

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 13, 2017

Pages 1350 to 1548



“When You Talk - We Listen!”



APPEARANCES

1
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1 --- Upon commencing at 9:09 a.m.

2

3 THE CHAIRPERSON: Before we start
4 with the witness, Ms. McCandless, can you take us
5 through today, what the day looks like.

6 MS. KATHLEEN MCCANDLESS: Sure. Yes,
7 this morning we have with us Garry Steski who is the
8 Assistant Deputy Minister of the Department of Finance
9 for the pro -- province of Manitoba. So we'll be
10 hearing from him this morning.

11 Following that, the MPI panel will
12 return for questions arising from answers to
13 undertakings, and that will be it for the day. I -- I
14 don't know if that's going to take us right until the
15 end of the day, or if we may finish some time after
16 lunch, but I expect we will need the lunch break.

17 THE CHAIRPERSON: Okay, thank you.
18 Would you like to swear in the --

19 MR. DARREN CHRISTLE: No, we're going
20 to do the exhibits first.

21 THE CHAIRPERSON: Oh, are we doing
22 the exhibits -- okay.

23 MR. STEVE SCARFONE: Yes, since we saw
24 you last, Mr. Chair, MPIC had circulated a number of -
25 - of answers to undertakings and answers to pre-asks.

1 So Exhibit -- MPI Exhibit Number 20 was
2 a response to Undertaking Number 7. We would like to
3 mark that and, of course, we're going to mark all of
4 these exhibits so I'll just name them all off.

5 MPI Exhibit 21 is answer to Undertaking
6 Number 17.

7 MPI Exhibit 22 is answer to Undertaking
8 Number 16.

9 MPI Exhibit 23 is answer to Undertaking
10 Number 18.

11 MPI Exhibit 24 is answer to Undertaking
12 Number 21.

13 MPI Exhibit 25 is answer to Undertaking
14 Number 14.

15 MPI Exhibit 26, answer to Undertaking
16 Number 6.

17 MPI Exhibit 27 is answer to Undertaking
18 Number 15.

19 MPI Exhibit 28 is answer to Undertaking
20 Number 25.

21 MPI Exhibit 29 is answer to Undertaking
22 Number 5.

23 MPI Exhibit 30 is answer to Undertaking
24 Number 22.

25 MPI Exhibit 31 is answer to Undertaking

1 Number 20.

2 MPI Exhibit Number 32, answer to

3 Undertaking Number 13.

4 MPI Exhibit Number 33 is answer to

5 Undertaking Number 11.

6 MPI Exhibit Number 34 is answer to

7 Undertaking Number 19.

8 MPI Exhibit Number 35 is answer to

9 Undertaking Number 3.

10 MPI Exhibit Number 36 is answer to

11 Undertaking Number 27.

12 MPI Exhibit Number 37 is answer to

13 Undertaking Number 28.

14 MPI Exhibit Number 38 was an answer to

15 CAC PreAsk Number 1.

16 MPI Exhibit Number 39 is an answer to

17 the PUB PreAsk Number 2.

18 MPI Exhibit Number 40 is an answer to

19 PUB PreAsk Number 5.

20 MPI Exhibit Number 41 is an answer to

21 Undertaking Number 4.

22 MPI Exhibit Number 42 is answer to

23 Undertaking Number 9.

24 And I have ten (10) more. MPI Exhibit

25 Number 43, answer to Undertaking Number 12.

1 MPI Exhibit Number 44 is an answer to
2 PUB PreAsk Number 3.

3 MPI Exhibit Number 45 is answer to
4 Undertaking Number 33.

5 MPI Exhibit Number 46, answer to
6 Undertaking Number 31.

7 MPI Exhibit Number 47, is an answer to
8 Undertaking Number 30.

9 MPI Exhibit Number 48 is answer to
10 Undertaking Number 32.

11 MPI Exhibit Number 49 is answer to
12 Undertaking Number 8.

13 MPI Exhibit Number 50 is answer to
14 Undertaking Number 10.

15 MPI Exhibit Number 51 is answer to
16 Undertaking Number 29.

17 And MPI Exhibit Number 52 is answer to
18 Undertaking Number 26.

19 And I might add that also circulated as
20 part of the Exhibit Number 44, which was the PUB
21 PreAsk Number 3 were the unredacted versions of that
22 document to Ms. McCandless and Mr. Williams, as part
23 of their confidential undertaking.

24 So that would constitute all of the
25 undertakings and pre-asks.

1 --- EXHIBIT NO. MPI-20: Response to Undertaking
2 Number 7.
3
4 --- EXHIBIT NO. MPI-21: Answer to Undertaking
5 Number 17.
6
7 --- EXHIBIT NO. MPI-22: Answer to Undertaking
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10 --- EXHIBIT NO. MPI-23: Answer to Undertaking
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22 --- EXHIBIT NO. MPI-27: Answer to Undertaking
23 Number 15.
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25 --- EXHIBIT NO. MPI-28: Answer to Undertaking

1 Number 25.
2
3 --- EXHIBIT NO. MPI-29: Answer to Undertaking
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6 --- EXHIBIT NO. MPI-30: Answer to Undertaking
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9 --- EXHIBIT NO. MPI-31: Answer to Undertaking
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12 --- EXHIBIT NO. MPI-32: Answer to Undertaking
13 Number 13.
14
15 --- EXHIBIT NO. MPI-33: Answer to Undertaking
16 Number 11.
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18 --- EXHIBIT NO. MPI-34: Answer to Undertaking
19 Number 19.
20
21 --- EXHIBIT NO. MPI-35: Answer to Undertaking
22 Number 3.
23
24 --- EXHIBIT NO. MPI-36: Answer to Undertaking
25 Number 27.

1 --- EXHIBIT NO. MPI-37: Answer to Undertaking
2 Number 28.
3
4 --- EXHIBIT NO. MPI-38: Answer to CAC PreAsk
5 Number 1.
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7 --- EXHIBIT NO. MPI-39: Answer to the PUB PreAsk
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10 --- EXHIBIT NO. MPI-40: Answer to PUB PreAsk
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25 --- EXHIBIT NO. MPI-45: Answer to Undertaking

1 Number 33.

2

3 --- EXHIBIT NO. MPI-46: Answer to Undertaking
4 Number 31.

5

6 --- EXHIBIT NO. MPI-47: Answer to Undertaking
7 Number 30.

8

9 --- EXHIBIT NO. MPI-48: Answer to Undertaking
10 Number 32.

11

12 --- EXHIBIT NO. MPI-49: Answer to Undertaking
13 Number 8.

14

15 --- EXHIBIT NO. MPI-50: Answer to Undertaking
16 Number 10.

17

18 --- EXHIBIT NO. MPI-51: Answer to Undertaking
19 Number 29.

20

21 --- EXHIBIT NO. MPI-52: Answer to Undertaking
22 Number 26.

23

24 THE CHAIRPERSON: So all of the
25 undertakings have been answered? There are no

1 outstanding undertakings?

2 MR. STEVE SCARFONE: There are no
3 under -- outstanding undertakings and we would note,
4 though, with apologies that the last ten (10) of them
5 didn't arrive to counsel until yesterday at about 3:00
6 p.m.

7 THE CHAIRPERSON: Okay. I guess --
8 the panel hasn't read any of these. I assume we're
9 going to go through them after Mr. Steski we have the
10 MPI witnesses available on questions relating to the
11 undertakings.

12 I guess I'd ask Ms. McCandless and Mr.
13 Williams if they've had enough time to review the
14 material to conduct the -- the cross-examination on
15 the undertakings today? Ms. McCandless...?

16 MS. KATHLEEN MCCANDLESS: Yes, we're
17 prepared to go ahead today. We don't have questions,
18 obviously, on each of the answers but we do have a
19 substantial number of questions for the panel.

20 THE CHAIRPERSON: Mr. Williams...?

21 DR. BYRON WILLIAMS: We've reviewed
22 all of the undertakings and we're prepared to go ahead
23 today.

24 THE CHAIRPERSON: Great.

25 DR. BYRON WILLIAMS: We'll be focused

1 in on just a few of them.

2 THE CHAIRPERSON: Sure. Okay, I
3 appreciate that. Thank you, Mr. Scarfone.

4 Is there anything else that we need to
5 deal with before we have the witness sworn in? If
6 not, Mr. Christle, if you could swear in the witness.

7

8 WITNESS PANEL:

9 GARRY STESKI, Sworn

10

11 EXAMINATION-IN-CHIEF BY MS. MCCANDLESS:

12 MS. KATHLEEN MCCANDLESS: Thank you,
13 Mr. Steski, good morning.

14 MR. GARRY STESKI: Good morning.

15 MS. KATHLEEN MCCANDLESS: Can you
16 please state your full title for the Board.

17 MR. GARRY STESKI: I'm the Assistant
18 Deputy Minister of Finance for the province of
19 Manitoba managing the treasury division.

20 MS. KATHLEEN MCCANDLESS: Thank you.
21 And just to confirm, you are testifying today before
22 the Board pursuant to a subpoena that was issued on
23 you on behalf of the Board?

24 MR. GARRY STESKI: Yes.

25 MS. KATHLEEN MCCANDLESS: Thank you

1 and I thank you for your cooperation in that regard.

2 Mr. Steski, how long have you held the
3 position of Assistant Deputy Minister?

4 MR. GARRY STESKI: For just over three
5 (3) years.

6 MS. KATHLEEN MCCANDLESS: And was that
7 two (2) years --

8 MR. GARRY STESKI: One (1) year of
9 acting and then two (2) years permanent.

10 MS. KATHLEEN MCCANDLESS: Thank you.
11 Now, could you just provide an summary of your
12 educational background for the panel.

13 MR. GARRY STESKI: Yeah, I graduated
14 from Grant Park High School. I went to Red River
15 College, got a Business Administration degree; early
16 '80s got my CMA desig -- I guess it was an RIA at that
17 time and turned into a CMA and is now a CPA
18 designation. And then in the mid-90s I obtained my
19 CFA Charter.

20 MS. KATHLEEN MCCANDLESS: Thank you.
21 Now pr -- prior to being the Assistant Deputy
22 Minister, what positions have you held?

23 MR. GARRY STESKI: Prior to that I was
24 the director of capital markets for the Department of
25 Finance, Treasury Division. Before that I worked for

1 eleven (11) years at the City of Winnipeg as a manager
2 of Financial Services which, essentially, is the
3 treasury of the City of Winnipeg. Prior to that I
4 worked at Farm Credit Corporation in Regina for five
5 (5) years and prior to that, I was at the Province of
6 Manitoba Treasury Division for about eight (8) years.

7 MS. KATHLEEN MCCANDLESS: Thank you.
8 You mentioned you were the provincial director of
9 Capital Markets?

10 MR. GARRY STESKI: Correct.

11 MS. KATHLEEN MCCANDLESS: For how long
12 did you hold that position?

13 MR. GARRY STESKI: Five (5) years.

14 MS. KATHLEEN MCCANDLESS: Thank you.
15 Now, as Assistant Deputy Minister, what are your
16 responsibilities generally?

17 MR. GARRY STESKI: We manage the debt
18 and investments, derivatives, and mostly the cash of
19 the province. And we also support the Crown
20 corporations and agencies in that regard.

21 MS. KATHLEEN MCCANDLESS: And when you
22 say "we," are you referring to the Treasury Division
23 of the Department of Finance?

24 MR. GARRY STESKI: Yes, the whole
25 Treasury Division, yes.

1 MS. KATHLEEN MCCANDLESS: And then
2 your role, in particular, as Assistant Deputy
3 Minister, what does that involve?

4 MR. GARRY STESKI: Provide direction
5 and support to the staff in fulfilling their duties.

6 MS. KATHLEEN MCCANDLESS: To whom do
7 you report?

8 MR. GARRY STESKI: I report to the
9 Deputy Minister of Finance.

10 MS. KATHLEEN MCCANDLESS: And how many
11 staff are there in your department, being Treasury
12 Division.

13 MR. GARRY STESKI: Treasury Division,
14 there are twenty-five (25) people.

15 MS. KATHLEEN MCCANDLESS: In your role
16 as Assistant Deputy Minister, what committees do you
17 sit on that would relate to Manitoba Public
18 Insurance's investments?

19 MR. GARRY STESKI: I sit on the
20 investment committee working group.

21 MS. KATHLEEN MCCANDLESS: And do you
22 attend any other meetings that would involve MPI's
23 investments?

24 MR. GARRY STESKI: I -- I do attend
25 the investment committee meetings, yes.

1 MS. KATHLEEN MCCANDLESS: And when you
2 say "investment committee," as -- is that the
3 investment committee of the --

4 MR. GARRY STESKI: Of -- of MPI, yeah.

5 MS. KATHLEEN MCCANDLESS: Of the
6 Manitoba Public Insurance Board of Directors?

7 MR. GARRY STESKI: Yes.

8 MS. KATHLEEN MCCANDLESS: Diana, can
9 you please pull up Appendix 5 of the investment
10 section of the filing, please. And this is a document
11 titled Investment Committee Terms of Reference.

12 Are you familiar with this document?

13 MR. GARRY STESKI: Yes, I am.

14 MS. KATHLEEN MCCANDLESS: And, Diana,
15 if you could go to page 2. At section 6.1. There's a
16 portion here in front of you called Role of the
17 Working Group and "working group," what would you
18 understand that to be?

19 MR. GARRY STESKI: That's a
20 combination of member of -- of staff from the
21 Department of Finance, including myself and my three
22 (3) directors and senior people from Manitoba Public
23 Insurance.

24 MS. KATHLEEN MCCANDLESS: So that --
25 is that the Investment Committee Working Group that

1 you referred to?

2 MR. GARRY STESKI: Oh, yes, correct.

3 MS. KATHLEEN MCCANDLESS: Thank you.

4 So we see at 6.1 that the documents says:

5 "The working group will be comprised
6 of up to three (3) persons appointed
7 by the Department of Finance and the
8 following MPI representatives."

9 And if we scroll to the next page
10 there are four (4) bullets there. So the vice-
11 president of Finance and Chief Financial Officer.

12 Yes?

13 MR. GARRY STESKI: Yes.

14 MS. KATHLEEN MCCANDLESS: Executive
15 Director of Finance and corporate controller?

16 MR. GARRY STESKI: Yes.

17 MS. KATHLEEN MCCANDLESS: Manager
18 investments?

19 MR. GARRY STESKI: Yes.

20 MS. KATHLEEN MCCANDLESS: Manager of
21 risk control and financial forecasting?

22 MR. GARRY STESKI: I -- yeah, I
23 believe that's the title of that person, yes.

24 MS. KATHLEEN MCCANDLESS: And then the
25 vice-president of Finance and CFO, and the Assistant

1 Deputy Minister at the Treasury Division of Finance
2 will co-chair the working group?

3 MR. GARRY STESKI: Yes.

4 MS. KATHLEEN MCCANDLESS: So is that
5 your -- an accurate reflection of the composition of
6 the working group --

7 MR. GARRY STESKI: Yes.

8 MS. KATHLEEN MCCANDLESS: -- in your
9 experience.

10 MR. GARRY STESKI: Yes.

11 MS. KATHLEEN MCCANDLESS: And is that
12 the sum total of the individuals who would attend an
13 investment committee working group meeting?

14 MR. GARRY STESKI: No, there are other
15 individuals that attend from time to time, depending
16 on if -- if the Corporation wants other people
17 attending, they're -- they're allowed to attend.

18 MS. KATHLEEN MCCANDLESS: And it says
19 here that the Assistant Deputy Minister of the
20 Treasury Division of Finance will co-chair.

21 So I take that to mean that you are a
22 co-chair?

23 MR. GARRY STESKI: That's correct.

24 MS. KATHLEEN MCCANDLESS: Now, if we
25 go to -- up to 5.1 on page 2 here. This section of

1 the investment committee terms of reference relates to
2 the role of the department and you would understand
3 that to be the Department of Finance?

4 MR. GARRY STESKI: Yes.

5 MS. KATHLEEN MCCANDLESS: And at 5.1
6 it states:

7 "The role of the department has been
8 determined by the Act and the
9 Minister as follows: 5.1.1: manage
10 the investment of the fund and
11 implement investment direction and
12 decisions consistent with approved
13 investment policies and strategies.
14 5.1.2: through participation on the
15 working group develop proposed
16 investment policies and strategies
17 and the parameters for the fund for
18 recommendation to the board and
19 approval by the Minister; and
20 5.1.3.3: Appoint up to three (3)
21 persons as representatives to the
22 working group."

23 And is that an accurate reflection of
24 your experience of the role of the department?

25 MR. GARRY STESKI: Yes, it is.

1 MS. KATHLEEN MCCANDLESS: Now, who is
2 ultimately responsible for the investments of MPI?

3 MR. GARRY STESKI: The Corporation is
4 ultimately responsible.

5 MS. KATHLEEN MCCANDLESS: And what is
6 the role of the Minister of Finance in respect of
7 those investments?

8 MR. GARRY STESKI: We have -- I would
9 characterize it as two (2) main roles; one (1) is to -
10 - we have a -- a fair amount of experience working in
11 the markets over the years and, so, we provide that
12 type of input into the working group.

13 And the other role would be to -- to
14 monitor the fund and to report to the Minister if
15 there were anything that we were concerned about was
16 being done with the fund.

17 MS. KATHLEEN MCCANDLESS: Thank you.
18 Now, how long have you sat on the investment committee
19 working group?

20 MR. GARRY STESKI: Eight (8) years.

21 MS. KATHLEEN MCCANDLESS: And I take
22 it then that would have then not only in your capacity
23 as ass -- as Assistant Deputy Minister but in your
24 prior role as Provincial Director of Capital Markets?

25 MR. GARRY STESKI: Yeah, ever since I

1 -- I came back to the province I've been on the group.

2 MS. KATHLEEN MCCANDLESS: How often
3 does the investment committee working group meet?

4 MR. GARRY STESKI: Four (4) times a
5 year.

6 MS. KATHLEEN MCCANDLESS: Does the
7 Minister himself have any involvement on the
8 investment committee working group?

9 MR. GARRY STESKI: No, he doesn't.

10 MS. KATHLEEN MCCANDLESS: Okay. And
11 so your role -- would you be -- how would you describe
12 your role on the working group vis-a-vis the Minister?

13 MR. GARRY STESKI: I guess to be kind
14 of a watchdog for him and report to him on anything
15 that may be of concern to him.

16 MS. KATHLEEN MCCANDLESS: Thank you.
17 Now, if we go just up on the page here, this is role
18 of the committee and this would be the investment
19 committee --

20 MR. GARRY STESKI: Yes.

21 MS. KATHLEEN MCCANDLESS: -- of
22 Manitoba Public Insurance Board of Directors?

23 MR. GARRY STESKI: Yes.

24 MS. KATHLEEN MCCANDLESS: And we see
25 there at 4.1 there is a list of items that are the --

1 relates to the purpose of the committee.

2 "And so the purpose shall be to
3 assist the Board of the Corporation
4 in 4.1.1 recommending investment
5 policies and strategies to the Board
6 for subsequent consideration by the
7 Minister of Finance.

8 4.1.2: reviewing matters relating
9 to investment activities of the
10 fund,
11 4.1.3: providing oversight and
12 monitoring performance of the fund.
13 4.1.4: monitor the implementation
14 of investment decisions consistent
15 with policies and strategies
16 approved by the Board and the
17 Minister through directions to the
18 joint working group. The working
19 group established between the
20 Department of Finance, the
21 Department and the Corporation; and
22 4.1.5: provide suggestions for
23 consideration by the working group."

24 So from your perspective, as a
25 representative of the Department on the working group,

1 is this your understanding of the role of the MPI
2 investment committee?

3 MR. GARRY STESKI: Yes, it is.

4 MS. KATHLEEN MCCANDLESS: Now you
5 mentioned earlier that you attend meetings of the
6 investment committee?

7 MR. GARRY STESKI: Yes.

8 MS. KATHLEEN MCCANDLESS: The Board of
9 Directors of MPI. What's the reason that you attend
10 those meetings?

11 MR. GARRY STESKI: To provide
12 information -- well, I guess I provide answers to any
13 questions the investment committee may have of me at
14 the -- at those meetings.

15 MS. KATHLEEN MCCANDLESS: Would you
16 have any voting ability on that committee?

17 MR. GARRY STESKI: No, I do not.

18 MS. KATHLEEN MCCANDLESS: Going ahead
19 to section 6.2, we did look at the composition of the
20 investment committee working group. At 6.2 here the
21 role of the working group is set out, and so for the
22 record at:

23 "6.2.1: act as liaison between the
24 Department and investment committee
25 6.2.2: develop strategies for

1 investment exposure for
2 consideration by the investment
3 committee and the Department.

4 6.2.3: support the Assistant Deputy
5 Minister in reviewing, screening and
6 selecting investment managers.

7 6.2.4: monitor performance of
8 investment managers

9 6.2.5: prepare draft investment
10 policies and annual strategies and
11 draft parameters for the fund for
12 review by the investment committee
13 and the Department.

14 6.2.6: implement investment
15 policies and direction; and

16 6.2.7: provide regular reports to
17 the investment committee and the
18 Department as they shall require."

19 And so is this an accurate reflection
20 of your experience as a member of the investment
21 committee working group as to what the working group
22 does?

23 MR. GARRY STESKI: Yes, it is.

24 MS. KATHLEEN MCCANDLESS: Now, perhaps
25 you could walk the -- the Board through set of what

1 the typical process would be at a meeting of the
2 investment committee working group.

3 MR. GARRY STESKI: We get an agenda
4 and material probably a week or so prior to a meeting,
5 and there's a lot of regular reports that we look at
6 in terms of the return on the fund, rebalancing
7 issues, all those types of things.

8 And then there's -- sometimes an
9 investment manager that will come and present to the -
10 - to the working group. And then any other issues
11 that -- that the investment committee may have
12 directed the working group to work on.

13 MS. KATHLEEN MCCANDLESS: Who
14 typically brings forward recommendations to the
15 investment committee working group?

16 MR. GARRY STESKI: It would be either
17 the investment committee or the Corporation itself.

18 MS. KATHLEEN MCCANDLESS: So the
19 investment committee of the MPI Board of Directors?

20 MR. GARRY STESKI: Yes.

21 MS. KATHLEEN MCCANDLESS: And then
22 when you say "the Corporation itself," can you just
23 clarify what you would mean by that?

24 MR. GARRY STESKI: Yeah, if the --
25 there's an investment department, they quite often

1 will bring forward ideas that -- that they may want us
2 to consider and -- and then we would agree or not
3 agree to that, yes.

4 MS. KATHLEEN MCCANDLESS: And would
5 you describe the investment committee working group as
6 a decision-making body or more of a forum for
7 discussion?

8 MR. GARRY STESKI: Yeah, it's more of
9 a forum for discussion and -- and providing
10 recommendations to the investment committee.

11 MS. KATHLEEN MCCANDLESS: And when
12 issues are brought forward to the investment committee
13 working group for discussion, typically who has done
14 the work or research on those issues to bring them
15 forward?

16 MR. GARRY STESKI: The Corporation.

17 MS. KATHLEEN MCCANDLESS: Would
18 representatives from the Department of Finance
19 typically bring forward recommendations to the
20 investment committee working group?

21 MR. GARRY STESKI: No, we would not.

22 MS. KATHLEEN MCCANDLESS: Once a
23 recommendation is brought forward to the investment
24 committee working group, I think you've touched on it
25 a little bit before, but what -- what would be the

1 process from there?

2 MR. GARRY STESKI: Usually the
3 investment department of the Corporation would --
4 would do the research and -- and put up -- report
5 together -- table it on the working group and -- and
6 bring it forward for discussion.

7 MS. KATHLEEN MCCANDLESS: And then
8 ultimately if that -- if the working group agrees on a
9 recommendation that's then made to...?

10 MR. GARRY STESKI: The investment
11 committee of the Corporation.

12 MS. KATHLEEN MCCANDLESS: Now, Diana,
13 could we please go to Appendix 1 of the investment
14 section of the filing. And this is the investment
15 policy statement for MPI's fund.

16 Are you familiar with this document?

17 MR. GARRY STESKI: Yes, I am.

18 MS. KATHLEEN MCCANDLESS: And if we go
19 to page 3 of this document, the second paragraph on
20 page 3, it's written here that:

21 "It is a statutory requirement that
22 the Corporation pursuant to the
23 requirements of the -- of the Act
24 paid to the Minister of Finance on
25 monies and any reserves established

1 under Section 18 of the Act and such
2 additional monies as are not
3 immediately required for the
4 purposes of the Corporation as are
5 available for investment. The
6 monies paid will be invested in
7 accordance with the Financial
8 Administration Act. The Minister
9 has charged the Department of
10 Finance with the operational
11 management of the fund."

12 And does this accord with your
13 knowledge of the process that's employed?

14 MR. GARRY STESKI: Yes.

15 MS. KATHLEEN MCCANDLESS: And if we go
16 down to -- more towards the bottom of the page we see
17 -- just above statement of investment beliefs there,
18 there's a note that the investment committee working
19 group prepares an annual work plan for the investment
20 fund and annually reviews the investment policy
21 statement. Yes?

22 MR. GARRY STESKI: Yes.

23 MS. KATHLEEN MCCANDLESS: And is that
24 an accurate description of the process that's
25 typically -- that's employed by the working group?

1 MR. GARRY STESKI: Yeah, that's part
2 of the work they do, yes.

3 MS. KATHLEEN MCCANDLESS: And then
4 going on it -- it says,

5 "the Corporation also reviews the
6 duties of the Board, the investment
7 committee and the joint working
8 group, and -- which is comprised of
9 representatives of the Department
10 and the Corporation"
11 discussed earlier.]

12 So, the -- the working group then, it
13 looks at the investment policy statement once a year,
14 according to this?

15 MR. GARRY STESKI: Yes.

16 MS. KATHLEEN MCCANDLESS: And who
17 would have input into the investment policy statement?

18 MR. GARRY STESKI: Well, any -- anyone
19 on the working group. But, generally, it would be the
20 Corporation that would bring forward any changes to
21 the investment policy statement.

22 MS. KATHLEEN MCCANDLESS: And if we go
23 to page 7 of this same document, the investment policy
24 statement, under agreements with other authorities we
25 see here:

1 "The Department is charged by the
2 Minister with the operational
3 management of the fund. Duties
4 include establishing legal contracts
5 with investment counsel providing
6 the Corporation with short-term cash
7 and treasury management services;
8 managing the fixed income portfolio
9 and providing input into the
10 investment committee working group."

11 And again, is that an accurate
12 description of the Department's role?

13 MR. GARRY STESKI: Yes, it is.

14 MS. KATHLEEN MCCANDLESS: Now when it
15 occurs to making changes to the MPI investment fund or
16 changes to the investment policy statement, are there
17 any changes that require the approval of the Minister
18 of Finance?

19 MR. GARRY STESKI: Yes, if there was a
20 category that was outside of what is permitted in the
21 Financial Administration Act, the Minister of Finance
22 would have to approve that.

23 MS. KATHLEEN MCCANDLESS: And when you
24 say "category," can you just explain what you mean?

25 MR. GARRY STESKI: In the Financial

1 Administration Act there is about eight (8) or nine
2 (9) different permitted investments and the -- and if
3 it's not one (1) of those, then it would require -- I
4 think what -- the last part of that legislation is
5 that anything that the Lieutenant Gover -- Governor in
6 Council may approved and so, an -- an Order in Council
7 could be done.

8 MS. KATHLEEN MCCANDLESS: Okay. So if
9 there are changes to the investment policy statement
10 or the fund, that do not -- that fall within the
11 provisions of the Financial Administration Act, is
12 ministerial approval required for those changes?

13 MR. GARRY STESKI: No, they're not.

14 MS. KATHLEEN MCCANDLESS: And you
15 mentioned that there are types of investments that are
16 permitted by the Financial Administration Act.

17 Are corporate bonds per -- permitted by
18 the Act?

19 MR. GARRY STESKI: Yeah, to -- I -- I
20 can't remember off the top of my head the wording, but
21 investment grade level or something -- somewhere along
22 that line, yes.

23 MS. KATHLEEN MCCANDLESS: So a certain
24 class of investments --

25 MR. GARRY STESKI: Yes.

1 MS. KATHLEEN MCCANDLESS: -- in
2 corporate bonds --

3 MR. GARRY STESKI: Yes.

4 MS. KATHLEEN MCCANDLESS: -- is
5 permitted?

6 MR. GARRY STESKI: Yes.

7 MS. KATHLEEN MCCANDLESS: Are
8 international equities permitted by the Act?

9 MR. GARRY STESKI: No.

10 MS. KATHLEEN MCCANDLESS: Are
11 government bonds permitted under the Act?

12 MR. GARRY STESKI: Yes, they are.

13 MS. KATHLEEN MCCANDLESS: Investment
14 in real estate, would they be generally permitted
15 under the Act?

16 MR. GARRY STESKI: No, they're not.

17 MS. KATHLEEN MCCANDLESS: And the Act
18 from the Department's perspective, would the Act
19 specify what level or proportion of a given class of
20 permitted funds that MPI be permitted to invest in.

21 So is there a -- a limit as to the mix?

22 MR. GARRY STESKI: Yeah. Well --
23 well, within corporate bonds, again, it's a -- I -- I
24 can't recall off the top of my head but a high rated
25 or by rating agency and we have interpreted that to be

1 a minus or higher.

2 MS. KATHLEEN MCCANDLESS: And so for
3 those -- if MPI wanted to make a change to its
4 investment portfolio that involved adding a class of
5 investments not permitted by the Act, what would be
6 the process for obtaining approval?

7 MR. GARRY STESKI: We would advise the
8 Minister of Finance of the change. If he agreed, we
9 would proceed with putting together an Order in
10 Council and submitting that to go forward.

11 MS. KATHLEEN MCCANDLESS: So it's done
12 by way of Order in Council?

13 MR. GARRY STESKI: Correct.

14 MS. KATHLEEN MCCANDLESS: And just --
15 you -- to clarify, we did discuss this just a minute
16 ago but, for example, if MPI wanted to make a change
17 to the fund that involved a change in the allocation
18 or the mix of investments but any of those investments
19 were already permitted under the Act, would MPI need
20 to go to the Minister for approval?

21 MR. GARRY STESKI: No.

22 MS. KATHLEEN MCCANDLESS: And would
23 that be the case even if the change required a change
24 to the investment policy statement itself?

25 MR. GARRY STESKI: Yeah, if -- if they

1 wanted to change an allocation in the investment
2 policy statement, that wouldn't be -- the Minister
3 wouldn't need to approve that.

4 MS. KATHLEEN MCCANDLESS: Thank you.
5 Now, with respect to changes that don't require the
6 approval of the Minister, is there still input or
7 involvement from the Minister of -- or the Department
8 on -- in those changes?

9 MR. GARRY STESKI: Generally, I would
10 say no. If there was something unusual, you know,
11 maybe going from 20 percent of an allocation class to
12 50 percent or something, I would probably advise the
13 Minister of that.

14 MS. KATHLEEN MCCANDLESS: Okay, so --
15 and you gave the example, is that because of the --
16 the materiality of the change?

17 MR. GARRY STESKI: Yes, it would be a
18 significant change to the investment policy.

19 MS. KATHLEEN MCCANDLESS: And would
20 the Minister have influence on those types of changes
21 ultimately?

22 MR. GARRY STESKI: Yes, the Minister
23 could -- could say no.

24 MS. KATHLEEN MCCANDLESS: Now, do you
25 recall any instances during your time on the

1 investment committee working group where MPI has
2 needed the approval of the Minister for a change in
3 the allocation of its investments?

4 MR. GARRY STESKI: Yes.

5 MS. KATHLEEN MCCANDLESS: And when was
6 that?

7 MR. GARRY STESKI: We had a real
8 estate -- I -- I can't remember the timeline now, and
9 infrastructure investments several years ago and --
10 and those were both required to have an Order in
11 Council.

12 MS. KATHLEEN MCCANDLESS: And that
13 would have been sometime during your tenure --

14 MR. GARRY STESKI: Yes.

15 MS. KATHLEEN MCCANDLESS: -- your
16 tenure on the investment committee working group?

17 MR. GARRY STESKI: Yes.

18 MS. KATHLEEN MCCANDLESS: Okay. And
19 so you said they required an Order in Council?

20 MR. GARRY STESKI: Yes.

21 MS. KATHLEEN MCCANDLESS: Okay and
22 that was obtained?

23 MR. GARRY STESKI: Yes.

24 MS. KATHLEEN MCCANDLESS: Do you have
25 any personal recollection of any instances where a

1 change that re -- required the approval of the
2 Minister had not been granted by the Minister?

3 MR. GARRY STESKI: Well, I -- I wasn't
4 working in the division at the time, but -- but
5 shortly before I came there, a request was made to add
6 international investments pretty much right after the
7 time of the financial crisis and that was denied.

8 MS. KATHLEEN MCCANDLESS: And if
9 you're able to answer this, please do. Based on what
10 you know as the Minister's delegate today and in your
11 capacity as a co-chair of the investment committee
12 working group, if there were a change requested to add
13 international equities at this time, would there be
14 concerns from the Department's perspective?

15 MR. GARRY STESKI: No, there wouldn't.

16 MS. KATHLEEN MCCANDLESS: When it
17 comes to investment management, who actually invests
18 the funds for MPI?

19 MR. GARRY STESKI: We -- the
20 Department of Finance.

21 MS. KATHLEEN MCCANDLESS: Who has
22 responsibility for management of the bond portfolio?

23 MR. GARRY STESKI: We in Treasury
24 Division.

25 MS. KATHLEEN MCCANDLESS: And

1 responsibility for the day-to-day management of the
2 equity portfolio would rest with?

3 MR. GARRY STESKI: We have investment
4 managers that do that.

5 MS. KATHLEEN MCCANDLESS: Who has
6 responsibility for hiring the investment managers?

7 MR. GARRY STESKI: Ultimately the
8 Minister of Finance, but it would be -- I guess an
9 effort with the investment committee working group
10 that would, ultimately, recommend who it was and --
11 and we would be the one (1) who actually signed the
12 contract was the investment manager.

13 MS. KATHLEEN MCCANDLESS: And when you
14 say "we," you mean the Department of Finance?

15 MR. GARRY STESKI: Department of
16 Finance, yes.

17 MS. KATHLEEN MCCANDLESS: How is the
18 performance of the investment managers monitored?

19 MR. GARRY STESKI: It's reported at
20 the investment committee working group on a regular
21 basis, which would go up to the investment committee
22 as well.

23 MS. KATHLEEN MCCANDLESS: Does the
24 investment committee working group look at asset
25 liability management for the fund, the MPI fund?

1 MR. GARRY STESKI: Sorry, the
2 investment committee working group? We've not
3 participated in that process, the Department of
4 Finance. We've been advised that an asset liability
5 study is going to be done, but we -- we were not part
6 of what's in that document and that type of thing.

7 MS. KATHLEEN MCCANDLESS: Does the
8 working group look at asset liability matching,
9 generally?

10 MR. GARRY STESKI: Yes.

11 MS. KATHLEEN MCCANDLESS: Diana, can
12 we please pull up Appendix 3 from the investment
13 section of the filing. And this is one (1) of the
14 investment committee working group policies, policy
15 number 2, re-balancing policy.

16 Are you familiar with this document?

17 MR. GARRY STESKI: Yes, I am.

18 MS. KATHLEEN MCCANDLESS: And just --
19 the very first paragraph there, under the title says,

20 "The investment committee working
21 group has the responsibility to re-
22 balance the portfolio according to
23 the asset class weights outlined in
24 the investment policy statement."

25 Yes?

1 MR. GARRY STESKI: Yes.

2 MS. KATHLEEN MCCANDLESS: And so is
3 that accurate, based on your experience with the
4 working group?

5 MR. GARRY STESKI: Yes, it is.

6 MS. KATHLEEN MCCANDLESS: How often
7 practically does re-balancing of the fund occur?

8 MR. GARRY STESKI: Well, it's reported
9 monthly, depending on movements in the markets it
10 could be every month; it could be several months
11 before we do anything, but it's monitored on a regular
12 basis and -- and we would re-balance, if necessary.

13 MS. KATHLEEN MCCANDLESS: And when you
14 say "we," you're referring to --

15 MR. GARRY STESKI: So -- so the
16 investment department of the Corporation would do all
17 the work related to this, they would contact us and
18 say, we're overweight or underweight here and we need
19 to move money around and then we, as the investment
20 manager, would make -- make that happen.

21 MS. KATHLEEN MCCANDLESS: You would
22 implement the re-balancing.

23 MR. GARRY STESKI: We would implement
24 it, there you go. Thank you.

25 MS. KATHLEEN MCCANDLESS: So you said

1 the investment department of the Corporation would --

2 MR. GARRY STESKI: Yes.

3 MS. KATHLEEN MCCANDLESS: Okay so --
4 so the request for re-balancing, typically, where
5 would that come from?

6 MR. GARRY STESKI: They -- they would
7 monitor it and provide it to us.

8 MS. KATHLEEN MCCANDLESS: And when you
9 say "they," you are referring to --

10 MR. GARRY STESKI: Well, the -- the
11 investment department and they would provide it to the
12 Department of Finance.

13 MS. KATHLEEN MCCANDLESS: So is re-
14 balancing ever done at the instance of the Department
15 of Finance?

16 MR. GARRY STESKI: No.

17 MS. KATHLEEN MCCANDLESS: So I take
18 that to mean that it's always at the instance of the
19 investment department of MPI contacting the Department
20 of Finance and making the request?

21 MR. GARRY STESKI: Yes, it is.

22 MS. KATHLEEN MCCANDLESS: Would the
23 Department of Finance assess the risk associated with
24 the requested re-balance before implementing that re-
25 balancing?

1 MR. GARRY STESKI: Yeah. Yes, again,
2 for instance, if one (1) of the asset categories was 1
3 or 2 percent over or under weight and we were asked to
4 do something that would significantly change that, we
5 would -- we would definitely look at it instead of
6 just doing it, yes.

7 MS. KATHLEEN MCCANDLESS: And so that
8 would be sort of the -- it may not be day-to-day but
9 you said on a -- on a monthly basis that re-balancing
10 --

11 MR. GARRY STESKI: Yeah, it's -- it's
12 more of a monthly basis, yep.

13 MS. KATHLEEN MCCANDLESS: When it
14 comes to monitoring risk or performance of the
15 investment fund, the MPI investment fund, in which
16 format or forum is that assessment done?

17 MR. GARRY STESKI: It's done by the
18 investment department of the Corporation.

19 MS. KATHLEEN MCCANDLESS: Now are
20 there circumstances where the Department of Finance
21 might do, say, its own due diligence in assessing the
22 risk of a request made by MPI for a change to its
23 portfolio?

24 MR. GARRY STESKI: Generally, we would
25 rely on the research and information provided by the

1 investment department of the Corporation. However, we
2 would also look at it in the context of the investment
3 -- some of the other investment committees we sit on
4 and -- and what they are doing with their funds and --
5 and look at relative to like funds, which would be the
6 Saskatchewan Insurance Corporation and the BC
7 Insurance Corporation.

8 MS. KATHLEEN MCCANDLESS: So we
9 discussed tho -- those changes that would require an
10 Order in Council being changes that would fall outside
11 the permitted class of -- classes of investments under
12 the Financial Administration Act; yes?

13 MR. GARRY STESKI: Yes.

14 MS. KATHLEEN MCCANDLESS: When that
15 type of a requested change is made, does Finance do
16 its own due diligence? Would that be the type of
17 circumstance where it does its own due diligence?

18 MR. GARRY STESKI: No. Again, we
19 would rely on the investment department's work on
20 that.

21 MS. KATHLEEN MCCANDLESS: So, in
22 summary, when it comes to making decisions about
23 changes to MPI's investment portfolio, who's the
24 driver of the bus?

25 MR. GARRY STESKI: The Corporation.

1 MS. KATHLEEN MCCANDLESS: And how
2 would you describe the role of the Department of
3 Finance and administer vis-a-vis the Corporation in
4 that regard?

5 MR. GARRY STESKI: Yeah. So again,
6 we're -- we're there to offer our experience and
7 advice on issues, number 1, and number 2, to -- to
8 monitor the fund on behalf of the Minister.

9 MS. KATHLEEN MCCANDLESS: Thank you.
10 You mentioned earlier an asset liability management
11 study.

12 MR. GARRY STESKI: Yes.

13 MS. KATHLEEN MCCANDLESS: And so I
14 take it you're aware that the Corporation is
15 proceeding with --

16 MR. GARRY STESKI: I'm aware they are
17 proceeding with one, yes.

18 MS. KATHLEEN MCCANDLESS: Did the
19 investment committee working group have a hand in the
20 development of the scope of that study?

21 MR. GARRY STESKI: No, they did not.

22 MS. KATHLEEN MCCANDLESS: And did you
23 personally review the request for proposal that was
24 issued?

25 MR. GARRY STESKI: I did not.

1 MS. KATHLEEN MCCANDLESS: Would you
2 expect that the outcome of the asset liability manage
3 -- management study would be discussed at the
4 investment committee working group?

5 MR. GARRY STESKI: Yes, especially if
6 it required changes to the investment policy
7 statement.

8 MS. KATHLEEN MCCANDLESS: Are you
9 aware that the Corporation is looking at a change to
10 its allocation to corporate bonds?

11 MR. GARRY STESKI: Yes, I am aware of
12 that.

13 MS. KATHLEEN MCCANDLESS: And are you
14 aware of what the change is, specifically?

15 MR. GARRY STESKI: Yes, they want to
16 increase the allocation to believe 18 percent.

17 MS. KATHLEEN MCCANDLESS: Are there
18 any other notable features of this change?

19 MR. GARRY STESKI: Yes, they want to
20 add triple B rated bonds as an allocation.

21 MS. KATHLEEN MCCANDLESS: What is the
22 current status of the request to increase the
23 allocation to 18 percent?

24 MR. GARRY STESKI: The Minister of
25 Finance has been made aware of it and I don't know

1 anything further on that at this point.

2 MS. KATHLEEN MCCANDLESS: Okay. So
3 the Minister of Finance has involvement in this
4 decision?

5 MR. GARRY STESKI: Yes.

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

8 MR. GARRY STESKI: Because it's a
9 category outside of the Financial Administration Act.

10 MS. KATHLEEN MCCANDLESS: And
11 corporate bonds are permitted, so, the issue would be
12 with...?

13 MR. GARRY STESKI: Triple B rated
14 bonds.

15 MS. KATHLEEN MCCANDLESS: And do you
16 have any sense of when a decision might be made?

17 MR. GARRY STESKI: I do not.

18 MS. KATHLEEN MCCANDLESS: Are you able
19 to comment on the views of the Department of Finance
20 with respect to this requested change?

21 MR. GARRY STESKI: Well, I guess,
22 generally adding corporate bonds at that level is
23 going to add an element of risk to the portfolio.
24 However, in the context of the -- the information that
25 was provided by the investment department outlining

1 what similar portfolios do with regard to this, it's -
2 - it's not out of line. So, we would be supportive.

3 MS. KATHLEEN MCCANDLESS: And when you
4 mentioned risk, is that risk with the level of
5 corporate bonds or, specifically, with the rating of
6 the bonds or a combination of -- of the two (2)?

7 MR. GARRY STESKI: Yeah, more the --
8 the rating as opposed to the level, yeah.

9 MS. KATHLEEN MCCANDLESS: Are you able
10 to speak to the views of the Minister in this regard?

11 MR. GARRY STESKI: No, I'm not.

12 MS. KATHLEEN MCCANDLESS: Those are my
13 questions, thank you, Mr. Steski.

14 MR. GARRY STESKI: Thank you.

15 THE CHAIRPERSON: Thank you. Mr.
16 Scarfone...?

17 MR. STEVE SCARFONE: Yes, thank you,
18 Mr. Chair.

19

20 CROSS-EXAMINATION BY MR. STEVE SCARFONE:

21 MR. STEVE SCARFONE: Good morning,
22 Mr. Steski.

23 MR. GARRY STESKI: Good morning.

24 MR. STEVE SCARFONE: Sir, we heard
25 just now that in addition to the duties that you

1 perform directly for the province, you also oversee
2 the borrowing and investments for the Manitoba Crown
3 corporations; is that correct?

4 MR. GARRY STESKI: That's correct.

5 MR. STEVE SCARFONE: And so that would
6 include, I expect, Hydro, MPIC, lottery and liquor?

7 MR. GARRY STESKI: Yes.

8 MR. STEVE SCARFONE: Those are the
9 four (4)?

10 MR. GARRY STESKI: There is -- there's
11 probably seventy (70) Crown corporations and agencies
12 we deal with on a regular basis.

13 MR. STEVE SCARFONE: Those are the
14 big four (4)?

15 MR. GARRY STESKI: Those are the big
16 four (4), yes.

17 MR. STEVE SCARFONE: Okay, thank you.
18 And as a member of the investment committee working
19 group, sir, I understand that you work closely with
20 the vice-president of finance for Manitoba Public
21 Insurance?

22 MR. GARRY STESKI: Yes, I do.

23 MR. STEVE SCARFONE: Mr. Peter Yien?

24 MR. GARRY STESKI: That's correct.

25 MR. STEVE SCARFONE: And he, sir, is

1 also a co-chair of the working group; is that correct?

2 MR. GARRY STESKI: That's correct.

3 MR. STEVE SCARFONE: And, sir, I
4 heard you say that some of the ideas, if you will,
5 come from the Corporation, more specifically, the
6 investment department.

7 Does that in any way preclude the
8 working group from coming up with its own ideas
9 independently?

10 MR. GARRY STESKI: No, it doesn't.

11 MR. STEVE SCARFONE: And so if, in
12 fact, the working group was to come up with an idea,
13 an investment strategy if you will, independently, as
14 I understand it, if that strategy was something that
15 they wanted to ultimately adopt for the Corporation,
16 it would be forwarded to the investment committee for
17 consideration?

18 MR. GARRY STESKI: Yes.

19 MR. STEVE SCARFONE: Just one (1)
20 question. I noted from the Will Say statement that
21 your -- Board counsel provided, you've indicated that
22 you've been in your role as Assistant Deputy Minister
23 for three (3) years?

24 MR. GARRY STESKI: Three (3) years in
25 total, yes.

1 MR. STEVE SCARFONE: But have sat on
2 the investment committee working group for MPIC for
3 eight (8) years. Is that correct?

4 MR. GARRY STESKI: That's correct.

5 MR. STEVE SCARFONE: So does that
6 include time as -- in the Treas -- was that all time
7 with the Treasury Division?

8 MR. GARRY STESKI: That's right, yes.

9 MR. STEVE SCARFONE: Okay. With the
10 cap -- Capital Markets Branch?

11 MR. GARRY STESKI: Yes, in my previous
12 role to being the Assistant Deputy Minister, I was the
13 director of the Capital Markets Branch of -- of the
14 division.

15 MR. STEVE SCARFONE: I see. Okay.
16 And I think I heard you say that part of the role --
17 part of your role, at least, on the investment
18 committee working group is to -- to be a watchdog of
19 sorts; is that accurate?

20 MR. GARRY STESKI: Yes, to monitor
21 what's going on with the fund and report any concerns
22 to the Minister.

23 MR. STEVE SCARFONE: And also, sir,
24 you've taken part in meetings of the investment
25 committee. The three (3) members of which are part of

1 the Board of Directors for Manitoba Public Insurance,
2 correct?

3 MR. GARRY STESKI: That's correct.

4 MR. STEVE SCARFONE: And is it fair to
5 say, sir, that you don't take an active role in that,
6 but more so as an observer?

7 MR. GARRY STESKI: More of an observer
8 and -- and answer questions they may have of me, yes.

9 MR. STEVE SCARFONE: And have you been
10 doing that, sir, longer than the three (3) years that
11 you been in your current position?

12 MR. GARRY STESKI: Yes, I used to go
13 to the investment committee with the former Assistant
14 Deputy Minister on a regular basis, yes.

15 MR. STEVE SCARFONE: With the former
16 Board of Directors of MPIC?

17 MR. GARRY STESKI: Yes.

18 MR. STEVE SCARFONE: But certainly
19 then, sir, you've come to know, and are familiar with,
20 the members of the current investment committee of the
21 Manitoba Public Insurance Board of Directors?

22 MR. GARRY STESKI: Yes, I have known
23 two (2) of them for quite a while, yes.

24 MR. STEVE SCARFONE: Right. And
25 you're -- so you're familiar with the chair Mr. Bubis?

1 MR. GARRY STESKI: Yes, I am.

2 MR. STEVE SCARFONE: And Mr. Grestoni?

3 MR. GARRY STESKI: Yes.

4 MR. STEVE SCARFONE: And Ms. Wowryk?

5 MR. GARRY STESKI: Wowryk, yes.

6 MR. STEVE SCARFONE: And of those
7 three (3), sir, which of the two (2) are you familiar
8 with prior to your dealings with the investment
9 committee?

10 MR. GARRY STESKI: Ms. Wowryk I've
11 known for many years through my sitting on the local
12 society of the CFA Charter holders here in Winnipeg
13 and then Mr. Grestoni from his work when he was at
14 Investors Group.

15 MR. STEVE SCARFONE: Yes, in fact,
16 Mr. Grestoni spent his entire career, close to forty
17 (40) years with IG; is that correct?

18 MR. GARRY STESKI: I -- I -- I don't
19 know the number but...

20 MR. STEVE SCARFONE: And Ms. Wowryk,
21 she was with Richardson --

22 MR. GARRY STESKI: I --

23 MR. STEVE SCARFONE: Were you aware of
24 that?

25 MR. GARRY STESKI: Yeah, Val's had a

1 couple of different -- I'm -- I'm not sure where she
2 is right now.

3 MR. STEVE SCARFONE: Okay. Okay. Now
4 what about Mr. Bubis, are you aware of his background
5 or -- and experience in the investment industry?

6 MR. GARRY STESKI: Just a little bit
7 from -- from the different I guess investment firms
8 he's been involved with, yes.

9 MR. STEVE SCARFONE: Including Asante?

10 MR. GARRY STESKI: Yes.

11 MR. STEVE SCARFONE: Yes. So is it
12 fair to say, sir, that your familiarity with these
13 three (3) people is -- have become -- has become more
14 -- has increased since they've become board members,
15 and form part of the investment committee panel?

16 MR. GARRY STESKI: Yes, that's fair.

17 MR. STEVE SCARFONE: And I expect,
18 sir, as an observer of the committee you've had many
19 opportunities to see their decision-making ability
20 over the past few years?

21 MR. GARRY STESKI: Yes.

22 MR. STEVE SCARFONE: And when I say
23 over the past three (3) years that would include the
24 Board of Directors that was in place or the investment
25 committee that was in place prior to May 2016, but

1 certainly you've been able to see the decision-making
2 of the new investment committee as well.

3 Is that correct?

4 MR. GARRY STESKI: That's correct.

5 MR. STEVE SCARFONE: And would you
6 agree with me, sir, that those three (3) members that
7 we spoke of of the investment committee are very
8 qualified individuals in their area of expertise?

9 MR. GARRY STESKI: Very highly
10 competent, yes.

11 MR. STEVE SCARFONE: I'm going to skip
12 my next question because it was to ask you to confirm
13 that they're competent. So we have that.

14 In your time, sir, as Assistant Deputy
15 Minister and particularly since May 2016, can you
16 recall anything being discussed, adopted or
17 implemented that would give you cause for concern
18 personally?

19 MR. GARRY STESKI: No.

20 MR. STEVE SCARFONE: And in your
21 watchdog role, on the working group, any concerns in
22 that regard?

23 MR. GARRY STESKI: No.

24 MR. STEVE SCARFONE: Never had an
25 opportunity to take a bite out of an investment

1 strategy as a watchdog?

2 MR. GARRY STESKI: I'm sorry, take?

3 MR. STEVE SCARFONE: Take a bite as
4 watchdog -- I'm just going with the watchdog analogy.
5 Have you had any concerns that something that was
6 discussed at the working group wasn't properly before
7 or should be brought to the investment committee?

8 MR. GARRY STESKI: No.

9 MR. STEVE SCARFONE: And I expect,
10 sir, when advising the Deputy Minister, perhaps even
11 the Minister, on the strategies that emanate from the
12 investment committee, you endorse the proposed
13 strategies and perhaps even deferred to the
14 committee's expertise in that regard?

15 MR. GARRY STESKI: Yes.

16 MR. STEVE SCARFONE: And, sir -- and
17 if you don't mind, in your opinion, how does the MPIC
18 investment committee compare to its counterparts on
19 the other Crown corporations?

20 MR. GARRY STESKI: Well, there --
21 there aren't any other investment committees that we
22 work with.

23 MR. STEVE SCARFONE: So there's no
24 recommendations that come from the other Crown corps.
25 to the Minister on -- on investment strategies that

1 those corps --

2 MR. GARRY STESKI: I'm sorry, there's
3 the Red River College endowment fund.

4 MR. STEVE SCARFONE: Okay.

5 MR. GARRY STESKI: But that's the only
6 other one --

7 MR. STEVE SCARFONE: That's the only
8 other one?

9 MR. GARRY STESKI: Yes.

10 MR. STEVE SCARFONE: And so, sir,
11 based on your earlier comments about the
12 qualifications and -- and the competency of the
13 investment committee members, is it fair to say, sir,
14 that you would have complete confidence in the
15 investment committee's ability to properly and
16 prudently manage and make decisions concerning MPIC's
17 investment strategy?

18 MR. GARRY STESKI: Absolutely.

19 MR. STEVE SCARFONE: So a short way of
20 saying that, sir, is, in your view, the ratemakers --
21 or the ratepayers, sorry, of the Corporation are in
22 good hands with the investment committee?

23 MR. GARRY STESKI: Yes.

24 MR. STEVE SCARFONE: Sir, you did say
25 to Board counsel that in your view at least as it

1 concerns the investment strategy for MPIC that the
2 Corporation is driving the bus; is that correct?

3 MR. GARRY STESKI: That's correct.

4 MR. STEVE SCARFONE: And you'd also
5 agree with me, sir, though, that the Government of
6 Manitoba owns that bus, don't they?

7 MR. GARRY STESKI: They do.

8 MR. STEVE SCARFONE: And when you
9 said, sir, that the Corporation has ultimate authority
10 over its investment strategy, that's not entirely
11 accurate because, as we've heard, the Minister can
12 reject any proposal if it's outside of the mandate of
13 the Financial Administration's Act; correct?

14 MR. GARRY STESKI: Not necessarily
15 outside the mandate of the Financial Administration
16 Act because we have done Order In Councils in the past
17 to -- to allow for investments outside of the mandate.
18 But I think it's -- it's more if there was something
19 that the investment committee and, ultimately, the
20 Corporation wanted to do with the fund that would be
21 uncomfortable for the Minister, then, yes, you're
22 right, the Minister could refuse to do that.

23 MR. STEVE SCARFONE: And I think we've
24 heard some -- or at least one (1) example of that
25 where your recollection was that there was some

1 equities that were being proposed in and around the
2 time of the market crash and the Minister, ultimately,
3 said no; is that right?

4 MR. GARRY STESKI: That's correct,
5 yes.

6 MR. STEVE SCARFONE: And, similarly,
7 as I understand it, if the Corporation was to propose
8 as part of its corporate bond strategy that was
9 discussed earlier, the purchase of anything less than
10 A- or higher than the Minister could also say no to
11 that particular strategy as well. Is that correct?

12 MR. GARRY STESKI: Yes, he could say
13 no, yes.

14 MR. STEVE SCARFONE: Yes. And that
15 particular strategy would take an Order In Council as
16 well; is that correct?

17 MR. GARRY STESKI: That's correct.

18 MR. STEVE SCARFONE: And sir, in
19 looking at the mandate that Board counsel put before
20 you, there's a provision that she reviewed with you
21 that has all investment property is deemed to be owned
22 by the Crown.

23 Are you aware of that?

24 MR. GARRY STESKI: No, I'm not aware
25 of that. I -- I thought -- I believe all the

1 investments are in the name of the Minister of
2 Finance.

3 MR. STEVE SCARFONE: Yes.

4 MR. GARRY STESKI: Yes.

5 MR. STEVE SCARFONE: Which would be
6 the Crown; is that correct?

7 MR. GARRY STESKI: Yes.

8 MR. STEVE SCARFONE: Yes. So the
9 government, sir, under the authority of that -- that
10 statute owns the investment --

11 MR. GARRY STESKI: Yes.

12 MR. STEVE SCARFONE: -- would you
13 agree with that?

14 MR. GARRY STESKI: Yes, I would agree
15 with that.

16 MR. STEVE SCARFONE: In fact, the
17 government could step in and if MPIC had excess money
18 in the bank, they could come in and insist that that
19 money be transferred to the government; is that your
20 understanding?

21 MR. GARRY STESKI: I'm not aware of
22 that.

23 MR. STEVE SCARFONE: Sir, you
24 indicated that investments in real estate is -- is an
25 area of investment that would require an Order In

1 Council, is that -- is that what you said?

2 MR. GARRY STESKI: Yes.

3 MR. STEVE SCARFONE: And also I expect
4 it would -- it would require the Minister's approval?

5 MR. GARRY STESKI: Yeah, by virtue of
6 the fact that he would go forward with an Order In
7 Council in his name --

8 MR. STEVE SCARFONE: Yes.

9 MR. GARRY STESKI: -- that would his
10 approval.

11 MR. STEVE SCARFONE: Yes, that's his
12 tacit approval.

13 MR. GARRY STESKI: Yes.

14 MR. STEVE SCARFONE: And so I expect,
15 sir, that when the Corporation -- I don't know if
16 you're aware of this but when the Corporation
17 purchased City Place, the building that they now
18 operate in and have for some time, that particular
19 investment, if you will, required an Order In Council?

20 MR. GARRY STESKI: Yes, it did.

21 MR. STEVE SCARFONE: And similarly
22 with the now proposed bond strategy, an Order In
23 Council would be required if the bonds that were
24 required -- were being proposed for purchase were less
25 than A-?

1 MR. GARRY STESKI: Yes.

2 MR. STEVE SCARFONE: So is that the
3 extent of -- of the approval mechanism that you're
4 aware of, sir, that any proposed changes to the
5 investment strategy or -- material changes that
6 significantly alter the allocation, so long as they're
7 within the mandate of the Financial Administration's
8 Act, those investment strategies can proceed?

9 MR. GARRY STESKI: Yes.

10 MR. STEVE SCARFONE: Without
11 ministerial approval?

12 MR. GARRY STESKI: Yes.

13 MR. STEVE SCARFONE: And, sir, is it
14 fair to say that the Minister at times with the Deputy
15 Minister will seek your input in regard to any
16 particular strategy proposed by MPIC, given your
17 relationship with the investment committee and your
18 role in the -- in the working group?

19 MR. GARRY STESKI: I think practically
20 it's worked the other way around. If I have something
21 of concern as a member of the investment committee
22 working group, I would bring it to the Minister's
23 attention as opposed to the Minister asking me
24 something about it, yes.

25 MR. STEVE SCARFONE: Yeah -- no -- and

1 so that -- sorry, I probably didn't phrase that as
2 well as I could have. If, given your familiarity with
3 the Investment Committee sitting as an observer at
4 some of the meetings, your active role in the Working
5 Group, is it fair to say that as it concerns the
6 investment strategies emanating from the Working Group
7 and the Investment Committee, the Minister might seek
8 your input with respect to any particular strategy?

9 MR. GARRY STESKI: Yes.

10 MR. STEVE SCARFONE: And has that, in
11 fact, happened in the past?

12 MR. GARRY STESKI: Yes.

13 MR. STEVE SCARFONE: And given what
14 you've just said about the confidence you have in the
15 Investment Committee, their competence and
16 qualifications, I would expect, sir, that if the
17 Minister asks for your input in that regard, you would
18 recommend that any particular strategy proceed?

19 MR. GARRY STESKI: I'm not sure any
20 particular strategy, but so far there haven't been any
21 that I've recommended that shouldn't proceed.

22 MR. STEVE SCARFONE: That shouldn't
23 proceed.

24 MR. GARRY STESKI: Yes.

25 MR. STEVE SCARFONE: And that's, I

1 think a better way of -- of seeing --

2 MR. GARRY STESKI: Yes.

3 MR. STEVE SCARFONE: So, sir, you've
4 said to board counsel, that the Minister is aware that
5 the Corporation has proposed an increase to its
6 allocation in corporate bonds, correct?

7 MR. GARRY STESKI: Yes.

8 MR. STEVE SCARFONE: And the
9 Minister's aware that the Corporation would like to
10 increase its allocation to 18 percent. You've said
11 that, correct.

12 MR. GARRY STESKI: Yes.

13 MR. STEVE SCARFONE: Are you able to
14 say, sir, if the Minister is aware that they may --
15 the bonds that is, may include bonds, corporate bonds,
16 that are rated less than 'A' minus?

17 MR. GARRY STESKI: Yes, he's aware of
18 that.

19 MR. STEVE SCARFONE: He's aware of
20 that. And having been aware of that, he's aware that
21 he can say -- ultimately say no to the strategy then,
22 correct?

23 MR. GARRY STESKI: He's aware of that.

24 MR. STEVE SCARFONE: Sir, we've heard
25 evidence in this proceeding from Mr. Yien, the VP of

1 Finance for MPIC, that in order for the corporate bond
2 strategy to proceed, the Corporation would like to
3 have se -- some security that it has adequate reserves
4 in place. Were you aware of that?

5 MR. GARRY STESKI: Not really, but...

6 MR. STEVE SCARFONE: Okay. Did you
7 have an opportunity to review any of the evidence that
8 Mr. Yien gave at this proceeding?

9 MR. GARRY STESKI: I've scanned some
10 information related to investments.

11 MR. STEVE SCARFONE: Okay.

12 MR. GARRY STESKI: But I have not read
13 everything that's been said at the hearings.

14 MR. STEVE SCARFONE: So were you
15 aware, sir, that there is a connection at least,
16 between the corporate bond strategy and capital
17 reserves?

18 MR. GARRY STESKI: Yeah, I believe --
19 yes, there is connection there. Yes.

20 MR. STEVE SCARFONE: And you've
21 indicated, sir, that the move to increase the
22 allocation to include more corporate bonds is a
23 riskier-type investment. Would you agree with that?

24 MR. GARRY STESKI: I agree with that.

25 MR. STEVE SCARFONE: More so than it

1 was, or is, for government bonds?

2 MR. GARRY STESKI: Yes.

3 MR. STEVE SCARFONE: And the MUSH
4 bonds, as they call them?

5 MR. GARRY STESKI: Yes.

6 MR. STEVE SCARFONE: And with -- with
7 the higher risk, sir, would it make good prudent
8 financial sense to have a capital buffer in place, if
9 we're going to move into that area of investments?

10 MR. GARRY STESKI: I would think that
11 would help mitigate that risk, yes.

12 MR. STEVE SCARFONE: Yes. And would
13 you agree with me, sir, that the increase in corporate
14 bonds, the allocation to 18 percent, would serve to
15 increase the yield of the investment portfolio?

16 MR. GARRY STESKI: Yes, it should.

17 MR. STEVE SCARFONE: But again that
18 comes with a risk, correct?

19 MR. GARRY STESKI: Yes.

20 MR. STEVE SCARFONE: And so with this
21 increased risk, Mr. Skes -- Steski, a reserve that's
22 not operating at a minimum level is necessary to give
23 the investment strategy its capital buffer.

24 Would you agree with that?

25 MR. GARRY STESKI: I'm -- I'm not

1 qualified to answer that question.

2 MR. STEVE SCARFONE: Okay. Just one
3 (1) second, sir.

4

5 (BRIEF PAUSE)

6

7 MR. STEVE SCARFONE: Other than the --
8 sir, one (1) last question. Other than the proposed
9 investment strategy for the international equities,
10 you may have confirmed this already, but has there
11 been any other instances in -- in -- that you can
12 recall where the investment committee -- and the
13 recommendations weren't allowed or were -- were
14 disapproved by the Minister?

15 MR. GARRY STESKI: None that I can
16 recall.

17 MR. STEVE SCARFONE: Thank you. Those
18 are my questions for you.

19 MR. GARRY STESKI: Thank you.

20 THE CHAIRPERSON: Thank you. Mr.
21 Williams...?

22 MS. KATRINE DILAY: Mr. Chair, I'll
23 actually be --

24 THE CHAIRPERSON: Sorry. I'm sorry --

25 MS. KATRINE DILAY: -- asking some

1 questions --

2 THE CHAIRPERSON: -- Ms. Dilay.

3

4 CROSS-EXAMINATION BY MS. KATRINE DILAY:

5 MS. KATRINE DILAY: -- of Mr.

6 Steski.

7 Good Morning, Mr. Steski.

8 MR. GARRY STESKI: Good Morning.

9 MS. KATRINE DILAY: Thank you for
10 joining us today. I just have a few questions for
11 you.

12 So based on your eight (8) years of
13 experience in the Investment Committee Working Group,
14 would it be fair to say that there is a high degree of
15 cooperation and collaboration within the Working
16 Group?

17 MR. GARRY STESKI: Very much so.

18 MS. KATRINE DILAY: There's a lot of
19 teamwork?

20 MR. GARRY STESKI: Yes.

21 MS. KATRINE DILAY: Would it be fair
22 to say that, to the extent possible, the decisions of
23 the Working Group are made on a consensus basis?

24 MR. GARRY STESKI: Yes.

25 MS. KATRINE DILAY: In terms of

1 payment for external fund managers for -- for
2 equities, are those managers paid by MPI?

3 MR. GARRY STESKI: Yes.

4 MS. KATRINE DILAY: Mr. Steski, you
5 are aware that it is the job of the Public Utilities
6 Board to set rates for Manitoba Public Insurance,
7 correct?

8 MR. GARRY STESKI: Generally, yes.

9 MS. KATRINE DILAY: And you're also
10 aware that MPI depends on investment income to break-
11 even?

12 MR. GARRY STESKI: I'm -- I've not
13 looked at the financial statements. I don't know that
14 for a fact.

15 MS. KATRINE DILAY: So would you agree
16 that income from investments directly impact rates
17 paid by MPI ratepayers?

18 MR. GARRY STESKI: I -- I -- that's
19 the Corporation's business. I don't know what they do
20 with the income from the fund.

21 MS. KATRINE DILAY: And would you --
22 would you say that, where expected investment income
23 does not materialize, ratepayers would be the ones
24 faced with the outcomes by paying higher premiums?

25 MR. GARRY STESKI: I'm sorry, can you

1 repeat that?

2 MS. KATRINE DILAY: Where expected
3 investment income that is protected by the Corporation
4 does not materialize, would ratepayers be the ones
5 faced with the outcomes by paying higher premiums?

6 MR. GARRY STESKI: Again, I -- I -- it
7 would be however they manage that within their
8 financial statements.

9 MS. KATRINE DILAY: Mr. Steski, I take
10 it you are aware that during the last general rate
11 application last year, Mr. Valter Viola presented
12 expert advice regarding MPI's investment portfolio?

13 MR. GARRY STESKI: No, I -- I didn't
14 read anything to do with the rate application last
15 time.

16 MS. KATRINE DILAY: Okay. So just to
17 confirm, you have not rev -- re -- reviewed the expert
18 evidence and the PowerPoint presentation of Mr. Viola
19 that were filed in last year's General Rate
20 Application?

21 MR. GARRY STESKI: I have not.

22 MS. KATRINE DILAY: Thank you. Mr.
23 Steski, you stated that you are aware that MPI is
24 proceeding with a new asset liability management
25 study, correct?

1 MR. GARRY STESKI: Yes.

2 MS. KATRINE DILAY: And I believe you
3 also stated that you have not reviewed the resqu --
4 the request for proposals for the Asset Liability
5 Management Study, correct?

6 MR. GARRY STESKI: That's right.

7 MS. KATRINE DILAY: At a high level,
8 you'll agree that one (1) of the purpose of MPI's
9 Asset Liability Management Study would be to,
10 recommend an appropriate asset allocation for MPI's
11 investment portfolio?

12 MR. GARRY STESKI: I would expect that
13 would be one (1) of the recommendations, yes.

14 MS. KATRINE DILAY: And you'll agree
15 that the main output from an asset liability
16 management study is a recommended policy asset mix?

17 MR. GARRY STESKI: I don't know if
18 that's the main outcome, but I would expect that would
19 be part of it.

20 MS. KATRINE DILAY: And you would
21 agree that a policy asset mix is very important to the
22 return on the fund and the risk experienced by the
23 fund over the long term?

24 MR. GARRY STESKI: Yes, I would agree
25 with that.

1 MS. KATRINE DILAY: And you would
2 agree that the risk and the return on the investment
3 fund have an impact on insurance premiums paid by
4 ratepayers?

5 MR. GARRY STESKI: Again, I'm not
6 aware of how that translates into their financial
7 statements.

8 MS. KATRINE DILAY: You would agree
9 that an asset liability management study can set the
10 stage to establish appropriate and prudent investment
11 strategies as well as supporting investment policies?

12 MR. GARRY STESKI: I would agree with
13 that.

14 MS. KATRINE DILAY: Mr. Steski, you
15 are aware that the firm of Mercer Canada Limited has
16 been retained to conduct the Asset Liability
17 Management Study?

18 MR. GARRY STESKI: I'm not aware of
19 who they've selected.

20 MS. KATRINE DILAY: To the best of
21 your knowledge, the Asset Liability Management Study
22 will be paid for through premiums paid to MPI by
23 ratepayers, correct?

24 MR. GARRY STESKI: I don't know that,
25 that's the Corporation's business.

1 MS. KATRINE DILAY: And to confirm, it
2 is the Corporation, MPI, that pays for the Asset
3 Liability Management Study?

4 MR. GARRY STESKI: I'm -- it's not me
5 -- I'm -- so I'm not sure.

6 MS. KATRINE DILAY: Just to confirm,
7 it's not the -- the Department of Finance or the
8 Province that pays?

9 MR. GARRY STESKI: That's correct,
10 yes.

11 MS. KATRINE DILAY: Thank you. Mr.
12 Steski, you are aware that the Bank of Canada interest
13 rate went up 25 basis points in July of 2017, and
14 another 25 basis points in September of 2017, correct?

15 MR. GARRY STESKI: Yes, I'm aware of
16 that.

17 MS. KATRINE DILAY: It would be fair
18 to say that the increase in interest rates has
19 implications for the Province of Manitoba, correct?

20 MR. GARRY STESKI: That is correct.

21 MS. KATRINE DILAY: And it be fair to
22 say that pri -- provision was made in the 2017 budget
23 for an upward movement of interest rates, correct?

24 MR. GARRY STESKI: That is correct.

25 MS. KATRINE DILAY: Thank you, Mr.

1 Steski, those are my questions.

2 THE CHAIRPERSON: Okay, I'll ask the
3 panel if they have any questions?

4

5 (BRIEF PAUSE)

6

7 BOARD MEMBER VANDEWATER: I'm kind of
8 new to this, so -- I'm not new to investments, but new
9 to this and the process. So I'm glad you're here.
10 It's nice to see friends.

11 The question I -- couple questions that
12 I had is -- we would assume that -- that equities pose
13 a generally higher risk than fixed income?

14 MR. GARRY STESKI: Yes.

15 BOARD MEMBER VANDEWATER: And that a
16 percentage of the portfolio is already invested in
17 equities?

18 MR. GARRY STESKI: Yes, both Canadian
19 and US.

20 BOARD MEMBER VANDEWATER: Both
21 Canadian and US. And --

22 THE CHAIRPERSON: Sorry.

23 BOARD MEMBER VANDEWATER: Thanks. The
24 -- with that in mind, most portfolios are that -- that
25 -- aren't within in the insurance world, you would

1 agree, I'm sure, have corporate bonds?

2 MR. GARRY STESKI: Yes. Yeah. That
3 would --

4 BOARD MEMBER VANDEWATER: That --

5 MR. GARRY STESKI: -- that would
6 probably make sense --

7 BOARD MEMBER VANDEWATER: --
8 investment category, and --

9 MR. GARRY STESKI: -- yeah.

10 BOARD MEMBER VANDEWATER: So the
11 quarrel only is -- is really with a Triple 'B', kind
12 of rating?

13 MR. GARRY STESKI: Yeah -- yeah, and I
14 wouldn't

15 BOARD MEMBER VANDEWATER: It would be
16 --

17 MR. GARRY STESKI: -- characterize it
18 as a quarrel. It's -- it's a legislation requirement.

19 BOARD MEMBER VANDEWATER: Well that's
20 the Financial Ministration Act.

21 MR. GARRY STESKI: Correct.

22 BOARD MEMBER VANDEWATER: But -- so,
23 'A' minus and higher --

24 MR. GARRY STESKI: Our fine --

25 BOARD MEMBER VANDEWATER: -- is -- is

1 an automatic --

2 MR. GARRY STESKI: Absolutely. That's

3 --

4 BOARD MEMBER VANDEWATER: -- if it was

5 the decision to go in --

6 MR. GARRY STESKI: If it's specific --

7 or explicit in the financial that corporate bonds are

8 allowed. Yeah.

9 BOARD MEMBER VANDEWATER: So the

10 absence of corporate bonds, heretofore, probably has

11 hurt the performance somewhat? If they had been under

12 the FAA.

13 MR. GARRY STESKI: Yeah that -- I

14 would generally agree with that, yes.

15 BOARD MEMBER VANDEWATER: Yeah. Okay,

16 I just -- just kind of wanted to make the point.

17 MR. GARRY STESKI: Yeah -- yeah.

18 BOARD MEMBER VANDEWATER: The -- the

19 second thing is the -- with the purchase of MUSH

20 bonds, would the rate that -- let's just say a

21 hospital would get on the MUSH bond that they would

22 have to pay, and that the interest rate that the

23 investor which would be MPI would receive -- would

24 that be higher or lower than say the hospital would

25 have to pay in the public market if they came with a

1 public issue?

2 MR. GARRY STESKI: It's probably lower
3 than if they went to the market on their own credit.

4 BOARD MEMBER VANDEWATER: Right.

5 MR. GARRY STESKI: So actually I have
6 to think about that for -- I mean, they wouldn't be
7 bor -- able to borrow money at the same rate that the
8 Province of Manitoba can borrow money at. But they
9 can likely borrow money at a cheaper rate than what a
10 corporation could borrow money at. I -- I think
11 that's the way I would characterize it.

12 BOARD MEMBER VANDEWATER: The -- but
13 the -- the bonds of a hospital, for example, are not a
14 provincial guarantee?

15 MR. GARRY STESKI: We haven't issued
16 hospital bonds for probably ten (10) or fif -- so I --
17 I -- I can't comment on that.

18 BOARD MEMBER VANDEWATER: Well that's
19 what I --

20 MR. GARRY STESKI: I -- I -- I don't
21 believe we ever guaranteed them when we did issue.

22 BOARD MEMBER VANDEWATER: Or -- or the
23 municipal bonds, you don't guarantee?

24 MR. GARRY STESKI: That's correct.

25 BOARD MEMBER VANDEWATER: The Province

1 doesn't?

2 MR. GARRY STESKI: Yes.

3 BOARD MEMBER VANDEWATER: In fact,
4 none of the items in the MUSH --

5 MR. GARRY STESKI: MUSH bonds, I --

6 BOARD MEMBER VANDEWATER: -- none of
7 them are guaranteed --

8 MR. GARRY STESKI: Yeah.

9 BOARD MEMBER VANDEWATER: -- by the
10 Province.

11 MR. GARRY STESKI: Yeah. The only
12 ones left are the municipal ones. We don't issue --

13 BOARD MEMBER VANDEWATER: So -- so the
14 rate -- the rate then would be whatever -- say the
15 province of Manitoba would be, plus --

16 MR. GARRY STESKI: Plus a --

17 BOARD MEMBER VANDEWATER: -- plus a
18
19 premium for --

20 MR. GARRY STESKI: Correct.

21 BOARD MEMBER VANDEWATER: -- a lack of
22 marketability --

23 MR. GARRY STESKI: Correct.

24 BOARD MEMBER VANDEWATER: -- and so
25 forth.

1 MR. GARRY STESKI: Yeah, absolutely.
2 Yeah.

3 BOARD MEMBER VANDEWATER: The next
4 question relates to -- just because I don't know, is -
5 - is the pension plan for MPI, is it run out of the
6 general corporate funds?

7 MR. GARRY STESKI: That's a question
8 you're going to have to ask MPI. I'm -- I'm not aware
9 of that.

10 BOARD MEMBER VANDEWATER: Okay. Okay.
11 Then I won't pursue that. Good. That's all. Thank
12 you.

13 THE CHAIRPERSON: Mr. Steski, I want
14 to ask you about these international investments. Am
15 I correct that a request was made to invest in them
16 sometime after 2008?

17 MR. GARRY STESKI: Yes.

18 THE CHAIRPERSON: Do you know
19 approximately when?

20 MR. GARRY STESKI: No, I wasn't with
21 the Treasury Division at that time.

22 THE CHAIRPERSON: Okay. And the
23 request was denied --

24 MR. GARRY STESKI: Yes, that's what I
25 understand happened, yes.

1 THE CHAIRPERSON: Do you know reason
2 it was denied?

3 MR. GARRY STESKI: The Minister at the
4 time was uncomfortable, having just gone through the
5 financial crisis, with going into a category like
6 that.

7 THE CHAIRPERSON: So, as I understand
8 it, there's a lot of financial uncertainty in the
9 international market, and the Minister looked at it --
10 may have looked at it at the time and said, "Now is
11 not the time to start making major changes."

12 MR. GARRY STESKI: I would agree with
13 that.

14 THE CHAIRPERSON: Okay. Assuming that
15 that request was made on or before 2010, has the
16 investment committee, since that time, made a request
17 to invest in international equities?

18 MR. GARRY STESKI: No, they haven't.

19 THE CHAIRPERSON: In your evidence, I
20 believe, was that you don't have concerns if that was
21 proposed now?

22 MR. GARRY STESKI: I -- I would agree
23 with that, yes.

24 THE CHAIRPERSON: Okay. Do you know
25 why they haven't proposed that yet?

1 MR. GARRY STESKI: I don't know why
2 they haven't.

3 THE CHAIRPERSON: Okay. Do you know
4 if the Investment Committee, as part of its mandate,
5 reviews the performance of other public insurance
6 companies?

7 MR. GARRY STESKI: I don't know that
8 for certain.

9 THE CHAIRPERSON: Okay. Do you know
10 if other public insurance companies have international
11 equities in their portfolio?

12 MR. GARRY STESKI: I don't know that
13 for certain.

14 THE CHAIRPERSON: Okay. Thank you.
15 Diana, could you pull up Appendix 3, it was the re-
16 balancing screen. I think it was -- yeah, that one.
17 Can you scroll up a little, just a little. I just
18 don't know what's at the bottom, okay. The other way.
19 Okay, thank you, that's good.

20 So this was -- this replaced -- I take
21 it a policy from 2016, is that correct? I'm just
22 looking at the deletions and trying to --

23 MR. GARRY STESKI: Yeah, this is a
24 review --

25 THE CHAIRPERSON: It looks like it was

1 March 23, 2016.

2 MR. GARRY STESKI: Yeah, these are
3 reviewed on an annual basis and updated.

4 THE CHAIRPERSON: Okay. So when I
5 look at -- under fixed incomes, government bonds, and
6 corporate bonds, would I be correct to assume that,
7 what we would have seen in 2016 was marketable bonds
8 at 50 percent as the target?

9 MR. GARRY STESKI: I -- I can't recall
10 that.

11 THE CHAIRPERSON: Okay, I'm just
12 looking at the deletions for the --

13 MR. GARRY STESKI: Yeah. Yeah, I --
14 it looks like it was -- government bonds were 40
15 percent.

16 THE CHAIRPERSON: Yeah. And the --
17 but the -- okay, but the -- but the target would have
18 been 50 percent in the next column?

19 MR. GARRY STESKI: Yes.

20 THE CHAIRPERSON: And the corporate
21 bonds wouldn't have existed underneath? Look like the
22 additions, I believe.

23 MR. GARRY STESKI: Yeah.

24 THE CHAIRPERSON: The difference
25 between sixteen (16) and seventeen (17).

1 MR. GARRY STESKI: Yeah, I mean...

2 THE CHAIRPERSON: And where would it
3 have been included in government bonds? would that -
4 - would that include MUSH bonds?

5 MR. GARRY STESKI: No, their the non-
6 marketable bonds --

7 THE CHAIRPERSON: Those are the non-
8 marketable bonds, okay.

9 MR. GARRY STESKI: Yes.

10 THE CHAIRPERSON: So the government
11 bonds would have been...

12 MR. GARRY STESKI: Any of the
13 provinces --

14 THE CHAIRPERSON: Any of the
15 provinces.

16 MR. GARRY STESKI: -- plus the Federal
17 Government and municipalities as well.

18 THE CHAIRPERSON: Yeah. And in terms
19 of the non-marketable bonds, why is there such a high
20 percentage when the bonds are not marketable and have
21 such a low rate?

22 MR. GARRY STESKI: Well, they actually
23 have quite a bit better rate than provincial bonds,
24 government bonds do, and so for a long period of time,
25 they were used as a proxy for corporate bonds because

1 of the rate that they had attached to them. And the
2 fact that they didn't need the -- the Corporation
3 didn't need the liquidity, they found these to be a
4 good -- a good source of additional revenue.

5 THE CHAIRPERSON: And how do the MUSH
6 bonds compare to corporate bonds now in terms of
7 rates?

8 MR. GARRY STESKI: I haven't studied -
9 - I would expect that corporate bonds, especially
10 Triple 'B' rated corporate bonds, would be higher -- a
11 higher return on them than what these bonds would --

12 THE CHAIRPERSON: And would 'A' minus
13 be a higher rate?

14 MR. GARRY STESKI: It -- it's
15 difficult for me to say. I'd have to look at the
16 information.

17 THE CHAIRPERSON: Do you see the non-
18 marketable bonds staying at this level, or do you see
19 that they could change, depending on what the
20 investment decision is on corporate bonds?

21 MR. GARRY STESKI: Well, they will
22 definitely change because of the fact that the
23 Province has, over time, switched over how we finance
24 hospitals and universities and schools. The only
25 thing left that we're -- that MUSH bonds are now being

1 issued for are municipalities, and those are not that
2 -- not that high. And so over time, because of the
3 supply going in, this will decrease.

4 THE CHAIRPERSON: Okay. Thank you
5 very much Mr. Steski. Thank you for appearing here
6 today.

7 I think this would be a good time to
8 adjourn. I'm just wondering, Mr. Scarfone, are your
9 people on the third floor or are they elsewhere?

10 MR. STEVE SCARFONE: I think I saw an
11 email that they've made their way into the building.
12 Yes.

13 THE CHAIRPERSON: Okay, so we'll
14 resume at quarter to 11:00.

15

16 (WITNESS STANDS DOWN)

17

18 --- Upon recessing at 10:24 a.m.

19 --- Upon Resuming at 10:53 a.m.

20

21 THE CHAIRPERSON: Ms. McCandless, tell
22 me when we ready to go. Mr. Scarfone, are we ready?

23 MR. STEVE SCARFONE: Yes, we are.

24 THE CHAIRPERSON: Thank you.

25

1 CONTINUED MPI Panel 1:

2 LUKE JOHNSTON, Previously Sworn

3 PETER YIEN, Previously Affirmed

4

5 CONTINUED CROSS-EXAMINATION BY MS. KATHLEEN

6 MCCANDLESS:

7 MS. KATHLEEN MCCANDLESS: Thank you.

8 Welcome back, Mr. Johnston, Mr. Yien. I have

9 questions now with respect to the answers to

10 undertakings that have been provided.

11 First, with respect to undertaking

12 number 3 and M -- and that's MPI Exhibit Number 35?

13 This is the 2016/17 Saskatchewan Auto Fund Annual

14 Report which was provided to show the basis for what's

15 found in PUB-MPI-1-40, which was the comparison of the

16 rates of return on MPI's portfolio as compared to SGI.

17 Do you recall that -- I can have -- I

18 can have Diana pull up the reference if you need to

19 look at that.

20 MR. PETER YIEN: No, I don't. I

21 recall that. Thank you.

22 MS. KATHLEEN MCCANDLESS: Thank you.

23 Diana, if we could please go to page 23 of the PDF.

24 Yes. So at the top of the page here, we see the total

25 assets for the auto fund, and if we look at the size

1 of the portfolio as at March 31, 2017, we see the
2 total assets of \$2.6 billion; yes?

3 MR. PETER YIEN: Yes.

4 MS. KATHLEEN MCCANDLESS: And as at
5 March 31, 2016 \$2.3 million; yes?

6 MR. PETER YIEN: Yes.

7 MS. KATHLEEN MCCANDLESS: Now, pardon
8 me, I should be looking at -- that's total assets, but
9 if we look to investments underneath we see as at
10 March 31, 2017, the investment fund was at 2.3
11 billion, approximately; yes?

12 MR. PETER YIEN: Yes, yes.

13 MS. KATHLEEN MCCANDLESS: And so
14 that's comparable to MPI's portfolio at about \$2.6
15 billion?

16 MR. PETER YIEN: Pretty much, yes.

17 MS. KATHLEEN MCCANDLESS: If we go to
18 page 20. At the bottom of the page there's a table
19 showing investment earnings and other income.

20 You see that before you?

21 MR. PETER YIEN: I do.

22 MS. KATHLEEN MCCANDLESS: And if we
23 look to the twelve (12) months ended March 31, 2017
24 net investment earnings for the auto fund were \$173.8
25 billion -- million dollars, pardon me; yes?

1 MR. PETER YIEN: Yes.

2 MS. KATHLEEN MCCANDLESS: And in 2016,
3 \$16.5 million?

4 MR. PETER YIEN: Yes.

5 MS. KATHLEEN MCCANDLESS: If we go to
6 page 48 of the PDF. This is a table depicting the
7 composition of the investment portfolio for the auto
8 fund; yes?

9 MR. PETER YIEN: Correct.

10 MS. KATHLEEN MCCANDLESS: And if we
11 look on the right-hand side of the table we see under
12 investment funds there are four (4) categories. And
13 it shows that the auto fund has investments in global
14 equities, global small cap equities, mortgages and
15 real estate; yes?

16 MR. PETER YIEN: Yes.

17 MS. KATHLEEN MCCANDLESS: MPI does not
18 have any assets in global equities, global small cap
19 equities or mortgages; yes?

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

21 MS. KATHLEEN MCCANDLESS: And when it
22 comes to equities, MPI does not have any exposure
23 beyond the United States, is that right?

24 MR. PETER YIEN: Just Canadian and US,
25 yes.

1 MS. KATHLEEN MCCANDLESS: If we go to
2 page 23 of the PDF and the very bottom of the page,
3 last paragraph states:

4 "The auto fund investment portfolio
5 operates as two (2) distinct
6 portfolios; the matching portfolio
7 and the return-seeking portfolio.
8 The matching portfolio holds the
9 fixed income investments, including
10 mortgage securities, while the
11 return seeking portfolio is
12 comprised of equities, real estate
13 and infrastructure. The investment
14 strategy relies on the matching
15 portfolio to cover expected
16 liability payments out to twenty
17 (20) years with remaining longtail
18 ability -- liabilities covered by
19 the return seeking portfolio."

20 Yes?

21 MR. PETER YIEN: Yes.

22 MS. KATHLEEN MCCANDLESS: So in
23 effect, the auto fund has a matching portfolio to
24 claim payments into buckets based on when the payment
25 claims come due?

1 MR. PETER YIEN: Yes.

2 MS. KATHLEEN MCCANDLESS: And do you
3 recall that this bucket approach was reviewed by Aon
4 in its previous asset liability management study?

5 MR. PETER YIEN: Yes, absolutely.

6 MS. KATHLEEN MCCANDLESS: Yes?

7 MR. PETER YIEN: Yes, sorry.

8 MS. KATHLEEN MCCANDLESS: And we see
9 here that the return seeking portfolio invests in
10 equities; yes?

11 MR. PETER YIEN: Yes.

12 MS. KATHLEEN MCCANDLESS: Is this the
13 type of strategy that Mercer might be looking at in
14 its asset liability management study?

15 MR. PETER YIEN: All options open.
16 Just to answer your question, we have not ruled
17 anything out. One (1) of the things we are doing in
18 our asset liability matching study is to look at our
19 comparatives because we do know that there's a unique
20 nature to crown insurance, crown corps.

21 So, we are comparing that, ourselves to
22 them, as well as leading insurance companies. So we
23 generally not leading -- we're not leaving any options
24 unconsidered, if you will.

25 So, yes, it will be considered as part

1 of our asset liability matching study.

2 MS. KATHLEEN MCCANDLESS: Thank you.

3 And on that --

4 MR. LUKE JOHNSTON: Can I just add one
5 (1) piece to that. One (1) of the things you
6 mentioned in here was that there's a matching
7 portfolio for the first twenty (20) years of -- of
8 claims liabilities payments.

9 Right now, SGI matches the remaining
10 tale with -- with equities, is my understanding. When
11 that portion of the liabilities converts to IFRS 17, I
12 don't expect that to be a pretty calculation. They
13 could be going from a 7 percent return assumption to a
14 risk-free rate overnight.

15 If MPI did the same thing that would be
16 about \$300 million impact to the discounting. So, I
17 do not see us in any way looking to -- to match to our
18 liabilities in -- in this manner, knowing what IFRS 17
19 has coming.

20 MS. KATHLEEN MCCANDLESS: Now with
21 respect to the -- the asset liability management study
22 that was provided, the RFP was provided in MPI Exhibit
23 Number 14, and that was the answer to Undertaking
24 Number 1.

25 Do you see that before you? Can we

1 just scroll --

2 MR. PETER YIEN: Yes, I do.

3 MS. KATHLEEN MCCANDLESS: Scroll down
4 the page and into the next page. Now, we heard your
5 evidence at this -- this study was posted on -- or it
6 was released -- pardon me, the -- the RFP was released
7 on September 12; yes? If we just go -- sorry, back up
8 to the title page.

9 The issue date is September 12th, 2017;
10 yes?

11 MR. PETER YIEN: Yes.

12 MS. KATHLEEN MCCANDLESS: And the
13 proposal due date September 22nd, 2017; yes?

14 MR. PETER YIEN: Correct.

15 MS. KATHLEEN MCCANDLESS: And so do
16 you know whether the RFP was actually posted to Merx
17 on September 12, 2017?

18 MR. PETER YIEN: My understanding is
19 it was -- I think it was in the afternoon. Right,
20 afternoon? Yeah, after.

21 MS. KATHLEEN MCCANDLESS: And are you
22 able to advise as to the number of firms that replied
23 to this Request for Proposal?

24 MR. PETER YIEN: I can tell you how
25 many's looked at it. I think there's about fourteen

1 (14).

2

3

(BRIEF PAUSE)

4

5

MR. PETER YIEN: Yeah, two (2)

6

responded.

7

MS. KATHLEEN MCCANDLESS: Thank you.

8

And so we know that Mercer Canada was the successful

9

consultant.

10

Was there any direction or has there

11

been any direction provided to Mercer as far as

12

approach to the study, other than what's been provided

13

in the Request for Proposal document?

14

MR. PETER YIEN: No, no, we're not

15

allowed to do that as part of the RFP process.

16

MS. KATHLEEN MCCANDLESS: If we go to

17

page 5 and we scroll down somewhat, we see the service

18

requirements here at item 5?

19

MR. PETER YIEN: Yes.

20

MS. KATHLEEN MCCANDLESS: And the

21

second through fourth paragraphs here under 5.01

22

referenced three (3) phases of the study; phase 1,

23

phase 2, phase 3. And phase 2 and phase 1 have a

24

required completion date of November 30, 2017; yes?

25

MR. PETER YIEN: Yes.

1 MS. KATHLEEN MCCANDLESS: And phase 3
2 of the study provides that the work can be completed
3 after November 30, 2017; yes?

4 MR. PETER YIEN: Yes.

5 MS. KATHLEEN MCCANDLESS: But I
6 believe you mentioned in your evidence earlier to Mr.
7 Williams that Mercer is targeting to be complete by
8 November 30, 2017 for phase 3?

9 MR. PETER YIEN: Actually, just for
10 background, both firms responded and said they could
11 do all the work by November 30th. So, so while it was
12 aspirational to get phase 3 cause -- I just want to go
13 back to the earlier conversation around this normally
14 takes a little bit longer.

15 And what we didn't want to do is put
16 unreasonable timelines unless the vendor comes back
17 and say they could do it. So we actually have to get
18 from a requirements' perspective, to get phase 1 and 2
19 completed by November 30. And so we left that phase 3
20 as an optional, but it would be highly desirable to
21 get it completed by November 30th.

22 MS. KATHLEEN MCCANDLESS: And so that
23 just -- just to reiterate, Mercer is going to complete
24 or targeting to complete by November 30 --

25 MR. PETER YIEN: All three (3) phases,

1 correct.

2 MS. KATHLEEN MCCANDLESS: If we jump
3 ahead to page 7 at -- this is part of section 5.03,
4 and (f), if we scroll up a bit. Diana, this is one
5 (1) of the things to look at in phase 2 at (f)

6 "Is recommend an asset allocation
7 consistent with the recommended risk
8 tolerances that maximizes the
9 probability of achieving related
10 corporate goals with -- with in
11 stated constraints."

12 Yes?

13 MR. PETER YIEN: Yes.

14 MS. KATHLEEN MCCANDLESS: And if we
15 refer back to last year's Board Order which is 162/16
16 at page 43 there's a reference to the previous asset
17 liability management study done by Aon.

18 MR. PETER YIEN: Yes.

19 MS. KATHLEEN MCCANDLESS: The third
20 paragraph down on the page, if we stop right there, in
21 the middle of this paragraph it says,

22 "Ms. Spiropoulus stated that Aon
23 used MPI selected metrics based on
24 the 10-year base average basic net
25 income to measure reward and 10-year

1 average standard deviation of Basic
2 RSR to measure risk. She noted that
3 MPI's primary concern is to address
4 short-term volatility of the premium
5 rate requirement."

6 Yes?

7 MR. PETER YIEN: Yes.

8 MS. KATHLEEN MCCANDLESS: Now when we
9 speak about constraints, what constraints has the
10 Corporation provided to Mercer for the ALM study?

11 MR. PETER YIEN: Just a second.

12

13 (BRIEF PAUSE)

14

15 MR. PETER YIEN: So as I said earlier,
16 although there might be constraints, we're really
17 limiting it. We want to make sure that the result of
18 the ALM matching does open up the options, perhaps
19 even where we have not thought of. So that there
20 really is no significant restraints, as we speak.

21 We are looking at constraints, perhaps,
22 in specific areas, but they're very limited.

23 MS. KATHLEEN MCCANDLESS: Can you
24 articulate what those constraints are?

25 MR. PETER YIEN: I can give you an

1 example. Currently, we hold MUSH bonds and in the
2 past there has been intention to re-invest in
3 Manitoba. And so, we do need to advance some of those
4 concerns as to what do we do.

5 The other constraint is the market
6 availability of MUSH bonds has gone down. So by
7 definition over a period of time we'll be lowering our
8 holdings in that. So those are kind of constraints
9 largely un -- outside of our control, but we do need
10 to understand what those constraints are.

11 MS. KATHLEEN MCCANDLESS: What is the
12 base case that's being used by Mercer?

13 MR. PETER YIEN: I'm not sure. What
14 do you mean by "base case?"

15 MS. KATHLEEN MCCANDLESS: The
16 financial forecast that's being used to do the testing
17 of the scenarios.

18

19 (BRIEF PAUSE)

20

21 MR. PETER YIEN: So in terms of some
22 those base-case scenarios and assumptions, where we
23 can, we are definitely using Mercer's models, for
24 example, interest rate assumptions.

25 And -- and in areas such as investment

1 returns by vehicle and what the standard deviations
2 associated with that, we're using their data.

3 The other assumptions we -- we are
4 working through it and we haven't got to -- to those
5 yet.

6 MS. KATHLEEN MCCANDLESS: So I take it
7 you mean then that there's no proposed RSR target
8 range as yet as part of the base case?

9 MR. PETER YIEN: No, not yet.

10 MS. KATHLEEN MCCANDLESS: And nothing
11 to do with a level of corporate bonds then?

12 MR. PETER YIEN: They -- they do
13 understand our rate app is -- is hinging on the fact
14 that we are making an assumption of 18 percent, but we
15 -- we're not using that as a constraint, except for
16 example, if they -- if the ALM study comes back and
17 tells us we should buy more, we'll continue to buy
18 more.

19 So, I don't see it as a constraint.
20 What we don't want to do is create a scenario where we
21 put a constraint where, essentially, were going to get
22 the same answer back. So, no.

23 MS. KATHLEEN MCCANDLESS: So assuming
24 that Mercer is able to follow through on its
25 completion date of November 30th then, the Corporation

1 will have a recommendation from Mercer as to the
2 investment level of corporate bonds at that point?

3 MR. PETER YIEN: Yes, and that would
4 be based on the risk appetite, because I'm not
5 suggesting there will be only one (1) scenario.
6 Typically in these ALM, Asset Liability Management,
7 studies, there's a number scenarios that gets
8 presented. But, yes, that would be definitely one (1)
9 of the scenarios that we would be able to consider.

10 MS. KATHLEEN MCCANDLESS: And if
11 Mercer does not recommend an 18 percent allocation to
12 corporate bonds, what would the corporation do with
13 that information?

14 MR. PETER YIEN: I think the Board
15 would review and -- and, again, go back to some of the
16 assumptions as I said earlier, some of those
17 constraints and assumptions are being informed. And
18 we would -- the board would definitely exercise its
19 due diligence to challenge those assumptions,
20 understand how that compares with our peer group, I
21 mentioned that earlier, that's important as well.

22 And if it's truly financially not
23 sound, not prudent to buy 18 percent bonds, we -- we
24 wouldn't do it. We don't think that's a very likely
25 possibility, but, yeah, in a theoretical question, if

1 -- if -- if it's a different numbers, I don't think
2 the board will override that and -- and effectively
3 abdicate proper governance.

4 MS. KATHLEEN MCCANDLESS: Diana, can
5 you please go back to Appendix 1 of Exhibit 14. And
6 if we look down this is again at section 5.03 (h).

7 These are some of the recommendations
8 that were made by the CAC expert in last year's
9 proceeding Valter Viola, are you familiar with those
10 recommendations?

11 MR. PETER YIEN: Yes.

12 MS. KATHLEEN MCCANDLESS: And I won't
13 review all of them there but I believe you
14 acknowledged earlier in -- in these proceedings that
15 the risk profile for the portfolio will change with an
16 increased allocation to corporate bonds; yes?

17 MR. PETER YIEN: Yes.

18 MS. KATHLEEN MCCANDLESS: And then if
19 we look at the recommendations in phase 3. So those
20 ones could be addressed after November 30 but your
21 evidence is that they will be all addressed by
22 November 30th.

23 If we look to page 34 of the RFP and
24 these are the recommendations from Mr. Viola that are
25 reproduced in the Board Order from last year's. So if

1 we scroll down to 8 and 9.

2 We see:

3 "8) evolved risk framework and
4 evolved risk framework should be
5 considered to improve portfolio risk
6 measurement management and/or
7 governance; and
8 9), explicit risk management goals.
9 Among other things, the risk
10 framework could include explicit
11 goals related to market risk
12 management, as well as goals related
13 to other types of risk. If those
14 require enhancement, one goal might
15 be to avoid undue risk, which is
16 risk that is taken..."

17 And then I'm not going to review it.
18 You can see the bullets in front of you there.

19 MR. PETER YIEN: M-hm.

20 MS. KATHLEEN MCCANDLESS: And they
21 scroll down a fair bit down the page. So, you're
22 familiar with this recommendation?

23 MR. PETER YIEN: Yes, I am.

24 MS. KATHLEEN MCCANDLESS: Now, in the
25 off chance that Mercer would be unable to complete its

1 report -- phase 3 of its report by November 30th, can
2 anything be done to address these recommendations in
3 the interim because they are part of phase 3, which
4 pursuant to the RFP could be complete after November
5 30th?

6 MR. PETER YIEN: Yeah, the -- the risk
7 framework is not something that would be established
8 on December 15th. These have already been -- these
9 issues have already been discussed as part of the
10 investment committee that I attend.

11 So, this is not dependent -- like, when
12 you think -- when you look, for example, just pick any
13 one (1) of these, risk tolerances and current --
14 current capacities, those include execution risk and
15 other things like that. We -- we're currently looking
16 at it already. So, they kind of -- I call it -- this
17 is being worked on in parallel to the Mercer
18 activities.

19 MS. KATHLEEN MCCANDLESS: Now, I
20 believe you mentioned earlier in your evidence when
21 Mr. Williams was cross-examining you that there's been
22 a kickoff process with Mercer already.

23 MR. PETER YIEN: Yes.

24 MS. KATHLEEN MCCANDLESS: And was that
25 a meeting with Mercer?

1 MR. PETER YIEN: Yeah, we've had a
2 number of meetings already.

3 MS. KATHLEEN MCCANDLESS: Number of
4 meetings. And so, have the recommendations made by
5 Mr. Viola have been part of the discussions in these
6 meetings?

7 MR. PETER YIEN: Yeah, in fact, it's
8 more than part of the discussions. When -- when we
9 awarded this it was made known that it was a critical
10 element that is a mandatory that needs to be included.
11 They're very familiar with the Viola recommendations.

12 As part of our kickoff meeting, those
13 things have been explicitly incorporated, including
14 some of the asset mixes that needs to be considered.
15 So effectively, the answer is, yes, they all have been
16 considered and we've had (3) three meetings already.

17 MS. KATHLEEN MCCANDLESS: As part of
18 the meetings, have target capital levels been
19 canvassed with Mercer?

20 MR. PETER YIEN: Yes.

21 MS. KATHLEEN MCCANDLESS: And have you
22 provided them with metrics for the target capital
23 levels to look at in their study?

24 MR. PETER YIEN: Can you define
25 "metrics?"

1 MS. KATHLEEN MCCANDLESS: The target
2 range.

3 MR. PETER YIEN: Yes. So they're
4 fully aware of our General Rate Application targets.

5 MS. KATHLEEN MCCANDLESS: Okay. So
6 they are aware of them but your evidence is that they
7 -- those haven't been provided as constraints to
8 Mercer?

9 MR. PETER YIEN: Just one (1) second.

10

11 (BRIEF PAUSE)

12

13 MR. PETER YIEN: So the phase 1 of our
14 asset liability management is, as I said earlier,
15 minimize the constraints and then phase 1 ends around
16 the end of October.

17 At the beginning of phase 2, yes, we'll
18 then put that rate capitalization reserve constraint,
19 as you put it, at that point in time. So we're
20 working towards that. We're not there yet.

21 MS. KATHLEEN MCCANDLESS: Okay. And
22 so have there been any discussions about target
23 capital ranges other than that which has been set out
24 in MPI's application to this point?

25 MR. PETER YIEN: No, no.

1 MS. KATHLEEN MCCANDLESS: And so just
2 to be specific then, the target capital range that's
3 been discussed with Mercer so far is \$201 million at
4 the -- at the low end and \$438 million at the upper
5 end?

6 MR. PETER YIEN: Yes.

7 MS. KATHLEEN MCCANDLESS: Thank you.

8 MR. PETER YIEN: Oh, if I can just add
9 one more point. Moving forward because we are not
10 using a DCAT, dynamic capital asset adequacy test max,
11 that we are essentially mimicking that using an MCT
12 calculation.

13 MS. KATHLEEN MCCANDLESS: The four
14 thirty- eight -- \$438 million based on a 100 percent
15 MCT?

16 MR. PETER YIEN: Right, which
17 presumably will grow as our business grow over time.

18 MS. KATHLEEN MCCANDLESS: And so this
19 ALM study is being performed on a -- somewhat of an
20 accelerated timeline from the typical one; yes?

21 MR. PETER YIEN: Yes.

22 MS. KATHLEEN MCCANDLESS: And if we go
23 to page 13 of the investment section of the filing, at
24 lines 7 through 13 is the response to the Order of the
25 Board last year, wherein the Board required the

1 Corporation to complete an ALM study and have it filed
2 for this application. Seven (7) through 12 was the
3 explanation that there are many steps required to
4 complete an ALM study.

5 First MPI must conduct a Request For
6 Proposals competition for the ALM study services
7 anticipated to take four (4) to six (6) weeks.

8 Second, based on MPI's past experience
9 with ALM studies, an ALM study cannot be completed in
10 less than six (6) months.

11 Third, the ALM study must be presented
12 internally to the investment committee working group
13 and investment committee; yes?

14 MR. PETER YIEN: Yes.

15 MS. KATHLEEN MCCANDLESS: And we know
16 that the RFP was issued on September 12th, 2017?

17 MR. PETER YIEN: Yes.

18 MS. KATHLEEN MCCANDLESS: And that you
19 expect to have the result by November 30, 2017. I'm -
20 - could you just explain, or reconcile, the response
21 to the Board here with the now accelerated timeline
22 that the Corporation has been able to achieve with
23 Mercer?

24 MR. PETER YIEN: Yes. Let me answer
25 it in three (3) -- three (3) parts. The first and

1 most important part is the starting assumptions for
2 this response that you show -- that -- that's being
3 shown in volume 5 investment 1 as referenced on August
4 the 4th, 2017, is essentially when this was written,
5 there was an assumption that there was a waiting
6 period. Let's wait for the PUB Order. Let's get the
7 rate stabilization reserve minimum/max. And in a
8 perfect world, we want that in place, as ordered,
9 before we do the ALM study.

10 Secondly, we knew that when the PUB
11 Order was issued on December 15th, 2016, we knew the
12 regular time that is required and it would overlap
13 with our year-end which is a very intense period of
14 time. On top of that, as you know, we made an 80 --
15 roughly \$85 million actual adjustment that we had to
16 pull our actuarial team, our accounting team to really
17 focus what, ultimately -- what the ultimates were
18 relative to our PIPP program.

19 So when we can of look at all those
20 things that was on our plate, it was very difficult to
21 pull the resources together to make that work. And on
22 top of that, normally, it does take a longer period of
23 time for the ALM study. So it was felt at the time
24 that there was no real pressing need to -- to make our
25 team work beyond their capacity. So that's kind of

1 the -- the starting point.

2 As the time moved on after we filed
3 this, we realized that as part of the overall decision
4 to make the bond purchase, it was prudent to have the
5 ALM study in place. The question was: Can we do it
6 in a shorter period of time? And we wanted to make
7 sure that we can do everything we can from a project
8 management perspective, and that's part two of my
9 answer. Is that can we project manage this to set the
10 right expectations?

11 And I want to be clear, it's not easy
12 to do it in the time frame that we have. So, we have
13 to implement the right project disciplines and the
14 right project disciplines for project management
15 means: do we have the resources? Can we make the
16 resources available?

17 And in order to do this, we made sure
18 that the investment committee was available, as
19 needed, versus in a normal due course you schedule
20 these meetings months -- months in advance. We're,
21 essentially, working backwards and, say, we need input
22 from the investment committee. We need input from the
23 executive team. And to that compression we
24 essentially dictating what that meeting is hap -- when
25 that meeting has to happen and the good news is

1 there's been confirmation that we could make that
2 happen.

3 And then finally, the last piece is
4 making sure that the vendor themselves, in this case
5 Mercer, can do the work. And so after we looked at
6 all three (3), we realized that it is possible,
7 despite that there's a tighter time constraint. There
8 was no point in time where we would sacrifice the
9 quality of the report. And through our due diligence
10 and review of the RFP we choose Mercer for that
11 reason. They've done hundreds of these and they have
12 been able to tell us that they don't see any risks at
13 all in terms of meeting all three (3).

14 And so I think, based on their
15 experience, and the hundreds of the ones that they
16 have done, we feel that this is very realistic. So
17 that's how we reconciled the three (3) -- the three
18 (3) -- the change in terms of direction of not waiting
19 for the PUB Order. Second, knowing the bond
20 requirement to make the right decision. And then
21 third, really we're looking at it from a project
22 management perspective, and asking ourselves: Where
23 can we basically work faster without sacrificing
24 quality. And when the answer to all three (3) is,
25 yes, we've come up with this two-month approach.

1 MS. KATHLEEN MCCANDLESS: At line 13
2 and 14, it was written that a revised Aon study cannot
3 be usefully and purposely completed in the absence of
4 RSR capital targets?

5 MR. PETER YIEN: Yeah.

6 MS. KATHLEEN MCCANDLESS: Now, the
7 Corporation wouldn't be expecting an Order from this
8 Board before November 30th, 2017, would it?

9 MR. PETER YIEN: No.

10 MS. KATHLEEN MCCANDLESS: And so the
11 Corporation will not have RSR targets from this Board
12 before Mercer has completed its report, right?

13 MR. PETER YIEN: Yes. And that is,
14 essentially, I think this is a great question, it
15 really leads into a question that Mr. Scarfone asked
16 me about, you know, is this an ultimatum? And I said
17 actually not.

18 And this is where I think the
19 transparency becomes really important is that in the
20 absence of RSR targets we can't do the liability
21 management, that's true, but we could put a condition
22 in there to say, what if, we knew from a governance
23 perspective, the right lower target and upper target?
24 And the board deliberated quite intensely over the
25 period of time after this was filed to say, well, if

1 we look to other corporations of a similar nature,
2 what's the -- what's the right level of RSR minimum
3 and max.

4 And so by coming to that question --
5 coming to that answer we will be able now to obtain
6 what we believe as what should be the RSR capital
7 targets, which is an -- an important ingredient to
8 complete the asset liability management study.

9 MS. KATHLEEN MCCANDLESS: And so we've
10 heard that Mercer is aware of the capital targets that
11 are in your application. Will Mercer be provided with
12 other target capital ranges to look at in its steady?

13 MR. PETER YIEN: I -- I think they
14 will. We've had -- but that's not their role but I
15 can -- I think I do know, just in conversation with
16 them, they know that others have much higher one. And
17 I don't think they'll be opposed if the PUB thinks we
18 should have a higher -- higher range.

19 But essentially, we're at the -- if you
20 look at kind of our targets is -- our upper range is,
21 in essence, when you compare to other insurers we are
22 at the low end, so. So, no, that -- that's not the
23 objective to provide us with the upper -- upper range.

24 MS. KATHLEEN MCCANDLESS: So,
25 theoretically, if this Board were to order an RSR

1 target range other than what's been sought by MPI in
2 the application, what practical value will the ALM
3 study have if Mercer is proceeding on the assumption
4 of the 201 million and 438 million?

5 MR. PETER YIEN: Yes, I -- I think
6 this is great in terms of the -- your question. One
7 other purpose of ALM study is not come up with a
8 scenario, they're multiple scenarios. And this is
9 something, as I said, about constraints. We -- we're
10 not going to finalize on those constraints until
11 November.

12 But essentially, if we don't get the
13 upper RSR capital targets -- if I could just refer to
14 the DCAT.

15

16 (BRIEF PAUSE)

17

18 MR. PETER YIEN: Okay, I'll keep
19 talking. So as part of the dynamic capital adequacy
20 test, we -- as you know, we have the upper and lower
21 range. On the upper end factoring the bonds, we are -
22 - we are projecting additional risk of about 9 million
23 for 1:100 scenario. And on the RSR low end we're
24 projecting a 3 million increase of that for capital to
25 address the risk.

1 So essentially, it's a three to \$9
2 million increase on the low and the high range in
3 terms of the risk that we are forecasting on that. So
4 if we say that we don't have the upper target yet, it
5 will -- it will -- it will influence the board shaping
6 of what risks should we take because, essentially,
7 what we're saying is, the lower the RSR target, upper,
8 means we cannot take as high of a risk.

9 And as you know, generating increased
10 returns means taking on higher risk. So if we don't
11 have the higher end of the DCAT, then we can't take on
12 a lower risk. And we don't know what that calculation
13 is right now, but essentially, the asset liability
14 management will tell us what's the upper amount of
15 bond -- bond purchases we could make. That -- did you
16 find that? Just one (1) second, I do want to pull
17 this out.

18

19 (BRIEF PAUSE)

20

21 MR. PETER YIEN: Yeah, that's a --
22 that's an estimate.

23 MS. KATHLEEN MCCANDLESS: So has
24 Mercer been asked or will Mercer be asked to look at
25 scenarios with an upper target lower than \$438

1 million?

2 MR. PETER YIEN: We haven't determined
3 that yet; that's part the -- what we will determine in
4 November.

5 MS. KATHLEEN MCCANDLESS: I'd now like
6 to ask some questions about undertakings that were
7 provided regarding the physical damage re-engineering
8 project.

9 MR. PETER YIEN: Yes.

10 MS. KATHLEEN MCCANDLESS: Diana, can
11 you please pull up Exhibit Number 33. And this is
12 answer to Undertaking Number 11, where the Corporation
13 was asked to provide a schedule of when it expects the
14 targeted staff reductions associated with the PDR
15 program to occur. So if we see the table here. PDR
16 full-time equivalent reductions forecast. Beginning
17 in 2018/19, there are thirteen (13) reductions; yes?

18 MR. PETER YIEN: Yes.

19 MS. KATHLEEN MCCANDLESS: And 2019/20,
20 there are nineteen (19) reductions; yes?

21 MR. PETER YIEN: Correct.

22 MS. KATHLEEN MCCANDLESS: 2020/21,
23 twenty-three (23) reductions; yes?

24 MR. PETER YIEN: Yes.

25 MS. KATHLEEN MCCANDLESS: And 2021/22

1 nine (9) reductions?

2 MR. PETER YIEN: Correct.

3 MS. KATHLEEN MCCANDLESS: So just one
4 (1) question about this forecast. We know that based
5 on Gartner's report that PDR should be complete by
6 2019/20.

7 MR. PETER YIEN: M-hm.

8 MS. KATHLEEN MCCANDLESS: So can you
9 just explain why the bulk of -- or not the bulk but
10 we've got thirty-two (32) terminations happening after
11 that end date for the program?

12 MR. PETER YIEN: Yeah, at a high level
13 any time when you inter -- PDF program, there's still
14 manual processes that are going on. And it's not like
15 conversion live to a new system, you simply have
16 people -- let people go.

17 Do you need more information than that?

18 MS. KATHLEEN MCCANDLESS: No, that's
19 fine. I -- I believe your earlier evidence was that
20 there would be thirty-three (33) FTE reductions
21 associated with physical damage re-engineering
22 project.

23 MR. PETER YIEN: Let me check. I know
24 it's thirty-two (32) or thirty-three (33). Yeah,
25 thirty-two (32).

1 MS. KATHLEEN MCCANDLESS: Thank you.
2 So according to this table now the Corporation is
3 forecasting sixty-four (64) reductions. Can you
4 explain?

5 MR. PETER YIEN: Yes, it -- it is more
6 than what we originally envisioned. So it's an
7 additional benefit that has not -- subject to check,
8 that -- that benefit of staff reductions has not been
9 included in the overall benefits of the PDR business
10 case. That -- that's additional beyond what we
11 anticipated.

12 MS. KATHLEEN MCCANDLESS: Can -- do
13 you know when this additional analysis was completed?

14 MR. PETER YIEN: Just let me check.

15

16 (BRIEF PAUSE)

17

18 MR. PETER YIEN: Yeah. Yeah, so this
19 wa -- this was there, but it was just not part of the
20 previous GRA.

21 MS. KATHLEEN MCCANDLESS: Do --
22 Gartner have this information?

23 MR. PETER YIEN: I'm not sure, let me
24 check.

25

1 (BRIEF PAUSE)

2

3 MR. PETER YIEN: Yes, they did.

4 MS. KATHLEEN MCCANDLESS: Thank you.

5 Diana, can we please go to Exhibit Number 42. This is
6 the answer to Undertaking Number 9. And this was
7 provided in response to the request for a breakdown of
8 the original budgeted amount for each of those seven
9 (7) now cancelled PDR projects. If we scroll to the
10 bottom of the page there we see that schedule, yes?

11 MR. PETER YIEN: Yes.

12 MS. KATHLEEN MCCANDLESS: And so we
13 have seven (7) cancelled projects. And in the budget
14 items on the right-hand side of the table, according
15 to my math, the total original budgeted amount for
16 each of these projects would be approximately \$11.3
17 million.

18 Is that accurate from your perspective?

19 MR. PETER YIEN: Let me check on
20 that...

21

22 (BRIEF PAUSE)

23

24 MR. PETER YIEN: Yes, it is. Yeah.

25 MS. KATHLEEN MCCANDLESS: And then if

1 we break it down into two (2) categories, we have
2 optimized adjusting and optimized repair, yes?

3 MR. PETER YIEN: Yes.

4 MS. KATHLEEN MCCANDLESS: Okay. And
5 my math says that \$4.1 million of those projects was
6 related to optimized adjusting.

7 MR. PETER YIEN: That sounds
8 approximately right, yes.

9 MS. KATHLEEN MCCANDLESS: And 7.2
10 million related to optimized repair, yes?

11 MR. PETER YIEN: Yes.

12 MS. KATHLEEN MCCANDLESS: Now if we go
13 to Exhibit Number 49, this was the response to the
14 request for the allocation of the Physical Damage Re-
15 engineering Project budgets to the seven (7) cancelled
16 projects. And if we look to Figure 1, these are the
17 cancelled PDR projects, the program categories on the
18 left-hand side, then we have the project name followed
19 by budget, and then LTD, which would be spend-to-date
20 actuals, would that be right?

21 MR. PETER YIEN: Yeah, that's li --
22 that's life-to-date.

23 MS. KATHLEEN MCCANDLESS: And then the
24 re-allocation of those budget items.

25 So, with respect to a line 4, optimize

1 adjusting enhanced registration card, we see a spend-
2 to-date of six hundred and eleven thousand (\$611,000)
3 dollars, yes?

4 MR. PETER YIEN: Yes. No -- no, six
5 hundred and eleven (611).

6

7 (BRIEF PAUSE)

8

9 MR. PETER YIEN: It's six hundred and
10 eleven (\$611) dollars.

11 MS. KATHLEEN MCCANDLESS: Okay.

12 MR. PETER YIEN: Okay, sorry.

13 MS. KATHLEEN MCCANDLESS: So, there
14 are no other life-to-date actuals for any of those
15 projects, does that mean that no money was spent on
16 those projects?

17 MR. PETER YIEN: That -- that's
18 correct.

19 MS. KATHLEEN MCCANDLESS: And at line
20 10, we see that out-of-province estimating and
21 enhanced registration card budget re-allocation
22 amounts of \$2.1 million, yes?

23 MR. PETER YIEN: Yes.

24 MS. KATHLEEN MCCANDLESS: And those
25 were allocated to other projects?

1 MR. PETER YIEN: Yeah. Yes.

2 MS. KATHLEEN MCCANDLESS: And that
3 would have been the out-of-province estimating at
4 seven hundred and seventy four thousand (\$774,000)
5 dollars? At line 1.

6 MR. PETER YIEN: Yes. So with --
7 yeah.

8 MS. KATHLEEN MCCANDLESS: And then
9 enhanced registration card would have been line four
10 at \$1.3 million, yes?

11 MR. PETER YIEN: Yes.

12 MS. KATHLEEN MCCANDLESS: If we go to
13 page 2 of this schedule -- this is Figure 2, so this
14 is called PDR Budget Re-allocation. And this contains
15 the revised budget flowing from the revision project
16 last year, yes?

17 MR. PETER YIEN: Yes.

18 MS. KATHLEEN MCCANDLESS: So in this
19 schedule what we see is the old budgeted, followed by
20 the life-to-date as at February 2016, yes?

21 MR. PETER YIEN: Yes.

22 MS. KATHLEEN MCCANDLESS: Okay. Plus
23 then we have additional bud -- amounts budgeted in
24 Columns C, D, and E, yes?

25 MR. PETER YIEN: Yes.

1 MS. KATHLEEN MCCANDLESS: And then
2 they equal the final overall budget in total new
3 budget under Column F, yes?

4 MR. PETER YIEN: Yes.

5 MS. KATHLEEN MCCANDLESS: So, this
6 table does not represent the original budget as a
7 starting point, correct? If we go back I can show you
8 the references: PUB Exhibit Number 15. And that was
9 the original PDR budget.

10 MR. PETER YIEN: Lets go back --
11 sorry, can you just flip to that?

12 MS. KATHLEEN MCCANDLESS: Diana will
13 pull it up for you. At page 2, at the bottom of the
14 page, we see the original budget.

15 MR. PETER YIEN: Yes, that's right.

16 MS. KATHLEEN MCCANDLESS: So my
17 reading of Figure 2 on Exhibit 49 is that it doesn't
18 reflect this original budgeted, it doesn't contain it.

19 MR. PETER YIEN: So can you flip back
20 to the other page, please. Got that. Can -- can you
21 scroll to the bottom.

22 So if you look at column -- original --
23 like if you look at the first column, column -- I
24 think it's Column A, it's -- so it's sixty-five point
25 forty-five (65.45) at the bottom though. That one

1 should tie.

2 MS. KATHLEEN MCCANDLESS: It does.

3 MR. PETER YIEN: Yeah.

4 MS. KATHLEEN MCCANDLESS: Yes. But,
5 for example, if we go back to the previous screen
6 --

7 MR. PETER YIEN: Yes.

8 MS. KATHLEEN MCCANDLESS: -- and we
9 look at the table there.

10 MR. PETER YIEN: Yes.

11 MS. KATHLEEN MCCANDLESS: And we see
12 the Optimized Adjusting Project.

13 MR. PETER YIEN: Yes.

14 MS. KATHLEEN MCCANDLESS: And on the
15 far right side, the seven (7) year program total.

16 MR. PETER YIEN: Yeah. Thirty-three
17 point (33.) --

18 MS. KATHLEEN MCCANDLESS: Thirty-three
19 million.

20 MR. PETER YIEN: Yes.

21 MS. KATHLEEN MCCANDLESS: And I
22 believe we confirmed earlier in your evidence that
23 that -- that initially contained the CARS replacement,
24 yes?

25 MR. PETER YIEN: Yes.

1 MS. KATHLEEN MCCANDLESS: Okay. And
2 we know from Gartner's report that \$29 million devoted
3 to that aspect, was removed from the PDR budget, yes?

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

6 MS. KATHLEEN MCCANDLESS: So then if
7 we go to the top as the page at Figure 2 here, we see
8 Optimize Adjusting, life-to-date at \$5.3 million, and
9 then we have the Interim First Notification of Loss
10 and Adjusting Model Budget of \$9.4 million, life-to-
11 date of two point one (2.1), and then a new budget of
12 3.6 million, yes?

13 MR. PETER YIEN: Yes.

14 MS. KATHLEEN MCCANDLESS: And so that
15 wouldn't -- that wouldn't add up to the initial \$33
16 million for the optimized adjusting?

17 MR. PETER YIEN: No. Yeah.

18 MS. KATHLEEN MCCANDLESS: Now if we
19 look to line 2, we see the Optimized Adjusting Budget
20 of \$5.3 million under the old budget and life-to-date
21 of five point three (5.3).

22 Are you able to advise what that spend-
23 to-date relates to specifically?

24 MR. PETER YIEN: Yeah, let me -- let
25 me check on that.

1

2

(BRIEF PAUSE)

3

4

MR. PETER YIEN: Yeah, so that's been
spent on the requirements for FNOL and CCRS.

6

MS. KATHLEEN MCCANDLESS: Okay. Thank
you. And if we go to PDR Attachment A from the
filing, and this is the Gartner report from this year,
and page 10, scroll down to the table at the bottom,
we have Table 1 detailing ongoing PDR projects spend-
to-date, and then the budget and the total, yes?

12

MR. PETER YIEN: Yes. Yes.

13

MS. KATHLEEN MCCANDLESS: And then on
the next page we have -- keep scrolling down to Table
2 -- completed projects and the amount spent on those
projects, yes?

17

MR. PETER YIEN: Yes.

18

MS. KATHLEEN MCCANDLESS: And that
includes spending up until March 31, 2017, yes?

20

MR. PETER YIEN: Yes.

21

MS. KATHLEEN MCCANDLESS: Okay.
Exhibit 39, we were just looking at the spend-to-date,
so the life-to-date column previously, that's life-to-
date as at February 2016, yes?

25

MR. PETER YIEN: Yes.

1 MS. KATHLEEN MCCANDLESS: Okay. So
2 the life-to-date, or the spend-to-date for these
3 projects would not necessarily be consistent with
4 what's been set out in the Gartner report then?

5 MR. PETER YIEN: Can I che -- let me
6 check on that.

7

8 (BRIEF PAUSE)

9

10 MR. PETER YIEN: So, as you know, to
11 prepare such reports we have to provide Gartner with
12 information that's a little bit older, so roughly six
13 (6) weeks older.

14 MS. KATHLEEN MCCANDLESS: Would that
15 make any material difference then in the numbers?

16 MR. PETER YIEN: Yes, it would.

17 MS. KATHLEEN MCCANDLESS: So if we
18 jump back to Table 1 of the Gartner report, page 10.
19 Thank you.

20 For spend-to-date, for customer claims
21 reporting system, Gartner indicates in Table 1 that
22 \$10.6 million has been spent to date?

23 MR. PETER YIEN: Yes.

24 MS. KATHLEEN MCCANDLESS: And that the
25 total budget is 23.3 million --

1 MR. PETER YIEN: Yeah.

2 MS. KATHLEEN MCCANDLESS: -- or 23.4
3 million?

4 MR. PETER YIEN: M-hm. Yes.

5 MS. KATHLEEN MCCANDLESS: And then the
6 budgeted timing of the spending per Gartner at
7 2017/'18 would be \$4.4 million, yes?

8 MR. PETER YIEN: Yes.

9 MS. KATHLEEN MCCANDLESS: And \$6.8
10 million in 2018/'19, yes?

11 MR. PETER YIEN: Yes.

12 MS. KATHLEEN MCCANDLESS: And then 1.5
13 million in 2019/'20, yes?

14 MR. PETER YIEN: Yes.

15 MS. KATHLEEN MCCANDLESS: So are you
16 able to reconcile where that budget line item would be
17 found in Exhibit Number 49 at Figure 2?

18 MR. PETER YIEN: Let me just -- yeah,
19 it's -- if -- line number 1, if you go all the way to
20 the top.

21

22 (BRIEF PAUSE)

23

24 MS. KATHLEEN MCCANDLESS: It's at line
25 1?

1 MR. PETER YIEN: Line number 1, yes.

2 MS. KATHLEEN MCCANDLESS: Thank you.

3

4 (BRIEF PAUSE)

5

6 MS. KATHLEEN MCCANDLESS: If we go
7 back to the Gartner report at Completed Projects,
8 Table 2, that's page 11, we see under Program
9 Management there's a website re-design and portal
10 consolidation at \$4.5 million?

11 MR. PETER YIEN: Yes.

12 MS. KATHLEEN MCCANDLESS: If we go
13 back -- sorry to make you jump around so much.

14 MR. PETER YIEN: No problem.

15 MS. KATHLEEN MCCANDLESS: Diana, at
16 line 16, has Website Re-design Phase 2. You see that
17 there?

18 MR. PETER YIEN: Yes.

19 MS. KATHLEEN MCCANDLESS: Okay. And
20 so does that relate to that item we were just looking
21 at in Gartner?

22 MR. PETER YIEN: Yeah, it -- it does.
23 It's the same line item.

24 MS. KATHLEEN MCCANDLESS: Okay. And
25 so the Gartner budget was \$4.5 million; yes?

1 MR. PETER YIEN: Yes.

2 MS. KATHLEEN MCCANDLESS: And we see
3 here that the old budget was \$4.3 million or \$4.4
4 million; yes?

5 MR. PETER YIEN: Correct.

6 MS. KATHLEEN MCCANDLESS: So this line
7 item came in slightly over-budget then, about a
8 hundred and plus thousand dollars over budget; yes?

9 MR. PETER YIEN: Yes.

10 MS. KATHLEEN MCCANDLESS: Then, if we
11 go back to Gartner at collaborative estimating, we see
12 that it was completed for \$10.8 million, yes?

13 MR. PETER YIEN: Yes.

14 MS. KATHLEEN MCCANDLESS: Okay. And
15 going back to MPI Exhibit 9, at line item number 22,
16 Optimized Repair Collaborative Estimating, the life-
17 to-date was \$10.8 million, yes?

18 MR. PETER YIEN: Yes.

19 MS. KATHLEEN MCCANDLESS: So it -- it
20 was completed on budget then?

21 MR. PETER YIEN: Yes.

22 MS. KATHLEEN MCCANDLESS: Then if we
23 look at Optimized Repair Direct Repair -- so that's
24 line item 24, Distributed Estimating.

25 MR. PETER YIEN: Yes.

1 MS. KATHLEEN MCCANDLESS: We have the
2 repair budget at \$4.7 million, yes?

3 MR. PETER YIEN: Yes.

4 MS. KATHLEEN MCCANDLESS: And if we go
5 back to Gartner, at page 11, we see Optimized Repair
6 Direct Repair -- so it's referred to as Direct Repair.
7 I believe it's the same item under Optimized Repair
8 there --

9 MR. PETER YIEN: Yes.

10 MS. KATHLEEN MCCANDLESS: -- at 5.1,
11 \$5.2 million; yes?

12 MR. PETER YIEN: Yes.

13 MS. KATHLEEN MCCANDLESS: So that
14 project then did come in over-budget as well; yes?

15 MR. PETER YIEN: Oh, it's under.

16

17 (BRIEF PAUSE)

18

19 MR. PETER YIEN: So the number you see
20 there in the Gartner, 5.15 million -- 5.16 million,
21 includes twenty-three (23) if you flip it to the other
22 schedule.

23

24 (BRIEF PAUSE)

25

1 MR. PETER YIEN: Okay. And if you
2 look at line 23 and 24, that would reconcile.

3 MS. KATHLEEN MCCANDLESS: So twenty-
4 three (23) being JSST and --

5 MR. PETER YIEN: Correct.

6 MS. KATHLEEN MCCANDLESS: -- a budget
7 item of one hundred and twenty-two thousand (\$122,000)
8 dollars?

9 MR. PETER YIEN: Yes.

10 MS. KATHLEEN MCCANDLESS: And it would
11 be added with the 4.7, \$4.8 million?

12 MR. PETER YIEN: That's correct.

13 MS. KATHLEEN MCCANDLESS: So it's
14 still slightly over-budget then, per Gartner, yes?

15 MR. PETER YIEN: It looks like it's
16 slightly over.

17 MS. KATHLEEN MCCANDLESS: If we go to
18 PUB Exhibit 15, which is the original budget for the
19 Physical Damage Re-engineering Program, we see that
20 there were -- at the very bottom of the table there is
21 a line for Implementation Costs and then in brackets,
22 and I think that's Program Management, yes?

23 MR. PETER YIEN: That's correct.

24 MS. KATHLEEN MCCANDLESS: And the
25 seven (7) year program total for that budget item

1 would be \$4.3 million, yes?

2 MR. PETER YIEN: Yes.

3 MS. KATHLEEN MCCANDLESS: And then, if
4 we go to Gartner's report from last year, at page 24,
5 that's PUB-MPI-1-56, it's the attachment, we scroll to
6 the bottom of the page at the bulleted items there, we
7 see a reference to a projected \$4 million overage in
8 Program Management likely due to the extended duration
9 of the program, yes?

10 MR. PETER YIEN: Yes.

11 MS. KATHLEEN MCCANDLESS: And then if
12 we go to the Gartner Report for this year, at page 10,
13 we see PDR Program Management detailing efforts
14 related to the ongoing projects at \$5.4 million total,
15 yes?

16 MR. PETER YIEN: Yes.

17 MS. KATHLEEN MCCANDLESS: Okay. And
18 then if we go to Completed Projects on the next page,
19 there is a -- an item for program management for
20 Mitchell Data Services and Website Re-design and
21 Portal Consolidation, yes?

22 MR. PETER YIEN: Yes.

23 MS. KATHLEEN MCCANDLESS: So Project
24 Management then would be roughly \$10 million,
25 according to Gartner, including ongoing projects?

1 MR. PETER YIEN: Let -- let me check,
2 that. That is Program Management, but let me check.

3

4 (BRIEF PAUSE)

5

6 MR. PETER YIEN: Could you repeat the
7 question?

8 MS. KATHLEEN MCCANDLESS: We were
9 looking at the initial budget for Program Management,
10 and then we moved on to Gartner's report from last
11 year, which indicated that Program Management was over
12 budget by \$4 million, then if we look to Gartner's
13 report for this year, we have \$4.5 million related to
14 web -- website re-design in Mitchell Data Services
15 under the heading of Program Management, yes?

16 MR. PETER YIEN: Yes.

17 MS. KATHLEEN MCCANDLESS: And then if
18 we go back to Table 1, we see that there is an
19 additional program management budget item at \$5.4
20 million, yes?

21 MR. PETER YIEN: Yes.

22 MS. KATHLEEN MCCANDLESS: So the
23 question was then: According to Gartner, the budget
24 for Program Management would be roughly \$10 million?

25

1 (BRIEF PAUSE)

2

3 MR. PETER YIEN: Okay. As the -- as
4 the -- as the program continues to involve (sic), I
5 think the key point is staying on budget for the
6 overall program. But for -- for a project of this
7 size, we've been reallocating some of the other
8 elements, if you will, of the budget to Program
9 Management, because there's overarching components,
10 that actually fits in the Program Management. So,
11 yes, it has been increasing.

12

13 MS. KATHLEEN MCCANDLESS: Okay. And
14 so can you confirm that, according to Gartner, then
15 the budget is roughly \$10 million?

16 MR. PETER YIEN: No, is -- it's not
17 actually. If you -- if you look at the schedule that
18 was provided -- can I just go back to the schedule
19 that you were showing?

20 MS. KATHLEEN MCCANDLESS: MPI Exhibit
21 Number 49?

22 MR. PETER YIEN: Yeah, yeah. So that
23 we know in totality what this looks like.

24 So just go down. Hold on a second.
25 Line 10 on the right-hand side on the second last

1 column, on the right, that's the total Program
2 Management piece that's been -- includes all the
3 allocations.

4 MS. KATHLEEN MCCANDLESS: Okay. So
5 that -- that is the -- the new budget.

6 MR. PETER YIEN: That -- that --
7 that's correct.

8 MS. KATHLEEN MCCANDLESS: Seventeen
9 point two (\$17.2) million dollars.

10 MR. PETER YIEN: That -- that's the
11 number, yes.

12 MS. KATHLEEN MCCANDLESS: And so is it
13 fair to say then that the Program Management budget
14 moved from \$4.3 million under the original budget to
15 seventeen point two (17.2) under the new budget?

16 MR. PETER YIEN: Yeah, subject to
17 check, that's pretty much -- yes.

18 MS. KATHLEEN MCCANDLESS: At line 18
19 we see an item for contingency of three point one
20 eight (3.18) mil -- or \$3.19 million, yes?

21 MR. PETER YIEN: Yes.

22 MS. KATHLEEN MCCANDLESS: And that's
23 the new budget from 2016/'17?

24 MR. PETER YIEN: I can't see the top
25 of the column. Yes, that's correct, thank you.

1 MS. KATHLEEN MCCANDLESS: Okay. How
2 was the Corporation able to determine such a precise
3 number for its contingency?

4 MR. PETER YIEN: Yeah, it -- it's not
5 as precise as it looks. Typically, for contingency,
6 it's a percentage applied to the project cost, so I
7 guess we could rounded up to three one three two zero
8 zero (313200). So no implications there in terms of
9 precision.

10 MS. KATHLEEN MCCANDLESS: Okay. And
11 that's a contingency on the project man -- or program
12 management?

13 MR. PETER YIEN: Yeah. Yes.

14 MS. KATHLEEN MCCANDLESS: And can you
15 explain why that's needed?

16 MR. PETER YIEN: Yeah, I can say
17 generically, then I can come back.

18 For a project of this scale it would be
19 irresponsible to not build in any contingencies.
20 There are always surprises, one (1) way or another.
21 Sometimes we run into complexities in itself and
22 requires more thorough discussions.

23 When we think about Program Management,
24 it is an overarching concept. Just -- just for those
25 of you that may not know what it is, when -- when we

1 run projects on their own, there is Project Management
2 and you manage each project.

3 But how the pieces fit together -- I
4 talked about interoperability of software, for
5 example, there's complexities that comes out of that.
6 And so Program Management is intended to be the glue,
7 if you will, that -- that's -- that understands that
8 there is -- if one (1) piece of software creates a
9 complexity, it could be a complexity of delivery of
10 functionality for example. So if Project A can't
11 deliver that functionality, well, where is it going to
12 deliver that?

13 So it's about encompassing and making
14 sure that the overall program delivers the benefits
15 that it has. So for something that complicated, one
16 has to build in a level of contingency to address
17 those unexpected complexities that come up.

18 MS. KATHLEEN MCCANDLESS: Thank you.
19 And so we see the spend-to-date for Program Management
20 at line 10 was \$8.3 million, yes?

21 MR. PETER YIEN: Yes.

22 MS. KATHLEEN MCCANDLESS: And then,
23 according to the new budget, we have \$8.7 million
24 budgeted to be spent, or is...

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

1 -- that inclu -- yeah.

2 MS. KATHLEEN MCCANDLESS: And so for
3 the \$8.7 million of the -- in the new budget, what
4 would be envisioned for that additional money --

5 MR. PETER YIEN: Yeah --

6 MS. KATHLEEN MCCANDLESS: -- to --

7 MR. PETER YIEN: -- let me check on
8 that.

9 MS. KATHLEEN MCCANDLESS: -- of the
10 project?

11

12 (BRIEF PAUSE)

13

14 MR. PETER YIEN: Okay, just quickly
15 restating, the contingency is the contingency of three
16 point two (3.2), and then the -- the rest is just
17 remaining oversight.

18 MS. KATHLEEN MCCANDLESS: Thank you.
19 Gartner also discusses the Project of Excellence, or
20 Centre of Excellence. And we can go to the Gartner
21 report at page 11 of the PDF. Right at the top of the
22 page there, we have the total budget for ongoing
23 projects, and then there's a related project, Centre
24 of Excellence, yes?

25 MR. PETER YIEN: Yes.

1 MS. KATHLEEN MCCANDLESS: And as at --
2 if we scroll up a little bit to get to the top of the
3 table we'll see -- sorry, the other direction -- we
4 see that for the date, so we have spend-to-date on
5 Project Centre of Excellence at \$3.9 million, yes?

6 MR. PETER YIEN: Yes.

7 MS. KATHLEEN MCCANDLESS: And then a
8 further \$2.3 million expected to be spent in 20 --
9 2017/'18, yes?

10 MR. PETER YIEN: Yes.

11 MS. KATHLEEN MCCANDLESS: And the
12 total budget of \$6.2 million, yes?

13 MR. PETER YIEN: Correct.

14 MS. KATHLEEN MCCANDLESS: And the
15 Centre of Excellence spending we've heard is not
16 included in the Physical Damage Re-engineering budget,
17 yes?

18 MR. PETER YIEN: Correct.

19 MS. KATHLEEN MCCANDLESS: Where is the
20 budget for the Centre of Excellence found in the
21 application? Where would it be found in --

22 MR. PETER YIEN: Let me check.

23 MS. KATHLEEN MCCANDLESS: -- IT
24 spending. Thank you.

25 MR. PETER YIEN: Let me check.

1 (BRIEF PAUSE)

2

3 MR. PETER YIEN: My apologies. If we
4 can refer to Expense Appendix 16. Yeah. And if you
5 can scroll down just a little bit, that's perfect. If
6 you refer to line 17, Physical Damage, Centre of
7 Excellence, and -- and then if we can also sho --
8 perfect you got it perfectly aligned. And line 34,
9 Physical Damage, Centre of Excellence, so if you take
10 those two, essentially, you got the PDR. So you take
11 the two ten (210), adding it to the two nine seven
12 five (2975).

13 MS. KATHLEEN MCCANDLESS: Thank you.
14 If we go back to Figure 1 of Exhibit 49 --

15 MR. PETER YIEN: Oh, my apologies.
16 There is one more line, also line 50 of the three-
17 seventy (370). So if you go down, yeah, line 50,
18 yeah, the three-seventy (370). So those are the three
19 (3) you need.

20 MS. KATHLEEN MCCANDLESS: Thank you.
21 Diana, can we please go back to Exhibit 49, the first
22 page, Figure 1.

23 On the right-hand side of the table, a
24 number of budget items are marked Unallocated Budget.
25 You see that there?

1 MR. PETER YIEN: Yes.

2 MS. KATHLEEN MCCANDLESS: And
3 according to my math, the total of those unallocated
4 budget items would be roughly \$9.1 million. Are you
5 able to confirm that?

6 MR. PETER YIEN: Subject to check,
7 that's pretty close.

8 MS. KATHLEEN MCCANDLESS: Can you just
9 --

10 MR. PETER YIEN: Nine point one seven
11 (9.17), one eight (18), something like that.

12 MS. KATHLEEN MCCANDLESS: Can you
13 explain what is meant by "unallocated budget"?

14 MR. PETER YIEN: Yeah, so -- so my
15 understanding is as we cancelled these projects -- the
16 spend is just not going to be there. So -- and we
17 found a way to not lose the business benefit related
18 to that. So consider that as a cost-saving for the
19 overall project.

20 MS. KATHLEEN MCCANDLESS: And then we
21 see at Note 3, Unallocated Budget balance. The
22 Unallocated Budget balance been re-allocated to
23 various remaining components of the PDR program, yes?

24 MR. PETER YIEN: Yes.

25 MS. KATHLEEN MCCANDLESS: So that's

1 what you're referring to?

2 MR. PETER YIEN: Yes.

3 MS. KATHLEEN MCCANDLESS: Thank you.

4 Those are my questions for Mr. Yien. Mr. Watchman
5 will have some questions on RSR and DCAT. So, this
6 might be a time to break.

7 THE CHAIRPERSON: Yeah, we'll break.

8 I have a conference call at 12:30 that should take
9 half an hour. So we will resume at 1:15, if that's
10 okay for the parties. Thank you.

11

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

13 --- Upon resuming at 1:17 p.m.

14

15 THE CHAIRPERSON: Mr. Watchman, are
16 you ready to proceed?

17 MR. ROBERT WATCHMAN: Yes, thank you,
18 Mr. Chairman.

19

20 CONTINUED CROSS-EXAMINATION BY MR. ROBERT WATCHMAN:

21 MR. ROBERT WATCHMAN: Good afternoon,
22 Mr. Yien, Mr. Johnston. As indicated, my follow-up
23 questions with -- will be with respect to the
24 actuarial evidence. So, most if not all, questions
25 for you, Mr. Johnson.

1 Diana, if we could call up MPI Exhibit
2 39. Thank you. And -- and just to refresh everyone's
3 memory we had discussed the concept of a capital
4 maintenance provision as part of the rate indication.

5 Do you recall that?

6 MR. LUKE JOHNSTON: Yes, I do.

7 MR. ROBERT WATCHMAN: And the
8 Corporation has been clear in its position that the
9 return -- the expected return on investments
10 supporting Basic total equity should not be included
11 in the ratesetting; correct?

12 MR. LUKE JOHNSTON: That's our
13 application, yes.

14 MR. ROBERT WATCHMAN: And my
15 understanding is that the -- the reason -- at least,
16 in part, is that this allows a means of natural growth
17 for the Basic rate stabilization reserve.

18 MR. LUKE JOHNSTON: That's correct.
19 By definition, if you use the investment income earned
20 on the rate stabilization reserve to directly lower
21 rates then you earn no investment income on the rate
22 stabilization reserve. So, it wouldn't be expected to
23 increase.

24 MR. ROBERT WATCHMAN: And would you
25 agree that the purpose has some overlap with the

1 concept of a capital maintenance provision?

2 MR. LUKE JOHNSTON: There would be
3 some overlap in the sense that all else equal, having
4 investment income stay in the rate stabilization
5 reserve would creates some growth in the RSR and not
6 quite in the same way as the maintenance provision,
7 but, at least the RSR would be growing more or less.

8 I don't know if it would be the same
9 rate at the -- at business growth, that would depend
10 on the size of the RSR. So if there -- if we had a
11 really big RSR, investment income would be greater.
12 If we had a low one investment income wouldn't be as
13 big, but similar concepts, yes.

14 MR. ROBERT WATCHMAN: And you recall
15 that there was also some discussion about the capital
16 maintenance provision that is used in -- well, with
17 the Saskatchewan auto fund.

18 Do you recall that?

19 MR. LUKE JOHNSTON: Yes, yes, I do.

20 MR. ROBERT WATCHMAN: And just for
21 the record, I don't think we need to go there, but
22 that was PUB-2-38.

23 And my understanding of that provision
24 is that the capital maintenance provision maintains
25 the status quo rather than strengthening of Basic's

1 capital position.

2 MR. LUKE JOHNSTON: That is also our
3 understanding, so, our interpretation of that is if
4 you have an MCT score of, say, 35 percent, you
5 wouldn't propose rates such that that ratio would
6 decline. You would have a maintenance fee to ensure
7 that it stays at 35 percent and -- and I'm assuming if
8 it's growing on its own without such a maintenance fee
9 that you wouldn't apply for -- for that.

10 MR. ROBERT WATCHMAN: Given that the
11 distinction between using investment return to grow
12 the RSR and the function of the capital maintenance
13 provision to maintain the status quo, would it be --
14 not be logical to expect that capital maintenance
15 provision would have less impact on rate setting than
16 -- than the non-inclusion of the expected return on
17 investment?

18 MR. LUKE JOHNSTON: I would expect use
19 of a capital maintenance fee to actually create more
20 rate volatility. And I can explain why.

21 Our proposal you're not using the
22 investment income on the RSR. So it's not even part
23 of the rate, so it hasn't -- there's no way that it
24 can create rate volatility because it's not in the
25 rate calculation.

1 The maintenance fee, on the other hand,
2 if your position changes and a maintenance fee is
3 required, say, you're going to need a 1 to 2 percent
4 maintenance fee, and then next year you don't, that's
5 1 to 2 percent rate var -- variability that we've just
6 introduced into the process because of the maintenance
7 fee.

8 MR. ROBERT WATCHMAN: Would you be --
9 would you expect there to be a timing element to the
10 implementation of a capital maintenance provision and
11 by that I mean, initially, the rate might be higher
12 until the -- until you achieve the target capital?

13 MR. LUKE JOHNSTON: I don't -- I don't
14 know the answer to that question. We didn't put
15 forward a maintenance fee idea but it's reasonable to
16 assume that, you know, there might be an
17 implementation process for that if -- if, say, for
18 example, the -- the first maintenance fee was a really
19 large number and we expected that to stabilize over
20 time, then I could -- that -- that's reasonable.

21 But, again, we have really just
22 responded to an Information Request, this isn't
23 something that we brought to our board as at proposal.
24 So the Corporation would want to think out that
25 process and share it with the board before committing

1 to any kind of implementation plan or maintenance fee.

2 MR. ROBERT WATCHMAN: Diana, if we
3 could turn to page 4 of that exhibit and so this
4 figure 1 is the calculation that the Corporation
5 prepared. Sorry. Yes, all right.

6 And in the first column under the
7 fiscal years, fiscal year ending 2019, the indication
8 is that the estimated capital maintenance rate would
9 be 4.26 percent; correct?

10 MR. LUKE JOHNSTON: That's correct.

11 MR. ROBERT WATCHMAN: And that is to
12 achieve a minimum capital test ratio, MCT ratio, of
13 42.76 percent?

14 MR. LUKE JOHNSTON: Yes. All we did
15 here was look at the projected MCT ratio in '17/'18
16 fiscal year and said that, again, we're just
17 responding to how we think this would be applied.
18 What maintenance provision would be required to keep
19 the MCT ratio at 42.76 percent in each year.

20 MR. ROBERT WATCHMAN: Thank you. And
21 -- and as we go across the table over the forecast
22 period through to fiscal year ending '20/'22, we see
23 that the estimated capital maintenance rate would drop
24 to something less than 1 percent for the three (3)
25 following years.

1 MR. LUKE JOHNSTON: That's true and
2 its -- it -- it is very much a function of our
3 forecast right now where there -- there are some
4 losses and in order to keep the main -- MCT ratio
5 constant, there is a -- a maintenance fee required.

6 MR. ROBERT WATCHMAN: And if we could
7 just turn back a page, Diana, to page 3, the bottom
8 half, and you see there the figure DCAT 1 from the --
9 from the GRA. And what this table sets out, first of
10 all, is the DCAT base scenario and -- and this base
11 scenario, as I recall, is effectively the rate
12 application forecast that's found in the pro formas?

13 MR. LUKE JOHNSTON: That's correct.

14 MR. ROBERT WATCHMAN: And with that
15 information you determined the MCT ratio, and for
16 2017/18, the ratio is 42.76 percent.

17 MR. LUKE JOHNSTON: That's right.

18 MR. ROBERT WATCHMAN: And that was
19 reflected in -- in the table that we just looked at.

20 MR. LUKE JOHNSTON: Yes.

21 MR. ROBERT WATCHMAN: But staying with
22 line number 6 there, we see that again through the
23 forecast period there is a decline in the MCT ratio
24 year to year?

25 MR. LUKE JOHNSTON: Yes, there is. If

1 -- if we made exactly zero dollars in net income each
2 year, we would still see a decline but the decline is
3 accelerated because of the losses in line number 2.

4 MR. ROBERT WATCHMAN: And from that
5 chart, my understanding is that the forecast would be
6 that as of February -- February 28th, 2019 the MCT
7 ratio would decline to 33.83 percent.

8 MR. LUKE JOHNSTON: That's right.

9 MR. ROBERT WATCHMAN: And am I right
10 in understanding that the 4.26 percent we just looked
11 at, that would be the amount required to drive the MCT
12 ratio back up to 42.76?

13 MR. LUKE JOHNSTON: Correct.

14 MR. ROBERT WATCHMAN: And staying with
15 that line item 6, is it fair to say that the decline
16 in MCT ratio over time is -- is due, at least in part,
17 to the fact that Basic hasn't yet achieved this steady
18 state that we've heard about where the claims
19 liabilities are -- are starting to match the
20 retirement of claim liabilities?

21 MR. LUKE JOHNSTON: That's -- that's a
22 difficult question. So what I believe you're asking
23 is, right now we continue to have -- growth in our
24 liabilities and -- and assets as we continue to add
25 claims to the -- to the program from -- from -- mostly

1 from PIPP.

2 At -- at some point, our claims
3 liabilities should stabilize at the point where there
4 is a -- we have such a big pool that the number of new
5 claimants coming in is actually lesser or the same
6 than the number of claimants that are dying or -- or
7 exiting the -- the population. So there will be a
8 point where, yes, business growth will slow down and
9 possibly even -- even plateau.

10 MR. ROBERT WATCHMAN: Thank you. And
11 as I said, part explains the decline, are there other
12 factors that cause the MCT ratio to decline?

13 MR. LUKE JOHNSTON: There is the net
14 losses on -- on line item -- item number 2, cause that
15 -- those would be the -- the two (2) main reason. So
16 we're -- yeah, we're assuming business growth which
17 creates increased risk. So, a relative level of
18 capitalization is declining, and then the -- then the
19 net loss is shown on line number 2.

20 MR. ROBERT WATCHMAN: Diana, if we
21 could go -- turn a page ahead, back to that figure 1 -
22 sorry, page 4. Thank you.

23 So looking at that estimate of capital
24 maintenance, and in those last three (3) forecasted
25 years where the rate stays below 1 percent, does that

1 give us any insight into whether or not capital is --
2 capital requirement is keeping up with this evolution
3 of the risk profile for Basic?

4 MR. LUKE JOHNSTON: I guess given the
5 size of the maintenance provisions, all being less
6 than 1 percent, the chart is suggesting that in that
7 first year we have a -- a larger adjustment. And then
8 the run -- kind of the run rate based on this Base
9 forecast with these assumptions in it is less than 1
10 percent maintenance per year.

11 And again, just to be clear, a
12 different forecast at a different time will, of
13 course, produce different -- different maintenance
14 fees. So, for example, if -- if for whatever reason,
15 we had a more optimistic outlook in the next GRA, then
16 we wouldn't have the same maintenance fees.

17 MR. ROBERT WATCHMAN: Thank you. I'm
18 going to change topics now. Diana, if you could
19 bring up MPI Exhibit Number 40. And -- and this was
20 pre-ask Number 5, PUB PreAsk Number 5 and it related
21 to earlier PUB Information Request 2-42.

22 And that related to the iterative
23 modelling that the Board advisors had requested with -
24 - in respect of estimating the upper threshold or
25 upper target for the capital.

1 MR. LUKE JOHNSTON: That's my
2 understanding, yes.

3 MR. ROBERT WATCHMAN: And again, just
4 to distinguish between this response and the earlier
5 response to that IR, here we -- we were requesting the
6 results after routine management regulatory rate
7 change actions. And specified that would not include
8 any routine RSR rebuilding fee actions.

9 Do you see that?

10 MR. LUKE JOHNSTON: Correct.

11 MR. ROBERT WATCHMAN: If we could turn
12 to the top of the next page, second paragraph, and it
13 begins:

14 "MPI is not currently forecasting
15 any routine management or regulatory
16 action after the fiscal year
17 2018/19."

18 And just -- as we just indicated, we
19 had requested routine -- the results be calculated
20 using routine management or regulatory action.

21 Can you explain the distinction or why
22 MPI did not forecast after the first fiscal year?

23 MR. LUKE JOHNSTON: I can. So our
24 interpretation, which is hopefully the same as yours,
25 is that there's two (2) types of management and

1 regulatory action. What you see in the table on -- on
2 the screen is what we will call management action in
3 response to an adverse event; that would not be
4 considered routine.

5 When we are asked for a routine
6 management action, the -- our interpretation of that
7 would be if you already know in your base scenario
8 that you're going to ask for a rebuilding fee or a
9 rate increase or such, then why don't you put it in
10 the base scenario; that would be my interpretation of
11 routine.

12 Our response to that is that this rate
13 application has all our management action in -- in
14 relation to the 2018/19, and then as you saw on the
15 earlier charts we're forecasting small net losses in
16 19/20, 20/21. I believe they're around to 7 to 8
17 million a year.

18 A lot of that is caused by the use of
19 the naive forecast and some losses on the existing
20 liabilities. There is no guarantee that we're having
21 a rate increase in those years so it's not in my base
22 forecast. And there is no indication from our board
23 that we have plans to have RSR rebuilding fees over
24 the forecast.

25 So, on that basis, I haven't included

1 either of those items in the -- as routine action.

2 MR. ROBERT WATCHMAN: Okay, so -- so
3 just -- just for clarification because the response
4 goes on, it says, Figure 1 shows assumed management
5 action.

6 MR. LUKE JOHNSTON: That's correct.

7 MR. ROBERT WATCHMAN: So -- and the
8 first part says,

9 "routine management or regulatory
10 action was not forecast beyond the
11 first fiscal year"

12 and the beginning of the next sentence
13 indicates that assumed management action was -- was
14 included.

15 Could you just clarify that for us.

16 MR. LUKE JOHNSTON: Yeah, we're just
17 saying in -- in our adverse scenarios that when --
18 when we run the adverse scenarios with management
19 action, we do have responsive action to these adverse
20 events, but our base case scenario doesn't have
21 routine management action built into it for the --
22 basically the reasons I just -- I just went through.

23 MR. ROBERT WATCHMAN: And that second
24 sentence then goes on to say:

25 "assumed management action,

1 excluding any routine rate
2 stabilization reserve rebuilding
3 fees."

4 And when we look down at figure 1, for
5 fiscal year ending in 2020 and '21 we appear to have
6 an RSR rebuilding fee built into the rate.

7 Can you -- can you explain that for us?

8 MR. LUKE JOHNSTON: As the same reason
9 the -- it's again your -- your words "routine" and the
10 management actions you see there are not considered
11 routine, so that was our interpretation. If we've
12 interpreted it differently than you I apologize.

13 But, our management actions in our
14 scenarios are not routine in the sense that they're
15 part of our base case of -- and that was our -- that
16 was our interpretation.

17 MR. ROBERT WATCHMAN: Thank you. The
18 -- the clarification I was looking for is that the
19 statement indicates there wouldn't be routine rate
20 stabilization reserve rebuilding fees, but the table
21 seems to indicate rate stabilization reserve
22 rebuilding fees.

23 And so that's just the clarification
24 that I'm looking for.

25 MR. LUKE JOHNSTON: No, that's --

1 that's -- that's fine. It's just in terms of the --
2 the wording route -- "routine" to us didn't -- like,
3 we're saying that these are -- these are in response
4 to an adverse scenario. If -- if that's your
5 interpretation of -- of routine response to adverse
6 events then -- then that is what -- what we used.

7 But -- and again, the -- the table just
8 shows what we -- what we used, and hopefully that
9 aligns with your interpretation of the word "routine"
10 but...

11 MR. ROBERT WATCHMAN: Diana, if we
12 could just scroll down the page a bit and you see the
13 second paragraph, that's good, second paragraph under
14 the table which refers to -- or refers us to Appendix
15 2.

16 And Appendix 2 is the results using the
17 1:40 year event, two-year combined scenario after
18 management action, and the indication is is that that
19 modelling would show an upper target or threshold of
20 295 million?

21 MR. LUKE JOHNSTON: Before I comment
22 on this, again, I have to pull you to the response at
23 -- on the first page. This is not an MPI scenario.
24 This is a -- a scenario, I'm assuming, that your
25 advisor has come up with. We're pretty clear that we

1 don't think it's reasonable. It's assuming \$305
2 million of transfers, as stated on this -- on this
3 page.

4 I can go through the cross, and until
5 you what the model output was for this scenario, but
6 in no way does the Corporation support these results.

7 MR. ROBERT WATCHMAN: Okay, un --
8 understood but, Diana, if we could go back to that
9 reference to Appendix 2.

10 So, the point being, that the modelling
11 that was requested resulted in an estimate of an upper
12 target of 295 million; correct?

13 MR. LUKE JOHNSTON: The 1:40, two (2)
14 year, 295 million, yes.

15 MR. ROBERT WATCHMAN: And -- and again
16 to refresh everyone's memory, the -- the point of
17 having an upper target or upper threshold -- threshold
18 and an old -- lower threshold was to provide a range
19 or -- or band, within which the total equity could
20 ride without there having to be a rebuilding fee or a
21 rebate?

22 MR. LUKE JOHNSTON: That -- that's
23 true, yes.

24 MR. ROBERT WATCHMAN: And can you tell
25 us, for the -- for the purposes of -- sorry, so -- so

1 the expectation is that if the target was at 295
2 million, that you wouldn't expect within that scenario
3 for target capital or the -- sorry, total capital to
4 decrease to below the lower threshold?

5 MR. LUKE JOHNSTON: That's correct.
6 I'm just trying to find here -- I know we used a
7 different, lower threshold, I believe, based on a
8 previous question from the -- the PUB. But yes, that
9 is the -- that's the idea of the -- the range
10 calculation.

11 MR. ROBERT WATCHMAN: Yes. And I --
12 and I think in -- and that's where I was headed. I
13 was just wondering what was the lower threshold that
14 was used for Appendix 2?

15 MR. LUKE JOHNSTON: Just one (1)
16 moment please.

17 (BRIEF PAUSE)

18
19 MR. LUKE JOHNSTON: If -- if -- it's
20 appropriate, I -- my recollection is that -- that it
21 reflects a 26 percent MCT. But I'm going to have my
22 back row look at it, rather than watch me search on
23 the computer, if that's -- if that's okay.

24 But I believe that the idea was that
25 there is a question that proposed, in a similar manner

1 as the -- as these, a lower target calculation. And
2 I'll try to get that reference for you.

3 MR. ROBERT WATCHMAN: If it's of any
4 assistance, it might be PUB-2-42.

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: We're checking.
9 I'm not -- I'm not seeing the answer here that I'm
10 looking for, but I'll try to get that to you in the
11 next few minutes. We're just getting the numbers.

12 MR. ROBERT WATCHMAN: Okay. I'll --
13 while -- while they're looking that up, perhaps we
14 could just turn to Appendix 2, and if you could just
15 identify for us, where within Appendix 2, we see the
16 figure of 295 million?

17

18 (BRIEF PAUSE)

19

20 MR. LUKE JOHNSTON: I'm not sure why
21 that number isn't on there, but we're just checking
22 right now. But I'll get back to you on that as well.

23 MR. ROBERT WATCHMAN: If I can give
24 you a reference; back in PUB-242, I believe it was
25 Appendix 4(c) that we were looking at, for the

1 determination of the upper threshold before routine
2 management.

3 MR. LUKE JOHNSTON: Can you repeat
4 that, please.

5 MR. ROBERT WATCHMAN: I believe that
6 when we talked -- or well -- when cross-examined
7 earlier with respect to the determination or
8 calculation or -- of the upper threshold we found it
9 in Appendix 4(c) to PUB-2-42.

10 And if we scroll down, Diana, to --
11 there it is, the second last line, Total Equity, and
12 we're looking at the columns -- sorry, have to go to
13 the top. We're looking at 2018-P and 2020-P, because
14 we are looking at a two (2) year horizon. And so, the
15 determination of the range in that scenario was an
16 upper threshold of approximately 315 million, with a
17 lower threshold of 161 million.

18 MR. LUKE JOHNSTON: Yeah, so -- yeah,
19 I -- I'm with you on that. I was expecting to see
20 the number that you're looking for on here. I'm just
21 not seeing it, so we're looking into that.

22 MR. ROBERT WATCHMAN: So am I correct
23 in understanding that in the modeling that we're
24 talking about now, after routine management, that the
25 lower threshold would be 161 million and the upper

1 threshold would be 295 million.

2 MR. LUKE JOHNSTON: My recollection is
3 is -- is yet -- yes, the one sixty-one (161), I
4 believe represents about 26 percent MCT, and then two
5 ninety-five (295) being the upper.

6 MR. ROBERT WATCHMAN: Okay. Thank
7 you. And -- and okay -- just so I have it again, the
8 expectation then is, if the upper target or total
9 equity, as of the end of fiscal year 2018, was 295
10 million, the expectation is that total equity would
11 not fall below 161 million, if we were dealing with
12 one (1) in forty (40) year event with a two (2) year
13 time horizon?

14 MR. LUKE JOHNSTON: Under the
15 conditions and assumptions of this scenario, that is -
16 - that is the case, yes.

17 MR. ROBERT WATCHMAN: Thank you. Mr.
18 Chairman, those are all of my questions.

19 THE CHAIRPERSON: Thank you, Mr.
20 Watchman.

21 Mr. Williams...?

22

23 CONTINUED CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

24 DR. BYRON WILLIAMS: Yes. And good
25 afternoon, members of the panel and MPI folks.

1 Perhaps, if we can do a couple more
2 cleanup questions where My Friends from PUB counsel --
3 M -- MPI Exhibit 49, Figure 2. MPI Exhibit 49,
4 Figure 2. And go down to line 27, please, Diana.
5 That's great, thank you.

6 Mr. Yien, you'll agree that at line 27
7 of Figure 2, to MPI Exhibit 49, is the placement of
8 \$1.7 million, approximately, for Shop Training
9 Management in the 2016/'17 budget for -- for the PDR.

10 Is that right, sir?

11 MR. PETER YIEN: That's correct

12 DR. BYRON WILLIAMS: And that would
13 have comprised part of the budget of 65.5 million that
14 was in place for '16/'17, agreed?

15 MR. PETER YIEN: Yeah, that -- that's
16 correct.

17 DR. BYRON WILLIAMS: And so we see
18 that that item is removed to the left -- excuse me, to
19 the right on line 27, has been moved out of the PDR
20 budget and into someplace called Corporate Learning
21 Management, sir?

22 MR. PETER YIEN: Yes.

23 DR. BYRON WILLIAMS: And, sir, should
24 we conclude from this that Shop Training Management,
25 that expenditure, will continue, but it will no --

1 just simply no longer be counted against the PDR
2 budget?

3 MR. PETER YIEN: Subject to check,
4 yes. Yes.

5 DR. BYRON WILLIAMS: And, sir, moving
6 up to line 19 for a moment, you'll see reference to
7 the Remote Estimating Project, agreed?

8 MR. PETER YIEN: Agreed.

9 DR. BYRON WILLIAMS: And as of
10 Gartner's evidence on Tuesday of this week, we
11 understand that project is now put on hold, sir?

12 MR. PETER YIEN: Yes.

13 DR. BYRON WILLIAMS: And you see
14 reference in the -- on line 19, relating to remote
15 estimating to a new budget in '16/'17 of seven hundred
16 and seventeen thousand (\$717,000), roughly, dollars,
17 sir.

18 MR. PETER YIEN: Yes.

19 DR. BYRON WILLIAMS: Was that money
20 spent?

21 MR. PETER YIEN: Yes.

22 DR. BYRON WILLIAMS: And we see on the
23 next line three hundred and nine (309) -- almost three
24 hundred and ninety-four thousand in the '17/'18
25 year.

1 Was that money spend as well, sir?

2 MR. PETER YIEN: I'm not sure where it
3 is right now, let me check.

4

5 (BRIEF PAUSE)

6

7 MR. PETER YIEN: Sorry, as I thought;
8 nothing significant for this year.

9 DR. BYRON WILLIAMS: Okay. I wonder -
10 - we're going to com -- Diana, in just a second, we're
11 going to come back to this exhibit. But if you can go
12 to PUB-1-56, Appendix B, page 24. So that should be
13 an excerpt from Gartner 2016.

14 Sir, directing your attention towards
15 the bottom of this page, being PUB Exhibit 1-56,
16 Appendix B. You see in this 2016 Gartner Group
17 report, that remote estimating back in 2016 was being
18 -- there's a reference to a \$1.8 million overage.

19 Do you see that, sir.

20 MR. PETER YIEN: I do.

21 DR. BYRON WILLIAMS: And would it be
22 correct to assume that "overage" means over the
23 original budget?

24 MR. PETER YIEN: Yes.

25 DR. BYRON WILLIAMS: What was the

1 original budget for remote estimating, sir?

2 MR. PETER YIEN: Just one (1) second.

3

4 (BRIEF PAUSE)

5

6 MR. PETER YIEN: Yeah, if we refer to
7 the previous exhibit of -- number 49, on line number
8 19, you would see what the original budget is.

9 DR. BYRON WILLIAMS: So Gartner was
10 rep -- reporting back in 2016, that -- that remote
11 estimating was 1.8 million over the two (2) -- the \$2
12 million budget, sir, is that your evidence?

13

14 (BRIEF PAUSE)

15

16 MR. PETER YIEN: My understanding is
17 that was a combination of projects. So if we can go
18 back to the Gartner Report, it should point out what
19 that is.

20 DR. BYRON WILLIAMS: So what I think I
21 hear you saying, sir, is how Optimized Repair Remote
22 Estimating is described in the Gartner Report from
23 2016 is somehow different than how it's described in
24 MPI Exhibit 49.

25 Is that what you're saying?

1 MR. PETER YIEN: There is more detail
2 in the Gartner Report, so, yes.

3

4 (BRIEF PAUSE)

5

6 DR. BYRON WILLIAMS: Just trying to
7 get a ref -- page reference number for you.

8

9 DR. BYRON WILLIAMS: While you're --
10 while your team is doing that, perhaps we can go on to
11 another question, and then we'll come back to that --

12 MR. PETER YIEN: Sure.

13 DR. BYRON WILLIAMS: -- and we'll just
14 make a note of that. That might be a little more
15 efficient.

16 Going down -- back to MPI Exhibit 49,
17 would I be correct in suggesting to you, sir, that we
18 will not see reference on this page to the \$2.189
19 million expenditure on predictive analysis loss
20 prevention?

21 MR. PETER YIEN: Sorry, which line are
22 you referring to?

23 DR. BYRON WILLIAMS: I'm suggesting to
24 you that there is no reference on this budget to
25 predictive ana -- analytics loss prevention and a
budget expenditure of 2.189 million.

1 Would that be fair?

2 MR. PETER YIEN: I don't see it here.

3 DR. BYRON WILLIAMS: So, if we go back
4 to Gartner, 2017 now, Diana, that's in Volume I, and -
5 - and specifically PDF page 11 of the Gartner Report
6 of May 26, 2017, Appendix A to PDR. So page 11,
7 please. And move down under "Others" on that page.
8 Keep going down just a little bit more there.

9 Sir, just to confirm, that expenditure
10 of 2.189 million related to predictive analytics is
11 not captured in your representation of the PDR budget
12 at Figure 2 of the MPI Exhibit 49?

13 MR. PETER YIEN: Yeah, subject to
14 check.

15 DR. BYRON WILLIAMS: Thank you.

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

17 DR. BYRON WILLIAMS: And likewise,
18 you've agreed with my Learned Friend that the 6.3
19 million associated to the Centre of Excellence is not
20 reflected in Figure 2 --

21 MR. PETER YIEN: That's correct, yes.

22 DR. BYRON WILLIAMS: Thank you.

23 MR. PETER YIEN: Sorry, we're still
24 looking for the answer --

25 DR. BYRON WILLIAMS: Okay, we'll come

1 back to that.

2

3

(BRIEF PAUSE)

4

5 DR. BYRON WILLIAMS: I'm sucking the
6 life out of you, hey? No -- a break is fine, yes.

7

THE CHAIRPERSON: We'll -- we'll take
8 -- we'll take ten (10) minutes. Thank you.

9

10 --- Upon recessing at 1:59 p.m.

11 --- Upon resuming at 2:09 p.m.

12

13 THE CHAIRPERSON: Okay.

14

MR. PETER YIEN: Mr. Williams, I do
15 have the answer for you. So, you're correct, the
16 original Gartner study that was done in 2015
17 estimated the project budget to be 1.2 million.

18

Then in 2016/17, there was a project
19 revisioning and based on our project revisioning we
20 estimated to \$1.8 million.

21

Since that time we've been looking at
22 different ways of achieving the same objective with
23 the ultimate goal to bring it back to the original
24 target of 1.2 million, and we're there right now
25 without -- without reducing functionality.

1 CONTINUED BY DR. BYRON WILLIAMS:

2 DR. BYRON WILLIAMS: Well, let's just
3 break that down for a second.

4 MR. PETER YIEN: Sure.

5 DR. BYRON WILLIAMS: When you say
6 you're there right now, you've put the remote
7 estimating project on hold, sir.

8 MR. PETER YIEN: Yes and that's the
9 est -- right. And that's the current estimate is 1.2,
10 right.

11 DR. BYRON WILLIAMS: Okay and just so
12 I'm clear, you've testified that it started at 1.2 and
13 then went to 1.8.

14 MR. PETER YIEN: That's correct.

15 DR. BYRON WILLIAMS: Okay. So when we
16 saw the reference in the Gartner Group to a \$1.8
17 million overage, is it your evidence that that was
18 actually the \$1.8 million revised budget?

19 What I'm trying to get at, sir, is was
20 there an overage of 1.8 million from that base of 1.2
21 million, or, was the revised budget presented by
22 Gartner 1.8 million?

23 MR. PETER YIEN: Okay, subject to
24 check.

25

1 (BRIEF PAUSE)

2

3 MR. PETER YIEN: Yeah, so like, if I
4 can just repeat it, just for perfect clarity.

5 The original budget was 1.2 million and
6 then the additional forecast added 1.8 million as part
7 of the revision, which brought it to 1.8 plus 1.2
8 which was the overage that you were talking about.
9 So, that brought it to \$3 million. And we revised
10 it and then it brings it back to \$2 million.

11 DR. BYRON WILLIAMS: So your project
12 on remote estimating is now \$2 million, but you've put
13 the project on hold, sir, because of a concern about
14 cost overruns in terms of the -- the equipment; is
15 that not -- was that not Gartner's evidence on
16 Tuesday?

17 MR. PETER YIEN: Yep, my understanding
18 that's correct.

19 DR. BYRON WILLIAMS: So while the
20 budget has been revised downward remote estimating has
21 been put on hold because it's, again, gone over
22 budget, sir?

23 MR. PETER YIEN: Just one (1) second.

24

25 (BRIEF PAUSE)

1 MR. PETER YIEN: So -- so you're
2 correct, we put it on hold and the reason why we put
3 it on hold is we have to assess whether it's
4 worthwhile continuing, and whether we would actually
5 realized the associated benefits. So that's why it's
6 sitting at 1.2.

7 DR. BYRON WILLIAMS: And, sir, do you
8 have an estimated value of those associated benefits?

9 MR. PETER YIEN: I'd have to check.

10

11 (BRIEF PAUSE)

12

13 MR. PETER YIEN: No, we're still
14 working on it. So until we get the associate
15 benefits, we're -- we're not going to proceed further
16 until we -- we know what that is.

17 DR. BYRON WILLIAMS: Thank you. I'd
18 like to turn to MPI Exhibit 16, and specifically,
19 Appendix 1, page 1, the PDF 1, statement of
20 operations.

21 And Mr. Yien, I don't know if you have
22 paper copies at hand or Diana may be able to help us
23 out. We are going to -- there's a couple -- I want to
24 compare this with pro forma from the volume 2 of the
25 application. At page 5 of 18 and I want to be

1 focusing on the '17/'18 year.

2 Mr. Yien, just while Diana is doing
3 this, MPI Exhibit 16 was in response to a Public
4 Utilities Board request to update their -- their pro
5 formas taking into account the actual market interest
6 rate as of September 30th, 2017. Agreed?

7 MR. PETER YIEN: Yes.

8 DR. BYRON WILLIAMS: And there was an
9 increase of 0.46 percent from when the General Rate
10 Application was filed; correct?

11 MR. PETER YIEN: Let me check.

12 DR. BYRON WILLIAMS: It's in the -- in
13 the preamble, sir.

14 MR. PETER YIEN: Yes.

15 DR. BYRON WILLIAMS: And that
16 consequently led to a -- a change in the projected
17 duration weighted investment return for the fixed
18 income portfolio; agreed?

19 MR. PETER YIEN: Agreed.

20 DR. BYRON WILLIAMS: So we have two
21 (2) screens in front of us and we're going to be
22 testing both your and my vision, sir.

23 But I'll suggest to you on the right is
24 the pro forma from the original application. You'll
25 accept that, sir?

1 MR. PETER YIEN: Yes.

2 DR. BYRON WILLIAMS: And on the left
3 is from MPI Exhibit 16. And I want to focus you on
4 the '17/'18 FB year, and in particular, on net claims
5 incurred for a moment, sir.

6 MR. PETER YIEN: Yes.

7 DR. BYRON WILLIAMS: So you'll see
8 going down on the right-hand side forecast was net
9 claims incurred of 815 thousand -- 815 million.

10 MR. PETER YIEN: Yes.

11 DR. BYRON WILLIAMS: Minus an interest
12 rate impact of \$75.6 million yielding 739.4 million
13 total claims incurred, sir?

14 MR. PETER YIEN: That -- that's
15 correct.

16 DR. BYRON WILLIAMS: And that claims
17 incurred interest rate impact was primarily associated
18 with the purchase -- expected purchase of corporate
19 bonds, sir?

20 MR. PETER YIEN: You're correct.

21 DR. BYRON WILLIAMS: Okay. Now, just
22 if we move now to the left-hand side of the dual
23 screen, you'll agree with me, sir, this is the -- the
24 Exhibit 16, correct?

25 MR. PETER YIEN: Yes.

1 DR. BYRON WILLIAMS: And again on the
2 '17/'18 year on net claims incurred we see a change in
3 net claims incurred, first of all, in -- in terms of
4 the interest rate impact, it has risen by roughly \$64
5 million, sir, to \$139.8 million?

6 MR. PETER YIEN: Yes.

7 DR. BYRON WILLIAMS: And that's a
8 reflection of the -- the higher anticipated investment
9 return on the fixed income portfolio, sir?

10 MR. PETER YIEN: One (1) second.

11

12 (BRIEF PAUSE)

13

14 MR. PETER YIEN: Yes, that would --
15 that would be true. You do have to look at the
16 offsetting --

17 DR. BYRON WILLIAMS: We're going to
18 come to that in just a second.

19 MR. PETER YIEN: Okay, yeah, that's
20 good, sure.

21 DR. BYRON WILLIAMS: I want to now
22 move one (1) line up and you'll see for net claims
23 incurred reference to 811.9 million as compared to the
24 815 million in the pro formas filed with the
25 application, sir?

1 MR. PETER YIEN: Correct.

2 DR. BYRON WILLIAMS: Do you see that,
3 sir?

4 MR. PETER YIEN: Yes, I do.

5 DR. BYRON WILLIAMS: And I'm not sure
6 if that is related to the premium deficiency
7 adjustment or not, sir, but can you explain?

8 MR. LUKE JOHNSTON: Yeah, I was just
9 looking and thinking that you would go there. If --
10 we'll -- we'll check and break it down, but if
11 interest rates go up, and we -- we -- so we would be
12 carrying premium deficiencies as a result of interest
13 rates largely, so if interest rate improves some of
14 our existing premium deficiency would -- would decline
15 and that would affect that number.

16 So that's likely the cause, but we'll -
17 - we'll have a look and if -- if we find something
18 different we'll let you know.

19 DR. BYRON WILLIAMS: So that's not an
20 undertaking, but subject to check that -- that
21 positive \$3.1 million reduction we're -- we're
22 assuming it's related to a premium deficiency
23 adjustment?

24 MR. LUKE JOHNSTON: That would be my
25 expectation. So that's a good assumption, yes.

1 DR. BYRON WILLIAMS: So if we could
2 turn now down to, again, the investment income, sir,
3 and drawing your attention back to the pro forma on
4 the right-hand side of the -- of the page.

5 You'll see it when the pro forma was
6 originally filed in terms of an interest rate impact
7 you had no -- no assumption of an interest rate
8 impact; agreed? And -- and that's because you were
9 working off the naive --

10 MR. PETER YIEN: Agreed. And -- and
11 that would be perpetual.

12 DR. BYRON WILLIAMS: And if we go now
13 to '17/'18 under investment income, interest rate
14 impact we see \$60.8 million forecast there in MPI
15 Exhibit 16; agreed, sir?

16 MR. PETER YIEN: Yes.

17 DR. BYRON WILLIAMS: And presumably
18 that's primarily related to capital gains losses in
19 the -- in the context of a rising interest rate
20 environment; agreed?

21 MR. PETER YIEN: Yes.

22 DR. BYRON WILLIAMS: So, sir, just
23 investment income itself going back to the right-hand
24 side of the screen, going up one line, we see in the
25 pro formas filed in support of the General Rate

1 Application for the '17/'18 FB year, it's anticipated
2 to be 101.8 million.

3 Do to see that, sir?

4 MR. PETER YIEN: Sorry, I lost you.

5 DR. BYRON WILLIAMS: So go on to the
6 right-hand side of the screen --

7 MR. PETER YIEN: Yes.

8 DR. BYRON WILLIAMS: '17/'18, the
9 investment income prior to any interest rate impact
10 was assumed to be 101.8 million, correct?

11 MR. PETER YIEN: Okay, sir.

12 DR. BYRON WILLIAMS: Sir, if we go to
13 the -- to the MPI Exhibit 16 we'll see that that
14 investment income is now anticipated to be reduced to
15 95.8 million prior to -- to any interest rate impact;
16 agreed?

17 MR. PETER YIEN: Yes.

18 DR. BYRON WILLIAMS: So that's about a
19 -- a \$6 million difference, sir?

20 MR. PETER YIEN: Yes.

21 DR. BYRON WILLIAMS: So, sir, my
22 clients can understand why you would have a capital
23 gains loss in a -- in a rising interest rate
24 environment, but can you explain and assist our client
25 in understanding why there would be a reduce in the

1 inter -- investment income? The line above.

2 MR. PETER YIEN: One (1) second.

3

4 (BRIEF PAUSE)

5

6 MR. LUKE JOHNSTON: So we're going to
7 look in more detail on -- into this, but one (1) thing
8 that happens automatically in our model is a re-
9 balancing to ensure that the -- the fixed income
10 assets are properly matched with the claims.

11 If -- what I suspect in -- in this
12 rising interest rate environment that the liabilities
13 have been reduced, and in the previous scenario, there
14 is possibly a re-balancing that occurred in the equity
15 portfolio that could flow through gains from -- from
16 equities but that's -- we're going to look into that.

17 Okay and I'm just told that it's mainly
18 cause the -- from re-balancing the -- the equity
19 portfolio.

20 DR. BYRON WILLIAMS: Thank you for
21 that. We'll ponder that for a -- for a moment -- more
22 than a couple moments. And thank you for that
23 explanation.

24 If we can go to MPI-35, just for a
25 second. And I realize that counsel for the Public

1 Utilities Board has already canvassed that. We can
2 just go to the first page of that exhibit, MPI Exhibit
3 35.

4

5 (BRIEF PAUSE)

6

7 MR. LUKE JOHNSTON: I'm sorry, I was
8 still talking to my back row there, did you ask a
9 question?

10 DR. BYRON WILLIAMS: I have not.

11 MR. LUKE JOHNSTON: Okay.

12 DR. BYRON WILLIAMS: I was just
13 waiting to get there. And these are fairly basic
14 questions, but... As we -- I was just waiting for
15 Mr. Johnston to get his note.

16 Would it be fair to say that modern
17 portfolio theory suggests that adding assets to a
18 diversified portfolio that have correlations of less
19 than one with each other can actually decrease
20 portfolio risk without sacrificing return?

21 MR. LUKE JOHNSTON: In -- in general
22 sense, yes.

23 DR. BYRON WILLIAMS: In essence, the
24 risk in a portfolio of diverse individual stocks will
25 be less than the risk inherent in holding any one (1)

1 of the individual stocks provided the rest of the
2 various stocks are not directly related; agreed?

3 MR. LUKE JOHNSTON: Agreed.

4 DR. BYRON WILLIAMS: And colloquial --
5 colloquially speaking, there is value in not putting
6 all your eggs in one basket; agreed?

7 MR. LUKE JOHNSTON: Agreed, yes.

8 DR. BYRON WILLIAMS: And without going
9 into details, when we look at the investment risk
10 assumed by Manitoba Public Insurance or Manitoba -- or
11 Saskatchewan -- SGI, one would want to take into
12 account the divers -- diversification of their
13 portfolios; agreed?

14 MR. LUKE JOHNSTON: Agreed.

15 DR. BYRON WILLIAMS: If we could go to
16 MPI Exhibit 46, and I'll suggest to MPI that this
17 information -- or this exhibit provides a state in
18 time summary of the shops in Winnipeg, Brandon, and
19 elsewhere in Manitoba that have qualified both for the
20 direct repair option, as well as the enhanced -- or
21 direct repair or direct repair plus; agreed?

22 MR. PETER YIEN: Agreed.

23 DR. BYRON WILLIAMS: And in terms of
24 the definition -- just directing your attention in
25 Figure 1, in terms of the term "repair capacity," I

1 wonder if you can assist just my clients'

2 understanding, what does that mean?

3 I'm presuming it means the percentage
4 of the marketplace that -- that -- that -- in terms of
5 repairs that these shops cover but I wonder if you
6 could help us to understand that.

7 MR. PETER YIEN: Subject to check.

8

9

10 (BRIEF PAUSE)

11

12 MR. PETER YIEN: So that capacity
13 repair as in the asterisk denotes that it's based on
14 2016/17 data. So your interpretation would be correct
15 for that year.

16 DR. BYRON WILLIAMS: And Mr. Yien,
17 you'll forgive me, but I didn't ask that question
18 really well. So just to make sure I have it.

19 What the total suggest based on 2016/17
20 data is that the shops that are currently qualified
21 for direct repair capture about 56.5 percent of -- of
22 the -- the volume of -- that was in the marketplace in
23 2016/17?

24 MR. PETER YIEN: Correct.

25 DR. BYRON WILLIAMS: And what we see,

1 sir, is -- in terms of direct repair the -- to date
2 the only five (5) accredited facilities are in the
3 City of Winnipeg?

4 MR. PETER YIEN: That's correct.

5 DR. BYRON WILLIAMS: And, sir, as part
6 of the rural strategy that Gartner Group and
7 yourselves spoke of on Tuesday, do you -- do you
8 remember that conversation?

9 MR. PETER YIEN: I do.

10 DR. BYRON WILLIAMS: Is one (1) of the
11 objectives to enhance the population and -- like, the
12 rural repair shops that are engaged both in direct
13 repair and direct repair plus, sir?

14 MR. PETER YIEN: I do know that
15 there's been lots discussions on how to enhance that.

16 DR. BYRON WILLIAMS: And -- and it --
17 you'd agree that it's -- it's a concern in terms of
18 the accessibility of these services for -- for
19 Manitobans in all parts of the province?

20 MR. PETER YIEN: Yes, we understand
21 that there's a need to address that.

22 DR. BYRON WILLIAMS: And do you have
23 any sense in terms of when the rural strategy will be
24 unveiled or finalized, sir?

25 MR. PETER YIEN: I'm not sure. I'm

1 going to just check.

2

3

(BRIEF PAUSE)

4

5 MR. PETER YIEN: So that's definitely
6 a board agenda and that's part of our business
7 strategy as part of the December 15th finalization of
8 that.

9 DR. BYRON WILLIAMS: And sir, if you
10 can't answer this, this is fine, but in terms of rural
11 Manitoba, are there particular areas of concern?
12 Like, in terms of the direct repair shops, are they
13 disproportionately in the south or elsewhere? Do you
14 have any sense of that, sir?

15 MR. PETER YIEN: I don't have that
16 information handy.

17 DR. BYRON WILLIAMS: We'll ask that
18 next year. Mr. Johnston, you don't need to turn here,
19 I don't think, but MPI Exhibit 48.

20 In terms of the prime rate forecast
21 used for the revenues chapter, sir, you'll agree that
22 it's an average forecast of the five (5) major banks
23 in global insight?

24 MR. LUKE JOHNSTON: Yes, that's
25 correct. And this -- when we were on discussing this

1 the other day, this was a forecast that was put in an
2 -- in -- during the forecast period and not updated
3 for the naive interest rate.

4 The impacts on the forecasts -- or the
5 rate is a -- is very minimal, about \$32,000. It's --
6 there's a rating year impact. But, this forecast
7 should have been a flat prime rate forecast.

8 But, per our response, what was used
9 was the -- the averages of the -- the bank forecast as
10 of March.

11 DR. BYRON WILLIAMS: Thank you.

12 MR. LUKE JOHNSTON: Mr. Williams, if
13 you don't mind, I can -- I can address your question
14 you wanted to ponder.

15 DR. BYRON WILLIAMS: Oh, please do,
16 sir.

17 MR. LUKE JOHNSTON: Per PreAsk 1 was
18 the original reference. If you look at accumulated
19 other comprehensive income, and you compare it between
20 the original and the updated, you'll see the -- the \$6
21 to \$7 million difference in the realization, yeah.

22 DR. BYRON WILLIAMS: Thank you, Mr.
23 Johnson, that's helpful. I want to turn to MPI
24 Exhibit 50 and, Diana, if you could turn there, and
25 then I do also want to make reference to the Gartner

1 report from 2017, page 17, which I think is attachment
2 (a) to PDR. But we'll go to MPI Exhibit 50.

3 And MPI in this response was asked to -
4 - to comment -- to provide information on the
5 estimated operating costs of the PDR program,
6 including maintenance cost, licensing fees and -- and
7 redevelopment; agreed?

8 MR. PETER YIEN: Agreed.

9 DR. BYRON WILLIAMS: And MPI indicated
10 in its response that it believed the invert --
11 information was commercially sensitive and was working
12 with the vendor to seek approval to release this
13 information; agreed?

14 MR. PETER YIEN: Yes.

15 DR. BYRON WILLIAMS: Can we go --
16 we'll come back to this in a second, but can we go to
17 the Gartner PDF page 17, towards the bottom under
18 maintenance costs. And just by way of summary under
19 maintenance costs, I'll suggest to you that Gartner
20 identified three (3) significant heads of maintenance
21 costs for Manitoba Public Insurance with relates --
22 with regard to the PDR project with the first being
23 solutions that are provided on a software as a service
24 basis and where those costs would be covered in the
25 subscription agreement. Agreed?

1 MR. PETER YIEN: Agreed.

2 DR. BYRON WILLIAMS: And we see,
3 Diana, if you just scroll between pages 17 and 18, it
4 captures about eight (8) solutions that are under --
5 under that type of subscription agreement, sir,
6 agreed?

7 MR. PETER YIEN: There's exactly eight
8 (8), that's correct.

9 DR. BYRON WILLIAMS: And if we go to
10 the middle of page 18, that's fine. Right there.
11 You'll see the first paragraph that appears starting
12 "second solutions," you'll agree with me that ano --
13 another is -- is through the paying of an ongoing
14 licensing fee which provides ongoing support and
15 maintenance. Agreed, sir?

16 MR. PETER YIEN: Yes.

17 DR. BYRON WILLIAMS: And again in the
18 middle of that page we see five (5) or so solutions
19 falling into that category --

20 MR. PETER YIEN: Yes.

21 DR. BYRON WILLIAMS: Agreed?

22 MR. PETER YIEN: Yes.

23 DR. BYRON WILLIAMS: And then towards
24 the bottom of page 18, you'll see a third set of
25 solutions that not only have a software maintenance

1 component, but also an ongoing need for development or
2 a physical asset replacement cycle; agreed?

3 MR. PETER YIEN: Correct.

4 DR. BYRON WILLIAMS: And if we moved
5 on to page 18, you'd see that there's probably four
6 (4) projects there, or solutions there?

7 MR. PETER YIEN: I think I've got
8 three (3) but yeah.

9 DR. BYRON WILLIAMS: Three, yeah. I -
10 - I apologize for that, three?

11 MR. PETER YIEN: M-hm, yes.

12 DR. BYRON WILLIAMS: So going back to
13 PUB Exhibit 50 -- MPI Exhibit 50, I apologize and
14 focusing, first of all, on next year. I'm not
15 interested in the disaggregated information, sir. I
16 want to focus on the aggregated information.

17 MR. PETER YIEN: Yes.

18 DR. BYRON WILLIAMS: Does MPI know the
19 actual amount of estimated operating costs for the PDR
20 program, including maintenance cost, licensing fees
21 and redevelopment for 2018/19?

22 MR. PETER YIEN: We -- we do have as
23 part of that a budget but that's subject to change.
24 So, we will have that.

25 DR. BYRON WILLIAMS: So you have an

1 aggregated amount --

2 MR. PETER YIEN: Based on -- based on
3 assumptions and estimates. There's a lot of
4 assumptions there you can appreciate.

5 DR. BYRON WILLIAMS: Okay. And you
6 would similarly have an aggregated amount for 2019/20
7 out through the anticipated thirteen (13) or fourteen
8 (14) years that we're looking at the benefits versus
9 costs of the PDR program?

10 MR. PETER YIEN: Let me check. I
11 don't know if it goes up thirteen (13), fourteen (14)
12 years, but I certainly know in the -- as a starting
13 point, yes, and then after that it would be subject to
14 inflation, and so forth.

15 DR. BYRON WILLIAMS: Okay. Why don't
16 you make that inquiry, sir, of your --

17 MR. PETER YIEN: Why -- why don't I do
18 that. Okay.

19

20 (BRIEF PAUSE)

21

22 MR. PETER YIEN: Thank you, Mr.
23 Williams. For the maintenance and license fees, our -
24 - our contract is for eight (8) years, so -- so we do
25 have that. Past -- and that -- that's subject to

1 escalation to CPI.

2 And then after the eighth (8th) year,
3 ninth (9th) year, there's re -- redevelopment that --
4 that the contract has to be renegotiated and there's
5 more uncertainty when we're talking redevelopment. So
6 we don't -- we don't have exact numbers after that.

7 DR. BYRON WILLIAMS: And I've had this
8 conversation with your -- your counsel, I'll just
9 indicate from our client's perspective, we would be
10 satisfied with an answer, in aggregate, in terms of
11 this answer. If -- if that solves some of your
12 confidentiality issues.

13 MR. PETER YIEN: I will, subject to
14 check, but it does so.

15 MR. STEVE SCARFONE: Well, what I can
16 add, Mr. Williams, is the contract, as you might
17 expect, between MPIC and the vendor has certain
18 protections in there for the vendor.

19 So, before we could commit to even
20 providing that information on an aggregate basis, we'd
21 like to at least have an opportunity to discuss with
22 the vendor the release of that information and get
23 their position on whether they'd be -- they may want
24 to resist, for commercial reasons, releasing that
25 information even on an aggregate basis.

1 DR. BYRON WILLIAMS: And I thank MPI
2 for that guidance.

3

4 CONTINUED BY DR. BYRON WILLIAMS

5 DR. BYRON WILLIAMS: Mr. Yien, just to
6 finish off, you understand that in the PDR package we
7 discussed a number of solutions. There's probably
8 thirteen (13) that we discussed so, presumably,
9 there's more than one (1) vendor involved and there's
10 many solutions involved as well. Agreed, sir?

11 MR. PETER YIEN: If you put everything
12 together, there is more than one (1) vendor.

13 DR. BYRON WILLIAMS: And --

14 MR. PETER YIEN: But I think in
15 specific cases it's about I think what Mr. Scarfone
16 was saying is if it's possible to deduce it, or some
17 other way of re-engineering a number then that puts
18 the contract at risk. But I'll leave it -- I'll
19 deferred it to Mr. Scarfone to do that check.

20 DR. BYRON WILLIAMS: Mr. Chair and
21 members of the panel, we thank you for your patience
22 and those are our questions.

23 THE CHAIRPERSON: Thank you very
24 much, Mr. Williams.

25 I just want to point out to everybody

1 just in relation to the last point, we do have a
2 process to deal with CSI and, you know, we've asked
3 the parties to follow that process. The panel's not
4 prepared to take an answer of, well, our contract says
5 this because at that point and, you know, this may be
6 for next year, at that point, the contract should be
7 privy to the Board and the Board will -- will review
8 it.

9 We can't go on the basis that MPI and
10 it's -- and its suppliers have basically decided that
11 they're not produc -- they're not going to submit the
12 contract. So, I just bring that to their attention.

13 My understanding is we're going to
14 adjourn at this point until 1:00 p.m.

15 MR. STEVE SCARFONE: Mr. Chair, I did
16 have a couple, not many, a couple of questions on
17 redirect.

18 THE CHAIRPERSON: Oh, okay, I'm
19 sorry, you're right, Mr. Scarfone, please -- please
20 proceed.

21

22 RE-EXAMINATION BY MR. STEVE SCARFONE:

23 MR. STEVE SCARFONE: Question for Mr.
24 Yien --

25 THE CHAIRPERSON: Sorry, Mr.

1 Scarfone, before -- Mr. Watson and I just asked the
2 panel whether there are any questions on -- on the
3 undertakings. Mr. Watson's indicated he has a
4 question.

5 MR. STEVE SCARFONE: Very well, thank
6 you.

7 THE CHAIRPERSON: Thank you.

8 BOARD MEMBER WATSON: Perfect. Diana,
9 can you turn to Information Request Round, 1, PUB-MPI-
10 1-2, number 4 of the PDF. A little bit farther down.
11 Yes, stop there, right there.

12 So in the middle paragraph it talks
13 about a board meeting and in regards to a 15 percent
14 elimination of approved management established as of
15 October 2016; is that correct?

16 MR. PETER YIEN: Yes.

17 BOARD MEMBER WATSON: Okay. Diana, can
18 you turn to day 1 of the transcripts, page 164, line
19 16. On your day 1 of the testimony it -- it says it
20 involves a 15 percent reduction in management FTE's
21 which we already achieved.

22 MR. PETER YIEN: Yes.

23 BOARD MEMBER WATSON: Is that correct?

24 MR. PETER YIEN: Yes.

25 BOARD MEMBER WATSON: And then if you

1 just turn to the undertakings, MPI Exhibit Number 20,
2 Undertaking Number 7. At the top of the page.

3 So in the answers to the undertakings
4 does that not say that it's going to take place in
5 December in the future?

6 MR. PETER YIEN: Yeah, it says "by
7 December" so we did it ahead of time. We had a
8 schedule so it was -- it's already done.

9 BOARD MEMBER WATSON: So the --

10 MR. PETER YIEN: There's no more.

11 BOARD MEMBER WATSON: So the targets
12 have already been matched --

13 MR. PETER YIEN: Yes.

14 BOARD MEMBER WATSON: -- it's been
15 achieved.

16 MR. PETER YIEN: Yes, so I don't want
17 to give you the impression there'll -- there'll be
18 more. I mean, certainly if -- if it happens, it
19 happens but we -- we are finished.

20 BOARD MEMBER WATSON: Okay, thank you.

21 THE CHAIRPERSON: Thank you. Mr.
22 Scarfone....?

23 MR. STEVE SCARFONE: Thank you, Mr.
24 Chair.

25

1 RE-EXAMINATION BY MR. STEVE SCARFONE:

2 MR. STEVE SCARFONE: Mr. Yien, before
3 lunch Board counsel and then later My Friend Mr.
4 Williams asked you questions about the physical damage
5 re-engineering program. Do you recall?

6 MR. PETER YIEN: I do.

7 MR. STEVE SCARFONE: And, sir, my
8 recollection is that the PDR program was a seven-year
9 project with an estimated budget of \$65 million.

10 Is that your understanding?

11 MR. PETER YIEN: It is.

12 MR. STEVE SCARFONE: You'd agree, sir,
13 that that's a -- represents a big project for MPI?

14 MR. PETER YIEN: Big project for MPI,
15 yes.

16 MR. STEVE SCARFONE: Maybe not trauma
17 big but big for Winnipeg?

18 MR. PETER YIEN: That would be not a
19 bad representation.

20 MR. STEVE SCARFONE: Okay. And Board
21 counsel brought in through certain budgeted items for
22 the program and variances in the revised budgets.

23 Do you recall?

24 MR. PETER YIEN: I do.

25 MR. STEVE SCARFONE: For example, the

1 program management.

2 MR. PETER YIEN: Yes.

3 MR. STEVE SCARFONE: And optimizing
4 repair?

5 MR. PETER YIEN: Yes.

6 MR. STEVE SCARFONE: Web redesign?

7 MR. PETER YIEN: Yes.

8 MR. STEVE SCARFONE: And the
9 contingency budget?

10 MR. PETER YIEN: Yes.

11 MR. STEVE SCARFONE: And Mr. Williams
12 raised with you the remote estimating?

13 MR. PETER YIEN: Yes.

14 MR. STEVE SCARFONE: We heard Mr.
15 Geffen in his evidence say that he could count on one
16 (1) hand the number of projects of this size that he'd
17 been involved with in his career.

18 Do you recall that testimony?

19 MR. PETER YIEN: Yeah. Yes. Yes,
20 indeed I was downstairs in I don't know what you call
21 that room but, yeah, I did hear that.

22 MR. STEVE SCARFONE: Okay. And what,
23 sir, in -- in your career, what's your experience with
24 respect to a project the size of the physical damage
25 re-engineering program?

1 MR. PETER YIEN: Okay, so you're
2 asking me to kind of put my CFO hat down and answer it
3 outside of my experience?

4 MR. STEVE SCARFONE: Yes. Yes,
5 please.

6 MR. PETER YIEN: I would say probably
7 about twenty (20) or so.

8 MR. STEVE SCARFONE: Okay. And in
9 your experience with those twenty (20) projects, sir,
10 is the -- the budgetary shuffling I suppose seen with
11 the physical damage re-engineering program, is that
12 unusual -- unusual or is it common in your experience
13 with projects of this size?

14 MR. PETER YIEN: Yeah, maybe I can
15 answer it this way. For -- for a project -- for one
16 (1) project, this kind of shuffling would not be
17 common. However, PDR is a -- an aggregate of projects
18 with varying levels of complexity and for a project of
19 this level of complexity, it would be highly unusual
20 for an organization to plan ahead of time and know
21 exactly what they need, the resources, the timing, the
22 constraints, the budgets and come back even a couple
23 years later and say, that's exactly how we planned it
24 and we got it perfect.

25 So to answer your question, is I would

1 find it highly odd and unusual if it did not change.

2 MR. STEVE SCARFONE: And those
3 projects that you spoke of earlier, those twenty (20),
4 were they -- were those projects of the same time
5 frame, five (5) or seven (7) years in length?

6 MR. PETER YIEN: Yeah, some of them
7 are never finishing projects, but they vary in length
8 from anywhere from three (3) to nine (9) or 10 years
9 and the size of the projects ran from anywhere from
10 100 to 500 million.

11 MR. STEVE SCARFONE: Thank you.

12 MR. PETER YIEN: You're Welcome.

13 MR. STEVE SCARFONE: Mr. Chair, that
14 was -- that was all I had for Mr. Yien and the panel.

15 THE CHAIRPERSON: Ms. McCandless...?

16 MS. KATHLEEN MCCANDLESS: Just one (1)
17 matter of housekeeping, when we were at the break
18 there was a discussion with Mr. Crozier and Mr.
19 Johnston about a correction to MPI Exhibit Number 40
20 which is the response to PreAsk Number 5.

21 So perhaps MPI could just clarify what
22 the issue is.

23 MR. LUKE JOHNSTON: Yes. I'm sure
24 everyone noticed I looked a bit lost on that response.
25 So there's two (2) parts to the question, with and

1 without management action and the question being
2 referenced -- there's exhibits that were filed --
3 there's two (2) sets and the -- the second set wasn't
4 filed in the answer, so, we'll -- we'll update that
5 answer to have all -- all the exhibits.

6 MS. KATHLEEN MCCANDLESS: Thank you.
7 That concludes everything for today. We will be
8 returning on Monday with the CAC witnesses. We will
9 start at 1:00 p.m. and then take a break around four
10 o'clock, and then resume with Ms. Sherry at 5:00 p.m.

11 THE CHAIRPERSON: Okay. Thank you
12 all. Have a good weekend. We'll will see on Monday.

13 MS. KATHLEEN MCCANDLESS: Thank you.

14

15 --- Upon adjourning at 2:51 p.m.

16

17

18 Certified Correct,

19

20

21 _____

22 Cheryl Lavigne, Ms.

23

24

25