared to last year's budget, there was a $109 million difference from what was project -- or budgeted last year.

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And typically MPI looks to investment income to offset the underwriting loss; yes?

MR. LUKE JOHNSTON: That's right, generally we're close to -- it's -- it things have changed a little bit with accepted actuarial practice. But historically, the way rates would be set would be that net income equals zero.

MS. KATHLEEN MCCANDLESS: And if we

look to investment income. The actual results for 2016/'17 were that, as discussed, there was a net income of -- investment income of $83 million. And that was $66 million more than budgeted last year, yes?

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

MS. KATHLEEN MCCANDLESS: Now, moving up to about the middle of the page we see total claims costs were at $996 million, actual.

And that was $173 million greater than budgeted for last year; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: If we scroll to the next page of the document.

There is an explanation for the variances and so if we look to net claims incurred, would it be fair to say that much of the underwriting loss was a result -- resulted from higher than forecasted claims?

MR. LUKE JOHNSTON: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And so that would be higher than forecasted comprehensive claims as we see under Item 2?

MR. LUKE JOHNSTON: Correct. Just give me one second and I'll give you a little bit better detail.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Sorry, I'm looking for my detail. But yes, the large majority of the comprehensive over-budget would be related to hail, but there was also, as we discussed, little bit issues with rodents and theft and vandalism.

MS. KATHLEEN MCCANDLESS: Thank you. And if we look to the variance in investment income at Item 3. A significant part of that variance was -- the second line there, "higher-than-expected ALM impact due to interest rate forecast".

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Can you just explain what that means?

MR. LUKE JOHNSTON: So if we forecast interest rates to increase. We would -- we currently hold a bond portfolio with the duration of about 10 years. So the impact to that portfolio of interest rates rising would generally be a fallen, generally. It would be a fallen in bond prices.

So our forecast last year using a increasing interest rate forecast would have expected losses and since interest rates didn't increase as much is anticipated; there's a net positive variance between what we forecasted.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to Tab 9 of the book of documents, and that's Pro Forma 5.

And this table compares what was forecast for '27/'18 in last year's GRA with what is -- what was projected for 2017/'18 as at the time of the filing of the application this year; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So if we scroll to the bottom -- or -- yes, right about there.

Under net income or loss from operations, so last year the budget was projecting a loss of $10.8 million.

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And now that's been revised to forecasting net income of $58 million.

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: If we look to investment income. There is a significant variance of $65 million from what was projected last year, yes?

MR. LUKE JOHNSTON: Oh, I found it. Sorry, I look at the wrong line. Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And so the increased net income would be due to the higher than expected investment income?

MR. LUKE JOHNSTON: I can explain further. So, similarly in -- in this year's application, pardon me, in last year's application. We included a rising interest rate environment, which is one of the main reasons why the investment income is low. Because we're expecting losses on bonds.

This year, we've moved to a naive or flat interest rate assumption. And so the assumed market value losses on bonds as interest rates rise are -- aren't in the forecast. And so that's the big reason for the difference in investment income.

The port -- just maybe to expand on that. There is the assumed purchase of corporate bonds in our forecast. But the investment income from the additional bonds wouldn't be a substantial cause of this difference.

MS. KATHLEEN MCCANDLESS: And if we go to expenses, which is about the middle of the page; it looks as though the corporation is now budgeting for a reduction in expenses from what was projected last year of about $5.6 million, yes?

MR. PETER YIEN: Yeah -- sorry. I just want to make sure I got the -- which line item?

MS. KATHLEEN MCCANDLESS: Expenses. Total expenses.

MR. PETER YIEN: Yes. Yes, that's correct. I got it.

MS. KATHLEEN MCCANDLESS: And that's attributable -- in large part in the majority to reduction in operating expenses, yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Now, Diana, could we please go to Pro Forma 6, which is at Tab 10 of the book of documents.

MS. KATHLEEN MCCANDLESS: And this table compares what was forecast for 2018/'19 in last year's GRA with what is now being forecast as at the time of the filing of the application for this year's GRA; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Now if we go right down to the net result -- or net income. Last year the Corporation was forecasting net income for 2018/'19 of $24 million; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Now forecasting a $21 million loss, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: For a variance of $45 million.

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And if we just scroll up to a claims cost, so claims incurred.

It looks as though there is a significant variance in the forecast claims incurred; yes?

MR. LUKE JOHNSTON: Yes, there is and I can explain further if you want.

MS. KATHLEEN MCCANDLESS: Just for the record, so that's --

MR. LUKE JOHNSTON: -- Yeah --

MS. KATHLEEN MCCANDLESS: A variance of $101 million from what was forecast in last year's GRA; yes?

MR. LUKE JOHNSTON: Yes, yeah.

MS. KATHLEEN MCCANDLESS: We could go to the next page if that helps you with your --

MR. LUKE JOHNSTON: Well I can start by just giving a high level, if you want. So, above the total claims incurred line, you'll see net claims incurred, and then you'll see the interest rate impact.

So in this case, you can see that interest rate impact is the main driver, which is one of the reasons why we've created a separate line on the statements for that item. So if you net claims incurred, this would be the claims incurred, excluding interest rates and those have all -- those have increased. So, the forecast overall went up by $13 million. And I won't get into the reasons for that, but we did increase some of our claims forecast.

And then on the second line, the interest rate impact, you'll see that in last year's GRA, the first column claims are expected to fall dramatically by about 79 million. And this is because the present day cost of all of our claims liabilities is calculated based on the current interest rates or the -- the current yield on our fixed income portfolio.

So, again, last year we were assuming a rise in interest rates, which would lower our claim liabilities producing a $79 million benefit. Now, with flat interest rates we don't get that reduction anymore. And that creates 87 million of the 100 million change.

MS. KATHLEEN MCCANDLESS: If we scroll to the next page, there's further explanation on the -- claims incurred. So in addition to the forecasted growth in interest rates. There was higher than forecast physical damage claims of $19 million.

MR. LUKE JOHNSTON: That's right, the majority would be from comprehensive claims such as a hail.

MS. KATHLEEN MCCANDLESS: And another significant variance would be the higher than forecasted internal loss adjustment expenses that's, I-L-A-E.

MR. LUKE JOHNSTON: That's correct. Just to explain what that is. There is -- there is loss expenses a -- adjustment expenses associated with our outstanding claims.

For the mo -- just to put it maybe in a more straightforward terms; for the most part, we assume that these loss adjustment expenses are incurred as the claims are paid out. So in the same way if the interest rates are lower and the claims are higher. The cost of the our internal loss adjustment expenses also go up.

MS. KATHLEEN MCCANDLESS: Thank you.

If we go back to the first page of the Pro Forma to investment income.

Last year the Corporation was forecasting a total investment income of 26 -- 25.6 million; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And, in this years forecast it's $78 million for a variance of 52 million.

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And is that attributable to higher than expected ALM impact, pardon me, due to the interest rate forecast?

MR. LUKE JOHNSTON: This one is -- you can really see the impact of the flat interest rate forecast. If you look on the second column, this year's forecast the interest rate impact is nothing because we're assuming interest rates aren't changing at all.

So whereas last year, the bond prices would've been impacted or the market value of the bonds would have been impacted by the assumed rising interest rate environment.

MS. KATHLEEN MCCANDLESS: And to what extent is the expected increase in the allocation to corporate bonds factor into that variance in investment income?

MR. LUKE JOHNSTON: I wouldn't expect much. There might be some additional -- minor amounts of investment income from earning a higher yield on corporate bonds for one year, but it would be relatively minor. And it would be included in that investment income line. However the -- you'll also notice the investment income has dropped because, again, we're assuming non-increasing interest rates.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you go back to Pro Forma 1, which was Tab 5 of the book of documents.

I'm just going to ask some questions about 20 -- 19/20 and beyond. First, if we look to total net premiums written, starting at the column that's 2020, which is 2019/'20 forecast. And then moving further to the right up to 2021/'22 forecast.

We see a total net premiums written increase over that; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And does that reflect the volume factor and upgrade factor?

MR. LUKE JOHNSTON: That's right. So we -- I spoke earlier that the main classes, private passenger commercial, et cetera are most of the premium. So, we look at the growth in those classes which is about 1 and 1/2 percent a year. So we would say flee -- the fleet grows about 1 and 1/2 a year, which is very similar to the population growth. And then the upgrade factor grows about 2.5 percent per year.

And the upgrade factor is -- is -- if MPI just left our rates same next year, as they are today. We would obviously get new model year vehicles coming in they would have higher rates. We would get people selling old cars and moving into newer cars which create higher rates. Sometimes people move to the city and get higher rates.

So there's -- all those factors create premium upgrade without MPI changing a single rate in the model. So we don't ignore that extra premium when we apply for rates we just include the historical average in the -- in the projections

MS. KATHLEEN MCCANDLESS: Thank you. If we look down to investment income, we see that for 2019/'20, you show a net investment income of 80 million, going up to 85 million in 2020/'21, and then 84 million in 2021/'22, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And again, the reason that there is no interest rate impact for those years is -- is because of the assume no change in interest rates, yes?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And if we look to the net income projection for 2019/'20, the Corporation's forecasting and let -- a net loss of $8.3 million; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then as always, the Corporation will update the forecast in next year's filing and may apply for additional rate changes that would impact 2019/'20, yes?

MR. LUKE JOHNSTON: That's correct. And -- and just so the everybody understands what would happen when we switch from the old rate-making methodology which was -- our old rate-making methodo -- methodology would literally just say, Set net income to zero. Find the premium that makes these numbers zero. Our new accepted actuarial practice methodology says, Just look at the policies you're selling next year and make -- and make sure they don't earn any profit, which is different than -- than the fiscal year view.

So what can happen, for example, is we have almost $2 billion of claim liabilities. If interest rates were assumed to fall over the period, the -- the costs -- or the -- the present value of those liabilities would go up, can -- could create a loss on the statement, but that's completely unrelated to the new policies we're selling today. So it is possible to have positive or negative net income, but still sell the new policies that break even.

MS. KATHLEEN MCCANDLESS: Thank you. So there has been movement in interest rates since the application was filed in June?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And if interest rates change that, it has an impact on the forecast; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Diana, can you please go to Tab 11 of the book of documents. And that is a response to an Information Request on behalf of the Board, PUB-MPI-1-8.

You'll see the question there that the Corporation was asked to file updated pro formas and actuarial-indicated rates based on increases in interest rates. So at (a) it was a twenty-five (25) basis point increa -- increase in interest rates in 2017/'18. At (b) a fifty (50) basis point increase in interest rates at 2017/'18. And (c) based on a fifty (50) basis point increase in interest rates in 2017/'18 and fifty (50) in 2018/'19.

And if we scroll to the response and sort of the -- the narrative response before the pro formas. Thank you. Just on the next page we'll see it at (a), (b), and (c), here.

So with respect to (a) the effect of that interest rate change on the overall required rate -- rate change was from 2.7 to 2.3 percent, yes?

MR. LUKE JOHNSTON: That's -- that's correct.

MS. KATHLEEN MCCANDLESS: And then at (b) so that was the fifty (50) basis point increase, had the effect of red -- reducing the overall required rate change from 2.7 to 1.9 percent, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then for (c) that was the fifty (50) basis point increase at 2017/'18 and 2018/'19, had the same effect as (b). So changing the overall required rate change from 2.7 to 1.9 percent, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: So if we go to Appendix 1, the first page, and that's the twenty-five (25) basis point increase. The impact for the 2017/'18 forecast budget at the very bottom of the page, that is a net -- is net income of $64 million?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And then for 2018/'19, which would -- which would just be the next figure over to the right, was a net loss of 17 million?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And then for 2019/'20, which is the next column over, would be a net loss of 2.8 million?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So this is an improved outcome from what was forecast in the application; yes?

MR. LUKE JOHNSTON: Yes, it is. Yeah.

MS. KATHLEEN MCCANDLESS: And my rough math, feel free to correct me if I'm wrong, is that it -- for those three (3) years, it's -- it's an improvement of roughly $45 million?

MR. LUKE JOHNSTON: The 45 million seems high. Let me just --

MS. KATHLEEN MCCANDLESS: Oh, pardon me. Sorry.

MR. LUKE JOHNSTON: Yeah.

MS. KATHLEEN MCCANDLESS: Seventeen (17) or 18 million?

MR. LUKE JOHNSTON: That sounds closer to -- yeah.

MS. KATHLEEN MCCANDLESS: Okay.

MR. LUKE JOHNSTON: I wish it had that much of an effect, but it doesn't. Yeah.

MS. KATHLEEN MCCANDLESS: Now at Tab 12 of the book of documents. And this is another response to an Information Request filed on behalf of the Board.

The Corporation was asked to provide an update to the tables that we just looked at to reflect the current actual market interest rates?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And so that question was asked in August of this year. Now, if we look to the response, ultimately the effect of updating to actual interest rates change the overall required rate change from 2.7 percent to 2.0 percent; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: The Corporation, is it intending to amend its application at all to reflect the actual change in interest rates?

MR. MATTHEW GHIKAS: Maybe I can -- I can speak to that. So the -- the intent would be to have a -- a compliance filing rather than a formal amendment to the application so that the information would be updated to reflect the most current information in that regard, but it wouldn't be a formal amendment to the application. It would simply flow from the order.

MS. KATHLEEN MCCANDLESS: Thank you. Now the -- the change in this rate from 2.7 percent to 2.0 percent, is that from a change in the valuation of claims incurred in marketable bonds?

MR. LUKE JOHNSTON: The -- sorry, maybe just -- so the question was, Why does the -- why does it fall from two point seven (2.7) to two (2)?

So when we're setting rates, we're using the -- the claim -- what we call the claims liability discount rate, which is basically the -- this investment return we use to discount claims, and also for -- for rate-setting purposes. This is just the -- the -- basically, the average yield of the fixed-income portfolio.

So if interest rates are assumed to rise, particularly long-term interest rates, then we would have a higher investment return and therefore a lower rate. So really, as the investment return assumption increases, the rates move down, basically almost proportionately.

MS. KATHLEEN MCCANDLESS: And we see at the top of the response -- so the -- the actual market interest rate as of July 31st was 2.0 percent, which reflected an increase of .42 percent from 1.64 percent when the GRA was filed, yes?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And so that had an impact on the duration-weighted return on the fixed-income portfolio as at March 1, 2018, from 3.7 -- .8 percent to 4.12 percent; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Now if we look to the pro forma that was filed as Appendix 1 in this Information Request response, and we look to claims incurred in -- and perhaps, Diana, we could split screen this with Pro Forma 1, which is at Tab five.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Okay. Thank you. So if we look to the net claims incurred -- or total claims incurred, pardon me, for the -- on the right-hand side of the screen is the applied -- the pro forma filed with the application.

Total claims incurred for the 2017/'18 forecast budget was 739.4 million; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And if we look to the left-hand side of the screen with the 2.0 percent or 2017/'18 forecast budget, we see total claims incurred has now reduced to $677 million; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: The effect on investment income for 2017/'18 forecast budget, we see and on the right-hand side of the -- of the page, so for the 2.7 percent rate application, net investment income for 2017/'18 of 101 million?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And for 2017/'18 forecast budget based on the 2.0 percent, we have net investment income of 39.5 million; yes?

MR. LUKE JOHNSTON: Yes. And -- and what you're seeing here is the model estimating what the interest rate changes are -- are worth in terms of dollars on the financial statement.

MS. KATHLEEN MCCANDLESS: Thank you. If we look at the net income for 2017/'18 forecast budget, on the left-hand side of the -- of the screen, which is the 2.0 percent, it's 57.1 million; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then on the right-hand side of the 2.7 percent rate increase, it's 57.5 million?

MR. LUKE JOHNSTON: Yes. Basically, the model that has run based on this scenario is essentially assuming that the -- the decrease in investment income is almost perfectly offset by a decrease in claims liabilities.

MS. KATHLEEN MCCANDLESS: Thank you. Now, Diana, can you please go to Tab 7 of the book of documents. And that's Pro Forma 3.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And I apologize for making you jump around so much this morning.

So Pro Forma 3 reflects the forecast of Basic retained earnings in total equity as at the time of filing of the application; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And so for 2017 -- or '16/'17 actual results, total retained earnings were $99 million. That's on the left-hand side of the table?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And that was after a transfer in of $27.8 million from non-Basic retained earnings?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And was that -- that transfer was done ultimately with a view to putting Basic's total equity at the bottom of the screen there at $181 million?

MR. LUKE JOHNSTON: Yes. The transfer was made to -- to bring the total equity up to the -- the minimum for satisfactory financial condition based on the last year's DCAT, which would have been the only information that our board had at the time that that decision was made.

MS. KATHLEEN MCCANDLESS: Thank you. If we look to the 2017/'18 forecast budget, total retained earnings are at $157 million?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Sorry. Yes. I was looking one (1) column over. One -- one fifty-six point eight (156.8). Yes. Yeah.

MS. KATHLEEN MCCANDLESS: And the total equity forecast is at two hundred and twenty-one (221) -- or sorry, $220.1 million?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: If we go to tay -- sorry, at Tab 12 of the book of documents. Again, that was the response to PUB-MPI-2-9. And page 3 of the appendices.

And this is a statement -- the statement of changes in equity with the 2.0 percent rate increase; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So with actual interest rates as of July 31st, 2017, we see, if we just scroll down a little bit, we see the total equity balance for 2017/'18 forecast budget to climb to $227 million; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. LUKE JOHNSTON: Just to a maybe

add on that, it's a bit -- the effect of interest rates is a bit offsetting, because as interest rates rise, the rate goes down, lowering your premium revenue. However, in the longer term, the better interest, the higher interest rate improves your investment income.

So the -- in the first year, the effect of interest rates is good on -- on our results, but you also apply for a lower rate increase so you can essentially give it back, as you should. But -- so that's why it's not a -- a bigger impact than -- than -- it looked like about 5 to 10 million.

MS. KATHLEEN MCCANDLESS: Thank you. I'd now like to ask some questions about the compliance filing process, which Mr. Ghikas touched on briefly just a moment ago.

So just to clarify, the compliance filing process is being proposed in concert with use of a naive interest rate forecast?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And so that assumes no changes in market interest rates going forward from the time the rate analysis is done?

MR. LUKE JOHNSTON: That's correct. And we've proposed November 30th for that -- for the date.

MS. KATHLEEN MCCANDLESS: And that's approving -- using an improved rate-setting methodology?

MR. LUKE JOHNSTON: Yes. We wouldn't -- we wouldn't change anything, preferably, subject to the PUB asking otherwise. But we would just update for the Government of Canada 10 year bond rate, and flow through that into our normal rate-making analysis.

MS. KATHLEEN MCCANDLESS: And so as we saw on the exercise just a few moments ago, where we compared the -- the pro forma is based on a two point seven (2.7) -- or the indicated rate change was two point seven (2.7) and two point zero (2.0), based on actual int -- interest rates, yes? As I understand it, the -- the proposed compliance filing process anticipates the release of a Board order that would -- following the hearing that would essentially improve the process itself, yes?

MR. LUKE JOHNSTON: That's correct. And -- and we could -- we've provided -- we can also give a schedule to the Board, essentially indicating the -- the rate, and what the rate (INDISCERNIBLE) -- indication would be at various levels of the -- the

Government of Canada 10 year bond rate.

MS. KATHLEEN MCCANDLESS: Okay. And when would you be able to do something like that?

MR. MATTHEW GHIKAS: I would note there is a sensitivity that's on slide 31 of Mr. Yien and Mr. Johnston's opening -- opening presentation that shows the chang -- what the changes in interest rates due to the rates.

MR. LUKE JOHNSTON: Thanks. I was going to say anytime that we could -- but I -- I knew we provided it somewhere.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Right. Notwithstanding that we have this information, though, the compliance filing process would -- at this point, the Board would not be in a position to specifically know what that ultimate rate change would be?

MR. LUKE JOHNSTON: Yes. It's -- I spoke a little bit in my opening presentation about the difficulties -- difficulties we've had with the interest rate forecast. And just some of the items you walked us through, you could see that when we're talking twenty-five (25), fifty (50) basis points we're into tens of millions of dollars. And -- and so that forecast obviously creates an enormous amount of risk. If we assume the wrong number or an increasing interest rate forecast, we could quick -- quickly be losing a lot of money in the rating year.

So we're trying to find a solution to avoid that, but at the same time use the latest interest rate possible. So we understand if we came to the -- put our application in and the current ten (10) year bond rate was 1.6 percent, and it has since risen to 2.3 percent, we wouldn't want to go forward on -- on a one-point-six (1.6).

But at the same time, similar to some of our prior applications we'd have to be very cautious about, you know, assuming interest rates are just going to rise a hundred (100) basis points because of, you know, a handful of banks say that's going to happen. Because it, it hasn't, right? And it's cost us a lot of money. So this process was put forward to hopefully find a compromise solution to that matter.

MS. KATHLEEN MCCANDLESS: So would the effect of the proposed compliance filing process not be that the Board, if it were to accept the Corporation's application as filed, in effect could -- could or would be approving something other than 2.7

percent indicated rate change?

MR. PETER YIEN: Yes, that's true.

MS. KATHLEEN MCCANDLESS: And the Board would not be in a position to know what that rate change would be unless and until the compliance filing is -- processes initiated?

MR. PETER YIEN: Yes, that's correct. No one would be a good forecast naive rate as of November currently.

MS. KATHLEEN MCCANDLESS: So the Board wouldn't know as at the time of issuing its order necessarily what rates it was ultimately approving.

MR. PETER YIEN: Well, it depends on the time of the Board order, and the time of the deliberations. The Board would know as of the time deliberations when they issue the order because they would know this is an objective Government of Canada rate, so they would know it at that point in time. But subsequent to that, when we do the compliance filing, if it wasn't on November 30th, the Board would not know.

MS. KATHLEEN MCCANDLESS: Right. So perhaps then the Corporation could just explain how that process would permit the parties to the application to test the evidence in the application.

MR. LUKE JOHNSTON: So the compliance filing is -- is -- has literally zeroed in one (1) variable, being the ten (10) year Government of Canada bond. We assume every other forecast and information in the application would be reviewed thoroughly by parties and approved.

We're -- we're literally just talking about the -- this one (1) interest rate basically that we're asking to use through the compliance filing process. But all other aspects of the application, we assume, would be reviewed as a normal process.

MS. KATHLEEN MCCANDLESS: Diana, can you please go to add Volume 2, the investment section of the filing, section 2.3.1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: I believe it's page 20. So here, as we've heard, the proposed compliance filing process anticipates updating the rate indication with the actual ten (10) year Government of Canada bond interest rate -- or bond rate as of November 30, 2017; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: In 2.3.1,

the Corporation discussed -- discusses an alternative proposal to update the rate indication with the actual claims discount rate as of November 30, 2017?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And can you describe what more is involved in this alternative pro -- proposal?

MR. LUKE JOHNSTON: So the -- the claims liability discount rate would be the actual rate we use the to discover liabilities, and would be the rate used in the rate-making calculation. The -- it's a more -- it is a more accurate measure in terms of it would reflect any allocation changes on the investment portfolio.

So, for example, if -- if our proposal assumed 18 percent corporate bonds and we'd only bought 17 percent, it would reflect that more accurately in the indication.

MS. KATHLEEN MCCANDLESS: And so, as I understand what you're saying that the advantage would be the greater accuracy?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Would you mind

repeating the question if you remem -- remember it? Thank you.

MS. KATHLEEN MCCANDLESS: Maybe I'll just rephrase it. So if -- if the Corporation is using the claims discount rate that would then include and reflect whatever trading activity had occurred with respect to the -- the Corporation's portfolio; yes?

MR. LUKE JOHNSTON: It -- it -- yes, it would. Yes. Yeah.

MS. KATHLEEN MCCANDLESS: And so that could have greater variability than relying on the Government of Canada ten (10) year bond?

MR. LUKE JOHNSTON: Yes. Yeah.

MS. KATHLEEN MCCANDLESS: So the same question with -- with respect to this alternative. The result would be that if the Board were to approve this -- this alternative method of compliance filing, it would be, again, approving a method that it would not know what time of approval what that ultimate rate indication would be; yes?

MR. LUKE JOHNSTON: Yeah. The -- the -- we would know the -- the potential range of outcomes, and what they would be for different discount rates for Government of Canada ten (10) year bond rates, but at the time of the approval they may not know the actual rate indication. Yeah.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to PUB/MPI-1-6. And scroll just to the bottom of the questions. I'm just going to ask you about (c).

So in this IR the Corporation was asked to discuss the implications for the proposed compliance filing process arising from the possibility of an alternative less mechanical approach to interest rate forecasting than using the naive.

And then if we scroll to the response -- the response here, I won't read it all to you, but just to summarize, the Corporation outlines the apparent consequences for rate setting. And ultimately at the bottom of the response it's the Corporation's position that this would render the proposed compliance filing approach basically invalid or inoperable. Is that right?

(BRIEF PAUSE)

MR. STEVE SCARFONE: I think the witness, Ms. McCandless, may be struggling with that language that you used to -- can you point him out where it says "invalid and inoperable?"

MS. KATHLEEN MCCANDLESS: It doesn't say that. I'm just wondering if that's ultimately the -- the import of the or the --

MR. STEVE SCARFONE: Oh, I understand. Okay.

MS. KATHLEEN MCCANDLESS: -- the Corporation's position on that approach.

MR. LUKE JOHNSTON: I just want to look at the full question and I'll respond momentarily.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Thanks for that. So you can rephrase the question again if you want after, but some the -- the nai -- I think what we're saying there is the naive approach is preferable because it's basically verifiable current market base information as opposed to, like, a bank forecast that would have to be re-reviewed and such as part of compliance filing, which would be difficult.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So not

inoperable or invalid, but the naive, in your view, would be the better approach?

MR. LUKE JOHNSTON: Agreed, and -- and the whole change to accepted actuarial practice really makes the -- the window where the rates could change very small based on how we've calculated it, which -- it's about three (3) months of variability beyond the date that the Board would be approving that naive forecast.

MS. KATHLEEN MCCANDLESS: Now, just from a mechanical perspective, what would the Corporation be filing as part of the proposed compliance filing process?

MR. LUKE JOHNSTON: I'll just get -- I believe there's an information request. We're just going to pull it up.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So we actually have the question on the screen. So if we just scroll up to part A, the answer is right -- yeah. So these bullets outline, really, the -- the usual material we would file as part of the rate indication. So the -- the rate change chart that we went through this morning, the statements decre -- increase/decrease summary, et cetera.

So, of course, if there's anything else that the Board wants to be filed we'd definitely be open to -- to hearing that as well. But this is what we saw as the standard material that the Board likes to -- to see.

MS. KATHLEEN MCCANDLESS: Thank you. Now, as a -- as a possible alternative to a co -- that -- the compliance filing process that the Corporation has proposed, could the Corporation not potentially amend its rate application early in the public hearing process, say to reflect actual market interest rates at the time, say, as of September 30, 2017?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So is it possible that -- yes, it's possible, but I think we've proposed a process that allows the GRA to be reviewed in its entirety with the exception of this one (1) variable. And the compliance process would bas -- relative to your example give us an extra two (2) months of information on interest rates, which could be significant, depending on what happens in the market.

So the -- amending an application is also a bigger undertaking then -- then updating an interest rate through a compliance filing on -- as of November 30th, so. There's probably other reasons, but those are some.

MS. KATHLEEN MCCANDLESS: Can you just ex -- can you please expand on why amending the application would be a bigger undertaking than the proposed compliance filing process?

MR. LUKE JOHNSTON: Well, so in -- on the screen now you have what we would propose to file as part of the compliance filing. Amending the entire rate application, depending on what extent we're talking about, will -- you can see the -- the size of their rate application, so if that included amending all the sections, such as claims incurred and investments, et cetera, that's a very big undertaking to redo the entire filing.

MS. KATHLEEN MCCANDLESS: Thank you. Mr. Chair, I'm moving into a new area of questioning now, and I see that the time is just about -- just after 10:15, so.

THE CHAIRPERSON: Okay. We'll break till 10:30. Thank you.

--- Upon recessing at 10:17 a.m.
--- Upon Resuming at 10:35 a.m.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. I'm just going to ask a few questions about volume factor and upgrade factor, which we touched on before the break.

And so as we saw when -- in looking at the pro formas the increase in -- in premium revenue to the Corporation over the -- the outlook period due to volume factor and upgrade factor. So, a volume factor is the natural growth in the size of the fleet from year to year. Yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And then upgrade factor would be the increase in average premium without a rate change?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: So customer selling old vehicle/buying a new one which will come with higher premiums,

MR. LUKE JOHNSTON: Yeah, one of the other ways that I didn't mention is the -- the DSR level. So, if more people drive safe and get a higher discount would get less premium as well. That would be not upgrade or downgrade, I guess, but negative upgrade.

MS. KATHLEEN MCCANDLESS: And so the Application this year reflects a volume factor of 1.5 percent?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And the upgrade factor is 2.64 percent? I can take you to a reference if you need it.

MR. LUKE JOHNSTON: I'm almost there. The vehicle upgrade not including this -- any change in the DSR upgrade is 2.6 percent. Oh, pardon me, 2.50 percent. Last year was 2.6 percent.

MS. KATHLEEN MCCANDLESS: Pardon me. Diana, could you please go to the revenue section, the filing page 6, and that's volume 2. I'm not sure if it's page 6 of the PDF. If you just scroll to the bottom. Yep, okay.

So if we go up a little bit on the page, under Forecasting Methodology that -- it says, "MPI forecast overall volume growth based only on the historical HTA unit growth data."

Can you explain what that means?

MR. LUKE JOHNSTON: Yes, I touched on

it earlier. The HTA, Highway Traffic Act, vehicles are, basically, everything in our fleet not counting ORVs and trailers. And ORVs and trailers are less than 2 percent of the premium. So, we -- we exclude that for the purposes of protecting the overall premiuim.

MS. KATHLEEN MCCANDLESS: Thank you. And if we jump ahead to page 6, figure REV -- sorry, page 8, REV-6. So this table shows the protect -- projected HTA volume factors for 2016/17 actual and so that was 1.64 percent as compared to what was projected last year. So for a difference of .11 percent less. Yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then 2017 and 18 thereafter is 1.5 as you just mentioned. Yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Okay. And then lower down on the page, figure REV-7 is the upgrade factor forecast, which shows 2.64 percent, and then some variation and ultimately by 2120 -- 2021/22, it will be 2.5 -- 4 percent. Yes?

MR. LUKE JOHNSTON: That's right. So 2.50 percent is the vehicle upgrade and anything --

everything else would be the DSR upgrade.

MS. KATHLEEN MCCANDLESS: And can you just explain how the Corporation comes up with the -- or why -- why the upgrade factor is relatively flat over that period?

MR. LUKE JOHNSTON: Just give me one (1) second, I will pull some history here. If you go to page 10, top of the page Figure 8. So, we have a much longer history than this, but vehicle upgrade for the last five (5) years is shown on the first column with the -- with numbers there. So the three- and the five-year average are close to 2.50 percent.

The '16 -- 2016/17 vehicle upgrade was the lowest vehicle upgrade we've ever -- ever seen at MPI. So we did look into that. And from what we can tell there was just less buying and selling of vehicles in the fleet. When we looked at historical behaviour, and said, well, what if customers basically bought and sold at this -- at the rate they did in previous years, what would the upgrade be? And it was about to 2 -- 2 1/2 percent.

So, for whatever reason, customers didn't exchange vehicles or buy new vehicles at the same pace they did in -- in past years. There's a lot of reasons that that could happen, yeah.

MS. KATHLEEN MCCANDLESS: And I think it might be at the bottom of this page --

MR. LUKE JOHNSTON: There you go, yeah.

MS. KATHLEEN MCCANDLESS: -- where the explanation is that -- yeah, on the top paragraph there, "the average age of an HTA vehicle was stable from 2011/2012 to 2015/16 at 9.92 years?"

MR. LUKE JOHNSTON: Yes, thanks. I should just read further on the page next time. So, yeah, our vehicle age dropped which tells you that customers are holding on to older cars. We've been hovering around the 10 year old car mark forever, but if there's periods of time where everybody's buying new vehicles, maybe because of interest rates being low or whatever, that's a cycle that's -- you know, some -- sometimes flips the other direction.

So it looks like this particular year the cars are getting older, not being -- yeah.

MS. KATHLEEN MCCANDLESS: So from the Corporation's perspective, this -- this jump to 10.05 is -- is more of a cyc -- cyclical issue rather than a trend that you expect to see going forward?

MR. LUKE JOHNSTON: Correct, based on what I know of our history, I wouldn't -- I'm not expecting this to climb up to 10 1/2, 11 years or something like that. So, we're definitely hoping it's a one (1) time occurrence.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to page 19 of the revenue section, figure REV-21. So that shows the driver premium forecast?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: For fiscal 2017/18 through to 2021/22.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And it shows in 2017/18 earn premium is projected to be $49 million, increasing to $74 million by 2021/22.

And is that based on forecasting movements by drivers on the driver safety rating scale?

MR. LUKE JOHNSTON: That's right. So we look every year. We look at where all the drivers are on the scale and where they move to, based on their experience; that's one (1) of the ways that we're -- we're able to measure if -- if DSR driver safety rating is -- is effective. So, we use the -- the past behaviour to predict where these drivers will move in the future so.

And then obviously the number of drivers times the premium level gives you the -- the overall program.

MS. KATHLEEN MCCANDLESS: Thank you. I'm now going to move to questions about investments. So just before going into the actual financials, the funds available for investment by the Corporation are primarily unearned premiums and unpaid claims?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And MPI manages one (1) in -- one (1) corporate investment portfolio that includes paying claims for the insurance business, but also to meet its employees pension obligations?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So that means there's no separate investment portfolio for the pension obligation, correct?

MR. PETER YIEN: No.

MS. KATHLEEN MCCANDLESS: Diana, can you please go to page 10 of the investment section of the filing and that's figure INV-2. This should be a version -- I believe there were some updates made so it should be the version dated August 4, 2017.

(BRIEF PAUSE)

MR. PETER YIEN: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Right. Thank you. So if we look to the results for 2016/17 actual, which is essentially in the middle of the page, and this is the investment portfolio asset values from 2012/2013 through to 2021/22. Total assets under 2016/17 actual are 2.66 billion?

MR. PETER YIEN: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And through 2718 -- sorry, 2017/18 to 2018/19, the assets are expected to grow from 2.6 to $2.9 billion?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then by 2021/22 they're forecast to grow to $3.4 billion; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Now, the income earned on the portfolio is determined for the Corporation as a whole; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And if we go to page 9, so just one (1) page up here. This is the investment income summary on a corporate basis?

MR. PETER YIEN: M-hm, yes.

MS. KATHLEEN MCCANDLESS: And then a portion is allocated to Basic, based on the net equity position of Basic relative to the other lines of business?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And currently that allocation is at 85 percent to Basic?

MR. PETER YIEN: That sounds approximately right, 85, yep.

MS. KATHLEEN MCCANDLESS: Diana, could you just scroll down a little bit further. You see at the bottom there --

MR. PETER YIEN: Yeah, I do recall it's very close to that. I don't know the exact point is -- percentage, yes.

MS. KATHLEEN MCCANDLESS: Look to line 31 and under the FB so that would be the 2017/18 forecast budget. The Basic allocation is 85.0 percent; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now if we look to the -- the right-hand side of this table following the 2017/18 forecast budget, the share of investment income allocated to Basic, at the very bottom of the screen there, it's declining from year to year. Do you see that?

MR. PETER YIEN: Yeah, that's correct.

MS. KATHLEEN MCCANDLESS: So by 2021/22 it will be 79.8 percent?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And can you explain the reason for that decline?

MR. PETER YIEN: Yeah, that decline is a -- we said earlier is the allocation of the relative equity, right. So as the relative equity of the other lines of businesses go up, therefore, its proportion goes down.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please take me to -- this is from the 2017 GRA, and it's from the investment income section of the filing, so INV page 4. And this was the summary of investment income from last year's GRA.

So if we look to the left-hand side of the table at 2011/2012 and total investment income at the very bottom of the screen there, that was $118.9 million in 2011/2012. Yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And for 2014/2015 investment income was $226 billion -- sorry, 226 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then that was followed by a loss of 4.7 million in 2015/16. Yes?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: Now, if we look to this year's filing, INV page 9 for 2017/18 forecast budget. Maybe we could just put the other table up on the screen, Diana, so we can compare. Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Diana, sorry to put you through that.

MR. PETER YIEN: Sorry, I was going to suggest if we are in the current Windows version, a quick way to do this is simply drag the window to the far right or left and it splits it in half. I'm not sure what version of Window you are at. Like, if you pull that mouse to the very far right, and let go of your mouse, go -- pull it all the way to the right-hand side, yep, and let go. There you go. That's a very fast way to do a split screen. It will speed you up and you can do it on both sides. Just a suggestion.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. PETER YIEN: Okay, no problem.

MS. KATHLEEN MCCANDLESS: Hopefully --

MR. STEVE SCARFONE: There was a reason we called him as a witness.

MR. PETER YIEN: Just -- just to be clear, I wasn't trying to be arrogant or make fun of anyone. I -- I -- it's just something I happen to know, okay.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So hopefully people can see now it's in front of them on the screen. So in last year's GRA, so that is the table on the right-hand side of the screen. If we look to 2017/18 forecast for total investment income.

The forecast was for 11.6 million investment income, yes.

MR. PETER YIEN: I apologize for the eyesight problem there.

(BRIEF PAUSE)

MR. PETER YIEN: Okay, I got that.

MS. KATHLEEN MCCANDLESS: Of which 9.86 million was allocated to Basic?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And then if we look to the left-hand side of the screen, which is the investment income forecast for 2017/18, it's the forecast budget. We see total investment income of 119 million -- 119.7 million; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Of which a 101.8 million is allocated to Basic; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And then if we look to last year's forecast for 2018/19 for total investment income the Corporation was forecasting only $6 million and that's at the bottom of the screen on the right-hand side.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And it's now much higher. If we look on the left-hand side of the screen for 2018/19, total investment income is forecast to be $93 million; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So is the change in outlook from last year primarily due to the use of a naive interest rate forecast in the application?

(BRIEF PAUSE)

MR. PETER YIEN: Yes. So if you refer to line 13 for the marketable bonds gains, that's where -- you see the significant differences. There's virtually nothing going to a fairly sizable numbers. Okay, so line 13 this year. Line 13 of this year and then if -- what's the line number.

Yeah, really, I guess you do have to look at both line 13, which is the marketable bonds, unrealized gains and also consider line 14, which is the marketable bonds realized gains and loss.

Yeah and then you would compare to the area called Gains During Period, Profit and Loss. And we would have the same numbers except they are quite sizable. You'll see, respectively -- I'm just going to scroll up a little bit. You'll see -- I'm just trying to find a year reference here. It's really small.

Yep, so in 2016/17 and 2017/18 when you look at those number respectively, you'll see the 66.9 million and 68.16. They're fairly sizable. Are you able to see that?

So again, it's just a repeat. If you look at the marketable bonds, unrealized gains and loss; marketable bonds, realized gains and loss for 2016/'17 fiscal and 2017/'18 fiscal. You'll see the numbers being approximately 67 million and 68 millions, respectively. And that's the sizable difference.

MS. KATHLEEN MCCANDLESS: And that's with respect to the investment income from this year's filing.

MR. PETER YIEN: That's right.

MS. KATHLEEN MCCANDLESS: And as discussed, the bond rate has changed since the filing of the application.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Does the Corporation have information as to the results of its investment income after the second quarter?

MR. PETER YIEN: We will. We have not released our Q2 information yet. That's going to be presented to the board later on this week as part of our audit committee meeting.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, I think you can get rid of the 2017 investment income table.

And I'm just going to ask some more questions about INV-2, so that's Page 10 from this year's filing.

So if we look to the holdings of the Corporation in its portfolio. We have, as of 2016/'17, assets of $2.6 billion; of which over a billion is invested in Canadian fixed income bonds, yes? And that's at Line 2.

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And those bonds are interest rate sensitive?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Another material component if we look under 2017/'18 forecast budget, would be Line 3, MUSH bonds; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: That's municipals -- municipalities, universities, schools and hospitals; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And the forecast budget has MUSH bonds at $639 million; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And are MUSH

bonds reflected on the books of the Corporation at an amortized cost?

MR. PETER YIEN: No, they held at book value. They're not marketable.

MS. KATHLEEN MCCANDLESS: And the MUSH bonds are not interest rate sensitive; yes?

MR. PETER YIEN: No, they're not.

MS. KATHLEEN MCCANDLESS: Now, if we look to the investment in MUSH bonds following the 2017/'18 forecast budget, through the outlook period.

The investment in MUSH bonds is to decline somewhat and we see by 2021/'22 that they will be at $598 million; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Is -- what -- what's the reason for the decline in the investment in MUSH bonds?

MR. PETER YIEN: Part of that reason is -- is we are trying to drive higher level investment vehicles. To drive the -- effectively we set about purchasing of bonds, part of that's related to that.

So it's really a combination which is set as well. It's the purchasing of the bonds plus, also as we came in this app. We were the understanding that this wasn't a big market for that. And that we were not able to purchase it at that time

MS. KATHLEEN MCCANDLESS: Do MUSH bonds provide a good return to the Corporation?

MR. PETER YIEN: I'm not sure. Can I clarify "good"?

MS. KATHLEEN MCCANDLESS: How do they compare to corporate bonds or provincial bonds?

MR. PETER YIEN: I -- personally I think the -- each of the investment vehicles is dependent on the risk-return. And so based on the risk-return against investments are generally good. The question is really: What's the risk appetite we have as an organization?

And what we should be buying - and as I alluded to earlier on - we are actually looking at the asset liability matching study that needs to be completed. And at that point we'll decide what, kind of, "good" means. Because we need to make sure that we have the appropriate allocation of our portfolio.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you go to Page 34 of the investment section. Figure INV-15.

So this is a table showing the yield on MUSH bonds from 2017/'18 through to 2021/'22. And the yield on MUSH bonds at the end of the period from last year for 2017/'18, is at Line 3, 4.54 percent; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And if one was to compare this to marketable bonds for the same year, so that's at Page 25 of the filing, of the investment section. And that's INV-9.

The marketable bond yields for 2017/'18 on the left-hand side of the table at Line 12, shows the yield at 3.42 percent for 2017/'18; yes?

MR. PETER YIEN: Three point two four?

MS. KATHLEEN MCCANDLESS: Three point four two.

MR. PETER YIEN: Three point four, yes. That's correct

MS. KATHLEEN MCCANDLESS: So comparing that to the previous figure INV-15 then, the yield on -- on MUSH would be 112 basis points higher than marketable bonds?

MR. PETER YIEN: Yeah, that would be correct.

MS. KATHLEEN MCCANDLESS: And Diana, could we go to Page 35 of the investment section? Thank you.

So, the spread of MUSH bonds -- this

graph shows the spread of MUSH bonds for a 12-year period from 2005 through to 2017; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And the spread of MUSH bonds over that period would be in the range -- if we scroll down to Figure INV-17. The spread of MUSH bonds over that period.

So from 2005 through to two thou -- 2017, would be 1.33 percent at Line 1 for 2005; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And at the bottom at Line 13 for 2017, 1.88 percent; yes?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And does this table represents the average of the five (5) year historical spreads?

MR. PETER YIEN: Yeah, you -- I think we need to make -- look at the next figure. Can we just go down? Seeing it. Just one (1) second. Eighteen right? Yes. Just go up a little bit.

MS. KATHLEEN MCCANDLESS: There.

MR. PETER YIEN: There we are. Yes, we got it.

MS. KATHLEEN MCCANDLESS: So, given the illiquid characteristics of MUSH bonds with no market. How does the Corporation price its MUSH issues?

MR. PETER YIEN: Can you repeat the question, please?

MS. KATHLEEN MCCANDLESS: How does the Corporation price its MUSH issues? Given the illiquid characteristics of the mush bonds?

MR. PETER YIEN: One second.

(BRIEF PAUSE)

MR. PETER YIEN: Yeah, we buy them at par but we don't get a chance to price them per se.

MS. KATHLEEN MCCANDLESS: Diana, can you please go back to Page 9. That's figure INV-1. Thank you.

So if we look to the composition, say, just for example, for 2017/'18 forecast budget. The components of investment income. The majority composition, in total would be from -- from bonds; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And the largest -- again under the column 2017/'18 forecast budget. The largest component of investment income would be the interest on its bond portfolio from marketable bonds.

MR. PETER YIEN: Sorry. Proportionally, that would be true.

MS. KATHLEEN MCCANDLESS: Now, if we go to Page 16 of the investment section. Under the italicized portion of the page here, which was Aon's Fixed Income Analysis report from May 2016. There is a quote here and preceding that, MPI notes that it assumed that in the past, that MUSH bonds were a good proxy for corporate bonds to the high-yield of MUSH bonds; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: But now, MPI is looking at an increase in corporate bonds; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And so, is the reason for that, because of the lack of availability of MUSH bonds going forward or...

MR. PETER YIEN: No. We're trying to drive a higher yield. And so that's -- that allows us to get into different type of bonds that are -- as I mentioned earlier, it's important for us to kind of, weigh that and make sure that the net residual risk is well accepted and well understood. So we -- we --

MS. KATHLEEN MCCANDLESS: We went through the yield, the relative yields for corporate bonds versus MUSH bonds just a moment ago. And it showed that MUSH bonds had a higher yield; yes?

MR. PETER YIEN: Yes. But we are trying to buy different corporate bonds going down a level.

MS. KATHLEEN MCCANDLESS: Okay.

MR. PETER YIEN: A higher response --

MS. KATHLEEN MCCANDLESS: Yes, and I'll have questions about that later.

(BRIEF PAUSE)

MR. PETER YIEN: Kathleen. If I could just make an adjustment in terms of my response. The yield that you saw, were not corporate bonds.

MS. KATHLEEN MCCANDLESS: Marketable bonds.

MR. PETER YIEN: Yes. So that's -- that's what I was trying to get to, is that when we get into the triple A minus double Bs; then the yields of those will be higher. Yes.

MS. KATHLEEN MCCANDLESS: Diana, can you please go to PUB-MPI-1-43. Thank you.

So the question here was, essentially, that MPI was asked to provide a table depicting the impact of a hundred (100) basis point change at 'B', on the basic claims liabilities and fixed-income investments for Corporate and Basic. And if we go to Page 3.

So this table shows that MPI would not be fully protected from changes in interest rates; yes?

MR. LUKE JOHNSTON: I'm just going to jump in here quickly. So the question was, "would not be fully protected" are you referring to Basic or Corporate?

MS. KATHLEEN MCCANDLESS: Basic.

MR. LUKE JOHNSTON: So for -- yes, for -- for Basic, because of how we allocate investment income as you noted earlier; 85 percent of investment income gets allocated to Basic. There's generally a smaller Basic investment income impact compared to the impact on claims.

So what I mean by that is, on a Corporate basis, we say we try to match the dollar value of the claim liabilities to the dollar value of the fixed income portfolio. And we also try to match the duration of those two (2). With the objective to have interest rate impacts be the same. On a Corporate basis that works better because the two (2) buckets are the same size, but on the Basic side when you allocate 85 percent of the impact over, you don't get -- there is a -- is a mismatch on the -- by line of business. So to your specific question. There's not a -- there is not a perfect match.

MS. KATHLEEN MCCANDLESS: Thank you. So for example if we look to the column under 2017/'18 for Basic. So, Lines 10 through 14.

We see that a 100 basis point increase has the impact of reducing investment income by $119 million; yes?

MR. LUKE JOHNSTON: Okay, this -- this -- this -- this year is unique. Maybe I'll just go ahead and say why right now. So in 17/'18, the corporate bond purchases is -- is in there. So the corporate bonds increase the yield on the -- on the claims liability discount rate.

And so you have a really, you have an ex -- basically an extra about $80 million impact to that -- claims interest rate impact of 213 million. If you go one (1) year over, you see after that 110/ 134, 113/145. That's more the consistent matching that's happening and if you actually go up to

Corporate on the top you'll see starting in '18/'91; 132/136, 136/148. When we say matching, we're never going to be perfect, but that -- in terms of hundreds of millions of dollars on billions of dollars we consider that good matching.

MS. KATHLEEN MCCANDLESS: Thank you. So with MPI, not modeling changes in interest rates in it for -- in its forecast. There would be implications on MPI's financial results going forward; yes? As interest rates move.

MR. LUKE JOHNSTON: Yes, that's correct. And if we -- we have actuals see here. Oh, no we don't. What I was going to say is, if you -- if we return to one (1) of the investment income summaries. I don't know if you still have it a back there or I can give you a reference. Page 4, of the investment income. Did I get that wrong? Nope. There we go, thank you.

So if you look in the history at -- maybe just stop right there. On the Lines 13 and 14, the actuals -- so you can see unrealized and realized gains '14/'15. You see we have gains 75 million, 27 million; so $100 million of gains in one direction and then the next year, they are all basically wiped out. And then if you look years before that there up --

there up-and-down. So absolutely we have sensitivity to interest rates, and that's basically the purpose of the ALM to -- the value of trying to mitigate those swings through buying the bond portfolio that we have is seen to be -- to be worth the -- I guess the price of investing in such a portfolio.

MS. KATHLEEN MCCANDLESS: Thank you. So as we've heard, the Corporation is deciding to change its mix of the fixed income portfolio in 2017/'18, adding -- increasing its allocation to corporate bonds.

MR. PETER YIEN: I'm sorry, can you -- repeat the question?

MS. KATHLEEN MCCANDLESS: MPI's intending to change its allocation or increase its allocation to corporate bonds for 2017/'18; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And, Diana, can you please go to Page 86 of the investment section of the filing. Figure INV-53 here is the -- is a change to asset allocation which occurred earlier this year; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And so, if we see the -- the targets for marketable bonds, corporate bonds and government bonds, there is an increase in the allocation at Line 5 to corporate bonds now and the maximum will be 10 percent; yes?

MR. PETER YIEN: There is a change, of 10 percent, yes.

MS. KATHLEEN MCCANDLESS: So obviously, increasing the overall target for marketable bonds to 70 percent; yes?

MR. PETER YIEN: No. It's a max. Yeah, we really should be look at normal, where at any point in time we try to balance it and get to the 50 percent.

MS. KATHLEEN MCCANDLESS: Okay. And so the -- the change in the -- or the increase in the allocation to corporate bonds to 10 percent. That was a change that was recommended at the investment committee working group level.

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And I'll have more questions about that committee later. And so that change was approved by the MPI Board and ultimately adopted into the investment policy statement; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And I

understand that MPI had compared it -- its exposure to both SGI and ICBC. And that was part of the consideration in making the increase in the investment to Corporate bonds.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so now MPI is proposing a reallocation in fixed income from government bonds to Corporate bonds; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And as we know, that's 18 percent of the -- of the portfolio as a whole in corporate bonds as the target, the anticipated; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And that would be 27 percent of the fixed-income portfolio?

MR. PETER YIEN: Twenty-seven (27) percent. Correct? Right? Let me check.

(BRIEF PAUSE)

MR. PETER YIEN: Yeah. Subject to check, yes.

MS. KATHLEEN MCCANDLESS: And that's

that increase of allocation to 18 percent of corporate bonds, that has been approved at the Investment Committee level of MPI?

MR. PETER YIEN: Yeah. The 18 percent, I just want to clarify this, is the approved in principle. The ultimate decision of the purchase of the bonds rests with the approval of the minister of department of finance, which is also agreed in principle. And the concept of agreeing in principle is really important, because it is subject to further due governance, which includes the results of the ALM study.

Kathleen, you asked me a question earlier about, you know, is that a good return? I think having a good return is just one (1) of the questions, not the most important question. The most important question is, is, Have we done the proper asset liability matching? And once we do that, then we take on the appropriate risks. And depending on each fund, if you will, if we do decide to segregate, then we have to understand the nature of the risks that are involved, and what level of risk should be taken.

So that agreement in principle is subject to what I just described, which is the asset liability matching study.

MS. KATHLEEN MCCANDLESS: Okay. Just to take you back a little bit, in your response, you mentioned that it's been approved in principle. And I think that you -- if I'm to understand you correctly, you said it was approved in principle at the ministerial level as well?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: So what -- what is the ultimate approval waiting for, then?

MR. PETER YIEN: Yeah. The -- the ultimate approval is waiting on the specifics that would come out of the asset liability management. How do we do to matching, how do we -- I allude -- alluded to earlier, one can't perfectly match when we know that. But essentially, at the highest level, what I'm describing is you just want to make sure they have the money to pay the claims as they become due. And that means the duration and the size of the bonds have to be matched to that.

You had talked about a little bit earlier also about the pension. If we do decide to go in terms of having matching for that segregated fund, and again, it would have to match with the pension liabilities as they become due. So it depends on that, and we would not simply buy bonds without having a good understanding of what that requires.

MS. KATHLEEN MCCANDLESS: Okay. So just to summarize, I think your answer was that the -- the approval is contingent on the ALM study?

MR. PETER YIEN: That's correct. I do want to add, without excluding the other conditions that we had talked about, which is having the rate stabilization reserve, having that operating range that you talked about, the 30 -- the 438 million, being the upper dynamic capital asset test, and also having the minimum dynamic capital asset test of 201 million, and then not having the investment income that Luke was describing to offset premiums, and then following that, following the AAP, accepted actual practice, using best estimates.

So those are all the conditions that would go with that. So the ALM study alone is insufficient.

MS. KATHLEEN MCCANDLESS: So it's ALM study, asset liability matching study --

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: -- an -- an upper target for the rate stabilization reserve?

MR. PETER YIEN: That's correct, and a

minimum that goes with that.

MS. KATHLEEN MCCANDLESS: And lastly, you said --

MR. PETER YIEN: Two (2) more.

MS. KATHLEEN MCCANDLESS: -- and not including --

MR. PETER YIEN: Yeah, the investment income, not to be used to the -- offset rates, and following AAP practices, generally accepted practices with best estimates. So really, four (4).

MS. KATHLEEN MCCANDLESS: Okay.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So assuming all those four (4) preconditions were met, at that point, then, the Corporation is confident that it would obtain ministerial approval for the increased allocation?

MR. PETER YIEN: We do expect that. That was the conversation that we had with the minister.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to PUB(MPI) 2-24. And that's at Tab 16 of the book of documents.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So there was a series of questions asked about the corporate bond allocation. I'm just going to ask about question (d). So the Corporation was asked whether it was its intent to invest in corporate bonds below an 'A' rating, and -- and if so, to please discuss the risk and reward trade-off.

If we go to page 3 of the IR response and scroll down to (d) the response was that MPI intends to invest in corporate bonds below an 'A' rating and will consider bonds as low as triple 'B' for its port -- portfolio.

And if we go to page 4, so is this -- this is the Corporation's assumed mix?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And so the Corporation is considering investing in 59.7 percent 'A' bonds?

MR. PETER YIEN: Corporate 'A', yes.

MS. KATHLEEN MCCANDLESS: And 40 percent in triple 'B' rated bonds, corporate bonds?

MR. PETER YIEN: That -- that's right.

MS. KATHLEEN MCCANDLESS: And is this to mimic the returns of a bond index?

(BRIEF PAUSE)

MR. PETER YIEN: So yes, it does match the relative proportion of the corporate bond market.

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now, with this increased return, and -- and the Corporation, has it -- has it projected what it thinks the increase to the fixed-income portfolio would be as a result of this change?

MR. PETER YIEN: Sorry, can you repeat that question?

MS. KATHLEEN MCCANDLESS: So the Corporation obviously is -- is assuming this will provide it with a higher return; yes?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And is that to the order of approximately fifty (50) basis points?

MR. PETER YIEN: Yes. It's a little lower, but it's close enough. It's 45, something like that.

(BRIEF PAUSE)

MR. PETER YIEN: Yeah. Yeah. So -- so the answer is yes, 50 percent basis points on the bonds and 40 percent impact on the claims liability. That's --

(BRIEF PAUSE)

MR. PETER YIEN: Forty (40) basis points, yeah. So that's how I got the average. Good enough. Okay.

MS. KATHLEEN MCCANDLESS: Thank you. So -- but with this increased return, there will be increased risk within the portfolio?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And can you explain their change in risk profile?

MR. PETER YIEN: Sure. Essentially, what we did was as part of rate app this year, we did ask for a dynamic capital asset test max. And when we look at the maximum 1 in 100, it drives an increased equity requirement of about $9 million. So effectively, the 1 in 100 would create a risk of close to $9 million impact.

MS. KATHLEEN MCCANDLESS: Thank you. Now at Tab 15 of the book of documents, and that's a response to an Information Request PUB-MPI-1-41.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: I believe this just is to confirm your -- your previous testimony, Mr. Yien. The Corporation was asked when it would seek the approval for the increase in allocation to corporate bonds at (a).

And so the response on page 2 is really uncontingent on having a sufficient capital reserve approval act -- of actuarial indicated rates without offset by investment income generated from the RSR; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And to that, you've added the -- the asset liability matching study, as well?

MR. PETER YIEN: That's correct. So maybe in just more layman terms, is the -- the Board is not in a position to take on additional risk without sufficient capital.

MS. KATHLEEN MCCANDLESS: Now the --

the rate stabilization reserve, from the Corporation's perspective, does the Corporation need to have the 100 percent MCT targets in order to be satisfied that it can take on the additional risk associated with the 18 percent corporate bonds?

MR. PETER YIEN: Let me characterize by answering it this way. The MCT test is something that we do view as objective. There is no signs to this, really, at the end of the day, in my view, but having the right amount of sufficient capital is important.

In an earlier comment that I made yesterday, I had -- I had talked about operating in the optimal range. There's no desire to continuously -- to operate at the $438 million mark. We understand it's going to go up or down. So perhaps it might be in the three-fiftys (350s) or so, and it will just bounce up and down. And we don't know what it's going to be, but operating at four thirty-eight (438) would be probably impossible, and I would say probably unreasonable. It's not meant to be a max that we would -- continually to hold.

MS. KATHLEEN MCCANDLESS: And just to clarify, and I apologize if I maybe asked you this question already, but the preconditions that you've outlined, are -- are MPI and the Minister of the same mind as to the necessity of those four (4) preconditions?

MR. PETER YIEN: I -- I can't speak for the Minister. I'm not in a position to speak on that. I will say that when we had discussed that the conditions that -- that's relative to that, there was definitely approval in principle to proceed with those conditions. Whether those conditions are going to be final will rest with the Minister, whom I am not in a position to speak for.

MS. KATHLEEN MCCANDLESS: Thank you. Does MPI have any concern about default of corporate bonds?

MR. PETER YIEN: It's something that, yes, we have considered.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, at 2-24, which again is at Tab 16 of the book of documents, at (d), in the response to (d), there's some information about the yield on long-term triple 'B' corporate bonds. And so that was 4.37 percent; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And that's fifty-eight (58) basis points higher than the yield on 'A' corporate bonds; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then at the bottom of that response, the average one (1) year credit loss rates -- so a product of default, frequency, and loss severity for triple 'B' corporates from 1989 to 2013 was .2 percent; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And for 'A' and higher rated bonds, it was zero; yes?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: So obviously there's less risk by -- of default by investing in 'A' rated bonds; yes?

MR. PETER YIEN: That's -- that's absolutely right.

MS. KATHLEEN MCCANDLESS: So would there be any reason other than capturing the additional return to invest in bonds that have a credit rating less than 'A'?

MR. PETER YIEN: Again, I go back to I can't answer that fully until the asset liability matching study is completed, but yes. To your answers, yes, it -- it does mean taking on additional risk.

But I go back to my original answer is that if we truly believe in the calculations of the dynamic capital adequacy test and the -- the history of defaults, then it would be effectively a sufficient and appropriate risk to take, given the returns.

MS. KATHLEEN MCCANDLESS: Has the Corporation considered what due diligence it would perform before taking on that risk associated with investment in bonds below 'A'?

MR. PETER YIEN: Can you describe the question? I just want to make sure I understand.

MS. KATHLEEN MCCANDLESS: What form of due diligence, if any, the Cor -- is the Corporation intending to take before investing in those bonds rated below 'A'?

MR. PETER YIEN: Yeah. The due diligence that's involved is the ALM study that has already been issued and has already proceed -- is -- we're proceeding. That has been built into the assumptions and requirements of the Board, and so that would be reviewed once the report is issued.

MS. KATHLEEN MCCANDLESS: So as an example, if, for example, the Board did not approve the Corporation's upper target for the rate stabilization reserve, would MPI reconsider its strategy on corporate bonds?

MR. PETER YIEN: Absolutely.

MS. KATHLEEN MCCANDLESS: And that's -- can you explain why?

MR. PETER YIEN: Management and the Board believes that by taking combined corporate bonds, it does introduce a level of risk.

Secondly, currently we are -- effectively, if we didn't do what we're going to do, our rate stabilization reserve would fall below the required. It's already below the one eighty-one (181), and potentially -- and the two o-one (201) that we that we had -- understand that we need, we are in danger of falling below that. And as Mr. Johnston has already indicated, the actuarial opinion is that the financial condition of Basic is unsatisfactory. We would not be unwilling to take that risk without those conditions.

I mentioned earlier that the investment income -- effectively, if -- if not used, the offset rate will be used to rebuild the rate stabilization reserve. And if we were not able to use that to rebuild the stabilization reserve, then effectively, we are taking on a risk of higher return and not building the reserve, which would be a net zero sum gain, if you will, to protect the Manitoban from instability. And therefore, without being able to do those things, we feel that we cannot build the reserve, and hence, why would we take on that risk?

MS. KATHLEEN MCCANDLESS: Thank you. And so I understand that as of now, the Corporation has not yet invested in any corporate triple 'B' bonds. Would that be correct?

MR. PETER YIEN: Yes. That's correct.

MS. KATHLEEN MCCANDLESS: Thank you. Now, I'd like to ask some questions about the investment portfolio design decision process. We discussed obviously at length the decision for the Corporation to take a step to increase its investment in corporate bonds. And first, there was a -- a 10 percent maximum now that's been set. And then there's the possible further investment in 18 percent.

Was the -- the idea to increase the allocation to corporate bonds initiated at the Investment Committee Working Group?

MR. PETER YIEN: Let me answer in two (2) steps. The Investment Committee Working Group is composed of management, department of finance. And so the discussion was tabled definitely in that meeting. However, the idea started with both the management and the Board decision when we looked at the overall rate stabilization reserve.

And we had to take a look at -- given that Basic essentially going to be in trouble from meeting the lower limits of the dynamic capital asset adequacy test, we had to figure a way, How do we build the portfolio up? But even more importantly, as you had indicated earlier, Kathleen, we have one (1) portfolio. And in our previous ALM study, there were considerations that were given perhaps to consider segregating that.

And so the bigger question is, We need to ensure that we can pay these claims as they become due. While we're doing it, is it possible to drive a better return? And so ultimately, the discussion happened at the Board and executive level, but in order to change the IPS and -- and get that going, tactically we had to go through the ICWG for discussion. And it went through a couple rounds of discussion before we finalized on what we would recommend to the Investment Committee.

Then we tabled it with the Investment Committee to make that final decision, in which we were challenged on, What are things we need to do? And we came in with the recommendation that you saw, which is effectively to go up to 10 percent of the portfolio -- total portfolio with corporate bonds.

MS. KATHLEEN MCCANDLESS: Thank you. So just to go back a little bit and ask about the Investment Committee Working Group.

So can you just explain what it is?

MR. PETER YIEN: Sorry?

MS. KATHLEEN MCCANDLESS: What -- what is the Investment Committee Working Group, just for the --

MR. PETER YIEN: Sure.

MS. KATHLEEN MCCANDLESS: -- benefit of the Board.

MR. PETER YIEN: Yeah. The Investment Committee group meets on a regular basis at least four (4) times a year, and the idea is that it would review the existing returns, ensure that we generate enough returns. Where appropriate, if an investment manager is not performing, we would watch the performance of that manager to make sure that if we need to reduce our holdings with that manager or otherwise.

We also want to make sure that they're true to their investment philosophy, and that we understand what changes may have happened in terms of their trading team, understand how they actually are going to still achieve their objectives with a change; understand the competence and history of that individual.

So it's a holistic approach. And on top of that, what I just described here, the -- I will call it more ad hoc, more operational pieces if an investment policy needs to change. And other areas to ensure that there's no -- any rebalancing that's required that we would need to look at.

So when I talk about rebalancing, I'm saying, What if market values went really, really up for one -- one (1) part of our portfolio, that it's now above the threshold. Then we need to think about, How do we get out of that and buy something else?

So, essentially that's what we do at the Investment Committee Working Group.

MS. KATHLEEN MCCANDLESS: Diana, can you please pull up PUB-MPI-1-42, and page 2.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So just to show on the screen in front of us, as of July 2017, the composition of the Investment Committee Working Group was as follows. I won't go through everyone there, but it includes representatives of the Corporation, and then the department of finance; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And then if we scroll to the bottom of that invest -- or IR response, the Corporation was asked about the decision-making process at the Investment Committee Working Group. And so the response was the changes to the investment policy statement are presented to the -- the group, and then the group makes recommend -- or so the group makes recommendations to the Investment Committee of the board of directors of MPI; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Okay. So who typically brings forward recommendations to the Investment Committee Working Group?

MR. PETER YIEN: I chair the Investment Committee Working Group. So I would table it with our chair of the Investment Committee.

MS. KATHLEEN MCCANDLESS: And so, essentially, the role of the Investment Committee Working Group would be sort of advisory to the Investment Committee?

MR. PETER YIEN: Yes, it would be. We just -- we kind of do the dirty work, so to speak, and make sure we gather all the facts, do the analysis, and provide a recommendation.

MS. KATHLEEN MCCANDLESS: And is the -- so does the Investment Committee Working Group then provide an -- the analysis and support for decisions that are brought forward to the Investment Committee of the board of directors?

MR. PETER YIEN: Absolutely. In fact, the Investment Committee always challenges our recommendations just to make sure they get a better understanding. We're very fortunate that we have a very well-versed, very capable Investment Committee, so that does that allow us to have a higher level of dialogue iteration, if you want to call it, before we finalize anything.

MS. KATHLEEN MCCANDLESS: So is the Investment Committee Working Group and a forum -- more of a forum for discussion and recommendations rather than a decision-making body?

MR. PETER YIEN: No. In -- in some areas, we could actually make decisions. So, you know, the rebalancing, for example, we absolutely could make those decisions. Other areas include the selection of the trader and who invest with. We could make those decisions, as well.

MS. KATHLEEN MCCANDLESS: So perhaps you could just explain. So the Investment Committee Working Group can actually make decisions --

MR. PETER YIEN: As long as it's under the auspices of the IPS. We need to work within the constraints of what's already been approved.

MS. KATHLEEN MCCANDLESS: Thank you. Does the Investment Committee Working Group do any risk analysis or research on investments to mitigate risk?

MR. PETER YIEN: Yes, we do.

MS. KATHLEEN MCCANDLESS: And so would the members of the Investment Committee Working Group have input into the investment policy statement?

MR. PETER YIEN: Yes, they do.

MS. KATHLEEN MCCANDLESS: But ultimately, it would be the Investment Committee that would make the ultimate decision to make changes to the investment policy statement?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And for changes to the investment policy statement, what is the process for getting those decisions approved?

MR. PETER YIEN: Maybe I can answer it at a high level first, and we can go deeper if we need to. Any changes that have been tabled at the Investment Committee Working Group generally has been vetted by myself, our corporate controller, Mr. Johnson, our chief actuary, and also, Mr. Bunston, who is our investment manager.

And so we would work together to make sure that we build the -- I would call it a small summary, executive summary, so that it's well-understood. We'll then present it for discussion, typically with selected executives that have investment knowledge. In addition to that, we would have a brief discussion with our CEO for input.

At that point, then we'll table it with the Investment Committee Working Group. And then we then get challenged, and there are times where we have to rework it, and the Department of Finance brings a -- a good wealth of experience. And then we'll take those comments, and then before we get to the Investment Committee Working Group, we would then have received feedback from all those that are there. And then collectively as a group, we will look at the final draft before we'd make any decisions on that.

MS. KATHLEEN MCCANDLESS: Okay. And now for some aspects of changes to the investment policy statement, the final say would be with the minister of finance; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Or is that for all --

MR. PETER YIEN: No. It's not for everything, though. I mean, for our Investment Committee, in its policy statement, we could actually -- yeah. The -- the minister ultimately -- it's important to note that they are actually the one that hires the investment managers, not the ICWG. So they do research and make the recommendations for us. And that's what I was talk about -- the angle, that they bring that expertise to the table.

MS. KATHLEEN MCCANDLESS: So what type of decision would needs ultimate approval by the minister of finance, obviously, apart from the investment manager?

MR. PETER YIEN: An example of this is to effectively go to 18 percent of corporate bonds. So that's not our decision to make. It's a -- in fact, it's not even our board's decision to make. Our board would recommend it.

Effectively, when they make their recommendation to the Minister, then the Minister will ultimately make that decision.

MS. KATHLEEN MCCANDLESS: Can you think of any other examples of recommended changes that have needed approval from the Minister of Finance?

MR. PETER YIEN: I'm not sure. Just one second.

(BRIEF PAUSE)

MR. PETER YIEN: No, there's -- there's no -- nothing I can think of.

MS. KATHLEEN MCCANDLESS: Okay. So then I'm not sure if Mr. Johnston would have any input on this but, Mr. Yien, obviously you won't have any given your answer, but it has MPI ever had difficulty in the past having the Minister approve recommended changes to the investment policy statement?

(BRIEF PAUSE)

MR. PETER YIEN: Sorry, can you repeat the question?

MS. KATHLEEN MCCANDLESS: In the past has MPI had any difficulty in obtaining approval from the Minister of Finance for recommended changes to the investment policy statement?

MR. PETER YIEN: Yeah. And maybe I can answer it currently, and then we can go back with Mr. Johnston. You know, I saw the process of due diligence is operating a very high level.

What I mean by that is it's very clear the Minister of Crown Services and Minister of Finance wants MPI to run as a first rate corporation. And what that means is that we run it effectively and operationally efficiently. So they do challenge our assumptions.

I mentioned earlier this agreement in principle is also subject to additional information. So I wouldn't call it difficulty or anything like that. It's -- it's due diligence that's required. And I see that it is working. It is no automatic approval. That's what -- if we're trying to get at. Absolutely none. We have to just everything that we do. So I don't see really any obstacles or anything like that. And I'm going back in the past, and I'll pass it to Mr. Johnston.

MR. LUKE JOHNSTON: We were just discussing, but the only thing -- case we can remember is where a certain asset class, like international equities, for example, where we were going to go into that and -- and that wasn't approved. Yeah. But, like, there may be others, but that's all I can recall.

MS. KATHLEEN MCCANDLESS: So just to understand your evidence then, does that mean that there have been other requests that have been approved, or is this the only example where you can think of the request having been made of the Minister?

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: Just for clarification, I think Mr. Johnston was answering a different question than the one (1) that you rephrased there. So I think Mr. Johnston was -- Johnston was saying that that is an example that he can think of where a request to make a change had been refused. I think there -- I just wanted to make that clarification because I think you may have been at cross purposes there.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: No, I understood that, but my question as follow-up was: Then does that mean that's the only instance of any requested change that Mr. Johnston can think of? Or have there been other requests that have been approved as a matter of course?

MR. LUKE JOHNSTON: That's all I can think of. And we would -- we wouldn't expect to bring a lot of recommendations to the Minister that we were expecting to get rejected, as you might expect.

So we would hope that we would do some diligence in terms of bringing forward reasonable recommendations. So it's very likely that many of them have been accepted. But again, I'm just going by information from my back row, about the last memory we can have a significant recommendation not been approved.

MR. PETER YIEN: If I can just add to that, just in terms of the meetings that I've attended this year with the Minister we -- we go in there 200 percent prepared. And just on this bond discussion, I can tell you there's been over ten (10) meetings I've attended internally just to make sure we've covered the bases.

I don't think as a Corporation that when we expected to run at a -- as a leading organization that we wouldn't do the internal diligence. So I think it's fully expected that we'd do enough diligence to answer any questions that would come up. And, truly, they -- they asked us a lot of good questions in that meeting.

MS. KATHLEEN MCCANDLESS: Now, at the investment committee working group level obviously there was -- there's been significant discussion about the increased allocation to corporate bonds.

Have there been any other significant decisions or recommendations discussed amongst the committee this year?

(BRIEF PAUSE)

MR. PETER YIEN: My apologies, Kathleen, can you repeat that question?

MS. KATHLEEN MCCANDLESS: Maybe I'll rephrase it. Is the investment committee working group or the investment committee of MPI have they -- apart from the increased allocation to corporate bonds have there been any other significant changes or recommendations to the investment policy statement discussed over the past year?

MR. PETER YIEN: No, there hasn't.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. To what extent did the investment -- or does the investment committee working group have any input into the development of the request for proposal for the asset liability matching study?

MR. PETER YIEN: Yes, in terms of the asset liability matching study the Department of Finance feels that that's a man -- an overall management responsibility. However, they do -- we do provide them with the basis for that decision of who we select. We do get their points of view because some of the members also sits on other boards as well. So we -- we have received their feedback on everything from, Is it possible to get it done in time? What are their -- you know, are the rates reasonable? Just to make sure that we do, the scope of work, and also the team that's brought to the table.

So it's quite a wholesome discussion. But yes, we do discuss that. But ultimately the decision itself for selecting the -- the organization, if you will, that does or performs the asset liability management study arrest with management.

MS. KATHLEEN MCCANDLESS: Thank you. Now, with respect to the asset liability matching study that was ordered by the Board last year in Order 162/16, and perhaps just for our reference, Diana, if you -- if it wouldn't be too much trouble to pull up that order. That's page 88 of last year's order at section 10.13.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So this was what was ordered by the Board last year, was MPI to obtain an updated ALM study, to be filed in the 2018 GRA, which study shall address each of the eighteen (18) recommendations by -- made by Mr. Viola, which were set out in an appendix. And Mr. Viola was the expert brought forward by CAC last year.

Now, the updated ALM study obviously was not filed in this year's application. And can the Corporation just explain why that's the case?

MR. PETER YIEN: Yes. Actually, I answer the question, let me apologize. I should have addressed you as Ms. McCandless, so I will -- I'll continue to do so. It's -- actually, I'll start to do so.

Yeah, the answer -- originally when it was originally filed it was viewed that as a starting assumption we need to understand what the rate stabilization is from both a minimum and a max perspective. The Board at the time was exploring what they thought would have been an appropriate rate stabilization reserve. So it was viewed as a critical input to beginning the ALM study.

As part of filing, the Board has effectively taken a look at what other comparable insurance organizations have in order to meet their mandate, the risk appetite of the Board, and effectively have selected and confirm -- we confirmed that the dynamic capital asset management test -- adequacy test is equi -- is equivalent to 100 percent of the minimum capital test. So by definition, having the Board making that decision, we now have the starting ingredients for that ALM study.

In addition, the Board has taken the time to study and understand the Corporation in a more wholesome way. and as a result of that they now have the confidence to make -- have management go ahead to make certain decisions that go into that study.

And then finally, when we had looked at the overall bond strategy we also realized that we couldn't just make that bond strategy just on bringing the rate down alone. It can't be the driver of our investment. We can't put our entire $3 billion portfolio at risk just because we want to lower the rate of roughly .8 percent. So therefore we also require the ALM study, and as a result we started to accelerate that. So that's really the -- the genesis of why we held back, and why we accelerating it.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up PUB-MPI-1-37. In this Information Request the Corporation was asked for a copy of the request for proposals as well as the status of the request for proposals pro -- process.

And so the response, as at the time of this Information Request response would have been -- which would have been early August of 2017. The response was that the Corporation had started preparing the RFP and expected to complete it and release it by September 1, 2017. And obviously that has not occurred. Can you explain why that's the case?

MR. PETER YIEN: Yeah, I need to provide an update. At the time of filing that was true. Since that time we have issued that.

MS. KATHLEEN MCCANDLESS: Can you please go to, Diana, PUB-MPI-2-20. So then the Corporation was asked for some information -- further information as to the progress of the request for proposal. And this response would have been issued in September, September 11th, I believe.

So at that time the response was that

the scope of work for the -- the RFP had not yet been approved by MPI's executive and was not available for circulation. So you're telling me now today that this has been approved? The scope of work has been approved?

MR. PETER YIEN: That's correct. It has. And the work has also started.

MS. KATHLEEN MCCANDLESS: Okay. So the RFP then, can that be filed with the Board now?

(BRIEF PAUSE)

MR. PETER YIEN: The -- the RFP has been issued on MERX as part of the Western trade agreement we have to issue RFPs on MERX, so it is actually available on public record. But I have no issues of filing it.

MS. KATHLEEN MCCANDLESS: Perhaps we -- we could have an undertaking to file the request for proposal?

MR. MATTHEW GHIKAS: We will -- we will take that and file it. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you. So -- sure. That is for the Corporation to file the request for proposal for the -- the asset liability management study.

--- UNDERTAKING NO. 1: The Corporation is to file
the request for proposal for the
asset liability management study.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. So the status then is the -- the RFP is on MERX and --

MR. PETER YIEN: Yes, it is.

MS. KATHLEEN MCCANDLESS: -- and so perhaps you could just tell me what MERX stands for?

MR. PETER YIEN: Oh, yeah -- yeah. Thank you. MERX is essentially a publicly available website, if you want to call it that, for people that have signed on to it. And anybody that is interested in looking at an RFP will, essentially, be able to read it and have the opportunity to respond. So it is on, effectively, public record.

MS. KATHLEEN MCCANDLESS: So at this time then, MPI is soliciting responses to the RFP?

MR. PETER YIEN: No, we -- we've -- yes. We've solicited already. We've received responses. We have re-awarded it.

MS. KATHLEEN MCCANDLESS: Okay.

MR. PETER YIEN: And the -- the work has already started.

MS. KATHLEEN MCCANDLESS: Okay.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Are you able to tell us today who will be performing the work for that?

MR. PETER YIEN: I -- I need to consult to see if I can -- I should have -- I mean, I know the answer, but...

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: We don't think there's going to be a problem with that, Mr. Chairman. But when we file we should be able to provide the RFP pretty closely -- pretty -- in pretty short order. If were able to just make sure that we haven't got some sort of confidentiality obligations with the person for the time being. And just advise you after the break.

THE CHAIRPERSON: I -- I'm wondering if we just need an undertaking for you to review it and -- and determine if there's anything that would prohibit it, and then advise us otherwise to provide us with the name.

MR. MATTHEW GHIKAS: That's -- that's fine, Mr. chairman, and we should be able to get back to you on that in short order. Thank you. That would be another undertaking, yes. Thanks, madam reporter.

It's just to advise whether there are any confidentiality obligations that would preclude us from providing the name of the person conduct -- or the group conducting the asset liability management study. Or provide the name of the person that's providing the study.

--- UNDERTAKING NO. 2: Corporation to advise whether there are any confidentiality obligations that would preclude providing the name of the person or the group conducting the asset liability management study, or to provide the name of the person conducting the study.

MR. PETER YIEN: If I could maybe just add to that. I will say it's a leading organization that's done hundreds of these before. Very -- very experienced.

MS. KATHLEEN MCCANDLESS: Thank you. Mr. Chair, I do have some more time to spend on investments that would take me likely at least another half-hour or more. So I'm at your disposal as to --

THE CHAIRPERSON: Yeah, we'll -- we'll adjourn for an hour.

MS. KATHLEEN MCCANDLESS: Okay. Thank you.

THE CHAIRPERSON: Thank you.

--- Upon recessing at 12:00 p.m.
--- Upon resuming at 1:08 p.m.

THE CHAIRPERSON: Ms. McCandless, are we ready?

MS. KATHLEEN MCCANDLESS: Yes, we're ready.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: All right. So before the break we had a lengthy discussion about the preconditions for the move to the corporate bond -- corporate bonds of 18 percent. And one (1) of the preconditions was that the upper threshold for the Basic total equity target capital range be based on a 100 percent MCT ratio?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So if an alternative upper threshold below that level was based on experience driven modelling of Basic risks, could this poss -- possibly also meet the precondition?

MR. PETER YIEN: We're asking a hypothetical question. At this point I would stand by the original 438 million. As you were asking me hypothetical question, if you gave me 437 would that the appropriate, I would say probably. So, I think we need to consider materiality and what that difference is.

MS. KATHLEEN MCCANDLESS: Okay. So now assuming that that precondition, based on the experience driven modelling -- sorry, assuming that number based on the extre -- experience driven modelling was a material difference from MPI's perspective and -- and in its view not sufficiently close to that 100 percent MCT, then MPI would not proceed with that 18 percent corporate bond allocation, correct?

MR. PETER YIEN: If it's

insufficiently close, yes.

MS. KATHLEEN MCCANDLESS: And so, ultimately, can you comment on what impact not increasing the corporate bond allocation to 18 percent would have on the requested rate.

MR. LUKE JOHNSTON: If assuming you don't do any of the implementation, it's about 0.8 percent of the rate indication.

MS. KATHLEEN MCCANDLESS: And what impact would it have on the compliance filing?

MR. LUKE JOHNSTON: I would assume, like -- actually one (1) second.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Ms. McCandless, could you just put the question to the witness one more time. I apologize for that delay.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So if the precondition of 100 percent MCT was not approved by the Board and instead there was something else in its place. It was, you know, on -- on experience driven modelling of Basic risks and the difference between that 100 percent MCT, and the experience driven modelling, Basic risk was material enough to MPI that they would not then move to the allocation of 18 percent corporate bonds, what impact would that have on the compliance filing?

MR. LUKE JOHNSTON: Okay, I'll take a shot at this and feel free to jump in.

So in this particular case we would assume that all aspects of the application with the exception of the Government of Canada 10 -- 10 year bond rate, which is the current subject of the proposed compliance filing, we'd assume that all of that's been rev -- reviewed by the Board and this one part of the Order would result us having to change -- restate the rate -- rate indication excluding the corporate bonds, but still utilizing the -- the proposed 10 year bond compliance filing rate.

But, of course, if the Board orders any change whatsoever, we would assume we'd have to create a new filing for that purpose anyways, and I -- again, it would -- I would assume that we would continue to support the idea of using a November 30 base interest rate to minimize interest rate risk.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So the compliance filing would remove not only the Government of Canada bond rate, but also the impact of -- right, the corporate bond allocation?

MR. LUKE JOHNSTON: Yeah, it would -- would have to be to be appropriate. Even in the submission that you have today on accepted actuarial practice, I have to feel confident that the Corporation is -- is able to implement the corporate bond strategy in order to include it in the rate indication. So, if that -- if I -- if that changes then I should restate the rate indication regardless.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: If the allocation to 18 percent corporate bonds was not made, though, from the Corporation's perspective, would it stay at the current corporate bond holdings or would there be some further adjustment of that, within the 10 percent maximum?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, that's a

tough question, because we are waiting for the ALM results.

My -- my assumption would be if we did not implement the corporate bonds as planned, we would likely just writ -- revert to the existing portfolio holdings unless we have -- I -- I can't think of another reason why we would, you know, restate our whole application for a different strategy at that point.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you pull up PUB-MPI-2-21, please.

Now, if we go to -- so this was an update on investment holdings of the Corporation as at September -- or July 31, 2017. And if we go to the last page of this appendix, on the right-hand side of the page, we see the column for Unrealized Gain/(Loss.)"

And so as at July 31, 2017 MPI in total had $110.8 million in unrealized gains on the equity portfolio?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And with respect to Canadian equities had $60.9 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And with

respect to US equities had 49.9 or $15 million in holdings; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now, gains are only realized when the portfolio requires rebalancing from set target limits, is that right?

MR. PETER YIEN: It depends on equity but, yeah. It depends on equity from accounting perspective. The treatments vary and we need to follow the accounting principles with regard to that.

MS. KATHLEEN MCCANDLESS: Okay, and there is a maximum of 13 percent for Canadian equities, would that --

(BRIEF PAUSE)

MR. PETER YIEN: Could you repeat the question, please?

MS. KATHLEEN MCCANDLESS: So the maximum for Canadian equities wou -- would be 13 percent?

MR. PETER YIEN: No, it's a minimum of five, max seven.

MS. KATHLEEN MCCANDLESS: Max 7?

MR. PETER YIEN: For US -- for US

equities

MS. KATHLEEN MCCANDLESS: Oh yes, for US it's 7 percent maximum for Canadian?

MR. PETER YIEN: Max is 13; minimum is seven.

MS. KATHLEEN MCCANDLESS: Okay, for Canadian equities?

MR. PETER YIEN: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And then 7 percent maximum for US equities?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Diana, can you please pull up from the investment section of the filing, page 10, that's Figure INV-2.

And so if we see in the bottom half of the table, for 2017/18 forecast budget, we have US equities at 5 percent; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And Canadian equities at 12.2 percent?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now this model assumes that gains would be realized when rebalancing occurs?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And if we go, Diana, up one (1) page to page 9 of the investment section at Figure INV-1.

At lines 16 and 17 under 2017/18 forecast budget. Do you see the lev -- the level of Canadian and US equity gains assumed reflected turnover of the portfolio to meet rebalancing needs, so that would just be the line itself there; 16 and 17?

MR. LUKE JOHNSTON: Sorry, I'm not sure what you're asking. The portfolio assumes, I believe, a 20 percent -- yeah, a 20 percent regular turnover and then if there's any rebalancing it would be higher in the -- in that year -- or -- or it would add to the change in that year.

MS. KATHLEEN MCCANDLESS: And you'd only be selling when you got above the maximum?

MR. LUKE JOHNSTON: Above the maximum for rebalancing purposes, and along with any other regular turnover of the portfolio.

MS. KATHLEEN MCCANDLESS: Thank you. Now, I'm going to ask some questions about interest rate risk.

Now, the Corporation forecasts the marketable bond yields based on the Government of

Canada 10 year forecast, plus the duration yield spread?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And that corresponds to the duration of the marketable bond for the quarter?

MR. LUKE JOHNSTON: Yes -- yes, that's right. Different durations would have historically different spreads.

MS. KATHLEEN MCCANDLESS: Diana, can we please go to PUP-MPI-1-70. And the Corporation was asked to file a modified SIRF?

MR. LUKE JOHNSTON: That's right, yes.

MS. KATHLEEN MCCANDLESS: And at page 2 of the Information Request response at Figure 1, we have the modified SIRF there.

So on the top line on the left, the modified SIRF, so that would be the third line in from the left was forecasting Government of Canada interest rates to increase from 1.82 percent at the end of February 2017.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then through to 1.9 percent at the end of August 2017?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And as we know, MPI is suggesting it use a SIRF rather -- not use the SIRF but rather not use the naive.

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And at last year's GRA, MPI was proposing a 50-50?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And so 50-50 is the naive and the SIRF at that ratio?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And what's the reason that MPI is not proposing the use of the 50-50 at this year's GRA?

MR. LUKE JOHNSTON: So, we have gone on this journey of interest rates for a while now. If we -- maybe I'll bring up the material but the evidence that we have shows that the naive forecast performs the best relative to the SIRF, which hasn't really performed at all. I have no evidence to support the SIRF.

The 50-50 last year was seen as a way to recognize that we're at very low interest rates; that they likely will increase at some point in the future. We don't know when, but we think they will, and 50-50 was admittedly somewhat arbitrary, right, you're picking -- you have to pick something. We did look at the future's curve. And it was somewhat consistent with the 50-50 as well.

This year -- sorry, before I go there, we basically had another year where the forecast didn't turn out adding to, I think, the evidence that the -- the naive forecast is a more reasonable approach for rate setting, especially. Recognizing, of course, that the SIRF or some form of it has been ordered at these hearings for several years.

The conversion to AAP rate setting, which significantly reduces the effect of the interest rate choice and the compliance filing, essentially, bringing the -- the rate calculation to be three (3) months before they're implemented. We're seeing as further support to use a naive-type forecast.

You -- you're -- you're getting very close to implementing the actual interest rate at the time of issuance which, from our perspective is the best you can really get. To get as close as you can get to the -- the policy year, and significantly reduces the risk that MPI has which I think is apparent to everybody after the last three (3) years where we lost about $170 million from non-materially -- materializing interest rates.

MS. KATHLEEN MCCANDLESS: Thank You. Diana, I'm going to ask you to please go to PUB-MPI-2-40.

And here at (a), MPI was asked to refresh the response to PUB-1-70, using the most current available bank and global insight, interest rate forecasts. And so Figure 1 on the following page includes those numbers. We can. That's perfect. Thank you.

So at the end of 2017, three (3) lines in from the left-hand side of the table. You'll see the interest rates for -- for the modified SIRF was forecast to be 2.19 percent. So, Q1 for 2018.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And the naive would be 2.06 percent.

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: At the end of Q4 for 2018, the modified SIRF would be 2.58 percent.

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So according to my math that would be an increase of 39 basis points from Q1 in 2018?

MR. LUKE JOHNSTON: How -- how much

did you say? Sorry.

MS. KATHLEEN MCCANDLESS: Thirty-nine (39) basis points.

MR. LUKE JOHNSTON: Okay, I'll accept that, yeah.

MS. KATHLEEN MCCANDLESS: At the end of 2019, it would be -- so Q4 for 2019, 3.04 percent.

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And so that'd be a further increase of 46 basis points; yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Now the changes in the valuation of the marketable bond investments and the claims liabilities throw -- flow through net income; yes?

MR. LUKE JOHNSTON: Change -- can you repeat that? Just to be --

MS. KATHLEEN MCCANDLESS: Changes in the valuation of the market bond -- marketable bonds and the claims liabilities would flow through net income.

MR. LUKE JOHNSTON: Yes. The -- as that interest rate increases the -- the both the value of the bonds and the liabilities will be reassessed every -- every quarter in the model.

MS. KATHLEEN MCCANDLESS: And both valuations would be sensitive then to changes in interest rates.

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So in an int -- increasing interest rate environment then, interest rate changes would cause MPI to realize losses on its bond value -- portfolio valuation.

MR. LUKE JOHNSTON: There would be -- yeah, there would be declines in the market value of the bonds. Similar to what you -- we saw earlier today on the Pro Formas.

MS. KATHLEEN MCCANDLESS: But that would be an offset by a greater reduction in the forecast claims liability.

MR. LUKE JOHNSTON: That's the expectation because there are slightly more claims liabilities. And because of how investment income is allocated 85 percent.

MS. KATHLEEN MCCANDLESS: So all other things being equal then, it would have a positive impact on operating results.

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: The base forecast used in the DCAT does not reflect any of this additional income that might be realized if interest rate forecast inc -- or interest rates increase, as forecast.

MR. LUKE JOHNSTON: That's true and the main reason being that we don't think it's a best estimate. So I don't think we have any shortage of data at this point to show that the SIRF hasn't performed all. And the so it's not -- we're not using as a best estimate in the DCAT.

MS. KATHLEEN MCCANDLESS: Thank you. At this point, given the recent experience in the change in interest rates, is it -- does it remain a realistic assumption that interest rates are going to remain constant.

MR. LUKE JOHNSTON: Truthfully, I don't know the answer to the question. I know that there's been a couple increases lately, but we've had that occur in the past. The -- yeah -- we're suggesting that I think from an actuarial perspective in terms of making best estimate forecasts. There is a point where you have to just submit that you don't know.

And on this interest rate forecast it's pretty clear that even the smartest people at this job don't know because they don't seem to get it right, but we do have evidence that a naive forecast performs well.

And in terms of the rates we're asking for in this application, we're doing our best to give the Board the best interest rate that we can use for rate setting for this year's 2018/'19 rates. And of course, we'll update that again, for 2019. If it -- if it goes up 100 basis points, but for this year's rates, which is what we're -- we're here for we're just trying to close that gap because we really -- we really don't know. I think we're fooling ourselves if we think the SIRF knows because it -- it -- I've never seen it be right over the long term.

MS. KATHLEEN MCCANDLESS: Diana, can you please pull up PUB-MPI-1-40.

Now on the second page of this IR response MPI was asked to provide a comparison of MPI's investment returns with other funds in Manitoba. And so Figure 1 before you is the average asset class exposures from 2011 through to 2016 for each of MPI; the civil service superannuation Board, teachers retirement investment fund and the Worker's Compensation Board.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And if we

look to the five-year performance of MPI, as contrasted with each of the other three (3) comparator groups. We have MPI underperforming at 6.8 percent as compared to 9.5 percent for CS -- CSSB, 9.9 percent for TRAF and 8.9 percent for WCB; yes?

MR. LUKE JOHNSTON: That's correct. And in the question I believe it explains that, that's mainly due to composition. MPI intentionally has a very high composition of fixed income assets for its asset liability matching strategy. So this is looking purely on the asset return side. We have other reasons to do asset liability matching from a risk mitigation perspective, so.

MS. KATHLEEN MCCANDLESS: So, the -- the reason then would be the difference in the asset mix from MPI vis-a-vis the other...

MR. LUKE JOHNSTON: Most of it is, I believe explained in the -- by the asset mix in this response, yes.

MS. KATHLEEN MCCANDLESS: And what is MPI's position as to the value of looking to these three other funds as a comparison of MPI's investment returns.

MR. LUKE JOHNSTON: Once you adjust for composition. Then we would say that it's -- it's good to look at other funds to see our performance relative to theirs. As long as we do a fair comparison of some of -- in the right bucket, so to speak, apples to apples, then it's good we would agree.

MS. KATHLEEN MCCANDLESS: Thank you. If we go to the next page in this IR response and Figure 2.

So MPI was also asked for a return comparison to SGI's, sisk -- Saskatchewan Government Insurance.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So, this is what Figure 2 shows before you. And so if we look to 2015, SGI outperformed MPI with a return of 11.4 percent compared to MPI's return of 9.1 percent; yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And 2016, SGI, had a lower return than MPI of .9 percent compared to MPI's 1.1 percent.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then, lastly, for 2017, SGI did outperform MPI at 8.3 percent compared to MPI 6.2 percent.

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Has the Corporation been able to evaluate the underlying causes for the -- the difference in returns?

MR. LUKE JOHNSTON: I'm told this time we haven't done that. The five -- your -- I don't -- I don't know off the top of my head if -- if the performance is similar beyond five (5) years, but at least on the five (5) years' time period, the performance is similar. Our portfolios are -- are not the same. SGI is a better comparator to MPI because the liability pro -- Profile would be more similar to -- to us than other property-casualty, but I don't know the -- the reasons why.

MS. KATHLEEN MCCANDLESS: And the information that was sourced by MPI for this comparison, was that from the Saskatchewan auto fund financial statements?

MR. LUKE JOHNSTON: We'll look into that and get back to you rather than -- if that's okay.

MS. KATHLEEN MCCANDLESS: Okay, so just undertake to advise as to whether the information in figure 2 was sourced from the Saskatchewan auto fund financial statements.

--- UNDERTAKING NO. 3: To advise as to whether the information in figure 2 was sourced from the Saskatchewan auto fund financial statements; if so, to file the statements and advise as to why March 31.

MR. LUKE JOHNSTON: Yeah. Rather than speculate I'll -- I'll just get the answer. Yeah, thanks.

(BRIEF PAUSE)

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And just to add to that undertaking, if they -- if it was sourced from the Saskatchewan auto fund financial statements, can those financial statements be filed with the Board.

MR. LUKE JOHNSTON: Yeah, that would make sense.

MS. KATHLEEN MCCANDLESS: Thank you. Just one (1) question. Figure 2 is a return comparison for SGI to MPI for the period ending March

31st. Can you just explain with MPI's fiscal year ending February 28, how that -- that works?

MR. LUKE JOHNSTON: We can do that as part of the undertaking, if that's okay. What we can add to this sort of, where they come from, file the portion of the annual report and why March 31. All in one -- can roll it up into one.

MS. KATHLEEN MCCANDLESS: Thank you. Has the Corporation been able to obtain any comparative information for ICBC?

MR. LUKE JOHNSTON: I'm told by my back row that we have a request out for that information, but we haven't heard back as of yet, so we can follow-up on that and let you know, but as of now, we don't have anything.

MS. KATHLEEN MCCANDLESS: Perhaps then I could just have another undertaking to advise as to the status of the request for financial information from ICBC. And if obtained then and if able to do so, file the financial information with the Board.

--- UNDERTAKING NO. 4: Advise as to the status of the request for financial information from ICBC. And if obtained then and if able to do so, file the financial information with the Board.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MR. LUKE JOHNSTON: Okay. Yes.

MS. KATHLEEN MCCANDLESS: Thank you. Now Diana, could you please go to Appendix 8 of the investment section of the filing.

And this table provides a comparison of actual as compared to benchmark returns used by the Corporation. So if we look to overall for 2016/'17. So that would be for the benchmark end in February 28, 2017, on the right-hand side of the table.

At the top line, we see MPI total fund there for the expected bench annual benchmark return, was 6.6 percent; yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And MPI's annual return, ending February 28, 2017, was actual at 6.9 percent; yes.

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Now, if we look down to small to mid cap equities. When compared to benchmark what has the Corporation learned if anything about its relative returns on those small to mid cap equities when compared to benchmarks. It appears to have underperformed.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Now, I'm not hearing that we have a response to that particular question. So, I'd suggest we take this one as an undertaking as well, rather than speculate.

MS. KATHLEEN MCCANDLESS: So, that would be to advise as to the reasons for the underperformance of MPI's small to mid cap equities at 28.3 percent as compared to benchmark of 45.8 percent.

MR. STEVE SCARFONE: Well, with respect to that, I think the witness said, Ms. McCandless that we're not sure if we have an answer or reason so we can -- the undertaking should be, I think more properly phrased to be "we'll inquire to see if there is a reason."

MS. KATHLEEN MCCANDLESS: That's fine. Thank you.

MR. STEVE SCARFONE: Thank you.

MR. LUKE JOHNSTON: If -- not that I like to add to undertakings, but it looks -- I'm assuming the focus is on the Canadian equity small to mid cap as the other -- the other asset categories are relatively close to benchmark. If there are others that you would like in the undertaking then we'll add them, but I think that's your focus.

MS. KATHLEEN MCCANDLESS: No, just the Canadian, thank you.

--- UNDERTAKING NO. 5: Inquire to see if there is a reason for the underperformance of MPI's small to mid cap equities at 28.3 percent as compared to benchmark of 45.8 percent

CONTINUED BY MR. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now, Diana, could you please go to PUB-MPI-1-44.

And the Corporation was asked at (a) to explain the reasons behind poor returns on infrastructure versus expect return -- expected return benchmark for February 28, 2017. If you need to refer back. We can go back to the previous table. But I'd just like to refer you to the response at -- at (a).

So the -- impact was foreign currency losses.

MR. LUKE JOHNSTON: I see that, yes.

MS. KATHLEEN MCCANDLESS: And that's because of the strengthening Canadian dollar; yes?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: Does MPI have the opportunity through open-ended funds to direct investments into Canadian infrastructure projects to avoid any risk?

MR. LUKE JOHNSTON: So we do have investments in Canada, but -- as part of a --a diversified portfolio and infrastructure, we have in multiple, different countries.

MS. KATHLEEN MCCANDLESS: Thank you. I'm now going to move on to operating expenses. Diana, could you please pull up from the book of documents Tab 13.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And so this is a summary of Basic expenses by category, and for 2015/'16 through to 2019/2020, broken down by category, and then at the very bottom of the page, under total, that's the -- the total expense there. If we look to compensation, then we can just look at -- at the totals, here.

So about the middle of the page, line 32, we see from 2016/'17 through to 2019/'20 that there is an increase in compensation; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that and does include a fact -- it factors in the targeted reduction of one hundred and thirty-three (133) full-time equivalent?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So with that reduction in full-time equivalents, can you explain the basis for the increase in compensation through the forecast period?

MR. PETER YIEN: Yeah. We tried everything we could in terms of limiting the increase, and you already talked about the full-time equivalent reductions. But we're also tied to the existing collective agreements in which there is the gross wage increase, GWI, that's already included. That's not something we can do.

So those elements are things that are beyond our control that are contributing mainly for that increase.

MS. KATHLEEN MCCANDLESS: Thank you. Now, when we scroll to the very bottom of the page, just for the record, we show total Basic expenses. Actual for 2016/'17 were $213.5 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And for the forecast budget for 2017/'18, we have $221.7 million?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Now, I'd like to ask some questions about your presentation yesterday, Mr. Yien.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: I'll just -- a couple. So Diana, could you please pull up MPI Exhibit number 11, page 48. So, you spoke yesterday about the actions to -- to contain expenses, reduce expenses.

Now, with respect to the FTE counts, are those expenses being managed at the corporate level or the Basic level?

MR. PETER YIEN: It is managed at the corporate level.

MS. KATHLEEN MCCANDLESS: Now the very last bullet, the zero percent growth with no CPI built into the forecast, that's consumer -- consumer price index built into the forecast?

MR. PETER YIEN: Yeah. To the extent we could -- and I need to clarify this. There's certain elements that we can't control. As an example, there's office supplies, we can't control the CPI that goes with it, but that simply means we reducing the need for consumption. And that's the only way we could absorb it.

So I mentioned yesterday about the zero-base budgeting. It is really challenging. Can we do more with less? And then thereby we can absorb the CPI increase.

MS. KATHLEEN MCCANDLESS: Are you able just to generally advise as to what categories of expenses would reflect no CPI and -- and those that would require CPI in it?

MR. PETER YIEN: When you say "generally," are you looking for me to go line by line and --

MS. KATHLEEN MCCANDLESS: No.

MR. PETER YIEN: -- talk about that? It's a rather difficult question, because each of them have a different nature. Some of them have been due to, if I could generalize it, some of them have been due to a -- a higher level of attention to RFPs, where we're actually looking at cost more closely and looking at the benefits before we sign on contracts.

So you see, for example, in data processing, that's another area that we've indicated that we've reduced it by -- they really pay attention on the costs. Other areas of just reduced use. Again, going back to information technology, is there a way that we can run multiple software on the same computer? There's a technical word for that. It's called virtualization. But that's another area where we can reduce the number of computers, and hence reduce the footprint, and reduce the size of the data centre, and on, and on, and on. And when you start to reduce that, that starts to mean that we have savings.

So I would make the general comment that there's a lot of items that we have to purchase that we have no control over, because they are truly CPI driven.

But again, I go back to it's really reducing the use of that -- building expenses is other one, you know, reducing through -- reductions from janitorial expenses. Those are through competitive bids, and we are -- just call it a -- a little bit more vigilant in terms of how we have our spendings and make sure that -- that we -- we go through a more rigorous process.

Other areas like postage, a little harder to control. We are not as successful in controlling that just because we -- we are required by law to send out some of those things through registered mail. So we -- we couldn't be as aggressive as we are. But again, postage is something out of our control. The number of pieces is -- is something we could control, but actually, the -- the rate in which the -- it costs to send a piece of postage out we can't control. So we can only control the volume to the extent we could do that.

I'm not sure if you kind of want more in other areas like furniture and equipment. In some of those places, we have decided to defer, so an exam -- example of that would be deferring the rollout of our computers, just using our computers a little longer and not buying the computers as soon as we need to. Does that -- does that help?

MS. KATHLEEN MCCANDLESS: Yes. Thank you.

MR. PETER YIEN: Okay.

MS. KATHLEEN MCCANDLESS: Reducing the FTE counts by 6.9 percent there at the top bullet, and you mentioned that would be a corporate level. Are any of those FTE reductions taking into account Physical -- the Physical Damage Engineering Project?

MR. PETER YIEN: I -- I need to check on that.

MS. KATHLEEN MCCANDLESS: Okay.

(BRIEF PAUSE)

MR. PETER YIEN: Yes, that does.

MS. KATHLEEN MCCANDLESS: Thank you. And do you know how many FTEs?

MR. PETER YIEN: Thirty-two (32).

MS. KATHLEEN MCCANDLESS: Thirty-two (32). Thank you.

The $2.6 million stretch target, that's the second bullet on page 48?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Where did the stretch target come from? Where that figure come up from?

MR. PETER YIEN: Yeah. The -- this -- this was a -- a real stretch. The reason why we call a stretch target is when we put it in as part of regional budget, we really didn't know where we were going to get it from. The goal was really just to keep our budget flat. We knew it was a challenge. The way we came at it was we had a certain -- some number of ideas, and those ideas have gone through what I call priortization to ensure that it doesn't affect customer service. It doesn't impact projects that are ongoing, driving either an increase cost, or perhaps delaying the cost of that project or completion of that project.

So some of those ideas would include closing of our service centres. And so we would -- we would do that. And selected reductions in terms of some of our -- I'd call it advertising. So the ones that have a -- I would call it a more -- a less direct correlation to road safety, we would have taken that off the table.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up PUB-MPI-1-15, page 2.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And so this figure is a ten (10) year summary of corporate expenses by category, total expenses. At the corporate level, if we go down to the very bottom of the page, line 29, total operating expenses actual for 2016/'17 were $279.1 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And they are forecast to increase to $293.5 million in 2017/'18?

MR. PETER YIEN: Yeah. That's correct.

MS. KATHLEEN MCCANDLESS: And then $302.5 million for 2018/'19?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And if we look to total compensation for 2017/'18, total compensation is forecast -- that's at line 9 -- to be $170.8 million?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And that's up just about $8 million from the 2016/'17 results?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And then forecast to grow by 2021/2022 to $186 million; yes?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And so the increase in compensation would be mainly attributable, again, to you mentioned before collective agreements and that type of thing, or...?

MR. PETER YIEN: No. In this particular case in 2016/'17, we had a change in accounting policy. In the past years, internal labour would not have been capitalized. In other words, we collected that amount and amortize it over our future years. We would have expensed it in the future.

So that one (1) time adjustment brought back -- if you saw the number there, one thirty-three nine-six-eight (133968) on line number 2, underneath that, you'll see capitalized labour of prior years. And that's a reduction -- one (1) time reduction. We didn't retroactively adjust. We did it all at once, so.

And then we separated that from the actual current year, which means the 2016/'17 actual line 4 of 1.8 million. That is the portion that actually relates to one point eight (1.8).

So to make a comparable comparison, if you will, you would have to add back line number 3, which is four point five-three-zero (4.530). So then that would take it to roughly 167 million for comparison purposes.

MS. KATHLEEN MCCANDLESS: Thank you. Now with respect to other expenses, so line 25, if we look to 2017/'18 forecast, those are forecast to be

$95.8 million for 2017/'18; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then $96.3 million for 2018/'19?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And if we go to line 10, data processing, that looks to be the largest component or largest proportion of other expenses; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And data processing, what does that encompass?

MR. PETER YIEN: Yeah. Just one (1) second.

(BRIEF PAUSE)

MR. PETER YIEN: There's a number of areas. Some of them relate to license fees. It would also include external labour and then, of course, the data centre fits into that as well.

MS. KATHLEEN MCCANDLESS: Thank you. Now I'm going to take you to the allocation to Basic of the expenses. So Diana, could you please pull up PUB-MPI-2-14, page 4.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And if we scroll to the bottom of the page, we have total expenses for 2017/'18 forecast -- or sorry, 2018/'19, $230 million at line 28?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And on the previous table, but I won't take you back, we looked at corporate expenses for 2018/'19. They were 302.5 million.

MR. PETER YIEN: Okay, I --

MS. KATHLEEN MCCANDLESS: I -- I can take you back there if you -- if you'd like to. Sure.

MR. PETER YIEN: -- take me back there? Yeah.

MS. KATHLEEN MCCANDLESS: Sure. Diana, if you wouldn't mind flipping to --

MR. PETER YIEN: Yeah. Thanks.

MS. KATHLEEN MCCANDLESS: Okay. 2018/ 19.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. Line 29. And so $230 million on page 4 of 2-14, the previous table. So that would be -- according to my math, that's 76 percent of the total expenses at the corporate level?

MR. PETER YIEN: Yes. That would be approximately right.

MS. KATHLEEN MCCANDLESS: Thank you. And the costs are allocated to Basic through MPI's cost allocation methodology?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And I understand there were no changes in the cost allocation methodology that would have materially changed the allocation of costs from corporate to Basic over the last year?

MR. PETER YIEN: Yeah. We -- we have not changed the cost allocation model that was, I guess, prepared in 2009 by Del -- Deloitte. So -- so no changes.

MS. KATHLEEN MCCANDLESS: Thank you. Now, with respect to IT labour, MPI has decided to capitalize the internal labour working on IT projects?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And previously, that was expensed annually?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: So the change was made to be more consistent with accounting expenditures on capitalized expenses?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And, Diana, can you please go to the previous page, page 3? And so if we look to capitalized labour under 2018/'19 --

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: -- at line 3 --

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: -- we see that for 2018/'19, capitalized labour was at neg -- negative $1.7 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And then forecast to be at negative eight hundred and forty-six thousand (846,000) for 2019/'20?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then there are no costs projected forward for 2020/'21 or 2021/'22 under line 3. Does MPI not anticipate having any costs of that nature after 2019/'20 fiscal?

MR. PETER YIEN: I probably should refer to a comment that I made yesterday about IT strategy. The projects that -- the capital projects that have already been initiated, essentially, that meets the previous business strategy of continuing, are expected to be wrapped up.

So until we have established a new business strategy later on this fiscal year, we don't anticipate any further capital expenditures, and hence, utilization of any internal resources for those projects.

MS. KATHLEEN MCCANDLESS: Thank you. With respect to data processing fees, if we -- we look to Basic data processing costs, so that would be back to page 4. In 2017/'18, data processing is increasing from 20.9 million as we discussed, and that's -- I believe you said higher licensing fees would cause --

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: -- the increase?

MR. PETER YIEN: Yes. Also ongoing and normal operations expense would increase as well. So they would be due to things like various projects. That includes finance re-engineering, high school driver ed, and for loss and upgrade that we are proceeding with right now, and also the information security and strategies around that.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. At line 26, we see the amortization of deferred development costs. And starting with 2017/'18 forecast budget, we see $17.4 million. It increases in 2018/'19 to $21.3 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And can you explain the -- the amount of the increase in the forecast?

MR. PETER YIEN: Sure. PDR is expected to transition to normal operations in the 2019/'20, in the 2017 -- 2017 GRA. It -- it was completed earlier than expected. So we expect 2.8 million expenses in the 2018 GRA, which is this year's.

We also have distributed estimating which translates into roughly 1 million in going to normal ops from ongoing. And we also have a non-Basic project just under about -- just approximately eight hundred and thirty thousand dollars ($830,000), again, going from -- going into normal operating expenses.

And then finally, technology risk management is driving -- is being amortized earlier than expected, meaning it's completed. Therefore, it's six hundred and sixty eight -- six hundred and eighty thousand dollars ($680,000).

MS. KATHLEEN MCCANDLESS: Thank you. So the capitalized IT projects when they're complete, then they're amortized over a five year period?

MR. PETER YIEN: That -- that's correct. They generally amortize the year following. Yeah.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up PUB-MPI-1-30.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And in this IR, MPI was asked for a schedule showing the total cost for IT projects. So at Appendix 1, if we just scroll to the top, please, Diana.

So Appendix 1 lists thirty-four (34) projects in total. Sorry, I'm going to ask you to scroll down again. That's thirty-four (34) projects in total; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And then the following page --

MR. PETER YIEN: Actually, sorry, thirty-three (33), to be precise, but yeah.

MS. KATHLEEN MCCANDLESS: Yes. You're right, thirty-three (33).

MR. PETER YIEN: Okay.

MS. KATHLEEN MCCANDLESS: Next page, Appendix 2 lists thirty-seven (37) --

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: -- projects.

MR. PETER YIEN: Yeah. Actually, yeah. That's correct. Insertions have worked as a bundle, but essentially there's pieces in there. So I would call thirty-six (36) plus. Yeah.

MS. KATHLEEN MCCANDLESS: Okay. If we just go to the first page of the IR. Sorry, the -- the actual question.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Okay. All right. Sorry about that, Diana. I don't -- I don't actually need that now.

My question is, Appendix 1, would that be a -- a listing of all current IT projects underway?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And so that is thirty-three (33)?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So Appendix 1 is the -- is the spending, and then Appendix 2 is the amortization; yes?

MR. PETER YIEN: Sorry, which appendix?

MS. KATHLEEN MCCANDLESS: The next page, Appendix 2.

MR. PETER YIEN: Please show me that briefly.

MS. KATHLEEN MCCANDLESS: M-hm. Yeah.

MR. PETER YIEN: Yes. That's correct.

MS. KATHLEEN MCCANDLESS: Thank you. Sorry to make you jump around, Diana. Can you please go back to Appendix 1.

So we see from the bottom of the page, starting in...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: You have total divert -- deferred development costs for the thirty-three (33) projects of $205 million.

MR. PETER YIEN: Sorry, can you repeat that again?

MS. KATHLEEN MCCANDLESS: Line 35 --

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: -- there's total deferred development costs for these projects of $205 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then if we go to Appendix 2, we see that with respect to PDR -- so lines 1 -- sorry, physical damage re-engineering, at lines 11 to 13.

MR. PETER YIEN: Yeah.

MS. KATHLEEN MCCANDLESS: Does that -- that would show that MPI's amortizing IT optimiz -- optimization projects, but also some of the projects related to physical damage re-engineering; yes?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And so some of these physical damage re-engineering projects would be complete?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And are they currently providing some utilities to -- to MPI?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: If we look to lines 24 through to 34 on Appendix 2, there is an increase in amortization.

MR. PETER YIEN: When you say -- can you clarify that question? There's an increase.

MS. KATHLEEN MCCANDLESS: It looks as though from the forecast budget period from 2017/'18 through to the end of the forecast, there generally would be an increase.

MR. PETER YIEN: Yes. It -- there's an increase, and it steadies up, and drops again. Yes.

MS. KATHLEEN MCCANDLESS: And that would relate generally -- generally to physical damage re-engineering projects along with others that will have been completed in those years; yes?

MR. PETER YIEN: That's -- that's correct. But yeah, the physical damage would be a significant part of that.

MS. KATHLEEN MCCANDLESS: Thank you. Now with respect -- I do have some questions with respect to staffing levels. Mr. Chair, it's just ten (10) after 2:00 now. I can keep going or we can take a break.

THE CHAIRPERSON: How long will it take you to go through staffing levels?

MS. KATHLEEN MCCANDLESS: It could be

half an hour or more.

THE CHAIRPERSON: Okay. Let's take a break for fifteen (15) minutes.

MS. KATHLEEN MCCANDLESS: Thank you.

--- Upon recessing at 2:11 p.m.

--- Upon resuming at 2:33 p.m.

THE CHAIRPERSON: Okay.

MS. KATHLEEN MCCANDLESS: Ready to proceed, thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Diana, can you please pull up expenses, page 29 from volume 2 of the filing. I'm going to ask some questions about staffing levels.

So this figure here EXP-19 represents the variance in salaries between this year's forecast and last year's forecast.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that's at the corporate level.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so with

respect to the 2017 GRA forecast for 2016/17, we see that in the 2017 GRA forecast salaries were forecast at $130.2 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then the 2016/17 actual for the 2018 GRA, was $132.1 million?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so that shows an increase of $1.96 million from last year?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then as we look to the forecast for 2018 GRA on the left-hand side of the table going forward, we see relative to last year's forecast a decrease?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now the increase if we -- just scroll down the page to the narrative portion of the explanation of the table. The 2017/16 increase was mainly due to greater than expected salaries?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that was the timing of the FTE count reductions?

MR. PETER YIEN: That's right, we didn't get it earlier enough.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Now, appendix 8 of the expenses portion of the filing. Please, Diana. And if we scroll to the bottom of this -- this table here, we see the variance. It's a comparison of the actual 2016/17 FTEs as compared to the 2017 GRA budget.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And looking to the very bottom right-hand side of the screen under Total, we see that there is a variance from last year to 28.6 FTEs under the G -- 2017 GRA budget?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And when was the budget established?

MR. PETER YIEN: I'll come back to you.

(BRIEF PAUSE)

MR. PETER YIEN: The budget cycle is that we complete the budget in October.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to page 24 of the expenses section of the filing, that's figure EXP-14.

And so this is the comparison of actual

to budget staffing levels for normal operations from 2012/13 through to 2021/22?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And this does reflect the targeted reduction of 133 FTE positions?

MR. PETER YIEN: It does, but it also includes other improvement initiatives that also contributes to a further reduction.

MS. KATHLEEN MCCANDLESS: Okay. So just for clarification purposes, if we look to the 2016/17 budget level of 1927.5 FTEs there.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: At line 5.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then the difference between that and say, at 2019/20 of 1794.5 FTEs, that would be a difference of 133 FTEs; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now, the -- the under variance that we saw reflected on the first table and is also reflected here of 28.6 FTEs for 2017/18, that relates to the vacancy allowance?

MR. PETER YIEN: Can you repeat that question?

MS. KATHLEEN MCCANDLESS: The variance, the -- the reduction of 28.6 FTEs for -- sorry at line 5.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Does that relate to the vacancy allowance?

MR. PETER YIEN: Let me get back to you.

(BRIEF PAUSE)

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. Now, in last year's Order the Board had ordered that MPI in this year's GRA prepare the staffing budget based on a zero-based budgeting approach.

Are you familiar with that?

MR. PETER YIEN: I am.

MS. KATHLEEN MCCANDLESS: Now, Diana, can you please go to PUP-MPI-1-21. Now, in the question MPI was asked to provide a reconciliation of the zero-based budget for FTEs showing the opening zero-based actual FTEs, the vacancy allowance adjustment and ending results FTE forecasts for all years.

And if we just go down to the response. So what MPI has indicated here is for the budgeting process relating to 2017/18 and forecasted period. MPI started the FTE budget process with the current FTE complement and then from that point management and executive worked to determine the required FTE complement to ensure effective service delivery while reflecting MPI's commitment to cost containment.

So if you just scroll down a bit. Then there's a discussion of the reduction of FTEs and then, finally, the last paragraph says that the -- the annual vacancy allowance was included in the consideration as there was no reconciliation to provide as the actual FT -- FTEs and the forecasted FTEs and vacancy allowance were all disclosed in the rate application.

MR. PETER YIEN: M-hm.

MS. KATHLEEN MCCANDLESS: So the effect of that -- so M -- MPI is still using the vacancy allowance?

MR. PETER YIEN: No. If I can just take a moment and explain what we originally did and what we are doing now, I think it might be helpful.

The vacancy allowance is, essentially, a bucket of money that we set aside for money that we don't expect to incur. So what I mean by that is when we budget for the full-time equivalent positions in an organization the size of ours, let's call it just under 2000 people, we know that a number of people will leave the organization. And it will take time for us to find someone else to replace that position.

During that time we're not paying out salaries. So that's the money that we need to think about and plan that an organization of the size that we would not pay out the original plan that we initially had for salaries. That's more difficult to manage if we don't actually able -- when we plan for that, we plan at a corporate level. It's difficult to -- for us to look at it and individually by department and say, well, what is that?

The difference this year is we're pushing it down. So effectively what we're saying is, instead of using a vacancy allowance, what we're going to do is we're going to do the net number which means, plan on that yourself so that you know by area, roughly, how many people are not going to be around while you are actually searching for a replacement so, therefore, there won't be that vacancy allowance for this year.

MS. KATHLEEN MCCANDLESS: Thank you.

Diana, can you please pull up PUB-MPI-1-23. And so in this table, MPI was asked to provide a -- an update. And we can just -- to corporate compensation and payroll costs. If we go to figure 1 on page 2. Thank you.

So this is corporate total compensation/payroll costs from 2012/2013 through to 2019/20.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now if we look to 2016/17, so that's Line 6 on the table, the total payroll costs used in this analysis are $167.2 million; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then moving along to the right under Average Actual Forecast FTE, that represents 1898.9 corporate normal FTEs?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so the gross salaries for 2016/17 actual would relate to this -- the staffing FTE count?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so that represents payroll for your 1,898 normal FTEs; yes?

MR. PETER YIEN: That would be correct.

MS. KATHLEEN MCCANDLESS: And that includes all payroll, including overtime and benefits?

MR. PETER YIEN: Let me check on that. I believe it does.

(BRIEF PAUSE)

MR. PETER YIEN: Yes, it does.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can we please go to page 26 of the expenses section of the filing, figure EXP-15.

Now, this is the corporate salary analysis for normal operations and this only looks at the gross salary line and excludes benefits and overtime?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so would this relate also to the same for -- for 2016/17, relate to the same 1898 normal FTEs?

MR. PETER YIEN: I'm sorry, can you repeat that question?

MS. KATHLEEN MCCANDLESS: This table here would also relate to the 1,898 FTEs for 2016/17?

MR. PETER YIEN: Let me check on that.

(BRIEF PAUSE)

MR. PETER YIEN: Yep, it does. I -- it's just that I've missed a corporate of 4.12. But yes, it's the same corporate schedule.

MS. KATHLEEN MCCANDLESS: Thank you. You had mentioned that the Corporation is no longer using a vacancy allowance, but if we look to 2018 forecast budget underline three (3) vacancy allowance, there is a vacancy allowance of $6.82 million there; yes?

MR. PETER YIEN: Yeah. I need to clarify that in terms of operationally we are showing the net to our employees and leaders when they budget. So we're still notionally using it but in terms of actually operationalizing it, we're not. We still have to calculate it at a corporate level.

MS. KATHLEEN MCCANDLESS: So it factors into a budgeting exercise?

MR. PETER YIEN: Yes, it does factor in our budget -- maybe effectively the way I would describe it is, at a corporate level we still need to plan for it which shows as the number that you see right there 2 -- 6.8 million. But our folks are saying 1. -- 133 million and they need to divide that up within the Corporation so that the budgeting is now pushed down for accountability.

MS. KATHLEEN MCCANDLESS: So there'd be no FTEs actually associated with that dollar amount there, the 6.82 million?

MR. PETER YIEN: Well, it's a notional amount. One could calculate it as a guess, as I said earlier. We don't know exactly at the beginning of the year who is actually going to be vacant, but I will say that's a more challenging number as we move forward for sure, and we've -- we've looked at it.

With staff reductions, effectively, we're saying we do more with fewer people and the expectations that should a vacancy arise, we would have to fill that position quicker, which means that that bucket of money that we were planning on earlier on for these vacancies will last shorter. The number we do expect it to -- to go down.

MS. KATHLEEN MCCANDLESS: Are you able to provide sort of an estimate of the number of FTEs in this exercise that would correspond to a vacancy allowance of 6.82 million?

MR. PETER YIEN: Yeah, one (1) minute.

(BRIEF PAUSE)

MR. PETER YIEN: Again, this is an approximate. If we use roughly 70 K per -- for each FTE it works out to approximately 90 people.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can we please go to PUB-MPI-1-23, page 2. This is a table we were looking at earlier.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So MPI used the -- the actual staffing level for 2016/17 at Line 6 for establishing the 2017/18 budget as a starting point?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then -- sorry to jump back, Diana, please to page 26, that we were just looking at.

Actually, you know what, you can go back, my mistake, to the previous page. So at the end of 2016/17, MPI had, as we discussed, the 1,898.9 FTEs, and then if we go to 2017/18, MPI is forecasting then staff levels to grow to 1,911 for the current year?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Now, Diana,

please go to PUB-MPI-1-26, to the first page.

Here MPI was asked to provide a continuity schedule of the 2016/17 actual in (a) to the 2017/18 forecast provided in expenses appendix.

Now, can you please go forward to figure 1. Now, if we look to the middle of the table we see in the zero-based budgeting adjustments, the far right column under Total, there's a forecast of 12.2 FTE increases from 2016/17?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: Now that -- the 12.2 positions increase that's an -- an increase in 29 technical professional staff? You just need to scroll through.

MR. PETER YIEN: That -- that's correct.

MS. KATHLEEN MCCANDLESS: Okay. And then that's offset by a reduction in management; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. If we go to the next page, under zero -- the zero-based budgeting adjustments for technical professional, there seems to be a reduction there of 5.3 FTEs?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Were those

staff re-assigned to normal operations?

MR. PETER YIEN: You mean the reduction of the 4.3?

MS. KATHLEEN MCCANDLESS: The 5.3.

MR. PETER YIEN: Sorry, the 5.3? Let me check on that.

(BRIEF PAUSE)

MR. PETER YIEN: So -- so they're actual eliminations.

MS. KATHLEEN MCCANDLESS: They were eliminations?

MR. PETER YIEN: They were.

MS. KATHLEEN MCCANDLESS: Okay. Now on page 4 of this document we've got corporate staffing levels and under the zero-based budgeting adjustments, we see overall staffing levels for the Corporation increased by 6.8 FTEs?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Under Total. Was this primarily a reclassification of existing staff to different departments?

MR. PETER YIEN: No, they -- they were reductions.

MS. KATHLEEN MCCANDLESS: If we scroll to the bottom of the page under the 2017/18 total budget, it looks as though there's been -- if you compare it to zero-based budgeting adjustments, there's been some reclassification or retitling of -- of areas -- of staffing?

So, for example, people in product in 2017/18 seems to be a new category of staff; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And there's no longer a category for human resources?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And if we -- there is no longer a category for business development and communications under the 2017/18 total budget; yes?

MR. PETER YIEN: Can you repeat that?

MS. KATHLEEN MCCANDLESS: It looks as though business development and communications under the zero-based budgeting --

MR. PETER YIEN: Right.

MS. KATHLEEN MCCANDLESS: -- has been eliminated under the 2017/18 total budget.

MR. PETER YIEN: It's been combined, not eliminated, yes.

MS. KATHLEEN MCCANDLESS: Diana, can we please go to CAC-MPI-2-24. So CAC asked the Corporation to explain the reasons for changes in FTE for human resources, business development and communications and finance. And then at (b) to itemize and explain changes in responsibility due to FTE resource changes.

And if we scroll to the response there's an explanation of re-organizational changes; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So it looks as though in amongst human resources, business development and finance, now there have been additions and deletions?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And some of those categories of employment have now been renamed, as we discussed before?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: There are major additions on this table to the human resources division.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: As well as

additions and deletions to business development and communications.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then deletions from finance; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Can you explain the reason for the new focus on human resources?

MR. PETER YIEN: I probably wouldn't classify as a focus on human resources. Generally speaking, there's been a reduction in staff, so I would call it purely restructuring and realigning the Corporation. It's just another way of saying, we think it would operate more effectively under this realignment.

MS. KATHLEEN MCCANDLESS: Okay. And can you explain the reason for deleting these categories under finance.

MR. PETER YIEN: Just a second.

(BRIEF PAUSE)

MR. PETER YIEN: I do know similar to the response I had before, it was to realign the structure based on the -- basically accomplishing our corporate goals and it was felt that that realignment would be better suited to that.

MS. KATHLEEN MCCANDLESS: When you say "corporate goals," can you just sort of explain what goals fit into this reorganization?

MR. PETER YIEN: Like specifically you're talking about? For -- our corporate goals are outlined as part of a -- in our financial statements. I don't know if you have a copy of that. Just a second.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Ms. McCandless, it appears that the response to your question would be rather lengthy. If we could provide that to you by way of undertaking.

MS. KATHLEEN MCCANDLESS: Sure. Thank you, okay.

The undertaking would be to explain how the staffing reorganization in figure 1 of CAC-MPI-2-24 aligned with the Corporation's corporate goals.

MR. STEVE SCARFONE: Yes.

--- UNDERTAKING NUMBER 6: To explain how the staffing
reorganization in figure 1
of CAC-MPI-2-24 aligned
with the Corporation's
corporate goals.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up MPI Exhibit Number 11.

Under the first bullet with respect to reducing FT -- FTE counts by 6.9 percent, there is a 15 percent reduction in management FTE to be achieved by December 2017.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now, does that mean that as of December 2017, that 15 percent of management, employees at MPI will no longer be working for the Corporation.

MR. PETER YIEN: Some of them. Not all of them.

MS. KATHLEEN MCCANDLESS: So can you explain how that 15 percent reduction then fits in. Some of them are being reassigned into other positions?

MR. PETER YIEN: Very minimal are.

Very minimal. Okay, hold on a sec. Yes, I do know that there is a couple that has been reassigned to non-management roles.

MS. KATHLEEN MCCANDLESS: Fifteen percent, does the Corporation have a number of what that 15 percent translates into?

MR. PETER YIEN: We do. Just one second. We'll check a quick undertaking and we'll get back to you.

MS. KATHLEEN MCCANDLESS: Perhaps if we could have an undertaking then to advise as to the number of FTEs that are to be reduced by December 2017. The number that are no longer -- would no longer be employed by the Corporation. The number that would be reclassified into different positions.

MR. PETER YIEN: Yeah.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. PETER YIEN: Yes.

--- UNDERTAKING NO. 7: To advise as to the number of FTEs that are to be reduced by December 2017. The number that would no longer be employed by the Corporation. The number that would be reclassified into different positions.

CONTINUED BY MS. KATHLEEN MCCANDLESS

MS. KATHLEEN MCCANDLESS: Now I'd like to ask some questions about the IT staff internalization. Diana, can you please pull up Page 27 of the expenses section of the filing. That would be twenty-seven (27) of the PDF, so it should be a...so just move up somewhat - sorry, other way. Thank you. Okay, the narrative portion of the page, please. No, twenty-seven (27). Okay, thank you.

So this reflects MPI's intention to increase IT internal labour. So fifteen (15) positions to be converted from external labour to internal FTEs.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And the bottom pair -- of the paragraph says the salary increases related to IT, internal labour are expected to be fully offset by a reduction of external labour costs.

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And then if we go to the Volume 1, the IT section of the filing, Page 20. So we see under the order from last year, there's a summary of the progress made with respect to moving IT consultants -- or moving IT staffing in-house. And on line seven (7) on -- the Corporation notes "the 15 possession -- positions were successfully converted from external to internal".

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that was four (4) higher than projected.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And at the bottom of the page we see a reference to the target of twenty-seven (27) external positions and that -- that still -- that remains the target for the Corporation; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So, since those fifteen (15) positions have -- were successfully converted has further progress been made in that regard?

MR. PETER YIEN: I need to check, but I believe so because is an ongoing process. So we have achieved five (5) for this year.

MS. KATHLEEN MCCANDLESS: So that's five (5) in addition to the fifteen (15)?

MR. PETER YIEN: Yeah, and then seven (7) more to go.

MS. KATHLEEN MCCANDLESS: Okay. And if we scroll up to Page 19. Just to note at the very bottom, that the transition of -- to those twenty-seven (27) positions from external to internal is expected to achieve at $2.4 million in annual cost savings by 1920.

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: Now, can you please go down to MPI Exhibit Number 5, and that's the corrected IR response to PUB-MPI-1-31.

And in this IR, the Corporation was asked for a budget and forecast for internal ITs so if we go to the second page. We look to internal FTEs. So, for 2015/'16 so at Figure 1, the Corporation had 223 internal FTEs.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that is said to increase gradually over the period from 2015/'16 to 2019/'20. Sorry. To 2018/'19 to 253.2; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then if we look to consultants. Oh, pardon me. I think we may need to -- just scroll down for one second, Diana, I want to make sure. Okay, never mind. Thank you. So, at Line 2, consultants for that same period of time, so 2015/'16 through 2017/'18 we see a reduction of 114 consultants to 92 consultants.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then on to 81 in 2018, 19 in 80 and 2019, 20.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then, below that we see the associated cost movements for both categories corresponding with those FTE changes; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now, Diana, can you please go to PUB-MPI Exhibit -- sorry, 2-7. That's Exhibit Number 6, that's the corrected IR response.

And in this IR, MPI was asked for the costs for internal and consultant IT staff. At Page 5, Figure 7. So here we see the average cost per FTE for internal versus consultants.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that's over a -- the period from 2011/2012 through to

2019/2020.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And obviously what's noted on here is a significant difference in cost between internal FT -- internal IT FTEs and consultants; yes?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: With consultants being much more costly to the organization.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: So with respect to actual costs for consultants from 2012/2013, we see the costs being two hundred and twenty-eight thousand (228,00) for consultants for 2012/2013.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And 2016/'17 we've got costs of two hundred and twenty-four thousand (224,000) per consultant. And then moving through to 2019/'20, two hundred and thirty-three thousand (233,000) per consultant; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. Now moving on from staffing. I do have some questions on benchmarking. And I understand the Corporation has four (4) major benchmarking areas and we can put it up on the screen, that's benchmarking section of the filing, page 10.

So those benchmarking areas are operational efficiency, IT service delivery capability, serving Manitobans, and then community impact?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And the Corporation engages Ward group to provide benchmarking services?

MR. PETER YIEN: That -- that's correct.

MS. KATHLEEN MCCANDLESS: And that was done, again, for this year's application?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: If we go to page 12 of the benchmarking section, please, Diana. Thank you. We see that at line 4 MPI is compared to three (3) benchmark group, so, Canadian Personal Auto Benchmark Group, ten (10) Canadian insurers, Canadian Benchmark Group with ten (10) Canadian insurers and the US Personal Auto Benchmark Group with nine (9) US insurers?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And then scrolling down later in the page we have the metric here, BM -- BMK-1. So, these are the corporate benchmarking performance results?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now, first I'd like to look at metric 4.1.1. So that is a total gross expenses as a percentage of gross written premium. If we look to the -- the right-hand side of the table, and MPI for 2015/16, the percentage is 27.89 percent; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so that compares favourably to the Canadian Personal Auto Group at 35.03 percent?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And as well to the other two (2) comparative groups, Canadian Benchmark and US Personal Auto Group?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: Does the Corporation know the composition of the various benchmark groups, apart from just the numbers?

MR. PETER YIEN: When you say the

"composition of the group," you mean each of those independent groups; like, who are the actual insurance?

MS. KATHLEEN MCCANDLESS: Yes.

MR. PETER YIEN: Let me check.

(BRIEF PAUSE)

MR. PETER YIEN: Yes, we do.

MS. KATHLEEN MCCANDLESS: And are you able to provide that information or is that confidential?

MR. PETER YIEN: Yeah, it's part of the benchmarking contact --

MS. KATHLEEN MCCANDLESS: It's contained within --

MR. PETER YIEN: We're unable to disclose.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Now metric 4.1.2, total gross expense per policy enforce.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: We see that looking to MPI for 2015/16 the amount there is 280?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that compares favourably against the benchmarks of 433 for Canadian Personal Auto Group, 530 for Canadian Benchmark Group and 433 for US Personal Auto Group; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Now with respect to figure 4.1.3, full-time equivalents per $100 million of gross written pre -- gross premium written.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: We see that MPI in this metric under 2015/16 does not compare favourably with the benchmark groups. Would you agree?

MR. PETER YIEN: Yes, I do.

MS. KATHLEEN MCCANDLESS: Okay. But that generally we see the trend from 2011/2012 through to 2015/16, that it is improving from MPI's perspect -- perspective?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And I believe that in the past MPI has said that it doesn't compare favourably with the US and Canadian benchmarks because of its end-to-end business model; would that be accurate?

MR. PETER YIEN: I wasn't part of that conversation, I just need to check.

(BRIEF PAUSE)

MR. PETER YIEN: Yeah, I can confirm that's what we said in the past.

MS. KATHLEEN MCCANDLESS: Thank you. Do you know if ICBC or SGI have a similar end-to-end service delivery model?

MR. PETER YIEN: One second.

(BRIEF PAUSE)

MR. PETER YIEN: There are some similarities, but we can't identify all the different -- like the definitive differences for sure.

MS. KATHLEEN MCCANDLESS: Does MPI do any comparison internally with -- SGI or Saskatchewan Auto Fund?

MR. PETER YIEN: When you say "internally," in -- in what aspects are you referring to?

MS. KATHLEEN MCCANDLESS: Well, as --

as opposed to sourcing it to Ward Group, does MPI perform any of its own internal analysis comparing its benchmarks as against SGI or SAF?

MR. PETER YIEN: No, no, other than kind of ad hoc what we talked about the bonds, for example where, you know, if we identify a specific need that's high risk we would -- we would do that, but it would be completely ad hoc.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please pull up PUB-MPI-1-47. And to the question, the Corporation was asked to expand its benchmarking tables for rating comparisons to add other centres, so, Regina, Halifax, Charlottetown, Quebec city and Hamilton, if available.

And if we go to the table at figure 1, we see there are a number of different categories. So for each comparator, 35-year-old couple, claims and conviction free at -- at the top, then 40-year-old couple and 16-year-old son, claims and conviction free. And then further down, a 21-year-old male, claims and conviction free.

So -- and yesterday, Mr. Yien, I recall you mentioning the rates that you've unfortunately have to -- had to pay in Ontario for your auto insurance. Now, if we look to the com -- the other comparator centres in Manitoba -- or, pardon me, in Canada for each of these three (3) categories. If we scroll to the top, for example.

Now on the 20 -- for 2017, we see Winnipeg, $1142. Toronto seems to be a bit of an outlier in this group, you would agree?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And with respect to centres that -- that would be accurate comparators for Winnipeg, would you agree that Calgary, Regina, Halifax would be closer to Winnipeg for comparison purposes?

MR. PETER YIEN: You could look at it that way. It's possible.

MS. KATHLEEN MCCANDLESS: Thank you. Now, Diana, could you please pull up PUB-MPI-1-49, and page 3. Again, on benchmarking.

Now -- you just scroll to the bottom of the page, please. Okay, thank you. So this table is to give a detailed of benchmarks that are provided to give trends in MPI's operations?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Can you please explain how MPI uses this type of a trend analysis?

MR. PETER YIEN: You mean just gen -- generically what we do? You know, the trend analysis is important for the Board. The Board does hold management accountable in terms of what we do. In areas where we might be slightly off the chart, let's call it or not -- not within average or certainly above average, we will get questioned on it.

I had mentioned earlier about the business strategy. Data like this gets factored into the business strategy. Areas that we need to speed up or slow down in areas IT that we'll talk about later as well also gets factored in this.

It is important to note that while some of the areas like claims expenses may continue to go up, we also need to remember that one (1) of our items is to return 85 percent to every Manitoban.

So, you know, cost-cutting is -- is great, but if we are cost-cutting at the detriment of our claimants and our ratepayers that would not be so great. So in some of those areas there are limits in terms of where we can go, I know the Board is cognizant of that as well.

Another thing to note in terms of just having these benchmarks. I do know the Board is cautious in not over-vectoring in one (1) area. You asked a great question earlier, similarities and dissimilarities. We have to look at our PIPP program. The coverage we have, which is exemplary, if -- if we kind of look at the whole life kind of principle of that. So when we -- when we look at these stats it's not looking at it in isolation of one (1) stat. Over-focussing on one (1) stat can be very dangerous.

And then finally, I guess the last piece that I would say is we do a -- do ad hoc discussions about everything from IT, as an example, through our Gartner interactions. As example, we get to interact with other insurance companies, and we figure are there any of these stats that perhaps we should be doing better, and others maybe we don't need to do as well because we have fundamentally a different IT structure, for example.

So just at a high level, we use these sparingly when the benefit is there. And then the final piece is the cost for us to get there. Other organizations may already be there for other reasons that we cannot get to, and we have to factor that in -- in play as well.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go down to next page. So this table reflects the ratio of operating expense incurred for the number of policies outstanding?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that would be at line 21 specifically?

MR. PETER YIEN: Yes. Yes.

MS. KATHLEEN MCCANDLESS: So historically if we look to the right-hand side of the table and at line 21, the five (5) year historical is that the expense -- operating expense per policy has increased to 2.8 percent?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And moving back along line 21, it looks as though the operating expense per policy peaked in 2016/'17 at sixty-six-ninety (6690) -- at sixty-six-point-seventy-nine (66.79)?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And that was that from 2012/'13, which is fifty-nine-point-seventy-two (59.72); yes?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: And if we look to the right-hand side of the table for the years following 2016/'17, we see that the Corporation is now forecasting that this will decline over the forecast periods; yes?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: And so this would be related to lowering operational costs?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Operating costs, pardon me.

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: At line 23, we see the claims expense?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And that the trend has historically been growing for the -- the five (5) year historical at a rate of 4.7 percent?

MR. PETER YIEN: That's correct.

MS. KATHLEEN MCCANDLESS: And so that started in 2012/2013, at four hundred and fifty point thirty-six (450.36) per claim?

MR. PETER YIEN: Yes.

MS. KATHLEEN MCCANDLESS: To five hundred and forty point six three (540.63) per claim in 2016/'17?

MR. PETER YIEN: Correct.

MS. KATHLEEN MCCANDLESS: Can you explain what is behind this trend?

MR. PETER YIEN: Okay. I'm going to pass it to our chief actuary, Mr. Johnston.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Hello. So I think the question is on line 23, why -- why did the -- why did we see the claims expense ratio peak in 2017/'18?

MS. KATHLEEN MCCANDLESS: Yes.

MR. LUKE JOHNSTON: So to a large extent, the claims expense costs will follow the claims costs themselves. So, for example, in the actuarial report we look at the cost of claims and then the percentage of claims expenses to -- to manage those claims.

So I suspect most of this increase just relates to claims cost growth in general, which as you've seen in this application we've had -- we've had increases on that -- on that front.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. So from 2017/'18 through to 2019/'20, it looks as though the growth is -- is forecast to be relatively flat?

MR. LUKE JOHNSTON: That's right. The -- the cost containment measures that you've heard of do -- or have -- have and are expected to impact some of our claims handling processes, staff, et cetera. And we've -- we've seen that here, and also in the actuarial analysis where -- where we are seeing our expenses per dollar of claim paid drop in recent years. Yeah.

MS. KATHLEEN MCCANDLESS: So mainly attributable then to cost containment efforts?

MR. LUKE JOHNSTON: The -- the declining rate? Yes. Yeah.

MS. KATHLEEN MCCANDLESS: At line 27 we have claims per claims employees. So this reflects the number of claims that a claims employee would handle; yes? That's line 27.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So generally, the higher the number that would be better, because it -- it shows higher efficiency per employee?

MR. LUKE JOHNSTON: That's a tricky one (1). There's a -- there's kind of an inflection point where not having enough staff can start causing trouble with claims costs. So if you just approve every claim automatically you could have almost no staff. So I want to be careful on that one (1). But per your comment that is true that we are -- appear to be doing more with certain number of claims staff.

MS. KATHLEEN MCCANDLESS: Okay. And receive for the five (5) year historical that claims per claims employees has declined a rate of 1.1 percent?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And so that -- if we look at the trend from 2012/2013, we had twenty (20) -- two hundred and fifty-five (255) claims per employee. And through to 2016/'17, that's two hundred and forty-four (244) claims per employee?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And then through 2018/'19, 2019/'20, there's a significant increase in claims per employee, two hundred and fifty (250) in 2018/'19 and two hundred and sixty-two (262) and 2019/'20?

MR. LUKE JOHNSTON: That's right. And that would reflect expected reductions in staff relative to the number of claims we're expecting to have.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Mr. Chair, my next area of questioning will be on IT projects, but I expect it'll run an hour or more, so.

(BRIEF PAUSE)

THE CHAIRPERSON: I'm just wondering if we can figure out where we're going to be tomorrow. I'm -- I'm prepared to adjourn early today. I just want to make sure that we don't get backed up.

Can we take five (5) minutes and counsel can discuss and we can figure out how long we're going to be tomorrow?

MS. KATHLEEN MCCANDLESS: Yes. Thank you.

THE CHAIRPERSON: Okay.

--- Upon recessing at 3:26 p.m.

--- Upon resuming at 3:30 p.m.

THE CHAIRPERSON: Okay. I spoke to counsel, and I think we're going to adjourn now and we'll resume at nine o'clock tomorrow morning. Thank you.

MS. KATHLEEN MCCANDLESS: I -- I believe -- Mr. Scarfone, did you have something you wanted to say now before we adjourn?

THE CHAIRPERSON: Okay.

MR. STEVE SCARFONE: I -- yes. Thank you, Ms. McCandless. I spoke to her about it and I forgot.

So, Mr. Chair, we had promised -- we had promised early in the day that we'd have one (1) response, at least, to an undertaking that we'd like to provide to you now. And -- and that was with respect to the request for proposal and the contractor, that the Corporation has retained.

So we've had a chance to review the RFP and it does provide for MPI disclosing the winning bid. And that's been awarded to Mercer Canada, is the -- is the firm that will be providing the ALM study for MPIC.

THE CHAIRPERSON: Okay. And we have a copy of the RFP?

MR. STEVE SCARFONE: We --

THE CHAIRPERSON: I think that was part of the undertaking.

MR. STEVE SCARFONE: That -- that aspect of the undertaking is still -- and I believe that was a -- a separate undertaking.

THE CHAIRPERSON: Okay. That's fine.

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- Upon adjourning at 3:32 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.