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

October 10, 2017

Pages 1110 to 1349

APPEARANCES

Kathleen McCandless	)Board Counsel
Robert Watchman	)Board Counsel
Roger Cathcart	)Consultant
Alex McQuarrie	)Consultant
Steve Scarfone	)Manitoba Public
Matthew Ghikas	)Insurance
Byron Williams	)CAC (Manitoba)
Katrine Dilay	)
Raymond Oakes	)CMMG
Erika Miller	) CAA Manitoba
Christian Monnin (np)	) Bike Winnipeg

TABLE OF CONTENTS

LIST OF EXHIBITS

LIST OF UNDERTAKINGS

--- Upon commencing at 9:14 a.m.

THE CHAIRPERSON: Good morning, everyone. I hope everyone had a wonderful Thanksgiving. I understand we have a scheduling issue and that Ms. McCandless is speaking to counsel. I would hope that we can resolve it by -- by noon today, or over the lunch break.

So my understanding is that what we're going to do is we're going to hear from Mr. Geffen this morning so that he can go home today, and I will have Mr. Williams resume his cross-examination after we're complete with this witness.

Is that right?

MR. STEVE SCARFONE: That's correct, Mr. Chair. Yes.

THE CHAIRPERSON: Okay. Mr. Scarfone, would you like to proceed.

MR. STEVE SCARFONE: Thank you. Morning, Mr. Geffen.

MPI PANEL NO. 3:

MARTIN GEFFEN, Sworn

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Good Morning, Mr. Geffen, welcome to Winnipeg. Sir, I just have a couple introductory questions for you before you get into your direct evidence.

Can you start, sir, by telling the panel members for those of them that are new who you work for and what your experience is in that role.

MR. MARTIN GEFFEN: Right, thank you. Thank you very much for having me here. I am a vice-president in the consulting group within Gartner. Gartner is a US-based international organization. It does three (3) things. We do research and analysis on technology issues. We do consulting and we run a number of symposium courses around the world for executives who are involved in technology.

I'm within the consulting organization. Have been with Gartner for about seventeen (17) years One (1) of the things that Gartner is is that we hold ourselves out to be -- because we are kind of a research -- which is -- is our history, that's kind of our -- our roots, we are -- hold ourselves to be independent and objective so that we can provide our clients with -- with the arm's-length advice with regards to all kinds of different technology issues that they might be involved in.

And the consulting organization that uses that kind of research to -- and applies that research to provide direct actionable advice to -- to our clients.

As a vice-president in consulting, I've -- do work in a range of industries include -- largely in -- in public sector. And one (1) of the things that I've done for a number of clients is provide large-scale project oversight to do assessments of large -- called transformative projects and provide advice to clients in terms of making course correction, if it's necessary or just providing an overall risk assessment for -- for large-scale projects.

Is that the level of detail you are looking for?

MR. STEVE SCARFONE: Yes, thank you, sir. And I understand, Mr. Geffen, you're here today to speak to the physical damage -- re-engineering project that MPIC retained your firm to investigate?

MR. MARTIN GEFFEN: Correct, yes.

MR. STEVE SCARFONE: And you're here, as I understand it, to provide an update on its progress. As you were here last year I believe testifying to that same project, correct?

MR. MARTIN GEFFEN: Correct, yes.

MR. STEVE SCARFONE: Sir, just briefly, you've already been prequalified as an expert to give opinion evidence here today, but can you just, again, for the benefit of the new panel members just briefly - at a high-level - go through what your educational background is.

MR. MARTIN GEFFEN: Yes. I am an electrical engineering by undergraduate training and have a Masters of Business Administration in -- in addition to that.

MR. STEVE SCARFONE: Thank you. And outside of this regulatory proceeding, sir, have you provided similar type reports, and evidence in other matters not relating to MPIC?

MR. MARTIN GEFFEN: To -- to other organizations?

MR. STEVE SCARFONE: Yes.

MR. MARTIN GEFFEN: I've provided this kind of input to a -- a US based workplace safety insurance organization.

MR. STEVE SCARFONE: Insurance organization. That's what I was specifically addressing, the insurance industry. Thank you, sir.

All right and I understand that Mr.

Geffen that you have a presentation that you prepared for the panel members. Is it fair to say it's a summary of what's contained in your report?

MR. MARTIN GEFFEN: Correct, yes.

MR. STEVE SCARFONE: And, sir, just confirm before we begin that the evidence that -- that's contained within this presentation, you're adopting as part of your direct evidence here this morning?

MR. MARTIN GEFFEN: Yes.

MR. STEVE SCARFONE: Is that correct?

MR. MARTIN GEFFEN: Yes.

MR. STEVE SCARFONE: All right, very well. Thank you, sir. You may proceed.

PRESENTATION BY MR. MARTIN GEFFEN

MR. MARTIN GEFFEN: Great, thank you very much. All right, if I sit back like this can you hear me or do I need to.... If I sit back can you hear me okay?

Okay, great. Thank you very much.

MR. DARREN CHRISTLE: <A> point of order, Mr. Chair? The MPI -- MPI needs to enter this as an exhibit.

THE CHAIRPERSON: Oh yes.

MR. STEVE SCARFONE: I'm not -- I'm not certain what number we're up to? Number 17. Okay. And is -- is that the report, or is that the presentation that your -- that's the presentation. Okay.

THE CHAIRPERSON: Sorry, the -- the copy I have lists it as CAC-17. Is it MPI-17? Oh, sorry, okay.

MR. STEVE SCARFONE: Yes, so MPIC would like to mark that as its next exhibit, Mr. Chair. And that's the presentation of Mr. Geffen.

--- EXHIBIT NO. MPI-17: Presentation by Mr. Geffen.

MR. MARTIN GEFFEN: Okay?

MR. STEVE SCARFONE: Yes.

MR. MARTIN GEFFEN: Great. Well, thank you for having me -- for having me here today. I'm -- I would like to actually talk about two -- two (2) two different kinds of work that we've done for MPI over -- over the last year. And it's an update on work that we presented at the same hearing last year.

The first is the IT score and benchmark and the second is the PDR Program Review. The IT score and benchmark is a piece of work that we've done

-- been doing for MPI for a number of years now. We -- as part of Gartner -- part of Gartner's consulting practice, we have a rigourous, pure, structured peer benchmarks that we do. And we've been doing these benchmarks for MPI year over year for a number of years as -- as I say, and we really focus on three (3) things in -- in their IT operating costs, process maturity and readiness for sort of align -- IT alignment with the business.

So I'm just going to -- just provide an update around the IT score benchmark and also the second is to kind of -- is to talk through the PDR Program Review. Here is -- we -- we did an assessment. We've -- we've been -- we've done a number of assessments over the year for -- for MPI, in general; have addressed the five (5) key questions that the PUB asked MPIC to -- to ask us to address in the report that we -- we submitted a number of months ago.

At a -- at the very highest level from the IT score and benchmark, I just wanted to report that, you know, operating costs have increased year-over-year. The gap in those operating costs between the MPI spend and the -- their peers is decreasing. However, the overall IT maturity -- process maturity is increasing. And I'll talk a bit more about each -- each of these in -- in a -- in a few minutes.

The secondary, just as -- at again, a high level with the PDR Program Review addressed the five (5) questions that MPI's asked us to address on -- on -- on your behalf, was about, you know, the progress of pilots, that the pilots are complete except for the remote estimating pilot and we'll talk more about that in a few minutes too.

That if you were here last year we talked about the fact that the project pace was actually quite slow. We've seen that the project pace is expedited and most pro -- projects will be completed by the end of this fiscal year, with a number of projects being -- with -- with -- with one (1) key project being -- going -- continue on. And again, we'll talk more about that in detail.

Costs continue to be consistent with those projections. Benefits projections continue to be consistent as they were last year, but they will take -- or projected to take a -- a -- a slower ramp up and longer to come to a steady state. And then that the -- the ques -- a new question that was added this year is about maintenance. Again, that is -- at the highest level of maintenance is accounted for in oper -- in operating budgets and we'll talk -- provide more detail in the next slides. Okay, thank you.

So with regards to the IT benchmark score and background -- the IT benchmark and scorecard, as I said, MPI's retained Gartner's to conduct an annual review of the IT service delivery capability and we look at the organization processes and the infrastructure. We look at three (3) things: the IT spend analysis, which does -- which compares relative funding levels for IT at MPI year-over-year and also compares them to pure organizations. And we look at MPI's infrastructure operations costs, the serving -- staffing service levels, and compare those to -- with -- with pure organizations.

When we -- we look at the pure organizations, we have a -- we -- we compared it -- we have a data base of about eighteen hundred (1800) different benchmarks that we've done for organizations. Our benchmarks are -- is a rolling six (6) months or the data in the -- in the -- in the benchmark -- in the database is only ever six (6) months old. And we compare organizations to organizations of similar complexity and work -- workload. To the extent that we can, we look at organizations in -- in the same industries but our --

our experience is that industry doesn't matter so much as workload and complexity in terms of what the spend is on -- on IT.

We also look at the C -- CIO scorecard where we look at the overall -- the relative mat -- maturity of the IT organization, how close is it aligned to where -- where the -- the business needs to go and how well -- well aligned is to support the business.

And finally, we look at the infrastructure operation scorecard where we assess the IT organization's ability to rapidly address changing business requirements, so, in terms of IT processes.

Can you -- thanks. So this picture that we are looking at right now really provides you a -- a summary of -- of all of those -- of those at the -- at the highest level. I'll just maybe talk through that -- at a bit and then go into a bit more detail in the next slides.

What the graph shows is that, really, the kind of trend that we -- we are looking for -- we would like to see is up and to the right. So, it's a little bit counterintuitive because IT spend is a percent of revenue goes from the lowest at zero down to 9 percent. And so we -- we'd actually like to get to a lower IT spend as a -- as a -- as a percent of revenue. And we have the overall CIO scorecard where we compare, as I said, various IT process metrics. And so we're looking to get to a score of -- the -- the range is from 0 to 5. Five (5) is -- we use -- we usually see in most maturity models -- we have a number of maturity models that we've created in various industries, five (5) is really an aspirational target. We rarely see in any maturity model an organization -- it's something that you're actually striving and so we're kind of looking to move towards -- towards the right.

The -- you can see that the -- the trend has been -- we're -- we're moving a -- we -- in 2011/2012 as you -- as you may recall, there was really a bunch of operations spending that -- that -- needed to take place to -- we talked about repairing the 2 -- the 20 -- the 20 year roof problem. We kind of needed to really modernize some technology, but not -- MPI had not invested in technology for a number of years and so in -- we -- we needed the -- the cost is part of operating revenue was -- was quite high. We've actually reduced that quite significantly over time.

And we also do a -- we -- we do an

assessment of the cost by -- as a percent of revenue, both on the revenue from insurance operations and as administrative revenue because MPI has other revenue source -- sources for driver's license and vehicle registrations and so we can of look at the -- at both of those and so we show both of those on -- on that slide.

So if we go to the next slide then let -- let me just talk through -- through each of these areas in -- in a little bit more detail. In the -- from the IT spending perspective, we see that IT spending is a percent of revenue, rose from 5.3 percent to 6.3 percent. IT spend as a percent of revenue is -- is -- as we say, 6.3 percent compared to 4.4 percent for their peers. That gap has -- has reduced over time. And I can -- I have the number somewhere in terms of -- of what the gap was last year but I think that the gap was closer to -- was -- was it -- the gap was definitely a larger gap between the peers.

The -- the other metric which we think is a more relevant metric for MPI is IT spend as a percent of operating expense given that -- that MPI is not as -- it's -- many of its peers would be a -- a profit maximizing organization. And so we think that our revenue maximizing operation -- so if you think of IT spend as a percent of operating expense, we see that -- that has also risen over the last year from 5.4 to 6.1 percent and it is somewhat higher than its peers at 6.1 percent compared to 5.6 percent for its peers.

In terms of the -- the allocation of that spending, the catch-up spending is the spending on that 20-year problem has stabilized and the foc -- focus now is on business improvement and so we see MPI spending money more on technology that's looking to transform the business or to -- to grow the business.

We do see that MPI's overall staffing has risen slightly and it -- and remains higher than its peers. We also see that MPI is transitioning from the use of third-party contractors to staff. So MPI has -- has taken -- taken significant efforts to transition significant positions that were filled by third-party contractors or -- into staff -- into staff roles which we -- we see as -- as a really positive step.

And the last point on -- on -- in that group over there is about -- we -- we think about spending on IT in terms of three -- three -- three (3) categories, if you will: Run The Business, keep the lights on, keep the operations going and then grow the business, new -- new product lines and transform the business; get into brand -- brand-new transformation -- transformation business lines.

So we see that -- that when we compare to peers, the Run The Business spending is in line with peers and the sum of grow and transform is -- is -- is in line with peers. MPI is spending more on the grow the business than on the transformation which prob -- makes sense for an organization of the type that MPI is.

And the last area I wanted to just talk about over here is the alignment and maturity assessment. And as -- as you've seen, MPI has improved in almost all of the process maturity areas. The overall IT maturity score has increased 2. -- 2.4 percent from the score from -- from last year. And -- so there's a -- a positive trend in each of the -- the -- the maturity score areas.

I'm going to switch now to -- address the PDR Program Review area and I'm just going to set the stage with some context and background. The -- the stated goal for the PDR program from -- back at -- at its inception is really to transform the physical gam -- damage claims operation to enhance the MPI value equation. The PDR program has been -- is going through a number of exercises in terms of the -- the -- the scope and the approach as -- as one would expect a large -- a large program -- a large multi-year transformational program to do

It has transitioned -- reported last year from a complex initiative that was made up of five (5) different subprograms and twenty (20) projects within those programs. All of that over the past year, as I've said before, the pace has -- has ramped up. MPI has completed eight (8) projects. MPI has cancelled seven (7) projects after determining that they're not strategic and do not add to the business case. So, the PDR team in -- in each of its stage gate, so MPI takes each of its program -- projects through a number of stage gates and at certain stage gates an assessment was -- was completed for those seven (7) projects, and it was determined that given the additional spending, the returns were not as -- as significant as originally projected and the projects were -- were cancelled. Money had been -- has been reallocated from those projects to some of the ongoing projects.

There are now five (5) projects within the PDR program, and four (4) of them are expected to

-- three (3) of them are expected to be completed this year. One (1) is expect -- has a pro -- a project plan that will have it completed within -- by the end of the fiscal year after next and the other is -- and I'll talk about all -- each of these is -- is being revisited at this point.

In terms of the overall evaluation approach, we have done a number of rev -- reviews of the PDR program over the past year. We have -- we reviewed key program artifacts, project status reports, change requests, budgets, those kinds of things, chart -- charters. We identified key individuals within the -- the project teams and then what we did is we applied our risk and review methodology, the same -- the same approach that we -- we applied last -- last year to address the five (5) key questions raised in the -- in the PUB Order and we then developed the report and presented it to -- to MPI. Okay.

So just -- address each of those -- the -- the five (5) questions one at a time and the first question was about progress of pilots to date. We -- of the -- of all of the pilots, the -- all -- all pilots, but one (1) have been completed and so what -- what "been completed" means is that they have -- the -

- the software has been moved into production. It's been operationalized and MPI's in the process of extending the usage of the -- the -- the new processes and the technology beyond this -- the smaller group that was the -- the pilot group.

The remote estimating pilot is on hold. If you recall, the remote estimating project was to support remote and rural repair shops to participate -- to participate in collaborative estimating. And so just for possibly more detail than you -- more -- more detail, it was to provide remote shops with video -- with video kind of equipment so that you can actually have people do estimating remotely, share imagery with MPI staff in a central location and make some kinds of decisions that way.

Given the cost of that technology, the cost of the process change, it's -- it's clear that the business case for the current program structured that way is -- was not as strong as was projected. MPI is stepping back and looking to develop an overall rural strategy of which the remote estimating -- that may be part of -- of an overall remote strategy that would have a better business case.

Let's spend actually some time talking about point number 4 in -- in the rest of the -- this slide but -- just talk through what the others -- the other projects are that are remaining in PDR.

So the appointment manager will deliver new technology and new processes to support external part -- partners in customer self-service so that both for knowledge test and road test instructors can schedule themselves, and that individuals who want to set appointments for those -- those events, they can -- they can do self scheduling and -- and -- and manage those schedules.

The enhanced direct repair capabilities, this was originally known as distributed estimating and so this was where shops could actually do estimating and -- and work collaboratively with adjusters. So, that will be completed and -- and -- and rolled out.

The partner portal is a technology which will allow for authentication and authorization for external partner access to MPI services. And so that's lots of consulting and technical terms for the ability to create a platform which will provide the technology to clearly identify -- to have, you know, passwords and securities for external partners to identify themselves and authenticate themselves, and then to get access to the various online services.

So that's what the partner portal is -- is -- is about.

I've spent -- I've talked about remote estimating quite a bit when -- as -- it's transitioned to the rural strategy.

And the last is the customer claims reporting or CCRS project. This is the rebanding of the IFAM or FNOL. FNOL stands for first notice of loss. IFAM -- IFAM stood for innate -- inter -- interim first notice of loss and adjusting model. So these are the pro -- these -- this is a project which will really extend the Mitchell software to allow for customer engagement, customer ability to do self-service and then in order to be able to integrate with the existing CARS system and -- and to extend the abilities for the contact -- the contact centre system. Okay.

With regards to the timing of -- of the full implementation, as -- as I said, there's been a number of changes with regards to vision, direction and scope of PDR. PDR went through a revisioning exercise two (2) or three (3) years ago to really kind of think through exactly what is -- where -- where the objective was, where was the business value and how we were going to actually transform our business.

And as we reported last year, the -- the -- progress had been relatively slow as the -- the team was redefining the -- the direction, the scope and -- and -- and the business cre -- creating a set of initiatives that would -- would deliver that business value.

The -- however, the -- the project really ramped up over this past year, and as I've said, delivered eight (8) completed projects; has released -- delivered a really clear, new focus so that we can drive to achieve the -- the projected benefits and achieve the outcomes that were -- that were projected as part of the -- the initial charter.

The sharpened focus of the program should enable the ability to maintain the pace of the project completions and the transition to operations. And given the -- the -- the new focus and given the projects, the -- the -- where -- where the projects in their project life cycle there's a -- a high confidence that the projects will be completed on that -- at -- on the predicted time -- time line, and with the projected budgets that -- that we're seeing today.

One (1) of the things that we look at in a -- in a project like this is kind of the -- the -- the overall project scope and project charter. And so -- the -- you know, -- while the project -- program charter has not been updated over time, we have looked at it to see a -- a trail of change requests and so there are -- there are change requests that document the changes in direction of the project which -- which projects have been completed, which have been extended and which have been cancelled and we're -- how costing is being allocated across those projects.

I am just repeating over here that, you know, MPI pro -- is -- the MPI team is projecting that of the five (5) remaining projects three (3) will be completed in the 2017/2018 fiscal year. That CCRS will be completed in fiscal year 2019/20, and that the remote estimating project is on hold pending outcome of the rural support -- the rural support strategy.

The third question was about project costs. And if we -- at the highest level the -- overall program budget was $65.5 million in 2012 dollar. The project is -- the team is projecting that at the close of CCRS the PDR program will be complete at -- I'm just jumping around here on the slide deck a little bit, at -- at $4 million less than the approved $65.5 million budget. While some projects require more than the original budget, others were under budget and others are -- are -- are cancelled.

So what we can see is of the eight (8) projects that were completed, they are completed on -- on -- on budget. The -- the cancelled projects -- the -- some of the funding from the cancelled projects have been allocated to the ongoing project that will need to be completed this year, and in the -- in the next two (2) years.

Overall 43.4 million has been spent to date on the program with eighteen point one (18.1) projected to be -- to be spent on completing the project -- program. And as we say, with CCRS completion in 2019/2020, the program will be complete at a projected $61.5 million, 4 million less than the -- the original approved budget.

Given where the projects are in their life-cycle, given the -- the -- the focus on what the scope is and what the outcomes are, there is a high level of confidence in the or -- projected spending and -- and in the timing of -- of those two projects. And given where they are in the -- in the -- in -- in their life-cycle, other than remote estimating, it's unlikely that we'll undergo further scoping.

The three (3) projects that will be completed are well underway. The CCRS project has -- is -- a lot of that is defined by the relationship with -- with Mitchell. And there -- there are detailed plans for release of software and changes in technology for that.

So -- sorry -- the -- I'll just repeat the -- the -- of the -- of the other five (5) projects, the three (3) of them that will be completed or well underway. And so it's -- it's highly likely -- oh, sorry -- high -- it's highly likely that they will come in on time and on budget, given that we're tha -- this far and that we're -- the plans are very clear for those. The CCRS, which has a longer-term, it -- has a -- to the end...

(BRIEF PAUSE)

MR. MARTIN GEFFEN: So the CCRS project, although it has a longer timeframe, is -- there is a detailed plan for it. It's lo -- a lot of the work is related to this -- is -- to change in the Mitchell product. And there are a -- detailed plans -- a -- and there's a detailed contractual relationship that will -- that will deliver software over time. Okay. Thank you.

The fourth question was about savings and benefits to be realized. So the -- the pro -- as we say the -- we kind of looked at the -- the -- the overall return on investment of the project, so the -- the -- it's an investment of $65.5 million. The investment period is pro -- projected to be nine (9) years since inception of PDR.

Benefits started to be realized in 2016/2017, so last year. And there is a slight -- there is a -- we see a slow but steady ramp-up in benefits, so we see last year, and this year we see a benefit project -- actual benefits.

And we have looked at the benefits projection provided to us by the -- the -- the PDR team. The -- the benefits do ramp-up to a steady state of -- of about $13.65 million of annual benefits. Those benefits are projected to continue in perpetuity. The benefits are about reduced -- reduced internal costs, reduced costs in -- of -- and -- and reduced cost of some of the external suppliers like loss-of-use providers and shops, and that -- that kind of thing.

The steady-state is projected to be achieved in 2021 and twe -- 2021/2022, which is a year later than -- or what was -- what was projected last -- the last time we reported. So the ramp up in benefits, is -- is a bit -- is a bit flatter and is --

is taking a bit longer to -- to get to the steady-state.

We -- in order to provide some kind of baseline, we looked at the -- although benefits are expected in perpetuity, we kind of did a return investment in net pres -- present-value calculations, just looking out to un -- up until ten (10) years after go-live, so to the year 2026/2027. And we used 3 percent cost of capital.

We weren't -- weren't aware whether MPI had run -- and this was consistent with the work that we done last year, so we can actually do year-over-year comparisons. And we're seeing that the program returns -- the internal rate of return of 7 percent and a net present value of thirteen point seven (13.7) using those parameters. If you use the -- kind of the blunt instru -- the blunt tool of, you know, When does the program payback? not thinking about a time value of money, the payback period is achieved in year 14 of the program in 2023/2024. That's when the benefits out -- start to outweigh the costs in -- just in straight dollars without taking the time value of money. Okay.

The last question that we were asked to address was about the maintenance costs. And so the question was: Is -- is MPI ca -- accounting for ongoing operation and maintenance of the investments that they've been -- made in the PDR program over time?

And the -- at the highest level, the the MPI has accounted for ongoing maintenance and support, in both the IT operating budgets and in the line of business operating budgets. So just to provide a little more detail about that, we need to think that through and -- through -- in the -- the PDR program has used a range -- a range of different approaches to implement and operationalize the PDR projects, and each of them has a different maintenance and support structure. So the three (3) different kinds are -- that we talk about a 'Software as a Service' or sometimes people think about it -- talk about this as 'Cloud-based services', commercially available off-the-shelf, or COTS solutions, and then custom developed software.

Let's talk about each of these. If you can take me to the next slide, please.

So, the Soft -- 'Software as a Service' are solutions where a vendor will generally provide a solution that is only slightly customized or configured to a specific customer, that multiple customers are using the same solution, and that they are being hosted on the vendors' hardware. And in these, no upgrade support or maintenance fees are -- are specifically charged for -- for the project, that maintenance and upgrade charges or included in this -- in the SaaS subscription agreement.

So -- so long as you are paying your S -- your SaaS subscriptions on a per user, or per -- per monthly or quarterly or a periodic basis, then as the vendor upgrades their solution, you have access to that -- the upgraded solution as it gets deployed online, and you have access to the help desk for any kind of issues that you have. And so obviously MPI is paying these subscription services, and so that -- that's -- that's how maintenance and operations are budgeted for in -- for -- for that type of sof -- that type of solution.

Commercially available, or COTS solutions, are those that you will generally tend to buy or license from an organization. You may host it on an external edg -- or -- or -- organization or you may host it internally. Most of the COTS' products that MPI has licensed, like the Infor (phonetic) or it used to be a Lawson (phonetic) product, are being hosted on -- in the IBM environment, the managed services environment.

And for maintenance and operations, the vendor usually requires you to pay an ongoing licence fee for ongoing support and maintenance and for the rights to install new versions or upgrades. As a rule of thumb, we see that th -- those kinds of licence fees are about 18 percent of the licence -- of the -- of the original licence fee annually. And MPI does pay ongoing licence fees for all of these proje -- products out of the IT operating budget.

The third area is custom development software, so software that MPI or some of MPI's contractors may have actually built and -- for use at -- at MPI. When we looked at which products that were part of the PDR program, we looked at kind of, what the cost was to -- to build those solutions, we've used a number of heuristics and best practices from within Gartner research, and we estimate that in order to maintain and operate those solutions, there should be about a budget of about three hundred thousand ($300,000) dollars a year to maintain those -- those solutions.

And although MPI does not have a specific line item of three hundred thousand ($300,000) dollars to support PDR specific projects, MPI does have a budget for ongoing support for its custom developed software, which is much larger than the three hundred thousand (300,000). So if -- in our estimation, there is internal budget within the op -- with -- within an IT operating budget to maintain and support and have the help desk, and do the upgrades to our custom developed software.

Finally, there are some PDR solutions that do have an ongoing need for development or for a physical asset replacement life-cycle. So things like if you need new cameras for some of the -- the facial recognition programs, or if you need to new -- build out new analytical models for the predictive analytics' tools. And as those projects have been operationalized, so they've been moved fro -- out of IT and put into operations, and so the operational budgets include funding for these new -- for -- for those ongoing evergreening upgrades.

So with that, I just wanted to close out and do kind of a quick summary of what I've reported so far from the IT scoring and benchmarks, operating cos -- costs due for IT operating costs have been -- have increased year-over-year. The gap with the peers is decreasing, and the overall IT maturity levels are -- are increasing, so things like architecture, system development, IT service management.

With regards to the PDR Program review, to address that the five (5) questions in summary:

The pilots are complete, but for the remote estimating pilot which is been put on hold pending development of a rural strategy.

The project pace has expedited. We've -- the project team has completed eight (8) projects. Seven (7) projects have been re -- reviewed and revised and cancelled. There are five (5) projects that are ongoing. One (1) of which is the Remote Estimating Project is on hold. One (1) is the CCRS project which will be completed in 2021, and the other three (3) will be completed in this fiscal year.

The benefit projections are consistent in terms of their source and -- and overall plateau that they ramp up to, but they are taking longer to realize and will -- they -- the steady-state will be achieved a year later than originally projected.

And finally, all of the tech -- all of the technology investments, there are maintenance operations have been accounted for in either the IT operating budget, or in the -- the line-of-business operating budgets. Thank you very much.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you, Mr. Geffen. I didn't want to interrupt your presentation, but I did have a couple questions concerning two (2) slides in particular.

Diana, could you go back to that slide on the scorecard, it was the IT spend. I think it's Slide 3 in Mr. Geffen's presentation. Yes, that one, thank you.

Sir, I just wanted to ask you a couple questions. This is an important slide in -- in my view. But first, that trendline that we see the one that's a -- that's a -- an even trendline sloping downward, does that represent an industry trend or is that MPI's trend? Could you explain what that trend line is.

MR. MARTIN GEFFEN: So -- so that tr -- trendline really is -- shows kind of a -- almost a break-even trendline, so it's not an -- it's not an industry trendline. It really is something that we -- we're -- we're aspiring to be at that trendline or above that trendline; that would be -- that would be a mark of best practice.

MR. STEVE SCARFONE: I see. Okay. And then when we have MPI's actual lines there, is the

PDR Project incorporated somewhere in there?

MR. MARTIN GEFFEN: Yes, so the PDR Project is part of the IT spend.

MR. STEVE SCARFONE: And where in that particular line that -- that is up and down would the PDR appear or be reflected?

MR. MARTIN GEFFEN: So the IT -- what we do every year is we look at the overall IT spend.

MR. STEVE SCARFONE: Yes.

MR. MARTIN GEFFEN: And so the PDR would be part of the overall IT budget. So it's not -- there's nowhere specifically in the -- the -- the vertical axis is the percent of spending -- of spending on IT compared to revenue. And IT --

MR. STEVE SCARFONE: Yes. Yes.

MR. MARTIN GEFFEN: -- and PDR would be some proportion of the spending in -- on -- on IT.

MR. STEVE SCARFONE: I see. Okay.

MR. MARTIN GEFFEN: I can -- I can get you what purp -- what proportionate it is, but I -- I don't have that for you.

MR. STEVE SCARFONE: Okay. Thank you. And then, Diana, to slide 9, I believe it was the benefit slide of the PDR.

So I understood your evidence, sir,

that the -- the ban -- the benefits eventually to be realized would be just in excess of 13 1/2 million annually. Is that correct?

MR. MARTIN GEFFEN: Correct, yes.

MR. STEVE SCARFONE: Does that number include what appears in a bullet a couple down with the -- the 3 percent cost of capital and the adjustments that you make for -- for the change in money as you described it?

MR. MARTIN GEFFEN: Yes. So what -- what we've done is we've done a pretty standard net-present-value analysis. We've -- we just looked at the -- the effect of cashflow over time. So the -- the -- the costs between 2010, when -- when this program first started and twenty (20) -- so the -- the cost will -- the costs will go from 2010 through to 2020/'21 when a CCRS is complete. And the benefits start ramping-up from last year and will reach a steady state in 2021/'22. And the -- the net present value and int -- internal rate-of-return costs look at -- at the net -- that overall cash flow. I'm not sure I answered your question.

MR. STEVE SCARFONE: Well, I don't know if it's as complicated as that. I was just curious if the 13.65 million -- so, for example, after

2021/'22, would it be that same number in 22/'23? And going forward, is -- it's been adjusted, as it were for inflation and --

MR. MARTIN GEFFEN: It's -- it's projected to continue beyond 2021.

MR. STEVE SCARFONE: Yes. Okay. Those are all -- my only questions for you, sir, thank you. Thank you, Mr. Chair.

THE CHAIRPERSON: Thank you. We'll have Ms. McCandless, followed by Mr. Williams, and then we'll see if the panel has any -- any questions.

Ms. McCandless would you like to start, please.

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Good morning, Mr. Geffen, I am counsel to the Public Utilities Board, and I have some questions for you today about your CIO scorecard, as well as the PDR, Physical Damage Re-engineering --

MR. MARTIN GEFFEN: Right.

MS. KATHLEEN MCCANDLESS: -- Project. So you mentioned at the outset of your presentation that Gartner has been engaged by MPI for a number of years. Can you be more specific -- for -- how long has Gartner been engaged by MPI?

MR. MARTIN GEFFEN: So we have -- Gartner has done proj -- projects for MPI since -- oh, it's cer -- it's certainly more than five (5) years, it might be as long as seven (7) years, and we've do -- we've been doing these benchmarks for the past five (5) years.

MS. KATHLEEN MCCANDLESS: Thank you. And how long have you in particular been involved in providing services to MPI?

MR. MARTIN GEFFEN: I have been involved since I want to say, 2010 probably. Yeah.

MS. KATHLEEN MCCANDLESS: Now, you mentioned in your presentation that -- and it was slide 4, page 4, I think of the presentation, which might be page 5 of the PDF, on the left-hand side of the col -- of the three (3) columns there under spending, that IT spend as a percentage of revenue rose from 5.3 percent to 6.3 percent.

MR. MARTIN GEFFEN: M-hm.

MS. KATHLEEN MCCANDLESS: Is that trend something that would be of concern to Gartner?

MR. MARTIN GEFFEN: So we -- I don't think that that's a material difference. I think that we'll -- we -- we -- we'd look for spending to generally -- all organizations look to actually decrease spending. But we do find that organizations, if they're in a -- you know in a transfor -- in -- they're going through some transformation or if they have significant new projects, will actually have -- their -- their spending may increase as a percent of -- of either revenue or of -- of operating budget. So not -- not necessarily.

In fact, not -- not specifically with regards to MPI, but oft -- in some organizations, you offset your spen -- you'll increase your spending on IT and decrease spending because of the IT -- the IT solutions will provi -- will -- you be able to decrease spending in other parts of your organization, and so your percentage as a percent of operating budget might actually increase.

MS. KATHLEEN MCCANDLESS: With respect to MPI in particular, is this a number that Gartner would want to see going down in the future?

MR. MARTIN GEFFEN: Usually the organizations would look to actually drive down spending, yes.

MS. KATHLEEN MCCANDLESS: Okay, thank you. Now, I'd like to ask you some questions about your original CIO scorecard, which was -- Diana, it's

Attachment A to the BMK section of the filing. And page 5, on one (1) side of the page we have a column devoted to key observations and on the other side, on the right-hand side, there are implications and recommendations.

Do you see that before you?

MR. MARTIN GEFFEN: I do, yeah.

MS. KATHLEEN MCCANDLESS: And on the left-hand side of the page, the second paragraph states that MPI spends 63 percent of the IT budget on personnel versus 44 percent for the peers, 34 percent of MPI's IT staff is made up of contractors versus 17 percent for the peers, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. Have you identified the reason for this difference between MPI and its peers?

MR. MARTIN GEFFEN: Yes. So organizations will often use external contractors or external organizations, either for specific skills that they can't get, or if they cannot afford -- they cannot pay market prices for salaries and -- and -- and benefits, or if they have short-term needs, so that they are looking to get a -- a set of skills or solutions that they won't need on a long-term basis, and so they won't -- they don't want to apply -- they don't want to use -- they don't make a long-term commitment to employees for specific skills.

And I think the -- that there's a mix of all of those things for -- for MPI. It's some of the techni -- some of these technical skills are hard to find in the -- in the -- the Winnipeg market. Certainly, some of the projects that -- the -- that are underway we're looking to get a specific -- MPI is looking to get specific kinds of resources that will only be required for a certain period of time. And -- and of course, being able to pay -- pay for -- pay market prices for staff is sometimes a reason to do that.

MS. KATHLEEN MCCANDLESS: Have you looked at the overall number of IT projects that MPI has underway at this time?

MR. MARTIN GEFFEN: We have, yes. Yeah. M-hm.

MS. KATHLEEN MCCANDLESS: And we've heard -- heard evidence before this Board that at this time there are thirty-three (33) IT projects underway. Would that accord with your --

MR. MARTIN GEFFEN: That would -- feels about right, but I don't have the specific...

MS. KATHLEEN MCCANDLESS: And does Gartner have any comment on the reasonableness of that number or then -- how that number -- whether that number is manageable?

MR. MARTIN GEFFEN: That's an interesting question. So I don't think that there is any right -- right or wrong for that. It's -- it's all about, you know, what -- what an organiza -- how much change organizations can -- can act -- can take, so in certain terms of both being able to finance the -- the, you know, fund from this projects, and then actually incorporate -- incorporate some of those changes.

If I were to answer that question more generally, I think that for -- of the portfolio of projects that are underway, the -- the -- there are a number of MPI calls them work insertions that are -- are -- sort of work that needs to get inserted through -- through the year. We don't do -- I have not done much investigation about those work insertions; we've been told that there's a lot of them, and that there's a lot of work to be done, but that it's mandated work. So that's -- that's the best information I have on that.

With regards to the PDR Program itself,

we -- we -- as I said, I think it's a really positive step that it's actually this -- as -- as a real focus to -- to expedite delivery of -- of outcomes.

(BRIEF PAUSE)

MR. MARTIN GEFFEN: So just to repeat -- what I'm -- I'll just repeat -- do you want me to repeat?

(BRIEF PAUSE)

MR. MARTIN GEFFEN: So I -- what I've said is that, although we don't -- we -- we did not look at the -- the work insertions, we understand that there is a large portfolio of work insertion projects, and that many of them are mandated by the need to address regulatory change. And so there's, you know, there is some stress, as there would be in any organization where you need to allocate resources around achieving those.

We believe that the focus -- the -- the re-focus of the -- the -- the PDR Program does make it more -- more -- more likely where -- you know, as I said we have higher confidence that we're actually going to get to end of job on time and within budget. I can't say whether thirty-three (33) is too much or too little. I...

MS. KATHLEEN MCCANDLESS: On the right-hand side of the page here under "Implications and Recommendations," on the issue of staffing strategies, at the third paragraph down, Gartner indicates that:

> "Strategies should be developed to reduce contractor dependence and numbers. Internal staff retention and skills development should be a priority."

Yes?

MR. MARTIN GEFFEN: Yes, correct.

MS. KATHLEEN MCCANDLESS: Can you elaborate on what strategies you have seen used by other organizations to -- for internal staff retention to get those contractor dependences (sic) down sure.

MR. MARTIN GEFFEN: Sure. So a bunch of things. So one (1) strategy is to jus -- transition contractors to staff, and that's a -- is often challenge because contractors have a -- kind of a lifestyle where they like to be contractors and often don't like to be staff, but I thi -- but there's -- but many organizations will work very hard to do that. And I know that MPI has done that in, I think, in a number of instances so that there are number of key IT positions that have transitioned from being contracted to staff.

The other kind of -- you know retention and skills development is what we've seen in other organizations; you know, are there is -- you know, kind of completion bonuses. We also see training programs that -- that -- that take place. Those are the kinds of skills development and staff retention that we've seen.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to page 11 of the document. At the very bottom of the page on this slide, we see a conclusion, and the second sentence, at -- after "conclusion" says:

"MPI could -- should continue to review staffing levels as it transitions to more third-party services correct."

Yes?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: Can you explain how you came to that conclusion?

MR. MARTIN GEFFEN: So two (2) things. One is just purely the, you know, comparison to peers. So if you -- if you do want to come to revert to a mean or -- or -- or be compared to your peers, it's kind of, you want to think about -- hard about, do -- do you actually need to be using contractors for tho -- you know, or are those three (3) conditions still true? Do you -- you know, can you afford -- can you meet market -- market rates, can you find the skills yourself, and do you want to make long-term investments? And so it's those kinds of things in terms of -- continue to have a look at that.

And the other is that the -- there are a number of individuals in -- in -- in key long-term positions that, you know, if there are -- if there are that key and they are that long-term, should we actually try -- try and actually have them retained as employees rather than, as -- as -- as contractors.

MS. KATHLEEN MCCANDLESS: Now, thank you. With respect to not staffing levels as compared to contractors, but staffing levels generally in IT, in Gartner's view are MPI's overall IT staffing levels higher than would be expected?

MR. MARTIN GEFFEN: So they're higher than the peers, and so that gives us an indication that they're probably somewhat higher than -- than -- than would be expected. And the other way too that we might think about, you know, whether they're higher than expected is -- you know, is the level of workload -- you know, are we in a period where we're actually doing more work than -- as kind of a steady-state work?

And I would say that, you know, with the -- PDR is ramping down, and so we should actually be coming -- getting to a more steady state. My guess is that you are kind of always at the -- at the IT and the -- the -- the insertion of work level is -- in all that time I've been here, there has always been a lot going on.

So I'm saying, really, I -- two (2) things. You know, on one hand, it is more than peers, and so the -- to that degree with -- it is higher than what we would expect. On the other hand, we do know that there's a -- a heavy workload that -- that's since -- sort of -- PDR's, you know, get to completion, and then with insertion of work, I -- MPI doesn't always have control over that level of -- of work that needs to -- needs -- needs to get done.

MS. KATHLEEN MCCANDLESS: So if I'm to understand your evidence, then, is Gartner's expectation that as PDR completes, that the overall staffing levels would reduce at MPI?

MR. MARTIN GEFFEN: I would think so, yes. So -- yes, I -- I -- as per -- as -- as a -- a large program like that completes, we would expect to -- to have a reduction in staff. I think that we would expect to -- an -- an ongoing focus on number of staff in terms of comparison to peer. And I think that that will be balanced by the level of -- of work insertion that's -- that's externally driven.

MS. KATHLEEN MCCANDLESS: Okay.

MR. MARTIN GEFFEN: Yeah.

MS. KATHLEEN MCCANDLESS: Diana, can we please jump back to the page we were just on, page 5. And on the left-hand side, under key observations, the -- the third paragraph, Gartner states that:

"Rather than growing revenue in other businesses, MPI is focusing IT investment on reliability, availability, and lowering risk. These investments, along with initiatives to provide better access and a better user experience increased the IT footprint, resulting in higher steady state IT expenses."

Yes?

MR. MARTIN GEFFEN: M-hm.

MS. KATHLEEN MCCANDLESS: Can you explain what is meant by "IT footprint"?

MR. MARTIN GEFFEN: So when we think -- I guess that's a -- a pretty colloquial term. We think about the IT footprint being the number of applications that you have in place, the infrastructure that's required to support those applications, and potentially staff that you need to support those applications.

MS. KATHLEEN MCCANDLESS: And where is MPI relative to other organizations with respect to its IT footprint regarding IT infrastructure?

MR. MARTIN GEFFEN: Well, that's really interesting. I would say that the way we tried -- the way we do our benchmarking is to look at complexity and workload measures, and that's how we pick your peers.

And so -- and so when we think about complexity, it's the, you know, the number of applications, the number of lines of business, those kinds of things. And workload is number of workstations, number of network drops. Those -- sorry about that -- number of network drops. Those kinds of things.

And so, as I say, that's, you know, it's colloquial. I would say that in -- in the benchmark, they should be the same, so -- because we are -- we are benchmarking MPI to organizations that have similar loads, similar workload -- similar workload and complexity measures.

MS. KATHLEEN MCCANDLESS: Okay. So they should be the same. Do you know if they are the same?

MR. MARTIN GEFFEN: Yeah -- well, yes. So we -- we pick the -- we -- sorry, I'm sor -- I'm sorry about that.

Yeah, so we pick peers that have similar workload and complexity. So when we -- we -- in -- in the comparative numbers over here, we're comparing MPI to organizations that have similar workload and complexity, and in -- to that extent, a similar IT footprint.

MS. KATHLEEN MCCANDLESS: On the right-hand side of the page at the very bottom, it's written that MPI and Gartner are exploring or placing the CIO scorecard. It says, Will be. Maybe that's Gartner's -- or -- or -- with --

MR. MARTIN GEFFEN: With, yes. You're right. Sorry about that.

MS. KATHLEEN MCCANDLESS: -- Gartner's IT score.

MR. MARTIN GEFFEN: M-hm.

MS. KATHLEEN MCCANDLESS: Can you just explain what the difference is between the CIO scorecard and Gartner's IT score?

MR. MARTIN GEFFEN: Sure. So the CIO scorecard is a -- it's an evaluation tool that -- that has a -- a series of -- in fact, both of them are structured evaluation tools that have structured sort of questions and -- and metrics that they -- that they look at.

The CIO scorecard looked at things like CIO alignment with the business -- the business direction. The CIO scorecard itself is a -- a product or a tool that we've actually retired, and the Gartner's IT score are -- their series are different.

And so there's an IT score for enterprise architecture. There's an IT score for applications. There -- there's an IT score that are -- are focused on -- on various different -- a number of different IT technologies and -- and capabilities. That's an ongoing tool. So our -- our clients are still using that to -- on an ongoing basis to assess themselves.

The implication here is that we can compare MPI year-over-year on this CIO scorecard, because we can continue to administer that tool. We can't compare CIO -- MPI to the industry, because the industry is not responding to that tool anymore. However, we can do year-over-year comparisons with the -- with this IT score, and so that's what -- that's -- that's what that transition that we're talking about is over here.

But we have continued becau -- just in ter -- terms of maintaining consistency, we have done the CIO scorecard year-over-year to compare MPI's score year-over-year.

MS. KATHLEEN MCCANDLESS: Thank you. On the left-hand side of the page, the very last paragraph states that:

"Business process management maturity remains generally low, one point six (1.6) versus one point seven-eight (1.78) for peers, and it appears to be opportunity for improvement."

Yes?

MR. MARTIN GEFFEN: M-hm. Correct.

MS. KATHLEEN MCCANDLESS: Can you please elaborate on what you meant by this?

MR. MARTIN GEFFEN: So business process management is a -- it's a discipline. It's a set of processes, a set of tools that will -- organizations will -- will use to identify what their business processes are, sort of document business processes, to implement automated tools so that you can automate those business processes, automated workflows, and it's one of those.

And so it's -- when we look at the I -- I could go back to the -- I can go back to the tool and kind of look -- look at the -- at the specific questions that we ask. But when we look at MPI's use of automated processes, use of structure, business process management disciplines and methodologies, it's lower than -- it -- it's at one point six (1.6) rather than -- than peers that are at one point seven-eight (1.78).

In general, on a -- on a, you know, one (1) to five (5) scale, where one (1) is ad hoc, and two (2) is defined, and three (3) is managed, and five (5) is optimized, both MPI and its peers are below a -- a managed level.

MS. KATHLEEN MCCANDLESS: Can you explain how being below a managed level might impact benefits realization on IT projects?

MR. MARTIN GEFFEN: So I think that it's not so much -- so that -- that means we -- we've fin -- seen kind of its benefits realization in the bui -- in the business itself, not necessarily on the -- and in the IT projects.

MS. KATHLEEN MCCANDLESS: Correct.

MR. MARTIN GEFFEN: Yeah. So if you were to have, you know, disciplines where you've actually identified -- you have structured ways of defining what your business processes are, and you have automated business process management tools in place, you have a better understanding of turnaround times, staff allocation, resource uti -- utilization. You have better ways of identifying opportunities to -- to optimize benefits.

And those are some of the things that you're missing if you don't have -- if you -- if you are less mature on that -- on -- on that mark.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to page 15? And these are the -- on right-hand side of the page, we see a table depicting the CIO dashboard results from 2011, 2012 through to 2015/'16; yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: And then on the far right hand-side of the table, under "insurance," that would be the overall average peer score?

MR. MARTIN GEFFEN: That would be the overall peer score, yes.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. And so looking to the very bottom of the table on the left-hand side for 2015/'16, we see that MPI has an overall score of three point four-two (3.42); yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: And so that score has improved from the previous year, 2014/'15, where the score was three point three-four (3.34); yes?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: And it's an improvement from the original state as at 2011/2012 of two point nine-three (2.93) as well; yes?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: Now, in looking at the -- the shaded -- or the coloured part of the table, are the green areas those that -- those areas that are good relative to industry benchmarks?

MR. MARTIN GEFFEN: Those are good, relative to the end of an overall score, I would say. They -- the -- as -- as I said, that insure -- insurance score, you can see we've -- we've -- I just need -- need to be clear, here, is that we say that the insurance there has not shown material change over the past few years, and can ski -- and can be considered relevant. Those, I'd -- I'd need to go back and have a look at when -- when -- I should know this, but when -- when the CIO scorecard was retired, and so those scores are the scores as -- as at that time. So just for -- for clarity around that.

But to answer your specific question, what we've said -- and what I said to you is that when we look at a -- a five (5) stage maturity model is something that's -- is pretty pervasive in -- in -- we have number of different file -- of maturity models. They're all kind on this -- on -- on a -- but they really look at kind of that -- that five (5) levels we really look to achieve to get to -- manage -- managed or -- or optimized. So when we say green is around the managed level, so.

MS. KATHLEEN MCCANDLESS: Would you be

able to find out when the CIO scorecard was retired?

MR. MARTIN GEFFEN: I can do that, yes. I can -- I'll take -- I'll take a note of that, yes.

MS. KATHLEEN MCCANDLESS: Okay. Can we have an undertaking to provide that, please?

MR. STEVE SCARFONE: Yes, counsel. We'll make that undertaking.

MS. KATHLEEN MCCANDLESS: Thank you. To advise when the CIO scorecard was retired.

--- UNDERTAKING NO. 29: Gartner to advise when the CIO scorecard was retired

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: On the far left hand side of the table, we have a number of different categories.

Can you just provide a high-level overview of what's contained within each of those categories?

MR. MARTIN GEFFEN: Sure. So infrastructure operation is -- what we do is we -- we look -- we look at the -- the organizational tools that are used to maintain the infrastructure and to operate the overall IT environment.

Cost containment, I would need to go back and have a look at it, but I'm pretty sure that it -- it consists of the processes and tools that -- that organizations are using to continually focus on and drive down costs.

The applications organization is the way that the application organization is structured in terms of does it have the right kinds of resource pools, the right level -- level of resources.

Business process management we've talked about already. Method -- tools, methodology and discipline about defining in man -- and -- and automating the ongoing operation of business processes.

Enterprise architecture would look at the overall disciplines for enterprise architects. Or so, do you have an enterprise architect? Is there an -- is -- is there an enterprise architectural strategy? Do we have information architectures, application architectures, and -- and technical architectures?

Open innovation readiness are a series of questions that -- that test for the level of innovation and exploration for -- or the -- or for looking for, and identifying opportunities for innovation.

The -- similarly, the inno -- the -- I'd have to go back to this -- the -- the tool to get the -- the level of -- the -- the kinds of questions that are asked for effectiveness in innovation for both the viewpoint and the organization. I don't have those in my -- my hands in terms of the -- the -- I don't have the -- the questions that are asked.

But there -- there are -- there are a series of questions that will test for the -- whether we are -- we are driving to effectiveness or driving to innovation. So are we -- are we looking to cost containment, or are we looking to new opportunities?

And so the -- so the -- this -- this third from the bottom is about your viewpoint in terms of what's the perspective of the organization? And the -- the second from the bottom is, How are you organized to do that? I would have to get you the -- the questions we're asking for those.

MS. KATHLEEN MCCANDLESS: Now with respect to the overall score being higher than the peer group, yes, what's the implication of that?

Does -- does that mean that MPI has a -- a higher degree of spending on IT, or would that not be an imp -- a reasonable implication, necessarily?

MR. MARTIN GEFFEN: It wouldn't -- not necessarily. The -- you might drawn an inference, but -- and -- but it's really is a -- it's the -- the overall perspective of -- of how the organization is structured, and what the viewpoint is.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to PUB-MPI-1-50.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now I assume you recall that in the past, Gartner has made a series of recommendations to MPI on IT?

MR. MARTIN GEFFEN: Yeah. Yes.

MS. KATHLEEN MCCANDLESS: And this document just provides an update to the Board on the implement -- implementation of those recommendations. So Diana, can you please go to page 4.

I'm just going to ask you about a few of these, Mr. Geffen. So with respect to the first recommendation on the page there, which is 1.26, which was benchmark service catalogue to enhance transparency to the business and drive better IT economics; yes? Do you see that before you?

MR. MARTIN GEFFEN: Yeah.

MS. KATHLEEN MCCANDLESS: And the status of that recommendation is in progress for Q4 2017 to '18. Can you just explain how this recommendation ties into -- or relates to improving business process management?

MR. MARTIN GEFFEN: So what we -- what we look to is a...

(BRIEF PAUSE)

MR. MARTIN GEFFEN: I can tell you -- I can tell you I would make a recommendation like this. I'm not sure what -- and I'll -- I'll draw an inference to -- to business process management. I don't think there is a direct -- necessarily direct correlation with that.

What we -- what we -- the -- highly effective IT organizations will have a service catalogue so that their cust -- their internal customers can really understand what they can expect from -- variety, what kind of -- the kind of services, the serv -- the not -- the service levels, and potentially the costs, if there are internally-allocated costs.

And so what we would like to -- but what we recommend for organizations is that they -- they develop service catalogues that they understand clearly, you know, that -- that they -- that the internal IT organization understands them, and can deliver to them, and that their customers can understand them, and can know what -- what -- know what to expect in terms of service levels and costs.

With respect to business process management, you know, you -- we could think that we -- that there could actually business process management services, but I'd have to go back to the full report to assess that for you.

MS. KATHLEEN MCCANDLESS: Mr. Chair, just for the benefit of the panel, I expect to be about maybe five (5) more minutes in this area, and then I'm moving on to PDR.

Can you please go to page 8. And the recommendations on this page that I'd like to ask you about, Mr. Geffen, are 3.05, 3.06, and 3.07. And 3.05 is:

> "Plan the future state architecture to support MPI's goals of access and support for existing and new services."

And again, it's just the same question with respect to business process management. So how would this recommendation relate to improving that business process management?

(BRIEF PAUSE)

MR. MARTIN GEFFEN: So with respect to business process management, I -- and future state architecture could include workflow management tools and other kinds of business process management analytics tools in terms of what the turnaround times -- what the process times are, and -- and when -- and resourcing look -- looks like. You could include analytics for business outcomes.

So those are the kinds of things that you might architect into your solutions to achieve better business process management.

MS. KATHLEEN MCCANDLESS: Three point o-six (3.06) states:

"Perform a baseline of the current state, and perform gap analyses as the architecture is implemented."

Yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: And again, the same question with respect to that one. How does that fit into business process management?

MR. MARTIN GEFFEN: So my answer is -- is kind of similar in -- in that what you want to do is develop a baseline of -- of, you know, are we -- do we have any kind of business process automation tools in place? Do we have any kind of workload tools? Do we have the kind of analytics in place to -- to assess the effectiveness of our business processes?

And you can then understand -- so that's -- that would be the baseline, and if you can then develop a gap analysis, and then -- and then create a plan or a -- a strategy, or for -- to -- to close those gaps, to und -- understand -- excuse me.

(BRIEF PAUSE)

MR. MARTIN GEFFEN: To -- to determine what kind of technology would we want put -- put in place, what kind of disciplines you'd want to put in place, or what kind of analytics to enhance your ability to assess the -- the outcomes of your business processes.

MS. KATHLEEN MCCANDLESS: And lastly,

with respect to 3.07, I have the same question. I won't read the entire recommendation. You can see it in front of you. But the question would be: How does that fit into improving business process management?

MR. MARTIN GEFFEN: So sim -- similarly, this -- these -- I guess each of these are a -- kind of a facet of the same -- of the same recommendation that -- that you -- the third one is to really -- the -- the third one is to ensure that the enterprise architecture organization has the -- the kind of authority or influence to drive the changes that are required.

And often, that -- often, those kinds of -- of changes need to come from an enterprise architecture group, because they won't necessarily come from within a specific project or -- or won't be asked for as a specific business requirement.

MS. KATHLEEN MCCANDLESS: Thank you. We've had evidence before the Board in this proceeding, that at the end of this calendar year, MPI's board of directors will be looking at an overall IT strategic plan.

I'm not sure if you're aware of that or not, but can you comment on the importance of a strategic plan in IT with respect to business process management?

MR. MARTIN GEFFEN: So we often think that -- we often say that the IT strategy should either completely reflect the business strategy or should be -- just the business strategy should be the IT strategy so that we are actually -- I -- when we figure out -- when -- when we have declared what the overall business strategy is, IT just falls into line to support that. And that would be kind of a -- a best practice, or a recommendation that we would -- would make to our clients.

So specifically with regards to business process management, we would expect that if you IT strategy is reflecting what the -- the business strategy is in terms of driving down costs, or increasing more effective partner relations with a broker or -- or a repair shop, or increasing the ability to do a client engagement, and client self-service. Those are all kinds of things. I'm -- I'm just making them up over here that -- that could be strategic direction for MPI.

We would expect that the IT strategy would then fall indirectly to support each of those areas. And would -- so specific to with regard to business process management, when we think that each of those areas, we'd want to think through, How do we automate those processes and how do we actually monitor and manage those -- those processes? And so we'd expect the IT strategy, like, the IT group to be working with the -- the business group to determine where are those touch points? What are the kinds of analytics that we need, and what kind of tools we need? Does -- does that answer your question?

MS. KATHLEEN MCCANDLESS: Thank you. We've also heard that MPI has begun to employ what it's called a value management process.

And in that process, any IT project with a value of five hundred thousand dollars ($500,000) or more will be required to have a thin business case, and then followed by a full business case, as well that all projects will require post-implementation reviews, and I'm not sure if you're personally aware of that.

MR. MARTIN GEFFEN: I am, yes.

MS. KATHLEEN MCCANDLESS: Did Gartner have any involvement in developing this process?

MR. MARTIN GEFFEN: No.

MS. KATHLEEN MCCANDLESS: Now can you comment at all on how a process such as the value management process might improve business process management from an IT perspective?

MR. MARTIN GEFFEN: So I think that that kind of process which should improve overall business value delivered from any of these IT projects, business process management is just one (1) aspect of -- of one (1) of those projects.

And I guess in theory, if you were to focus just on that, because it's very narrow -- on business process, and just focus on that, you might actually make that as part of one (1) of the aspects of the business case and of the benefits -- the -- the post -- the post-implementation benefits evaluation to assess that. That's --- that's kind of how that might help.

MS. KATHLEEN MCCANDLESS: And in your experience, what criter -- great criteria should be applied to an IT project before the project is required to have a business case?

Is it -- should it be a financial threshold, or are there other criteria that should be considered?

MR. MARTIN GEFFEN: So organizations use a range of these, kind of the -- and I would say it's a combination, so it should be -- certainly be a -- a -- well, a financial threshold is -- is one (1) threshold.

A level of effort threshold could be another threshold. So if it's going to take two hundred (200) hour, you know, an estimated two hundred (200) hours or something, you might -- might consider that.

The -- the other kinds of thresholds would be things that are strategic imperatives for the organization. I'm trying to -- so I've recently done some work in a -- in a healthcare organization, and so they -- they focus on patient safety, health outcomes, regulatory requirements, so those are the kinds of things that will drive the need for or not of a business case, and -- and -- and gates. And so similarly, MPI might have similar kinds of things.

So there's not -- not only financial level -- level of effort, but strategic imperatives that you could then quantify or create some kind of quantitative surrogates to make decisions on.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go back to the Attachment A from BMK and to page 7. At the very bottom of the page, there is a bul -- it says:

"Increased use of business cases will hold business stakeholders and

IT accountable for achieving
projected benefits and value."

You see this?

MR. MARTIN GEFFEN: I do.

MS. KATHLEEN MCCANDLESS: So when you looked at this issue, is the implication that you found a lack of business cases in the IT area?

MR. MARTIN GEFFEN: No. I would read that to say that in general, the increased use of business cases do -- does hold business stakeholders and IT accountable for achieving pro -- projected benefits and -- and value.

I'm -- I'm just reading the text on the slide over here. I -- it would -- if -- if you wanted to go more in-depth, I'd go back to the -- into -- into the -- into the -- the details of the study. But when I look at this, it -- it says, you know, MPI's relatively mature in this aspect of governance.

MS. KATHLEEN MCCANDLESS: So if I'm to understand the implication of this, is that Gartner found that business cases were being used, but they should be used more frequently?

MR. MARTIN GEFFEN: So they are -- so I think that -- that we believe that they are -- that they were being used. The...

(BRIEF PAUSE)

MR. MARTIN GEFFEN: I'll com -- I'll comment on this one too, as they -- I have -- I have a separate team that does -- the benchmarking team, and so I would -- I -- I can't comment -- and I'd have to go back to the details with regards to -- to what the benchmarking team found.

In -- in my experience, the business cases are becoming more and more prevalent and -- and were not as prevalent as they were in -- in the past, and becoming more and more rig -- rigourous, and were not necessary as rigourous as they could be in the past. And the -- yeah. I -- I think that the level of maturity in terms of developing business cases varies across the organization.

MS. KATHLEEN MCCANDLESS: So you mentioned you would need to go back and see what the benchmarking team found with respect to business cases.

Can you just explain how that information might be generated? Is it something that's readily available to you?

MR. MARTIN GEFFEN: Yes. I can -- I can -- I -- what I would do is I would look through the -- the questions that are asked as part of this -- this part of the -- the scorecard, and I could -- I will be able to give more detail in terms of what the questions were and what kind of inferences were drawn.

MS. KATHLEEN MCCANDLESS: Could we have that by way of undertaking, then, to advise as to the findings of the benchmarking team with respect to the use of business cases?

MR. STEVE SCARFONE: And is that specifically as it concerns information technology, correct, counsel?

MS. KATHLEEN MCCANDLESS: Yes.

MR. STEVE SCARFONE: Yes. Yeah.

--- UNDERTAKING NO. 30: Gartner to advise as to the findings of the benchmarking team with respect to the use of business cases

MS. KATHLEEN MCCANDLESS: Thank you. I'm moving on to PDR after this, Mr. Chair, so this might be a time for the morning break.

THE CHAIRPERSON: Yeah. Can I -- sorry. Can I ask you how long you think you'll be on

PDR?

MS. KATHLEEN MCCANDLESS: I would estimate half an hour to 45 minutes.

THE CHAIRPERSON: Okay. We will take fifteen (15) minutes right now for a break. Thank you.

--- Upon recessing at 10:42 a.m.

--- Upon resuming at 11:03 a.m.

THE CHAIRPERSON: Thank you. Ms. McCandless, did you want to continue.

MS. KATHLEEN MCCANDLESS: Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Mr. Geffen, I'm now going to ask you some questions about your physical re -- damage re-engineering program evaluation.

And you did appear before the Board last year to present the initial evaluation, yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: And now we are here to hear that your update.

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: I do have some questions about the original budget and you indicated -- it's in the Gartner report. And you also, I believe, indicated this morning that the PDR project is within the original budget; yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And, Diana, could you please pull up PUB Exhibit Number 15. And that's PUB-MPI-1-85 from that 2015 GRA. So, if we could go to the next page, and scroll to the bottom of the page.

This was an Information Request that was asked of MPI three (3) GRA's ago and I'm not sure if you're familiar with this table in front of you or not? Have -- have you seen this budget before?

MR. MARTIN GEFFEN: It looks familiar.

MS. KATHLEEN MCCANDLESS: Okay. Now my understanding is that this is -- this was the original PDR program budget breakdown.

Are you comfortable saying "yes" or "no" whether you agree with that?

MR. MARTIN GEFFEN: It -- once again, it looks familiar, it looks reasonably, yes.

MS. KATHLEEN MCCANDLESS: And we see there's a line under "initiative for optimized adjusting." You see that line item there?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And on the far right of the table we see a seven (7) year program total of $33.6 million; yes?

MR. MARTIN GEFFEN: Correct, yeah.

MS. KATHLEEN MCCANDLESS: Now, were you familiar with the -- how the CARS program fit into optimized adjusting at the outset of the PDR project?

MR. MARTIN GEFFEN: My understanding is that CARS -- that part of the PDR project was to replace the CARS.

MS. KATHLEEN MCCANDLESS: And did you understand that the CARS budget was included -- or the CARS replacement budget was included within that optimized adjusting budget line item?

MR. MARTIN GEFFEN: That is -- that was my understanding, yes.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, can you please go to MPI Exhibit Number 17, that's the PowerPoint from this morning and page 6 of the PDF. Thank you. Yes, that's the page. Thanks.

So -- and you mentioned this morning that the project transitioned from five (5) programs and twenty (20) projects and that -- at the second bullet and then the sub-bullet there, and the middle bullet says:

"Cancelled seven (7) projects after determining that they are not strategic and do not add to the business case."

Yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Did Gartner perform its own evaluation as to whether or not those projects added to the business case for the physical damage re-engineering project?

MR. MARTIN GEFFEN: We did not do a detailed analysis of those seven (7) projects, no.

MS. KATHLEEN MCCANDLESS: Okay. So the conclusion here -- or the finding here is based on MPI's information to Gartner, that those --

MR. MARTIN GEFFEN: Right.

MS. KATHLEEN MCCANDLESS: -- projects would not add to the business case?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: Has Gartner performed any analysis of how much was spent on each of the seven (7) cancelled projects?

MR. MARTIN GEFFEN: I have that data

here somewhere. I need to find it for you.

MS. KATHLEEN MCCANDLESS: If you need a minute to check.

(BRIEF PAUSE)

MR. MARTIN GEFFEN: So the data I have is the budget for those projects, not the spend for those projects. I would need to go back and get that for you.

DR. BYRON WILLIAMS: Excuse me, I just -- we're having a bit of trouble --

MR. MARTIN GEFFEN: I'm so -- I'm so sorry. I'm --

DR. BYRON WILLIAMS: I'm sorry, I hate to interrupt.

MR. MARTIN GEFFEN: I'm sorry. I'm -- I'm struggling with the microphone here. So the -- the -- the -- the question was: Do I have what was spent to date on those projects? And I don't have that readily at hand -- my fingers. I have what the budget was for those projects.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: You said you

would be able to provide the information as to what was spent to date?

MR. STEVE SCARFONE: I do believe, Ms. McCandless, that that information is the subject of an existing undertaking which --

MS. KATHLEEN MCCANDLESS: I believe we do have that as an undertaking already so.

MR. STEVE SCARFONE: Yes.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. STEVE SCARFONE: And that will be prepared, as I understand it, by end of business today.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So did Gartner itself track and reconcile the changes in the budget for those cancelled projects?

MR. MARTIN GEFFEN: We tracked the -- we -- we -- we tracked the amount of money that was budgeted for those projects and that was not being -- that was not being part of the overall final $65.5 million projected spend.

Is that what your question is?

MS. KATHLEEN MCCANDLESS: So I believe what you -- what you're saying is you -- you -- you looked at what the initial budgeted amount was for each of those project.

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: But no further analysis beyond that?

MR. MARTIN GEFFEN: No.

MS. KATHLEEN MCCANDLESS: If we go to page -- I think it's page 10 of the PDF. Yes, this is with respect to savings and benefits to be realized through the physical damage re-engineering program.

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: The second-to-last bullet indicates that the program returns an internal rate of return of 7 percent and net present value of $13.7 million; yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Did Gartner attempt to reconcile how the -- those benefits there, the internal rate of return and net present value might change with the cancellation of those seven (7) projects?

MR. MARTIN GEFFEN: We had conversations with the -- the project team and did some kind of anecdotal assess -- assessment, whether that would make a difference or not, and our -- our estimation was that you would still be able to achieve these -- the four (4) line items that -- I think four (4) or five (5) benefits line items without these -- without these -- with -- without those seven (7) projects.

MS. KATHLEEN MCCANDLESS: So that was based on your interview or discussion with MPI staff?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: Now, Diana, can you please pull up PUB-MPI-1-56, attachment (b).

And just for your information, Mr. Geffen, in this year's General Rate Application Gartner's previous report from June of 2016 was included as an exhibit to this proceeding, and I will have some questions about last year's report for you.

If we go to page 24 of the PDF, please, Diana.

MR. MARTIN GEFFEN: This is last year's report we're looking at?

MS. KATHLEEN MCCANDLESS: Yes. We see the third paragraph under Cost states:

"As is to be expected in a program of the duration and complexity of PDR, and given the rapid changes in automotive and repair technologies,

the program continues to undergo
scoping, planning, and mapping of
outcomes to projects. This has the
benefit of realigning the project
scope and objectives to achieve
optimal business consumer industry
benefits. However, it also
introduces the potential for
additional cost, extended timelines
and differed benefits realization."

Yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: So we've -- we've seen the seven -- seven (7) cancelled projects and -- and taking into account your comment here, would it be accurate to say that -- that although the total project budget has not changed since the introd -- introduction of the project, the scope of what is being delivered has changed?

MR. MARTIN GEFFEN: Yes, I think that overtime the -- the program itself has changed quite dramatically, including not focusing on CARS and on -- on some of these changes, and then extensions of work that we didn't expect -- that MPI didn't expect MPI to do. So FNOL will be delivered by the -- I -- I think

I might have said MPI -- the Mitchell prod -- product, yes. So, correct.

MS. KATHLEEN MCCANDLESS: Thank you. And if we scroll to the bottom of the page here. So there's a paragraph above these last five (5) bullets that states:

> "There has been an allocation of funding from the original optimized adjusting project to a number of other projects which were conceived of and developed after the PDR program assessment. Approximately $29 million has been reallocated from the optimized adjusting project to address...

And then we have five (5) bulleted items there; yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: So that total reallocation was $29 million; yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: If we go to page 13 of this same document. So, again, your report from 2016. We see in the middle of the first paragraph under the heading "PDR Program Planning," there is an indication that a business revisioning project was initiated in June 2014 to replan PDR to ensure desired benefits as defined in the business case were achievable; yes?

MR. MARTIN GEFFEN: Yes, I see that.

MS. KATHLEEN MCCANDLESS: So that -- that indicates some revisioning - as Gartner has termed it - was undertaken?

MR. MARTIN GEFFEN: Yeah, there were -- "business revisioning" was actually an MPI term, but yes.

MS. KATHLEEN MCCANDLESS: And if we scroll further down the page. I think that's good, Diana.

There is an indication here under "Key outcomes of the business revisioning," the second bullet there is:

"Service centre changes as envisioned originally were only feasible with a new adjusting model and re-platforming of the CARS' application."

Yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And so by

re-platforming, can you indicate what you meant?

MR. MARTIN GEFFEN: So re-platforming would have meant -- that does mean the change of CARS from the older technology to a newer tec -- technology.

MS. KATHLEEN MCCANDLESS: And ultimately, the budget that was allocated to CARS, replacing CARS, that's now been removed from the PDR program budget; yes?

MR. MARTIN GEFFEN: That is cor -- correct, yes.

MS. KATHLEEN MCCANDLESS: If we go back to page 24 of this document, please, Diana. Thank you.

And we go to the very bottom of the page, again, with respect to that $29 million reallocation, the first bullet there says the FNOL, so, First Notice Of Loss project which originally -- it says "original." I think it should say "originally."

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: Had a minimal budget and is now forecast for approximately $8.9 million; yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: There was a projected $4 million overage in program management; yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And a projected $1.8 million overage in optimized repair remote estimating; yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And a projected $1.3 million overage for enhanced registration card project; yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And then there were a number of projects that were not in the original budget. And I'm not going to go through them line by line but you see a table beginning at the bottom of the page there; yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And if we scroll through to page 25, that's the remain -- remainder of those projects that were not in the original budget; yes?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: And so if we scroll following this table, and we see there's a reference to the budget, the overall budget, and the very last sentence in this second paragraph you see on the page there, it says:

"Given the historic experience the project reporting and the relatively recent re-based lining, there is a high level of confidence that the overall program will be completed within the original $65.5 million budget."

Yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And so that was the state as of last year?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: Prior to the additional seven (7) cancelled projects; yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: Now, Diana, could we please go back to the Gartner PowerPoints; that's MPI Exhibit Number 17, and page 8 of the PDF, please.

The fourth bullet on the page states:

"That while the overall documented and approved program charter has not been updated, all changes have been documented and approved change requests."

Yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: How was Gartner able to satisfy itself that these changes were appropriately approved?

MR. MARTIN GEFFEN: We requested the change request documents, and reviewed the change request documents. That's the --

MS. KATHLEEN MCCANDLESS: So Gartner personally reviewed the change requests. Would you not want to see a revised business case as a result of all these changes?

MR. MARTIN GEFFEN: We had asked for revised business cases, and none were available.

MS. KATHLEEN MCCANDLESS: So -- but would you want to see that? Would that be ideal?

MR. MARTIN GEFFEN: So ideally it -- for any new project you'd -- want a -- you'd have a revised business case, yes. When you have any change in a -- material change in a project you would like to see a revised business case for a new project, yes.

MS. KATHLEEN MCCANDLESS: So that --

when I -- when we're talking about projects, are we talking about the physical damage re-engineering project overall, or would you want to see -- would you want to see a revised business case for the overall project as a result of these changes?

MR. MARTIN GEFFEN: The best practice would be for the five (5) remaining projects to seek -- to have a business case for each of those five (5) projects.

MS. KATHLEEN MCCANDLESS: Now, if we scroll to the next page, at the second bullet on this slide of which has to do with project costs, you indicate:

"That while some projects required more than the original budget, others were under budget. And yet other originally planned projects were cancelled due to value projections been lower than originally projected."

Yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: And based on your assessment filed in this year's GRA, as I understand it, Gartner's assessment is that the project in total is coming in at approximately $61.5 million; yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: And so that would be roughly $4 million less than the initial approved budget amount, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. So, we've just reviewed, or gone over the cancelled projects and some of the budget changes that took place over the last couple of years, and bearing that in mind, how has Gartner been able to satisfy itself that, in looking at the PDR Program and budget this year, as compared with the original PDR Program and budget, that it is making an apples-to-apples comparison?

MR. MARTIN GEFFEN: I'm sure that we're making an apples-to-apples comparison. I think that the PDR Program itself has changed quite dramatically over the six (6) years, or how -- however long it's been in -- in -- in play. And the -- the -- so -- so what we've done, is we've do -- we've done an assessment of the work -- was completed, and what's re -- remaining to be completed. We've not actually done a kind of a -- a -- an apples-to-apples -- sorry about that -- an apples-to-apples comparison of, kind of, the -- the trajec -- the trajectory of all of the -- the projects going forward.

MS. KATHLEEN MCCANDLESS: And is that because it would -- it's not possible to really do an apples-to-apples comparison?

MR. MARTIN GEFFEN: So I think it would be an -- it's certainly possible. I -- I think it would be a lot of work. I didn't -- in our assessment, we didn't think it was -- that was what -- what was being asked of us.

MS. KATHLEEN MCCANDLESS: Thank you. If we go to page 24 of the 2016 PDR Project, or program evaluation. Towards the bottom of the page, there was a reference that we went through earlier with respect to the first notice of loss project and the minimal budget be -- now forecast for approximately $8.9 million, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. Now if we go to your report from this year -- so that's PDR Attachment A, and page 10 of the PDF, please, Diana.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So pa -- PDR Attachment A, and page 10, please.

The -- at the bottom of the page there's a table here with respect to ongoing PDR projects, yes? You see that in front of you?

MR. MARTIN GEFFEN: I do.

MS. KATHLEEN MCCANDLESS: And on the left-hand side of the table, we have a number of projects, the second line there is customer claims reporting system, the CCRS previously, first notice of loss, yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: And on the right-hand side of the table we see a total budget line of $23.4 million, roughly, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Is this not the same project that we just looked at, the FNL -- FNOL project that had a budget of $8.9 million assigned to it last year?

MR. MARTIN GEFFEN: So that's an interesting question. So I -- the customer claims reporting system includes -- now First Notice of Loss includes accident profiling, and inclu -- it includes a number of other items as well. So it's -- it's the

-- it's the overall pro -- project that is -- will -- will deliver a range of sel -- a range of self-service and repair shop optimization based upon the use of the Mitchell software, the -- the new -- the -- the in development Mitch -- Mitchell software and some process changes -- sorry. It's FNOL plus a -- a number of other items.

MS. KATHLEEN MCCANDLESS: So has Gartner looked at whether that $8.9 million, that's been rolled into that twenty-three point three (23.3), is that your understanding or...?

MR. MARTIN GEFFEN: That is my understanding.

MS. KATHLEEN MCCANDLESS: If we scroll to -- higher up in the page to Item 2, there's a reference there -- a description of the customer claims reporting system. And at the third line down under 2, there's a mention of building-out the CARS solution. Do you see that there?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: Okay. So can you explain what that means?

MR. MARTIN GEFFEN: So CCRS will require interfaces with or integration with CARS. So since CARS will be -- will be retained, there will be some interfaces that will be required in order to pass data from Mitchell to CARS and -- and vice versa. And so building-out means providing those inte -- those interfaces and -- in integration.

MS. KATHLEEN MCCANDLESS: And so building-out of the CARS solution, is it your understanding that that's contained within the $23.3 million we just looked?

MR. MARTIN GEFFEN: That is my understanding, yes.

MS. KATHLEEN MCCANDLESS: Now, if we could go back to your previous report from last year. Please, Diana, that's Attachment A to PUB-MPI-1-56, and page 25 of the PDF. If we scroll down, the last paragraph under "Benefits".

Last year, Gartner's assessment was that there would be a stea -- a steady slo -- flow of benefits starting in year 7, and ramping up to approximately $13.7 million, starting in 2020/'21, yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: And how did Gartner originally calculate this estimate?

MR. MARTIN GEFFEN: We asked the PDR team to provide us with projections and we reviewed their projections of those benefits, and they didn't -- did not have a lot of detail cross-mapping from project to benefit but -- and overall program benefits.

MS. KATHLEEN MCCANDLESS: So Gartner did not perform its own independent evaluation?

MR. MARTIN GEFFEN: We did not do a detailed assessment of -- over the source of the benefits, correct.

MS. KATHLEEN MCCANDLESS: Thank you. If we move ahead to page 26, at the bottom of the page there's a comment on the internal rate of return.

MR. MARTIN GEFFEN: M-hm. Yes.

MS. KATHLEEN MCCANDLESS: And last year, Gartner was assessing the internal rate of return at 8 percent, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And that was with a net present value of $18 million, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And that net present value was on a cost versus benefit analysis?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: This analysis did not have any costs assigned to the project after completion, yes?

MR. MARTIN GEFFEN: Correct. It has -- the -- the cash flow stream that you see over there, correct.

MR. MARTIN GEFFEN: Now, Diana, could you please jump back to page 10 of MPI Exhibit Number 17, that's page 10 of the PDF. Thank you.

And we heard from you this morning about maintenance costs being included in other budgets, actually, and if we go ahead to page 12 of the PDF, I think it is -- yeah, go back. Thank you.

We see all those maintenance costs listed there in front of it, yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: Okay. Apart from the third bullet, Custom Developed Software, where Gartner estimated the program cost to be that three hundred thousand ($300,000) dollars per year, has Gartner quantify the amount of costs under any of the other budget lines?

MR. MARTIN GEFFEN: We have not, no.

MS. KATHLEEN MCCANDLESS: Should these maintenance costs not be part of the business case and net present value analysis?

MR. MARTIN GEFFEN: So we -- I'm just

trying to think that through. So we -- we recommend to our clients that they do a total cost of ownership analysis, and so that includes not only acquisition implementation, but also operating costs. So in that sense, yes.

And I -- I -- yeah -- I -- sorry to -- to some degree that -- those -- those costs will be costs that will be in -- will be costs due -- applied ongoing and -- and should be offset against the benefits, yes.

MS. KATHLEEN MCCANDLESS: Okay. So and when we talk about the benefits, we're talking about that $13.7 million, approximately, per year?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: And the $13.7 million, just so I understand, is that -- that's an analysis that continues to be done by MPI internally and provided to Gartner?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: I'm not going to make Diana jump back to your previous report, but only if you need me to remind you or show you what I'm referring to, but I understand that in your previous report that Gartner selected a 3 percent discount rate --

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: -- in evaluating net present value. So -- and to what extent does the discount rate reflect risk, or is it a risk-free rate?

MR. MARTIN GEFFEN: So we sel -- we selected that, not based on the MPI risk assessment at all, but based upon a -- a -- kind of a -- a -- the consumer price index, and that for -- we just picked that is a -- a -- a standard benchmark. So it does not reflect risk at all.

MS. KATHLEEN MCCANDLESS: And we know that in your 2017 report, that Gartner has now reduced the estimate of the net present value from 8 percent in 2016, down to 7 percent, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And was the net present value in this year's evaluation calculated on the same basis as last year's?

MR. MARTIN GEFFEN: The same basis as last year, yes.

MS. KATHLEEN MCCANDLESS: And was that a Gartner calculation?

MR. MARTIN GEFFEN: It was a Gartner calculation.

MS. KATHLEEN MCCANDLESS: And so that calculation would again excludes the maintenance costs that we see before us on the screen.

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay.

(BRIEF PAUSE)

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: There's also been a reduction in the net present value, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And that was -- last year was assessed at $18 million.

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And now it's down to the $13.7 million, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And, Diana, can you please pull up PUB-MPI-1-34, Attachment A.

And this is a letter from Gartner provided in response to certain questions posed on behalf of the Board to MPI. Are you familiar with this document?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And did you -- were you involved in the creation of this document?

MR. MARTIN GEFFEN: I was.

MS. KATHLEEN MCCANDLESS: Okay. At page 2 of the document we see two (2) tables, one is -- is titled, 2016 Projected Benefits, and the other is 2017 Projected Benefits, yes?

MR. MARTIN GEFFEN: Correct.

MS. KATHLEEN MCCANDLESS: And this is a comparison of the projected benefits from last year's evaluation as compared to this year's evaluation, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And so we see that, beginning in year 7, the project starts to generate some benefits, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: But if we move on to year 8, we see that ultimately the project economics have deteriorated from last year's evaluation, yes, because the benefits accrue later in the process?

MR. MARTIN GEFFEN: Yes. So, as I

said earlier, the -- the -- the benefits ramp-up slow -- more slowly and arri -- achieve a steady-state later.

MS. KATHLEEN MCCANDLESS: Right. And so, for example, if we look to year 8, which is 2017/'18, for 2016 projected benefits we had $8.3 million, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: Oh, par -- pardon me, year 8. Here --

MR. MARTIN GEFFEN: Yes. So the -- year 8 actually shows higher, but --

MS. KATHLEEN MCCANDLESS: Right.

MR. MARTIN GEFFEN: -- then -- but then it degrades after that, yeah.

MS. KATHLEEN MCCANDLESS: Yes. Pardon me. So I -- I meant to take you to year 9, at 2018/'19 --

MR. MARTIN GEFFEN: Yeah.

MS. KATHLEEN MCCANDLESS: -- at $8.3 million, yes?

MR. MARTIN GEFFEN: Correct, yes.

MS. KATHLEEN MCCANDLESS: And then year 9 for 2017 would be $5.3 million, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: And can you just explain the reason for the deterioration in that benefit.

MR. MARTIN GEFFEN: So our understanding is that if projects have been delayed in going into production, that benefits will accrue through the changes to the processes with the repair shops, and so better -- better rates and lower cost from repair shops, lower -- lower costs from -- due to the loss-of-use changing -- the modeling loss-of-use, and reduced internal costs due to more self-service, more service at the -- at the repair shops. Unless -- this require for -- just resources -- or service at -- at MPI. And all of those have been delayed due to the del -- the delays in -- in -- in getting these projects up and -- up and running.

MS. KATHLEEN MCCANDLESS: Thank you. And so if we look at 2016 as compared to 2017, for a full realization, so to get to that $13.6 million, we see that they now -- they -- they begin in year 12 on both tables, yes?

MR. MARTIN GEFFEN: Yes.

MS. KATHLEEN MCCANDLESS: But that by year 11, there is a significantly higher benefit but -- about a million dollars more in year 11, yes, for --

at the 2016 --

MR. MARTIN GEFFEN: Previously, correct, yes.

MS. KATHLEEN MCCANDLESS: And is this deterioration what has caused the lower internal rate of return from 8 percent to 7 percent?

MR. MARTIN GEFFEN: Yes, the internal rate of return and the NPV are all based on time, value, and money and so it's based on the -- the ti -- the -- the duration of those -- the -- the -- the cos -- the costs -- the spending over time and the benefits over time.

MS. KATHLEEN MCCANDLESS: Okay. Now with respect to the original case for the PDR and having the CARS replacement included as part of that, would you expect that some of the benefits that were initially expected to be realized as a result of PDR to have included the benefits associated with replacing CARS?

MR. MARTIN GEFFEN: Yes, I think that some of the benefits that would have been expected to hav -- have been achieved by replacing or re-platforming CARS will be achieved through the ext -- extended FNOL and IFAM, CCRS project. And so I think that there's been kind of -- you -- MPI's been able to obtain some of the benefits that were expected from CARS by doing other -- other projects like the things that are included in the CCRS and some of the additional projects that happened...

MS. KATHLEEN MCCANDLESS: And has Gartner performed its own independent evaluation of that, or is that based on information you've been provided by MPI?

MR. MARTIN GEFFEN: So we've been provided information by MPI. We've not done a line-by-line assessment, but we've kind of looked at the -- at the -- the kinds of things that -- that CCRS will del -- will deliver. And some of -- CCRS will deliver some of the things that would have been replaced by -- would have been provided by -- by replacing CARS with a more modern solution.

And so we've made the agree -- the assumption that that's a reasonable assumption that you'll be able to get those benefits, because you will still be to do FNOL, which you're expecting them to do from the CARS replacement, mors -- more self-service, better integration with the shops. Many of those things will be delivered in a different way than CARS.

MS. KATHLEEN MCCANDLESS: Thank you. Those are my questions for Mr. Geffen.

THE CHAIRPERSON: Thank you. Mr. Williams...? Mr. Williams, do you have an idea of how long you'll be in your -- in your cross? I'm trying to figure out when we should be looking at our break.

DR. BYRON WILLIAMS: I expect somewhere in the range of an hour and a half.

THE CHAIRPERSON: Okay.

DR. BYRON WILLIAMS: So what -- what I can -- I can go through it -- certainly, the benchmarking section for sure before the -- the lunch break.

THE CHAIRPERSON: Okay.

DR. BYRON WILLIAMS: And if we get into PDR as well, you know --

THE CHAIRPERSON: Great.

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Geffen, good morning. And good morning to members of the panel. With the assistance of Diana, I'm going to take you back to the January 2017 benchmark presentation by Gartner to the MPI Board of Directors and, specifically, slide 14. That's attachment (a), Diana, to the benchmarking. Slide -- PDFs slide -- PDF slide 14 at the bottom, Diana. So ten (10) more pages in.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And, Mr. Geffen, I'm going to take you, first of all, to the left-hand side of -- of this -- this slide where you'll see at the bottom there is -- I'll suggest to you a comparison of the overall infrastructure and operations spend of Manitoba Public Insurance as compared to peers; agreed?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: And you'll see on the left-hand side of that comparison some of the categories that are considered, such as hardware, software, personnel and unallocated nonpersonnel.

Do you see that, sir?

MR. MARTIN GEFFEN: Yeah.

DR. BYRON WILLIAMS: And then across the top you'll see the comparators with the first being MPI in 2015/16. Agreed?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: And then MPI in 2014/15; agreed?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: And then it's compared to the peer average.

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: The peer 25th percentile, and the peer 75th percentile.

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: And, sir, thank you for that. And just so we get our -- our percentiles correct, the peer 75th would be a higher spending than the pure 25th. Is that correct, sir?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: And, sir, just directing your line now -- your attention now to the software line, I'll suggest to you that there in terms of costs, you'll see for 2015/16 MPI at 4.1 million approximately?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: As compared to the peer average of about 3 million, correct?

MR. MARTIN GEFFEN: Yes 3.4 million, yes.

DR. BYRON WILLIAMS: Sir, I think the peer average is 2 -- 2. --

MR. MARTIN GEFFEN: Oh peer -- I'm sorry, peer average I was looking at the 75th percentile, yes. Sorry, 2. -- correct. Four -- 4.1 compared to 3. -- yeah.

DR. BYRON WILLIAMS: Okay. Just to be clear when we focus on the peer average, it's about 3 million; agreed?

MR. MARTIN GEFFEN: Agreed.

DR. BYRON WILLIAMS: And when we get even to the 75th percentile, it's about 3.35; correct?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: And if, sir, if I direct your attention now down to personnel.

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: You'll see that the personnel for MPI is estimated for the 2015/16 year at 7.2 million; agreed?

MR. MARTIN GEFFEN: Agreed.

DR. BYRON WILLIAMS: As compared to the peer average of 6.5 million; correct?

MR. MARTIN GEFFEN: Correct.

DR. BYRON WILLIAMS: And let's go down to unallocated nonpersonnel, sir. And perhaps if we move to the peers being the average, the peer 25th and the peer 75th, you'll see the reference to peer outsourcing included above.

Could you explain what you mean by

that, sir?

Or if you need help I'm going to suggest to you that those numbers had been rolled up into the personnel, the line above for peer average, peer 25th, and peer 75th; is that correct, sir?

MR. MARTIN GEFFEN: So, like, they would be rolled up into probably most of those, and potentially into -- you know, into, you know, what outsourcing costs in hardware and -- and disaster recovery.

DR. BYRON WILLIAMS: Okay. Thank you. And there we see that there's a significant expenditure as well allocated to MPI of roughly $7 million; correct?

MR. MARTIN GEFFEN: Yes, yes.

DR. BYRON WILLIAMS: So if we want to compare -- and that's for the 15/16 year that we're seeing that 7 million figure; agreed?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: So if we want to compare a total in terms of infrastructure and off -- operations spend going to the total line, we see MPI 15/16 at 24.1 million, sir; agreed?

MR. MARTIN GEFFEN: Correct.

DR. BYRON WILLIAMS: Significantly

higher than the peer average of 17.8 million?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: And significantly higher even than the peer 75th percentile at 20.2 million?

MR. MARTIN GEFFEN: Those -- those -- those numbers are all correct.

DR. BYRON WILLIAMS: Sir, if we move to the right-hand side of this column, this is comparing MPI to a workload peer; is that correct, sir?

MR. MARTIN GEFFEN: Yes, it is.

DR. BYRON WILLIAMS: And, first of all, in terms of total cost you see a comparison of 24.1 million versus 17.8; correct?

MR. MARTIN GEFFEN: Yes. That reflects the -- the bottom line on the -- on the -- on the left-hand side of the page, yes.

DR. BYRON WILLIAMS: And again on outsourcing you see a comparison of 7 million to 3.6 million for the peer?

MR. MARTIN GEFFEN: I see that too, yes.

DR. BYRON WILLIAMS: Agreed?

MR. MARTIN GEFFEN: Agreed.

DR. BYRON WILLIAMS: And when total adjusted full-time equivalents are accounted for outsourcing, you see a comparison of MPI 85.2 to the peer 56.6; agreed?

MR. MARTIN GEFFEN: Correct, yes.

DR. BYRON WILLIAMS: And the conclusion Gartner group drew from this was that MPI's IT full-time equivalents are 45 percent higher than the workload peer; correct? Directing your attention to the top on the right-hand side, sir.

MR. MARTIN GEFFEN: Yes, correct. Thank you.

DR. BYRON WILLIAMS: And going to the left-hand side at the top, the conclusion was that IT spending is 35 percent higher than workload peers.

MR. MARTIN GEFFEN: Yes, correct.

DR. BYRON WILLIAMS: Now, sir, you'll see on the left-hand side at the top a suggestion that software continues to provide the most immediate area for cost savings.

Do you see that reference, sir?

MR. MARTIN GEFFEN: I do, yes.

DR. BYRON WILLIAMS: And going down two (2) paragraphs you'll see a suggestion by Gartner Group that in terms of the outsourci -- sourcing costs with -- with regard to the IBM contract, there is a higher yearly cost than might be expected; agreed?

MR. MARTIN GEFFEN: Agreed. That's what -- yes.

DR. BYRON WILLIAMS: And, sir, I wonder just for the benefit of my clients and for the Board if you can help us understand in terms of if software is the most immediate area for cost-saving, what would those type of savings look like and how would they be realized?

MR. MARTIN GEFFEN: So the so -- software savings are I think dev -- development costs and ongoing maintenance and support costs. And so that -- those are the areas where you might be -- where -- where you might look for sources of -- of -- of savings.

And so with regards to ongoing development costs would be more -- more efficient and more effective ways of -- of developing your software and so those might be through smaller sized teams, more effective teams, of lower-cost teams, teams that are -- are comprised of lower cost resources. So internal resources versus external resources.

Most of -- some of the kinds of things that you might look at in terms of ongoing cost --

savings in software.

DR. BYRON WILLIAMS: And in terms of the contracts one enters into, what, if any, opportunities might there be for savings there, sir?

MR. MARTIN GEFFEN: So I think that as you require new software, certainly, effective contracting could drive costs down. You mig -- would -- if you can drive down acquisition costs, usually your -- your ongoing oper -- operating and maintenance costs are tied to your -- your initial licensing costs, and so that would drive down operating costs as well.

Those are -- those are the kinds of things that you wou -- that I could see in -- in -- in driving down costs of software.

DR. BYRON WILLIAMS: Thank you. Diana, if you could turn to page 4 of this same -- PDF page 4 of this same document, right at the very bottom.

And, Mr. Geffen, I'm trying not to duplicate conversations you've had with My Learned Friend, but you'll see a reference to the overall personnel spending and staffing being higher than peers in that last bullet; agreed?

MR. MARTIN GEFFEN: Yes. Correct.

DR. BYRON WILLIAMS: And then you'll also see a reference to -- as MPI increases its use of third-party support for infrastructure services it should review the size of its retained staff; agreed?

MR. MARTIN GEFFEN: Agreed.

DR. BYRON WILLIAMS: And by third-party support for infrastructure services, sir, are you referring to cloud technologies that you were speaking of what is -- what is that reference to?

MR. MARTIN GEFFEN: And so most of the -- the infrastructure services that are provided to MPI are provided by IBM, and so some of that is the IBM managed services contract that's underway right now.

We do know that MPI's looking to develop an overall cloud strategy, so that is a future, but most -- most of what we were referring to here is the -- the fact that IBM is -- is managing -- IBM managed services is providing support for most MPI infrastructure at this time.

DR. BYRON WILLIAMS: And to the extent that that support is being provided by a third party, there may be opportunities to reduce the size of retained staff?

MR. MARTIN GEFFEN: Yes. So as -- as

organizations move to a more managed services environment some -- there is -- nec -- necessarily retained staff required to do planning, direction, some internal support. And so as part of that mi -- as you mature that relationship you would like to reduce the number of retained ser -- retained staff as you -- as you develop a better relationship and getting better at more effective services from your third-party services provider.

DR. BYRON WILLIAMS: Thank you. I can give you a reference, if you require it, sir, but the thrust of the Gartner evaluation in terms of the overall maturity of MPI, leaving aside business process maturity for a second, is, in essence, that it's caught up or exceeded its peers.

Would that be fair, sir?

MR. MARTIN GEFFEN: So with respect to the process maturity has improved year-over-year, yes.

DR. BYRON WILLIAMS: And let me -- let me back up. So just in terms of its overall maturity as an organization it is, in essence, caught up or exceeded its peers?

MR. MARTIN GEFFEN: Yeah -- yes. I -- I -- I mean I do -- I do think that in terms of the maturity bench -- I just want to be clear, that -- in terms of the process maturity benchmark, the CIO scorecard, I need to repeat that the -- the peer benchmarks are one (1) or two (2) years old. Where MPI has higher scores and so has exceeded its peers in -- in those -- in those maturity levels, yes.

DR. BYRON WILLIAMS: And leaving aside business process maturity and if you need a reference it's page 16, it's the opinion of the Gartner Group that MPI has mostly moved out of its catch-up stage. Agreed?

MR. MARTIN GEFFEN: So -- so the catch-up stage was just referring to the spending, and so MPI was -- was -- was in a catch-up phase in terms of doing spending to replace infrastructure that had aged, that had not been maintained over time.

And so, in our opinion, we -- we -- MPI's moved out of the catch-up phase for infrastructure spending. I just wanted to distinguish that between's infrastructure spending and process maturity.

DR. BYRON WILLIAMS: And just in terms of business process maturity and you had a conversation with My friend, PUB counsel, I think with reference to PUB Information Request 1-50.

Do you recall that conversation, sir?

Probably not that specific --
MR. MARTIN GEFFEN: Not specifically, yes, perhaps you can refresh me.
DR. BYRON WILLIAMS: Diana, if we can move to the recommendations made by Gartner Group, and I think Recommendation 1.26 that -- I may have written down the wrong reference.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Yeah, it was PUB-1-50, five zero. And -- next page, the next, please. 126, I believe, Diana. Next page, sorry.
Sir, you see there's a reference which you did discuss with My Friend about -- in terms of benchmarking service catalogs? Do you see that reference?
MR. MARTIN GEFFEN: I do.
DR. BYRON WILLIAMS: And would it be fair to say that in business applications with a certain maturity, one would expect to see a catalogue of all operating systems and an inventory of the application of those operating systems?
MR. MARTIN GEFFEN: I'm not sure what you're asking me. So a ser -- IT ser -- a service

catalog is usually the services that the IT organization provides to -- to their internal customers. That's kind of what we -- we refer to -- when we're referring to the service catalogs. So it could be -- changes, app -- applications on enhancements. So I'm -- maybe you can re -- rephrase your question.

DR. BYRON WILLIAMS: I probably don't need to. I think that's -- that's fine for -- for right now.

I'm just moving to PDR, sir, but I can go on for a few more minutes, or we can come back ten (10) minutes early, I'm fine either way.

THE CHAIRPERSON: Certainly.

DR. BYRON WILLIAMS: Keep going?

THE CHAIRPERSON: Yes. How -- you think you'll be -- how long do you think you'll be in this section?

DR. BYRON WILLIAMS: About an hour.

THE CHAIRPERSON: Starting now? No, sorry, --

DR. BYRON WILLIAMS: Sorry, I finished the section --

THE CHAIRPERSON: right.

DR. BYRON WILLIAMS: -- I anticipated

finishing. I'm moving to the next -- the longest section.

THE CHAIRPERSON: Okay.

DR. BYRON WILLIAMS: Which I anticipate will be about an hour, so I can either start and finish at 12:00 or just start a -- a bit early in the afternoon. However --

THE CHAIRPERSON: Well, I'm just wondering if we should just break now. What -- what -- we'll break now until one o'clock. Thank you.

--- Upon recessing at 11:54 a.m

--- Upon resuming at 1:01 p.m.

THE CHAIRPERSON: Mr. Williams...?

DR. BYRON WILLIAMS: Yes, thank you. And there should be for exhibits to introduce, one marked as CAC-17 should be the PD Re-engineering Program Charter dated May 20th, 2014.

A second marked as CAC-18 should be a an Exhibit 80 from last year's hearing, also subnamed Undertaking 33.

We had in a mathematical leap last Friday exhibit -- introduced Exhibit 19, so leaping to Number 20, you'll see a table Manitoba Public

Insurance net income loss 10 year history version 2, and I'll simply note that this was developed with the kind assistance of folks at Manitoba Public Insurance and I think we're in general agreement on the information. I think our friends from Manitoba Public Insurance would note -- want us to note that for 2010/11 the results were restated.

And finally, is CAC Exhibit 21, you'll see some information related to driver safety rating, including excerpts from PUB-MPI Appendix -- 1.4, Appendix 1. Thank you.

And we'll just stand down for a second.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Sorry, Mr. Williams, I'm listening. I was just clarifying something.

DR. BYRON WILLIAMS: I'll just also thank MPI -- the MPI witness, and Board counsel. In my left hand is -- are all the questions that I deleted from my -- from my lists from the -- this morning, so, I will be a little quicker based upon conversations that have already been canvassed.

--- EXHIBIT NO. CAC-17: PD Re-engineering Program Charter dated May 20th, 2014.

--- EXHIBIT NO. CAC-18: Exhibit 80 from last year's hearing, also subnamed Undertaking 33.

--- EXHIBIT NO. CAC-20: Table Manitoba Public Insurance net income loss 10 year history, version 2

--- EXHIBIT NUMBER CAC-21: information related to driver safety rating, including excerpts from PUB-MPI-1-4, Appendix 1.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Geffen, good afternoon.

MR. MARTIN GEFFEN: Good afternoon.

DR. BYRON WILLIAMS: You recall in a conversation this morning with My Learned Friend Board counsel you discussed the concept of total cost of ownership in the context of best practice.

You recall that?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: And I think you're going to have to sit closer to the mic, sir.

MR. MARTIN GEFFEN: Closer to the mic, sorry, about that, yes. I was trying not to get too close to the mic. Okay.

DR. BYRON WILLIAMS: You recall that?

MR. MARTIN GEFFEN: I do recall that.

DR. BYRON WILLIAMS: And I wonder if you could assist us with a definition of that concept, sir?

MR. MARTIN GEFFEN: So from a Gartner perspective, total cost -- cost of ownership is something that we advocate for all IT investment projects or IT transformation projects.

And what we recommend to our clients is that they focus not just on the procurement and acquisition and implementation costs, but on the ongoing operate -- on the -- the ongoing operating costs as well.

And so a -- a TCO, or Total Cost of Ownership model would include all of the -- the cost of, you know, during the procurement and acquisitions. So, the procurement lifecycle would include the hardware, software and network and all resources to actually do the conf -- configuration. We're building, testing. The change management and training and change mana -- and process re-design for the actual inplementation and then ongoing support costs for the -- maintenance support costs as well --

DR. BYRON WILLIAMS: Okay, the --

MR. MARTIN GEFFEN: -- for the -- for the lifetime of -- of -- for the projected life -- lifetime of the project.

DR. BYRON WILLIAMS: Thank you for that. And I inelegantly tried to have a conversation with you about inventories this morning. I'm going to try and take another --

MR. MARTIN GEFFEN: Sure.

DR. BYRON WILLIAMS: -- crack at it. Within the context of applications, portfolio management, you're generally familiar with that term in the industry?

MR. MARTIN GEFFEN: I am.

DR. BYRON WILLIAMS: And I'll suggest to you that an important need in -- in any organization is to understand what applications exist, and their main characteristics, which I would refer to as the inventory.

Would that be fair, sir?

MR. MARTIN GEFFEN: Fair enough.

DR. BYRON WILLIAMS: And I'll suggest to you that taking ideas from investment portfolio management, application portfolio practitioners gather information about each application in use in a business or organization, including the cost to build and maintain the application, the business value produced, the quality of the application, and the expected lifespan.

Would that be fair, sir?

MR. MARTIN GEFFEN: Sure, yes, although application portfolio management is a pretty well understood discipline that -- that, yes, it's about understanding what applications are in place.

And, as you said, we -- we agreed -- when we look at -- application portfolio management, we -- we look at technical health, business health and -- and cost to operate. So those are some of the things that -- that we like to see in -- in application portfolio management.

DR. BYRON WILLIAMS: And you -- you would want to start out with an inventory, having insight into the applications and their functionality?

MR. MARTIN GEFFEN: So the -- what

you'd normally do and I thought -- well, I think MPI has actually started out working on -- working on this kind of -- of an inventory as to -- is -- is a list of what are the applications and those -- those kinds of things. Judgments about cost and -- and -- cost in the, as I say, technical health and business health and what that's used to do is to really help to can of re -- refresh for -- for -- for an organization where you should be making new investments in terms of re -- replacing or retiring applications. Yes.

DR. BYRON WILLIAMS: And recognizing how significant the expenses are related to managing IT applications, the transparency of the current inventory of an application is a primary goal of applications, portfolio management; fair enough?

MR. MARTIN GEFFEN: Can you ask me that again, sorry.

DR. BYRON WILLIAMS: Well, recognizing how significant the level of expenses that go to maintain existing IT applications, the transparency of a current inventory of applications is an important goal of application, portfolio management?

MR. MARTIN GEFFEN: So -- yes, so you would -- what you would do -- what you would do I understand is, you know, what are the applications of your portfolio and the -- the -- as I said, I -- I keep coming back to those three (3) things: figure out cost and -- and technical health and business value.

DR. BYRON WILLIAMS: And this enables firms to identify and, to the extent possible, address redundant applications; agreed? That's one (1) of the positive results?

MR. MARTIN GEFFEN: It might be one (1) of those ways that -- yes, one (1) of those things to do would be to actually reduce the number of applications that you're having.

DR. BYRON WILLIAMS: Quantify the condition of applications in terms of stability, quality and maintainability; agreed?

MR. MARTIN GEFFEN: Sure, yeah.

DR. BYRON WILLIAMS: Quantify the business value of applications and the relative importance of each application to the business; agreed?

MR. MARTIN GEFFEN: Well, all -- all of those things, yes.

DR. BYRON WILLIAMS: And allocate resources according to the applications' condition and importance in the context of business priorities; agreed?

MR. MARTIN GEFFEN: So I think one (1) of the things that you would use for -- you know, in the APM would be to -- to really develop plans about -- we -- we talk about trend -- re -- retiring applications if they're -- if -- either duplicative or -- and end-of-life. Continue to invest in applications or in replacing applications. Those are the -- three (3) of the things you could use in an application portfolio management module -- model for, yes.

DR. BYRON WILLIAMS: Okay, thank you for that. We're going to jump around a little bit --

MR. MARTIN GEFFEN: Sure.

DR. BYRON WILLIAMS: -- through some of your evidence, both from 2016, as well as 2017. And if I could ask Diana to go just for a moment to attachment -- the attachment to PUB-1-56. I believe it's attachment (b). It's the Gartner report of June 6, 2016. Yes, and specifically to PDF page 20.

And then, Diana, we're going to be going right back to the 2017 one in a second. Stop right there, thank you.

Directing your attention, sir, back in 2016, the Gartner Group was reporting that an executive director had been appointed to the PDR project with clear structures for program governance, delivery, an overall project structure; agreed?

MR. MARTIN GEFFEN: Agreed, yes.

DR. BYRON WILLIAMS: And you took that as a good sign of better project direction?

MR. MARTIN GEFFEN: M-hm.

DR. BYRON WILLIAMS: You said M-hm, is that a "yes," sir?

MR. MARTIN GEFFEN: Sorry, yes.

DR. BYRON WILLIAMS: And I can send you the reference if you need it, but it would be fair to say that there is no longer an executive director for this program?

MR. MARTIN GEFFEN: Correct. The -- the -- the program itself is five (5) projects themselves that are being run as part of the PDR program. There is a -- the -- it's been run out of the BTO, the Business Transformation Office. There's a -- a director of that office and -- and a -- a delivery -- I'm not sure exactly the tiles, but a person responsible would delivery and a program manager who is responsible for all five (5) projects and has program managers reporting to her for each -- for each one (1) of those.

DR. BYRON WILLIAMS: And when did the

executive director leave? Are you aware, sir?

MR. MARTIN GEFFEN: I don't know the exact date.

DR. BYRON WILLIAMS: You had a bit of conversation with My -- My Learned Friend, counsel for the Board, in terms of the customer claims reporting system.

Do you remember that, sir?

MR. MARTIN GEFFEN: I do.

DR. BYRON WILLIAMS: And Gartner Group has described the customer claims reporting system as a re-branding of the first notification of loss project in the IFAM project; agreed?

MR. MARTIN GEFFEN: That is what we said there. What -- what I expanded is it -- so it's a re-branding of -- of the initial FNOL project and also has additional components, and things like the contact centre and the -- the contact centre and the accident profiling, among other.

DR. BYRON WILLIAMS: Okay. Then we'll come back to accident profiling in --

MR. MARTIN GEFFEN: Sure.

DR. BYRON WILLIAMS: -- inn just a second, sir. Back in 2016, directing your attention to page 24 of the PDF, Diana.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Gardner -- just -- just scroll down the page a little -- that's perfect. In the -- in the context of the first notification of -- of loss program, Gartner warned or identified a couple of risks.

First of all, directing your attention, the second bullet, that it involved the implementation of an innovative and fairly complex accident profiling approach, which was new to the industry. Is that fair?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: And you also suggested that the -- in terms of first notification of loss, it was a net new business area for Mitchell; agreed?

MR. MARTIN GEFFEN: Agreed, yes, it was.

DR. BYRON WILLIAMS: And again, first notification of loss here named as FNOL morphed into what we now know as the customer claims reporting services.

MR. MARTIN GEFFEN: Yes. As I say, the CCRS is -- includes FNOL plus a -- a number of things. And it's -- a number of them are being built into the Mitchell product, which is -- Mitchell has declared is -- is a -- is a good market project -- product so they're building it for the -- to MPI's specifications but with the objective to launch it in -- into the marketplace.

DR. BYRON WILLIAMS: Yes, and if we can go, Diana, to the 2017 Gartner report, page 12. And sir, on this page Gartner art -- identify some of the cancelled PDR projects; agreed?

MR. MARTIN GEFFEN: Correct. Yes, we did.

DR. BYRON WILLIAMS: Not listed in here are the earlier decision with relat - relation to the CARS?

MR. MARTIN GEFFEN: Correct.

DR. BYRON WILLIAMS: And also not listed in here is putting on hold the remote estimating project; agreed?

MR. MARTIN GEFFEN: Correct. So what we -- we really try to indicate here is that these key -- these are projects that were cancelled since the last time -- since last year. So CARS had -- the CARS decision had been made previously.

And at the time of writing, if my

recollection is correct, the remote had not been put on hold at that time.

DR. BYRON WILLIAMS: So -- so this is just the seven (7) basically between the General Rate Application last year and the General Rate Application this year.

MR. MARTIN GEFFEN: Correct.

DR. BYRON WILLIAMS: The seven (7) that went down, and since then, remote est -- estimating has -- has been put on hold.

MR. MARTIN GEFFEN: Exactly. It's being revisioned as this -- this strategy, yes.

DR. BYRON WILLIAMS: And in terms of the projects that have been cancelled, I just want to get a sense of which ones are related to the Mitchell product or the first notification of loss.

So one (1) of those would be the FNOL self-service analytics; agreed? You're nodding your head.

MR. MARTIN GEFFEN: Self-service analytics was originally to be -- to be built upon the Mitchell data to -- and it was going to be analytics regarding, you know, self-service and so, yes, so the -- it was going to be invest -- further investment on to the Mitchell product to do the analytics. And as I say -- as we say here in the report that it was determined by the project team that they needed eighteen (18) to twenty-four (24) months of data would take too long to get that and be costly and, so, they've put that part on hold.

DR. BYRON WILLIAMS: So that was a Mitchell related project that went --

MR. MARTIN GEFFEN: Correct.

DR. BYRON WILLIAMS: Yes. And then the Mitchell towing solutions also were found not to meet the business requirements of MPI?

MR. MARTIN GEFFEN: So they would say -- correct. So there was a -- a desire to create a -- a more sophisticated towing automated solution. And again, if -- if my recollection is -- is -- is correct, the Mitchell soft -- software did not provide the functionality that was required by MPI. MPI looked at building a custom solution and determined that that -- the cost benefit of that was -- was just not worth.

DR. BYRON WILLIAMS: And so that was another element of customer claims reporting service that was removed from the -- from the plan?

MR. MARTIN GEFFEN: Well, it was removed from the PDR program, I would say, rather than from CCRS, yes.

DR. BYRON WILLIAMS: And in terms of the enhanced registration card, that was another Mitchell CCRS solution, and ultimately, MPI elected to accept -- accept the Mitchell product without any MPI customizations?

MR. MARTIN GEFFEN: Correct.

DR. BYRON WILLIAMS: And then finally, in terms of accident profiling, that was another part of CCRS, Customer Claims Reporting System, sir?

MR. MARTIN GEFFEN: So it was part of the PDR program to -- which would -- create, you know, further more sophisticated accident profile. So the --again, if I'm telling you stuff you already know, stop me, but the accident profiles are such that we should be able to -- to do rapid adjudication based on the overall profile of the driver, where the accident took place and some -- some aspects of -- of --of the accident which would then -- we could use some analytics to do some predictions about what -- what -- what the claim might -- the claim profile might look like.

And so there was a basic set that were being built and there was a plan to build an enhanced set of -- in the PDR -- in the PDR program. And again, the team has determined that, you know, there -- there are two thousand (2000) of these profiles, and that -- that will deliver a level of profiling, the value that -- that was expected to be delivered by the program itself.

DR. BYRON WILLIAMS: Now turning to remote estimating, the concept behind remote estimating was to allow remote and rural repair shops to participate in the collaborative estimating process by equipping -- equipping them with technology to share digital imaging with MPI estimators; is that correct, sir?

MR. MARTIN GEFFEN: Correct, yes.

DR. BYRON WILLIAMS: And that's on hold while a rural strategy is developed?

MR. MARTIN GEFFEN: Well, my understanding is that we -- they conducted a pilot as was -- was originally planned in -- in the PD -- this was one (1) of those pilots that a digital imaging platform as a technology was acquired on a pilot basis and that was put into production or into -- into a pilot stage in -- in a number of remote repair shops.

The technology worked effectively. The processes worked effectively, but when it came time to determine, you know, what it would cost to actually acquire these kinds of high quality video cameras, deploy them, it -- the cost benefit no longer was -- was -- was positive and, so -- so that was put on hold.

DR. BYRON WILLIAMS: So, sir, in terms of the benefits that -- that are anticipated for the physical damaging rate -- damage re-engineering program as a whole, was it anticipated that there would be benefits attributable to rural estimating, remote estimating?

MR. MARTIN GEFFEN: So -- yes, so that the PDR is -- was -- is managed as -- as a program, which is a number of different projects or initiatives, and there's a series of benefit streams that would -- were laid out for the program itself, including the internal efficiencies -- efficiencies from -- from the repair shops and from the loss of uses and so on and so forth.

And one (1) of the estimates would have been for the more -- being more able to -- being able to work more effectively with -- with remote and rural shops.

DR. BYRON WILLIAMS: So, to the extent that that program is on hold, there is some question where tho -- those benefits will be realized --

MR. MARTIN GEFFEN: So --

DR. BYRON WILLIAMS: -- and the timing of those benefits.

MR. MARTIN GEFFEN: Correct. So I -- I -- I don't know that there were quan -- quantifiable cost-saving benefits that -- they were -- there -- those cost-saving benefits, they really -- that -- would be hold. Certainly the -- could -- the overriding benefit -- there are a number of overriding benefits that were, as part of the PDR charter, health of -- health of the -- health of the industry, better engagement and better customer service, those kinds of benefits would be on hold as well.

And I would -- I would imagine that, given the -- the return investment that -- that -- that the greater benefits are about working better with the partners and -- and -- and providing better service to -- to MPI's remote and rural customers.

DR. BYRON WILLIAMS: In your -- you can accept this, subject to check, or -- in your report last year, you noted that the remote estimating project was already overbudget. Do you recall that?

MR. MARTIN GEFFEN: I do not recall that.

DR. BYRON WILLIAMS: That's okay, it's

on the -- there's reference to a overall rural strategy, sir, you -- you reference that in your PowerPoint. Have you examined or have you -- have any insight into what this overall rural strategy --

MR. MARTIN GEFFEN: I have not. I have had a number of conversations with MPI team members over the last few months who talked about this rural strategy and that -- that it is under development at this point.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Sir, in terms of -- in terms of the program for -- in terms of the -- the four (4) remaining projects, would it be fair to suggest that the one (1) with the most uncertainty is the customer claims reporting service, given both the technology and the temporal timeframe? It's still being developed over -- been three (3) years, sir?

MR. MARTIN GEFFEN: It is the most complex of the four (4), and yes, of course it's -- it not only -- it will take longer to deliver than -- than -- the other, so -- would have more uncertainty than -- than the others. I would say that, you know, based on the work that we've done, we've seen the --

the project plan, we – we've seen some of the documentation that talks about how Mitchell is delivering software on an incremental basis, and so we think that that level of complexity and risk is being -- being well-managed at this time.

DR. BYRON WILLIAMS: If we can go to the MPI-20 -- or the Gartner Group 2017 report PDF, page 16, towards the bottom of that, Diana, please. That's fine there. Thank you.

The second last bullet from the -- the bottom, sir. As one (1) of the issues that MPI will need to monitor closely, you flag:

"Mitchell's continued commitment to make the solution one that is supported as part of the standard commercial offering."

I wonder if you can elaborate on that, sir?

MR. MARTIN GEFFEN: Yes. So part -- part of the strategy is -- MPI and Mitchell strategy have been to use this effort as a way to enhance the Mitchell product itself, to -- so first of all, to deliver MPI the kinds of functionality that it needs to do the -- the -- the kinds of transformation and change that was projected as part of the PDR Program.

But as part of that, to build-out a product that Mitchell could then take to mark -- to market, not only to MPI but to other insur -- other PNC companies -- North American and possibly around the world. I'm not sure of -- what their marketing strategy is there.

And so -- the -- both MP -- Mitchell has made an explicit commitment to MPI that this will be a part of their product. And so what that will mean is that the product itself will continue to be -- they will continue to invest in it and expand it and grow it on an ongoing basis as it --as it goes to market.

DR. BYRON WILLIAMS: What -- what you say here though, sir, is that MPI needs to monitor closely Mitchell's continued commitment. Why is that?

MR. MARTIN GEFFEN: So we -- we think that it's a -- that is just prudent -- would be prudent business practice. The fact is that this is something that it is -- MPI has identified in -- a number of -- of functionality that they require. These things seem to -- to be do -- in-demand in -- in the -- in the marketplace. Mitchell has effectively agreed that they're in demand in the marketplace 'cause they're in -- investing in them.

And we want to make sure that we are

not left with a product that is being built just for MPI, but one that's built for the market because this is one of those SaaS, softwares of service or a cloud-based solutions, that we want -- ma -- we want many organizations to be using, so that it grows through feedback from -- by many organizations, and that the overall development is supported by a number of customers, not just MPI.

So when I say -- maybe I've just -- I've lost the point over here, but in terms of 'monitor closely', I think it's -- important -- it's prudent business sense to say, They've made the -- this -- this has been to identified as a market demand, Mitchell has made -- has made a commitment to the market, let's make sure that they're actually living up to that commitment by investing in marketing and in going out to selling it into other organizations in the industry.

DR. BYRON WILLIAMS: Going, Diana, to page 17 of this same document, towards the bottom, just above Maintenance Costs. The -- the second bullet just about Maintenance Costs, Gartner also makes the -- the observation:

"It is yet to be proven that Mitchell can deliver to the specifications, or that the approach will work in production."

And, sir, what's the implication of that?

MR. MARTIN GEFFEN: Sir, the implication is -- let me answer this in two ways. The implication is that we -- we have -- with -- MPI has identified a kind of, new and different way of doing accident pro -- or claim profiling and claim processing by working -- by identifying a profile up front. This is something that MPI has developed and is providing intro -- intellectual property to Mitchell to -- to -- to build out in software.

So it's not even -- doesn't have a track record in -- hasn't been done -- many times be -- before by other software vendors. And given that, it's always -- we need to mana -- manage that risk.

And I will say that the -- what we have seen is that Mitchell is developing software and -- and delivering software in -- in releases, so they're -- they're not waiting to deliver this at -- at the very end. And so we receive -- we see -- we see that as a -- as a risk-mitigation approach.

DR. BYRON WILLIAMS: Thank you. If we can turn to page 12, Diana, just under the PDF page

12, just under Table 3.

Sir, you make reference to the Predictive Analytics Project at a cost of 2.2 million, and you note that that was budgeted separately from physical damage re-engineering, but tightly ritc -- related to achieving it's success, agreed?

MR. MARTIN GEFFEN: That's what it states there, yes.

DR. BYRON WILLIAMS: And you also make that same observation in terms of the Centre of Excellence Project, forecast to cost 6.3 million, budgeted separately from PDR but tightly related to achieving it's success, agreed?

MR. MARTIN GEFFEN: I understand this -- the -- yes, the predictive analytics was about acquiring a software tool to be able to build that predictive analytics model, so that you could actually do fraud -- identify fraud, and that was not part of the $2.2 million -- that there was not part of the $65.5 million budget.

And similarly, the Centre of Excellence Project was a -- created an organizational structure where -- where -- to focus on a number of items that were important to changing -- not changing technology so much, but changing processes that were necessary for the PDR project.

DR. BYRON WILLIAMS: Okay. And we'll come back to both of those. Just remember those words --

MR. MARTIN GEFFEN: M-hm.

DR. BYRON WILLIAMS: -- "tightly related."

Let's go to PF page -- PDF page 20, of the same document, Diana.

And towards the middle of that table, sir, you see at -- this table captures Projected Benefit Streams from a number of different sources. Do you see that?

MR. MARTIN GEFFEN: I do, yes.

DR. BYRON WILLIAMS: And it runs out from 2016/'17 to 2021/'22, agreed? At the top --

MR. MARTIN GEFFEN: Yes. And every -- just twenty (20) -- we just ran it out to 2021/'22 just because we didn't have -- it -- it, as I said earlier, it goes on -- it goes in -- in perpetuity, yes.

DR. BYRON WILLIAMS: And directing your attention on the left-hand side to Predictive Analytics, which is about the fourth line down, MPI -- and through Gartner is projecting benefits of half a million dollars in '18/'19 and a million annually thereafter, agreed?

MR. MARTIN GEFFEN: Agreed.

DR. BYRON WILLIAMS: Would it be fair to suggest that the predictive analytics benefits of 1 million a year are linked to the Predictive Analytic Project?

MR. MARTIN GEFFEN: Yes, they would be.

DR. BYRON WILLIAMS: And that's what you meant by -- when you said the predictive -- the Predictive Analytic Project is tightly related to achieving PDR success?

MR. MARTIN GEFFEN: Yes. So the -- that -- that's -- we -- sorry, the -- yeah, so predictive analytics should enable cost savings due to avoid of -- fraud, and predictive analytics models could identify opportunities for doing, you know, process optimization, yes.

DR. BYRON WILLIAMS: And, sir, you also indicated that the Centre of Excellence Project was tightly related to achieving PDR success. What did you mean by that, sir?

MR. MARTIN GEFFEN: So the Centre of Excellence -- wha -- is a -- my understanding, the

Centre of Excellence Project was the development of a -- an organization structure, which would allow identification of new process re -- new processes and new capabilities that would drive PDR benefits -- well the -- actually would -- would drive benefits throughout MPI's operations, including PDR benefits.

DR. BYRON WILLIAMS: Sir, just -- Diana, I guess what I'm -- Diana, maybe if we can go back to the Gartner Group from 2016, attachment to the PUB-1-56. And PDF page 15, for a second. PDF page 15, Diana. Oh, just go to the top for minute.

Sir, what -- what I'm -- I'm just trying to follow through is the description of the PDR Program here back in 2016. This is a table describing the PDR Pro -- Program, you'll agree with me?

MR. MARTIN GEFFEN: Yes, correct.

DR. BYRON WILLIAMS: And if we just go to PDF page 18 at the top, you'll see a reference to Predictive An -- Analytics, sir, as well as the Centre of Excellence?

MR. MARTIN GEFFEN: Yes.

DR. BYRON WILLIAMS: So -- just so I can understand, sir, I -- you've described these programs as part of PDR in 2016, agreed?

MR. MARTIN GEFFEN: Yes, we did.

DR. BYRON WILLIAMS: And we've discussed today that they're tightly woven, intimately connected with the success of PDR.

We can agree on that, sir?

MR. MARTIN GEFFEN: So, yes, I -- I -- I thi-- what -- the Cent -- Centre of Excellence was a project that was -- the PDR program had a tech -- technology investment component which was the various projects, those 20 projects that we listed, they became the 20 projects. It was also the -- Centre of Excellence.

DR. BYRON WILLIAMS: Which is right in that list, sir.

MR. MARTIN GEFFEN: Yes, agreed. And the Centre of Excellence was -- was -- as I said, it set up the infrastructure and -- and mechanisms that people in process -- to provide operational support for -- for -- for MPI.

DR. BYRON WILLIAMS: And Predictive Analytics is also there is well?

MR. MARTIN GEFFEN: Correct, yes.

DR. BYRON WILLIAMS: And we've discussed their connection to the -- the success and the benefits, measured of PDR as well, just a few minutes ago, agreed?

MR. MARTIN GEFFEN: Agreed. I'm not sure -- I'm not sure -- which way you're going with this. The predict -- predictability is -- is projected with even the benefit stream to deliver eventually a plateau of a million dollars based on predictive analytic models, and the Centre of Excellence was pro -- was projected to create leadership and processes and structures that would be necessary to -- to -- actually operate the transformed environment.

DR. BYRON WILLIAMS: But it's fair to say that the 2.2 million associated with Predictive Analytics, that capital cost was not included in the cost for PDR.

MR. MARTIN GEFFEN: Correct. The -- if you see in the -- in the '20s -- in the most recent budget, we've kind of talked about --

DR. BYRON WILLIAMS: Page 12.

MR. MARTIN GEFFEN: On page -- yeah, sorry. Is it page 12? There.

DR. BYRON WILLIAMS: Page 12, at the bottom might help, sir.

MR. MARTIN GEFFEN: Is that where we are?

There was a -- yeah -- agreed. So I'm

just actually looking -- there is another -- a Table 2, has the spending, and -- yeah, so we've actually -- we said that that -- that there -- there's -- so of a total of $25.9 million spending, of which 2 million was for Predictive Analytics, which is not part of the $65.5 million budget.

DR. BYRON WILLIAMS: And similarly, the Centre of Excellence was not part of the PDR budget?

MR. MARTIN GEFFEN: Correct.

DR. BYRON WILLIAMS: Okay. Thank you.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Sir, will -- you had a bit of a conversation with my Learned Friend this morning about the estimate for the cost of capital for the PDR project. Do you recall that conversation, sir?

MR. MARTIN GEFFEN: I recall that, yes.

DR. BYRON WILLIAMS: And the figure of 3 percent, agreed?

MR. MARTIN GEFFEN: Agreed.

DR. BYRON WILLIAMS: And I -- I

believe
your evidence was that you weren't aware what MPI had as an estimate for cost of capital, is that fair, sir?

MR. MARTIN GEFFEN: Correct. We -- we -- correct, we did not know it -- if MPI had a -- a cost of capital number that they use or we picked something that was neither aggressive nor conservative.

DR. BYRON WILLIAMS: You picked a proxy out -- related to consumer -- the consumer price --

MR. MARTIN GEFFEN: Correct. Which would allow us to then come out with a number, which we then -- we'd be able to track -- we'd compare year-over-year, yes.

DR. BYRON WILLIAMS: So, just so I understand -- that you're aware that often went when one looks at a cost of capital or a weighted cost of capital, one examines the -- the percentage of equity, the percentage of debt, and develops a -- a cost of capital for a particular corporation?

MR. MARTIN GEFFEN: Correct.

DR. BYRON WILLIAMS: And that would -- was not done in this case?

MR. MARTIN GEFFEN: We -- we did not -

- we did not do that, no.

DR. BYRON WILLIAMS: And, sir, just so I understand the -- the cost of capital selection gives insight into -- into the tipping point in terms of whether one is supportive of the project, or indifferent to the project, or chooses not to -- to select the project.

Would that be fair?

MR. MARTIN GEFFEN: So -- it -- anyone of those financial analy -- those financial analyses would be used to do exactly that, decide whether you want to invest or not invest, and the -- it -- is the -- those -- those analyses combine entire cash flow. So the -- the kind of projected cash flow over time, both the spend and the projected benefit to revenue and -- and -- and the cost of capital.

DR. BYRON WILLIAMS: And did you ask MPI whether they had a cost of capital?

MR. MARTIN GEFFEN: I can't recall that. I really don't know.

DR. BYRON WILLIAMS: And -- and with respect, sir, that -- that would seem to me, to be almost the -- the starting pla -- place for almost every bit of financial analysis I've ever seen?

MR. MARTIN GEFFEN: Agreed. It was --

it's was a piece of analysis that -- that we -- that we looked to do in this project and -- did this with -- as I say, it's something that we should have asked MPI to do.

DR. BYRON WILLIAMS: Okay. Thank you for that. And -- and just finally, as I understand your advice both to the Board and -- and to my clients in terms of total cost of ownership, that is the best practice approach for evaluating the costs and benefits related to a project?

Would that be fair, sir?

MR. MARTIN GEFFEN: It is a recommendation that we make to all of our clients as to -- to investigate total cost.

DR. BYRON WILLIAMS: And, sir, again, you would recommend that you -- you look at it certainly, at least from the perspective the -- of the Corporation, their costs of capital. That would be a useful aspect of that as well?

MR. MARTIN GEFFEN: So most TCO models that we've done have actually not had a coat -- cost of capital --

DR. BYRON WILLIAMS: Fair -- fair enough. Mr. Chair, those are my questions for this witness.

THE CHAIRPERSON: Thank you. I'd ask the panel if they have any questions for the witness. No? No? Go ahead.

BOARD MEMBER WATSON: A couple of quick questions.

THE CHAIRPERSON: Yeah. Go ahead.

BOARD MEMBER WATSON: A couple quick questions on page 7 of your submission. Second bullet, while the progress has been relatively slow prior to the last assessment, what made the process go slower in the prior assessments?

MR. MARTIN GEFFEN: The -- the PDR program itself had a number of quote-unquotes "revisioning exercises." It was -- it was kind of overall vision of -- of -- it transformed the way that we do -- that we do business, look to the health of the industry, increase the way that we can engage with customers.

And then there were a number of -- of initial projects that were considered. And the -- MPI looked -- revisited what the project should be, and this is not unusual in a -- in a pro -- in a -- in a large transforming pro -- program of this sort, would be to consider over time, Are we still on the right track? Should we be retiring -- or should we be changing -- changing direction? And so that's sort of the -- what took -- what was -- so was -- MPI was cycling on looking at -- at that -- doing this kind of visioning and revisioning of -- of what should be in the -- in the program and what shouldn't be in the program.

BOARD MEMBER WATSON: Okay. And what was the original PDR end date? Has that been revised to 2019 to 2020? Is that the revised end date, or was there an end date prior to that?

MR. MARTIN GEFFEN: I can't recall. I believe that it was -- if -- if anything, it's been pushed out by one (1) year to, you know, get to the -- the -- to that -- that plateau that we've talked about. Yes.

BOARD MEMBER WATSON: So the PDR end date was extended during the course of the last number --

MR. MARTIN GEFFEN: I believe so. I -- I would need to confirm that for you.

BOARD MEMBER WATSON: Okay. Thank you.

MR. MARTIN GEFFEN: Yeah.

THE CHAIRPERSON: Mr. Geffen, I've got a few questions. Diana, can you pull up Attachment A of the MPI application, page 15.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay. I've got -- and what -- that's not the one I want. Maybe I can ask counsel -- or Kathleen. What I -- what I want is the one that shows -- gives a breakdown of the different projects, and shows how the -- what the improvement would be from year to year. I know it's attachment -- it's the enterprise architecture. It's the one that has enterprise architecture and...

MR. MARTIN GEFFEN: That would probably be the -- the IT scoring benchmark.

THE CHAIRPERSON: Yes, that's what it is.

(BRIEF PAUSE)

MR. MARTIN GEFFEN: I think you had that --

THE CHAIRPERSON: That -- there it is. Okay. I'm just looking at -- let's just take effectiveness innovation, which is second from the bottom. It's on a one (1) to five (5) scale, and I notice that it stays at four (4) and doesn't improve until sort of '15/'16.

It is it unusual that it would stay at the same level year after year and then -- then bump up?

MR. MARTIN GEFFEN: So I would say that in -- in that kind of -- in -- in the kind of maturity models that we -- that we usually use, four (4) is a, you know, a relatively high level of maturity. So in -- in that sense, it's not unusual that something would be -- kind of plateau at -- at that level.

THE CHAIRPERSON: Okay.

MR. MARTIN GEFFEN: And is it unusual that that would bump up after year? You know, I don't know. I -- I can certainly take -- I can certainly find out what's different this year from last year that -- that made -- that made the change and get that back to you.

But it -- it -- there is a structured set of indicators that -- that we -- we look at, and a series of -- of structured questions that we ask to address those. And so something -- something was different this year from last year with that.

THE CHAIRPERSON: Okay. And the same

thing with open innovation. It's at three seven-five (375). It's there for three (3) years. Is that because of the maturity level?

MR. MARTIN GEFFEN: So similarly, the maturity level would be -- would -- again, it reviews the -- the same set of indicators and the same questions year-over-year. The three seven-five (375) could be that, you know, you've actually gone down in some and gone up in others, or that -- that things have stayed flat.

Again, I would need to go back and look and see -- and see the -- the detailed analysis. And unfortunately, I don't have that at my fingertips right now.

THE CHAIRPERSON: Yeah. That's -- that's fine. Mr. Geffen, at -- at one point, we were talking about the five (5) new projects?

MR. MARTIN GEFFEN: Correct.

THE CHAIRPERSON: And I understand your testimony to be that there were no business cases for those five (5) projects?

MR. MARTIN GEFFEN: So what we like to see is as it -- as a -- as a best practice is that -- that as you create a new project, you do -- if it meets a certain threshold, you would expect to see a business case for that project. And we know that the value management process within MPI has -- has instilled that practice, and that practice is -- is underway with new projects that are not part of the PDR program.

The PDR program has, over time, been managed as a -- an overall portfolio. And so a -- a business case was created for the overall PDR program itself, and with kind of a -- a projected spending stream, and -- and a -- and a projected benefits stream.

That the -- the five (5) carryover projects, as we've kind of -- PDR has been structured down to those five (5) projects. PDR is still being managed at that portfolio level in terms of the business case for the PDR program, but not for the -- each of those specific individual projects.

THE CHAIRPERSON: But the five (5) -- the five (5) projects you're referring to replace seven (7) projects that were cancelled?

MR. MARTIN GEFFEN: The --

THE CHAIRPERSON: Is that correct?

MR. MARTIN GEFFEN: No, they are kind of -- they're -- they're a -- a restructuring of what's left to do in the PDR program. It's -- it's not that they were -- that -- that were in the vehicle awards. So there were seven (7) projects that were cancelled, and we have five (5) carry-over projects that -- that we're -- we're -- are mov -- are moving forward. Some of those projects were underway as is. I'd -- I'd need to go back and refresh my -- my memory over here. And CCRS, for example, is an accumulation of -- of a number of different activities.

THE CHAIRPERSON: If -- if CCRS was an accumulation, was there a business case for CCRS separate from the entire PDR program?

MR. MARTIN GEFFEN: Not to -- not to my knowledge.

THE CHAIRPERSON: Okay. Mr. Geffen, how many projects would you review in a year that are over $60 million? How many programs?

MR. MARTIN GEFFEN: I would say -- personally, I would say they sort of -- I could count them on one (1) hand.

THE CHAIRPERSON: Okay. Of those, how many of those programs saw projects where almost half the projects were cancelled?

MR. MARTIN GEFFEN: That's an interesting question. I think of all of those pro -- I would say that -- that every one of those programs would've gone through some kind of change or restructuring in terms of scope, or -- or approach, that some of them would've had some projects cancelled and -- and some would not have had any cancelled, it would have -- had taken a different kind of an approach, or put -- put things in a different sequence, or a different time frame.

THE CHAIRPERSON: Okay. I understand the -- the need to change your scope. The question is, you started with fifteen (15) projects. Eight (8) went ahead, and seven (7) were cancelled.

Is that not a high number for -- for projects to be cancelled out of a program?

MR. MARTIN GEFFEN: Yes. So the -- so I think that -- that as of the last -- so PDR's going -- PDR has gone through a -- a number of different structures. As of last year, there were twenty (20) projects. Eight (8) were complete -- eight (8) were complete, seven (7) cancelled, and five (5) were going ahead. And so yeah, it looks -- it -- it is a high -- a high proportion.

I would say that of the total spend, or the -- in terms of magnitude, the project is -- I -- I think I have the number here. I can -- I can get that for you. It's a -- a -- not a large proportion of the project. But yes, it's the -- it's a -- it's -- there are a -- a large number of things that were -- that were thought that would potentially deliver value that were det -- were determined to not deliver value.

THE CHAIRPERSON: Okay. Thank you, Mr. Geffen. Those are my questions.

MR. MARTIN GEFFEN: All right.

MR. STEVE SCARFONE: Mr. Chair --

THE CHAIRPERSON: Sir?

MR. STEVE SCARFONE: -- we did have a couple questions that we'd like to ask the witness on redirect that arose during the cross-examination.

THE CHAIRPERSON: Sure.

RE-EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: And some of which, Mr. Chairperson, you addressed, so -- particularly with respect to the cancelled projects, but I did have a question for you, sir, concerning CARS, which, of course, is the Claims Administration and Reporting System that's used extensively by MPIC.

You'll recall that Board council asked you about -- or had you confirm that its replacement was part of the originally -- original budgeting. Do you recall that?

MR. MARTIN GEFFEN: Yes.

MR. STEVE SCARFONE: And sir, it hasn't been fully replaced. Is that correct?

MR. MARTIN GEFFEN: So through -- correct, it has not been fully replaced. I think that there will -- there will be portions of -- of CARS which will be replaced. So some of the scheduling -- their functionality will be replaced. And then the contacts and rescheduling will be replaced over time. So part of that will be -- will be replaced.

MR. STEVE SCARFONE: And -- and those -- those parts of CARS that will be replaced, is that a result of -- of the PDR project?

MR. MARTIN GEFFEN: Yeah. So the CCRS project will -- specifically will -- will be --

MR. STEVE SCARFONE: Address that?

MR. MARTIN GEFFEN: -- will address those, yes.

MR. STEVE SCARFONE: Diana, can you just pull up the -- the program charter that was marked as CAC-17, I believe. Thank you. And at paragraph 2, the program purpose.

Now sir, just if you could review the purpose of the -- the program there in your charter document and take a moment, but can you tell me the fact that CARS wasn't entirely decommissioned as part of the PDR, did that affect in any way your program purpose, in your view?

THE CHAIRPERSON: So -- sorry, Mr. Scarfone, could you repeat the question?

MR. STEVE SCARFONE: Oh, yeah.

THE CHAIRPERSON: I just missed the end of it. There's some coffee, and I -- I missed the last part of your question. Sorry.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Sure. The question, Mr. Chair, was whether the fact that CARS hasn't been entirely decommissioned, has it -- have -- has it in any way affected the program purpose as identified in the charter document on the screen?

MR. MARTIN GEFFEN: So first I just -- just wanted to say that you said, "Your charter document." This is -- this was a chart that was actually created by MPI --

MR. STEVE SCARFONE: Yes.

MR. MARTIN GEFFEN: -- as the -- the initial -- the -- the initial kickoff to -- to the PDR program. And so you can see sort of some high-level strategic statements, or kind of outcomes that -- that the PDR program is expected to deliver. And it kind of goes to the question that -- Mr. Chair, that -- that you asked in terms of, you know, is it a large number of things to -- to be cancelled? And your -- your comment about, you know, CARS.

So if we were to look back on the things that had been delivered as part of -- of PDR and that will -- are yet to be delivered in PDR in terms of the -- the four (4) projects that we know that -- that we -- that we are -- have a high level of conference will be delivered. The, you know, each -- they -- they work towards, you know, you know, proper repair.

So distributed -- distributor repair, just really estimating, ensuring customers could be supported throughout the project, like, you know, in theory, eventually, the remote rural, but clearly, the -- the work with -- that -- that repair shops are -- are able to -- to do work directly, that they will be -- and the ability to do customer self-service through the first notice of loss and to the other -- other -- the other components of the -- the Mitchell platform.

You know, we -- we look at, you know, customer service expectations. And so there's a -- a real drive to kind of higher and higher consumer expectations that I should be able to do self-service. I should be able to do things on the web. I should be able to do things on the phone. So all of those things are being delivered through to the CCRS and -- and some of the other projects. And then similarly, in terms of rel -- relevancy to -- to customers, the ability to -- to move into the 21st century to do straight-through processing, drive down costs.

So, I mean, I -- I would say that the PDR program has -- has delivered, and has constituted -- supports all of these areas, or, you -- you know, that CARS -- we -- we -- there is some replacement in -- in some of the CARS components.

We talked about the extension to the -- I forget the words that we used, but kind of a -- the build -- we talked about build-out to CARS, so the tie-in from the other PDR projects into the remaining parts of CARS will allow -- will -- will support that. And, you know, the -- the one (1) thing that -- that we will not get is a -- a full replacement of CARS, which is using older technology.

And so there is, you know, back to -- to my colleague over here who talked about, you know, project application portfolio management, you want to think about, you know, cost to deliver, busi --

business health and technical health, that -- that CARS -- and we've looked on the -- we've looked on the detailed analysis, but in terms of the age of the technology it's built on, its technical health will eventually be -- be -- may -- it's likely it will eventually become an issue, but it is not at this point, and clearly, the -- the MPI team has determined that it's delivering the business value that it needs to deliver.

It was a long question. I hope I would -- long answer. I'm not sure --

MR. STEVE SCARFONE: And it was a long answer, and that -- that's fine, Mr. Geffen. I guess that the -- my real question was, CARS is still in use today, and notwithstanding that, is it your view that the PDR program has still achieved or will achieve its objectives?

MR. MARTIN GEFFEN: I -- I believe that these object -- that -- that the -- that the quantitative benefits that were laid out in the benefit stream are -- are achievable, and that these -- that these benefits over here are achievable with -- with the projects that are underway with PDR.

MR. STEVE SCARFONE: The $65 million that was budgeted, that amount was budgeted back in

2012. Is that correct?

MR. MARTIN GEFFEN: Correct.

MR. STEVE SCARFONE: And the monies that are still being spent on the project from 2013 forward, those are monies that will be applied back to the 65 million two hund -- two thousand and twelve dollars ($2,012). Is that correct?

MR. MARTIN GEFFEN: They are being applied against that -- that budget, yes. So the -- the -- yeah, so -- it -- it -- all the budget num -- numbers are against that $65.5 million.

MR. STEVE SCARFONE: From five (5) years ago?

MR. MARTIN GEFFEN: Correct, yes.

MR. STEVE SCARFONE: And just based -- lastly, sir, based on your relationship with MPI, how does the PDR project compare to other corporate projects in -- in its portfolio, in your view, in the MPIC corporate portfolio?

MR. MARTIN GEFFEN: In the -- in the -- the MPIC corporate portfolio? That's hard for me to answer. I -- I think that the PDR program itself is a significant part of the -- the overall MPI portfolio. It is the -- one (1) of the -- the -- is the -- the real -- the -- the larger, more complex of the various different IT transformation projects that -- that we are seeing underway, that it is utilizing the same project management and stage gating structures that are in place for all IT -- all MPI investments, that the -- it -- it --

MR. STEVE SCARFONE: Yeah. It -- the reallocation of the budgeted monies, is this something that -- that you might normally see in a -- in a project of this size, and -- and the -- and the projects that have evolved?

MR. MARTIN GEFFEN: Well, as -- as I -- as I responded to -- to the Chair, the, you know, in -- in the -- in a -- a large program such as this, it's not unusual to see a change direction in -- in -- over time. It's not unusual to change scope or change right -- right where you actually -- where you're allocating your -- where you're spending the money.

And one (1) of the important things that we've seen for our clients is to assist just a bit beyond that is that where you have a large-scale project -- program such as this, it's important to maintain -- to main -- maintain focus on where you're going, but constantly do kind of a -- a risk assessment, an in -- internal risk assessment is always changing in a purposeful way, and have we made purposeful decisions in terms of the kinds of changes we -- we want to make?

We've -- we see some organizations that'll embark on a pro -- program like this, and it all sort of slowly drift over time. And that, you know, you get called to do a -- a program postmortem, and you kind of wonder, How do you end up over here, when you were aim -- aiming for over here?

And I think that if I were to -- maybe a bit colloquially, I would say if -- if PDR was kind of aiming over here, I think that it has had a lot of focus over time terms of direction, and it's ending up sort of over here, but that the dir -- directive change has been purposeful over time, that it -- that every change has been considered, discussed at, you know, at -- at the first -- at the project level, at the management level, before making a -- a change to the project -- the program direction.

MR. STEVE SCARFONE: And -- and so that purpose -- that purs -- purposeful opinion would include not only the cancellation of the seven (7) projects, but the addition of the five (5) new ones?

MR. MARTIN GEFFEN: Yeah. I think that the -- yes. So, you know, as -- as the -- even if -- even as far back as kind of, you know, changing direction from replacing CARS or not replacing CARS. That was a, you know, purposeful -- went through a -- a number of iterations in terms of, you know, should it be on FINEOS, or it should be on something else? Is it, you know, is there real value for -- is -- is there a real return on that, or can we get this in in a different way?

And then also you thinking through what, you know, a change from the base FNOL, just, you know, do first notice of loss, to creation of CCRS, which is, you know, Customer Claims Reporting System, which is more than just a first notice of loss application. Each of those are -- were considered and -- and purposeful decisions, yeah.

MR. STEVE SCARFONE: Thank you, Mr. Chair. Those are my questions.

THE CHAIRPERSON: Thank you. Thank you, Mr. Geffen. Mr. Scarfone, I guess we're going to bring the original panel back. How long do you think it would take before they're back here?

MR. STEVE SCARFONE: Well -- well, I expect that they're one (1) floor down, so,

THE CHAIRPERSON: I see. Okay. So we'll -- we'll break for fifteen (15) minutes, and -- you know, we'll break for twenty (20) minutes, and that will be the afternoon break. Okay? Thank you.

MR. STEVE SCARFONE: Thank you.

MR. MARTIN GEFFEN: Thank you very much.

(MPI PANEL 3 STANDS DOWN)

--- Upon recessing at 2:03 p.m.
--- Upon resuming at 2:23 p.m.

THE CHAIRPERSON: Good afternoon. We will resume the cross-examination of CAC -- by CAC of MPI.

CONTINUED MPI Panel 1:

LUKE JOHNSTON, Previously Sworn

PETER YIEN, Previously Affirmed

MR. STEVE SCARFONE: Mr. Chair, just before we begin we just have a couple -- further exhibits to file. They've been circulated to My Friends.

THE CHAIRPERSON: Okay.

MR. STEVE SCARFONE: The first will be marked as MPI Exhibit Number 18, and its Pre-Ask

Number 2, Mr. By -- Mr. Williams' client. And the second exhibit would be MPI Exhibit Number 19, of course, marked here as Undertaking -- answer to Undertaking Number 4 -- 24. Sorry.

--- EXHIBIT NO. MPI-18: Pre-Ask Number 2 by CAC.

--- EXHIBIT NO. MPI-19: Answer to Undertaking No. 24.

MR. STEVE SCARFONE: We'll get Mr. Crozier to provide you two (2) copies.

THE CHAIRPERSON: Thank you. Thank you, Mr. Scarfone.

Mr. Williams...?

CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Yes, I believe Mr. Monnin described this approach as short snappers and I think he was actually plagiarizing from me so I'll -- I'll -- we're going to do some information technology short snappers.

Just generally, and I can provide a reference if you require it, but MPI would agree that depreciation and amortization account for in the range of 10 percent of all Basic expenses in 17/18, and -- would that be fair?

MR. PETER YIEN: Yeah, just slightly above 10 percent, that would be right.

DR. BYRON WILLIAMS: And with apologies to the accountants in the world -- in the world, and in the room, amortization expenses related to deferred development are associated with capital expenditures from prior years.

Would that be fair?

MR. PETER YIEN: Yes, it is.

DR. BYRON WILLIAMS: And deferred development in terms of information technology is primarily costs related to retaining the services of consultants for improvement initiatives.

Would that be fair?

MR. PETER YIEN: There's -- a significant part of it would be, yes.

DR. BYRON WILLIAMS: And it also could relate to the purchase of software, agreed?

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

DR. BYRON WILLIAMS: And, Diana, I wonder if you can pull up from the Information Request response PUB-MPI-2-14, Figure 2.

And you'd agree that this purports to be a ten-year summary of corporate expenses by category; agreed?

MR. PETER YIEN: Agreed.

DR. BYRON WILLIAMS: And focusing your attention on the 17/18 year, and the 18/19 year and then going down all the way second to the bottom to line 27, you'll agree that the -- the forecast expense for depreciation and amortization for the Corporation in 17/18 is 26.792 million, correct?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: Moving one (1) over to the right on that line, its forecast for the test year of 18/19 on a corporate basis to be 32.1 million; agreed?

MR. PETER YIEN: Agreed.

DR. BYRON WILLIAMS: And flipping back to figure 1 of this same response. And now focusing you on amortization and deferred development, line 23. This figure describes compound annual growth rates for corporate total operations excluding capitalized labour; agreed?

MR. PETER YIEN: Agreed.

DR. BYRON WILLIAMS: And focusing again on line 23, amortization and deferred development. The compound annual growth rate for the four (4) years running from 13/14 to 16/17 was 17.5 percent; correct?

MR. PETER YIEN: Correct.

DR. BYRON WILLIAMS: And moving one (1) to the right, again focusing on amortization and deferred development. The forecast for the current year of 17/18 out to 19/20 is a compound annual growth of 13.3 percent, sir?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: Back to figure 2, just for a second. And again, I want to focus you on line 26, amortization and deferred development. And if we focus, first of all, in the 2012/13 year you'll agree that the amortization and deferred development costs actuals were 8.8 million; correct?

MR. PETER YIEN: Correct.

DR. BYRON WILLIAMS: Moving out to 16/17, about five (5) out still on -- on line 26, they were 16,859 million; agreed?

MR. PETER YIEN: Agreed.

DR. BYRON WILLIAMS: And moving out to 18/19, couple lines over, roughly 26 million; correct?

MR. PETER YIEN: Correct.

DR. BYRON WILLIAMS: That's for

amortization and deferred development in that year; agreed?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: Then if you can pull up the PUB-2-16, and specifically, figure 1. And Mr. Yien, I'm going to talk about this table in a -- for just a second, then we'll go to another table and then I'll get you to explain the difference between the two (2) of them if you can -- if you can.

Figure 1 is a response to a PUB Information Request and it purports to be a listing of active and future IT initiatives for the total Corporation; agreed?

MR. PETER YIEN: Agreed.

DR. BYRON WILLIAMS: And, sir, just on the fly, the -- the total project budget captured in this figure is $16.2 million approximately; agreed?

MR. PETER YIEN: Sixteen point -- sorry, I'm not --

DR. BYRON WILLIAMS: Sorry, I --I misspoke. A hundred -- I grossly misspoke, 167 million, roughly?

MR. PETER YIEN: Agreed.

DR. BYRON WILLIAMS: And, sir, in terms of -- if I wanted to estimate what the -- what -

- of that 167 million was related to technical -- technology -- alleged tech -- technology obsolescence, I would take Line 6, the BI3 FINEOS upgrade of 2.3 million, plus line 8, the AOL CARS replacement of 62 million, plus lines 9 and 10 of 4.5 million for loss and upgrade, as well as 2.5 million for corporate learning management and, finally, line 13, technology risk management of 13.5 million.

Would those be the categories on -- on this table flagged for technology obsolescence, sir?

MR. PETER YIEN: At -- at a high level, yes.

DR. BYRON WILLIAMS: And subject to -- to check, you'll agree that that's in excess of $70 million and probably in excess of 75 million, sir?

MR. PETER YIEN: Yeah, I think it would be closer to eighty, but, yeah. A quick check.

DR. BYRON WILLIAMS: I'm a conservative fellow, don't want overstep myself.

Just going to figure 3 of this same document, you'll see it described it as a reconciliation of project budgets total corporate, sir?

MR. PETER YIEN: M-hm, yes.

DR. BYRON WILLIAMS: And you'll see

the total budget there is 278 million, approximately at the bottom, sir?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: Sir, if you're able and if not, what's the difference between the information presented in this table, and the one in figure 1?

MR. PETER YIEN: Can you just show them side by side. Is that possible. Just flip the two.

DR. BYRON WILLIAMS: And if you're not, sir, I can figure this out off-line.

(BRIEF PAUSE)

MR. PETER YIEN: Sorry, are you able to show both documents at the same time? Maybe you can do it -- the screen, okay. Oh, sorry, I'm looking at the wrong person. Sorry for that. That's good. Thank you.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Do you know what, let's -- I apologize for this. We'll -- we'll move on this because it's -- it's taking a bit too much time.

MR. PETER YIEN: All right.

DR. BYRON WILLIAMS: My fault, not yours. Sir, going back to figure 3. Of that total budget of 278 million total corporate, you'll agree with me that roughly 205.6 million are associated with Basic deferred development; agreed?

MR. PETER YIEN: Yeah, let me just take a quick look at this first.

DR. BYRON WILLIAMS: Going to line 42 at the bottom, sir.

MR. PETER YIEN: Okay, can you repeat that, please.

DR. BYRON WILLIAMS: Yes, I'm suggesting to you of this total budget figure presented here of 278 million, 205.6 million is associated with Basic deferred development; agreed?

MR. PETER YIEN: Yep, sure -- yes.

DR. BYRON WILLIAMS: And, sir, short snappers are almost over but not quite. If we go to PUB-1-17, Figure 2, and, Diana, just scroll down. That's beautiful. Thank you.

Sir, I'll suggest you what this table or this figure presents is total corporate project costs and then at the bottom there is an indication of how much of these costs are allocated to Basic on a percentage figure.

Is that right, sir?

MR. PETER YIEN: It's right.

DR. BYRON WILLIAMS: And I'll suggest to you that in 17/18 84 percent were -- was allocated to Basic; agreed?

MR. PETER YIEN: Yes.

MR. BYRON WILLIAMS: For 18/19, 71.6 percent; agreed?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And for 20 -- 2019/20, 82 percent, is that correct, sir?

MR. PETER YIEN: Still short snapping a little bit, PUB-MPI-1-31, Figure 1. Sir, this figure presents IT personnel for the Corporation, agreed?

MR. PETER YIEN: Agreed.

DR. BYRON WILLIAMS: And what I want to -- you'll agree that the figures projected for 18/19 are 334. And for 20/19, 20 -- or 329, sir; agreed?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And just by comparison purposes, you'll see in 2013/14 there were about 320 -- 332; agreed?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And in 2014/15, 320; agreed?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And simply put, sir, I'm suggesting to you that the IT personnel levels have stayed at a -- a relatively high level since at least 2012/13?

MR. PETER YIEN: Yeah, I would say it stayed consistent pretty much, yes.

DR. BYRON WILLIAMS: And if we can just go to Figure 4, still in PUB-1-31. Excuse me, PUB-2-17, Diana, I misspoke. Figure 4.

Sir, Figure 4 in terms of IT personnel con -- represents the variance between the -- the forecast in last year's General Rate Application and in -- in this year's General Rate Application for consultant costs; agreed?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: So the fiscal year is set out on the left and then the next line over is the current year forecast; agreed?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And to its right

is last year's forecast; agreed?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And finally, the last two (2) columns are the variance between the two (2) and the percentage change; correct?

MR. PETER YIEN: Correct.

DR. BYRON WILLIAMS: And, sir, directing your attention to the 2016/17, you'll note that the forecast this year is $7 million higher approximately in terms of consultant costs than it was during last year's General Rate Application?

MR. PETER YIEN: Yes. One second, sorry.

(BRIEF PAUSE)

MR. PETER YIEN: Mr. Williams, I was just asked to point out that this schedule has been re-filed and we need to refer to -- to that one.

DR. BYRON WILLIAMS: Okay. Why don't -- we'll perhaps do that at a -- at a -- how has it been -- okay, let's see the re-filing. Let's do this, let's come back to that question and I'll perhaps ask Ms. Dilay to talk with your people in the back row and -- and get me the revised information.

MR. PETER YIEN: It's up already.

DR. BYRON WILLIAMS: There we go. Well then, let's scrap this question, sir. Okay, thank you.

MR. PETER YIEN: Okay, thanks.

DR. BYRON WILLIAMS: Can I go to PUB-1-29, A -- Attachment A, and we can probably just... And in particular I'm looking for a reference to the DR enhancement which I think is that towards the bottom of page 4? Thank you.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: So you see here a reference to the direct repair plus programs, sir?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And you'll agree with me that one (1) element of the physical damage re-engineering process was the direct repair program; that -- that was the first stage?

MR. PETER YIEN: That's correct.

DR. BYRON WILLIAMS: And the second stage is direct repair plus; agreed?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And go -- the

direct repair program flowed from what was -- used to be known as distributed estimating; agreed?

MR. PETER YIEN: Agreed.

DR. BYRON WILLIAMS: And it was launched into production on March 1st, 2017, subject to check, sir, is that correct?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And as I understand it, all distributed estimating pilot shops were converted to direct repair shops; would that be fair?

MR. PETER YIEN: Let me check on that one. Yes.

DR. BYRON WILLIAMS: And, sir, I don't think you need to go here, but my reference to this is Gartner's report, PDF page 15, from 2017.

Would it -- as of May 31st, would it be fair to say that fifty-three (53) shops had qualified as direct repair shops, sir?

MR. PETER YIEN: That's correct.

DR. BYRON WILLIAMS: Would it be possible to get an update to that figure of how many shops have qualified, and also broken down by geography in the sense of Winnipeg, Brandon, and other?

MR. PETER YIEN: I'll check. Absolutely.

DR. BYRON WILLIAMS: And I'll just -- before you say absolutely, sir, I'll just make sure I -- I articulate this in its totality.

I'm looking for an update of how many shops have qualified for the direct repair option with the most current data available broken down Winnipeg, Brandon, and other. And if there's more breakdown, great, but if not, that's fine.

And secondly, sir, my understanding was that as -- as of May 31st the fifty-three (53) shops represented about 40 percent of the Manitoba repair capacity.

Is that your understanding as well?

MR. PETER YIEN: Yes, it's -- it's pretty close.

DR. BYRON WILLIAMS: Would it be possible as well to get an update on the repair capacity that they represent, as well, sir?

MR. PETER YIEN: Absolutely.

DR. BYRON WILLIAMS: I think we can collapse it into one (1) undertaking, which is to -- to provide the shops qualified for dis -- for the direct repair option, most current data broken down by

Winnipeg, Brandon, and Other; as well as the percentage of Manitoba repair capacity that they account for.

Is that satisfactory?

MR. STEVE SCARFONE: Yes, you have that undertaking.

--- UNDERTAKING NO. 31: MPI to provide the shops qualified for the direct repair option, most current data broken down by Winnipeg, Brandon, and Other; as well as the percentage of Manitoba repair capacity that they account for. And to divide it between Direct Repair and Direct Repair Plus.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Sir, if we look at this reference being that PUB-MPI-1-29(a), Appendix 1. It indicates that on boarding of DR and DR Plus shops continues.

Do you see that reference, sir, just near the top of the -- do you see that, sir?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: I presume on boarding means enrollment of -- of shops into the program?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: Are shops currently being enrolled for DR Plus as well?

MR. PETER YIEN: I'm -- I'm not sure.

(BRIEF PAUSE)

MR. PETER YIEN: I -- I don't have that information in front of me. But yes, they are continuing to qualifying for Direct Repair Plus.

DR. BYRON WILLIAMS: And Direct Repair Plus is a reflection of complexity and volume over and above direct repair, sir?

MR. PETER YIEN: Absolute, yes, you're right.

DR. BYRON WILLIAMS: And if it's possible, if we could have that information as well in the same -- in the undertaking.

MR. PETER YIEN: Yes, we'll include

that as part of the previous undertaking.

DR. BYRON WILLIAMS: Okay. So we're amending the previous undertaking to divide it between Direct Repair and Direct Repair Plus; agreed?

MR. PETER YIEN: Agreed.

MR. STEVE SCARFONE: Absolutely.

CONTINUED BY MR. STEVE SCARFONE:

DR. BYRON WILLIAMS: Diana, if you can pull up from this morning the PowerPoint presentation of the Gartner Group, and specifically page 6.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Yes. Mr. Yien, you're aware that there was a remote estimating pilot project intended to assist rural -- rural shops in -- participate in collaborative estimating, sir?

MR. PETER YIEN: I -- I am aware.

DR. BYRON WILLIAMS: And that pilot project is currently on hold, sir?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And there's a suggestion that MPI is combining this into an overall rural strategy, sir?

MR. PETER YIEN: That's correct.

DR. BYRON WILLIAMS: And sir, I wonder if you can give us a bit of background in terms of that rural strategy, in terms of its rationale and -- and objectives?

MR. PETER YIEN: Just one (1) second.

(BRIEF PAUSE)

MR. PETER YIEN: It was viewed that one needs to serve our rural ratepayers holistically end to end. So this is a much bigger strategy and remote estimating is only a piece, and the whole purpose of this is to think, what is that new model going to look like and how do we best serve the rural ratepayers.

So the remote estimating is just a portion of that end-to-end strategy that we're thinking of.

DR. BYRON WILLIAMS: Thank you for that. But in terms of -- so we know that remote estimating is one (1) part of it. What other elements is the Corporation contemplating, sir?

(BRIEF PAUSE)

DR. BYRON WILLIAMS: So an example would be -- be able to take a photo of the collision, all the way to towing, and how do we deal with it remotely, and serving them better that way.

DR. BYRON WILLIAMS: And sir, I don't know if you have reviewed or -- reviewed or are aware of the transcripts from previous proceedings in terms of physical damage re-engineering and rural repair shops.

MR. PETER YIEN: No, I'm not.

DR. BYRON WILLIAMS: Are you aware, or is Mr. Johnston aware, at a high level, that there's been some talk of significant concentration of the industry in rural Manitoba?

MR. STEVE SCARFONE: Sorry, to interject, Mr. Williams. Do you have the portion of an earlier transcript that we could look to?

DR. BYRON WILLIAMS: I don't have one here. Mr. Johnston was part of those -- those proceedings and I'm simply asking if he -- if he recalls.

MR. LUKE JOHNSTON: I don't recall; that wouldn't have been a subject area that I would have been the lead on

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Yien, generally, can you indicate whether or not -- what -- there is a concern or risk related to physical damage re-engineering that a significant number of rural repair shops will -- will no longer be in business?

MR. PETER YIEN: I -- I'm -- I'm not in a position to comment on that. I don't know.

DR. BYRON WILLIAMS: We may be able to approach this with the undertaking that I asked, previously. So, we'll follow-up on that, sir.

MR. PETER YIEN: Okay.

DR. BYRON WILLIAMS: I want to turn to Autopac online, sometimes known as AOL, as well as the claims administration and reporting system, sometimes known as CARS.

Mr. Yien, you're familiar with those terms?

MR. PETER YIEN: I am.

DR. BYRON WILLIAMS: And it's fair to say that Manitoba Public Insurance is maintaining the existing CARS and AOL systems in order to provide well-defined and specific business functionality from which the organization derives quantifiable business value -- value?

MR. PETER YIEN: Yeah, correct. These systems have been in place for 20 plus years, so, yes.

DR. BYRON WILLIAMS: And you do not need to turn there, unless you're anxious to check my words, but I'll suggest to you that in PUB-MPI-133, the PUB asked about a charter agr -- or detailed business case.

And I'll suggest to you, sir, that currently there is not a project charter, high level, or detailed business case and associated analysis for the rebuild versus replace of Autopac online or the claims administration reporting system.

Would that be fair, sir?

MR. PETER YIEN: You're correct.

MR. BYRON WILLIAMS: Sir, if you can turn to MPI Exhibit 18, which was filed this afternoon as a response to CAC Manitoba PreAsk 2. Thank you, Diana, or Darren. Those shaky hands look like Darren, sorry, Diana.

Sir, in this question, CAC Manitoba recognizing there was no detailed business case asked about the total cost of ownership to maintain the CARS application, including an inventory of those applications. You are aware of that, sir?

MR. PETER YIEN: I am.

DR. BYRON WILLIAMS: And also asked about the total cost of ownership to maintain the current Autopac online applications, including an inventory of those applications?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And -- and, sir, part of this answer indicates that the Corporation -- or I'll suggest to you, the Corporation currently doesn't have that, but is planning to undertake a review of the total cost of ownership of both AOL and CARS as part of the replacement project to be started next year?

MR. PETER YIEN: Yeah, we -- the total cost of ownership is a complex question. AOL and CARS as soft -- sorry. AOL and CARS, they are legacy systems and the total cost of ownership or maintaining that have other impacts on other pieces of software as well.

We do understand that the total cost of ownership is not just AOL online and Autopac, and the related costs associated is a more -- sorry, associated with that requires a more comprehensive analysis.

So I don't want to suggest that we don't have anything in terms of cost of ownership of AOL and CARS, but we don't have the complete total cost of ownership.

DR. BYRON WILLIAMS: And sir, we -- we asked, as well in these -- in the pre-ask for an inventory of those applications related to both CARS and to AOL.

You recall that? Part A and Part B.

MR. PETER YIEN: Yes, thank you.

DR. BYRON WILLIAMS: And you can correct me if I'm wrong, but -- well, let me try it a different way. Is there currently an inventory of the applications associated with CARS?

MR. PETER YIEN: There is.

DR. BYRON WILLIAMS: And is there currently an inventory of the applications associated with AOL?

MR. PETER YIEN: Yes.

DR. BYRON WILLIAMS: And would Manitoba Public Insurance be able to provide the inventory of those by way of undertaking?

MR. PETER YIEN: Yeah, let me just take this away.

(BRIEF PAUSE)

MR. PETER YIEN: And, Mr. Williams, the AOL and CARS applications are legacy and because it's legacy there are literally hundreds of applications and even as we defined "applications," we need some additional clarity as to what that is.

But the bottom line is this required -- this is a significant undertaking and we feel that it's better to respond as part of next year's GRA, but there's literally hundreds of applications we talked about here.

And keep in mind this is homegrown, so, there's lots of functionality that operates in -- in individual applications and on top of that, there are other applications that work with these application to make them work together. So that adds the complexity in terms of describing the inventory of applications.

DR. BYRON WILLIAMS: And that's not currently catalogued for the purposes of portfolio management, sir?

(BRIEF PAUSE)

MR. PETER YIEN: We currently do have

inventory applications. The trick is looking at all the legacy pieces and, specifically, identify that that is a AOL or CARS functionality in a dry functionality.

And then the other one is the mapping of interfunctionality that I talked about software applications that make the applications work together. So, we have that as well. That takes a little bit more work because they relate to more than just, in some cases, AOL and CARS. Those pieces of software would make other piece of software work too.

So the answer is, yes, we do -- we do have -- we do have that.

DR. BYRON WILLIAMS: And, sir, I understood your answer to be that there was a catalogue and that there was mapping undertaken, would it be further -- would you have an estimate of the cost of maintenance associated with these specific applications, sir?

MR. PETER YIEN: Let me check on that.

(BRIEF PAUSE)

MR. PETER YIEN: My apologies, Mr. Williams. Your question is a good one. The complexity lies in the software itself in terms of allocation of the maintenance between AON/CARS. We -- we don't have that and that's something that needs further work.

In addition to that, the allocation of maintenance to AOL/CARS, as I mentioned earlier, that some of the software we have helps the applications to work with each other; while it's not just AOL, it's not just CARS, there's other pieces of software. Again, it's an allocation, and that's -- that's -- that would be a significant undertaking.

DR. BYRON WILLIAMS: Thank you and -- and thank you to your back row for working through that with me.

Mr. Johnston, I think I'm turning to you and I want to have a little -- follow up a bit of your conversation with Board counsel from last Wednesday related to driver safety rating.

And I'll assure you that we've reviewed the -- the -- the notes, there may be a bit of overlap, but it's for a purpose.

But, Mr. Johnston, I'm going to use the term "predictive modelling," and I'm going to -- to define it as the use of explanatory variables and their historical values to predict the target outcome.

Is that a definition that you can work with, sir?

MR. LUKE JOHNSTON: Yes, I can.

DR. BYRON WILLIAMS: And without trying to get into too many specificities, yet you'll agree that predictive modelling in property and casualty insurance rate-making, typically, uses historical data on -- on the -- all of the variables that go into the premium for a vehicle?

MR. LUKE JOHNSTON: Historical data would be generally heavily relied on unless you're aware of some obvious change coming in the -- in the future.

DR. BYRON WILLIAMS: And I predictive model can be relatively simple using a linear equation; agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: Or very complex, using sophisticated software; agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: Essentially, though, we're trying to get some insight into what the variables should be, how they work together or not to determine the probability of a loss; would that be fair?

MR. LUKE JOHNSTON: That's fair.

DR. BYRON WILLIAMS: And a generalized linear model or GLM is a form of predictive model that uses statistical distributions to fit historical data in order to predict the future values of that data; correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And, sir, based on your knowledge of the insurance industry, you'll agree that many insurance companies yet -- now use predictive modelling to determine the rate for a driver and vehicle together; agreed?

MR. LUKE JOHNSTON: I'll qualify that. Other jurisdictions wouldn't have the driver licensing function as -- as we do. They would rate very differently. Specifically, it would, in general, not everywhere, but in general, private insurers would want to know which customers are driving the vehicle, their age, gender, things like -- things like that and price the policy in total based on the individual who's driving the vehicle and what it is being used for.

DR. BYRON WILLIAMS: So what I -- what I think you told me is that in addition to data on the vehicle, private insurers, to your knowledge, may have information on other variables such as driver convict -- convictions, accident, age and in certain jurisdictions, gender, and can use that in the model to set the price?

MR. LUKE JOHNSTON: They may have some or all of that information or -- or more information that -- that MPI isn't permitted to use, like, -- like, credit score or other claims' information, things like that.

DR. BYRON WILLIAMS: And leaving aside issues like credit score, sir, let's leave that aside, and focusing on your knowledge of the industry generally.

They would often model the vehicle and driver together using insight from who's the primary driver and the secondary driver; would that be fair?

MR. LUKE JOHNSTON: That would be fair. Again, who is using the vehicle, how many vehicles that person has, how many people are using them, thing -- things like that, yes.

DR. BYRON WILLIAMS: And that's a way to dig deep into the aggregate risk posed by both the vehicle and the primary driver, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And it's fair to

say that Manitoba Public Insurance does not currently identify who the primary vehicle driver is?

MR. LUKE JOHNSTON: No, we don't -- do not. The registered owner is used for determination of the -- the discounted rate. The base -- there's a base rate and then the discounted rate; that -- that being, the amount up to 33 percent discount is a -- is determined based on the registered owner.

DR. BYRON WILLIAMS: So unlike the private examples that we spoke of which rate based upon risk related both to the vehicle and the primary driver, MPI does not rate risk according to who the vehicle driver is expected to be?

MR. LUKE JOHNSTON: In terms of the vehicle rates, we -- we do not. In terms of the driver safety rating scale, an aspect of that premium is tied to the driver, but the -- the vehicle rate or -- or some kind of total rates is not -- isn't -- isn't done that way.

DR. BYRON WILLIAMS: And looking at MPI data, it would be fair to say that the majority of vehicles are registered by drivers with higher driver safety rating levels, sir?

MR. LUKE JOHNSTON: That's true. There is a -- more vehicles registered than there are drivers at the top end of the DSR scale.

DR. BYRON WILLIAMS: And indeed, sir, as the DSR level declines from level Plus 15 to level Zero, the likelihood of a driver registering a vehicle falls significantly; agreed?

MR. LUKE JOHNSTON: Agreed. In the demerit levels, I believe, it's about half as many vehicles as drivers. I'd have to check that but -- but your statement is correct.

DR. BYRON WILLIAMS: Sir, and -- and I'm -- I'm -- just for summary purposes, the type of modelling we discussed from -- that some of private -- many private insurers use currently cannot be done by MPI, because they do not asked for the primary, secondary, or occasional operators of the vehicle and -- and therefore, can't connect that information to the vehicle they drive; agreed?

MR. LUKE JOHNSTON: Those limitations do prevent that from occurring. I can't recall but in -- as part of the DSR application, I mentioned this earlier, we did try to look at that using address data, but it's not something that we collect so I can't model it without the information.

DR. BYRON WILLIAMS: And, sir, just so I understand it, are you prohibited from collecting it, or you just currently do not collect it? And I'm not asking for a legal opinion just your practical knowledge, sir.

MR. LUKE JOHNSTON: I -- I -- I don't know if were prohibited. I wouldn't expect us to be prohibited to do that. I know we do not collect it. I think your question is: Could we say -- ask who was driving this vehicle, or could we record easier, you know, who's -- who is in the household. We -- we likely could, but we do not, but I won't -- I don't know the exact answer to the if -- if we can.

DR. BYRON WILLIAMS: Okay. Thank you for that. Sir, I don't want to get a lot into claims cost relativities for fear I would bewilder myself too much.

But when one looks at claims cost relativities, does MPI perform a multi-variate analysis or a one-way analysis done on the variables independently?

MR. LUKE JOHNSTON: Multi-var -- variate, it would depend on the class of vehicles. So motorcycles would be the most complicated. They have engine dis -- displacement and body style and rate groups and -- and a small population, but whatever variables are used for rating, with the exception of

DSR, is used in the multi-variate modelling.

DR. BYRON WILLIAMS: And that's with the exception of DSR?

MR. LUKE JOHNSTON: That is and just to -- maybe just to add to that, DSR is not done -- it's not can -- performed in that modelling, but when we look at a certain class, and we look at their average rate, their average rate will reflect the discounts that they currently receive.

So when we're calculating the required rate increase or decrease, it will be off the discounted rate. Just so it's clear that the DSR level is still being considered in -- in the premium and the rate changes. It's just not done in the -- in the claims relativity modelling.

DR. BYRON WILLIAMS: And just without hoping to belabour that point so much -- too much, so, the -- the three (3) variables that you would look at and -- in a multi-variate analysis would be the type of use, i.e., pleasure or all-purpose, as well as the -- the vehicle itself and its characteristics, as well as the region -- region, you know, commuter, et cetera.

Would that be fair?

MR. LUKE JOHNSTON: Yeah. Basically,

territory, rate group, insurance use with some special circumstances for things like motorcycles.

DR. BYRON WILLIAMS: Leaving aside rating and -- and turning just for a moment to the dynamic capital adequacy testing, sir, for the purposes of -- of -- of that testing, you do do stochastic modelling of their -- of -- of claims history by -- by coverage; agreed?

MR. LUKE JOHNSTON: Yes, we do.

DR. BYRON WILLIAMS: Diana, if you could pull up PUB, first round number 2, I believe it's Appendix 1, PDF 13. And it's minutes of the 442nd meeting June 1st, 2017. My goodness. And under rate changes.

Mr. Johnston, you've not attended all 442nd meetings I take it?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: You have?

MR. LUKE JOHNSTON: Sorry, I thought you asked if I attended this meeting, but --

DR. BYRON WILLIAMS: I'm just teasing.

MR. LUKE JOHNSTON: But, no, no, I haven't -- have not, but I would have liked to be at number 1, for sure.

DR. BYRON WILLIAMS: Sir, just looking

at your instructions flowing from the Board, instruction number 2 was to determine rates for individual risk classifications to be adjusted based on statistically determined experience indicators.

Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: Instruction number 4 was to change to driver premiums on the DSR rating scale equating to 17.5 million; agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: Noting the difference in terminology between those two, sir, would you describe the DSR scale changes as being based on statistically determined experience indicators?

MR. LUKE JOHNSTON: So again, per my I guess from last week, there's statistical information behind the -- the DSR selections, but we are not selecting the indicated value so to speak. Very similar to how the original DSR scale was determined. We had statistical information from our research, that research now been supplemented with -- with actual experience, and that information helps guide the -- the selection of the rates, but the rates, as I stated last week, are a policy dec -- decision.

DR. BYRON WILLIAMS: Thank you. Thank you for that. Just -- just one (1) second. I might approach My Learned Friend, just for a minute, Mr. Chair? Legal counsel.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Sorry, that was just a question about an outstanding undertaking that I'll -- I'll defer. I understand it will be filed later today. Thank you.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: I wonder if we can turn to CAC-21, Exhibit 21, which was filed today. Mr. Johnston, I think this is you.

Mr. Johnston, this information was shared with MPI last week. Does that ring a bell, sir?

MR. LUKE JOHNSTON: Yes, it does.

DR. BYRON WILLIAMS: And I -- I take it you've had a chance to review the -- the very simple calculations and don't take any particular issue with them, sir?

MR. LUKE JOHNSTON: I do not.

DR. BYRON WILLIAMS: And just to look at the document as a whole and stop -- starting at the -- at the start, at the top, the second column -- the first column is simply the driver safety rating scales running from plus 15 down to negative 20 Mr. Palm -- Mr. Johnston?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: The second column we've simply pulled from your data and is the assumed total claims cost per driver; agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And so for example, at DSR level 15, the estimated cost per driver was $514?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And if we go down to DSR level 13, we get to an estimated cost per driver of 2,621, sir?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And the third column, sir, is again drawn from MPI information and looks at the vehicle and driver licence premium proposed for the different DSR levels; agreed?

MR. LUKE JOHNSTON: Agreed. That's what we would expect to collect based on this application, and where the drivers are at that time.

DR. BYRON WILLIAMS: And just, sir, to walk through a couple of examples and -- and if we took the level DSR level 514 and subtracted it from the 1000 -- going across to the right, the 1,154, we would find a negative difference of 640, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And -- and if just again moving to -- to Level 3, for example, if we took the assumed cost for Level 3 of $1210 minus the 808 vehicle and driver licence premiums proposed that would yield $402; agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: So in the case of the driver at level 15, at least notionally, it's in red ink because it appears they're paying more than their estimated cost, correct?

MR. LUKE JOHNSTON: They -- they are. And just a -- how -- however, remember that we also said that these drivers are going to be the ones ensuring all the vehicles, so, they have -- they may be ensuring multiple cars as well, which wouldn't make their premium higher. So that's -- that's part of -- part of what's happening here.

As you can see if you go down to zero,

DSR level 0, they obviously don't have a vehicle discount but they don't ensure a lot of vehicles. So the average amount of premium we would collect per driver is pretty low at $500. So that's part of the reason for the -- the trend -- or the -- the numbers you see.

DR. BYRON WILLIAMS: And we'll -- we'll come back to that in -- in a second, sir. But generally, you'll agree with me that that -- the fourth column in, the difference between the cost and the total premium if -- if we see the red ink that -- there's a suggestion that there may be overpayment as compared to their estimated cost per driver and black it's -- it's headed the other direction; is that fair?

MR. LUKE JOHNSTON: That's true, and if -- if you don't mine I'll -- maybe just -- just give a little bit of history here.

When Ms. McLaren was -- was our CEO when we were doing this project, we can obviously use this type of information and attempt to optimize the -- the driver premium scale. When we did that, we got a base driver premium of about $300 and a vehicle discount at the top of the scale of negative 70 percent.

So, as you can imagine that transition

to such a -- an imagine scale was not seen as a good policy decision and a -- a tempered version of that scale was created with -- with caps, originally proposed at 30 percent discount. But -- but that was kind of the -- the foundation of that and it evolved into what we propose in the application. So this is done in a similar way.

DR. BYRON WILLIAMS: And thank you for that, Mr. Johnston, and -- and just going back to your answer of a couple before, you noted that as drivers are towards the top of the DSR scale they may tend to have more vehicles registered in their name. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: So notionally a driver with a DSR rating of positive 15 might be registering a vehicle for whom the primary driver is -- is a reckless child at -- at minus -- minus 10. Agreed?

MR. LUKE JOHNSTON: Well, yes, they're paying -- I don't know about the reckless driver part, but they're -- but they would be paying for other risks in the household. It's coming from, you know, their credit card but they are -- they're paying for -- for the risk in the -- in the house, maybe not in an optimal way, but -- but if they have more cars they have to pay insurance for each of them. So it would cover some other people in the house as well.

DR. BYRON WILLIAMS: And, Mr. Johnston, I wasn't meaning to slur your children. I was thinking of my own and so, hopefully, they're watching on the video broadcast.

So they're -- they're paying a -- by virtue, using the example that I did, they are paying some portion of the risk for someone else. But that risk is not fully represented because the -- the driver and the minus range is benefiting from the vehicle discount associated with the -- with the registered owner; agreed?

MR. LUKE JOHNSTON: I would agree that there's a portion covered but I won't pretend that it's an opt -- optimize through, anything like that.

DR. BYRON WILLIAMS: Sir, I -- I want to just chat about DSR level 15 just for a moment. You'll accept subject to check that the Corporation is forecasting there'll be in excess of 271,000 drivers at that level, sir?

MR. LUKE JOHNSTON: That number sounds about right, yes.

DR. BYRON WILLIAMS: And, Diana, if you can turn to -- from revenues -- I think that's volume 2, figure revenue 24, which is on page 21.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And sir, this figure tracks the proper -- probability of upward movement on the DSR scale by DSR level, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And what this suggests is that at the -- for this year for DSR level 15, it's estimated there is a 94.8 percent chance that the two hundred and seventy thousand (270,000) persons in that class would be moving upward on the DSR scale if there was anywhere upward to move, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And it would be fair to say that over the past five (5) years, there's been a very -- excuse me, over the past five (5) years, there's been a significant cohort of drivers moving from plus ten (10) to plus fifteen (15) on the DSR scale, sir?

MR. LUKE JOHNSTON: Yeah. There's -- one (1) of the -- the stabilization pieces that had to happen with DSR is when we did the placement, the initial placement on the scale, there is a -- a -- I can't remember the exact number, but a very large number of drivers put in DSR level 10. And five (5) years later, that very large chunk, a lot of them made it to -- to plus fifteen (15). So I think for the most part, the -- the big transition to fifteen (15) has -- has occurred, and then it -- it appears to be getting more stable in terms of the distribution now.

DR. BYRON WILLIAMS: And, sir, again, not meaning to ask a legal question, the choice of whether to have more DSR levels is not for MPI. That's my -- that's -- that's not your choice?

MR. LUKE JOHNSTON: That is my understanding, yes.

DR. BYRON WILLIAMS: It's the relative level of premium discount, though, or -- or what the Corporation can seek changes for, agreed?

MR. LUKE JOHNSTON: Again, that -- that's my understanding, yes.

DR. BYRON WILLIAMS: I wonder if we can turn to revenues page 36. Okay. That's just down one (1) more. Sorry, Diana, just right there is perfect.

What the Corporation is presenting here are the assumptions used to calculate finance, administration fee, and financing interest for the forecasting period, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And financing interest rates for quarterly and monthly payments are based upon the prime rate set by the Bank of Canada plus 2 percent?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And if we turn to the next page, being figure revenue 46, we see that in this application, the Corporation, for the '17/'18 year, is forecasting a prime -- sorry, is forecasting for 20 -- let me back up.

Line 1 of this figure suggests that for 2017/'18, the forecast average financing interest rate at prime plus 2 percent was 4.98 percent, Mr. Palmer -- Mr. Johnston?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: So that would be -- 2.98 percent was the forecast prime, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And then we see for next year, the forecast average finance interest rate is 6.74 percent, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: So taking away

the 2 percent, that would suggest a -- a four point seven-four (4.74) prime rate forecast?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And for '19/'20, a five point two-zero (5.20) prime rate forecast, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And what is the source of the prime rate forecast?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: My thinking is it comes from the other bank forecasts, but I'll have to check to confirm that.

DR. BYRON WILLIAMS: Sir, by, "the other bank forecasts," you mean the standard interest rate forecast?

MR. LUKE JOHNSTON: Yeah. Like, in terms of the other interest rate forecasts that we receive, I would expect that the prime rate would also be part of that poll, but I'm just not a hundred percent sure, so I'll check that.

If we need to call that an undertaking, that's fine, we can pro -- provide the source of the prime rate forecast used for figure 46 and the revenue book.

DR. BYRON WILLIAMS: Thank you. I appreciate that, provided your legal counsel agrees.

MR. STEVE SCARFONE: No, I'm just confirming. So that's an undertaking, then? Very well.

--- UNDERTAKING NO. 32: MPI to provide the source of the prime rate forecast used for figure 46 and the revenue book

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Johnston, you recall that MPI retained Professor Sean Cleary to testify on interest rate forecast issues last year, sir?

MR. LUKE JOHNSTON: Yes, I do.

DR. BYRON WILLIAMS: And sir, you'll agree that in terms of professor Cleary's recommendation for interest rates, he ultimately recommended 50/50? Do you recall that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And sir, from time to time, Manitoba Public Insurance collaborates with its brother and sister Crown corporations in terms of issues -- common issues that they face? That's fair?

MR. LUKE JOHNSTON: That's fair.

DR. BYRON WILLIAMS: And sir, are you in a position to comment on whether or not Saskatchewan Government Insurance, for its forecasts, uses the Conference Board of Canada forecasts, sir?

MR. LUKE JOHNSTON: My understanding is the

MR. STEVE SCARFONE: -- SGI uses Conference Board, and they've basically have the same consequences as us for using that forecast, being that it was assumed to -- to rise.

DR. BYRON WILLIAMS: And ICBC, sir, are you in a position to confirm whether or not they use a version of the standard interest rate forecast?

MR. LUKE JOHNSTON: I'm not as -- I can't recall what ICBC uses. Sorry.

DR. BYRON WILLIAMS: You're not suggesting that they use a static or naive forecast, though, sir?

MR. LUKE JOHNSTON: No, not suggesting that, just saying that I don't know.

DR. BYRON WILLIAMS: Thank you. MPI -- or CAC exhibit...

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, I wonder if I could get you to turn to CAC Exhibit 20.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Sir, your -- your very diligent team has had the chance to review this on two (2) separate occasions at least?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And the Corporation is prepared to accept that it accurately ref -- reflects your financial statements in terms of the net income loss ten (10) year history, sir, subject to the one (1) the -- the one (1) statement I made when I introduced it, which -- that there was a restatement for 2010/'11?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'm being told that we've confirmed that Basic and corporate are accurate. I mean, that's probably where you're going to go anyways, but if -- if not, let me know.

DR. BYRON WILLIAMS: Okay. Okay. Sir, and just generally looking at the fiscal year, it runs from '07/'08 up to 2016/'17, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And going across at the top from left to right, it tries to capture the net income or loss by line of business for Basic, Extension, SRE, DVA and corporate, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And over on the right-hand side, it tries to reflect a surplus of distributions as well as transfers in and out of the RSR, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And at the bottom, it -- it seeks to capture or calculate the Basic ten (10) year summary, agreed?

MR. LUKE JOHNSTON: Yeah. The only struggle I have here is with the -- with the 2010/'11 year, where Basic made $283 million. If -- if that's in the average, I -- I would -- I would call that a never -- never again occurrence. So we might want to adjust that one out, but otherwise, I understand the calculation being performed.

DR. BYRON WILLIAMS: And sir, it --

it's -- it's not just a calculation. It's a presentation of what was reported in the financial statements of the Corporation?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And sir, and your counsel will advise you if you're -- if you -- but if we -- we focus at the extension line of business, we'll see -- of the ten (10) years, eight (8) positive ones, and one (1) -- one (1) loss. Would that be fair?

(BRIEF PAUSE)

DR. BYRON WILLIAMS: That -- that -- it -- it speaks for it -- go ahead, Mr. Johnston.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: This question seems to be causing a lot of consternation. I'll -- I'll withdraw it. Mr. Johnston --

MR. LUKE JOHNSTON: Maybe -- maybe if I -- just to assist, extension does seek a profit, so I would --

DR. BYRON WILLIAMS: Oh, fair enough.

MR. LUKE JOHNSTON: -- expect the average income to be positive. Yes.

DR. BYRON WILLIAMS: Mr. Johnston, just -- if we looked at the '16/'17 year, would it be fair to say that there were significant adjustments related to the ultimates related to PIPP in that year, sir?

MR. LUKE JOHNSTON: That would -- that would be fair, yes.

DR. BYRON WILLIAMS: Okay. Mr. Chair and members of the panel, I think I predicted I'd be done somewhere between 3:30 and 4 o'clock, so we'll put one (1) up for me, and subject to undertakings, those are our questions.

THE CHAIRPERSON: Thank you. Any questions from the panel? You can -- sorry. You can -- you can ask questions on the undertakings -- they're -- they're presented. If you have questions now that don't relate to the undertakings, you can ask the questions now. Are you going to wait until later? Okay.

I have a few questions about Extension. Can you tell me, going back to 2007/2008, the years that MPI did not capture at least 95 percent of the Extension insurance?

MR. LUKE JOHNSTON: Just -- just to make sure I understand, so how -- at what point -- so -- so -- I'll start over.

MPI has had about 95 percent of Extension market, and I think your question is: At what point did -- was it lower than that, and --

THE CHAIRPERSON: Has it been lower in -- since 2008 to present, lower than 95 percent?

MR. LUKE JOHNSTON: I believe we would have that information the same way we've calculated it this year, so we'll look and see if we can find the equivalent report for that -- for -- for that -- what -- we'll start with '07/'08 and just see if we can find out when they are.

THE CHAIRPERSON: Certainly. Yeah. If you could -- if you could provide an undertaking to provide since 2008, the percentage of Extension insurance that you've captured each year from 2008 to date.

MR. LUKE JOHNSTON: We'll -- we'll do our best. If there's any problems, again, I will let you know, but yes.

--- UNDERTAKING NO. 33: MPI to provide the percentage of Extension

insurance captured each
year from 2008 to date

THE CHAIRPERSON: Certainly. I just want to confirm that if a -- if somebody wants to register a car and obtain insurance, that the information that is requested about the level of insurance and deductible is integrated between Basic and Extension going into the computer, so that when a person is asked the question, they're asked, How much insurance do you want, what sort of deductible you -- you want? Is that correct?

MR. LUKE JOHNSTON: The -- I can't speak how every broker promotes their products or -- but it typically would be, you know, What deductible level would you like, how much third-party liability would you like, other products, and I know I used to work at a -- a broker in my, you know, younger years, and we had products like premier, or anoth -- other things that -- that we would promote. But I -- I can't speak for the individual broker.

THE CHAIRPERSON: But if they're -- if they're going on the computer and putting the information in, they simply -- the -- there isn't one (1) screen for Basic and another screen for Extension, is there? It's -- it's integrated in one (1) screen?

MR. LUKE JOHNSTON: There -- there is one (1) screen. They can select the deductible level there, yes.

THE CHAIRPERSON: And is the -- is -- does the broker get a commission for placing Basic insurance?

MR. LUKE JOHNSTON: I can't remember the exact commission rate, but it's between 2 and 3 percent for -- for Basic.

THE CHAIRPERSON: And is there a separate commission for Extension insurance?

MR. LUKE JOHNSTON: There's a separate commission for Extension. Yes.

THE CHAIRPERSON: Then are the commissions the same, or are they different?

MR. LUKE JOHNSTON: They're different.

THE CHAIRPERSON: And the commission for Extension is higher or lower than Basic?

MR. LUKE JOHNSTON: The Basic commission being less than 3 percent is very, very low, so the Extension commission is higher. Yes.

THE CHAIRPERSON: Okay. Thank you. I just want to -- this question may have been asked before. I believe, Mr. Yien, you -- you mentioned that the definition of rate shock was 3 percent? Or that was the definition that you used is 3 percent?

MR. PETER YIEN: Yeah. That -- that definition, yes. I do recall me saying that. That's based on our quarterly surveys.

THE CHAIRPERSON: Okay.

MR. PETER YIEN: And we understand that 3 percent is -- for anything greater than 3 percent is considered not affordable.

THE CHAIRPERSON: Okay. So that was a survey of the public, or of -- of users of MPI?

MR. PETER YIEN: Let me clarify that.

(BRIEF PAUSE)

MR. PETER YIEN: We don't have that information handy, but if you need it, we can definitely undertake to get that for you.

THE CHAIRPERSON: Yeah. No, that's -- that's fine, Mr. Yien. One (1) final question. There was a discussion -- sorry. There was a point raised by the gentleman who gave a presentation on the issue of registration fees who was -- who was quite upset at being charged a registration fee by MPI with money that flowed through MPI to the Province of Manitoba.

I -- I guess the question I have is: Why is the Province receiving the money -- I'm trying to figure out what service the Province is providing for which you are paying them.

MR. STEVE SCARFONE: So just so I understand your question, Mr. Chairperson, you're wondering what benefit the MPI customers get from paying registration fees that are directed to the Province of Manitoba?

THE CHAIRPERSON: Cor -- what benefit -- I -- I guess that's part A. You seem to be doing the work --

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: -- and you're not getting the money.

MR. STEVE SCARFONE: Right. And so my understanding, no different than, I think, from what Mr. Triggs explained, is the Corporation agreed when the two (2) entities were merged, that is, driver and vehicle licensing and Manitoba Public Insurance were -- were merged, the Corporation agreed to collect those monies on behalf of the Province and simply redirect the funds, to the Province as part of the Province's mandate under the Driver and Vehicles Act.

So, MPIC, as I understand it, has now

assumed the responsibilities on behalf of the government under the Driver and Vehicles Act and simply collects, as you've indicated, for no benefit to the Corporation, the money on behalf of the government, and -- and passes that along.

THE CHAIRPERSON: Right. Okay.

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: Thank you. Those are my questions. Any redirect, Mr. Scarfone? Yeah.

RE-EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: I do have just a few redirect questions, Mr. Chairperson. Perhaps I'll start with -- with Mr. Johnston, just because he finished up last.

Sir, you'll recall last week during your testimony that the issue of the -- what I'll call the accelerated request for proposal and ALM was -- was put to you, and how it's now being brought forward in an -- in an accelerated fashion. Do you recall that?

MR. LUKE JOHNSTON: Yes.

MR. STEVE SCARFONE: And my question for you, sir, is had we not been working in -- under this accelerated plan, that is, had the Corporation put the RFP into action sooner, and then subsequent to that, the ALM, perhaps in January after the Board issued its order in December, would you have had the results of that study in time to set your rates for this year's GRA?

MR. LUKE JOHNSTON: Well, based on the -- the original expected time-wise to do that, I wouldn't expect to have those results. We would generally go to the Board in mid April to approve the -- the overall rate indication. So if we were talking about a six (6) month timeline, that would be well -- well into the summer.

MR. STEVE SCARFONE: Thank you. And for -- and for Mr. Yien, Mr. Yien, I believe it was on Friday at the end of your cross-examination by my friend Mr. Williams, you indicated that the Corporation would require from the PUB its upper and lower requested RSR targets, or it wouldn't proceed with the corporate bond strategy. Do you recall that?

MR. PETER YIEN: I do.

MR. STEVE SCARFONE: And sir, at least from my perception, this, to me, almost sounded -- it almost sounded like an ult -- ultimatum. Is that the message that you wanted to convey to the Board on this -- on this issue?

MR. PETER YIEN: Absolutely not. We have a high level of respect for the PUB. As I state -- said in my opening remarks, one (1) of the reasons why I'm here is to represent the voice of the Board, and the Board would like to move forward with continuous collaboration with the PUB.

I don't like the word 'ultimatum', because it's disrespectful, and certainly, that's -- that's not the way we want to go, and I hope that no one really perceives it that way.

MR. STEVE SCARFONE: So there are legitimate business reasons for not proceeding with the corporate bond strategy in the absence of the upper and lower RSR targets?

MR. PETER YIEN: Absolutely. Again, going back to my opening remarks, the Board would like to run MPI Insurance as a leading insurance company irrespectful of what has been done in the past, or how it was run.

And if I can use the analogy of a tricycle, there are three (3) key components to build that, a strong, sound insurance company. The first is the appropriate rate stabilization range that we can operate in. And I re-emphasize the word 'range', because any time when we have a target, it generates rate shock, because if we have a number that we are aspiring to, take any number, once we go above it, it's rebate; once we go below it, it's rebuilding fee. So we -- we guarantee a shock. And so having that right range is appropriate.

The second is in the investment income. There's been discussions already about the investment income itself is money set aside to pay for future claims. They specifically relate to our liability, with some level of an uncertainty, and we want to keep that money so that we can pay the claims as they become due and not offset that investment income for reducing rates. They relate to past policies and past claims.

And then the third is using the right proper interest rates, actuarial best estimates, using the AAP, the actuarially accepted principles. And those are the three (3) wheels, if you will, of a -- of a tricycle that the Board really believes in in terms of having those conditions to be there.

And I'd like to emphasize, the -- that information is shared with the PUB Board for one (1) reason only. It's for transparency. It would have been easy for the Board to say, Well, we'll make our decision in December, but that decision is predicated on what's needed to build and sustain a financially sound and safe insurance Corporation.

MR. STEVE SCARFONE: Okay, so -- and here's the tougher question, then. So those are your reasons. Those are the Corporation's reasons for perhaps not proceeding with its corporate bond strategy in the absence of the RSR targets that are requested before this Board.

Do those reasons, in your view, outweigh not proceeding with the corporate bond strategy, given that the Corporation has indicated it will result in a higher yield and lower premiums to its customers?

MR. PETER YIEN: So thanks for that question. The complete answer to that is, even if we have those three (3) conditions met, we are continuing with the asset liability matching study, and that study will tell us, as I stated earlier, how much money we need to keep aside, and when we need the cash available.

If you think of a claim -- claimant, when they make a claim -- Mr. Johnston earlier had talked about some of these things -- unpredictable. We don't know about relapses. We don't know what they need, what prosthetics they need, etc. So we're making estimates, and which we can say, Well, in this given year, we're paying this much money, and this month, we're paying this much money.

That cash flow out needs to be matched with the investment income we generate. In the ideal world, it would be -- we have a bond that comes due. We have the cash. We take that money and pay out a claimant.

And that's what I mean by asset liability matching, and that's ongoing, and we need to make sure that we're doing that appropriately before we proceed. So what I'm, essentially, saying in summary is we need those three (3) conditions plus also the asset liability matching study to know what bonds to buy, and what equity to buy, and not put the organization at risk.

MR. STEVE SCARFONE: And lastly, sir, then, again, in the absence of -- of the those upper and lower RSR targets, assuming the corporate bond strategy doesn't proceed, what then becomes of the 2.7 percent rate indication? Because we know from the application that MPIC has had its rate indication lowered by .8 percent due to what I call the corporate bond effect. In the absence of that, where does that -- does that not lead the Corporation with insufficient funds to pay its forecasted claims?

MR. PETER YIEN: Let me answer that question in two (2) parts. You're asking a theoretical question about, would we buy the bonds, yes or no? That's theoretical. The asset liability management study may tell us to buy 'X', and we don't know what that is, some percentage of bonds. So it is -- it's not all or nothing, to start with that.

The second is we've committed to the rate indication of 2.7 percent. And I think the likelihood of us -- us not buying any bonds is fairly low. The Board has committed to moving forward with this, subject to an ALM study, asset liability matching study and the three (3) conditions. We are optimistic that we would get the three (3) conditions.

We are optimistic that the ALM study will proceed as planned. We've done some level of due diligence and comparing ourselves with the other insurance companies that are already there in terms of the percentages that we are aspiring to, namely the 18 percent of our tot -- total portfolio held in corporate bonds. So it's not a stretch to think that that will materialize.

But in the event that we don't buy 18 percent -- let's say theoretically, we buy 15 percent.

Well, that 3 percent reduction in bonds would translates into some other stretch target that we as a Corporation would have to find to achieve the 2.7 percent rate indication.

MR. STEVE SCARFONE: Thank you. And those are my questions on redirect, Mr. Chair.

(MPI PANEL 1 STANDS DOWN)

THE CHAIRPERSON: I guess as a final question, Ms. McCandless, do you to want to go over the revised schedule so that everybody is on the same page?

MS. KATHLEEN MCCANDLESS: Yes. Thank you, Mr. Chair. And thank you, counsel for MPI and cancel for CAC for your cooperation today in -- in rescheduling the next few days.

So just to inform the panel, there were a couple of issues that arose that caused a need to reshuffle the schedule over the next few days. The first was an issue with the availability of one (1) of the CAC witnesses, and the other counsel for MPI are still awaiting a number of answers to undertakings from MPI.

So as a result, we have moved things

around, and one (1) result is that we will not be sitting either today -- or tomorrow, so neither Wednesday, October 11th, nor Thursday, October 12th. We will resume on Friday, October 13th with cross on answers to undertakings, and then proceeding with the examination of the witness, the Assistant Deputy Minister Garry Steski.

And then on Monday, October 16th, the CAC witnesses will both appear, so Dr. Wayne Simpson and Andrea Sherry. Those witnesses will proceed in the afternoon. The precise start time, I believe, will be determined after counsel consult a little bit more about estimated time for cross examinations and things of that nature.

Then to provide the parties with an opportunity to prepare their closing submissions, we will not sit on October 17th. So we'll not sit on Tuesday of next week. We will resume on October 18th with closing of Board counsel and MPI, and then October 19th for closing submissions of Intervenors. And there may be some reply from MPI on October 20th, but that remains to be determined.

THE CHAIRPERSON: Okay. I get -- sorry. There are two (2) things I would ask of MPI. Number 1, if we could have the undertakings provided by the end of tomorrow so that we have some time to review them prior to Friday. I don't want to come in and have them presented on Friday and not -- no opportunity to prepare.

The second thing is, I realize that we're going to move the closing submission to the 18th, and the Intervenors' submissions on the 19th. Quite frankly, if possible, I -- I'd just indicate, reply is only for new issues arising from the submissions of the Intervenors that cannot be anticipated. It's not to go over the case all over again. So, quite frankly, the review reply as being limited, and I would appreciate it if possible, if we could do reply after the submissions of the Intervenors.

If -- if MPI requires a break to prepare, we can do that. What I don't want is I don't want to see us convene on the 20th for a reply that is very short, because quite frankly, we have a member of the panel who's driving three (3) hours a day, which makes no sense if we're having a reply that's -- that's quite short. So if we can do it that way, I would appreciate it. Any questions? If not, we'll see you 9:00 AM Friday morning.

DR. BYRON WILLIAMS: Mr. Chair --

THE CHAIRPERSON: Thank you. Sorry --

DR. BYRON WILLIAMS: -- if I might --

THE CHAIRPERSON: Mr. Williams...?

DR. BYRON WILLIAMS: -- first -- first of all, just -- I do appreciate the accommodation of the Board, it's -- and -- and the diligent efforts of Board counsel, and the consideration of MPI in accommodating an uncontrollable event. And just for clarity, Ms. Sherry -- Sherry still is, even next week, is not available till -- till 5:00, so.

THE CHAIRPERSON: Yeah. We -- we, quite frankly, realized that. We're -- we're thinking of going sort -- you know, we had speculated three o'clock or so with Dr. Simpson, and then when Ms. Sherry's available -- when she's is available, but we -- we understand it won't be till 5:00, and we hope that it, you know, may be a few hours maximum.

DR. BYRON WILLIAMS: Okay. Thank you very much.

THE CHAIRPERSON: So -- yeah, thank you. Okay, 9 o'clock Friday. Thank you.

--- Upon adjourning at 3:58 p.m.

Certified Correct,

____

Cheryl Lavigne, Ms.