MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2019/2020 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Robert Gabor, Q.C. - Board Chairperson

Irene Hamilton - Board Member

Carol Hainsworth - Board Member

Robert Vandewater - Board Member

HELD AT:

Public Utilities Board

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APPEARANCES

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TABLE OF CONTENTS

LIST OF EXHIBITS

LIST OF UNDERTAKINGS

LIST OF UNDERTAKINGS

--- Upon commencing at 9:06 a.m.

THE CHAIRPERSON: Good morning, everyone. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Good morning, Mr. Chair and members of the panel. Today we have the MPI Panel Number 3, which is revenue, expenses and ratemaking. We expect that this panel will be up and down today. I'm not sure if we'll be taking the full day or not, and then tomorrow we will not be sitting and we'll be returning on Monday for the IT panel. Thank you.

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

MR. STEVE SCARFONE: Good morning, Mr. Chair, yes?

THE CHAIRPERSON: I'm just wondering before we start I believe that everybody's been sworn in except Ms. Campbell?

MR. STEVE SCARFONE: That's correct.

THE CHAIRPERSON: Okay, so if I could have the secretary swear in Ms. Campbell, please.

MR. STEVE SCARFONE: And Mr. Guerra will be conducting the direct examination this morning.

THE CHAIRPERSON: Thank you.

MR. ANTHONY GUERRA: Thank you.

MPI WITNESS PANEL 3 - REVENUE/EXPENSES/RATEMAKING PANEL

LUKE JOHNSTON, Previously Sworn

MARK GIESBRECHT, Previously Sworn

CYNTHIA CAMPBELL, Affirmed

THE CHAIRPERSON: Mr. Guerra...?

EXAMINATION-IN-CHIEF BY MR. ANTHONY GUERRA

MR. ANTHONY GUERRA: Thank you, Mr. Chair and good morning. Just for -- for purposes of introductions, we can state that this panel comprised -- is comprised rather, Mr. Johnston, our chief actuary and VP of Product and Risk Management, Mr. Giesbrecht, our VP of Finance and our Chief Financial Officer, and as -- as is indicated, Ms. Campbell, who is I understand our Corporate Controller.

Also in the back row this morning, Mr. Dean Dunstone, the Assistant Manager of Reinsurance and Forecasting, John Krupinski, the manager of budgeting and Tai Phoa, the Manager of Pricing.

Ms. Campbell, since we've already heard

about the credentials of the other two (2) members of the front row, I'd like to get into a bit of a review of your credentials.

Can you provide us with your background specifically with respect to your education.

MS. CYNTHIA CAMPBELL: Thank you. My education, I am a chartered professional accountant with a CA as my legacy designation. I have a Masters in Accountancy and a Bachelor of Commerce Honours.

MR. ANTHONY GUERRA: And when did you obtain your chartered accountant profession designation?

MS. CYNTHIA CAMPBELL: 1998.

MR. ANTHONY GUERRA: And I understand that you are employed with MPI?

MS. CYNTHIA CAMPBELL: Yes, I am.

MR. ANTHONY GUERRA: How long have you been employed with MPI for?

MS. CYNTHIA CAMPBELL: Just over six (6) years.

MR. ANTHONY GUERRA: And where were you employed before then?

MS. CYNTHIA CAMPBELL: I was with the Canadian Wheat Board.

MR. ANTHONY GUERRA: And what were you

doing with the Canadian Wheat Board?

MS. CYNTHIA CAMPBELL: I was the corporate controller at the Canadian Wheat Board.

MR. ANTHONY GUERRA: And I understand that you're the corporate controller for MPI?

MS. CYNTHIA CAMPBELL: Yes, I am.

MR. ANTHONY GUERRA: Have you held that position for the entire six (6) years you've been employed?

MS. CYNTHIA CAMPBELL: Yes, I have.

MR. ANTHONY GUERRA: And can you tell me of some of your responsibilities as the corporate controller.

MS. CYNTHIA CAMPBELL: It's typical controllership functions. I've got the payroll team, accounts payable, accounts receivable, banking, investment accounting, financial reporting, budgeting and purchasing and I've got a financial operations team as well. So essentially, anything corporate accounting.

MR. ANTHONY GUERRA: Okay. And can you tell me if you were involved with the preparation, review, or other functions related to the preparation of the General Rate Application?

MS. CYNTHIA CAMPBELL: I was.

MR. ANTHONY GUERRA: And what was your role?

MS. CYNTHIA CAMPBELL: Primarily reviewer of the expense section and I also composed and reviewed some of the Information Requests, both Round 1 and Round 2.

MR. ANTHONY GUERRA: And I understand that your panel has prepared a presentation on the topics of revenues, expenses and ratemaking; is that correct?

MS. CYNTHIA CAMPBELL: That is correct.

MR. ANTHONY GUERRA: And my understanding is that Mr. Giesbrecht will be providing the -- the presentation on the issue of revenues; is that correct, Mr. Giesbrecht?

MR. MARK GIESBRECHT: Yes.

MR. ANTHONY GUERRA: And, Ms. Campbell, you'll be providing the presentation on the issue of expenses; is that correct?

MS. CYNTHIA CAMPBELL: That's correct.

MR. ANTHONY GUERRA: And, Mr. Johnston, you'll be providing the presentation on the issue of ratemaking; is that correct?

MR. LUKE JOHNSTON: That's correct.

MR. ANTHONY GUERRA: And just to confirm that the presentations that you will be provided (sic) will be adopted as your evidence; is that fair to say?

MR. LUKE JOHNSTON: Yes, it will.

MR. ANTHONY GUERRA: Yes...?

MR. MARK GIESBRECHT: Yes, is.

MR. ANTHONY GUERRA: Ms. Campbell...?

MS. CYNTHIA CAMPBELL: Yes.

MR. ANTHONY GUERRA: Okay. Previously we've circulated the -- the presentations to the members of the panel, to PUB counsel and advisors and to the Intervenors and advisors. We just would like to make sure that this is marked as an exhibit.

So, if we could have this marked as Exhibit MPI Number 25, please.

MR. KURT SIMONSEN: Thank you very much.

--- EXHIBIT NO. MPI-25: Presentations re MPI Panel No.3

CONTINUED BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: And so with that said, I'll ask Mr. Giesbrecht to -- to begin his presentation on the issue of revenues.

MR. MARK GIESBRECHT: Yes, thank you and good morning. So you have before you the agenda and as was mentioned, I will speak to revenues, Ms. Campbell will take us through expenses and then finally Mr. Johnston will take us through ratemaking.

These topics fit together nicely in that expenses are key input into our ratemaking methodology which then, ultimately, will flow into the end results in our revenues. As we know for this year MPI has applied for a .01 breakeven cost of policies.

This a good news story when compared to prior years and -- and a prior year rate application in that it's quite a bit lower on an AAP basis. And contributing to this nearly 0 percent rate ask are favourable expenses which contribute to about minus 1.5 percent for its component of the breakeven rate indication which we'll -- we'll hear from later.

If you can go back one (1) side to key issues, please. So a couple of key issues that we'll be discussing, firstly, we'll see under revenues there -- these really pertain not so much to this year's rate application, but more so to future years, but we will get a little bit into these, both service fees and the driver safety rating.

Within expenses, salaries and benefits is always a -- a critical item and we'll hear about that as it does represent over half of our total operating expenses. Also in 2017/2018, we did have a write-down of -- and some impairments and so we'll have some discussion on that.

And also with rate -- as it respects to ratemaking, there's no material changes to the methodology. However, we have heard about the CMP as it was discussed yesterday we won't speak at length. However, it will be brought up again briefly.

MR. ANTHONY GUERRA: And, Mr. Giesbrecht, just to confirm, because you're talking about the issue of revenues, just to be clear for everyone, is MPI seeking any changes to service fees or to the driver safety rating in this year's GRA?

MR. MARK GIESBRECHT: Not in this year's application, no.

MR. ANTHONY GUERRA: Thank you.

MR. MARK GIESBRECHT: Okay. On this slide before you you see a breakdown of the composition of MPI's revenues as it pertains to Basic and as we can see, the lion share represented is from motor vehicle premiums, about 93 percent while driver premium represent about 5 percent, and other fees and service fees are 2 percent. So, that gives you a bit of grounding in terms of what makes up total revenues within the Basic line of business.

On to the next slide we'll see the factors that make up our premiums. They've made up of a couple of components; firstly, the rate, volume, upgrade and other factors, and we'll discuss what those -- what those items all are.

Starting with rate for the 2019/'20 application, we know we have a rate change of 2.2 percent requested. This is comprised of a 0.1 cost of breakeven policies and a 2.1 net -- net capital minutes provision. The 0.1 increase to the breakeven cost of policies indicates that the cost of claims and operating expenses has been kept in check, while the 2.1 percent cost of the CMP is necessary to ensure we do not deplete capitals -- that the capital position of Basic.

Volume. Changes in volume essentially are additions to new vehicles on the road. As we have more people come to the province of Manitoba we anticipate to have more vehicles on the road and we forecasted this at about 1.5 percent, which is in line with -- with the recent trending.

Upgrade. The upgrade components

forecasted in this application at 2.39 percent. Upgrade factors include changes to makes and models, insurance uses and different territories. And so what we see here is as people are buying and selling vehicles and purchasing new vehicles, there's a shift in the characteristics. So, for example, with an upgrade there could be the average age of the vehicle or for seeing a shift to purchase of SUVs versus small compact cars, that will make a change in the overall makeup and that will contribute to upgrades.

Under the other section we have anti-theft discounts and fleet rebates. The anti-theft discounts, they make about a $2.4 million rebate to customers for this application year. As this program is now in runoff, this will then diminish over the -- the future years going forward.

And fleet rebates, owners of ten (10) or more vehicles may qualify for a fleet rebate. Customers will then either be charged a surcharge or a rebate, depending on their actual claims experience. Historically, rebates have hovered around $16 million, surcharge is at $2 million for a net rebate of about $14 million and this represents about an average discount of 21 percent to fleet owners.

Now moving along, we see how this flows

into our pro formas and this is a schedule that shows our earned premiums by the different types. You'll see on the top line for motor vehicles we have anticipated $1.05 billion for this application year. Again, this represents about 93 percent of total revenues. And motor vehicle premiums are forecasted to grow 6.4 percent in this application year, compared to 7.4 percent last year; and that's based on all the factors we talked about in terms of upgrade, the rate, the rebates and -- and so on.

And this year will mark the first year that on an earned basis, we anticipate to be -- to eclipse the $1 billion mark for earned premiums. So, it's a bit of a milestone year for the Basic line of business.

Moving along to revenues from driver premiums. So a couple components here and this chart will depict the base fee of the $45 driver licensing charge, as well as the DSR impacts and surcharges. And this is on a net basis because on the merit and demerit side, there are either rebates or surcharges. On a net basis, what we see is about 43 percent of the total amount comes from those surcharges. And so this equates about $30 million of the total -- of about 70 million, and this serves as a really strong incentive to improve driver behaviour which has been shown to lead to safer roads for Manitobans.

On to the next slide, we will see how that equates to dollars. As I mentioned for driver premiums for this application year at $69.8 million. And you'll notice a bit of a jump in the trend in the '20/'19 budget year and a '20/'20 year and that stems from the changes that were ordered last year as we had changes to the DSR's scale, that was the equivalent to a 1.8 percent rate increase. We're seeing that filter in and after that change will flow through the financials that is then expected to slow down to about a 2 to 3 percent change thereafter.

So you do see a bit of jump in the year over your numbers there, and then it comes down to a more steady growth.

On to reinsurance. Reinsurance, simply put, is insurance for insurance companies. There are two (2) primary reasons for reinsurance; one is to mitigate risk and to transfer that risk and, by default, that will help to reduce volatility. Secondly, it's used to manage capital requirements.

So our current strategy and our current program has two (2) main components: One is on catastrophic risk, where we have a limit of $15 million. And a good example of this was in June we had a large hail event. We incurred about $30 million in losses; that was on one (1) single event. And so that triggered reinsurance where we recaptured about $14 million.

Also, we do reinsure large casualty events where we retain the first $5 million. And an example of this could be if one of our insured drivers were to, for example, hit a train, cause a large derailment, you know, a spill that may need to be cleaned up or loss of cargo, those kind of thing, there could be a large loss and we will cap that loss at $5 million.

Moving along, we'll now see how that flows into our financials. So the reinsurance seated. This is a charge. There is a charge to transfer this risk and we see here that it's forecasted to remain in around $11 or $12 million based on new changes to the program and in line with our -- our growth and our program.

Now, these numbers could change if we were to change the structure of the program. And as we heard on the opening day from our CEO and his opening remarks, we are reviewing different options; one (1) could be an aggregate cover which would allow us to, you know, cap our losses in terms of, if we had a number of small storms that were to exceed a certain dollar amount, say, $15 million rather than one (1) large storm it would enable us to -- to manage those losses and -- and help their volatility. So that -- that will be one (1) thing that we'll be looking at that. That is not part of this application. It's not part of these numbers, but to just let you know that these numbers could change if we were to employ a strategy of that nature.

Next we have service fees and other revenues. So we do have various revenue sources that come from transactions and services offered to customers. These include financing and interest costs, late charges and NSF fees, driver's education course fees and other various transaction costs.

Over 50 percent of these fees come from interest revenues. The majority of the fees have not been changed or updated in the last twenty (20) years. So we have completed a jurisdictional scan to -- to evaluate those fees and compare against other areas.

Since this initial re -- review was completed, MPI's been working with government to assess the appropriateness of both the MPI and the government side of these fees. The results of the analysis is currently sitting with government for consideration.

Now, in the next slide we'll see the dollar amounts associated with our service fees, and we can see that it -- that it ranges from a value of about 22.8 million and forecasted to grow to $31.6 million. Again, there are no changes or -- no changes in this application as it pertains to service fees.

The growth here is -- is all based on organic growth and the main driver continues to be from interest on premium financing.

So with that, I'll pass it over to Ms. Campbell to discuss expenses.

MS. CYNTHIA CAMPBELL: Thank you, Mr. Giesbrecht. Thank you for the opportunity to speak today. I'm going to take a couple of minutes and outline the operating expense forecast for the 2019 rate application and how it does not impact the rate request being made.

Prudent fiscal management is a priority at MPI. There is over a 2 percent reduction in operating expenses for the rate years compared to the prior year rate application and, as a result, the operating expenses do not factor into the increase in this application. So, prudent fiscal management is a prominent activity and mindset at MPI. Expenses continue to be actively managed and they do not factor into any rate increase.

Annually, MPI needs to factor in contractually negotiated economic and merit increases associated to salaries. Generally, that's around 3.5 to 4.5 percent per annum. Also coming into play is the general price increases relating to inflation. Those are also contractually bound and they're generally around the CPI rate, which is around 2 percent. So despite these unavoidable increases, the Corporation is still showing normal operating expenses decreasing by approximately 1 percent for the '19/'20 year from the '18/'19 point.

The Corporation continues to seek ways to reduce expenses and one (1) of these is via building expenses. And we do that by either deferring expenses through synergies or avoidance. Other examples include reducing sponsorships or changing our fleet management.

Prudent fiscal management is also being demonstrated through approximately a fifty (50) FTE reduction of FTEs being expected over the next several years due to normal operating decreases and efficiencies related to improvement initiatives.

Basic operating expenses do not factor into the 0.1 percent rate increase outside -- which is outside of the CMP increase. In fact, the operating expenses, essentially, hold flat through 2022 to 2023.

On the next slide to illustrate MPI's prudent fiscal management, we've outlined operating expenses compared to net premiums earned. As you can see, this ratio decreases from 25.6 percent in 2014/'15 to 20.4 percent in 2019/'20. This is a 5.2 percent decrease in Basic operating expenses when compared to the growth in net premiums earned.

And if you're wondering about the small blip in '17'18, that has to do with the writeoff -- or the impairments of some of our projects. So there was an increase in expenses in '17/'18.

On slide 17 if you refer to the yellow highlighted line entitled "Total Basic Allocated Corporate Expenses", when you compare the current year rate application to the forecast from the prior year, we've demonstrated that Basic expenses have again reduced. The reduction is $5.1 million or 2.2 percent from the prior year application.

This decrease is due to continued concentration on expense management, as well as improvement initiative reductions. These reductions are despite contractual expense increases embedded into our business.

On the next slide, this chart shows the forecasted basic expenses over the next several years in comparison to the previous two (2) rate applications.

MPI is continually finding new ways to reduce and manage expenses. The expense forecast reductions are part of a solution not driving any rate increases and it continues to demonstrate our corporate prudent fiscal management.

On slide 19, the largest single operating expense category that MPI deals with is compensation which is -- comprises approximately 58 percent of all corporate operating expenses. As I've -- as I've stated, MPI is faced with Manito -- mandatory annual increases relating to economic and merit compensation increases from our negotiated union contract.

Both the economic and the merit compensation increases combined range over 3 percent per annum, however, we've been able to keep our Basic salaries' expected growth on an annual average of 2.9 percent from 2018/'19 through to '20/'21.

Another factor that -- another factor

in compensation is overtime. That has reduced significantly over the last several years and it is expected to remain flat through the forecast. If we change to the next slide.

This shows that despite the 1.75 percent merit increase assumption, combined with the economic increase of upwards of 2 percent that the Corporation has managed compensation increases at below these levels. And again, one (1) of the tactics we've used is to reduce the FTEs by re-purposing our FTE need or by reducing it.

On the next slide -- another factor impacting 2019 application compared to the 2018 application are the project impairments which were recognized in '17/'18. We have listed the impairments on this slide and although they mainly impact the '17/'18 year, they will impact future years.

The decision to impair these projects was based on applied principles and standard internal practices. We determine whether a writeoff is applicable based on whether or not there is an absence of future value, or whether or not the work was not eligible to be capitalized such as research work or software investigation.

And as I noted, although the

impairments had primarily a negative impact on the '17/'18 year, they also have an offsetting favourable impact for '18/'19 and beyond by reducing the forecasted amortization expense.

THE CHAIRPERSON: Ms. Campbell, I'm sorry to interrupt you.

MS. CYNTHIA CAMPBELL: That's okay.

THE CHAIRPERSON: Impairment -- is that an analogy -- sorry -- the same as termination?

MS. CYNTHIA CAMPBELL: Impairments --

THE CHAIRPERSON: It's the first time I have ever heard this term used in this context.

MS. CYNTHIA CAMPBELL: Okay. An impairment of deferred development costs is actually probably more of an accounting terminology.

THE CHAIRPERSON: Okay.

MS. CYNTHIA CAMPBELL: So, if it's impaired, we've spent the money, we've put it -- cap -- we've capitalized it on our books and what we're saying is, it doesn't have future value -- so --

THE CHAIRPERSON: Okay. So you -- so you, you've terminated the project then, I would assume?

MS. CYNTHIA CAMPBELL: The majority were terminated projects. Some of them were deemed not to be eligible for capitalization because they didn't have future value.

THE CHAIRPERSON: Okay.

MS. CYNTHIA CAMPBELL: Or they were research in nature. There were some that -- there was initial research done. It was capitalized because we thought we were going to take that approach and so it was base work but when we took a look at the final solution we were going to take on the project, it was deemed that it was research work and it wasn't the -- the approach we were going to take it, so, it didn't have the future value.

THE CHAIRPERSON: So this would be the accounting consequence of a decision made?

MS. CYNTHIA CAMPBELL: Correct.

THE CHAIRPERSON: Okay. Thank you. I've never the term used before in this context. Thank you.

MS. CYNTHIA CAMPBELL: My apologies for using --

THE CHAIRPERSON: No, no not your apology. It's something new. Thank you.

MS. CYNTHIA CAMPBELL: So overall what I was going to say was MPI has maintained effective control over expenses and the expense forecast is not a primary driver in any rate increase in the 2019 rate application. I will now turn it over to Mr. Johnston who will be talking about ratemaking.

MR. LUKE JOHNSTON: Thank you. Okay. Basic ratemaking. The first bullet there talks about -- that our ratemaking methodology is -- is -- we consider it very -- proven and stable over time. We recognize that we recently moved to accepted actuarial practice, but as we said at the time, the majority of the ratemaking methodology did not change, just some of the calculations particular -- in particular, moving from a financial statement view to a typical accepted actuarial practice change, but the methodology has remained fairly consistent over time.

In the second points, you heard a little bit about some of the expense savings and obviously those translate into the rates so you'll -- expenses per vehicle are down by half a percent and claim costs growth was inflationary, essentially off -- offset by our natural upgrade.

So on the third bullet point, as you know, those are the -- the three (3) components of the re-ask 0.1 AAP rate indication and capital maintenance provision of 2.1.

Not -- I don't have a lot to say on

this chart. It's our major class rate indications. The -- the four (4) biggest major classes on -- on -- the vehicles on the road all have rate indications which I would say are relatively close to the overall average of around 2 percent. And you can see private passenger vehicles are currently paying an average of about $1138 with the other classes are shown there, motorcycles for example, about $822.

Oh, I'm sorry. If -- as mentioned, these numbers in the table don't mean that every vehicle in that class has the same rate change, we look at everything affecting vehicle rates each year -- insurance use, territory, things that -- rate group and -- and we update those -- those rating factors.

In this application, about 70 percent of vehicles have a rate change that's less than a $50 increase or less than a 5 percent increase, so, a rate decrease or -- or a moderate increase.

This table is a bit comp -- complicated looking, but I think it's a good one. What -- what is in the table here is the cost per vehicle of each of the items on -- on the left side. So we -- we men -- I mentioned before that really everything that flows through Basic financial statements likely has an impact on rates.

So I'll just use an example here, operating expenses in last year's GRA we were charging the equivalent of $63.44 per vehicle unit to cover the Corporation's operating expenses. Based on this year's updated forecast that's $62.48 for a 1.5 percent decrease.

So in this application we've talked about expense reductions. They flow-through obviously into the -- into the rate setting.

As everyone knows, claims would be the biggest portion of that -- those costs for -- and then -- then this year the -- the average cost of claims per vehicle unit increased by about 2 percent.

CONTINUED BY MR. ANTHONY GUERRA

MR. ANTHONY GUERRA: Mr. Johnston, just before you leave this slide, I wanted to ask you just about the -- the vehicle upgrade factor because, as been mentioned and is seen quite clearly on the slide, it -- it represents at 2.1 percent decrease in the rate ask for -- for breakeven rates.

Can you explain a little bit more about how that upgrade factor applies in this case?

MR. LUKE JOHNSTON: Yes. So, Mr. Giesbrecht spoke about it a little bit. When we set rates every year, the intent is that not only on an overall basis our rates breakeven, but within each of the vehicle classes and -- and -- and really every rate we're hoping is breakeven. So it's not going to be perfect, but that's -- that's the idea.

If -- if a individual has a older vehicle, and has a eight hundred dollar ($800) premium, and they sell it, and buy a -- a new car and then obviously, they have a fourteen hundred dollar ($1,400) premium, that would be a premium upgrade for us. We -- we didn't change our rate -- anyone's rate, but they -- they pay more rate because they had a -- they got a new car. In the -- in the same way, their claim costs are also going to be higher, because our rates are supposed to be correct, and they're supposed to be correct if an eight hundred dollar ($800) car and a fourteen hundred dollar ($1,400) car.

So if -- in -- in this case, basically, what it's saying is claims costs have gone up by about 2 percent and our upgrade factor is about 2 percent. And really, there is a completely offsetting impact between people moving to a higher rate of vehicles and the cost of those vehicles. So really -- it's really a great news story, but really, we've kind of held the same -- we've held the line on collision costs basically at the -- at the rate of the upgrade.

Okay. So that's a little bit hard to follow, but -- but that's -- that's good news. If -- if the cost of repairs, and -- and such are increasing faster than the national upgrade, we would need a rate increase unless we had big savings on the expense side, okay.

On the -- where it says "impact of discounting," all of the costs in the top half the table are discounted, and that's that discount rate interest rates that we talk about here all the time. What is the rate -- rate to discount the -- the cash flows? So in this year's application, the updated interest rates for discounting are lower than they were assumed in the 2018 application, so you see the effect of the -- the discounting is less eighty-one dollars ($81) this year, instead of ninety-three (93).

And so in total, all items that feed into the rate have -- have resulted in a need for a 2.3 percent increase in the required rate. However, 2.1 percent of that occurs naturally through the vehicle upgrades. We don't need to ask for that. It -- it -- we already expect that it's happening.

And then on the second last line from the bottom, there's something that says, "DSR discount for vehicle for hire vehicles." This is the special taxi adjustment that we made. So for taxis, we recognized that there was a new vehicle for hire program being implemented. Obviously, MPI didn't know exactly how their market share was going to be impacted by that -- by that -- by that change.

I can tell you today, there's about as many passenger vehicle for hire vehicles on the road as there are taxis. So there's about four hundred (400) or so taxis, and there is about four hundred-ish (400) non-taxi vehicle for hire on the road. So that taxi group is very likely having a -- maybe losing some business.

But the way we accounted for that in our rating for year 1 was to say, Okay, taxi -- the taxi group can get vehicle -- DSR premium discounts. We expect that to cost us about a million dollars, and we took that off of the -- the rate indications. So that's the point -- the point-one (.1) reduction. Okay. Those items added up -- or how you get the break-even indication of 0.1 percent.

Okay. And so that -- pretty much everything I've just said is -- has been re-summarized on -- on this -- this slide. The three (3) items I just mentioned gives the point-one (.1). And then MPI has requested a 2.1 percent Capital Maintenance Provision for the reasons that we talked about yesterday.

Okay, I'll summarize what -- what the -- the panel has talked about. Revenues continue to be stable, consistent volume, upgrade, and forecasted using the break-even rate-making methodology. On the expense side, we're -- we're definitely seeing some favourable changes to the forecast, and as I just showed you, those flow-through directly into rate-making to the benefit of ratepayers.

And then beyond the rating period, the expectation right now is to -- to attempt to hold the expenses relatively flat.

And then lastly, on the rate-making side, a very proven process, AAP rate indication basically at almost zero, 0.1 percent, and then MPI is asking, as you know, for the Capital Maintenance Provision of two point one (2.1), to bring the total indication to 2.2 percent.

MR. ANTHONY GUERRA: Thank you, Mr. Johnston. And just to confirm again, because I think it bears repeating, for this GRA, expenses are not being factored into -- or not -- are not a part of our request for additional amounts for the break-even rate. Is that correct?

MR. LUKE JOHNSTON: Act -- actually quite -- quite the opposite. Yeah. Mr. Oakes actually went through a whole series of things that were -- I considered good news yesterday, when he was talking about the -- the rates. Really, my response to that would be that many of those things are in the rates, and that's why you're seeing them on -- expense ratios go down.

If we did not do those, you can reverse -- do the reverse math and -- and figure out what the rate indication would have been if not for those expense reductions. So that is -- that is good news.

MR. ANTHONY GUERRA: Sorry. That may be misspoken, or -- or maybe just speaking over each other. But what we're -- what you're saying at the day, though, is that expenses -- the 0.1 percent rate ask for Basic is not the result of additional expenses?

MR. LUKE JOHNSTON: What I'm saying, actually, is that we would have a bigger rate increase if not for expenses reducing that rate increase.

MR. ANTHONY GUERRA: Okay, correct. I think -- I think that's -- that's consistent. All right. Thank you. And I have no further questions.

So, subject to any questions you might have on cross-examination, thank you much for -- for your presentation this morning.

THE CHAIRPERSON: Thank you. Before we go to cross-examination, I just want to raise an issue so that we don't have it come up on Monday. On Monday, we have a panel dealing specifically with IT, on the impairment page, page 21, a lot of costs in relation to IT projects.

And I just -- I just want to ensure that everybody understands and counsel understands how we're going to be dealing with it, and which questions go where, because what I -- what I would really not like to see is, on Monday, when that panel is being cross-examined, the response is, well, you should have asked the panel -- the earlier panel the question.

So does everybody understand -- do counsel understand the sort of the scope of the cross-examination on this in terms of the costs and the numbers of the -- the programs here versus the questions that are going to be put to the panel on Monday? Because there may be some overlap, and I also don't want to have to bring back some people from this panel on Monday to ask -- answer those questions if we can avoid it.

MR. STEVE SCARFONE: Yes, absolutely, Mr. Chairperson. Indeed, you've identified a concern that Ms. Campbell raised with -- with counsel and MPI in our preparation for this application, because she recognized, as you have that there are number of expenses that she can speak to on a corporate -- on a corporate level, and is prepared to field the questions on that, but she will, to the extent that they involve information technology expertise to answer, she may be deferring some expense questions to the IT panel on Monday, but it would only be to the extent that she's unable to answer the technical aspects of those questions. And -- and that's an accurate representation of what we've game planned, then I -- we should make that clear for --

MR. MARK GIESBRECHT: Yeah. But if I -- if I can add, I -- I think we want to limit the discussion more to the -- the accounting of those transactions and how we came to the decision to impair or write down, not so much about the technical side of, you know, what the project entailed, and -- and, you know, maybe why were they not, you know, maybe deemed successful, like, those kind of questions. But the -- the accounting side, we can speak to today.

THE CHAIRPERSON: Right. And -- and

the -- the concern I had was -- and it was sort of in my earlier question -- a decision is made -- a decision may be made for a number of different reasons. There may be technical reasons, there may be financial reasons, which have accounting implications. I just -- what I -- what I want to do is ensure that we have a full cross-examination on all the issues related to that. So that's why I raised it. Mr. Williams...?

DR. BYRON WILLIAMS: I'll just say that we've certainly, even this morning, had some collegial --

THE CHAIRPERSON: Okay.

DR. BYRON WILLIAMS: -- discussions with MPI. Some questions that we might have asked today, we've deferred --

THE CHAIRPERSON: Okay.

DR. BYRON WILLIAMS: -- to next week, so I do expect there may be a -- some challenges. We're experimenting with the panel this year, so -- but I think there's been good faith efforts --

THE CHAIRPERSON: Yes. Though --

DR. BYRON WILLIAMS: -- by all parties.

THE CHAIRPERSON: -- I'm -- I'm sure

there is. I just want to -- I just wanted to, you know, I didn't know about the discussions between counsel, but I just wanted to sort of put on the record so we can avoid it, probably, and --

MS. KATHLEEN MCCANDLESS: And yes, just to add to that, Mr. Chair, not with Mr. Scarfone, but I did have discussion this morning with Mr. Crozier about cross-examination on IT issues. So it's my intention to table the majority of the IT questions for next week's panel. 0

My understanding is that -- and it's difficult to tease apart often some of the questions from the accounting side versus the more decision-making, or technical side, but I believe that the panel will be prepared to answer the questions that we've prepared in that regard.

MR. STEVE SCARFONE: And, Mr. Chair, just -- I've just confirmed with Ms. Campbell that she is available and prepared to be in the back row on Monday --

THE CHAIRPERSON: Okay.

MR. STEVE SCARFONE: -- to the extent that there's questions that we don't want the IT panel to say, well, you should have asked expenses.

THE CHAIRPERSON: Yes. Well, quite

frankly, if they did, I'd ask for Ms. Campbell to be brought forward, so.

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: Having said all that, Ms. McCandless...?

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Yes. Thank you. So when it comes to my cross-examination, just to give you a roadmap of where I intend to go this morning, and I likely will be finished by the lunch break, I'm going to start with operating expenses and capital expenditures, and I will have some questions about the Q2 financial report as well. Then I will have some questions about rate-making for you, Mr. Johnston, and some questions about the driver safety rating update and the service fee review as well.

So I expect my first series of questions would be directed to Ms. Campbell. Kristen, could you please pull up EXP figure 10. And this table shows the corporate normal operating expenses for -- on the left-hand side of the table for 2017/'18 actual results, and then through the forecast period, yes?

MS. CYNTHIA CAMPBELL: Correct.

That's what it shows.

MS. KATHLEEN MCCANDLESS: And if we look to line 28 of the table, we see that the actual -- the total corporate expenses for 2017/'18 were $278.6 million, yes?

MS. CYNTHIA CAMPBELL: Sorry, did you to -- say two seventy-six (276)?

MS. KATHLEEN MCCANDLESS: Yes.

MS. CYNTHIA CAMPBELL: Yes, two seventy-six point-six (276.6).

MS. KATHLEEN MCCANDLESS: And then if we look to the top of the table there, under the compensation, so line items 1 to 6 -- or 1 to 5, pardon me, we see that -- so $165.5 million of those costs are essentially payroll costs, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And so, according to my math, that's roughly 59 percent of the total spend yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then at line 28, again, to the bottom of the table for 2018/'19 forecast budget, we see total expenses of $297.6 million, yes?

MS. CYNTHIA CAMPBELL: Correct, two

ninety-seven point-six (297.6).

MS. KATHLEEN MCCANDLESS: And then up again to line 5, under 2018/'19, we have payroll costs of $174.9 million, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And so according to my math again, that's approximately 58 percent of the total spend, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then just to confirm for the record, we have at the bottom of the table for 2019/'20, a forecast of total expenses for corporate of $293.2 million, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: Then if we go to figure EXP-32, and this is the cost allocation flowchart. So I understand this is the method by which the corporate expenses are allocated to Basic, yes?

MS. CYNTHIA CAMPBELL: Yes, it is.

MS. KATHLEEN MCCANDLESS: And we can see in the narrative below the graphic, there, if we scroll a little bit lower. Thank you. We see that of those $297.6 million in expenses for fiscal 2018/'19, that approximately $227.1 million is allocated to

Basic, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: And my understanding is that there have been no changes in the methodology that would materially change the allocation of costs from corporate to Basic as compared to last year?

MS. CYNTHIA CAMPBELL: Correct. There's been no material changes.

MS. KATHLEEN MCCANDLESS: Thank you. If we could go to figure EXP-37. Now this figure here represents the percentage of corporate normal operating expenses allocated to Basic for '27/'18 (sic) through to 2022/'23, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: And we see at line 1 that the expenses allocated to Basic are consistently around 76 percent, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And forecasted to be 76.3 percent in 2018/'19, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. And then to figure EXP-43, this table shows the Basic ongoing depreciation and amortization expenses, yes?

MS. CYNTHIA CAMPBELL: Yes, it does.

MS. KATHLEEN MCCANDLESS: And we see at line 43 for total that they increase from twenty-three point-five (23.5) -- pardon me -- they decrease from 23.5 million in 2018/'19, so at the top of the page, we would see 2018/'19 there. Perhaps we could just scroll quickly.

Thank you. And they are down to twenty point-nine (20.9) -- pardon me, twenty (20) point -- they're down from -- or up from twenty point-nine (20.9), pardon me, in 2017/'18, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: And then there's a decrease in 2019/'20 to 20.1 million, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. With respect to the increase from 2017/'18 to 2018/'19, what does that relate to?

MS. CYNTHIA CAMPBELL: If you take a look to lines -- about 22 to 27, those are new projects that came on and started to depreciate in the '18/'19 year. So those are -- those are the adds for the current year, which would take it from twenty point-nine (20.9) to twenty-three point-five (23.5).

I would have to -- I'd have to get out

my calculator -- and I'm an accountant, I like that and actually add those up, but it should -- it should -- those -- those lines there should represent the change.

MS. KATHLEEN MCCANDLESS: And I'll accept your evidence that -- there subject to check. Thank you. At line 40, we see disaster recovery HR management system, and phase 1 and 2. So HR management system phase 1 and 2 are expected to be completed in 2018/'19, yes?

MS. CYNTHIA CAMPBELL: The amortization of the disaster recovery and the HR management system phase 1 and 2, the -- and -- as well as IT optimization will all finish in '18/'19, correct.

MS. KATHLEEN MCCANDLESS: And are these -- as far as you're aware or able to answer, are these projects still expected to be completed on time?

MS. CYNTHIA CAMPBELL: This -- can you go up to the top, sorry, so I can see the heading on this? This is the amortization expense. So these are finishing the amortization. So that means that their useful life, the five (5) years that we would have amortized them over, that is finishing.

So those projects were well and truly

done, so yes, the amortization will finish in '18/'19.

MS. KATHLEEN MCCANDLESS: Thank you. Now if we go to figure EXP-6, and this shows total corporate operating expenses. At line 6, we see that compensation is expected to increase by 4.9 percent in 2018/'19, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then as we heard this morning already, it's going to continue to increase to 2.9 percent for 2019/'20, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: And then for 2020/'21, we have two (2) point -- a 2.2 percent increase, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: And it appears from the table that the largest increase would be in salaries at line 1 and benefits at line 3. Is that correct?

MS. CYNTHIA CAMPBELL: Those are the two biggest components of compensation, yes.

MS. KATHLEEN MCCANDLESS: Thank you. Now if we could go to figure EXP-11. Now in the bullet below the figure here, there is a narrative about step in scale increases, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: And I understand that MPI has used the step up scale increase at a forecasted rate of 1.75 percent under the assumption that 50 percent of the employees will receive -- and the economic increase will be 2 percent. Is that right?

MS. CYNTHIA CAMPBELL: So which year are you referring to for the 2 percent? For '18/'19? Yes. You're -- you're correct that for '18/'19, the economic increase is 2 percent, and the step in scale increase is one point seven-five (1.75), which is the 50 percent of the 3.5 percent mandated under our union contract. Correct.

MS. KATHLEEN MCCANDLESS: Thank you. So can you reconcile the forecasted increase of 4.9 percent that we just reviewed in the previous table with the figure here, and the forecasting assumptions of the 2.2 percent and the 1.75 percent?

MS. CYNTHIA CAMPBELL: So the economic negotiated increases, the steps in scale, and the -- as well as the economic one -- so the 2 percent and the one point seven-five (1.75), those will relate to the compensation salary line. Included in the benefit lines are items that can be actually larger than those percentages, such as our pension. The pension expense is in there, post-retirement health benefits are in there, and so those depend on other factors. They depend on the aging of the population, and right now, I'm at a loss. There's about four (4) different factors that impact. It's an actuarial calculation. And so our expense can actually be greater than what the economic increase is.

So that is approximately 3 million of the $9 million increase. So that's a large percentage of it. If I were to get the math done, and I'll actually ask for the math to get done...

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: So the salary increase line is about 4 percent, which is the 2 percent and one point seven-five (1.75). So it is slightly greater than that. We have also changed, for '18/'19, the compensation model that we're looking at internally. I'd have to take a look and see what percentage increase that may have contributed to it.

So the other is in '17/'18, we actually ran below budget on an FTE level to a extremely large extent. It was a corporate initiative in order to be able to reach our -- our strategic initiative of reducing our expenses. When we budget for '18/'19, we do budget presuming that all FTEs will be fully filled, and then we take a vacancy allowance against that.

MS. KATHLEEN MCCANDLESS: You mentioned -- thank you for your answer. You mentioned in the context of that explanation that the compensation model has changed?

MS. CYNTHIA CAMPBELL: For out-of-scope employees, yes, during the year.

MS. KATHLEEN MCCANDLESS: Okay. And are you able to elaborate on what that change is?

MS. CYNTHIA CAMPBELL: That's actually better spoken to by HR, which I don't believe we have any representatives here. What it was was they took a look -- there was seventeen (17) different pay bands, and they've actually decreased it to ten (10) pay bands. They did a market comparison, and they regraded all of the out-of-scope positions to ensure that they aligned with the compen -- the new compensation model.

And it's -- so during '18/'19, it's been rolled out to out of scope, and they are investigating it for in scope as well.

MS. KATHLEEN MCCANDLESS: And I think you mentioned in your response previously that the percentage of the change in the corp -- that compensation model is something that you would be able to determine, or the -- the extent to which it contributes to that increase of 4.9 percent?

MS. CYNTHIA CAMPBELL: Sorry. With some analysis, we would be able to take a look at where the positions previously stood to where they do stand in the new model. I am not suspecting it's going to be a significant contributor, might it be a .1, .2 percent, it may lead to some of the change, but I don't believe it will lead significantly to the change.

MS. KATHLEEN MCCANDLESS: Thank you. If we could go to figure EXP-17. And this table represents the variance in salaries between this year's forecast and last year's forecast, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And we see at line 1 that the actual results for 2017/'18 are approximately $2.65 million lower than the 2018 budgeted amount, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And we can

see in the first bullet under the table there that the decrease relates to less overtime than expected of about $720,000?

MS. CYNTHIA CAMPBELL: Yes. As I mentioned, there was active management of our payroll costs last year in order to meet our strategic stretch target. And one (1) of the things we did look at was overtime and whether or not we could control it.

It is absolutely also dependent on the weather and extreme -- extreme weather incidences, such as hail, but where possible, we did manage that to ensure that we were not -- we did not have excessive overtime.

MS. KATHLEEN MCCANDLESS: Thank you. And then at figure EXP-12, this table shows the five-year historical and five-year forecast of actual and budgeted staffing levels, yes?

MS. CYNTHIA CAMPBELL: Yes, it does.

MS. KATHLEEN MCCANDLESS: And at line 5, it appears that the actual full-time equivalent was 49.1 lower than budgeted for fiscal 2017/'18, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: And we can see in the asterisk under the table there that this table here shows an increase in thirteen (13) full-time equivalents for 2018/'19 and onward, and that relates to the personal injury protection plan case managers, yes?

MS. CYNTHIA CAMPBELL: Yes, it does.

MS. KATHLEEN MCCANDLESS: And these positions are not taken into consideration for the compensation analysis, is that right?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And I also understand that it -- MPI is anticipating that it will reduce staff full-time equivalent counts by approximately fifty-one (51) positions by 2020 through -- 2020/'21, is that right?

I think if we scroll down the page it may assist you at lines 14 to 18 there?

MS. CYNTHIA CAMPBELL: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Are you able to provide the breakdown of management positions in these cuts?

MS. CYNTHIA CAMPBELL: At this stage, I don't believe decisions have been finalized as to which positions.

What has happened is there's been position -- there has been numbers earmarked, they're predominantly related to improvement efficiencies relating to projects.

And so there is the belief that we'll be able to reduce by three (3) or five (5) people when a project goes live and the new system is providing the efficiencies we're looking for. Which positions and -- is -- that has not been finalized.

MS. KATHLEEN MCCANDLESS: And do you know when you would expect that to be finalized?

MS. CYNTHIA CAMPBELL: It tends to be finalized closer to the end of a project. When -- when we actually see where the -- when the efficiencies start to come to fruition.

MS. KATHLEEN MCCANDLESS: Thank you. If we could go to PUB-MPI-1-38. And at page 2. So the figure, Figure 1 at the bottom of the page, shows that there are additional costs estimated to be about $930,000 per year, and that's in respect of the increased staffing resources of thirteen (13).

If we scroll to the top of the page, it may provide some assistance for you there. You see that information there?

MS. CYNTHIA CAMPBELL: Yes, I see it. Yes.

MS. KATHLEEN MCCANDLESS: Now, this

staff increase, is this a one-time staff increase or does MPI anticipate an increase in staffing levels for operational needs every year going forward?

MR. MARK GIESBRECHT: Right now we expect it to be a one-time increase, subject to growth in the business and we -- we would continue to evaluate the need to ensure we can deliver appropriate service and -- and manage our claims, so. But right now we would anticipate this is a one-off adjustment.

MS. KATHLEEN MCCANDLESS: Thank you. If we go to PUB-MPI-1-47. Now, in this Information Request, the Corporation was asked to explain why the number of management positions had decreased but the employee positions had increased, that's at question A there.

And if we scroll to the response, we see that by December 2017, the Corporation was able to reduce its management FTE count by 15 percent, yes?

MS. CYNTHIA CAMPBELL: Correct, that's what the response says, yes.

MS. KATHLEEN MCCANDLESS: And if we can scroll down to the top of the next page, we see here that the number of FTE positions increased by 24 non-management FTEs, which represents a 1.35 percent change overall in the total number of employees, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And we can go back up to the bottom of page 1, just for your reference, Ms. Campbell. I believe the increase in the non-management FTE positions by twenty-four (24) was to respond to various business needs?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: Yes. And it's stated here that MPI -- MPI's information is that HR and business leaders had collaborated to identify opportunities to combine leadership portfolios and like functions in order to gain efficiencies and allow leaders to take on broader portfolios, yes?

MS. CYNTHIA CAMPBELL: With respect to the management decreases, correct.

MS. KATHLEEN MCCANDLESS: And these newly created positions, they're not just eliminated manager positions with title changes?

MS. CYNTHIA CAMPBELL: Not to my knowledge.

MS. KATHLEEN MCCANDLESS: And are you able to provide the cost savings between eliminating the 15 percent management count or the management count by 15 percent, and the twenty-four (24) new positions created?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Can we provide that information by undertaking, Ms. McCandless?

MS. KATHLEEN MCCANDLESS: Yes, thank you.

So just to clarify for the record then, that would be to provide information as to the cost savings realized between eliminating the management full-time equivalent count by 15 percent, and creating the twenty-four (24) new positions.

MR. STEVE SCARFONE: Yes. Thank you.

--- UNDERTAKING NO. 14: MPI to provide information as to the cost savings realized between eliminating the management full-time equivalent count by 15 percent, and creating the twenty-four (24) new positions

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Now, continuing down this IR response at B on page 2, we see at Figure 1 here, improvement initiative staffing efficiencies at line 4 that MPI is anticipating $762,000 in savings a year for non-basic initiatives for staffing efficiencies for 2020/'21 and 2021/'22, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Can you explain what these initiatives are?

MS. CYNTHIA CAMPBELL: They're initiatives in lines of businesses -- in lines of business that are not Basic.

So we do have three (3) other lines of business where we do take a look at our staffing requirements. And if there's a staffing reduction there, it will show up in our corporate members, but it doesn't relate specifically to Basic.

MS. KATHLEEN MCCANDLESS: Thank you. Now, Kristen I apologize because I didn't give you a heads-up for the next reference, but it's EXP-4.2.6.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And my next few questions relate to road safety expenses, bearing in mind that in the context of this GRA that road safety initiatives are not being reviewed in detail, but road safety expenses are part of the issues list approved by the Board.

So if we look to the bottom of the page that's before you here, part of the lot -- road safety and loss prevention co -- cost categories comprise of expenses, including the immobilizer program for 2018/'19 only.

I understand that the Corporation is -- has discontinued the immobilizer program for 2019/'20, yes?

MR. MARK GIESBRECHT: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And I appreciate that your information as to the reason for the discontinuation may not -- may be somewhat limited.

My understanding, though, is that it has to do with the fact that vehicles hitting the market now would have that built-in, so that there's no need for that program, is that right?

MR. MARK GIESBRECHT: I believe that to be correct, yes, it was a requirement of older vehicles, but it's really built into the -- the technology of new vehicles now.

MS. KATHLEEN MCCANDLESS: And does MPI have information as to the cost savings associated with the discontinuation of the immobilizer program?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So there would be savings in terms of no reimbursement of the installations of that equipment.

We're just trying to track down what that equates to in dollar terms.

So it's roughly a million dollars in savings.

MS. KATHLEEN MCCANDLESS: Thank you. And then, Kristen, at PUB-MPI-1-40, and Figure 1 in this IR response shows a breakdown of certain forecasted savings for 2018/'19.

At line 9 here we see a forecasted savings of $650,000 for the entry-level professional truck driver training, yes?

MS. CYNTHIA CAMPBELL: That's correct.

MS. KATHLEEN MCCANDLESS: And based on the information here that's the largest reduction on the Figure 1.

Are you able to provide the reason for

the -- that large reduction?

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: Sorry, can you repeat the question, just so I'm clear. Sorry.

MS. KATHLEEN MCCANDLESS: Yes, what was the reason for the reduction of $650,000 in the entry-level professional truck driver training?

MS. CYNTHIA CAMPBELL: It was a cancellation of that program, so that program was -- we reimbursed people for taking the professional truck driver training, and we've cancelled that program.

MS. KATHLEEN MCCANDLESS: Thank you. Mr. Chair, I am moving into some questions regarding the Q2 financial report, it might take perhaps five (5) minutes. I could close that off and then we can take the break? Okay, thank you.

So Kristen, that's MPI Exhibit Number 24, and I have some questions about staffing.

So on the bottom of -- well, now it's -- it's the bottom of the page, but it's in the centre of the screen here before you, on the left-hand side we see the total full-time equivalent average for staffing at the end of Q2, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then if we jump to expenses Appendix 10, and these are total corporate staffing levels.

At the very top of the page at line 12, we see actual full-time equivalents on the left-hand side of 1,878.1 full-time equivalents at the end of fiscal 2017/'18, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then jumping back to the Q2 report, we see the actual staffing level full-time equivalent average is 1,762, as compared to a target of 1,889 as of Q2, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And 1,884 annual target for the year, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Now, if we could jump to the AR section of the filing, Appendix 2, and this is the Q1 financial report. It's in part 8 of the application, Kristen. Thank you.

There's a graphic on page 3, it's a similar graphic, but it's for -- for the first quarter, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And we see that for Q1 that MPI reported an average full-time equivalent of 1,762 as well, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: So as -- as at the end of the second quarter then there's been no change in the average reported FTE count from that experienced in the first quarter, as we see before us, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Now, if we could go back to the second quarter financial report.

So the average staff level then, at the end of August 2018 is 1,762. Can you explain why it is lower than the target for Q2?

MS. CYNTHIA CAMPBELL: Our actuals often sit below our targeted levels because our target is full complement within the Corporation for all needed positions.

There is regular turnover such that people retire, people move on to other positions and they are not as -- as good as our HR team is, they -- you know, two (2) weeks is not a lot of time to be able to necessarily fill positions on a regular basis. So we will often run below our targeted amount.

Often when somebody also retires, you will take a look at how that position should look going forward. Sometimes it's a very short look, it's exactly the way the position was, and you need it to continue. Sometimes you can change the skill set needed, and that will take longer in order to be able to get somebody into the position.

MS. KATHLEEN MCCANDLESS: Now, when the Corporation compares its operations with the staffing level of la -- for last year, so past Q2, it was 1,901, in front of you, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And to what extent is this lower level of staffing? So 1,762, as compared to 1,901 reflected in the quarterly results?

MS. CYNTHIA CAMPBELL: The decreased staffing will show lower operating expenses.

It will potentially also, though, drive up over time, depending on where the vacancies are, which I do not have detailed out in front of me. So those are the other impacts.

MS. KATHLEEN MCCANDLESS: Thank you. Now, with respect to the actual staffing level of 1,762, does the Corporation intend -- or expect to run the business at this level for the remainder of the fiscal year?

MR. MARK GIESBRECHT: I would expect that we would have this number increase as we continue to -- to fill vacancies. So you can see that it is quite a great difference to the target, and as Ms. Campbell had discussed, there is always going to be a level of turnover. However, you know, we try to manage as best we can and fill those roles in an appropriate time frame.

And so I would say that would move closer to the actual target. But would expect it to remain under target given the nature of -- of turnover.

MS. KATHLEEN MCCANDLESS: So if it remains under target then we would expect that the payroll costs would be coming in at less than forecast ultimately, yes?

MR. MARK GIESBRECHT: But it depends on the level that it's under target, because we do build in a vacancy allowance, and that's meant -- we do understand to start the year that while we have about 1889, or 1884 planned positions, we know that over the course of the year, based on history and our experience that MPI, that there will be a level of turnover.

And then you multiply that by how long it takes to fill the position and that -- that then leads to a vacancy allowance, which is baked into the -- the forecasted and budgeted numbers.

The variance will be, do we have more turnover than we expected, or does it take longer to fill those positions than we had expected in that -- that computation.

MS. KATHLEEN MCCANDLESS: Thank you. If we could go to page 3 of this report, under Results of Operations, we see right at the first line there that the Corporation earned net income of $72.8 million for the -- to the end of the second quarter, yes?

MR. MARK GIESBRECHT: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And that includes net income of $39.4 million for Basic, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Now, I understand this would represent and shown before you here is an improvement of -- so it was 42.3 million for the same period last year, so that will be an improvement of roughly $48.6 million from last year, yes?

MR. MARK GIESBRECHT: So, it would be an improvement for the Basic line of business of about $30 million.

MS. KATHLEEN MCCANDLESS: We see that corporate net income increased from the previous year by 30.5 million, yes?

MR. MARK GIESBRECHT: Sorry, are you talking on a corporate basis or on --

MS. KATHLEEN MCCANDLESS: Corporate.

MR. MARK GIESBRECHT: Oh, I apologize. Yes.

MS. KATHLEEN MCCANDLESS: And at item (I) under the paragraph there, we see an increase in earned revenues of $44.8 million higher than last year, offset by an increase in total expenses of $6.7 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And that would include volume and upgrade factor?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And as well, higher demerit DSR premiums, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: How much of this increase in revenue would be related to the DSR scale changes?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: We would need to take this as an undertaking. We would estimate at a high level, but to give a -- a clear number, it would take some analysis.

MS. KATHLEEN MCCANDLESS: That would be appreciated. So if the Corporation could provide the increase in revenue associated from the higher DSR generic premiums.

MR. STEVE SCARFONE: Yes, we'll undertake to do that, Ms. McCandless. Is that a percentage or in dollars?

MS. KATHLEEN MCCANDLESS: I would say dollars.

MR. LUKE JOHNSTON: And can we -- I think the request is through Q2 of the current fiscal year?

MS. KATHLEEN MCCANDLESS: Yes, that's right. Thank you.

MR. LUKE JOHNSTON: So what we'll do, just to make sure our team understands, we will just show you what the revenue would've been if we didn't change the scale, and then what the actual revenue turned out to be. The difference would be the effect of the new rates.

MS. KATHLEEN MCCANDLESS: Yes, thank you.

--- UNDERTAKING NO. 15: MPI to provide the increase in revenue associated from the higher DSR generic premiums in dollars, through Q2 of the current fiscal year, i.e., show what the revenue would've been if MPI didn't change the scale, and then what the actual revenue turned out to be. The difference would be the effect of the new rates.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now, the second paragraph under Current Year and Last Year, we see that MPI reported that it had a hail claim on June

14, 2018. Yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And that was mitigated by reinsurance in the amount of $14.6 million?

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: And what was the total loss of the claim?

MR. MARK GIESBRECHT: I believe approximately 30 million.

MS. KATHLEEN MCCANDLESS: And roughly how many vehicles did that impact?

MR. MARK GIESBRECHT: I'm thinking 6,000, roughly, subject to check.

Yes, I just confirmed it's roughly 6,000.

MS. KATHLEEN MCCANDLESS: And has MPI put the reinsurance coverage back in place?

MR. MARK GIESBRECHT: Yes, we have.

MS. KATHLEEN MCCANDLESS: What was the cost to reset the reinsurance coverage?

MR. MARK GIESBRECHT: There's a reinstatement charge of $2 million.

MS. KATHLEEN MCCANDLESS: Thank you. In the same paragraph we see that there has -- appears to have been a favourable decrease in PIPP claims, so bodily injury claims. That would be the fourth line from the bottom of the paragraph?

MR. MARK GIESBRECHT: Yes, I see that.

MS. KATHLEEN MCCANDLESS: And that -- there was a -- it was impacted by a $22.5 million favourable interest rate impact on unpaid claims offset by an increase in direct claims incurred of $25.7 million, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: What happened with interest rates that caused this positive variance?

MR. MARK GIESBRECHT: So, with the movement of interest rates, as they -- they rise, we'll see a decreasing in other liabilities. And conversely, as rates decrease, we would see a opposite effect.

And so it moves really in an inverse relationship to where interest rates go.

MS. KATHLEEN MCCANDLESS: Thank you. I think this would be an appropriate time to take the morning break.

THE CHAIRPERSON: Thank you. We will resume at quarter to 11:00. Thank you.

--- Upon recessing at 10:26 a.m.
--- Upon resuming at 10:47 a.m.

THE CHAIRPERSON: Ms. McCandless...?

CONTINUED BY MS. KATHLEEN MCCANDLESS

MS. KATHLEEN MCCANDLESS: My next set of questions relates to capital expenditures for Basic. If we could pull up PUB-MPI-1-45.

And the question here in the Information Request was to have the Corporation elaborate, where possible, on the root cause of differences noted for the decreased spending by expenditure type and if we scroll to the response, the significant differences in capital expenditure forecasting from the prior year's GRA are related to a number of factors.

So first we see that the Corporation replaced only three (3) of the twenty-nine (29) vehicles that were disposed of during the year. Yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then on to page 2. There's reference to cancellation of redevelopment projects at CityPlace in low -- lower level space re-developments at the main -- Bison and Gateway Service Centres. Yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: There's also a reference to reduce spending on data processing equipment?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And cancel or deferred building projects at CityPlace.

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And also lower level re-development at -- at the three (3) service centres that we discussed.

Just if you could advise, Ms. Campbell, that these are true cost savings and not deferred expenses to be incurred on at a later date?

MS. CYNTHIA CAMPBELL: The automobiles are a true cost savings in the fact that we've changed the way in which we're managing our fleet and the number of vehicles we need within our fleet. Office equipment, land and building, the majority of it is a cost savings. We are looking at how we -- how we -- deal with CityPlace on a going-forward basis. There is some strategic decisions being made so there may be future costs there, but the original planned expenditures have been cancelled.

MS. KATHLEEN MCCANDLESS: Thank you. Next, if we could pull up Figure EXP-41?

And this table shows Basic capital expenditures for '27/'18 (sic) through the forecast period?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: I just have a question with respect to unassigned capital. So, at line 10 on the right-hand side of the -- the table there we see unassigned capital of six hundred and forty-eight thousand dollars ($648,000), yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Now, if we jump to the same figure from last year's GRA at line 11 there -- so this is the 2018 GRA figure EXP-43, the unassigned capital is seven million -- or $7.1 Million approximately. Yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Can you explain the variance there?

MS. CYNTHIA CAMPBELL: So unassigned capital is -- what ends up happening is there is a budget provided for some of the projects. They -- it is portioned out as to where it's going to be spent within the project itself, and some of the budget remains unassigned at the times, so we don't know which year it's going to be spent in. We don't know exactly how it's going to be spent, and -- but we don't want to lose sight of it.

So it's gone from 7.1 million of an estimate down to less than a million dollars, and that is because we have changed some of the projects that had the unassigned capital and we've either changed, cancelled, stopped or have assigned the capital because we've got a further definition of it.

MS. KATHLEEN MCCANDLESS: Thank you. And I would suggest for the record then that we mark figure EXP-43 from the 2018 GRA as the next PUB exhibit. I believe that would be Exhibit 18.

--- EXHIBIT NO. PUB-18: Figure EXP-43 from the 2018 GRA

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And, Kristen, if we -- we could please go to EXP Appendix 16 and this figure shows Basic capital expenditures on a comparison basis between what was budgeted last year and actual results, yes?

MS. CYNTHIA CAMPBELL: Sorry, which year are you referring to?

MS. KATHLEEN MCCANDLESS: So on the left-hand side of the table we see the difference between what was budgeted and what the actual results were for last year's GRA as compared to this year's GRA?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then on the right-hand side we have the forecast for last -- for 2018/'19, for -- that was filed in last year's GRA and the forecast budget for 2018/'19 that's been filed in this GRA and the difference between the two (2). Yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. So on the left-hand side of the table at line 1 we see the budget for land and buildings was $5.6 million and the actual was $3.6 million, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And so there's a difference there of approximately $2 million, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And what's

the reason for that change?

MS. CYNTHIA CAMPBELL: As per the -- as PUB 1-45, we had explained that the land and buildings -- the main contributor there is the $1.3 million saved by -- by changing what we were doing with respect to the lower levels in Main Bison and Gateway as well as CityPlace.

MS. KATHLEEN MCCANDLESS: Thank you. And then at line 6 we see imp -- impairment of deferred development. The difference from the last year's budget to the actuals as filed in this GRA is approximately $18.7 million, yes?

MS. CYNTHIA CAMPBELL: Correct, that's the Basic component. Yes.

MS. KATHLEEN MCCANDLESS: And I understand that that relates mainly to IT projects, is that correct?

MS. CYNTHIA CAMPBELL: Correct. I believe we provided a listing of what they were. My presentation had it, and then it's also in an IR.

So in CAC 1-54, we list what the deferred development write-offs were and those are at a corporate level, so the 18.7 million is the Basic component.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. ANTHONY GUERRA: Just to confirm for the record, when you reference IR, you are referring to Information Request and MPI's response to the Information Requests, when you cite the dash -- 1-45 or 1-54?

MS. CYNTHIA CAMPBELL: Correct. My apologies.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

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

Mr. Johnston, now I'm going to have a series of questions for you. First, if we could pull up the presentation from this morning, so MPI Number 25, pardon me, at slide 25.

Now, as I understand it, the impact of discounting, the increased rate need was due to a decrease in the assumed discount rate from the 2018 GRA to 2019 GRA, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And in this table, what discount rate underlies the 2018 GRA impact of discounting of negative 93.12?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: The -- the 2018 column uses a discount rate of 3.82 percent per last year's Order. And the 2019 uses a 3.21 percent discount rate per MPI's application.

MS. KATHLEEN MCCANDLESS: Thank you. If we could pull up PUB-MPI-1-3, and it was the response to question (a) of this Information Request at page 2.

The Corporation provided support for the selected cash flow discount rate of 3.21 percent used in the derivation of the rate indications, which it describes as an estimate of the new money yield as of September 1, 2019, yes?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: Please walk us through this derivation, including what the values shown represent and why the September 2019 date is used.

MR. LUKE JOHNSTON: Okay, so the date used for discounting purposes was actually discussed at this hearing and probably a little bit on the side between Mr. Pelly and myself.

But September 1 would be the average written date of the policies, and it's the discount rate on that particular day that we're using as a basis for calculating the discount rate.

So for a naive interest rate, that date really doesn't matter. It could be the beginning of the year or the middle because the rate is the same the whole time. But for any other interest rate forecasts, the date is relevant because rates could be rising or falling.

So, that's the 'as of date' of the -- of the assumed interest rates, and then in the table below what you're seeing is our assumed allocation to those bond categories at that point in time and the expected yields on -- on those bonds at that -- also at that point in time. And the weighted average of those yields is 3.21 percent.

MS. KATHLEEN MCCANDLESS: Thank you. And if we go back to the preamble of this Information Request, it quotes from the ratemaking section of the application and then where it's stated that:

"The basis of the estimation of the cast -- cash flow discount rate is described as the market value weighted yield of MPI's marketable bonds portfolio."

Yes?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And then in the second paragraph here, the preamble also quotes from the response to PUB-MPI-1-12 (a) from last year's proceedings, where the Corporation stated at that time that the use of a portfolio yield rate was intended as an approximation of a new money yield rate, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Is that estimation approach still in use in this application?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes, there is a slight difference between what we've proposed in previous applications and -- and the new methodology.

So in prior applications we were tying the discount rate purely to the discount rate of the claims liability valuation. And that would include things like nonmarketable bonds. It could include other assets that, you know, we don't plan on purchasing anymore, non-marketable bonds again is another example of that.

So through this process we've changed the discount rate to reflect the actual new investments and allocations that we anticipate to make relative to the -- the new money or -- that we're investing. So that's -- that's why it doesn't include something like non -- non-marketable bonds anymore.

MS. KATHLEEN MCCANDLESS: So why describe this as a forecasted portfolio yield when the bond portfolio includes investments made in the past, as well as new investments?

MR. LUKE JOHNSTON: Can you repeat that? Sorry.

MS. KATHLEEN MCCANDLESS: Why would the Corporation describe this as a forecasted portfolio yield when the bond portfolio includes investments made in the past, as well as new investments?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Perhaps the naming could -- could be reconsidered, but the basis for the allocations in the respective bond categories would be reflective of what we anticipate in the actual portfolio.

But the calculated discount rate will not reflect the actual bond portfolio, given that there is other types of assets in there that are not being considered in this calculation. But we'll recognize your point and will consider maybe re-naming that.

MS. KATHLEEN MCCANDLESS: Thank you. Does the estimated cash flow discount rate of 3.21 percent include any offsetting provision for investment expenses?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I can't recall the exact provision for that, but we'll undertake to let you know what that number is.

MS. KATHLEEN MCCANDLESS: So I believe then the answer is yes, it does include an offsetting provision?

MR. LUKE JOHNSTON: My expectation is that it should. But I was looking for a reference in the ratemaking section, but there isn't one, so I'll get that for you.

MS. KATHLEEN MCCANDLESS: So to clarify for the record then, the Corporation will provide the amount of the offsetting provision for investment expenses?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. LUKE JOHNSTON: I'll maybe just add to the end of that, in the discount rate used for ratesetting.

MS. KATHLEEN MCCANDLESS: Right. 3.21 percent.

--- UNDERTAKING NO. 16: MPI to provide the amount of the offsetting provision for investment expenses in the discount rate used for ratesetting.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now I have some questions with respect to the driver safety rating related revenue changes arising from vehicles for hire. So if we could go to RM 4.2.6. And if we scroll down the page a little bit, Kristen. Thank you.

So this section of the application indicates that the rate level change requirement for the breakeven cost of policies was reduced by .1 percent, or about a million dollars in anticipation of the revenue impact of introducing driver safety rating for certain vehicles not previously eligible, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Does the Corporation have a means of providing the Board with a fiscal year-to-date account of the actual revenue impact of the change?

MR. LUKE JOHNSTON: Oh, sorry, I thought there was more to that.

The -- so we've been watching this closely. There's -- I think it's pretty clear that there's a lot of subjectivity and judgments we had to make and -- for a completely new class of vehicles and then -- and then in particular I talked to how the taxi mark -- market share would be affected.

So we can -- I've seen some data recently showing the loss ratios in the different groups. We can provide that.

So, to the -- if we just show you the revenue reduction, that wouldn't be fair if actually taxis were having a really low loss ratio too, because that would mean that their premiums are actually okay.

So we'll -- we'll provide the year to date observed loss ratio for the -- for the four (4) vehicle-for-hire categories.

Is that sufficient?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Perhaps to re-state the undertaking that would be of assistance, Mr. Johnston. If it could be providing the Board with a fiscal year-to-date account of the actual revenue impact of the change, the rate level change and how close it is to being in line with the original estimate of a million dollars per year.

MR. LUKE JOHNSTON: We can do that. The -- the reason I was adding the additional context there was that I wouldn't want the Board to see, say, a bigger number than we thought and assume that that was inappropriate, because that pricing might be okay.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 17: MPI to provide a fiscal year-to-date account of the actual revenue impact of the change, the rate level change and how close it is to being in line with the original estimate of a million dollars per year. And provide the

premium and claims
information and loss ratio
for the four (4) vehicle
for hire categories,
latest available
information MPI has.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now, if we could go to the CI section of the filing 10.2.1, --

DR. BYRON WILLIAMS: Mr. Chair, just to I -- I apologize. Just for my understanding of the undertaking, is the loss ratio data contemplated to be included? Because it will assist me in -- in my future questioning. I do apologize for the...

MS. KATHLEEN MCCANDLESS: We can certainly add that to the undertaking, Mr. Johnston, if the Corporation is prepared to provide it?

MR. LUKE JOHNSTON: Well, I'm already going to look since I volunteered all the data.

But we do have it and I do want the Board to see what's actually happening. Even with the recognition that it's immature data and it's new, but it still gives us some information. So we can do that.

MS. KATHLEEN MCCANDLESS: Perhaps for the record then, you could just restate what that additional information would be.

MR. LUKE JOHNSTON: We'll provide the premium and claims information and loss ratio for the four (4) vehicle for hire categories through second quarter of -- or the latest available information we have.

MS. KATHLEEN MCCANDLESS: Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So, this section of the filing is just before you for your reference, Mr. Johnston, it relates to the paintless dent repair.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And it references the technique of paintless dent repair as a relatively new industry standard adopted by the Corporation in 2017?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: What can you tell the Board about paintless dent repair techniques?

MR. LUKE JOHNSTON: I can't tell the Board a lot about -- about paintless dent repair techniques.

The -- I do -- I was going to say earlier that the actuary is generally the -- the messenger, so if they want to do paintless dent repair and lower the claims cost and I get to tell the Board, then that's -- the good news, then it's good for me, but all I -- all I can really say to this section is at least preliminary data shows that repair claims are seeing some benefit in terms of severity reduction from paintless dent repair.

The business tells me that we've got to be cautious if it's a really bad -- like, a high severity storm, that the technique may not work as effectively or we won't be able to use it on as many vehicles.

But in the -- the last fiscal year we had fairly light hail and it apparently is very effective in -- in reducing severity.

MS. KATHLEEN MCCANDLESS: Do you happen to know when in 2017 that paintless dent repair was adopted?

MR. STEVE SCARFONE: Ms. McCandless, Mr. Wennberg, we're happy to have him answer all the questions concerning this topic on Monday, because he's -- he's the guy.

MS. KATHLEEN MCCANDLESS: All right, I will table some of these questions then for Mr. Wennberg. Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: I believe this a -- an area that you may be able to speak to though, Mr. Johnston, with reference to figure CI-49.

How significant -- how significantly in terms of percentages does the cost of a typical hail damage claim decrease under paintless dent repair?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, I was looking for a reference. I'm sorry, we don't have one there. My recollection is around the 30 percent range, but it depends on the -- again, on the type of storm.

You can see in this -- in this graph that we are looking at -- so the blue line being the comprehensive hail severity for repairs. We have looked at the 2017 year and you can see a pretty substantial drop from about 4200 or so to about 3000.

We didn't think it was appropriate to

bank on the full benefits, there could be other things, just a lighter hail than usual, but we did give a pretty substantial portion of the weight to the 17-year, and that -- you see where the forecast is kind of in -- I believe it's about 67 percent weight to the -- to the recent experience.

MS. KATHLEEN MCCANDLESS: Thank you. In recent years prior to the adoption of paintless dent repair, about what level of total claims dollars related to hail damage?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Hail is a tough one to -- to -- to give a firm figure because it's kind of all over the place, one year you get almost nothing and then another year you get a lot.

But our budget is -- is in the $25-$30 million range for Basic, but there have been some recent years that it was 50 plus million, and then you see last year it was barely 5 million.

So, on average, we figure around 25 to 30 million of total -- if you see total Basic claims they're kind of in the $800 million range. I guess that would mean 5 percent or so.

MS. KATHLEEN MCCANDLESS: Thank you. Given that level of total hail claims, what would be the annual level of expected savings achievable using paintless dent repair?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: If you go to -- well, my first comment I think in the future years we'll actually have the -- incurred by coverage. I'm not sure why we don't have that in this document, actually.

But if you go to figure CI-60, that's the total comprehensive cost of all -- all perils. So the -- the -- the major driver of the reduction in the comprehensive forecast is hail. So you can see between this year and last year's forecast, comprehensive in total, the forecast dropped about 15 million.

I think a reasonable estimate at this time would be that the -- that that assumption that the decrease in repairs severity that we had would -- would probably fall in the -- around the 5 to $10 million a year range.

We'll have better information after

this year is complete. Because we've had quite a bit of hail this year, so the effectiveness of it will be a lot more clear.

MS. KATHLEEN MCCANDLESS: And does the -- or is the number of hail events generally increasing year after year, perhaps due to climate change?

MR. LUKE JOHNSTON: Well, I won't profess to be an expert on that topic, but we are definitely with the -- well, with the exception of the last fiscal year where we actually had a pretty good year, the frequency of small storms has been our main issue.

There used to be a time where we would either have a big hail storm or we would have pretty much nothing. But then I believe the '15/'16, '16/'17 year we had just really a peppering of a bunch of small storms that we weren't able to claim reinsurance on because none of them were more than $15 million, the amount needed to collect reinsurance. So maybe. But I -- I am not an expert on that.

MS. KATHLEEN MCCANDLESS: Thank you. If we could go to part 8 of the filing, attachment B, page 44. This references the external actuary -- appointed actuary's report on the valuation of Basic policy liabilities, as of 31 October 27,(sic) yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Right at the bottom of the page, at the bullet there, the external -- external actuary states:

> "We switch from duration adjusted yield to market value weighted yield in selecting the discount rate. The Corporation's asset liability management policy strives to minimize the impact to its income statement due to a change in market interest rates. This change was made to reduce the mismatch between the Corporation's assets and liabilities from fluctuations in market yield."

You see that?

MR. LUKE JOHNSTON: Yes, I do.

MS. KATHLEEN MCCANDLESS: Thank you. From the last sentence here, does this mean this change was made to have the movement in assets due to a change in market interest rates better match the corresponding movement and liabilities?

MR. LUKE JOHNSTON: Yes, it was.

So as I mentioned I think yesterday, we report every month on -- to our Board and management the net impact of interest rate changes. One (1) of the most complicating factors of -- of the analysis is the nonmarketable bonds, because they're held at a book yield, and they're a pretty substantial portion of that portfolio.

So, those bonds don't move really with the -- with the interest rate changes. So we have to use the marketable bonds, essentially, to neutralize the -- the impact of interest rates and the duration weighted methodology was -- was creating problems for us to do that.

So, we did some research on it and the outcome was that we should use the market weighted yield as a -- to reduce the volatility.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: The Corporation is phasing out the use of MUSH bonds, yes?

MR. LUKE JOHNSTON: Yes. Yes, we are.

MS. KATHLEEN MCCANDLESS: So will the Corporation adjust its mess -- methodology as the use of MUSH bonds becomes phased out, back to what it was prior?

MR. LUKE JOHNSTON: I'm hoping that we don't have to change anything, it will just -- it will just, you know, we'll have less and less in there and it will be less of an impact.

The history behind using the duration weighted yield is that sometimes we would have floating-rate notes or really short-term money in that portfolio and it would be getting weight in the calculation, even though it had a short-term focus and really low yield. So we didn't want to give -- have the discount rate be impacted by sudden -- sudden injections of things like that.

But now that we have a very clear ALM policy we didn't feel that that was a real concern anymore. So, this approach should serve us well given that the detail or retaking to match -- so I don't anticipate changing it.

MS. KATHLEEN MCCANDLESS: Thank you. Could we go to PUB-MPI-2-14. And Appendix 1, last page, that's page 19. We need to get to the bottom of the table, so if we could maybe minimize it a little bit. Thank you.

So as part of this Information Request response, the change in approach to the selection of the valuation discount rate caused the selected claims discount rate to rise from 3.31 percent to 3.47 percent, yes? At the very bottom, on the left-hand side of the table?

MR. LUKE JOHNSTON: That was the impact, yes.

MS. KATHLEEN MCCANDLESS: Now, if we go to the response to the B question in this Information Request response, the -- this increase in the valuation discount had a one-time impact on fiscal 2017/'18 Basic results to reduce net claim -- claims liabilities by $25.8 million, and the internal loss adjustment expense provision by $2.7 million, yes?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: With a total one-time decrease in liabilities of $28.5 million, this flows through the income statement to produce a one-time increase in net -- net income for the same year by the same amount, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. So just to confirm for the record, then at the bottom of paragraph B, we see that no further impact is anticipated on operational results on a go-forward basis, yes?

MR. LUKE JOHNSTON: No -- no significant impact is expected, yes.

MS. KATHLEEN MCCANDLESS: Thank you. I'm now going to ask some questions about the driver safety rating update. And of course, Mr. Johnston you're aware that in Order 130/'17, after last year's GRA, the Board had initially ordered a few things and they're found at the bottom of the DSR section.

So if we scroll a little farther. So yes, in the -- the Board had initially ordered that in this GRA the Corporation was to file proposed driver premium rates more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And we know that that ultimately was varied by the Board.

MR. LUKE MCCANDLESS: Yes, it was.

MS. KATHLEEN MCCANDLESS: And similarly, the Board had initially also ordered that in the '20/'21 GRA the Corporation would file proposed vehicle premium discounts that were actuarially indicated based on principal driver performance evaluation, yes?

MR. LUKE JOHNSTON: Yes, I -- I recall

that, yes.

MR. KATHLEEN MCCANDLESS: And then ultimately the Board did vary that. And I'm not sure we need to go to the reference, but just to set some context for my questions.

In Order 29/'18 the Board had ordered that the -- the two (2) directives that we just spoke about, 11.8 and 11.9, be held in abeyance until such time as the issues of driver premiums more statistically consistent with the average claims cost per driver by demerit side of the DSR scale and the vehicle premium discounts fully supported by actuarial indications based on principal driver performance evaluation had been fully considered and reviewed in this GRA, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And at DSR-4 we -- we see that a technical conference was held on March 20, 2018 on the driver safety rating, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then below there we see MPI's position on its interpretation of the essence of the initial Order 130/'17?

MR. LUKE JOHNSTON: I do.

MS. KATHLEEN MCCANDLESS: And so MPI interpreted that Order to -- to mean that it needs to improve the actuarial soundness of the DSR-based driver premiums and vehicle premade -- premium discount calculations, which are currently set by policy, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And MPI does agree that actuarially sound rates should be the objective for rate-making?

MR. LUKE JOHNSTON: Agreed.

MS. KATHLEEN MCCANDLESS: And then MPI, its interpretation is also that any rating variable that is used in the determination of rates should be fully supported by MPI with a strong statistical framework, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And if we scroll below, MPI's position is that it does agree that rating variables should be supported with a strong statistical framework, similar to that used for rating territory insurance use rate group, et cetera, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And lastly,

that MPI interpreted the order to be that the improved DSR based ratemaking methodology should be based on principal driver performance evaluation.

MR. LUKE JOHNSTON: Agreed.

MS. KATHLEEN MCCANDLESS: But the Corporation, while it understands the rationale for the request, does not yet fully support the concept, yes?

MR. LUKE JOHNSTON: Correct, yes.

MS. KATHLEEN MCCANDLESS: So at DSR-4.3 we see a -- a list of the alternatives to the current registered owner model that's used by MPI for driver safety rating, that -- the alternatives that were discussed at the technical conference, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And perhaps at a high level, if you could just summarize each of the alternatives listed and MPI's position on the alternatives.

MR. LUKE JOHNSTON: Okay. So the first option listed here is called the primary driver model. As noted right now, the rate charged is based on the registered owner's driving record. So we've talked in here before that, you know, the common example is mom comes in and insures all four (4) cars for the whole family and she has a 33 percent discount. So everybody wins. But we haven't asked or necessarily considered who else is in the household.

Driver safety rating, driver premiums would do some of that right now, but as we've admitted here, they're not actuarially sound so they're not doing the -- the job completely, maybe partially but not completely.

The -- so we -- could we just scroll back up for a second. This concept of asking people who the primary drivers are or listing all the drivers on their policy is not something that we currently record. It would be new. We'd have to build IT functionality to do that and all the associated ratemaking analysis that would be required to understand what that information even means.

So, we don't have it today, so there is no data. There might be some connections we can make, but there's no available data so it might take some time to collect. So one (1) option would be just to start asking people and not use it for anything. That's something we've considered. Okay.

The second option is something we're calling the forced assignment model. So, if we can go back to the example I just gave with the -- with the mom in the house, MPI should know who lives at that address, and in theory you could say, well, mom, you can't insure all four (4) cars, because I'm pretty sure you're not driving all of them as the primary driver. Maybe mom can insure the highest rated car, get the discount, but then it falls to the next rated driver, the next rated driver.

So at least we're getting some recognition of the other people in the house. That model is a little bit easier to implement because it is somewhat automatic. We don't have to know anything other than who's in the house and the assignment of the discounts is essentially forced on -- based on who lives in each house, so we don't have to ask anything.

Oh, sorry. I think I confused 1 and 2 a little bit. So number 1 was the primary driver, so that would be really just asking who the primary driver is.

Number 3 is literally declaring all the drivers and -- and using that information to rate the policy. So if you -- there's many different ways you can do this. I won't pretend to know them all.

I know in some jurisdictions it seems like the worst or the riskiest driver is the basis for rating the policy, but in theory we could use, you know, the average DSR level, or other means to -- as a basis for, you know, there's three (3) drivers declared using this vehicle, let's use some kind of average DSR, the worst DSR or whatever. Something like that.

MS. KATHLEEN MCCANDLESS: And just to stop you there, Mr. Johnston, and just to summarize MPI's views on the declared driver model.

MR. LUKE JOHNSTON: The -- the declared -- so the primary driver model, going back to the first one, in our view isn't going to be significantly different than the registered owner model. So right now registered owners come in and we expect that most households would want to register under the best driver.

So if there is a primary driver for sure that you might get some people say, okay, you know, let's split up the cars by primary driver, but we suspect that a lot of people would continue to register whoever, based on whoever is the best driver and it would probably be difficult for MPI to dispute that information if -- as long as that person is driving some of the time, likely, it would be hard to -- like, say for claims denial purposes or things like that.

The -- maybe I'll jump to 3. Declared driver model is more -- would be more accurate and more easier to enforce from a claims handling perspective, because if you list three (3) drivers and then someone is driving that's not one (1) of those people, that's pretty obvious. And it's more than just having information on primary driver, you actually know if there's a teenager driving or something like that. So it would be more accurate, but more costly to implement and -- and monitor.

The second one, just -- I can't remember which one -- oh, forced -- forced assignment is not as accurate as listing of the drivers, but more accurate than primary driver or registered owner model because at least you're getting some recognition of who the other individuals in the household. And -- although maybe not as accurate, again, you're getting a better reflection of the risk in the modeling. That one (1) is also easier to implement from an IT standpoint.

The fourth one, which we're calling residual risk model, so what we mean by this is if you -- we've likely shown this in these hearings. If you were to just ignore who registers the vehicle completely and -- and plot the costs of a driver by

DSR level, the -- we have our DSR scale from plus 15 to minus 20, the cost per driver increases in a very consistent fashion from that line. It -- it does the same thing whether you own a vehicle or not. So, having the license is see -- at least seems to be the main risk factor.

The ability to drive, not necessarily ownership of the vehicle seems to be the main driver. There is a slightly higher cost for people that own vehicles, but not significantly higher.

So, what this concept is -- is saying is that in theory you could get a lot of the -- the risk covered by purely charging people on the license, and then the incremental risk for -- you know, I have a Cadillac versus I have an old beater, would be the extra -- the extra piece that you would charge. And that would almost really be just a physical damage charge based on what -- what you have.

So that's that idea. But this concept is really dramatic in terms of its implications. CMMG has come and talked about this idea, why don't you charge for, you know PIPP on the license, something like that. So while this has -- definitely has merits, it would be real -- very dramatic in its implementation.

MS. KATHLEEN MCCANDLESS: Thank you. And among the models that you just discussed, Mr. Johnston, is MPI supportive of a particular model?

MR. LUKE JOHNSTON: So as -- as you know, we're -- we're still researching these topics. The current model is set up as a form of residual risk type model. So we're -- we've said, particularly on the demerit side, we, you know, that's where the -- those drivers create the risk. We need to collect more premium from that particular group. But the issue is that it's -- it's not actuarially sound.

So -- so we could move towards a model like this, but there is a -- and -- and decide at this hearing, like, how gradually or -- or how quickly we want to do that, but there's a lot of other players that would probably be interested in how we do this, like the government, the public, and others.

So this one is logical. It doesn't cause massive disruption in how people currently renew, and policies, and their driver's licence, but there's more work to be done to -- to have MPI fully make a recommendation.

MS. KATHLEEN MCCANDLESS: And just so that we're clear on the record, when you refer to this one, you're referring to the residual risk model, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then from among the models discussed, is there one (1) or more that MPI would not be supportive of using?

MR. LUKE JOHNSTON: I don't want to -- I don't want to -- until this is fully surveyed, I -- I don't want to say too much about my particular views, but the primary -- as I mentioned, the primary driver model and registered owner model don't seem to -- I -- don't see a huge benefit to move to primary, but -- but all the other models do have merit, and they could be considered.

MS. KATHLEEN MCCANDLESS: Thank you. If we could just scroll, continuing down DSR strategy, we see at lines 6 through 8 that MPI believes that all options should be thoroughly considered and analyzed prior to transitioning from the current registered owner model to a primary driver, or to some other type model, yes?

MR. LUKE JOHNSTON: Agreed.

MS. KATHLEEN MCCANDLESS: And then directly under DSR 5.1, we see that the initial phase of MPI's DSR strategy is to develop a public consultation plan to invite Manitobans to share their views on the proposed changes to the driver and vehicle rating models, yes?

MR. LUKE JOHNSTON: Yes.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And we see that the plan will identify a variety of mediums to inform and educate Manitobans, and the qualitative and -- qualitative and quantitative research methodologies used to gather and tabulate feedback may include -- and then there are a number of methodologies below, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And then continuing down this section, we see that MPI, at lines 11 through 13, expects to plan and undertake this work through the balance of 2018 and tentatively plans to provide the Board with an update or results in the 2020 GRA, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And then at DSR.9 -- this is the conclusion and next steps -- at line 17 to 20, MPI anticipates that by next year's GRA, it'll be in a position to report on the results of the public consultation efforts, yes?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And the primary research on no or low cost options, as well as on its decision on whether to proceed with data collection for higher cost options, yes?

MR. LUKE JOHNSTON: That's right. And may -- maybe if I could just add to this, you heard Mr. Graham speak at the -- on the first day about product suite review. So I believe his slide deck had deductibles, and maximum insured values, and -- and those types of things.

To me, driver safety rating, deductibles, those types of items are things that customers would actually want to be involved, and -- and be consulted on. The Capital Maintenance Provision -- I don't think they would know what that is. Things like that, but these are real things that customers will care about. So DSR is one (1) of the items that would be considered as part of that product review, so there may be some of these other topics also reported on to the -- to the Board.

MS. KATHLEEN MCCANDLESS: Thank you. I don't think I need to take you to the see -- this Information Response, but just -- the Corporation was asked in PUB/MPI-1-51 about the progress on its public consultation process. And maybe so it's not a memory test, we could pull up for your reference, Mr. Johnston.

But essentially, the response there is that the DSR consultation process is in its initial stages and key dates, and expected timing of pub -- public consultation have not been determined at this time.

Is there any update or progress on public consultation?

MR. LUKE JOHNSTON: I don't have one, but that doesn't mean that it's not ongoing. The -- the product suite review team, of which DSR is a part of, has definitely been formed, and we're -- and looking at these topics. I'm not as involved in the public consultation media piece, but we -- we could get an up -- update, I suppose, on that. But I'm not aware of any major initiatives that have -- that have begun.

MS. KATHLEEN MCCANDLESS: Perhaps by way of undertaking, then, we could have an update on the progress that the Corporation has made with respect to its DSR public consultation?

MR. LUKE JOHNSTON: We can do that, yes.

--- UNDERTAKING NO. 18: MPI to provide an update on the progress the Corporation has made with respect to its DSR public consultation

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. And, Mr. Johnston, are you able to advise as to whether the Corporation is on track to provide the updated information on a -- or a proposal in the 2020 GRA on the DSR changes?

MR. LUKE JOHNSTON: Yes, we are.

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: No, Mr. Johnston provided the information. Thank you.

Now with respect to the service fee review, at last year's GRA, we heard from the Corporation that it would be conducting a review of service fees, and the Corporation was ordered to file the results in this year's GRA, and it -- it has done so. And we have heard that no changes are being requested at this time, yes?

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: And I understand that the rationale for requesting no changes is that increasing fees will not result in increa1sed revenue because the net zero overall effect of the break-even rate-setting model will correspond as -- correspondingly reduce premium revenue, or at least in part, that's the rationale. Is that correct?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And also that it would be premature to seek changes to the Basic service and transaction fees prior to the Corporation knowing the outcome of any change that might be made by the Government of Manitoba to the Driver and Vehicle Act service fees that are charged through MPI?

MR. MARK GIESBRECHT: That's right.

MS. KATHLEEN MCCANDLESS: Does the Corporation foresee any change to service fees in the future?

MR. MARK GIESBRECHT: It's -- it's a possibility for sure, yes.

MS. KATHLEEN MCCANDLESS: And if we turn to slide 12, at MPI Exhibit 25, in the evidence this morning, you referred to the -- the review of service fees as a jurisdictional scan. In addition to a jurisdictional scan, will there be more to this review?

MR. MARK GIESBRECHT: Yes. As part of the review, we will undertake to understand what is the time required to offer these services, what is a reasonable charge at -- that should apply to those things, looking at whatever -- what are the prices that were charged in the past, and applying a -- CPI factor as another basis for what could be a reasonable cost of those. It'd be a number of factors that go into that, along with a comparison to other jurisdictions.

MS. KATHLEEN MCCANDLESS: Okay. And so that would include having fees che -- charged vary reasonable relationship to the underlying costs of the fees --

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: -- services? Thank you.

All right. Thank you. Those are my questions for this panel.

THE CHAIRPERSON: Mr. Williams, I'm just wondering, do you have a timeframe for your cross-examination?

DR. BYRON WILLIAMS: I think my original estimate was an hour. I'm thinking somewhere between forty-five (45) minutes and an hour and --

THE CHAIRPERSON: Okay.

DR. BYRON WILLIAMS: -- ten (10) minutes.

THE CHAIRPERSON: Thank you. So we'll break until one o'clock. Thank you.

--- Upon recessing at 11:44 a.m.

--- Upon resuming at 1:02 p.m.

THE CHAIRPERSON: Mr. Williams...?

MR. STEVE SCARFONE: Mr. Chairperson, just before Mr. Williams begins, over the lunch hour we did retrieve some information that the Corporation would like to read into the record, if -- if it pleases the Board. It's just with respect to the hail damage over the past five (5) years.

So, beginning with the fiscal year 2017 and '18 and -- and we'll move backwards; 2017/'18 the total hail damage was 8.3 million; 2016 and '17 45.1 million; 2015/'16 52.6 million; 2014/'15 13.8 million and, lastly, 2013/'14 23.5 million for combined damage of $143.3 million over the past five (5) fiscal years.

And Mr. Johnston tells me that he can retrieve the information that Ms. McCandless is looking for, which is the effect of the paintless dent repair at least forecasted on those numbers.

MR. LUKE JOHNSTON: Thank you. We can provide this breakdown, if necessary, but I'll -- the hail repair forecast which that -- Ms. McCandless showed us the -- the slide where the severity was reduced dramatically, that forecast has been lowered by about -- about $5 million.

So on an approximate basis we've -- we've baked in about $5 million of savings; could be maybe more or less for sure, but that's --that's -- what we've taken in the -- in the forecast right now.

MS. KATHLEEN MCCANDLESS: Thank you. Just one (1) question of clarification for Mr. Scarfone.

The numbers that you read into the record, are those gross or net of reinsurance?

MR. STEVE SCARFONE: That's probably a better question for Mr. Johnston.

MR. LUKE JOHNSTON: I believe those are directly gross from the annual report, yeah.

MR. STEVE SCARFONE: Yes, and -- and

just so the Board is aware, those are cited from the 2017 annual report, which I believe is in section 8 of the application.

MR. LUKE JOHNSTON: Yeah, our last time using our re-insurance was 2011. So those numbers are all gross. So the example I gave you about is there a global warming or not, some of those numbers -- one (1) of them was over 50 million. We had no re-insurance recovery because they were all small storms. So, Mr. Graham talked about perhaps looking at new re-insurance options. An aggregate would say, if the total amount is more than 25 million kick in and that -- and you can see why that make sense.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. STEVE SCARFONE: The Corporation is trying to encourage its customers to park inside their garages but we don't know if that message is getting out.

Sorry, Mr. Williams, go ahead.

DR. BYRON WILLIAMS: Thank you and good afternoon, members of the panel. I'll just indicate further to the Chairperson's comments of first thing this morning, after discussions with My Learned Friends from Manitoba Public Insurance, there were two (2) exhibits and some questions which are properly related to ratemaking but are most appropriately put to Mr. Graham.

So, I -- I think by agreement what we have dec -- we are recommending to the Board is that we -- we set those aside and come back to them when my cross-examination of the next Manitoba Public Insurance panel takes place.

MR. STEVE SCARFONE: That's correct. We have no objection to that, Mr. Chair.

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: And the good news for those hoping to get out earlier today is that will help us to get out earlier today.

Ms. Campbell, I don't know if we've really met in the regulatory process, so, please to meet you. I don't have many questions for you, but I do want us to just start with a couple.

You recall a conversation you had with the Chairperson regarding the impairment of deferred development costs in the range of $20 million?

MS. CYNTHIA CAMPBELL: Yes.

DR. BYRON WILLIAMS: And following that impairment those items are no longer assets of

Manitoba Public Insurance; agreed?

MS. CYNTHIA CAMPBELL: Correct.

DR. BYRON WILLIAMS: And, in essence, that is reflected in a writeoff or reduction of equity, correct?

MS. CYNTHIA CAMPBELL: Correct.

DR. BYRON WILLIAMS: Thank you. Ms. Schubert, if we can go to -- yes, thank you. It's amazing how you can anticipate me and read my messy handwriting.

Mr. Johnston, when we look at the -- under figure RM-15 Summary of Premium Increases and direct your attention to the private class, there's around 800,000 vehicles in the private class, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And in terms of this General Rate Application, if -- if Manitoba Public Insurance is successful, that class will experience a premium change in the range of 2.37 percent?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And it's -- that's about $21 million higher, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And that would

account -- that class accounts for about 90 percent of the 2019 premiums, sir?

MR. LUKE JOHNSTON: That's correct. And -- and as you see almost all of the premium change.

DR. BYRON WILLIAMS: Ms. Schubert, if we could go to RM-16.

Mr. Johnston, this is an aggregation of the -- the impacts all in of the rate application on different vehicles; that's -- this is the estimate of what will happen; agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And if I draw your attention to line number 8, it would be correct to suggest that there will be almost 290,000 vehicles experiencing a premium increases of between 5 and 10 percent, sir?

MR. LUKE JOHNSTON: Yeah, that's true and it's not too surprising if -- if you consider the -- the average rate changes are, you know, 2.2 percent there's going to be somewhat of a -- a bell curve around that. Unfortunately, the range is 5 to 10 instead of maybe more detailed, five or six, seven but correct.

DR. BYRON WILLIAMS: So in that range

of increases of between 5 to 10 percent that will account for 25 percent of the vehicle population, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And again, in terms of increases of between 10 to 15 percent that will be another 40 -- approximately 40,000 vehicles, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: So well over 300,000 vehicles will have increases over 5 percent, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And, sir, if we go up to figure RM-15, line 11, that line tells us, sir, that there will be over 200,000 vehicles experiencing premium increases of between 50 and $99; agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: Accounting for between 17 1/2 and 18 percent of the -- of the vehicle population; agreed?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And again, going to line 12, an additional 98,000 vehicles experiencing premium increases of between a hundred and $149, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: Another 8 1/2 percent?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: So whether one looks in terms of the percent change or increases over $50 in terms of premium, sir, either way that accounts for over 25 percent of the vehicles?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Mr. Johnston, yesterday you were kind enough to help me out with the Corporation's consideration of the concept of rate shock.

You recall that discussion, sir?

MR. LUKE JOHNSTON: Yes, I do.

DR. BYRON WILLIAMS: And as I recall that discussion and if you need a transcript reference, I'll give it to you, but as I recall that tran -- discussion, sir, you indicated that there was no definition of rate shock, but for Dynamic Capital Adequacy Testing the assumption was that the Board would not approve rate increases in excess of 5 percent?

MR. LUKE JOHNSTON: That's correct, and that -- that the intent of those comments were on an overall basis. So, the graphic that we're still looking at on the -- on the screen does occur in every rate application whether it's 0 percent ask or 2 percent ask, this graphic here if -- so, let's say we didn't do the capital maintenance provision which maybe what you're interested in, would all shift down by 2 percent essentially.

So there is still -- be people that pay, you know, more than 5 percent or more than $50.

DR. BYRON WILLIAMS: And, Mr. Johnston, I don't want you to misunderstand the intent of my questions. I'll suggest to you that while our client fully understands the need to set driver and vehicle premiums in a manner that reflects the collective insurance risk they represent, would it be fair to say that if we were to look at rate shock from the perspectives of the bills of individual consumers rather than the overall rate increase, it is arguable that 25 percent of vehicles experience rate shock based -- based upon their individual bills?

MR. LUKE JOHNSTON: So that's a difficult question to answer. As the -- as the Board's aware, there are rules that we have, so, the experience adjustment rules plus or minus 15 percent, an overall cap of 20 percent, those in -- in some ways are to control extreme rate shock, but I'm not going to pretend that, you know, 5 percent or a hundred dollar increase for a customer isn't a -- tough for them to swallow.

If we're talking about the need for perhaps a lower threshold or something like that to control those types of things, we would have to look at that in terms of the overall methodologies. It's 15 or 20 percent to high of a number, for example.

DR. BYRON WILLIAMS: And fair and I appreciate the thoughtfulness of that answer, Mr. Johnston.

It would be fair to say that as the Corporation currently looks at rate shock, it's a concept that applies to the collective average not to the individual consumers, sir?

MR. LUKE JOHNSTON: My -- my comments about the -- about 5 percent as being kind of a judgmental benchmark for rate shock on the overall basis, I -- that -- that would apply.

On the individual vehicles our historical threshold, at least in this regulatory process has been that 15 to 20 percent level. That was not set by me, obviously, but that's what it's been.

DR. BYRON WILLIAMS: Mr. Giesbrecht, I'm going to be coming to the Corporation's response to Information Request CAC-2-25 in a second but while we're going there, sir, to the extent that consumers are expressing concerns about rate stability, are they expressing concerns about their individual bills, sir, or some theoretical average?

Do you have an opinion on that?

MR. LUKE JOHNSTON: I can't speak for consumers but being a consumer I'm likely to compare -- look at my own rate and -- but I would in -- in some cases so, for example, if I heard MPI was going to have a 8 percent rate increase I would be very shocked by that, but at the same time, if I looked at my individual bill and it was zero, I would be like, well, lucky me right but...

So I would guess that consumers are most -- more concerned about their own bills.

DR. BYRON WILLIAMS: Mr. Giesbrecht, k recognizing that Manitoba Public Insurance employs quantitative opinion surveys as described in response to CAC-2-25 -- and we'll come to that in a second -- has Manitoba Public Insurance tested on a qualitative basis, i.e., through focus groups or similar tools whether consumer concerns about rate stability are based upon individual rate changes, or the overall rate change to your knowledge, sir?

MR. MARK GIESBRECHT: I -- I'm not aware specifically around focus groups and speaking to those matters. I know we have a number of rolling polls and -- and surveys that assess a number of questions, including the appropriateness and reasonableness of rates and -- and what customers value.

But to your question specifically, I'm not aware of any.

DR. BYRON WILLIAMS: And I thank you for that, sir. To -- to your knowledge, in essence, Manitobans have told you they want stable rates, but you have not asked Manitobans to define what they mean by stable rates?

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And Mr. John -- or Mr. Giesbrecht, we are going to go through CAC-2-25, and in particular question 36.

But I -- my understanding is that to your knowledge through qualitative tools such as focus groups, Manitoba Public Insurance has not explored how

Manitobans define basic -- stable rates?

MR. MARK GIESBRECHT: I am not aware of any of that qualitative definition or understanding through focus groups. That doesn't mean it doesn't exist. I'm not aware.

I know in the Information Request that you mentioned, there is information in terms of the rolling poll that we can have a look at.

DR. BYRON WILLIAMS: Yes and we'll get right to that answer. And, sir, I'm not asking for an undertaking, but if someone downstairs or otherwise lets you know that there are stable rate definitions through focus groups we would love to -- we'd love to hear about it, but that is not an undertaking, just so I'm clear.

Directing your attention to the response to this Information Request. And the third paragraph. The fourth line, Mr. Giesbrecht, you'll see a reference that presently public comments are not subject to testing and do not assist the Public Utilities Board in making decisions relating to approving changes to the rates charged.

Do you see that, sir?

MR. MARK GIESBRECHT: I do.

DR. BYRON WILLIAMS: And -- and, sir,

and if you're not aware, this is -- we certainly won't hold it against you, but has Manitoba Public Insurance explored how, if at all, consumer presentations were treated during the last Manitoba Hydro General Rate Hearing?

MR. MARK GIESBRECHT: Not that I'm aware of.

DR. BYRON WILLIAMS: And, sir, are you aware whether or not rate peer panels have been employed by the Public Utilities Board in hearings relating to Manitoba Hydro or payday loans?

MR. ANTHONY GUERRA: Sorry, just with respect to this -- this line of questioning. This is the hearing before the Board on the application by Manitoba Public Insurance not Hydro.

So, to the extent that these questions relate to the situation before Hydro, MPI fails to see the relevance of further questioning on this issue.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: I don't explore -- intend to explore it at length, but certainly the Manitoba Public Insurance since the start of this hearing has talked about best practice and looking at - at consumer engagement and our client, we would submit, is entitled to, at a light basis, explore what efforts it has made to -- to explore this concept.

MR. LUKE JOHNSTON: I -- I think in some cases, Mr. Giesbrecht and myself are not like the actuaries in conducting these type of polls, so, there may be work being done, but neither of us are deeply involved in -- in that work. So I know there's been talk of some of these E-panels and other -- other things that are happening in -- in MPI, but neither of us are intimately involved in that, that's all.

DR. BYRON WILLIAMS: Fair enough, and maybe taking this conversation outside this hearing to the next hearing, Mr. Giesbrecht, would Manitoba Public Insurance be open to a process prior to the filing of the next General Rate Application aimed at collectively collaboratively working with PUB advisors and stakeholders on key potential issues for public engagement such as, for example, the definition of stable rates.

MR. MARK GIESBRECHT: We currently have a project underway to work with our stakeholders and customers to understand their -- their needs and desires and expectations. And so I would want to defer and speak with that group in terms of the work that they're doing and how that could fit into that project work.

DR. BYRON WILLIAMS: Sir, would you be prepared to come back after speaking to that group by way of undertaking and just share your thoughts?

MR. MARK GIESBRECHT: Yes, I would.

DR. BYRON WILLIAMS: So, the undertaking is to engage with the public engagement working group and provide feedback on whether or not Manitoba Public Insurance would be prepared to collaboratively engage with stakeholders such as my client as well as PUB advisors on potential tools of public engagement directly related to the ratesetting process.

(BRIEF PAUSE)

MR. STEVE SCARFONE: We're going to take a moment before we can make that undertaking, Mr. Williams. We want to check on -- the back row wants to check on some information.

DR. BYRON WILLIAMS: Yeah, that's -- that's fine. And we'll -- we'll move on. And Mr. Scarfone, because of my aging memory, if you can just -- I'll -- I'll ask you to come back with that response.

MR. STEVE SCARFONE: I -- I --

DR. BYRON WILLIAMS: Let's not trust me to --

MR. STEVE SCARFONE: Let's not trust me, either. Okay, no. I will -- I will remind you that we've promised you an answer on that undertaking.

DR. BYRON WILLIAMS: Okay.

THE CHAIRPERSON: Can I just ask a question on this? You're talking about that they would proceed with this, have a response back to you after talking to their group, before the end of this hearing. After -- I -- I'm trying to figure what the timing is on this. There -- there wasn't anything put forward, but they have to go through a process in order to respond to -- to you. I don't know how long their process going to take. I don't know if you're talking about -- you want a response prior to the end of this hearing or if we're going to have a response some time in the future.

The -- the other -- the other concern I have, Mr. Williams, is that your -- your suggestion essentially creates an obligation on the PUB, because you're -- the way you phrased it was in conjunction with the PUB, which doesn't have a policy in this --

DR. BYRON WILLIAMS: That's fine.

THE CHAIRPERSON: -- in this matter --

DR. BYRON WILLIAMS: Let me --

THE CHAIRPERSON: -- and -- and assumes that the PUB -- whether we would or not, but assumes that the PUB would be part of a process that we've never discussed.

DR. BYRON WILLIAMS: Let me rephrase my suggestion, then, sir. And I'm focused on the engagement with ratepayers -- with stakeholders.

MR. STEVE SCARFONE: Yes, and -- but the -- the reason --

DR. BYRON WILLIAMS: And in terms of the temporal -- okay. What I'll do, Mr. Chair, is I'll engage in some con -- conversations offline with Manitoba Public Insurance on this, and we'll see where it takes us, if it all.

THE CHAIRPERSON: Thank you.

MR. STEVE SCARFONE: Yeah. Thank you, Mr. Williams, because I think that the concerns that Mr. Chair raised were -- or what we're -- why we were reluctant to commit to that undertaking, because we don't know what time constraints -- or if that's going to be something that can be done before the end of the hearing, or next week, or next month.

DR. BYRON WILLIAMS: And I thank both

Manitoba Public Insurance and the Chair for his guidance.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Directing your attention to the -- the bottom paragraph on this page, Manitoba Public Insurance does see public opinion polling as guiding its corporate approach to rate setting at a strategic level, agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And one (1) of the insights from that polling that is important to Manitoba -- Manitoba Public Insurance is the desire of Manitobans expressed to maintain stable and fair rates, correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And we've also agreed that your knowledge, it's not -- there's no definition of -- of what that means, whether it relates to the individual ratepayer, or -- or on average, agreed?

MR. MARK GIESBRECHT: I'm not aware of any, correct.

DR. BYRON WILLIAMS: If we could go now to Appendix 1 to CAC-2-25, and specifically page 1 of 8 for a second.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And just to the second bullet, sir, this is a summary of customer research flowing from the results of the twenty-seven (27) rolling -- 2017 rolling poll, but building on historic results, agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And the -- as the second bullet demonstrates, in terms of the value that Manitoba Public Insurance is perceived to provide to repay -- payers, price relating var -- price related varial -- variables have a strong impact, sir?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: As we've discussed, the strongest driver is stable and fair rates, correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: Another important driver is the cost of vehicle insurance?

MR. MARK GIESBRECHT: I see that.

DR. BYRON WILLIAMS: You're agreeing, sir?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And sir, just in terms of -- going to the bottom of 2 -- of page 2 of 8, rate -- underneath rate, at the very bottom, please, Ms. Schubert. Sir, again, you'll see the reference to stable and fair rates. But I'll also suggest to you that in terms of the cost of vehicle insurance, it's described as being a moderate to key driver of perceptions of value consistently over time. Would that be fair, sir?

MR. MARK GIESBRECHT: That is fair.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And sir, just to direct your attention to page 6 of 8, under -- underneath "price related independent variables," sir, in terms of how the polling tests the concept of maintaining stable and fair rates, under question 36, you'll -- this is how well that question is posed to ratepayers, agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: There's no definition of what is meant by stable, agreed?

MR. MARK GIESBRECHT: Agreed.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Ms. Schubert, if we can go to AR Appendix 4, section 2.32. Mr. Giesbrecht, captured in this -- this is the discussion from the Manitoba Public Insurance business plan, agreed, sir?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And captured under section 2.32 are some discussion of public support, agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And on the third line there, sir, you see a reference to a perceived lack of appeal options for unsatisfied customers. Do you see that reference, sir?

MR. MARK GIESBRECHT: I do.

DR. BYRON WILLIAMS: And sir, in terms of that perceived lack of appeal options for unsatisfied customers, does Manitoba Public Insurance possess research on the perceived lack of appeal options?

MR. MARK GIESBRECHT: I am not aware of any research that suggests a level of a perceived lack of options. I know there are number of options available to customers that do exist. However, the -- the perception of that in the public, I am not aware of.

DR. BYRON WILLIAMS: Okay. In terms of -- in terms of the appeal process, are -- are you aware of what issues specifically you're talking about? Is it the no-fault plan? Is it the -- just for example, sir, what -- what are -- what is -- what is the Corporation talking about here?

MR. MARK GIESBRECHT: I believe what we're talking here is more on a -- a generalized basis, not specifically around a -- a particular portion or coverage of the policy that we offer to customers. It -- it is a potential risk that we have identified and want to ensure that we do mitigate and have things in place to address it. However, it was not put in place specifically to address an ongoing issue today.

DR. BYRON WILLIAMS: Okay. Thank you. So there's no research in the Corporation's poss -- possession suggesting that your -- your -- you have concerns at -- at a significant level from consumers on this issue?

MR. MARK GIESBRECHT: That will be subject to check. I -- I am not aware, but that doesn't mean it does not exist, or others are not aware of information that could speak to that.

DR. BYRON WILLIAMS: Thank you. I want to turn to the issues relating to the management and reserving of long-tail claims, Mr. Johnston, and we're going to start with con -- CAC Information Request 1-57.

And just to the -- to the Board, we're focused on the claims, not on the BI3. But Mr. Johnston, just when one hears that acronym, BI3, can you generally and concisely describe what -- what is meant by that, to the Corporation's understanding?

MR. LUKE JOHNSTON: BI3, and correct me if I'm wrong, the Bodily Injury Improvement Initiatives are the three (3) 'I's. I haven't called it that probably since the first day it came out, but.

The -- it was a new claims management system for injury claims that was implemented in September 2010.

DR. BYRON WILLIAMS: And, Mr. Johnston, you'll agree that over the last number of hearings, our client, through -- through my commentary and -- and yourself, have been engaged in a discussion about adverse experiences the Corporation is experiencing in the post-BI3 era in terms of claims that are longer than twenty-four (24) months?

MR. LUKE JOHNSTON: Yes, that's correct. We've -- we've seen a few issues, one (1) related to claims duration, so claims staying open longer, and the other one related to inadequate case reserving would be the other issue.

And just to be clear, obviously, a system doesn't cause these things to happen, but it's part of a -- a process where that occurred.

DR. BYRON WILLIAMS: And sir, whether it is claims -- well, when it's claims that lasts longer, whether through anyone's fault or not, all other things being equal, that means more costs to the Corporation, correct?

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

DR. BYRON WILLIAMS: And when it relates to issues such as inadequate reserves, sir, that has an influence in terms of the forecast of historic costs, as well as future costs, agreed?

MR. LUKE JOHNSTON: In a -- in a general sense, and I'll -- I'll explain what I mean. If -- in -- in today's world, if case managers suddenly stop putting reserves on the files, the actuaries would try to add IBNR reserves to cover for that deficiency. New, or more pre -- like, more claims, or -- or increased persistence of claims is a different thing, that is you had an expectation, and I will say there is 20 percent more of them. That would, in normal course, not have been anticipated, and that would generate higher costs and increase the -- the forecast going forward.

DR. BYRON WILLIAMS: And if we can go to page 5 of 5, under subquestion (c) of CAC-1-57. And, sir, directing Mr. Johnston -- directing your attention to the second paragraph here, the Corporation provides its belief that their incremental claims costs that were incurred as a result of reducing case management employee base and the process changes, that created a more passive approach to injury management since 2010, agreed?

MR. LUKE JOHNSTON: Agreed. There's -- there was -- there was very clear evidence that there were less employees in this area. There is a number of positions eliminated immediately on implementation of the system in 2010, and there some under -- other indicators that indicate that a more passive strategy, or less -- or the opposite, less aggressive claims management strategy was being employed at that time.

DR. BYRON WILLIAMS: And when we speak of a more passive approach to injury management, Mr. -- Mr. Johnston, all other things being equal, that would tend to result in longer claims and more costs?

MR. LUKE JOHNSTON: As -- that's -- that's a -- a difficult one. Passive doesn't always mean bad, so mayb -- maybe if, by way of example, maybe there is a -- a large number of small claims where it makes more sense just to, you know, administratively deal with them through, you know, some kind of automated process.

But in this case, what we mean by passive is maybe more the claim wasn't maybe aggressively worked at the intake process, and it was allowed to maybe persist a bit longer, and -- and end up being a -- a longer-term claim than -- than necessary.

DR. BYRON WILLIAMS: And sir, if we could --

MR. ANTHONY GUERRA: Sorry, just to interrupt. And I don't mean to interrupt, but at the same time, this issue is going into the depth that we had suggested would be best explored by the IT, PDR, and value management panel. And so all I would suggest, Mr. Williams, is that some of these questions may be best put to Mr. Wennberg.

DR. BYRON WILLIAMS: I -- I'm going to respectfully disagree. Absent guidance from the Board with -- because, Mr. Chair, from our perspective, these questions do not go to information technology. They go to the management of claims.

Now, if Manitoba Public Insurance would prefer us to -- so I'm not talking about the IT problems. I'm talking about the management problem, unless Manitoba Public Insurance is expressing a preference to have those questions which are properly part of the expense control put to Mr. Wennberg.

THE CHAIRPERSON: Quite frankly, I -- I think if this panel can answer it, then they can answer it. If this panel feels uncomfortable, or thinks that somebody is better qualified to answer it, then we can, you know, deal with it on Monday.

DR. BYRON WILLIAMS: And the challenge I'll pose, Mr. Chair, just to finish -- to finish the thought, is that some of the questions are -- I'm sure, go directly to Mr. Johnston. Other ones, you know, I can't.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: So, Mr. Johnston,

you'll advise me if you feel unable to answer them?

MR. LUKE JOHNSTON: Yeah. What I was going to say is that there are definitely questions related to the valuation of claims liabilities that I need to understand. If I think that the question is to deep into the claims management process, I'll defer that to Mr. Wennberg. And then if it's -- yeah, if that's IT related, I'll defer those as well.

DR. BYRON WILLIAMS: Going to page 3 of 5, and, Mr. Chair, I'm open to guidance on the Board on this. I -- going to page 3 of 5 --

THE CHAIRPERSON: I just want to make -- I just want to make it very clear, so that the panel understands, if you don't feel comfortable answering the question, and somebody is better able to answer, just say so. If you -- if you feel that you're the proper person, or you can answer it, I -- I think that's the way we should proceed.

MR. STEVE SCARFONE: Thank you for those comments, Mr. Chair.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Johnston, going to page 3 of 5, the first full paragraph, I guess this just reenforces the point, I'll suggest to you, that some of the reduction in terms of long-tail claim -- or some of the increase in terms of long-tail claims that may be attributed partially to the reduction of employees, agreed?

MR. LUKE JOHNSTON: So that -- that is one (1) of the theories on why some of the increases occurred. So as I said, there's no question that staff were released, and that long-term claims increased, so we're investigating, I said, basically, whether that is, in fact, true.

DR. BYRON WILLIAMS: And sir, directing your attention to Information Response CAC-1-35(b), page 3 of 4, Mr. Johnston, you'll see a comment on the first two (2) lines of this that the reserving guidelines have not changed for PIPP claims open for twenty-four (24(months, but that the existing guidelines were not being followed post-BI3 implementation.

MR. LUKE JOHNSTON: Yes, I see that.

DR. BYRON WILLIAMS: And, Mr. Johnston, can you assist us in understanding for how long the existing guidelines were not being followed? Is this covering the period from 2010 to 2017, sir?

MR. LUKE JOHNSTON: In the actuarial valuation, pretty early in the process, I was clear that case managers are having some difficulty putting reserves in the new system. So a pretty obvious result was that case reserving levels were down pretty dramatically. So, the response of the actuary in that case would be to add actuarial reserves or I -- IBNR reserves to -- to cover that.

And, yes, as the question states, one (1) of the reasons that the new Board decided to create the centralized reserving team and put it under -- under my accountability was to make sure that never happens again.

DR. BYRON WILLIAMS: And, Mr. Johnston, in terms of the failure to follow existing guidelines, how long did it endure til, sir?

MR. LUKE JOHNSTON: There were really issues from the date of implementation until last year was when we converted everything to centralized reserving. And by doing that, really, every claim more than twenty-four (24) months old on the income replacement side, I was -- the reserving was no longer in the hands of the -- the case manager and it was being reserved by the centralized reserving team.

So up until that point when those -- reserving was converted over, there were still not all, but -- but there were still claims that were clearly not being fully reserved per guidelines.

DR. BYRON WILLIAMS: So, roughly, sir, we're talking a period of six and a half (6 1/2) years?

MR. LUKE JOHNSTON: Roughly.

DR. BYRON WILLIAMS: If we can go to attachment A to Information Requests CAC-1-36(a), and starting -- actually, that's perfect there, Ms. Schubert, in terms of the executive summary.

And -- and Mr. Johnston, this is a PowerPoint somewhat redacted, but which was presented to the Board of Directors of Manitoba Public Insurance in April of 2018, sir?

Subject to check, it's the page before.

MR. LUKE JOHNSTON: Okay, so this is a -- just look -- this is -- what IR is this?

DR. BYRON WILLIAMS: CAC-1-36(a), sir.

MR. LUKE JOHNSTON: I'm going to just go to that question, but yes, that's correct.

DR. BYRON WILLIAMS: And on the next page, the first bullet, you see the -- that this report or PowerPoint was in response to a request by the Board of MPI to examine the year-over-year variability in claims incurred in growth and reclaimed -- and retained claims? Agreed, sir?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And again, sir, when we speak of a growth in retained claims, that's a growth in cost to Manitoba Public Insurance ratepayers?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And the suggestion in this report is that that growth has been occurring since 2008, due to a variety of factors, sir?

MR. LUKE JOHNSTON: Yes. And I -- when we say a variety of factors, that's kind of getting to the point that there are other things happening in the world, like for example, you know, the treatment of mental health claims as an example of, you know, how maybe claims are handled differently. And this isn't necessarily all related to the system or number of staff that we have, some -- some of these issues may exist even without that. So we don't just throw all the blame on one (1) particular thing. So we'll do a proper deep dive and review those.

DR. BYRON WILLIAMS: And sir, if we go to slide 8, and direct your attention to the right-hand side, there is a suggestion on the fourth bullet that one (1) of the challenges was that the majority of the case managers were ill-equipped to manage the complexity of claims. Agreed?

MR. LUKE JOHNSTON: I do see that at -- this area would start going on to Mr. Wennberg's expertise, because again, I know the general, yes, the general issues, but not the details.

DR. BYRON WILLIAMS: Okay, I'll reserve that question for the next witness.

Let's go to slide 11, sir. And was another of the concerns expressed that complex claims were only being actively managed in the later stages of the claim?

MR. LUKE JOHNSTON: Yes, that's true, and that again deals with -- with intake, the idea if you don't get on these claims early and immediately they -- they will become issues. So that -- that's surrounding that topic.

DR. BYRON WILLIAMS: And that again affects claim retention, agreed?

MR. LUKE JOHNSTON: That's the expectation, yes.

DR. BYRON WILLIAMS: And there is costs to claim retention. Agreed, sir?

MR. LUKE JOHNSTON: There is.

DR. BYRON WILLIAMS: On slide 12 there is a reference to a triage pilot project, agreed, sir?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And on slide 12 at the bottom, there is a suggestion that there was a small increase in claims closure rates so far.

Do you see that reference, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And are you in a position to provide an update in terms of the analysis of claims closure rates?

MR. LUKE JOHNSTON: Well, I can tell you there's two (2) things working here, so on the actuarial side we monitor claims closure rates every month and monitor that.

I can tell you that at least in the area I'm most concern with the -- the longer term, I'm not seeing any substantial improvements, at least to date.

The -- the claims management area that's dealing with the -- we get about 17,000 injury claims per year. Obviously I'm not going to look at 17,000 claims, but -- so those are reserved more globally.

Once they become, you know, beyond a

year and they start falling to a few hundred claims, then I start tracking them a little more closer, but they -- this group may have -- have seen some small improvements in the -- in the minor claims coming in. So they would have to speak to that.

DR. BYRON WILLIAMS: And just so, and I thank you for that -- that delineation of duties, sir.

Just so that I understand your answer in terms of the longer-term claims, which are your focus, my understanding of the evidence is that you're not seeing a substantial improvement to date.

MR. LUKE JOHNSTON: I'm not the -- the recent years, right now, look very similar to the other years post at 2010. Obviously we're watching that very closely. The -- the intake staff or the additional thirteen (13) staff that are -- are being hired, that process just completed last month. So, obviously not reasonable to think that they would necessarily have an effect not being there.

But yeah, we do continue to watch that. And we obviously would be very happy to report if there was a change, but I haven't seen any yet.

DR. BYRON WILLIAMS: Slide 22, sir. You see reference on the last bullet to reviewing overall progress quarterly with MPI actuarial department, agreed?

MR. LUKE JOHNSTON: Agreed. And I -- we actually meet every week.

DR. BYRON WILLIAMS: And are there reports prepared for that purpose, sir?

MR. LUKE JOHNSTON: There is a few different reports we look at, I mentioned one about tracking the claims persistence and -- and budgets would be another example.

We're working right now with -- a lot of the focus is on hiring the staff and making sure centralized reserving is working as intended. But our Board has made it pretty clear that we want to have regular reporting come to the Board in terms of compliance, tracking of persistency of claims types, things of that nature.

So those metrics and dashboards or whatever term you want to use are being developed with the intent of having them completely in place for next fiscal year.

But -- but that doesn't -- that's not to say there aren't -- there isn't regular reporting that we're monitoring, but a more formal kind of monitoring compliance, benchmarking framework is being created.

DR. BYRON WILLIAMS: And that's a framework that will be in place for the next fiscal year, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And Manitoba Public Insurance would be in a position to share that for the purposes of the next General Rate Application?

MR. LUKE JOHNSTON: We would.

DR. BYRON WILLIAMS: Mr. Johnston, I'm not sure if this is more properly put to the other MPI panel or not.

But you -- you would understand that Manitoba Public Insurance, in partnership with the Worker's Compensation Board, implemented an opioid medication policy on or about November of 2012?

MR. LUKE JOHNSTON: That one would definitely be better for the other witness. Thank you.

DR. BYRON WILLIAMS: Thank you.

Mr. Johnston, if -- if Ms. Schubert could pull up DSR page 10.

You'll recall a conversation that you had with My Learned Friend, counsel for the Public Utilities Board, regarding the residual risk model, sir?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And I'm going to be careful not to put words in your mouth, sir.

I understood you to say that you had some -- that in some ways that this model was attractive to you, but that -- but some of the consequences, and I wrote down the words "dramatic disruption."

Whether or not those are your exact words, sir, could you discuss the disruption, if any, that might be anticipated through this model to assist my clients to understand this?

MR. LUKE JOHNSTON: Okay. I guess I'll find out tomorrow if I said "dramatic disruption." I have now, I guess.

The -- so I guess the disclaimer output on -- on that, like the phrasing of the -- of the model is -- could create dramatic disruption if implemented, you know, just let's move right to the indicated numbers at a rapid speed.

So I understand that we wouldn't do that in this forum, at least that wouldn't be my expectation. But the -- the -- my comments were more around the -- the model so the -- the idea that maybe more of the premium should be charged on an individual's driver's license, perhaps a lot more, would be pretty dramatic change to this model and it would -- you know, it would take some -- we would have to be very cautious in its implementation.

DR. BYRON WILLIAMS: And Mr. Johnston, in -- just -- it's dramatic in what way?

In the shift from -- from the vehicle premium to the driver premium? Is that what you're indicating?

MR. LUKE JOHNSTON: Yeah, well that's -- that's one (1) piece of it.

So, as you may or may not know, the -- the -- base driver's license is $45 right now and it's been that way for a long time, probably twenty (20) years, maybe -- maybe -- maybe more or less. But around that period.

I think regardless of what happens on the vehicle premium side, if we told everybody, you know, in a couple of years that that base driver premium was going to be $300 or $400, that might be a bit shocking to them, even though we wouldn't be asking for any more money, in total, so like the -- the revenue we're asking for today, that wouldn't change.

But the -- who is paying it and like, whether it's coming from the license or the vehicle insurance wouldn't dramatically change if you just blindly followed the indications of this model. That's where I think people would see the dramatic impact.

DR. BYRON WILLIAMS: And I appreciate that and just the last question on this, sir. And if you can't answer this, I totally understand.

But conceptually might go to a residual risk model have any implications for the magnitude or actual existence of the vehicle discount, sir?

MR. LUKE JOHNSTON: That would be a logical result, because if -- we do -- so these aren't hypotheticals that I'm talking about when I say that the driver DSR level is very predictive of the risk level regardless of whether you own a vehicle or not, that's factual, that's our own -- our own data.

So if you were getting at the driver ability through the license, then agreed that the need for a vehicle premium percentage discount would likely be dramatically reduced.

DR. BYRON WILLIAMS: And just conceptually, sir, in terms of the actual risks associated with the type of vehicle, you know, whether it's more likely to be stolen or whether the consequences of someone injured in a crash, that is already addressed significantly through CLEAR and -- is that right, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And again, the logic of the residual risk model is that it would be aimed at the risk associated with driver behaviour?

MR. LUKE JOHNSTON: Yes. The idea -- if we were to, as I mentioned, plot all drivers who are non-owners of vehicles on the costs -- cost per individual, in theory that could be the minimum that everybody should pay if -- just for having a license, because these, by definition, are several hundred thousand people that don't own a car, or at least not in their name.

That, in theory, could be the minimum that you charge those folks and the residual amount would be those additional things like what kind of car you bought, what territory you live in and things like that, that -- that said though, the territory and such as well may also apply to the license. It might -- in theory it could be cheaper to have a license in rural than in Winnipeg.

So DSR would just become a rating

variable in the same manner that the territory is today. Right now it's not. It's set by policy.

DR. BYRON WILLIAMS: There are some questions that -- from this conversation that I'm deferring to the other panel based upon Mr. Johnston's advice.

We have the two (2) exhibits that -- and discussion that I'm deferring as well to the discussion of Mr. Graham.

I don't think I have any undertaking, so Mr. Chair, with thanks to the MPI panel, that closes my discussion.

THE CHAIRPERSON: Thank you. I would ask the panel if they have any questions. Ms. Hamilton...?

BOARD MEMBER HAMILTON: To Ms. Campbell, you talked about the decrease in FTEs of 15, I believe, over four (4) fiscal years.

Can you tell me where those FTEs were vacant, or whether it required severing out existing incumbents.

MS. CYNTHIA CAMPBELL: There was probably a combination of both. In the fact that there would've been some vacant positions where they -- where it was restructured so that the position was no longer needed.

There would have been, especially when it came to our management reductions, those were severed out.

BOARD MEMBER HAMILTON: Okay. Do you have an idea of what the cost -- the severance costs were and can you point to where they're reflected in your statements?

MS. CYNTHIA CAMPBELL: Severance is reflected within our compensation line. It is included in there. I would have to go to my detailed financials to be able to pull out a severance amount.

Yes, sorry. We don't know it off the top of our head.

BOARD MEMBER HAMILTON: Thank you. I have one (1) question for Mr. Johnston.

With regard to the vehicles for hire, my question is whether MPI at this point has enough claims experience for that group to determine whether the premium costs are appropriate for vehicles for hire or not.

MR. LUKE JOHNSTON: I would -- I would say no, but at the same time there -- we have that issue for a lot of other existing vehicle groups where there's a small sample.

So we're six (6) months in this -- this is clearly an evolving class of vehicles and it's -- the experience is probably going to change a little bit as we move.

But as you'll see in the undertaking, that we've -- we've agreed to do on the loss ratios, it at least appears right now that the -- the lowering of the premium for taxis appears to be reasonable. Again, very preliminary data. And there is a little bit of upward rate pressure on the passenger vehicle for hire.

So we -- we did the 20 percent increase on the -- on the -- on the all-purpose rate. Their loss ratio is above 100 percent right now, but it's not anywhere near the level that taxis are -- are operating at.

Could that all change? Maybe. But at least in the six (6) months, seven (7) months of data, it doesn't look like dramatic changes are needed.

And maybe just to expand a little bit more. MPI's intention was to follow the ratemaking model that we currently use, where, you know, we give a certain amount of credibility to the class's data and weigh that against their current rate and then gradually move that -- those classes to the indicated rates. So they would be no different than how we treat anybody else.

BOARD MEMBER HAMILTON: Okay. Thank you.

THE CHAIRPERSON: I don't know if this is to Mr. Giesbrecht or Mr. Johnston.

Aggregate insurance, how long has it been in the marketplace? Sorry, for the re-insurance.

MR. LUKE JOHNSTON: We've talked about aggregate coverage for a -- for a while with our reinsurers. It's been more of a recent phenomenon for us in terms of why we need it. Prior to that, right. So in some of the previous years the recommendation from our re-insurance broker, Aon, was that the price ask was too much.

They were asking for, you know, maybe talking like $3 million to, you know, to get something that may be of questionable value. We're going to have to have that -- that conversation again this year.

So we have a particular -- what we would like to do is kind of lock in that hail budget at a maximum amount. But again, we have to evaluate the cost benefit of that. So we might be coming back and saying, for $2 million more, you know, we can lock in the hail budget and take that volatility away. Is that worth the trade? So, it's always been available.

THE CHAIRPERSON: Kristen, could you go to page 25 of MPI's presentation?

Maybe I didn't catch it before, but right at the -- at the bottom you have this natural upgrade of the negative 2.1 percent.

Was that in last year's -- has this been -- this is the first time I can remember it. I'm just wondering if it was produced previously.

MR. LUKE JOHNSTON: Yeah, we have always included the upgrade. The intent of this table was to show everybody how this works and hopefully it achieved that. So you know, it's just a breakdown that per unit costs of everything, so --

THE CHAIRPERSON: But it has -- it was broken down previously as well?

MR. LUKE JOHNSTON: I don't know if we've ever presented the --

THE CHAIRPERSON: Part of just a big -- of a different category, because I -- I don't remember it actually sort of in this format where it was actually separated.

MR. LUKE JOHNSTON: It's quite possible that this -- this format has never been shown to the Board, so the intent was to make it easier for everyone to understand. So hopefully that's -- that's been achieved.

THE CHAIRPERSON: Okay. The Professional Truck Driving Training Program was cancelled. Why?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: We don't have the exact answer, but we'd be happy to get that back to you.

THE CHAIRPERSON: Yes, if you could. I mean, the world has changed since Humboldt. And I'm just wondering if MPI is -- if you could also find out if MPI is considered -- reconsidering it. I note that Alberta cancelled it and now they've gone to the Ontario model, which is actually an enhanced training program.

You know, I don't know, is there -- are there other training programs that are available or are -- are people able to get licenses to drive semi-trailers without the necessary training?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So, yeah, there is training in the marketplace. I mean, this was the -- MPI's subsidization of that training. I'm not aware of any plans that may have changed as a result of -- of the Humboldt tragedy.

THE CHAIRPERSON: Okay. Mr. Johnston, you -- you spoke about -- you were asked about rate shock and you mentioned that anything -- you thought anything over 5 percent would be considered rate shock. I'm just trying to go by memory, which is a dangerous thing.

Last year, the acting CFO made a comment as to what MPI thought rate shock was. Do you remember that discussion?

MR. LUKE JOHNSTON: I don't remember the details, no.

THE CHAIRPERSON: Okay.

MR. STEVE SCARFONE: I do, Mr. Chair.

THE CHAIRPERSON: Was it 3 percent?

MR. STEVE SCARFONE: Three percent.

THE CHAIRPERSON: Yes. So I'm just wondering last year Mr. Yien said 3 percent. This year you're saying 5 percent.

Has anything changed or is it just a different view or...?

MR. LUKE JOHNSTON: The context where I gave the original 5 percent was just -- we can check the transcript, but I believe what I said is in the Dynamic Capital Adequacy Test, we've -- we needed something that was considered -- there's a little bit of precedent in the past where past boards haven't asked for more than a 2 percent rebuilding fee at a time. And we also needed some sort of cap on the overall ask. We put in 5 percent in the DCAT.

So the only kind of guidance I have is that those DCAT assumptions, at least for approval of the range, have been approved by the Board through the approval of the DCAT, and so that's kind of my guide as to what seems reasonable.

THE CHAIRPERSON: Okay, thank you.

Any re-direct, Mr. Scarfone -- sorry, wrong counsel.

MR. ANTHONY GUERRA: Thank you, Mr. Chair. Actually, if we could, I know what we're getting close towards the end of this day, but we -- we really would like to have at least a five (5) minute break before.

THE CHAIRPERSON: Certainly, yes. That's fine.

So you know what, we'll adjourn until -

- we'll give you until 20 after and you can advise if there are any questions.

MR. ANTHONY GUERRA: Thank you.

THE CHAIRPERSON: Thank you.

--- Upon recessing at 2:08 p.m.

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

THE CHAIRPERSON: So if we could resume. Is there any direct?

MR. STEVE SCARFONE: There is a few questions on re-direct, Mr. Chair. So, Mr. Guerra is going to start and then I'll have a couple of questions.

THE CHAIRPERSON: Okay. I just want to point out, because I was going to raise it before, the purpose of re-direct is to deal with issues raised for the first time in cross-examination or issues that couldn't be contemplated.

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: They're not intended to reinforce your case.

I let it go the first time. There were, in the earlier re-direct, many issues which were raised in your direct, were dealt with in cross-examination and then raised in re-direct. And it was simply repeating information put forward.

So I just -- I would like to just avoid that if we could.

MR. STEVE SCARFONE: Yes, thank you.

RE-DIRECT EXAMINATION BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Thank you. Kristen, can I ask you to pull up the Information Request CAC-1-36, and in particular Appendix 1, slide 2? Yes, that's right. Thank you. This question I will pose to Mr. Giesbrecht or to Mr. Johnston.

You were asked questions on cross-examination about point number 3, the -- the modification of the PIPP claims reserving process in 2010, which resulted in a systemic under-reserving in operations and my understanding, based upon the questions being asked, was that it was being suggested that there was a deviation from -- from previously established guidelines or guidelines that had been established were not being followed.

Can you -- can you please explain further MPI's position on that? Were -- were guidelines actually not being followed, and if so, was there anything being done to respond to that?

MR. LUKE JOHNSTON: Yes, to be -- and Mr. Wennberg will talk a little bit about this, when I talk about these things I'm talking from the actuarial perspective, expecting reserves to be put in a certain way and they're not.

My understanding from the business is that the -- in particular the additional portion of claims, case managers had an optimistic view that they were going to return these folks to work and it was -- that was their expectation, and for that reason they didn't feel it was appropriate to put in the lifetime case reserves per the guidelines at -- at the twenty-four (24) month stage.

Obviously, as those claims didn't materialize as planned, they started having to put those reserves in, but it was -- it was delayed. So there -- there wasn't any sort of -- I don't know what, intent there to ignore the rules that we had there. It was an optimistic view, but it didn't turn out as they expected.

MR. ANTHONY GUERRA: Okay, thank you, Mr. Johnston.

My colleague will have some further questions on re-direct.

RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you. Kristen, could you please pull up rate-making figure 13, please?

Mr. Johnston, one (1) question concerning this figure that addresses some questions that Mr. Oakes put to you yesterday on ratemaking. Under the motorcycle column, you may recall he asked you to look first at line 23 and line 24.

As I understood your evidence, sir, where it reads 1.3 percent and underneath that at line 24, 3.4 percent, that reflects the inclusion of the capital maintenance provision. Is that correct?

MR. LUKE JOHNSTON: That's correct.

MR. STEVE SCARFONE: And you may recall from yesterday's testimony, that Mr. Oakes had suggested to you that that 3.4 percent could in fact be any number, whatever MPIC management may have deemed appropriate.

Do you recall that?

MR. LUKE JOHNSTON: I recall that, yes.

MR. STEVE SCARFONE: And he had suggested to you, sir, that for example, MPIC's management could include in that particular line a 5 percent increase if they so chose.

Do you recall that?

MR. LUKE JOHNSTON: I do.

MR. STEVE SCARFONE: If indeed we adopted what Mr. Oakes was suggesting and had a 5 percent number instead of the 2.1 percent, would that still, in your view, be a capital maintenance provision?

MR. LUKE JOHNSTON: No, it would not, for the -- well, we've laid out why we want the capital maintenance, but in that case, that really would be just an arbitrary number greater than the amount needed for capital maintenance. So I would call that a surcharge or a rebuilding fee, if -- if we did that.

MR. STEVE SCARFONE: Thank you. And then my last question, Mr. Chair, deals with CMMG 1-11, Appendix 1.

And again, Mr. Oakes asked you questions about the historical RSR ranges. Do you recall that, sir?

MR. LUKE JOHNSTON: I do.

MR. STEVE SCARFONE: And that there seemed to be a significant jump in those ranges in recent years.

Do you see that from the graphic?

MR. LUKE JOHNSTON: Yes, I do.

MR. STEVE SCARFONE: Is there anything other than the methodology that you mentioned yesterday that would account for those changes in your view?

MR. LUKE JOHNSTON: Yes, there is. So actually one -- one (1) particular item Mr. Oakes asked for, and I was only able to approximate. But I've since looked at the data.

So the one (1) question was at what kind of -- I believe this was Mr. Oakes -- at what rate are the li -- claim liabilities growing right now.

And using five-year averages they're growing at about 4 1/2 to 5 percent. This data could be provided to the Board, if necessary.

And so one (1) of the -- if we go back to, say, the beginning of this time period, 2003, the lia -- claim liabilities of the Corporation at that time were 883 million. And today they're 1.8 billion.

So, that's -- that's more than double. So the other reason that this would grow is for the reason we've talked about the -- we call -- and the growth in the -- in the business.

MR. STEVE SCARFONE: Thank you, Mr. Johnston.

So Mr. Chair, one (1) of the perils of not having Mr. Keith available is the -- that we don't have his expertise available, but Mr. Giesbrecht has -- has discussed with him on the break and has an answer to your question about the truck drivers.

MR. MARK GIESBRECHT: Yes. So, as provided by Mr. Ward Keith, MPI ended the program to support -- or with support of the MTA because of the framework had a well-established supported by industry and the funding was available from under -- other sources.

Also, this program of funding, it did relate directly to the SRE, the Special Risks Extension line of business.

And regarding Humboldt, the government has announced publically, they are looking at mandatory training for all class 1 drivers and MPI is a part of that working group.

The program we put in place and -- and framework we were fine with support of the MTA and industry carriers have been provided as one possible model for consideration by government.

MR. STEVE SCARFONE: Mr. Giesbrecht,

the acronyms that you're using?

MR. MARK GIESBRECHT: The MTA, I believe, is the Manitoba Trucking Association.

MR. STEVE SCARFONE: Thank you, those are all my questions.

THE CHAIRPERSON: Mr. Scarfone has been -- has been trained in the perils of acronyms, so. Thank you very much. That concludes our hearing today. We're going to adjourn now until 9:00 a.m. on Monday.

MS. KATHLEEN MCCANDLESS: Mr. Chair, if I could just pose one (1) question to MPI counsel.

Are there any updates on when PreAsk 1 might be responded to?

(BRIEF PAUSE)

MR. STEVE SCARFONE: So I'm told, Ms. McCandless, that we can have the -- the response to you on -- well, tomorrow, except for the scenarios that -- that Tyler will be running, which we expect to have by Monday.

MS. KATHLEEN MCCANDLESS: Thank you very much.

THE CHAIRPERSON: Thank you, we're

adjourned until Monday morning. Thank you, have a good weekend.

--- Upon adjourning at 2:33 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.