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

400, 330 Portage Avenue

Winnipeg, Manitoba

October 27, 2021

Pages 2490 to 2795

APPEARANCES

Kathleen McCandless	)Board Counsel
Robert Watchman	)Board Counsel
Kara Moore (by Teams)	)Board Counsel
Darren Christle	)
Kristen Schubert	)
Roger Cathcart (by Teams)	) PUB advisor
Kevin Yang (by Teams)	) PUB advisor
Blair Manktelow (by Teams)	)
Anthony Guerra	)Manitoba Public
Steve Scarfone	)Insurance
Katrine Dilay	) CAC (Manitoba)
Chris Klassen	)
Antoine Hacault (by Teams)	) Taxi Coalition
Charlotte Meek (by Teams)	) CMMG
Doug Houghton (np)	)

TABLE OF CONTENTS

LIST OF EXHIBITS

LIST OF EXHIBITS

EXHIBIT NO.	DESCRIPTION	PAGE NO.
CAC-13	Compilation of CAC (Manitoba) Recommendations	2668

--- Upon commencing at 9:02 a.m.

THE PANEL CHAIRPERSON: Good morning, everyone. We will start this morning with closing remarks.

Ms. McCandless...?

CLOSING SUBMISSIONS BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Good morning, Madam Chair and members of the Panel. I expect to be approximately forty-five (45) minutes, maybe a little bit less, with my closing submissions this morning.

We have now completed the evidentiary part of this public hearing with respect to the 2022 General Rate Application, or GRA, and the 2022 Special Rebate Application filed by Manitoba Public Insurance.

The Board will soon deliberate upon the application for base rates and premiums charged for compulsory vehicle and driver insurance to take effect on March 1, 2022, and upon the rebate requested by MPI.

As counsel for the Board, I do not take any position on the merits of any part of the applications or the positions taken by any of the parties. My role is to summarize the matters that are before the Board and outline issues that it may wish to consider in making its decisions.

Rate indications are interest sensitive, and market interest rates are always changing. These realities give rise to a significant risk of estimation error in deriving Basic rate indications.

MPI has adopted a naive interest rate forecast that reduces the complexity of making that forecast. And using rate indications derived in accordance with accepted actuarial practice in Canada rather than basic net income projections has shortened the length of that forecast, but significant uncertainty still remains.

In the GRA as filed, the Corporation submitted a provisional rate request derived in the usual manner, but with a declared intention of updating the application prior to the commencement of the public hearing to a final rate request reflecting an updated rate request based on market interest rates at August 31, 2021.

The provisional rate request for an overall 2.8 percent rate level decrease was based on market interest rates as of March 31, 2021. This provisional rate decrease was comprised of: (a) a two point eight (2.8) decrease in the breakeven cost of Basic vehicle premiums which were calculated in accordance with accepted actuarial practice grounded in a naive interest rate forecast as at March 31, 2021, as ordered by the Board in Order 76/21, Directive 5.2; and removal of the 5 percent capital release in accordance with the Capital Management Plan as approved by the PUB in Order number 146/20 and 1/21.

The combined effect of the 2.8 percent rate decrease and the removal of the 5 percent capital release provision was an overall two point two (2.2) premium increase for renewal customers.

MPI also applied for leave for continued use of the Capital Management Plan approved by the Board in Order 176/19 for the 2022/'23 insurance year. This would represent a one (1) year extension of the two (2) year trial.

The Corporation's rationale for this request was that the Capital Management Plan and its capital release provision would not be made use of in this GRA due to the 2022 Special Rebate Application.

MPI originally requested a rebate of $155 million in excess capital for 2020/'21 and an estimated $47 million in excess capital in 2021/'22, for a total preliminary rebate request of $202 million.

MPI submits that subse -- suspending the 5 percent capital release and requesting a rebate is required given the exceptional pandemic-driven build-up in capital to ensure an equitable and timely return of excess capital.

As planned, the Corporation updated its rate request on October 5th to reflect market interest rates as of August 31, 2021. The Basic rate indication was revised upwards by 1.6 percent to an overall 1.16 percent rate level decrease from the provisional indicated rate of a 2.8 percent decrease.

The capital release provision in 2021/'22 had been implemented by the Corporation by applying the discount to premiums before the DSR discount, resulting in an overall premium decrease of over 6 percent.

Removal of the capital release provision as implemented has an estimated impact on premiums of 6.75 percent. Combining the 1.16 percent overall rate decrease with the 6.75 percent impact of the removal of the capital release provision leads to the effective impact of the updated rate request to be an overall 5.59 percent premium increase.

Based on updated actual results to July 31, 2021, on October 5th, MPI increased its preliminary $202 million rebate by 133 million for a final request totalling $335 million.

MPI does not propose any changes to service or transaction fees, permit and signi -- certificate fees, fleet rebates or surcharges, or the discount for after market and manufacturer- or dealer-installed anti-theft devices.

The average rate adjustment proposed by MPI for each major vehicle class is as follows: for private passenger, an overall decrease of 1 percent; for the commercial class, an overall increase of 9 percent; for the public class, an overall increase of 4.8 percent; for motorcycles, an overall increase of 5.5 percent; for trailers, an overall decrease of 8.9 percent; and for off-road vehicles, an overall change of zero percent, no change, for an overall rate reduction of .9 percent.

MPI has also applied for changes to vehicle discounts available through the Driver Safety Rating system, increasing the discounts applied to drivers at DSR levels plus ten (10) to plus fifteen (15) on the scale.

This includes increasing the maximum merit level under the DSR scale from plus fifteen (15) to plus sixteen (16) in the 2022/'23 policy year, allocating a 2.6 percent rate decrease to the vehicle discount levels with the most significant needs for rate decreases based on actuarial indications, and making no changes to DSR driver premiums.

After consideration of insurance use and territory and capping and balancing for experience rate adjustments, the results were modelled by the Corporation to assess the impact of various rate and classification changes.

In total, the current vehicle population is 1,190,681 vehicles, to which the proposed rate would be applied as follows, excluding the impact of the removal of the capital release provision, six hundred and ninety-four thousand eight hundred and thirty-two (694,832) vehicles, or 58.4 percent of the overall fleet will receive a rate decrease, the majority of which would be a hundred dollars or less.

Three hundred and seventy-three thousand seven hundred and eighty-five (373,785) vehicles, or 38.9 percent, of the overall fleet would receive a rate increase.

And one hundred and twenty-two thousand fifty-four (120,054), or 10.3 percent, would receive no change in rates.

Including the impact of the removal of the capital release provision, the distribution would be as follows: Three hundred and eight thousand eight hundred and thirty-four (308,834) vehicles, or 25.9 percent, of the overall fleet would receive a premium decrease, the majority of which would be one hundred dollars or less.

Seven hundred and sixty thousand two hundred and seventy-two (760,272) vehicles, or 63.9 percent, of the overall fleet would receive a premium increase.

And one hundred and twenty-one thousand five hundred and seventy-five (121,575) vehicles, or 10.2 percent, would receive no change in premiums.

Now, with respect to ratemaking, as always, the Corporation's estimate of its overall rate requirement is sensitive to the methods and assumptions used in its derivation.

For the 2022 GRA, particular attention was given to five (5) assumption areas: new money yield; forecast claims costs; forecast expenses; an alternative AAP rate indication based on the duration of cashflows by major class; and revenue forecasts.

With respect to the new money yield, the Corporation updated the 2022 GRA rate indication with interest rates as of August 31, 2021, reflecting more recent yields consistent with the approach followed in the 2021 GRA.

The new money yield is based on a weighted average of estimated provincial and corporate yields of bonds with a duration of ten (10) years. The 2022 GRA was based on yields as of March 31, 2021, generating a new money yield of 2.46 percent and a breakeven rate indication, excluding the impact of coverage changes of a 2.8 percent rate decrease.

The October 5th update, based on yields as of August 31, generated a new money yield of 2.34 percent, a reduction of twelve (12) basis points.

Forecasted weighted average bond duration of ten point two nine (10.29) years includes MUSH bonds, which have a duration of five (5) years.

Provincial bond yields are based on a duration of twelve point three four (12.34) years. Corporate bond yields are based on a duration of ten point two nine (10.29) years.

This approach is a change from the 2022 GRA in which both corporate and provincial bonds had an assumed duration of about ten (10) years and reflects the new Moment-Matching strategy implemented in June 2021.

MPI did not include the MUSH bonds in the calculation of the weighted average yield as it is -- is expecting to purchase only $40 million per year, which is replacing maturing bonds and, therefore, is not purchased with new money from premiums.

The use of -- of more interest -- more recent interest rate is in accordance with accepted actuarial practice. The combined impact of the change in new money yield and changes in forecast expenses and claims was an increase in the breakeven rate indication of 1.6 percent, resulting in the revised breakeven rate indication of a 1.2 percent rate decrease.

With respect to forecast claims costs. Projected claims costs by coverage were forecast in the 2022 GRA for the 2022/'23 and 2023/'24 accident years with a decrease of $12.8 million in 2022/'23 and $9 million from last year's forecast.

The main driver of the decrease for 2022/'23 was a $10.6 million decrease for collision. In the October 5th update, a number of changes were made to the forecast, resulting in a $1.7 million increase in forecast claims costs for 2022/'23, excluding the $4.5 million forecasted interest rate impact.

The main changes included the revised 2021 light vehicle accreditation agreement, changes in the projected collision costs due to a lower assumed severity trend for total losses, and a decrease in the projected Comprehensive hail claims.

The 2021 LVAA, or light vehicle accreditation agreement, impact relative to the assumed $7 million impact per year in the 2022 GRA was an increase of $7.9 million in 2021/'22, $11.5 million in 2022/'23, and $15.9 million in 2023/'24.

Collision claims were reduced by $4.9 million in 2022/'23 and $8.5 million in 2023/'24. Comprehensive hail claims were reduced by $4.2 million in 2022/'23 and 5 million in 2023/'24.

A change made in the 2022 GRA resulting in an increase in the overall rate indication of 1.4 percent was to weight severity groups by incurred claim counts instead of by incurred loss amounts for weekly indemnity, accident benefits other and bodily injury coverages.

Forecast claims expenses increased from a hundred and twenty-one dollar ($121) -- a hundred and twenty-one dollars and seventy-eight ($121.78) cents per vehicle in the 2021 GRA to a hundred and twenty-three dollars and sixty cents ($123.60) per vehicle in the 2022 GRA.

In the October update, forecast claims expenses increased from a hundred and twenty-three dollars and ($123.60) cents to a hundred and twenty-seven dollars and ($127.48) cents per vehicle due primarily to data processing cost increases.

Other expenses on the same basis as above increased from ninety-nine dollars and twenty-six cents ($99.26) to a hundred and seven dollars and twenty cents ($107.20), due again primarily to data processing cost increases.

In this GRA, MPI provided an alternative rate indication using yields based on the duration of claims rating year -- for rating year 2022/'23 by major class.

The duration of claims for each coverage was first determined and then it was weighted together using applicable claim costs by coverage by major class.

The resulting rate indication for each major class was higher due to the rating year having a significantly shorter duration than the outstanding claims duration.

With respect to the revenue forecast, in this GRA, MPI forecast motor vehicle premiums, written premiums, using the previous year's written premium adjusted for a volume factor, an upgrade factor, a rate change, and reduced for net fleet rebates and anti-theft discounts.

The Highway Traffic Act volume factor forecast was 1.25 percent for 2021/'22, 1.13 percent for 2022/'23, and 1.06 percent for 2023/'24.

In the October update, MPI updated Highway Traffic Act forecast units by .41 percent for 2021 and thereafter when projecting collision, comprehensive, and property damage claims.

MPI did not update the forecast insured units for 2021/'22 and, hence, the updated forecast was not included in the AAP rate indication provided.

MPI estimated that if it had included this forecast HTA unit increase in its rate indication, the AAP rate indication would decrease by about .41 percent.

Now, with respect to the impact of COVID-19. On March 20, 2020, the government of Manitoba declared a province-wide state of emergency related to the COVID-19 pandemic. The restrictions resulted in a marked drop of driving activity and led to a material unanticipated reduction in claims incurred.

In April 2020, MPI forecast a reduction in claims incurred from March 15 to May 15 of $58 million. In the 2021 Special Rebate Application number 1, MPI sought approval to rebate these claims cost savings to Basic policyholders. It also rebated $52 million directly from Extension profits which otherwise would have been transferred to Basic under the Capital Management Plan.

In Order 67/'20, the Board approved the $58 million rebate from Basic. The total of $110 million in rebates was issued at the end of May 2020. MPI applied for a second rebate after the end of the 2021 GRA hearing.

On December 23rd, 2020, the Board approved MPI's request and directed MPI to issue to ratepayers a uniform percentage of their Basic premiums earned between March 16 and November 21, 2020, for all vehicle classes through a special rebate in an amount of $69 million.

In filing the Special Rebate Application in this year, on July 19, 2021, MPI has now requested a rebate on three (3) occasions during the COVID-19 pandemic.

With respect to MPI's financial results, the Corporation has provided to the Board its actual financial results with respect to the 2020/'21 year, as well as an updated forecast the current year, 2021/'22.

For the 2020/'21 fiscal year, Basic receive net income of $290.8 million compared with the forecasted net income of $78.6 million at last year's GRA, an improvement of $212.2 million over that forecast last year.

This positive variance was attributed by the Corporation to a decrease of $193.1 million in total claims incurred costs, primarily due to decreased collision claims of $103 million, decreased PIPP and liability claims of $55 million, decreased comprehensive claims of $20.6 million, decreased internal loss adjustment expense and unallocated loss adjustment expense totalling $9.8 million, and decreased property damage claims of $8.8 million.

These decreases in costs were offset by a higher than forecast interest rate impact of $8.9 million.

Overall, there was a positive variance of $206.9 million in underwriting results from that presented last year.

The investment income was $89.5 million, $5.2 million higher than the $84.4 million forecast last year.

With respect to the current year, '21/'22, the subject of last year's GRA, MPI revised its forecast net income to $67.3 million from a net loss of $1.2 million forecast last year for rating purposes; an increase of $68.5 million.

MPI's revised forecast reflected a reduction of total claims costs of $46.9 million from last year. The reduction was primarily attributed to a lower forecasted claims incurred, $60.2 million, offset by higher forecasted writedown DPAC premium deficiency of $2.1 million, higher claims incurred related to interest rate changes of $5.3 million, and higher claims expense of $6.3 million.

MPI indicated that lower claims incurred expense was primarily due to lower claims related to COVID-19 of $42.6 million, lower forecast for collision claims of $8.3 million, lower forecast for PIPP and liability claims of $3.2 million, and lower unallocated loss adjustment expenses of $3.1 million.

Forecasted investment income also

contributed to the revised improved net income. Investment income was forecasted to be $11.1 million higher than forecast last year, due primarily to higher than expected interest income and equity investment income.

MPI's October 5th updated financial forecast reflects actual claims experience to July 31st and an updated forecast the remainder of the 2021/'22 year.

MPI now forecasts Basic net income of $189.7 million, an increase of $122.4 million from the $67.3 million forecast in its application.

MPI revised its forecast of total claims costs to 945 million from 1.02 billion. The increase in claims costs was due primarily to lower claims related to COVID-19 of $71.5 million, and a decrease in forecast of comprehensive claims of $21.6 million.

Cost decreases were offset by increased forecasted interest impact of $24.6 million, and increased forecast for collision claims of $7.9 million.

The collision claims cost increase is mainly due to increased repair costs arising from the revised 2021 light vehicle accreditation agreement that MPI recently finalized.

MPI also forecasted an increase in investment income of $48.7 million, due primarily to increased forecasted interest rate impact of $57.2 million, offset by lower than expected equity Investment income of 3.3 million and higher than expected amortization of bond premium of 3.7 million.

MPI now forecasts Basic net income of $189.7 million for 2021/'22, an increase of $122.4 million.

MPI now forecasts a net loss of $9.2 million for 2022/'23 and a net income of $9.7 million for 2023/'24 based on the proposed effective 5.59 percent overall rate change.

Regarding future COVID impact. In the application, MPI assumed that the collision frequency levels would return to normal by October 1, 2021. MPI's October 5th updated forecast included an update to COVID-19 impacts on collision frequency levels as follows:

Collision frequency levels will be 20 percent below normal in September and October of this year. Collision frequency levels will be 15 percent below normal in November and December. Collision frequency levels will be 10 percent below normal in

January and February of next year. And collision frequency levels will be 5 percent below normal in March 2022. Collision frequency levels will return to normal by April 1, of 2022.

MPI has assumed that the PIPP claims are perfectly correlated to the collision claims, and, hence, assumes the same reduction for PIPP.

Property damage reduction is comparable. The overall impact was a decrease of $71.5 million from the GRA filing.

With respect to the Extension forecast. The Extension line of business offers optional products with an intent to earn a profit. These profits are for use at the discretion of MPI.

MPI has made commitments, through its Capital Management Plan, to transfer excess capital over 200 percent of the minimum capital test to Basic.

MPI was originally forecasting net income from Extension operations to be $57.2 million in 2021/'22, $47.7 million in 2022/'23, and $50.9 million in 2023/'24.

MPI's forecast for Extension reflects an improvement in profitability from that forecast in the 2021 GRA. The primary driver for the improvement in Extension profitability is lower negotiated broker commission rates on Extension premiums.

The new broker agreement resulted in a reduction of the commission rate from 21.6 percent to 17.5 percent of premium. Currently, MPI has not revised its pricing for Extension coverage to reflect these savings.

Based on the October 5th update, Extension net income for 2021/'22 was revised to $55.9 million, a decrease of 1.3 million from what was originally forecast. Net income is now forecast at $50 million for 2022/'23 and $49.4 million in 2023/'24

The Corporation's overall financial strength. The Corporation's Board of Directors has approved risk based capital target levels by line of business. The targets are based upon the capital management framework for the office of the Superintendent of Financial Institutions and the minimum capital test.

The minimum capital test is a ratio of capital available to capital required and uses a risk based formula to assess the capital adequacy of an insurance company.

MPI has established an MCT, or Minimum Capital Test, target of 100 percent for Basic, 200 percent for Extension, and 300 percent for Special

Extension.

The Basic RSR, or Rate Stabilization Reserve, as at March 31, 2021, was $448.7 million, with total equity of $434 million. This is lower than the Basic RSR due to accumulated other comprehensive income deficit.

Between 2014/'15 and 2018/'19, $273.3 million in Extension excess retained earnings has been transferred to Basic. There has been no transfer from Extension to Basic since 2019/'20.

The Corporation has, as of March 31, 2021, $719.3 million in retained earnings, including $448.7 million in Basic, $86.2 million in Extension, $134.9 million in Special Risk Extension, and $49.5 million in driver and vehicle administration after a $60 million transfer from Extension.

Overall corporate total equity, as of March 31, 2021, including accumulated other comprehensive income, was $722 million, of which 434 related to Basic, 96.9 to Extension, 149.6 million to SRE, and 41.6 million for driver and vehicle administration.

Based on the October 5th update, MPI's forecasting 2021/'22 Basic retained earnings to be $458.4 million, and, after accumulated other comprehensive income of $8.4 million, Basic total equity of $466.9 million.

Although not required by statute, as is required by private insurance -- insurers federally regulated or regulated in certain provinces, the Corporation has undertaken an annual Basic financial condition testing investigation.

This is a revision by the Canadian Institute of Actuaries to the former Dynamic Capital Adequacy Testing investigation. And this is undertaken by MPI as a matter of good governance.

The FCT investigation entails the development of a Basic financial forecast and stressing of that forecast under a number of plausible adverse scenarios covering a variety of risk categories.

This report, formerly under the DCAT acronym, has been included with the Basic annual -- the annual Basic GRA for many years now. Over the course of previous GRAs, the Corporation worked with the Board and Interveners towards the development of a consensus approach to adapting the Basic FCT investigation to estimate an appropriate Basic target capital range that directly reflected Basic experience and risk characteristics.

With the approval of the Capital Management Plan in the 2020 GRA, the role of the FCT investigation in the GRA has been diminished during the Capital Management Plan's trial period.

While the FCT investigation continues to provide insight into the resiliency of Basic's capital position, a matter of importance to the Corporation, the PUB, and Interveners, the single Basic target level based on a 100 percent minimum capital test ratio set out in the Capital Management Plan has effectively severed the link between the FCT investigation and the setting of Basic target capital levels during the Capital Management Plan's trial period.

During the course of this hearing, the FCT analysis results were queried and it was estimated that the capital corresponding to a MCT ratio of 50 percent would be sufficient to remain solvent under the most significant modelled 1:100 year event.

Similarly, the capital corresponding to a MCT ratio of about 25 percent would be sufficient to remain solvent under the most significant modelled 1:10 year event. And based on the two (2) estimates, it was estimated that the MCT ratio of about 35 to 40 percent would be sufficient to remain solvent under the most significant modelled 1:40 year event.

An issue was raised that the FCT growing concern criteria, based on MPIC's understanding of its regulatory requirements, would not be met under any of these MCT levels.

Now, regarding the Capital Management Plan. As I mentioned, in the 2020 GRA, MPI had brought forward its proposed Capital Management Plan for approval by the PUB, and which was approved by the PUB.

Highlights of the Corporation's Capital Management Plan, or CMP, included a single Basic target capital level based on a 100 percent MCT ratio; a commitment to transfer excess retained earnings from the Extension line to Basic, where excess is determined relative to the single extension target capital level of a 200 percent MCT ratio; a phase-in approach to move towards the Basic target capital level over a number of years through a capital build release -- build or release provisions; determination of the need for any capital build or capital release provisions in each GRA after consideration of the Basic Rate Level change indication and the expected capital transfers from Extension; the use of judgmentally selected five (5) year and three (3) year phase-in periods for capital build and capital release provisions respectively; imposition of a judgment -- judgmentally selected 5 percent cap on the combination of the overall Basic rate indication and any capital build provision; and imposition of a judge - judgmentally selected 5 percent cap on any capital release provision.

In the 2020 GRA, the Corporation committed to transferring excess retained earnings over 200 percent MCT from Extension to Basic, regardless of the Basic MCT ratio at the time. At that time, MPI forecasted transferring $75.1 million in 2019/'20; $42.5 million in 2020/'21; and $44.5 million in 2021/'22 from Extension to the Basic RSR.

Based on the 2021 GRA, MPI did not transfer any funds from Extension in 2019/'20, and instead, refunded $52 million directly from Extension to ratepayers in 2020/'21 and forecast transfers of $63.2 million in 2020/'21 and $32.7 million in 2021/'22.

In last year's GRA, MPI indicated that the CMP does not stipulate what accumulated profits generated by the Extension line of business may be used for, but rather stipulates that at the end of each fiscal year, capital in excess of 200 percent MCT is to be transferred to Basic.

MPI acknowledged that it was conceivable that Extension profits could be used for purposes other than transfers to Basic, as approved by its Board.

MPI indicated at that time there were no plans to use excess Extension capital for any purpose other than transferring to Basic, and that was reflected in its 2021 forecast.

As it reported to the Board in this GRA, MPI did not transfer any funds from Extension to Basic in 2020/'21 and forecast no transfers in 2021/'22. Instead, MPI transferred excess capital from Extension reserves to the driver and vehicle administration line of business.

MPI forecasts transfers from Extension to Basis -- Basic to resume in 2022/'23. MPI has indicated that the RSR is rapidly accumulat -- accumulating significant excess capital due to a reduction in claims frequency caused by COVID-19.

MPI indicated the capital release provision has weaknesses which were identified durn -- during the COVID-19 period. In particular, the release provision, which is designed to gradually excess capital, is more appropriate when excess capital in the RSR is not significantly higher than target MCT -- than the target MCT ratio. Therefore, MPI requires an additional tool to expeditiously release excess capital.

Regarding these transfers from excess Extension to DVA. MPI has administered the driver and vehicle administration or DVA line of business on behalf of the Government of Manitoba since 2004.

MPI collects various fees and transfers them to the government in an agency relationship. MPI collected DVA fees totalling $240.3 million in 2020/'21. The government provided $30.2 million in funding for DVA operations in 2021/'20 -- 2020/'21, and DVA earned $2.5 million in service fees and investment income.

The cost of operations was $35.4 million for a deficit of $2.7 million. MPI reported that it and the government are in agreement that the insurance lines of business should not subsidize DVA operations. However, the government experienced significant financial losses as a result of the pandemic.

MPI therefore concluded that in these exceptional circumstances, transferring excess capital from its Extension reserves to the DVA line of business was an appropriate use of its discretion.

On March 24, 2021, the MPI Board of Directors approved the transfer of $60 million in excess capital from Extension reserves to DVA for the 2020/'21 year instead of transferring the monies to Basic. Since 2005/2006, MPI has transferred a total of $194 million from Extension to DVA.

On June 24, 2021, MPI's Board of Directors approved an additional transfer of any excess Extension reserves above MCT at March 31, 2022, to DVA. MPI has forecast a $53.5 million transfer in 2021/'22, for a total transfer of Extension capital of $113.5 million since the last rate application.

MPI has indicated that these transfers will pay for the DVA project Nova costs, as well as five (5) years operating deficits, and carry the line of business to near the end of the '26/'27 fiscal year.

MPI acknowledged a transfer of additional money to DVA as opposed to Basic reduces the amount that would otherwise be available for a rebate to Basic policyholders. MPI is in discussion with provincial government on funding to make the DVA line of business self-sufficient.

On the Driver Safety Rating System.

MPI introduced the Driver Safety Rating, or DSR system in 2010 to replace the previous Merit Discount Program. The rules for placement and movement on the DSR scale are established in the Driver Safety Rating System Regulation.

MPI acknowledged the current DSR System is based upon a number of public policy considerations that are independent of actuarial soundness.

In response to Board Order 1/21, MPI filed proposed driver premium rates and vehicle premium discounts that are more statistically consistent with the estimated claims cost per driver for each level of the Driver Safety Rating Scale, including incorporating the Driver Safety Rating into its Minimum Bias Analysis used to set rating relativities.

MPI has maintained its position to maintain the current DSR model, registered owner. Under the current registered owner model, MPI is aware of concerns that people are "gaming the system", meaning the practice of intentionally selecting an individual within a group, typically a family, who has the best DSR rating to be the registered owner of more than one (1) vehicle in order to obtain the best premium discounts.

MPI acknowledged that, for collision losses, 33 percent of reported losses in which driver information was available are attributable to claims where the driver is not the registered owner. It is also known that 24 percent of registered owners have more than one (1) vehicle registered to them.

These numbers might be considered indicators of how widespread the practice is, but there are too many assumptions at play to use these statistics to accurately measure the prevalence of individuals adopting this practice.

MPI expects the same inaccura -- inaccuracies that exist with the current model due to customers misreporting would repeat with a primary driver model. The primary driver model relies on customers self-reporting at the time of purchasing insurance, and requires the customer to inform MPI of -- of any changes to the vehicle's primary driver.

MPI acknowledged that the primary driver model is more actuarially sound than the registered owner model with the caveat that that assumes accurate reporting by customers of the primary driver for each vehicle they insure.

MPI has advised in this GRA that it will not be exploring alternative models, such as the primary driver model, for the next five (5) years.

In this GRA, MPI proposed the following for the DSR system for the 2022/'23 policy year. The Basic rate decrease being applied for in the 2022 GRA would be allocated to the DSR vehicle premium discount levels with the most significant need for rate decreases based on actuarial indications. No changes would be made to the DSR driver premiums.

The top of the DSR scale would be ex -- expanded from DSR plus 15 to DSR plus 16 in the 2022/'23 policy year. Four (4) percent premium discount increases would be implemented for DSR levels plus 15 and plus 16, moving that discount from 33 percent to 37 percent, a 2 percent increase for DSR levels plus 11 to plus 14, and a 1 percent increase for DSL -- DSR level plus 10.

MPI's plan for future years would be to expand the DSR scale one (1) step per year to at least DSR plus 20, with corresponding increases in vehicle premium discounts. The expansion of the DSR merit levels would be applied on a go-forward basis rather than recalculating placement on an extended DSR scale.

MPI believes that the proposed changes would provide incentives for continued safe driving for customers at or near the top of the DSR scale, make the current model more accurately reflect risk, reduce cross-subsidization between DSR levels, and minim -- minimize rate dislocation for customers.

Now on Vehicles for Hire. On March 1, 2018, MPI introduced a new Vehicle for Hire insurance model for insurance coverages for the various sub-categories of Vehicles for Hire including taxis, limousines, accessible vehicles, and private passenger vehicles.

Premiums for each category of VFH, or Vehicle for Hire, were established separate -- separately. Insurance premiums were based on four (4) defined time bands with the registered owner able to select any or all of the time bands. Purchase of four (4) time bands would allow for twenty-four (24) hour, seven (7) day a week operation.

For the passenger VFH category, the Corporation employed a jurisdictional scan of VFH -- VFH rates in other Canadian jurisdictions and judgmentally set the passenger Vehicle for Hire rate at a 20 percent premium above the current private passenger all-purpose rate for the corresponding vehicle type and rate group.

Rates decline incrementally by 5 percentage points based on the number of time bands level of coverage.

The Corporation acknowledged at that time that this rating class currently did not exist and had never previously existed in Manitoba. Therefore, it had no internal data to support its ratemaking.

Board Order 1/21 issued after the 2021 GRA directed that there be consecutive rate increases of 20 percent for the passenger VFH major class in the 2022/'23 and 2023/'24 GRAs unless MPI could demonstrate that the passenger VFH major class is no longer being subsidized.

In response to that PUB Order, and given that the raw relativity is 19.6 percent higher than the current relativity, MPI applies a full 100 percent credibility to the raw relativity and zero percent to the current relativity.

MPI applied its experience adjustment rules, resulting in rate increases of between 14 percent to 20 percent from the 2021/'22 rates instead of a 20 percent increase for all passenger Vehicles for Hire.

MPI indicated that it believes that the passenger Vehicle for Hire use is no longer subsidized. It noted that the group is new and still growing, with only three (3) years of experience, and COVID-19 impacts are distorting the experiences. MPI would expect to collect more evidence in the future, and would adjust based on the PUB Order accordingly.

Board Order 1/21 listed a number of items MPI was to complete with regards to the VFH framework, not all of which have been completed by MPI at this time.

In the summer of 2021, MPI issued a registered owners survey for Vehicle for Hire segments. Less than 50 percent of dispatchers say that the current model meets their needs.

MPI is in consultations to refine the VFH framework in collaboration with key stakeholders, and is also working with Saskatchewan General Insurance, Insurance Corporation of British Columbia, and the City of Winnipeg.

MPI intends to present a revised Vehicle for Hire model or framework to interested stakeholders in advance of the 2023 GRA. MPI's current estimated date for implementation is April 1st, 2023.

Now some issues on -- with respect to ratemaking. First, serious loss loading. Dion Strategic appeared as an independent expert witness on behalf of the Taxi Coalition and raised an issue about whether or not a serious loss loading should be applied to the passenger VFH class.

MPI uses the average of ten (10) years of serious losses to smooth the serious losses for each use and territory. In the first three (3) years of passenger VFH, there have been no serious losses for this use in any territory.

Dion indicated that it believes that serious loss loading should be applied to the passenger VFH class to reflect the inherent exposure which would also help to avoid inadequate pricing.

Dion also recommended that serious loss loadings should be considered for all use and territories to reflect the potential exposure for serious losses, whether or not historical serious losses have occurred.

Dion raised an issue that the credibility standard 'K' value of sixty thousand (60,000) vehicles resulted in very low credibility for many uses and territories. Dion considered that the high credibility standard, combined with the minimum 10 percent credibility, resulted in limited responsiveness to experience for smaller classes and territories.

DS -- or Dion Strategic recommended considering other approaches such as a classical credibility approach or reducing the 'K' value and/or increasing the 10 percent minimum credibility to at least 20 percent.

Expert witnesses called on behalf of both the Taxi Coalition and CAC recommended that MPI investigate the use of generalized linear models for ratemaking, indicating that the existing minimum bias approach is an approach that has been around for nearly sixty (60) years, and that generalized linear models have been widespread in use in the last fifteen (15) year.

The use of these models may help to deal with some of the territorial issues noted in the hearing and improve segmentation.

CAC's expert provided an alternative analysis of pure premium trends, indicating that, in their opinion, a lower trend should be used in projecting basic losses in the test year, resulting in a lower overall rate indication.

Now, with respect to the investment strategy. In the 2020/'19 -- 2019 GRA, the Board reviewed Mercer Canada's 2017 asset liability management study.

MPI's adoption of recommendations flowing from that study resulted in a separation of the commingled investment portfolio into five (5) unique portfolios that back the Corporation's liabilities and surplus, derisking the claims portfolio by eliminating exposure to growth asset -- assets and optimizing the Basic claims portfolio by increasing the exposure to corporate bonds and changing the allocation from government bonds to provincial bonds.

The five (5) unique portfolios include: Basic claims, Basic Rate Stabilization Reserve, employee future benefits or pension, Extension, and special risk Extension.

The ALM strategy has minimized the risk of interest rate changes due to Basic -- to Basic, but has not completely eliminated the impact due to the investment in MUSH bonds which are not revalued when interest rates change, as well as lags in rebalancing the duration of the marketable bond portfolio to match the duration of the claims reserves.

Based on the October 5th update, the change in interest rates had an overall $32.6 million positive impact on the financial forecast for 2021/'22.

MPI reported that it is planning to complete a new ALM study by June 30 of 2022 and is in the process of preparing an RFP for the study. MPI indicated that it normally takes three (3) to five (5) years for a fully funded portfolio to -- to experience a full market cycle before conducting the next ALM study.

However, the Corporation needs to review investment strategies prior to adoption of international financial reporting standards 9, financial instruments, and IFRS 17, insurance contracts.

The next ALM study will consider the impacts of inflation and IFRS 9 and 17. MPI's funds available for investment are primarily backing unearned premium reserves and unpaid claims reserves.

The investment portfolio supports both the payment of accident claims, as well as the pension obligations of the Corporation. The Corporation's investment assets March 31, 2021 were over $3.6 billion.

The size of the Basic line of business investment portfolio, including the Basic claims portfolio, the RSR portfolio, and the benefits portfolio is $3.1 billion for 2020/'21 and forecast to be $3.2 billion in '21/'22, projected to grow to 3.6 billion for 2023/'24.

Historically, the Corporation's investment income has been a major component of its income and has offset its annual underwriting losses. Basic investment income was $89.5 million in 2020/'21.

Basic investment income was originally forecast to be $100.5 million for 2021/'22, $99.7 million in 2022/'23, and $101 million for '23/'34. Based on the October 5th update, the new money yield rate declined from 2.46 percent to 2.34 percent, a reduction of twelve (12) basis points.

The Corporation is now projecting investment income in '21/'22 to be $149.3 million, an increase of $48.8 million. The increase was primarily attributed to the change in interest rates. Investment income is now forecast to be $100.1 million in '22/'23 and $96.9 million in '23/'24.

Briefly on operating expenses. Total corporate operating expenses, including the cost of administering claims and road safety, were $293.9 million in 2020/'21 and are forecast to grow to $341.4 million in '21/'22.

MPI forecasts total corporate expenditures to be $336 million 2022/'23 and $354 million in 2023/'24. MPI's global corporate costs are allocated among the insurance and non-insurance categories of business and by automobile insurance lines of business in a way that does not give rise to cross-subsidization.

Costs are allocated to Basic through an integrated cost allocation methodology approved by the Board in Order 157/'12. There have been no material changes to the methodology in this Application.

Upon completing the allocation and process, expenses attributable to the Basic program are established for normal operations and improvement initiatives.

Total Basic expenditures were $223.9 million in 2020/'21, or 75.7 percent of total corporate costs and were forecast to be $243.7 million in 2021/'22.

After that, Basic expenses are forecast to increase to $241.5 million in 2022/'23 and $246.8 million in 2023/'24.

Based on the October 5th update, MPI is now forecasting Basic operation -- operating expenses to be $233.6 million in 2021/'22, which is a decrease of $10.1 million from the original application.

Basic expenses are currently forecast

to increase to $253 million -- $253.6 million in 2022'23 and $261.2 million in 2023/'24. Salaries and benefits are a significant component of Basic's operating expenses, representing over 60 percent of the total operating expenses in the year of the application.

Since 2017/'18, the Corporation has experienced compound annual growth of salaries and benefits of .6 percent with compensation that has grown from $121.9 million in 2016/'17 to $130.1 million in 2020/'21.

Salaries and benefits are forecast to be $132.4 million in 2021/'22 and to grow to 135 million in 2022/'23 and 135.8 million in 2023/'24. Forecast annual growth for the three (3) years 2021/'22 through to 2023/'24 is 1.7 percent.

Now, with respect to information technology. For '21/'22 MPI has not filed an IT strategy. The IT strategy will continue to be developed through Q3 and Q4 of 2021.

MPI indicates the IT division requires a change in how it delivers value and notes this is required to ensure the IT strategy synergizes with the evolution of Project Nova.

MPI has approved the IT transformation

business case and allocated funding of $6 million for this initiative.

Value management continues to be followed as per previous General Rate Applications. Governance, closure, monitoring, and program management continue to evolve.

In this GRA, a total of seven (7) new initiatives were considered part of value management whereby two (2) were ongoing and five (5) were new. The total spent on value management initiatives in this GRA is $64.1 million of budget allocation, and Nova comprises $43.7 million of the total budget.

The rebaseline of Project Nova has been completed. And MPI reports that it is more refined than the original Legacy systems modernization business case. The budget for Nova is now $128.5 million, including $111.7 million in projected costs and $16.8 million of contingency.

MPI's President and CEO, Mr. Eric Herbelin, has indicated a plan to move beyond Nova. This initiative is intended to move towards MPI 2.0, resulting in an organization that is Omnichannel enabled, producing flexible products for Manitobans and providing increased business agility.

MPI, at this time, is working to

quantify the potential impacts of MPI 2.0 in terms of both timing and costs, and further details are not expected until the first quarter of 2022.

Finally, with respect to benchmarking, operational benchmarking services provided by Ward Group (phonetic) and Gartner were discontinued as planned by MPI.

MPI has undergone a Crown benchmarking exercise to compare it against Saskatchewan general insurance and ICBC, which is further supplemented by leveraging third-party research.

MPI does note significant variations exist between it and the other Crown entities, making direct comparison challenging. The current Crown benchmarking is not complete and is expected to be completed in Q1 of 2022.

From an IT service and delivery perspective, MPI has indicated it is shifting IT benchmarking from Q1 to Q3 to reflect financial results and to review and action recommendations.

The next review will be Q3 2021/'22 and will be filed in the 2023 GRA. Gartner has been selected by the top vendor and has engaged its IT support benchmarking for next -- for the next three (3) years.

That -- those complete my submissions, although I do want to go back to the beginning of my submissions just to correct an error. I misspoke initially in setting out the applied for proposed rate for each major vehicle class.

For the commercial class, MPI is -- is requesting an overall increase of .9 percent. I believe I said 9 percent.

Madam Chair and members of the panel, I have attempted to comment on the main issues that arose this year. I would like to thank MPI and the Interveners for their cooperation extended throughout the Hearing. And, of course, thank you to the panel and to the members of the public who are listening in.

THE PANEL CHAIRPERSON: Thank you very much, Ms. McCandless. Can I ask you just to go to line 280 of your submission, as well? I believe that the reference is a decrease in -- in claims costs, and you may have said 'increase'.

MS. KATHLEEN MCCANDLESS: Pardon me. Yes, it's a decrease from 1.02 billion to 945 million.

THE PANEL CHAIRPERSON: Thank you very much. Mr. Scarfone, would you like to proceed now or take a break, and then you can carry on uninterrupted until lunch?

MR. STEVE SCARFONE: I think the latter is the way we would approach it. Take a short break, if we can, and then carry into lunch.

THE PANEL CHAIRPERSON: Thanks very much. We'll adjourn until 10:15.

--- Upon recessing at 10:00 a.m.
--- Upon resuming at 10:18 a.m.

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

MR. STEVE SCARFONE: Thank you, Madam Chair. So we're set to give the Corporation's closing remarks. Mr. Guerra, in fact, is going to lead us off with the next slide. And I also believe, before he begins, he's going to mark the last of the MPI exhibits on the record. And then, he'll get into our agenda for this morning.

Just before I turn it over to him, I was happy to see that Ms. McCandless had benchmarking as her last issue because we also have benchmarking as our last issue. So we think alike on that point. Might not want to hear that.

Okay. And so, Mr. Guerra will -- will begin with our presentation after marking the last of the exhibits.

MR. ANTHONY GUERRA: Thank you, Mr. Scarfone.

So just to confirm, MPI Exhibit 114 is the DVA fees, blacklined, cleaned version.

MPI Exhibit number 115 is its response to undertaking 31.

MPI Exhibit number 116 is its response to undertaking number 39.

MPI Exhibit number 117 is its response to undertaking number 41.

MPI Exhibit number 118 is its response to undertaking 45.

MPI Exhibit number 119 is its response to undertaking 42, blacklined, cleaned, and Appendix 2.

MPI Exhibit number 120 is its response to undertaking 19, blacklined, cleaned, and Appendix 1, which has been filed confidentially, as well as Appendix 2, which has been filed confidentially.

And then, MPI Exhibit number 121 is its response to undertaking number 50, with Appendix number 1.

And then, finally, MPI Exhibit number 122 is its closing remarks presentation, which we currently have on the screen before you.

--- EXHIBIT NO. MPI-114: DVA Fees, Blacklined, Cleaned version.

--- EXHIBIT NO. MPI-115: MPI's Response to undertaking 31

--- EXHIBIT NO. MPI-116: MPI's Response to undertaking 39

--- EXHIBIT NO. MPI-117: MPI's Response to undertaking 41

--- EXHIBIT NO. MPI-118: MPI's response to undertaking 45

--- EXHIBIT NO. MPI-119: MPI's response to undertaking 42, Blacklined, Cleaned, and Appendix 2

--- EXHIBIT NO. MPI-120: MPI's response to undertaking 19, Blacklined, Cleaned, and Appendices 1 and 2, filed confidentially.

--- EXHIBIT NO. MPI-121: MPI's response to undertaking 50, and Appendix 1

--- EXHIBIT NO. MPI-122: MPI's Closing Remarks Presentation

CLOSING SUBMISSIONS BY MPI:

MR. ANTHONY GUERRA: And so, the agenda topics to discuss today are listed here. And we'll start with the rate and rebate request, an overview of that, and then get into a discussion about the information technology and Project Nova panels that we heard from.

Next, we'll go into a discussion about the Capital Management Plan, specifically also focus on the transfers from the Extension to the DVA lines of business.

And we'll move into a discussion of the claims incurred forecasting, followed by a discussion of expenses. T

hen we'll move into discussion of the Vehicles for Hire issue, following by Driver Safety

Rating risk management strategies, which will include both our COVID forecasting, but also investments.

And then, we'll talk about benchmarking, as my colleague alluded to, and then we'll have some closing remarks.

So I think we all need to step back and -- and take a look at the situation from the -- the ten thousand (10,000) feet view.

This Hearing was very long and complex. And part of that was due to the fact that we have a lot of new staff that were presented for the PUB's consideration, as well as we have continuing use of our COVID, rather, protocols. As well as, hopefully, you've seen here, a desire on the part of MPI to answer as many questions by the PUB and Interveners as it could possibly answer.

But this was an important exercise. And MPI's mission throughout the Hearing was to be as transparent as possible and to highlight its commitment to return to ratepayers the premiums it previously collected from them but did not require due to the pandemic.

And the important facts that MPI believes are in danger of being overlooked here are that, in this GRA, it represents the third year in a row that MPI has come to the PUB seeking a decrease in its overall rate indication; that its proposed rebate would push the total amount rebated during the pandemic to Manitobans to more than half a billion dollars.

And I just pause here to let that soak in. Half a billion dollars is being sought, at the end of the day, to be returned back to Manitobans. And -- and we see that as a success story.

And that Manitobans like MPI. They like their MPI and they are constantly reaping the benefits of the public insurance system.

But this Hearing was also about more than just returning excess premiums. The PUB heard from MPI's new President and CEO, Mr. Eric Herbelin, who testified that Project Nova is now underway and has presented his vision of an MPI 2.0, specifically stating, in the transcripts in October:

> "We will improve on the customer experience to ensure that our products continue to meet the evolving needs, offer a greater flexibility in how they choose to interact with us, and, to make that happen, we will also focus on

building the capabilities of all
staff and all our systems and
technologies in order to create the
capacity to deliver on these
transformations -- transformational,
rather, initiatives."

So let's talk about the specific rate and rebate request. Next slide, please.

So MPI is seeking a negative one-point-two (1.2) overall rate indication. This is not a positive three-point-eight (3.8) rate increase as some may suggest. And I'll speak to why that is the case in a moment.

In terms of its rebate request, MPI, in addition, is seeking permission to rebate to Manitobans and to ratepayers in -- excuse me -- specifically, $335 million, which is comprised of a $155 million in savings from the 2020/'21 rates, and an additional $180 million in savings from the 2021/2022 rates.

And we heard from Mr. Giesbrecht -- Mark Giesbrecht -- our company's CFO, that this proposed rebate will bring the Basic RSR back to its 100 percent MCT level.

And then, finally, we're asking for the

-- the Capital Management Plan to be extended for one (1) year. However, as part of that extension, there would be a suspension of the capital release provision, which would remove the 5 percent capital release from the rates.

And in terms of the removal of the portion, the 5 percent capital release, Mr. Herbelin explained his rationale for this in his evidence as follows. He stated:

"So in our opinion, the Capital Management Plan works fine. It is designed to operate at normal business, usual times. And I think, with the pandemic, something that was not anticipated at the time of the design of the Capital Management Plan, we discovered now that there are circumstances that make possible the fact that we can accurately access capital substantially to a point where we need to adjust the Capital Management Plan accordingly. Or at least ask for those exceptions to rebate capital in order to return those excess funds as quickly as possible."

So the one (1) aspect of the Capital Management Plan that we see not performing as intended today is the capital release provision capped at 5 percent.

And the PUB heard from Mr. Rajesh Sahasrabuddhe -- sorry for my pronounce -- pronunciation there, rather -- that the capital release, when removed, will always cause the problem of increasing rates. He was specifically asked about this by my colleague, Mr. Scarfone. And he answered as follows:

"I take the point that, at some point, we will -- we would have -- it would have to be undone, which would appear as an increase to the ratepayer."

So MPI says that, now, when it is also seeking to rebate one -- excuse me -- seeking to rebate hundreds of millions of dollars to ratepayers, now is the best time to remove this provision. Next slide, please.

Sorry, if we can go back to the previous slide. So I had mentioned previously that we'd like to discuss a little bit further about how we see this -- this rate and rebate request. And so, this is -- this is the slide to talk about that.

We need to explain how we look at MPI's rate request and why we believe it is fair to categorize this -- sorry, not fair to categorize this as a 3.8 percent rate increase. And what we see here are the three (3) different approaches that -- that we've been offered about this rate request.

The first one being the AAP, or Actuarial Accepted Practice ratemaking, which is -- look at it as a negative 1.2 percent overall rate decrease as the breakeven rate indication.

Some have suggested that we look at option 2, which is considering the rate with no capital release rebate, which would result in a 3.8 percent increase to customers.

However, we see it more appropriate to either consider options 1 or 3. Three being considering the entire impact of the capital release and the rebate, which we say results in an -- in affect, rather, a 26 percent total rate decrease for customers.

And so, on the first approach, Mr. Dunstone gave the following evidence about the 1.2 percent AAP rate, saying:

"The 3.8 percent rate increase does not represent an AAP, or Actuarially Accepted Practice, amount for capital -- sorry, for capital adjusted amount."

He says:

"No, that would not be the AAP adjustment amount. What we are applying for is AAP is the 1.2 percent this year and the 5 percent would be part of the capital release of the discounts that we provide. So that would be more in line with -- or should -- should align more with the rebate that we're offering. So it's just the capital release that should be the -- on the capital piece of the equation."

And on the third approach, Mr. Dunstone gave evidence that the rebate -- with the rebate, the overall rate indication is really like a 26 percent rate decrease. Testifying:

"You know, overall, the way MPI sees it, we could, you know -- we could have included a capital release again this year. But we wanted to get the rebate dollars out to Manitobans as quick as possible. So overall, we see it more as -- more as like a 26 percent or so rate decrease when we include the rebate attached to it. So it's, you know, like a 1.2 percent rate decrease, the way you see it, but there's that 5 percent that's embedded in there that had to be removed. So overall, including the rebate that we're paying out, we see it more like a 26 percent decreased rates for all -- overall for Manitobans."

And to get to the 29 percent rate decrease that we see here, the $335 million rebate, one just needs to take a look at the net premium written figure from line 5, at figure REV-1. And then, divide that by the number of the rebate.

And while others may fixate on the amount of the customers' bills, MPI is more concerned with the amount in their bank account.

And when it's all said and done, they will be further ahead sooner than they would be if some of the amounts available to them -- available to them by way of a rebate were returned to them through a capital release.

It must also be remembered that the amounts that MPI seeks to rebate, were generated through reduced costs related to the pandemic. Returning these amounts to future ratepayers could mean benefiting those who did not pay rates during the height of the pandemic. Ms. Schubert, if you could move to the next slide, please.

Now, I'll move over to discussion of Information Technology, and specifically Project Nova as well. This year MPI presented its new Chief Information and Technology Officer, Mr. Parti. Mr. Parti testified that he is working with his team on preparing a five (5) year roadmap for IT initiatives and operations, but has committed to doing his best to make sure that those budgets remain in line.

We can expect a new iteration of the IT strategy in the next GRA, the 2023 GRA, for example. And -- and so that is -- that is going to be important to see.

Mr. Parti also spoke about the external labour strategy and in particular committed -- or sorry, discussed the -- the fact that MPI was able to convert nine (9) more consultants to FTEs in phase II of its project, and also is experiencing savings in line with its expectations regarding its contingent work force strategy.

It's continuing to monitor its IT investments, and value management ensures that the results align with the business cases. And I think it's also important to note here that the evidence, basically, was that MPI is not looking for the latest and greatest IT gadgets and apps with its strategy.

What it's really looking for is -- is essentially what Mr. Herbelin testified to when he said:

> "And I don't -- and I want to highlight here, that -- that does not, you know, it doesn't mean that we want to be at the leading edge of technology and trends. We don't need to do that. But it is important that we need to keep pace with the changing world."

Next slide, please. So, we don't need to be necessarily leading edge, but we do need to be keeping pace. And when asked about the value of, for example, analytics to customers of a mon -- monopoly rather, Mr. Parti provided the following testimony:

"The fact of the matter is we are not -- we don't have a choice. We have to build a strong data capability within the Organization for various other aspects and especially from the lens of the customer experience.

And as we go forward and we mature towards MPI 2.0, when we try to move towards more of an Omni-channel experience for the customers, we talk about automation and so on.

All of those future technologies and future aspirations heavily rely on data and analytics. So, there is no way to build those advanced capabilities and improve our customer experience without having a solid -- without having a solid data and analytics platform to support it."

And so, what we see here is further testimony from Mr. Herbelin about what it means to be a fast follower of industry best practice and trends.

And he says:

"It doesn't mean, you know, it doesn't mean that we want to be at the leading edge of technology and trends, we don't need to do that, but it's important to keep pace, as I mentioned before."

And Mr. Parti also confirmed that there's going to be significant interplay between IT and Nova, saying that the collaboration with Project Nova and Mr. Mitra is going to be ongoing.

The technology piece of -- of Program Nova is obviously extremely important for their organization and for the success of the program, and the intention is there to collaborate as much as possible.

We should also note that Mr. Ramirez provides a good example of the collaboration that's already ongoing between the IT and the Project Nova divisions when he -- when he testified as follows:

"From a maturity perspective we're working with other leaders like Mr. Parti on centres of excellence that are required as foundational capabilities within MPI for us to be

successful on this program. And a
good example would be, you know,
cloud services. And so parting with
-- partnering, rather, with Mr.
Parti on helping us get the right
cloud services in place for the DVA
line of business, for the DVA Stream
as an example."

Next slide, please. Moving over the discussion now to Project Nova.

Project Nova has a strong governance structure that includes frequent meetings of the technology committee of its Board of Directors; direct involvement from our CEO Mr. Herbelin; both internal review and external review and recommendations provided by PricewaterhouseCoopers; collaboration between teams, committees, and program sponsors; and the use of methodologies like Agile, RAID and iterati -- excuse me, iterti -- iterative delivery to ensure that -- that issues are caught as soon as possible so that risk mitigation strategies can be in place. It's adopted and put in place quickly as well.

And so one (1) of the topics that's been raised in multiple GRAs now is whether MPI should consider breaking Nova down into smaller pieces. Mr.

Mitra addressed that that's exactly what MPI is doing with its current strategy, with the following testimony. He was asked by Board Counsel:

"Has MPI considered breaking down the Project, so Project Nova in two projects and do pilots with fail-fast-and-not-frequent approach?"

And his response was:

"It is our intent and that's why we're starting with our commercial or special risk Extension line. It's a standalone line of for business. It's paper-based today, so the risk is minimal. Hence the approach to start with that. Further to that, I want to emphasize that there are also -- that we are also working with our legacy platforms. So, when we think of AUTOPAC online, in my presentation I spoke to IWS, the insurance work station, the risk -- the risk with decoupling our legacy system and extending it for a long period of time with backwards does not -- does

not solve our problem. We have to --
we have to engage in these
practices and we have to engage in
Nova and it's important that we get
it right. And we feel that there's
an important governance structure in
place for that purpose."

And -- and it's -- and it's working. Oversight is working. Risks have been identified early, internal/external Parti program reviews are underway and there is a -- a method in place to validate any mitigation strategies that MPI does employ.

The target is to complete the review in early 2022 with the results filed with the PUB along with the 2023 GRA.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: And it's important also to note the level of transparency that the PUB expects of MPI. And -- and we believe that it's been demonstrated so far in the case of Nova.

The PUB heard evidence from Mr. -- Mr. Herbelin that the Board does not necessarily have evidence on just -- on this just yet, but I want to be upfront and transparent so we don't have a discussion in a year from now.

We'll most likely experience delays in delivering Nova and with that, probably some deviations in terms of the overall costs. And so, while Mr. Ramirez was -- was -- did not put as fine a point on it, the reality is that we do expect that we will be back next year -- next year, with some discussion about changing the -- the budget and the timelines for -- for Project Nova.

And in terms of the rebaseline, PUB did receive a copy of the rebaseline with this year's rate application. The budget was -- was revised to $128.5 million in March of 2021; that's up from 106 million from 2029.

The fifteen (15) year MPV with a fourteen (14) year payback period is a positive $18.4 million. And MPI still maintains the 7.5 percent discount rate based on its mitigation strategies which we are seeing develop in real time.

Though it has rela -- reservations rather, MPI is still confident in terms of its budget base and the information that is known now. As I mentioned before, that could change. We just don't know exactly how much that could be. It could significant. It could be -- it could be very minor, but it all depends on the risk mitigation strategies that are occurring.

And you heard evidence as well that although further rebaselines are possible, the purpose of Project Nova is not to return a positive MPV, it's to complete work that has to be done. Next slide, please.

In terms of Nova timelines, we heard that the roadmap has been slightly adjusted in the rebaseline exercise and MPI expects some slippage in the future, but the magnitude is currently unknown. There will be a program review to determine if Nova is still on track to deliver online services to customers in April of 2023.

And MPI will continue to update the PUB with respect to its projected timelines for Nova with the next GRA filing.

There's an important quote I -- we heard from Mr. Ramirez in terms of why we're doing Nova, and I think it's important to highlight this -- this final point. Mr. Ramirez testified:

"The reason why we're doing NOVA is to continue to deliver value-added

services to Manitobans. The risk of
not doing NOVA is letting our Legacy
-- Legacy platforms continue, and
that's the bigger risk to Manitobans
than the NPV discussions."

And so with that, we'll go on to the next topic, which is the Capital Management Plan, DVA transfers, and I'll let my -- my colleague, Mr. Scarfone, take it from here.

MR. STEVE SCARFONE: Thanks, Anthony.

Yeah. So number 3 on our agenda this morning is the Capital Management Plan, and related to that is the transfer to the DVA line of business.

Ms. McCandless set out for the Board this morning a brief history of the -- of the CMP. I will do the same. This Board is fully aware, though, that it was first approved in the 2020 GRA. So two (2) years ago we were here asking for approval of the Capital Management Plan.

And then last year was year 1 of the two (2) year trial, and this year of course was to be year 2 of that two (2) year trial. But as -- as Mr. Guerra indicated, the relief that we're seeking in this application is to remove the 5 percent discount that was approved in the 2021 GRA.

And Anthony also alluded to this, but it's an important point to make again: MPIC has always maintained -- and it was Mr. Johnston's evidence for years -- that the Corporation keep separate ratemaking from its capital. And an example of that -- and it was put to the CAC expert witness yesterday -- is the investment income on the Rate Stabilization Reserve.

Often the PUB or the CAC would say, oh, MPI, you make a lot of money on that -- that Rate Stabilization Reserve when you invest that -- those monies. Why don't you apply that investment income to rates?

And Mr. Johnston's response was, we don't do that. We don't mix the capital side of the business with the ratemaking side of the business. And -- and that's consistent with -- with what we're doing here.

The removal of the 5 percent discount we say is separate from AAP ratemaking, and so when the CAC or even the PUB counsel wants to suggest that, well, it's really a 3.8 percent increase, isn't it, because you're removing that 5 percent, well, that's part of the story.

Though if you're going to mix capital

into the story, we're looking at negative 1.2. You mix the capital in, three point eight (3.8), but the story doesn't end there. Mix the rest of the capital in then. In fairness to MPI, mix the 335 million into the equation.

So that's why we don't do that. Keep AAP separate from capital, and removal of that 5 percent capital release provision is obviously on the capital side.

And you heard Mr. Giesbrecht say that that provision is now being subsumed into the rebate that's being proposed in this General Rate Application -- again, not mixing the capital with the ratemaking exercise.

So that's very important relief that the Corporation is -- is seeking, and we're asking that it be replaced by the applied-for rebate.

The Corporation is also asking for the one (1) year extension, as I've said, of the CMP. So what we envision, of course, if the -- if the Board was to approve that is we would come back next year, hopefully under normal circumstances, maybe apply the capital release provision, and then present to this Board a new CMP that -- we've given some hints of what that might contain.

We haven't fully explored that, and Mr. Giesbrecht testified to that effect, but it might contain a rebate provision to allow the Corporation some flexibility in that regard.

We've also mentioned that it might contain a threshold for the rebate to occur, but again those details haven't been fully fleshed out, and Mr. Giesbrecht said that. But they will be before this Board in the next General Rate Application for your consideration.

And that amended version of the CMP we say should be working not next -- if it worked like the last CMP, the Board would look at it, consider it, approve it, and then we would implement it in the next cap -- in the next General Rate Application. Next slide, please, Kristen.

So as I indicated, current CMP was first presented to this Board two (2) years ago, and it was done so in our rate stabilization chapter. And I think it even re-appeared last year in the GRA, and it says there before you that:

> "After applying the Basic rate indication to the forecast, MPI then determines whether there is excess capital in the Extension line of

business, and it can be transferred to Basic. If, at fiscal year end [and that emphasis is mine], the Extension MCT ratio greater than two hundred (200), the transfer occurs; less than two hundred (200), then the capital remains in the Extension line of business."

And I bring that to your attention because you'll recall that counsel for the CAC took Mr. Giesbrecht through the transcripts from the 2020 GRA during his cross-examination. And she -- she brought his attention to certain remarks made by our then-president Ben Graham on the transparency of the Capital Management Plan. You'll recall that.

And she asked Mr. Giesbrecht to confirm that there was a theme of automatic transfers under the Capital Management Plan -- you will recall that -- and that she had Mr. Giesbrecht confirm that, well, that theme of automatic transfers, sir, is because Basic and Extension have the same customers, right?

So that was -- that was the -- the spirit and the intent of the Capital Management Plan and the transfers that are envisioned thereunder.

What I would suggest -- and still going

back to that last slide, please, Kristen, yes -- what I would suggest is what happens when there's a dispute over something? Lawyers look to the document. What does the document say? Not what maybe Mr. Graham said while under oath and testifying and answering questions on the fly.

We look to what the document has to say, and the Capital Management Plan says exactly how it reads in front of you, and that's how that was presented to this Board two (2) years ago.

And later -- next slide, please, Kristen -- during that same General Rate Application, Mr. Johnston was here making a presentation to this Board called 'Claims Ratemaking Capital Management Plan'.

And at slide 33 of that presentation called 'Capital Transfers', it reads:

> "Transfers are now assumed to occur automatically when the actual Extension minimal capital test ratio exceeds 200 percent at fiscal year end."

That was the slide that he presented to this Board. And when Mr. Johnston was speaking to that slide, that's his testimony there below. Moving on to capital transfers, talking about the slide.

So this is another form of, essentially, a capital adjustment. That is, capital transfers from Extension was never part of the Basic rate. It's coming in at year-end and adjusting MPI's capital position in the form of the MCT ratio.

Then again, two (2) years ago when we first presented to this Board, chief actuary was explaining it to the Board, and it's there before you. It was in a slide deck in his testimony and it was in the RSR chapter. Next slide, please, Kristen.

Still from that first General Rate Application when the Capital Management Plan was presented to this Board, section 6.3 of the MPIC Act was -- was brought up in the context of some expert testimony from Mr. John Todd who was retained by the Consumers group. And he confirmed that the Capital Management Plan was in full compliance with that section of the MPIC Act.

And what that -- that section says, you may recall, is that the Basic line of business and monies from Basic should never flow into Extension, right? So the monopoly should never subsidize the competitive line of business, and that of course doesn't ever occur, and it can't under -- under that provision of the Act.

What the CMP does is, in fact, the opposite where the competitive line of business, to the extent there's excess revenue available at fiscal year-end, would subsidize the monopoly.

And so, Mr. Todd confirmed that was, in fact, the case. And we note there, too, that there is nothing in the MPIC Act that prohibits MPI from using Extension monies to subsidize Basic or DVA.

So, the prohibition is only the other way. There's no similar prohibition that prevents MPI from -- from sending Extension monies into Basic or into DVA. The next slide, please, Kristen.

Similarly, there's nothing in the Capital Management Plan that prohibits MPI from using excess Extension monies to subsidize lines of business other than Basic provided that money is used before the end of the fiscal year.

And, on that note, you'll recall that -- I think it was -- it was Ms. Meek asked Mr. Giesbrecht, well, what would be an inappropriate use of that money, and he -- or of a transfer, an inappropriate transfer.

And he said, well, certainly, if the capital isn't at 200 percent, that would be an inappropriate transfer. We're not going to transfer capital if -- if the Extension line of business is below its threshold.

And he also confirmed on redirect that, well, we wouldn't ever do a transfer to another line of business after March 31st.

So, if we've conducted that year-end test and there's excess monies in there, it goes to Basic. So, we couldn't, for example, transfer $60 million to DVA on April 15th. Why? Because that money's gone. The money's gone to Basic already. So, he said that would be an inappropriate use.

So, this Capital Management Plan was approved on December 3rd, 2019. And then three (3) months later, COVID arrived and capital accumulated very quickly in an unprecedented fashion.

And so, we've said in our Application that this exposed our CMP and its inability to release more than $50 million, which is essentially the 5 percent discount; that's 50 million bucks. Couldn't do it. It was too much money, and so we had to rebate 110 million. And then we had to rebate 69 million, and that was because the CMP couldn't handle all that -- all that capital. It would have taken too long.

I think we heard evidence that, had we

done it under the release provision, it would have taken six (6) years. Next slide, please, Kristen.

So, in that first rebate application -- now, this is before the CMP was even before this Board for a General Rate Application. We weren't even into year 1 of the trial, and the CMP was already under scrutiny. Why? Because 52 million was not transferred at fiscal year-end and, instead, was transferred directly to the Basic customers as part of that $110 million rebate.

And we say that was tantamount to a release from Basic anyways. The Basic customers got a direct benefit from that. That 52 million went directly to Basic customers as it would have under the CMP.

But because there was no rebate provision in the Capital Management Plan, the Corporation took the position that we just use a retrospective Order to return those unused premiums. There was no point in bringing it over to the RSR and rebating it because there was no rebate provision under the CMP. That was our position at the time.

And at that rebate application, there was an appearance here by MPI. The second one we didn't appear, but the first one we did. And Mr. --

or -- or Dr. Byron Williams, counsel for the CAC, again asked Mr. Giesbrecht to confirm the concept of the CMP.

And he said to Mr. Giesbrecht, a central element of that plan is a transfer of capital from Extension to Basic should the Extension MCT ratio exceed 200 percent at fiscal year-end, correct? Yes.

Plan entails a transfer of any excess capital for Extension that's moved to Basic. So, again, before this Board confirming that fiscal year condition of the CMP, and that's before we were here at the General Rate Application last year. And next slide, please, Kristen.

And so, now we're -- this -- this evolution of the CMP, if I can call it that. We're now back a year from -- a year ago, the first General Rate Application where the CMP is being used. And the fiscal year condition under that CMP was again stated.

Mr. Gabor said to Mr. Giesbrecht, so he's -- and he's making reference to testimony by -- by Ben Graham. He's talking about a compulsory transfer. I don't see any qualifications for any business decisions or anything like that, do you, in this statement? And he's talking about the testimony of Mr. Graham.

And our CFO responds, no, I think that refers to a compulsory transfer when the year-end calculations are completed because, again, that's the test under the CMP that was presented and approved to this Board in the GRA prior.

And so, Mr. Giesbrecht is saying, that's what he's talking about, the test -- as Mr. Giesbrecht calls it, the year-end test at fiscal year-end, all excess capital will be transferred. The next slide, please, Kristen.

So, we say, so long as the monies transferred from the Extension reserve before -- occur before the fiscal year-end, the monies can be used at the discretion of MPI. And that's not a surprise to this Board.

We've said it numerous times in responses to undertakings or Information Requests and Mr. Giesbrecht said it again last year.

"There could conceivably arise a situation where funds may be needed for some reason.
However, it would be similar to the pandemic that we're currently in, where it would be an extreme circumstance or some, you know,

great need where it would make sense
to do so."

So, that's last year, in October. And I would suggest that's a pretty prophetic statement, foreshadowing of sorts, because he said we don't know what might be in store for MPI, but there may be a need that arises that we say we can use that money towards. Next slide, please.

And then, on the heels of that General Rate Application, MPIC is again before this Board for its second rebate. And this is taken right from our Special Rebate Application at page 21. And it reads:

"At the end of 2020/'21 [so, again,
at the fiscal year-end] Extension is
forecast to have 60 million bucks
which MPIC will transfer to Basic,
exactly as it sought to do in the
2021 GRA."

So, there was the forecast of that 60 million that's -- that's the subject of this DVA transfer. He said, our intention is to move it over to Basic. And as of that date, when we were here for that second rebate application, MPIC was still forecasting to transfer that $60 million to Basic at fiscal year-end.

And just one (1) month prior at the GRA, Mr. -- Mr. Giesbrecht had this to say.

"The question posed in that IR is prior to any transfer taking place. Can the Corporation utilize the funds for any other purpose?"

And he said:

"So, that is a possibility; however, any remaining funds will always be transferred as per the CMP."

And then to reiterate the discussion that we had, there were no plans for other purposes of those profits generated within Extension, but there is a possibility that could take place. It is possible.

So, that was November at the rebate application. November, December, January, February, March, four (4) months later, in March 2021, the transfer didn't go to Basic, it went to DVA. So what changed?

Well, we heard from our new President and CEO, Eric Herbelin. What changed was a failure to secure DVA funding from the government of Manitoba concerning two (2) things: the existing administration shortfall of the DVA and the imminent costs related to Project Nova that were being apportioned to the DVA line of business.

And so, Mr. Herbelin said, and this is consistent with what you heard Mr. Giesbrecht say last year at the GRA and again at the rebate application:

"While our executive was aware of the anticipated operational deficits in the DVA line of business, the solution to cover that deficit by transferring excess funds from Extension was not considered until I -- until after I joined MPI in January."

So you can read between the lines there, that that transfer that occurred in January, that decision wasn't made until after Mr. Herbelin joined the Corporation. And he -- he makes an important point:

"Though I lament the fact that we were unable to forecast the first transfer to DVA, I want to assure you that these transfers are the most prudent option available and this decision was made in the best interest of the Corporation."

So that evidence is very important

because he was -- he was challenged on that evidence, what made -- what made that decision so prudent, right.

And he was asked questions about other options that might have been available to him. And you heard his evidence on that point. Just go back one second, Kristen. Yes, thank you.

So this next slide -- next slide, please Kristen.

So this next slide is -- is a good slide, we say, to show some support for this discretionary use of the monies. And in MPI's opening, you'll recall, Madam Chair, that we said MPI has a business to run. We're all here in this room for the Basic line of business, but we also have the Extension line of business, we also have the DVA line of business, we also have our commercial trucking line of business. All four (4) are equally important to MPI.

Mr. Giesbrecht said we prefer -- we don't prefer one over the other. And so, when the financial need arose, the DVA line of business, Corporation took action, and sent $60 million that way to solve the problem. And have forecast another fifty-three (53) to solve the upcoming problem of the

Project Nova costs.

But that -- that transfer of $60 million is certainly not unprecedented. And if you look to this figure, you will see that Extension is always used to fund the other lines of business. It's always been used to fund the DVA line of business. And it's always been used to fund Basic.

And I'll bring your attention to line 15. So this is just before the Capital Management Plan. You'll see there that Extension sent $60 million over to -- to Basic. So that was the year, Madam Chair, when the MCT was down around 37 percent. And our Board of Directors said, We can't have that low of capital. It's just not acceptable.

And so, they said, We're sending $60 million over and that's going to bump up our MCT. And -- and that was just two (2) years ago. And that was consistent with year's prior where Extension money was always sent over to Basic to -- to bump up the capital levels.

You'll recall those three (3) or four (4) years where the Corporation took big hits on their interest rate risk forecast. We lost a ton of money. And the MCT just kept dropping. So we kept sending money over from Extension every year.

And -- and we were saying, you know, Basic's got to be self-sustaining. This is -- we can't keep sending this Extension money. And the Board would say, Well, what else are you going to do with the money? Send it over there.

And so we did. And we came up with a Capital Management Plan. Full transparency. This is what we're going to do. If, at fiscal year-end, there's excess money, we're going to send it to Basic.

But to think that we would do that to the detriment of other lines of business -- if they're in a financial need -- that's not a reasonable or prudent approach to that Capital Management Plan and how to interpret it.

And so, Basic got jilted this -- this year. I'll use that word. Didn't get the money. But the DVA line of business got the money. And those are Basic customers, so they get an indirect benefit, if not a direct benefit.

And you heard Mr. Giesbrecht say, If the government comes through, they'll -- they'll unwind all that. They'll unwind the sixty (60), they'll unwind the fifty-three-and-a-half (53.5), and then Basic customers derive that direct benefit of the transfer that should have happened at fiscal year-end under the CMP.

But Mr. Herbelin made a good point. We can't ignore the other lines of business.

And so that -- that historical look at the subsidization is an important point, in our view. And, you know, the -- the Board might say, Yeah, well, all of that was before the CMP. Right? All those transfers happened before the CMP.

And that's true. But the Board, I think, was -- was pleased with the CMP because it gave the Board, what I would say is, a look-see into the Extension line of business. And they could see where the money was going. And we've opened up the books, and, Here's our profit margins and here's what we can expect Basic to get, and that we're going to forecast this transfer. We do all that now. So it -- it's a more transparent thing.

As I understand it, the Board was never aware of these historical transfers.

And so, we've -- we've made that transfer and we forecasted the fifty-three-point-five (53.5) for next year, but that too isn't set in stone. Those discussions with government are ongoing. And so, I think I asked Mr. Herbelin, you know, Could that $53.5 million transfer be avoided? Absolutely.

If government and MPI come up with a solution for this DVA funding shortfall, yes. But as of now, it's forecast to go.

So here are the facts concerning that transfer to DVA. Undisputed facts. There was an existing funding shortfall. Half of the costs of Project Nova -- and this is from the transcript from October 14th -- 54 million of 111 million is allocated to DVA. And those are the funding options that were explored by MPIC, but not accepted. And that's all in evidence.

One of the points was, well, will the government just forego the revenue that we collect on their behalf? No. No, we want our money.

Will they increase the fees to align with other jurisdictions? Well, the other jurisdictions have very high fees compared to MPI, and so that was a non-starter.

How about indexing the fees to 2021 prices? No. That option wasn't agreeable.

How about indexing fees just to cover the shortfall and the Nova costs? No. That's too much.

So these were the options that we heard Mr. Herbelin speak to. None of which were working.

But we also had DVA in financial need. We heard that it was no longer self-sustaining. And so, the Board of Directors approved the 60 million transfer on March 25, 2021.

And MPIC made this Board aware of that transfer at the first opportunity it could, in the June filing. We made it publically available in the General Rate Application that $60 million had gone and another fifty-three-and-a-half (53.5) was going. It's in our GRA. And then, the next slide, please.

So those were the facts. And -- and this is the law.

Section 16 of the MPIC Act. There's a lot of words there. I don't know who writes these things, but, really, what -- what it says is all monies paid to the Corporation, including premiums, shall be used to carry out its powers. That's what Section 16 says. Paraphrasing.

All the money that the Corporation collects, including premiums, must be used to carry out its powers.

What's not there -- and I should have included it -- is Section 6 of the MPIC Act. Please make a note of this. Section 6 is the objects and powers of the Corporation. What's one of those objects and powers?

"Corporation has the power and capacity to administer the Driver and Vehicles Act, and to perform the duties and exercise the powers described in that Act."

So Section 6(1)(c)(1) dovetails the Section 16. Got to use the money that we collect for the stuff we do. And the stuff we do includes administration of the Drivers and Vehicles Act. So there's statutory authority for that transfer.

And Section 3 of the reserves regulation is important -- and I mentioned this briefly in my opening -- but Section 3 says that we have to use amounts in the Rate Stabilization Reserve to lower the rate indications.

It's important to note that the $60 million was never in the Rate Stabilization Reserve. It went directly from Extension to DVA. And last slide, please, on this -- on this topic.

So, here is the analysis of those facts and that law. As I said, MPIC has four (4) lines of business to operate with two (2) distinct mandates. One (1) mandate, of course, is the insurance line; the other mandate is driver and vehicle licensing.

MPIC does not prefer one (1) line over the other. Two (2) years ago, as I indicated, there was a transfer to Basic to increase the RSR-MCT ratio. But more importantly, $179 million has been transferred to Basic customers since the pandemic started.

MPIC, as we've seen, has statutory authority over the use of the money it collects, including premiums. The Extension money transferred was never in the Rate Stabilization Reserve, so it doesn't offend in any way the reserves regulation.

And I bring all this to your attention, because there was some noise, as this Board is aware, that we had somehow transferred money in contravention of the law. That's rubbish. We did not do anything of the sort.

The Basic RSR was fully capitalized when that transfer was made. All Basic customers are DVA customers, so we heard evidence to that effect. So they derived a benefit from the transfer. And then lastly, the takeaway from this, is the discussions with government concerning DVA funding continues.

We're still trying to sort out this problem, but in the meantime, Mr. Herbelin had to address an imi -- an imminent financial problem, which he did with the -- with the transfer that -- that the Board is -- is considering here at this hearing.

And then I'll send it back to Mr. Guerra for claims incurred forecasting.

MR. ANTHONY GUERRA: Thanks, Mr. Scarfone. And -- and just before we -- we get into the next topic, I did want to maybe highlight one (1) additional point about the -- the transfers.

You've heard evidence this rate application, that yes, monies transferred to the DVA do benefit some of the same ratepayers as in Basic, but that's not the appropriate way to look at it, because if you look at it that way, then you have to measure the benefit that they would get as a DVA customer versus the benefit that they would get as a -- a Basic ratepayer.

And if they had that money as a -- as a rebate under Basic, they would be maybe hundreds of dollars better off than they would be paying DVA fees even if they were higher DVA fees. And to that we'd say that's -- that's not an appropriate exercise, because those weren't the options available.

That's -- that's looking at a hypothetical situation. And as my colleague Mr. Scarfone has mentioned, that's not something that the government has ever indicated to us they have any intention of -- of working towards.

There's evidence before this Board that these DVA fees have remained the same since the '90s. And so, this indication that simply in this case that could be resolved by increasing DVA fees, and everyone would -- would pay what they owe, that's not the case. We can't look at it from that perspective.

MPI looked at it from the perspective of those are options and tried to float them before government, but those were not accepted. And so, the prudent choice in this case was to proceed as was done. It may not to be everyone's liking, but it is a prudent decision.

Moving on to claims incurred. We did hear evidence this Application that there was a variation from the original forecast. It was updated with some additional assumptions and what was known. And that resulted in the Basic claims costs being $6.2 million higher in the 2022/2023 year than what MPI predicted -- or estimated it would be at the time of the 2022 GRA filing.

And as our colleague Ms. McCandless had mentioned, some of that has to do with the fact that there were -- there was additional amounts due to the light vehicles accreditation agreement being recently negotiated; that ended up being more costly than anticipated.

There was a small decrease in interest rates from the 2022 GRA, and that some of this additional cost was actually offset by some favourable results, some -- some good stories here, and that is, our salvage management system which is doing a great job in terms of reducing total loss severity.

And our -- fortunately, our updated hail forecasts, which have been updated to reflect a positive experience. Now, we know that just because we have a -- a good summer, it doesn't mean that all summers in the future are going to be as good, but we have benefited from a very dry summer this year, and that has obviously been reflected in our -- our -- our hail forecast.

On the opposite side, perhaps the more controversial side is the pandemic forecasting. What we seen in this case is that MPI is prepared to admit when its forecasting is -- is off base or just not onside with its experience and that's what we've seen this year.

When MPI adjusted its return to normal date from October 1st, 2021, obviously that did not arise, to April 1st, 2022. And how did it come to that decision, well, it -- it didn't just pull that number out of a hat.

MPI did do some of its own due diligence. It spoke with other insurance companies like SGI and ICBC and -- and we've heard even evidence from some of the Intervener witnesses that -- that this seems to be the -- the approach taken by a lot of insurance companies.

The -- what I would call the naive approach, just assume things are going to go back to normal and -- and, you know, hope for the best, but plan for the worst. And so, MPI has considered the expected return to work by -- by different governments.

The fourth wave data, some traffic and mobility reports, you heard about that, and then it's year-to-date experience and came to the conclusion that April 1st is -- is a -- a reasonable date to assume a return to normal.

Now, is that going to be the return to date -- return to normal date, most likely not, but we don't know what that will be and nor does anyone else. And if anyone else tells you that that's -- you know, that's not the date and they can predict with some certainty what will be the date, then they are not being honest with you.

And we feel that we are at least being honest with the fact that we can't say for certain when that date will be. We would reiterate though in this circumstance that under collection and future rate increases that would result from that under collection, would be a worst scenario than a future re -- rebate.

And you heard evidence from our panels this year that if there is the need for a further rebate, certainly that is on the table, and certainly that's something that MPI would be prepared to consider and to act on as soon as needed.

We also heard from Mr. Dunstone about the importance of the -- the new normal date and -- and not putting too fine a point on that when he said:

> "We discussed it, for sure. We discussed it with ICBC and SGI internally. We discussed that certainly everything is uncertain. And if I had to make, you know, a probably -- a probability guess, it's quite difficult. I think there will be permanent changes and

behaviours, and driving behaviours,
and traffic congestion in 2022/'23
going forward.
I don't know what that will look
like. There are still a lot of
uncertainty. As I mentioned before,
there's definitely lower traffic
congestion that's likely going to
continue, but there's also transit
ridership. Are they going to start
driving or not, and when are we
going to start seeing these
impacts."

It's very -- it's too soon to really tell exactly what the overall impacts are going to be and I just think at some -- there will be some permanent impacts, we just don't know what that's going to look like and we just kind of wanted to take a cautious approach at this time not to include it in the 2022/2023 ratesetting just due to uncertainty.

And that's completely reasonable in the circumstances. There -- there will be more people working from home, probably, but there may also be other changes and patterns that may increase collision frequencies or -- or things like that. We just don't know yet.

And so, at this point in time, assuming a return to normal April 1st, 2022, it's going to change, we know that. We -- we will update it as -- as quickly as we know, which is exactly what we've done in the case of changing the -- the date from October 1st to April 1st.

And on the issue of future pure premium trends, we -- we heard that MPI selected a pure premium rate of 3.75 percent for collision and used data to do so from 2011 to 2019 versus the -- the expert witnesses produced from Oliver Wyman that used a pure premium trend of 0.62 percent. And that selection was only based on data from 2016 to 2019.

The Oliver Wyman pure premium trends do not fully consider the underlying trends for each of the respected coverages. And the collision, in particular, does not fully consider the underlying repair versus replace trends. And the comprehensive aspect does not fully consider the underlying trends for each respective peril, i.e., hail, theft, vandalism, and glass.

In addition, any changes in underlying data are not captured by making use of only one (1) trend, which is Oliver Wyman's future premium trend.

So reliance on these trends carries the risk of under-collection -- something that we obviously want to avoid if we want to maintain stable rates in this province.

And if one were to throw in a particularly bad winter, that trend line may not be as flat as selected by Oliver Wyman. In particular, there was a discussion between my colleague, Mr. Scarfone, and the Oliver Wyman expert when he responded to the following question. Mr. Scarfone says:

"And flattening, sir, because it occurred over the past four (4) years, might account for perhaps some milder winters in the last two (2) or three (3) years?"

And he -- the witness responds:

"Yes, there certainly could be a weather-related effect on collision claims."

Mr. Scarfone responds:

"And you, sir, are in Pennsylvania, as I understand it, correct?"

He responds by saying, "That's correct."

"Have you ever been to Winnipeg?"

He says, "I -- I haven't, but I hope to next year." And Mr. Scarfone replies:

"If you do come during a particularly bad winter, sir, that certainly would affect the flattening that you have there in your four (4) year time frame, correct?"

He responds:

"So you're asking me if the winter was particularly bad, would the data still -- would the data be as flat? Is that the question?"

Mr. Scarfone responds:

"Yes. If we have a bad winter this winter and collisions are up, would that certainly impact the flattening that you're saying should be replied upon?"

Response:

"Yes, and then the future trends would be different. So, yes, I acknowledge that."

On the second point in his testimony,

the Oliver Wyman expert stated, in response to the following question:

"So if there were some underlying trends -- for example, theft claims were going -- were growing, rather, or vandalism here in Winnipeg was increasing -- that wouldn't be directly reflected in your future premium -- pure premium trend, correct?"

His response:

"No, but we are providing a pure premium trend for coverage as a whole. We're not providing trends by peril."

MR. STEVE SCARFONE: And just on that point for the Board's consideration, you may recall that the gentleman did say, well, the underlying trends are important, but we look at things as an aggregate.

And he -- he indicated on his redirect that really what you need to do is try and reconcile the underlying trends with the aggregate. So -- and if there's a problem there, you need to identify what the problem is.

And so our position on that is, particularly for collision, 3.75 percent growth versus 0.62 percent growth, that, as the Board saw yesterday, results in some very material differences in the rate indications for each class.

And so we think that reconciliation is needed. Can the aggregate amount that's being proposed by the expert be reconciled with the underlying trend that MPIC uses in coming up with its growth percentage?

And so that's an important point in our view, and, as Mr. Guerra said, the Board should be careful before adopting these low growth rates which could result in insufficient premiums being collected.

MR. ANTHONY GUERRA: Thank you. Moving on to expenses, so a couple of points to -- to note here.

Obviously, when we look at comparisons to, for example, the Consumer Price Index which suggests over the period 2017 to now there should have been a 6.1 percent increase in -- in our expenses. We note that that -- that change in expenses over that period of time, the actual change, is a negative zero point three (0.3), which is -- which is a great success story for MPI.

And -- and we don't get a lot of chances of pat ourselves on the back, but that would certainly be one (1) of those instances where that would be well deserved.

And we know that one (1) of the biggest components of our -- our costs are our salaries. And for the Basic normal operations, that cost is trending below inflation at negative 1.2 percent.

We also heard some evidence about our FTE numbers and some concerns about that perhaps. We are projecting an increase in FTE numbers by two hundred and sixteen (216) to one thousand nine hundred and forty-nine (1,949). But we did hear evidence from our -- our team that this is largely and -- and in the case of term positions, either related to NOVA or our positions that are required to support the growing SRE business.

In terms of vacancies, we heard evidence that there is currently a hundred and fifty-nine (159) vacancies as of September 30th, 2021, but also plans or -- or actual efforts to recruit one hundred (100) of those.

There was a question asked about whether or not our vacancies are overstated, and I'd just refer the Panel back to MPI Exhibit number 87, which is the answer to Undertaking number 7, which asked the Corporation to advise as to the amount by which the current forecast budget for compensation is overstated given the Corporation's current vacancy level.

And the response is that the vacancy allowance is properly captured in the forecasts, so it is not overstated. Next slide, please.

We did hear that there were some costs that will increase during NOVA, and the two (2) that were pointed out were data processing costs and lean portfolio management costs.

While that is in fact the case, these are expenditures that are required, MPI says. IAS 38 doesn't allow us to defer the cloud-based costs, and there are some NOVA-related costs for Celtic, which is the software solution that services the DVA line of business.

And although there are some expenses that are going to be incurred in the short term, we expect that to -- will -- will transfer into benefits from NOVA in the later years.

In addition, similarly, I would suggest that our lean portfolio management costs, although have increased, it allows MPI to improve its IT governance maturity and also to align with the Agile methodology.

And so what you heard from our IT group was that the results will be better cyber security, better cloud solutions, data, and analytics, and greater control over future spending in IT especially, with better processes throughout the Organization also. It's not simply just an IT cost, but certainly there is an IT focus.

And these expenditures highlight what the -- excuse me -- what these expenditures highlight are the investments that MPI is making and needs to make to become a leaner, more efficient, and more responsible organization.

So now we get into a discussion about Vehicle for Hire, and we did hear lots about the different topics involved in Vehicle for Hire this year. We'll start with a discussion about serious loss loading.

And we did hear evidence that passenger Vehicle for Hire does not have any serious losses within the last three (3) years, and that may be a concern. What if there is a serious loss this year? What if there's a serious loss next year? We all hope that it's not the case, but if that does occur, then what happens?

Well, we've under-collected from that group because we haven't -- we haven't baked into their pricing that they will have a serious loss because history so far -- although admittedly not very -- very long history -- suggests that they -- they are -- they are not incurring that type of loss.

One (1) -- one (1) way we can deal with that is to basically pretend that they will have a loss and -- and bake that into their -- their rates. And obviously, there is no issue here that that exercise would be completely subjective. What number would you -- would you want to bake into their rates?

The PUB has heard -- and there's a number of different options available, and it really comes down to what we -- we believe passenger Vehicle for Hire vehicles are. Are -- are they taxis? Are they like a normal private passenger vehicle? Are they somewhere in between?

The options that have been laid out for -- for your consideration really come down on the spectrum of where you see -- where you see private passenger Vehicle for Hire.

If you think that they're exactly like a taxi, then one (1) argument is that you treat them like a taxi and you bake in their serious loss history over the last ten (10) years into their rates.

If you think they're something less, then another option is to -- to treat them like that and bake in a hundred (100) -- two hundred and fifty-eight dollars ($258), for example.

If you want to treat them like a public major class vehicle, which some have argued that they should be considered, then the rate goes down to a hundred and fifty seven (157).

And if you want to treat them just like any other Vehicle for Hire in its class -- I'm sorry, any vehicle in its class, which is the private passenger class, then that results in the sixty-two dollar ($62) amount.

The PUB heard evidence from Messrs. Dion and Wong who testified that they typically work for not-for-profit organizations, but were here this year and retained by the Taxi Coalition which they admitted was comprised of two (2) for-profit corporations and represent only a specific subset of MPI customers.

They were pre-qualified as experts in the area of actuarial science, focussing on ratemaking and methodology, including serious losses for the private -- sorry, for the passenger Vehicle for Hire claims experience and forecast, credibility weighting methods and the impact on small insurance uses and the minimum bias procedure, and the impact on territorial relatives.

But MPI did indicate that the PUB should give more weight to experts with experience in automobile insurance, and in this case particular experience with government not-for-profit markets.

And in their cross-examinations, we note that Messrs. Dion and Wong admitted that, other then their involvements in last year's rate application and this year's rate application, they don't have that experience with the government not-for-profit markets.

And that inexperience was evident in some of the opinions that they -- they made and some of the recommendations that they have presented to the Board. What works in the private market may not necessarily be appropriate in markets such as the one in which MPI operates.

And so, the options that were presented for consideration on this issue are -- are those which I've identified already. But recognizing that this practice is highly subjective and that MPI does not have a pre-established practice of loading serious losses, MPI obviously did not factor one (1) of these rates for the private passenger Vehicle for Hire class.

And while MPI doesn't have any skin in the game, its goal is not to necessarily support one (1) -- one (1) class over another, it's only goal is to accurately price risk while recognizing its unique position as a monopoly.

It does note that, if the PUB were to require MPI to load serious losses for private passenger Vehicle for Hire, would it be fair to only do so in the case of that particular use.

We didn't hear any evidence of -- of any advocation or any suggestion that -- of -- of numbers -- or scenarios for any other classes, only about the private passenger Vehicle for Hire class.

And so, the question here is: What should be done for those other classes? What about those other uses without serious losses? What amounts would or should MPI load into those cases?

We did hear evidence from Mr. Phoa who testified:

"The high-level overall basis at the insurance use level there are many insurance uses that don't have serious losses. And we're not just looking at a single year; we're looking at least ten (10) years. There are many insurance users that don't have a single loss, serious losses, and that includes some of the Vehicle for Hire -- Hire insurance uses, including accessible Vehicle for Hire and limousine Vehicle for Hire."

So, that's something that I think we need to be mindful of, as well. If we start picking and choosing which uses to -- to load serious losses in, then it becomes an argument of fairness. Next slide please.

The next issue that we discussed was the removal of the rate cap. And we -- it was noted, obviously, that there were -- were previously ordered consecutive increases for the private passenger Vehicle for Hire class which were capped at 20 percent per year.

We would argue that the arguments that you've heard from the Taxi Coalition and expert witnesses are -- are not new. They were -- they were roughly the same arguments that were presented in last year's rate application and we would submit were rejected. And that's why we did see annual caps at 20 percent.

We note that MPI doesn't operate in a private unregulated market. And so, we ask ourselves the questions: Are the concerns about adverse selection and market distortion really legitimate concerns?

Has there been a mass exodus from the taxi -- taxi Vehicle for Hire class to private passenger Vehicle for Hire class in the last three (3) years? There is no evidence that that's the case.

And what is the incentive? If you are a taxidriver who does not own your taxi, what is the incentive for you to switch from driving a taxi to driving a passenger Vehicle for Hire? We would submit that there is very little to none.

So, we see no reason to part from the cap established in Order 148-04. And we would suggest that doing so would lead to an inconsistent application of the cap, which is what exactly that Order sought to avoid.

And I would also note that Messrs. Dion and Wong were -- were asked to provide examples of where rate caps were not ordered in markets resembling the one in which MPI operates.

I specifically asked them:

"And you agree with me, sirs, that the product, that specific product, cyber insurance, is not a regulated insurance product like automobile insurance products?"

Their response was, "Correct." And then I asked them:

"And you agree with me, sirs, that you have not been able to provide a comparative example of a situation where there was no capping involved in rate increases in regulated automobile insurance markets?"

And the response was, "Correct." Next slide, please.

And so, now we move on to the topic -- topic rather of credibility weighting on relatives. And what we know is that there's a balance here, right, between rate responsiveness and rate stability. And if we choose one over the other, there could be some problems.

The question is: How far do we want to

go on each end of the scale? What we do know is that the current situation that MPI uses as a ratemaking methodology can be slow to change, and that can be a good thing or a bad thing, depending on who you ask.

So, maintaining, for example, a 10 percent credibility to the current relativity means rate stability, right. The lower that number is, the more stable your rates are.

Similarly, maintaining that 'K' value at 60,000 means rate stability. Lowering that number also means then decreasing rate stability because you're recognizing more of that more recent experience.

And if that number changes significantly, there are serious losses there or, in this case, a pandemic, there can be wild swings which -- which will decrease your rate stability.

Switching, similarly -- switching to a classical credibility approach not only represents a big change, that was admitted by Messrs. Dion and -- and Wong on their cross-examination, but would also decrease rate stability.

So, the question becomes -- and we all know you can't pick and choose which years you give more credibility to -- if there is, again, knock on wood, a bad year this year for -- for taxis, for any other class, and we've changed -- we've -- we've -- you know, we tinkered with these -- these variables, and we've changed it so that now we have a much more responsive ratemaking methodology, will they feel the same way if coming back here next year means that they're going to have to pay significant more in rates?

And will others feel the same way if, because of the advocacy of the Taxi Coalition, now they're also being affected?

And -- and all I would say to that is that, for example, the PUB heard that adjusting the 10 percent credibility to the current relatives means more responsive rates to the detriment of stability and that lowering the 'K' value of something less than 60,000 accomplishes the same thing, even though these recommendations are being made on behalf of the Taxi Coalition, we must remember that changes could have impacts on other uses.

So, for example, Mr. Wong confirmed in his evidence when I asked him:

> "And just to confirm again, doing so, it would also -- also a situation of rate response -- rate

responsiveness rather versus rate
stability, and by that, I mean
reducing 60,000 to a lower number
makes the rates more responsive but
less stable, correct?"

His response was, "I would say that's correct, yes." And I asked him:

"And that wouldn't apply just to
taxicabs, but to all uses?
Yes, because the way the 'K' is
designed right now, only the largest
insurance use gets 95 percent
credibility.
So, if you lower that a bit, each
insurance use should get a bit more
credibility."

It would be great if we maintain our pandemic situation going forward. But if we don't, if we have a particularly bad winter, bad summer, you know, serious losses, for example, that could be to the detriment of all uses within that particular group.

Moving forward now. Territory differentials. I don't have much to say other than there was a suggestion here that -- that maybe we need to have more complexity in our solution to -- to resolve the current cross-subsidization issue. MPI acknowledges that there's a cross-subsidization -- excuse me -- cross-subsidization issue between urban and rural taxis, but is -- is the true solution here more complexity?

It may be that there is a simple solution to this. And MPI would like an opportunity to explore that and to report back as to, you know, what -- what is the best way to -- to handle that cross-subsidization between the rural and urban taxis.

And on the issue of the minimum bias procedure, we -- we heard, and MPI agrees, that the use of GLM is appropriate and that it's committed to exploring that use.

It's not necessarily sold on the use of free open source software like 'R'. It may not be the best solution for MPI. There were some concerns perhaps that, we discussed in cross-examination, you know, what if -- what if a person is -- is not necessarily with the company anymore. Does that mean that we have to go back to square 1?

You know, that's a possibility here that needs to be looked at. And Messrs. Dion and Wong did support MPI's desire to investigate this more and to come back to the PUB with a best practice solution for it.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Going on to the -- the rate model -- or the -- excuse me, the Vehicle for Hire model itself. MPI is refining the model. It's not three (3) years old. It -- certainly, when it was produced -- produced with the best of intentions, but also a recognition that MPI didn't know how the market would unfold. And certainly, there needs to be some changes made to it.

So, MPI has engaged with its stakeholders throughout this process. It sought opinion from dispatchers and owners about what that change should look like. And a technical conference was held in April of 2021.

The issues that were identified include maybe changing the time bands or eliminating the time bands, maybe using blanket policies, for example, and looking at ways to change the model so it's -- it's more fair between different Vehicle for Hire classes like taxis and private passenger Vehicle for Hire.

Next steps for the model are to

continue with stakeholder engagement, to make revisions with input from stakeholders including the PUB -- and you'll hear more from us on that in next year's GRA -- then to obtain the required legislative changes, and implement a new model, hopefully, April 1st, 2023.

I'll turn it over to my colleague to discuss the Driver Safety Rating.

MR. STEVE SCARFONE: Thanks, Anthony.

So there before you is what MPIC has identified as what we view as this Board's concerns concerning the Driver Safety Rating system and they're three-fold.

And just before I go through them, we -- we are, of course, aware of the Board's concerns -- the frustration, perhaps -- that the Board has with respect to this issue. It's palpable, right? We know that the Board has concerns about the length of time that this issue has been discussed.

And now, with the ongoing Nova project, you know, that thing's chugging along, and the Board is like, Okay, well, don't get DSR lost in all of this. What if changes have to be made? Can they be made? Right? Will things have to be unwound? Where do they fit into Project Nova?

Those are concerns that the Corporation is fully aware of and shares, to some extent, those same concerns that the Board has.

So there they are. MPIC has indicated that we believe the Board is of the view that the current DSR scale does not accurately reflect risk. And that's well-founded because I think that's the evidence that came out at this Hearing.

Secondly, that the current driver premiums and vehicle premiums are not actuarially sound. That too is well-founded. In fact, Mr. Watchman -- I think now five (5) years ago, at the 2018 GRA -- did a rather able cross-examination of our Chief Actuary, and Mr. Johnston admitted as much. That, yep, you know, the DSR scale and the numbers contained therein aren't actuarially sound.

I think, at the time, his evidence was that our then President, Marilyn McLaren, just came up with this system. She devised it somehow. And the actuarial science was somehow absent and -- and we've been dealing with that ever since.

And then, the last concern as we view it is -- is it better to introduce changes when Project Nova goes live or, perhaps, at a later date?

And so, those are the -- those are the

concerns that we have identified. Next slide, please, Kristen.

And so, in the Application this year, you have what MPI has as its position going forward on the Driver Safety Rating scale. It indicates there that it has no plans to change the current registered owner model for at least five (5) years.

And I think that was identified in both the Application and in responses to Information Requests. The Corporation was asked to specify what it meant by the 'near term', so that is the time line that the Corporation indicated, five (5) years.

But during the course of those five (5) years, the Corporation came up with a plan to address one (1) of those concerns; to move to a more actuarially sound driver and vehicle premium model. And you have that before you in the DSR chapter. And you'll see that the schedule sets out the indicated rate, where we are now, and the incremental steps that the Corporation plans to move those drivers to where they should be.

Also, the Corporation's position going forward would be to undertake a thorough review of its pricing and incentive models. And it says there, at this point in time, this will entail -- or how long it will take is unknown. But for the next GRA, MPIC can submit a work plan setting out the scope and duration of that review.

So on that point, Mr. Watchman again, went through some of the prior Board Orders with -- with the MPI witnesses. And one of those particular Orders was Order 176/19 issued December 3rd, 2019.

And the directive that he brought the Board's attention to was 13.7a. And it reads:

> "With respect to the DSR system, the Corporation shall file information in the 2021 GRA as to which rating model it's going to go with."

So let us know what you're going to go with.

The Corporation looked at that and thought, Well, we don't like that. We don't know if we're there yet. So we asked for a review and variance of that Order, as Mr. Watchman indicated. And the Board was amenable to a review and varying that Order and, instead, asked the Corporation, Okay, we don't need your decision yet, but with respect to DSR, we need you to file in the 2021 GRA a time line, major milestones, for the determination of which rating model you're going to go with.

So at least give us that. Give us a time line, a chronology of sorts. Where are you heading?

And the last part of that evolution was the Order from last year. Board Order number 1/21. And similar to the earlier Order, it reads:

> "The Corporation shall bring forward a plan, including time lines and major milestones, an implementation date, for any changes to the Driver Safety Rating model, including a date by which the Corporation will file an application for any such changes with the Board."

So the Board is fully aware of these directives. MPIC is fully aware of these directives.

What the Corporation gleaned from these directives is that the Board wanted MPIC to make a decision. And the Corporation made a decision in this year's application.

Now, we understand that this Board might not like that decision. We understand that the Board is leaning heavily towards changing up the model, the primary driver model. And we heard all sorts of evidence about why that might not be a good idea for MPI. Notwithstanding what others in the room may think, MPIC is of the view that, at least for now, we'd like to maintain use of the registered owner model.

I won't get into too much detail about the impact of change in a model -- and that's a dramatic change, I would suggest. But, certainly, this Board would agree that before a step like that is taken, we've seen what can happen in the absence of a rigorous business plan. There's been no such business plan formulated for a move to an entirely new model for Driver Safety Rating.

You know, look, for example, before we had our rigorous value management system in place and the -- the absence of a business case for the -- the financing re-engineering project is a good example. The BI-3 initiative was another one.

Since that time -- and particularly, with -- PDR is a good example. There wasn't a robust business case for the physical damage re-engineering project.

So that is what led to this robust value management system being brought into place and what's working now with Project Nova.

The Corporation would suggest, if we're

going to move in the direction like I think this Board is inclined to have us move, we would need to examine this more fully and have a robust business case prepared.

In the meantime, the Corporation is, as directed, bringing a plan forward to deal with the deficiencies of the existing model. We're moving in a direction that we say brings the customers closer to the amounts they should be paying and adding the extra step to the scale. All of these steps, we say, are important and should not be lost with the solution, I think, that this Board thinks must be -- must be the case, is just move to a different model, right?

Mr. Guerra said that, you know, people like their MPI. Some people might like their MPI. Some people, in my experience, don't like MPI. And -- and people will, and always will, lie to their insurance company.

Hopefully, it's not a lot of people, but there are some people that will lie to their insurance company whether it's under the registered owner model, or whether it's under the primary driver model.

And so, we went to great lengths to explain why this might be an inconvenience for our customers. So, what you're asking a customer to do, essentially, is come before his or her broker, or to a service centre, and say, I want to register this vehicle. Well, who's driving it? Well, my son, my daughter. Yeah, can you just list them here and declare that those are the only people that are driving that vehicle?

And how well received will that be from our customers, when they go into a broker and they're asked to make a declaration as to who's driving it. And what does this mean? Why is MPIC all of sudden asking me to set out who's driving this vehicle? That's new.

We haven't explored any of that with our customers. We haven't done the education, the campaigning, and there's nothing to suggest that that declaration might be false. And it would trigger those covered issues -- coverage issues that we explored and talked about at the hearing.

So, this Board could take notice of that fact, that people -- some people lie to their insurance companies and that won't change. You know, popular in the media is the top five (5) fraud cases. The Board is aware of that. The Board is aware that the Corporation has a special investigations unit.

All of that's related to fraud. And so, those are real issues that have to be explored before having people declare who's driving a vehicle. And -- and I'll give you a quick example of how this may play out.

Right now you have to declare what kind of use you're making of your vehicle. Is it personal use or is it all purpose? Because if it's personal, less expensive. You don't pay as much in premiums as if -- as if -- when it's registered as all purpose.

What the Corporation sometimes encounters is a -- a claim is made when, for example, an Uber driver is -- is delivering a person, so that's a commercial use; it's an all purpose use. And they have their vehicle designated as personal instead of all purpose, but they're using it for business reasons.

They're using it to get to work and back and forth. Well, in the case of an Uber driver or someone delivering Uber Eats, we've seen instances where the vehicle gets stolen while they're inside the restaurant, they leave it running, vehicle is gone, and they make a claim.

Well, what were you doing there? Delivering food. Yeah, but it's -- it's registered as personal and you were clearly working. So, then we start looking at, well, should we deny this claim? No, it's not material. They didn't lie about the theft. But it raises issues that the -- that the -- the fraud committee and others at MPIC have to investigate.

And I would suggest the same is going to apply when declaring drivers, you know, claim occurs, who was driving? I don't see them here on your declaration, right? And so, these are -- these are issues that the -- the Board has to be aware of and that the Corporation has to carefully consider before moving forward.

And -- and although Mr. Watchman, you know, brought you through the most recent Orders, I would suggest and, you know, Mr. Gabor and -- and Ms. Hamilton will remember this, it goes back further than that. It goes back to the 2018 GRA. That was the genesis of this.

When MPIC had a 7.7 percent rate indication, we were trying to figure out how to lower that to 2.7. And one (1) of those ways was to adjust the demerit side of the scale. Remember that, and it dropped it by 1 percent, and that was when that lawyer Matt Gekas (phonetic) was here, the guy with the good hair.

And he was like -- he was saying, this is how we're going to get down a little bit, and it opened this -- this can of worms, as I'd call it, to like, well, let's looking at this. And then Mr. Watchman discovered through our Chief Actuary that it wasn't actuarially sound. And we've been dealing with that ever since, since 2018.

And Mr. Triggs made a note hear and he wanted me to say it, that back then the directive states that:

> "There shall be a technical conference facilitated by the Board on the availability and practicality of other tools and ratemaking methodologies to better determine the DSR rates."

And that was from the Order 130/17 when Mr. Gekas (phonetic) was here, and Dan Gemon (phonetic) was our president, and Peter Yen (phonetic) was contracted to be our acting Chief Financial Officer, and our Chief Actuary wasn't even on the executive at the time. And that's when the problem began, we say.

The difficulty that MPIC has in making

such a monumental shift to a new model -- one (1) of the difficulties, is the limited actuarial capacity to review its methodologies. We heard about that from Ms. Jatana. And that's all within this General Rate Application process, which typically involves this Board issuing directives in December or January. And MPIC's actuarial staff having to comply with those by March or April. Well, let's prepare the upcoming rate application.

And so when we -- when we talk about a resource issue being part of the problem, it -- it really is. And so, MPIC is asking, as it -- as set out in that slide before you, to allow time for these changes or this plan that MPIC has brought forward to unfold. See how that works, adjusting the registered owner model.

And it was important, I think yesterday, to hear from the CAC expert. If you revisit his report and his conclusion on the DSA -- DSR model, he admitted under cross-examination that his conclusion and his advice to this Board on how to proceed if we were to maintain that DSR model is exactly what MPIC is doing.

So, he would say as an actuary, well, I would immediately move you guys to the actuarial sound rates. I would do that. That's -- like -- like that's the easy fix. But he said, I recognize that there's other considerations, one (1) of which is the capping rules that might be in place; the customer impact, and the year to year rate changes that happen.

And so, MPIC, in its plan, has considered all of that, we would suggest, and are moving things up incrementally and that's what the plan is, and that's what the Order asked us to do, to come forward with a plan, with time lines, it's five (5) years, milestones, and moving -- adding numbers to the scale, sixteen (16), seventeen (17), eighteen (18), nineteen (19), twenty (20) over five (5) years. That's our plan.

And -- that Order that I made reference to seemed to suggest that you wanted MPIC to make a decision on this point, so we did. And again, it may not be the decision that this Board prefers, but if there's going to be a direction to just adopt a new model in its entirety, the Corporation needs to do a lot of homework and we need some time, and we need to present a business case on this front.

And the last important point is government. We said last year that, ideally, the Corporation would like to join hands with its regulator and go to government and say, this is what we want. And then -- even then, and it's frustrating, government might say, no. We don't know, but they might say no.

But that's the ideal situation where we both go jointly and recommend the primary driver model. But as you've seen from the application, MPIC isn't there yet. And so, it wouldn't be the regulator and MPI going together jointly, it would be the regulator saying, well, we think they should go in this direction and MPI saying, well, we think we should maintain this model, at least for now. And then putting the government in a position where they have to decide which to -- which to -- which model to go with.

I don't know if that -- that ever gets there. But right now, MPIC is unaware of government appetite for any change. Unaware if the government has any appetite for this kind of change.

What we do know is that the public is not demanding the change. And that if there was something significantly wrong with the current approach, the public would be demanding change, but they're not.

We have the customer survey that says

they're happy with the current system. And they're going to be happier when we move it towards the actuarial sound rates. So, you can imagine a fifteen (15) person, who's diligent with their finances, who's been getting the same bill every year, who's got the same vehicle -- he or she's got the same vehicle and then all of a sudden, oh, my bill went down. Why? Well, your discount changed. Why?

We might get these questions. Well, because we had to adjust the rates. Oh, good. Right?

So that's what we see happening, and eventually people are at where they should be and paying the premium, the driver premiums that our actuarial indicated under that scale.

And then we also are addressing the incentive piece that you heard about yesterday, and -- and the expert for the CAC said, well, there's a bit of a lessening of incentive. Well, we've addressed that because the (fifteen) 15 person who's topped out now has somewhere to go, so there's more incentive to those drivers.

So a plan is in place, we say. I know Mr. Watchman, you know, with his cross-examination was suggesting that certain aspects of Orders for the past couple of years haven't been fully complied with.

But we gleaned that, as I said, that this Board wanted a decision. And -- and so that decision was made for your consideration, and we think the registered owner model is working, and you've heard evidence on that. The next slide, please, Kristen.

I think some of this I've already canvassed. We don't know the size of the problem that we are trying to solve at this stage. We don't know whether the primary driver model is the appropriate solution.

And not lost on this Board I'm sure is the major transformation underway with Project NOVA. It does not currently have the capacity to implement an additional major DSR model change at the same time.

But you also heard Mr. Mitra say that Project NOVA is not encumbered in any way or it's not prevented from making that change later under the Duck Creek platform, so it's versatile.

It can make the change when the Corporation is ready to make a change, if a change is needed, but we would suggest that this Board give the plan that we've proposed a chance before directing us to a brand-new model. Next slide, please, Kristen.

And so that is what I mentioned earlier with Raj yesterday, saying that, you know, the -- the considerations are the year-to-year rate changes and the use of capping. And he agreed that those were in place with the MPIC plan.

He does qualify that at the end, you know, I think that's MPI's view of acceptability, maybe not the PUB's view of acceptability. But he was not supposed to advocate. He promised that at the beginning. That seems a little bit like he's arguing there for one (1) model over the next. Next slide, please.

So we have to analyze the data and determine if there is a problem and one that needs to be solved. As I said, we do a thorough review of our pricing and incentive models, and by next GRA -- and I know that the Board's thinking, well, we've heard this before, but by next GRA, MPI should be able to submit a work plan setting out the scope and duration of the review, all the while letting the plan that we proposed for the registered model work its way through the five (5) years that we've identified.

And as I've said there, any -- any change of this nature would require a comprehensive business case. And last slide, please, Kristen.

So there's the question: Can we wait five (5) years before making any such change? As I've said, the public isn't demanding the change, and -- and one (1) of the questions -- and I don't know if it was just a coincidence or if there's any correlation, but you saw those benchmarking graphs yesterday.

Manitoba and Saskatchewan are leading the way with respect to insurance rates. Is that attributable to the Driver Safety Rating model and the registered owner model? Maybe. We haven't explored that either. Maybe we'd like to bring some evidence to suggest that that's contributing to the low premiums that our province and Saskatchewan enjoy.

And that's -- those are the comments on the Driver Safety Rating.

MR. ANTHONY GUERRA: Thank you. It -- it is noon. We -- we do have some more slides. I -- I would -- I'm prepared to keep going or, if the Board would like to break, then I leave it to the Board.

THE PANEL CHAIRPERSON: How long do you think you'll be, Mr. Guerra?

MR. ANTHONY GUERRA: We probably have I would say a half an hour perhaps.

THE PANEL CHAIRPERSON: Let's keep going then --

MR. ANTHONY GUERRA: Thank you.

THE PANEL CHAIRPERSON: -- and we'll break as soon as you're finished.

MR. ANTHONY GUERRA: And I will be as concise as I can be with -- while highlighting the port -- the important points for the Board's consideration.

Next issue is resk -- risk management strategies, and I think I misspoke when I mentioned the components of that. The first component I'd like to speak to in regards to this is the Catastrophic Reinsurance Program that we did hear some -- somewhat a lot about in the -- in the Application.

You -- you've heard that MPI's updated its program to align itself with a 1:100 year adverse event, and we do know that climate change is increasing the severity and unpredictability of weather across the world, across Canada, and that in Manitoba, we are not immune from its effects which may involve changes in frequency and severity of weather.

And we do know that -- that it's not a matter of 'if' but 'when' we will see some type of catastrophic loss in -- in the province. May not be necessarily in Winnipeg, but we can't say that for sure.

We have to protect ourselves. We owe it to Manitobans to -- to have reasonable protections in place. So what have we done?

Well, we've increased our -- our protection from 300 million to 400 million. And you might say to yourself, well, that's a lot of money, but we -- we do have instances of -- of, for example, in Calgary, one (1) incident there reaching nearly 400 million.

And I would also submit that, if we were to get to that point, that would be enough to essentially wipe out the entire RSR in -- in one foul (sic) swoop. We have an RSR there and it could protect us from things like that, but that would immediately remove all the protections that the RSR offer in -- in one (1) foul (sic) swoop.

This offers a layer of protection for us so that we do not potentially draw down the entire RSR in one (1) year or in one (1) event and then leave ourselves defenseless and having to work hard to rebuild that RSR, and in the meantime not have that protection.

So we have that $400 million protection increase in overall protection, and then we also have the $40 million trigger which now applies, as it has in the last couple of years, to either a single or accumulated losses in a given year, which is a $5 million increase from previous -- from a previous product.

And in terms of the need for the program, we heard from Mr. Dunstone that he thinks it's appropriate, it's reasonable, and it's responsible. He says:

> "We need to protect ourselves -- MPI, Manitobans -- against the potential for large claims and events due to a catastrophic weather event, whether it be hail, flood, tornado, whatever kinds of perils we're exposed to here.
> And I don't think it would be responsible for us to rely on our RSR to pay for any large loss event and then have a depleted RSR to have to work on, on building that RSR. So I think the protection that we purchase from our reinsurers is something we believe we need to do -- you know, maintain rate stability."

That's exactly what MPI has done here, and it's a prudent way to do so.

Next issue is actually investments, which Mr. Scarfone is going to speak to.

MR. STEVE SCARFONE: Yes. Thank you. Next slide, please -- or is that the -- no. Next slide, please, Kristen. Sorry, I was sidetracked.

So I won't be long on investments. I'm happy to say that I don't believe it's -- there's much to speak to here. The big takeaway from Mr. Bunston's presentation was that there's a new ALM study on the horizon, and he did say that the one from 2017 has now been fully implemented.

And in the normal course, we would just let that plan or that strategy work for a full market cycle, as he said, but that's going to be cut short for two (2) reasons, primarily the -- the new International Financial Reporting Standards 9 and 17 and how that will impact the Corporation as a whole, but also the investment fund.

And the new study will of course -- it can't ignore the rising inflation trend over the past six (6) months. I read somewhere the hot inflation rate, and it doesn't seem to be waning in any significant way. So that's going to be considered as well by whoever wins that -- that bid.

The risk appetite for the Corporation will be reassessed, as it always is. And he did mention, though, that the Corporation is unlikely to move away from its hundred percent fixed income for Basic. That seems to have worked particularly where it concerns reducing our interest rate risk forecasting.

Lastly, just a point there to consider. I know there's been some recommendations or suggestions that certain asset classes be included in the Basic claims portfolio, maybe some bonds that hedge against rising inflation, but I would say, quite reasonably, Mr. Bunston said, you know, in the absence of a new ALM study, the Corporation is going to make those kinds of changes to its -- to its asset mix.

And -- and I would suggest that's a reasonable approach given what the Corporation has planned. Next slide, please, Kristen.

There you'll see that the investment fund is performing quite well. And although the -- the RSR and EFB portfolios underperformed their benchmarks, their returns are up over 13 percent and up another 11.8 percent to the end of August.

So, we heard evidence that the equity

market has fully recovered from the early pandemic losses. The bond yields, however, have declined -- the corporate and provincial bonds, at least, have declined since March 2020.

That ten (10) year government of Canada bond yield, we saw a graph, that has declined, but it's gone kind of up and down. And, as Ms. McCandless says, that's what results in the sensitivity to -- to rates. Next slide, please.

So, the one (1) last thing I want to mention -- actually, there might be one (1) more slide. Just quickly, the new Moment-Matching strategy that was implemented as part of the ALM strategy. And, you know, we heard Mr. Bunston say it's expected to further reduce interest rate risk by 40 percent without compromising the portfolio yield. So, that seems like a pretty good thing.

I don't know if he mentioned why that hasn't been put in place before, but that is now in place, and it compliments the duration matching that the Corporation's already doing by also matching convexity between the assets and liabilities of Basic.

And then, as we heard yesterday, Mr. Watchman had a question about the extension of the duration of the Basic claims portfolio; that's largely the result of having included MUSH bonds in that strategy.

The Corporation purchased $40 million worth of new MUSH bonds. And because they have a lower duration, as I understand it, five (5) years, that was offset against the average duration, so the provincial bond portfolio was lengthened to accommodate those new bonds.

And then the -- the very last slide is stuff that this Board has seen before. But the Board will be happy to know, and if Ms. Meek is listening, there was a directive from last year. There was a misunderstanding as to how it should be answered.

We've now come to an agreement on what that directive should be for next year's rate indication, so we're ad idem on that, and it involves the -- the interest rates that points on the yield curve that was proposed by Mr. Johnston to help -- to try and help the motorcycle class out with its long-term liabilities, long-term injury claims.

But the one (1) thing that's important is, and this was canvassed in redirect with Mr. Bunston, having a unique investment portfolio for the motorcycle class that includes growth assets, we say that's inappropriate.

And we say it's inappropriate for the reasons that Mr. Johnston says. It's great if equities are returning 13.8 percent. But when the market crashes and they're asked to pay a bunch more in premiums and they're all there alone, you know, without the rest of the Basic customers, are they going to be able to afford those premiums? And so, that's why we say it's inappropriate.

And they're stuck in the Basic class, and so they -- they're stuck with the Basic claims portfolio which we've already determined has a low risk profile.

And if we were to include growth assets in there, you'll recall Mr. Johnston said, well, that would mean increasing our minimum capital requirement because when we went -- went to the segregated portfolios, the MCT dropped by about 150 million. And that was because it was now just fixed income. And we have taken those growth assets out. We need less capital.

So, if the motorcycle group wants us to start investing in -- in equities again for Basic minimum capital test and the -- and the ratio -- the -- the amount of capital we need to meet that hundred percent MCT ratio is going to -- is going to grow by a lot.

And so, for those reasons, we still maintain that this is the best approach for the motorcycles, but we have that -- that directive sorted out. And -- and we'll be back next year. And, hopefully, that helps in -- in that regard.

MR. ANTHONY GUERRA: The final topic we'd like to talk about is benchmarking. And there are a number of different types of benchmarks that we talk about. The first one I'll begin with is the technology or information technology benchmark.

And -- and it really isn't an issue for us this year. We rate comparably to our peers. And no general concerns were raised by Gartner in its benchmarking exercise, so not much to -- to really discuss in terms of just the steady-as-she-goes approach.

We are committed, though, to future internal and external IT benchmarking. And, as indicated by Ms. McCandless in her closing, MPI has adjusted its IT benchmarking to consider Q3 data to make sure that we have the access to the latest data.

There was a discussion or concern perhaps that MPI was -- was moving away from its -- its commitment or strategy on -- on IT benchmarking.

And I just want to mention that Mr. Parti I think put the issue to bed when he said that MPI was not going to abandoned its process. It said -- he says:

"It could be another RFP process. We could go to the market and find someone else other than Gartner perhaps to do the job, but holistically, the intention would be to benchmark, whether it's through Gartner or through some other third party, and also supplement that with our own internal process."

So, we can expect to see further IT benchmarking with more updated data and hopefully a better result in the next rate application.

The other benchmarking exercise that we discussed this year was the new Crown or operational -- replacing the operational efficiency benchmark which, although is as new, we provided three (3) years of comparison data between SGI, ICBC, and MPI comparing sixty (60) different types of internal measures in order to establish what the best practices might be.

The results were filed. And what they

show is that, although it's declining, MPI has higher FTEs per $100 million of gross premiums written than ICBC and -- and SGI, but it does have the lowest staff to management ratios, and that -- that ratio is increasing. That's -- that's a good thing.

And I've highlighted here that MPI has lower total net expenses as a percentage of net premiums written than SGI. And that's important, as -- as Mr. Gandhi mentioned in his testimony and in his exchange with Ms. McCandless. He says:

"Without understanding exactly the services -- the service offerings, but, yes, correct.

How does -- Ms. McCandless asked -- how does this reconcile with staffing metrics that we just reviewed?"

And he responded:

"There are two (2) separate ratios, but what we see is SGI, ICBC, and MPI, they all pool their compensation lines into their gross expenses. And we -- we see here that we have a leanear -- leaner cost structure than SGI or ICBC."

And so, what we need to be careful of is -- is looking too much at perhaps one (1) particular metric without considering the context. So, for example, if MPI does have a higher number of FTEs, well, it's probably because it's using less external consultants.

And if -- if SGI has more -- or less FTEs, for example, maybe it's because they're using more consultants. We don't know that yet, but it's something that we're endeavouring to -- to capture in -- in further iterations of the benchmark. And hopefully, we'll -- we'll be able to provide further insights on that.

The methodology is not fully mature, we -- we fully appreciate that, and doesn't count for variations and the different products, the different structures of -- and scales rather of the Crown corporations, but MPI is working to improve that. And, like I said, hopefully we'll have a better iteration of the benchmark in next year's GRA.

Comparing rates and average premium growth rates, MPI is consistently offering amongst the lowest rates in Canada. And just as a highlight here, average premiums have grown 1.5 -- excuse me -- 1.56 percent per year in the last twenty-two (22) years.

That's lower growth than in BC, Alberta, Saskatchewan, Ontario, and in Canada as -- as a whole comparison.

Manitobans will pay less for their automobile insurance in 2021, and residents in most major Canadian cities, and that includes taxicab Vehicle for Hire and motorcycles. Next slide, please.

And then on the serving Manitobans benchmark which scores MPI out of a hundred on different metrics, overall, we score excellent with overall satisfaction for physical damage claims at 86 percent and good overall satisfaction with injury claims 71 percent.

There's obviously room to grow, and MPI is committed to doing so, but, generally, those numbers are considered to be favourable and we see them as -- as a good thing.

Survey results show Manitobans agree that MPI provides exceptional service here. And just looking at this -- this graph, at the bottom shows that, generally speaking, people are either strongly in agreement or in agreement that MPI is providing exceptional service.

So, conclusion, it's important to tie this all together and just go back to where -- where we started, which is we're asking for just and reasonable rates. And that means a negative 1.2 percent overall AAP rate indication and a $335 million capital rebate.

We must not lose sight of the years of hard work and effort that has brought us to the point where we can make this type of request. We know that the regulatory process is vigorous and complex, but it's also beneficial.

Although we may not always be in agreement, we do aspire to strengthen our relationships with our stakeholders and to maintain their trust.

And if you recall, Mr. Herbelin testified at the beginning of this Application, and so that's, I think, a very good bookend here.

We want to reiterate the five (5) year ambition that we have, which is for our customers to say that MPI understands their needs and that they make it easy and effortless -- excuse me, effortless to deal with them, for the employees to say that MPI is a rewarding and progressive place to work, and for stakeholders, which includes everyone in this room, to -- to say that MPI is fair, transparent, and does things right.

And so, this will be something that we

will continue to work on. And you should expect that from us and -- and hold us accountable for that. Subject to any questions, those are our -- our comments.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you very much, Mr. Guerra, Mr. Scarfone. We'll break for lunch now and come back at twenty (20) after 1:00. Thank you.

MR. STEVE SCARFONE: Madam Chair, I did neglect to mention at the outset that, normally, we would have provided our written argument contemporaneously with this slide deck.

But because went into yesterday, we're going to take the -- the day tomorrow to -- to put the finishing touches on that and submit it Friday if that's agreeable.

THE PANEL CHAIRPERSON: Yes, that's fine. Thank you, Mr. Scarfone.

--- Upon recessing at 12:22 p.m.

--- Upon resuming at 1:27 p.m.

THE PANEL CHAIRPERSON: Good afternoon, everyone. Before we proceed with the Consumers' Association of Canada (Manitoba) branch submissions, there are some questions for MPI from the Board.

Mr. Gabor...?

THE CHAIRPERSON: Thank you. I may direct some of these to -- to one (1) of you. There are others I'll just sort of throw out and you can decide who wants to answer them.

I just want to put it sort of just a -- a specific question.

Would you agree the pri -- the primary driver system would do a better job of relating premium levels to risk levels than registered owners?

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: Thank you. Mr. -- Mr. Guerra -- the question's not to him, but Mr. Guerra made the comment in benchmarking about doing comparisons. When you're doing comparisons, you've got to be very careful in -- in looking at a series of different factors.

MR. STEVE SCARFONE: Right.

THE CHAIRPERSON: Mr. Scarfone, I don't know if you were serious or not, but I guess I better ask the question.

When you were talking about the low rates for Manitoba and Saskatchewan and registered owners, is it your position that it may be because of registered owners?

MR. STEVE SCARFONE: It's not our position, and -- and that was -- I was hoping to elicit some of that or adduce some of that evidence from that expert yesterday given his breadth of knowledge across the various jurisdictions. But he said he couldn't draw any correlation.

THE CHAIRPERSON: Okay.

MR. STEVE SCARFONE: And -- and so we're left to wonder if there is a correlation or if it's jut a coincidence, but we have no evidence to support one (1) position over the right.

THE CHAIRPERSON: Right, because I noticed that Manitoba and Saskatchewan are tort -- non-tort provinces. Most of the other, I guess, other than BC are tort provinces. BC was a tort province. And so there are a whole series of factors, so we're not supposed to draw conclusions.

MR. STEVE SCARFONE: But -- but I wasn't joking. We think that there could be some connection, but, you know, there are other elements that would be at play as well, including the tort element that you've just mentioned.

THE CHAIRPERSON: Yeah.

MR. ANTHONY GUERRA: The other thing I would note as well is that the same argument could be made to the evidence that we have right now about potential gaming of the registered owner system.

So my friend Ms. McCandless had mentioned that there's some suggestion that in cases of -- of accidents that there may not be the registered owner actually driving the vehicle.

And so that raises the question, well, who's actually driving the vehicle? Is it somebody who has a DSR level 15, a DSR level 14, something similar to that?

And in the case -- in other cases, there's some speculation there that, yeah, maybe there is a connection between that evidence and some deficiencies in the registered owner model, but there isn't anything conclusive to that yet. And so that's the problem that we have.

THE CHAIRPERSON: Right. But, Mr. Guerra, you would -- you would agree with me that, as far as we know, as this Board knows, Manitoba and Saskatchewan are the only jurisdictions that have reg

-- the registered owner model in North America.

MR. ANTHONY GUERRA: That may not necessarily be a criticism.

THE CHAIRPERSON: Okay, but that may be true, so --

MR. ANTHONY GUERRA: Yes.

THE CHAIRPERSON: -- okay. And, Mr. Scarfone, one (1) of the reasons you gave for not moving from registered owner model to primary driver model is you don't hear members of the public requesting it. Is that correct?

MR. STEVE SCARFONE: Yeah, that we haven't heard our customers complaining about the existing model.

THE CHAIRPERSON: Okay. Were your customers demanding CERP?

MR. STEVE SCARFONE: No, not that we're aware of. You mean the -- the deductible changes in --

THE CHAIRPERSON: Yeah, those changes. That -- that wasn't done because customers were demanding it.

MR. STEVE SCARFONE: No. My understanding that the -- that compulsory -- what was it?

THE CHAIRPERSON: Yeah, it was, yeah.

MR. STEVE SCARFONE: Compulsory Extension --

THE CHAIRPERSON: Yeah.

MR. STEVE SCARFONE: -- Compulsory Extension Review Program was -- was done primarily because the deductibles hadn't been indexed for some time, so they were out of date.

THE CHAIRPERSON: Right. Right. But there -- there were business reasons or whatever. And -- and when you introduced it, you had a -- a pretty comprehensive communication strategy to introduce it and educate the public.

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: Is that right?

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: Okay.

MR. STEVE SCARFONE: And -- and lots of briefing notes were sent the government's way, as I understand it, as well.

THE CHAIRPERSON: Yeah. Mr. Scarfone, I was interested -- on the DVA -- on the DVA issue, as I understand it from the evidence, there was an agreement between the province or the Government of Manitoba and MPI that they would transfer DVA to you, that they would pay you a certain amount of money, and that if there were additional costs, there would be an increase in the payment to you. Is that correct?

MR. STEVE SCARFONE: There would be a revisiting of the agreement to explore any changes that were necessary to that funding agreement.

THE CHAIRPERSON: Okay. I thought actually the agreement said that there -- they -- that there would be -- that there would be a greater portion of costs with the amount probably to be negotiated.

MR. STEVE SCARFONE: That could be. My -- and I don't want to commit to -- to that right now. I'd have to look at the -- at the agreement again. And then there was also some evidence during the course of the hearing that it had been adjusted early on.

THE CHAIRPERSON: Yeah.

MR. STEVE SCARFONE: So it started in 2004, there were some minor adjustments made to the funding arrangement, and then it hadn't been revisited in some time.

THE CHAIRPERSON: Right, and the problem that MPI faced is you're going into Project Nova. You have greater costs -- we heard evidence 49 percent of the costs relate to DVA. Mr. Herbelin testified you're in discussions with the Government of Manitoba, but at the end of the day, somebody's got to pay for the costs, and MPI paid for the costs and is trying to negotiate monies. And if monies are paid to -- to MPI, then the monies will go back into the reserves. Is that correct?

MR. STEVE SCARFONE: That's correct.

THE CHAIRPERSON: Now, would -- you used the word 'subsidization', so I guess the question I have for you is:

Do you -- when you're looking at this, do you consider this to be ratepayers subsidizing taxpayers by MPI paying for the entire costs which it appears MPI believes the government should be contributing to?

MR. STEVE SCARFONE: No. So that -- I think the slide you're referencing is that historical look at the transfers from Extension to DVA and Basic, and it was titled 'Subsidization'.

THE CHAIRPERSON: Yeah.

MR. STEVE SCARFONE: Yes. So that -- what we reference there is subsidization of one (1) business unit to another.

THE CHAIRPERSON: Okay. So that's

just within the MPI --

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: -- business lines. The position on CMP appears to be you're not prohibited from subsidi -- sorry.

You're not prohibited from using Extension for other lines of business as long as it doesn't affect -- as long as you're over 200 percent?

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: And as long as you do it before the end -- the year end?

MR. STEVE SCARFONE: Those -- those were two (2) examples of -- of the evidence where it would be inappropriate to make use of Extension monies if -- if it was under 200 percent and that if it was done after fiscal year end. So I don't know that that's an exhaustive list, but those were two (2) examples that were used.

THE CHAIRPERSON: But, I mean, it sounds like what -- what you're saying is, otherwise, fair game. You can do whatever you want as long as those two (2) are met.

MR. STEVE SCARFONE: And if there's a -- as Mr. Giesbrecht indicated, if there is a financial need, if there's something that -- he compared it to the pandemic. He said if something like this was to arise where a great financial need arose, that's when he said the discretion would be exercised.

THE CHAIRPERSON: Right, and you'd agree that, if it came out of Extension, in fact the Board doesn't know about it because, as I think you rightly pointed out, we didn't know about the payments to DVA until this year, until this hearing.

MR. STEVE SCARFONE: That's right. The last this Board knew about that DVA transfer was when we forecasted it to be going to Basic in the last GRA. And then when you learned about it next, it was in this GRA where we said, oh, that money got sent to DVA.

THE CHAIRPERSON: Yeah.

MR. STEVE SCARFONE: Yeah.

THE CHAIRPERSON: So much for transparency.

MR. STEVE SCARFONE: Well -- but what we said --

THE CHAIRPERSON: I mean, you were transparent in this hearing.

MR. STEVE SCARFONE: And -- absolutely. And then what we said, there's -- at our first opportunity to tell this Board about it, we did.

THE CHAIRPERSON: Yeah.

MR. STEVE SCARFONE: So I guess the only other thing to consider is, well, you know, is there some other mechanism available to us to make you aware of it sooner? So do we send a letter? Do you pick up the phone? Does -- does, you know, Mr. Herbelin have that communication with you outside of the GRA process?

I don't know the answer to that question, but when this GRA was filed, that was our first opportunity to tell this Board about that transfer, and we did.

THE CHAIRPERSON: But using -- using the principles that we just discussed, for example, you could transfer money from Extension to Project Nova, and if it comes out of Extension, we wouldn't know about it.

MR. STEVE SCARFONE: Not until the next GRA.

THE CHAIRPERSON: And is it considered that it would be appropriate to use surplus money from Extension to pay for Project Nova, that would be an appropriate purpose?

MR. STEVE SCARFONE: Well, that --

that's essentially what happened here, Mr. Gabor, is -
- is those imminent costs that are related to NOVA
under DVA, the Corporation used -- or forecast the $53
1/2 million. Those are -- that's basically for NOVA.

THE CHAIRPERSON: Right, but you could
use Extension money to pay for a Basic cost. Just
simply trans -- just transfer it to pay for NOVA, and
-- and we would have no way of knowing about it
because it comes out of Extension.

MR. STEVE SCARFONE: Oh, for the costs
that are allocated to the Basic line of business --

THE CHAIRPERSON: Yeah.

MR. STEVE SCARFONE: -- for -- yes, if
-- if there was in the Corporation's view that
financial need, if it was an urgent matter. So not
unlike the example I gave with those Extension
transfers to Basic that bumped up the MCT a couple of
years ago --

THE CHAIRPERSON: Yeah.

MR. STEVE SCARFONE: -- right? We did
that before fiscal year end.

THE CHAIRPERSON: Right.

MR. ANTHONY GUERRA: And -- and I
think the evidence you've heard from Mr. Herbelin was
this is not the way that MPI wanted to do this, right?

He -- when he testified, he said, I lament the fact that this is the way in which this was brought to the Board, right? He made the decision when he comes on board in January. However, by that time, it was already too late. The forecasts were already out. The damage was already done.

You can criticize the fact that MPI hadn't put that amount into its forecasts earlier. The evidence is that it never thought that it was ever going to get to this point. And -- and you can say, well, shame on you because you probably ought to have been assuming that was going to be the case until you collected from government.

And that may be a fair criticism. Those are the facts. The reality is that that's not how MPI wants to govern itself. That's not how it wants to be. It's not how it wants to engage with its stakeholders.

So if it's going to engage in practices like that, you can say, well, what's stopping MPI -- MPI from doing that in the future? The reality is is probably nothing except for the fact that it wants to have that engagement with its stakeholders. And if it continues to behave that way, it's not going to have a great relationship with its stakeholders. We appreciate that.

THE CHAIRPERSON: Well, and it contradicts Mr. Herbelin's opening comment about the need for greater transparency.

MR. ANTHONY GUERRA: Absolutely, and if it were to happen again next year, I would bet everyone would rub that statement in his face again, and they would probably have the right to do so.

THE CHAIRPERSON: I would put to both of you, but I think this is Mr. Scarfone's area, one (1) of the big stories from the past year is the continuation of the pandemic. Is that correct?

MR. STEVE SCARFONE: Correct, yes.

THE CHAIRPERSON: Yeah. And I would put that COVID-19 distorted MPI's financial position?

MR. STEVE SCARFONE: Absolutely.

THE PANEL CHAIRPERSON: Required you to -- it ended up with lower claims, lower costs, three (3) rebates?

MR. STEVE SCARFONE: Oh, absolutely. So the two (2) big impacts would be the impact on the frequency, collision frequency, and the excess capital that accumulated as a result of -- of the frequency.

THE CHAIRPERSON: Correct. So, would I be correct in -- in describing this period of time as a period of instability and adjustments?

MR. STEVE SCARFONE: I think that's fair, yeah.

THE CHAIRPERSON: Okay. So, one (1) of your -- one (1) of the positions is that, at this Hearing, we should be removing the capital release from CMP?

MR. STEVE SCARFONE: Right.

THE CHAIRPERSON: I guess the question I have is:

Why would we do it during a period of instability, removing it permanently, rather than waiting until COVID was over and had a period of stability to see how the capital release worked within the CMP during normal times?

MR. STEVE SCARFONE: And I think that's -- that's essentially what -- what our relief is -- is asking this Board to do. So, it's -- it's only this year, Mr. Gabor, that we're saying, okay, that 5 percent discount, take that out; it will be subsumed on the big rebate that's coming.

We've asked for the one (1) year extension. If the Board is agreeable to that one (1) year extension, next year, we're here with the CMP with its rebate -- or sorry, with its release provision still intact.

So, the -- the one (1) year extension -- and we heard evidence to this effect. Next year, if the one (1) year extension is -- is there, the CMP, in its current form, will be here before this Board.

In addition to that, though, we'll have another plan for this Board to consider going forward that I think you can guess --

THE CHAIRPERSON: So --

MR. STEVE SCARFONE: -- would remove that.

THE CHAIRPERSON: Okay. So, as I understood it, and I may have misunderstood it, I thought the position was get rid of it for this year because we have a rebate, but get rid of it permanently --

MR. STEVE SCARFONE: No.

THE CHAIRPERSON: -- after this year?

MR. STEVE SCARFONE: No. In fact, the -- the one (1) year extension of the two (2) year trial has no -- no stipulation to that effect, that it's -- it would be extended on the basis that the release provision is now gone. It's still there.

THE CHAIRPERSON: Oh, it -- it would still be there?

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: Okay. I -- I guess a final question. When Mr. Graham testified in 2019, which is the 2020 hearing, we heard that MPI didn't want -- didn't like rebates, and one (1) of the reasons was it cost about a million dollars. I think it was nine hundred and thirty thousand dollars ($930,000).

We heard in April of 2020 -- I'm looking back and --

MR. STEVE SCARFONE: That's correct, yeah.

THE CHAIRPERSON: -- April 2020 one (1) time rebate. We don't want to do more rebates because it costs too much money.

Fall of 2020, we have a GRA, evidence during this Hearing, so a year ago was, we're not asking for a rebate, it cost too much money, it's a million, or approximately.

Two (2) weeks after the Hearing is over there's a Special Rebate Application for reasons of that financial circumstances are -- are very serious. Now, the position of MPI is rebate.

It -- for some reason, and maybe it's just me, it seems that a million dollars for postage and administration was a lot of money before, but now it's not -- it's not considered to be a lot of money. It's what we're going to do.

If there's too much money in -- in Extension, we'll just rebate, and it's just a fact of life. Am I missing something?

MR. STEVE SCARFONE: No, you're not. You know, I think -- I think that there's two (2) points there. One (1) is we still are of the view that a million dollars per rebate is excessive.

And I asked Mr. Giesbrecht, if there was a more efficient and less expensive way for MPIC to do this, would you be doing it? And right now, we don't currently have any way of getting the money to the ratepayers without incurring that million dollars, or nine hundred and fifty thousand (950,000). So, that's the first point.

The second point I would say is not unlike my presentation from earlier this morning where we said, all intentions were to transfer the $60 million to Basic, even up until November of last year.

And then what changed? Well, in January, we got a new president and CEO. And he looked at the business. And he looked at the DVA. And then a transfer occurred.

And I would suggest, without knowing, and we didn't hear evidence on this, so I'm just spitballing, got a new president. Mr. Graham may have felt one way about rebates versus capital release. I would expect Mr. Herbelin feels differently.

THE CHAIRPERSON: Okay. Just on that -- on that point, we heard in this -- in this Hearing that shifting to a credit really is impossible because of the system, the computer system you have.

It was raised by Mr. Graham, we don't like rebates, we'll credit. April 2020, this is the only time we're going to rebate; otherwise, we're going to credit.

A year ago, it's we're going to credit. I'm faced with a dilemma which is, you know, hearing after hearing we -- we hear we're going to credit, and then, all of the sudden, at this Hearing, we're told, well, we have to rebate because we can't credit.

Why is it that before it was never the issue raised about whether or not you could do it, and now, all of the sudden, it's, well, we can't do it?

MR. STEVE SCARFONE: Putting a credit on the customer's account, you mean --

THE CHAIRPERSON: Right.

MR. STEVE SCARFONE: -- that would be

drown down for services that are provided?

THE CHAIRPERSON: Yeah. It would go against next year's premiums. That was always the position of MPI, we'll just credit it so when they come to pay their premium...

But now, it's turned into, well, we can't do it within our system. And -- and --

MR. STEVE SCARFONE: I -- I can't -- I can't speak to whether the system has the capabilities to do it. I do know and recall from some of the evidence that the customers showed a clear preference for, let us decide how to use our money, don't put a credit on our account and say we have to use it for insurance and driver licensing services, I may want to go to the movies with my wife. It was my money that you guys over collected, I want it back.

THE CHAIRPERSON: Yeah, but there was no evidence tendered that there was any consultation with the public on how they wanted to -- to have it. I mean, there was no evidence of a survey done or -- or anything. It was a decision made by MPI.

MR. STEVE SCARFONE: Yeah.

THE CHAIRPERSON: And then, at this Hearing, we were told our system doesn't allow it. And that -- that's just the problem I have, so.

Anyways, thank you. Those are my questions.

THE PANEL CHAIRPERSON: Mr. Watson...?

BOARD MEMBER WATSON: Thank you. In regards to the transfer, so it's your position that anything before March 30th at 11:59 you have the discretion, but anything on March 31st you'll transfer to Basic.

Is that correct?

MR. STEVE SCARFONE: That's essentially correct. This one occurred on March 25th, which is precariously close.

BOARD MEMBER WATSON: Okay.

MR. ANTHONY GUERRA: And -- and, obviously, there's some practicalities around that. There needs to be the proper people to approve the transfers, and that may not able to be done at, you know, 11:59, as you say.

So, you know, there -- there are -- there will be some time practicalities that will -- will dictate when the last possible time would be?

BOARD MEMBER WATSON: Okay. With regards to the transfers, you know, we've heard evidence, and it came out in this Hearing that there was transfers done prior.

And, due to an IR, you -- undertaking,

we saw that from 2006 all the way to 2014, there was probably $170 million transferred, but it has never come out prior to any hearing. It's never come out under testimony in all those hearings that we've had.

All the people were reviewing your financial statements, Board accountant, legal advice, Interveners. How has that not come out over fourteen (14) years?

MR. STEVE SCARFONE: I guess the simple answer at the risk of offending the Board is, before the Capital Management Plan, Mr. Watson, the Board had no jurisdiction at all over the Extension line of business.

And so, I -- and this even predates my time with MPI. But my understanding was there was a lot of push-back when the Board said, well, what's Extension doing over there, right, and -- and what's happening there?

And we always said, no, it has nothing to do with the Basic line of business. And then that was why the Capital Management Plan gave the Board some insight into the Extension line of business, because now it's relevant.

Now, you want to see the books. Now, you want to see how much profits. Now, you want to see the capital levels because you know that, ultimately, it can impact upon the business -- or the Basic line of business, where before, in 2004 and '05 and '06, all the way up until 2012, even when those transfers were being made to bolster -- you know, bring the MCT level up, the Board was never made aware of those transfers. It was just done and then we appeared the next year and said, Yeah, our Board of Directors transferred another $100 million to Basic.

MR. ANTHONY GUERRA: Not just Extension, now the Board has had a lot of insight into how DVA operates and how it's -- it's funded. So that -- that oversight, you know -- obviously, there's not exclusive jurisdiction or -- or legal jurisdiction, I should say. But there is a lot more insight that's being provided and transparencies being provided by MPI into, not only Extension, but now also DVA.

PANEL MEMBER WATSON: Okay. In regards to the transfer and the dealings with government -- and I know I asked this question. I'm not too sure if I'm totally clear with the answer based on what you've done here with the shortfalls.

Did external -- for example, Treasury Board or any of the committees you sit at the Legislative Building, were they aware of the total cost of NOVA charged to DVA?

MR. STEVE SCARFONE: That answer, I don't know, Mr. Watson, what government or the Treasury Board may or may not have been aware of.

And again, you're right, it would have come up in those discussions with government, right? So not only is there this administrative shortfall of a couple $3 million a year that was growing, but now we have these looming DVA costs. And whether government was expressly made aware of those costs -- like, the -- you know, the 54 million that we heard about -- I don't know the answer to that question. That would have been something Mr. Herbelin would know in those negotiations with government.

MR. ANTHONY GUERRA: There's also a Cabinet confidences privilege that may attach to some of that.

PANEL MEMBER WATSON: Thank you. One (1) last question.

In the claims incurred forecasting, you update your hail forecast. So you reduced the hail claims experience coming up to a positive. So you're -- to say there's going to be less hail claims.

But one (1) of the reasons where you went into risk management, where you increased the total protection from 300 to 400 million, you're expecting to have a major claim.

Doesn't that contradict one another in -- and I do realize that the major co-insurance or re-insurance does cover things like tornado and flooding. But flooding, a lot of times, is forecasted that we know it's coming and you can warn the customers in southern Manitoba to remove your vehicles and get them to high ground and stuff.

But one part, you're saying you're reducing the hails claims forecast and, the other way, you're increasing the re-insurance.

Can you just comment on that?

MR. STEVE SCARFONE: Mr. Guerra can. I don't know that.

PANEL MEMBER WATSON: Okay.

MR. ANTHONY GUERRA: So, yes, you stole a bit of my thunder by -- by saying that the re-insurance covers just more than hail storms. Although hail storms are a factor. And we can be wrong in our forecasting. We have shown, at this Hearing this year, that we -- we don't always get it right. And we hope that we're right, but, if we're not, then that could have some devastating consequences. So that's, obviously, one thing that we need to be mindful of.

The other thing too is our re-insurance program doesn't just cover us against one (1) major event. It could be a series of tornados in a -- you know, a densely populated area or it can be floods -- more than one (1) flood in a specific area -- or multiple hail storms.

So it's -- although our forecasts are -- are perhaps rosy, we don't have a magic, you know, eight-ball or crystall ball on this. And, you know, all it does is it takes one -- one change in the weather for -- for this to be a different picture. And we're just hoping that we're right and protecting ourselves in case we're wrong.

PANEL MEMBER WATSON: Okay. Thank you. That's all.

THE PANEL CHAIRPERSON: Thank you. I have a question. Just looking for a point of clarification.

On your slide 43, with regard to the DSR, you're saying that, at this point in time, what this one tail -- or how long it will take is unknown. But for the next GRA, MPI can submit a work plan, setting out the scope and duration of the review.

And then, later, at 46, you say, for the next GRA, MPI should be able to submit a work plan, setting out the scoop and duration of the review.

So can we actually expect to see the work plan in the next GRA?

MR. STEVE SCARFONE: How did the last one read? And I apologize for the inconsistency.

THE PANEL CHAIRPERSON: It said 'should be able to' as --

MR. STEVE SCARFONE: I saw that one. And the other one?

THE PANEL CHAIRPERSON: Oh, the other one said 'can submit'.

So it's a fairly definite statement. Whereas, the other is not quite so definite. So I'm just asking whether we can expect to see that plan in 2023.

MR. STEVE SCARFONE: Just one moment. And that -- that's good catch. And it's -- it's an important distinction, so.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So I'm getting the thumbs up from Mr. Guerra that go with the word 'can'.

THE PANEL CHAIRPERSON: We will go with the word 'can' then. Thank you very much.

And I believe those are all the questions from the Board. Thank you very much.

We will now proceed with CAC's submissions. Ms. Dilay...?

CLOSING SUBMISSIONS BY CAC (Manitoba):

MS. KATRINE DILAY: Thank you, Madam Chair. And as you'll note, Ms. Gloria Desorcy, the Executive Director of CAC (Manitoba) is sitting behind me. And Mr. Chris Klassen, my co-counsel, is sitting beside me.

So we'd like to file four (4) exhibits that essentially consist of our closing arguments.

CAC-11 will be the closing submissions presentation that you'll see before you on the screen.

CAC-12-1 will be the written legal submissions concerning the transfers to driver and vehicle administration.

CAC-12-2 will be the book of authorities supporting the legal submissions.

And CAC-13 is a shorter document, which, essentially, compiles all the recommendations from CAC (Manitoba) into one document. But we will be going through all of them as part of the presentation.

So you'll be happy to hear that the only document we will actually go through today is the one that is before you on the screen. The rest of the documents will be for the Board's consideration.

--- EXHIBIT NO. CAC-11: CAC Closing Submissions Presentation

--- EXHIBIT NO. CAC-12-1: Written Legal Submissions for Transfers to Driver and Vehicle Administration

--- EXHIBIT NO. CAC-12-2: Book of Authorities Supporting Legal Submissions

--- EXHIBITS NO. CAC-13: Compilation of CAC (Manitoba) Recommendations

THE PANEL CHAIRPERSON: Thank you. Please proceed.

MS. KATRINE DILAY: Just in terms of timing, we do expect to be -- so my estimation was around two-and-a-half (2.5) hours for our argument.

So we will try to keep up a good pace. And recognizing that the Board may have questions at the end. And if we can identify a good moment to take a break, potentially, I'm guessing, around 2:30 or 3:00 might be appropriate. So we'll try to identify that as we go along.

For the Board's information, I'll be doing the bulk of the submissions and Mr. Klassen will be jumping in twice with parts of the argument relating to the transfers to driver and vehicle administration.

So you'll see before you on the screen, we've titled this presentation 'Unlawful Transfers, Conservative Assumptions, and Cross-subsidization in the 2022 GRA'.

From our clients' perspective, these represent three (3) of the biggest issues in this year's Hearing. And I hope, as we go through our presentation, it will be made apparent why that's our clients' position.

We wanted to start by noting that this is a complicated application with important ramifications for ratepayers. And that was -- the fact that the Application is complicated was recognized by Mr. Scarfone in his opening statements.

And he was referring back to Mr. Trigg's comments at the pre-Hearing conference.

Why is it so complicated? We have interesting customer bill impacts, in the sense that it appears there is a rate increase disguised as a rate decrease. So when we look at the combination of the 1.2 percent decrease, combined with the removal of the 5 percent capital release provision, the bill impact is really a 3.8 percent rate increase. Combined with a significant rebate. We certainly don't discount that.

We also have a Capital Management Plan that has shown inadequacies. But, for which, MPI appears to be seeking another trial year. Whether it is the Capital Management Plan we are used to is another question that we will go into more detail.

Our clients' position is that there were also unlawful and inappropriate transfers to a non-insurance program administered by MPI.

And there's also continued cross-subsidization in the Driver Safety Rating system. And a transition plan, which does not address the inherent issues with the system.

All of these issues and the others that we will address in this presentation have important short-term and also long-term implications for Manitoba ratepayers.

So on this slide, we highlight the issue of the transfers to driver and vehicle administration because this is one (1) of the most important issues from our clients' perspective.

Again, it's important for the short-term because of the impacts in terms of dollars on Basic ratepayers, but it's also important in terms of the long-term relationship of the Corporation with ratepayers, and the trust that we have between the Corporation and ratepayers.

So you'll hear further from us, later in the argument, that MPI's transfers from Extension to DVA are both unlawful, under the MPIC Act, Section 14(2), and it's also addressed further in our written legal submissions. And Mr. Klassen will speak to this issue as we move along.

And in addition, the transfers to DVA contravene the spirit and intent of the Capital Management Plan approved by the Public Utilities Board in 2019.

The next two (2) slides here outline the legal test to be considered by the Public Utilities Board in rate hearings, or what we understand to be the legal test based on our reading of Public Utilities Board Orders.

And, Ms. Schubert, if we could go back one (1) slide, please. Thank you. So, of course, the PUB is an independent quasi judicial administrative tribunal entrusted with approving just and reasonable rates for MPI. That's really the -- the overarching test.

And our Court of Appeal has confirmed that in approving these rates the PUB has two (2) concerns, the interest of the Utilities ratepayers and the financial health of the Utility, so it's a balancing act, together and in the broadest interpretation, these interests represent the general public interest.

We just wanted to note the last bullet here, that ratepayers -- when we refer to ratepayers, we're talking both about policy premium payers, so all of us who pay policy premiums to MPI, but also ratepayers who then become claimants, who have to put in a claim to MPI or -- you know, whether it's a collision, an injury from -- from a -- from a car accident, or as a pedestrian.

And from CAC (Manitoba)'s perspective, to serve a claimant properly is the ultimate purpose of the insurance system.

On slide 5 we've outlined the five (5) elements of the just and reasonable rate test as outlined by the Public Utilities Board Order 98/14.

And we -- the rest of our presentation will be organized around these five (5) elements. We do find them very helpful to organize the different issues -- the extensive list of issues that are before the Public Utilities Board and this hearing.

Before going into the test that we've outlined on slide 5, on these two (2) pages we wanted to highlight an important theme that we have seen and heard in this particular hearing. And that is that MPI is a changing Corporation. If we could go to the next page, please. Thank you.

MPI is a changing Corporation. We've seen MPI has faced significant changes at the executive level, including the loss of its CEO and President, Mr. Benjamin Graham, who along with other members of the MPI executive, was a key architect of the Capital Management Plan.

We -- we mourned the loss of -- not -- the -- the loss to another corporation of Mr. Luke Johnston, who was the Chief Actuary at MPI, and who had been with the Company for over twenty (20) years and was a wealth of institutional knowledge, along was a key architect of the Capital Management Plan.

And our client -- I think Mr. Williams would have alluded to this, always really appreciated how candid Mr. Johnston was and responsive to questions. MPI has also lost Mr. Curtis Wennberg who played a leadership roll in the relationship with the stakeholders such as the repair industry and brokers.

And finally, its VP and Chief Information Technology Officer, Mr. Brad Bunkle (phonetic) who retired. And of course, IT -- there's been a lot of talk about IT in this hearing. It's a very important issue.

We saw very different witnesses this year as compared to previous years and I think it did illustrate a loss of institutional knowledge for MPI. And CAC (Manitoba) wants to -- to specifically thank the MPI witnesses who testified in the 2022 GRA for their dedication in the regulatory process.

But from a ratepayer perspective, and from a consumer perspective more generally, these changes represent risks to MPI's ambitions, their ongoing projects, and their day-to-day ambition -- operations, pardon me.

And really, it's the ratepayers that

end up bearing that risk, because ratepayers pay for the revenue requirement of MPI.

There was acknowledgement by the CEO that a changing executive can influence the culture of the operations of MPI and that the excutive, including new members of the executive, must gain the trust and support of the almost two-thousand (2,000) staff members at MPI.

And this trust and support can impact the ability of MPI to achieve its objectives within timeline and budget, as well as its day-to-day operations. There was acknowledgement that if there is not that trust and support of the staff, it could result in haemorrhaging key employees and also a risk to not being able to achieve objectives within time and budget. And of course, as I mentioned, this risk is borne by ratepayers.

On page 8, we -- we begin to go into the elements that have been set out by the Public Utilities Board for just and reasonable rates. So this slide begins the section relating to the reasonableness of forecasts. And within this section, we'll have a few different issues that we will go through.

And on page 9, we start the section by

referring to the Oliver Wyman experts. The reason we put it here is that we will go into an issue that was brought up in their evidence, and it's the first issue that we're speaking to that they commented on.

So of course Oliver Wyman was the independent expert firm retained by CAC (Manitoba) in this hearing, and CAC (Manitoba) would submit that they were credible and independent.

Mr. Rajesh Saha -- Sahasrabuddhe and Paula Elliott, who was the co-author, have worked in almost all Canadian provinces on automobile rate applications, and one (1) of their specialities in terms of actuarial services in automobile insurance regulation is reviewing actuarial assumptions included in rate filings.

We also noted that Mr. Sahasrabuddhe is currently working on an educational note for the Canadian Institute of Actuaries regarding the application of trends, and we'll go into that issue in more detail.

And it was noted a few times on the record that Oliver Wyman was retained to provide independent and non-partisan evidence to the Board. And on that point, we would -- we would note that Oliver Wyman was retained to look at six (6) issues, as Mr. Sahasrabuddhe noted in his testimony.

And out of those six (6) issues, three (3) of them, they agreed with MPI's position in terms of where they were and found no issues. Three (3) of the issues that they looked at, however, they did comment further, and we'll go into that in more detail.

So on page 10, we are beginning to talk about trends, and that's kind of the first substantive issue under the 'Reasonableness of Forecast' heading.

So trend rates: What are they? The application of trends for MPI is a two (2) step process. This was acknowledged by both Mr. Sahasrabuddhe, as well as MPI.

Past trends reflect observed changes in cost conditions that have already taken place -- so that's looking at the experience -- whereas future trends reflect changes in cost conditions that are expected to occur between the end of the experience period and the period the new premiums will be into effect, so looking at the future.

And you see there we've included an excerpt where MPI -- Mr. -- MPI's witness, Mr. Phoa, did agree with that, and there was also agreement that, all else being equal, the higher the selected trend rates, the higher the rate level indication. So it does have material implications for ratepayers.

And that leads us to answering the question, or trying to: Why are they important? Why should we care? Trend rates are a material assumption in the development of a rate proposal, and you will see from the references that Mr. Sahasrabuddhe from Oliver Wyman, as well as MPI's witness, both agreed with that.

Mr. Sahasrabuddhe did also make the point that trend rates are a single assumption that has -- that have a compounding effect. And you'll recall the banking example that he gave in terms of that compounding effect over time.

It was also confirmed on the record that MPI's frequency and severity trends are used to calculate the claims forecast, and this is what's used to calculate the overall rate indication.

MPI's pure premium trends are used to calculate the indicated major class claims costs. So it's basically used to allocate that overall rate indication.

Pure premium trends are synonymous with loss cost trends and, essentially, are frequency multipied -- multiplied by severity, so those two (2) sides of the equations would equal out.

Pure premium trends and frequency and severity trends are also based on the same aggregated data, and MPI's witness, Mr. Phoa, agreed with that. And then we included an excerpt from Mr. Sahasrabuddhe that confirms that but it in different words. At the end of the day, they're both based on the same body of claims experience.

So from CAC (Manitoba)'s perspective, the evidence on the record is that MPI is not following standard practice with respect to trends. The -- the evidence from Mr. Sahasrabuddhe is that considering statistical significance of the indications of the trend model is established practice.

MPI does not report on P values which are the outputs from the regression model fitting a curve to a set of data points. And Mr. Phoa agreed with that, but he also agreed that the review of P values is a standard process in assessing a regression model.

Going a little bit -- digging a little bit into statistical significance, P values that are less than or equal to zero point zero five (0.05) mean that there is less than a 5 percent chance -- sorry, that should say 'chance' and not 'change' -- that we would observe the value by chance so that they are statistically significant. And P values that exceed zero point zero five (0.05) mean that the model cannot discern as a statistically significant trend.

And I don't believe we have the reference here, but MPI's witness did acknowledge that reporting P values could be of benefit to the Public Utilities Board.

MPI is also not following standard practice in terms of residual analysis which is used to determine the appropriateness of trend models. And MPI confirmed that they don't report this analysis.

Important -- an important and related point but that is worth highlighting is that considering the flattening out of the experience is a crucial step of the trend exercise. And we've included there an excerpt from Mr. Sahasrabuddhe from October 25th that really highlights why you need to do that as part of this two (2) step process.

So the future trend should have at minimum con -- considered the flattening out that occurred in the most recent history, and that was of course relating to collisions.

And so we also understood from the

evidence of Mr. Sahasrabuddhe that, while the elements of MPI's methodology may be reasonable where they look at perils separately, a necessary last step that appears to be missing is to assess the reasonableness of the forward-looking estimates looking at the most recent experience, and that would include that flattening out of the experience.

And we've included here a number of excerpts because Mr. Sahasrabuddhe did make this point a few times in his testimony. And so you should ultimately -- you should reconcile to what the sum of the data indicates, even if you're looking at the underlying -- sorry, at the underlying perils.

He indicated that the analysis missed the forest for the trees. So when you are looking at a very detailed analysis, which may be appropriate, you still have to come back at the end and look at it from a more wholesome perspective.

He also indicated there's all these little details that sort of added up, and then you put them together and you get this number that, in our view, doesn't look reasonable, and it's material -- materially unreasonable. That was his position -- or his evidence rather -- on October 25th.

And you'll recall that Mr.

Sahasrabuddhe also gave the see-saw anal -- analogy when we refer to trend, both the past and future trend, where, if the left side should be higher because of a flattening out of the experience in the most recent history, if the left side is higher, then the right side must come down. And that's what we're not seeing here in MPI's proposed trends.

So why does this all matter, and why are we talking so much about trends? It's because conservative trend assumptions are leading to a higher rate indication. MPI's selected trends, as we've discussed, do not reflect a best practice approach to -- to statistical significance and then result in inappropriate conclusions when considering the residual analysis and looking at the most recent experience.

MPI's selected trends are overly conservative and are leading to a higher rate indication which will then result in over-collection of ratepayer premiums.

So we note here that -- you'll recall Mr. Sahasrabuddhe made reference to MPI's Undertaking 28 in which they were asked to apply the trends suggested by Oliver Wyman. But unfortunately, we -- we confirmed on the record that the trends were only applied to future trends and not past trends leading to to an insulated rate indication.

And my understanding is that, by not applying the past trend, the starting point was essentially too high. So even though the future trend was applied and flattened out the original MPI trend, the starting point was still too high, and that's why it's leading to an inflated rate indication.

Only applying to the future trend is contrary to the two (2) step process for the application of trends which Mr. Phoa had confirmed was standard practice. And it's very likely that applying the past trend in addition to the future trend that was applied in Undertaking 28 would serve to reduce the rate indication even further.

And it's important to note that MPI's forecasts are reviewed every year when they come before this Board, and so trends and the experience underlying those trends are considered every year.

So, on page 16, we've listed CAC (Manitoba)'s recommendations on trends for the 2022 GRA, as well as going forward. And so, at this point in time, CAC (Manitoba) does not believe that the appropriate overall rate indication is on the record of the proceeding.

And so, CAC (Manitoba)'s recommendation would be that MPI should be directed to file a revised Undertaking 28, applying the Oliver Wyman pure premium trends, both past and future, as established by the actuarial standards to the combined frequency and severity trends to calculate the overall rate indication.

Parties should have an opportunity to provide written comments limited very specifically to the methodology in the revised undertaking. And, of course, we recognize that that extends the -- the process.

But we have included on this page a precedent on the hydro side of things where that has been done in the past with a compliance filing where Interveners did have an opportunity to provide limited written comments.

And we were -- for the Board's consideration, just practically speaking, one (1) option could be to direct MPI to file the revised undertaking and Interveners to file comments prior to a Board Order being issued, but, of course, that's just for the Board's consideration.

So, that's in the short-term for the 2022 GRA. Going forward, however, in future General

Rate Applications, CAC (Manitoba) recommends that MPI should be directed to revise its methodology for pure premium trends, as well as frequency and severity trends for claims incurred to better reflect statistical significance and the residual analysis, including considering any flattening out of the experience.

(BRIEF PAUSE)

MS. KATRINE DILAY: On page 17, we're moving on to a different issue which still relates to forecasting, so the COVID-19 impact in the short-term and in the longer term.

Of course, we heard that, in the short term, MPI has assumed reductions to claims costs until March 30th of 2022, and that was provided in the update in October, which was a change from the original June filing, and it reflected changed circumstances in public health -- the public health situation in Manitoba.

So, this means that, as of April 1st of 2022, MPI has assumed a return to pre-COVID-19 normal because this is its best estimate. So, in the longer term, after April 1st, 2022, MPI has assumed no ongoing impacts because they don't know at this point what that will look like. And that were -- that were -- that was the words of Mr. Dunstone.

And Oliver Wyman agrees with this. Mr. Sahasrabuddhe talked about this in his testimony. And he agreed there's no reliable estimate for what the impacts -- the long-term impacts of COVID-19 will be on claims.

However, MPI did acknowledge that it is possible that there will be ongoing impact of COVID-19 on claims incurred and that it is monitoring the situation.

We all know that Manitoba is currently entering its fourth wave, or is in the fourth wave of COVID-19. And it is possible -- we hope it will be the last wave, but it's possible it will not be the last wave, which could lead to more excess capital than currently forecasted by MPI. And there was no denying that by the MPI witnesses.

But for ratepayers, in the short-term, over the next year until the next rate application, there's no plan for what MPI will do should excess capital accumulate at a similar pace as during the last eighteen (18) months, since March 2020.

And so, we confirmed on the record with

Mr. Dunstone it's within MPI's discretion currently whether or not to come to apply to the PUB for a rebate -- for a further rebate, I should say.

And so, this leads us page 18 to CAC (Manitoba)'s recommendations regarding the COVID-19 impacts. And, essentially, the theme on this page is that, given the uncertainty, MPI should monitor and be ready to respond.

So, CAC (Manitoba) would recommend a finding that the impacts of COVID-19 are likely to continue for an undetermined period of time, but that, given the lack of reliable forecasting of the impacts of COVID-19, MPI's approach for the test year of 2022/2023 is reasonable.

In the short-term, until the next General Rate Application, given the possibility -- the possibility, pardon me, that claims costs will be significantly lower than forecast if impacts of COVID-19 continue, MPI should be directed to file monthly reports with the PUB identifying the variance in actual claims cost to budget, as well as the impact on capital accumulated.

And we've included here a reference to a prior PUB Order where that type of monitoring and reporting was ordered.

In the longer term, MPI should be directed to review what other insurers are doing in terms of potential long-term impacts of COVID-19 and file an analysis in the 2023 GRA, as well as incorporate best practice in its forecasts for claims costs so that perspective rates better reflect the post-COVID-19 reality.

And you'll note here we have not made a recommendation regarding what to do with the excess capital that may accumulate over the next year. We included that recommendation in a -- in a -- in the next section -- or rather in a later section regarding the Capital Management Plan, so we'll address it in a later slide.

The final issue under the reasonableness of forecasts is related to the Personal Injury Protection Plan. CAC (Manitoba) noted that customer satisfaction appears to be lower for injury claims as opposed to other interactions with MPI.

Those other interactions would be drive licences and premiums. Only 71 percent of customers are satisfied with their experience with injury claims compared to 84 to 96 percent for other interactions.

And we saw that some of the reasons why customers appear to not be completely satisfied is that they would like to see benefits extended or be allowed to receive benefits for longer.

We, of course, note that a review of the Personal Injury Protection Plan has recently been completed, is awaiting government review. And MPI has indicated it will be filed in next year's GRA.

So, related to that issue of the lower satisfaction, we also heard evidence about complex injury claims. And complex injury claims refer to a family of claims that are increasing in complexity due to evolving medical science. And MPI confirmed these relate to MPI -- pardon me, to mental health claims, concussions, as well as brain injuries.

And this is -- this is very important to CAC (Manitoba) because on the one (1) hand, complex claims have been raised as a risk by MPI for a number of years based on the uncertainty in forecasting these types of claims.

They're increasing in complexity. It's difficulty to forecast how much will be paid in compensation or benefits to those claimants. So, that's a risk to the Corporation and, ultimately, to ratepayers, who will pay for that.

On the other hand, Manitobans look to their public auto insurance provider to provide them with adequate benefits should they be injured in a car accident and, also, to keep up with evolving medical science to ensure the adequacy of benefits.

We confirmed on the record that, given how quickly medical science and societal understanding of complex claims are evolving, there is a possibility that current compensation levels will be shown in the future to be inadequate. We just don't know yet.

And one (1) example of this tension that we -- we tried to explore on the record is that, in the more recent loss years of 2018 to 2020, there are less claims that remain ongoing beyond the two (2) year stage.

So, from CAC (Manitoba)'s perspective of trying to balance that tension between ratepayers and claimants and the -- the Corporation, it's a good news story in terms of less ongoing claims for the Corporation, but for claimants, it means that a larger percentage of claimants are receiving income replacement benefits for a shorter period of time.

And, of course, in many cases, that is likely good, and it's likely to be appropriate. But there is that tension between the adequacy of benefits for claims who are injured as a result of automobile accidents and the risks that the Corporation and ratepayers bear.

And so, that leads us to CAC (Manitoba)'s recommendation on PIPP, the Personal Injury Protection Plan, and complex claims.

MPI should be directed to further engage with customers who are not completely satisfied with injury claims and have expressed that desire to see benefits extended or allowed keep benefits longer, in order to identify any trends or specific areas of coverage or injuries where there are ongoing challenges or maybe systemic issues. For example, but not limited to, complex claims which we talked about are mental health, concussions, and brain injuries.

(BRIEF PAUSE)

MS. KATRINE DILAY: And, Madam Chair, just looking at the time -- and we are moving on to a different section here.

(BRIEF PAUSE)

MS. KATRINE DILAY: If Madam -- if it would be acceptable, we could do the next section, which I expect to do in approximately fifteen (15) or twenty (20) minutes, and then we could potentially take a break after this section.

THE PANEL CHAIRPERSON: Certainly, that sounds -- yes, sounds good. Thank you.

MS. KATRINE DILAY: So, on page 22 is the second element of the test for just and reasonable rates, which is ensuring costs are necessary and prudent.

In this section, we start with our argument or our submissions on Project Nova, which is a high risk project for which ratepayers are bearing all the risk.

We heard in evidence during the Hearing that there are foundational pieces of Project Nova that will need to be addressed, there are likely to lead to delays in delivering Nova and, with that, probably a currently unquantified implications in terms of overall costs.

And we heard that could include separate but related IT projects. So the costs may not be all in Project Nova. There may be other projects that arise as a result of this.

We note that Project Nova was already inherently a high risk project due to multiple inter-related factors. And the budget has increased since last year and could continue to increase, as we heard, despite mitigation strategies put in place. And we included there that the biggest risk, from MPI's perspective, is schedule slippage, which could drive costs.

And we think this is important to note because, while MPI is the one making the decisions relating to Project Nova, Manitoba ratepayers will ultimately pay the cost, and so, are bearing all the risk of this project as it relates to Basic.

So that begs the question, now that Project Nova is well underway -- it's not in the planning stage anymore -- how can the Public Utilities Board and Manitoba ratepayers be kept apprised of value for money spent, especially in the face of an increasing budget and resourcing issues?

And so, on the next few slides, we discuss some of those -- some of those issues. Or some -- some related issues.

Customer engagement is essential to Project Nova business case. We saw that online adoption rates forecast by MPI will have a material impact on the Project Nova business case in the event that they are lower than MPI's forecast or that there is slower uptake that materially impacted the business case, as we saw in some scenarios and we've cited them there at the bottom in the footnote.

MPI has recognized the importance of customer engagement on Project Nova relating to the business case and also to ensure it's meeting the needs and expectations of customers by continuing to engage with customers on an ongoing basis. And they've also retained the firm KPMG to do some customer road-mapping exercises.

However, KPMG's work is confidential. Its statement of work, I don't believe, has been filed on the public record. And a significant piece of work that KPMG is preparing was not ready for this Hearing.

From our clients' perspective and given the importance of customer engagement for the business case and also to make sure that this project responds to the needs and expectations of customers, MPI's and KPMG's work on customer engagement could contribute to public confidence in the project.

PricewaterhouseCooper has been engaged as the independent program governance vendor. And so, we have the description there of what they're doing. They're providing advice, oversight of the program, as a mitigation strategy to identify risks and issues proactively. So that the enterprise can react and correct early.

Again, PricewaterhouseCooper's reports are confidential and they did not provide approval to file a statement of work with the Public Utilities Board.

Given the importance of PricewaterhouseCooper's program governance services over a high risk project, and given the PUB's oversight role over MPI's reasonable expenses, and also given that ratepayers are bearing the risk of Project Nova, CAC (Manitoba) says that the reports by PricewaterhouseCoopers -- PricewaterhouseCooper, pardon me -- or at least summaries or findings of their reports could contribute to public confidence in the project, especially as delays and increases in budget are anticipated for Project Nova.

So on the next two (2) slides, we discuss MPI's IT ambition, which our client was -- was concerned about during this Hearing. We don't have a formal recommendation on this topic, but, over the next two (2) slides, we explain why our clients were concerned.

MPI's IT ambition in this proceeding is reminiscent of past MPI ventures. MPI appears to already be looking past Project Nova, which is referred to as MPI 1.5, all the way to Super Nova, which is referred to as MPI 2.0.

Our clients are asking the question: Does MPI need to be leading edge in IT, given that it is an automobile and personal injury insurance company, which also administers a driver licensing and vehicle registration program on behalf of government. And given what they do, customers do not have to engage with MPI every day or every week or even every month.

MPI's Basic customers are captive ratepayers. They cannot shop around. It's a monopoly. The vast majority of Basic customers also choose Extension coverage. And Extension holds the vast majority of the market.

And MPI customer satisfaction rates are already overall excellent. And we've -- we've cited there -- there's an IR -- or, rather, a part of the GRA that indicates that. And it has been pretty consistently excellent over the last three (3) years.

So given the marketplace in which MPI operates, where it does not have to compete and be the shiny new object or have all the shiny new technology to compete for customers, and given that ratepayers pay the costs of MPI's operations -- so they bear all the risk -- our clients believe that MPI should be strongly cautioned not to go down the same IT ambition road that it has gone down in the past unsuccessfully. And consideration should be given to accountability mechanisms to be implemented in the future.

And so, on the next page, our client has also noted a lot of the issues in this Hearing that have been ongoing for years. And you will hear about more of these issues in the rest of our argument.

MPI has an antiquated and simplistic rating system. We're talking about the minimum bias versus generalized linear models. It does not apply standard practice as it relates to trends. There remains cross-subsidization and inherent challenges within the DSR registered owner model, which has been an issue before this Board for a number of years. It has outdated territories. It has fleet program subsidies. And it has no functional Capital Management Plan.

And on many of these issues -- not all -- but many of the issues, MPI makes little to no progress year after year, but they do have IT ambitions.

And so, we're saying this is concerning

because MPI is a monopoly with captive ratepayers. They don't appear to be following standard practice in many areas, but they appear to be trying to get ahead in other areas. And it may not be appropriate to do so.

On page 28, this is a note on IT benchmarking. And our clients would take the position that IT benchmarking should continue, given significant changes to MPI's IT landscape. It was agreed by MPI that benchmarking -- pardon me -- has benefits in general.

There was some confusion -- and the Board will recall that discussion that I had during my cross-examination around whether MPI is continuing third party or external benchmarking for IT service delivery.

But I think we got to the point -- and we've included the reference there -- that MPI confirmed its intention to continue IT benchmarking, which will include third party or external to MPI benchmarking where appropriate.

Our clients of the -- is of the view that continued IT benchmarking is likely to provide value for ratepayers in the context of ongoing work on Gartner recommendations, as well as an IT landscape that is undergoing significant changes at MPI and will look very different in a few years.

And so, this leads us to our -- our slightly recommendations on Information Technology, CAC (Manitoba)'s recommendations. First and foremost, MPI should be directed to file with the PUB an analysis of the foundational issues relating to Project Nova, including the impact on budget and schedule as soon as possible.

Given the importance for -- for ratepayers of accountability and transparency on Project Nova as a high risk project, the Corporation should be directed to file a summary of PricewaterhouseCooper's work on the public record and also present their independent program governance vendor as a witness in the 2023 GRA.

And also, that MPI operations staff should form part of the Project Nova panel in the 2023 GRA because, of course, IT is integrated in all the parts of the Corporation.

Given the importance of customer engagement as it relates to Project Nova's business case, MPI should be directed to continue to engage customers in a variety of ways and on an ongoing basis relating to Project Nova and file summary results of its engagement, including its methodology in the 2023 GRA.

It should also file a public version of KPMG's work or a summary on the public record and present KPMG, which is the external fir -- firm conducting a detailed and comprehensive customer experience roadmap and implementation plan for use by Project Nova as a witness in the 2023 GRA.

And finally, MPI should be cont -- directed to continue to retain Gartner or another external IT benchmarking consultant as it experiences significant changes in its IT department. I'll go relatively quickly over the next few slides.

Another element that relates to MPI's costs is debt financing, which CAC (Manitoba) characterizes as a missed opportunity. We heard that MPI currently funds all capital projec -- projects with cash from operations and those funds would otherwise be held in a cash account or transferred to the investment portfolio.

And if they contribute to the capital adequacy of MPI, those funds could then be released back to customers under a capital management plan. MPI has indicated it's still reviewing the option of debt financing, but has indicated it is not a priority for the Corporation.

However, from the customer perspective, debt financing for MPI may be a priority, because customers would have options in terms of what to do with that money if it was in their pockets. They could pay back debt or invest, for example. And those -- those options have different implications depending on the customer and the interest rates applicable.

When interest rates were very low as they were in 2020, MPI's investment portfolio returns are on ave -- were on average higher than the interest rates. So another option that we're alluding here is that if MPI were to invest those funds that were available, they would make a higher return than the interest they would be paying on their debt.

So, the recommendation on this topic is that MPI should investigate the opportunity to debt finance, at least a portion of its capital spending. While it would have been advantageous if MPI had promptly investigated this issue and acted on the historically low interest rates in 2020, this would now appear to be a longer term issue to be addressed as MPI becomes comfortable with more sophisticated financing options.

The next few slides have to do with

reinsurance. We heard that reinsurance is insurance that MPI purchases from another company to insulate itself from the risk of a major claims event.

MPI has increased its reinsurance coverage and associated premiums twice in the last -- sorry, in the last three (3) years, resulting in increased costs for reinsurance totalling approximately $4.2 million.

And MPI has had only two (2) occasions in the last twenty-seven (27) years where the payout was higher than the deductable.

An Information Requestion and cross-examination as well as in a preask, CAC (Manitoba) explored the justifications for expanding the reinsurance coverage. And for the reasons before you, we would argue that it does not hold up to scrutiny, those justifications. The modelling shows that a 1:100 year catastrophe loss scenario totals less than $340 million in claims costs, so it's less than the amount MPI is covered for under its reinsurance program.

The way that MPI has characterized massive catastrophic -- catastrophic, pardon me -- weather events has been inconsistent. Manitoba, or Winnipeg in particular, which is of course the largest city in Manitoba, may not be as susceptible to hail storms as an area like Calgary to which it compares itself, and it was acknowledged that climate change impacts on Manitoba may -- may be different than other parts of the country.

And this is a bit more of a philosophical question, but, given the purpose of the Rate Stabilization Reserve and then the purpose of the reinsurance, are some of the same risks covered twice by the two (2) programs, thus creating a cushion on top of a cushion?

So on page 35, this leads us to our recommendation on reinsurance. On its face, the additional reinsurance coverage for this year at the cost of $1.7 million does not appear to be warranted.

The historical data and MPI's rationale for the additional coverage do not support the additional coverage, so as a result, MPI should be directed to investigate, support, and report in the 2023 GRA the need for the additional $100 million in reinsurance coverage.

And then, more broadly, the details of the MCT calculation which are used to calculate the RSR target should be examined to understand the extent of the overlap between the goals of the RSR and the reinsurance program.

Does MPI need both programs, or are they creating a double layer of protection for rare events at a high cost both to customers -- at a high cost, pardon me, to customers both in terms of MPI holding 100 percent MCT worth of capital and in terms of paying those premiums costs every year for the reinsurance program?

So as a result, for the 2023 GRA, our clients would submit MPI should be directed to provide a detailed analysis of the overlap of coverage and on the MCT, the RSR, and the reinsurance program in protecting MPI's financial risk exposures.

And I'll just note as a final note here, CAC (Manitoba) is not saying to get rid of the reinsurance program, but rather that this Board should carefully analyze whether the increased scope and the associated increased costs are reasonable, or whether some risks have double protection.

This next issue here relates to staffing and vacancy allowance. Why does it matter to ratepayers? Because MPI forecasts a certain number of FTEs in its budget. That impacts the overall revenue requirement that MPI needs every year because these are salaries that MPI needs to pay. And then in turn, the revenue requirement, as you know, informs the rate request.

MPI forecasts also a vacancy allowance, and that allowance deducts from the total FTE forecast for positions that MPI anticipates will be vacant and for which it will not have to pay a salary.

And so MPI's financial position is impacted by under-budget FTEs to the extent that the vacancy allowance does not fully capture the cost of those unfilled positions. So essentially, if the vacancy allowance forecast was too low, ratepayers will still have -- will have paid too much in revenue requirement for staffing.

So the historical -- the historical evidence shows that staffing -- MPI's been operating under-staffing budgets for years, but the budget -- the business, pardon me -- is running as it should, and MPI does not appear to have seen a decline in customer satisfaction rates.

MPI has referenced COVID-19 as being a reason for higher vacancies. However, the trend of increasing -- of the increasing under-budget FTEs has been observed since 2016/2017 -- years before the COVID-19 pandemic.

And digging into the numbers from the

last three (3) years demonstrates that the same areas appear to be operating consistently under FTE forecasts, which could show some key areas of productivity gains, and those areas are highlighted there.

MPI's vacancy allowance, when looking at the numbers from the last few years, does not appear to be reliable because there's been higher vacancy than forecast. But now the forecast -- but now vacancy allowance has forecast a decrease, so there seems to be a reliability issue with that forecast.

And MPI's Crown benchmarking exercise findings complements MPI's numbers of staffing and vacancy allowance. MPI may be too FTE heavy, according to its Crown benchmarking exercise.

We saw that MPI is higher than SGI and ICBC for FTEs per hundred million of gross premium written, lower than SGI and ICBC for gross premiums written per FTE, and lower than SGI and ICBC for adjusted policies in force per FTE.

And we recognize that there are a lot of other metrics that were considered in this benchmarking exercise, but these metrics appear to be in line with the historical staffing and vacancy allowance experience of MPI.

Notwithstanding differences between MPI, SGI, and ICBC which could in part explain these ratios, MPI would appear to be too FTE -- too FTE heavy.

And it's important to keep in mind that while the three (3) corporations are very different, and MPI did indicate that SGI and ICBC may -- you know, may have efficiencies in various parts of their corporation and the way that they are structured, MPI may also be able to achieve efficiencies as compared to its counterparts by offering multiple products and services within one (1) entity.

And we note there as well that MPI does not currently have a target for FTEs per 100 million of gross premiums written.

And so this leads to the recommendations regarding staffing and vacancy allowance. The forecasted vacancy allowance for the test year may not be high enough given the historical under-budget staffing, and also given the trend in FTE vacancies over the past three (3) years.

As a result, MPI should be directed to provide a clear plan to achieve the vacant FTEs implied by their vacancy allowance. Otherwise, they -

- they should adjust the vacancy allowance upwards so that MPI does not over-collect from ratepayers.

Given the persistent under-budgeting of FTEs which have not resulted in deterioration of the business operations, MPI should be directed to conduct an analysis of productivity gains in the areas which have been operating under-staffing budget in order to inform whether it should be reducing its budget FTEs in those areas.

And again, a few slides ago, we had highlighted those key areas that were historically consistently under-budget.

In addition, MPI should target -- target FTE metrics that are comparable with Crown peers.

On this slide, we make just a note -- a few notes on brokers, but CAC (Manitoba) does not have a formal recommendation on brokers in this year's GRA.

CAC (Manitoba) is aware that many consumers choose to use brokers for their auto insurance purchases and transactions, and are very happy with the service they receive and keep going to their brokers year after year.

Many other consumers, however, renew through MPI service centres or online as much as is currently possible under the -- the current system.

We saw during this proceeding that during the 2020/'21 fiscal year, MPI and the Insurance Brokers Association of Manitoba negotiated a future commission fee agreement for the period of April 1st to March -- 2021, pardon me, to March 31st, 2026.

And there are commission rates for both Basic and Extension that include commissions for brokers for online transactions in every year until 2025/'26. So we note that, and then CAC (Manitoba) also notes that MPI has assumed that online adoption rates are forecast to grow to 35 percent in 2025/'26, and that MPI is confident in these assumptions.

So as a result, MPI appears to believe there is value in paying brokers for transactions where customers are transacting online directly with MPI in which brokers play no role.

And so CAC (Manitoba) essentially lands on, while this agreement may reflect a period of transition as we enter into Project NOVA, paying commissions to brokers when there is no work being done should not be a regular practice.

A few quick notes on IFRS 17. MPI's review of the impacts on the Corporation is ongoing, and it does not appear that significant issues have been identified to date. And Oliver Wyman found that the state of MPI's readiness and its general evaluation of the effective IFRS 17 is consistent with their experience with other automobile insurers.

And we note here, with respect to the financial condition test, that MPI is currently working with its external appointed actuary on a mock IFRS policy liability evaluation.

And so you'll find here on page 42 our recommendations that the position papers relating to IFRS 17 should be filed as soon as possible, and also that the mock IFRS 17 policy liability valuation and a mock set of financial statements should be filed as well.

And from CAC (Manitoba)'s perspective, this could -- filing potentially these mock valuations in advance of a proceeding could allow Interveners and the Board to familiarize themselves with the changes, and it could assist in efficiency during the hearing process.

And the last point in this section is the rate update. CAC (Manitoba)'s understanding of the rate update that MPI filed in October was that it related to an updated interest rates. And of course interest rates are outside of MPI's control, and so

CAC (Manitoba) thought that this was a very appropriate use of a rate update.

This year, given the significant forecasting challenges relating to COVID-19, it may have been appropriate to include an update on claims forecasts to reflect the changing public health circumstances.

However, CAC (Manitoba) is expressing doubts as to the appropriateness of presenting higher than expected operating expenses resulting in a 1.2 percent different in rates after the discovery period of the process -- the Information Request process is completed.

From CAC (Manitoba)'s perspective, MPI's budgeting and planning process is very different than interest rates, and these types of costs would be more appropriately included in the next year's filing where there is increased scrutiny and would be viewed with the Application as a whole.

And so, Madam Chair, we're going to start a new section, so it may be appropriate to take a break at this point.

THE PANEL CHAIRPERSON: Thank you, Ms. Dilay. Yes, we'll take a break and return at five (5) after 3:00, please.

--- Upon recessing at 2:52 p.m.
--- Upon resuming at 3:09 p.m.

THE PANEL CHAIRPERSON: Thank you. Please proceed, Ms. Dilay.

MS. KATRINE DILAY: Thank you, Madam Chair. As you'll recall, before the break, we are moving on to the next element of the just and reasonable rate test, which is assessing the reasonable revenue needs of the Corporation in the context of the overall general health of MPI.

And I would say this section will likely be the most substantive section in terms of length of our argument. And so, we've included, for that reason, a little agenda on this page 45.

So, first, we'll discuss the Capital Management Plan. Then we'll discuss the transfers to driver and vehicle administration.

And under that, there are two (2) separate arguments, that the transfers were unlawful under the MPIC Act, and this is -- my co-counsel, Mr. Chris Klassen, will be doing that part of the argument, and, also, that the transfers contravene the spirit and intent of the Capital Management Plan. And, finally, we will discuss the Special Rebate

Application.

So, we start this section by outlining CAC (Manitoba)'s understanding of the original intent of the Capital Management Plan, which was confirmed with MPI's CFO, Mr. Giesbrecht.

So, the original intent of the CMP as presented by MPI and approved by the Public Utilities Board in 20 -- in the 2020 GRA was to regularly review the capital levels of both Extension and Basic; be transparent regarding where excess capital from Extension goes; have a way of automatically transferring excess capital from Extension to Basic; have a way of consistently releasing and rebuilding capital regardless of the circumstances; and recognize that Extension and Basic have, for the most part, the same customers.

And Mr. Herbelin, while he was not present at the 2020 GRA, has confirmed his familiarity with the Capital Management Plan presented by MPI and approved by the Public Utilities Board two (2) years ago.

Before talking about what -- what is going on this year, we wanted to note that CAC (Manitoba) did not endorse the Capital Management Plan two (2) years ago. And the Public Utilities Board summarized CAC (Manitoba)'s position in the Order 176/'19.

And so, CAC (Manitoba) took the position that the hundred percent MCT target was inappropriate as it was a significant cost to ratepayers without being linked to Basic's risk or experience; the collaborative process over past years as it relates to a risk and experience-driven level for the Basic RSR, including the use of the one (1) in forty (40) year DCAT scenario.

CAC (Manitoba) also noted the benefits of a range with a minimum and maximum threshold which is more likely to encourage rate stability versus a single target which is more likely to encourage rate volatility.

They also noted the social wastefulness of excessive reserves. And they also noted that excess reserves should be reflected as rebates to consumers as opposed to reducing the rate indication and that reserve deficiencies should be reflected as surcharge -- surcharges to consumers as opposed to increasing the rate indication.

However, CAC (Manitoba) certainly believed at that time, and still believes, that there are beneficial elements of the Capital Management

Plan. A regular review of capital would be the first element of -- of large benefit.

And we note that Mr. Sahasrabuddhe, of Oliver Wyman, agreed that a regular review of capital is part of proper governance of MPI.

CAC (Manitoba) also believes that a recognition of the significant advantages that Extension receives from Basic's monopoly is an important feature of the -- of any capital management plan. And this was recognized in the current CMP as the transfers from Extension to Basic.

And they also -- I believe that the predictable and automatic releasing and -- or rebating and rebuilding of capital are important features.

So, in terms of the CMP that we've had in place for two (2) years, the last year, or even the last eighteen (18) months, have shown inadequacies with the current Capital Management Plan.

We saw that there is confusion for ratepayers, including to, and this year in particular, the effect of having both an indicated rate decrease and the removal of the 5 percent capital release provision, which, in terms of a bill impact to consumers, means that rates are going up on average.

We saw, and we confirmed this in cross-examination, that the rate requests from last year and this year were portrayed differently from MPI to the public. And so, we would submit that's been unclear and inconsistent in terms of the interactions between the rate indication, the indicated rate indication, and the capital release provision.

And MPI has also sometimes expressed the effect of a rebate, as we heard this morning, in a percentage amount. A rebate is a one (1) time return of excess capital and is not ongoing, whereas rates change in perpetuity until they are changed. So, CAC (Manitoba) would submit that's very different.

We also heard on the record of the proceeding that mixing prospective rate setting and capital release provisions can result in premium deficiency in the sense that MPI is not collecting enough.

And we also heard that the Capital Management Plan is an inadequate system to promptly return excess capital to ratepayers in a situation where excess capital accumulates over a short period of time, which has happened and could happen in the future, and this was acknowledged.

But on slide 50, despite acknowledging these -- many of these inadequacies, MPI has not really proposed a solution this year. CAC (Manitoba)'s understanding from the General Rate Application was that MPI was no longer going to rely on the capital release provision anymore going forward and that, instead, they would be proposing a capital rebate methodology next year, but no details were provided or proposed in the 2022 GRA.

But we did get a glimpse of what it might look like. It appears that the MPI Board of Directors has already approved a threshold of 120 percent MCT to trigger rebates, in the -- in Mr. Giesbrecht's words, creating a range of sorts -- sorry, and this might not be Mr. Giesbrecht, it might be from the application -- over and beyond the 100 percent MCT target.

From CAC (Manitoba's) perspective, this effectively would create a new defacto target. MPI would hold capital until 120 percent MCT, and then would take action.

We've heard that MPI is proposing another year of the Capital Management Plan, but our clients would submit it's not really the Capital Management Plan that was approved by this Board two (2) years ago. It doesn't have that tool which returns capital to ratepayers, the capital release provision.

And, also, MPI had broken its promise of transferring excess Extension capital to Basic and, instead, has transferred those funds to DVA. And we will go into this issue in more detail in a few minutes.

So, is this really another trial year of the Capital Management Plan given those changes, or is it an opportunity to modify MPI's approach to management of capital given the learnings from the last two (2) years, and also recognizing that there were elements that worked?

On page 52, we note that the Capital Management Plan has not operated in a normal environment. We certainly are not discounting that. CMP was approved in December 2019, and COVID-19 hit Manitoba in March of 2020 which significantly reduced the number of collisions and improved MPI's capital position in a short period of time.

And we've noted here that Oliver Wyman has recommended keeping the 5 percent release provision for 2022/'23 in addition to rebating excess capital, that is additional to that 5 percent release, because is COVID-19 is a nonrecurring event.

But we -- we note that Oliver Wyman's

evidence on this point was nuance because they also recognize the inherent challenges with the capital release provision.

Ratemaking is a prospective exercise, whereas the return of capital results from the underwriting and investments results of prior program years.

So, mixing those two (2) have the potential to create consumer confusion. And there's also issues of potential fairness because it does not apply to the same population of -- of policyholders responsible for the capital situation.

And we were also concerned, or our client was concerned rather, that MPI has not filed the information requested by the PUB regarding the Capital Management Plan. They were asked to file an analysis of a single capital target versus a range, as well as materials to assist the PUB in its review of the Capital Management Plan. Those materials were not filed.

Going forward, it was agreed on the record MPI's approach to managing capital should be simple and flexible, and that's regardless of whether a trial year is approved or changes are made or there's a new Capital Management Plan approved in the future.

The CMP should be simple for customers to understand and for MPI to administer. And be flexible in order to respond to a variety of different circumstances in a timely manner. So while there's agreement on this, the question is how to do it.

And so, this leads us to the recommendations of CAC (Manitoba) specifically regarding the Capital Management Plan.

CAC (Manitoba) would recommend a finding that MPI has not adhered to the Capital Management Plan by issuing special rebate -- by applying for, rather -- Special Rebate Applications. But that the flexibility it showed during a time of hardship for Manitobans was appropriate.

So we had exceptions, we had deviations from the plan, but our clients would submit that was appropriate given the exceptional circumstances.

Our clients are recommending that the PUB should deny the additional trial year of the Capital Management Plan because it's not really the same Capital Management Plan.

Our clients would recommend that the 100 percent MCT target be retained as a provisional capital target to serve as an anchor point against which to measure any additional capital accumulated during the next year.

And so, this is the -- the sub-bullet on this page here refers back to those COVID-19 ongoing impacts that I discussed earlier and the possibility that there might be excess capital accumulated over the next year until the next GRA.

And currently, MPI had discretion whether to come to this Board to apply for a rebate or not.

And so, our clients would recommend that, in the short-term, until the next application, when MPI's capital reaches 67 million over the 100 percent MCT target, MPI should be directed to automatically apply to the PUB for a rebate.

And that number, you know, to be fair, is a little bit arbitrary. But we chose it -- or our clients chose it because $67 million -- our understanding, from what's on the record before you for this Board, is that the average rebate would be approximately one hundred dollars ($100). And we got that from the Special Rebate Application. We've included our understanding of those numbers.

And so, CAC (Manitoba) believes that the one hundred dollars ($100) would be a reasonable amount to rebate back to customers. Any less than that, they wonder about the costs associated with the rebate. Any more than that, they wonder about how long MPI might be holding on to excess capital.

So that's in the short-term. In the longer term, given the challenges to the Capital Management Plan identified in this year's GRA, MPI should be directed to bring a new Capital Management Plan for review in the 2023 GRA, including the analyses that the PUB requested in Order 1/21 at page 10.

CAC (Manitoba) would recommend that this new Capital Management Plan should include the positive or the beneficial elements of the previous CMP, in terms of a regular review of capital, recognizing the benefits that Extension receives from Basic, and also having a predictable way of releasing or rebating and rebuilding capital.

Should MPI fail to comply with these Orders, our clients would suggest that the target capital range should revert back to the previously approved methodology applied in Order 159/18, which was based on the DCAT scenarios.

Starting on page 56, we're moving on to our -- the issue of the transfers to driver and vehicle administration. And so, I'll -- I'll have just, kind of, a few contextual slides before passing it on to Mr. Klassen.

We start this section by emphasizing that, as a Crown monopoly, MPI has a special relationship of trust with its customers. And Mr. Herbelin, the new CEO and President of MPI, acknowledged this. He's aware of the trust and the responsibility, and he's not taking this lightly.

And I confirmed with him that MPI aims to have a relationship with its customers based on trust, accountability, integrity, and transparency. And he agreed. As part of this relationship, it was agreed that it is incumbent on MPI to be transparent and clear in all its interactions with ratepayers.

And as part of that trust, we would submit that MPI's Chief Financial Officer rightly is familiar with the statutory scheme governing MPIC, including the legal mandates and the limits of that mandate assigned to it by the Manitoba Legislature.

And, of course, on page 57, we're all aware, given the evidence in this proceeding, that MPI has transferred funds from Extension to DVA, despite DVA being historically funded by government.

MPI has transferred $60 million in 2021

-- 2020/2021, which was all the excess capital from Extension to DVA. And it's forecasting to, again, transfer all the excess capital from Extension to DVA in 2021/'22, which is 53 million. So there's nothing left to transfer to Basic under the Capital Management Plan in those two (2) years.

It was established on the record that MPI administers DVA on behalf of the provincial government and has done so since 2004. And the transfer of DVA to MPI was meant to result in cost efficiencies.

It was also confirmed that MPI remits all DVA fees to the government and then receives payment from the provincial government to administer the program.

Why has MPI transferred so much money to DVA? Well, it appears to be pre-funding almost half of Project Nova through transfers from Extension to cover the costs forecast for five (5) years, the costs from Project Nova that are allocated to DVA.

As we heard this morning and throughout this proceeding, it's unclear why MPI has not adequately forecast to the funding shortfalls for DVA relating to Project Nova and brought it to this Board's attention, or reached an agreement with the government for the capital costs. And I won't read this excerpt, but we've included it here for your consideration.

And so, our clients submit, as part of the relationship of trust with MPI, ratepayers look to MPI to represent their interests. The answer to government not paying its part cannot be for MPI to breach the trust with ratepayers, as well as contravene the statutory scheme, by using insurance funds to pay for a government program.

We also heard that one (1) of the reasons for the transfer to DVA is that MPI is flush with cash. And those are MPI's words. This was a result of COVID-19 impacts, resulting in lower claims costs.

And so, MPI takes the position that it does not -- Basic does not need the additional revenues from Extension that are contemplated under the CMP. And we've confirmed that here and we've included the excerpts.

But our clients say this does not matter. The financial position of Basic was specifically cited as a reason that would not be contemplated when deciding whether or not to transfer excess capital from Extension to Basic.

And so, really, the theme that permeates the issue of the transfers from Extension to DVA is that MPI has breached its customers' trust. MPI has accumulated capital significantly in excess of its forecast since the start of the COVID-19 pandemic, including in its Extension line of business.

Rather than transferring that -- transferring that excess capital from Extension to Basic, and then rebating it back to customers as contemplated in the Capital Management Plan, MPI has unlawfully transferred capital from Extension to -- to the DVA program and has broken its promise and contravened the spirit and intent of the Capital Management Plan approved by the PUB in 176/19, which confirmed -- and we'll go into this in more detail later -- that funds in excess of 200 percent MCT and Extension would automatically be transferred to Basic.

So the two (2) sub-bullets that we saw there are, essentially, the two (2) arguments that we're going to making, relating to the transfers to DVA.

And I'll pass it over to Mr. Klassen to start on page 61 regarding the transfers to DVA under the MPIC Act.

MR. CHRIS KLASSEN: Thank you, Ms.

Dilay, members of the Board.

Inherent in MPI's role as a Crown-owned insurer operating in a regulated monopoly is Manitobans' trust. And we've heard this a number of times today, as well as over the past number of weeks. And a part of that trust, or something that comes with it, is the responsibility to steward it.

This trust has corresponding expectations of accountability which, if not met, can cause the trust to be easily lost.

The jurisdiction of this Board and its responsibility to set rates through an independent and evidence-based public process is a function or -- or a product of this relationship.

Another is Section 14(2) of the MPIC Act, which protects money paid by ratepayers for their insurance products from government use or interference. Next slide, please.

Over the following slide we'll confirm first, and briefly, that section 14(2) applies to MPI's Extension reserve; and second, that the driver licensing and vehicle registration services provided through MPI's DVA line of business are government purposes within the meaning of this section. Next slide, please.

On its face, Section 14(2) is broadly applicable. The CAC (Manitoba) legal brief sets out a more detailed pathway with reference to statutory definitions of automobile insurance and the meaning of profit. But in short, the funds in MPI's Extension reserve constitute profits earned by the Corporation in the activity of automobile insurance, and are subject to the protection of -- of Section 14(2).

The next question to be asked is whether DVA constitutes a government purpose within the meaning of the provision, which multiple factors make clear. Next slide, please.

And we'll first look at the statutory scheme. The Drivers and Vehicles Act, the MPIC Act, and MPI's Application in this process all describe MPI as the administrator of DVA services, which are services it provides on behalf of government.

MPI's statutory role as administrator is consistent, as we'll discuss in the following slides, with its own descriptor 'agent', as well as the constraints imposed on its responsibilities by government, which we'll see is the party ultimately responsible for DVA. Next slide, please.

MPI describes itself as government's agent with respect to DVA. This term has weight. And again, characterizes MPI as a party acting on behalf of and as directed by its principal. Further, appellate jurisdiction -- sorry, jurisprudence consistently confirms, as set out in our brief, that in an agent/principal relationship, third parties entering relationships with the agent acting on behalf of the principal are, in fact, in legal relationship with the principal, which in this case is government.

Principals are liable for the actions of their agents. MPI is merely acting on behalf of government, facilitating licensing and registration relationships between drivers and the Government of Manitoba. CAC (Manitoba) agrees that consumers benefit from MPI's arrangement with government for providing services through DVA, but that it is government not MPI that's ultimately responsible. Next slide, please.

Also confirming DVA's status as a government purpose within the meaning of Section 14(2) is the history of the delegation of DVA services to MPI. The record of this proceeding includes the 2004 agreement between MPI and government respecting the delegation of DVA services.

Importantly, this agreement -- this agreement served both to define the relationship in the interim period between the delegation and the 2005 enactment of the Drivers and Vehicles Act and to govern the parties ongoing relationship once the enabling legislation was in force.

The terms of this agreement make clear that in 2004, and continuing today, DVA is a government undertaking over which MPI exercises extremely limited discretionary control. And we see this in the way that MPI's specific taxes are enumerate in a list in the agreement, but government's overarching responsibility is preserved.

We also see that MPI is given no decision-making authority over the services it delivers; having agreed to obtain written consent before making substantial changes. And we see that government committed to funding DVA in perpetuity. Government's funding commitment here invites closer attention. Next slide, please.

Inherent in government's commitment to fund DVA is a recognition that despite engaging MPI as service provider, licensing and registration remained government's responsibility. The nature of that commitment not only colours the initial delegation in 2004, but also colours -- or sorry, informs parties' contemporary relationship.

Government's ongoing responsibility to fund DVA is certainly relevant to MPI's discussions with government, acknowledged in this process on this point. But for our purposes this afternoon, it's also illustrative of government's acceptance of its continuing role as the party primarily responsible for these services.

As mentioned a moment ago, government committed in 2004 to funding DVA in perpetuity. We've heard in this process that the amount -- the amount initially agreed to was approximately $21 million annually and that's it's grown to 30 million or so today.

It is on the record of this proceeding that transfers from Extension to DVA have taken place in the past. It's noteworthy, however, that these took place prior to MPI's Capital Management Plan, which invited closer scrutiny of the Extension reserves. And also important to know that the fact that they've happened in the past did not make them lawful then nor now.

According to the government's press release in 2004 announcing the arrangement with MPI, which is found at tab 11 of CAC Exhibit 8, the amount agreed to reflected government's costs of providing the same services before they were delegated. This suggests that, at the very least, the initial funding amount was intended to resemble sufficiency.

Further, the agreement, as well as public statements set out both in CAC Exhibit 8 and, in our brief, make it clear first that the arrangement was primarily intended to achieve operations efficiencies, and second, that these efficiencies would accrue to the sole benefit of MPI. In other words, it was expected that the funding amount would be more than enough, not less.

Finally, as we've heard during the course of this process, MPI is not entitled to retain any of the now hundreds of millions of dollars in annual revenue DVA collects on the government's behalf. Next slide, please.

Taken together, these realities confirm that transfers from the Extension reserve to DVA contravene Section 14(2) of the MPIC Act. It's clear on its face that Section 14(2) applies to these funds and it's clear that DVA is a government purpose within the meaning of Section 14(2).

And just to provide a brief summary on this final point, the delegation of driver licensing and vehicle registration services to DVA by government consisted of MPI being retained as agent to provide services on government's behalf, over which it exercised no discretionary control and had no power to change.

And, a commitment by government to cover MPI's costs in providing these services while granting MPI no authority to retain any -- any revenues collected.

Coupled with the statutory scheme, which confirms MPI as mere administrator and government as ultimately responsible for DVA, driver licensing, and vehicle registration services provided by MPI on government's behalf constitute a government use and purpose within the meaning of Section 14(2). Next slide, please.

MS. KATRINE DILAY: Thank you, Mr. Klassen. So, that concludes kind of the -- the unlawful transfers to DVA apportioned in terms of our oral argument. But, of course, we have also filed a legal brief, as well as a book of authorities for the Board's consideration which expands on the elements that Mr. Klassen has just spoken about.

So, the second argument of our client relating to the transfers to DVA is that it contravenes the spirit and intent of a Capital

Management Plan that was approved by the Public Utilities Board two (2) years ago. So, we start by highlighting an important point, that the Capital Management Plan was meant to recognize the advantages that Extension receives from Basic's monopoly.

Underlying the Capital Management Plan is a recognition of the significant advantage that Extension receives. The vast majority of Basic customers choosing -- sorry, that should say 'Extension'. The efficiencies created by the two (2) lines of business being so intertwined and the resulting de factor monopoly from Extension. We heard the -- that Extension has the vast majority of the market when it comes to those types of products.

And for the Board's consideration, we've included an excerpt from the Order two (2) years ago that we think speaks to that recognition of the advantages that Extension receives from Basic.

So in our clients' view -- and it's their position that the transfers to DVA from Extension contravene the spirit and intent of the Capital Management Plan approved by the PUB in 176/19 and represents a broken promise to the Board and to ratepayers.

MPI is now appearing to hide behind the

end-of-year requirement for transfers from Extension to Basic, but that does not change our clients' position that the transfers are in contravention of the spirit and intent.

MPI had promised transparent and automatic transfers from Extension to Basic to recognize the -- the benefit that Extension receives from Basic's monopoly.

CAC (Manitoba)'s understanding of that end-of-year date for the transfer -- and our understanding is based on reviewing the Public Utilities Board Order from that year -- it recognized that MPI had to pick a date at which to calculate the transfer.

At the time when the Capital Management Plan was proposed and approved, there was no indication by MPI that the end of the year was, essentially, a deadline by which the Corporation could transfer out all excess capital from Extension to other programs or parts of the Corporation.

And on this similar thread, our clients submit that, based on a reading of the Board findings in PUB Order 176/19 regarding the CMP, our clients' view is that the Board appeared to share our clients' understanding that the requirement for transfers was not so that MPI could do what they please with excess Extension capital before that date, but rather it was to have a consistent point in time for the calculation of excess capital in Extension to take place.

And we have not included them in full, but in the footnote we've referenced here the PUB's description of the CMP, as well as the findings regarding the CMP in Board Order 176/19.

MPI's unequivocal evidence that it had the discretion to use Extension profits for purposes other than a transfer to Basic, provided that the transfer occurred before fiscal year-end, in our clients' understanding came after the approval of MPI's proposed CMP by the PUB and really represents the start of the broken promise.

MPI appears to be exploring other options with government in terms of funding DVA, but that doesn't stop the fact that transfers from Extension were still inappropriately and unlawfully made.

MPI has indicated it is in ongoing talks with the government to explore options to remedy the funding shortfall. There's a number of solutions, as we see there in the excerpt from Mr. Herbelin, but we do not have a conclusion to those discussions.

Our clients submit the solution to a government funding shortfall cannot be to use MPI funds paid by ratepayers for insurance products, funds which have now exceeded forecasted capital because of an extraordinary event and which should be rebated to customers under the Capital Management Plan.

We also explored MPI's rationale that a government would have to raise DVA fees should the transfers from Extension to DVA not have taken place. And our clients' position is that that rationale cannot stand.

The rationale that MPI provided -- that provincial government would likely have to increase DVA fees without those transfers -- stands in stark contrast with the reality that the provincial government has reduced vehicle registration fees twice in the last two (2) years, thereby reducing its revenues from vehicle registration in perpetuity until fees are changed again.

It also stands in stark contrast with the amount that government collects from driver licensing and vehicle registration which is over $200 million per year and, of course, is significantly higher than the amount paid to MPI to administer the program.

Not only is this issue of the transfers to DVA of importance for public trust, as we heard Mr. Klassen speak about, as well as the respect of the statutory scheme governing MPI, it also matters in terms of dollars for all Manitoba ratepayers.

These inappropriate and unlawful transfers have reduced the special rebate to -- to ratepayers. And I won't go through all these excerpts in detail, but it was confirmed multiple times on the -- the record that if the transfers to DVA did not occur, the Special Rebate Application would be $113 million higher, representing the two (2) transfers -- the one that has taken place and the one that is forecast.

And then the last excerpt on this page:

> "We can see the rebate application would likely be closer to 448 million. There might be some adjustments for the capital acquired as Mr. Giesbrecht indicates, but, yeah, that's a fair range."

So now that we're here, what are the options for the Public Utilities Board if the Board finds that the transfers to DVA are unlawful and/or contravene the Capital Management Plan?

And we note here that even the Honourable Kelvin Goertzen, the Premier of Manitoba, has recognized in Hansard in debates before -- in the Legislative Assembly that the issue of the transfers from Extension to DVA are before the Public Utilities Board for a determination.

And so our clients submit that the PUB should make a finding that the rebates should reflect the total funds unlawfully and inappropriately transferred, and forecast to be transferred, from Extension to DVA.

So that leads us to talk about the Reserves Regulation that we know is -- is in place. And so our clients' submission is that the PUB has found the Reserves Regulation to be invalid, and so the RSR can drop below the 100 percent MCT.

To the extent that the PUB Orders that the rebate reflect the funds transferred to DVA if it means that the RSR goes below 100 percent MCT, the fact that MPI would not be adhering to the Reserves Regulation is not a justification.

Mr. Klassen will go into the details of -- of this argument, but the crux is that the PUB has found the Reserves Regulation to be invalid in the past.

And I'll pass it along to Mr. Klassen for the next few slides.

MR. CHRIS KLASSEN: Thank you. Following the 2020 General Rate Application, this Board found sections 2(a) and 3 of the Reserves Regulation to be ultra vires the regulation making authority of the Lieutenant Governor in Council for purporting to determine the minimum amount of funds that MPI must hold in its Basic Rate Stabilization Reserve, the RSR.

Following that finding, the Board rightly found itself not to be bound by those sections or by the Regulation's MCT target for the Basic RSR. The Board did approve the use of the same target for a trial period, but that was as a result of MPI's proposed Capital Management Plan, not the Regulation. Next slide, please.

As a statutory decision maker, the Public Utilities Board cannot issue broad or binding declar -- declarations of invalidity. This Board can, however, answer questions of law, including regarding the validity of regulations, particularly with respect to its enabling statutory framework.

A finding of ultra vires, as this Board made in Order 176/19, does not amount to a striking down of the impugned sections as a declaration by a court of inherent jurisdiction might.

But it does empower the Board to decline to be bound by a regulation it finds invalid and to choose to not apply it. And this is precisely what this Board accomplished in Order 176/19.

Importantly, such a finding is not binding precedent and so does not automatically apply to proceedings before other decision makers or to subsequent processes before this Board. Slide, please.

However, the Board is empowered to rely on its own prior reasons and, again, find that Sections 2(a) and 3 of the Reserves Regulation are ultra vires the Lieutenant Governor in Council.

As explained by the Supreme Court in addressing the impacts of the same constraints on provincial court judges who, like this Board, are statutory decision makers, it is open to provincial court judges in subsequent cases to decline to apply the law for reasons already given or for their own.

However, the law remains in full force or effect absent a formal declaration of invalidity by a court of inherent jurisdiction.

And so despite not constituting binding

precedent, Order 176 remains valid and applicable. This Board is empowered to -- and in the respectful submission of CAC (Manitoba) should -- rely on its prior reasons in Order 176/19 to, again, find Sections 2(a) and 3 of the reserves regulation ultra vires the lieutenant governor in council. Next slide, please.

As indicated in MPI's response to an Information Request, it's on the record of this proceeding that MPI views itself to be bound by the reserves regulation and the 100 percent MCT target in the Basic RSR.

MPI is correct that the regulation is not struck down, but its assertion that it must comply irrespective of any direction from this Board disregards the reasons for the Board's finding in Order 176/'19.

Should such a situation arise, these reasons would purport to comply with -- sorry. Should such a situation arise, MPI's reading of the decision would purport to comply with a regulatory enactment rather than the authority of this Board, which is based in statute. Next slide, please.

Central to the Board's finding in Order 176/'19 was an affirmation of the integral role that the Basic RSR plays in its rate setting mandate. In the Board's words, the determination of the methodology and setting of capital target levels for the RSR is integral to the determination of just and reasonable rates. As such, any regulation which predetermines the methodology or level of the Basic RSR is inconsistent and in conflict with the Board's mandate. Slide, please.

The reserves regulation does exactly this. It determines the methodology by which the sufficiency of the RSR is established, and it identifies a target which is inconsistent and in conflict with the Board's statutory mandate.

Should MPI be ordered to draw the Basic RSR down below 100 percent MCT, Sections 2(a) and 3 of the reserves regulation would be in conflict with the PUB's statutory authority, which, as found in Order 176/19, will again supercede the regulation. Next slide, please.

The reserves regulation will not be a barrier to the Board ordering a rebate which reflects the full amount of excess capital accumulated at MPI during the rebate period.

If necessary, this Board may rely again on its own reasons in Order 176/19 to not be bound by the reserves regulations MCT target of the Basic RSR.

Ms. Dilay...?

MS. KATRINE DILAY: Thank you, Mr. Klassen. So, then on the next slide, page 85, this leads us to CAC (Manitoba)'s recommendations regarding the transfers to DVA.

It won't come as a surprise to anyone that our clients' recommendation is a finding that transfers to DVA from Extension are unlawful in that they contravene Section 14(2) of the MPIC Act.

As a result, we would recommend that the PUB should find MPI has contravened the Capital Management Plan and Order 176/19 by transferring excess funds from Extension to DVA.

And I shouldn't -- I should not have said 'as a result', but in addition to the finding of unlawfulness.

MPI should be directed to approach the government of Manitoba, which we understand it already has done, to finalize a new agreement for the funding of DVA, which recognizes the government's responsibility for funding DVA, as well as the necessary IT upgrade costs both in the short-term and long-term. And MPI should file this agreement with the Board in the 2023 GRA.

And, of course, as per Section 14(2) of

the MPIC Act, this agreement should also recognize that all funds required for DVA, including capital requirements relating to IT upgrades, must come from government revenues, and not insurance premiums charged by MPI; that is the statutory scheme.

Moving on to the related issue, of course, of the Special Rebate Application, CAC (Manitoba) has noted, as others have in this proceeding, that the special rebate costs are very high.

And a related issue is that issuing physical cheques may contribute to ratepayers -- to not all ratepayers getting the benefit of the rebate. So, of course, we know that the cost to MPI of issuing the rebate is almost $1 million each time consisting of printing cheques, administrative costs, and postage fees.

Parties, including the Board, have questioned MPI on other less costly options to issue rebates since the -- the -- at least the first rebate last year, but likely before that, too.

And our client noted the discussion between Mr. Gabor and MPI counsel this morning because our clients' understanding is that MPI appears to have made reference to being able to issue credits to ratepayers in the past.

And we noted that the Public Utilities Board referred to this in one of their orders. But now MPI is indicating that currently it does not have the infrastructure in place to provide a customer credit on account, or any other option, to issuing physical cheques. So, our clients was -- were -- our clients were confused on this point.

Our clients also note that there are thousands of uncashed cheques from the last two (2) rebate applications. So, that means that those customers have not gotten the benefit of those rebate dollars.

And by way of comparison, ICBC, the Crown corporation providing automobile insurance in British Columbia, issues its rebates in the way that the customer paid for their insurance policy.

And the Board will recall we included an excerpt from ICBC's website in Exhibit CAC-8.

And so, this leads us to CAC (Manitoba)'s recommendation on the Special Rebate Application. The first point is, of course, related to our recommendations relating to DVA. MPI's special rebate should include the total amount transferred and forecast to be transferred from Extension to DVA by

March 30th, 2022. And that would total $113 million when we take into account the 60 million in 2020/'21 and the 53 million in '21/'22.

Our client is also recommending that MPI be directed to implement alternatives to -- to issuing rebate cheques as soon as possible. And our clients would strongly recommend that this should include offering customers a choice to receive the rebate in the way they choose.

This could include a physical cheque, a credit on their account, a refund on credit card, an eTransfer, or a direct deposit.

And we want to emphasize this element of choice for customers, especially in the context where MPI is upgrading its -- its IT system and has indicated it wants to -- to move along with the times and provide customer choice.

And so, there may be room to implement these options which may assist in more ratepayers being able to get the benefit of the rebate.

A relatively quick note on the financial condition test which does not reflect the rate update, and this was even more stark in this year's application because the financial condition test chapter of the GRA was only filed in about mid-

October, and it was filed after the rate update.

So, it was very evident that the financial condition test did not reflect the rate update, including the updated rate indication and the updated financial results.

And so, going forward, our clients would suggest that MPI should consider updating its financial condition test to reflect the rate update so that it's current and reflects the -- the update that is provided in October.

(BRIEF PAUSE)

MS. KATRINE DILAY: On page 89, we're moving to the topic of investments. And just to -- to put investments in context of why it matters for ratepayers, why do MPI investments matter for ratepayers?

MPI's investment income directly impacts MPI's revenue requirement and the rate request and, as a result, it impacts the rate that is paid by MPI customers for products and services.

Because of this, ratepayers look to MPI to do the best it can with respect to its investment portfolio, which would include having a balance between maximizing returns and minimizing risk consistent with appropriate risk tolerances for a Crown monopoly that is operating a compulsory insurance program, and that also has significant long-tailed claims related to its Personal Injury Protection Plan, as well as a pension plan for its employees. So, those represent the liabilities, of course, that MPI has to pay.

It was confirmed by Mr. Bunston that, for MPI, surplus volatility is an important measure of risk, and this refers to the difference in the value of the assets that MPI holds and its liabilities.

It was also confirmed that inflation is a risk to MPI's surplus, that surplus volatility risk, in the sense that, if the assets backing liabilities do not provide sufficient inflation protection, then the liabilities may increase faster than the asset values when inflation exceeds expectations, resulting in less surplus and resulting in higher premiums in the future.

And it was confirmed that currently MPI's portfolio contains nominal bonds that are exposed to inflation risk.

CAC (Manitoba) certainly acknowledges that MPI's investment portfolios have come a long way in the past five (5) years. But we want to highlight that part of that was due to the expert evidence and recommendations of Mr. Valter Viola, who was retained as an independent witness on behalf of CAC (Manitoba).

This Board will recall that, in the 2017 GRA, Mr. Viola made eighteen (18) recommendations and the Board directed MPI to address the eighteen (18) recommendations in the next asset liability management study that it undertook.

And so, many changes were made to MPI's investment portfolio since that time, since the 2017 GRA, including less Canadian equity concentration, more international diversification, and also the framework or the basis for optimizing the portfolio during the course of the asset liability management study change from being optimized based on accounting metrics to being optimized based on market value metrics by adopting a liability benchmark portfolio.

And so, our clients would submit that Mr. Viola's evidence has provided value to the process of reviewing -- of the Board's role in reviewing MPI's investments.

There's agreement in this proceeding that the asset liability management study is important. It informs the asset allocation decision, such as the equity bond split, which is a key driver of return and risk. The purpose of such a study to look at the mix of assets, with the output of the study being a long-term policy mix that maximizes the return at the risk level selected. And those are Mr. Bunston's words.

MPI's most recent asset liability management study, however, was based on a nominal liability benchmark. So this means that it assumed zero inflation volatility or, in other words, it assumed inflation was always going to be 2 percent. There would be no change in that 2 percent level.

And MPI has acknowledged that a real liability benchmark would better reflect the inflation risk associated with liabilities.

And those last points we saw on page 91 are important. Because inflation risk remains and actually has become even more evident since the onset of the pandemic. We have seen higher inflation levels.

We've included, in the next two (2) slides, experts from Mercers, as well as the Bank of Canada, recognizing the inflation risk. And, of course, Mercer, as the Board will recall, was the firm who assisted MPI with their most recent asset liability management study.

Mercers has pointed to inflation surprises over the next decade. And we confirmed with Mr. Bunston that inflation surprises can be understood as inflation volatility. And in the excerpts there that we've included from Mercers, they have been recommending to their clients to build a robust inflation sensitive sleeve as a prudent step to face the policy uncertainty of the next decade with respect to inflation.

And our clients confirmed also with Mr. Bunston that it's possible other firms are also making these types of recommendations regarding inflation volatility protection to their clients to ensure that their portfolios can withstand higher inflation, as well as volatility in the next decade.

And as I mentioned, the Bank of Canada has also signalled that higher inflation rates over the next few years are to be expected. Here, you know, we can look at the last sentence. Think of 3 percent as the new 2 percent.

It's also important to view the issue of the asset liability management study in the context that markets are rapidly changing. Because capital market assumptions are one of the key inputs in the asset liability management study. And we've included some examples of those assumptions there.

Mr. Bunston agreed, there's high economic and market uncertainty relating to COVID-19. Things are moving fast and, as a result, capital market assumptions used in the last study four (4) years ago, might need some refreshing.

Given this context of higher inflation, more volatility, and capital markets rapidly changing, our clients submit that the next asset liability management study is an important opportunity to address outstanding risks.

As we've noted, in its most recent study, MPI selected a nominal liability benchmark, as opposed to a real liability benchmark. So the nominal liability benchmark does not reflect the impact of inflation on interest rates. And a real liability benchmark would better reflect that volatility and real interest rate risk because it would reflect real interest rates, net of inflation.

And we see here two (2) excerpts that confirm -- serve to further confirm this point. And currently, MPI does not hold any real return bonds and real return bonds are bonds that provide inflation protection.

And MPI has indicated that it will evaluate inflation risk in relation to the various asset portfolios, liabilities, and surplus in the upcoming ALM study. In fact, the study will carefully consider the impact of inflation on assets and liabilities. And our clients were certainly pleased to hear and read that in the Application this year.

The next few pages outline evidence in the shadow portfolio, which our client submits is very relevant for how MPI will conduct or direct its next asset liability management study.

The shadow portfolios essentially show the cost of MPI's self-imposed constraints and ignoring inflation risk.

So here, just as a -- as a background, the creation of the shadow portfolios was to assist the Board in testing the reasonableness of the Corporation's chosen portfolio in terms of providing optimal returns. And the Board had also indicated specifically whether the Corporation has foregone an opportunity to hedge against long-term risks by rejecting real return bonds and reducing real assets. So it was speaking to that issue of inflation protection.

The next few points are what our client

notes. It would appear MPI has excluded real return bonds from all portfolios and equities as well from the Basic portfolio by viewing those asset classes' returns and volatility in isolation, and not giving enough weight to their contribution as part of the total portfolio.

So while real return bonds may have lower returns compared to other assets, they also reduce surplus volatility more than other assets. And MPI's witnesses have agreed, surplus volatility is an important risk for MPI's investment portfolio.

While equities may have higher asset volatility than other assets, it's the marginal contribution to surplus volatility that matters and this considers both volatilities and correlations.

So when we look at the performance of the shadow portfolios, our client sees that this demonstrates there was a cost from MPI's self-imposed constraints in the asset liability management study, which -- which one (1) of those constraints would be specifically excluding real return bonds, as well as ignoring inflation risk.

So the expectations from the asset liability management study was that shadow portfolio 1, which included real return bonds, had the same expected returns as the chosen Basic portfolio, but had lower surplus volatility, which is risk. That was the expectation when they were set up.

Then we look at the returns, the actual realization. And for passive return -- which is what we have to compare -- shadow portfolio 1 has higher returns than the chosen Basic portfolio.

But it's also important to note that the risk surplus volatility was not calculated. So only half the story was presented in the appendix to the CMMG IR where the shadow portfolio returns and results were presented.

And so, it was confirmed that the risk adjusted return of shadow -- the shadow portfolio that compared to Basic were not before the Board during the evidentiary portion of the Hearing.

And we were very happy to see, last night, the surplus volatility calculations were provided in an exhibit filed last night by MPI. And we -- we certainly thank them for their efficiency -- or expediency, rather -- in filing that exhibit.

And so, what do we see as part of that exhibit? As expected, our clients' understanding is that the calculations in Exhibit MPI-121 revealed that the surplus volatility, so the risk, was lower for shadow portfolio 1 as compared to the chosen Basic portfolio. And we've listed the numbers there from that exhibit.

And so, that leads our client to the conclusion that shadow portfolio 1 has higher realized risk adjust and returns, because it has higher returns and it has lower risk. It has less surplus volatility.

And just a quick note on this -- this page, just given what -- the time that the exhibit was filed last night, legal counsel for CMMG may have additional points on that exhibit given that she has also been considering this issue.

Relating to the Asset/Liability Management Study, and timing, and the regulatory process. Our clients note that MPI has expedited its previous Asset/Liability Management Study, and so it could do so again. MPI has indicated that its next ALM Study will be conducted in early 2022 and that it is aiming to file it with the 2023 GRA, which typically takes place in June.

Our clients would just note that if the study is not ready to file with the application, but only closer to their hearing, this would mean that the PUB and Interveners may not have an opportunity to ask

Information Requests and have a thorough discovery process before the actual hearing.

We note for the Board's consideration that in the past MPI has expedited its Asset/Liability Management Study when it appeared to be convenient for it to do so. And we've included the Board's findings from Order 1/30 of 2017.

A few relatively quick notes on the related, but distinct issue of investment income forecasting. Investment income forecasting matters to ratepayers because that forecast is used as part of the determination of the revenue requirement for the test year.

So, when MPI under forecasts its investment returns, that means ratepayers must pay more of the revenue requirement, all else equal, and of course vice versa. The -- the contrary is true and Mr. Bunston correctly pointed that to me -- pointed that out to me in cross-examination.

Our clients would submit that evaluating the predictive ability of a forecast is important generally, as well as assessing the nature of the errors after the fact. And Mr. Bunston agreed that this would involve looking back at actual observed history and comparing the predicted values with actual.

In addition, analysis of the errors can then be used to gain insight on how the forecast is doing. MPI has indicated in the past that it does not frequently test its investment return assumptions to support their validity.

So, this leads our clients to ask the question: Could there be better options for MPI's investment income forecast that may be more accurate or reliable? MPI did provide an analysis of the validity of return assumptions for each class -- for each asset class in response to an IR in this year's GRA.

MPI concluded that as part of that analysis, that overall the results show low variance between the actual returns and the forecasted returns. But our clients note that it's important to look at the details and not just the average. There is variability in the accuracy of MPI's investment income forecast when you look at the forecast error, and it depends on the asset class.

And the Board may recall we -- we had put a scatter plot with dots showing the variability in certain classes including equities. And so, that leads out clients to -- to the conclusion that there may be value in exploring alternatives to MPI's forecasting techniques in order to improve the forecasting accuracy and make sure ratepayers are not over paying or under paying based on the then realized investment returns.

So, that leads us to page 102, which are our clients' recommendations regarding investments. Given the importance of the Asset/Liability Management Study and given significant market uncertainty due to COVID-19, MPI should expedite the completion of its study so that it is ready to be files with the 2023 GRA in June of 2022 to allow for a meaningful review by the Board and Interveners prior to implementation.

And in a previous slide we highlighted the important work that was done by Mr. Viola and led to important changes. And so, having that meaningful review by the Board and Interveners, we've seen in the past, has brought value to the process.

Our clients indicate that MPI should be directed to base its next Asset/Liability Management Study on a real liability benchmark as opposed to a nominal liability benchmark to better reflect the longer term risk of inflation on assets and liabilities.

MPI should be directed to remove costly constraints that it self-imposes, for example, prohibiting real return bonds and equities from the investable universe in its ALM studies. We've shown that reasonable capital market assumptions and optimization of total portfolio return and risk show that these constraints have a significant cost in the sense of lower returns and higher risks and we saw that between shadow portfolio 1 and a chosen Basic portfolio.

And essentially, removing such constraints would give the Asset/Liability Management Model and Study a chance to work and actually show, what are the options, what are the costs, what are the risks and returns. And finally, MPI should file an analysis of alternative investment income forecasting approaches in addition to benefits and disadvantages to those approaches in the 2023 GRA.

Moving on to the next element of the test of just and reasonable rates, which is, the appropriate allocation of costs between classes and lines of business.

To start with in this section, to CAC (Manitoba) it is clear that the Public Utilities Board has jurisdiction over the appropriate allocation of costs between classes and that this includes the Driver Safety Rating model.

The PUB has found previously that determining an appropriate allocation of costs between classes is part of the just and reasonable rate test. And Section 81(1)(c) of the Public Utilities Board Act gives the PUB authority to address any unjust or unreasonable classification in the making or as the basis of any individual or joint rate.

And the DSR system is a way of classifying customers. And our clients' position would be that it definitely falls within the Board's jurisdiction.

And so, starting with the issue of the Driver Safety Rating, and here's we've just outlined the goals as expressed by MPI in their Application. It includes strengthening the ability to reward the safest drivers, encouraging poor drivers to improve their driving behaviour and enhancing the overall understanding by drivers of how their driving behaviour can affect how much they pay for auto insurance.

The current driver's safety -- driver's safety rating model has inherent challenges. And those challenges are hindering its ability to achieve the stated goals that we just saw in the last slide.

Those inherent challenges include at the -- at the individual vehicle level, the registered owner model does not consider the relative risk of the vehicle based on the actual drivers. Instead, the model determines the relative risk and the vehicle discount simply based on who owns the vehicle.

And we know that under the current model policyholders can safe money if they register all household vehicles in the same name of the household driver with the best DSR rating. They get an additional dis -- discount. And in terms of who is getting the incentive to drive better under such a system, we thought Mr. Sahasrabuddhe I think it was Monday put it perfectly.

So, what you've done in terms of the actual goal of improving driver behaviour, what he thinks you've done is you've improved owning behaviour if nothing else. Not driving, but owning behaviour. And so we -- we can see, practically speaking, that there -- those inherent challenges in terms of registering vehicles not with the driver but with someone else who has a higher rating is happening.

24 percent of registered owners have more than one (1) registered vehicle. 33 percent of

collisions occur when someone other than the registered owner is driving. And interestingly, 41 percent of collisions for vehicles registered by a DSR level 15 driver involve a driver other than the registered owner.

And MPI has stated candidly in an -- in an Information Request that it is aware some drivers register vehicles in the names of those with higher DSR ratings in order to obtain the more favourable discount.

But what's important to note is that there's nothing stopping this practice from happening. Consumers are looking for ways to save money. This is acceptable within the current system, and so our clients would submit it's likely to continue.

In addition to those inherent challenges relating to the risk to the system, our clients also note that the current DSR model has significant ongoing cross-subsidization.

The pricing study has confirmed that the current vehicle premiums, discounts, and surcharges do not reflect the relative risk of registered owners at different DSR levels, and one (1) example is -- and the most stark example is at level plus 15 on the DSR scale.

They currently receive a 33 percent discount on their insurance premiums, but the actuarial indicated discount should be fifty-six point seven (56.7), so a significant difference, our clients would submit.

With that context and those findings, it has been palpable on the record of the proceeding that MPI has been dragging its heels to address the DSR challenges. In every Order since 2017, the issue of cross-subsidization within the DSR model has been before the PUB.

The PUB has previously expressed its interest for MPI to present a pricing study relating to the primary mod -- driver model, but MPI has not done so as of yet. And in fact, MPI has not even collected data and has said it does not intend to do so.

So this is in the context of a primary driver model that may better reflect risk which the PUB has found. And MPI has acknowledged the same -- the same issue: that the primary driver model would better reflect driver risk, and it would be more actuarially sound. And they did have a caveat that I will come to in the next slide.

MPI's -- I believe it was its chief

actuary last year has also -- or maybe two (2) years ago -- has also previously found that, in principle, a primary driver model would encourage better driving behaviour.

And finally, Oliver Wyman also agreed with this: a primary driver model would better support the goals of the DSR program, and they also indicated that the collection of information does not appear to be onerous.

So certainly, given this evidence, there appears to be sufficient evidence to at least begin collecting data on primary drivers and further analyze the issue.

On this slide, we are highlighting something that is quite concerning to our clients. MPI has acknowledged, as we mentioned on the last slide, that the primary driver model would better reflect driver risk with the caveat that this assumes accurate reporting by customers of the primary driver for each vehicle they insure.

But MPI has also acknowledged that there is currently absolutely no requirement for customers to report who drives the vehicle. And I asked that quite directly to Ms. Jatana.

So our clients say MPI's description of

customers currently gaming the system, which they have referred to in this proceeding, is inaccurate. There is nothing preventing customers from registering a vehicle to someone who is not the primary driver.

CAC is quite concerned that MPI appears to assume that a portion of customers significant enough to skew the actuarial soundness of a primary driver model would misrepresent who is the primary driver of the vehicle when they are asked directly by their automobile insurer, and they are asked to declare that their statement is true.

We also heard from Mr. Sahasrabuddhe that customers have an incentive not to misrepresent because their claims may, in fact, be denied by their insurance company.

So despite the primary driver model better reflecting risk, and the PUB, MPI, and Oliver Wyman all agreeing on that, MPI has explicitly said it is not moving to a primary driver model, and it has not done a pricing study.

It has no plan to move to this type of model for at least five (5) years. It does not have a pricing study because it does not have the data, and it does not plan to collect the information they would need for a pricing study because it does not plan to move to a primary driver model.

So our clients submit there's a bit of a chicken-and-the-egg scenario here going on in terms of what comes first: the data, the model, the decision.

Our clients note that MPI already collects driver information for off-road vehicles, so there appears to be a precedent for collecting this type of information within the Corporation.

MPI refers to its public consultation undertaking in -- undertaken in 2017 as evidence that Manitobans prefer the registered owner model.

However, it was concer -- confirmed in cross-examination that it's not quite clear that respondents were fully informed about the inherent challenges that are within the registered owner model, specifically, that that model does not reflect the risk that drivers bring to the system.

And so our clients certainly commend MPI for -- for doing consumer engagement, and they encourage MPI to -- to do more, but that education and informed ongoing consumer engagement is an integral part of an important issue such as this.

And we were glad -- we noted from yesterday's transcript -- or hearing that MPI may be willing to start collecting the data and to continue to engage with stakeholders. The continuing to engage with stakeholders they did acknowledge that they were willing to do on an ongoing basis.

But here, Ms. Jatana did indicate that one (1) of the things we've considered, and she's not able to commit today but they can take back, is maybe there's a way for MPI to collect the data under the current model about who is the primary driver and who else is using my vehicle.

And she indicated they could potentially start to collect that data, have it for twelve (12) months, do some analysis, and then where do we go from there, and what is the appetite overall of all the stakeholders involved?

So there appears to be some appetite for that with the caveat that it was not -- she confirmed it was -- she could not commit to it.

So that's about the inherent challenges, the issues that we've seen. So what is MPI doing this year? They're proposing changes to the DSR in the '22 GRA. They've add -- in order to address the cross-subsidization, they're proposing to add a level 16 on the DSR scale which would have the same discount at level -- as level 15.

They're proposing to allocate the indicated rate decrease to the higher DSR levels through higher discounts, and then, in the longer term, over five (5) years, to move the discounts or premiums closer to their actuarial targets by adding levels up to 20 with various discounts associated.

However, our clients note that ongoing cross-subsidization with remern -- remain, pardon me -- in the short term. So MPI's not proposing to move to those actuarially indicated discounts in one (1) year.

They cited concerns of public acceptability because the base rate would have to increase by 22 percent. And they have indicated a willingness to consult with stakeholders on the proposal, as well as what public acceptability means. And our clients will certainly take MPI up on that offer.

So as a result, we've seen in the record of this proceeding that cross-subsidization will continue even if the proposed changes are implemented, and this will add to the cumulative amount that higher DSR levels are paying that is higher than their DSR rates.

And we've -- we heard from Mr.

Sahasrabuddhe yesterday or Monday that every year that those DSR levels are paying more, that's adding to the total that they've paid more over that time period.

So based on this, MPI appears to be choosing ongoing cross-subsidization as being more publicly acceptable than a change of the base rate of 22 percent. And we thought Mr. Sahasrabuddhe yesterday expressed this very well:

> "It feels as if the non-adoption of the actuarially indicated rates would point us to a view that it's more important not to upset the poorer drivers than to pass on the benefits of better driving experiences to the better drivers."

And it's important to note that, despite the proposed changes to the DSR scale that we just looked at, MPI is not suggesting a move away from the registered owner model, so those inherent challenges that we discussed will remain.

Drivers will continue to be able to register vehicles under the name of someone with a high -- higher DSR rating, will continue to do so without misrepresenting any information, and vehicle premiums will continue to not reflect the risk that drivers bring to the system.

And our client listened with interest to the testimony regarding the interactions between the Driver Safety Rating model and the planned information technology changes, especially in the context of prior MPI evidence and our understanding of Board findings.

So our understanding based on that was that MPI, the PUB, and ratepayers may be missing a significant opportunity given the planned changes to Legacy systems.

In the 2021 GRA last year, the Board found, based on MPI's evidence, that the requirements of the future state of the DSR system must be developed within the next twelve (12) months to ensure that it can be coordinated with any planned changes to Legacy systems. That was our understand, as well.

And in the 2022 GRA, MPI's evidence is that it would be difficult to implement a new model during Project Nova. In reality, it would not be feasible.

But, ultimately, we heard that changes could be made later on in Project Nova, and that that capability will be there. And so, our clients, I guess, are -- are not sure exactly what to make of that but would say there may be a missed opportunity, given that there are a lot of changes.

And so CAC (Manitoba)'s recommendations are on this page.

MPI should be directed to immediately begin collecting data on primary drivers in order to produce a pricing study for the primary driver model as soon as possible. Our clients would say, without this pricing study, without the data, the Board, Interveners are not able to look at this issue meaningfully.

Our clients recommend that MPI should be directed to -- to follow-up engagement with both customers and stakeholders on potential alternative DSR models, including providing information regarding the model's ability to price, based on the risk that drivers bring to the system. That's important information, our clients would submit, that customers should have when they are commenting on these options.

And then, finally, MPI should be directed to move towards actuarially indicated DSR discounts over three (3) years, rather than MPI's proposed five (5) years.

And this last recommendation was -- was difficult for our client to make because we -- because of what we've reviewed in terms of the ongoing subsidization that will remain, even after this year, a cumulative impact in terms of DSR levels 9 -- 10 to 15 paying too much. But our client is also careful of that 22 percent change to the base rate, and our clients would say that's too much in one (1) year, which is why -- but that five (5) years is too long, and so they're proposing three (3) years might be more appropriate.

(BRIEF PAUSE)

MS. KATRINE DILAY: Madam Chair, I do note that it is 4:30, but the Board will be happy to hear that the next few slides highlight important but relatively short issues that will wrap up our presentation. I expect to be -- that it would take approximately ten (10) to fifteen (15) minutes to finish our presentation. And so I'm happy to hear what the Board would like to -- to do.

THE PANEL CHAIRPERSON: We'd like to proceed.

Mr. Scarfone, do you have any limits in terms of your time this afternoon?

MR. STEVE SCARFONE: Not personally,

no, I do not, Madam Chair. Thanks for asking.

THE PANEL CHAIRPERSON: Okay. Thank you. Please proceed.

CONTINUED BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Thank you very much, Madam Chair.

So on this page here we talk briefly about the Fleet Program costs not reflecting the principle of cost causality.

So the Fleet Program operates by providing rebates or surcharges on an after-the-fact basis and, historically, rebates have been higher than surcharges. The cost of those rebates -- of issuing those rebates are spread amongst the three (3) major classes who have access to the Fleet Program.

The principle of cost causality, as far as our client understands, in utility regulation means that the expenses of a utility are to be allocated to those customers who most directly cause the expense. And so our clients submit the Fleet Program would appear to not reflect this cost causality principle, because the vast majority of the private passenger class is not part of a fleet -- I believe it was close to 97 percent was not part of a fleet -- and almost half of the public class is not part of a fleet, but all these customers are still paying for the Fleet Program benefits. We all pay just over twenty dollars ($20) per year to fund the Fleet Program rebates.

Even in the event that the PUB accept that the Fleet Program provides benefits to all road users, which is MPI's rational for allocating those costs to the three (3) classes, our client -- our client would then submit that the cost should be spread amongst all classes, not just the three (3) major classes. If the rationale is that all road users benefit from it, then all road users should pay for it.

And so our recommendation -- our client's recommendation here, aside from a redesign, the Fleet Program should be transitioned from cost recovery from the private passenger, commercial, and public classes generally towards a model that recovers more of the cost from Fleet Program participants; those who participate in the program and get access to the rebates. Increasing surcharges or decreasing the rebates under the Fleet Program would generate more revenue and reduce the net rebates that are payable by the general population.

And so we would suggest MPI should be

directed to file an analysis and a proposal for modifications to the Fleet Program to better reflect cost causation in the 2023 GRA.

Vehicles for Hire. Private passenger Vehicles for Hire rates were implemented in 2018, and they were initially too low. We heard last year and this year this resulted in subsidization of this class by other customer classes.

As the Board will recall, rates for private passenger Vehicles for Hire were ordered to increase by 20 percent in 2021/'22, as well as in 2022/'23 and '23/'24, subject to the Board's ability to vary such increases, based on the experience filed within those GRAs, and as rates approach actuarially indicated break-even rates.

MPI, as you -- as we will have heard, has indicated in this year's GRA that the private passenger VFH rates are now at target, having been increased by 20 percent last year. But we also heard the independent expert retained by the Taxi Coalition, Dion Strategic; they recommended that rates for private passenger Vehicles for Hire need to go up and should not be capped or should be capped at a higher percentage.

And our clients -- on this issue -- on

Vehicles for Hire, our clients recognized that MPI will be filing a new framework for Vehicles for Hire next year. And they also recognized that the Taxi Coalition took the lead on this issue this year. And CAC (Manitoba), as a result, did not focus its efforts on this issue in the 2022 GRA. That being said, CAC does offer the following recommendations for the Board's consideration.

Given the limited experience of the private passenger Vehicles for Hire class, there should be ongoing monitoring, specific monitoring of the adequacy of rates of this class by the PUB, and to the extent that a rate increase is imposed for 2022/'23, it should be capped at 20 percent to avoid rate shock -- rate shock to this class of customers.

This won't -- this issue won't take long.

The review of territories. We've established on the record, last year and this year, that a review of territories has not been completed by the Corporation since the introduction of territories. There were some issues relating to territories and uses that were raised in the 2021 GRA, however, the -- the review of territories was not filed in this year's GRA.

MPI has indicated that the review is currently ongoing, and it is anticipated to be filed in the next GRA. And so, as a result, we would respectfully recommend that MPI should be directed to file its review of territories in the 2023 GRA.

Just a few more slides left.

This is the last element of the PUB's test for setting just and reasonable rates; it is the actual rate itself. And so we've included, first, the topic of generalized linear modelling in this section. And, in retrospect, it could have been included in the forecasting section so I apologize for that.

In this year's GRA, we read with interest the evidence of Dion Strategic, which has recommended the use of generalized linear models for ratemaking, rather than the minimum-bias procedures. Our understand, and the evidence of the Taxi Coalition independent expert, was that generalized linear models are recognized as the industry standard method.

And we asked Dion Strategic for a step-by-step plan -- and they provided this in Information Request -- a step-by-step plan that could be followed by MPI to begin gradually to implement this -- the generalized linear models.

In the past, CAC (Manitoba) has asked

Information Requests on the use of generalized linear models, and MPI had acknowledged that it would be worth exploring this option but it had cited limitations with respect to resources. And once again, in this year's GRA, MPI has expressed its commitment to exploring the use of generalized linear models but, unfortunately, has not committed it to a time line.

And so the recommendation of CAC (Manitoba) would be, given its acknowledgment in the last three (3) GRAs, that exploring the use of generalized linear models would be worthwhile, and that it appears to be standard practice amongst automobile insurers and has been for decades, is our understanding, MPI should be directed to immediately explore this option following the implementation plan proposed by Dion Strategic, and report back with its analysis and findings in the 2023 GRA.

And finally -- and we've alluded to this earlier in our presentation -- but the recommendation of CAC (Manitoba) regarding the just and reasonable rate is that the rate indication is very likely too high. And that the rate indication for 2022/'23 should be filed by MPI in a revised undertaking 28, reflecting the Oliver Wyman past and future trends.

And that concludes our presentation for this afternoon, subject to any questions, of course.

THE PANEL CHAIRPERSON: Thank you, Ms. Dilay and Mr. Klassen.

Mr. Gabor...?

THE CHAIRPERSON: I apologize. I do have a few questions.

MS. KATRINE DILAY: No need to apologize.

THE CHAIRPERSON: So -- and I don't know, Ms. Dilay or Mr. Klassen, if you want to handle it. It relates to the issue of the regulation in the CMP.

I understand the argument about the regulation and whether it's valid or invalid, and what the Board ordered.

I guess, the question I have is: Why should the Board order a rebate that takes MCT below 100 percent when the Board issued an Order supporting the CMP with a rate of 100 percent, 200 percent, 300 percent?

MS. KATRINE DILAY: Thank you, Mr. Gabor. A few points on that.

First of all, the Capital Management

Plan, that's where the 100 percent MCT was approved by the Board. It was approved for a two (2) year period and that two (2) year period is over.

And so, our clients, in their recommendations, have said the CMP, essentially, should -- should be gone for the time being. The trial period is done. We -- there's enough on the record of this proceeding to put a place -- a plan in place regarding capital management for the year -- the next year. And then, MPI should be directed to come with a new Capital Management Plan next year for the Board's consideration.

So from our clients' perspective, there would be no CMP in place with that 100 percent MCT at target.

We did recommend that the 100 percent MCT should remain as a, sort of, provisional target. But given the unlawful and inappropriate transfers that were made, our clients submit that that is enough justification to go below the 100 percent MCT.

And we would note that it is very likely that it would go below the 100 percent MCT for a temporary period of time. Because our review of the evidence shows that almost all the scenarios forecast the RSR, MCT to grow over the next few years.

THE CHAIRPERSON: Okay. I put the question to MPI before when they talked about the -- the -- my mind is going.

(BRIEF PAUSE)

THE CHAIRPERSON: About lowering the 5 percent this year. And said this is a year of great instability because of the pandemic. Shouldn't we be making these decisions when we have stability in terms of -- and I put the same question to you in terms of the CMP.

You know, at the time we put forward a two (2) year plan for the CMP, nobody thought that there would be a pandemic. Then the pandemic came. Nobody thought it would be this long. It seems to be continuing.

Is this the -- is this the appropriate time to be making, what I would suggest, are major structural changes when we're in the midst of great instability?

MS. KATRINE DILAY: Thank you. And I did listen to that question when you posed it to Mr. Scarfone, and I made some notes in anticipation that I might receive the same question.

So I would actually refer you to page 49 of our argument. Ms. Schubert, if we could go there.

So I guess, before we go here, a few -- a few points. Our clients struggled with the question of whether to recommend keeping that 5 percent release provision for another year or taking it out. They struggled a lot. I can -- I can assure you.

And they read -- of course, the Oliver Wyman recommendation is to keep it in. Especially to recognize that COVID-19 was an extraordinary event and that there's enough capital to also be rebated in addition to it.

So they struggled with it. The reason they came to -- to this conclusion is -- is -- there's multiple factors. I think the first one is that there is going to be a rebate regardless. And so, our clients were wondering why should we keep that 5 percent in when we're already issuing a rebate.

From their perspective, we might as well get that money back to ratepayers faster, given that the cheque is already going to be issued. Going to get there faster and be out of -- of the MPI reserves and be in customers' hands. So that was definitely an important consideration.

Regarding, sort of, the CMP and the 5 percent capital release more broadly, from our clients' perspective, the inherent challenges or the -- rather, the inadequacies with the Capital Management Plan that we've highlighted on slide 49 are not only related to COVID-19.

COVID-19 certainly showed inadequacies in terms of the prompt return of capital to ratepayers; that was probably the biggest issue that COVID-19 showed. But our clients had concerns -- and I think that have been highlighted in this Hearing -- regarding issues that are not related to COVID-19. The premium deficiency, the confusion for ratepayers of having both the indicated rate increase or decrease and then another percentage that, sort of, interacts with it, and then, of course, the prompt return of excess capital to ratepayers, which is more of a COVID-19 issue.

So I guess that would be -- I hope I've answered the question in -- in a few different ways.

THE CHAIRPERSON: Yeah. Thank you. Kristen, can you go to page 55, please?

Okay. It seems, in the top bullet, that you're saying MPI didn't adhere to the Capital Management Plan. But, you know, we had the pandemic

and it showed flexibility, so it's okay.
Is that -- is that what that bullet says or...
MS. KATRINE DILAY: In that particular circumstance, because of the hardship that Manitobans were experiencing during COVID-19, our clients -- and, of course, during the rebate applications that were before the Board, our clients struggled with it. You know, what do we do? Do we issue a rebate and, sort of, veer off what's been approved by the Board? Or do we not?
And, in the end, they believed -- or they understood that that was the best course of action, in the context of the flexibility during a time of hardship for Manitobans and issuing rebates.
THE CHAIRPERSON: Right. But that gets me back to the point of:
Do you make these decisions in terms of the entire area, when you're facing a pandemic which is horrific and people are losing their jobs and they've got to worry about money or do you do it when you have a more stable time when you can understand what the -- you know, what the implications are going forward on more of a long-term basis?
MS. KATRINE DILAY: Thank you, Mr.

Gabor. I -- I hear -- I hear what you're saying and I can assure you our clients were struggling with this.

Unfortunately, I think I have to refer you back to that page 49, which I think those inadequacies that our clients have noted, most of them would exist regardless of the situation, and, in a normal environment, would exist.

THE CHAIRPERSON: Right. But to be fair from the beginning, CAC doesn't like this -- the Capital Management Plan, period.

MS. KATRINE DILAY: It likes features of it that we've -- that we've highlighted. I don't have the exact slide. Likes -- it certainly likes the regular review of capital. That is a good benefit.

So, yeah -- so it like features of it.

But, certainly, I -- I cannot deny that CAC (Manitoba) did not endorse the Capital Management Plan for a number of reasons.

THE CHAIRPERSON: Right. Finally, I want to talk to you about DVA and -- and the issue of -- of the transfer, sort of, living in the -- in the real world.

So MPI is building Project Nova. It's an expensive project. As we heard in the Hearing for the first time, 49 percent relates to DVA. It's an integrated project.

You've got a lot of costs and a lot of expenses. People have to be paid. They're in negotiations with the government to get more money. Those haven't concluded and they decided to cover the costs and try and get monies reimbursed.

Is there -- I'm trying to figure out, what is -- what is the practical alternative?

Is it that you shut down Project Nova? Do you only work on the -- the portions of Project Nova that relate to MPI's obligations not related to DVA? So...

MS. KATRINE DILAY: Thank you, Mr. Gabor. And I guess I'll start by saying that one (1) of our -- one (1) of the points we made on a slide is that MPI appears to be, essentially, pre-funding five (5) years of the costs of Project Nova allocated to DVA.

The funding shortfall -- in the current -- in the fiscal year 2021/'22, my recollection was that it was approximately 2.7 million, not 60 million that they transferred. So -- so that pre-funding of capital costs is of concern to our clients to start with.

Regarding what to do practically

speaking and not in, you know, the -- the magical land of statutory schemes that govern who pays for what, I mean, our clients -- our clients have -- from their perspective, they have to stick with what the statutory scheme says.

Our clients worry that by MPI transferring funds from Extension to DVA, that that essentially signals to government, don't worry, we -- we have it. We can pay for this. That's a significant concern from our clients' perspective.

MPI, by being in ongoing talks with government, has recognized that there is that ongoing responsibility. And they've even said that should government come and -- and fund, they're revert the transfers back.

And so, you know, of course our clients cannot perfectly predict what will happen, but our clients do wonder, you know, they noted Premier Goertzen's comments that the transfers were before the PUB for a determination. And they wonder maybe a Board determination that respects the statutory scream as -- scheme, pardon me, as Mr. Klassen has outlined for the Board in its -- in our legal brief and its arguments.

If maybe that is what is needed to

encourage a fair agreement between government and MPI that recognizes those capital costs that have to be paid for DVA and for the rest of the Corporation and also recognizes the statutory scheme that is in place, which, essentially, outlines government and MPI's responsibilities.

THE CHAIRPERSON: Thank you. Those are my questions.

THE PANEL CHAIRPERSON: Thank you. Mr. Watson...?

MR. MICHAEL WATSON: Just two (2) quick ones. In regards to Project Nova, you believe it's a high risk project. With the legacy system, it's an old system, they spent lots of money over a number of years. Now, they're going to a program called Duck Creek, which is used throughout North America through auto insurers and Celtic.

In a way, that -- it's an off-the-shelf system, they can hire IT people from across Canada and North America to come and work on it. They don't rely on the people that have worked there for many years to maintain an old integrated system.

You're not against them updating their systems, you're just about the implementation, and the costs, and the budgeting?

MS. KATRINE DILAY: Thank you for the question and thank you also for the preamble, which is important for me.

So, our clients certainly understand the need to upgrade infor -- upgrade information technology. They understand that and they're not opposed to upgrading technology in general.

What they are concerned about is where we have a project that has already increased in costs, and now it was before the Board that there are other foundational -- foundational elements that have been discovered, are not quantified, and we don't have the details of that.

So what they're concerned about in general is the accountability mechanisms that exist when MPI is making all those decisions. And what happens when MPI is making those decisions? They're already made. There's already money spend.

What is then the regulatory process? What role does the regulatory process play in assessing the reasonableness of those costs? And we would submit it plays a very important role, but, practically speaking then, what -- what can we do if those costs are already paid and we're already well underway on Project NOVA?

So you'll see our recommendations certainly don't include get rid of Project NOVA. They do not include that.

What they do include is public accountability measures. Make reports that have to do with risk and advice to the Corporation and customer engagement, which is a material assumption. Make those reports public, have the witnesses here so that we can speak with them and see what are the -- the remaining risks.

And, to our client, those are the accountability measures that are needed when we're talking about these big IT projects that cost a lot of money, but that -- but recognizing also the need to upgrade Legacy systems, which I understand were customized and not commercially off the shelf. Just trying to show my -- my knowledge there.

Thank you, Mr. Watson.

BOARD MEMBER WATSON: Okay. Thank you. Last one about the Capital Management Plan. In one (1) of the bullets here, you said you weren't in support of it two (2) years ago, and you still have concerns about it now.

Keeping the Corporation viable and balancing off the need for proper rates, do you have any suggestions to bring forward for the Capital Management Plan?

MS. KATRINE DILAY: If you'd just give me one (1) minute.

BOARD MEMBER WATSON: Okay.

(BRIEF PAUSE)

MS. KATRINE DILAY: Thank you, Mr. Watson, for your question. Our clients don't have a specific recommendation or a plan to bring forward. Our clients' understanding is that it's not -- you know, they don't have the same resources, they don't have the same intimate knowledge of the Corporation as MPI does.

And so they agree that the plan -- you know, in collaboration with stakeholders and, of course, to bring forward to the Board -- but that the plan is ultimately MPI's responsibility.

In terms of the concrete elements that should be included in such a plan, I think we've outlined them in -- on page 48. So these would basically be the -- sorry, forty-eight (48), thank you.

These would basically be the three (3)

items that CAC (Manitoba) believes are beneficial in the current plan and that should remain in -- in any future Capital Management Plan.

A regular review of capital. Every year reviewing capital. Our clients think that's fundamental, and of course we -- we included the excerpt from Mr. Sahasrabuddhe here.

And, importantly, a recognition of the significant advantages that Extension receives from Basic's monopoly. The transfers from Extension to -- to Basic and that inclusion in the CMP.

Our clients were -- were -- believe that that's an essential feature of any capital management plan because it recognizes that Extension is a de facto monopoly because of Basic and the advantages it brings. So that's a crucial feature.

And then that predictable and automatic releasing, rebating, or rebuilding of capital. They agree, you know, it should be automatic.

Hearing time would not have to be spent discussing that if we had a more predictable and automatic way, and we were instead sort of just discussing, you know, what are the numbers, what is -- what is the right way to implement it once we have that plan in place?

So unfortunately, no concrete plan, but these would be the three (3) elements that we think should form any future capital management plan.

BOARD MEMBER WATSON: Okay. Thank you.

THE PANEL CHAIRPERSON: Thank you very much. It's just about five o'clock. We'll adjourn for the day and be back at nine o'clock on Friday morning. All right.

MS. KATRINE DILAY: Thank you.

--- Upon adjourning at 4:58 p.m.

Certified Correct,

____

Wendy Woodworth, Ms.