MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2020/2021 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Irene Hamilton, QC - Board Chairperson

Robert Gabor, QC - Board Chair

Carol Hainsworth - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 8, 2019

Pages 329 to 561

APPEARANCES

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UNDERTAKINGS

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--- Upon commencing at 9:00 a.m.

THE CHAIRPERSON: Good morning, everyone. I believe where we left off yesterday was Ms. McCandless was about to start her cross-examination.

MPI PANEL 2 CONTINUED:

CYNTHIA CAMPBELL, PREVIOUSLY AFFIRMED

MARK GIESBRECHT, PREVIOUSLY SWORN

MR. GLENN BUNSTON, PREVIOUSLY AFFIRMED

LUKE JOHNSTON, PREVIOUSLY AFFIRMED

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

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

This -- this morning, I'm going to have some questions of the panel on the financial overview and expenses, then my colleague, Mr. Watchman, will have some questions on invest -- investments. Thank you.

So first, I'd just like to confirm some things about the applied-for rate, and Mr. Johnston, these are probably questions for you.

Kristen, can you pull up MPI Exhibit

number 42, Figure RM-12. That's at page 1 of Appendix 1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now, this is a table showing the required rate changes based on the interest rate update as at September 30, 2019, without the net capital maintenance provision.

Is that right?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And so if we scroll to the bottom of the page, we can see that line 24 reflects the amended rate request of an overall point six (.6) rate reduction, yes?

MR. LUKE JOHNSTON: Yes, sorry. Yeah.

MS. KATHLEEN MCCANDLESS: And the applied-for change is an average, so within each class, there may be increases or decreases, yes?

MR. LUKE JOHNSTON: Definitely. It depends on the -- the cov -- the -- you know, the -- the claims distribution, and also the nature of the claims. So motorcycles, for example, having more PIPP claims, the impact of discounting would be greater, for example.

MS. KATHLEEN MCCANDLESS: Thank you. And if we could go to figure RM-14, which is on page 2 of this Exhibit.

Thank you. So this is the major class summary report, and at line 7, we see overall, on the far left comment -- column, that the vehicle count is 1.16 million? Is...

MR. LUKE JOHNSTON: M-hm. That's correct.

MS. KATHLEEN MCCANDLESS: And the fleet has been increasing year after year?

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

MS. KATHLEEN MCCANDLESS: We see at line 1 that the largest percentage of the fleet is the private passenger class at eight hundred and seven thousand (807,000), yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And so roughly what proportion of premium revenue comes from that class?

MR. LUKE JOHNSTON: The tra -- well -- well, I'll do it a different way. Trailers and off-road vehicles, there is barely any premium there, just a few percent. We're talking -- if you could see the rates, eight dollars ($8), seventy dollars ($70).

Private passenger would be over 80 percent.

MS. KATHLEEN MCCANDLESS: Thank you. With respect to motorcycle rates, I understand the Corporation uses a ten (10) year averaging for the motorcycle class?

MR. LUKE JOHNSTON: On -- on the PIPP coverages. That's right. Yeah.

MS. KATHLEEN MCCANDLESS: And the purpose of that is to smooth out experience that has larger volatility in the motorcycle class?

MR. LUKE JOHNSTON: That's true. So for motorcycles, more than 50 percent of their claims costs are from serious collision. So serious being like a lifetime claim. So you can imagine a year where you have some unfortunate luck, and the claims go way up. And then there's years where you don't have nothing. So the ten (10) year was -- was seen as a reasonable period for smoothing.

MS. KATHLEEN MCCANDLESS: Thank you. Then at the far right of this table, we have the proposed rate change and an experience rate change. Can you just explain what the difference is between those two (2) columns?

MR. LUKE JOHNSTON: Yeah. The experience rate change is a based purely on the exper

-- claims experience of the class, and then the actual proposed rate change reflects different capping rules and -- and other provisions we have in place for rate stability.

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, can we please go to Appendix 2 of this document, at page 1, which is Figure RM-12.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And so as I understand this table, this is the major classification required rate change based on the September 20 -- 30, 2019 update, including the net capital maintenance provision of 2.1 percent, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So that would be the applied-for change if MPI had not proceeded with the amendment, correct?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: At line 24, we see 1.5 percent?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. Now Kristen, could we please go to PUB-MPI -- pardon me -- page 1 of the same Exhibit that we're looking at.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Of PF-1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Yes. Thank you. So this pro forma provides the Corporation's actual results for Basic for 2019 based on the September 30, 2019 interest rate update, yes?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And so on the left column, we see actual results for 2019, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And then the next column in is 2020P. Is that projected?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Now, the years that are affected by this application would be

2021 and 2022, yes?

MR. LUKE JOHNSTON: That's right. Due to staggered renewals, we look at the -- generally look at the average of those two (2) years.

MS. KATHLEEN MCCANDLESS: And then the Corporation also provides some outlook beyond 2022, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And so this is an indication of what the model shows, but doesn't include any assumptions of rate changes.

Is that right?

MR. LUKE JOHNSTON: Certain -- beyond the rating year, yes. Yeah.

MS. KATHLEEN MCCANDLESS: Now if you need the reference, I can take you there. So that would be our book of documents, Tab 5. This was the initial Pro Forma filed with the application. So this is Pro Forma 1, based on the .1 percent rate increase.

Do you see that, Mr. Johnston?

MR. LUKE JOHNSTON: I see that, yeah.

MS. KATHLEEN MCCANDLESS: And at line 32, we see that MPI was forecasting $8.9 million net income for 2021, yes.

Do you see that?

MR. LUKE JOHNSTON: Correct. And maybe you're getting to it, but I'll just -- if you just let me confirm some stuff at the end, I'll let you proceed for now.

MS. KATHLEEN MCCANDLESS: Thank you. And then we see for 2022, a forecast net income of eight hundred and two thousand dollars ($802,000), yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Okay. And the application as originally filed did not include a capital build provision.

Is that right?

MR. LUKE JOHNSTON: The -- the application as originally filed did include a 2.1 percent capital build provision. The --

MS. KATHLEEN MCCANDLESS: Net capital maintenance?

MR. LUKE JOHNSTON: -- the June -- sorry, maintenance provision, pardon me. Yeah, the -- the June filing did. Yeah.

MS. KATHLEEN MCCANDLESS: But no capital build provision?

MR. LUKE JOHNSTON: No capital build provision, yeah, sorry. My mistake.

MS. KATHLEEN MCCANDLESS: Now if we go to Tab 8 of the book of documents. This is Pro Forma 4.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now this table provides a comparison of the fiscal 2018/19 actual results compared to what was forecasted for that fiscal year in the 2019 GRA.

Is that right?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And at line 13, under the second column, so for the 2020 GRA, we see the total earned revenues were $1.5 billion for 2018/19 actual, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then after claims incurred, claims processing costs, and other operating expenses, we see at line 27 that MPI recorded an underwriting loss at -- of $131 million, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And an underwriting loss is common from MPI's forecasting standpoint, yes?

MR. LUKE JOHNSTON: Yes, it is. If we are going to break even, like the -- as a general rule for Basic, underwriting income plus investment income would be the break-even objective.

MS. KATHLEEN MCCANDLESS: All right. And so MPI does look to its investment income to -- obviously to cover that deficiency --

MR. LUKE JOHNSTON: That's true on average, yes.

MS. KATHLEEN MCCANDLESS: So after investment income of 208 million, if we go down to line 30 --

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And again, on sale of property, at line 31 of 1.3 million, if we scroll to the bottom, please, Kristen, we see that MPI reported a net income of 78.8 million, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Just moving over one (1) column to the right, on an overall basis, we see the operating results were actually $56.7 million worse off than what was forecast at last year's GRA.

Is that right?

MR. LUKE JOHNSTON: That's true. And just -- if it's more appropriate, I can -- I can flip to Mr. Giesbrecht for these. Yeah.

MS. KATHLEEN MCCANDLESS: So Mr. Giesbrecht, just to confirm the difference between the forecast and actual results was due both to lower earned revenues? I believe that would be at line 13, of $11.7 million.

Is that right?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: As well as claims incurred, we see on the right-hand side, at line 17, being $75 million higher than forecast, yes?

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

MS. KATHLEEN MCCANDLESS: Then if we turn to the next page of this pro forma, this is an explanation of some of the variances we see in the previous page, yes?

MR. MARK GIESBRECHT: Yes, it is.

MS. KATHLEEN MCCANDLESS: And so at line 2, we see that there was -- the volume forecast was lower than expected for vehicle premiums.

Is that right?

MR. MARK GIESBRECHT: Yes, it was.

MS. KATHLEEN MCCANDLESS: And can you explain, yourself or Mr. Johnston, what the volume forecast represents?

MR. MARK GIESBRECHT: That's the assumption of new cars that are entering the fleets, and amount of new cars that are on the road. So we have seen over the last little while a decline in that -- that growth rate, and so the forecast had a higher growth rate than what we actually experienced.

MS. KATHLEEN MCCANDLESS: Thank you. And then at line 6, we see that low -- there were lower motor vehicle premiums -- premium upgrade DSR and another of $9.1 million, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: With respect to claims incurred, and we saw on the previous page that they were higher than budgeted, a major part of the increase was an actuarial adjustment of $54.9 million.

We see that at line 10, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And does that relate to personal injury protection benefits?

MR. MARK GIESBRECHT: Yes, primarily.

MS. KATHLEEN MCCANDLESS: And perhaps

you could just elaborate on -- on what that means?

MR. MARK GIESBRECHT: Sure. Maybe I'll defer it to Mr. Johnston for that question.

MR. LUKE JOHNSTON: So to -- I -- I think you mean to elaborate on the number, or -- or personal injury protection benefits, sorry?

MS. KATHLEEN MCCANDLESS: On the explanation.

MR. LUKE JOHNSTON: Okay. The -- so our actuarial valuation is mainly for long-term PIPP claims. There are other physical dam -- like shorter term claims in there, in -- in the valuation, but those are generally settled quite quickly.

Every October and -- and February, soon to be March, we review what is approximately the -- approximately a $2 billion claims liability portfolio, and we update assumptions based on interest rates, mortality, how claims are closing, et cetera.

In -- I'm sure there'll be some discussion here, but in recent years, we've saw some deterioration in terms of claims staying open a bit longer. And that's really the main reason for -- for this adjustment.

MS. KATHLEEN MCCANDLESS: Thank you. If we look to line 11, we see that another major increase was due to the increased interest rate impact, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Can you please explain what gave rise to the $49.1 million increase due to interest rate impact?

MR. MARK GIESBRECHT: So that's based on prevailing interest rates, and -- and where the market yields are -- are going. And so as we have rates that are dropping, we will see a -- a corresponding increase in the claim liability.

And so there -- that's a dynamic that moves constantly. That's managed through our Asset Liability Management Program. And what you'll see is -- is typically an offset on investment income, but it's all based on the prevailing interest rates, and how that impacts our discount rates, with inflows into the valuation of the claims liabilities.

MS. KATHLEEN MCCANDLESS: At line 12, we see an increased comprehensive claims for hail of $16.2 million, yes?

MR. MARK GIESBRECHT: Yes, I see that.

MS. KATHLEEN MCCANDLESS: So that was more hail claims than expected?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And then at line 15, we see offsetting these increases was a major decrease in collision claims cost of $40.9 million, yes?

MR. MARK GIESBRECHT: That's correct.

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

MR. MARK GIESBRECHT: Just at a high level, we had better than expected frequency of claims as well as the trend within the severity had slowed compared to previous forecasts.

So overall on both those fronts, less accidents occurring plus the cost of accidents being a bit lower than anticipated led to favourable results.

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, could we please go to Pro Forma 5 which is at tab 9 of the book of documents? And this table compares what was forecast for fiscal 2019/20 in the 2019 GRA compared to the current application, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And at line 31 if we scroll to the very bottom -- so last year on the left-hand side of the columns here, we see that the Corporation was forecasting net income of $17.9 million for fiscal 2019/20, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And then if we go one column over to the right, we see the forecast is now $29.7 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And then if we could look to Pro Forma 3 which is at Tab 7 of the book of documents? Now, this table shows changes in equity based on the original application with the applied for 0.1 percent basic rate increase, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: So until the update which was filed last week for 2020 under the FB column at line 7, there was an assumed transfer of $63.1 million from extension retained earnings, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And at line 13, we see that MPI was forecasting for basic to have retained earnings of $361.4 million or total equity, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And that would be an MCT ratio at line 19 of 86.6 percent, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Now, with

respect to the October 4 update, if we compare -- and perhaps, Kristen, we could put these pages side by side, so MPI Exhibit 42 Pro Forma 1, which is at page 1 of Appendix 1, and Pro Forma 1 from the application, which is Tab 5 of the book of documents.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen. It appears that MPI has updated all of its forecasted numbers for 2020 as a result of the September 30 update. Would that be accurate?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And at line 17 for claims incurred, we see material updates to claim incurred for 2020. Would you agree?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And at line 30 with respect to investment income, we can see material changes there as well. Perhaps if we could scroll to the top and then back down. I apologize, Kristen.

MR. MARK GIESBRECHT: Yeah. The -- the material difference would stem from the changes in interest rates.

MS. KATHLEEN MCCANDLESS: Okay. And then lastly for line 32 net income, we see material changes to net income as well, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Would it be possible for MPI to provide a line-by-line comparison of the changes to Pro Forma 1 based on the September 30 update and with an explanation of the variances?

MR. MARK GIESBRECHT: Yes, we could provide that.

MS. KATHLEEN MCCANDLESS: Thank you.

THE COURT REPORTER: It that an undertaking?

MS. KATHLEEN MCCANDLESS: Yes. That was an undertaking to provide a line-by-line comparison of the changes to Pro Forma 1 from the original application to the update provided on October 4, 2019.

MR. ANTHONY GUERRE: Just to confirm, MPI will give the undertaking.

--- UNDERTAKING NO. 1: MPI to provide a line-by-line comparison of the changes to Pro Forma 1 from the original application to the update provided on October 4, 2019

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Now, if we could go to PUB-MPI-1-12. And at this Information Request, MPI was asked at page 1 to provide the results of an alternate analysis of the basic rate requirement reflecting updated interest rates as at the time that the IR was responded to -- pardon me -- as a sensitivity test, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And so the update reflected interest rates as at July 19, 2019 as we just saw at the bottom of the previous page? Kristen, perhaps we could just scroll back? There. That's your response? That reflected a forty-two (42) basis point decrease from the 3.05 percent used in the GRA, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And then if we continue on to the response -- that's great; thank you -- we see that what that resulted in was a

1.2 percent rate increase, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And then if we go to page 3 of this response and down to net income at line 32, we see the net income forecast for 2020 to be $14.3 million in this update, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Then if we jump back to the update that was provided on October 4th at Pro Forma 1, we see there at line 32 that the net income is now $108.4 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Can you explain why there's such a significant change in net income forecast from that July date to October?

MR. MARK GIESBRECHT: So for the July update, the update was purely based on interest rates. And so in this updated -- in the amendment, we have factored in our current experience through to quarters as well as updated that -- that forecast for the remainder of the year.

So we have had better than budget claims experience, both on fiscal damage and on our bodily injury as well as better than budget expenses. So those factors all are contributing to improved forecast.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. And, Kristen, perhaps you could pull up the October 4th update to the Pro Forma and keep it side by side with this one we have before us.

What was the change in interest rates between July 19 and September 30?

MR. MARK GIESBRECHT: The -- in July -- yeah -- the question up there was forty (40) -- approximately forty (40) basis points that had -- since increased to fifty-two (52).

We'll -- we'll check in the back, but my recollection is the Canada tenure was about fifty-two (52) base point drop, but we'll confirm that.

MS. KATHLEEN MCCANDLESS: Thank you. So just to highlight some of the changes, Mr. Giesbrecht, that you just mentioned if we keep these tables side by side, for Pro Forma 1 from the IR response, which is on the right-hand side, the claims incurred forecast we see before interest rate impact -- so at line 14 -- we have $888.9 million as of the July update, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And then on

the left-hand side of the screen, we have, at line 14, now $822.6 million, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Okay. And so when was this reduction in claims incurred known to the Corporation?

MR. MARK GIESBRECHT: Well, we've had experience throughout the -- the course of this year, and it's been accumulating, so through the -- the first quarter, we had favourable results that -- that trend continued in Q2 as well. So it's been, you know -- it's -- it's an evolution of the results so far this year, and we continue to look at where those trends are moving.

MS. KATHLEEN MCCANDLESS: Okay. Thank you.

MR. LUKE JOHNSTON: Just -- just to add to that, the -- as Mr. Williams touched on yesterday, it -- it's abnormal for us to just jump in and all of a sudden report results are much better than anticipated. Some things like hail have essentially concluded by this time of year, while in July, we wouldn't know that. And then the results on collision to persist that favourably for six (6) consecutive months is also very abnormal, so that was one of the big reasons for the update.

MS. KATHLEEN MCCANDLESS: Thank you. Now, just looking again at the screen here, the October 4th update on the left-hand side, the second column in, we see at line 27 that the underwriting loss is $50.2 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And then looking to the right-hand side of the screen, second column in, we see as at July 19, it was $114.8 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And so that roughly $65 million improvement is primarily related to the change in claims incurred?

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

MS. KATHLEEN MCCANDLESS: Thank you.

MR. LUKE JOHNSTON: Ms. McCandless, just to put on -- correctly on the record, at year-end February 2019, Government of Canada ten (10) year bond rate was one point nine four (1.94), our July update was 1.48 percent, and our September update was 1.36 percent, so a fifty-eight (58) basis point drop from the beginning of the year.

MS. KATHLEEN MCCANDLESS: Thank you. Now, if we could go to Pro Forma 3 from MPI Exhibit number 42. We touched on this just briefly a few moments ago. This is a table that provides the forecast for Ba -- the Corporation's Basic retained earnings and total equity and provides the calculated MCT ratio, and a new feature in this application, about which we heard yesterday from Mr. Graham, is the forecast transfers from Extension insurance, yes?

MR. MARK GIESBRECHT: Yes. New feature in the sense that it's -- it's planned as -- as part of our capital management plan. We have had transfers in the past from Extension to Basic.

MS. KATHLEEN MCCANDLESS: Yes. Understood. And so we see the 2019 actuals at line 8, the total retained earnings were $309.8 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And that included at line 7 a transfer from non-Basic retained earnings from Extension of $16 million, yes?

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: If we look down to line 12, total accumulated other comprehensive income was at a $60.1 million deficit, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And then at line 11, we see that the change in accumulated other comprehensive income was $99.9 million for this year, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And did that relate to the sale of equity investments to implement the new approved investment portfolios?

MR. MARK GIESBRECHT: That would be the biggest driver of that change, yes.

MS. KATHLEEN MCCANDLESS: Okay. Are you able to speak to what else would have driven that change?

MR. MARK GIESBRECHT: There would be changes to our employee feature benefits balances that would flow through, but those are the two primary ones, and last year, the biggest impact definitely was the sale of equities.

MS. KATHLEEN MCCANDLESS: Thank you. And then we see the total equity balance at line 13 for 2019 was $249.7 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: At line 18, we see that the minimum capital test 100 percent ratio would require $395.4 million in total equity, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And the MCT ratio would be 51.5 percent.

MR. MARK GIESBRECHT: Yes. And just to clarify, in the MCT test there are some criteria for what's available for capital. It's not a straight total equity lineup of financials. There are some deductions to arrive at available capital.

MR. LUKE JOHNSTON: And this -- this number is pre our portfolio -- investment portfolio segmentation, which I'm sure you're getting to, but...

MS. KATHLEEN MCCANDLESS: And so if we look to 2020 projected on this table, we see that as a result of the improved net income for 2019/20, MPI forecast Basic retained earnings to be $493.3 million at the end of this current fiscal year, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And at line 7, that's after a $75.1 million transfer from Extension, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: After taking into consideration accumulated other comprehensive income at line 12, the Corporation is forecasting a deficit of $103.3 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And total equity of $390 million?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And an MCT ratio of 96.4 percent, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And at line 7 for 2021, we see that MPI is now forecasting to transfer $42.5 million in 2021, yes?

MR. MARK GIESBRECHT: Yes. Yeah. In the forecast, you'll see that the transfers are fairly consistent from the years ending in 2021 and onward. It's a little bit higher in 2020 as there is more than 200 percent currently in the Extension MCT basis.

So to bring it down for the first time to 200 percent would yield a larger one (1) time transfer, and then essentially there -- you would have the amounts that it grows by. Typically, its -- its net income for the year would then be transferred to keep that balance at 200 percent for Extension.

MS. KATHLEEN MCCANDLESS: Thank you. And so based on the current pro -- projections at line 19, and we see the MCT ratio of ninety-eight point seven (98.7) in 2021 up to 2024 at 103.6 percent, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And so based on the Corporation's current projections, then, there would be essentially no need for a capital build provision, as the MCT ratio seems to be expected to be at that 100 percent?

MR. MARK GIESBRECHT: Correct.

MR. LUKE JOHNSTON: Just to add to that. We will -- when we present this -- the Capital Management Plan panel later this week, we'll show that if -- if that provision was left in the application, that these MCT scores would have grown to about 125 percent, which was seen as inappropriate.

MS. KATHLEEN MCCANDLESS: Thank you. I'm now going to ask some question about the Extension forecasting. And so, Kristen, if we could please go to EPF-1, page 18 of Part 5 pro formas. And so these -- this is the statement of operations for Extension based on the applied 4.1 percent rate increase, yes?

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: And these forecasts are from the same financial model as used for Basic?

MR. MARK GIESBRECHT: That's right. The model -- our model includes all lines of business.

You're -- you're seeing Basic and Extension, but SRA and DVA are -- are also in the model.

MS. KATHLEEN MCCANDLESS: Thank you. And so at line 13, under the column for 2019 actuals, we see that Extension had total earned revenue of 171 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And total claims costs at line 17 of 77 million?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Expenses at line 23 of 49.5 million?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And underwriting income of $44.4 million?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And adding net investment income -- and if we just scroll down a little bit, please, Kristen. So we have net investment income of 12.1 million or 12.2 million?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And so Extension realized net income of $56.7 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Thank you.

And if we look at the trend along nine -- line 27 of this table, we see an increase in net investment income for 2019 compared to the previous recent years. Does that relate to the reorganization of the investment portfolios?

MR. MARK GIESBRECHT: Yes. As we prepared to change our asset mix and we sold off a portion of equities, that drove that one (1) time gain, but it was a big driver of 2018/2019 results, and this share flowed through to extension.

MS. KATHLEEN MCCANDLESS: Thank you. If we look at line 23 total expenses just from 2019 forward, we would see that they're relatively stable and they are under 50 million until 2021/22, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And we see that at line 29, the Corporation is expecting net income to be over $44.9 million in 2020?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Forty-four point five (44.5) in 2021?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And 46.9 million in 2022, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Now, if we could go to Exhibit number 42. It's the October 1 -- October 4 update, please, EPF-1 at page 3 of Appendix 1. This is the statement of operations for extension based on the interest rate update, yes?

MR. MARK GIESBRECHT: There we go. Yes.

MS. KATHLEEN MCCANDLESS: And if we look down to line 28, the second column in we see that MPI is now forecasting higher net income in the current year. It's $55.7 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And the table we just looked at had $44.9 million in net income. So can you explain the reason for the increase?

MR. MARK GIESBRECHT: Yeah. So as we have better than expected claims experience, that is flowing into the extension forecasts as an improvement. We also are having better than expected expenses compared to budget that's also flowing through to the forecast.

So it's -- it's a combination of our -- our better claim, better expenses. We have also seen a little bit better investment income as well on the -- on the portfolio. So all those items are contributing to better than expected results compared to the prior forecast.

MS. KATHLEEN MCCANDLESS: Thank you. If we look at line 12 the second column in from the left, we see net claims incurred of $60.7 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And the previous net claims incurred on the table that we just looked at were $68.2 million. Would you like to go back to the table for your reference?

MR. MARK GIESBRECHT: Sounds about right.

MS. KATHLEEN MCCANDLESS: Okay.

MR. MARK GIESBRECHT: But to confirm absolutely, I'd have to see the number.

MS. KATHLEEN MCCANDLESS: Perhaps we could do that. Just jump back to EPF-1 from the application. So if we look to line 12 here --

MR. MARK GIESBRECHT: That's basic. We need to find the extension.

MS. KATHLEEN MCCANDLESS: EPF-1, it's page 3 of Appendix -- oh, sorry.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: I'll trust you in saying that it's 68 million.

MS. KATHLEEN MCCANDLESS: Okay. That's fine, Kristen. Don't worry about it for now. It would be $68.2 million, I believe.

MR. LUKE JOHNSTON: That does sound right. Yeah. Our -- our recollection is through six (6) months for about 6 million under budget on claims. So the forecast was updated recognizing that some of that experience were appropriate and then ended up about 8 million better.

MS. KATHLEEN MCCANDLESS: Okay. Now as I understand it, there's no interest rate impact to claims incurred because of the nature of the extension product? Would that be right?

MR. MARK GIESBRECHT: There is very little impact due to interest rates. Yes.

MS. KATHLEEN MCCANDLESS: And that's because there aren't the long-term liabilities as there are with the basic product. Is that right?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Okay. Now if we look to -- you have it before you; thank you, Kristen -- line 27 of the October 4 update. We see investment income for extension was updated to be approximately $8.3 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And that's an increase in investment income or an improvement of roughly $2 million from the application. Is that right?

MR. MARK GIESBRECHT: It seems about right. Yes.

MS. KATHLEEN MCCANDLESS: And is that due to interest rate changes?

MR. MARK GIESBRECHT: That would be one factor definitely.

MS. KATHLEEN MCCANDLESS: Okay. What would the other factors be?

MR. MARK GIESBRECHT: We have had some sales of equities that were better than anticipated on -- on our core basis, through six (6) months, I believe, about 14 million. So there'd be a portion of that would flow into the extension result as well.

But overall on our investment portfolio, the biggest impact has been the changes in interest rates and the unrealized gains that stem from that rate change.

MS. KATHLEEN MCCANDLESS: Thank you. Just looking to the very bottom of the screen here at line 29, we see that interest rate changes do not appear to be a significant risk for extension operating results. Would that be a fair statement?

MR. MARK GIESBRECHT: Well, it -- there is some potential for variation there. As we have a -- the claims liabilities are not so much interest rate sensitive due to the short tail nature of those claims.

We do have fixed income that does back the extension line of business, and there can be effects on the carrying value of those fixed income securities based on interest rate changes, and what you see here is a positive two point eight (2.8) on line 29.

And so that amount could go up or down depending on which direction interest rates change.

MR. LUKE JOHNSTON: If -- if you want to gauge, we know that we had a 58 basis point drop in interest rates, and that created roughly a $3 million impact. So that's the type of sensitivity you'd expect.

MS. KATHLEEN MCCANDLESS: Thank you. Just looking a the extension results on the whole, would it be fair to state that extension is a fairly profitable and relatively stable line of business for the Corporation?

MR. MARK GIESBRECHT: Generally speaking, that's a -- a fair characterization.

MS. KATHLEEN MCCANDLESS: And so given that stability, what's the Corporation's level of confidence that net come at the level it's being projected will be attainable to be transferred to basic?

MR. MARK GIESBRECHT: We have a -- a fairly high confidence level in those forecasts.

MS. KATHLEEN MCCANDLESS: Thank you. And if we could go to page 4 of Appendix 1 of MPI number -- Exhibit number 42.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen. So it'd be EPF-3, page 4 of Appendix 1. Thank you. This is the update to the extension statement of changes and equity based on the interest rates as at September 30, 2019, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And so

line 17 -- or pardon me -- line 7 represents what has been transferred to basic from extension retained earnings.

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And as at the end of fiscal 2019, we see at line 19 extensions. MCT score was 317.4 percent, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And then reflected on the second column in from the left, we see after that transfer of $75.1 million to basic that at line 19 extensions MCT ratio will be 200 percent, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. Those are my questions with respect to financial overview. I'm now going to be moving into expenses.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Kristen, could we please go to expenses Figure EXP-4. That's on page 11 of the expenses section of the application.

This table provides the detail of the total corporate expenditures for 2018/19 actual through the forecast for 2023/24, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. And at line 29 on the first column on the left-hand side of the table, we see that corporate expenses were $288.3 million for 2018/19, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And they're forecast to be $303.6 million in 2019/20.

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: They then increase to $306.1 million in 2021.

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And $309.1 million in 2021/22, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. If we scroll up to line 6 of the table, we see that the Corporation incurred $165.9 million in total compensation costs for 2018/19, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: And compensation represents the largest expenditure of the Corporation, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Now, line 7 to touch on it briefly, the forecast payroll in the current year increased by 8.9 percent from last year. Agreed? We see it at line 7?

MS. CYNTHIA CAMPBELL: Yes, agreed.

MS. KATHLEEN MCCANDLESS: And the increases would be related to a budgeted increase in full-time equivalent staff in the current year?

MS. CYNTHIA CAMPBELL: If you refer to PUB-1-42, we do get into the expected increase of the 8.92 percent. It is partially due -- it is due to compensation increases, but it's not a -- an increase in number of FTEs.

We currently have a very large vacancy rate. And so we benefitted from a lack of having all of our positions filled in '18/'19, but we have budgeted for a status quo number of FTEs. That is shown on -- if you look at figure EXP-10 which is on page 18 of the expenses book, for '18/'19 we had actuals of one thousand seven hundred seventy-two (1,772). Our budget for 2019/20 -- my apologies -- is nineteen eleven.

So we haven't budgeted for an -- an increase. What we're doing is we're budgeting for our vacancies to be filled.

MS. KATHLEEN MCCANDLESS: And you read my mind because I was going to be asking you some questions about that table later. So we may get back to that.

So looking back to figure EXP-4 at line 29, we see that overall corporate expenses are forecasted to grow to $33.5 million by 2023/24, yes?

MS. CYNTHIA CAMPBELL: So for 2023/24, total expenses are $330 million. Yes.

MS. KATHLEEN MCCANDLESS: And would the majority of this increase relate to higher data processing costs that we see at line 8 and higher amortization of deferred development costs at line 26?

MS. CYNTHIA CAMPBELL: Sorry. Can you please clarify the increase from when till when? Sorry.

MS. KATHLEEN MCCANDLESS: From the previous years.

MS. CYNTHIA CAMPBELL: Okay. So from 2022/23 to 2023/24, there's a small increase in compensation of approximately 5 million, there is a small increase in data processing, again, of 5 million, and a large increase in the depreciation and amortization, and that is directly related to Project NOVA.

MS. KATHLEEN MCCANDLESS: You answered my next question. Thank you. Kristen, could you please go to figure EXP-2. That's on page 6 of the expenses section of the filing. Now, this table shows a ten (10) year summary of the total corporate and basic expenses, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And we just reviewed the corporate expenses which are reflected in this table at line 2, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And we see that MPI classifies the operating expenses into functions such as claims expense, road safety, loss prevention, operating and regulatory appeal, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: At line 8, we see the total of expenditures allocated to Basic are $229 million in the current year, yes?

MS. CYNTHIA CAMPBELL: For the 2019/20 FB column, yes. Two hundred and twenty-nine point five (229.5).

MS. KATHLEEN MCCANDLESS: They then increase for 2020/21 to $231.7 million?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And $233 million in 2022, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And we see at line 9 that MPI is allocating approximately 75 percent of corporate expenses to Basic, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And the costs are allocated through the cost allocation methodology?

MS. CYNTHIA CAMPBELL: Correct, which is outlined in the expense book.

MS. KATHLEEN MCCANDLESS: And there have been no material changes to that methodology in the past year?

MS. CYNTHIA CAMPBELL: Correct. No material changes.

MS. KATHLEEN MCCANDLESS: Line 7 reflects regulatory appeal costs. What is that comprised of?

MS. CYNTHIA CAMPBELL: Primarily, this process, as well as -- yeah, and as well as the cost of appeal.

MS. KATHLEEN MCCANDLESS: And when you say appeal, that would be --

MS. CYNTHIA CAMPBELL: The appeal process that we have in place for claimants.

MS. KATHLEEN MCCANDLESS: For claimants, yes. Okay. And Kristen, if we could go to EXP-38 -- that's at the expenses section of the filing -- page 51. At line 14 here, this is the compounded annual growth rates for expenses. Line 14 has under the 4 (four) years from 2015 and 2016 to 2018/2019, 0 percent compounded annual growth rate, yes?

MS. CYNTHIA CAMPBELL: My apologies. Which table is this, again?

MS. KATHLEEN MCCANDLESS: This is the compounded annual growth rates for reg -- for Basic normal operation expenses.

MS. CYNTHIA CAMPBELL: So yes, this is the Basic compounded, and which one were you saying was zero percent?

MS. KATHLEEN MCCANDLESS: Line 14. Under 2015/16 to 2018/19.

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then if we look to the next column over, for the three (3) years from 2019/20 to 2021/22, at line 14, we see a compounded annual growth rate of 7.2 percent, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Then if we could go, Kristen, please, to PUB-MPI-1-45, and the first page there, Question C. So in this Information Request, the Corporation was asked to explain the 7.2 percent compound annual growth rate for regulatory and appeal, and the response is on page 2, which states:

"MPI did not experience any annual average growth to regulatory appeal expenses from 2014/15 to 2018/19; however, MPI expects these expenses to grow from $3.9 million in 2018 to $4.9 million in 2021. This increase is mainly due to higher costs for advisors and legal counsel related to the Public Utilities Board annual rate application."

So could the Corporation explain why, given the trend of zero percent in the preceding four (4) years, why it's forecasting a 7.2 percent compound annual growth rate?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: We'd like to get back to you as an undertaking to come up with the --

the formal details of that -- those percentages.

MS. KATHLEEN MCCANDLESS: Thank you. So that is an undertaking for MPI to provide an explanation for the compound ann -- annual growth rate of 7.2 percent for the period from 2018/19 to 2021/22 for the regulatory and appeal expense.

MR. MARK GIESBRECHT: Yes, confirmed.

--- UNDERTAKING NO. 2: MPI to provide an explanation for the compound annual growth rate of 7.2 percent for the period from 2018/19 to 2021/22 for the regulatory and appeal expense

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Now, Ms. Campbell, I'm going to ask some questions --

BOARD MEMBER GABOR: Ms. McCandless, can I just interrupt and ask a question? Do your -- when you calculate regulatory expenses, do they include your internal staff costs for the process, or is it -- or is it simply Board costs?

MR. MARK GIESBRECHT: They include the

-- the team that's directly attributable to the process, so that's a direct line that -- that is in that -- that item. So -- so those costs are the direct costs, not the -- you know, for example, the percentage of my time, Cynthia's time. It would be the direct costs attributable to the process through our -- our regulatory affairs team.

BOARD MEMBER GABOR: Okay. Would they include Mr. Scarfone's costs and Mr. Guerra's costs? Are they in regulatory or are they in staff costs?

MR. MARK GIESBRECHT: They are in -- they are in legal.

BOARD MEMBER GABOR: They're in legal. So if you have -- if you had a year when there was no hearing, would they be in regulatory or would they be in staff costs?

MR. MARK GIESBRECHT: So our legal team is always within the legal department, and that -- that costing of that department.

BOARD MEMBER GABOR: Okay. The -- the entire legal department?

MR. MARK GIESBRECHT: Yes.

BOARD MEMBER GABOR: Okay. Thank you. Thank you, Ms. McCandless.

(BRIEF PAUSE)

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, could we please go to EXP-4 -- that's from the expenses portion of the filing -- page 11. And Ms. Campbell, we did discuss this a little bit previously. We see the increase in compensation expense by percentage at line 7 there. And so the largest increase -- the -- or, the increase in salaries and benefits is reflected in that colum -- in that line, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then if we go to EXP-9 in the expenses portion of the filing, this table represents the forecast of economic increases for in-scope employees. Is that right?

MS. CYNTHIA CAMPBELL: Correct. There are some that are set. There are some that are forecasted.

MS. KATHLEEN MCCANDLESS: Right. And so in scope has to do with the staff who are subject to the collective agreement, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Right. And

roughly what percentage of scaf -- of the staff complement would be in scope?

MS. CYNTHIA CAMPBELL: Sorry. As at the last pay period in August, we had one thousand five hundred and sixteen (1,516) in scope versus two hundred and eighty-five (285) that were out of scope. I would have to do the math. Sorry. Close to ninety (90).

MS. KATHLEEN MCCANDLESS: Thank you. And so if we look at Figure EXP-9, there's a negotiated increase in 2020 -- or, sorry, zero percent increase in 2020 and 2021, yes?

MS. CYNTHIA CAMPBELL: Correct. We have made the assumption that the current bill put forward by the government will come through in our assumptions. We have nothing other than that bill to be able to forecast forward on, and that bill's zero zero point seven five one (00.751). So that is what we've used as -- as part of our underlying assumptions.

MS. KATHLEEN MCCANDLESS: Okay.

MS. CYNTHIA CAMPBELL: It may not be what we're subject to.

MS. KATHLEEN MCCANDLESS: Right. So on the previous table, EXP-4, we saw that there was a forecast for an increase in compensation, 1.8 percent -- excu -- 2.7 percent for 2021 -- 2020/21 -- 20 -- 1.8 percent for 2021/22. And so then, this increase wouldn't relate to negotiating economic increases but other terms within the collective bargaining?

MS. CYNTHIA CAMPBELL: Yes. There are also steps and scales that are -- we are subject to, so as somebody works their way through their pay grade, there -- there are steps and scale. So there's a 1.75 percent increase assumption built in --

MS. KATHLEEN MCCANDLESS: Right.

MS. CYNTHIA CAMPBELL: -- to -- to that as well.

MS. KATHLEEN MCCANDLESS: Thank you. Now, I understand for out-of-scope staff, so staff who are not subject to the collective agreement, MPI's eliminated the step program?

MS. CYNTHIA CAMPBELL: Correct. It's not a guaranteed step.

MS. KATHLEEN MCCANDLESS: So now it's a merit-based program for increases, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: The automatic step system was offered to out-of-scope employees until this year. Is that right? Obviously not the collective agreement, but there was an automatic step increase for out-of-scope staff previously. Is that right?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Okay. And if it would help you for your reference, if we go to PUB-MPI-1-22C. The old system allowed employees to receive an increment step increase of 4.5 percent annually, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And that was as compared to the 3.5 percent for the in-scope staff, yes?

MS. CYNTHIA CAMPBELL: Correct. Yeah.

MS. KATHLEEN MCCANDLESS: And we see that the change from the automatic step system to the merit-based system has resulted in some savings in compensation costs, yes?

MS. CYNTHIA CAMPBELL: Yes. There's -- there's also been a decrease in out-of-scope employee numbers, which should be noted. So this would take into account the fact that we did have a management reduction in 2018.

MS. KATHLEEN MCCANDLESS: If we go to PUB-MPI-2-9A, on page 1, the Corporation was asked how the new merit-based program was incorporated in the budgeting process for 2019/20 and 2020/21 for both in-scope and out-of-scope employees. The Corporation clarified at 'A' that the merit-based program only applied to the out-of-scope staff, but also that the -- that the Corporation had not incorporated any changes in methodology into its compensation budgeting and forecasting processes.

MS. CYNTHIA CAMPBELL: Correct. In the fact that what we do, and -- so please, let me clarify. Our methodology for when we are forecasting forward for increases -- we take a average percentage and we apply it to our out-of-scope, so we haven't changed that methodology. We've taken an approximate -- we've said it's usually around two point five (2.5), but I'm -- sorry, I do actually have the exact number. For out-of-scope, yes. Sorry, two point two five (2.25). I was correct on that.

So we do take a look at -- we do add that in as an increase. We haven't changed that methodology, but we are noticing some slight changes by the amount of merit increases that are being applied. As we work through this program and have a few more years of actual results, we will determine whether or not that two point two five (2.25) assumption is still a valid assumption.

MS. KATHLEEN MCCANDLESS: Thank you. And at B, we see that the merit-based program, which applied to out-of-scope employees -- as at May 25th, 2019, 69.3 percent of them, so two hundred and three (203) employees, received a merit adjustment, yes?

MS. CYNTHIA CAMPBELL: I -- I agree that 69.3 percent received it, but it was anywhere between zero to 5 percent.

MS. KATHLEEN MCCANDLESS: The amount of the increase?

MS. CYNTHIA CAMPBELL: Yes. So it wasn't the automatic 4.5 percent. It's not 69.3 percent received 4.5 percent. Sixty-nine point three (69.3) percent received something.

MS. KATHLEEN MCCANDLESS: And so the total employees who were eligible for the merit-based program, then, were roughly two hundred and ninety (290)?

MS. CYNTHIA CAMPBELL: Roughly two hundred and ninety (290), yes.

MS. KATHLEEN MCCANDLESS: And does the merit-based program extend to all management in the Corporation?

MS. CYNTHIA CAMPBELL: Can you please

clarify?

MS. KATHLEEN MCCANDLESS: Does it apply to every staff member who's out-of-scope?

MS. CYNTHIA CAMPBELL: Yes, it does.

MS. KATHLEEN MCCANDLESS: And so just to follow on your -- your point that not every management staff received something up to 4.5 percent, what type of criteria are being used to reward an employee?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: There is two (2) main criteria in the program. First will be, where does that employ land in the current band? If they are at midpoint, above -- above or below, that can impact the -- the amount of merit they're eligible to receive. And then as we build a culture of performance and accountability through performance reviews, that assessment by their manager will then factor into what merit they are eligible and what they end up receiving.

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now if we could go to figure EXP-10, Ms. Campbell, you took us there not that long ago. It's page 18 of the expenses section of the filing.

And that's where you pointed to the variance in the normal operations staffing?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: The note at line 11 states that from 2017/18 and onward, there was -- it includes staff related to specialty programs?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And what is specialty programs?

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: I'll get you a more robust answer in -- in just a minute. They're just calling up the budget right now.

But primarily, it's your interns and your summer students. So it's things like road safety programs, so where we bring them in for four (4) months. So that's -- it's a specialty program, so it's not a full-time person. It is -- it is a -- a summer program. It is a specialty. It's an intern, a co-op. They're just checking to see if anybody else is in that bucket as well.

MS. KATHLEEN MCCANDLESS: Thank you. And at line 4, we see for 2017/18 actual, the actual full-time equivalents were forty-six point five (46.5) lower than budgeted, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then as you mentioned earlier, for 2018/19, one hundred and eleven point three (111.3) lower than forecast, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Now if we go to PUB-MPI-2-1, page 3, figure 1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now this table represents a comparison of the actual 2018/19 corporate staffing levels with the 2019/20 budget, yes?

MS. CYNTHIA CAMPBELL: That's correct.

MS. KATHLEEN MCCANDLESS: And we see at line 6 in the first table here at the far right, that the total normal operations staffing level was one thousand seven hundred and sixty-six point three

(1,766.3) full-time equivalents, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then scrolling down, again on the right-hand side, at line 18, we see a total of six point four (6.4) full-time equivalents for specialty programs?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: Further down the page again, on the right-hand side, at line 30, we have sixteen point six (16.6) full-time equivalents for improvement initiatives?

MS. CYNTHIA CAMPBELL: Correct

MS. KATHLEEN MCCANDLESS: For a total at line 42 on the right side of one thousand seven hundred and eighty nine point three (1,789.3) full-time equivalents, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then turning to the next page, so Figure 2, this is the 2019/20 staffing budget, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: If we go to line 42, so right to the bottom of the page, for the year we're currently halfway through, the Corporation is budgeting an increase in staffing levels from the previous year. So one thousand nine hundred and twenty-seven point nine (1,927.9) from the one thousand seven hundred and eighty-nine point three (1,789.3) we just saw.

Is that right?

MS. CYNTHIA CAMPBELL: Correct.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And these increases are to staff for normal operations and specialty programs?

MS. CYNTHIA CAMPBELL: And improvement initiatives, yes.

MS. KATHLEEN MCCANDLESS: If we go back up to line 6, on the right side of the page, we see that MPI is forecasting one thousand eight hundred and ninety-nine point five (1,899.5) full-time equivalents. So that would be an increase of one hundred and thirty-three point two (133.2) full-time equivalents from the actual staffing levels last year?

MS. CYNTHIA CAMPBELL: Correct.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And then if we look at customer service on the left side --

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: -- we see a staff -- there is a staffing change in customer service in the previous year.

Is that right?

MS. CYNTHIA CAMPBELL: There's a staffing change?

MS. KATHLEEN MCCANDLESS: If we --

MS. CYNTHIA CAMPBELL: Yeah.

MS. KATHLEEN MCCANDLESS: -- if we could go back to the previous.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Pardon me, we should go to Figure 3. That's probably more helpful. So the comparative, actual staffing levels --

MS. CYNTHIA CAMPBELL: M-hm.

MS. KATHLEEN MCCANDLESS: -- from 2018/19 to the 2019/20 budget?

MS. CYNTHIA CAMPBELL: There is a -- a budgeted increase for customer service. There's a couple of rationales behind there, if -- if you're looking for how come, because you're looking at a very large number.

MS. KATHLEEN MCCANDLESS: Yes.

MS. CYNTHIA CAMPBELL: We do hire our -- this includes our contact centre staff, and we hire them in -- in classes. Sorry, I'm trying to find the right word.

So we hire -- say it's twenty (20) customer care agents for the contact centre in one (1) go to be able to put them through training at one (1) time. It's most efficient and effective way.

So you can see large decreases. The -- the contact centre is also a very good learning ground to be able to move into the Corporation and have people learn. So we do actually have extremely high turnover in our contact centre.

The other thing you'll see here is that we've actually got a large vacancy within our adjusting pool. And again, it's -- it's something that's difficult to hire for. It's a high-skill skillset, so there's vacancies there, and we have been in the process of hiring.

In speaking to our HR team, we have upwards of seventy-five (75) positions on the board right now being hired for. So what you're seeing here is actually a very large vacancy rate in our corporation right now. We've had higher than normal retirements, and higher than normal turnover. We're in a process of -- of significant change right now.

We've changed our executive team. We're changing our processes. So we've had a fair amount of turnover. We are hitting highs of turnover rates, higher than what we've seen over historical averages over the last several years.

So we are seeing high numbers on vacancies. We are, though -- every time we get a vacancy, we're reviewing the position, ensuring that the skill set's needed. We're reviewing to see whether or not we need the position somewhere else. Again, as I noted, big change.

NOVA; do we need the position somewhere else in the Corporation? So our average hire time used to be between two (2), to four (4), to six (6) weeks. That's also grown. It's a -- it's high on that end as well. So you're seeing these positions stay vacant for longer.

That is -- that should be picked up with our vacancy provision. That's why we do have a vacancy provision. At any point in time, we realize and recognize the fact that you will not have every behind in a seat that you have budgeted for. So we put that provision in there to bring our costs down. Unfortunately, this year, we have seen extremely high rates.

MS. KATHLEEN MCCANDLESS: Thank you. Could you explain the significant change at line 6 with respect to actuarial and risk management staff?

MS. CYNTHIA CAMPBELL: That's actually the creation of a new department. So that is actually Luke becoming a vice president. He -- his -- his team shifted over. So you will see a decrease in finance. You'll also see -- actually, a piece of that did actually come from customer service as well. So that was the creation in a depart -- in a new division.

So you're seeing two (2) things in here, our vacancy rate, as well as corporate structure changes.

MS. KATHLEEN MCCANDLESS: And so would part of that be reflected in the change to HR and corporate services as well?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now if we could go to EXP-11. That's page 19 of the expenses section of the filing.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen. So this is a corporate salary analysis for a normal operations. And if we look to line 2, we see that last year's gross salaries -- so under 2018/19 actual -- were $135.3 million, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And this figure reflects an assumption that all budgeted full-time equivalent positions are filled throughout the entire year?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And so, as we've discussed, not all positions will be filled, so MPI makes the estimate called the vacancy allowance, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And at line 3, we can see under 2018/19 actual the $5.6 million vacancy allowance, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And that represents about seventy-five (75) full-time equivalents at seventy-five ($75,000) per position? If that would -- if I can assist you, we can go to PUB-MPI-1-53.

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: Correct.

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: Sorry. I asked this question prior to -- to testifying and yes. So Expense 11 is 5.6 million, and this answer says 5.2 million. So I just wanted to pull that out, and the difference is one is corporate normal ops and the other is -- yeah, sorry. So one's corporate normal ops, and the other is corporate.

MS. KATHLEEN MCCANDLESS: Thank you. If we can go back to Figure EXP-11, we see that at line 2 under 2019/20 FB that MPI is forecasting gross salaries of $144.1 million, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And we see at line 3 that MPI is not expecting to have the same level of vacant positions as it did last year.

MS. CYNTHIA CAMPBELL: When we budgeted for '19/'20, we did not think that it was going to continue. Correct.

MS. KATHLEEN MCCANDLESS: And so that vacancy allowance of $1.5 million, that would equate to roughly twenty (20) full-time equivalents?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And we see from line 3 that when forecasting for 2020/2021 and 2021/2022, there is an assumption that the vacancy allowance will remain at that twenty (20) FTEs, yes?

MS. CYNTHIA CAMPBELL: Correct. When we forecasted, we forecasted using historical averages.

MS. KATHLEEN MCCANDLESS: At line 4, we see that based on the 2020 forecast, MPI expects total net salaries to be $142.6 million after allowing for vacancies, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And so that's a change of $12.9 million more than what was actually incurred last year.

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And at line 3 under change, we see the vacancy allowance was changed by $4.1 million, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Now, can you explain why the -- at lines 11 and 12, we see the economic increase for in scope and out of scope is different?

MS. CYNTHIA CAMPBELL: Are you referring to the dollar amounts?

MS. KATHLEEN MCCANDLESS: Or as a percentage.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So we have in scope -- it looks like they're forecast to get a 2 percent rate increase or an increase at the rate of 2 percent, and then for 2021, 1 percent. And for out of scope 2 percent, and then 2 percent.

MS. CYNTHIA CAMPBELL: Those percentage increases relate to that table that we were looking at before which is EXP-9 on page 17. So the in scopes for 2019 is -- is 2 percent and what it is is it's the last two (2) years of the contract.

And then 2020 -- because we had assumed zero percent for that rate increase -- it's 1 percent because it's the average of the two (2) years because our in-scope rate -- general wage increase happens exactly mid-year or pretty darn close to exactly mid-year. And then it's zero percent in 2021 because it has two (2) years of zeros.

So that -- that one you can follow through and tie between EXP-9 and EXP-11 for in scope.

MS. KATHLEEN MCCANDLESS: Thank you. Madam Chair, just to note the time, I have maybe fifteen (15) more minutes of questioning, so we could either break now, or we could wait until the conclusion of my -- okay.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Kristen, could we go to PUB-MPI-1-52, page 2, Figure 2. So, Ms. Campbell, the budget we just reviewed assumed the twenty (20) FTE vacant positions for 2019/20, yes?

MS. CYNTHIA CAMPBELL: Yes.

MS. KATHLEEN MCCANDLESS: And then at line 2 -- pardon me -- at line 6 of the Figure 2, we see that the actual full-time equivalents for 2019/20 year to date -- so as at the end of July -- was 1,808.8 (sic) compared to the budget of 1,911.1, yes?

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: Yes. I agree that it is 1,808.9 for the current year average FTEs up until July 2019.

MS. KATHLEEN MCCANDLESS: And so we see the total corporate average vacant positions at line 6 is one hundred and two point three (102.3) currently, yes?

MS. CYNTHIA CAMPBELL: Currently yes, it is. I would just like to connect a couple things. Our filing on October the 4th for the -- for the change in the rate to negative 0.6 percent did include six (6) months worth of actuals in the '19/'20 forecasted base.

So there was -- we did take into account the fact that it is not sitting at twenty (20) FTEs vacancy right now. It is sitting higher than that right now, and it's because of an experience that we -- we were not anticipating. When we put the forecast together, we were not anticipating to be staying this high.

MS. KATHLEEN MCCANDLESS: Thank you. So we discussed earlier how the majority of costs are allocated to base it through the cost allocation methodology. And, Kristen, could we please go to Figure EXP-APP-3-5 from Appendix 3 of the expenses section of the filing.

Now, this table represents the historical costs or forecast costs allocated to basic looking over a ten (10) year period. Is that right?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And if we look at line 26 under the column for 2018/19 actual, we see incurred costs of $218.8 million, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then a forecast of $229.5 million in 2019/20?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Two hundred and thirty-one point seven million dollars in 2020/21.

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And $233 million in 2021/22, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then if

we could please go to EXP Appendix 4, figure -- EXP-APP-4-1, Kristen. And this should be the table that represents the compound annual growth of Basic expenses.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now, if we look at line 25 on the first column, so on the left-hand side of the table, we see that for the four (4) year period from 2015/16 to 2018/19, the compound annual growth overall was 1.5 percent, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And for the three (3) years from 2019/20 to 2021/22, we see that that compound annual growth rate is forecast to increase to 2.1 percent, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then over the outlook period, to 3.5 percent, again at line 25, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: Then if we have a look to the growth rate for Extension, so that would be PUB-MPI-2-20, page 3. Now, these are the

Extension expenses by category for the ten (10) year period, with the growth rates over on the far right-hand side of the table, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And if we look to line 26, we see that for 2018/19 actual, Extension had $20.8 million in expenses allocated in 2018/19, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And that's forecast to grow to $21.9 million in 2019/20.

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And $21.4 million in 2020/21, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And so continuing to the far right of the table, again at line 26, when reviewing the compound annual growth rates overall, there's a -- a reduction of point -- of 1 percent, so overall they're lower than those we just reviewed for Basic operations, yes?

MS. CYNTHIA CAMPBELL: Yes, they are.

MS. KATHLEEN MCCANDLESS: And so if we look to line 6 on this table at the far right, the total compensation expense for Extension for the four

(4) years from 2015/16 to 2018/19 deceased by .4 percent, yes?

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And MPI would attribute that historical difference between Basic and Extension because of the variability in the claims incurred allocator? Is that right? The reference for that would be PUB-MPI-2-20.

MS. CYNTHIA CAMPBELL: Among others, but yes.

MS. KATHLEEN MCCANDLESS: And what is behind the forecast growth rate in 2019/20 through 2021/22 being lower for Extension than for Basic?

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: There are nuances between the two (2) lines of business. Generally, though, you're seeing the allocators be similar and in alignment. You know, you're looking at 2.3 percent versus 4 percent. They're -- they're relatively similar.

There are direct allocations to Basic, and -- and there's direct allocations to Extension, and then there's corporate expenses that are allocated across the lines of business. So you can get difference coming through with your direct allocators, and then just slight nuance differences. But it's a -- it's a consistent methodology applied.

MS. KATHLEEN MCCANDLESS: Now, I'd just like to follow up on some of what Mr. Graham spoke about yesterday.

Kristen, could you please pull up MPI Exhibit number 45, slide 12.

So it was stated yesterday that physical damage, PIPP, and operating expenses are under budget. We also see on the right-hand side of the page here that actual Q1 losses are about $62.8 million above target, so that's the $249.9 million less the $187.1 million. So how do we reconcile that?

MR. MARK GIESBRECHT: Yeah, so there's -- there's two (2) main components to that. There's firstly the -- the claims experience for the current claims in the current year, and then you have the update to the claims liability based on interest rate changes. And so you see on the -- the chart below, the impact for the current year on net claims incurred is $52 million.

So if you take two forty-nine (249)

less your fifty-two (52), then you get more of a -- a normalized claim figure, which then would -- would close base -- all, you know, the majority of that -- that gap compared to prior year.

And last year, you had, again -- you have -- every quarter, every year, you have changes in interest rates, and so we typically will look at before and after the impact of interest rates. And so we actually just included this for the Q1. It'll be the first time that we show the impact on investments, claims, and net income so it's more clear what's driving some of those results.

MS. KATHLEEN MCCANDLESS: We also heard yesterday from Mr. Graham that there's been a 6 percent reduction in expenses than budgeted as at the end of Q2. Is that a reduction in claims processing costs or expenses overall?

MR. MARK GIESBRECHT: That is in relation to expenses overall. The biggest driver is due to the vacancy that we currently are experiencing in our staffing, and then that would flow then partially -- a large portion would go to claims expense, and then the remainder to op. ex. and the other buckets.

MS. KATHLEEN MCCANDLESS: Thank you,

Madam Chair. I think this would be an appropriate time to break, if that's acceptable to you.

THE CHAIRPERSON: Thank you, Ms. McCandless.

I just have one (1) question, Ms. Campbell, before we leave this area. With regard to the out-of-scope merit increase program, just to conf -- make sure -- I want to make sure I understand this properly, under the old system, there would have been a range established for each of those management positions, within which there were steps, and once you reached the top of the -- of your range, you would only get the basic wage increase, not a merit increase. Whereas now, there is no longer a range, so you can continue to get the merit increase regardless of the fact that you've -- you're staying in the same position?

MS. CYNTHIA CAMPBELL: There is -- there is still ranges. For every position, there are still ranges that have been marked to market. Like, they do take a look at them compared to the marketplace. You can still earn what's considered a lump sum payment if you're at the top of range, and that's for exceptional performance only, though.

It is not -- it is not standard. It's

not for regular performance. It is for exceptional performance. Lump sums do not occur on a regular basis. It's a -- it's a much smaller percentage.

So there is still a range. You generally -- your merit is going to move you within your range. The goal's to get people to midpoint, actually, not top of range.

THE CHAIRPERSON: Thanks. And that hasn't changed with this new program. Is that correct?

MS. CYNTHIA CAMPBELL: That is the new program.

THE CHAIRPERSON: Okay. Thank you. Yes.

BOARD MEMBER GABOR: Sorry, what is the marketplace? What -- what -- what industries are you looking at for the marketplace?

MS. CYNTHIA CAMPBELL: That's a good question. Our HR team took a look at market indices. I believe they took into account other Crown corporations predominantly. Which ones, I would have to actually get more details from our HR team. They're the ones that actually did all of the grading of the new out-of-scope positions to the market.

BOARD MEMBER GABOR: Could you ask

them for a -- for an indication of what they looked at for that?

MR. ANTHONY GUERRA: Yes, we're prepared to give that undertaking. So just to clarify for the record, the undertaking would be to provide the information from Human Resources Department upon which the -- the marketplace was established for the out-of-scope employees.

BOARD MEMBER GABOR: Thank you.

MR. ANTHONY GUERRA: Thank you.

--- UNDERTAKING NO. 3: MPI to provide the information from Human Resources Department upon which the marketplace was established for the out-of-scope employees

THE CHAIRPERSON: Thank you very much. We'll break now until ten (10) to 11:00. Thanks.

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

--- Upon resuming at 10:57 a.m.

THE CHAIRPERSON: Thank you. Ms.

McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you, Madam Chair. I do have just a few more questions on staffing levels before we move into in -- investments.

So Kristen, could you pull up from the 2019 GRA Figure EXP-12? It's from page 24 of the expenses section of the filing.

And for the record, I would ask that this page be marked as PUB Exhibit number 10 -- or 20, pardon me.

--- EXHIBIT NO. PUB-20: 2019 GRA Figure EXP-12

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So in the 2019 GRA, we see that at lines 14 to 18, there's a reference to the Corporation, indicating or committing to a reduction in fifty-one (51) full-time equivalents. So if we scroll down, lines 16, 17, and 18, there's a reference there to MPI anticipating that it will reduce staff FTE counts by approximately fifty-one (51) positions by 2020/21 as compared to 2017/18 budgeted levels, yes?

MS. CYNTHIA CAMPBELL: Yes, that is what the 2019 GRA said.

MS. KATHLEEN MCCANDLESS: And then if we scroll to the top of the page, and we see the table there for normal operations, staffing, we see that staffing levels were forecast at line 8 to be one thousand eight hundred and fifty-nine point one (1,859.1) full-time equivalents by 2020/21, yes?

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: Correct.

MS. KATHLEEN MCCANDLESS: And then if we go to EXP-10 from this application, so that's page 18 of the expenses section of the filing.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Page 18, please.

Thank you. At line 7, we see the current staff forecast, including one thousand nine hundred and seven point three (1,907.3) full-time equivalents for the same year that we just looked at, yes?

MS. CYNTHIA CAMPBELL: Correct. The pre -- the previous GRA, the 2019 GRA, had staffing reductions that had to do with the PDR project that was on -- on the books at that point in time.

When we took a look going forward at what staffing levels we needed in order to be able to address NOVA and the change in business that we were looking at, and making sure that we had appropriate service levels, we -- we did take a look at our staffing levels, and we have altered that.

So this does reflect our current reflection of where we think we're going.

I -- I don't know if you want to elaborate on that.

Also to finish off one (1) question that you'd asked me before, and put it on the record, you'd asked me what was in the specialty programs. There's four (4) categories, and I just wanted to make sure that I had that on the record.

And they are the apprentice, or co-op students, our diversity program, our PIPP mediation, and then our vulnerable road user student program.

MS. KATHLEEN MCCANDLESS: Thank you. Now the vacancy allowance, how has that changed in the October 4th update?

MR. MARK GIESBRECHT: So in the October 4th update, we have updated our current year forecast for '19/'20. However, we've not adjusted any of the forecasts beyond that point in time. So we are in the current midst of our current year budget process, and we'll be evaluating how do we incorporate the -- the current realities of levels of turnover and -- and recruitment practices, to factor that into the vacancy allowance going forward.

MS. KATHLEEN MCCANDLESS: And if the vacancy allowance remains at current levels, what is the impact of that on forecast payroll for 2021 and 2022?

MR. MARK GIESBRECHT: If we continue to have these same of the vacancy, we would expect a lower overall compensation forecast.

MS. KATHLEEN MCCANDLESS: Does the Corporation expect that the $6 million expense savings will continue for the remainder of 2020?

MR. MARK GIESBRECHT: A portion of it, for sure, as we are -- we do have about -- as Ms. Camp -- Campbell mentioned, seventy-five (75) posted recruitments actively ongoing. But we -- it won't likely be possible to get back up to that normal level of staffing, you know, by the end of the year.

So we will expect to have some further savings throughout the last half of the year.

MS. KATHLEEN MCCANDLESS: And to what extent is the reduction in payroll reflected in the October 4th update?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So we expect to have about a further $2 million in savings to budget, so roughly about half of what we've had so far in this year.

MS. KATHLEEN MCCANDLESS: And how much of the 2021 and 2022 forecasts of payroll costs on a gross basis or influence based on 2019/20?

MR. MARK GIESBRECHT: Well, that forms the base for the staffing level. So it is very much dependent on our -- our current levels. And so depending on where we end the year in terms of our staffing versus budget levels, it -- it will have an impact into next year.

MS. KATHLEEN MCCANDLESS: Thank you. Those are all our questions on expenses and staffing. So now Mr. Watchman will take over on investments.

CROSS-EXAMINATION BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Thank you. Good

morning, panel. My question's on investment.

So I'm going to start with questions within the application itself, and some of the Information Requests, appreciating that Mr. Bunston did touch upon many of these in his presentation yesterday. And towards the end, I'll have a couple of questions with respect to Mr. Bunston's presentation.

But in the course of my questions, if any other member of the panel feels that they wish to contribute to the answers, please feel free to -- to do so.

So Kristen, if we could start with the investment portion of the General Rate Application. And I just want to scroll down to the current theme, and of course, the asset liability management study and the update that was provided.

And just -- if we could scroll down to Item number 2, there, at line 15, one (1) of the key themes with respect to the study was the de-risking of the Basic claims portfolio, by matching only fixed income assets to liabilities and eliminating exposure to growth assets. And it's the second part that I want to key in on -- is the interest rate risk associated with the Basic line of business is expected to be significantly reduced due to the separation of investment assets into unique portfolios.

And when we speak of interest rate risk, my understanding is that we're talking about changes in interest rate that create risk for the Corporation. Is that correct?

MR. GLENN BUNSTON: Yes, that's correct.

MR. ROBERT WATCHMAN: And so a key element to de-risking the Basic claims portfolio is to provide protection against changes in interest rates.

MR. GLENN BUNSTON: That's right, yeah.

MR. ROBERT WATCHMAN: It continues on as well that increasing the yield of the Basic claims portfolio by increasing exposure to corporate bonds and changing the allocation from government bonds to provincial bonds -- and I -- I'll have some more questions in that regard in a little bit.

I wanted to turn, though, now, to what is Appendix 11 of the investments portion. If we could turn to that, Kristen. Yes, okay. And that's page 2. If we can -- we can -- we can go to page 2.

As you'll recall that in last year's GRA order, the Board requested that the Corporation provide a review of the changes resulting from the asset liability implementation, and the response from the Corporation was that it -- it was not able because you were in the progress (sic) of implementing the asset liability management study, correct?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: And -- but you did provide, though, an update, and you did touch upon this in your presentation, but we have a number of items more specifically here as to the progress you had made as of the date of the GRA in June.

And if we could just scroll down toward the bottom of the page, the last item there about commingled portfolios split into five (5) new portfolios, that was indicated as in progress, but my understanding is that that now has been completed. Is that correct?

MR. GLENN BUNSTON: It's now complete, yes.

MR. ROBERT WATCHMAN: Okay. If we can scroll to the top of the next page, please. And the second item there -- review, negotiate, and sign private debt manager contracts -- that was -- has that been completed?

MR. GLENN BUNSTON: That has been completed, yes.

MR. ROBERT WATCHMAN: And next, the fund new investment managers, bonds, and equities. That has been completed?

MR. GLENN BUNSTON: It is complete, yeah.

MR. ROBERT WATCHMAN: And so we're left with, as I understand it, infrastructure liquidation, and that is still in progress.

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And that infrastructure liquidation is directed to funding private debt. Is that correct?

MR. GLENN BUNSTON: Yes. Private debt is in a liquid asset class, and so we are awaiting draw-down notices from the investment manager. As they find suitable investments, they will send us notices to -- to draw down the capital we've committed to the fund, so we have -- we have to wait until the manager finds suitable investments.

MR. ROBERT WATCHMAN: Is it expected that the Corporation will be in a position in the next GRA to provide a re -- post-implementation review?

MR. GLENN BUNSTON: Yes, we will be in a position to provide that information at that time.

MR. ROBERT WATCHMAN: And I wanted to

turn next to the portfolio's composition. If we could turn to Figure INV num -- INV-7 from page 20. And this table represents the asset mix that was in existence as of February 28th, 2019, so this was the target asset mix prior to implementation?

MR. GLENN BUNSTON: That's right.

MR. ROBERT WATCHMAN: And I just wanted to confirm that 5 percent of the total asset mix was infrastructure.

MR. GLENN BUNSTON: That was the target, yes. The actual was slightly less than 5 percent.

MR. ROBERT WATCHMAN: If we could go to the next page, INV-8, and -- okay. And this sets out the asset mix pursuant to the ALM study?

MR. GLENN BUNSTON: Right. For the three (3) portfolios that are listed here, yeah. Correct.

MR. ROBERT WATCHMAN: And now the intention was -- as I understand it, the intention was to have this completed by the end of the first quarter of the current fiscal year?

MR. GLENN BUNSTON: That was the -- what was built into our financial model and what we had forecasted, yes, to have it in place by May 31st.

MR. ROBERT WATCHMAN: And then, ultimately, as I understand your evidence from yesterday, there was a delay of three (3) months, so there -- this wasn't completed until the end of the second quarter. Is that correct?

MR. GLENN BUNSTON: Correct. The -- well, it's not fully complete at this point. The liquid asset classes are not at their target weights yet. We have a plan to -- to bring those to target weights. But for the liquid asset classes, by the end of August, they were all fully funded, and the corporate bond manager required some time to identify suitable corporate bonds and some time to purchase those, and those were invested by the end of August.

Sorry, we sent them the -- the final transfer at the end of July, and they took about a month to -- to invest those funds.

MR. ROBERT WATCHMAN: And -- and can you give us some sense of how significant the steps that are left to take place, the progress that has yet to be made -- how significant is that to the overall implementation of the asset liability management study?

MR. GLENN BUNSTON: So private debt is the largest asset class that is left to be funded. We

-- our total commitment is around $200 million, and the -- the fund manager issued an initial draw-down of 10 percent of our commitment, so we funded about $20 million at the end of July. And we've received some additional draw-down requests from the manager, but we -- we do expect that it will take twelve (12) to twenty-four (24) months to be fully invested within the private debt funds that we've committed to.

On real estate and infrastructure, we're relatively close to our target weights, so our plan is to sell our two (2) co-investments in infrastructure, which will get us close -- closer to the target weight. And then on -- on real estate, we are slightly overweight within two (2) of our portfolios, I believe, and we do have a plan to address that as well.

MR. ROBERT WATCHMAN: And in terms of the overall value of the investment -- of the investments in total, relatively speaking, what portion is let to be -- left to be converted into private debt or liquid assets?

MR. GLENN BUNSTON: Well, it's difficult to speak in terms of the consolidated portfolio since we have tar -- we don't have targets for the consolidated portfolio, and we have them on a portfolio-by-portfolio basis. But in terms of dollars, like I mentioned, private debt is 200 million out of our overall portfolio -- is around three (3) -- well, it's just over 3, 3.2 billion, so it's -- it's less than 10 percent.

So infrastructure, I believe the -- when you roll up the -- the allocation across the five (5) portfolios, it ends up being around 2 1/2 percent of our portfolio. We need to make about a $30 to $40 million reduction in -- in the infrastructure portfolio.

And then on real estate, I think we're -- we're overweight by about $7 million on real estate, so it's -- it's relatively modest.

MR. MARK GIESBRECHT: I just made a follow-up on that point to clarify. The Basic claims, which is by far the largest portfolio, is at its or near its target asset mix, but it's the smaller remaining portfolios that have these tweaks and final allocations to be made.

MR. ROBERT WATCHMAN: And -- and again, in round terms, the Basic claims portfolio, in terms of dollar value, would be...

MR. MARK GIESBRECHT: Roughly 2 billion. About two-thirds (2/3) or more of the overall portfolio.

MR. GLENN BUNSTON: Yeah, and just to add to that, the re -- the Basic claims portfolio does not have allocation to any of these alternative asset classes that we've been discussing, so it has -- it has no private debt, no real estate, and no infrastructure.

It -- it does have non-marketable bonds, and it is -- we're slightly higher than the target weight of 20 percent in terms of non-marketable bonds. And as those bonds mature, that money will be reinvested into government bonds, so the weights -- relative weights between those two (2) asset classes will adjust over time.

MR. ROBERT WATCHMAN: And when you refer to non-marketable bonds, you're referring to -- what's on the table here is MUSH bonds?

MR. GLENN BUNSTON: Right, yeah. So -- so MUSH stands for municipal, school, and hospital bonds, and they are non-marketable, so they're essentially municipal bonds issued here in the province of Manitoba.

MR. ROBERT WATCHMAN: And I note as well, in terms of government bonds, you've moved to provincial bonds, so you have no Canada bonds?

MR. GLENN BUNSTON: Well, it's primarily provincial bonds. The -- the bond manager may hold some federal government bonds from time to time because they -- they are more liquid than provincial bonds and there's less spread risk. So as -- as we move money between the asset classes, they -- they may occasionally have some government bonds just for -- in transition times -- or, sorry, federal government bonds.

MR. ROBERT WATCHMAN: So in -- in terms of de-risking for interest rate change, what would you say the status of the portfolios are?

MR. GLENN BUNSTON: Well, so we -- we were going through a period of transition, particularly as we built up the corporate bond portfolio. We sent money to the new corporate bond manager in -- on several installments over several dates starting in April and ending at the end of July. So that portfolio is now fully funded, and it's fully invested.

So in terms of structural changes within the Basic claims portfolio, those are complete. And so the portfolio is now -- is -- is fully built, and there sho -- there will be no more changes within the relative weights within the portfolio other than the MUSH bonds maturing and that money being reinvested in provincial bonds, but those changes are relatively slow to occur.

So the portfolio is -- is now fully constructed, and so therefore, the interest rate protection that we expect from the portfolio is -- has been in place since the corporate bonds were fully funded and invested at the end of August.

MR. ROBERT WATCHMAN: So as of the end of the second quarter.

MR. GLENN BUNSTON: Right, our second fiscal quarter, yeah.

MR. ROBERT WATCHMAN: Yes. And just while you're commenting on -- on the MUSH bonds, the MUSH bonds are not interest rate sensitive?

MR. GLENN BUNSTON: Well, we hold those to maturity, and so we report them at book cost and book yield, so from a financial statement perspective, they do not change in value in relation to interest rate changes.

MR. ROBERT WATCHMAN: So is it fair to say that they don't actually operate as a hedge against interest rate change?

MR. GLENN BUNSTON: They don't, but when we calculate the -- the discount rate for the --

for the Basic claims portfolio, the -- the MUSH bonds are not included in that calculation as recognition of the fact that we changed the way that the discount rate is calculated in May of 2018. We change -- we previously calculated it on a duration-weighted basis, and now it's calculated on a dollar-weighted basis. And so it's only the -- the duration of the provincial and corporate bonds that is used in the duration calculation now.

MR. ROBERT WATCHMAN: If I could ask Kristen to turn to Figure INV-3. And so this figure relates to investment portfolio asset values for the Basic line of business, and there's a footnote towards the bottom. First of all, I take it what's referred to as Basic line of business is the Basic claims and assets supporting rate stabilization reserve? Is that --

MR. GLENN BUNSTON: Yes, that's correct.

MR. ROBERT WATCHMAN: So excluding the employee future benefits portfolio.

MR. GLENN BUNSTON: That's right.

MR. ROBERT WATCHMAN: And line of business is sometimes referred to in the documents as LOB?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: This is just for the record. So if we look at the column about in the middle of 2018/19 actual, and there's an asterisk noting a footnote explaining that prior to 2018/19, the amounts were based on long-term Basic line of business allocation applied to the entire portfolio.

MR. GLENN BUNSTON: Right.

MR. ROBERT WATCHMAN: So -- so in other words, prior to the implementation of the asset liability management study.

MR. GLENN BUNSTON: Right. So before, we had one (1) portfolio with 70 percent in fixed income, 30 percent in growth assets, and that portfolio was allocated amongst our lines of business. So the Basic line of business got about 85 percent of that portfolio, so it effectively had a investment that was 70 percent fixed income, 30 percent in growth assets.

MR. ROBERT WATCHMAN: And in the next column, we have 2019/2020 FB, that's forecast to budget?

MR. GLENN BUNSTON: Yes.

MR. ROBERT WATCHMAN: And so because of the separation of the portfolios, you're now able to report line of business as being just those portfolios relating to Basic claims and the rate stabilization reserve?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: And so if we go down that column to line 12, and we compare the 2018/19 actual, we have 2.649 billion in assets.

MR. GLENN BUNSTON: That's right.

MR. ROBERT WATCHMAN: And when we look at the next column, the 2019/20 FB -- it's 2.413 billion? Correct?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And I take it that the -- the difference in those numbers relates to the employee future benefit portfolio.

MR. GLENN BUNSTON: Yes. The employee future benefits portfolio is not included in the 2019/2020 column.

MR. ROBERT WATCHMAN: But it was included in the previous column.

MR. GLENN BUNSTON: Well, the previous column was 70 percent -- or sorry -- 85 percent of the total portfolio which was based on our allocation methodology.

MR. ROBERT WATCHMAN: So and -- sorry.

(BRIEF PAUSE)

MR. GLENN BUNSTON: So yes, the -- the amount in 2018/2019 is approximately 85 percent of the total portfolio, and that includes assets to support the basic claims liability, rate stabilization reserve, and basics portion of the employee future benefits.

MR. ROBERT WATCHMAN: Can you explain to us the reason for taking out the employee future benefit portfolio from the line of business as reported on this figure?

MR. GLENN BUNSTON: Yeah. So the underlying strategy is to have unique investment portfolios matched to each claims or each -- each liability.

And so in this case, the employee future benefits liability is significantly different than any of the other liabilities. It has a much longer duration of fifteen (15) to sixteen (16) years, and it has its own investment strategy which, as I mentioned yesterday, is 60 percent in growth assets and 40 percent in fixed income.

So this allow -- this strategy of separating the investment portfolios allows us to better report and understand changes in both the assets and liabilities relative to each other which is information that we didn't have previously since we only had one co-mingled portfolio.

And for the basic claims portfolio, it's only fixed income, and it's -- the primary purpose is to -- to mitigate interest rate risk associated with the claims and liabilities.

And then finally for the rate stabilization reserve, the funds are there to support the basic line of business. We do need some liquidity from time to time if those funds are required to support the basic line of business, but we also do have investment in growth assets to try to ensure that we earn a reasonable return in that portfolio.

MR. ROBERT WATCHMAN: Now, the largest -- sorry, I should just say that according to my math, the difference between the two (2) columns is $236.9 million. That sound about right for the employee future benefit portfolio?

MR. GLENN BUNSTON: Well, the employee future benefits portfolio is closer to $450 million in total. So the difference between those two (2) is not directly equivalent.

MR. ROBERT WATCHMAN: It would be

depending on the -- so around the 85 percent mark. Is that correct?

MR. GLENN BUNSTON: Well, 85 percent of 450 million would be, I think, greater than the $236 million we're seeing here.

MR. ROBERT WATCHMAN: And am I correct -- sorry.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: So -- and I'm correct that the largest portion of the employee future benefit portfolio relates to assets supporting pension obligations. Is that correct?

MR. GLENN BUNSTON: Pension is the largest liability in the employee future benefits portfolio. Yes.

MR. ROBERT WATCHMAN: And so just in terms of how the pension portfolio relates to the financial statements if there's an unfunded liability in the pension, how is that funded by the Corporation?

MR. MARK GIESBRECHT: So we have a policy in place that -- it stipulates that at every year end, we'll value the -- the assets relative to the liabilities, and we want to always be no less than

80 percent funded.

And so if we fall below that threshold, we'll move to a minimum of 80 percent over the next twelve (12) months.

MR. ROBERT WATCHMAN: That's -- and I guess my question is: Well, how do you move to the 80 percent? Where does the funding come from?

MR. MARK GIESBRECHT: So we would look at available sources of capital and -- and determine the most appropriate spot. And they come from --if we had an over funding of basic claims -- potentially we have a re-balance there -- it could come from RSR. Or if there were insufficient funds within Basic, it may have to come from a -- a non-basic line of business.

MR. ROBERT WATCHMAN: And the pension plan is a defined benefit plan? Is that correct?

MR. MARK GIESBRECHT: Yes.

MR. ROBERT WATCHMAN: Yes. And if there's a surplus or favourable investment return on those assets, is the entire surplus at the disposal of the Corporation, or is something owed to the members of the pension plan?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So these dollars represent the employer's portion of the -- the funding of the pension plan. Depending on the level of excess if there was, we would determine at a point in time where there was, you know, deemed a -- a certain amount, we would potentially have that available for the Corporation and for the different product lines.

However, we do not have a plan, you know, to -- to send those dollars over. We look to then offset the cost of pension going forward.

MR. ROBERT WATCHMAN: Okay. So is investment income earned on pension assets included then in the financial statements?

MR. MARK GIESBRECHT: Yes, it is.

MR. ROBERT WATCHMAN: So -- and at least 85 percent of that would be basic financial statements?

MR. MARK GIESBRECHT: Generally speaking. There's also the offsetting cost of pension and that there's -- so those work together to flow into the financial statements.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Kristen, if we

could go to the next page INV-4, this is the interest report. I'm sorry. If we could go back to INV-3.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Kristen, if we could skip ahead to Information Request I-29, and could you just scroll down to the table in the middle of the next page. Now, so the Corporation -- this is -- this relates to the corporate bond portfolio? Correct?

MR. GLENN BUNSTON: Yes, that's correct.

MR. ROBERT WATCHMAN: And so this is speaking as of May 31 in which there was $215 million in corporate bonds. Did that change in the third quarter -- or sorry -- in the second quarter?

MR. GLENN BUNSTON: Yes. We sent funds to the -- the corporate bond manager in July that was the final transfer of funds to the -- to the new manager.

MR. ROBERT WATCHMAN: And do you know what the total value of the corporate bond portfolio is as of the end of the second quarter?

(BRIEF PAUSE)

MR. GLENN BUNSTON: Well, I can tell you that we transferred about $390 million to the manager. I'll have to check and get back to you on the -- the market value of those investments as of the end of August, if you just give me one (1) minute.

(BRIEF PAUSE)

MR. GLENN BUNSTON: Yes. The market value at the end of August for the corporate bonds within the basic claims portfolio was $390 million.

MR. ROBERT WATCHMAN: And, Kristen, if we could scroll ahead to Appendix 1, to Information Request I20 -- or 129. Attachment -- if we go right to the last page. So scroll up a little bit more. I just wanted to see where we have the changeover. All of the previous bonds listed were government bonds in that attachment or appendix.

So we just -- no, sorry -- scroll down on the page -- sorry about that -- till we get to, I think, Access Roads Edmonton is the first issue of corporate bonds. Is that correct?

MR. GLENN BUNSTON: Yes, that's

correct.

MR. ROBERT WATCHMAN: And so there's about twenty (20) issuers there, and it -- there isn't an indication as to the rating of those bonds?

MR. GLENN BUNSTON: Not in this -- not in this schedule, no.

MR. ROBERT WATCHMAN: And is that information available, and could it be provided?

MR. GLENN BUNSTON: We could provide that information. Yes.

MR. ROBERT WATCHMAN: And we take that as an undertaking to provide the bond rating for the corporate bonds listed on this appendix.

MR. GLENN BUNSTON: Yes. We can get -- we can provide that information. Yes.

--- UNDERTAKING NO. 4: MPI to provide the bond rating for the corporate bonds listed in Appendix 1

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Okay. If we skip ahead actually to INV-39.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Okay. And this reflects the investment income on the basic line of business. Focusing on the 2019/2020 FB column -- the second column there -- we have total fixed income of 76.7 million? Correct?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: Total equity income of 2.9 million?

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And then scrolling down a little bit, alternatives are at 3.5 million?

MR. GLENN BUNSTON: That's right.

MR. ROBERT WATCHMAN: And then less management fees of about 2 million and then bond amortization of 8.3 million.

Do you see that?

MR. GLENN BUNSTON: Yes, I do.

MR. ROBERT WATCHMAN: And if we just flip for a second to the next page, INV-40, this is for -- sorry just before we scroll down, this is from the 2019, and the forecast for 2020, if we scroll down to bond amortization, in the second column, it was actually favourable of $2 1/2 million, so a difference of almost $11 million.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Can you explain to us the significant difference in the bond amortization?

(BRIEF PAUSE)

MR. GLENN BUNSTON: So, bond amortization represents the difference between the purchase price and the par value of the bond. And the premium or discount is amortized over the life of the bond.

There was an error in our financial model when calculating bond amortization, and I believe that is the reason for the significant change. And I believe that we did discuss that at some point in the application, or if not, in an IR. We will try to come back to you with a specific reference on that information.

MR. ROBERT WATCHMAN: Okay. Thank you.

Now I wanted to turn now, then, to your presentation from yesterday, and that's MPI Exhibit 46. Kristen, if we could go to page 25.

And again, without sort of repeating where we've been, the -- it starts with the -- effectively, the goals of the implementation of the asset liability management study.

Is that fair to say?

MR. GLENN BUNSTON: Yes, that's fair.

MR. ROBERT WATCHMAN: If we could turn to page -- ahead to page 27.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And just looking at the -- the benefits there, one (1) of the first benefits indicated is interest rate risk will be reduced. So that's, again, the key goal of this implementation of the study, correct?

MR. GLENN BUNSTON: Yes, that's the key goal for the Basic line of business. Yeah.

MR. ROBERT WATCHMAN: And as of the end of the second quarter, for Basic claims portfolio, you are at your intended target composition, correct?

MR. GLENN BUNSTON: Approximately. We are slightly overweight in the nonmarketable bonds, and slightly underweight in government bonds.

MR. ROBERT WATCHMAN: And if we could

just turn ahe -- ahead to the next page, 28. And you reviewed this table with us yesterday, and had indicated it came from the investment section of the application. And for the record, I believe it's figure INV-48.

And this table in -- illustrates the importance of protecting against interest rate changes.

Is that fair to say?

MR. GLENN BUNSTON: Yes, that's right.

MR. ROBERT WATCHMAN: So you went from -- so the 2019/2020 column is where -- where you had forecasted based upon no protection?

MR. GLENN BUNSTON: Well, it's not based on no protection. It's based on our previous allocation of the 70 percent allocation with a 70 percent allocation to fixed income.

MR. ROBERT WATCHMAN: Quite right. And the improvement demonstrated by rearranging the portfolios int -- into segre -- into segregated portfolios?

MR. GLENN BUNSTON: Yes, that's right. So we had forecasted in last year's GRA the segregated portfolios, and again, here in -- in the 2020 GRA, we've shown the forecast. And as of -- as of August

30th, we've now built that portfolio.

MR. ROBERT WATCHMAN: And this -- this table was based upon a 1 percent increase in interest rates. Would we expect the same sort of performance in respect of a decrease in interest rates?

MR. GLENN BUNSTON: Not necessarily. There is some convexity in -- in both the -- the fixed income portfolio and the claims liabilities, which just means that it's not a straight line change in -- in the value of the assets and liabilities.

Also, interest rates are very low, and as we start reducing them, the discount rate is -- is affected, because we discount at a real rate. So we subtract the -- the rate of inflation.

So we do eventually hit a floor in terms of discounting, and -- and hit -- actually hit zero. So it's not necessarily a one-to-one relationship.

MR. ROBERT WATCHMAN: So at this point in time, with interest calculated at one point three-six (1.36), its difficult to go below that?

MR. GLENN BUNSTON: Well, that's -- that's the Yellow -- Government of Canada ten (10) year bond; that's not our claims discount rate. We do have -- we add a spread to the Government of Canada ten (10) year yield to -- to reflect the fact that we -- it's a term spread and a credit spread, but yes, our discount rate is -- we discount at a real rate, and so we were to subtract the rate of inflation from the discount rate.

MR. LUKE JOHNSTON: Just -- just to add to that, so the discount rate is around 2.5 percent right now. We have no indication that inflation is -- it's going -- is differing substantially from 2 percent. So we continue to -- to minus inflation off that number for a real rate, which gets us to about fifty (50) basis points. Actuarial valuations have a risk margin in there.

So we're approaching the point where we're discounting at zero. In one (1) of the scenarios requested in a -- an IR, I believe, we were asked to test one hundred (100) basis point drop. That would effectively bring claim liabilities to zero. Like, so we've thought about do we discount at negative values?

I've instructed the team to -- to just kind of stop it at zero, but at that point, claims would stop changing, and the assets would continue to have market value adjustments.

MR. ROBERT WATCHMAN: If we could turn

ahead to page 29. And yesterday, in explaining the changes to the portfolios, with respect to the rate stabilization reserve, you were commenting on the mix between fixed income and growth assets.

And if we could turn to page 316 of the transcript from yesterday.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: If you could just scroll down towards the bottom.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And in the -- starting at -- at line 15, you're recorded as having testified that:

"And finally, we have -- because of the asset mix in the rate stabilization portfolio, it balances safety with the opportunity to earn reasonable levels of return, and it helps us to enhance the rate stability and lower the rates required of customers."

Now, when you talk about rates required of customers, are -- just for clarification, are you referring to the indicated rate? Yeah.

MR. LUKE JOHNSTON: No. For investment income in the RSR portfolio, that would prevent the magnitude of maintaining capital, future capital build releases, et cetera.

So, for example, if -- if we -- in this application, we do our regular AAP rate setting, which is -- which uses the Basic claims portfolio as a guide for discounting, after we transfer funds in from Extension, we'll look at how RSR grows, and if -- if we're on track to maintain at a one hundred (100) percent MCT, we wouldn't ask ratepayers for -- for any additional funds.

If -- if that RSR portfolio performs very poorly, though, on a given year, obviously, the MCT level would fall, and there are potential triggers there that would -- could -- could create a build or release, yeah.

MR. ROBERT WATCHMAN: Yeah. And so -- so again, the -- the Corporation's position is that investment income on total assets supporting Basic is not to be included in the -- the calculation of the indicated rate?

MR. LUKE JOHNSTON: Yeah. I'll talk a little bit about that on Thursday, but what we're trying to do with the Capital Management Plan is -- so, the -- on the a -- the accepted actual practice rate, we consider the investment income earned on the rate stabilization reserve as essentially a capital factor.

So this is -- you know, funds earned on our RSR position, and which -- we're trying to roll all those impacts into one (1) kind of simple adjustment. Do we need to, you know, increase or decrease the MCT -- rather than have, you know, investment income in RSR, capital maintenance, build rel -- like, all these items. So that's -- that's the objective.

MR. ROBERT WATCHMAN: If we could turn now to -- Kristen, if we could turn to pro forma section -- the Pro Forma 1 from the application, and this is the pro -- let's just look back. So -- so this is the pro forma, and I appreciate that my colleague reviewed this earlier. And so I'm going to focus on the interest rate impact illustrated by the various pro formas that were looked at this morning.

So we're looking at the column 3, the 2020 forecast to budget, and if we scroll down to line

14, we see that the claims incurred were 89 -- 8.9 million. And there is, two (2) lines down at 16, claims incurred interest rate impact, which is a favourable impact at that point of $19 million in that it reduces the claims incurred, correct?

MR. GLENN BUNSTON: Yes, that's correct.

MR. ROBERT WATCHMAN: Okay, and so this -- and the pro formas are based upon naive interest rate forecast?

MR. GLENN BUNSTON: Yes, they are.

MR. ROBERT WATCHMAN: So in other words, you're not expecting any interest rate -- or not forecasting any interest rate change in the pro formas?

MR. LUKE JOHNSTON: That's correct. The interest rate impacts on claims going forward is the winding dow -- down of the non-marketable bond or MUSH portfolio, so right now the benefit of the higher-yielding MUSH bonds is included in the -- in the discounting of claims. As we -- those bonds run off, we have to take those funds and invest in marketable bonds, and as you can imagine, investing at the naive interest rate is a very different discount rate assumption that goes into claims and creates a unfavourable adjustment.

MR. ROBERT WATCHMAN: Unfavourable adjustment or favourable adjustment? In terms of reducing the claims incurred?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: My apologies. I -- I'm -- I was speaking to the -- the forward looking impact.

MR. ROBERT WATCHMAN: Okay. So if we could scroll down, again, focussing on that third column, down to line 28. And again, there was discussion this morning about the investment income. And the next line is the investment income interest rate impact, and it's relatively negligible. Is -- can you explain why that is?

MR. MARK GIESBRECHT: So the adjustment to the investment income due to the interest rate impact in the forecast is based on a naive forecast, and on that basis, you see that it is, you know, near -- near zero amounts.

On the claims side, we do have changes that come through not due to changing interest rates but due to changes in our assumption or changes in our portfolio composition. So, for example, if we invest a -- a greater amount of -- of dollars in our corporate bonds, which would drive up the interest rate relative to a provincial or a -- a federal bond, that will change the discount rate, and that will have a favourable impact, like you see in '19/'20.

And as Mr. Johnston explained, in future years, as MUSH rolls off with a -- a higher yield, and as that rolls into lower-yielding assets, you will see a change in that discount rate. So that's not based on changing prevailing interest rates; it's based on the portfolio composition.

MR. ROBERT WATCHMAN: I'm sorry. Okay. So -- and if we -- so if we look at line 30, where you had a net investment income of approximately 73 million and a net income of 29.7 million, and below that is the net impact due to interest rate change of 19 million, correct?

MR. GLENN BUNSTON: Yes, that's correct.

MR. ROBERT WATCHMAN: And so if I'm understanding that correctly, of the net income forecast of 29 million, 19 million of that comes from interest rate impact.

MR. GLENN BUNSTON: Yes, and that's, I

think, largely driven by the purchase of corporate bonds, which increases the -- the yield of the portfolio and therefore the discount rate and decreases the -- the claims liabilities.

MR. ROBERT WATCHMAN: Okay. And we'll probably get to this later, but -- so does that explain why, then, in the future years, you're predicting a negative impact due to in -- interest rate -- yeah -- change?

MR. GLENN BUNSTON: As Mr. Giesbrecht ex -- explained, going forward, we're not forecasting any changes in the level of interest rates, but as the non-marketable bonds matures, we reinvest that money in lower-yielding government and corporate bonds, and that reduces the yield of the portfolio, reduces the discount rate, and has a -- has a negative impact on the claims liabilities. It increases the -- the value of the claims liabilities.

MR. ROBERT WATCHMAN: Kristen, if we could go then to Information Request 1-12. And again, my colleague reviewed this with you, so I'm going to just focus on the interest rate impact. And so here we're looking at the second column, and on -- on line 14, again the -- the claims incurred is 80 -- 888.9 million. And I believe, Mr. Giesbrecht, this morning, you indicated that in providing this response, you were just looking at the in -- interest rate change. You weren't looking at claims experience in the first quarter.

MR. MARK GIESBRECHT: Yes. Sorry, is this relation -- in relation to the IR request?

MR. ROBERT WATCHMAN: Yes. So this is --

MR. GLENN BUNSTON: Yes.

MR. MARK GIESBRECHT: The July 19th -- Yes, yes. Then it was only the interest rate change, not any change to any forecasting of claims. Yes.

MR. ROBERT WATCHMAN: And the interest rate -- so the interest rate in the original app -- used in the -- in the original application pro forma was 1.94 percent. At this time, I believe we determined it was 1.48 percent?

MR. GLENN BUNSTON: Yes. The -- those were the yields on the Government of Canada ten (10) year bond.

MR. ROBERT WATCHMAN: Thank you. And if we could scroll down then to the bottom of the pro forma. Again, we're looking at the second column here. And so now, the -- you're forecasting here a net income of 14 million, of which interest rate change impact was 15.7 million.

MR. GLENN BUNSTON: Correct.

MR. ROBERT WATCHMAN: And again it -- so it's same explanation. That resulted largely from the acquisition of corporate bonds?

MR. GLENN BUNSTON: Yes, I believe so.

MR. ROBERT WATCHMAN: If we could turn then to MPI Exhibit 42. Okay, and I -- I would just -- if we could go to -- actually, to Mr. Triggs's cover letter, and on -- on the third page, and just all -- all of that. Just scroll up a little bit more. No, sorry, the other way. Scroll down a little bit more. Thanks.

And so I'm -- I'm going to digress for a moment here. And so the indication in Mr. Triggs's letter, you see in Item (vi), the Q1 and Q2 quarterly reports will be filed when approved for release. And we did receive the Q1 report this morning, but it hasn't yet been entered as an exhibit. But do you have a sense as to when the second quarterly report will be available?

MR. MARK GIESBRECHT: We have our audit and board meetings later this week, which we anticipate approval of those statements at that point in time. Subject to review by government, I would expect in the next ten (10) days or so, they should be released. So it -- it will be during the course of these hearings.

MR. ROBERT WATCHMAN: And just scroll to the bottom of the -- of that page, where Mr. Triggs indicated that -- of course, that various interest rate scenarios were requested as part of the March 28th, 2019, approval. Do we have any ideas as to when those scenarios will be provided?

MR. LUKE JOHNSTON: This week for -- is what I'm told from the back row, yeah.

MR. ROBERT WATCHMAN: And just in terms of other specific documents, will we -- will we be receiving a revised balance sheet based upon the October 4th letter?

MR. LUKE JOHNSTON: This week would also be appropriate.

MR. ROBERT WATCHMAN: Oh, sorry. Is that part of what's already been indicated, or do I ask for an undertaking?

MR. ROBERT WATCHMAN: I think the same, if that's okay.

MR. ROBERT WATCHMAN: And will there also be provided a calculation of the minimum capital required?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes. The MCT is in the Q2 information.

MR. ROBERT WATCHMAN: And will the quarterly report provide details of the actual investment or income earned for the first two (2) quarters?

MR. MARK GIESBRECHT: Yes. The same level of disclosure that's in the Q1 report will also be in the Q2 report regarding investment income.

MR. ROBERT WATCHMAN: Okay. Okay. Sorry. Now, if we could just scroll up a little bit on Mr. Triggs' letter there just below that reference to the quarterly reports, and he indicates that the pro formas include 2019 Q2 estimated actual. Do you see that?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And we've heard the -- the evidence we've heard earlier today was talking about Q2 actuals being used in the pro forma. So estimated actuals and actuals are not necessarily the same thing. Can you clarify that for us?

MR. LUKE JOHNSTON: Yeah, that's

correct. So there -- of course there's -- there will be actuals in the Q2 financials. But the -- the filing here is attempting to estimate the whole year, taking into account the Q2 actuals and anything that -- that triggers in the --

MR. ROBERT WATCHMAN: Okay. So the pro forma that we're to come to is based upon two (2) Q2 actuals and then projection for the next two (2) quarters. Is that correct?

MR. LUKE JOHNSTON: Correct. And we could -- we do and could provide that split in terms of -- well, everyone -- we'll obviously see how we've done in the first two (2) quarters in the Q2. So for forty (40) some million better than budget, the -- we could split that into the second half and show what's being assumed there.

MR. ROBERT WATCHMAN: Okay. Thank you.

THE COURT REPORTER: Is that an undertaking?

MR. ROBERT WATCHMAN: Could you undertake to provide the split between the Q2 actuals and the Q2 -- and the last quarter -- last two (2) quarter projections?

MR. LUKE JOHNSTON: Yes, we can, and

we'd expect to have that this week as well.

--- UNDERTAKING NO. 5: MPI to provide the split between the Q2 actuals and the last two (2) quarter projections

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: And as indicated in Mr. Triggs' letter -- and I think that was confirmed yesterday, but the present expectations for basic through the remainder of the fiscal year there won't be material changes from what's forecast?

MR. MARK GIESBRECHT: Sorry. If we could just go back for one (1) second. I just wanted to comment on the details of the actuals and the remaining forecast. It's just subject to proper Board and government approval before we release that information.

MR. ROBERT WATCHMAN: So, Kristen, if we could turn ahead to page 8 of Exhibit 42. And so this is the third pro forma that was reviewed, and again, we're looking at that second column of numbers 2020P for projection, I take it?

MR. LUKE JOHNSTON: Yes, that's

correct.

MR. ROBERT WATCHMAN: And so this is where we saw the significant change in line 14, the claims incurred reduced by approximately 66 million?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And if we look then at line 16, we now have an interest rate impact of 61 million whereas in the original it was 19 million in favour of the claims incurred.

MR. LUKE JOHNSTON: Yeah. The -- these results reflect the -- the actual interest rates that have been -- that prevailed since Q2 or actually -- pardon me -- September 30th.

MR. ROBERT WATCHMAN: And so if I'm following correctly, the placement of the portfolios -- the basic claims portfolio wasn't complete until the end of Q2? Correct? Or nearly completed?

MR. GLENN BUNSTON: Right. The corporate bonds were not fully invested till the end of August.

MR. ROBERT WATCHMAN: Right. So -- and so you would expect though that the interest rate change protection would be available from August 31st going forward.

MR. GLENN BUNSTON: Right. There's fewer structural changes going forward that would impact the -- the yield of that portfolio. So the -- the main impacts would be changes in market value due to changes in general yields of bonds. Yeah.

MR. ROBERT WATCHMAN: And in --

MR. MARK GIESBRECHT: Oh, sorry, if I can just add to that. While there has been dramatic variation in -- in the results, there -- there was hedging in place through the first half of this year. The hedging going forward is going to be a bit tighter, but if you do see a corresponding impact, that immaterial respects hedges the investment income to the claims movements.

MR. ROBERT WATCHMAN: Okay. And if we could -- Kristen, just scroll to the bottom of the pro forma there. So now in the second column, as indicated you're projecting -- or forecasting a net income of a hundred and eight point four million? Correct?

MR. GLENN BUNSTON: That's right.

MR. ROBERT WATCHMAN: Of which 19 million would relate to interest rate impact.

MR. GLENN BUNSTON: Correct.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Thank you. The last item that I have was really related to shadow portfolios, and you touched upon that yesterday. And basically, those portfolios were created based upon recommendations from Mercers (sic)?

MR. GLENN BUNSTON: Yes. We worked jointly with Mercer to develop the shadow portfolios.

MR. ROBERT WATCHMAN: Right. And so there's four (4) shadow portfolios in all, two (2) related to basinal claims and two (2) related to the rate stabilization reserve? Correct?

MR. GLENN BUNSTON: Sorry. Two (2) of them are related to basic claims and two (2) to the employee future benefits portfolio.

MR. ROBERT WATCHMAN: I'm sorry. And in two (2) of those in -- the portfolio mix as determined within the constraints that had been imposed by MPI?

MR. GLENN BUNSTON: So two (2) of them included allocations to asset classes. We currently invest in plus the real return bonds. And the other two (2) were -- were less constrained and included other asset classes that we do not currently invest in.

MR. ROBERT WATCHMAN: And Mr. Makarchuk will be appearing next week, and he can speak to those shadow portfolios. Is that correct?

MR. GLENN BUNSTON: Yes. Mr. Makarchuk will be here on October 16th to speak to the construction of the shadow portfolios.

MR. ROBERT WATCHMAN: Okay. Thank you very much, panel. Madam Chair, those are all my questions.

THE CHAIRPERSON: Thank you, Mr. Watchman. Just one (1) point for clarification with regard to the availability of the Q2 results and the projections for the balance of the year. Although the information will be available next week, is it accurate to say, Mr. Giesbrecht, that it will not be able to be provided to the Board until possibly ten (10) days from now?

MR. MARK GIESBRECHT: Yeah. So we are expecting approval through our Board this Thursday. We then provide it to government. We do have a forty-five (45) day requirement, so that would put us roughly by October 15th at the latest. So next week I would expect that they will be publically available.

THE CHAIRPERSON: Thank you.

Questions? Any questions?

MR. ANTHONY GUERRA: Madam Chairperson, sorry. Just to -- there was reference to the Q1 financial report, and it has been circulated around to all counsel and -- and to the panel as well. I'd like to be -- I'd like to ask that this be marked as Exhibit number 47, please?

THE CHAIRPERSON: Yes. Thank you.

MR. ANTHONY GUERRE: Thank you.

--- EXHIBIT NO. MPI-47: Q1 financial report

THE CHAIRPERSON: We'll adjourn now for lunch and start back at 1:15 with Mr. Williams on cross. Thank you.

--- Upon recessing at 12:04 p.m.

--- Upon resuming at 1:13 p.m.

THE CHAIRPERSON: Good afternoon, everyone. Mr. Williams, please proceed.

DR. BYRON WILLIAMS: And good afternoon, members of the panel. Just a -- a couple preliminary matters.

You may have a bit of deja vu for the -

- near the start of our cross. We were monitoring the cross-examination this morning, but I will be going through at least two (2) or three (3) of the Information Requests that My Learned Friends from the PUB did, hopefully for a somewhat different purpose, as well as two (2) of the pro formas.

So if you hear PUB-2-1 or 153, we know the questions have been asked, but we're walking down for a different way.

THE CHAIRPERSON: Thank you.

DR. BYRON WILLIAMS: Secondly, I do want to just let the Board know that much of our client's cross on expect -- expenses and investment portfolio will be addressed next week on issues related to PIPP, value management, infor -- information technology, LSM, et cetera. So this will be a shorter cross, because much of it, we're deferring.

And finally, I did have a conversation with Manitoba Public Insurance yesterday. In my cross-examination of Mr. Graham, I cited -- or I put one (1) point to him that was on -- on the record in this hearing, but my understanding is that -- that information is going to be amended in due course by another party.

So when I'm back up cross-examining Mr. Graham on service delivery models, I'll make sure that I give him an -- I -- I put the question to him properly. And I've had that conversation with My Learned Friends.

THE CHAIRPERSON: Okay. Thank you, Mr. Williams.

(BRIEF PAUSE)

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: I wonder, Kristen, if we can turn to the application pro form -- the pro forma statement of operations, the 2018/19 comparative.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And Ms. Campbell, I don't know if you're the expert on this, or Mr. Giesbrecht, but whoever is on the team, I'm happy to share.

And if we just focus on the -- on the net income for '18/'19, you've already had the conversation with PUB counsel that net income was about $78.8 million, agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And directing your attention to line 17, total claims incurred, you'll see that the -- the budget or forecast was -- for '18/'19, was 817.1 million.

You see that, sir?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And the actual was 892.3 million, roughly, sir?

MR. MARK GIESBRECHT: That's right.

DR. BYRON WILLIAMS: A difference of some $75 million adverse, correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And you did have this discussion with PUB counsel yesterday. And we are going to talk about PIPP next week, but you'll agree that a major driver of the adverse development was an actuarial adjustment of about 55 million, sir?

MR. MARK GIESBRECHT: That sounds about right, yes.

DR. BYRON WILLIAMS: Yeah, and it's on the next page, if you -- if you require that.

MR. LUKE JOHNSTON: If we can go back there, though, please, to that same spot we were just at. The actual claims themselves are only 10 million of that $75 million unfavourable. So most of that's interest rates. Not to say that there wasn't a big PIPP adjustment, but it was offset by other factors. Yeah.

DR. BYRON WILLIAMS: So, Mr. Johnston, just on that point, if I go to the next page, being 8 of 24, line 9, you'll see the calculation of net claims incurred, starting with the 817 million, sir?

MR. LUKE JOHNSTON: Yes. This is the perfect way to look at it. You can see the actuarial adjustment, and then -- and then there -- if there was collision, 40 million favourable, so that we were lucky. There was -- like, that -- that -- those were offsetting. But just so we're not -- there's a lot of confusion on that net claims incurred line, because of interest rates.

If we do want to talk about claims specifically, I'd suggest talking about the claims incurred line in isolation, because sometimes, like you saw on the previous page, you might have $50 million just from interest rates, and that's really not a reflection on the claims department.

DR. BYRON WILLIAMS: But sir, here, what we have is a $55 million actuarial adjustment, agreed?

MR. LUKE JOHNSTON: Absolutely, yes.

DR. BYRON WILLIAMS: Okay.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And if we can go to pro forma 2019/20 comparative, and specifically there -- and again, this is a line that the PUB counsel went to as well today, line 25, regulatory appeal, you'll agree that the budget in -- is 5.3 million, correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And if we were to compare that -- that 5.3 million to total expenses, we would see the total expenses would be 154 million, correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And it would be fair to suggest to you, Mr. Gries -- Giesbrecht, that in terms of regulatory appeals as a percentage of total expenses, they amount to about 3.4 percent for the 2019/20 years, subject to check, sir?

MR. MARK GIESBRECHT: That math sounds reasonable.

DR. BYRON WILLIAMS: And as MPI confirmed with PUB counsel today, that regulatory appeal line includes not just PUB costs, but also costs related to the Automobile Injury Compensation Commission?

Would that be fair, sir?

MR. MARK GIESBRECHT: That's correct.

DR. BYRON WILLIAMS: And is there information on the record in terms of -- of that 5.3 million, how much of it is actually related to the PUB, sir?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: I don't believe it's on the record as of today.

DR. BYRON WILLIAMS: Okay. We'll come back to that in -- in just a second.

And if I took, again, that 5.3 million, and compared it to total claims costs of -- in the range of $1 billion, you'll agree, for 2019/20 -- 2020, you'll -- you'll agree, sir, that in terms of total claims costs, MPI is -- is forecasting around $1 billion, correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And would it be fair to suggest, sir, subject to check, that regulatory appeal costs, including both the PUB and Automobile Injury Compensation Commission constitute about one (1) half of 1 percent of total claims costs, percentage-wise?

MR. MARK GIESBRECHT: Subject to check, it is a -- a small percentage of the overall claims cost. However, it is an important piece, and like anything else, we do want to ensure that it -- it does that provide value for the money, and we receive proper, you know, return on that spend.

DR. BYRON WILLIAMS: Of course, sir.

In effect, I'll suggest to you that the price of monopoly, the price of accountability is about half of 1 percent of claims costs. That's the math?

MR. MARK GIESBRECHT: That's one (1) way to look at it.

DR. BYRON WILLIAMS: And that, of course, is taking into account both the PUB and the Compensation Commission?

MR. MARK GIESBRECHT: That's correct, yeah.

DR. BYRON WILLIAMS: Sir, I won't have

many undertakings for you, but I -- given your counsel's state -- opening statements yesterday, I wonder if by way of undertaking, Manitoba Public Insurance can take the -- disaggregate the regulatory appeal costs to take out the costs associated with the AICC, Automobile Insurance Compensation Commission, and just provide the number for the Public Utilities Board.

Would you be able to do that by way of undertaking, sir?

MR. ANTHONY GUERRA: Counsel, we gave an undertaking earlier this morning that I believe would already encapsulate the undertaking that's being requested, so I think it would be clear from our response to the undertaking that your request will be answered.

DR. BYRON WILLIAMS: And my apologies.

MR. ANTHONY GUERRA: That's okay.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And I am -- I don't know if this goes to Mr. Giesbrecht or Ms. Campbell, but I would like to turn to the

Corporation's response to PUB-1-53, which I understand was -- and specifically, Figure 1 to start with.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And again, I don't know if this is you, Ms. Campbell. I see you going through your pages.

MS. CYNTHIA CAMPBELL: It might be me.

DR. BYRON WILLIAMS: Okay. And just generally, this information request is giving the sense of some of the developments over time of normal operations in terms of payroll costs, equivalent full-time positions, and vacancies.

Would that be fair, at a high level, ma'am?

MS. CYNTHIA CAMPBELL: This gives you, yes, payroll costs, number of FTEs.

DR. BYRON WILLIAMS: And if we got to Figure 3, we'd see some conversation about vacancies as well, subject to check?

MS. CYNTHIA CAMPBELL: Yes, actually, Figure 3 does talk about vacancies.

DR. BYRON WILLIAMS: Okay. And again, we can go back to Figure 1. And again, recognizing that there was some conversation about this -- this morning, if we look at payroll costs in at line 6 and line 7, second column from the left of Figure 1, we see roughly a $15 million increase from the 2018 act -- actuals to the 2019/20 budget.

Would that be fair?

MS. CYNTHIA CAMPBELL: Yes, that would be fair.

DR. BYRON WILLIAMS: Percentage-wise, about 9 percent?

MS. CYNTHIA CAMPBELL: Yes, on this -- on this chart, it is 9.18 percent.

DR. BYRON WILLIAMS: And if we go down to Figure 2 for just a second, and directing your attention to line 7, you'll agree with me that what line 7 does is disaggregates to a certain degree the factors related to that $15.183 million increase in compensation captured in the 2019/20 budget. Would that be fair?

MS. CYNTHIA CAMPBELL: Yes, it does.

DR. BYRON WILLIAMS: And you'll see the roughly fifth column over changes due to FTEs -- full-time equivalents -- amounting to about 6.6 million, correct?

MS. CYNTHIA CAMPBELL: Yes, it does.

DR. BYRON WILLIAMS: And I just wanted to -- because I was having a bit of trouble following the conversation this morning, and if you need a reference to this PUB-1-42 might help you, but I don't think we need to go there.

I just want to make sure that I understand that part of this change related to FTEs is due to higher than expected levels of turnover in vacancy in '18/'19 which are expected to revert closer to expected levels. Is that correct, ma'am?

MS. CYNTHIA CAMPBELL: Yes. That's a fairly good summary. Yes.

DR. BYRON WILLIAMS: And another part of it is expected increases in full-time equivalent counts for normal operations as well for 2019/20, correct?

MS. CYNTHIA CAMPBELL: Okay. So sorry. I think you've said the same thing twice.

DR. BYRON WILLIAMS: I think I've not.

MS. CYNTHIA CAMPBELL: Okay. So can you repeat the first one then.

DR. BYRON WILLIAMS: The first is higher than expected levels of turnover in vacancy in 2018/19?

MS. CYNTHIA CAMPBELL: Correct. So --

okay. So sorry. You're saying then that the levels of turnover and vacancy -- yes.

DR. BYRON WILLIAMS: Are expected to return to normal.

MS. CYNTHIA CAMPBELL: Yes. Okay. And as a result, the FTEs will come up.

DR. BYRON WILLIAMS: No. I'm going one step further.

MS. CYNTHIA CAMPBELL: Okay.

DR. BYRON WILLIAMS: And I'm suggesting to you as well that there's also an expected increase in FTE counts for normal operations. And PUB-1-42 may assist you with that? Perhaps we could go there for a second, and if you could scroll down, please, Kristen.

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: Okay. My apologies. We go up slightly for '19/'20. It is related to about thirteen (13) FTEs that are with respect to the personal injury protection plan staffing.

Those -- sorry -- those people were hired about a year ago, and we embedded them into the budget for '19/'20. And that was to do with service levels and making sure that we had the right number of staff in place to deal with injury claims management.

This will be addressed more so with the panel. So I -- I won't get into all the details surrounding that. So my apologies on that. It does look like it goes up, but this was something that actually happened a while back, so.

DR. BYRON WILLIAMS: Okay. And just again drawing your attention to the page 1 of 2 of PUB-1-41, you see here a reference on the third last line to an expected increase in FTE counts -- full-time equivalent counts -- for normal operations. You see that?

MS. CYNTHIA CAMPBELL: Yes. And that is what that is referencing.

DR. BYRON WILLIAMS: Okay. Now, if we could go back to PUB-1-53 and specifically Figure 3, please, Kristen.

Now, Ms. Campbell, you did speak of a return to more normal expectations in terms of vacancy allowance. And focusing on line 4 which is the assumed FTE staff related to vacancy allowance, does this suggest in the 2018/19 year that it was seventy (70)?

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: Yes. That -- this is what that table is saying.

DR. BYRON WILLIAMS: And for the 2019/20 year, it's forecasted in the budget to be twenty (20)? Agreed? I assumed --

MS. CYNTHIA CAMPBELL: Correct.

DR. BYRON WILLIAMS: -- FTE staff led to vacancy allowance? That was poorly asked.

MS. CYNTHIA CAMPBELL: The forecasted level is twenty (20).

DR. BYRON WILLIAMS: Yes. And we'll come to that in a second. And then we see as well that the forecast level for 2020/21 in terms of assumed FTE staff related to the vacancy allowance is twenty (2) as well, correct?

MS. CYNTHIA CAMPBELL: Correct.

DR. BYRON WILLIAMS: Now, I suspect you wanted to take me to the response to PUB-2-21 which we had a chance to talk with a little bit with my learned friend from the Public Utilities Board this morning. Is that where we're going? That's where I'm going to take you.

MS. CYNTHIA CAMPBELL: Okay.

DR. BYRON WILLIAMS: PUB-2-21.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And could we go to the actual answer sub (b). Thank you.

And, Ms. Campbell, what we see here in the answer to PUB-2-21B is that while -- I'll suggest to you that while MPI had in terms of -- had budgeted a vacancy allowance of about twenty (20) full-time equivalents, the count as at July 2019 was actually one hundred and two (102) full-time equivalents lower than budget. Am I reading that correctly?

MS. CYNTHIA CAMPBELL: You are reading that correctly. As I testified this morning, that has to do with the longer amount of time it's taking to be able to recruit these open positions, and greater turnover than what we were originally expecting, and having that continue on into '19/'20 which we were not anticipating.

DR. BYRON WILLIAMS: And just to be clear on that and just so my client understands, the high -- focusing on the '19/'20 year, the higher vacancy allowance as compared to budget is not a corporate choice to cut costs. It's merely a hangover from the struggles you were having in '18/'19 in filling positions? Is that what you're suggesting?

MS. CYNTHIA CAMPBELL: Well, there's just a couple of words I'm going to pick up on. Struggle to fill is an interesting way of putting it. We specifically have taken our time to review positions to ensure that we're getting the maximum value out of every position we have.

So some of these skilled labourers, yes, it might be considered a struggle to find, and it's taking us slightly longer to be able to fill them.

But I wouldn't say that we are struggling to be able to attract people. It is more the process to which we're going through.

Yes, this is absolutely a "hangover" from '18/'19. The organization has gone through and will continue to go through significant change. We have a new executive. We have a new strategy.

So we do have a very high retirement rate right now. So we were getting retirements in and around fifty (50) and sixty (60) per year. Last year, was eighty-six (86). This year we're already targeting the first six (6) months is over thirty (30). So we're probably going to have another high year.

So we have something that is occurring right now which is high turnover.

DR. BYRON WILLIAMS: And just so I understand -- I understand your language about the care in which positions are being looked at, you're not suggesting it a cost control measure allowing higher vacancies than budgeted for.

MS. CYNTHIA CAMPBELL: No, I wouldn't say it's specifically to bring down our operating expenses. What it is is it's to effectively manage our workforce which -- sorry -- in the back end gives you managed expenses as well because you want to make sure you have the right number of people and the right people in the right positions which is effective management which is prudent fiscal management.

So it's not, we're going to hold them open for longer in order to save money. We're going to make sure we have the right people coming in so that we've got effective management going forward.

DR. BYRON WILLIAMS: And these --

MR. MARK GIESBRECHT: And if I may just add to that, so we are having higher than usual, higher than average turnover. There has been no direction to our staff to, you know, hold those positions vacant for a period of time to control costs.

However, we are taking the opportunity to review the roles, make sure that they are, you know, properly staffed, and the requirements are properly met.

But there is no direction to actively find, you know, a -- a set amount of dollars to achieve a -- a budget variance.

DR. BYRON WILLIAMS: Thank you. And just as we look forward to 2020/21, is that -- should we expect that that disconnect between budgeted FTEs and a significantly larger unfilled positions continue into 2021?

MR. MARK GIESBRECHT: We would expect in the long run that we would return to a more normal average in terms of the amount of vacancies based on a -- a historical average of turnover.

It will take some time to -- to get to that point, but we do not anticipate to carry this same level of vacancy as a new normal state.

DR. BYRON WILLIAMS: I thank you for that. Is it likely that this extended level of vacancies will carry over into 2020/21?

MR. MARK GIESBRECHT: I think it's fair to say that there'll be some effect. We know that we do have a large number of postings for recruitment. It will depend on how fast we can fill those roles.

DR. BYRON WILLIAMS: Okay. Thank you for that.

MR. MARK GIESBRECHT: Maybe just one further point to add to that. We are currently in the midst of our current budget process where we continually evaluate the needs of the business and -- and the service level.

So that will also inform our FTE requirements for -- for future years once that process is complete.

DR. BYRON WILLIAMS: So I'd like to turn your attention to the Gartner report. It's an annual IT benchmark exercise, and I know the IT panel is coming up next week. So if there's any discomfort with the few questions that I am planning to ask, you'll let me know.

And so that's -- Kristen, you always amaze me -- perhaps we go to page 10. And would that be you, Ms. Campbell? I see you're leaning forward?

MS. CYNTHIA CAMPBELL: Sorry. I was

just reading it.

DR. BYRON WILLIAMS: Okay. Just at a high level, what's discussed on this page, Ms. Campbell, I'll suggest to you is IT -- information technology full-time equivalents as a percentage of total company employees. That's your understanding?

MS. CYNTHIA CAMPBELL: Yes. This is what this is saying.

DR. BYRON WILLIAMS: And if we focus our attention on the graphic in the middle of page 10 and really focus on that vertical line -- the vertical black line running up through the middle of the -- the blue rectangle, you'll agree with me that what that black line represents is the range in terms of Manitoba Public Insurance peers, in terms of information technology full-time equivalents as a percentage of company employees. Would that be fair?

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

DR. BYRON WILLIAMS: And that range extends from a low of 8.2 percent to a high of 18.8 percent, correct?

MS. CYNTHIA CAMPBELL: Correct.

DR. BYRON WILLIAMS: And if we focus now on the rectangle itself -- the blue rectangle --

you'll see that it suggests that the peer average is 13.6 percent, correct?

MS. CYNTHIA CAMPBELL: Correct.

DR. BYRON WILLIAMS: And I'll suggest to you that the shaded darker blue box between 11.3 percent and 16.8 percent describes the middle quartiles of Manitoba Public Insurance peers when it comes to information technology full-time equivalents as a percentage of company employees. Would that fair?

MS. CYNTHIA CAMPBELL: Fair.

DR. BYRON WILLIAMS: And so just outside that blue rectangle, we see MPI in 2017/18 coming in at about 17.2 percent of information technology FTEs as a percent of company employees. Correct?

MS. CYNTHIA CAMPBELL: Correct.

DR. BYRON WILLIAMS: And you'll see the conclusion of Gartner that Manitoba Public Insurance is more information technology full-time equivalents as a percentage of total company employees than its peers.

MS. CYNTHIA CAMPBELL: Correct. That's what it does say. Can I put a little context around it for you?

DR. BYRON WILLIAMS: Of course you can.

MS. CYNTHIA CAMPBELL: Essentially, you're bringing forward one of our rationales for going through Project NOVA. So we do have a -- a strong IT contingent right now because we are keeping some older systems that require more people to be able to manage them. This is the -- the systems we have in place, I believe, Ben, actually -- Mr. Graham testified to this yesterday in the way in which our systems were put together.

We need to make a change, and one of the things that will change as a result is the number of people required to be able to keep the system standing up.

DR. BYRON WILLIAMS: Do -- do you recall whe -- whether or not Gartner described MPI's current state of technology as mature?

MS. CYNTHIA CAMPBELL: That I'm not familiar with. I apologize. That -- that is a great question for the IT panel.

DR. BYRON WILLIAMS: That's fair enough. Perhaps we could go to page 13 of 18 -- of 17, yeah. Now, Ms. Campbell, this graphic compares the infrastructure and operation cost of Manitoba

Public Insurance to its peers, correct?

MS. CYNTHIA CAMPBELL: Correct.

DR. BYRON WILLIAMS: And I want to direct your attention to the -- the graphic in the middle under -- you'll see MPI-27, 2018, on the left-hand side of that?

MS. CYNTHIA CAMPBELL: Yes, I see that.

DR. BYRON WILLIAMS: Do you see that? And you'll see that in terms of oust -- outsourced expenditures, Manitoba Public Insurance has in the range of $10 million, correct?

MS. CYNTHIA CAMPBELL: Yes, I see that.

DR. BYRON WILLIAMS: And Gartner concludes, if you go up to observations on the right-hand side, that outsource spending is 94 percent higher than the peer group average. Do you see that conclusion?

MS. CYNTHIA CAMPBELL: Yes, I see that conclusion.

DR. BYRON WILLIAMS: And as well, you'll see that Gartner describes for Manitoba Public Insurance in '17/'18 maintenance costs in the range of $5.8 million, agreed?

MS. CYNTHIA CAMPBELL: Agreed.

DR. BYRON WILLIAMS: And again, Gartner concludes that maintenance costs are 421 percent higher than the peer group average? You see that?

MS. CYNTHIA CAMPBELL: I -- I do. Maintenance is specifically a line that I know is related to, essentially, the business case for NOVA, and it's the cost of being able to support the current systems, which are fairly old, versus the cost of running a newer system.

DR. BYRON WILLIAMS: And we'll come back to that in a second, but let's go under notes to outsourcing costs, and you'll see that Gartner's observation that the outsourcing costs of Manitoba Public Insurance include a prepayment for future upgrades as part of a vitality clause in the IBM contract, avoiding large single-year increases but presents a higher yearly cost than might be expected. Is that your understanding as well, Ms. Campbell?

MS. CYNTHIA CAMPBELL: I'm not familiar with that, unfortunately. That's another great question for the IT panel. Sorry, you're going slightly outside my...

DR. BYRON WILLIAMS: So what I'll do,

Ms. Campbell, is -- with that, I do have a few more questions on this area, but I appreciate you walking with me as far as you could, and we'll just set those aside for the -- for the panel next week. And I do thank you for your cooperation.

MS. CYNTHIA CAMPBELL: You're welcome. I will be there in the back row supporting if you come back to another question that's related to expenses.

DR. BYRON WILLIAMS: Okay. I wonder -- and again, I wonder if we can go to the MPI Exhibit 22, the Gartner report on physical damage re-engineering and, specifically, page 9. No, page 9 in the upper right -- right corner, which is page 11 at the bottom. Yeah, that's what I'm looking for.

Ms. Campbell, again, there may be questions that you're uncomfortable with, but I'm pretty confident that you and Mr. Giesbrecht are pretty familiar with the concept of net present value analysis. Would that be fair?

MS. CYNTHIA CAMPBELL: That's fair.

DR. BYRON WILLIAMS: And what this table 6 provides is Gartner's best estimate of the net present value of the physical damage re-engineering, or PDR, project, taking in -- into account expected benefits as well as actual or budgeted costs, including ongoing costs. Would that be a fair statement?

MS. CYNTHIA CAMPBELL: I wasn't involved in accumulating this table or working with Gartner on this report. There are people that are sitting on the IT panel that were involved, so my preference would be to defer to them because they do have more detailed knowledge. As much as I am familiar with an NPV calculation, I didn't create this one.

DR. BYRON WILLIAMS: Fair enough. Now, just on that point, though, before I let you go perhaps till next week, Manitoba Public Insurance did its own MPV (sic) calculation apart from Gartner. Are you familiar with that calculation?

MS. CYNTHIA CAMPBELL: Not off the top of my head, sorry.

DR. BYRON WILLIAMS: That's fine. Not a problem.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Kristen, I wonder if we can turn to PUB-1-50. And to MPI, this relates to cost related to the direct repair program or learnings from the direct repair program. And again, if this is an area where MPI is uncomfortable, you'll -- you'll let me know, but there are some potential cost savings discussed here that I did want to bring to your attention. Mr. Giesbrecht or Ms. Campbell, is this a document you're familiar with?

MR. MARK GIESBRECHT: Generally speaking, I think we're familiar. Depending on the level of granularity or detail you want to get into, we'll decide based on your question how we handle it.

DR. BYRON WILLIAMS: And Mr. Giesbrecht, would you ec -- would you ever expect granularity from me?

MR. MARK GIESBRECHT: You never know.

DR. BYRON WILLIAMS: It's got to be a first time, right, sir? Well, let's start on page 1, the second lesson there. You'll see the limited number of shops in the direct repair program impacted customer choice and created a competitive advantage for some larger repair shops. Do you see that, Mr. Giesbrecht?

MR. MARK GIESBRECHT: I do see that.

DR. BYRON WILLIAMS: And so if we go to the next page, we'll see that the action undertaken by Manitoba Public Insurance was to remove the under volume restriction of a minimum of five (5) jobs per week, which increased the number of eligible repair shops, correct?

MR. MARK GIESBRECHT: That's correct.

DR. BYRON WILLIAMS: Mr. Giesbrecht, again, if this is testing your memory, you'll let me know. But in terms of that volume restriction, was that imposed by Manitoba Public Insurance, or was it the subject of an agreement with a -- an industry trade, sir?

MR. MARK GIESBRECHT: Yeah, for a definitive answer, I wouldn't -- I'd need to defer. I do believe it was an agreement, but I would need to defer to our responsible area for that.

DR. BYRON WILLIAMS: And -- and so, to your legal counsel, that will be some -- in terms of one of your panels next week, most likely they -- we'll be wanting to follow that up as well.

MR. MARK GIESBRECHT: Absolutely.

DR. BYRON WILLIAMS: Let -- it's no undertaking, no. Let's go down, and we have a couple more questions on this page that perhaps you can help we with -- help me with. Go down under -- yes, right there, Kristen. So we're now on page 2.

In terms of the lesson, I'll suggest to

me -- suggest to me and to you, Mr. Giesbrecht, is that limited administrative savings once the minimum level of required estimator effort at MPI Service Centre locations was reached. You see that statement, Mr. Giesbrecht?

MR. MARK GIESBRECHT: I do.

DR. BYRON WILLIAMS: What does it mean?

MR. MARK GIESBRECHT: Yeah, I would need to defer to our operations department to give you a full -- a wholesome (sic) answer on that.

DR. BYRON WILLIAMS: Madam Chair, I'll just -- on these question, I think it would be more efficient to do it with a subsequent panel.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: I wonder if we can turn to -- to Mr. Bunston, and perhaps we can pull out the Mercer shadow portfolio report, which is at Part 6, investment Attachment A. And page 3, at the bottom right-hand corner of this page would be perfect.

And Mr. Bunston, obviously, most of our questions will be devoted to Mercer's, but you'll see on this page a reference to pre-ALS study "Current Access Asset Mix Portfolio," noted as 2017 current. Do you see that reference, sir?

MR. GLENN BUNSTON: Yes, I do.

DR. BYRON WILLIAMS: Mr. Bunston, can you indicate what this refers to and how this asset -- how this 2017 current was used in the analysis? And specifically, sir, we're wondering what was its purpose. Was it to define the risk level or the return level, or are you able to enlighten us on that?

MR. GLENN BUNSTON: So my recollection is that the current portfolio from 2017 was the portfolio at the time that the asset liability management study was completed, and that was used in creating the shadow portfolios to create these efficient frontiers that you see.

And so the -- the portfolio that's marked as current there is the portfolio that existed in 2017 to ensure that the shadow portfolios were comparable to the information that we had at the time when the -- when the asset liability management study was completed.

DR. BYRON WILLIAMS: Okay, thank you. If we could pull up CAC-1-23 and go down to the response on the first page. That's fine, perfectly, there. Mr. Bunston, you'll be aware that the PUB directed M -- MPI to consult with the Board on the selection and management of the assets chosen for the shadow portfolios, correct?

MR. GLENN BUNSTON: Yes, that's correct.

DR. BYRON WILLIAMS: And there's a statement here that MPI developed the shadow portfolios in consultation with the PUB. You'll see that, sir?

MR. GLENN BUNSTON: Yes.

DR. BYRON WILLIAMS: And, sir, just for the benefit of our client, presumably, when MPI is -- I don't -- we don't need names, but when MPI is referring to the PUB, it is not referring to the Board members. It's referring to PUB staff or advisors?

MR. GLENN BUNSTON: Right. We met with representatives of the Board's counsel and with their accounting advisor, I believe.

DR. BYRON WILLIAMS: And MPI is not suggesting in that statement that by consulting with the PUB advisors, that the PUB actually endorsed the shadow portfolios presented. You're not suggesting that?

MR. GLENN BUNSTON: No. We're

suggesting that we followed the order to consult with the advisors of the -- of the Board.

DR. BYRON WILLIAMS: And, sir, you're aware that there are, in the Mercer portfolio, a number of different constraints in that portfolio?

MR. GLENN BUNSTON: Yes, there were constraints.

DR. BYRON WILLIAMS: And did Manitoba Public Insurance -- are you suggesting that it consulted with the PUB in terms of the constraints that were to be imposed in the analysis?

MR. ANTHONY GUERRA: Sorry. And just before we go down this line of questioning, I do note that this was the subject of a motion to compel production of documents, which was ultimately contested, and it was not accepted by the PUB in terms of production of those documents.

So to the extent that My Friend wishes to seek information to basically relitigate the -- the motion, we're not here to do that today.

DR. BYRON WILLIAMS: With respect, Madam Chair, I think that objection is a bit premature. We're trying to understand the consult -- consultation with the PUB, and to understand whether MPI is suggesting that the constraints imposed were shared with the PUB.

(BRIEF PAUSE)

THE CHAIRPERSON: That's fine, Mr. Williams. You can proceed with those inquiries.

(BRIEF PAUSE)

MR. GLENN BUNSTON: Could you repeat the question?

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: I'm not sure I can verbatim, but I'll do my -- my best.

Sir -- and I can walk you through the constraints that we're speaking of, but you're aware that there are constraints in the Mercer report, whether those will relect -- relate to real return bonds, or the -- the real estate infra -- infrastructure portfolio, those type of constraints, sir, you're aware of that?

MR. GLENN BUNSTON: There were constraints, and some of them are, yes, shown on page 6 of the Mercer report.

DR. BYRON WILLIAMS: And there were also some that are not shown at -- at page 6, sir, such as real -- real estate infrastructure private equity had a growth constraint not to exceed the equity portfolio.

Do you recall that as well, sir?

MR. GLENN BUNSTON: No, I think that's disclosed on page 6.

DR. BYRON WILLIAMS: Okay. That's a good one. How about real return bonds constrained to 24 percent? That was a constraint as well, sir?

MR. GLENN BUNSTON: That -- yes, that was a constraint that's not discussed on page 6.

DR. BYRON WILLIAMS: Right. And sir, in terms of the constraints captured in the Mercer report, my question to you, was that part of the consultation process with the Public Utilities Board?

MR. GLENN BUNSTON: I believe it was discussed with the advisors to the Board when we met with them.

DR. BYRON WILLIAMS: Mr. Bunston, in assessing investment portfolios, would you agree that two (2) important considerations are first level of risk in -- in terms of tolerance, and this -- and numbered -- and secondly, efficiency of risk-taking activities?

MR. GLENN BUNSTON: I would agree.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And in terms of the efficiency of risk-taking activities, that's reflected in terms of how one performs on the efficient frontier.

Would that be fair, sir?

MR. GLENN BUNSTON: Certainly, that's -- that's one (1) way to look at it. Other ways would be -- so there'd be measures like information ratio, which was one (1) of the measures that was included in the Mercer report.

DR. BYRON WILLIAMS: Would you agree, sir, generally speaking, that self-imposed constraints have a cost, as they tend to shift the efficient frontier down?

MR. GLENN BUNSTON: I would say that constraints, yes, have a cost, and that sometimes there's good reasons to have constraints in place.

DR. BYRON WILLIAMS: Thank you. I wonder if we can turn to CAC MPI 2-28.

And perhaps with the preamble, first of

all, Mr. Bunston, you will see a suggestion in the preamble to this Information Request being CAC-MPI-2-28 that in PUB-MPI-1-35, MPI prepare -- presented a comparison report that compared the returns of the shadow portfolios to those for actual rather than passive or benchmark port -- portfolios, in effect that they include the effects of active management.

Do you see that suggestion, sir?

MR. GLENN BUNSTON: Yes, I see that.

DR. BYRON WILLIAMS: And you agree with that's -- that's correct, it's factually correct?

MR. GLENN BUNSTON: Yes, the shadow portfolios were based on indices, which are passive, and our actual portfolio has -- is actively managed.

DR. BYRON WILLIAMS: Okay. And sir, you would agree as well that in the future, that including passive benchmark returns for MPI's actual portfolio could assist in disaggregating the benefits of active management from the risk return created by the difference in asset allocation between the actual and shadow portfolios?

MR. GLENN BUNSTON: I believe that was our response to this IR, yes.

DR. BYRON WILLIAMS: Otherwise, sir, you're not comparing apples to apples?

MR. GLENN BUNSTON: Correct. The inclusion of active management to the extent that the active managers are -- have skill should add value to the portfolio.

DR. BYRON WILLIAMS: I wonder if we could go to Part V -- or Part VI Investments, Figure Investment 33, please.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Bunston, generally, this table compares the fiscal year gross annual returns between ICBC -- investment returns between ICBC, the Insurance Corporation of British Columbia, SGI, the -- the Auto Insurance Corporation of Saskatchewan, and Manitoba Public Insurance, agreed?

MR. GLENN BUNSTON: Agreed.

DR. BYRON WILLIAMS: And just because I haven't asked a single question to poor Mr. Johnston today, Mr. Johnston, when we do think of the Basic portfolio, it would be fair to say to you -- suggest to you, sir, that within that, the liabilities, there are claims that are -- are long-lived.

Would that be fair, sir?

MR. LUKE JOHNSTON: It -- in the -- yes, in the claims liability portfolio, the -- the average date of those cashflows is about ten (10) years. So the duration is about ten (10) years.

DR. BYRON WILLIAMS: So individuals may be in receipt of PIPP -- PIPP benefits for well over a decade or two (2) decades, sir?

MR. LUKE JOHNSTON: Absolutely. We -- we're definitely still managing claims from 1994.

DR. BYRON WILLIAMS: And so in that context, Mr. Bunston, looking back five (5) years is a relatively short period of time for -- for comparing with returns on -- on investments.

Would that be fair?

(BRIEF PAUSE)

MR. GLENN BUNSTON: Well, I think when you're looking at returns, the important thing is to look over a market cycle within the investment markets. So generally four (4) to five (5) years is accepted within the industry to be a -- a reasonable time period to review investment returns.

DR. BYRON WILLIAMS: And Mr. Bunston, what Figure 33 suggests to us is that if -- going to the annual -- line 7, the annualized return over the five (5) year period, ICBC had a rate -- annualized return of 3.9 percent, sir, agreed?

MR. GLENN BUNSTON: Yes, that's right.

DR. BYRON WILLIAMS: Manitoba Public Insurance had an annualized return of 5.2 percent, agreed?

MR. GLENN BUNSTON: No, MPI's annual return over an equivalent period is 5.9 percent.

DR. BYRON WILLIAMS: Sir, I -- I'm going to suggest to you that -- just one (1) second.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: If we -- if -- if we go to the -- the line on the left of average 5.2 percent, sir, isn't -- that not the average for Manitoba Public Insurance?

MR. GLENN BUNSTON: No, that's the average for ICBC and SGI.

DR. BYRON WILLIAMS: My -- my mistake. And so if we compare SGI at 6.5 percent, and then we see underneath that, the MPI value added of minus 1.7 percent, what does that indicate, sir?

MR. GLENN BUNSTON: That indicates

that over the five (5) year period, on average SGI's return was 1.7 percent large -- higher than MPI's. MPI's return is shown on the right at 4.8 percent.

DR. BYRON WILLIAMS: Okay. Those are the numbers. So when we're looking at the 6.5 percent, we should compare that to the 4.8 percent, sir?

MR. GLENN BUNSTON: Yeah. So it's -- it's confusing, here, and the reason is because the fiscal years for all three (3) organizations changed -- or sorry -- well, for ICBC and SGI changed from December 31st to March 31st. So we've had to calculate our returns to December 31st and March 31st to ensure they're comparable in every year.

DR. BYRON WILLIAMS: Thank you very much for that. And so focusing only on Figure 33 for a second, that suggests that MPI, over the last five (5) years, underperformed SGI by about 1.7 percent?

MR. GLENN BUNSTON: That's correct.

DR. BYRON WILLIAMS: And then if we go to Figure investment 34, you see this as described as an -- adjusted investment returns.

Is that correct, sir?

MR. GLENN BUNSTON: That's right.

DR. BYRON WILLIAMS: In essence, MPI

is adjusting the ICBC and SGI portfolios to mimic the MPI portfolio.

Is that correct?

MR. GLENN BUNSTON: We've ensured that all three (3) portfolios have the same asset allocations. So we've adjusted the amount -- we've used the actual returns for ICBC and SGI in each asset class, and we've ensured that each asset class has the same allocation as our portfolio. So the only difference is the return within the portfolios.

DR. BYRON WILLIAMS: And conceptually, sir, in terms of the difference between the SGI allocation as captured in Figure 33 and the MPI allocation, what are the significant differences?

MR. GLENN BUNSTON: So I -- I believe that SGI has a larger allocation to growth assets. So equities, real estate infrastructure, than -- than MPI. So in the adjusted returns in Figure 34, then those would be reduced to match our allocations, which were -- our target rate was 30 percent in the past year.

MR. LUKE JOHNSTON: Just adding to that, I can confirm SGI does match claim liabilities to the equi -- equities in the tail, which we -- we do not do that.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, just to make sure, my aged and less than agile mind follows that, what you're suggesting is for the longer lived liabilities, SGI is allocating equities towards them.

Is that what you're suggesting, sir?

MR. LUKE JOHNSTON: Yeah. And I apologize. That's actuarial speak, there.

So as we've discussed here, we're trying to minimize interest rate risk, make certain that we can pay claim liabilities as they come due. Those -- those types of reasons. We created a separate Basic claims portfolio, very low risk, for that purpose.

SGI puts their claims in buckets based on how long there -- until their -- those -- those payments are due. For the long tail lifetime claims that are paid out for twenty (20) years and beyond, they match those liabilities through investment pool of purely growth assets. And they also discount those liabilities at the appropriate equity discount rate.

DR. BYRON WILLIAMS: Thank you for that. And conceptually, one is seeing a trade-off between a preference for more stable premiums for Manitoba Public Insurance, in which it is prepared to accept lower returns and higher average premiums.

Is that...

MR. LUKE JOHNSTON: The -- the view internally is that these are the claims payments that we owe policyholders for claims that they've had, and the intent is not to try to beat the, you know, out -- make investment income off the -- the those funds. It's to lock it down and make sure that we have the -- we can pay the -- those claims when it comes due. And then the sec -- the second objective would be from volatility considerations.

A third reason that we would not want to do that right now would be IFRS-17 which that's not fully hashed out. But, in general, the understanding is you're not going to be able to discount claims using a stock market return anymore. You're going to have to use something closer to a risk-free rate which is much closer to what MPI currently does.

DR. BYRON WILLIAMS: Leaving aside IFRS 17 for a second, in essence the trade off is between lower volatility today or increased returns for tomorrow's ratepayers? Would that be fair?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I -- I definitely understand the logic. As I previously stated, the -- our view is to -- that that money is there -- there to pay claims, not to make excess returns. And, you know, I guess they would go to the, you know, rate stabilization reserve and potentially result in savings or -- or not. Or they could go the other direction and create more volatility.

Another view is that if we were to, say, settle all these claims today if that was a possibility, we would likely, you know, discount them and get them off the books at a -- at a different rate than a stock market return. I'll rephrase that.

DR. BYRON WILLIAMS: Yes.

MR. LUKE JOHNSTON: It's -- yeah -- if we -- we do under the no-fault program manage the claims for life. In the tort environment, you might go to court and -- and make a settlement and pay out $2 million at one time. At that time, our liability would be extinguished, and there would be no investment returns to make for forty (40) years, you know, from holding that money.

So the -- we can't do that. So our

focus again is to -- to really lock down those payments and make sure we have the -- the funds available to pay them in a extremely low risk kind of setup.

DR. BYRON WILLIAMS: I wonder if we can go, Mr. Bunston, to MPI-46, slide 30. And, sir, this slide represents the basics claim -- Basic claims target asset mix being comprised of 20 percent MUSH bonds, and 20 percent corporate bonds, and 60 percent provincial bonds? Agreed?

MR. GLENN BUNSTON: Agreed.

DR. BYRON WILLIAMS: These are all fixed income bonds?

MR. GLENN BUNSTON: Yes, they are.

DR. BYRON WILLIAMS: They are all interest rate sensitive, sir?

MR. GLENN BUNSTON: Well, the MUSH bonds are held to maturity, and as a result, we report them at their book cost, and therefore, their price does not change with interest rates.

DR. BYRON WILLIAMS: Leaving aside their accounting treatment, sir, focusing on their market treatment, they're all interest rate sensitive, sir?

MR. GLENN BUNSTON: Yes. They're all

a stream of future cash flows which you would -- in order to calculate their present value, you would discount at a -- at a current interest rate.

So from that perspective, yes, they would be interest rate sensitive.

DR. BYRON WILLIAMS: And in terms of fixed income assets such as Federal, provincial, and corporate bonds, would it be fair to suggest that the returns are highly correlated because the returns depend on one primary factor being the level of interest rates?

MR. GLENN BUNSTON: Well, certainly Federal and provincial bonds are highly correlated. I mean, I think all bonds have a high correlation. It's a -- it depends on what you consider high, I guess.

Corporate bonds are -- have idiosyncratic risk in that they -- their spread is partially driven by the prospects for that company. So they would have a slightly lower correlation to provincial and -- and Federal bonds for that reason.

DR. BYRON WILLIAMS: That being said, sir, the correlation is pretty significant.

MR. GLENN BUNSTON: I would say the provincial, Federal, and corporate bonds have relatively high correlations. Yeah.

DR. BYRON WILLIAMS: I wonder if we can turn to the response to CAC-MPI-1-26, Attachment A, which is the Elemont (phonetic) investment performance report and specifically page 11 of 18 as well as 13 of 18 -- 11 of 18 is fine. Mr. Bunston, just in terms of the element report generally -- no, I'll scratch that question.

Could we scroll a bit down on the page? Thank you. Mr. Bunston, just in terms of -- and certainly, we don't want to get into who the managers are -- but in terms of what we see here is some struggle for Manager C in fiscal 2019. Is that fair, sir?

MR. GLENN BUNSTON: Yes, that's fair.

DR. BYRON WILLIAMS: And then ongoing challenges for manager A resulting in that manager's ultimate termination? Is that right?

MR. GLENN BUNSTON: That's correct.

DR. BYRON WILLIAMS: And if we go to slide 13, and this relates to US equities, sir, correct? What we're seeing here?

MR. GLENN BUNSTON: Yes. This is the US equities.

DR. BYRON WILLIAMS: Yeah. And in February of 2019, MPI switched from Manager E and H to

Manager G? Correct?

MR. GLENN BUNSTON: Yes. So our US equities have always -- or have been passively invested for the last several years, and we switched -- or we sold the ETF that we were in. We had two (2) -- we were in two (2) ETFs, and we transitioned into a third ETF in February.

DR. BYRON WILLIAMS: And, sir, you're referring to an exchange traded fund?

MR. GLENN BUNSTON: Yes. So it's a -- it's a fund that tries to mimic an index, but it's traded on -- on the stock markets listed. So you can buy and sell it every day.

DR. BYRON WILLIAMS: And the fees tend to be lower?

MR. GLENN BUNSTON: Fees are very low, yes. Five (5) basis points or less generally for -- for large cap equities.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Madam Chair, our client had to leave a lot of questions on the table through no fault of this panel. Those are our questions, and there's one (1) undertaking, I believe.

And subject to that undertaking, we'll stand down and thank this Board and the MPI panel for the opportunity.

THE CHAIRPERSON: Thank you, Mr. Williams. Mr. Unfried...?

CROSS-EXAMINATION BY MR. CURTIS UNFRIED:

MR. CURTIS UNFRIED: Good afternoon, Madam Chair. Good afternoon, panel members. I'd like to thank you for attending here today. My name is Curtis Unfried. I'm legal counsel for IBAM, the Insurance Brokers Association of Manitoba, and I have a few questions that I'd like to ask you here today.

In doing so, of course, my job here is not to duplicate what's already been done by Mr. Williams. I understand -- obviously, he's asked many questions, and I'll do my best not to cover off what he's done.

And my colleague, Ms. Sokal, along with Mr. Wainikka, my client, have told me and given me a rough idea of what's been covered off already. So if there is going to be some duplication, it won't be -- I expect there won't be, but if there is, I can assure that it's not intentional.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: So first off, I'd like to refer you to a document that IBAM-IR-2-1, and this is a corporate strategic plan and annual business plan, and it's the revenues relating to -- the revenues relating to the service centres across Manitoba.

And according to the calculations set out there in the revenues that were achieved from the service centres in Manitoba totaled in 2019 as of the date the numbers were available. It was six million two hundred one thousand and twenty-seven dollars ($6,201,027) on Basic. Sorry. Do you have any reason to dispute that?

MR. MARK GIESBRECHT: Do you have the page reference?

(BRIEF PAUSE)

MR. CURTIS UNFRIED: Sorry. Thank you for the time. It's Appendix 1 -- 2-1 Appendix 1. It's titled "Service Centre Revenue by Line of Business." And you'll see it's a -- it's broken down by the location and just on the Basic income. Feel free to calculate it yourself but roughly $6.2 million in Basic?

MR. MARK GIESBRECHT: Yes. I don't see a -- a grand total, but if we can keep scrolling down, that seems like a reasonable number.

MR. CURTIS UNFRIED: Okay.

MR. ANTHONY GUERRA: Sorry, counsel, just to interrupt. It has come to my attention that this specific spreadsheet does omit inadvertently the Portage la Prairie service centre. So to the extent that this document -- this appendix can provide us with an accurate calculation, I don't think it can because it does miss out that service centre.

MR. CURTIS UNFRIED: Would there be the opportunity to file an amended document with that information?

MR. ANTHONY GUERRA: Yes, counsel. And, in fact, we're currently working on that. So we can get that undertaking.

So just to confirm for the record, we would file an update to Appendix 1 for the service centre revenue by line of business, which is Appendix 1 to IBAM Information Request 2-1.

--- UNDERTAKING NO. 6: MPI to file an update to

Appendix 1 for the service centre revenue by line of business, which is Appendix 1 to IBAM Information Request 2-1

CONTINUED BY MR. CURTIS UNFRIED:

MR. CURTIS UNFRIED: Okay. Thank you for that. And so in general terms, again I don't -- nothing to take away from the good people of Portage la Prairie, of course.

But we'll -- without having included them in this particular total for the purpose of just general calculations, the 6.2 million that is there, recognizing it doesn't account for Portage, that's an amount of when you consider Basic revenues of over a billion dollars based on our -- the information provided, Basic revenues are approximately one billion fifty-eight million dollars total.

And so again just using those two (2) figures as I understand it, the Basic revenue generated by MPI from their service centres on Basic -- again, I recognize that Portage is not included in this -- but it would represent approximately 0.6 percent of the total basic revenue would be coming in through those service centres. Is that correct?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So yes. Generally speaking, that's a fair statement.

I do want to also point out that through the analysis that was performed to provide this information, we did determine that there seemed to be a higher proportion of cancellations, policy changes that resulted in negative amounts that -- that may impact that adversely.

So this number is lower than it otherwise would be if there was a general representation of those type of transactions across the rest of the distribution. But generally speaking, that --

MR. CURTIS UNFRIED: Generation -- what -- what -- it wouldn't make the -- whatever the cancellation amounts -- again we're talking over a billion dollars in total revenue. Those cancella -- whatever the amount is would not make a significant difference between the .6 percent, where that is now.

Would it maybe go to point -- to change

things to .7 percent? Do you have any idea what the amount is for the cancellations?

MR. MARK GIESBRECHT: We -- we don't have definitive numbers. It wouldn't materially change that from -- what is it -- a percent or two (2). I just wanted to point out that it -- it may be slightly different.

MR. CURTIS UNFRIED: Okay. Did you say a percent or two (2), or a tenth (1/10) of a percent or two (2)?

MR. MARK GIESBRECHT: A percent or two (2).

MR. CURTIS UNFRIED: Okay. Would you be able to obtain those numbers on calculations? Is that possible?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: We could take it away to see if it's -- if we can determine those numbers.

MR. CURTIS UNFRIED: Okay --

MR. MARK GIESBRECHT: Right now, we can't commit to --

MR. CURTIS UNFRIED: Yeah. Let us

undertake to -- ask that you undertake to see if you can obtain that, and if so, to provide it.

MR. ANTHONY GUERRA: Counsel, yeah, we'll make the inquiry, and if -- if we can, we will certainly produce those figures.

MR. CURTIS UNFRIED: Thank you.

--- UNDERTAKING NO. 7: MPI to obtain the numbers on cancellations

CONTINUED BY MR. CURTIS UNFRIED:

MR. CURTIS UNFRIED: And then next, I'd like to refer you to the table that's located at IBAM IR 2-14. And as I understand it, this is a table that allocates the various revenues that are obtained and -- and, basically, allocated between MPI and Manitoba Infrastructure. Is that correct?

MR. MARK GIESBRECHT: Correct.

MR. CURTIS UNFRIED: And -- and as I also understand it, the revenues that are -- that would be allocated to the Manitoba Infrastructure part of the table -- those revenues would not be captured or reflected in the financials of MPI. Is that correct?

MR. MARK GIESBRECHT: That's correct.

They will be disclosed as flowthrough to the province, but they are not reflected in the revenues proper of the Corporation.

MR. CURTIS UNFRIED: Okay. Okay. And -- and based on -- sorry, just have one (1) moment, please.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: And we've had the opportunity -- obviously, there's been a lot of documents we've -- we've all been reviewing over the last short while, but I'm -- and just in attempt to get a better understanding of these figures and -- and allocations on this chart, we -- we know that in 2018, the total automobile and motor vehicle carrier licences and fees to Manitoba Infrastructure were 162.7 million, and the total adjusted driver revenue of Manitoba Infrastructure was 21.3 million, and finally that the service fees and other revenue were 25 million.

And the question I have for you is -- with those figures is why is so much flat-fee be -- expenses being tied to Basic? Do you have an answer for that?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: Could I ask you to -- to rephrase the question?

MR. CURTIS UNFRIED: Sure. We know -- what I was just clarified -- for the purposes of determining where this money is going and why it's being allocated in certain ways, what the documentation provided by MPI showed was that the 2018 total automobile and motor vehicle carrier licensing fees to Manitoba Infrastructure was 162.7 million, and the total adjusted driver revenue to Manitoba Infrastructure was 21.3 million.

I did mention the service fees and other revenue of 25 million, but I understand that that point was actually allocated to MPI revenue. But the end -- at the end of the day, with those numbers, the question is why is there so much flat-fee expense being tied to Basic?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So I'll refer you to our last fiscal year financial statements. I'm not sure if those can be pulled up or not. But a large portion of that is not tied to -- to Basic. It -- it is tied to the DVA operations for the Corporation.

In last fiscal year, we had $24.5 million in service fees and other revenues. Much of that related to interest-type financing costs, so there's actually a small amount of those dollars that flow through our Basic financials. Most of those dollars are costs that are to reflect the cost of the transaction and are, you know, paid to Manitoba Infrastructure.

MR. CURTIS UNFRIED: Okay.

MR. MARK GIESBRECHT: Does that help answer your question?

MR. CURTIS UNFRIED: Yeah. What -- what -- what we're trying to do is just ensure that -- that the -- the revenues are gen -- the revenue -- revenues are tied to expenses properly, and I -- in seeing this chart, I -- I think it would probably be easier for you if you could provide an undertaking to review the chart and provide us a list of the amounts that had been allocated where you've got the 'Xs', obviously, on -- on the chart, the amounts that have been allocated to those -- those particular -- either

MPI or Manitoba Infrastructure, and the -- the justification or reason why the allocation was made in the way that it was.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So just maybe one point of clarification. So on the -- the aspect of the administration of our -- our DVA operations, we will administer the program as stipulated in -- in the various regulations, and we -- we, in turn, receive income from the Province to cover the cost of that administration. The actual revenues are all -- or, primarily, all flow back through to the Government, and so in terms of our financials, we have the cost to run the operation, and then we have, essentially, a cost recovery to offset the cost of that administration. So -- so to your question around the -- the actual dollars and the fees --

MR. CURTIS UNFRIED: We're just looking for -- to have -- to the expenses, you know, basically, obviously, the expenses generated the revenue, and we're wanting to determine what expenses have been allocated for the revenues that have been generated. And if -- and if there is an explanation that you could provide as a flowthrough, however, that -- that's fine. We just want to, as I said, know how the expenses that have incurred -- how they've been allocated either to MPI or to Manitoba Infrastructure.

MR. MARK GIESBRECHT: Right. So we do have included in our application a summary of our expense allocation methodology, which will look to allocate firstly any direct operations for any one (1) line of business. Those are directly attributable to those lines of business.

From there on, we have our -- our unallocated costs such as supporting departments, finance, HR, and the like, and those are allocated based on a number of -- of criteria back to each line of business. And so that's been a methodology in place for -- for many, many years.

MR. CURTIS UNFRIED: Is that only for an internal document relating only to Basic and Extension?

MR. MARK GIESBRECHT: So it refers to all lines of business under MPI.

MR. CURTIS UNFRIED: So just coming back to it again, we -- we -- we would like to match expense with revenue, and I'd ask that you provide an undertaking to do that for the purposes of what's set out on this particular chart.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: I'm just going to advise Madam Chair, if -- something -- maybe it might be time for a -- maybe take a break to allow my friends to consider. I -- I know I was almost done in this area of questioning, so it might be a good time to break anyway.

THE CHAIRPERSON: Mr. Giesbrecht, would you like a break at this point in order to provide that information or a response to the question?

MR. MARK GIESBRECHT: Yes, if you deem that appropriate, then that would be fine by us.

THE CHAIRPERSON: Okay, ten (10) minutes then, please. Back at 2:47.

--- Upon recessing at 2:37 p.m.

--- Upon resuming at 2:48 p.m.

THE CHAIRPERSON: Okay. Thank you, everyone. Do we need to wait for Ms. Campbell?

MR. MARK GIESBRECHT: If we could have

one (1) minute.

THE CHAIRPERSON: Yes, certainly.

MR. MARK GIESBRECHT: Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you very much. I believe when we broke, Mr. Giesbrecht, you were looking for some information to provide to Mr. Unfried?

MR. MARK GIESBRECHT: Yes. So if we understand the question correctly, what -- what the question is -- is referring to the service fees on the schedule before us and getting a break out by each transaction, the total revenues, whether they be MPI or government, and the associated costs to administer those fees.

Is that -- is that correct?

(BRIEF PAUSE)

CONTINUED BY MR. CURTIS UNFRIED:

MR. CURTIS UNFRIED: In essence, yes, that's correct. But what we're -- we're simply looking to match the expenses with the revenues as you've allocated them there.

MR. MARK GIESBRECHT: Okay. So we can provide on a high level, the -- the revenues associated with -- with these transactions and the cost, and I'll ask Ms. Campbell to walk through -- through those.

To -- in order to break it down to this level of granularity would be very onerous if not impossible, but also, Ms. Campbell will take you through the numbers, and hopefully that will answer your question.

MS. CYNTHIA CAMPBELL: So the revenues related to Basic, the service fees, and in the service fees in other revenues, those are disclosed in our financial statements. There is a line across this table because there is a section of revenues that don't flow through our books.

We are paid by the government in order to collect this revenue on their behalf. So the items to the right of that line are not our revenues. They do not land in our revenue line anywhere that you see.

But costs to be able to collect those revenues are actually disclosed in the expense book, Appendix 14. If we go to the cost allocation analysis, and what we do is we -- we detail out how we allocate out the expenses through the process.

The process is outlined within the expense book itself. So where it says level step A, level step B, those steps are explained in the expense book. I can get you a page reference, if you would like.

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: It is on page 43. Well actually, my apologies. It starts on page 41. It shows you the cost allocation flowchart.

And then we show the actual calculation. Sorry, I'm going too fast. My apologies.

Then we show the actual calculation on Appendix 14. And if you go and stroll -- scroll down to line 57, 57 shows you the cost that is allocated to the DVA line of business. And it tells you in each of the years how much is allocated.

So that is the cost to run our DVA line of business. We do not collect the revenues that you had quoted, that hundred and sixty (160) some-odd million. We do, however, in Part 8 of the e-book, we have our annual financial statements, and in Note 24, we do disclose that we have collected that money -- which I will actually call up.

So we have collected on behalf of and transferred to the Province of Manitoba $215.4 million for the 2018/19 year. And the cost to collect that money on behalf of the government is that 35 million that is disclosed in Appendix 14. Okay?

So this is not our revenue. We are paid to collect this revenue. The amount that is ours is disclosed in this note as well. We were paid $30 million to be able to collect this revenue.

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: And my apologies. I've also noted that on this, we actually have two (2) abbreviations. We have one (1) that says DVA, and one (1) that says DVL. They're both the same item.

One (1) is -- it's driver vehicle administration, and driver vehicle licensing. So my apologies for that.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: Just to come back, we're -- we're -- what our concern is that the expenses that have been incurred are being disproportionately allocated to the flat fees generated by Basic. And we're trying to get a better understanding of what the allocation is, and -- and the explanation for -- for why that was done.

MR. ANTHONY GUERRA: Counsel, to the extent that the question asks us to go through a line by line analysis of expenses in the DVA, or driver vehicle administration portion, that's not within the purview of the -- of this panel, and certainly is not something that we're prepared to do at this time.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: Just -- Madam Chair, I was just wondering, Mr. Wainikka has a -- a question that he would like to ask, if -- if possible.

THE CHAIRPERSON: Yes. Proceed, Mr. Wainikka.

MR. GRANT WAINIKKA: Hi, I'm Grant Wainikka, CEO of IBAM. And I'll try and re-explain the issue, if it's not fully understood.

The issue is -- is that there's a

certain amount of flat fees that are paid to the broker force, and it's around $9 1/2 million a year, something -- something like that. A proportion of that total flat fee expense, call it, your expense to the broker, is allocated to Basic premiums. And what -- I'm guessing -- I think it's about 60 or 65 percent. It might be a bit higher, but I -- don't hold me to that. I'm -- I'm guessing.

What we're -- what our concern is, and what we would just like to uncover and -- and discover is if the effort of the broker is generating this hundred and sixty (160) odd million dollars in driver registration for infrastructure, why is the expense for the collection and the service provided for that -- for -- for that service not allocated, then, to Manitoba infrastructure, and instead, it's allocated to Basic premium?

So it makes it look as though or appear as though the percentage paid on Basic is higher than it actually is. So it is quite material for us to uncover this, and just to -- to figure out what -- how you're allocating this expense.

(BRIEF PAUSE)

BOARD MEMBER GABOR: Mr. Giesbrecht, sorry, can I just ask a question? I'm trying to go through this.

Does the $30 million the government pays you cover the expense for you to administer that program for them?

MR. MARK GIESBRECHT: That is correct. That's the intent of that -- that payment to the government to MPI, to cover the administration of cost to administer that program.

BOARD MEMBER GABOR: Well, does that answer your quest -- does that answer the question? Because your -- your question presupposes that there's an amount that is not covered by that payment that gets charged to Basic, but if the $30 million covers it, then I just don't know if there's any other number.

MR. MARK GIESBRECHT: So there are -- there are fees that are charged for various transactions. Some of them are a hundred percent related to DV activities. Some, there is a -- a shared portion of MPI revenue, which is DVA, typically, revenue, not -- not necessarily Basic revenue. And then there are fees, and commissions, and flat fees that are payable to brokers to transact those transactions.

Now, those costs are borne by the DVA line of business, where it is deemed to be a -- a DVA type transaction.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: Just being one (1) of the rookies on -- in -- on the -- at least from the legal side, I understand that there is the possibility of sometimes discussing matters offline, just to -- after hours, of a -- a -- to be -- a better understanding, and just to -- could see if we could reach a revol -- resolution on the issue amongst ourselves, and I would I suggest we do that.

THE CHAIRPERSON: That's an excellent idea. Thank you.

MR. CURTIS UNFRIED: Thank you.

(BRIEF PAUSE)

CONTINUED BY MR. CURTIS UNFRIED:

MR. CURTIS UNFRIED: And just for the next question, I'd like to refer to the table that's at IBAM-2-5 Part E.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: And -- and this was a average cost per call as determined at -- and as of 2019, it says that the average cost per call was seven dollars ($7).

Having worked peripherally with some call centres, that's an extremely low amount. I recognize, of course, that there is a qualification right below, indicating that it's based on total depart -- based on total departmental budget against call volume, does not include employee benefits.

So I'd just like to ask some questions about that qualification, in that the departmental budget, would that include such things as the telephone system itself?

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: We'll need to take that one away, because the telephone systems either charge to IT -- because we do charge some of our -- not some, almost all of our technology to the IT team, versus, you know, actually going through to the department itself. I don't know that one off the top my head. My apologies.

MR. CURTIS UNFRIED: Yeah, no. They said if I -- or do -- do you know how you came to that amount? Like, it says -- I assume there's some mathematical calculation. Was it just -- I guess you could answer that question?

MS. CYNTHIA CAMPBELL: From the note that's on that, it says that there -- the total departmental budget. So we'd have to call up the -- the call centre has a departmental budget, which will include all of the salaries, but all the corporate benefits are in a separate cost centre. So that's why it says it does not include employee benefits. We keep it in a separate cost centre.

It does get allocated out through the allocation process, but we keep it in a separate cost centre in order to be able to manage it effectively from a corporate level.

MR. CURTIS UNFRIED: Okay.

MS. CYNTHIA CAMPBELL: So I would have to be able to call up the departmental budget for this cost centre, for the call centre, and then I could tell you --

MR. CURTIS UNFRIED: Okay. And -- and --

MS. CYNTHIA CAMPBELL: -- line items that were in it.

MR. CURTIS UNFRIED: -- and just for -- just like I said, general nature, what we're trying to get better understanding of is whether or not that includes just salary, or -- and/or overheads, like the -- as for -- does that include telephone calls?

MS. CYNTHIA CAMPBELL: M-hm.

MR. CURTIS UNFRIED: I was going to ask what it would call fixed costs such as the building, wherever the workers are housed, utility bills, computer expense, that sort of thing.

MS. CYNTHIA CAMPBELL: If you referred to that cost allocation methodology that we've pointed out, it won't include costs of the building, because the buildings are, again, in a separate cost centre. And then we do allocate the building out during our cost allocation process.

And again, it's so that it allows us to manage, because we've got various bricks and mortar in various locations, and we can manage each of those effectively in its own cost centre. So we know how much snow removal is in Winkler versus snow removal at City Place. Which doesn't exist.

MR. CURTIS UNFRIED: I -- I would

still like you to -- you go in and have a look at what -- what was in the departmental budget, but it...

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So we'll -- we'll pull up that budget, and we'll get a -- a line by line description of the key items in it, what's in it, what's not in it, and then maybe we can proceed to the next question until we have that information available.

MR. CURTIS UNFRIED: Okay. Sure.

And then I'd like to refer you to -- it's just above that. It's at IBAM-2-5C. And this is the full-time equivalents that have been in place since 2015, and there's been a gradual increase.

But obviously I understand and appreciate that the hiring and training of call centre employees -- obviously, there's a fixed cost to that before they even answer their first call, correct?

MS. CYNTHIA CAMPBELL: Correct. I testified earlier that it is one of those items where we hire call centre people in classes. So we hire -- whether the class if ten (10), fifteen (15), twenty (20), and then we put them through training together because that is the most cost-effective way to be able to train them.

MR. CURTIS UNFRIED: M-hm.

MS. CYNTHIA CAMPBELL: And then -- then they're deployed onto the call centre.

MR. CURTIS UNFRIED: Okay. Okay. And obviously, MPI, like any other employee, will do its best to try to retain those employees when you've invested the time and resources to train, they won't leave to go elsewhere?

MS. CYNTHIA CAMPBELL: Absolutely. It's also a great training ground for other parts of the Corporation unfortunately though. If you were to ask the manager of the call centre, they often move on to other parts of the Corporation because they are so knowledgeable of our products and services.

MR. CURTIS UNFRIED: Okay. And again, I'm just -- I understand Mr. Williams covered this, but as I understand it despite your best efforts, there has been a relatively significant departure rate over the last few years with employees?

MS. CYNTHIA CAMPBELL: Departure rate in various different ways. We've had a high retirement rate. We have had high turnover. It hasn't necessarily been solely the call centre, but we do get turnover in the call centre.

MR. CURTIS UNFRIED: Okay. And in dealing with it, this isn't something that's new in that retention of these types of workers and doing what you can to try to keep them there isn't something that you've had to deal with just within the last year or two (2) years. It's been the last five (5) years, six (6) years? Would that be fair?

MS. CYNTHIA CAMPBELL: Yes. Retention is something that we have always --

MR. CURTIS UNFRIED: Yeah.

MS. CYNTHIA CAMPBELL: -- dealt with.

MR. CURTIS UNFRIED: Okay. And there's -- at this time, you don't have any reason to believe that, you know, those difficulties are going to go away any time soon?

MR. MARK GIESBRECHT: Well, I think the challenge is of recruiting and -- and --

MR. CURTIS UNFRIED: Retaining.

MR. MARK GIESBRECHT: -- retaining good talent is -- you know, it's always difficult for employers to -- to attract high-quality staff. So that'll be an ongoing issue.

MR. CURTIS UNFRIED: Yeah.

MR. MARK GIESBRECHT: In terms of

the -- the vacancy level, we -- we would expect that we would return a more normal state of -- of vacancy compared to our -- our current turnover rate.

MR. CURTIS UNFRIED: And again recognize -- but recognizing you're doing the best you can -- and again, there's all sorts of service industries that are in the same boat -- but you anticipate the same challenges that you've had retaining to continue on for the foreseeable future.

MR. MARK GIESBRECHT: We'd expect similar challenges like any other workforce.

MR. CURTIS UNFRIED: Okay. Then the next -- if I'd like to refer you to is MPI-1-64 -- or sorry -- PUB-MPI-1-64 Figure 2. And I understand that this is a list of consultant cost for Basic.

Do you have the ability to provide me with the total consulted cost and amount of -- the number of consultants in terms of -- outside of Basic?

(BRIEF PAUSE)

MR. ANTHONY GUERRA: With respect, counsel, our position is that the number being requested -- it falls into a line of business that is not within the purview of the Utilities Board, and so we would object to projection of that figure.

CONTINUED BY MR. CURTIS UNFRIED:

MR. CURTIS UNFRIED: Okay. Okay. Would you -- with the consultants that were divulged and provided in that report for obviously various tasks, did MPI make an effort to hire consultants -- was there any active attempt by MPI to hire consultants within the province of Manitoba?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So we follow a procurement process, and we follow various trade agreements. And all of our procurement goes through a rigorous RFP process. We look for the -- the winning bidder based on a set of criteria that's spelled out in those RFPs.

And typically, it would not be based solely upon the -- the geographic or the -- the province of origin of that service provider necessarily.

MR. CURTIS UNFRIED: Would -- not solely -- but would there -- would a Manitoba-based company receive some sort of recognition under that system, however nominal?

MR. MARK GIESBRECHT: You know, only as permitted through the -- the various trade agreements and typically -- typically not.

MR. CURTIS UNFRIED: Okay. Okay. I'd now like to refer to MPI Exhibit number 22, which is the Gartner report and on page number 16. And there's what's referred to as the CCRS case that -- as I understand it, that's the customer claims reporting service.

And what I understand was that there -- MPI had a hypothesis that clients could enter their own accident information through an automated system that would reduce MPI's costs while improving client service. Is that correct?

MR. MARK GIESBRECHT: I think that's a -- a fair statement.

MR. CURTIS UNFRIED: In general terms. Okay. And according to this report in the first paragraph about halfway through it after I just -- the statement I just read, it's there. It says:

> "Thus a significant investment was made in purchasing software, and a traditional waterfall development process was initiated. Many months

later, MPI learned that the intended solution wouldn't deliver the benefits expected, and $16 million in write-offs ensued."

I take it that that's an accurate statement that the idea that the CCRS -- although $16 million was spent ultimately didn't go anywhere?

MR. MARK GIESBRECHT: Yes. There was -- there was lost effort, or the -- the effort did not materialize into a -- a product that we could put in use.

And so we -- we have been making strides to change or move from a -- an innovator to more of a -- a market follower in terms of technology to make sure that we can adopt proven technology and not be on the bleeding edge of technology.

So we have lessons learned from this exercise.

MR. CURTIS UNFRIED: Okay. Okay.

MR. ANTHONY GUERRA: And, counsel, I would just like to also note that the issues of CCRS or the fiscal damage re-engineering have been canvassed before the Utilities Board, especially last year.

And although we note that there may be

some -- a few questions relating to these two (2) projects, they have been largely canvassed, and this -- this should not be exercised in reopening those projects in further detail.

MR. CURTIS UNFRIED: Okay. Okay. I believe it's an issue that's germane this year's hearing, but I am going to ask one (1) more question related to a document that was provided as part of the IR, and that's PUB IR-74.

And there -- the question I had is there's the reference here -- and again, we're dealing with the 2018/2019 impairment, and there is reference to the customer claims reporting system -- and I'm trying to understand how the figure of 16 million that was referenced in the Gartner report how it relates to the $2.7 million figure that we're seeing here.

MS. CYNTHIA CAMPBELL: The $16 million referenced in Gartner related to 2017/18. That's when the majority of that write-off was -- was done. That's when that impairment was done.

There's a small amount that relates to '18/'19. You have to put it in the appropriate year to which the monies were spent. So '17/'18 was written off at the end of the fiscal year, and then there had been some additional work done in the first quarter while the write-off was being finalized, and that represents the seven fourteen (714).

MR. CURTIS UNFRIED: Okay. And what about the 1.892 million allocation?

MS. CYNTHIA CAMPBELL: That's actually a different project.

MR. CURTIS UNFRIED: Okay. So the CCRS -- it was 16 million in the prior years and an additional seven hundred and fourteen thousand (714,000) was allocated essentially this year. Are you anticipating there to be any more breakdowns as a result of that particular project?

MS. CYNTHIA CAMPBELL: Relating to CCRS? No. That project was closed, and when it was closed in early fiscal 2018/19, that seven fourteen (714) was the final write-off.

MR. CURTIS UNFRIED: Okay. And then the next document I'd like to refer to is IBAM IR-2-27A.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: I meant -- sorry -- it actually is in the question. You'll see since 2017, MPI has spent 4.6 million on customer self-service. And the question I have is: Does MPI anticipate writing down any further expense related to this 4.6 million spent on customer self-service?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: At this time, we do anticipate no further write downs for any of these -- that's spent.

MR. CURTIS UNFRIED: Okay. And so if no further write downs, what has MPI delivered for that particular investment?

MR. MARK GIESBRECHT: I believe this is for the online functionality for booking of Class 5 tests and rescheduling online.

I think for further details and more information, that could be put to our -- our IT panel next week.

MR. CURTIS UNFRIED: Okay. Thank you.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: And again --

MS. CYNTHIA CAMPBELL: Oh, sorry to interrupt. But just to finish off that question you had asked with respect to the call centre -- the contact centre cost per call, I have clarified with my team that the budget for the technology for the telephone system is actually within our technology budget.

So it's with our IT team. It's approximately $1.5 million. It does not sit within those numbers that were quoted.

What's included in there is mainly personnel costs and then some operating costs of the department itself -- membership fees, things like that, you know, office supplies, items -- items along those lines.

MR. CURTIS UNFRIED: So in general terms, the fixed costs would not be included in that figure.

MS. CYNTHIA CAMPBELL: Some of the fixed costs, yes. Yeah.

MR. CURTIS UNFRIED: Okay.

MS. CYNTHIA CAMPBELL: Like the telephone system in particular, correct.

MR. CURTIS UNFRIED: Okay. Sorry. Sorry. So -- sorry -- so other than the telephone system, as far as fixed costs go, those would be allocated to other departments.

MS. CYNTHIA CAMPBELL: I'm sorry, can you rephrase that?

MR. CURTIS UNFRIED: I'm just trying to get a better handle. I'd -- I'd understood that there were no fixed costs that were allocated to that figure, but you've advised you clarified with your team that there is the telephone system that is allocated.

MS. CYNTHIA CAMPBELL: The telephone system is allocated to the IT department, not to the contact centre, so it is outside of that number that was quoted in there.

MR. CURTIS UNFRIED: Okay.

MS. CYNTHIA CAMPBELL: If it's a departmental budget, divide by number of calls. The departmental budget does not include the telephone system.

MR. CURTIS UNFRIED: Okay. Okay, well, I think we still have the undertaking on that just as to how you got that number, the seven dollar ($7) figure. So I still -- you could ask for that, and if I -- or, if I have any questions from that, we'll -- we could follow up.

MS. CYNTHIA CAMPBELL: Okay.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: And then just in terms of the -- again, getting back -- and not necessarily just discussing call centre employees, but employees at MPI in general, you know, in general terms, I understand that, you know, whenever there's high turnover, it can cause a longer than normal recruitment process. I was wondering just how else does this turnover affect MPI financially?

MR. MARK GIESBRECHT: Well, that's -- can be a difficult questions to answer, de -- depending on the -- you know, the department, what types of employees are turning over, how long it takes to fill these roles. So we don't have a definitive, you know, financial impact analysis to determine that question.

In -- in general terms, obviously, the -- first off, when you have a level of vacancy like we have today, we are experiencing a -- a positive impact in terms of the actual salary cost. Now, you have, then, on the flip side, what's happening in the business. We've ex -- we've, you know, seen in the past when we have had not enough staffing in terms of managing claims, managing our -- our injury rehabilitation, and these kind of things, that can lead to having higher costs on the back end as claimants stay on the books for a longer period of time.

So you can have a savings on one end, and you can have a cost on the other end, again, depending on, you know, what department and what kind of people are having that type of turnover.

MR. CURTIS UNFRIED: Okay, that's fair. And -- and as I understand it, it -- it was the call centre that had the highest number of turnovers within MPI?

MR. MARK GIESBRECHT: I don't have those numbers in front of me. Our operations has the most amount of people across our organization, so they have the highest percentage of that turnover. I don't know if the call centre had a particularly higher number of that total.

MR. CURTIS UNFRIED: Okay. And I guess I'll just ask one (1) last question with the call centre. Would you -- do you have an estimated cost of what it is to train a worker to bring them to the point of being qualified for the purposes of being a full-time employee?

MR. MARK GIESBRECHT: I don't have

that number readily available at this point in time.

MR. CURTIS UNFRIED: Okay. Would that number be available at -- at the office if you could look?

MR. MARK GIESBRECHT: I would think that we could estimate what that cost would be.

MR. CURTIS UNFRIED: Sure. I'd ask you to provide that in due course. Thank you.

MR. ANTHONY GUERRA: Yes, let's -- let's make an undertaking, and we'll just clarify this undertaking to produce the estimated cost of training a -- a -- an MPI employee within the call centre. Is that fair?

MR. CURTIS UNFRIED: Yes.

MR. ANTHONY GUERRA: Thank you, and we'll get that undertaking --

MR. CURTIS UNFRIED: To the point of -- to -- of being a -- a work -- of being able to work as a -- a full-time employee.

MR. ANTHONY GUERRA: Yes, thank you. We'll give the undertaking.

MR. CURTIS UNFRIED: And as well, with -- I would ask for the -- the service centre for the sales employees -- or those involved in sales in the service centre as well, if available.

(BRIEF PAUSE)

MS. CYNTHIA CAMPBELL: Just to clarify, there are many different types of staff levels at a service centre, so are you -- anyone in particular you're looking at, because if it's like a -- a frontline -- they're not necessarily doing sales, but they're doing customer service, we could potentially get you a number for that. We'll -- we'll look into it. Is -- is that what you're looking for?

MR. CURTIS UNFRIED: Yeah, if -- we would accept that. I -- we're -- I guess, what -- you said there's different levels at a service centre. What are those levels? Maybe that...

MS. CYNTHIA CAMPBELL: Service centres do a variety of -- of work. There's -- there's the agents that sit and receive all kinds of customer inquiries, but at a service centre, you've also got adjusting, estimating, items like that as well. You've got driver examiners, so that's all frontline employees that are dealing with the public providing services, so yeah.

MR. CURTIS UNFRIED: So it sounds like, yeah, we would be more interested in your -- the first line, that it's --

MS. CYNTHIA CAMPBELL: Your service centre representatives.

MR. CURTIS UNFRIED: Service centre representative that would be the one to process the transactions and answer any general questions about licensing and insurance.

MS. CYNTHIA CAMPBELL: Yeah, okay. The service centre representatives, we can take a look at that.

MR. CURTIS UNFRIED: Okay. Thank you.

MR. ANTHONY GUERRA: And so just to confirm, so the undertaking is to -- to -- to prepare an estimate of the costs of training a service centre representative with respect to the sales of Basic insurance policies, correct?

MR. CURTIS UNFRIED: And, you know, and relating -- related services arising therefrom for Basic, Extension.

MR. ANTHONY GUERRA: Okay. Yes, and we'll give the undertaking.

--- UNDERTAKING NO. 8: MPI to prepare an estimate of the costs of training a service centre representative with

respect to the sales of
Basic insurance policies
and related services
arising therefrom for
Basic and Extension

CONTINUED BY MR. CURTIS UNFRIED:

MR. CURTIS UNFRIED: And next in the -- this is your 2020 general rate application, Part 5(I), I got as Appendix 12-5. And I just, for the -- the purposes of these figures, it's got corporate compensation, payroll costs. So what I was just wanting to confirm is that these numbers -- I'm referring to line number 6 -- indicate that the average corporate compensation for a full-time employee in 2018/2019 was ninety three thousand five hundred and sixty dollars ($93,560). Is that correct?

MS. CYNTHIA CAMPBELL: This is total compensation. This is not renumeration (sic) to an employee, so this includes your salaries. It includes your benefits, includes overtime. It includes your H&E tax -- sorry, health and education tax. It includes corporate benefits that are allocated across all employees such as any sort of a severance that we've had to pay out during the year, retiring allowances, vacation payouts.

So it is a complete all-in cost. It is that bottom compensation number when you add the four (4) categories in, divide by number of employees. So it's a -- it's a very robust number.

MR. CURTIS UNFRIED: Okay.

MS. CYNTHIA CAMPBELL: This is -- please don't tell our staff that they think they're making ninety three thousand dollars ($93,000), so.

No, that's -- that -- it -- it's not a renumeration how much they take home -- number; it is the full cost to be able to supply work to our staff.

MR. CURTIS UNFRIED: Okay. Next, we've -- was twelve dash four (12-4), the next table -- the table above, I should say.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: And what I was just wanting to confirm here is a -- is a -- top part of the page, again, this corporate compensation, line 4, has total net compensation. It gives the figures and -- and the percentage increase, and what I just wanted to confirm there is that your -- MPI's forecasting an increase in corporate compensation of

8.92 percent in 2020. Is that correct?

MS. CYNTHIA CAMPBELL: That is correct. I testified to this this morning. The numbers that are within the chapter itself, I believe, are in Figure 11 relating to Basic, so there is -- these are the corporate for all lines of business. There are the Basic-related costs as well within the expense chapter itself.

MR. CURTIS UNFRIED: Okay.

MS. CYNTHIA CAMPBELL: And to refer back to your other question, if you're looking for an average salary number, you'd want to refer to Appendix 8.

MR. CURTIS UNFRIED: Okay. Okay.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: And then just a couple of -- few last questions just regarding -- again, it's the same document, Appendix 5.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: And I just wanted to confirm here, again. I recognize you got different expenditure lines here, and the one that I'm interested in is with -- line item's number 16, travicle -- travel and vehicle expense, and it is -- just wanted you to confirm that the travel and vehicle expense in '19 -- '19 and '20 is an increase of 30 percent from the actual spend in 2018 and 2019.

MS. CYNTHIA CAMPBELL: I -- I don't have a calculator in front of me, but it does go from 1.1 million to 1.4 million.

MR. CURTIS UNFRIED: Okay.

MS. CYNTHIA CAMPBELL: Correct.

MR. CURTIS UNFRIED: Okay.

MS. CYNTHIA CAMPBELL: The 1.4 million is more along the lines of historical averages, whereas the last couple of years, I know that travel has been -- we are reviewing travel on a regular basis.

MR. CURTIS UNFRIED: Okay. And then on level 19, furniture and equipment, the -- it appears that there is -- that 2019/2020 represented an increase of 255 percent from the actual spend.

MS. CYNTHIA CAMPBELL: A -- again, I can't verify the percentage increase. It does go from seven hundred thousand (700,000) to 2.5 million. There is in -- included in that line a space plan initiative that we're looking at. We're looking at how best to organize people, and there is a furniture requirement relating to that. That is embedded in. That's why it's a one (1) time spike in '19/'20.

MR. CURTIS UNFRIED: Sorry, a furniture requirement? Is it --

MS. CYNTHIA CAMPBELL: Well, if you're going to change up where people sit, you're potentially going to have to change the furniture they're sitting at.

MR. CURTIS UNFRIED: Okay. Okay.

MR. MARK GIESBRECHT: We have a lot of -- of older, aging equipment and furniture that in the natural cycle of things is -- is to be evergreened and to be replaced over time, and -- and a large portion of that will -- will fall in these -- these years.

MR. CURTIS UNFRIED: Because I just -- and the reason it caught my attention on it is that it -- it -- again, historically, the four (4) or five (5) years before that, it's -- you got six hundred (600) -- six hundred thousand (600,000), then five hundred and seventy thousand (570,000), five hundred and eight -- ninety-eight thousand (598,000), six hundred and ninety-nine thousand (699,000), then 2.47 million. And then projected, moving on, and you're up at 1.5

million across the board.

And it just -- can you explain why the change from what had historically been, let's say, the five hundred (500) to seven hundred thousand dollar ($700,000) range?

MS. CYNTHIA CAMPBELL: Actually, can I interject? If you refer to PUB-1-45, we have actually explained the furniture and equipment expense, and there is a large increase going forward.

The other piece that's sitting within there which I failed to mention, and my apologies, is that we've got an IT refresh coming through, which is essentially a corporate refresh of the corporate technologies as well as our -- I think BlackBerrys are in that numbers, as well.

So, we've had to change up -- well, there is a need to change up our BlackBerrys, as well, because were are all on fairly antiquated BlackBerrys. You're smiling and laughing.

MR. CURTIS UNFRIED: Yeah, no, it's --

MS. CYNTHIA CAMPBELL: Want a BlackBerry, how about that?

MR. CURTIS UNFRIED: Hold on to them. They might be a collector's item one time --

MR. CURTIS UNFRIED: Probably soon.

MR. CURTIS UNFRIED: Okay.

MS. CYNTHIA CAMPBELL: So, my apologies. That's also included in that number. So, that -- that does indicate a one (1) year spike because the numbers after that are not at the $2.5 million range.

(BRIEF PAUSE)

MR. CURTIS UNFRIED: Okay. That's all the questions I had. So, I'd like to thank you, each of you. Good afternoon.

THE CHAIRPERSON: Thank you, Mr. Unfried. Mr. Guerra...?

RE-DIRECT-EXAMINATION BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Thank you. I just have one (1) area of re-direct, and that is with respect to an area that was covered by my friend from the Insurance Brokers Association Manitoba.

There was a topic that was covered with respect to the revenues generated by MPI service centres. And the -- I think the -- the line of questioning that was put to this panel was -- was with respect to the amount of revenue generated by these service centres and -- and perhaps the -- the low percentage rates that are -- are being generated.

For this panel, can -- can you explain to the Utilities Board and to the Interveners the purpose behind MPI service centres?

MR. MARK GIESBRECHT: Well, the purpose of the service centres is simply to -- to service all of our -- our policyholders across the Province. It's -- it's one (1) avenue to distribute our -- our product in service, along with all the brokers across the province.

So, we have service centres in all of the key geographic regions in order to be able to service all Manitobans, whether it be DVA-related, Basic insurance, Extension products, or otherwise.

MR. ANTHONY GUERRA: In other words, it's not simply to sell insurance policies. Is that correct?

MR. MARK GIESBRECHT: Not solely, no.

MR. ANTHONY GUERRA: And, in fact, in many cases the -- that is in fact the -- not the ma -- not the reason why most people would go to a MPI service centre to purchase an insurance policy, correct?

MR. MARK GIESBRECHT: Correct.

There's many reasons why they might visit the service centre.

MR. ANTHONY GUERRA: Okay. Thank you. I have no further questions.

THE CHAIRPERSON: Thank you. Do you have any questions?

(BRIEF PAUSE)

THE CHAIRPERSON: No questions?

(BRIEF PAUSE)

THE CHAIRPERSON: Well, thank you very much. That is the end of the panel on revenue, expenses, and investments. We will not be sitting tomorrow. We will be back at Thursday at nine o'clock and we'll be dealing with the road safety panel.

So, until Thursday. We'll see you then.

(PANELS STANDS DOWN)

--- Upon adjourning at 3:38 p.m.

Certified Correct,

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Donna Whitehouse, Ms.