MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2022/2023 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Irene Hamilton - Board Chairperson

Robert Gabor, Q.C. - Board Chair

Michael Watson - Board Member

HELD AT:

Public Utilities Board

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LIST OF UNDERTAKINGS

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--- Upon commencing at 9:03 a.m.

THE PANEL CHAIRPERSON: Mr. Hacault, I wonder if -- if we could start this morning by you proceeding to -- with your request for an undertaking for the information with regard to the taxicab and motorcycle class for the points on the yield curve so that we can rule on both your request and Ms. Meek's request at the same time.

So if you would proceed with that, we'll then break and come back with our decision.

Mr. Scarfone, are you all right with that?

MR. STEVE SCARFONE: Yeah, that sounds good, Madam Chair. You'll notice that I'm here rather than Mr. Guerra. I normally like to have some continuity with the panels, but Mr. Guerra has a conflict, so he asked me to -- to carry on with the ratemaking panel.

THE PANEL CHAIRPERSON: Okay. Thank you.

MR. ANTOINE HACAULT: Yes, Madam Chair, and I think I'd -- well, I would like to ask some questions to have a factual basis which would underlie -- underlie my request, my -- for an undertaking.

THE PANEL CHAIRPERSON: Certainly. Please -- please proceed.

CONTINUED RATEMAKNG/CLAIMS INCURRED/PIPP PANEL:

JING LANG, Previously Affirmed

TAI PHOA, Previously Sworn

DEAN DUNSTONE, Previously Affirmed

CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Firstly, Mr. Phoa, with respect to MPI's capacity to be able to do this work, am I correct in understanding that you're the sole person in MPI that understands this problem and can work on it?

MR. TAI PHOA: I will say that I'm the guy responsible for doing the work that's involved here.

MR. ANTOINE HACAULT: That's what I suspected. You're the person who would supervise the work that others would do for you. You'd have other employees who would be able to perform some of the underlying tasks which then you would have to supervise and kind of compile, correct?

MR. TAI PHOA: Yes and no. I used to

be in a supervisory role, but I'm no longer in a supervisory role, so I would take the task upon myself to get it done.

MR. ANTOINE HACAULT: Okay, but I thought you said there was other people who have the qualifications.

Are you saying, for example, there are no people at MPI that could look at the analysis and the details that are required for you to perform your task of assembling that information?

MR. TAI PHOA: Yeah. Again, certainly we could get help and we could get -- start -- start the work on it. Nevertheless, I said yesterday that this is a one (1) week -- sort of a one (1) week exercise on this.

So, yeah, we could certainly start getting the data collection pieces. But then -- but then the -- the hot button is then trying to figure out how we can do -- adapt these changes into the model, selecting loss development factors that may or may not be credible.

And -- and then -- and then, at the end of the day, once we've got all the results, we sort of have to figure out where -- how accurate the results is, how useful the results are before presenting it to the Board. So we want to make sure that, you know, we're presenting to the Board the best version of what we believe is -- is correct rather than so that, you know, just -- just from an MPI credibility perspective.

MR. ANTOINE HACAULT: Okay. I'll ask a couple more questions to just make sure we understand what we're trying to do.

Am I correct that the base assumption based on all the pooled investments is that you've got a 2.46 percent return on your investments which is used overall?

MR. TAI PHOA: Yeah. That's -- the 2.46 percent is what we call the new money yield. That's the return on the -- that's -- that's really just the return on the MASH -- sorry, the government incorporated bonds, the fixed-income portfolio, as of October 31st, 2022, like I said.

That's based on unpaid claim liabilities duration of -- of approximately ten point four three (10.43). That's -- that's what I informed the Board yesterday, so that's correct. It's -- it's just -- it's based on the -- you supporting the unpaid claims portfolio.

MR. ANTOINE HACAULT: Okay. So I'll

suggest to you that if a particular class would have a claims duration of less than ten point four three (10.43), that would then perhaps change the information that's provided to the Board on how that class receives a weighting of income generated from your investments.

MR. TAI PHOA: If you don't mind, Mr. Hacault, I'm just kind of trying to understand what you mean when you say a "weighting of income."

MR. ANTOINE HACAULT: Okay. Well, let's -- I'll try to put it in a more concrete example. Sorry if I'm not speaking your language correctly.

All things being equal, if MPI had 3 percent investments to pay for long-term claims -- so we saw sixteen (16) years would be a long-term claim -- it would have a greater revenue stream than if -- than if it used the 2.46 percent revenue stream, correct?

MR. STEVE SCARFONE: Is that 3 percent, Mr. Hacault? That's the return on investment. Is that what you're talking about?

MR. ANTOINE HACAULT: Yes.

MR. STEVE SCARFONE: Okay. And just be mindful that while Mr. Phoa has some knowledge in this area, Mr. Bunston, our manager investments, is the better person suited to speak to investment return and the effect of that on -- on the -- the claims.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Yeah, he's going to take a shot at it.

MR. TAI PHOA: Could you repeat the question?

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: All things being equal, if MPI had investments with a 3 percent revenue stream to pay for the long-term claims, it would have a greater revenue stream than if it used the weighted average of 2.46 percent revenue stream, correct?

(BRIEF PAUSE)

MR. TAI PHOA: So just -- I'm going to try my best to answer this question.

Again, as -- as MPI -- as Mr. Scarfone said a while ago, some of the questions seems to be more -- there -- there's someone the -- the investment panel is more able to answer.

The new money yield that we calculate is based on the average duration of -- of the unpaid claim liabilities. So it takes into consideration, you know, the cash flows of those unpaid claim liabilities.

So I'm not sure comparing an average duration to -- I'm not sure how sort of that would relate to the -- the question that you're asking because what you're suggesting -- and if -- and you can correct me if I'm wrong -- is that there's a -- there's a group of assets that are earning 3 percent that -- that supports the longer term.

But that's all factored into the calculation when we talk about the average duration of the claim liabilities. That's -- that's what actually gave the -- that's what actually results in the average duration of the unpaid claim liabilities being ten point four six (10.46) because there are a lot of long-term claims and -- and the cash flow is flowing all the way out into year 40 and so -- so forth.

MR. ANTOINE HACAULT: Okay. My question was a pretty simple one.

To put it even simpler, if I had a thousand dollars ($1,000) and I earned 3 percent interest on it, I'd get more money than if I had a thousand dollars ($1,000) and earned 2.46 percent, wouldn't I? That was the extent of my question.

MR. TAI PHOA: Sorry, would you mind repeating the last statement again?

MR. ANTOINE HACAULT: If I had a thousand dollars ($1,000) and I earned 3 percent on it, I'd have more money each year than if I had a thousand dollars ($1,000) only earning 2.46 percent, correct?

MR. TAI PHOA: Absolutely. That is -- that is correct, but again, we are talking about an average duration. So we are -- we are looking at the cash flows of all the income that's coming in, and then we're saying, on -- on average of all these bonds that we have, the average duration is ten point four six (10.46).

So -- so the -- the length of time is already -- in my mind anyway is already factored in. And again, maybe -- maybe I'm going too far into this, and maybe I should defer some of your questions to the investment panel.

MR. ANTOINE HACAULT: Yeah, it's not so much an investment thing as because, as Ms. Meek started or tried to elaborate in her questions by referring to last year's testimony, Mr. Luke Johnston agreed that certain major classes have a different composition of long-term claims.

Are we in agreement thus far?

MR. TAI PHOA: Yes, we are, and --

MR. ANTOINE HACAULT: Okay.

MR. TAI PHOA: -- definitely I agree with you on that one. And we -- we presented an alternative analysis that -- that sort of recognizes the different durations of -- of the liabilities by major class. So that was what was presented to the Board in my presentation yesterday.

MR. ANTOINE HACAULT: I understand that, but there was a different analysis which Ms. Meek was seeking and which I'm trying to get the foundation for here.

Again, at the risk of oversimplifying, if a major class were heavily weighted in long-term PIPP claims, that class may approach the sixteen (16) year rate which is around 3 percent, correct?

MR. STEVE SCARFONE: I think if I can help -- sorry, Mr. Hacault -- I think what's confusing Mr. Phoa is the mixing up of the return on investment on a particular asset class and the new money yield.

So the new money yield is -- is the

discount that Ms. Meek spoke of yesterday for the long-term PIPP claims that her client is burdened with.

But I think that's the -- that's what's troubling Mr. Phoa, is -- is you're asking about, you know, how much I would get on a thousand dollars. That's a return on investment. That's different than a new money yield that's calculated based on the bond yields.

But I -- and that's why I thought that maybe Mr. Bunston can -- can explain this better than Mr. Phoa, but go ahead if -- if that helps.

(BRIEF PAUSE)

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: As you'll recall my question, sir, my question was, at the risk of oversimplifying, if a class were heavily weighted in long-term PIPP claims, that class may approach the sixteen (16) year rate, which is around 3 percent, correct?

MR. TAI PHOA: So, when we looked at -- when we look at the alternate rate indication, what we have done is we took into consideration the average duration by coverages. So, if a particular class is heavily weighted towards PIPP, which is the long-term coverages, then the -- then their -- their claims costs would be discounted more just -- just because of the effect of discounting on those long-tail claims.

So -- so, motorcycles actually, like -- like I -- I informed Ms. Meek yesterday --

MR. ANTOINE HACAULT: Sir, I don't mind if you provide answers, as long as they're answers to my question. I still don't understand how -- what you're saying, and I've left you go on quite a few times without answering my question.

My question was: At the risk of oversimplifying, if a class were heavily weighted in long-term PIPP claims, that class may approach the sixteen (16) year rate, which is around 3 percent, correct?

MR. TAI PHOA: Some of the cashflows would -- if -- if you look at the -- the cashflow matching, then yes. But there are also a lot of cashflows that are paid off at the beginning of the year. That is kind of the reason why we calculated the average duration. So, I'm -- I'll leave it at that.

MR. ANTOINE HACAULT: Okay. Thank

you, sir.

So, members of the panel, the variation of my request for an undertaking based on Mr. Tai Phoa's indication that other people could do the legwork but he would have to supervise it, would be to have the same undertaking that was requested by Ms. Meek but related to the Public Major Class in which the taxis are located and, secondly, the Motorcycle Class. So that instead of a general undertaking, that might -- might take longer.

I appreciate that that undertaking will be only directional, and it may not be the full response. But, unfortunately, it may be that we're in a position where that's the best information we can give to the Board at this time, is a directional indication, which is what I think Mr. Luke Johnston intuitively thought, is that if motorcycles were closer to -- we're using them as an example -- to a 3 percent investment rate, there would be a greater cashflow to pay for those long-term claim costs versus another category which might have a shorter weighted average which then needs some shorter-term investments to pay for those.

So, I realize MPI may have a response to -- to my request, but the concept of the request was, yeah, we're not going to get the perfect information which Mr. Phoa would like the Board to have on a limited undertaking, but I believe it would at least show the Board directionally what Luke Johnston thought would happen.

THE PANEL CHAIRPERSON: Thank you, Mr. Hacault. Mr. Scarfone...?

MR. STEVE SCARFONE: I don't want to bog things down any further 'cause we're early in the morning and we haven't made any real progress here, but can Mr. Hacault just, if he can, tell me what his undertaking is?

MR. ANTOINE HACAULT: Sorry, I have to pull out the Board order and the specific directive. But it would just be to replace the words 'for all major classes'. It would -- those words would be replaced for the main Public Major Class and the Motorcycle Major Class. Those words would be substituted.

MR. STEVE SCARFONE: Okay. So, as -- as you've indicated, similar to the CMMG's request, except for your client?

MR. ANTOINE HACAULT: Well, CMMG's request was for all major classes, so a full study which would have included the -- the private passenger

-- or the Passenger Major Class, the Public Major Class, all the different classes, which I understood from Mr. Tai Phoa yesterday, he'd have to do a whole bunch of re-balancing.

And I can understand that because, if, for example, the passenger vehicles, their weighted average is at 2 percent, and the motorcycles are at 3 percent, there's going to have to be a re-balancing there because you're getting 2.46 percent investments, generally; some of the lower, some of them are higher. So you have to do a re-balancing.

But I was hoping that, at least directionally, we could see what was happening with the motorcycles and the Public Major Class with Luke Johnston's idea.

MR. STEVE SCARFONE: So, on that, Madam Chair, I guess I -- MPI's comments are only this, that we had thought until yesterday that the suggestion that was made last year about points on the yield curve had been sufficiently responded to by MPI. So that's, I guess, the first point. And this Board will decide if Ms. Meek's interpretation is the one that should have been done.

But there is a resource issue. Notwithstanding, Mr. Phoa's modesty, he is in fact the man that does all of this and so he's here for the duration of this week.

And the last comment that MPI has reiterated from yesterday is the timing issue. You know, there's nothing that would have prevented Ms. Meek or Mr. Hacault from asking these questions earlier in the proceedings.

So, those are the comments from MPI.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

With regard to the last point, Mr. Hacault, can you advise why this was not requested in an Information Request?

MR. ANTOINE HACAULT: The Information Request was made, I believe, by Ms. -- Ms. Meek leading to this information -- sorry, I don't have that reference. I know it's later -- just like -- there's some things that we just get later on in -- in this proceeding and only get information on.

For example, I'm going to get into that, on the position -- the new position put last Tuesday, that the taxicabs for this GRA shouldn't get it -- or the Private Vehicles for Hire shouldn't get a 20 percent increase. That wasn't part of the material.

THE CHAIRPERSON: Yeah, but to be fair, Mr. Hacault, the -- the problem I have is that you and Ms. Meek are referencing testimony from last year's hearing from Mr. Johnston in an important area which could have been asked this year as part of an IR in relation to his testimony, which is: Here -- here is the testimony from last year, what -- what are you do -- can you do this?

It's based -- it appears to be based on the -- the statements that Mr. Johnston gave last year, and so that's one (1) of the things we have to consider and balance, and as well as your position. I mean, we're -- we're going to have to talk about it. It may be an important issue. But now your position is, well, we may not get the -- the full argument -- not full argument, the full thought process -- we may just get a directional issue. So, we have to consider all those.

But, I mean, I join the Chair. And, you know, it's -- it's -- Mr. Johnston said this last year, and I would have thought that if it was an important area for Ms. Meek or for -- for you, that that would have been the subject of an Information Request.

So, if you can answer that, I'd

appreciate it.

MR. ANTOINE HACAULT: I would need a moment to check the IRs on -- on this. Sorry, I don't have a response for you on that.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Sorry, member of the Board. The alternate rate indication was received after the IR process was completed. The alt -- alternate rate indication was provided on September 15.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you, Mr. Hacault. We'll break and come back with our decision. Thank you.

MR. STEVE SCARFONE: For how long, Madam Chair? Sorry, I missed that.

THE PANEL CHAIRPERSON: For how long it takes. Thank you.

MR. STEVE SCARFONE: Oh, okay. So -- but we're going to -- should I -- should the panel go downstairs or should everybody wait? Okay.

--- Upon recessing at 9:27 a.m.
--- Upon resuming at 9:34 a.m.

MR. STEVE SCARFONE: Madam Chair, just before the Board makes its decision, we did want to clarify. What Mr. Hacault said yesterday was as it concerns the CMMG's request and/or a new exercise be done.

The Corporation did provide that alternate rate indication on September 15th. So at least, as it concerns Ms. Meek's request, she wasn't in a position to ask an IR with respect to this. She could have asked a pre-ask perhaps.

MPI would be of the view that Mr. -- there was nothing that prevented Mr. Hacault from asking for this exercise be done in the -- in the Information Request. But, certainly, as it concerns Ms. Meek's client, she was waiting on MPI's response, which was only provided to her on September 15th.

RULING:

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

So the Board has considered both requests by CMMG and the Taxi Coalition for an undertaking with regard to the rate indication by major use class, including the use of interest rates, at points on the yield curve corresponding to the duration of liabilities in the determination of the rate indication for each major use class.

We are not supporting your request for those undertakings on the basis that we would not receive the information and neither would those Interveners prior to, at best, just prior to final submissions. And we'd consider that to be too late to be of value to the Hearing. So, thank you.

THE CHAIRPERSON: Sorry, can I interject at this point, though. Because this is, I think, an important point, but it's -- it's a point that needs more -- needs to be fully canvassed.

Kristen, can you pull up MPI-27.6? Okay.

So number 1, can -- so Ms. Meek has an interpretation of this. MPI has a different interpretation of this, which is how this thing started.

Mr. Scarfone, can you either now or after talking to Ms. Meek come up with the specific wording for this or -- and, I guess, based on Mr. Hacault's motion this morning -- with Mr. Hacault --

come up with the wording of this, so that it's interpreted in a manner that means we're going to have the information for next year's Hearing.

Because I'm a little concerned that, going through this thing, we have a directive where there seems to be confusion on it and completely different interpretations.

I must say this isn't my strongest area, so I'm -- I'm trusting, you know, all of the parties. But I'd like to have, you know, at least by the time of final submission, an agreement of the parties of what this directive needs to say so that CMMG and the Taxi Coalition can obtain the information they requested now next year.

I don't want to come back next year and say, Oh, we -- we have a different interpretation yet again.

I mean, Mr. Johnston raised this. It was in last year's Hearing. It's in this year's Hearing. We seem to be dragging things out and I think that as long as MPI has enough notice, certainly, you know, I'm sure Mr. Phoa doesn't need a year to go through this and it can be done in an orderly manner.

But I'd ask if the parties could get

together, so we could have something to us by the time of final submission. Thank you.

MR. STEVE SCARFONE: That's fine, Mr. Gabor. I might only say that MPIC is never wanting the result that just occurred here today. We always want as much information before this Board as we can get. And for the -- for the Interveners as well.

And so, you're absolutely right. So next year, we should make an effort to work collaboratively -- more collaboratively -- at the pre-Hearing conference to make sure that these late issues don't arise.

THE CHAIRPERSON: I appreciate your comments. These are very technical areas and very complicated areas. And instead of waiting until the pre-Hearing conference next year -- we can deal with other issues at the pre-Hearing conference. If we can deal with this one (1) issue right now and clarify it, so that, going into the final submission, everybody will understand what everybody else's positions are. Thank you.

THE PANEL CHAIRPERSON: Mr. Hacault, would you proceed with your cross-examination, please.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Thank you very much, Madam Chair.

So, again, I'll be asking questions of the panel. Generally, if there's one person that's better suited to answer the question, that person can answer it, please.

I just want to clarify for the record on the issue of the 20 percent rate increase directive by this Board, as to how MPI implemented the 20 percent rate increase in the 2021 GRA compliance filing. That's my preamble.

My understanding is that the 20 percent rate increase was applied to the final rates. Is that correct?

MR. TAI PHOA: Sorry, Mr. Hacault. Just a quick clarification. Did you -- your question refers to the 2021 rates? I -- I heard correctly?

MR. ANTOINE HACAULT: Yes, the first 20 percent increase.

MR. TAI PHOA: Yes. So the -- so, in complying with the -- the rates -- the Order for 2021, what we did was we took the rates for passenger VFH and just directly multiplied that by 20 percent more. So then, the rates for 2021 is just 20 percent greater than the rates for 2020. Yes.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, with respect to this filing, being the 2022 General Rate Application, is MPI using the same methodology? Is it adding to that previously determined rate in 2021, 20 percent?

MR. TAI PHOA: No. This year, MPI did not use the same methodology. As I explained in my presentation yesterday, what MPI did was MPI looked at the raw relativities for the passenger VFH and when -- when -- when we looked at and we assigned the full 100 percent credibility to the raw relativity which reflects the actual loss experience for the insurance use, and -- and, thereafter, we applied the same experience adjustment rules, capping rules, and -- sorry, experience adjustment rules and capping rules that are applicable to all other insurance uses.

MR. ANTOINE HACAULT: And I'll take you through the numbers, but that means that the private Vehicles for Hire are not getting a 20 percent increase over last year's rates, correct?

MR. TAI PHOA: Yes, I would agree with you on that one.

MR. ANTOINE HACAULT: Okay. Here, I'm

not too sure whether any of these are better directed to the Vehicle for Hire panel, which I understand you're also on, Mr. Phoa. If it is, I'll defer the questions on them.

It related to directives on understanding high relativities, compiling relevant data for rate setting. Is that better directed towards the Vehicle for Hire or -- panel? Or should I be asking them now?

MR. TAI PHOA: If you want to -- I don't mind fielding those questions and if -- if it doesn't -- if I don't' feel it's -- I can tell if it's beyond my field of expertise and maybe -- like, there are probably questions that you have that I could answer today, if you want.

MR. ANTOINE HACAULT: Okay. I'll ask some of them and then it may be that that assists in the sense that, if you can't answer them, at least you can some idea of -- of the types of questions that I'll be asking.

There was from PUB Order 1/21, at page 98 -- I'm going to focus on directive 'D'. So it's 8, 'D' as in Donald.

I'll wait till it gets on the screen. So page 98, I believe, Ms. Schubert. Yes. Do you have it front of you now, Mr. Phoa?

MR. TAI PHOA: Yes, I do.

MR. ANTOINE HACAULT: Okay. Now, my understanding is that MPI is currently in the process of evaluating possible rating factors that can be used, but it has not yet completed that review.

Is that correct?

MR. TAI PHOA: You know what, the -- the -- that -- that -- it sounds funny then the -- actually deferring the first question. But, yeah, I will defer that to the VFH panel. Mr. Prystupa is in a better position to answer the question.

MR. ANTOINE HACAULT: The reason I was asking that question and -- and the status, was that in -- so Taxi Cab Coalition 1-14, the answer to B was:

> "MPI is currently in the process of -- of evaluating different VHF models. The evaluation to determine the most appropriate method to establish VH -- VFH premiums includes assessing the different possible rating factors that can be used."

So, I just -- if -- if when they come back, if they can let me know where they're at, in determining those rating factors in compliance with Directive 8D -- this --

MR. TAI PHOA: Yes. So --

MR. ANTOINE HACAULT: And it doesn't need to be an undertaking, but as long as they're aware by the time I get to that panel that they can address that question please.

MR. TAI PHOA: We will make sure that they are aware of it.

MR. ANTOINE HACAULT: Thank you. The other Directive I was to draw your attention to is Directive 8F, as in Frank; that's the collection of and analysis of relevant data in order to -- so 8F, as in Frank, continue -- in order to better understand the causes of high relativities of the FH and, in particular, of taxi cabs in their major class.

Are you aware of whether there has been any work done, firstly to collect relevant data to understand the causes of high relativities?

MR. TAI PHOA: Could you give me a second? I just want to check with the back row.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Yes. You could

have your back row look at Taxi Coalition IR1-15. The response to 1A indicates the underlying cause of this remains undetermined as of this date and then MP -- MPI is currently developing a plan to study the underlying cause of higher -- high relativities in collaboration with Taxi Coalition and other external VFH stakeholders.

So, I'll repeat my question. Has MPI collected relevant data to this point in accordance with Directive 8F?

MR. TAI PHOA: Mr. Hacault, at the risk of pushing it -- deferring it -- all the questions to the VFH panel on -- on Thursday, I believe, I will -- I will suggest that those questions that you are asking -- at least -- at least the first two (2) seems to and -- and I assume that the rest are along the same lines, I would suggest that we defer those questions to Thursday, if you don't mind.

MR. ANTOINE HACAULT: Yeah.

MR. TAI PHOA: Mr. -- Mr. Prystupa, who will be here, is in a better position to answer some of the questions related to data collection and the -- the VFH framework as we move forward.

MR. ANTOINE HACAULT: Okay. Thank you. So, I'm just giving you forewarning then to that panel that I'd like to know whether there has been any effort to comply with this Directive by collecting data and I guess if the data hasn't been collected, the next question would be self obvious, there hasn't been an opportunity to analyze data if it hasn't been collected, but those would be the issues I would canvass.

The other one just for the record, so that panel would be aware, I would ask a similar question with respect to Directive 8I, as in igloo.

That Directive requests a collection and analysis, if available, of relevant data with respect to the composition of characteristics of the passenger vehicle for hire class.

So, again I'd like the next panel to be aware that I'm going to ask questions on where they're at with respect to complying with this Directive.

I'll move on to another area now.

MS. JING LANG: This is Jing. Hi. I want to clarify the couple questions you have earlier.

So, we will defer the detailed answers to Thursday, but we have had collaborations with the Taxi, since this spring, that will provide more detailed response on Thursday.

MR. ANTOINE HACAULT: Okay. Thank you

very much, Jing. I'm going to go to a subject of correlation between premiums and either losses or risk of losses.

So, my first question, I would suggest to you that it's important to charge a premium, which is correlated to losses. Do you agree?

MR. TAI PHOA: It is -- it is important to charge a premium that is reasonable, adequate, not excessive to cover the losses for a -- a particular group. Yes.

MR. ANTOINE HACAULT: Okay. And I would also suggest to you that it's important to charge a premium, which is reflected -- reflective of the risk of loss.

MR. TAI PHOA: I agree.

MR. ANTOINE HACAULT: Now, I -- I had distributed last night, and I don't know if your counsel provided to you a reference with -- which your independent actuary made to some standards or applicable to actuarial analysis and it's, in particular, an educational note that is called Margins for Adverse Deviations.

MR. TAI PHOA: Yes, I am familiar with the note.

MR. ANTOINE HACAULT: Okay. I guess,

I'll change the order. Can you mark that as TC, I think it's five (5), Exhibit 5.

--- EXHIBIT NO. TC-5: Canadian Institute of Actuaries - educational note - margins for adverse deviations for property and casualty insurance, October 18, 2021.

MR. ANTOINE HACAULT: And, I had also in my e-mail to your counsel -- firstly, yeah, I had asked you the question whether you're familiar, and thank you, because you don't have an actuarial designation, Mr. Phoa, correct?

MR. TAI PHOA: That is correct.

MR. ANTOINE HACAULT: But on page 3, I directed -- made sure that your counsel would make you aware that I'd be asking this panel to confirm that this educational note on the second paragraph of page 3, indicates:

"A margin for adverse deviations, reflects the degree of uncertainty of the best estimate assumption".

And that statement then relates to a

standard applicable to actuaries, the standard being at paragraph 1740.42, which explains, I'm going about two (2) lines down:

"except in the simplest cases, it's not possible to determine the expected experience with complete confidence."

Do you see that, sir?

MR. TAI PHOA: Yes. I do.

MR. ANTOINE HACAULT: Do you agree with that statement?

MR. TAI PHOA: As a -- even -- even though I'm not a qualified actuary, as a participating actuary I am -- I -- I look to the standards for guidance, yes.

MR. ANTOINE HACAULT: Okay. And I'll read the next sentence.

"Past experience data, may be insufficient or unreliable".

Do you agree with that statement?

MR. TAI PHOA: I agree with that statement. Yes.

MR. ANTOINE HACAULT: And finally:

"Future conditions may differ from the conditions that generated the past experience."

Do you agree with that statement also?

MR. TAI PHOA: Yes, I do.

MR. ANTOINE HACAULT: Okay. And then going to page 6 of this educational note, at the top of the page at 'A', as in apple. Sir, the educational note indicates as follows.

"The less that is known about the current estimate and its trend; the higher should be the risk margins."

Do you agree with that?

MR. TAI PHOA: Yes, I do.

MR. ANTOINE HACAULT: Okay. And next I'm quoting from 'B' on that page 6:

"Risks with low frequency and high severity should have higher risk margins than risks with high frequency and low severity."

Do you agree with that statement?

MR. TAI PHOA: Yes, I do.

MR. ANTOINE HACAULT: Okay. Now, I'll suggest to you that serious loading is similar in principle because, as you indicated, it's a random, serious consequence event. Has low frequency and it is high in severity.

Do you agree, sir?

MR. TAI PHOA: If -- if the -- and you can correct me if I'm wrong, Mr. Hacault, but implied in that is the suggestion that the treatment of the serious loss loading should be the same as the treatment of risk margins, to which I would say I disagree with that -- that conclusion.

MR. ANTOINE HACAULT: Okay. That, sir, why I asked you whether premiums should be reasonably related to the risk of loss, and you agreed with that statement.

So I'm now suggesting to you, because there's a higher risk margin that should be put for serious losses, as per the actuarial standards, that we should be attempting to have a reasonable correlation to that risk.

And what you're saying is you disagree with that suggestion, sir?

MR. TAI PHOA: Give me one (1) minute to confer with my back row.

(BRIEF PAUSE)

MS. JING LANG: Would you mind repeating your question to me?

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Firstly, Mr. Phoa, have you consulted with your back row and you're able to answer?

MR. TAI PHOA: Ms. Lang has requested for -- that the question be repeated, if you don't mind? I would -- if you -- you're repeating the question, I would -- I would appreciate it.

MR. ANTOINE HACAULT: I'm not going to have it perfect because it was based on a response that you just recently gave on this transcript, to the effect, I believe, that you agreed that it was important to charge a premium which reflects the risk of loss.

That was the first thing you agreed to, sir, correct?

MR. TAI PHOA: Yes, I agreed to that. Yes.

MR. ANTOINE HACAULT: And then I put to you, from the educational note, certain statements with respect to the risk of loss and in particular risks with low frequency and high severity, which I believe you agreed applied to serious losses, correct?

MR. TAI PHOA: Yeah. Serious losses

are definitely risk with low frequency and high severity, yes.

MR. ANTOINE HACAULT: And then I want to say close the loop on that by suggesting to you that serious loss loading is similar in principle because we know there will be volatility, by that I mean low frequency and high severity in serious losses, and the higher risk margin implies conservatism and implies a loading.

Do you agree, sir?

MR. TAI PHOA: So I just want to draw the panel to what the margin for this investigation is for and -- and how it is used, at least to my knowledge, within the actuarial world.

The -- this educational note applies to the -- mostly the evaluation of policy liabilities. So the appointed actuary, when he looks at a corporation's liabilities, what he would do is he would say: Here's all my assumptions about how these liabilities will -- will trend going forward. Here's my assumptions about, you know, what the appropriate include but not reported should be. Here's my assumptions about other factors that -- that will influence the results of my analysis.

And that is his best estimate given the

data available.

The risk margins here provide sort of a -- as -- as alluded to, sort of a buffer, just in case there were -- and -- and it's well accepted within the actuarial community that sometimes your best estimate is -- is based on limited information. Some of the unknowns could -- could lead to potentially you being under -- under-valuating your liabilities.

So the appointed actuary, at the time when he's looking at the liabilities, would -- would say: What sort of liabilities am I looking at? Are these, you know, as shown in the educational note here? Are these, you know, low-frequency, high-severity liabilities? You know, do these -- do these contracts persist over long time frames?

Whatever the considerations may be. And the appointed actuary would then, based on certain methodologies, decide on what the -- an appropriate provision for adverse deviations should be added to his estimate.

Just the Board's notice, we -- and just to inform the Board, we do not include a risk margin in the rating. So -- so for rating purposes, we just use the best estimate of the forecasted claims incurred. We discount the cash flows, but we do not add a margin for adverse deviation when it comes to pricing.

Now, going back to Mr. Hacault's question, I would agree that serious losses are low frequency and high severity. But I -- I would also say that, you know, the -- the connection between a serious loss loading and a margin for adverse deviation, if you're trying to make that connection, I don't believe that connection is appropriate, given what this educational note is for.

And in terms of the serious loss loading, I -- I think my concern, as expressed yesterday in my presentation, is I have a whole bunch of insurance uses that don't have a serious loss. And some of them, you know, like collectors, you know, they -- again, it all depends on -- on the type of -- the -- the type of vehicle, how they're driven; some -- some of it don't have a serious loss because they're just a small number of units within the insurance use.

But the -- the issue I'm having with suggesting any serious loss load is it is very, very judgmental. It -- it -- sorry, it's -- it's really judgment. It -- it relies a lot on connecting that particular -- that particular insurance use with some other potentially similar, maybe not. And -- and so to -- and so if I do that for one (1), say the passenger VFH, then I would have to also do that for everything else. That -- that would be my -- that would be to -- to be fair to all the other insurance users as well.

So, I -- I'm not trying to not answer the question, Mr. Hacault, but I -- I don't believe the connection between the margin for this deviation that -- that's provided as a guidance to actuaries, when it comes to the valuation of policy liabilities, is applicable in this situation.

MR. ANTOINE HACAULT: Thank you for expressing that view. I'm not so sure you -- you answered my question. You provided a lot of useful information. But I'll try and drill down a little bit more maybe to see if I can actually get an answer, sir.

When you discussed yesterday about the serious loading...

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, Mr. Hacault.

MR. ANTOINE HACAULT: Okay.

MR. TAI PHOA: Counsel has something

to --

MR. ANTOINE HACAULT: Yeah. Okay. Sorry about that. I should have been not looking at my question but at you.

Yesterday, as I understood your testimony on serious loss claims, you explained that ten (10) years was kind of an arbitrary choice; it could have been fifteen (15) years, twenty (20) years experience; there may be some other measure -- measure.

Did I understand your thought process accurately, sir?

MR. TAI PHOA: Yeah. I -- I said yesterday that we -- our current methodology takes the ten (10) year average serious loss. But, you know, there's nothing that says that we can't look at a fifteen (15) year or twenty (20) year average, as well.

MR. ANTOINE HACAULT: Okay. And you explained yesterday in the context of cross-examinations by Board counsel that those serious losses were random. And you disagreed with her suggestions that they were somehow related to other claims or types of claims, that there was a correlation.

Did I understand that evidence generally to be that, sir?

(BRIEF PAUSE)

MR. TAI PHOA: Mr. Hacault, I -- I agree with the part on randomness. Can you repeat the question again on -- 'cause I just want to be clear on what the second -- the -- the second part of the question.

MR. ANTOINE HACAULT: Okay. Well, maybe I'll be able to help you by putting a little bit more specific question.

Has MPI gathered data for each serious loss claim over any time period to see if there is reliable data on which it can rely to justify differential loading, firstly, on different owners?

And then I'll have a different question.

(BRIEF PAUSE)

MR. TAI PHOA: And I -- I would have to say no to the question.

MR. ANTOINE HACAULT: Okay. So, say,

for example, if you -- I don't know how many serious loss claims there are in the last ten (10) years. How many would there be about approximately?

Do you have an idea, sir?

MR. TAI PHOA: I know that we have less than a hundred a year. So, we are looking at anywhere between seventy (70) and ninety (90) probably, so let's say ninety (90), and then so the last ten (10) years say nine hundred (900).

MR. ANTOINE HACAULT: Okay. So, to be a little bit more explicit in my -- my question, if I understood your answer correctly, for example, MPI didn't look to determine whether those serious loss claims happened in a particular territory or two (2) particular territories? They didn't gather that data for the last ten (10) years, correct?

MR. TAI PHOA: No, we -- we did not look at the -- sort of the risk characteristics of the serious losses. We have -- but we do, for ratemaking purposes, allocate it to the insurance use that resulted in those serious losses.

MR. ANTOINE HACAULT: I understand that. And, for example, it wouldn't have in those seventy (70) to a hundred claims per year looked at the driver safety record, the DSR, or the driver of the vehicle that was involved in the serious loss? It wouldn't have gathered that data, correct?

MR. TAI PHOA: We have the capability to collect that, but no we haven't done so.

MR. ANTOINE HACAULT: And MPI wouldn't have collected data on the type of vehicle that was involved in the serious loss claim -- you know, for example, is it a commercial vehicle, is it a -- and analyze that to see if it would help understand the serious loss risk?

MR. TAI PHOA: I believe we present the data by issuance use from which the serious loss originates. So -- so, to that extent, I guess we do collect the data because that's used for ratemaking.

MR. ANTOINE HACAULT: No, but my question was whether or not you -- sorry, I may have said "collect".

Did you then analyze it to see if there's a correlation between the type of vehicle and the risk of a high serious loss?

MR. TAI PHOA: No, we have not done the analysis.

MR. ANTOINE HACAULT: Okay. And lastly, did you do an analysis based on the registered owner whether it was a registered owner or a driver that caused the serious loss?

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Did you -- did you analyze the data, and, again, for the last ten (10) years, as to whether the serious loss was caused by the registered owner or by the driver?

MR. TAI PHOA: No, we did not.

MR. ANTOINE HACAULT: Okay.

(BRIEF PAUSE)

MR. STEVE SCARFONE: I just wanted to clarify that last question, Mr. Hacault. Wouldn't -- wouldn't it always be caused by the driver?

MR. ANTOINE HACAULT: They may be the same.

MR. STEVE SCARFONE: I see. Okay. Thank you.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: They may be different. And that gets to one (1) of the questions Mr. Chair asked, whether or not we should be looking at driver or a registered owner. This is in the context of serious losses.

Now, I would suggest to you, sir, as you indicated, that allocating a random serious loss that happens to a small group of people on an actual versus on an analytical basis makes it a very subjective and arbitrary allocation?

(BRIEF PAUSE)

MR. TAI PHOA: I -- again, I -- I'm just trying to understand, Mr. Hacault. When you say the word 'allocating', for rate -- for -- for rate making purposes, we -- we know exactly who caused the serious losses or -- or which insurance uses are responsible for those serious losses.

And those serious losses are then -- then affect the rates for -- for those insurance uses so to -- to the extent we are attributing back the serious loss to the insurance use that's responsible for it.

So, maybe I'm not fully understanding what you mean when you say "allocating".

MR. ANTOINE HACAULT: Well, my understanding, sir, taking small bites, is that you allocate loss -- serious losses if that random loss has occurred in a particular class or subclass, correct?

MR. TAI PHOA: Yes, that is correct. So -- so, maybe we are using this -- maybe we are -- we are just using different words. But, yes, we attribute it back to the insurance use that caused the serious losses.

MR. ANTOINE HACAULT: Okay. And we'll go to one (1) example maybe to -- I -- I'm better in understanding in examples. If -- first, I'm sorry to kind of jump around here, but if you can go to -- I'll start with page 1,279 of the GRA.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: I'm apologizing to her 'cause I didn't follow the order I told her I would.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: It's in the General Rate Application. It's paged 1279 of the PDF.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: It would be Part 4 Ratemaking, Appendix 9, page 119. And where I want to direct the witness's attention is to a lower category where -- at the bottom, Passenger Vehicle for Hire.

And, in particular -- we can't see this -- but the second column to the right of the years is the number of earned units. So the number of vehicles in that category. Is -- correct?

MR. TAI PHOA: Yes, I would agree.

MR. ANTOINE HACAULT: Okay. So that, in 2018, we saw the private Vehicle for Hire class started and we had three-hundred-and-sixty-five (365) cars in that category, correct?

MR. TAI PHOA: Three-hundred-and-sixty-five (365) units in that category. That is correct.

MR. ANTOINE HACAULT: In territory 1.

And then, we see that it jumped to six-hundred-and-two (602) private Vehicles for Hire in 2019.

MR. TAI PHOA: That is correct.

MR. ANTOINE HACAULT: And then, for

what we've been calling the COVID year, 2020, it jumped about another two hundred (200) vehicles up 812 vehicles, correct?

MR. TAI PHOA: Surprising, but true.

MR. ANTOINE HACAULT: And then, Ms. Schubert, if you can go to page 1308, we get the current number of vehicles in that class. It includes all areas.

But we need to go down up to passenger Vehicle for Hire and then go to the right under current earned units. And we see a thousand-eighty-seven (1,087). Do you see that, sir?

MR. TAI PHOA: Yes, I do.

MR. ANTOINE HACAULT: And just so the record's complete and we don't need to go there, in territory 1, there was actually only nine hundred and thirty-three (933) vehicles. And that would be found at PDF number 1097.

Would that make sense, sir? In territory 1?

If we add all of the lines for passenger Vehicle for Hire in territory 1, which is sixty (60), thirty (30), twenty-three (23) and eight-twenty (820), we get a total of nine hundred and thirty-three (933), correct?

MR. TAI PHOA: Yes, that's correct.

MR. ANTOINE HACAULT: Okay. So I want to keep that number in mind because then I'm going to ask you to look at -- it's a fairly small class, it's a pas -- farm passenger vehicles.

And I believe that would be at PDF 1235. It's in table 8.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Sorry. I -- I jumped too quickly to -- to that number, Ms. Schubert.

We'd need to go back to the farm passenger vehicles earned units in territory 1 on page 1279.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, we see this is the earned units table that farm passenger vehicles -- if we go and use the same years as the passenger Vehicles for Hire -- are really a small group in territory 1. For 2018, there were twenty-five (25) vehicles. For 2019, twenty-four (24) vehicles. And 2020, there was twenty-four (24) vehicles. Correct?

MR. TAI PHOA: In territory 1, yes, it's a small group.

MR. ANTOINE HACAULT: Yeah. And it's quite a bit smaller than the passenger vehicles, which we saw were three-hundred-and-sixty-five (365), six-o-two (602), and eight-hundred-and-twelve (812).

MR. TAI PHOA: Yes, I agree.

MR. ANTOINE HACAULT: Now, sir, if we go to -- and this is -- we're getting to serious loss and serious loss loading -- page 1235 of the rate application.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: This table sets out, for those twenty (20) odd vehicles, the reported loss with -- and I'm bad for acronyms -- ALAE -- what's that, sir?

MR. TAI PHOA: That's the Allocated Loss Adjustment Expense.

MR. ANTOINE HACAULT: Okay. With hail and actual serious losses. And that table shows, for the years 2018 to 2020, a series of numbers. Correct?

MR. TAI PHOA: Yes, that is correct.

MR. ANTOINE HACAULT: Now, I don't

know if we can put it side by side, Ms. Schubert. But 1264 of the same PDF.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Which is a table where you add the ten (10) year average of expected serious losses. That's table 10, correct?

MR. TAI PHOA: Yes, that is.

MR. ANTOINE HACAULT: Okay. And if we have them side by side, we will be able to see that this group of twenty-four (24) vehicles has added to it some fifty thousand dollars ($50,000) of serious losses.

MR. TAI PHOA: Yes, That's correct. Kristen, if you don't mind, I believe it's -- give me a second to find a reference.

MR. ANTOINE HACAULT: Can we just -- just look -- clarify those numbers and then I'll -- if you need another reference, I can -- but I just want to clarify, for the record, that this group of twenty-four (24) vehicles has been given, by MPI, the serious loss loading of some fifty thousand dollars ($50,000), which is about two thousand dollars ($2,000) per unit, correct?

MR. TAI PHOA: Yeah, that is correct.

MR. ANTOINE HACAULT: Okay. Now, I'll move on to another area, which is the average rate. Because I started this cross-examination with 20 percent.

I'm looking at the time. I'm not too sure when the Board wants to take a break.

THE PANEL CHAIRPERSON: Is this a good time to take a break? Or you've got just a few more questions in this area?

MR. ANTOINE HACAULT: No, I'm starting a new area, Madam Chair.

THE PANEL CHAIRPERSON: Let's take a break now then. It's 10:22. If we could come back at twenty to 11:00, please.

--- Upon recessing at 10:22 a.m.
--- Upon resuming at 10:44 a.m.

THE PANEL CHAIRPERSON: Mr. Hacault...?

MR. ANTOINE HACAULT: Yes, Madam Chair. Merci. I hadn't realized that Mr. Herbelin was francais too. He said, Well, why didn't Mr. Hacault ask me questions in French? I said, Nobody else would have understood what you were asking and what was being answered.

Anyways, with that kind of jest, I'll deal with the preliminary matter. We've got the Capital Management Plan coming up. I'm in the Court of Appeal tomorrow morning. Initially thought that that might pose some logistic matters, but upon reviewing what I think I need out of that panel -- you may recall we had got an undertaking, which was required to be responded. It was an order of the Board. And that I had indicated that Mr. Scarfone, his client and our client, were going to get together and kind of work things out.

We did have a conference call on that, a Teams meeting, and it's my understanding that MPI is working on that undertaking and that there's -- the undertaking response should deal with a lot of the questions I otherwise would have had for the Capital Management Panel.

So, at this point, I'm reserving my right if something new comes out of the direct of that panel, and reserving my right to ask a question or questions with respect to the undertaking which is to be provided. But otherwise I do not think I need to have any time allocated for cross-examination of the

Capital Management Panel.

And I wanted to put on the record that I thank MPI for its collaborative approach. It was truly collaborative when we -- we sat down at the Teams meeting to try and come up with a solution where they would provide some kind of an answer that would be responsive to the undertaking we had requested.

With that, I'll then proceed with the next part of my cross-examination.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Here, unfortunately, I have to be a little bit more negative. The first time MPI gave an explicit indication that it would not apply the 20 percent to Private Vehicle for Hire, at least that I could find, was in two (2) instances on October 13 of 2021; firstly, in the Revenue panel.

I couldn't find anything in the application that specifically said they wouldn't apply the 20 percent in the same way as they did to the first Board Directive.

Am I wrong? Did I miss something?

MR. TAI PHOA: Yes. We did not explicitly say that -- that we would not apply the 20 percent. But we did explain in the ratemaking methodology what we were going to do to recognize the Board Directive. Specifically, we said we would fully recognize the actual -- the actual loss experience for the passenger VFH use, and thereafter we would apply the other rules, the experience adjustment rules and the capping, rules similar to other insurance uses.

MR. ANTOINE HACAULT: Yeah. And -- and that was teased out in IRs and detailed questions, correct?

MR. TAI PHOA: That is correct.

MR. ANTOINE HACAULT: Okay. So, members of the panel, we are going to do our best, but if we had had that kind of indication earlier, we might have had some evidence on that. So, I don't think much will turn on it, but I did want to put on the record the kind of difficult position that we were in.

Pre-ask 5, for example, was given only on October 13, and it has a -- a one (1) sentence line that indicates that the 20 percent -- MPI is of the view that a straight 20 percent shouldn't apply, correct?

MR. TAI PHOA: And just -- just to be sure that I'm not --

MR. ANTOINE HACAULT: Yeah. That's Exhibit 47.

MR. TAI PHOA: Could we bring it up?

(BRIEF PAUSE)

MR. ANTOINE HACAULT: The second page of Pre-ask 5, the very last sentence:

"i.e. there is no indication that a 20 percent rate increase is required for the 2022/2023 rates."

Do you see that, sir?

MR. TAI PHOA: Yes. Just the references sighted in this particular response, a lot of them were filed with the initial refiling.

MR. ANTOINE HACAULT: Yeah. You're right, some of it was. But some of it is in Taxi Coalition Second Round Information Request, correct, sir, which is quoted in this answer?

MR. TAI PHOA: Yes, that is correct. But like I said, we -- in -- in terms of the methodology that we applied to the passenger VFH and -- and -- and how we were approaching the directive, there was already -- there was -- indicated in the initial filing that we filed in June.

MR. ANTOINE HACAULT: Okay. Now, Ms. Schubert, could you go to a one (1) page document, which I had circulated, which is an extract from Part 4, Ratemaking, Appendix 4. For the record, it was page 1,109 of the GRA pdf.

I circulated this on Sunday. I'm proposing to have it marked as Exhibit 6, subject to check. Is that acceptable?

MR. TAI PHOA: That is acceptable, yes.

--- EXHIBIT NO. TC-6: Aid to cross-examination extract from Part 4, RM Appendix 4, page 1 of 12, October 18, 2021

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Okay. Thank you for that. It just makes looking at those tables a lot easier, if I can extract the parts that I actually wanted to refer to.

So this is -- if I focus on the number of vehicles, we just had a discussion that there's nine hundred and thirty-three (933 in Territory 1, agreed?

MR. TAI PHOA: Yes.

MR. ANTOINE HACAULT: And the original rate was two thousand six hundred and forty-seven (2,647).

That would be last year's rate, correct?

MR. TAI PHOA: That would be the 2021 rates, yes.

MR. ANTOINE HACAULT: Yes. And MPI did not, as I understand, use the same methodology that you confirmed this morning. It didn't go two thousand six hundred and forty-seven ($2,647) dollars times one point two (1.2), which would have added 20 percent.

It did not do that, correct?

MR. TAI PHOA: That is correct.

MR. ANTOINE HACAULT: Okay. And in the next column that I draw your attention to, sir, is the balance indicated adjustment for the average rate; that's under Column C in the Actual Table.

My understanding is that this is the actuarially indicated rate, prior to a capping -- applying capping rules, correct?

MR. TAI PHOA: Yeah. So this would be the actuarially indicated rate, based on the relativities that were applied. And that would be prior to experience adjustment rules, yes.

MR. ANTOINE HACAULT: Okay. So I profess -- I still don't understand the magic that happens in that black box when it goes into experience adjustments and all these other things.

But the raw relativity is suggesting a 22.91 percent change, correct?

MR. TAI PHOA: Yeah. So, that's correct.

MR. ANTOINE HACAULT: Yeah. And what you explained, even though that's the indicated adjustment after it goes into that black box, the applied for rate is not three thousand two hundred and fifty three dollars and forty-one cents ($3,253.41), rather it is three thousand ninety-seven dollars and fifty-one cents ($3,097.51), correct?

MR. TAI PHOA: Yes, that is correct, based on how we made the adjustments. Like -- like I said earlier, we determine the balance indicated change and then we apply the same experience adjustment rules to this particular use, as we do for every insurance use in -- in the interest of fairness.

MR. ANTOINE HACAULT: So, the applied for adjustment is not consistent with the indicated rate which would have increased the premium by 22.91 percent. The black box magic brings that down to 17.02 percent, correct?

MR. TAI PHOA: Yeah. So, on average, the Passenger Vehicle for Hire in Territory 1 will see a -- a rate increase of 17.02 percent, yes.

MR. ANTOINE HACAULT: Okay. Now, I have one other number which is in a different exhibit, Exhibit 29, MPI. It's the revised response to Taxi Coalition MPI-2-9, Appendix 2.

Now, the reason why it shows revised on September 24, that was one (1) of the IRs for which we had to file a motion, and eventually a response was received on September 24, 2021, correct?

MR. TAI PHOA: Yeah, that's correct.

MR. ANTOINE HACAULT: Okay. And if we go to passenger Vehicle for Hire, Territory 1. If we go to column C, Territory 1, passenger Vehicle for Hire, the average rate for this particular table would show as three thousand six hundred and sixty-nine dollars and fifty cents ($3,669.50), correct?

MR. TAI PHOA: Yes, that is correct. So this -- this table -- just for everybody's information, this one reflects the -- the scenario where we look at all the VFH as a major class, just --

I believe.

MR. ANTOINE HACAULT: Sorry. It -- it may be -- you may want to look at that again. I think it reflects one (1) of the scenarios of serious loss loading recommended by Dion.

MR. TAI PHOA: Sorry, my bad. Thank you for correcting me on that.

MR. ANTOINE HACAULT: Yeah. So when we had -- if we flip back to the one (1) pager which, sorry, I didn't reference for the record -- yes, it would be Taxi Coalition 6 -- instead of the balance indicated -- there's adjustment of three thousand two hundred and fifty-three and forty-one (3,353.41) -- we actually jump up about another four hundred dollars ($400) as an indicated rate if we include one (1) of the lower loss loading scenarios for serious losses, correct?

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, Mr. Hacault. If you would just give me a few minutes, I'm just trying to confirm which loading was -- was added in -- for this particular scenario.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Hopefully my notes are right and it was the two hundred and fifty-eight dollar ($258) serious loss allocation scenario.

(BRIEF PAUSE)

MR. TAI PHOA: Yes, okay. Yeah, I agree with your -- your analysis.

MR. ANTOINE HACAULT: Okay. Thank you. Just to complete the record with respect to Taxi Coalition Exhibit 6, the balance indicated adjustment, if you look at each of the five (5) territories, is always over 20 percent indicated rate change, correct?

MR. TAI PHOA: Yes, that is correct.

MR. ANTOINE HACAULT: Okay. Now, I'm going to have a couple of questions with respect to the historical experience, and for this it would be useful to put up the next aid to cross-examination, Ms. Schubert, which we would mark as Taxi Coalition 7. Again, subject to check, it should be extracts from the evidence. Is that acceptable?

MR. TAI PHOA: Yeah, I will accept the evidence, yeah.

--- EXHIBIT NO. TC-7: Aides to cross-examination (9 pages), October 18, 2001.

MR. ANTOINE HACAULT: Okay. So this particular extract is from Taxi Coalition 1-18, and can you confirm that the loss ratio for passenger Vehicle for Hire class is a 128.9 percent for 2018 and 2019 combined?

MR. TAI PHOA: Yeah, I can confirm that.

MR. ANTOINE HACAULT: Okay. Thank you. Now, I think you've agreed that the 2020 year is a pandemic year, and it's an exceptional year or unusual year, correct?

MR. TAI PHOA: The 2020 year is definitely an unusual year for -- not just for the passenger Vehicle for Hire, but for all insurance users as well.

MR. ANTOINE HACAULT: Okay. And the thing I found interesting -- I'm not too sure why it happened -- but for pass -- private passenger vehicle class for a number of different areas, COVID was excluded.

So I'll take you to firstly page 1086

of the Application. That's the accident benefits page.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: So relativities should be page 1186 of the PDF at the bottom. And you'll see that there's a note, a little star at the very bottom.

MR. TAI PHOA: Yes, there is.

MR. ANTOINE HACAULT: And the passenger Vehicle for Hire is in the unit count under this table, correct?

MR. TAI PHOA: That is correct.

MR. ANTOINE HACAULT: And in my review of the evidence is that it is only in this class, being private passenger class -- where the accident year 2021 is excluded from the effects of COVID.

MR. TAI PHOA: Subject to check, that is -- I agree with it, yeah.

MR. ANTOINE HACAULT: So when it goes into this black magic box, it's the only class that has this exclusion for accident year 2021.

MR. TAI PHOA: Yeah. So -- so what we do is we just -- we -- we really take a look at the pure premium trend -- or, sorry, the pure premiums. And as you can see in this particular exhibit, D-43.12 is -- is very low compared to the -- say the last five (5) years, and we -- and -- and I know there are three (3) years in there where it's almost similar.

But if we look at the long-term numbers, the pure premium, no trend shows it was -- it's very unusual to see that forty-three point one two (43.12). So this was the one (1) class where we sort of noticed the impact of COVID-19 on the particular benefit.

And so we decided to exclude the 2020/'21 year and -- so that the average adjusted pure premium is not artificially lowered because of that one (1) particular year.

MR. ANTOINE HACAULT: Okay. And the next reference I have is the next page in the PDF, the accident benefits for IRI. Remind us what that acronym is again.

MR. TAI PHOA: IRI is for income replacement indemnity.

MR. ANTOINE HACAULT: Okay. And MPI also excluded the accident year 2021 to remove the effects of COVID-19 on claim costs.

MR. TAI PHOA: Yes. Similar

explanation as for accident benefits, other index. And this here is even more pronounced, I guess. You -- you can see the effect here a whole lot more clearly in -- historically, we are looking at anywhere between -- I mean, there's -- there was a 57 point in there, but otherwise, you're looking at anywhere be -- a number greater than seventy-five (75) even. So the sixty-one (61) seems relatively low.

MR. ANTOINE HACAULT: Okay. And this was only done for this class? No other classes experienced a reduction again?

MR. TAI PHOA: We did the same -- we did the same review of the pure premium for all the other classes and in -- in order to make that decision. And while I realize there is some degree of judgment in there, the other classes we -- subject to check, we did not remove the accident year 2021.

MR. ANTOINE HACAULT: Okay. Another example of this exclusion is PDF 1,190, which is the Basic collision. At the bottom, again, the accident year '20/'21 was excluded to remove the effect of COVID-19?

MR. TAI PHOA: Yes. And I -- for -- for this one, I believe we potentially applied it to more major classes than just the private passenger.

MR. ANTOINE HACAULT: Okay. And, finally, Basic property damage, page 1,192.

MR. TAI PHOA: Yes.

MR. ANTOINE HACAULT: This was again excluded from -- the accident year '20/'21 was excluded to remove the effect of COVID-19 on costs, correct?

MR. TAI PHOA: Yeah. And, again, just to reiterate, we did -- when -- when we determined the average adjusted pure premium, which is the average of the few years, we did not want to artificially reduce the cost by adding in that one (1) very low year.

MR. ANTOINE HACAULT: Okay. I'll move on to another area, which is the effects of pandemic. And this should be at -- at page 6 in the PDF of the Taxi Coalition-7. That's the multi-page aid to examination.

Again, this is an excerpt, sir, of Taxi Coalition-1-18A.

Now, I need to understand a little bit about what this table says. So, I'll draw your attention to two (2) lines, line number 1, which is a Passenger Vehicle for Hire. And if we go to the extreme right, we see 67.37 percent.

And they are in the larger major class,

which is in line 4, which is the Private Passenger Major Class.

Am I right so far?

MR. TAI PHOA: Yes, that is correct.

MR. ANTOINE HACAULT: Okay. And am I correct that what this table sets out is the total incurred, that's 'B', divided by all the units in it? And then it looks at earned premiums. And it shows a loss ratio of 40.39 percent on the Passenger Major Class as a whole, correct?

MR. TAI PHOA: Yeah. So, for the 2020 loss year, the Private Passenger Major Class is based on -- the amount reported to date is showing a loss ratio of 40.39 percent, yes.

MR. ANTOINE HACAULT: Okay. And in the smaller group which is shown in 'Earned Unit' here, if I go across the top line of nine hundred and eighty-four (984) units, that would be the units in that Passenger Vehicle for Hire, sir?

MR. TAI PHOA: Sorry, Mr. --

MR. ANTOINE HACAULT: So, do you see in Line C there's, "Earned Unit"? And then there's a number, nine seventy-four (974). What does that -- does that relate to the number of vehicles?

MR. TAI PHOA: Partially. So -- so,

an earned unit reacts -- is -- basically, if you -- if you insure your car for a whole year, then you have one (1) earned unit. If you insure your car for only a partial amount of units, say a half the year, then you have a half a unit. But it generally reflects how many passenger vehicle for hire are on the road at any given time.

So, yes, nine seventy-four (974) is -- is the number of earned units for the 2020 year for Passenger Vehicle for Hire.

MR. ANTOINE HACAULT: Okay. And what this data is indicating, I'm suggesting to you, is that the loss ratio for the private pass -- private passenger vehicles was, say, significantly in variance with the class as a whole.

Instead of being 40.39 percent, it was at a high ratio of 67.37 percent, correct?

MR. TAI PHOA: That is correct. That is -- for the 2020 year, it's -- it's significantly different than the Private Passenger Major Class as a whole.

MR. ANTOINE HACAULT: Well, one (1) thing it tells us conversely is that Passenger Vehicles for Hire, based on this limited data, is not tracking in accordance with the general class in which it is found, correct?

MR. TAI PHOA: Yes, that is true. And -- but that -- and that gets reflected when we determine the relativity for the Passenger Vehicle for Hire when compared to the rest of the major class.

So, what would happen in this situation is that we would take the long-term average, and then the long-term average will suggest an indicated relatively -- indicated raw relativity. And, in this case, I expect that, given -- I expect the Passenger Vehicle for Hire to actually be increasing compared to last year's relativity.

MR. ANTOINE HACAULT: Thank you. Now, if we compare this to the Taxi Vehicle for Hire and the Public Major Class and see how taxis are doing in their class, we see at line 3 the public major class had a loss ratio of 50.3 percent, correct?

MR. TAI PHOA: Yes.

MR. ANTOINE HACAULT: And that taxis in COVID situation were performing better than their class at a whole by having a loss ratio of 44.56 percent, correct?

MR. TAI PHOA: Yes, that is correct.

MR. ANTOINE HACAULT: Now, if I go to the next page in this PDF, it's, again, an extract from Taxi Coalition-1-8. And by the way, thank you. It -- it just makes my job a lot easier to have these aids instead of going to little lines in -- in those tables.

The -- would you agree that if the earned premiums for the two (2) years, 2018 and 2019, were increased by two (2) consecutive increases of 20 percent, that the loss ratio would become 89.5 percent?

MR. TAI PHOA: Yes, I would agree with that.

MR. ANTOINE HACAULT: Thank you. Now, it's my understanding from last year's evidence that a loss ratio in the range of 70 to 80 percent is necessary for the Corporation to break even net of all costs?

MR. TAI PHOA: Yes, I agree with that.

MR. ANTOINE HACAULT: So, if it's higher than the range of 70 to 80 percent, the Corporation is not breaking even net of all costs?

MR. TAI PHOA: Yes, that is correct. And that is the -- and this evidence was reviewed by the Public Utilities Board last year, and which is why they made the order to increase the rates by 20 percent for 2021.

And for 2022/'23 and '23/24, future rates -- future rate increases of 20 percent should be applied if there is sufficient evidence to suggest doing so.

MR. ANTOINE HACAULT: Okay. And I would go to the next page in the PDF of this aid to cross-examination.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Sir, I would suggest to you that if we had -- now, three (3) -- as you can see on the top right-hand corner -- consecutive increases of 20 percent that this would bring the loss ratio in the 74.58 -- sorry, .59 -- percent range, correct?

MR. TAI PHOA: Yes. That is correct based on the average for the 2018 and 2019. The 2020 number appears significantly lower. And so, it's -- it's hard for me to -- you know, I'll leave that and -- for the next question.

MR. ANTOINE HACAULT: Okay. Thank you. Yeah. And it's hard to give any meaningful attribution to the 67 percent number because we looked at it, it was 27 percent higher than the experience of the passenger vehicles.

So we've got some trouble dealing with 2020, correct?

MR. TAI PHOA: That is true. Having said that, the experience for the use is the experience for the use. You know, I -- I was -- I was directed by the PUB last year to look at all the evidence. And the 2020 year, the evidence shows that the loss ratio is 67.37.

If I did this -- recognizing, of course, that the earned premium for that year is not yet multiplied by 20 percent.

So if we -- if I took the earned premium for that year and I did -- and I increased that earned premium by 20 percent to reflect the 2021 adjustment, that loss ratio would actually drop to 56 percent.

And -- and so -- and if I did the same calculations --

MR. ANTOINE HACAULT: Let's just stop there for a minute. Fifty-six percent would still be higher than the 40 percent of the class.

MR. TAI PHOA: Absolutely. But that is definitely a significant improvement from the 122 percent and 132 percent loss ratio that we see for the prior two (2) years.

So the -- again, for a small group like that -- like, a passenger Vehicle for Hire and no different than the taxicab Vehicle for Hire group -- I was asked to consider all evidence.

And so, I -- I cannot just choose the two (2) years where -- where it's showing something higher. That evidence was already considered last year in the -- in the PUB determination and deliberations.

But this year, I have one extra year of which I should consider that evidence as well.

MR. ANTOINE HACAULT: Thank you, sir.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Can I direct your attention -- Ms. Schubert, if you can bring up Taxi Coalition, round 207, appendix 1, page 3 of 4.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Sorry, I don't have the number of the PDF.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: It'd be line 24.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Appendix 1.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: And line 24.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, if the Vehicles for Hire had their own class -- this was the response that was given. If I go to line 24, but on the right-hand side, which is the Vehicle for Hire -- so line 4 is applied for change. The Vehicle for Hire, on the extreme right-hand side, if I go down and I meet those numbers, I see a required rate increase of 30.8 percent, correct?

MR. TAI PHOA: Yes, based on the analysis that we did, the applied for change would have been 30.8 percent.

MR. ANTOINE HACAULT: So at this time, we're looking at the Vehicle for Hire framework and if this particular model was chosen -- it is only a model -- the required increase would be 30.8 percent, correct?

MR. TAI PHOA: Yeah. So our -- so there's a lot of uncertainty when it comes to the VFH as a major class. Part of the -- part of the -- two (2) things I would really want to point out.

One, the -- as you can see on the top there, the 2022/'23 unit is only two thousand three hundred and sixty (2,360). It's a very, very small class compared to all the other major classes. And so -- and so, that -- that definitely is a consideration.

The second thing that is happening with this group, of course, is there is -- whereas some members of this group -- for example, the taxi VFH group is -- the units are fairly stable now.

The passenger VFH group is also increasing. So -- so there's a lot to say about how that particular group is going to contribute to the loss experience for the class as a whole.

So, yes, based on the current data that we have, the -- the applied for change would have been

30.8 percent. But circling back, given the size of the group and once we apply credibility, the required change that -- that we are requesting for -- which is a few rows down, if you -- is -- that we would apply is only 8.8 percent.

MR. ANTOINE HACAULT: Once it goes into that black box?

MR. TAI PHOA: I -- I wouldn't say it's much of a black box. Everything is shown here.

We've discussed the application of credibility, at least at the major class level, based on the projected units for the year. We -- we've shown the credibility formula.

What we do is we take the units, divided by the units, plus a constant K which is six thousand (6,000). And so -- and so, recognizing, of course, that -- like I said, this is a very small major class by comparison to all the other major classes.

We have to be very careful about applying the full 30.8 percent rate change, especially given the changing composition of this major class with the growth in the -- that I described a while ago in the -- in the passenger VFH group.

MR. ANTOINE HACAULT: Yes. And -- and

that was a discussion we had last year and I'm not going to get into again, the whole credibility analysis and how it takes a very long time to deal with that and Dion is going to have some comments on that.

But the indication prior to all these credibility adjustments, et cetera, would have been 30.8 increase, correct?

MR. TAI PHOA: Based on the data that we currently have and the methodology, yes.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, here, it's more to clarify the record. If we go back to...

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Page 7 of the PDF.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: For 2020, if I go down, line 3, average premium, it shows an average premium. So that's what MPI collects.

Is that how I understand that number?

MR. TAI PHOA: Yeah. That's simply the earned premiums over the earned units for the year, yeah.

MR. ANTOINE HACAULT: Now, this is where guys like me get really confused. If I look at my previous exhibit, which is Taxi Coalition Exhibit 6, which is the one (1) pager, I see for the Territory 1, which is the same as what we just looked at, that the rate was two thousand six hundred and forty-seven dollars ($2,647).

And that was -- my understanding was the average rate which MPI said it was going to charge. I don't know how that morphs into a two thousand dollar ($2,000) number on actual premiums collected.

Can you help me understand that?

MR. TAI PHOA: Sure. Kristen, if you don't mind just going back to the prior number, to the prior -- yeah.

So I'll just take the two thousand one hundred dollars ($2,100) for the 2020 year. So that number there has not taken into consideration the 20 percent rate increase that was requested by the PUB for the 2021 year.

MR. ANTOINE HACAULT: Okay.

MR. TAI PHOA: So if -- if I added 20 percent to that, that would bring -- bring me to about two thousand five hundred dollars ($2,500); my rough math.

And so if we go back to the prior -- to the other exhibit. So -- so as you can see, it's very close to the number for Territory 1. And of course the other number reflects the average for all the territories. So once you consider the average for all the territories, you probably arrive at a number close to the two thousand five hundred (2,500).

MR. ANTOINE HACAULT: Okay. Could I have an undertaking to provide what the real average premium for Passenger Vehicles for Hire is in 2021? Is -- is that something that can be easily accessed?

MR. TAI PHOA: So just to be clear, all you -- it sounds to me like what you're asking for is to take the original rate that we have here and just weigh by the number of vehicles to come up with the average rate for the Passenger Vehicle for Hire, all territories?

MR. ANTOINE HACAULT: So what I'm trying to do is -- it would be to create an additional line on the table shown in Taxi Coalition-6, which wouldn't -- which would say, "original rate," and then the next line would be "average premium," the actual, what you actually collected, because there's a rate indication in -- in this exhibit at two thousand six hundred and forty-seven (2,647).

You've given an explanation that the actual premium would be higher probably by 20 percent. I'd like to know what it was actually. So in a separate line for each territory.

MR. TAI PHOA: Okay. So you want -- so -- so basically, you want me to add to this table, or at least to the original rate -- you want me to put in there the actual rate by territory.

MR. ANTOINE HACAULT: Yes.

MR. TAI PHOA: Okay. Yeah, we can do that.

MR. ANTOINE HACAULT: Okay.

MR. STEVE SCARFONE: I always like when my witnesses give undertakings because if they're not answered, they're not enforceable. So -- but we will provide that undertaking.

--- UNDERTAKING NO. 31: MPI to create an additional line on the table shown in

Taxi Coalition-6 that shows
the actual rate by
territory

MR. TAI PHOA: My apologies to Mr. Scarfone behind there. I -- I have been advised time and time again to let the -- let him take the undertaking.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: It's okay. Even if he changes his mind, I wouldn't hold you to it, Mr. Phoa. You're doing your best to try and answer my questions, and I appreciate that.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, sir, I don't know if you'll be able to answer this question. Is it your view that the Private Passenger Vehicles for Hire constitute a higher risk compared to the general class in which they are located?

MR. TAI PHOA: Yes. And that's indicated by their relativity compared to the rest of the -- the other uses in the major class, yeah.

MR. ANTOINE HACAULT: Yeah. I'm going to switch to another area quickly. I'm nearly finished, I think.

I had asked some questions about the COVID assumptions for rating in the revenue panel, and I think they told me some of those questions were better addressed to -- to the ratemaking panel. So I'm going to try and clean up a couple of little questions here.

I don't know if you followed that cross-examination, but I had suggested that, all things being equal, we assume pre-COVID claims to return, but the same assumption is not applied with respect to the number of vehicles in the public major class.

Are you following me so far?

MR. TAI PHOA: Yeah, I'm following you so far.

MR. ANTOINE HACAULT: That would mean that the reduced number in that public major class have to pick up that greater cost.

So to simplify it, if we had a hundred dollars and we had eighty (80) vehicles to pick up that hundred dollars, but we change our assumptions because eighty (80) vehicles is -- we think it's going to be sixty (60), those sixty (60) vehicles each have to pick up a greater part of that hundred dollars.

Do you agree with that concept?

MR. TAI PHOA: I would agree with the concept if -- if that was the methodology that we used, whereby we allocate the total cost to the major classes. However, the methodology that we use for ratemaking looks at pure premium.

So what we do is we look at the average loss cost historically and project the loss cost going forward. So to the extent, you know, when we -- when we look at the pure premiums and we look at the average loss cost, we already -- so -- so what we're saying is we're looking at the loss cost per unit, so -- so when we -- when we look at the loss cost per unit, the unit consideration is -- is I would say not relevant in this situation.

So -- so we -- so if -- if taxis -- sorry, if the Public Major Class, for example, went down three hundred (300) units, well, the loss cost per unit doesn't change. So then we -- like there -- there's no reason for the loss cost -- the historical loss cost per unit or the historical indications to change, and that's kind of -- that's kind of what we use.

And like I said, I would agree if what we do is we say -- before we do any of this loss cost per unit, we say, you know, there's $10 million of claims that we have to allocate to all the major classes, and we just say, all right, Public Major Class takes a million dollars, then I would agree with your -- your argument.

But when -- if we are looking at the loss cost per unit, the historical loss cost per unit, then the -- I would say that I would have to disagree with the argument.

MR. ANTOINE HACAULT: Okay. So -- and -- and this may be something Mr. Scarfone's going to say I need to respond to.

But it means if you -- what you're saying in your testimony -- and maybe I didn't understand the math correctly -- I had brought the previous panel to an indication that there was about seventeen hundred (1,700) U-drive units which were not going to go back to pre-COVID events. So they were no longer part of the Public Class group.

Do you recall that general line of questioning?

MR. TAI PHOA: I -- I would say -- sorry, I just want to be clarified that there are less

U-Drive vehicles right now, or in the system, because of COVID-19.

And we do anticipate that, as the effects of COVID-19 gradually -- gradually diminishes, I guess, that the U-Drives or the rental companies will start increasing the size of their fleet again.

MR. ANTOINE HACAULT: Okay. I'll take you to Taxi Coalition Round 2-5 because see that's where there's a disconnect. Everything returns to normal except the public major class units.

So, I want you to have a chance to look at the response that was provided. So, in 'B', because we were questioning why the rental units were staying so low and not returning to pre-pandemic levels, MPI explained -- and I'm just using round numbers -- that it assumed for rental vehicles that it would take a lot longer to return to pre-pandemic levels.

So, what we are trying to determine is whether or not that had any impact on the rates being charged by the public major class. Do you understand why the question was being asked?

MR. TAI PHOA: Yes, I do. So -- give me a minute to collect my thoughts.

(BRIEF PAUSE)

MR. TAI PHOA: So, I agree with you there's -- there's somewhat of a disconnect here. So, when we look at -- so -- so, there -- there's two (2) pieces to this equation.

So, on the one (1) piece, we need to say how many vehicles do we anticipate for the -- for the public major class for rating year '22/'23. So, that helps us to determine how much premiums we would get from the major class based on the determined required rate for the major class.

MR. ANTOINE HACAULT: Okay. So, I'll just stop you there so I understand that concept.

Am I taking you to say -- and you can continue. But I'm -- am I taking you to say that it's important in that calculation to know the total number of assumed vehicles in that class to make that calculation?

MR. TAI PHOA: Yeah. So -- so, MPI operates on a -- like, so -- so there's -- there's a certain amount of revenue that needs to be collected for the rating year 2022/'23. And it is important for us to recognize for that year how many units are going to be for each major class so that we can then know where -- where the revenue stream is coming from.

So -- so, to the extent that we are saying the same thing, then I would agree with you.

MR. ANTOINE HACAULT: Okay. So, that gets me back to the example that, if you know in the theoretical example I gave you that you're only going to have sixty (60) vehicles to pay the hundred dollars, then you kind of decide what kind of rate you need to get to cover those costs?

MR. TAI PHOA: Yeah. So, that brings me to the second piece of the equation. So, the second piece of the equation is actually getting to the required rate itself.

So -- so, in order to determine the required rate, what we do is we look at the per unit cost based on historical indications. So, for claims, for example, and we've documented this in appendix -- sorry, let me get the reference.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: I'll let you continue, but I'll just put something on the record with the hope that we can get through this a bit quicker.

Would it be easier to -- for MPI to calculate the public major class indicated rate change using the same assumptions as other major classes or the public major class, in other words, that all the units go back to pre-COVID level?

If we see that, would it help answer the question that I have, is there a change between the modelling that MPI did with the lower assumptions versus what a modelling would look like --

MR. TAI PHOA: Yeah --

MR. ANTOINE HACAULT: -- if you assigned pre-COVID levels to all units, including the rental units?

MR. TAI PHOA: There would definitely be a change. And -- and the change is -- is really a result of -- so, like I said a while ago, that there is a total amount of revenue that MPI has to collect to -- to -- in order to breakeven.

So, when we look at -- when we look at the loss cost and the expenses and we say -- and we say how much do we need to collect from the -- from the -- from everybody as a whole in order to breakeven, we -- we have what we call the overall pot.

Now, the question becomes, okay, so we have all these major classes, how much -- how much are all these major classes contributing based on their required rate or their contribution to the revenue.

And, in a sense, if -- if I assume that there will be more public units, then, of course, the public unit contributions will be more, but everybody else pays less. So, there will be, of course, a change to the required rate indications.

But having said that, the required rate change is only going to change marginally because, like I said, the second part of the equation is how do we get to the required rate in the first place?

And so, in order to look -- to get to the required rate, the unit assumption for '22/'23 is not important because what we do is we look at the average loss cost based on historical indications.

So -- so, we -- we look at historical claims costs. And we said, okay, here's the projected average claims cost for this group. We look at the same -- we do the same thing with expenses.

And so -- and so, at the end of the day, we said this is the average cost for the group which is not tied to the units. It's -- it's -- because -- because we're looking at hist -- because we are looking at average claims costs.

So -- so, at the end of the day, you

know, the required rate is not going to change. It's just -- and so, we would calculate the rate -- the rate change the same way.

And -- and so -- so, it's just -- it's more a -- it's more, you know, how much -- the -- the unit assumption is -- is more important for telling us how much the public major class is going to contribute based on the required rate that we calculated.

MR. ANTOINE HACAULT: So, I get back to the question where I'm trying to streamline this and not get into a whole bunch of little questions to drill down.

Would it be very much work to just (AUDIO ISSUES) the units in the public major class to do the same assumption as for all other classes, it returns back to pre-COVID levels as of March 2022?

MR. STEVE SCARFONE: Yeah. So, just maybe to make it clear, I hope I do, I think what you're saying, Mr. Hacault, is, with the reduction in the U-Drives, the required revenue for the public major class is -- is going to be less. And so, you're saying the taxis are going to be paying more.

And so, you just want -- you want an adjustment made to reflect perhaps those U-Drives not returning to pre-COVID levels, and then see how that impacts on the -- on the rates that taxicabs will pay?

MR. ANTOINE HACAULT: That's a different way of putting it, but, yes. If -- if the same assumptions could be used for -- the public major classes was used for all other classes --

MR. STEVE SCARFONE: Yes.

MR. ANTOINE HACAULT: -- being we return back to pre-COVID levels instead of extending this U-Drive area for another two (2) years at non --

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

MR. ANTOINE HACAULT: -- COVID -- okay.

--- UNDERTAKING NO. 32: MPI to make an adjustment made to reflect perhaps those U-Drives not returning to pre-COVID levels, and then see how that impacts on the rates that taxicabs will pay.

MR. ANTOINE HACAULT: Thank you very much, members of the panel. This is (AUDIO CUTS OUT).

(BRIEF PAUSE)

MR. ANTOINE HACAULT: So thank you very much for doing your best to answer my questions. I was tedious and I apologize for that.

Just perhaps one (1) statement on clarification with respect to a previous undertaking. Remember, you said we were going to -- you undertook, without consulting your counsel that you would update our Exhibit 6 to provide that extra line on actual premiums.

Could you just indicate to what date that's current, 'cause I would think that -- I don't know, could it be current to September or August? You're going to have data to a certain date, so if we could just indicate to what date when you do that table it's current to, that would be appreciated.

MR. TAI PHOA: So my understanding of our conversation -- and you can -- you can certainly correct me if I'm wrong. My understanding of the conversation was to take the 2020 earned premium and units and -- and show -- and show the average earned premium by territory for the 2020 year.

It's -- does this sound about right?

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Maybe we can go offline to just clarify this, rather than clutter the record. It was very ably done last time. I just want to make sure we aren't having a disconnect as to what I've asked for and what you're going to produce. Fair enough?

MR. TAI PHOA: That does sound fair.

THE PANEL CHAIRPERSON: Thank you, Mr. Hacault.

Mr. Scarfone, any re-direct?

MR. STEVE SCARFONE: Yes. No questions from the Board?

THE PANEL CHAIRPERSON: I'm sorry. Mr. Gabor...?

THE CHAIRPERSON: Yeah, I've got a few questions.

Mr. Phoa, I believe -- you can answer this now or on the -- on the later DSR panel, but I believe you said -- it was either you or Mr. Dunstone -- there are eighteen thousand (18,000) motorcycles registered in Manitoba?

MR. TAI PHOA: Subject to check, that sounds about right, yeah.

THE CHAIRPERSON: Yeah. And there are seventy thousand (70,000), I guess -- I don't know what class licences -- but seventy thousand (70,000) licences for people who can drive those motorcycles, is that correct?

MR. TAI PHOA: Yes, that's based on my -- the last conversations I've had. Definitely a lot of motorcycle licences out there that do not have an active motorcycle registered, yes.

THE CHAIRPERSON: Okay. And can you tell me, of the eighteen thousand (18,000) motorcycles that are registered in Manitoba, how many of the registered owners don't have a licence that allows them to drive motorcycles?

MR. TAI PHOA: I don't have the data available, but we can certainly look into it.

THE CHAIRPERSON: Okay. If you could provide that information.

The other things is that, I believe, at one (1) point, according to my notes, you said that MPI made it clear to customers on the annual statement form that this was a one (1) time discount. I think you said that a few times.

Can you -- can you point to the statement where it actually says that, that it's a one (1) time discount?

MR. TAI PHOA: I'm looking at my

sample here, and it's on page 3. Perhaps, it's also on page 1.

THE CHAIRPERSON: Yeah.

MR. TAI PHOA: Yeah. So -- so the way I read this particular line, it says:

"When we have sufficient capital in the fund, you will see a discount."

That suggests to me that -- that you -- that this particular discount is evaluated year-over-year, and -- and it's not -- there's no -- sort of like a guarantee in that you will see the same amount next year.

THE CHAIRPERSON: Yeah. Okay. I guess -- and I note that it's on page 3 again, the same line.

But are you saying that customers -- I mean, your -- your statement was you made it clear to customers this was a one time discount. As I understand the statement, it appears to say in this year there's a discount if there's sufficient funds -- sufficient capital in the fund, but it doesn't say this is a one (1) time discount.

Mr. Dunstone, did you want to comment on that or do you want to...

(BRIEF PAUSE)

MR. STEVE SCARFONE: Mr. Gabor, sorry about that. We're just discussing.

THE CHAIRPERSON: Yeah.

MR. STEVE SCARFONE: Mr. Dunstone has more expertise in that area and maybe can he -- respond 'cause he's better suited to -- he knows about the -- the work that went into the new statements.

THE CHAIRPERSON: Okay.

MR. DEAN DUNSTONE: So, yeah, on the statement, I think we were talking about there's no term 'one (1) time discount'. It's not actually on there. So it's not explicitly on there.

Obviously, we get statements annually. So, I mean, when I read this, as Tai indicated here -- Mr. Phoa -- when we have sufficient capital in the fund, you'll see a discount. So we perceived that as one (1) time. Should it be more explicit? I probably would agree that maybe we could put 'one (1) time' in there.

It is -- it is a one (1) time discount. So every year, we're going to look at our excess capital or capital funds and make a determination annually as we come to the Board. So this is just, you know, this year's. We had sufficient capital available to provide this discount. And then, next year, it possibly could be different, depending on --

THE CHAIRPERSON: Mr. Dunstone, would I be correct in suggesting that this is, sort of, standard wording that might be in every annual statement because it doesn't commit you to anything? All it says is if there's sufficient capital in the fund, you'll see a discount, which also means if there isn't sufficient capital in the fund, you won't see a discount.

MR. DEAN DUNSTONE: Right. And I -- I'm not too familiar with prior statements or -- as Steve indicated, I haven't been exposed to the statements too much. But I know the capital release is a relatively new concept that we've introduced, so I'm assuming that this is kind of the first year that we provided this 'cause I don't believe we've provided a release in the past.

So this probably is the first year we -- we have done this on these statements. In the prior, we probably wouldn't have put anything.

THE CHAIRPERSON: Okay. Can I just ask -- and I don't know if this panel can answer or if this was -- it's an undertaking because it probably would have gone to an earlier panel.

But in terms of the annual statement, was there any consul -- either any surveys done or focus groups done in terms of whether customers actually read the statement or whether customers read it and understood it? This is ten (10) pages long?

Does MPI do any -- any sort of analysis after in terms of whether customers read it or read it and understand it?

MR. STEVE SCARFONE: So what we can do, Mr. Gabor, is find out from our customer relations.

THE CHAIRPERSON: That's -- that's fine. That's -- that's fine. You know, I didn't see the statement before, so I would have asked them. But if you could ask them, Mr. Scarfone, and -- and provide their answer.

MR. STEVE SCARFONE: Yeah.

THE CHAIRPERSON: Thank you.

--- UNDERTAKING NO. 33: MPI, in regards to the annual statement, to indicate if there was any surveys done or focus groups done in terms of

whether customers actually
read the statement or
whether customers read it
and understood it

THE CHAIRPERSON: Those are my questions.

THE PANEL CHAIRPERSON: Mr. Watson...?

THE CHAIRPERSON: Oh, sorry. Sorry, sorry. One (1) more question.

Mr. Phoa, if you could look at page 5 of 6 in this category. And I guess the category was off-road vehicles.

Is this how it's set up? You actually know who the individual or usually drivers are for off-road vehicles?

It says, "Your usual drivers." And then it says:

"You've listed the following individuals as usual drivers of your registered off road vehicles."

And then, you give three (3) plate numbers and three (3) names, including the popular Mr. John Doe.

For off-road vehicles, do you actually

know who the drivers are of those off-road vehicles?

MR. TAI PHOA: Yes. For off-road vehicles, we actually have to determine who the usual drivers are, just because -- and it has to do with the Extension policy, and -- and some of the surcharges that are on the Extension portion of the policy.

So we -- we -- the -- the customers who insure their off-road vehicles, actually have to list their -- the -- the drivers of their vehicles -- the drivers of their vehicles. Yeah.

THE CHAIRPERSON: Okay. And is there -- and there is one (1) charge for Extension against the vehicle, notwithstanding, how many -- how many drivers there are or their driving records?

MR. TAI PHOA: Mr. Gabor, I might have to look into that a little bit, but I -- I know that -- that some of the surcharges, applicable on the off-road vehicle Extension rate is dependent on the claims history of the drivers of that off-road vehicle.

So -- so -- so in order to -- in order to effect a surcharge, what they do is they -- they ask the -- the person who is registering the vehicle, like who -- who usually drives this off-road vehicle, and then they look at the off-road vehicle claim history for that particular drivers, in order to determine whether a surcharge is required or not.

THE CHAIRPERSON: Okay.

MR. TAI PHOA: So, that's kind of why it is -- it is listed.

THE CHAIRPERSON: Okay, is there any -- you know what -- that's -- that's fine. Thank you very much.

THE PANEL CHAIRPERSON: Mr. Watson...?

BOARD MEMBER WATSON: Just for some clarity, Mr. Phoa, we spent some time on major claims this morning and territories and classifications.

So if a person is -- their vehicle is registered in Territory 1 and they have a major claim in another territory, how is that classified in your data?

MR. TAI PHOA: So, for -- for -- it always -- it always just goes back to the territory for which the vehicle is registered.

So in the -- in -- in the example that you provided, for ratemaking purposes, that serious loss would be attributed to a vehicle that was -- that it was registered in Territory 1.

BOARD MEMBER WATSON: Okay. I believe the evidence today was that there is seventy (70) to ninety (90) major claims per year. And the -- and major claim is classified as anything over five hundred thousand ($500,000).

Out of those seventy (70), ninety (90) claims, what's the percentage of those claims that are actually the incident takes place in Territory 1 versus all the other territories in Manitoba due to high speed and highway driving?

MR. TAI PHOA: Mr. Watson, if I may clarify a question, are you asking of all the serious loss -- of all the serious losses -- of -- of all the -- incurred for the serious losses, how much of that incurred is attributed to a -- a registered owner in Territory 1 versus other territories?

BOARD MEMBER WATSON: Correct.

MR. TAI PHOA: I -- I -- we -- we -- we definitely have the data and I -- I -- and I -- it's actually presented in the ratemaking section.

If -- if it helps, I could just use that information and calculate the percent -- the percentages by territory. Is that okay?

BOARD MEMBER WATSON: Okay. My next question is: How is it classified if it's out of the province, so if it is -- it still comes back to where the registered vehicle is, so if it takes place in the US or out in another province, it still comes back to the territory where the vehicle is registered?

Or how do you classify out of Manitoba --

MR. TAI PHOA: Yeah. So -- so basically what we say is that -- that particular serious loss was caused by -- by this vehicle -- that's a -- that's a Manitoba vehicle and -- and so -- so we attribute the -- the loss cost back to the -- the -- the vehicle that is -- that is responsible for the incident.

I just want to make a quick note. I -- I -- I realize that -- that -- that I completely forgot about the allocation methodology.

So, a couple of years ago, the -- the Public Utilities Board say that we need to allocate the loss cost equally for -- for PIPP costs to the vehicles involved.

So -- so yeah, so the vehicle in Territory 1, will get part of the loss cost and depending on how many other vehicles involved, they will get part of the loss cost as well.

That's -- that's just the allocation methodology for PIPP.

BOARD MEMBER WATSON: Okay. So at a high level, could you sort of answer the question in the sense of when a major loss, how many of the claims could be in other -- in other territories versus Territory 1? Do most of the claims in major claims take place outside of Territory 1 or...?

MR. TAI PHOA: So I would -- I -- I would have to check back on that. Again, I -- I -- we -- we -- essentially, if I -- if I'm understanding your question correctly, you're asking me to say -- to look at just the incident --

BOARD MEMBER WATSON: Correct. Where the incident --

MR. TAI PHOA: -- and where it happened?

BOARD MEMBER WATSON: -- took place. Correct.

MR. TAI PHOA: Yeah, I can certainly take a look at that -- we'll -- we'll look at the -- we'll try and determine -- we'll -- we'll try and see what we have available in our database.

BOARD MEMBER WATSON: Okay. Is there a risk for some of the classes of vehicles that don't take place outside of the territory?

For example, taxi cabs -- majority of the taxi cabs are registered in Territory 1 and they just don't travel into the other territories, but you do load a certain amount of major claims into that category. How is that allocated?

MR. TAI PHOA: Yeah. So -- so we -- we -- we don't really -- we're not -- we -- we do load serious losses on taxi cabs, but that's based on their actual occurrence of -- of a serious loss.

So, they would -- to -- to -- the -- the taxi cab was involved in an incident that was -- that -- that -- that somehow let -- where -- whereby the PIPP cost is greater than five hundred thousand ($500,000).

BOARD MEMBER WATSON: Okay.

MR. TAI PHOA: So, yeah, so -- again -- that -- that goes back to -- I -- I recognize that, you know, they -- they might not be traveling between province but, having said that, there -- there is a reason they have a serious loss, something which we haven't investigated.

BOARD MEMBER WATSON: Okay. Thank you.

THE PANEL CHAIRPERSON: Mr. Scarfone. Any re-direct?

MR. STEVE SCARFONE: Thank you, Madam Chair. I'll make it quick because I know we're into our lunch hour.

RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:
Mr. Phoa, you'll recall that, Mr. Hacault, asking you questions about the 20 percent Order from last year's rate application?
MR. TAI PHOA: Yes, I do.
MR. STEVE SCARFONE: And as I understand it, you initially applied 20 percent to the premiums, at that first instance. Correct?
MR. TAI PHOA: The 20 percent was applied to the 2021 rates, that's correct.
MR. STEVE SCARFONE: Kristen, could you pull up for me please Ratemaking chapter, page 48.
As I understand it, that same methodology wasn't used in the second year. Is that right?
MR. TAI PHOA: That is correct.
MR. STEVE SCARFONE: And right there at line 1, on the screen, you'll see there that the Corporation indicates in June that it did not apply the credibility formula as discussed above, meaning it didn't apply that initial 20 percent for the second year.
MR. TAI PHOA: And, just to be clear, the -- give me a -- moment.
MR. STEVE SCARFONE: And just so --

maybe an easier way, what -- what does the Corporation mean by line 1?

MR. TAI PHOA: So, what we did -- so we have a credibility formula that we apply to all insurance users, however, we did not apply the same credibility formula to passenger vehicle for hire this year.

Just to backtrack a little bit, the credibility formula, basically, looks at the actual experience and adjust that actual experience to -- and -- and adjust the -- the current rate based on the actual experience.

So, instead of using the standard formula that we apply to everybody, which would have given the passenger VFH insurance use a 10 percent credibility, on their actual experience, what we have done is we have chosen to just fully reflect the actual experience by giving the passenger VFH a -- a hundred percent credibility on their actual experience.

To that extent, what we -- what -- what that does is that results in a higher rate increase than if we would have applied the 10 percent credibility.

MR. STEVE SCARFONE: Okay. Thank you.

And I don't want to belabour this point. So if I'm understanding the order from last year -- and -- and there you see it before you:

> "There shall be consecutive rate increases of 20 percent."

You see that there, sir?

MR. TAI PHOA: Yes, I do.

MR. STEVE SCARFONE:

> "Unless MPI can demonstrate that it's not -- no longer being subsidized."

Do you see that?

MR. TAI PHOA: Yes, I do.

MR. STEVE SCARFONE: Okay. So the first go-around, if we're using a hundred dollars, you would, by my crude math, multiply that by point two (.2), you get twenty dollars ($20), and now it's one twenty (120)?

MR. TAI PHOA: That is correct.

MR. STEVE SCARFONE: And then going forward, you would use one twenty (120), multiply it by point two (.2), which is twenty-four (24), and now it's one forty-four (144)?

MR. TAI PHOA: That is correct.

MR. STEVE SCARFONE: Okay. You didn't

do the one forty-four (144) step?

MR. TAI PHOA: No, I did not do the one forty-four (144) step.

MR. STEVE SCARFONE: Okay. And so pretend for a second that I'm five (5) with the intelligence of a five (5) year old. That second part may be easier, actually.

Can you explain just very simply why the Corporation didn't do the second part?

MR. TAI PHOA: So, again, like I said, the Corporation didn't do the second -- the -- the Corporation took somewhat of a different approach this year. We fully recognize the -- the actual loss experience which is for -- for the group. And then -- and then -- which resulted in the -- the adjustment that we did.

The order suggested that, you know, we need -- we need to increase the 20 percent if MPI can demonstrate that -- sorry, unless MPI can demonstrate that the passenger VFH major class is no longer being subsidized, based on the evidence that we have, we do not believe that -- that the 20 percent is required based on how we did the methodology.

MR. STEVE SCARFONE: So the evidence that you used didn't support a second 20 percent.

Is that an accurate summation?

MR. TAI PHOA: That is an accurate -- accurate summation, yes.

MR. STEVE SCARFONE: And you said in your direct evidence that you recalled the genesis of this order was the loss ratios, correct?

MR. TAI PHOA: Yes, that's correct.

MR. STEVE SCARFONE: Is there a range of loss ratios that the Corporation worked within that's acceptable to them?

MR. TAI PHOA: I -- I would say around 80 percent loss ratio, 70 or 80 percent loss ratio is -- is about right.

MR. STEVE SCARFONE: So the range is 70 to 80 percent that's acceptable to the Corporation?

MR. TAI PHOA: Yes, that's correct.

MR. STEVE SCARFONE: And can we reasonably expect all loss ratios for all classes to be the same?

MR. TAI PHOA: Definitely not. Especially for smaller major classes -- sorry, for smaller insurance users, that's definitely not going to be the case.

MR. STEVE SCARFONE: Two (2) more questions.

Mr. Hacault made reference to a black magic box. Are those the credibility adjustments that your business unit undertakes?

MR. TAI PHOA: Yeah. The credibility formula is -- is something that we do. And it's definitely not a black magic box, that's -- let's put it that way.

MR. STEVE SCARFONE: On the serious loss issue, you spoke of the random nature of a serious loss?

MR. TAI PHOA: Yes, I did.

MR. STEVE SCARFONE: And Mr. Hacault put to you a couple of factors and asked whether the Corporation analyzes these with respect to serious losses. One (1) was whether the driver is the registered owner or someone other than the registered owner.

Do you recall that?

MR. TAI PHOA: Yes, I do.

MR. STEVE SCARFONE: And he asked you about whether the Corporation analyzes the type of vehicle used in connection with the random loss -- or the serious loss?

MR. TAI PHOA: Yes, I do.

MR. STEVE SCARFONE: Okay. Is there

anything that the Corporation isn't doing, in your estimation, that could help predict when or where a serious loss might occur?

(BRIEF PAUSE)

MR. TAI PHOA: Can you repeat that -- that question again, counsel?

MR. STEVE SCARFONE: Yes. Is there anything that your business unit is doing currently that can be changed to help predict where or when a serious loss might occur?

(BRIEF PAUSE)

MR. TAI PHOA: No. Currently, we're not doing anything to -- in terms of predictive modelling on -- on serious losses.

MR. STEVE SCARFONE: And just one (1) moment, Madam Chair. That might be it on re-direct.

(BRIEF PAUSE)

MR. STEVE SCARFONE: One (1) last question, Mr. Phoa. I think I heard you say in response to Mr. Hacault's questions that the COVID year, as he called it, was included in the calculation of the Passenger Vehicle for Hire rates?

MR. TAI PHOA: Yes, they were. When we were -- when we were looking at relativities, we included all years. And that's applicable to all insurance uses because all insurance uses are affected by COVID one way or the other.

MR. STEVE SCARFONE: And did that COVID year have an effect on the experience of -- of the Passenger Vehicle for Hire class?

MR. TAI PHOA: Yes, it did. The same for a lot of -- all the other insurance uses as well.

MR. STEVE SCARFONE: And did it reduce or increase the experience?

MR. TAI PHOA: Based on the evidence prevent -- presented this morning, the loss ratio actually decreased quite significantly for the passenger VFH use.

MR. STEVE SCARFONE: Okay. And -- and the last question on that.

Would that reduction be an artificial reduction of the experience, or is that something that's concrete and real going forward?

MR. TAI PHOA: I -- I just want to be

very cautious with this answer because we -- all we have for the Passenger VFH right now is that it's -- it's three (3) years of experience. We have two (2) years where it's showing a loss ratio of about -- of greater than 120 percent. I think one (1) year was -- and one (1) year where it showed -- where it's affected by COVID and it's showing a loss ratio of 67 or so percent.

It's -- it's a very new use, and I -- I think -- and -- and on top of that, it's a very small group. So I think it's -- it's hard to say what the -- what the loss ratios might look like as we go forward, especially recognizing of course that -- that MPI has already increased the rates for 2021 by 20 percent. And based on the application this year, this -- for -- for Territory 1 at least, there's going to be a 17 percent rate increase on average.

So -- so I want to be very cautious about commenting on what a future loss ratio might look like based on three (3) years of experience.

MR. STEVE SCARFONE: Okay. Thank you. Those are all my questions, Madam Chair.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone. Mr. Gabor...?

THE CHAIRPERSON: Yeah, I've got one

(1), sorry, further question based on Mr. Scarfone's questions, which I thought were going in a certain direction, but he didn't ask the -- the one (1) question.

Mr. Phoa, on the screen we've got this passage. Line 4 says:

"Unless MPI can demonstrate that the Passenger VFH major class is no longer being subsidized."

Is it the position of MPI that applying the full 100 percent credibility to the raw relativity demonstrates that the Passenger VFH major class is no longer being subsidized?

(BRIEF PAUSE)

MR. TAI PHOA: My take on this is that, for -- for -- when -- when it comes to insurance, there's -- there's always going to be like some small cross-subsidization happening, especially when it comes to very small uses. Having -- so -- so what we've done here is that we fully recognize the -- the actual loss experience for -- for the Passenger VFH, and then applied the same adjustments that we do to every insurance use in the interest of fairness.

And -- and to the extent that the methodology is correct for every -- every other insurance use, then it is also correct for Passenger VFH, and that it is no long -- that it is -- that, while it is no longer being subsidized as -- that it is no longer being subsidized.

THE CHAIRPERSON: Okay. So your answer is...

MR. TAI PHOA: Yes.

THE CHAIRPERSON: Yes. Okay. Thank you. That's my question.

THE PANEL CHAIRPERSON: Thank you. And thank you very much to the members of this panel.

We'll adjourn now until quarter after 1:00, and then start this afternoon with the Capital Management Plan, Rate Rebate, Rate Stabilization Reserve Panel. Thank you.

MR. STEVE SCARFONE: Yes. And just as a reminder, Mr. Giesbrecht will be appearing virtually.

THE PANEL CHAIRPERSON: Oh, okay. I wasn't sure that we were aware of that, but...

MR. STEVE SCARFONE: Oh, okay.

THE PANEL CHAIRPERSON: And also --

MR. STEVE SCARFONE: It's based on the

Board's COVID protocols.

THE PANEL CHAIRPERSON: Okay. Fine. Thank you.

Also, just a note for the panel appearing this afternoon, we will have to adjourn at 3:45 this afternoon.

I'm sorry, that's tomorrow. Excuse me.

MR. STEVE SCARFONE: Thank you.

THE PANEL CHAIRPERSON: Thank you.

--- Upon recessing at 12:16 p.m.

--- Upon resuming at 1:17 p.m.

THE PANEL CHAIRPERSON: Okay. Thank you. Now, we'll commence with the afternoon. Mr. Scarfone...?

MR. STEVE SCARFONE: Good afternoon. Thank you, Madam Chair. So, as -- as we know from our schedule, we're a little behind. This Capital Management Plan/Rate Stabilization Reserve/Rebate Panel was to have started this morning, but we have these gentlemen scheduled for a day and a half.

And so the members of this panel are, of course, Mr. Giesbrecht who is before you on the screen. He is MPIC's Vice-President of Finance and the Chief Financial Officer.

We also have Mr. Dunstone, manager, forecasting, and reinsurance, and Mr. Phoa, actuarial analyst, both of whom were here this morning.

Back row support, there's four (4) people that will help out the panel: Mark Russo, Financial Forecasting Specialist, Jing Lang, Ms. Lang was also here this morning, Director of Pricing and Portfolio Management, Cara Low, MPIC's new chief actuary, Vice-president insurance and risk management, and, lastly, Tyler Clearwater, who also holds the title of actuarial analyst.

And so, I don't believe anybody requires further introductions by way of credentials or experience. And we would have Dr. Christle swear in or have Mr. Giesbrecht affirm.

MPI CAPITAL MANAGEMENT PLAN/RATE REBATE/RATE STABILIZATION RESERVE PANEL:

MARK GIESBRECHT, Affirmed

TAI PHOA, Previously Sworn

DEAN DUNSTONE, Previously Affirmed

EXAMINATION-IN-CHIEF BY MR. MARK GIESBRECHT:

MR. STEVE SCARFONE: Mr. Giesbrecht, I

understand there's a presentation by way of a slide deck that you will be presenting. There it is.

I just want to confirm for you -- with you, sir, that this particular presentation and its content will form part of your examination-in-chief?

MR. MARK GIESBRECHT (by Teams): Yes, that is correct.

MR. STEVE SCARFONE: Thank you. And so, if you're ready to proceed with the presentation and to your direct evidence, then go ahead. Thank you.

MR. MARK GIESBRECHT (by Teams): Thank you very much. Yes. So, happy to be here again before the Public Utilities Board. And for today's presentation, myself, along with Mr. Phoa, will be presenting. And we'll be going back and forth on a few of the slides.

And so, we're here today to speak to you about our RSR, the Rate Stabilization Reserve, and our Capital Management Plan.

So, you see the agenda before us. We'll -- nothing really new here in terms of the RSR, but we wanted to go over the -- the main purpose, talk about the benefits of the MCT and utilizing a hundred percent MCT which is currently our -- our capital target.

And we'll talk about our -- our CMP. We've had this now in place for about two (2) years. And we'll talk about the history, some changes of the components, obviously, some impacts of COVID, and some things that we're thinking about as we've had learnings from COVID and learnings with excess capital to the degree to which we have, you know, what we anticipate to bring for future GRAs.

And we also want to touch on the DVA and transfers from Extension to DVA that are an essential point of this Hearing.

So, on to the next slide, please. Okay. So, again, just a definition of the -- the RSR. We've -- we've seen this many times, but just wanted to put this on the record.

The purpose being to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from nonrecurring events or factors.

You know, we have the Capital Management Plan that works in tandem with the RSR. And, of course, the -- the purpose of the CMP is to achieve this aim of the RSR to the -- to be able to absorb unforeseen events and make sure that we can deliver on our promise of rate stability.

And the way that the CMP has been built is to move incrementally towards a hundred percent MCT, whether that be moving up or down depending on where we sit any given time with our Basic MCT.

And so, the Capital Management Plan aims to manage rate volatility by taking predetermined steps and, again, moving incrementally towards that target currently within our capital build and capital release provisions.

There's also the -- the known and assumed capping at 5 percent, again, to ensure there is capping and -- and no rate shock as it pertains to the development of capital.

On the next slide, so, of course, we know that we do have reserve regulation, reserve regulation 76-2019. And this defines our capital targets for Basic, as well as our other lines of business.

It also restricts the use of surplus funds in the RSR to only be used to reduce the rate indication for Basic in a subsequent year. Now, of course, this has been a topic we've covered in prior GRAs.

But in the PUB Order 176/'19, of course, the PUB held that the reserve regulation to be ultra vires and not binding on the PUB. However, we do, at MPI, you know, feel that we need to comply with that reserve regulation, and it continues to be best practice and the best method of determining the appropriate levels of capital, you know, for MPI, as an insurance company.

And utilizing a hundred percent is a reasonable and not an excessive level of MCT given, you know, target industry, it's typically 200 percent or above.

You know, we feel that it continues to be a very appropriate target for purposes of setting our -- our target capital.

I'll pass it over to Mr. Phoa to talk about some of the details of the Capital Management Plan.

MR. TAI PHOA: Thank you. Thank you very much, Mr. Giesbrecht.

So, continuing along. This slide here just sort of presents sort of a history of the evolution of the capital -- capital plans that we have brought forward to the PUB in the last four (4) years.

In 2019 GRA, we brought forward a

capital maintenance provision. Essentially, what we wanted to do with the maintenance provision was just to ensure that the MCT ratio at the end of the fiscal year is unchanged -- sorry, at the end of fiscal year 2019/'20, which is the rating year, is unchanged from fiscal year-end 2018/'19.

To that effect, we applied for a capital maintenance provision of 2.1 percent. The following year, we came back to the Public Utilities Board. MPI took away the capital maintenance provision. You can see that we eliminated 2.1 percent.

And coinciding with the regulation that said MPI had to hold Basic MCT at a hundred percent, we introduced the Capital Management Plan which include either capital bill or release provision.

We did not -- for that particular rating year, there was no capital bill or release that was -- that MPI applied for. The PUB approved the Capital Management Plan for a period of two (2) years.

Then, in 2021, we came back to the PUB. That was our first year of the trial. We -- we proposed a 5 percent capital release provision. That was approved by the Public Utilities Board for the 2021 rating year.

And moving forward to this year, we -- again, this is the second year of the trial. And, as MPI's Application will -- will show, we are seeking for the suspension of the capital release this year. And -- and, in -- in place, we are also proposing a capital rebate which we will discuss a bit later on, and, also, the extension of the CMP trial period, I believe, for one (1) year. Next slide, please.

So, just talking about the CMP. So, the first thing that MPI does before even implementing the Capital Management Plan is to figure out rates based on accepted actuarial practice. We are not -- we are not changing that. There's -- every year, that's the first part of the plan, what is required for the rating year.

Then we look at the -- and -- and so, then the other part of -- the other component of the Capital Management Plan, of course, is the capital targets by line of business.

We have a hundred percent MCT ratio for Basic, a 200 percent MCT ratio for Extension, and a 300 percent MCT ratio, I believe, for the special Extension line of business. Those things -- those targets are not changing this year. And then there is the capital transfer rules.

So, in -- in the Capital Management Plan there is an automatic transfer from Extension to Basic when there is excess capital available. By 'excess capital,' we mean, if the capital available is -- results in the MCT ratio for Extension being 200 -- being greater than the 200 percent as set in the reserve regulation.

And this is evaluated as -- as of the year-end, so it's not -- it's -- it's -- if we look at the -- the minimum capital test ratio at the end of the year and we say it looks like it's greater than 200 percent, let's transfer that amount to Basic.

So, the transfer of capital, it greatly reduces or eliminates actually the requirement for a capital bill because there's -- there's a significant transfer from Extension. So, that's a -- that's a good thing for Basic ratepayers.

This year, we are actually proposing no transfers from Extension to Basic for 2020/'21 and 2021/'22. And the reason for that is that the excess capital is going to be transferred before fiscal year-end to DVA. That's an issue that we've been discussing.

Mark -- Mr. Giesbrecht will continue on the next slide and discuss a little bit more about that particular piece.

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): Yes, thank you.

And so we wanted to highlight the DVA and implications for this year's application. And this has become a very topical issue in the media of late.

So, of course, we did make a $60 million transfer from Extension to DVA last fiscal year. So in March of 2021. And, as we've indicated in our overview to the application, we do have a further projected $53 million transfer to end this current fiscal year.

Now, it's important to note that MPI is statutorily mandated to administer the DVA. However, there is no corresponding statutory source of funding for these operations. So we have the responsibility, however, there is no statutes that indicates that there is funding to be made available to MPI.

There's a service level agreement and that's been in place for a number of years. However, that -- that amount has historically been insufficient to cover the costs of running this line of business.

Now, MPI is not prohibited from transferring profits from Extension to other lines of business, other than Basic. And the reality is these transfers have been taking place for a long, long time, going back to the inception of the DVA and MPI administering that on behalf of the Province of Manitoba.

And so if we look at the history of -- of Extension and where did those profits -- where were they utilized, where were they directed? Over the years, they've been utilized either for being funnelled into Basic or being utilized to cover costs of the DVA. And that has been going on, you know, for the last fifteen (15) to twenty (20) years.

So there really is nothing new in -- in regards -- we look at where is the greatest need. In recent years, Basic -- you know, from the years 2015, 2016, 2017, had some serious deficiencies and, of course, monies were transferred.

In the years preceding those years, DVA had made -- or received a number of transfers from Extension. And, you know, based on where DVA -- the financials are today, we -- we deemed it appropriate and prudent to ensure that we continue to fund those operations as are evidenced by these -- these two (2) transfers.

Now, we are -- just continue back to that last slide, please. Thank you.

We do continue to have ongoing dialogue with government as we are looking for solutions to ensure that the DVA-line can be self-sufficient. But as of yet, we do not have an agreed upon plan to make that happen. So there are a number of solutions that are on the table and being discussed but, as of yet, we do not have a conclusion to those discussions.

And the final point is -- is just to reiterate that MPI and its management are responsible for the overall operation of the Corporation, which includes all lines of business.

And I also want to point out that if certain lines of business were having financial difficulty, they were having serious losses, those losses would ultimately have potential to impact other lines of business.

And so if we were to use a drastic example; if all the other non-Basic lines of business were dramatically in the red, they were having serious losses, it could jeopardize the ability of Basic to fulfill its obligations. So it is incumbent on our --

our team to ensure that we do manage all lines of business appropriately.

Onto the next slide. And I'll pass it back to Mr. Phoa.

MR. TAI PHOA: Yeah. So continue -- so continuing along the lines of the components of the CMP, everyone is familiar with the capital bill or release provision. Last year, we had a capital release of 5 percent.

So how the capital bill or release provision works is that, in the event of a bill scenario, whereby the starting MCT is under the hundred percent target for the reserve regulation, we would bill it out over a period of five (5) years. And where -- where there's a release provision, what we would look at it -- which means that the MCT at the study is greater than a hundred percent. We would look at, what we call, a three (3) year bill scenario.

So the next few points talk about the steps. So the first step is to determine the Basic MCT at the beginning of the rating period. In this case, it's April 1st, 2022, since we are talking about the '22/'23 rating year.

The second step would be to calculate whether it's a capital bill out release ratio.

The next step is to calculate the target MCT at the end of the rating period, which is March 31st, 2024.

And then to compare forecasted MCT to the target MCT at the end of the rating period, and apply the capital build out release provision, if necessary.

Now, this is a lot of -- this is a lot of words and it's, kind of, really hard to just follow the words, so I will provide a simple example.

Say, at the beginning of the rating period, we are looking at a 90 percent MCT. And -- and so that MCT is below the target hundred percent at the beginning. What that would mean is that we now are looking at a -- what we call a capital build scenario.

So our target, at the end of five (5) years, is a hundred percent. So what we would do is we would say we would build it -- so the difference between the hundred and the 90 percent is 2 perc -- is 10 percent. And so we would -- our target MCT ratio would then be an increa -- an increment of 2 percent every year, such that -- 2 percent every year.

So -- so what that means is that, by the end of the rating year -- which is March 31st, 2024, which is two (2) years away -- we will start at ninety (90), our target MCT would be 90 percent, plus 2 percent a year. So, at the end of the -- the rating period, we are looking at 94 percent.

So that would be our target. So the build plan helps us to establish what our target would be at the end of the rating year.

The next part then, is we are saying, okay, if our target is 94 percent, based on our forecasts, what is our forecasted MCT?

So there are three (3) scenarios here.

1. Our forecasted MCT could be 94 percent, which is the same as the target. In -- in that sense we do nothing, so there will be no capital build provision.

If the target is less than the -- sorry, if the forecasted MCT is less than the target MCT, in that situation then we would implement a build so that it -- so that the forecasted MCT will be the target MCT at the -- as of March 31st, 2024.

And finally, if the forecasted MCT is greater than the target MCT, we will look at where -- where that amount is. So if that amount is under a hundred percent, then we would do nothing. If the amount is greater than a hundred percent, then we would have -- we would actually put in place a capital release to bring it back down to the hundred percent.

So that's a -- That's a simple example.

And -- and for this year anyway, MPI is seeking a suspension of the use of the capital release provision for one (1) year. I mentioned a while -- a little while ago that that's in place -- in place of that, we are looking at releasing capital by a rebate, which is more appropriate in this current climate.

(BRIEF PAUSE)

MR. TAI PHOA: Yeah. So -- so -- all right. Next slide, sorry.

Okay. So talking about the current climate, obviously, the -- the COVID-19 situation has brought about unusual circumstances for MPI. We have -- we have come back to the PUB twice last year to apply for a rebate, totalling $180 million. However, I guess -- I guess, it's hard to -- it's hard to figure out what this COVID-19 -- how long this COVID-19 sit -- pandemic situation is going to continue. And it has continued even up to now.

And, as such, we find ourselves in the position where the Basic MCT ratio is surpassing the

100 percent target, based on the reserve regulation.

So one (1) of the things that the -- one (1) of the things that this situation has shown us is that it has identified, sort of, a weakness in the Capital Management Plan. The release provision is -- is a very good mechanism when we -- when we are looking at just regular year-over-year growth and -- and decreases in capital. So -- so it gradually adjusts for those small changes to the capital.

However, it is not very useful when you, all of a sudden, have this significant surplus that would -- this significant surplus in your reserves. And what that would mean, of course, is that if you were to apply the capital release, that would take -- if we assume 50 million release a year, I believe the current capital rebate is -- yeah, it's about 330 million. We are looking at about a six (6) years before we release all this money.

So -- so obviously, you can see one of the weaknesses of the capital release in a situation when we have a sudden large amount in -- in -- in the -- in our reserves I guess.

So, -- so MPI requires a -- a -- a new tool to more quickly release this excess capital that we have.

And, Mr. Giesbrecht, will speak to the next point.

MR. MARK GIESBRECHT: All right, thank you. So to continue on the points just made about the removal of the capital release and -- and the replacing of the rebates.

Of course, the question is well -- you know, why -- why do that?

There's a number of reasons for it and -- and -- and a lot of it -- it pertains to our learnings over the last year and a half. As was spoken to the amount of excess capital that -- that -- the timeliness of returning that to ratepayers. They all go into that and -- and -- and also separating the -- the go-forward rate indication from the build up -- prior at the levels of capital and how that impacts customer understanding.

And so, at -- at -- at -- one of the challenges, at least from a customer perspective is, when we look at our -- our current bills, and we have a cost of our -- our premiums and -- which is offset by a -- a credit, the average customer would likely assume that is the overall rate and would not recognize that there are two (2) distinct components.

And so, by embedding that rate into the

billing, when -- when you have to remove that rate, because by -- by the very nature of a capital release, it is temporary, it's not permanent and when it is removed the overall impact is a -- an increase all else equal.

And that could be very difficult to explain to a -- a non-insurance, you know, customer or a -- a non-savvy customer. So there's -- there's that component of it.

Definitely the timeliness and we know that, we have been developing, you know, large levels of excess capital during the pandemic and obviously with -- with two (2) prior rebates, that is the case.

So we -- we -- we also feel that it's appropriate to remove the capital release and replace it in entirely with a rebate because of the -- the timing.

And so, because we have the ability with the excess capital and the applied for rebate, to coincide that with the removal of the capital release, while -- while there will be a -- an impact of an increase, it is more than offset by the amount of the capital rebate.

And, so for the -- all in all, the application we've applied for is a reduction of 26 percent for the insurance year of 2022/'23.

So it -- but it definitely is an -- an important piece to be able to -- to be able to communicate to customers what is that impact going forward. And we will be looking at ways to do that in the future.

And if we move to the next slide, we will be talking about our -- our proposal and our thought process in future GRA's. About how -- how would we consider a rebate in the future, because again, the challenge is how do you disconnect the capital from the cost of the yearly operations of claims and expenses.

And so, we will be coming back in the '23' GRA with a -- a wholesome plan of how do we incorporate the learnings of the pandemic and -- and this position of excess capital into a plan moving forward, outside of the trial period and the extension of one (1) year that we are requesting.

So again, the -- the mechanism used within the CMP to these larger amounts, it -- you know, we -- we want -- want to recognize the stability impact. So a -- a rebate is a way to -- help to facilitate more stability, while not incorporating a -- a capital -- a release that has to be at some point be removed in the future.

And -- and to do that we'll have to look at what is the appropriate point to do that, whether it be a -- a trigger or a threshold. And those are things that we are -- are considering.

And -- and of course, in terms of the rebates, we would anticipate that we would be looking at using our MCT calculations, typically at the -- the beginning and end of -- of different fiscal years and that would be the determination of, you know, what would a rebate amount look like. No different than we have applied for in -- in this year's rebate application.

So, that will conclude our presentation so we can move to the next session, please.

MR. STEVE SCARFONE: Maybe, Mr. Giesbrecht, just kind of getting the sense of things here, maybe it might be a proper time for -- for some questions that I have concerning the -- the -- the presentation you just gave and then we can move on to the next one, before we lose sight of the evidence that you just provided.

So, I did have a couple follow-up questions for you. Beginning first, Kristen, on slide 10 of that presentation. Thank you.

So we heard you say, Mr. Giesbrecht, that the Corporation learned from the pandemic and it highlighted, I think, if I can paraphrase some failings of the Capital Management Plan.

Firstly, does the Capital Management Plan in its current form contain a rebate provision?

MR. MARK GIESBRECHT: No, it does not.

MR. STEVE SCARFONE: Secondly, the Corporation says in its Application that the capital release provision that it now seeks to suspend, created what MPIC called an artificial premium deficiency. Do you recall those words?

MR. MARK GIESBRECHT: I believe so, yes.

MR. STEVE SCARFONE: Okay. And, I heard you explain it to -- to some extent in your presentation. A couple questions concerning that.

You said that the -- the release provision would be embedded in rates going forward. Is that -- is that how I understood it?

MR. MARK GIESBRECHT: Well, the in -- in the '21 rates, there is a -- a capital release at 5 percent, so that caught a credit. And that amount is embedded in the overall rate.

And so, that -- that amount is

temporary in nature, as that -- as that excess capital depletes by way of being a credit, it has to be removed at some point. And so, when removed, the credit is no longer there, and the overall impact all else equal is an increase on the rate.

MR. STEVE SCARFONE: Okay. So was that -- was that part of the Capital Management Plan -- was that -- I don't know if I'd call it a deficiency, but however you want to describe that capital release provision, was that also highlighted through the pandemic as was the need for a rebate provision?

MR. MARK GIESBRECHT: Yeah, definitely. So, when -- when we first applied for the Capital Management Plan and the build and release, we were at a point where we were building capital and we were not yet at our target MCT target.

So, you know, we were historically at very low levels of capital. Then the year proceeding the pandemic and into the pandemic, we had really strong financial results. And that led us to being over capitalized, relative to our 100 percent target. And so that enabled us to provide that 5 percent credit last year.

You know, when we built the Capital

Management Plan, we, you know, we didn't recognize the -- what would happen if we had instantaneous influx of cash and excess reserves.

And, how would that flow back to customers? And so that is, you know, could be one perceived deficiency, is that -- that -- that amount, when there is significant levels of excess capital, it takes too long to get back to customers.

The -- and the other part, is -- it is embedded in the rate, so again, that commingling of your -- your cost of operations with prior development of capital, you know, at some point has to be undone.

And when it is undone, it appears to a customer like you're raising rates, but even though it is simply the removal of a temporary credit.

So that's some of the challenges that we're learning as -- as we've gone through these last eighteen (18) months.

MR. STEVE SCARFONE: Okay. And so the follow-up question, when the -- the Capital Management Plan was first proposed and -- and brought to this Board for approval, did you or any other members of the MPIC executive foresee the undoing of the release provision?

MR. MARK GIESBRECHT: Well I -- I -- I

do recall there was discussion with -- with Interveners and with the PUB on, you know, what could be the impact on rate volatility.

So, we -- there -- there was discussions -- yes, we had discussions internally. There was discussions through the course of the GRA for that particular year.

So they -- we knew that was a possibility. You know, there are capping, you know, put in place to address that, but we definitely didn't anticipate having hundreds of millions of dollars of excess capital and having that to flow back over, what would be many, many years through the -- the -- the way the capital release was built at that point in time.

That -- that we didn't contemplate. You know, we were coming from a point where, it was only a couple of years ago, we were at 30 percent MCT and had been challenged to bring it -- that up over -- over many years.

So, it -- it -- that was not quite on our radar, but of course, the pandemic kind of turned the world upside down.

MR. STEVE SCARFONE: Okay. Thank you. And on that note, you're aware, of course, that the

Corporation is not only seeking approval of its rate application, in this hearing, but also its rebate application.

MR. MARK GIESBRECHT: Yes, of course.

MR. STEVE SCARFONE: And the rebate period, as I understand it ends December 9, 2021?

MR. MARK GIESBRECHT (by Teams): That sounds correct, yes.

MR. STEVE SCARFONE: So it's possible that after that date, the Corporation could accumulate excess capital, if the pandemic presents the same dilemma that it has for the past eighteen (18) months?

MR. MARK GIESBRECHT (by Teams): That's a possibility.

MR. STEVE SCARFONE: And so does the Corporation foresee the possibility of yet another rebate application?

MR. MARK GIESBRECHT (by Teams): You know, I -- I wouldn't rule it out. It's -- it's possible. Our -- our hope and our intent is with this rebate application that we are returning all excess capital that is forecasted to be in place at the end of March of 2022. And hopefully by that point in time things will be a bit more back to normal.

That's our -- our hope, you know, for

the -- for the sake of the province and -- and everybody. But it's definitely possible that there could be ongoing impacts of the pandemic or further restrictions and lockdowns, and that -- that may have impacts on claims frequency, which of course could have an impact on our financial results and our ability to provide a subsequent rebate.

MR. STEVE SCARFONE: And the effect of the rebate, if approved, what -- what impact would that have on Basic's MCT target?

MR. MARK GIESBRECHT (by Teams): Well, it would have no effect on the target, but the actual result would bring us back to roughly a hundred percent to that target level.

MR. STEVE SCARFONE: Okay. Thank you. And lastly, can you just describe the interplay between the rebate application and how it impacts upon the rate application that the Corporation is looking to be approved this year?

MR. MARK GIESBRECHT (by Teams): Well, the -- the direct correlation really is with the removal of the -- the capital release to 5 percent. I mean, so we're talking two (2) different things. We're talking what is the cost of our claims and expenses for the 2022/'23 rating year, and we're looking at what is the excess capital expected to end '21/'22?

But where the real linkage is is with that capital release, the current 5 percent that we are requesting to have removed and replaced with the rebate. So that's really the interplay and how they're -- they're directly connected. Otherwise, they're really looking at one -- one's prospective and one's retrospective, but they are definitely linked in this application because of the current capital release.

MR. STEVE SCARFONE: Is the 5 percent that's being removed included in the amount that the Corporation calculated for the rebate?

MR. MARK GIESBRECHT (by Teams): Yes. So by removing the capital release, that -- that then flows into the premiums which flows into our overall financial position. And then we will release all excess capital over 100 percent that is projected in March of 2022.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Thank you. Those are my questions.

And if you want to carry on then, Mr. Giesbrecht, with the balance of the -- the presentation.

MR. MARK GIESBRECHT (by Teams): So we had completed the presentation so we're -- we're open to -- to questioning.

THE PANEL CHAIRPERSON: Mr. Scarfone, is there a presentation on RSR as well?

MR. STEVE SCARFONE: Yes, that was my understand -- no, I think -- confirm with Mr. Giesbrecht. I think he dealt with the RSR at the beginning, but I -- I'd understood perhaps that there was something further from Mr. Giesbrecht but it doesn't appear to be the case, so I guess he's -- he's ready for cross-examination.

THE PANEL CHAIRPERSON: Okay. Thank you.

Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you. And just to confirm, this was MPI Exhibit 70, and I have not seen anything past 70, so I wasn't certainly expecting another presentation at this point.

MR. STEVE SCARFONE: So we're ad idem. Good.

MS. KATHLEEN MCCANDLESS: Yes.

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: All right. I'm just going to go back to the elements of the Capital Management Plan that were just mentioned to confirm. And, Mr. Phoa, this is probably for you.

So the Capital Management Plan is based on applying a required capital build based on a five (5) year rebuilding plan, yes?

MR. TAI PHOA: The -- the way the build -- the way the target -- sorry, I -- I think maybe I should clarify this one. The way we would calculate the target build is to build from an amount under hundred percent to hundred percent over five (5) years, yes.

MS. KATHLEEN MCCANDLESS: And then the capital release is based on a three (3) year capital real time frame subject to capping at 5 percent?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: And I appreciate that your presentation walks through the Capital Management Plan. I just wanted to go back to what was initially presented to the Board when the Capital Management Plan was presented for approval two (2) years ago.

And so if we could go to MPI Exhibit

Number 52 from the 2020 GRA, please. And slide 30.

Now, this would have been a presentation that Mr. Johnston spoke to two (2) years ago. Either Mr. Phoa or Mr. Giesbrecht, whoever's most appropriate to answer the questions. I -- I don't have a particular preference right now.

But as it was framed to the Board initially; so it was one (1) simple methodology to achieve the purpose of the RSR and to adjust the RSR towards the Basic 100 percent MCT requirement in a structured and consistent manner from year-to-year, yes?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: And at the next slide -- and you did review these elements just a few moments ago, but they were noted as AAP ratemaking, capital targets by line of business, capital -- capital transfer rules, and capital build or release provisions?

MR. TAI PHOA: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: And jumping to slide 33, the first bullet here provided that transfers are now assumed to occur automatically when Extension -- I think there's maybe a typo there -- when the actual Extension minimum capital test ratio exceed 200 percent at fiscal year-end, yes?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: And that, unlike previous GRAs, as of the 2020 GRA in the proposed plan, the Extension capital transfers were forecasted as part of the GRA?

MR. TAI PHOA: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: And you just mentioned that MPI is proposing in this GRA to suspend the capital release?

MR. TAI PHOA: To suspend the capital release for 2022 rating year, yes.

MS. KATHLEEN MCCANDLESS: And MPI is proposing a third rebate now issued from Basic?

MR. TAI PHOA: Yes, that is correct. This will be the third rebate in the -- the last two (2) years, I guess.

MS. KATHLEEN MCCANDLESS: Which would be contrary to the rules set in the Capital Management Plan?

MR. TAI PHOA: The rules set did not include consideration of a capital rebate, yes.

MS. KATHLEEN MCCANDLESS: And then if we could go to PUB-MPI-2-2, Appendix 1, please. And page 6. Thank you.

So this is a slide deck from a presentation that was given to the board of directors of MPI on March 25th, 2021, regarding Extension transfers to DVA.

Mr. Phoa, are you familiar with this document?

MR. TAI PHOA: I would have to defer this to Mr. Giesbrecht.

MS. KATHLEEN MCCANDLESS: Okay. I will ask Mr. Giesbrecht about it then.

Mr. Giesbrecht, are you familiar with this document?

MR. MARK GIESBRECHT (by Teams): Yes, I am.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. And so, as I understand it, when the proposal to transfer Extension excess capital over to DVA was being considered, this was the presentation that was presented to the Board, and the slide we see before you is a summary of what was provided by way of evidence in last year's GRA about capital transfers from Extension.

Is that accurate?

MR. MARK GIESBRECHT (by Teams): Yes, it is.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. And so we see that, on the right-hand side of the slide, there's an excerpt from a conversation that you and I had last year about the possibility that Extension excess could be used for something other than the Capital Management Plan transfers to Basic, yes?

MR. MARK GIESBRECHT (by Teams): Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And underlined there, you had said:

"However, if something were to arise where there was a need, and it was deemed as appropriate to utilize those funds, that could be possible at the discretion of the MPI board of directors."

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATHLEEN MCCANDLESS: At the time of the -- you made that statement, though, MPI had no plans to do anything with the Extension excess other than what was contemplated by the Capital Management Plan.

MR. MARK GIESBRECHT (by Teams): That

is true.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And, ultimately, as we know, there was a decision made to transfer the Extension excess capital over to DVA instead of use it as contemplated by the Capital Management Plan?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: Now, if we could go to PUB MPI-2-2, just a footnote in the narrative portion of this response.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen. Here the Corporation explains that the impact of the excess capital generated by the pandemic demonstrated a weakness in the Capital Management Plan.

And you just spoke to that a few moments ago, yes?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: And there

will be some new methodology proposed in next year's GRA?

MR. MARK GIESBRECHT (by Teams): Yes, that is our intentions.

MS. KATHLEEN MCCANDLESS: Now, Mr. Giesbrecht, with respect to the comment that you made last year about the potential that the Extension excess could be used for something other than transfers to Basic, is there anything else foreseen at this point as far as transfers apart from using them in 2022/'23 over to Basic?

MR. STEVE SCARFONE: I just want to -- just with your question, Counsel. I don't believe he said that the last one was foreseen. You asked if there's anything else that's foreseen.

MS. KATHLEEN MCCANDLESS: I -- I mean going forward.

MR. STEVE SCARFONE: I see.

MR. MARK GIESBRECHT (by Teams): So, we have projected the -- the excess capital of Extension at the end of this current fiscal year.

In March of '22 is -- is forecasted and currently assumed to transfer to DVA. Beyond that point in time, there is no other planned transfers. The -- that would take us to approximately the year

'26/'27, where -- where DVA would need no subsequent funding on its current level of -- of funding.

So, what I mean by that is, if we did not receive any additional funds for the administrations of the DVA line of business, these two (2) transfers, the 60 million and the projected 53, would take us to about the end of '25/'26.

So, there will be no plans for anything within Extension for that period of time. We are definitely hopeful that that will provide us the opportunity to come to an arrangement where DVA can become self-sufficient and to cover all this cost.

So, for that period of time, you know, before the year '26/'27, there will be no planned or expected further transfers to DVA based on what we know today.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Okay. And I believe you mentioned in your presentation a few moments ago that, in the past, transfers from Extension excess were normal. And -- and I'm not sure if you meant with respect to Basic and DVA or just Basic. Could you clarify?

MR. MARK GIESBRECHT (by Teams): Yes,

certainly. If we look back at the history of MPI, when we took over the responsibility of administering the DVA in 2004, we had numerous years, really, from 2004 to 2013, where the DVA line of business was in a significant deficit.

There was, you know, on boarding of systems, getting set up, having the cost come onboard. And there were numerous years, consecutive years of losses. And during those years, Extension was transferred to DVA for the years 2004 to 2013.

And that will be tens of millions -- actually, over a hundred million dollars in that point in time.

So, what I was alluding to earlier was that Extension has historically been in use for two (2) purposes, either funding DVA at its onset in 2004 for the better part of a decade, or funding Basic, right. Those really have been our -- our two (2) options over the last twenty (20) years.

MS. KATHLEEN MCCANDLESS: When you say hundreds of millions of dollars, are you -- are you referring to a particular schedule that you have of the history of Extension transfers to DVA?

MR. MARK GIESBRECHT (by Teams): It would be an internal schedule that looks at the -- the retained earnings and the capital positions of our various lines of business.

MS. KATHLEEN MCCANDLESS: Is that something you're able to provide to the Board?

MR. MARK GIESBRECHT (by Teams): Yes, I believe so.

MS. KATHLEEN MCCANDLESS: Mr. Scarfone, if we could have an undertaking to provide the schedule of transfers from Extension excess retained earnings from 2004 to present.

MR. STEVE SCARFONE: For transfers to the DVA line of business? Is that what it was?

MS. KATHLEEN MCCANDLESS: Yes. Thank you.

MR. STEVE SCARFONE: Yeah.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 34: MPI to provide the schedule of transfers from Extension excess retained earnings from 2004 to present

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Mr. Giesbrecht, in the past, when Extension excess retained earnings were -- were used for transfers to DVA or to Basic, were there any sort of rules or guidelines around those that would assist the Board in determining where to allocate those funds?

MR. MARK GIESBRECHT (by Teams): I can't speak to the particulars. I would have to -- I -- I would be making some assumptions. Typically, I would expect an analysis and a Board approval would have taken place, but I -- honestly, I can't speak to what took place back in 2004 to 2013.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now, if we could please -- oh, before we go ahead, Kristen, could we just mark MPI Exhibit number 52 from the 2020 GRA as the next PUB exhibit, which is number 25? Thank you.

--- EXHIBIT NO. PUB-25: MPI Exhibit 52 from the 2020 GRA.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now I'd like to go to PUB MPI-2-5.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And, Mr. Giesbrecht, this Information Request was about MPI's proposal to issue rebates to address excess capital and that there was a reversal in the 5 percent capital release that was current that was included in rates.

Are you familiar with this response?

MR. MARK GIESBRECHT (by Teams): Just -- just trying to refresh my memory. But, yes, I'm sure I would have seen it at some point.

MS. KATHLEEN MCCANDLESS: If we go to figure 4 -- pardon me, figure 1, pardon me, lines 3 and 4.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Specifically, I think, at line 4, can we see the $57.9 million -- what would be a reduction in premium if the capital release provision had been kept in place.

MR. MARK GIESBRECHT (by Teams): I see that, yes.

MS. KATHLEEN MCCANDLESS: Does the reversal -- this may be a question for Mr. Phoa or Mr.

Giesbrecht, so whoever's -- would like to answer, please proceed.

Does the reversal of the 5 percent capital release affect the required rate that MPI is seeking from ratepayers?

MR. TAI PHOA: No, it does not.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now, if we could go to PUB MPI-1-22, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: At question A, MPI was asked to provide alternative scenarios in pro formas 1, 2, and 3 where MPI would not rebate excess capital and would use the CMP to release the capital in accordance with the CMP, yes?

MR. TAI PHOA: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: And the response at 'A' on page 2 stated that MPI did not rebate excess capital and, instead, employed use of the current iteration of its Capital Management Plan, including capping.

MPI would require approval of a 5 percent capital release provision?

MR. TAI PHOA: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: If the Capital Management Plan were used to rebate the excess capital that is built up, given the 5 percent capping in the program, what would be the indicated rate reduction under this scenario?

MR. TAI PHOA: So -- so, this goes back to the whole question about rates and capital release. The indicated rate reduction would be the same.

So -- so, what we would do is we would take all 2021 rates, adjust it such that we get a -- I believe it's a minus 1.2 percent overall rate change. And then we would apply a -- sort of a discount based on such that we'd achieve an additional 5 percent premium reduction from -- as a -- from the capital release.

MS. KATHLEEN MCCANDLESS: And there would be a revenue reduction of the $57.9 million reversal?

MR. TAI PHOA: Yes, based on the -- the figure you provided earlier, yes.

MR. MARK GIESBRECHT (by Teams): And

this discussion illustrates some of that confusion between prospective rate setting and -- and what's happened in the past, right? And so, it's very clear that one (1) set is required to cover the cost of ongoing costs, whereas one (1) is the -- the depletion of previously acquired capital, right? So it's based on what's in the bank today versus what you think you need tomorrow.

So a very interesting discussion, based on -- yeah, what is that -- that impact on customers.

MS. KATHLEEN MCCANDLESS: Now, if we could go to Figure 3 from this same Information Request -- Request response. And this is the pro forma for the statement of changes in equity under the scenario that was requested.

MR. TAI PHOA: Yes, it is.

MS. KATHLEEN MCCANDLESS: If we look at line 22, which is the MCT ratio for Basic, based on the use of the Capital Management Plan as designed, the MCT does not fall below 130 percent over the five (5) year forecast.

MR. TAI PHOA: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: So it doesn't address the excess capital?

MR. TAI PHOA: Yes, that is the -- one

(1) of the weaknesses of the Capital Management Plan, as we mentioned earlier.

MS. KATHLEEN MCCANDLESS: Because of the capping, it's not suited to release excess capital?

MR. TAI PHOA: Yeah. So -- so we -- again, like, the capital -- the capital rebate amount is significant at 330 million, I was informed. And -- and you just mentioned a while ago that the capital release would only release $57 million out of the 330 million that we could release, based on the capital rebate.

So we can clearly see that that's going to take a while before that entire three hundred and thirty (330) gets back to the hands of the customers.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. STEVE SCARFONE: I just want to clarify. I know that Mr. Phoa keeps referencing three-thirty (330); just to make sure the record's clear, it's three-thirty-five (335). 335 million.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Yes, thank you.

And then at 'B', at page 5, this is a

different scenario. And this scenario would reflect using the Capital Management Plan, but without capping, is that right?

MR. TAI PHOA: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And we look at how that's reflected on Figure 6. But if the CMP were to use -- capping was not, that would indicate an 11 percent rate reduction?

MR. TAI PHOA: Yeah. So that's correct.

MS. KATHLEEN MCCANDLESS: And line 22, we see that for 2024 the MCT would still be at 116.2 percent, yes?

MR. TAI PHOA: Yeah. So this how the -- this is how the -- we were talking about how the CMP release provision is supposed to work. So -- so I'll try my best to see if I can explain this well enough.

So our starting MCT ratio is 148 percent. What we are looking for is that, over three (3) years we get back to a hundred percent. And so when we -- when we take the difference of 48 percent and -- sorry, 148 percent and a hundred percent, our target MCT would be -- would be a reduction.

So -- so when we -- when we look at the

148 percent, compared to the hundred percent, that's a 48 percent difference. And so the way we would -- we would calculate our target MCT ratio at the end of the rating year would be to divide that number by three (3) and then multiply it by two (2) years because we are projecting two (2) years ahead. So -- so that's about 32 percent reduction.

So the -- you can see that, based on this scenario, we went from 148 percent at the start of '21/'22 and ended up at 116 percent, which is on target, at the end of the rating year, which is '23/'24.

MS. KATHLEEN MCCANDLESS: Thank you. And these figures would be -- the numbers would be different now, depending on the results of the October update?

MR. TAI PHOA: Yes, I would agree.

MS. KATHLEEN MCCANDLESS: Would it be possible to have an undertaking to provide updates to PUB-MPI-1-22A and 'B', on the basis of the October update?

MR. STEVE SCARFONE: That's fine. So that would include the new pro formas?

MS. KATHLEEN MCCANDLESS: Yes, it would include the pro formas. And while we're at it, there are some other pro formas that we would ask be updated as well. And they're -- but they're reflected in other information requests.

MR. STEVE SCARFONE: Okay.

MS. KATHLEEN MCCANDLESS: So the next one would be PUB-MPI-2-12.

Probably if we just go to the question so that counsel can see. It's just another -- another scenario there.

MR. STEVE SCARFONE: Yeah. So the -- the -- is that -- counsel, just those two (2) undertakings to update -- oh, one (1) more. Okay.

MS. KATHLEEN MCCANDLESS: And one more would be PUB-MPI-1-26.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this is for capital releases where Extension (2:16:13) earnings were transferred to Basic instead of to DVA. And there are some scenarios there as well.

So we would ask for updates to PUB-MPI-1-22A and 'B', PUB-MPI-2-12, and PUB-MPI-1-16, which is what we see.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So Ms. McCandless, just confirming with the -- my client about the request.

Mr. Dunstone estimates it will be about twenty-five (25) pro formas, so the time line for producing those would probably be the end of this week, early next week, if that's doable?

MS. KATHLEEN MCCANDLESS: Perhaps we could, at the break, just have an offline discussion then, confirm specifically what --

MR. STEVE SCARFONE: I just didn't want to commit to the undertaking if we couldn't get it done, right, and -- and in a timely manner for your purposes. That's all.

MS. KATHLEEN MCCANDLESS: Why don't we defer that discussion until the break and then we can confirm the undertakings --

MR. STEVE SCARFONE: Afterwards. Oh, okay. Yeah.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: If we could go to PUB-MPI-2-12, please, Kristen. And in particular, I am looking at the narrative response. So on the prior page, please. Yes.

About three (3) lines in, the Corporation has stated that:

"It must be remembered that the intent of a capital release or build provision under the Capital Management Plan is to assist in maintaining a capital position of the rate stabilization reserve to meet a target MCT ratio of 100 percent at the end of 24 -- 2024/'25. MPI applied a capital release provision throughout the forecast to show the impact on achieving a 100 percent MCT ratio. MPI cautions against applying the capital release provision beyond policies written in 2022, as the mechanics of the CMP required its capital build release provision be recalculated annually."

Yes?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: The -- the

forecasted illustrative calculations of the capital release under the CMP would be done each year based on the results?

MR. TAI PHOA: Yes. Sorry. I'll...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And, I think, if we can refer to Figure 3. Thank you.

Based on the assumptions inherent in the GRA, but with no rebates being proposed for the excess capital, and no capping and release in capital sufficient to attain 100 percent MCT in 2023/'24, this would require a capital release provision of minus sixteen (16) to maintain 100 percent MCT for Basic, according to the plan?

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: And if we see at line 22 here:

"If the CMP were applied on this basis to attain 100 percent MCT in '23/'24, it would result in the MCT falling below 50 percent in 2025/'26, given the calculations and limitations to those calculations in this analysis."

Is that accurate?

MR. DEAN DUNSTONE: Yeah. If we kept the release in that long, yes, that's correct. Yeah.

MS. KATHLEEN MCCANDLESS: MPI's not recommending that the CMP be applied on this basis?

MR. DEAN DUNSTONE: That's right, no.

MS. KATHLEEN MCCANDLESS: Now, I'm going to I guess jump back a little bit on the Extension transfers to DVA.

And, Mr. Giesbrecht, we were discussing earlier that last year's application, the transfers weren't foreseen.

If we could go to MPI Exhibit Number 37, page 27, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. So this -- if we could just go to the top of the page, please. Oh, page 27. Thank you.

So this is EPF-3, and this is -- this was provided in the rate update in October. I'm primarily just interested in looking at the transfers to and from DVA retained earnings and Basic retained earnings, yes?

MR. MARK GIESBRECHT (by Teams): Yes, this schedule shows those transfers.

MS. KATHLEEN MCCANDLESS: Okay. And so we see there that the -- the transfer to and from DVA retained earnings for 2021 actual and 2021/'22 is -- are projected at roughly 114, 115 million?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATHLEEN MCCANDLESS: And the 60 million has been transferred at this point?

MR. MARK GIESBRECHT (by Teams): Yes, it has.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Has the -- pardon me, I think we need to go to EPF from the filing: EPF-3.

All right. The numbers are slightly different, but that -- that's what was I guess filed.

So there's a slight difference in the 2021 transfer that's forecast now?

MR. MARK GIESBRECHT (by Teams): Yes. I believe this is the -- the most current version.

MS. KATHLEEN MCCANDLESS: Has the $53.5 million been transferred as yet?

MR. MARK GIESBRECHT (by Teams): No, it has not.

MS. KATHLEEN MCCANDLESS: Now, Kristen, could we please go to CAC-MPI-1-94. And this was Information Request from CAC to MPI regarding the capital transfer rules. And if we go to the -- actually, before the questions, please, Kristen, thank you, 'cause they quote some of what MPI provided in the 2020 GRA. Right to the beginning of the preamble. Thank you.

So lines 14 to 16, we see:

> "If, at each fiscal year end, the Extension MCT ratio is greater than 200 percent, MPI will transfer capital from Extension to Basic until the ratio is 200 percent."

MR. MARK GIESBRECHT (by Teams): That's correct.

MS. KATHLEEN MCCANDLESS: And then if we go to Questions A and B, the Corporation was asked, in reference to the preamble:

> "Confirm the original intent of the capital transfer rules of the

Capital Management Plan were for non-discretionary transfers from Extension to Basic until the Extension MCT ratio is equal to 200 percent."

And at 'B':

"Explain if MPI's board of directors considered seeking approval from the PUB to again deviate from the rules of the Capital Management Plan."

Yes?

MR. MARK GIESBRECHT (by Teams): I see those questions, yes.

MS. KATHLEEN MCCANDLESS: And the response that was provided -- thank you -- at 'A', the Corporation stated that:

"The intent of MPI, as per the Capital Management Plan, remains unchanged."

Yes?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: Having looked at what was initially provided to the Board in 2019, is it MPI's position that the capital transfers were not a fundamental aspect of the Capital

Management Plan?

MR. MARK GIESBRECHT (by Teams): They are an integral part. They -- they have a material impact on the -- the plan and the outcome, yes.

MS. KATHLEEN MCCANDLESS: So are they -- do they remain fundamental as part of the Capital Management Plan?

MR. MARK GIESBRECHT (by Teams): They do. They do. Yeah, they -- they -- Extension, to the extent there's excess capital, you know, will have a meaningful impact on -- on the overall plan.

MS. KATHLEEN MCCANDLESS: Now, Mr. Giesbrecht, I wanted to ask some questions that I did ask of the Revenues and Expenses Panel last week on the DVA transfers as reflected in the Corporation's financial statements.

And first -- and I wanted to follow up with you. First, I wanted to look at the 2019 Annual Report for the 2019/'20 year, and that's found at -- an excerpt is found at the book of documents as well. But in particular, I am looking at -- thank you, Kristen -- the notes here or the discussion about Drivers and Vehicles Act operations.

Do you see that there?

MR. MARK GIESBRECHT (by Teams): I do.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. And if we look to the very bottom of the right-hand side of the page, there's a comment about DVA retained earnings, and it says:

"DVA's -- DVA operations' retained earnings are derived from the annual operations of the DVA operations' line of business. DVA operations' retained earnings were at negative $7.8 million compared to negative 1.2 million in the previous year."

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: And as I understand it, this was the only mention in that annual report of the -- the DVA retained earnings in the financials --

MR. MARK GIESBRECHT (by Teams): Yes, I believe so. That -- that's correct, yeah.

And what -- what we've done for the most recent year, the -- the 2020 Annual Report, is we have added a note specific to the income statement and the balance sheets of all of their lines of business. So there's additional disclosure in our -- in our financial statements that will show the financial position of all of our lines of business.

MS. KATHLEEN MCCANDLESS: So if we go to MPI Exhibit Number 35 -- and that's the Annual Report for 2020/'21, yes?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: And I understand that the transfer of the Extension surplus to DVA was approved by the Board ultimately on June 24 of this year?

MR. MARK GIESBRECHT (by Teams): Sorry. The -- the transfer would have been -- that would have been March -- I think March 25th.

MS. KATHLEEN MCCANDLESS: Yes. There was the March 25th meeting, and ultimately was there not a -- a second approval or second meeting around the 24th of June?

MR. MARK GIESBRECHT (by Teams): Yeah. So the -- the approval of the $60 million took place in March, and the -- the ultimate financial statements were approved after the conduction of the -- or the completion of the audit. So we -- we had the report approved in -- in June.

And also, on that same date, there was discussion about the forecasted future transfer of $53 million to -- to DVA. So that was not approved, but was discussed at that point in time.

MS. KATHLEEN MCCANDLESS: Thank you. Now, as I understand it, there's no note in the 2020/'21 Annual Report that's similar to the one I just reviewed with you regarding the DVA negative retained earnings.

Is that fair?

MR. MARK GIESBRECHT (by Teams): So there -- there's two (2) parts. The first one is, what you're referring to is the MD&A. And what we did for the 2020 Annual Report is we were looking to streamline the -- the report and remove some of the redundancies.

So typically, what we've talked about in the past in the MD&A is each line of business and the -- you know, the drivers on revenues, claims, investments income, expenses, and so on. And in many cases, a lot of the discussion was -- it was -- the drivers were the same things. And so we did remove some of the -- the narrative by-line of business in the MD&A.

And what we've done to augment the reporting is within the -- the actual proper notes to the financial statement, so the -- the actual audited notes, there are two (2) disclosures within Note 26 and that's where we disclosed the -- statement of operations and the statement of financial position, which shows the retained earnings and total equity position of DVA, as well as all other lines of business.

MS. KATHLEEN MCCANDLESS: So, I just want to break up your response a -- a little bit.

So, first, Kristen, could we just pop back to what we were looking at for the previous years, Annual Report ends in narrative about the DVA line of business.

So, Mr. Giesbrecht, just to confirm, there is -- there's no similar note in the management discussion and analysis in the 2021 -- or 2020/'21 Annual Report.

MR. MARK GIESBRECHT (by Teams): Yes, that's correct. It was in the MD&A of the 2020 Annual Report. This particular session, where I talk about retained earnings, is not in that report.

MS. KATHLEEN MCCANDLESS: Thank you. And then if we could go back, Kristen, to MPI Exhibit Number 35.

And Mr. Giesbrecht, you were referring to Note 26, I believe that's page 70. Yes, thank you.

Okay. So, it -- this was the note that you were referring to, Mr. Giesbrecht?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: And, so, it's your evidence that the transfer from Extension, access retained earnings to DVA is reflected in this note?

MR. MARK GIESBRECHT (by Teams): It -- it is reflected, you know, in -- in hindsight and, you know, as part of this discussion, I think that we can make an improvement to make it more explicit.

But you -- you'd have to look at the equity section so, for example, look at DVA, and you see DVA for the year -- or the period of March 31st, 2020, you'll see a total equity of negative thirteen (13) million and then you see -- of March 31st, 2021, positive forty one point five (41.5) million.

And so that's where you see there's a dramatic improvement in the financial position of -- of DVA and so, and -- and if we were to scroll down to the next page, you'll see the income statement and we can see that the net income for the year is a -- a small loss of 2.7 million.

And so the difference is -- it reflects that transfer. So, but I -- I -- I think there's an improvement that we can make to the -- the disclosure, that would be to explicitly state that there was a transfer but it -- it can be found in this disclosure.

MS. KATHLEEN MCCANDLESS: How -- how many years does the Corporation want DVA to be pre-funded for?

MR. MARK GIESBRECHT (by Teams): Well, ideally, we would like DVA to be self sufficient and to cover its own costs and to carry its own burden.

You know, right -- right now there -- there -- there's a couple of parts to that question, so there -- there's the accounting treatment which recognizes the -- the capital costs and amortization of Project Nova, but if we look at the actual cash outlay, it is much earlier.

So that -- that's also a consideration when we look at the cash needs of the line of business.

But it -- to just answer your question, ideally, in a perfect world, we wouldn't need to have a pre-funding whatsoever.

MS. KATHLEEN MCCANDLESS: MPI is planning on pre-funding DVA to about 2025?

MR. MARK GIESBRECHT (by Teams): So under -- under the current projected -- transfer at March of '22, that would carry us, yes, till approximately 20 -- '26/'27.

MS. KATHLEEN MCCANDLESS: Is there anything special or -- about that time frame that has caused MPI to select it?

MR. MARK GIESBRECHT (by Teams): No, I wouldn't say so. I think the -- the biggest reason is that we -- we know that losses are currently projected to -- to pile up within DVA.

We know that there are capital costs and -- and costs to -- to modernize the systems. So we know those costs are coming and we also recognize that at the current time, we have excess profits available in Extension.

We have rebates, that we've given two (2) rebates and we're looking at, you know, applying for a third rebate that we're deliberating right now.

And so there is the -- the availability of excess funds that it just makes sense given the financial state of DVA.

MS. KATHLEEN MCCANDLESS: Is there anything that would prevent the Corporation from deciding to transfer Extension, excess capital to DVA in 2023/'24?

MR. MARK GIESBRECHT (by Teams): No. And again, there -- based on our current forecast, there would be no need because based on the transfer of 60 million that has already taken place and the projected 53, that would put DVA in a positive position for the next, you know, call it five (5) years.

So, there would be no need, unless something were to -- to change dramatically, which we do not expect at this point in time.

So, I would say, there -- there would be no expectation of any subsequent transfers to DVA for the next five (5) years.

MS. KATHLEEN MCCANDLESS: How -- how should the Board take the forecasted Extension transfers into consideration, those are -- that are forecasted after -- or starting to resume again, given that the transfers did not occur in 2019/'20, 2021, 2021/'22, and that the Corporation ultimately may not transfer funds thereafter, if it determines there's another use for them.

MR. STEVE SCARFONE: Just -- sorry to interject, Ms. McCandless, can you just go through those transfers that you say didn't occur, beginning with the first one in 2019/'20?

MS. KATHLEEN MCCANDLESS: Do you want me to take you to all of the schedules or --

MR. STEVE SCARFONE: No, not the

schedules, just where those transfers instead were directed.

MS. KATHLEEN MCCANDLESS: Well, I -- I understand that there was a rebate directly to consumers and then they were forecasted -- or there were transfers to DVA, one that's happened and then one that will happen.

MR. STEVE SCARFONE: Oh, I see, so the first one that you're speaking of is the rebate that went from Extension to Basic?

MS. KATHLEEN MCCANDLESS: There was a rebate --

MR. STEVE SCARFONE: -- in -- in the form of that rebate?

MS. KATHLEEN MCCANDLESS: -- from Extension to the customers.

MR. STEVE SCARFONE: Yeah, the 52.

MS. KATHLEEN MCCANDLESS: Yes.

MR. STEVE SCARFONE: Okay. Just so it -- just so Mr. Giesbrecht is clear.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So, Mr. Giesbrecht, given the history of the Extension transfers, not going to Basic, what assurance or -- or

-- what understanding can the Board have in the future regarding the forecasted Extension transfers?

MR. MARK GIESBRECHT (by Teams): Yeah, that -- that's a very fair question. I would -- I'd probably point to -- to two (2) main points, that being, in -- in the history, or at least the last twenty (20) years of Extension profits and where they've been directed, they've -- they've gone to one -- one of two (2) places.

One being DVA and one being Basic. So that's been established, that's been commonplace for the last two (2) years since -- since MPI's been responsible for the DVA operation.

Now, given that we've already transferred the 60 million, we've put forward, in our forecast, that we plan on transferring a subsequent $53 million at the end of this current fiscal year and the current projections, which include all of our current cost of operations, the cost of implementing Project Nova, and assume no subsequent funding from -- or changes in our current funding levels, based on those forecasts, that would carry us to the end of the -- the year 2025/'26.

So, based on that, I would be very confident that there would be no other -- no other uses intended for Extension.

Now, I fully recognize that, you know, the frustrations, or -- or how the PUB might be feeling about these -- given, you know, what has transpired, but like I said, we really only have ever utilized these -- these monies for two (2) reasons, the DVA and Extension, this will -- this plan will allow us to hopefully come to an agreement to address the funding gap and that would give us five (5) years of runway to make that happen.

MS. KATHLEEN MCCANDLESS: Thank you, Mr. Giesbrecht. So, my understanding then is that there are two (2) things upon which the forecasted Extension transfers would be contingent and one would be the Project Nova budget staying, I guess not -- not varying significantly, that would be one.

And the other two (2) would be that the funding levels from the government remain the same, or -- or don't decrease, I suppose.

MR. MARK GIESBRECHT (by Teams): Those would be two (2) critical assumptions within that forecast, yes.

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, could we please go to PUB-MPI1-26. Thank you.

So, if the Extension transfers to DVA had instead been transfers to Basic, so the amount of capital available to rebate would be greater by roughly $113 million. Yes?

MR. MARK GIESBRECHT (by Teams): Yeah, roughly speaking. There would be additional capital requirements for assets, that would be in Basic, but generally speaking, that -- that's fair.

MS. KATHLEEN MCCANDLESS: Thank you. And the Corporation was asked to run some scenarios, assuming Extension excess was not transferred to DVA, but to Basic. And I think we can see those at Figure 1. Yes?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: And so the first scenario at 126A on line 1, would reflect -- reflect a capital release of 5 percent, based on the Capital Management Plan with no change in the rebate?

MR. MARK GIESBRECHT (by Teams): I see that there, yes.

MS. KATHLEEN MCCANDLESS: 126A with the asterisk reflects an uncapped capital release of 7.86 percent, and that would be a rebate of $202.7 million over the two (2) years?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: And under that scenario, the MCT is not forecast to fall below a hundred percent, yes?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATHLEEN MCCANDLESS: The next scenario at three (3), 126B, reflects returning all the proceeds through a rebate, and that increases the rebate to ratepayers from 202 million, as we saw above, to 311.5 million?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: And then the final serial here at 126C reflects maintaining the rebate at the level assuming the transfer of Extension money but transferring money over to DVA?

MR. MARK GIESBRECHT (by Teams): I believe so, yes.

MS. KATHLEEN MCCANDLESS: And this scenario draws the MCT below 100 percent?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATHLEEN MCCANDLESS: And this was provided in August. How much would the rebate now be, based on the October update?

MR. MARK GIESBRECHT (by Teams): Well, we -- so, we've applied for $335 million, so that --

that's our -- our current -- these are our most current numbers.

MS. KATHLEEN MCCANDLESS: But under these scenarios then how would that change?

MR. DEAN DUNSTONE: I could probably speak to that.

So, yeah, the -- the initial filing was 202 million, and the update is now 335 million, so $133 million positive difference from that. And then if we -- if you're -- you know, if you're talking about the scenario in 26A, where we're transferring -- what we used to -- transferred to DVA over to Basic, you know, conceivably, that would be 114 million, so 230, 47 (sic) million.

MS. KATHLEEN MCCANDLESS: Thank you. I now am going to move into some questions about the financial condition test. I believe, Mr. Phoa, those will be for you.

MR. TAI PHOA: Actually, that might not be my area of expertise...

MR. STEVE SCARFONE: We'll probably have some heavy reliance on our back row for this one, but we'll do our best, yeah.

(BRIEF PAUSE)

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So, first, I just wanted to take you back to the target capital level and PUB Order 1/'21 (phonetic), what was ordered by the Board after last year's GRA, at ten point seven (10.7).

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen.

So, here we see at seven (7), in the 2022 GRA:

"The Corporation shall file an analysis supporting the level of the Basic target capital level 100 percent MCT or the use of a single target capital level versus a range to promote rate stability."

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And in PUB MPI-1-29B, the -- if we go up to the preamble, please.

This order is reflected again. And RSR-8 provided information about the MCT, but did not appear to provide any support for the level of the

Basic target capital level.

So then the question was asked at 'B' -- if you we could scroll down a little bit. Thank you.

The Corporation was asked to:

"Provide an updated analysis which is consistent with that used at the 2019 GRA, with respect to method and approach and provide the range of capital in both dollar and MCT basis."

Yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: The Corporation has not provided this analysis to date?

ME. DEAN DUNSTONE: No.

MS. KATHLEEN MCCANDLESS: Subject to check, would you confirm that the most current analysis then of the range provided to the Board would be the analysis provided in the 2019 GRA of an MCT range between 34 percent and 88 percent?

MR. DEAN DUNSTONE: Yes, I recollect those numbers. yes.

MS. KATHLEEN MCCANDLESS: Thank you. And then at PUB-MPI-2-15, the request that was made at

129B is repeated. And, again, the -- at 'A', if we just scroll up, the Corporation was asked to file the analysis requested with regard to a target range, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And the response at 'A' was that, essentially, MPI did not complete a target capital range analysis because it was not prioritized by MPI?

MR. DEAN DUNSTONE: Yeah. I think it's in the response there. But I know in 2019 that the -- we used to do the DCAT analysis to determine these ranges. And then we've transitioned to this financial condition testing analysis instead, basically, since we adopted the 100 percent MCT.

So, we no longer have this readily available, this information. And in talking to the actuarial analyst who independently does this every year, it is an extensive undertaking for him to -- to prepare this. And he -- he does recall the 2019 version which took quite some time to prepare.

MS. KATHLEEN MCCANDLESS: And now, with respect to the financial condition test, that was filed October 14th with the Board?

MR. DEAN DUNSTONE: I can accept that.

MS. KATHLEEN MCCANDLESS: I understand

that the Corporation had advised in its filing that this chapter would be provided in August of 2021?

MR. DEAN DUNSTONE: I can recall that, yes.

MS. KATHLEEN MCCANDLESS: So, clearly, there was some delay. What was the reason for the delay?

MR. DEAN DUNSTONE: Simply put, in this case it would have been resourcing. We have, you know, one (1) actuarial analyst who generally does the -- the testing for this. And this year, yeah, we -- we had a few things going on with the rate updates and other areas, so it was a challenge to get it prepared on time.

MS. KATHLEEN MCCANDLESS: And, ultimately, the financial condition test was signed October 9, 2021?

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): I'll -- I'll just add to -- to this discussion. That we -- given the change in our chief actuary, we had to make some changes on, you know, who would be signing off on the financial condition test and -- and working with the availability and resources of our external appointed actuary. So that definitely played a part in the timing and availability of -- of submitting this report.

MS. KATHLEEN MCCANDLESS: Thank you. Mr. Phoa, did you have something to add or...?

MR. TAI PHOA: No. Mr. -- Mr. Giesbrecht just added what I wanted to add.

MS. KATHLEEN MCCANDLESS: Thank you. So, this was ultimately signed October 9th. I think, if we jump to page 8, we can see that, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And I did circulate to your counsel a section from the Canadian Institute of Actuary Standards of Practice and, in particular, I'm looking at 2520.03.

Are either of you familiar with those standards, Mr. Dunstone and Mr. Phoa?

MR. DEAN DUNSTONE: This is the first time for me seeing it.

MR. TAI PHOA: Yeah, I would agree. But the -- the standard looks pretty self-explanatory, that the investigation is current. So, the standard just says:

"The actuary should ensure that the

investigation is current. The investigation should take into consideration recent events and recent financial operating results of the insurer."

MS. KATHLEEN MCCANDLESS: Yes.

MR. TAI PHOA: Yes --

MS. KATHLEEN MCCANDLESS: And then at 2520.13 -- thank you.

"The actuary would consider recent events and recent operating results of the insurer up to the date of the report."

Yes?

MR. TAI PHOA: Yes.

MS. KATHLEEN MCCANDLESS: Would you consider a change in expected net income for 2021/'22 from $67.3 million to $189.7 million to be a recent event that should have been considered by the signing actuary?

MR. TAI PHOA: This is where I go to my back row.

(BRIEF PAUSE)

MR. STEVE SCARFONE: It may be difficult for the Corporation to respond to that particular question, Ms. McCandless, 'cause you're asking us to -- the -- to speak for the authority that signed the report.

MS. KATHLEEN MCCANDLESS: Then perhaps just to -- I can rephrase the question:

If MPI's aware whether that change in expected net income was considered by the signing actuary?

MR. STEVE SCARFONE: And -- and that question will probably come from the back row, so just bear with us.

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): I'll just make -- while we're trying to confirm some of these answers, just to raise one (1) point, obviously, you know, using the -- the budgets and the financial forecasts is an input into any financial test or stress test. And anything that changes up until the date of sign-off would have to be considered.

In this case, it was favourable, so I think, you know, there's a difference if it's favourable or if it was the other way where it could impact the actual going concern or the ability to meet the financial obligations.

So I think that's -- that's really one (1) consideration that these are improvements, and if anything, they should report more conservative.

MR. DEAN DUNSTONE: Yeah, and we just got confirmation. So -- so the FCT was done using the 2022 GRA base model, so it wouldn't have factored in the August rate update or the October rate update that we provided.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Sorry, you said it wouldn't have?

MR. DEAN DUNSTONE: It did not, yes.

MS. KATHLEEN MCCANDLESS: Does MPI still consider the FCT to be relevant, taking into consideration the change in net income?

MR. DEAN DUNSTONE: Yes. Just based on what Mark kind of mentioned, yes, it would be a favourable change, if anything, yes.

MS. KATHLEEN MCCANDLESS: Now, if we could jump to page 10 of the FCT chapter, the base scenario, and it's Figure FCT-1. Thank you.

This provides the total equity of the Basic operations of the Corporation?

MR. DEAN DUNSTONE: Oh, sorry. Can you repeat that? I was -- I was looking down.

MS. KATHLEEN MCCANDLESS: Figure FCT-1 provides the total equity of the Basic operations of the Corporation?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And it's consistent with the original 2022 filing?

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: At line 7, we see total equity of 455 million, 502 million, 563 million, 625 million, and 690 million for 2021/'22 through to 2025/'26, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: The solvency scenarios are considered to be 1:100 year events, and the going concern scenarios are considered to be 1:10 year events?

MR. DEAN DUNSTONE: That is my understanding, yes.

MS. KATHLEEN MCCANDLESS: Would a 1:40 year event be somewhere around halfway between a 1:10 year event and a 1:100 year event?

MR. DEAN DUNSTONE: It would be pretty close, yes.

MS. KATHLEEN MCCANDLESS: If we move to FCT-2 at page 11, this shows the total equity of solvency scenarios with management action?

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: And if we were to compare each of the equity of these scenarios against the base scenario, the combined scenario -- so we see that here at line 2 -- it has the greatest impact on total equity, yes?

MR. DEAN DUNSTONE: That's right.

MS. KATHLEEN MCCANDLESS: For 2024/'25, the high loss ratio scenario -- so that's at line 3 -- has a lower equity than the combined scenario but for all other years and the largest dollar changes for the combined scenario in 2025, yes?

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: So relative to the starting equity of $455 million, the 225 million equity of the combined scenario in 2024/'25 is $230 million lower.

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: So if the Corporation had about $230 million of equity at

2021/'22, and the 1:100 year combined scenario was to occur, then it could expect total equity of about zero dollars by 2024/'25. Is that right?

MR. DEAN DUNSTONE: It sounds right, yes. I'm just going to confirm, though, but, yes, it does sound right. Just one (1) second.

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Although I suppose it's possible that there might be a little higher start -- starting point since the lower total equity at 2021/'22 would likely mean there's less investment income. Is that fair?

MR. DEAN DUNSTONE: That's fair.

MS. KATHLEEN MCCANDLESS: Given the starting total equity of $455 million and an MCT of 100 percent, reducing it to $230 million, might decrease the MCT ratio to something around 50 percent, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And at that MCT level -- so 50 percent -- the total equity would be roughly sufficient to withstand the most significant modelled 1:100 year solvency scenario?

MR. DEAN DUNSTONE: That math works, yes.

MS. KATHLEEN MCCANDLESS: So one (1) estimate of the required MCT level such that the Corporation could withstand a 1:100 year adverse event would be about 50 percent then.

(BRIEF PAUSE)

MR. TAI PHOA: My back row is saying that it would fail the going concern test, though, and the going concern test is in part 2. That's what my back row is saying.

MR. STEVE SCARFONE: I think she's having trouble hearing you. He's speaking about the going concern test.

MR. TAI PHOA: Oh, I'm sorry.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So the position is that a 50 percent MCT level would fail the going concern test?

MR. TAI PHOA: Yes. That's what my

back row is indicating.

MS. KATHLEEN MCCANDLESS: Now -- but it would be solvent still.

MR. DEAN DUNSTONE: Yes. Fifty (50) percent would be solvent, yes.

MS. KATHLEEN MCCANDLESS: If we look at the 1:10 year events, the figure in FCT-4 -- so the going concern scenarios in Figure FCT-4, the lowest total equity is 338 million for the combined scenario. Is that right?

MR. DEAN DUNSTONE: 338 million in '25/'26, yes.

MS. KATHLEEN MCCANDLESS: That's a reduction of $117 million from a starting level of $455 million?

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: So a starting total equity of $117 million might be sufficient to withstand the most significant going concern scenario?

MR. DEAN DUNSTONE: Just one (1) second, please.

THE PANEL CHAIRPERSON: While we're waiting for that response, Ms. McCandless, are we close to the break?

MS. KATHLEEN MCCANDLESS: I have about three (3) questions left on FCT, and then I would suggest a break, if that's acceptable.

MR. DEAN DUNSTONE: The answer to that is no. We have to stay over 50 percent for the going concern test.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And -- and that's reducing total equity to $117 million relative to the starting total equity of four fifty-five (455) would decrease the MCT ratio to something around 25 percent?

MR. DEAN DUNSTONE: That -- that math works, yes.

MS. KATHLEEN MCCANDLESS: And this would be a 1:10 year event, which is less severe than the 1:40 year events previously discussed?

MR. DEAN DUNSTONE: That's -- yes, that's correct.

MS. KATHLEEN MCCANDLESS: If we go halfway between the 1:10 year MCT required of 25 percent, leaving the going concern test aside for a moment, and the 1:100 year MCT required of 50 percent, we would be somewhere around 35 to 40 percent MCT for a 1:40 year event?

MR. DEAN DUNSTONE: I'm just going to get confirmation about that.

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Thank you. So those are my questions on FCT.

I can advise the panel, I have maybe fifteen (15), twenty (20) minutes left, and then I'll be finished my cross-examination.

THE CHAIRPERSON: Sorry, Mr. Scarfone, can I ask you a question?

MR. STEVE SCARFONE: Of course.

THE CHAIRPERSON: I may have missed it. But earlier on in the Hearing, I asked for a table related to DVA that you said would be provided and I'm -- I believe it was -- we were going to go back to 2004, how much -- what the costs were, how much the government was paying MPI, how much was being transferred to cover DVA, and how much was being transferred to government.

And I -- I don't know if I missed it or

it hasn't -- hasn't been created yet, but do you know where that chart --

MR. STEVE SCARFONE: I don't. On the break, I'll check on the status of that --

THE CHAIRPERSON: Yeah, if you could because I'd like to have it as part of this portion of the Hearing.

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: So...

MR. STEVE SCARFONE: I'll check on that immediately. Thanks, Mr. Gabor.

THE CHAIRPERSON: Thank you.

THE PANEL CHAIRPERSON: Thank you. We'll take a break now until 3:15, please.

--- Upon recessing at 3:02 p.m.

--- Upon resuming at 3:21 p.m.

THE PANEL CHAIRPERSON: Thank you. Ms. McCandless...?

MR. STEVE SCARFONE: Just before we begin, we just provided to Ms. McCandless MPI's next exhibit, which we'll mark as MPI Exhibit number 71.

And it is a table of costs or a schedule pertaining to the administration of the

Driver and Vehicles Act that MPIC performs on behalf of the government.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

--- EXHIBIT NO. MPI-71: Table of costs or a schedule pertaining to the administration of the Driver and Vehicles Act

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Madam Chair. A couple of housekeeping matters before I finish up my cross-examination.

First, I would ask that the excerpts from the Canadian Institute of Actuary Standards of Practice that I reviewed with the panel be entered as PUB Exhibit number 26.

--- EXHIBIT NO. PUB-26: Excerpts from the Canadian Institute of Actuary Standards of Practice

MS. KATHLEEN MCCANDLESS: And, second, with respect to the undertakings that I discussed with the panel before the break, we did confer a bit, and now, I believe, have confirmed the specific undertakings that we're asking for.

So the first is with respect to PUB-MPI-1-22, to update Part C in two (2) ways. First, how much rebate can be offered in this application and still retain the 5 percent CMP provision. This would be the provision as approved, not as implemented. And to provide supporting calculations in PF-1, PF-2, and PF-3, reflecting this scenario. Continue the assumption that the maximum allowable rebate is subject to the requirement whereby the ending 2023/'24 MCT ratio would be equal to 100 percent.

And the second part. Update to 1-22C, would be how much rebate can be offered in this application and still retain the CMP provision as implemented, worth approximately $69 million in the 2021/'22 year. Provide the supporting calculations in PF-1, PF-2, and PF-3, reflecting this scenario. Continue the assumption that the maximum allowable rebate is subject to the requirement where the ending at 2023/'24 MCT ratio would be equal to 100 percent.

That's the undertaking with respect to 122C.

MR. STEVE SCARFONE: Yes, that's fine, Ms. McCandless.

The only question I might have -- if they're available to comment -- is the distinction being made between the capital release provision as approved versus as implemented.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So that would be the -- the $69 million in the 2021/'22 year. That would be retaining the CMP provision as implemented.

MR. STEVE SCARFONE: I see, okay. Thank you. Yeah, that's fine. We'll take that undertaking.

--- UNDERTAKING NO. 35: With respect to PUB-MPI-1-22C updates:
MPI is to indicate how much rebate can be offered in this application and still retain the 5 percent

CMP provision, and to provide supporting calculations in PF-1, PF-2, and PF-3, reflecting this scenario. Continue the assumption that the maximum allowable rebate is subject to the requirement whereby the ending 2023/'24 MCT ratio would be equal to 100 percent.

MPI to indicate how much rebate can be offered in this application and still retain the CMP provision as implemented, worth approximately $69 million in the 2021/'22 year. Provide the supporting calculations in PF-1, PF-2, and PF-3, reflecting this scenario. Continue the assumption that the maximum allowable rebate

is subject to the
requirement where the
ending at 2023/'24 MCT
ratio would be equal to
100 percent

MS. KATHLEEN MCCANDLESS: And then, with respect to PUB-MPI-2-12, we can withdraw that request for an undertaking. We don't require updates to that.

But we'll still require the update to PUB-MPI-1-26, reflecting the October updated financials.

MR. STEVE SCARFONE: Yes.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 36: MPI to provide update to
PUB-MPI-1-26, reflecting
the October updated
financials

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Okay. Now, I'm going to have questions about rebate versus capital release provision.

And just to start, when a capital release provision is modelled in the pro formas, it assumes it will be paid in both of the test years.

Is that right?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: We may just to confirm that we have Mr. Giesbrecht with us.

MR. MARK GIESBRECHT (by Teams): Yes, I'm here.

MR. DEAN DUNSTONE: Thank you.

MR. TAI PHOA: Sorry, Ms. McCandless. Can you repeat that question?

MS. KATHLEEN MCCANDLESS: Yes. When a capital release provision is modelled in the pro formas, it assumes it will be paid in both of the test years.

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yes, I would confirm that.

MS. KATHLEEN MCCANDLESS: Thank you. Could we go to PUB-MPI-1-22, Figure 1.

So just by way of example, if we're looking at Figure 1, line 3 -- so the Basic -- with respect to the Basic motor vehicle premium, the capital release is embedded within that?

MR. DEAN DUNSTONE: It'll be in line 3, yes.

MS. KATHLEEN MCCANDLESS: And then, if we Could go to MPI Exhibit number 56, the response to Undertaking 9. Thank you.

At line 3 here, by the end of the second test year, only 51.3 percent -- so based on this response at line 3 -- of a second year of capital release provision would be earned.

Is that right?

MR. DEAN DUNSTONE: It would approximately 50 percent, yes.

MS. KATHLEEN MCCANDLESS: The capital rebate is only modelled to be paid in one (1) year, is that right?

MR. DEAN DUNSTONE: Yes, it shows in -- yes, '22 -- or '21/'22. Yes.

MS. KATHLEEN MCCANDLESS: So one dollar ($1) of capital release provision removes capital available for rebate by about one point one five (1.15) -- one point five one three (1.513)?

MR. DEAN DUNSTONE: Sorry, can you repeat that?

MS. KATHLEEN MCCANDLESS: Sorry. So 1 million of capital release provision would remove capital available for rebate by about one point five one three (1.513)?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Sorry, Ms. McCandless, I might be not understanding you correctly. And I -- I do know that, yeah, like basically 1 percent capital release is -- is equivalent to approximately $11 million in premiums. If that helps us get anywhere with the line of questioning.

MS. KATHLEEN MCCANDLESS: This is with respect to the 51.3 percent here, at line 3, so by the end of the test year, only 51.3 percent of the -- by the end of the second test year, only 51.3 percent based on what we've -- we see here of the second year of capital release provision is earned.

MR. DEAN DUNSTONE: It should be by the end of the second test year, the full amount should be earned. So in '21/'22 it, you know, 48 percent would be earned and then in the remainder, would be earned in '22/'23.

But over those two (2) test years or rating years, it'll be fully earned.

MS. KATHLEEN MCCANDLESS: Would it not be the case that 1 million per year of capital release is the equivalent of reducing the capital available for rebate by 1.513, based on this calculation?

MR. DEAN DUNSTONE: I apologize, I'm still not understanding your question. Just a second, I might have some back row input here.

(BRIEF PAUSE)

MR. TAI PHOA: This is where I wish I was Mr. Johnston, he always seems to be able to come up with a different way of asking the question.

So, I'm -- I'm really trying my best to understand this question. So, perhaps we will start off with suggesting that a $1 million rebate -- so I -- I got that far.

And maybe perhaps -- perhaps, Ms. McCandless, if you don't mind, just asking that question one more time. I'll try and -- I'll try my very best to get in my head and to see what I can answer that question.

MS. KATHLEEN MCCANDLESS: So, the -- the capital release is embedded in the Basic motor vehicle premium. You accept that?

MR. TAI PHOA: Yes, it is calculated as -- as a percentage of the written premiums, and earned over the two (2) rating years. Yes.

MS. KATHLEEN MCCANDLESS: Right. Okay. So then, if we look at figure 1 here, by the end of the second test year, based on what's provided, of the second year of capital release, it -- there would be 51.3 percent of the capital release provision is earned.

MR. TAI PHOA: Yeah, so -- yes, 51.3 percent of the capital release provision is earned, yes.

MS. KATHLEEN MCCANDLESS: So one million would be earned -- or half a million of the release would be earned in 2022/'23?

MR. TAI PHOA: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: One million would be earned in 2023/'24?

MR. TAI PHOA: Sorry, that -- one -- the -- the -- the first 48.7 percent will be earned in '21/'22 and the remaining 51.3 in '22/'23.

MS. KATHLEEN MCCANDLESS: Okay. And the capital rebate is only modeled to be paid in one year.

MR. TAI PHOA: The capital rebate will be paid -- yes, in one year. And then, in fact, you know, we'll -- we'll just issue cheques and -- and then that's -- and then it would just be -- it would just go into the hands of the customers right away.

MS. KATHLEEN MCCANDLESS: Okay, so based on how -- so assuming the capital release provision is modeled to be in the rates for at least two (2) years, then if the capital -- $1 million of the capital release provision removes capital available for rebate by about 1.5 -- one three million?

MR. DEAN DUNSTONE: I think you just might be converting -- yeah, like the earned portion from the full rebate, so -- yeah, I guess their full rebate would be paid at 100 percent in '21/'22, whereas the release would be spread over half of '21/'22 and '22/'23, for the earning portion.

So, it would be a much slower release, of course, than a -- than the instant release that a rebate offers.

MS. KATHLEEN MCCANDLESS: Okay. So if

we work with that math then, if $50 million of capital release provision was assumed, then it would reduce the amount of capital available for rebate by about 75.65 million?

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): I'll just jump in with -- with my two cents on this.

I -- I -- I'm not exactly sure where that, you know, where that's coming from -- over -- over, you mean the -- the -- the timing is different, when -- if you allow a -- a credit or a capital release in this -- in this example of $1 million, if it's given back to customers as they renew over to -- the two (2) years. In the end, it is -- it is still only $1 million available to rebate, whether it be over time via credit, or one instantaneous rebate.

So, it -- it -- it is -- it is -- in the end you have the same impact on your capital level and your MCT.

So, I'm not -- I'm not quite following how we get from 1 million to 1.5 based on having different types of -- of rebate mechanisms.

MS. KATHLEEN MCCANDLESS: All right.

Thank you. I think we could just leave that then -- aside for now. Thank you.

Now, with respect to the capital release provision having been applied to premiums before the DSR discount, that was mentioned last week. Yes?

MR. DEAN DUNSTONE: Yes, that was mentioned last week. Yes.

MS. KATHLEEN MCCANDLESS: And that resulted in a capital release provision of greater -- greater than 5 percent of premiums for all customers with a DSR discount and in total?

MR. DEAN DUNSTONE: Yes, that's right.

MS. KATHLEEN MCCANDLESS: Did the PUB (sic) consider that they should have advised the Board that they -- of this issue with rates?

MR. DEAN DUNSTONE: Sorry, I think you said the -- did the PUB consider?

MS. KATHLEEN MCCANDLESS: Pardon me, the MP -- did MPI consider?

MR. MARK GIESBRECHT (by Teams): Mr. Dunstone may correct me if I'm wrong, but I don't believe we were aware of this issue until it arose through the course of various questions and -- and I believe in the IRs, so it arose that way and then was

-- the before the PUB -- based on that process.

MR. DEAN DUNSTONE: That was the first time. That's my understanding too. Yes.

MS. KATHLEEN MCCANDLESS: MPI's planning on continuing a capital release provision as currently implemented for the remainder of the year.

MR. TAI PHOA: Yes, we are.

MS. KATHLEEN MCCANDLESS: And, Mr. Giesbrecht, when you say in the course of the IR process, was that in the course of answering first round, second round, do you have a ballpark as to when that issue was detected?

MR. MARK GIESBRECHT (by Teams): I believe the second round -- but I -- I'm not quite sure.

MR. DEAN DUNSTONE: I -- I can't confirm either. It was definitely one of the rounds, I just can't confirm which one.

MS. KATHLEEN MCCANDLESS: And I -- I'm just going to jump back to something we spoke about yesterday, Mr. Phoa, it was RM-20, from the MPI rate update from October and I had walked you through a bunch of calculations, taking into account the $69 million.

Kristen, can we just pull up RM-20.

(BRIEF PAUSE)

MR. TAI PHOA: Yes, I recall that discussion.

MS. KATHLEEN MCCANDLESS: Yes. So we had a discussion about working the $69 million into figure RM-20.

MR. TAI PHOA: Yes, I recall that discussion.

MS. KATHLEEN MCCANDLESS: And I did put a -- a bunch of numbers to you on the record and you had confirmed them, but perhaps we could just have by way of undertaking an updated RM-20?

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, Ms. McCandless. I'm just -- I'm just taking a little bit of time because I'm just trying to confirm how long this would take because this particular exhibit came out from the remodelling work. And so I just wanted to make sure that we can respond in time before the end of the hearings.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So the undertaking, Ms. McCandless, is to update Ratemaking Figure 20 to reflect the update that was filed in October?

MS. KATHLEEN MCCANDLESS: No. It's to update Figure RM-20 taking into consideration the $69 million capital release provision that was included in the 2021 rates -- 2021/'22 rates based on the errors in the implementation of the capital release provision.

MR. TAI PHOA: So -- so one (1) of the -- I can -- I can see the -- so -- so I can see this would be a simple exercise if -- if we stick to the 5.2 percent because what this does here is it compares the 2021 rates which are already in the model with the cap -- with the capital release to the 2022 revised rates.

Well, just -- just so that counsel is aware, it will -- it will probably take a little bit longer if we had to adjust that to the 6.75 percent that we discussed yesterday. So -- so that's -- that's my only -- that's my only comment on this one.

MS. KATHLEEN MCCANDLESS: All right. It may be similar to the previous undertaking. I will -- we can move the discussion offline and then confirm on the record later.

MR. STEVE SCARFONE: That's fine.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And so would you be able to say, based on the -- the calculated capital release provision of $69 million, how much capital could be rebated in 2021/'22 such that the MCT at the end of 2023/'24 would be at 100 percent based on the October update?

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, Ms. McCandless, I was a little bit distracted, and that was my fault. Could you just repeat that question?

MS. KATHLEEN MCCANDLESS: Based on the -- the calculated capital release provision of $69 million, how much capital could be rebated in 2021/'22 such that the MCT at the end of 2023/'24 -- so the second test year -- would be at 100 percent based on the October update?

(BRIEF PAUSE)

MR. STEVE SCARFONE: We can undertake to provide that response, Ms. McCandless.

MS. KATHLEEN MCCANDLESS: Do you need me to repeat it, or is it sufficiently --

MR. STEVE SCARFONE: That's was good.

MS. KATHLEEN MCCANDLESS: -- on the record?

MR. STEVE SCARFONE: Yeah.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 37: MPI to advise, based on the calculated capital release provision of $69 million, how much capital could be rebated in 2021/'22 such that the MCT at the end of 2023/'24 would be at 100 percent based on the October update

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Just a couple of final questions for Mr. Giesbrecht now, and this arises out of questions that I had asked of the

Revenues and Expenses Panel last week.

And the -- Mr. Dunstone, you'll recall there was one (1) answer that you deferred to Mr. Giesbrecht, as did Mr. Gandhi. And perhaps it would be easiest if we could go to the transcript from October 13 at page 377. Thank you.

So here at line 7, I had asked Mr. Dunstone whether MPI had revised its pricing to take into account lower broker commissions on Extension, essentially, that the effect of changes had been that MPI was not passing along savings in premiums charged for Extension coverage.

And so if we could just flip forward a little bit, please. Keep going, please. So Mr. Dunstone provided an exam -- or an answer here, but, Mr. Giesbrecht, are you able to comment on this question as well?

MR. MARK GIESBRECHT (by Teams): Yeah, certainly. Just to add to the initial response, last year there was no change that was made specifically to the pricing in the -- the profit margins to -- to lower or adjust based on the broker commissions.

We will be, however, reviewing, as we do on an annual basis, the profit targets, so usually in the -- in the -- over the wintertime, like usually in November/December is the time frame we typically look at these things with our board, and we'll seek approval for -- for moving forward. So they will be reviewed.

And, you know, we -- we have been historically moving towards a -- a lower profit level, and one (1) example was where we changed the products' coverages, the deductible levels where we held customers whole and based on lowering the profit margins there. But specifically around the commission, there have not been adjustments made as of yet.

MS. KATHLEEN MCCANDLESS: Thank you. And then if we could go to page 444. Thank you. I think we can scroll down a little bit to the bottom of the page. Right.

So here I asked Mr. Gandhi about a shift in cost responsibility away from Extension and to Basic. And Mr. Gandhi provided his response about CERP impacts being a part of that. But because the product changes occurred in '21/'22, that increased Extension's premium that would flow through to as well.

And then if we continue down the page, the next page -- thank you. Keep going, please. I asked Mr Gandhi if he would agree that Extension operations will be more profitable at the expense of Basic, and Mr. Gandhi said:

"Yes, Extension commissions are
expected to be lower due to the
lower rate that's been negotiated,
yes."

And so I asked Mr. Gandhi how Basic would benefit from this new arrangement, and Mr. Gandhi deferred the question to you, Mr. Giesbrecht. So I'd like you to provide a response, if you could.

MR. MARK GIESBRECHT (by Teams): Certainly. Yeah. You know, if we look at the arrangement and the commission schedules with Basic and Extension, for the last number of years there has been a large disparity between the commission rate for Basic as compared to Extension.

You know, one (1) is a mandatory, compulsory product, and one (1) is a brokered optional product, so there are some differences. But when we look at the effort and the amount of, you know, time consumed on each of them, it isn't drastically different.

And so what's happened over time, the previous schedule where the -- the rates were I believe 3 percent for Basic and 19.75 for Extension, essentially, you could argue that Extension was subsidizing Basic by having such a large disparity in that commission rate.

And so while there have been some shifts slightly where Extension is slightly lower, Basic is slightly higher, it continues to be the case that Extension is bearing, you know, what you could argue compared to industry average more commission than is necessary.

So I -- I'd say that Basic is still benefitting. However, looking specifically at this change, Basic is not benefitting from that -- that change. But we look at things in totality when -- you know, when negotiating. Of course this is a -- you know, working with a third party, with our brokers. It was also subject to a conciliation process.

So we can't just decide on our own what the rates will be. It's part of a negotiation. But I would say, overall, the rates and the commissions that we pay are quite favourable to Basic overall.

MS. KATHLEEN MCCANDLESS: Thank you to all the panel members. Those are my questions.

THE PANEL CHAIRPERSON: Mr. Gabor...?

THE CHAIRPERSON: Yeah. I just want

to raise this now rather than with the panel tomorrow.

Mr. Scarfone, the Exhibit 71 that you provided is -- is somewhat different than I anticipated. And I don't know if you have it in front of you. Do you have a copy in front of you?

MR. STEVE SCARFONE: I do now. Thank you, Kristen.

THE CHAIRPERSON: Okay. And in this, we heard evidence before that Project Nova was a large computer system. We're looking at $128 million budget, I believe, and that 49 percent of it relates to DVA.

I don't see anything in relation to that here. I -- I see this as, you know, a standalone DVA with, you know, minor expenses -- well, minor being, you know, in the $30 million range, and the government receiving, you know, approximately $250 million.

But am I correct that it doesn't include Project Nova or any other expenses that the Corporation's incurring which are being allocated to -- to it? Because I thought the evidence was it came in, it was at this flat amount, you were basically being covered, and then all of the sudden there are all these expenses; and the expenses, 49 percent of

Project Nova, for example, relate to DVA.

That's not captured in this document. What -- what I need is a document that shows the actual expenses that MPI is incurring related to Project Nova, because I suspect the net loss is going to be considerably higher.

So, I'm just wondering if you could take that back to your people and -- and see what would be required to include it. I mean, we can, I guess, superimpose the cost of DVA, and then just take 49 percent of it ourselves, but I don't know if there are any other costs that MPI is incurring, and then allocating it to DVA.

But according to this, I don't see any allocation to DVA of any MPI costs --

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: -- unless you tell me otherwise.

MR. STEVE SCARFONE: No, I think you're spot on there. The -- the difficult -- or the problem that this presents here is it wasn't prepared beyond the years 2021. So those costs that you heard about with respect to Nova and the allocation to DVA aren't captured in here because they're beyond the years that are set out before you there.

So that was our misunderstanding. We thought that the Board was just looking for the administration costs, yeah.

THE CHAIRPERSON: You know, what I'm interested in is sort of the -- the hard numbers: here's how much money -- there -- there was an agreement, here's how much money you're bringing in, here are your costs going up.

And, you know, it -- it's important for -- for me, at least, to see how much money is going to the revenue and licensing and registration. But I'd like to see, you know, even a projection for the next two (2) years, in terms of the real costs of MPI that relate to Nova that you have to cover that you're not being reimbursed for --

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: -- so --

MR. MARK GIESBRECHT (by Teams): If I may just jump in here. We could direct you to PUB IR-2-2. In that submission, there are future forecasts of the DVA line, and that's where we do show both the capital cost and some of the licensing costs that will be coming in.

So -- and some of these can be refined. That is from -- from a number of months ago. But --

but the gist of it, it -- that it shows you the losses that are anticipated and to grow in the coming years, so --

THE CHAIRPERSON: Okay.

MR. MARK GIESBRECHT (by Teams): -- there's -- there's an Appendix 2-2, and within that is the financials for DVA.

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

MR. STEVE SCARFONE: Does the Board -- would the Board prefer that the -- that appendix be consolidated with the document that we -- we tendered today?

THE CHAIRPERSON: Yeah, if you could.

MR. STEVE SCARFONE: Yes. Okay.

THE CHAIRPERSON: Okay. Thank you.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Okay. Thank you.

Ms. Dilay, do you want to start your cross-examination now or do you want to wait until tomorrow morning?

MS. KATRINE DILAY: I have no

preference. I leave it up to the Board.

I do expect to be quite lengthy. So, if you would like me to start, I could do approximately a half an hour today. I -- I mean, I -- I am also happy to start tomorrow morning if that would be the Board's preference.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Mr. Scarfone, are you and your panel available for a half an hour?

MR. STEVE SCARFONE: I think we are, yes. Yeah. And I think our preference would be to try and get some of the cross-examination done now if we can.

THE PANEL CHAIRPERSON: Okay. Thank you. Please, proceed, Mr. Dilay.

MS. KATRINE DILAY: Thank you, Madam Chair. And there probably won't be a perfect kind of breaking point in a half an hour, but I will try to -- to locate a time around then.

CROSS-EXAMINATION BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Good afternoon, MPI witnesses. Again, I think some of us have met before, but my name is Katrine Dilay. I am the legal counsel to the CAC (Manitoba), the Consumers' Association of Canada Manitoba branch.

I have a number of questions first on the Capital Management Plan, and then a number of questions on the transfers to DVA, and then at the end there will be some kind of -- a few other topics.

My first few questions will be, I think, for Mr. Giesbrecht. And the balance of my questions after that, I think will be posed to the question -- to the panel more generally.

Mr. Giesbrecht, as a senior executive of MPI, you'll be aware that MPI has certain duties assigned to it or delegated to it by the Manitoba Legislature?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And as a senior executive of MPI, it is your responsibility to be aware of the legal mandate and the limits to the mandate of MPI as assigned by the Manitoba Legislature?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And without seeking any type of legal opinion, it would be fair to say that you are generally familiar with the MPIC Act, including Sections 6 and 14 of that act?

MR. MARK GIESBRECHT (by Teams): Yes, generally. And I would also rely on our -- on our -- our legal experts to guide myself and others but -- but, yes.

MS. KATRINE DILAY: And are -- you're also aware generally that Manitoba Hydro is another important Crown corporation with a mandate set out in legislation?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And prior to making your decision to transfer profits from the Extension line of business to the DVA service administered by MPI for the government, would you have taken the time to review the 2020 decision of the Manitoba Court of Appeal relating to Manitoba Hydro, and, specifically, the court's consideration of what is a government purpose at paragraphs 85 and 86 of that decision?

MR. MARK GIESBRECHT (by Teams): I did not, no.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht. Moving on to sort of the -- talking about the Capital Management Plan. And I'm not sure who is -- will be best suited to answer these questions.

You'll agree that Extension and Basic have, for the most part, the same customers?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And you cannot get Extension insurance unless you are a customer of Basic, correct?

MR. MARK GIESBRECHT (by Teams): For the most part. There are some products that are standalone, but you're talking about deductible buy-downs and that kind of thing. But there are some products that are available for -- so generally speaking, that is correct.

MS. KATRINE DILAY: Thank you. And we can go to a reference, if you'd like. But is it your understand that more than 80 percent of Basic customers opt for Extension insurance?

MR. MARK GIESBRECHT (by Teams): That's reasonable, yes.

MS. KATRINE DILAY: And as a result of the allegiance of Basic customers, Extension dominates the Extension marketplace, correct?

MR. MARK GIESBRECHT (by Teams): That is our understanding.

MS. KATRINE DILAY: And, in fact, it holds 95 percent of the market?

MR. MARK GIESBRECHT (by Teams): I don't have exact details, but I -- I know that number's been thrown around quite a bit, and -- and we believe that it's the vast majority, yes.

MS. KATRINE DILAY: So, you'd accept the 95 percent to be a reasonable approximation?

MR. MARK GIESBRECHT (by Teams): I have no evidence to the contrary. And I believe that's reasonable, yes.

MS. KATRINE DILAY: And Extension has maintained that dominance in the marketplace for many years because of the loyalty, patronage, and support of Basic customers?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And this is important because it means that if Extension is doing well, it is in part because of Basic customers choosing to add Extension products to their coverage, rather than choosing to go with a competitor, correct?

MR. MARK GIESBRECHT (by Teams): Yes. It shows that they see value in the optional products that MPI provides.

MS. KATRINE DILAY: And you'll agree that it is easier for customers to add another MPI product to their coverage -- to their Basic coverage rather than having two (2) different insurance companies for their automobile insurance?

MR. MARK GIESBRECHT (by Teams): I agree with that.

MS. KATRINE DILAY: And you'll agree that Extension and Basic share infrastructure, in terms of information technology and administrative costs?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And it's result in a seamless shared service delivery platform, correct?

MR. MARK GIESBRECHT (by Teams): Yes. We def -- we strive to offer a seamless and a smooth transaction for all of our customer interactions.

MS. KATRINE DILAY: So, you'll agree that the competitive line of business that is Extension benefits from efficiencies for this reason?

MR. MARK GIESBRECHT (by Teams): It does. And we -- we seek to capitalize on that so that we can offer the best value possible to all Manitobans.

MS. KATRINE DILAY: And, Mr. Giesbrecht, it is your recollection that the Capital Management Plan was introduced by MPI and approved by the Public Utilities Board in the 2020 General Rate

Application?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And I'll now take a little bit of time to go through some transcript excerpts from the 2020 General Rate Application, regarding the Capital Management Plan. So I will be showing you a number of excerpts from the transcript, and I hope you will bear with me as I move through these.

And before I do that, we prepare a book of documents just to assist with the cross-examination. So the -- the PUB order -- the PUB transcripts, pardon me, are in there, as well as a number of other documents. So maybe, at this time, I'll -- I'll introduce as an exhibit. We'd like to file it as Exhibit CAC-8.

--- EXHIBIT NO. CAC-8: Book of documents

CONTINUED BY MS. KATRINE DILAY:

MS. KATRINE DILAY: And if we could turn to the -- this exhibit and page 15, which is under tab 1.

(BRIEF PAUSE)

MS. KATRINE DILAY: And, Mr. Giesbrecht, you'll see there that Mr. Benjamin Graham, then the CEO of MPI, is beginning to speak.

MR. MARK GIESBRECHT (by Teams): I see that.

MS. KATRINE DILAY: And I'm showing you this page because I believe he was going through his direct testimony here, so it is quite lengthy.

So if we just scroll down and we go to page 20.

(BRIEF PAUSE)

MS. KATRINE DILAY: And, Mr. Giesbrecht, is it your understanding that Mr. Graham is -- this was still his testimony here?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And I'd like you to just take -- take an opportunity to review lines 6 to 13 that we have before us.

(BRIEF PAUSE)

MS. KATRINE DILAY: And you'll agree that in this excerpt Mr. Graham was emphasizing the importance of transparency in the Capital Management Plan?

MR. MARK GIESBRECHT (by Teams): Yes, I see that.

MS. KATRINE DILAY: And if we turn to page 23.

And you agree this is, here, again, the October 7th, 2019 transcript?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And Mr. Benjamin Graham is speaking -- sorry, so Mr. Benjamin Graham is just starting here.

And if we now go to page 26, you'll agree that this continues his testimony, correct?

MR. MARK GIESBRECHT (by Teams): It appears that way, yes.

MS. KATRINE DILAY: And I'd like to just focus on lines 9 to 18 on this page. And I'll give you just a few seconds to review.

(BRIEF PAUSE)

MS. KATRINE DILAY: And you'll agree that again in this excerpt Mr. Graham was focusing and emphasizing the theme of transparency?

MR. MARK GIESBRECHT (by Teams): Yes.
MS. KATRINE DILAY: And jumping back a little bit to page 5 of the document.
Do you see, at the bottom of the page, that Mr. Scarfone is speaking here?
MR. MARK GIESBRECHT (by Teams): Yes.
MS. KATRINE DILAY: And continuing to page 11. Is it your understanding that Mr. Scarfone was continuing here?
MR. MARK GIESBRECHT (by Teams): It makes sense, yes.
MS. KATRINE DILAY: And specifically looking at page -- at lines 17 to 21 on page 11 of this book of documents -- I'll give you just a second to review.

(BRIEF PAUSE)

MS. KATRINE DILAY: And, of course, recognizing the Mr. Scarfone is legal counsel, so this would not be considered evidence but rather argument, you'd agree that this statement by Mr. Scarfone at lines 17 to 21 highlights the theme of automatic transfers from Extension to Basic?

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): Yes, I see that there. But yeah, based on the threshold of 200 percent that's conducted at year end. Yes.

MS. KATRINE DILAY: Right. And it says that Mr. Johnston -- just starting at line 17:

> "Mr. Johnston will tell you that should the capital reserves in the Extension line of business reach a threshold of 200 percent MCT, there will be an automatic transfer of the excess capital into Basic's rate stabilization reserve."

You'll confirm that's what's in the transcript before you?

MR. MARK GIESBRECHT (by Teams): Yes, I confirm.

MS. KATRINE DILAY: And moving on to a different day of the transcript, which is at tab 2 of this book of documents, and specifically looking at page 36.

(BRIEF PAUSE)

MS. KATRINE DILAY: Thank you, Ms. Schubert.

Mr. Giesbrecht, you'll agree, here, Mr. Luke Johnston, then Chief Actuary at MPIC, was speaking?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And I'd like to focus on the next page, where he is continuing to speak, page 37 of the book of documents, lines 1 to 6. And I'll give you just a minute to review.

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): I see that.

MS. KATRINE DILAY: And you'll agree that this is -- we could chara -- could we characterize this as another theme highlighted by Mr. Luke Johnston relating to the Capital Management Plan, that for the most part Basic customer and Extension customers are the same people?

MR. MARK GIESBRECHT (by Teams): Yes, they certainly are.

MS. KATRINE DILAY: And if we turn to page 33 of the book of documents. Towards the bottom of the page, you see that Mr. Luke Johnston is speaking there?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And on the next page, lines 15 to 22 -- I'll just ask you to review that for a few seconds.

MR. MARK GIESBRECHT (by Teams): Sorry, which lines?

MS. KATRINE DILAY: Fifteen to 22.

MR. MARK GIESBRECHT (by Teams): Thank you.

(BRIEF PAUSE)

MS. KATRINE DILAY: And so you'll agree here Mr. Johnston was indicating MPI's intention was to follow this plan -- speaking about the Capital Management Plan -- consistently in all situations, correct?

MR. MARK GIESBRECHT (by Teams): Yeah. I think this reference was to -- ICBC at the time was in a very dire financial position. And my understanding is they had abandoned the requirement to maintain a certain capital level, given what -- what that would mean for customer in terms of rate hikes.

And so the -- what this quote is meant to represent is that, you know, we would not want to deviate from our plan in the way ICBC did.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht, for that clarification.

And if we turn to page 48, which I believe is under tab 3.

And you see this I the transcript dated October 15th, 2019?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And I'll ask you to take a look at the excerpt, starting at line 18 on this page and ending at line 4 on the next page.

(BRIEF PAUSE)

MR. MARK GIESBRECHT (by Teams): Yes, I see that.

MS. KATRINE DILAY: And is it your understanding, from this discussion between Ms. McCandless and Mr. Johnston, that Mr. Johnston was clarifying that the Capital Management Plan contemplated transfers from Extension to Basic, despite the MCT ratio of Basic at that time?

MR. MARK GIESBRECHT (by Teams):

Exactly. This -- this test with Extension has no implications of -- of what Basic happ -- happens to be at that point in time. It simply says:

"At March 31st of any given year end, any excess capital..."

Which means over -- over 200 percent, will be transferred to Basic.

MS. KATRINE DILAY: And this will be my last transcript excerpt in this line of questioning and thank you to everyone for bearing with me.

If we look at the book of documents, page 56. And this is still the transcript from October 15, 2019, you see that?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And if we look specifically at the excerpt starting at line 10 on -- on this page and ending at line 4.

MR. STEVE SCARFONE: Sorry, Ms. Dilay, what -- where are we now -- which -- which --

MS. KATRINE DILAY: If you just give me one minute, I -- I'm -- I think I'm -- missed one of the pages, so I'll just check my notes and confirm.

(BRIEF PAUSE)

CONTINUED BY MS. KATRINE DILAY

MS. KATRINE DILAY: And, thank you, Mr. Gabor, for pointing out the right page. I did not have the right page in my notes, so we're actually going to be looking at page 55 of the book of documents, which should be page 1278 of the transcript, starting at line 10 and ending at line 4 on the next page.

I'll just give you a second to review that.

MR. MARK GIESBRECHT (by Teams): Yeah, what it is saying is that any excess capital in Extension over 200 percent would be transferred to Basic.

MS. KATRINE DILAY: And, again, so you'll agree that, in the discussion, here between Mr. Gabor, Mr. Scarfone and Mr. Johnston, the theme of the automatic transfers from Extension to Basic because the customers are the same was being emphasized?

MR. MARK GIESBRECHT (by Teams): And I'm just trying to see where the comment on the customers is. That was -- earlier on, we saw that -- I don't know -- see it on this page particular.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht. I can just point you to lines 16 to 17.

MR. MARK GIESBRECHT (by Teams): Automatically -- automatically it says.

MS. KATRINE DILAY: And this is re -- referring to the transfers from Extension to Basic. Correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And if we go to lines 21 to 24, you'll agree this is where Mr. Johnston is, again, confirming that Basic and Extension have the same customers.

MR. MARK GIESBRECHT (by Teams): Sorry, I don't see on this particular page yet.

I -- I -- I fully agree with the comment, but I just don't see it on the page.

MS. KATRINE DILAY: Yes, it is 21, lines 21 to 24 of the --

MR. MARK GIESBRECHT (by Teams): Yeah, there it is. Yeah, sorry -- we flowed too far, but there it is now.

MS. KATRINE DILAY: And so, you'll agree that the -- the discussion was being had about the customers -- the -- of Basic and Extension being the same. Correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: So, based on these

excerpts, would it be fair to say that the original intent of the Capital Management Plan, as presented by MPI in the 2020 GRA and approved by the PUB, was to regularly review the capital levels of both Extension and Basic. Was that one aim of it?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: Would another aim have been be transparent regarding where excess capital from Extension goes?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: Would another aim be have a way of automatically transferring excess capital from Extension to Basic?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: Another aim would have been, have a way of consistently releasing and rebuilding capital in all situations?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And another aim would be to recognize that Extension and Basic have, for the most part, the same customers?

MR. MARK GIESBRECHT (by Teams): Yeah, I wouldn't suggest that's an aim necessarily, that's more of a fact, I think.

MS. KATRINE DILAY: So, a fact that is

being recognized through the Capital Management Plan?

MR. MARK GIESBRECHT (by Teams): It's a -- a point that I think supports the plan. Yes.

MS. KATRINE DILAY: Thank you. I appreciate you bearing with me through those transcript excerpts.

I'm going to change a little bit in terms of -- change gears a little bit, and go through how the Capital Management Plan has worked over the last two (2) years.

And, during the next few questions, I'll show you a few documents, two (2) from this year's General Rate Application and two (2) from last year's General Rate Application.

So, I'd like to start with going to tab 4 of our Book of Documents.

And do you see there, that at tab 4 we've excerpted the legal application chapter of the 2021 General Rate Application?

MR. MARK GIESBRECHT (by Teams): Yes, I see that.

MS. KATRINE DILAY: And, if we go to page 65 of the Book of Documents, which is page 3 of the legal application, you'll agree here, MPI was applying for an overall rate decrease of 10.5 percent.

Do you see that at line 6?

MR. MARK GIESBRECHT (by Teams): That's correct.

MS. KATRINE DILAY: And MPI explains right under that this rate decrease is comprised of a 3 percent decrease, resulting from changes to the automobile insurance coverage regulation. Correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: As well as a 2.5 percent decrease in the breakeven costs - cost of Basic vehicle premiums?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And finally a -- it also was comprised of a 5 percent capital release in accordance with the Capital Management Plan. Correct?

MR. MARK GIESBRECHT (by Teams): Yes, that's correct.

MS. KATRINE DILAY: And, I know this was -- this has been discussed with Ms. McCandless already, but you'll agree at a general level, that the capital release provision is a temporary discount on rates in order to release capital until it gets to the desired level?

MR. MARK GIESBRECHT (by Teams): That's right.

MS. KATRINE DILAY: So the 5 percent capital release provision was always meant to be removed at some point in the future. Correct?

MR. MARK GIESBRECHT (by Teams): That is correct.

MS. KATRINE DILAY: Then, still on the topic of the 2021 GRA, could we please turn to tab 9 of the Book of Documents, which starts -- starts at page 104. And, Kristen, I think it is page -- yeah, thank you.

And, Mr. Giesbrecht, you'll agree that this is the press release from MPI regarding the 2021 GRA.

MR. MARK GIESBRECHT (by Teams): I see it headlined, so far, yes.

MS. KATRINE DILAY: We can go to the next page, just for the date. You'll agree that this was -- that this is dated June 17th, 2020.

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: So it would have been relating to the 2021 GRA, correct?

MR. MARK GIESBRECHT (by Teams):

Correct.

MS. KATRINE DILAY: And if we go back one page, Kristen, you see there that the title is that MPI applies for largest rate decrease in thirty (30) years. Correct.

MR. MARK GIESBRECHT (by Teams): That's correct.

MS. KATRINE DILAY: And if we go, back to the first page, it says that MPI is requesting an overall rate decrease of 10.5 percent and that, if approved, this will be the largest rate decrease in three (3) decades? Correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: But you'll agree that this news release does not break down the difference between the breakeven rates and the capital release provision?

MR. MARK GIESBRECHT (by Teams): This release -- no, it does not.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht. Now if we could turn to this GRA, the 2022 GRA, part 1, which is the legal application at page 3.

And, you'll agree we see here MPI is

indicating it is applying for a 2.8 percent overall decrease in the breakeven cost of Basic vehicle premiums?

MR. MARK GIESBRECHT (by Teams): Yes, that was the initial provisional application.

MS. KATRINE DILAY: But all other things being equal, based on the rate request at that time, the actual amount customers would see on their bill would increase by about 2.2 percent, because MPI was also applying for the removal of the 5 percent capital release provision. Correct?

MR. MARK GIESBRECHT (by Teams): Yes, that's correct. You'd have a 2.8 percent decrease on a breakeven cost of premiums, plus 5 percent for the removal of what was previously a credit for a net of plus 2.2.

MS. KATRINE DILAY: And in fact, if we go to the next page at lines 8 to 9 that's where MPI broke that down in terms of the increase of 2.2 percent. Correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And, if we go to tab 10 of the Book of Documents, and you -- you'll see here, this is news release dated June 28, 2021. We might have to go to the next page for the date.

Thank you, Kristen.

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And so you'll agree this is a press release from MPI regarding the 2022 GRA, correct?

MR. MARK GIESBRECHT (by Teams): That's correct, yes.

MS. KATRINE DILAY: And here the title is that MPI is requesting a 2.8 percent decrease and additional 120 -- $55 million rebate to customers?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: And then if we go to the first page of the press release, you see there that it states:

> "MPI filed its provisional General Rate Application with the Public Utilities Board, requesting an average rate decrease of 2.8 percent, and that as part of this application, MPI will be removing the capital release provision which previously had translated into a discount of 5 percent as part of the overall rate."

Correct?

MR. MARK GIESBRECHT (by Teams): I see that there, yes.

MS. KATRINE DILAY: But nowhere in this press release does it say that because of the combination of the rate decrease and the removal of the capital release provision the impact on customers is that their bill would increase by an average of 2.2 percent, correct?

MR. MARK GIESBRECHT (by Teams): That's correct. Nowhere on this release is two point two (2.2) stated.

MS. KATRINE DILAY: You'll agree that for ratepayers the interaction of the break-even rate calculated in accordance with accepted actuarial practice and the capital release provision can be confusing?

MR. MARK GIESBRECHT (by Teams): That's a reasonable assumption.

MS. KATRINE DILAY: And you'll agree that presenting the rate request differently from one (1) year to the next could contribute to ratepayers being confused?

MR. MARK GIESBRECHT (by Teams): That -- that's a fair comment or statement, yes.

MS. KATRINE DILAY: And is it also possible that because both the actuary -- actuarially indicated rate and the capital release or build provision are expressed in percentages, that customers might not understand the different between the two (2)?

MR. MARK GIESBRECHT (by Teams): That's quite possible, yes. Yeah. And that's part of the reason why we also feel it makes sense to remove the capital release, replace it with a rebate, and base rates for the upcoming year based on solely the -- the AAP indicated rate.

MS. KATRINE DILAY: Thank you for that. And in terms of sort of combining the AAP rate and the capital release provision, you'll agree consumers might be confused about why their rates are going down one year and effectively going up the next year.

MR. MARK GIESBRECHT (by Teams): They -- they could be confused, yeah. And I think part of the -- you know, what we want to convey to customers is that, while we are removing the -- the rebate or the credit through the capital release provision, it's being replaced by a one (1) time large rebate, right?

So in the end, it's a good news story

for customers in the sense that there -- you know, we've accumulated significant excess capital and that can be given back to ratepayers more quickly based on a rebate.

MS. KATRINE DILAY: Thank you for that, Mr. Giesbrecht. I believe you talked about this a little bit with Ms. McCandless.

But you'll agree that using the capital release provision to reduce the required AAP premiums results in a premium deficiency?

MR. MARK GIESBRECHT (by Teams): That's one (1) way to look at it, in -- in the sense that -- well, like I say, overall for that particular year, we would have less premium collected than is required for that given year, but that is absorbed by the excess capital that is already contained on the books of -- of the organization.

So from that perspective, there's no deficiency. But, basically, you would incur losses until that excess capital depletes. So in -- it's not really a deficiency in the sense that it's -- it's based on what you have already accumulated in the past.

MS. KATRINE DILAY: Mr. Giesbrecht, I'm going to break down that answer a little bit, but

I'd like to take you to the -- Part 1, the overview of the current GRA, at page 7.

(BRIEF PAUSE)

MS. KATRINE DILAY: And if you look, Mr. Giesbrecht, at lines 9 to 10, you'll agree there MPI stated:

"Using the capital release provisions to reduce the required AAP premiums results in a premium deficiency and the need for capital."

In parentheses, correct?

MR. MARK GIESBRECHT (by Teams): Yeah. No, I think -- and maybe I'll ask Mr. Phoa to -- to step in as well. The -- I think -- like simplistically speaking, by having a capital release built into the overall rate, you're -- we're effectively collecting less premium than is required for that insurance year. So you'd expect to have a loss and a deficiency from that perspective.

But maybe we can have our actuarial experts maybe speak more technically to the actuarial perspective, because it's -- I don't believe it's actually a premium deficiency from that perspective, but only more simplistically speaking.

MS. KATRINE DILAY: And maybe I can -- I do have just a few questions to -- to try to clarify these, so maybe I'll pose them and Mr. Giesbrecht, or Mr. Phoa, whoever is best suited, could answer.

So referring to the statement in line -- lines 9 to 10 on page 7 here, was MPI referring to the fact that the capital release provision effectively reduces rates by a certain percentage, which lowers total premium collected to below breakeven until the excess capital is depleted?

MR. MARK GIESBRECHT (by Teams): Yeah, that's reasonable. Yes. For that given year there's less revenue required, and that -- that's the very nature of giving a -- a credit through the capital release.

MS. KATRINE DILAY: And as a result, the capital release provision needs to be removed when excess capital is depleted, correct?

MR. MARK GIESBRECHT (by Teams): Yes.

MS. KATRINE DILAY: Which means rates will effectively go up by the same percentage until it is removed -- when it is removed --

MR. MARK GIESBRECHT (by Teams): Yeah.

MS. KATRINE DILAY: -- pardon me.

MR. MARK GIESBRECHT (by Teams): Correct. All else equal, that 5 percent, when removed, would equate to a plus 5 percent at that point in time it's taken away.

MS. KATRINE DILAY: And you'll agree that the capital release provision has nothing to do with prospective rate setting; it is just a retrospective adjustment to retained earnings?

MR. MARK GIESBRECHT (by Teams): That's fair.

MS. KATRINE DILAY: And, Madam Chair, I have probably six (6) or seven (7) questions here, and it might be a good time to adjourn after these questions for the day.

THE PANEL CHAIRPERSON: Certainly. That's fine. Thanks, Ms. Dilay.

MS. KATRINE DILAY: Thank you.

CONTINUED BY MS. KATRINE DILAY:

MS. KATRINE DILAY: And, Mr. Giesbrecht, I believe -- I believe this has been acknowledged earlier.

But you'll confirm that MPI has acknowledged that the Capital Management Plan is an inadequate system to promptly return excess capital to ratepayers?

MR. MARK GIESBRECHT (by Teams): Yeah, that's definitely been the experience through the pandemic. It's shown us that when capital accumulates very rapidly, as it has over the past year and a bit, that it takes, in the current methodology, a long, long time to -- to have that flow back to customers. And so that -- that's a deficiency that we've observed through the pandemic.

MS. KATRINE DILAY: Essentially, when significant amounts of excess capital are suddenly available, the capital release provision does not return excess capital to customers quickly enough?

MR. MARK GIESBRECHT (by Teams): Yeah, exactly. I mean, it is meant to be over a three (3) year period, but because of capping it can't always take place over three (3) years. And so it -- it would take a number of years based on the -- the forecasts that we've talked about today.

MS. KATRINE DILAY: And in fact the situation we're talking about relating to significant amounts of excess capital were experienced due to the effects of COVID-19, correct?

MR. MARK GIESBRECHT (by Teams):

Primarily, yes.

MS. KATRINE DILAY: Could we say in other words that, following the start of the COVID-19 pandemic, MPI over-collected from ratepayers, resulting in excess capital, but the Capital Management Plan did not allow for these funds to be returned to ratepayers in a timely manner?

MR. MARK GIESBRECHT (by Teams): Yes. Yeah, that's -- that's generally fair. And that's why we have produced two (2) requests for rebates and -- and a third before the PUB right now.

MS. KATRINE DILAY: And the reason that there was an over-collection of premiums is that the rates were approved because there was known to be a pandemic, correct?

MR. MARK GIESBRECHT (by Teams): Well, the -- the rates were approved on -- on the basis that -- that the pandemic would not persist. And so we know that, as of right now, that is -- that was not the case through the last number of months, and so there was more revenue collected than was required to offset the costs of claims.

MS. KATRINE DILAY: And so there you were referring to the -- the rates set in the 2021 GRA. But if we even go back to the 2020 GRA, those were -- those rates were set before the onset of the COVID-19 pandemic, correct?

MR. MARK GIESBRECHT (by Teams): yes.

MS. KATRINE DILAY: And then the COVID-19 pandemic started during that rating year, correct?

MR. MARK GIESBRECHT (by Teams): Correct.

MS. KATRINE DILAY: And without going into details, you'll agree that it is possible there may be other situations in the future where there is a large amount of capital accumulated over a short period of time?

MR. MARK GIESBRECHT (by Teams): It's possible.

MS. KATRINE DILAY: Thank you, Mr. Giesbrecht.

If -- if it's acceptable to the Board, I think this would be a good place to adjourn for the day.

THE PANEL CHAIRPERSON: Thank you, Ms. Dilay. Yes, we'll adjourn and be back tomorrow morning at nine o'clock. Thank you.

--- Upon adjourning at 4:30 p.m.

Certified Correct,

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Wendy Woodworth, Ms.