MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2023/2024 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Irene Hamilton, K.C.- Panel Chairperson

Robert Gabor, K.C. - Board Chair

Susan Nemec - Board Member

George Bass, K.C. - Board Member

Susan Boulter - Board Member

HELD AT:

Public Utilities Board

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APPEARANCES

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Steve Scarfone	)Manitoba Public
Michael Triggs	)Insurance
Anthony Guerra	)
Jordan Lang (Student-at-law)	)
Byron Williams	) CAC (Manitoba)
Chris Klassen	)
Karen Wittman	) Taxi Coalition
Sharna Nelko	)
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Michael Weinstein	)
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Charles Feaver (np)	)

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--- Upon commencing at 9:01 a.m.

THE PANEL CHAIRPERSON: Good morning, everyone.

Mr. Guerra, I understand there are a few matters you wanted to address?

MR. ANTHONY GUERRA: Yes, Madam Chair. Just -- there -- there will be a few more exhibits to be entered on to the record. We're just finishing up a couple more of them, so, what we plan to do is just to have them all entered into the record at the same time, so hopefully that will be done by -- by the time that our closing is ready to be presented.

But there's also the issue of some additional commercially sensitive material that was filed with the PUB following the issuance of the CSI Order, it was part of pre-asks. And so the issue that we have is that those documents have not been formally addressed by this Board as to their confidential status, and that's a loose-end that we believe just needs to be tied up.

So My Friend Mr. Scarfone can address some of the ways in which we can deal with it. We are proposing that we have a motion heard just orally on the record today to address those issues and decide whether or not those documents can be treated confidentially.

So subject to any concerns or questions from the Board, that's how we would expect to proceed.

THE PANEL CHAIRPERSON: Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: So I don't -- I think it would essentially be just speaking to the status of the PwC documents that -- they -- they are just similar reports to those ones that have already been given CSI status, and so I'm not sure that it's necessarily a formal motion that's being heard or if MPI's just speaking to the issue.

MR. STEVE SCARFONE: No, we propose to bring a motion, as we did a couple of years ago when there was some additional documents that needed this Board -- that we needed this Board to consider and -- and make a finding of confidentiality. And we have to meet the -- the tests, in our view, under rule 13.

So we would do that orally, but there's no -- no magic to it. Those are the PwC documents that -- that the CAC wanted in advance of their witness coming from -- Mr. Iles coming.

THE PANEL CHAIRPERSON: Okay. Thank you. And in the course of that motion will the information -- will there be information in the documents that will be disclosed or can we deal with this without having to go on to the confidential record?

MR. STEVE SCARFONE: No. My -- my thought was that we would -- because we are going on the confidential module this afternoon, so we can do -- we can make that motion during that. And then, if the motion is -- is allowed, then when we're back on the public record, we can just make a note of that on the public record that the motion was -- was granted by the Board.

THE PANEL CHAIRPERSON: Okay. Do any of the Interveners have comments with regard to this?

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Madam Chair, back in the back row, my understanding is that MPI proposes this afternoon to make a motion in terms of, for example, the material filed as a result of one (1) of our pre-asks. So if that's their proposal, that's satisfactory from our perspective.

THE PANEL CHAIRPERSON: Thank you. Okay. Let's proceed that way. We'll deal with the motion then when we're on the confidential record. Thank you.

Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you. So I will now proceed with my closing comments on behalf of the Board.

CLOSING COMMENTS BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: We have now completed the evidentiary part of this hearing with respect to the 2023 General Rate Application, or GRA, 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 April 1, 2023.

As counsel for the Board, I do not take any position on the merits of any part of the Application or on 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.

First, with respect to the provisional rate request, rate indications are interest sensitive, and market interest rates are always changing. This gives rise to a significant risk of estimation error in deriving Basic rate indications.

MPI has adopted a naive interest rate and uses rate indications derived in accordance with accepted actuarial practice in Canada to reduce the risk of estimation error.

To further mitigate this uncertainty, in recent GRAs, the Corporation has provided an update to its rate indications to reflect market -- market interest rates at approximately the time that the GRA public hearing commences.

For the 2023 GRA, the Corporation submitted an initial application and public notice to reflect a provisional rate request derived in the usual manner but with a declared intention of updating the rate indication before the commencement of the public hearing.

The provisional rate request for an overall .9 percent rate level decrease was based on market interest rates as of March 31, 2022.

On October 12th, the Corporation filed an updated rate indication based on actual data to July -- July 31, 2022, and interest rates to August 31, 2022.

In conjunction with the provisional rate decrease request of .9 percent, the Corporation requested removal of the 5 percent capital release. The combined effect of the .9 percent rate decrease and the removal of the 5 percent capital release provision increases the actual premiums paid by the customer by 5.54 percent and would effectively be an overall 4.7 percent premium increase for renewal customers.

The Corporation asked for the removal of the capital release provision as it has proposed a new Capital Management Plan in which capital will only be returned to customers through rebates separated from premium payments instead of capital releases which were combined with premium payments.

This revised CMP, or Capital Management Plan, aligns with recent amendments to the Manitoba Public Insurance Corporation Act which received Royal assent on November 3rd and which, among other things, requires MPI to maintain the Basic Rate Stabilization Reserve, or RSR, at a target amount equivalent to a 100 percent minimum capital test ratio, stipulates that MPI cannot apply to the Board for a rebate unless the RSR's ratio exceeds 120 percent at the beginning of a fiscal year and the requested rebate cannot reduce the RSR's ratio to less than 100 percent MCT.

With respect to the October 12 rate

update, as previously mentioned, the Corporation filed an updated rate indication on October 12th. The Basic rate indication was revised upwards by .8 percent to an overall .05 percent rate level decrease.

The capital release provision in 2022/'23 had been implemented by the Corporation in such a fashion to result in an overall premium decrease of 5.17 percent.

Removal of the capital release provision, as implemented by the Corporation, has an estimated impact on premiums of plus 5.54 percent. Combining the .05 overall rate decrease with the -- the plus 5.54 percent impact of the removal of the capital release provision leads to the effective impact of the amended rate request to be an overall 5.5 percent premium increase.

MPI does not propose changes to service or transaction fees, permit and 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 increase of .4 percent; for the commercial class, an overall increase of 4.8

percent; for the public class, an overall increase of 2.2 percent; for motorcycles, an overall increase of 3 percent; for trailers, an overall decrease of 9.2 percent; and for off-road vehicles, no overall change.

This amounts to an overall rate reduction of .1 percent, and that is the 0.05 percent rounded to one decimal place.

MPI has also applied for changes to vehicle discounts available through the Driver Safety Rating system by increasing the scale to discounts applied to drivers at DSR plus 9 to plus 14 and plus 16 on the DSR scale, increasing the maximum merit level under the DSR scale from plus 16 to plus 17 in the 2023/'24 policy year, allocating a .9 percent rate decrease to the DSR 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 in territory and capping and balancing for experienced rate adjustments, the results were modelled by the Corporation to assess the -- the impact of various rate and classification changes.

In total, the current vehicle population is 1,229,696 vehicles, to which the proposed rate would be applied as follows, excluding the impact of the removal of the capital release provision.

Four-hundred-eighty-three-thousand-fifty-eight (483,058) vehicles, or 39.3 percent of the overall fleet, would receive a rate decrease. The majority of which would be one hundred dollars ($100) or less.

Five-hundred-and-eighty-six-thousand-nine-hundred-and-seventy-five (586,975) vehicles, or 47.7 percent of the overall fleet, would receive a rate increase.

And one-hundred-and-fifty-nine-thousand-six-hundred-and-sixty-three (159,663) vehicles, or 12.9 percent, would receive no change in rates.

Including the impact of the removal of the capital release provision, the distribution would be as follows: About 19 percent would receive a premium decrease; about 68 percent would see a premium increase; and about 13 percent would receive no change in rate.

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

For the 2023 GRA, attention was given to five (5) assumption areas: The new money yield; forecast claims costs; forecast expenses; an alternative AAP, or accepted actuarial practice, rate indication based on the duration of cash flows by major class; and an alternative rate indication by use and territory removing actual serious losses and allocating serious losses based on the number of collision claims for each vehicle type, with vehicle type split among passenger vehicle, light truck, heavy truck, bus, motorcycle, trailer, and off-road vehicle.

First, with respect to the new money yield. The Corporation updated the 2023 GRA rate indication with interest rates as of August 31, 2022, reflecting more recent yields. The use of more recent yields is consistent with the approach it followed in the 2022 GRA.

The Corporation did, however, propose two (2) changes in its approach to calculating the new money yield in the October update: The duration of bonds used for the estimation of the yield rate, and expected investment expenses.

In the 2022 GRA and in the 2023 GRA,

when filed, the new money yield was based on a weighted average of estimated provincial and corporate yields of bonds with a duration of -- equal to that of the claims liabilities, as well as the investment portfolio supporting the claims liabilities, which was about ten (10) years.

The 2023 GRA was based on yields as of March 31, 2022, generating a new money yield of 3.43 percent and a breakeven rate indication of a .9 percent rate decrease.

The October 12th update, based on yields as of August 31, 2022 generated a new money yield of 4.05 percent, an increase of sixty-two (62) basis points.

If there were no other changes to the rate update, the rate indication would have decreased by 1.3 percent.

This new money yield was now based on two (2) year corporate and provincial bond durations published by FTSE Russell and also removes .07 percent for expected investment expenses.

The rationale provided by the Corporation was that the average duration of the premium liabilities was only two (2) years and that this would be within accepted actuarial practice.

If the new money yield is struck in a fashion consistent with that approved in the 2022 GRA using the expected investment income to be earned on assets, they might be acquired within net cash flows resulting from the revenue and based on a weighted average of estimated provincial and corporate yields of bonds with a duration equal to that of the claims liabilities, as well as the investment portfolio supporting the claims liabilities, which was about nine (9) years, shortened due to higher interest rates, then the new money yield is 4.24 percent. If .07 percent is then removed for expected investment expenses, then the new money yield is 4.17 percent.

The sensitivity of the AAP rate indication at current interest rates is such that each .01 percent increase in new money yield results in a .02 percent decrease in the required rate level.

With the 4.05 percent new money yield proposed by the Corporation, the break-even rate indication, taking into consideration the increases in expenses and claims in the October update, was .05 percent -- minus .05 percent.

Using a 4.7 -- 4.17 percent new money yield, would decrease the break-even rate indication to minus .29 percent.

And, finally, using a 4.24 percent new money yield would decrease the break-even rate indication to about minus .43 percent.

Although the Corporation does invest in MUSH bonds, it is expecting to only replace maturing bonds and, hence, MUSH bonds are not being acquired with the net cash flows resulting from the revenue, but are used to -- to support the existing claims liabilities. Therefore, MUSH bonds are excluded from the forecasted new money yield, but included in the claims discount rate calculation, consistent with the approach followed in the 2022 GRA.

In the investment and ALM presentation, the Corporation indicated that a new investment strategy is being proposed for approval this year by MPI's investment committee.

As part of the ALM study, Basic claims were split between short and longer dated liabilities and different assets and weights of assets were potentially being proposed.

New asset classes for the Basic claims portfolio included real return bonds, as well as real estate. Based on the ALM study, the inclusion of these classes would result in some combination of increased yield or reduced risk.

The Corporation has not made a decision at this time and so this potential change is not included in the projected new money yield.

In the event that MPI's investment strategy for the Basic claims portfolio changes, it is anticipated that the basis of selection of the new money yield would also change and there may be two (2) new money yields, one (1) for short liabilities and the other for long liabilities. This change in basis would affect the AAP rate indication in the 2024 GRA.

Now, with respect to forecast claims costs. Projected claims costs by coverage excluding interest rate impact were forecast in the 2023 GRA, for the 2023/'24 and 2024/'25 accident years with a decrease of $16.6 million in 2023/'24 and $14.4 million from the forecast in last year's October update.

The main driver of the decrease for 2023/'24 was a $19.9 million decrease for PIPP and liability claims and a corresponding $22.5 million decrease for 2024/'25.

MPI made a number of changes to the forecast in the October 12th update, resulting in a $10.8 million increase in forecast claims costs for 2023/'24, excluding the $5.1 million forecasted interest rate impact, pardon me, and excluding claims expenses.

This was estimated to have a -- a positive 1.4 percent impact on the rate indication. The main changes included a revised impact of the light vehicle accreditation agreement, increase in collision costs by $5.9 million, an increase in Manitoba inflation, increasing forecasted PIPP and liability claims by $6.6 million.

These impacts were similar for the 2024/'25 year. In this GRA, significant attention was paid to claims costs trends both for frequency and severity.

Rajesh Sahasrabuddhe, called by CAC as an expert witness, testified about differences in projected frequency and severity for multiple coverages. The estimated impact -- overall impact of adopting all of the expert witnesses' recommended trend selections, was a reduction of about 5 percent of claims costs.

Given the fact that collision claims cost represent 60 percent of the total discounted claims costs, with repair, about 35 percent of the total and total loss about 25 percent of the total changes to collision trend assumptions would have the potential to have the largest impact on the rate indication.

For sensitivity purposes, a five million dollar ($5,000,000) reduction in overall claims costs, equivalent to a four dollar ($4) reduction in claims costs per vehicle, would cause the rate indication to correspondingly decrease by .4 per -- .46 percent.

For forecast expenses, forecast claims expenses decreased from one hundred and twenty-seven dollars and forty-eight cents per vehicle ($127.48) in the October update of the 2022 GRA, to one hundred and twenty-five dollars and thirteen cents ($125.13) per vehicle, in the 2023 GRA and, when further decreased, to a hundred eighteen dollars and eighty-four cents ($118.84) per vehicle, in the 2023 October update.

The decrease in this year's October update was due to a change in the allocation between claims and underwriting-related full-time equivalent proportions. This reduction in claims expenses reduced the rate indication by .8 percent.

Operating expenses increased from sixty-nine dollars and seventy-one cents ($69.71) per vehicle, in the October update of the 2022 GRA, to seventy-six dollars and seventeen cents ($76.17) per vehicle, in the 2023 GRA and, then, further increased to eighty-five dollars and twenty-one cents ($85.21) per vehicle, in this year's October update.

About half of the increase in this year's October update was due to a change in the allocation between claims and underwriting and the remainder was due to increases in projected full-time equivalents. The increase in expenses increased the rate indication by 1.4 percent.

The Corporation indicated that the expense ratio will rise to 24.1 percent in 2023/'24 due, in part, to the implementation of Project Nova before decreasing to 21.2 percent by 2026/'27.

The actuarial standard of practice for rate making states that the actuary would consider, among other things, that one-time expense costs may need to be amortized.

The Corporation indicated that it had not considered the amortization of the NOVA cost for rate-making purposes, but would consider this in the future.

Commissions increased from thirty-five dollars and ten cents ($35.10) per vehicle, from the October 2022 update, to forty dollars and thirty-three cents ($40.33), in the 2023 GRA, and remained about the same in the 2023 GRA October update. The delay in the implementation of NOVA, and the corresponding delay in the availability of on-line services is the main driver of this increase.

Now, with respect to the alternative rate indication, based on the duration of claims. In the 2022 GRA, MPI provided an alternative rate indication using yields based on the duration of claims liabilities for the rating year 2022/'23, by major class. The duration of claims liabilities for each major class for each coverage was first determined and, then, a new money yield was selected for each major class, based on the duration.

There was very little difference in the duration for each major class, with all of the durations between nine (9) and ten (10), other than for trailers. Consequently, the impact of using the duration of outstanding claims liabilities by major class to select the new money yield was minimal.

The alternative rate indication, by use and territory, in the 2022 GRA, MPI provided an alternative rate indication using collision claim counts to spread large losses by vehicle type.

An advantage of the alternative methodology is that it allocates serious losses across all segments of the business and recognizes the potential for a large loss to occur anywhere.

A disadvantage of the alternative method is that it does not reflect the possibility that some segments may be more prone to serious losses than others. MPI is considering this for future GRAs.

In this GRA, the Corporation advised that it has completed a Request For Proposals for generalized linear models and has a project time-line to produce an alternative rate model for the 2025 GRA, based on GLMs for the passenger major class.

With respect to the impact of COVID-19, the Corporation has assumed a 5 percent reduction in claims frequency for collision, weekly indemnity, accident ben -- accident benefits other indexed, bodily injury, and property damage due to expected permanent changes in driving behaviour for the 2022/'23 fiscal years and thereafter.

This is about half the observed reduction in collision claims frequency in 2021/'22.

Based on the October 2023 GRA Rate update, the reduction in collision frequency to July 2022 and projected for the remainder of the fiscal year is greater than 5 percent.

With respect to financial results, the

Corporation has provided its actual financial results for the 2021/'22 year and an updated forecast of the current year 2022/'23.

For 2021/'22, Basic earned net income of $67.2 million compared to a forecasted net income of $189.7 million in the 2022 GRA October update. This negative variance was attributed by the Corporation to many factors: A positive net impact on net claims incurred due to intry -- increased interest rates of $169.9 million was offset by adverse impacts on net claims incurred, comprised of a $35.7 million increase in forecasted PIPP claims, a $34.8 million increase in forecasted collision claims, and a $14.1 million increase in forecasted internal loss adjustment expense.

Investment income was adversely affected by $184.8 million due to higher than expected interest rates and by $22 million due to the write-down of available for sale assets.

With respect to the current year, 2022/'23, MPI revised its forecast net income to $26.7 million from a net loss of $9.2 million forecast in last year's October update, an increase of $35.9 million.

MPI's revised forecast reflected a

reduction of total claims cost of $40.8 million from last year. This reduction was primarily attributed to a favourable impact of higher interest rates than forecast worth $18.7 million and lower PIPP and liability claims of $18.5 million.

Forecasted investment income also contributed to the revised improved net income. Investment income was forecast to be $36 million higher than forecast last year, due primarily to higher than expected realized gains on alternative investments of $29.9 million.

In the October 12th update MPI revised the Basic forecast to a net loss of $16.1 million, which is a decrease of $42.9 million from the $26.7 million net income forecast in the Application as filed.

MPI revised its forecast of total claims costs to $953.6 million from $1.05 billion in the original Application. The decrease in claims costs was due primarily to a favourable impact entry -- of increased interest rates of thirteen (13) -- $131.7 million and $49 million lower than forecasted collision claims, driven by a combination of lower observed and projected frequency and higher severity for total loss claims.

This was offset by $78.2 million of increased forecasted PIPP and liability claims due to higher inflation assumptions. MPI also updated its forecasted investment income for 2022/'23. Instead of the application of forecast of $136.1 million, MPI reduced its forecast to $1.3 million in its October update, a decrease of $134.8 million. This is mainly due to an interest rate impact of $124.4 million and lower investment income.

MPI advised that between March 31, 2022, and August 31, 2022, interest rates had increased by approximately 90 basis points, causing the bond portfolios market value to fall.

Moving on to the Rate Stabilization Reserve, or RSR. The purpose of the RSR is to protect motorists from rate increases made necessary by variances from forecasted results and by unexpected events or losses ari -- arising from non-recurring events or factors.

The Corporation's Board of Directors have approved risk based capital target levels for each line of business. The targets are based on the capital management framework of the Office of the Superintendent of Financial Institutions and the Minimum Capital Test, or MCT.

The MCT 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 target of 100 percent for Basic, 200 percent for Extension, and 300 percent for Special Risk Extension. This is consistent with the recent amendments to the MPIC Act which I mentioned at the outset of my submissions.

As of March 31, 2022, the Basic RSR was at $359.3 million and total equity was at 410.7 million. This is higher than the Basic RSR due to accumulated other comprehensive income of $51.4 million. Included in other comprehensive income was $40.6 million related to the change in the re-measurement of employ -- employee future benefits.

The Corporation has, as of March 31, 2022, $666.1 million in retained earnings, including $395.3 million in Basic, $78.8 million in Extension, $138.6 million in Special Risk Extension, and $84.2 million in Driver and Vehicle Administration, or DVA. DVA received transfers of Extension retained earnings of $60 million in 2020/'21 and $57 million in 2021/'22.

Overall Corporate total equity as of March 31, 2021, including accumulated other comprehensive income was $764.4 million, of which 434 million related to Basic operations, $96.9 million to Extension, $149.6 million to Special Risk Extension, and $41.6 million to DVA.

In the October 12th update, MPI forecasted 2022/'23 Basic retained earnings to be $401.4 million and, after accumulated other comprehensive income of $62 million, total Basic equity of $463.4 million.

With respect to financial condition testing, although not required by statute as would be required by private insurers federally regulated or regulated in certain provinces, the Corporation has undertaken a Basic annual FCT investigation, a revision by the Canadian Institute of Actuaries to the former DCAT investigation as a matter of good governance.

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

The report on the FCT investigation includes an opinion from the signing actuary on the financial condition of Basic. This report, formally other -- under the DCAT acronym, has been included with an annual Basic GRA for many years.

Over the course of several years, the Corporation worked with the Board and Interveners toward the development of a consensus approach to adapting the Basic FCT investigation to estimate an appropriate Basic target capital range that directly reflects Basic experience and risk characteristics.

With the approval of the Capital Management Plan, or CMP, in the 2022 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 Board and Interveners, a single Basic target capital level based on the 100 percent minimum capital test ratio set out in the Capital Management Plan effectively severed the link between the FCT investigation and the setting of Basic target capital levels during the CMP's trial period.

During the course of the hearing, the FCT analysis results were queried, and it was confirmed that the capital corresponding to an MCT ratio of 35 percent would be sufficient for the Corporation to consider itself in compliance with the new legislation which requires it to be able to return to a 100 percent MCT ratio within five (5) years.

Now, with respect to the Capital Management Plan, as I mentioned, it was first approved by the Board in the 2020 GRA, and MPI now proposes a revised CMP that is consistent with the new legislation.

MPI proposes the continuation of AAP ratemaking, capital targets by line of business, capital transfer rules, the capital build provision, the removal of the capital release provision, and the addition of the capital rebate provision.

MPI is applying for a capital rebate provision in principle for the 2023 GRA. This mechanism will replace the capital release.

A rebate application would be allowed, so MPI would have the ability to apply for a rebate when the Basic MCT ratio is greater -- 100 percent -- 120 percent MCT or greater at the end of an audited fiscal year, or excess capital of approximately $80 million based on 2021/'22 capital requirements, and the MCT remains above the 100 percent MCT target throughout the rating period after the proposed rebate. This ensures that MPI does not rebate into a position lower than 100 percent MCT.

The Corporation has indicated in its testimony that the decision to apply for a rebate will be at its discretion. MPI confirmed that, if it were to maintain the current capital release provision in the 2023/'24 year, it would still project an MCT ratio above 100 percent for 2023/'24 and 2024/'25, whether the indicated rate change was based on a new money yield of 4.05 percent, 4.17 percent, or 4.24 percent.

As I mentioned earlier, over fiscal years 2020/'21 and 2021/'22, MPI transferred $117 million from Extension to DVA. As a result, DVA's retained earnings were $84.3 million at March 31, 2022.

In the 2022 GRA, MPI indicated these transfers would pay for the -- for Project Nova costs and five (5) years of operating deficits, and would carry the DVA line to the near end of the 2026/'27 fiscal year.

Based on an updated forecast cost of Project Nova provided in this GRA, DVA's share of the project's costs has increased from $51 million to $93.4 million. Given this $42.4 million increase in cost attributed to DVA operations, MPI is forecasting deficits of $16.9 million in 2022/'23, $23.9 million in 2023/'24, and $40.9 million in 2024/'25, and $35.9

million in 2025/'26.

DVA retained earnings are forecast to be in a deficit in 2025/'26 without additional funding from the province. MPI advised that it is in ongoing discussions with the provincial government about making the DVA line of business self-sufficient.

Now with respect to Driver Safety Rating. In the 2022 GRA, given the gap between the current discount and premium change and the indicated discount premium change -- charge, MPI recommended a gradual implementation to remedy the cross-subsidization of drivers with low DSR ratings by those with high DSR ratings.

MPI indicated a plan to increase the upper limit of the DSR scale from plus fifteen (+15) to plus twenty (+20) over the next five (5) years. MPI proposed to move one-fifth of the difference between current and indicated vehicle premium discounts each year.

Directive 11.15 from Order 134/'21 following the 2022 GRA required the Corporation to bring forward a DSR transition plan to manage the required increase in the base rate and year-to-year rate dislocation, while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner.

In this GRA, the Corporation varied its proposal to move one-fifth of the difference each year and instead has indicated that it will seek adjustments to DSR discounts depending on the size of the overall rate indication in each GRA.

In the case of the 2023 GRA, the Corporation has proposed adjustments with an overall impact of minus .5 percent -- .95 percent versus the indicated impact of minus 16.5 percent, which is significantly less than the one-fifth proposed in the last GRA.

The Corporation has indicated that a generalized linear model implementation for which an alternative indication is proposed to be provided at the 2025 GRA will affect the actuarially indicated discounts.

Directive 11.13 of Order 134/'21 require the Corporation to bring forward a five (5) year plan for the implementation of the primary driver rating model. That directive was the subject of an application for leave to appeal filed by MPI and dismissed by the court on October 19, 2022.

The Corporation has filed a plan with a six (6) year time frame for the implementation of the primary driver rating model. The Corporation advised that the time frame was based on estimates.

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

The premiums for each category of Vehicles for Hire, or VFH, were established separately. Insurance premiums were based on four (4) defined time bans and premiums would be established based on the number of time bans selected.

The purchase of four (4) time bans would allow for twenty-four (24) hours, seven (7) days a week operation. For the passenger VFH category, the Corporation employed a jurisdictional scan of the VFH rates in other Canadian jurisdictions and judgmentally set passenger Vehicle for Hire rates for purchasing all four (4) time bans at a 20 percent premium above the current private passenger all-purpose rate for the corresponding vehicle type and rate group. Rates would then decline incrementally by five (5) percentage points based on the number of time bans level of coverage.

The Corporation acknowledged at that time that this rating class had never previously existed in Manitoba; therefore, it had no internal data to support its ratemaking.

In implementing the new model, MPI indicated it would follow the approved Basic ratemaking methodology for adjusting vehicle group relativities which would give at least 10 percent weight to the passenger VFH experience in rate -- each rate application.

However, if experience based rates were observed to be significantly different from the initial rates, MPI might come forward with a special rating adjustment falling outside the approved ratemaking methodology.

Board Order 121 following the 2021 GRA directed 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 was no longer being subsidized.

Board Order 134/'21 following the 2022 GRA directed a rate increase of 20 percent from current rates for the passenger VFH category, along with a 20 percent rate increase for the passenger VFH major class in the 2023 GRA subject to the Board's ability to vary such increase based upon the experience filed within this GRA and as the passenger VFH rates approach actuarially indicated break-even rates.

In this GRA, the Corporation confirmed that the passenger VFH category will be getting a rate increase of 20 percent from current rates.

The Corporation has been developing a blanket policy for passenger Vehicles for Hire. It is the Corporation's intention that this blanket policy will replace the current passenger VFH category.

The Corporation is planning on submitting the blanket policy for approval in the 2024 GRA.

The Corporation has also been working on a telematics project for taxis. At this point, the project has been delayed because MPI received no responses to a Request For Proposals for the project.

The Corporation also intends to remove the existing time bans for taxis but may create a part-time taxi category.

Moving on to the asset liability management study. As a result of recommendations made by Mercer in a 2017 ALM, or asset liability management study, MPI separated its co-mingled investment portfolio into five (5) unique portfolios, including: Basic claims, Basic rate stabilization, or RSR, employee future benefits or pension, Extension, and Special Risk Extension.

Each has unique -- unique asset allocations and allows the Corporation to develop investment portfolios better reflecting associated liabilities and investment goals of each portfolio.

The Basic claims portfolio has invested in 100 percent fixed income assets with 60 percent in provincial bonds and the remainder, so 40 percent, invested in both corporate and nonmarketable MUSH bonds.

The portfolios backing Extension, Special Risk Extension, and RSR are balanced portfolios with 50 percent gross assets and 50 percent fixed income assets. And the portfolio backing employee future benefits has a higher allocation to growth assets at 60 percent.

MPI reported that the asset investment allocations recommended in the 2017 Mercer ALM study have now been fully funded with private debt investments made in May 2022.

The ALM strategy has minimized the risk

of interest rate changes. Still, it has not eliminated the impact due to the investment in MUSH bonds which are not revalued when interest rate changes, as well as lags in rebalancing the duration of the marketable bond portfolio to match the duration of the claims reserves.

In June 2021, with the assistance of Addenda Capital, MPI implemented a strategy called 'moment matching' which matches both the duration and convexity between the Basic claims portfolio and claims liabilities.

Duration measures the sensitivity of bond prices to changes in interest rates while convexity measures the curvature of the relationship between bond prices and interest rates.

The duration and convexity are monitored by Addenda Capital on a daily basis and rebalanced as necessary. MPI indicated that this strategy provides better protection for nonparallel changes in interest rates and is expected to reduce interest rate risk by approximately 40 percent.

MPI reported the overall ALM strategy net impact of interest rates from March 31 to August 31 of 2022 being only $.2 million. And during this period, interest rates rose by approximately ninety

(90) basis points, causing the market value of the bond portfolio to fall by $128 million and the net present value of base -- of the Basic claims liabilities to also fall by $128 million.

The results indicate that the strategy is working as designed as the change in the value of the asset portfolio has matched the change in the value of the liabilities and the net impact on interest rate has been essentially zero.

MPI engaged Mercer to provide an asset liability management study in accordance with PUB directive 11.19 from the 2022 GRA. Mercer's study covered several issues, including the implications of adopting international financial reporting standards, or IFRS 9 and 17.

The study considered the impact of various inflation scenarios on MPI assets and liabilities by using a real liability benchmark. MPI is currently reviewing the optimization for Basic and non-Basic portfolios and considering the merits of the recommended asset classes and evaluating various asset mixes.

MPI reported its investment committee working group will be presenting its recommended portfolio changes to the MPI Board of Directors

Investment Committee on November 10th for MPI Board approval.

Now, with respect to IFRS 9 and 17, MPI will be required to implement -- implement both new accounting standards for reporting periods commencing on or after January 1, 2023. MPI has completed its position papers which will guide its implementation of the new standards.

MPI does not yet have the capability to produce true IFRS 17 compliant financial statements as certain models are still in development. As such, it has been unable to provide a complete reset -- reset of restated pro forma statements based on IFRS 17.

In the FCT produced in 20 -- for the 2023 GRA, the IFRS 17 base scenario did not reflect any of MPI's known accounting policy decisions.

Now, with respect to the investment portfolio. The 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 as of March 31, 2022 were over $3.5 billion.

The size of the Basic line of business

investment portfolio, including the Basic claims portfolio, the RSR portfolio, and the benefits portfolio is $2.9 billion for 2021/'22, and is forecast to be $3 billion in 2022/'23, and projected to grow to $3.1 billion for 2023/'24.

Throughout 2021, the COVID-19 pandemic continued to play a major role in the economy and increased the volatility of MPI's investment income.

In January 2022, the Omicron variant wave had a negative impact on investment markets and caused worldwide supply shortages. The Russian invasion of Ukraine put further stress on the supply lines and propelled the Consumer Price Index to 6.7 percent, the highest year over year increase in thirty (30) years.

This environment led to sharp increases in interest rates. The yields on corporate bonds rose by one-hundred-and-forty-eight (148) to one-hundred-and-forty-nine (149) basis points at March 31, 2022, while provincial bonds increased by ninety-nine (99) basis points. And the Government of Canada ten (10) year bond increased by eighty-five (85) basis points.

As a result, the Corporation reported within the Basic claims portfolio negative returns on its fixed income investments.

Corporate bond returns were -- were negative 5.1 percent, while provincial bonds returned negative 5.6 percent.

MPI reported marketable bond unrealized losses of $123 million on March 31, 2022.

The Corporation reported a Basic investment loss was $47.2 million in 2021/'22. Contributing to this loss was the Corporation's decision to write down $29.2 million in fixed income assets in the employee future benefit and RSR portfolios on corporate and provincial bonds and private debt. MPI's share of this write-down was $22 million. That should be Basic's share of the write-down, pardon me.

Based on the October 12th update, the new money yield rate increase from 3.43 percent in the original application to 4.05 percent based on MPI's proposed revision to the setting of a new money yield, an increase of sixty-two (62) basis points.

The 2023/'24 budget revision was due to a continuation of increases in the yields on both provincial and corporate bonds since March 31, 2022.

On August 31, 2022, the yields on corporate bonds held by the Corporation increased by one-hundred-and-sixteen (116) and one-hundred-and-seventeen (117) basis points. The yield on provincial bonds increased by eighty-nine (89) basis points. And the Government of Canada's ten (10) year bond increased by seventy-one (71) basis points.

This sharp raise -- rise in interest rates in the last eight (8) months has resulted in a further devaluation of the Corporation's fixed income holdings.

Moving on to operational expenses. Total corporate operating expenses, including the costs of administering claims and road safety, increased from $293.9 million in 2020/'21 to $327.3 million in 2021/'22.

In the Application, MPI forecast total corporate expenditures to be $411.9 million in 2023/'24 and $429.9 million in 2024/'25.

In the October update, MPI increased its forecast corporate expenditures to $419.8 million for 2023/'24 and $434.4 million in 2024/'25.

MPI's total corporate costs are allocated among the insurance and non-insurance categories of business and by automobile lines of -- 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.

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

In this Application, MPI changed its allocation of Project Nova costs. MPI based its previous property and casualty allocation methodology on claims incurred volumes, which allocates costs based on the claims volumes.

However, as claims counts are significantly higher for Basic line of business, MPI recognized that there was a disparity in cost allocations which did not align with the project's benefits to the current lines of business -- or the correct lines of business, pardon me.

MPI is now allocating costs to Project Nova on an Agile methodology, based on story points related to each release.

Story points directly dictate the effort and duration to complete the delivery of each release. In turn, the effort is used to quantify the costs of delivering each release.

Total Basic expenditures were $237.1

million in 2021/'22, which is 72.4 percent of corporate expenses, and were forecast to increase to $258.3 million in 2022/'23.

Based on the October 12th update, MPI is now forecasting Basic operating expenses to be $258.2 million in 2022/'23, and to increase to $284.7 million in 2023/'24, an increase of $8.8 million from the original Application. Basic expenses are currently forecast to be $284.6 million in '24/'25.

Salaries and benefits are a significant component of Basic's operating expenses, representing over 55 percent of the total operating expenses in the year of the Application.

Since 2017/'18, the Corporation experienced compound annual growth of Salaries and benefits of 1.2 percent with Basic compensation that has grown from $124.4 million in 2017/'18 to $131.1 million in 2021/'22.

In this Application, Basic's salaries and benefits were forecast to grow to $142.9 million in 2022/'23, which is an increase of 9 percent from the previous year and are forecast to grow to $160 million in 2023/'24, which is an increase of almost 12 percent over 2022/'23.

These increases have been attributed to

higher than expected full-time equivalent staff counts and higher than inflation compensation increases required to retain staff.

MPI is forecasting to make market adjustments for specialized personnel in functional areas where labour pools are scarce and difficult to attract.

MPI has forecast material increases in its staffing levels. MPI's actual staff full-time equivalent complement, in 2021/'22, was one-thousand-eight-hundred-and-seventy-nine-point-five (1,879.5) full-time equivalents, including sixty-four-point-two (64.2) full-time equivalents in improvement initiatives. And one-thousand-eight-hundred-and-fifteen-point-three (1,815.3) full-time equivalents in normal operations.

MPI plans to increase its overall staff complement in 2022/'23 to two-thousand-and-forty-eight-point-five (2,048.5) full-time equivalents, comprised of one-thousand-nine-hundred and ninety-five-point-five (1,995.5) full-time equivalents for normal operations, and fifty-three-point-three (53.3) full-time equivalents in improvement initiatives. An overall increase of one-hundred-and-sixty-nine (169) full-time equivalents.

In its October 12th update, MPI forecasted increasing its total full-time equivalents complement for 2023/'24 to two-thousand-three-hundred-and-forty-eight-point-one (2,348.1) full-time equivalents, including two-thousand-two-hundred-and-eighty-one-point-one (2,281.1) in normal operations, and sixty-seven (67) in improvement initiatives.

MPI attributed the increases in staffing to dealing with identified competency gaps, service levels, as well as additional staff required to deliver Project Nova.

Moving on to information technology. The information, or IT, strategy presented in this Application is to act on key initiatives to meet a five (5) year aspirational ambition of a future MPI 2.0.

To be able to deliver on MPI 2.0, a key milestone will be the successful execution of Project Nova, which includes the modernization of core systems and the provision of online service options.

MPI's president and CEO indicated that MPI 2.0 is a broader transformation for the Corporation to generate efficiencies going forward.

The delivery of Project Nova is seen as a critical step in order to enable that level of efficiency to be meaningful.

MPI intends to leverage both the greater use of external consultants and higher levels of internal staffing to achieve its goals.

As of October 28th, MPI reported that there were a hundred and twenty one (121) consultants engaged, seventy-seven (77) supporting current operations and forty-four (44) working on Project Nova.

MPI's value management practices continue to evolve with the continued adoption of the scaled Agile framework and related practices. Many of the practices are in infancy, adoption and usage. In addition, MPI is re-calibrating value assessment and has indicated realization of objectives from previous GRAs.

MPI's funding process is significantly changing to one whereby approval for board -- for broad funding and (INDISCERNIBLE) are provided, while the allocation and use of funds will be iterative and Agile in nature.

To calibrate and harmonize the feedback cycle from Agile budget delivery, to funding envelope allocations will take multiple years.

In the 2022 GRA, MPI indicated the

budget for Project Nova was $111.7 million, plus a $16.8 million, or 15 percent contingency, for a total of $128.5 million and was more refined than the original Legacy systems modernization business case.

The original LSM legacy systems modernization business case estimated the project cost to be $85 million, plus a $21.4 million, or 25 percent contingency, for a total cost of $106.8 million.

This original business -- LSM business case, was based on a top-down budget analysis before any pricing was received from vendors.

In the 2021 re-baseline presented in the 2022 GRA, MPI reported that the project continued to be -- to be projected to produce a positive net present value, however, this was highly dependent on many factors and the margin of error was very slim.

In mid 2021, six (6) months after the start of the project's implementation, and before the commencement of this GRA hearing -- or the 2022 GRA hearing, pardon me, MPI management recognized that the complexity and scale of the project were greater than anticipated. Consequently, it was unrealistic based upon current plans that the project could be completed on time and on budget, assuming that the scope of work would remain constant.

The committee's governance advisor, PwC, expressed concerns. And both MPI and PwC jointly identified issues that led MPI to re-baseline Project Nova.

The issues identified were: scope increase in digital, teams having divided focus, limited resources and capabilities, turnover, immature centers of excellence, sequencing, leadership consistency and ownership, architectural runway and general contractor inexperience.

MPI management begun the process of internally assessing required changes to ensure the -- the successful implementation of the scope of the project.

In conjunction with this assessment, MPI entered into a contract with McKinsey and Company in September 2021 to provide an independent assessment of the project delivery, along with implementable advice on how best to successfully complete the scope of the project.

Upon completion of McKinsey's project assessment in February 2022, MPI management and McKinsey recommended the time line for the project be extended to sixty (60) months from forty (40) months. And that the budget be increased to $224.1 million, plus a thirty-two point nine (32.9) million to $65.8 million contingency, that's a 20 to 40 percent contingency on unspent budget, equal to a new budget range of two hundred and fifty seven (257) to $289.9 million. The mid-point cost estimate of this re-baseline is $273.5 million.

Overall, many of the expected benefits set out in the 2022 re-baseline are now lower than identified in previous iterations of the NOVA business case.

This was attributed to the revised flattened delivery plan, which delays the realization of benefits. Additionally, MPI adjusted certain benefits based on new information acquired in the past year.

With the new higher estimated project cost and revised lower project savings benefits, the net present value of the Project Nova business case changed to negative $188.9 million, representing a $207 -- $207.9 million decrease, compared to the 2021 re-baseline business case.

MPI's position, reiterated by its president and CEO in these hearings, is that a net present value analysis is not the appropriate metric for determining whether to move forward with Project

Nova.

Rather, MPI must ensure that Legacy technologies are replaced in the most fiscally prudent and effective way. MPI's current technology will not be able to sustain the business.

MPI has indicated that the current budget relates to four (4) major releases of Project Nova.

Release 1 is related to the Special Risk Extension line of business. MPI has reported that the code is complete for this release and it is expected to be operational on January 23rd, 2023.

Release 2 relates to the international registration plan for commercial customers.

Release 3 is the largest release of Project Nova and enables terms, licensing and registration functions. Release 3 is foundational and will allow MPI to offer self-serve options to its customers.

MPI noted that there were potentially six (6) transactions that could be part of the minimum -- minimal viable product, and until the completion of pre-discovery and discovery, the specifics of which on-line functionality or services will be made available are not known.

Release 4 relates to claims management, physical claims and physical damage claims. MPI has budget confidence in delivering release 1 and release 2 and will provide an update at the next GRA.

Moving on to benchmarking. MPI engaged Gartner to provide IT benchmarking services. Gartner provided a report that dealt with MPI's 2020/'21 period and found that MPI is investing significantly in digital transformation, resulting in an overall level of IT spending and staffing that is higher than peer groups.

Excluding Project Nova investments, MPI's IT spending levels and IT staffing levels are within the normal range, but are still higher than the peer average.

MPI is allocating a significantly larger portion of its IT budget to support changes to meet business demands.

MPI has allocated 58.3 percent of IT spending on changing its business, compared to a peer average of 28.9 percent.

Crown benchmarking services have been used to compare MPI against Saskatchewan Government Insurance and ICBC.

This is further supplemented by

leveraging third-party research. And while comparisons are drawn between MPI and its peers, SGI and ICBC, MPI does note significant variations exist between the entities, making direct comparisons difficult.

MPI has indicated that its operational benchmarking will continue with Crown benchmarking, despite these variations.

MPI expects updates to its operational benchmarking after the implementation of IFRS 9 and 17.

MPI is engaging AON for next year's study, a larger peer group study that would include operational and some information technology benchmarks, but not to the same degree as Gartner.

Finally, moving to Road Safety. A technical conference took place in June of 2022 on the issue of Road Safety, which was facilitated by Dr. Jennifer Hall and attended by MPI, Interveners and other stakeholders in road safety across the province.

Dr. Hall's report on the technical conference was filed in this GRA and provided a summary of these issues -- of the issues reviewed by the participants in the technical conference, along with specific action items to be undertaken by MPI arising from the technical conference.

This year MPI introduced the 2022 to '25 Road Safety Strategy, which was divided into two (2) phases. The first phase was to take -- was to take place throughout 2022 and is centered around improving understanding of the current road safety situation in Manitoba.

In the evidence provided throughout the hearing, MPI advised that it intended to complete the first phase of the strategy at the end of the fiscal year 2022/'23.

The second phase of the strategy covers 2023 through to 2025 and is centered on putting into action what was learned in the first phase.

MPI has recently undertaken a series of studies to better obtain data on driver behaviour and how it affects road safety. MPI shared the results of some of these studies in the hearing.

With respect to the alcohol and drug roadside survey, MPI shared that it has completed the data collection phase of that study and results will be available in January 2023, at which time, they will be made publicly available.

With respect to the road safety budget, actual spending in the years 2020/'21 and '21/'22 was less than forecasted expenses. MPI attributed this lower level of spending as having been influenced by the COVID-19 pandemic. Specifically, many of the partner organizations with which MPI works to deliver road safety initiatives had difficulty spending the budget on approved projects or programming due to public health restrictions.

In the budget for 2022/'23, MPI has based its forecasted expenses on the expectation that road safety programming and initiatives will return to a pre-pandemic level.

In the October update, MPI had increased its forecasted expenses related to road safety for the 2023/'24, 2024/'25, and 2025/'26 years.

The evidence provided by MPI was that this increase allows a cushion in the budget, enabling it to implement new programs and initiatives as soon as the need arises, without having to go through a lengthy budget approval process. This will allow MPI to respond to new road safety concerns quickly.

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 both MPI and the Interveners for their co-operation extended throughout the hearing and those are my remarks.

Thank you.

THE PANEL CHAIRPERSON: Thank you, Ms. McCandless. Given that it's about 10 after 10:00, I think we should take the morning break now and, then, come back for closing remarks by MPI counsel.

Mr. Scarfone, do you have --

MR. STEVE SCARFONE: No. I was just going to suggest the same thing. So, you were ahead of me. I would suggest, if it's good to reconvene at 10:30, we have to --

THE PANEL CHAIRPERSON: 10:30 is fine.

MR. STEVE SCARFONE: -- confer with Ms. Schubert and get the closing circulated.

THE PANEL CHAIRPERSON: Sure. Okay, 10:30. Thank you.

--- Upon recessing at 10:13 a.m.

--- Upon resuming at 10:32 a.m.

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

CLOSING REMARKS BY MPI:

MR. STEVE SCARFONE: Thank you, Madam Chair. Before we begin, I was just saying to Board

Counsel that because she did such a comprehensive job at reading in many of the items that Anthony and I will address.

It may shorten some of our closing, though, so we're going to go back and forth. Anthony will begin with an introduction and we'll kind of touch upon different issues. But before we do so, I'll -- I'll just read in the last of the MPI exhibits.

MPI Exhibit number 124, is the response to undertaking 43.

MPI Exhibit number 125, is the response to undertaking number 44.

MPI Exhibit number 126 is the closing submission of MPIC for the 2023 General Rate application.

MPI Exhibit number 127 is a response to undertaking number 45.

And the last exhibit is number 128, response to undertaking number 38. So, with that, I'll have my co-counsel Mr. Guerra begin with our closing submission.

--- EXHIBIT NO. MPI-124: In response to undertaking 43.

--- EXHIBIT NO. MPI-125: In response to undertaking number 44.

--- EXHIBIT NO. MPI-126: Closing submission of MPIC for the General Rate application.

--- EXHIBIT NO. MPI-127: In response to undertaking 45.

--- EXHIBIT NO. MPI-128: In response to undertaking number 38.

CONTINUED BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Thank you, Mr. Scarfone, and hopefully for the benefit of the transcript, everyone is able to hear me okay. If that changes at any point, I'm sure I'll be notified, so I'll do my best.

Ms. Schubert, can I ask you to pull up MPI Exhibit number 126, please, the closing argument. Thank you.

Before I get into the introduction for this morning's presentation, I just want to take a moment to acknowledge and thank the staff of MPI, and specifically the staff of the Regulatory Affairs Department at MPI for all the hard work that they did this year.

I appreciate that not everyone understands all of the behind-the-scenes work that goes into presenting a rate application, but it's quite an extensive project. It -- it begins in earnest in -- in April and even before then, but in earnest, in April, and it continues all the way until today.

And it's a very difficult process and -- and we had some unique experiences or challenges this year in the sense that for a big portion of that period of time, we only had one (1) person and one (1) support staff that was part of our regulatory affairs.

So, Guneet Jassal did an amazing job as our sole regulatory analyst between, I think it was, July and today. And -- and so -- and she was helped obviously by Ann Irving (phonetic) as our support staff.

Without their assistance, we would not have been able to do this. So, I -- I hope that everyone here has seen the amount of effort that has gone into trying to make this a seamless project.

But behind the scenes it was quite an

endeavour, and so I -- I just want to make sure that everyone who was involved in this really appreciates -- really knows how much we appreciate all their efforts.

With that, I'll just turn to some opening comments. So, Ms. Schubert, if I could ask you to turn to page 3 of the closing statement.

When we were drafting our closing we -- we tried to -- we tried to figure out something we could -- we could use to start off our discussion about, you know, things that bring us together, things that we can agree upon.

And I think the one (1) thing that we all can agree upon in this case is that we are living in a time of great uncertainty, and it's a complex uncertainty. It's -- it's very, very weird, and that is because we are living in a society right now where we have some indicators that may not be traditionally seen as -- as being complementary.

So, for example, we have high inflation, but we have low unemployment. If anybody asked us last year where we saw ourselves in one year's time, I don't think anyone would expect the situation that we currently find ourselves in.

We've heard today about things that

impact the global order of things, the -- the war in Ukraine, the potential for an impending recession next year, and we also heard about the relationship between people and transportation.

Perhaps being redefined, and by that what I mean is that the nature of work is changing. People are increasingly working from home and their reliance upon transportation is -- is being changed in some way.

We don't know exactly how that's going to -- to pan out. Will work from home continue to be the norm going forward? It does appear that way. To what degree, we don't necessarily know at this point.

But what we do know is that there are lots of things that are currently going on that are perhaps unexplainable and unpredictable, and we should be prepared for various ups and downs as the months progress. Where we'll be next year, it -- it's too hard to say at this point, but we certainly are living in a time of uncertainty.

With that, though, I think one (1) of the important things to glean from this rate Application is that notwithstanding that uncertainty I just spoke about, one thing that is certain, and has been certain, at least for the last four (4) years now is that MPI continuously brings to the attention of the PUB stable and predictable rate applications, and this year is no different.

As the Board will take notice, MPI is applying for a 0.1 overall rate decrease and this is the fourth consecutive time in which it has applied for a rate decrease. And on top of that, the Board should be very pleased that MPI has maintained its capital position in accordance with legislatively prescribed rates, or ranges rather.

So, that's -- that's the good news. Fiscally, there's a lot to be proud of in terms of MPI, but that doesn't mean that there aren't some issues. And if we'll scroll down to paragraph 4 there.

We've taken a page from Mr. Gabor's playbook and we've quoted Apollo 13, the phrase there, "Houston, we have a problem." We -- we agree with that. There are problems with MPI. We've heard about them in this rate Application.

All is not well and there is some work to be done. For example, there are capacity and capability issues. There were -- there was evidence about the insufficient actuarial resources available to the Corporation, limited financial services. The inability to preform certain tasks well or in time. Insufficient information technology security resources. It really comes down to human resources and IT resources. And the result is a diminishing service -- sorry, diminishing service standards.

So these are the concerns that MPI has, and this is why this GRA needs to focus on correcting what we see are developing issues that, if not addressed now, will become bigger issues for us to deal with in -- in future rate applications.

We seen is that there's been an historical neglect in terms of investments and -- and internal resources. And as a result of that, MPI is essentially reaping what it sowed, which is it has -- it has some issues with attracting and retaining talent, and also having the capabilities necessary to ensure the successful delivery of its largest transformation project, Project Nova.

If I can ask you to turn to the next page, Ms. Schubert.

Five (5) years ago, MPI had a similar problem when it had a significant loss of -- of capital due to interest rate forecasting deviations. And the good news is that MPI was able to fix that problem through its three (3) pillars of prudent fiscal management and by focussing on its core business capabilities.

So the good news is that MPI has the ability and has shown historically that one (1) -- once an obstacle of great magnitude arises, it can overcome that. So that's the good news.

One of the criticisms that has been levied against MPI in this rate Application is that it's out of touch with Manitobans. There are obviously fears about how things are going to unfold in the next few months in terms of the economy especially, but other influences as well. We still have a pandemic, for example.

And so the criticism is that MPI doesn't need to be an industry-leading innovator for Manitobans, it just needs to provide the essential services and cut costs where possible. Manitobans are tightening their belts, and MPI must also do so.

That criticism I think is missing the point here. MPI has not said that it wants to be an industry leader or an innovator in that case. The -- the rate Application that's presented to you today is MPI's attempt to address the needs and wants of Manitobans, to actually be in touch or remain in touch with them.

MPI aims to address its shortcomings, both recent and historic, and to catch up with the new realities of the marketplace. So I think the -- the best thing to do is to -- to take a look at this quote from our President and Chief Executive Officer Eric Herbelin where he says:

"There are different ways to look at -- so the world is changing and we continuously need to evolve. We see that [-- sorry --] we -- what we see is that in recent -- in recent pasts, MPI did not maintain or not make certain investments that are becoming now life-threatening and difficult to handle all at once.

So how do we go about change? How do we -- how do we change going forward? There are innovation leaders. We don't need to be that. We are, as you very well described, just this utility providing a simple product to Manitobans, and this is our core. So what we need to make sure is that this utility remains relevant and adopt industry-best practices as industry adopt those best practices and they make some of the mistakes before -- before us and they are tested.

At this point in time, the reality is we're not even able to adopt or fast forward the industry. At this point, we're just catching up, and we need to first catch up, NOVA being one (1) of the main points, but also describe some areas of the business that need catch-up such as actuarial risk management and others.

And once we have caught up on those, it's a matter of keeping abreast of developments and adopting in a fast-forward way those developments as -- as opposed to being a leading innovator in itself. That is certainly not our approach."

So that's how MPI is approaching its

response to these unique challenges. And in addition to the criticism that MPI is out of touch with Manitobans, I would suggest for your consideration taking a look at the record because I would suggest that the opposite is actually true when the evidence is actually considered.

For example, we see in Figures Benchmark 1, Benchmark 2, and Benchmark 3 that MPI already charges its customers amongst the lowest premium rates on average in Canada compared to other comparable Canadian insurance companies in 2022.

Next, we see from Benchmarking Figure 4 that MPI is a leader in the country, including in provinces that have other public insurance systems like Saskatchewan and -- and British Columbia, in terms of limiting its growth of the average private passenger vehicle premium.

Third, we've seen in the Benchmarking presentation, for example, this year that Manitobans believe that MPI is fulfilling its mission to provide exceptional coverage and service, affordable rates, and safer roads through public auto insurance, its -- its mandate.

Eighty-two (82) percent of respondents agree strongly with that statement, and 75 percent of respondents agree strongly that MPI provides them with affordable rates.

And fourth, MPI returned nearly $500 million -- $500 million -- to Manitobans in the form of rebates between May 20th -- excuse me, May 2020 and February 2022.

And as I mentioned, this is the fourth consecutive year that the overall rate indication was less than zero. And if all things are -- go according to plan, MPI expects that additional rebates will be available to Manitobans in future years.

So we can't lose sight of the fact that things after the pandemic are -- are different for Manitobans, and life is different, right?

So, for example, whereas prior to the pandemic when Manitoba Public Insurance surveyed its customers in terms of their wants and needs for -- for online services or other services, we saw that 23 to 27 percent of Manitobans chose online as their preferred way of interacting with MPI.

Following the pandemic, so in this year, we've seen that number increase substantially from 23 to 27 to 47 to 52 percent. So the needs and wants of Manitobans are in fact changing, and we need to keep up with that.

In addition to being out of touch with Manitobans, the other criticism is that Manitoba Public Insurance has gaps in its credibility, that maybe its words don't always match its actions, and that maybe it failed to meet its own standards of being open and transparent.

To that point, Manitoba Public Insurance would say that there are many instances that we can point to where it has been open and transparent and volunteered as much information as possible as soon as it could be made available.

So, for example, in last year's rate application, we identified concerns with Project Nova in terms of its budget and time line without knowing the magnitude of what that might be. We identified that there could be problems that -- that we could be coming back here next year with a different budget and a different time line.

In March of 2022 this year, we confirmed that there was that transfer from Extension to the DVA line of business through a public release.

In April of this year, Manitoba Public Insurance participated in the IT summit and released the 2022 NOVA re-baseline exercise which identified the increases in budget and the flattening of its delivery time line.

In June of this year, MPI hosted the information session in regards to its position and strategy on the adoption of IFRS 9 and 17.

In June, MPI participated in a technical conference in regards to its road safety strategy in which it outlined for the benefit of the PUB and -- and its Interveners and stakeholders the progress in development on its road safety strategy and its large vehicle study.

In July, MPI filed the rate application which I believe Oliver Wyman commented on was more three thousand (3,000) pages, and the last time I checked on it, it was over seven thousand (7,000) pages.

And in July, MPI hosted an information study -- excuse me, an information session with regards to its asset and liability management study for the benefit of stakeholders, some stats in terms of this rate application.

Four hundred and sixty-one (461) different Information Requests were answered, with a total of one thousand one hundred and twenty (1,120) questions. There were responses to four (4) different pre-asks, and forty-five (45) different undertakings that were provided during the course of this hearing.

I would also note that the confidentiality process followed allowed Interveners and the PUB access to more than a hundred and sixty-five (165) different commercially-sensitive documents. And there have been admittedly a number of errors and omissions filings to date, including one that identified an overstatement of $57 million in -- in investment income, and that was provided the -- in the rate update due to an ALM mismatch.

So, that was an instance where MPI self-identified errors and -- and took steps to make sure that the Board was aware of it as soon as possible.

So, we also heard this year about -- a lot about MPI 2.0, the five (5) year ambition. Not to be -- it's not -- there was some confusion perhaps about whether or not this was a NOVA-related issue. It was sometimes referred to as NOVA 2.0. Just to confirm, it's MPI 2.0. It's a five (5) year ambition. It's where MPI hopes to be in five (5) years through a series of aspirational statements.

So just to confirm what those aspirational statements are, it wants its customers to say MPI understands my needs, they make it easy and effortless. It wants its employees to say that MPI is a rewarding and progressive place to work. And it wants its stakeholders to say that MPI is fair, transparent, and does things right.

So, in five (5) years time, that's how we want to measure ourselves in terms of how we are progressing. Are we succeeding? We will say that we are if those stakeholders say those comments.

And so, in terms of defining success, the -- the ambition is to look at the customer experience and -- and making sure that it drives improvements. Improvements have to make financial sense. We have to create a culture of continuous improvement through empowerment and automation. We have to be a fast follower of industry best practice, not an innovator, a fast follower, and we have to actively engage our stakeholders along the way.

That's the five (5) year path towards improvement. And we've seem some of that progress being made in this rate application. So, for example, we talked about the adjustments made to the actuarial department and increasing its expertise.

There has been some work done on a flexible work program. And we'll talk a little bit about the benefits of that and, also, ensuring the availability of required data.

We're heard throughout this entire process that MPI wants to be data driven. That doesn't just apply in the case of road safety, that applies across the board. Data is extremely important. MPI is a data-based company. And we want to focus on making sure that that data is available and accessible when needed.

But we don't want this Board to confuse the -- the initiative of MPI 2.0 with what the main focus ought to be. We want to get to MPI 2.0 in five (5) years but, right now, all hands are on deck in terms of NOVA. MPI is firmly focussed and committed on making sure that NOVA progresses as planned.

And so, to summarize what this GRA is about, MPI would submit it's not about whether or not MPI is in touch with Manitobans, it is about whether MPI has the conviction to do what is necessary to remain in touch with them.

And on that note, I'll turn it over to my friend, Mr. Scarfone, to talk about the rate request itself.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thanks, Anthony.

Yes, Madam Chair, I'm going to talk about the rate request just very briefly, as I've indicated, because Ms. McCandless did a thorough job at setting out what it is the Corporation is looking for from this Board. And then I'll turn to ratemaking and the forecasting of claims.

So, the relief that the Corporation seeks is set out in the legal application section of the General Rate Application. It applies pursuant to the Crown Corporation's Governance and Accountability Act.

Of course, the request is for a .1 percent decrease to the breakeven cost of vehicle premiums for Basic. And those are calculated in accordance with accepted actuarial practice based on interest rates as of August 31, 2022.

Notably, the request does no longer include the 5 percent capital release that was previously approved by this Board. And you heard from our new director of pricing for MPI, that the .1 decrease is arrived at by adding together a rate increase of .6 percent for those reasons you see there against a decrease of -- of .7 percent due to the natural upgrades of the fleet.

So, this represents an update to the

provisional rate indication, as Ms. McCandless said, from the .9 percent decrease that was filed back in July and updated for interest rates.

MPIC does not seek any changes again this year to its miscellaneous permits and certificates, its driver premiums, its service and transaction fees.

In the legal application section, MPIC sought the approval by this Board of the continued use of its existing Capital Management Plan as we did last year. You'll recall that there was a request for an extension by one (1) year. But the change this year was that the Corporation was no longer seeking an extension of the capital release provision.

The difficulty that this application presented was the Corporation, as the Board well knows, is asking now the capital be released by way of rebates. The reserves regulation had a provision that essentially prohibited capital being released by rebate.

That, as -- as we know, has now been repealed, which then paves the path forward for MPIC to make use of rebates in dealing with its capital. And -- and we see that, and I'll touch upon it later in our presentation, but on October 31 Bill 45 was passed and it received royal assent just last week, on November 3rd, which MPI says means that it can request and the PUB can approve its proposed new Capital Management Plan as -- as set out in the legal application.

At paragraph 28 there, it reads that the Corporation respectfully requests that the PUB approve the new CMP but not, as the application indicates, extend it for another year. And so, that relief was in there largely as a result of the existing reserves regulation and now repealed, the Corporation doesn't require the existing CMP to be extended by another year, as -- as we asked for last year.

The relief sought by MPI also includes, as we heard, the addition of another merit level to the driver safety rating scale.

Again, I'll deal with DSR later in the presentation but that is another step toward bringing the scale up to twenty (20) merit levels to address some of the issues that I'll discuss later that were touched upon by Ms. Low in her testimony.

And Exhibit 59, Ms. Schubert, if you could pull that up, is -- is a slide from the ratemaking and claims forecasting presentation and therein it outlines how the overall required rate decrease will be allocated amongst the different major classes.

And you see there that the majority of all vehicles in the fleet, the result of that, is that they will experience either no change in their rates or an actual decrease of rates.

And of those that will experience an increase in rates, the majority will experience an increase of 5 percent or less.

And additionally, as -- as was noted in his evidence Khurram said that the -- the figures do not, to be clear, reflect the expected movement in the driver's safety rating scale.

So, in other words, the actual amount that the individual ratepayers can expect to pay next year will be different depending on where they go on that scale.

The PUB heard evidence about removing the 5 percent capital release provision, and that was extended, as I said, by the PUB in the 2022 GRA. And the evidence was that this would effectively add 5.5 percent to premium amounts payable by the ratepayers.

And so, the Corporation's position is -- as I think it's made clear, is that although technically not an increase in premiums, we do recognize that the effect of removing the discount is essentially the same from the customer's perspective.

In his testimony to this Board, Mr. Herbelin noted that last year MPI unsuccessfully advocated for the removal of the 5 percent capital release. And he stated:

> "I think we provided certainly an indication that this capital release provision is not sustainable because it's not built into the rate. It's simply returning capital."

And that will now be addressed by way of rebate.

Mr. Herbelin said, it would have had to have been removed at some point in time, and that may be the timing of which was good last year; that didn't happen. But he did indicate that the effects will be felt differently if this capital release provision is removed this year, as opposed to it having been removed last year but, eventually, it will have to be removed at some point. And that evidence has remained from last year. Mr. Giesbrecht said that last year and he said it again this year.

And, at some point, it -- it is basically eating capital and is not building a sustainable rate. Those were the words of Mr. Herbelin.

So the timing is essential. It's never going to be a popular move. And although MPI would have preferred to have dealt with it last year, it is now a good opportunity still to do it this year. And we'll explain again in section 5 of this presentation how the amendments to the Manitoba Public Insurance Corporations Act, specifically Section 18 -- the new Section 18 -- will preclude any further capital releases going forward.

On ratemaking and the forecasting of claims, the Board heard from, the first time this year, Ms. Cara Low, our Vice President, Chief Actuary, and Risk Officer. She was -- she was here for the first time. And in prepping her and her team, she came from the private sector, as you heard. She did work for SGI for a number of years. They were very interested to know what this GRA was all about.

I had jokingly said it stands for 'Get Ready Actuaries' because, as we know, it is the actuarial show. And this Board is used to Mr. Johnston, for many years, he did it alone and he did it well. But there were certain areas -- and I don't mean to be critical of Mr. Johnston's time with the Corporation, he did a very admirable job, but there were things that have been identified that you heard about that weren't in place. And that was simply the result by virtue of resourcing issues. Generalized linear modelling, for example, was something that the Corporation didn't have in place, but now intends to have in place.

And you heard about the robust nature of Ms. Low's division. It's the actuarial investments and risk division. And she has new people there that recently joined MPIC. You heard from witnesses Cherity Ostapowich, she's the Director of Valuation and Capital Management. I've mentioned, Khurram Masud, the Director of Pricing, recently joined the Corporation this summer. Christine Zhou, she's the Director of Business Insights and Analytics.

And Ms. Low provided, what I thought was, a pretty good explanation for why MPIC needs these different actuarial functions. And you have it there before you.

Christine Zhou will head up business insights and analytics. The primary focus of her team will be mainly claims forecasting and insights.

And so, I can tell you that, you know, she was on the back row, telling me exactly what I needed to ask the expert witness to challenge him on some of his modelling. Those questions were put to the witness not because I knew what I was talking about, but because she was telling me what to ask the gentleman.

You see there as well that Khurram will be focusing on the rate adequacy for all three (3) lines of business. And so, this is the Basic line of business, the Extension line of business, and the SRE line of business. As well as enhancing the risk classification, especially the implementation of the new GLM that is on the horizon.

Khurram also works very closely with the customer value proposition team, was the evidence of Ms. Low, on projects such as the driver safety rating scale, the fleet rating, and the Vehicle for Hire.

And this is an important point. Ms. Low said many of these projects have been very slow on their implementation because the actual -- actuarial team did not have the resources to support the products team. And that -- that is a truism. And that, we hope, is addressed by the additional resources to Ms. Low's team.

And then, you'll see there as well, that Ms. Ostapowich is leading the valuation and capital management. And while this function has always existed -- no doubt that was Mr. Johnston's bailiwick -- it's a core function of any insurance company but an additional senior leadership role has been added. And this will provide actuarial oversight in order to mature and expand the function of capital management.

In addition, it's -- it's a support for the financial condition, a test, that forms an important part of the rate application every year. And also, dealing with the management of capital under the Rate Stabilization Reserve.

So there, at paragraph 35, is another important point. With this new team, this Board can expect more from MPI in terms of its data, its pricing, its modelling, its reporting, and its oversight.

And I touched upon this as well, the Corporation continues to use, what I understand is -- is, a somewhat outdated minimus bias procedure for its current rating methodology. A more robust methodology is the generalized linear modelling. We heard evidence of that last year and perhaps even the year before.

The Corporation acknowledges that and is moving towards that. And with the expectation that that will be in place fully for the 2026 General Rate Application.

I will touch upon -- it's a ratemaking issue. I deal with it in the investment section. Ms. McCandless touched upon it as well. But the Board is aware that, this year, MPI chose to use the duration of premium liabilities -- excuse me -- two (2) years, instead of the duration -- excuse me -- for the unpaid claims reserves, which has an approximate duration of ten (10) years, for the calculation of its new money yield.

And I would note here, Madam Chair, that, when the Board, in its pre-ask, asked the Corporation to recalculate its rate indication using the old methodology, that is, the ten (10) year duration. It was at that point that the Corporation discovered the overstatement of the investment income due to, what we characterized as, an ALM mismatch, where the claims were brought to the end of the August, I believe, and investments to the end of September. That mismatch, as you heard, resulted in an overstatement of -- of the investment income.

What I would say to that -- and -- and I think Board counsel asked the actuarial team, well, what safeguards are going to be in place to prevent this kind of thing from happening again?

So two (2) points to that. One, the Corporation discovered the error during its response to that pre-ask from the PUB; immediately brought it to the Board's attention and corrected it.

The second part of that, I would suggest, is the safeguards that Ms. McCandless asked about would include this process, I would suggest.

This entire process is used as a safeguard. And that is why we have a number of advisors to the Board that are analyzing the Corporation's data, checking it, coming back, asking questions.

So the -- the process worked, in our view. And the error -- the overstatement of the investment income was corrected and you now have that corrected rate indication before you.

And you heard evidence as well that the effect of that wasn't to alter the negative .1 percent decrease, but only pushes out the projected first rebate under the new Capital Management Plan. Pushes it out by one (1) year, I think the evidence was.

Another issue that was canvassed this year was that of serious loss loading and whether the current methodology or perhaps an alternative methodology arising from the Directive 11.03 is more appropriate for the purpose of rate setting.

MPIC takes the position here that the PUB should continue to approve the use of the current methodology over the alternative methodology. And I'll point you to its response to Taxi Coalition-MPI-2-9, that using the alternative methodology would significantly increase the indicated rate for the private -- private passenger Vehicle for Hire group, in territory 1, the largest territory.

MPIC confirmed here that it had no current plans to group private passenger Vehicle for Hire with delivery. And as it pertains to the credibility weighting for classification groups prone to serious losses, MPIC has confirmed that it is considering a review of its methodology in future General Rate Applications.

So, there's a note there at paragraph 42, my learned friend Mr. Williams spoke to the reasonableness of the Corporation's forecasts and that that would be an issue and you heard from his expert witness on that front. I'll deal with that momentarily, but he indicated, as Mr. Guerra did, that the Corporation and its forecasting claims costs are out of step with the standard Canadian practice and displays limited statistical modelling of claims costs.

The Corporation doesn't agree with that statement and here's why. Mr. Rajesh Sahasrabuddhe, from Oliver Wyman, he presented as an expert witness. It was interesting to note that during the course of it -- his evidence, he never once indicated that MPIC was making use of unreasonable forecasting methodology.

While some criticism was directed and -- at MPI for making use of a linear model, as opposed to a log linear model for some of the claims forecasting, Mr. Rajesh Sahasrabuddhe testified that his eye test, you will recall, was the most important test that his firm performed on the reasonableness of the modelling conducted.

And there's his quote:

> "As you know, we talk a lot about statistics and we talk, but, I'll tell you, we probably rely on the eye test more than we rely on

anything else at the end of the
day."

So, Oliver Wyman, took aim at eight (8) of forty (40) of the MPIC coverages and the methodologies used to forecast those coverages.

For the purposes of this argument, Madam Chair, MPIC will first raise as an issue whether Oliver Wyman can be said to be fair, objective and non-partisan. Of coarse a standard that they must meet, if this Board is to consider any of the expert evidence that the gentleman asked this Board to consider.

He testified that all eight (8) perils, in which a different forecast was proposed, if followed, would result in lower forecasts and MPIC requiring less revenue from its customers. All eight (8). None of those eight (8), as compared against the MPI forecast, for the same peril, would result in an overstatement of the revenue required to cover the anticipated claims.

More importantly, he admitted that, of the remaining thirty-two (32), some were modelled that showed MPIC understating its revenue requirement. However, because he did not believe those understatements to be material, they weren't included in his report.

The result of this means that only coverages and perils that lower the rate indication were included for this Board's consideration, even though, some MPI forecasts were perhaps too low, according to Oliver Wyman.

And that's important because in his report from last year, and this was canvassed during his cross-examination, he asserted that if the 'P' value were greater than 5 percent, a statistically significant trend could not be discerned. His report last year made it very clear, if it's over 5 percent, you can't rely on it. It is not a statistically significant finding.

So, where that occurred last year, they selected a zero (0) trend. No growth. However, in this year's report, he departed from that approach. And he made use of models that would lower the frequency for weekly indemnity and severity for property damage, third-party deductible transfer, notwithstanding those high 'P' values of 8 percent and 29 percent.

He would have this Board accept those models, notwithstanding their 'P' values, and notwithstanding what he said last year about the reliability of anything that has a 'P' value above 5 percent.

In other words, the Oliver Wyman firm recommends that MPIC collect less revenue, even though the results of its forecasting modelling for this peril are statistically insignificant.

The PUB should also carefully consider the liability of the modelling used by Oliver Wyman. A comparison was made against the peer premium trends used in his report last year, for both collision and comprehensive. Because it's insightful. Right. You -- you heard from him last year. He made a bunch of recommendations. He made a bunch of predictions. Guesses, as I called them, he didn't like that. He likes them to be referred to as estimates. Fine.

He estimated certain things, certain trends, particularly on the pure premium front. And so we looked at -- well, how did he do? Let's look at how he did.

And, there's a chart, if Kristen can -- can scroll down a bit at paragraph 49. And why we say -- he -- we should look carefully at how -- how he did is because he admitted during his cross-examination, that it -- that -- his firm didn't have a full understanding or a good understanding of MPI's modelling approach last year.

And so, when I put to him that he has making a recommendation, as you see there for collision of $555.30, he said, well, that's not -- that's not in reference to the development of MPI. But it was. If you look at his report last year, it was. And he suggested that was what MPIC was using for its collision forecast, for a pure premium.

In fact, you heard evidence that MPIC was actually forecasting a pure premium trend of three eighty-seven (387). Oliver Wyman, last year, suggested that we use a $484.15 forecast.

And so you saw the actual was $444.44. Well, guess what? We both got it wrong. Right. MPIC was under it by $57. Oliver Wyman was over by $40. So, that's on the collision front.

On comprehensive, last year, for pure premiums, Oliver Wyman suggested that MPIC was using $112.75. They didn't understand the model.

I asked him, do you understand it now, sir? Do you understand that we balance back to what the collision forecast says? Yes, I get that now. Do you understand that there's an adjustment made for each of the major classes on a pro rata basis? Yes, I understand that now.

So, this Board was wise not to adopt the recommendations last year because you may recall that the CAC, one of their recommendations was, take the Oliver Wyman projections, have the Corporation re-do its rate application and that's what the Corporation should get. And the Board rejected that recommendation. And they were wise to do so.

On comprehensive, Oliver Wyman suggested because they didn't understand the model, that MPIC was using $112.75 in its pure premium.

In fact, the Corporation was using a pure premium trend of $80. And Oliver Wyman suggested, instead, that MPIC use a hundred and two (102). The actual pure premium, from this year's evidence, was $83. So the Corporation wasn't that far off there, by about $3.

So, had the Oliver Wyman firm understood the modelling employed by MPI, they may have recognized that MPI appeared to be understating its revenue requirements for collision because, in fact, we did understate our revenue requirements for collision.

And I thought that Ms. Moore, Board counsel, did a really good job of highlighting some of the difficulties that the Oliver Wyman projections are suggesting. And she, in particular, questioned the gentlemen -- I'm -- I'm not going to even say his name, I'll just call him the gentleman, 'cause I'll -- I'll butcher it every time, but she questioned him about collision total loss and comprehensive hail. Why?

Because she said, at least in part, they have the greatest potential impact on the current rate indication, those two (2) coverages. And you see there, at paragraph 49, she pointed out that the Oliver Wyman estimate for 2023/'24 was the same as the actual data in 2021/'22. That is no increase and about 12 or 14 percent lower than the MPIC forecast.

Even more stark, concerning comprehensive hail, total loss, the difference in estimates was amounting to about a 40 percent reduction.

And you see there, in Ms. Moore's question, if you scroll down, Ms. Schubert. Oh. Sorry, you're at -- it should be at pa -- 59, please. No. Yes. Thank you. So, our numbering got -- there you go. Thank you so much, Anthony.

And you'll see there that Ms. Moore asked Mr. Sahasrabuddhe:

"You maintain the position that a

model that selects a frequency
that's over 40 percent lower than
the average observed claims
frequency over the last 10 years
is appropriate?"

So what that means is MPI sees data from the last 10 years. He had that available to him and was, nonetheless, recommending a reduction that is over 40 percent lower than the claims frequency for that peril.

And his response, I would suggest, wasn't very compelling. He -- he suggested that there's certain underlying assumptions in that approach about normality and consistency and not having residuals in the same direction. All of that stuff is generally true, with the data, as I look at it. So, that's the basis on which I would suggest that our estimate is reasonable, and that's really the -- the issue that's before this Board.

Are those estimates that Oliver Wyman is now suggesting reasonable on the heels of a pandemic, where the data is uncertain, as we've heard? We don't know where it's going.

MPI submits that such a -- an estimate is not reasonable and that this PUB, as it did last year, cannot risk adopting such a forecast that will, almost certainly mean a gross understatement of revenue required for these important coverages because if there is such an underestimate and we don't collect enough revenue, this is a break -- break-even business. We're back here next year.

But now, it's not a negative point one (-.1). We're going to catch up for the understatement that this Board might order, if it follows the recommendations of the Oliver Wyman firm.

And so counsel for the PUB also put the reasonableness of the Oliver Wyman estimates to Ms. Low. Ms. McCandless asked:

> "What do you think about the Oliver Wyman estimates?
>
> We are well aware of the Oliver Wyman study."

was her response. There are different ways of doing trends analysis. Where there's a disconnect, we feel, is understanding the business. So, at MPI, we do talk to our claims teams. We know that there are issues with total losses. People are not able to buy new cars and so, there -- therefore, they're negotiating to keep their current vehicles. There are supply issues. Prices are skyrocketing.

So, if anything, we think the total loss severity claim is understated at this point.

And so, we are selecting trends for the ratemaking years, so the rating year and, yes, it's going to be volatile, but we think it's applic -- applicable, if not understated, trend needed for the appropriate rating year.

And, so, that is an important point, understanding the business, and -- and there are several examples of that in the Oliver Wyman evidence.

You may recall last year when forecasting those pure premium trends, I put to him the claims discount figure, and he admitted that, right, I didn't adjust for the recent product changes under CERP. So, those forecasts from last year weren't adjusted for those product changes. And -- and I say there, as well, there seems to be a tacit admission, by Oliver Wyman, to the comment by Ms. Low, because you recall, at the end of his report, that there were a number of insights, one of which was company insights.

He was making recommendations and he recognized the value of having company insights into any forecast, and -- and, quite simply, the Corporation's view on that is that those insights are absent from what the expert witness presented to this Board and claimed to be reasonable forecasts.

Now, that's not to say, Madam Chair, that this Board should never consider expert evidence in these proceedings. Absolutely. But they should take a careful -- they should carefully consider the adoption of any recommendations from a firm that's not familiar with this Corporation.

The gentleman's headquartered out of New York. He lives in Pennsylvania and there is a lot of knowledge that is absent from the recommendations being made on very important coverages that the Corporation has intimate knowledge of.

But, again, it's not to say that this Board shouldn't consider the expert evidence, you know, we -- I think we said in our opening another expert that -- the expert that CAC called a few years back, a Mr. Viola, made some very interesting and thoughtful recommendations that the Investments Team has adopted some and -- and that resulted in the shadow portfolios, which were useful for a benchmarking exercise performed by the -- by the Corporation. And he also, you know, would have had the Corporation, four years ago, purchasing real return bonds.

Well, in hindsight, because hindsight, you know, as they say is 20/20, that would have been good, given what inflation has done since those recommendations were made.

So, those are factors that this Board has to -- has to weigh, and -- and some recommendations are good ones, and some aren't and in terms of claims forecasting and -- and -- and the Oliver Wyman recommendations, we would say that all of them should be flatly rejected by this Board.

And Mr. Guerra is now going to turn to expenses and the adoption of IFRS 17 and 9.

CONTINUED BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Thank you, Mr. Scarfone, and just for the sake of time, I'm going to speed things up a little bit here. We can parse the numbers any which way you want to, however, what -- what is ultimately clear, from the material, is that the operating expenses for the Basic line of business for MPI will be going up in this fiscal year and next as well.

So, I have put some data into the -- the section here about the numbers and, in particular, also counsel for the -- for the Board has also canvassed this at length as well. So, I won't go into too much detail there.

However, I do want to point out that, in the case of Basic expenses, we know a large portion of the operating expenses for Basic are related to salaries and benefits and there was quite some discussion in this year's rate application about the budget for FTEs and consultants and, so, I'd like to spend the time, in this section, speaking about that.

So in particular, this -- this Board heard that MPI expects to increase its normal operation staffing levels to one thousand nine hundred and thirty-nine (1,039) FTEs for the 2021/2022 fiscal year -- sorry -- it -- it was expecting to do that, however, what we saw was that staffing levels from normal operations were consistently below its budget. So, we have a history of -- of budgeting for FTEs.

We also have a history of not being able to -- to meet that budget, which I think is important. It's not -- it's not something that MPI strives to do, however, it is certainly something that is -- has to be a factor that -- that must be considered by this -- this Board when we -- we look at the -- the budget for 2022 -- sorry -- 2023 into '24.

What we heard, in this case, is that

there is a -- an increase in two hundred (200) -- sorry -- of two hundred and eight-three (283) FTEs, which is the difference between the 2022/2023 forecasted budgeted -- budget, rather, for FTEs, for normal operations, and the 2023/2024 forecast budget for FTEs for normal operations.

So, Ms. Schubert, perhaps what I can do is I can ask you to bring up MPI Exhibit number 55, please. Nd if we can turn to slide number 14, please.

So what we see here is -- is this is how we get to that -- that magic number of two eighty-three (283). And we also see here where those FTEs are coming from. Largely, we have numbers coming from the information technology area -- that includes NOVA -- as well as significant amounts for operations. And then we also heard about the adjustments for our actuarial staff as well.

In terms of current FTE numbers -- and, Ms. Schubert, if I can ask you to go back to MPI Exhibit number 126, please, and I'm now at the paragraph in terms of current FTE numbers. Yes, thank you.

What we have from June 30th, 2022, is that our total corporate staffing levels -- now, this is total corporate-wide -- is nineteen fifty-nine point seven (1,959.7).

And so while it might be -- you -- you might think to yourself, well, we're -- we're close to our goal of -- of one thousand nine hundred and eighty-six (1,986) FTEs for the 2022/2023 fiscal year, there are approximately sixty (60) FTEs in the total corporate staffing levels that are -- are in addition to the normal staffing level.

So when we look at that and when we look at our history of having budgets that, unfortunately, are not consistent with the actual, and in this case a hot labour market, what we see here is that there is a real possibility that next year MPI will be coming to the PUB and indicating that, unfortunately, it was not able to staff up the way it wanted to.

And so regardless of whether or not MPI can attract and retain sufficient talent, the question at issue in this rate Application is whether or not this budget increase of two hundred and eighty-three (283) FTEs is reasonable.

And MPI would submit that the evidence that this Board has heard throughout this hearing has been that it is. It's absolutely necessary, and so we'll go into some of the reasons why that is.

So, first of all, we'd like to mention that the -- the change in budget for FTEs would increase the budget by $36 million approximately. And what we heard from the evidence is that these FTEs are meant to address two (2) main concerns, the first being, enablement of NOVA and the second being, addressing customer service level deficiencies.

With respect to NOVA, the evidence was that the current state of the project needed to address -- had some capability and -- and capacity gaps that needed to be addressed in order to ensure that NOVA could deliver its project objectives.

And so of the two hundred and eighty-three (283) requested FTEs, fifty-two (52) will pertain to NOVA, and in the case of IT FTEs, there were thirty (30) new that -- that MPI had identified were previously scheduled or slated to be consultants but were now being targeted as FTEs, meaning that the addition of those thirty (30) FTEs shouldn't have a significant, if any, impact on the budget because essentially what we're doing here is we're hiring FTEs and replacing them for consultants that we would have hired. So there may be, in fact, a budget decrease on that line.

And then with respect to ninety-three

(93) of those two hundred and eighty-three (283) additional FTEs, Mr. Giesbrecht, our -- our CFO, advised that those were needed to address wait times and improve the customer experience.

The remaining increase in FTEs, this hundred and thirty-eight (138), are designed for the critical capacity areas such as our actuarial, finance, and human resources departments, and as Mr. Scarfone has addressed in the ratemaking chapter, there is additional value that we've already explained that the PUB can expect from that actuarial team.

And of course, we know that not all of the two hundred and eighty-three (283) FTE positions will be permanent. We heard that some of these members will be term or what we understand to be bubble staff.

And so when it comes to the actual steady state staffing levels, we heard what MPI expect those -- expects that to be for the 2023/2024 fiscal year, i.e., two thousand one hundred and seventy-four point six (2,174.6). And -- excuse me -- by the fiscal year 2025/2026, that would decrease by approximately a hundred and thirty-one point 4 (131.4).

And so Mr. Giesbrecht identified that

MPI will experience an initial increase in its operating expenses, but this is going to be in the short term and temporary. So as he mentions, if you look at the expense ratio in that trajec -- excuse me, in that trajectory, we see a blip as we are incurring these costs and investing in the Corporation.

And then, as these costs run off, we will then be in a better position in terms of having the technology, having these gaps and these capabilities shored up, but then recognizing the benefits long term to then bring back that ratio in terms of having more efficiencies that are reflected in our revenues as opposed to our expenses.

And so Mr. Scarfone asks him:

> "Is the Corporation expecting to settle back into its more traditional numbers of -- as FTE counts -- as -- excuse me -- as it concerns FTE counts?"

And Mr. Giesbrecht responds:

> "Yes. Within the business case of NOVA, there are some savings obviously. It's not all costs. There are also benefits and we know that there is changes to the

business case, but nonetheless there are benefits. There are efficiencies that will be gained through the program."

MPI also indicated that it was forecasting an increase in external consultants, and the NOVA section will address the need for these consultants.

But what we understand is that these consultants are required for both improvement initiatives for NOVA. And also we heard from Mr. Gandhi that these numbers will come down once these initiatives are completed.

The Board also heard about the increased expenses in data processing costs, and these again are largely a result of NOVA. And there was an explanation as to these costs here in this quote that I won't go into in too much length, but the -- the issue here again is that these will be temporary data processing costs.

In terms of the rationale for not amortizing the NOVA related expenses, there's both an accounting and a ratemaking aspect to that answer. From the accounting perspective, there's an indication that IFRS standard IAS-38 prevents this accounting methodology from completing deferring the total costs of NOVA.

But also, Ms. Low has expressed some concerns about whether or not we can still smooth out a one (1) -- one (1) time large cost such as NOVA and still price for a no-net-income year, i.e., if we were to smooth out the costs there may be a requirement to price for profit at some point.

But the -- the question was important and valuable to MPI, and so what we see is an indication from MPI that it will consider the issue further, and this Board should expect to hear more from MPI in the next GRA on whether or not that's an appropriate way of handling the -- the costs of NOVA, at least from a ratemaking perspective.

In terms of capitalizing lean management costs, there was a response here from Mr. Gandhi again. He explained that the lean project management costs function in an Agile environment is the best practice in doing overall projects.

Those costs and projects are -- a lot of those are SAS-based cloud infrastructure. IAS 38 requires you to have control over an asset to capitalize it, and we don't have control as those are not our servers.

They sit on servers out across the world, and IAS 38 specifically breaks those pieces out as saying if you do not have control over the infrastructure, you cannot capitalize those costs. So that is the MPI position on why it is not capitalizing lean project management costs.

One (1) other issue that was addressed in the expenses section this year was the issue of broker commissions, and there is obviously some adjustments that need to be made to broker commissions given the flattening of the delivery time line for Project NOVA.

And so there may be increases in the broker commissions, ultimately, but it is currently too soon to tell exactly how much that might be at the end of the day because this Board also heard that MPI is currently renegotiating its agreement with IBAM.

And that's important in this case because the broker commission amounts for the 2023/2024 fiscal year don't contemplate any negotiated revisions, and so they aren't set in stone.

We should have more information for the Board's consideration in the next rate application, but as of today, we can't say for certain how the NOVA time line adjustments are going to impact --

ultimately going to impact broker commissions.

In terms of some positive developments, I would just point for the Board's consideration the fact that MPI's completed its initial Cityplace space plan initiative.

And there's a quote there from Mr. Herbelin that just indicates that it's -- it's gone well for MPI. That, in addition to its flexible work arrangement, has allowed MPI to vacate more -- more floors of Cityplace which not only reduces the cost that it will spend to complete the renovation project, but it'll also increase more space for MPI to -- to rent out to other tenants to generate revenue for that property.

So we see that certainly as a very beneficial project for MPI and one that has only increased in its value since inception.

MPI acknowledges that this is an increasingly difficult time for Manitobans from a financial perspective. There is a lot of uncertainty going here that we've already talked about, and I won't belabour the point. But there was a question about whether or not MPI should be tightening its proverbial belt at this stage.

MPI would -- would just push back for

the Board and to consider that, the budgeted expenses that have been addressed in this rate Application are those that are required to attract and retain talent so that MPI can continue to provide key services to Manitobans in the wake of the COVID-19 pandemic.

And other expenses that are being requested here are to address historic under funding -- under funding rather in capabilities that MPI requires to deliver NOVA which, again, is another essential project.

So, these are expenses that MPI would rather not have to expend, but under the extraordinary circumstances we find ourselves in, these are essential investments in the business.

And finally, we have to consider the perspective here. And so, what I would ask, Ms. Schubert, if you can bring up the Exhibit CAC-6, please. This is the Oliver Wyman presentation. And thank you very much you've brought to our attention slide 8.

And what we heard from Mr. Sahasrabuddhe is that when he looked at the situation for MPI, he noted there that the majority of the expenditures per unit results from claims costs, not from claims expenses or operating expenses, but from claims costs.

And so, that puts into perspective what we say is the -- the nature of the analysis of -- of expenditures for operating costs, not to say that they can't and they shouldn't be scrutinized. That is not the case; they -- they certainly should be.

But when it comes to how Manitobans view the situation, this is the guiding principle here, how is this going to impact my rates? Operating expenses will not impact their rates nearly as much as claims costs, and -- and even claims expenses, and -- and the margin is very wide.

And so, when it comes to addressing issues like operating expenses increases, we want to be as -- as good as we possibly can, as prudent as we possibly can but, at the end of the day, we cannot forget what the impact is for Manitobans.

And -- and we would submit that the -- the biggest impact for Manitobans right now is addressing the issue of claims costs.

If I can ask, Ms. Schubert, you can go back to the slide presentation, please. Thank you. And -- and now I'll just move on quickly to the issue of the adoption of the International Financial Reporting Standards, IFRS 17 and 9.

And what we see is that the objectives of these standards is to increase the consistent -- consistency rather in comparability of MPI in its financial reporting from one insurance organization to the other.

There aren't going to be any material impacts on pricing methodologies. But what we see here is that MPI has made a key policy decision that was addressed in this rate Application, and that is its selection of the risk adjustment over the current provision for adverse deviation or PfAD.

And so, MPI explained that it's going to be using the quantile method for risk adjustment calculations. And during the Hearing, we heard from Ms. Low that MPI selected the 90th percentile, which is close to the current PfAD method. And she explained the benefits of this higher selection as follows:

> "All we're -- by doing a higher percentile, you're taking out the retained earnings and you're putting into the claims liabilities because it's saying that there is a known uncertainty in the claims liability. So there

are the past claims. And what we
want to do is to ensure that we
have enough money to pay for past
claims, so we're ensuring that
there's financial stability and,
therefore, rate stability so we
don't have to go with a capital
build."

And my friend, Ms. McCandless asks:

"How does the rate -- risk
adjustment increase the
possibility of a capital build?
You'd mentioned that you wouldn't
want to go to a capital build.
Can you explain the impact of the
rate adjustment percentile on the
possibility of capital build?"

And Ms. Low explains:

"There will be less -- there is
more certainty that there is
enough money sitting in
liabilities so that we won't have
to dip into the RSR in order to
cover past claims."

We also heard that MPI has studied the

matter with expert consultants, with its external auditor, with actuaries and with SGI and ICBC to develop its policy position papers, the majority which were -- were ultimately approved by the Board of Directors and filed with the Board in this rate Application. And as a consequence, the transition -- the first year transition, which will be next year, will show changes in how the capital position of MPI is presented.

MPI does not believe that it is prudent or reasonable to make long-term policy decisions based upon the capital implications in the transition year. And so, MPI believes that long-term policy decisions should be based on long-term implications of those decisions.

And with that, I'll turn it over to Mr. Scarfone to talk about capital reserves and the Capital Management Plan.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you. Ms. Schubert, there is an appendix to our -- our closing. If you could pull up the appendix 1. I just want to have before the Board the Bill that amends section 18 of the Act. And I can point you to the page.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Yeah, you'll see there Bill 45 is -- should be the first document. And if you bring it to section 57 of that legislation it should have before us section 18 of the MPIC Act.

While Ms. Schubert is finding that, I want to deal, as Mr. Guerra said, with capital reserves and the Capital Management Plan in some detail because it's an important part of this rate Application.

The Corporation says, as it always has, that its financial strength and stability is centred around two (2) things: appropriate premiums based on actuarial standards and maintaining adequate capital reserves.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Okay. Apparently, we don't have the -- the amendments to section 18 attached to our closing, so I'll just carry on by saying that Mr. Gabor will certainly recall, perhaps Ms. McCandless and Mr. Cathcart, five (5) or six (6) years ago, the Corporation was operating at the equivalent of 35 to 40 percent MCT and there was an economist here who was asked by MPI to confirm that MPIC, at that time, may have been the most undercapitalized insurance company in the country.

He said, well, that's not necessarily a bad thing. Well, we were also before this Board with an AAP rate indication of 7.7 percent. And that year, we managed to reduce it to 2.7 by a number of management actions. There were changes to the DSR. There were something that MPIC called the rodent strategy that lowered the indication by another 1 percent.

The point being that, when we were operating at those capital levels, we were also before this Board seeking rate increases and that's no longer the case.

And so, that's why the Corporation said in its opening that its current financial strength is largely the result of being properly capitalized. And so, you have before you a new Capital Management Plan. And you have before you new sections to the MPIC Act that guide the Board's decision making in approving the Capital Management Plan that's before you.

So in the past six (6) months, for

example, MPIC transferred $134 million from its Rate Stabilization Reserve. And why was that? To cover claims liabilities for PIPP because of inflation.

So everybody that's collecting income replacement indemnity gets a raise because of inflation; that cost the Corporation $134 million in the last six (6) months.

And that was touched upon by Ms. Low during her evidence. And she impressed upon this Board the importance of maintaining adequate capital reserves. And -- and we want to make sure that it's something that this Board fully appreciates.

The Capital Management Plan that's before you has, what I call, three (3) main considerations or changes from the existing one.

The obvious one is rebates, right? We're not asking for capital releases to lower the rate indication anymore. We're asking for rebates like we saw during the course of the pandemic.

The second one, the obvious one, is there's now 120 percent MCT target, right. That's different from what was in the reserves regulation and now repealed. It was at a hundred (100). The Corporation is saying that 120 percent is now the target, or a threshold, that would trigger a rebate under the CMP.

The last one, number 3, is that the rebates, unlike in the past, will be -- will be based on actual capital levels; not forecasted capital. And -- and that is also in the new Section 18 of the MPIC Act. Where a rebate is not to occur if the projections are that it would reduce the MCT ratio Basic below 100 percent MCT.

And we heard evidence from Ms. Low about how that, in fact, happened, where the MCT percentage dipped to 95 percent after the rebates during the pandemic.

So, you heard about the $134 million transfer. And if inflation remains higher than 2 percent for more than three (3) years, it could very well be that MPIC will require additional transfers to cover the existing claims costs, namely, the PIPP claims.

Ms. Low described the RSR as a savings account. You heard her make that analogy. Without this savings account, MPIC would have sought $134 million from ratepayers. And this would represent an approximate 11 percent increase in rates simply to cover the inflationary costs of the existing claims.

And that's exactly what the Rate

Stabilization Reserve is for, as Ms. McCandless said, is to cover these unforeseen costs, these unforeseen events.

Now just by way of comparison, if you compare that to the magnitude of the transfer to the costs of NOVA, which is our largest transformational project in the history of MPIC, the re-baseline is $224 million.

As of March 31, 2022, MPIC has expended approximately $77 million of this budget. And all else considered, expects to expend the remaining $212 million by the fiscal year 2027/'28.

In the case of the PIPP indexation transfer of 134 million, MPIC transferred two (2) payments within a six (6) month period. All of that to say, that an unforeseen increase in inflation could have a greater immediate impact on rates than the cost of NOVA combined.

As indicated that the Bill before you received Royal assent on November 3rd, 2022. And MPIC has based its new Capital Management Plan on the requirements of the new Section 18 of the MPIC Act. And so, as such, it's important for this Board to understand the impact of Section 18 and what it means.

We start, as lawyers always do, with

the modern approach to statutory interpretation and that is there is only one (1) principle or approach, namely, the words of the Act before you are to be read in their entire context, and in their grammatical and ordinary sense, harmoniously, with the scheme of the Act, the object of the Act, and the intention of Parliament.

In addition, this approach must be followed with necessary modifications when interpreting any accompanying regulations.

And lastly, the Interpretation Act provides at Section 6 that every Act and regulation must be interpreted as being remedial and must be given a fair, large, and liberal interpretation that best ensures the attainment of its objects.

So when applying these principles of statutory interpretation, to the Section 18 amendments, MPIC says it's important to compare and contrast the legislative landscape before and after their introduction.

And what I mean by that is there's been some suggestion that, well, it's still open to this Board to perhaps issue a capital release because there's nothing in that -- that -- those sections that have been amended to -- at Section 18 that would prevent this Board from saying, we're still going to lower the rate indication by -- by 5 percent.

Well, a couple things on that point. The new threshold is 120 percent MCT. So if there -- if there's capital releases occurring between 100 percent and 120 percent, this Board if it -- if it were to order such a release would, essentially, be circumventing what is the clear intention of the legislature. And that would be to issue rebates after 120 percent MCT. By issuing capital releases before it reaches that threshold, it renders the 120 percent target meaningless.

And so, the Capital Management Plan reflects what the legislation has to say, and that is, the Corporation should build its capital to 120 percent MCT, issue a rebate, so long as -- as Mr. Giesbrecht said, there's nothing concerning in the immediate or near term forecast that might bring that MCT down below 100 percent.

So you have that -- that before you. The meaning of capital reserve is set out in the regulation at 18-1, along with the other definitions.

MPIC submits that these reserves are established for the specific purposes specified in Section 18 and that any funds held in those reserves can only be used for those specific purposes and no other.

And read together, the definition of the terms 'capital reserve' and 'Rate Stabilization Reserve' mean that the sole purpose of the RSR is to enable MPI to satisfy unknown or unforeseen liabilities that may arise concerning Basic. And I just gave you a very good example of that with the indexing of the PIPP claims.

So by implication, MPIC cannot use funds within the RSR to reduce premiums by any other means, as doing so would be inconsistent with the stated purpose of Section 18.

Only where the MCT ratio exceeds 120 percent, at the beginning of the fiscal year, can MPI apply to this Board for leave or permission to rebate funds from the RSR. And again, in an amount that cannot exceed the amount that would be -- would be required to reduce the MCT ratio of the RSR to 100 percent.

Consequently, the Corporation maintains that there is no longer any authority within the applicable legislative scheme to support the use of the RSR for the purpose of reducing the Basic rate indication.

What I'm talking about there, of course, is the Capital (INDISCERNIBLE) where it used to be that any excess -- excess capital under the reserves regulation had to be used to lower the rate indication.

To be clear, the legislation no longer supports that ability. And doing so would be contrary to the purpose of the RSR as defined in the new Section 18 of the Act.

(BRIEF PAUSE)

MR. STEVE SCARFONE: A potential concern was raised that the amendments to section 18 do not require MPI to automatically apply for a rebate when the MCT ratio exceeds 120 percent. And you heard Ms. Low's evidence on that and Mr. Giesbrecht.

Given how quickly events impacting the RSR can occur, again, we saw that with the inflation and its impact on the indexation of income replacement, MPI submits that it would not be prudent for MPI to automatically seek a rebate based upon a point in time snapshot of the Rate Stabilization Reserve.

And what I mean by that is there has to

be some consideration for the relevant factors that could weigh against such a rebate application. There must always be some degree of discretion.

And you heard Mr. Giesbrecht talk about that. There's always going to be some discretion at the Board of Director's level about whether a rebate application was brought before this Board, notwithstanding an RSR that has exceeded, or met that threshold of 120 percent MCT. And that would be those adverse scenarios that Ms. Low spoke about in the financial condition test report that are on the horizon -- or that may be on the horizon.

So, for example, a significant decline in the equity portfolio. A drop or rise in interest rates that dramatically influence the claims forecast.

Now, should the -- the -- the Board be concerned about this -- this discretion that the Corporation says it has. MPI says that its financial statements are transparent and reviewed annually by this Board through the GRA process.

This Board, and other stakeholders, could -- could criticize any decision by MPI not to apply for a rebate if unsupported.

MPI submits that it is unrealistic to believe that it would refuse to apply for a rebate without good reason.

Mr. Giesbrecht says, as a general rule, MPIC will not plan to maintain the balance of the RSR above 120 percent. Once it reaches this level, in the normal course, MPIC will apply to this Board for leave to issue rebates sufficient to bring the RSR back to the 100 percent MCT level.

As indicated, it may not apply for a rebate only if reasonably believes there to be a -- a readily apparent threat to the RSR, that would bring it below 100 percent MCT.

The Corporation urges the Board to recall how the Corporation approached the rebating of excess capital that resulted in the immediate aftermath of the pandemic. Notwithstanding the legal hurdles, the Corporation found a way to return excess capital to ratepayers. Because, of course, as you know, that was prohibited under the Reserves Regulation, notwithstanding that three (3) rebates occurred during the course of the pandemic.

MPIC points to that and says it remains committed to only holding the minimum capital necessary to achieve the aims of the RSR.

BOARD CHAIR GABOR: Sorry, Mr. Scarfone --

MR. STEVE SCARFONE: Yeah.

BOARD CHAIR GABOR: -- can I just interrupt for a second.

MR. STEVE SCARFONE: Sure.

BOARD CHAIR GABOR: Are you -- are you backing your submission?

MR. STEVE SCARFONE: Sure.

BOARD CHAIR GABOR: Are you reading from the written submission?

MR. STEVE SCARFONE: I -- I -- I'm alluding to it, yes. So now I'm -- I know that I didn't direct Ms. Schubert back to it like --

BOARD CHAIR GABOR: Okay.

MR. STEVE SCARFONE: -- Mr. Guerra does.

BOARD CHAIR GABOR: Okay. That -- that -- that's what I was wondering.

MR. STEVE SCARFONE: Yes. Yeah.

BOARD CHAIR GABOR: Okay.

MR. STEVE SCARFONE: So, I -- I'm touching upon it and I'm at paragraph 115, Ms. Schubert -- or no, I guess it would now be -- sorry, these changed on -- okay.

(BRIEF PAUSE)

MR. STEVE SCARFONE: 121. My apologies for this, Mr. Gabor, Board members, the -- the -- the paragraph numbering was messed up when we did some revisions. Yes, thank you for that. Okay.

Historically, the Corporation has only used funds -- the capital funds for two (2) purposes, supporting the RSR or its DVA operations. So, there was a lot of questions about the transfers that are to occur at fiscal year end from the Extension line of business and the discretion that -- that is there.

The Corporation has said that this Board should be satisfied that no such transfers now will occur to the DVA line of business, 'cause as you heard from Mr. Giesbrecht, those transfers that did occur, has put that line of business in good stead, at least for the next couple, three (3) years and you heard Mr. Herbelin reference the ongoing negotiations with the Government of Manitoba to find a solution to the funding of that program outside of making use of the Extension monies that are supposed to be directed to the Basic line of business and deposited into the Rate Stabilization Reserve.

Currently, MPIC is forecasting that it will transfer $52.8 million into the Rate Stabilization Reserve at the end of the current fiscal year. And thirty-seven million (37) and forty-one (41) million in the next two (2) year ends, respectively.

As a result, if this forecast is ultimately accurate, MPIC expects that it will apply to this Board in 2026 for the leave, that I made reference to earlier, to rebate approximately $110 million from the RSR.

And I don't want to belabour the point, but it's -- it is an important point to -- to leave with this Board that if unforseen liabilities occur and the RSR MCT ratio is below its target, the first source of revenue that MPIC would look to achieve its target is the transfer of excess Extension capital into the RSR.

Finally, the past ten (10) years have taught MPI about the importance of appropriate premiums, based upon AAP and maintaining adequate capital reserves. The legislative scheme is based on appropriate premiums being collected in the first instance.

Most claims are short term, and are paid by MPI from its cash accounts. The longer term claims are paid from the claims reserve, established to pay future claims, related expenses, associated with incurred claims under Basic.

In light of the above circumstances, MPI submits that this Board should approve its proposed new CMP in conjunction or on alliance with the new section 18 under the MPIC Act.

And, Mr. Guerra, is now going to deal with Project Nova.

CONTINUED BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Thank you, Mr. Scarfone. Again, just mindful of time, so I'm going to try and speed it up a little bit here, but also give NOVA its -- its due, because it is an important issue in this rate Application and I want to make sure that we canvass it thoroughly.

I start off the section by just highlighting a few statements that were made in the last GRA. This one is from Mr. Herbelin, who talks about the timing and the -- the budget for NOVA.

He says:

"As I can tell today, which is new information, that this Board does not necessarily have evidence on yet, but I want to be upfront and transparent, so we don't have a

discussion in a year from now.
We will most likely experience
delay in delivering NOVA. And,
with that, probably some deviation
in terms of its overall costs."

We also heard from Mr. Mitra, the Vice-President and Chief Trans -- Trans -- excuse me, Transformation Officer, of -- of the Corporation to talk about his reservations back in the 2022 GRA about the then $128.5 million NOVA budget, given that MPI had yet to complete its due diligence on its 2022 rebaseline.

Ultimately, in the 2022 GRA we -- we closed with a statement that NOVA was not like other projects that this Corporation has undertaken in the past, be that BI-3 or the property -- physical damage re-engineering project, PDR, and that was because NOVA is separate from those projects in the sense that MPI has a commitment to be transparent with its stakeholders about the on-goings of this project.

And so, NOVA represents not only a change in how MPI carries out the planning and implementation of its projects, but also in how it reports the progress, the risk, the obstacles to its stakeholders and is accountable for the results.

And so, there has been some discussion this year about the level of transparency that has been available to stakeholders when it comes to -- to NOVA and I -- I think it's just important to reiterate here, that, although perhaps the stakeholders, including the Board, would have liked to have had more detailed information about the magnitude of the issues with NOVA back in October and November of last year, the reality was that the review of -- of the material was still in its infancy.

And so, making broad, sweeping statements about where Project Nova was going to go or could go would not have been responsible at that point in time.

And, so, when MPI had information that it could, ultimately, divulge to its stakeholders, it did so and what we saw here is that the February 2022 re-baseline was presented to the parties the moment it -- it could be done so, and that was through the IT Summit that was held back in the spring of this year.

And we know that the 2022 re-baseline flattened the project time line by about twenty (20) months from forty (40) to sixty (60), with the final release of 4B scheduled for October 2025.

We also know the overall project budget

costs were increased by a hundred and twelve point four million dollars ($112.4). That was up from -- up to, rather, two hundred and twenty-four point 1 million dollars ($224.1) and then, also, the contingency for the project was increased, as well.

All of this is not good news and, certainly, the Corporation would not have wanted to be in this position but it's -- it's important to know that in terms of changes to the NOVA cost allocation methodology, less than 20 percent of the total cost of NOVA is allocated to the Basic line of business.

So, what that means is, notwithstanding the increase in NOVA's costs overall, the amount of the budget allocated to Basic is not increasing in proportion due to this change.

And, so, we have a quote. If you can scroll down there, Ms. Schubert. Yes, the quote from Mr. Herbelin, in his opening presentation. He asks -- he was asked whether or not we would do something differently -- or he would have done something differently, had he known where things were at with NOVA, and he was pretty candid. He said:

> "I think, if we knew everything that we know today, at that time, we would have decided not to start

NOVA."

And that doesn't mean that this project is not required or that it's not necessary. What he's saying here is that we would have done things differently, in the sense that we would have first taken the time to build up our critical capacities in the business to ensure that when we actually start with the NOVA releases, we could go through with them with less friction.

So, the work that's being undertaken now to build in those critical capacities, he would have had us do that first and not at the same time as these releases and that's the -- that's the issue that we're seeing today.

So, we probably would have been delayed in terms of being able to roll out the releases but that's because the critical capacities that the business requires are not in place but they are starting to -- to go on line and we're seeing some progress being made there.

Mr. Herbelin has, though, confirmed that NOVA is an absolute necessity for MPI. This is a question of survival he says. If we are failing at replacing the technology, the current technology is not going to be able to sustain the business.

We also heard from Mr. Iles, a partner at PricewaterhouseCoopers, and I'm not going to go into too much detail about what he said, given that there's a confidential module on it, however, I would encourage this Board to consider the comments made by Mr. Iles, in terms of his views about the requirements for MPI to -- to continue on with NOVA.

In terms of why we need to -- to continue with NOVA, there are some helpful comments here from Mr. Parti, the Vice-President and Chief Information and Technology Officer of MPI, where he talked about the phrase "end of life."

He says:

> "What it really means is that the
> support from vendors for a
> particular technology, for
> example, has ended or is about to
> end at whatever particular date.
> The skill set required to support
> those technologies are..."

It's undiscernible but my understanding is what he had talked about there was that they're -- they're no longer being taught in school. This -- this skill set is -- is slowly being diminished.

We combine a bunch of those reasons,

really, you know that there is an expiry date and, at some point in the future, when those technologies will no longer be supported, the risk -- and -- and the risk cannot be managed for the Corporation.

And, so, there is a risk for not implementing NOVA. Mr. Parti says, with regards to it, I think Mr. Herbelin said the same thing, as part of his cross -- as part of his presentation, in not implementing NOVA. That seriously puts MPI to risk, from a business stability point -- a sustainability point, rather.

The public insurance model that MPI provides to Manitobans not bringing in the capabilities that NOVA is bringing in to the core business change and transformation seriously hampers and risks the MPI business model.

Now, would we have done it, if it was a negative M -- M -- should we say MPV, if we had known? He says, yeah, absolutely, we would, and that's because it's about a sustainability issue.

So, MPI appreciates that the costs of NOVA have significantly increased over the original business case but I would encourage this Board to consider that this is not an issue about whether or not MPI and NOVA, in this case, is spiraling out of control, in terms of its costs. This is not an issue about mismanagement.

The real concern here is that the original business case, developed with the assistance of two (2) respected external consulting firms, failed to adequately account for the complexities of the project, the capabilities of MPI, and the considerable amount of time that -- for discovery that was still to be completed.

This increased the costs of NOVA, as estimated by the 2022 re-baseline and, so, they are now a more accurate re -- reflection of what the costs should have been from the very start.

This Board heard from Mr. Ramirez, the Program Director for -- for NOVA program delivery, that the initial business case was not, in fact, a final business case, in that MPI did not expect to have a final business case until it had selected the products and system integrators that would be required to begin delivery.

This highlights the importance of the use of value management and, more importantly, an Agile delivery process. Through each of them, MPI identified concerns at an early stage of the project and was able to take action to avoid potentially greater impacts.

This Board also heard from Mr. Iles, again, about whether it's typical for projects of a similar size and scale of NOVA to undergo multiple re-baselines and, again, we would encourage this Board to review his evidence on the issue.

And so we, ultimately, know that these issues led to an increase of a hundred and twelve point four million dollars ($112.4) in the budget for NOVA. Yes...?

BOARD CHAIR GABOR: Can I just interrupt. Can you -- one thirty-two (132) is that in the public transcript or is that in camera session?

MR. ANTHONY GUERRA: One thirty-two.

BOARD CHAIR GABOR: Paragraph 132. The PUB heard further evidence from Keegan Iles about whether it is typical for projects similar in size. I just want to be very careful.

MR. ANTHONY GUERRA: And -- and that's why I said at a high level. I -- I -- I have not attributed any statements at all to Mr. Iles, there. What -- what we have done is we've said that there are comments that need to be considered on the record in here. What we -- what we didn't want to do is we didn't want to have to file a separate confidential closing.

What we're doing is we're bringing to the attention of the PUB that certain statements were made in a confidential way, we're not saying what those statements are, but those statements do need to be referred to by this -- this Panel, in terms of its decision about whether or not it was prudent in terms of the way that MPI went about re-baselining this project.

BOARD CHAIR GABOR: So, this Board, then, in its Order, can, at a high level, refer to what Mr. Iles said, notwithstanding it was in CSI?

MR. ANTHONY GUERRA: That's right, and -- and, in fact, my -- my friend, Ms. McCandless, here, has done so, in her opening, as well, and -- and -- and was very careful to canvass that with MPI and we -- and we believe that it's -- it's on board.

MS. KATHLEEN MCCANDLESS: And, maybe, just to clarify, the evidence to which I referred was specifically filed on the public record.

BOARD CHAIR GABOR: Yes.

MS. KATHLEEN MCCANDLESS: It was a response to a public Information Request. So, it -- it's somewhat different than this.

BOARD CHAIR GABOR: Okay. I just --

DR. BYRON WILLIAMS: Mr. Chair, if I might jump in as well. I -- I -- in terms of what MPI has specifically done here, I believe they are referring to a reference that does not express the ultimate views of Mr. Iles.

And -- and is -- for ourselves, we would not interpret the confidentiality agreement to allow us to go that one step further, that you're speaking of it. I would love to be persuaded otherwise but we're not of that view.

BOARD CHAIR GABOR: That's fine. I just wanted to -- you know, the Board is sensitive of -- over the issue of CSI.

CONTINUED BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Yes, as -- as are we, Mr. Gabor, and -- and that's why we -- we've tiptoed very carefully on this issue but, certainly, it -- it -- it -- we think it is an appropriate thing to do, is to address that there should be some consideration of -- of some of those comments on the confidential record.

Going forward, we know that even though there has been a re-baselining of NOVA, Mr. Mitra testified that the objectives of NOVA remain the same and haven't changed since its implementation.

And NOVA's about addressing technology risk, broadening and enhancing customer service options, protecting unauthorized access to information, becoming more of an Agile business, and finding new ways to save costs and improve efficiencies.

And so we heard from Mr. Herbelin about the work through planning and execution that identified the unforeseen issues, and so what we -- what we can essentially distill those issues are is that there's some capability and capacity gaps when it comes to implementing NOVA.

Some of those are our human resources capability gap and capacity gap, and some of those are the technology. So the cloud systems, the data processing abilities, things like that. And that's what Mr. Herbelin's speaking to in term of what was discovered as -- as NOVA became -- as NOVA went into its implementation phase that, ultimately, resulted in the need for that -- that review.

And so there's also a quote there from Mr. Parti that I would encourage the Board to read as well, just to get a good understanding as to the -- the need for that assessment.

And so that assessment was conducted in two (2) ways. There was an internal assessment conducted by MPI in 2021 and that was on the advice of the program governor -- governance vendor rather.

And then also there was the retention of McKinsey to perform an additional assessment in September of 2021, and we know that that advice, ultimately, resulted in a validation of many of the assumptions in the 2022 re-baseline, including the flattening of the delivery time line and additional costs to the budget.

But it's also important to note that the scope of NOVA didn't expand as a result of the McKinsey assessment, although the budget did increase as a result of their recommendations, all of which are being implemented, and the total for that is $34.6 million.

MPI has also engaged McKinsey a second time for supporting its de-risking and delivery of NOVA. That was for a period of six (6) months with an option to renew, and this Board has heard that the decision as to whether or not MPI will renew the McKinsey agreement for a further period is currently being assessed, and -- and hopefully we'll have more information for the Board in due course on that.

There was some criticism of MPI in terms of its decision to retain McKinsey without the use of a Request For Proposals, or an RFP.

And although that's not the way that MPI would like to have done -- made the arrangement with -- with McKinsey, the result -- the -- the reality rather is that MPI was in a -- in a situation where the urgency of the matter required it to act in that -- in that way. It was the most prudent course of action.

And you heard evidence that, in addition to McKinsey, MPI reached out to Ernst & Young. It believed McKinsey though was hand-down -- hands-down, rather, the best candidate. And also you heard that conflicts of interest precluded MPI from considering PricewaterhouseCoopers and KPMG.

And also, because of its previous engagements with Avascent and Deloitte regarding the preparation of their original business cases, McKinsey was -- was clearly the right choice for -- for MPI.

It's a top-tier consultant with extensive experience, and its selection, although not the preferred way of doing it, was the best way to allow McKinsey to begin the most expeditious assessment of the project at a critical time. And so, as I've mentioned before, the board is currently refusing -- reviewing, rather, the McKinsey contract in the future.

And so now are we with respect to NOVA? Well, we have release 1 which is going to deliver the Special Risk Extension line of business solution. That's been delayed, but is on course to go live in January of 2023.

And with respect to the other releases, we've heard from Mr. Mitra and there's a quote there from him, it starts with:

> "Now, in regards to the main releases, release 2 and release 3 and release 4, because we're going live in January with release 1, it's going to impact the releases -- the release date rather for release 2."

So to summarize, it's the International Registration Plan which pertains to our commercial customers, and the intent is to go live in the fall of 2023.

With respect to releases 4 -- excuse me, releases 3 and 4, the parallel discovery, pre-discovery, work will begin in January 2023 as well with the plans being developed as we speak on the resources needed to do pre-discovery work for releases 3 and 4 while we are going live with releases 1, and then subsequently finish the work needed for releases 2 in the fall of 2023.

So even though the time line has been flattened, it hasn't been completely flattened. There's still some overlap, and what we see here is MPI trying its best to -- to use its resources in a -- in a fashion that will ultimately result in a -- a proper consideration of the risks for future releases, including releases 3 and 4, which by all measures are the most complex and the biggest releases for NOVA.

So in addition to others who are concerned about the costs of deliv -- excuse me, delivering NOVA increasing, MPI also shares those concerns.

And so in terms of the confidence that this Board can have in the 2022 re-baseline budget, MPI has not shied away of saying that there -- there are hurdles to overcome here. There's nothing to suggest right now that the budget is -- is not -- we don't have any confidence in that budget. We certainly do, and there's obviously a contingency in place that will apply to the releases.

And we have more confidence obviously in releases 1 and 2 than we do in 3 and 4, but you've heard from -- from key people -- Mr. Herbelin, Mr. Ramirez, Mr. Mitra, and even Mr. Parti that -- that there -- there is the possibility that we could be coming back next year with -- with a different look at NOVA.

We hope that's not the case, but we will certainly continue to be transparent with the Board in terms of where NOVA is and where NOVA is heading.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: And -- and so the final issue for NOVA was the issue about whether or not it's important to continue with NOVA despite its -- its increasing negative NPV. And I just would point to -- to the statement from Mr. Parti again that -- that NPV is one (1) consideration, but it's not the only consideration.

And obviously, there are aspects of NOVA that are extremely important and critical for the business. And so when it comes to the NPV, it is not the sole consideration. It would not prevent MPI from going forward if that NPV continues to increase.

However, I would also mention that there are goal posts that we would like to arrive at, and depending on where those goal posts are, we could see the scopes of releases 3 and 4 change a bit. And there's also some evidence about some smaller releases that should ensure that the timing of those releases is more on point.

And so the other issue that we heard about was information technology and value management. Again, we're running short on time. Yes.

THE PANEL CHAIRPERSON: Sorry. Can I interrupt you? Have you got any idea how much longer you'll be? Because I imagine everybody, especially you and Mr. Scarfone, would like a break.

MR. ANTHONY GUERRA: Yes. We certainly -- when we had -- when we had canvassed our -- our opening, we had -- we had hoped that we would be two (2) hours. It looks like obviously we're going to extend that time quite a bit.

We don't want to rush through some critical material, so if -- if the parties are all in favour, certainly we could take a break now and come back. In terms of additional time, I'm suggesting probably about forty-five (45) minutes would be reasonable in -- in this case.

MR. STEVE SCARFONE: You know, I would suggest, Madam Chair, if -- if -- I don't even know if it would be that because what we wanted to do was deal with the -- with the critical issues first. I think we've done that. We've -- we've dealt with NOVA; we've dealt with the capital; we've dealt with claims forecasting. So there's not much left. I would say a half hour, so -- Mr. Guerra says forty-five (45) but -- but I can certainly make my investments and I think I've got one other topic, shorter.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you for that, Mr. Scarfone. I think that we should take a break at this point, and we'll carry on with your closing remarks at 1:30, please.

MR. STEVE SCARFONE: Thank you.

--- Upon recessing at 12:29 p.m.

--- Upon commencing at 1:32 p.m.

THE PANEL CHAIRPERSON: Thank you. So, when I interrupted you, Mr. Guerra, you were about to start the section on information technology and value management, so, go ahead, please.

CONTINUED BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Yes. Thank you very much, Madam Chair. So, what I think the Board can expect from MPI going forward in future GRAs is -- is a combination of the information technology, value management, and -- and NOVA issues because they are becoming more and more inter -- intertwined, as -- as you'll see from the material.

But I begin the section here with this helpful comment by Mr. Parti in terms of the importance of IT, and this really is looking at it through the lens of -- of a project such as NOVA, where he says:

> "It's my firm belief that, as an insurance industry, or any industry for that matter, it's going through a significant disruption or change, and a robust capable well functioning IT organization is the key differentiator between success and failure."

And so, what we've seen from the IT division this year is that it's undergone significant changes, including the addition of a software development and operations department. And this is to ensure that IT operations has the capability to receive NOVA.

It is increasing its staff numbers, so it will go up to 389 FTEs from 299 previously. And we did hear that there have been transitions of the long-term consulting -- or consultant rather FT -- transition from long-term consultants to FTEs which resulted in a savings of $4.5 million.

However, that's not to say that the issue of the use of consultants has resolved because it clearly has not. MPI provided information in this rate Application that it continues to use consultants, IT consultants, for predominantly the -- the NOVA operations; however, that is not solely the case.

The difference between the use of consultants previously versus now, however, is the fact that the consultants are largely contracted with on a short-term basis. These are engagements that MPI can't avoid, certainly would like to, but it can't avoid in this case.

And so, what we'll see is that the

active IT consultants increased to sixty-four (64) and the active NOVA consultants increased to forty-four (44).

And so, Mr. Parti explains that MPI's had a history of some very, very long contractors and that has been changed. The shift in strategy over the last twelve (12) months has been around short-term contractors with very, very specific statements of goals. So people that will come in to help us build certain capabilities, bring in certain technologies, six (6) months, twelve (12) months, perhaps maybe a little bit longer.

In the meantime, we'll have a very active strategy which has also been recognized by Gartner in terms of training internal staff on those new capabilities so that as these contractors come in for short-term gigs, they will come in, train. They will build up those capabilities, train the internal staff, hand it over to MPI, the full-time employees, and then move out.

So, this is going to be a revolving door is what he said in the term of short-term contractors as MPI starts to mature its processes.

And he wouldn't be able to commit to a fiscal year when this downward trend will arise, but certainly that is the intention of MPI with respect to its contractors.

The IT strategy outlines some guiding principles for the use of and delivery of technology. And ultimately, the mission is to ensure a workforce enablement in terms of the delivery of secure and reliable technology, so cloud-ready, cloud-first is one (1) of the guiding principles.

Mr. Parti testified in this rate application about the importance of MPI adopting a cloud capability. And he says:

> "The concept of the cloud has been in industry for many, many years now, and MPI is very behind the curve in that sense.
>
> So when we talk about transforming IT, when we talk about building new business capabilities, there is no other choice but to go to the cloud. When you look at your core business applications, even in the case with NOVA, Duck Creek, [and then he says Cal Tech (phonetic). I don't believe that's the correct word. I think

it's Celtic is what means to say]
Dynomax (sic) and so on. They are
all cloud-based technologies.
There's no option to actually have
those technologies on premises."

I believe is what he's trying to say there, any more.

"What we don't, unfortunately,
what we haven't invested in over
the years in building those
fundamental capabilities and the
ecosystems to support those core
business applications, which is
where the cloud adoption is
extremely important.
And we need to understand how we
will operate in this new paradigm
of technology ecosystems in the
future. So, with that point, yes,
cloud adoption has been looked at
as a core enabler."

And then on the use of artificial intelligence or automation, Mr. Parti states that:

"Automation is an upcoming line of
technology ecosystem, very

prevalent in the private sector insurance industry.

And really the idea here with automation is to be able to automate back-end processes that are manual, that are repetitive, that are taking away the time from our MPI teammates from serving Manitobans."

Now, in the absence of these disruptive technologies, the requirement for full-time employees at MPI would be significantly higher in the future if they would not use those technologies.

So, really, automation is helping us be more efficient. It is helping our teammates serve Manitobans better because they are taking away their time from their day to day.

So, with the IT strategy, the aim for MPI is to ensure that technology enables whatever type of business change that MPI requires. This is not simply chasing the next shiny, new object.

The PUB also heard about the latest iteration of the Gartner IT benchmark. And the indication there is that MPI's IT maturity level continues to out perform that of its peers in all of the comparison IT domains.

Additionally, IT spend and IT staffing levels are also above the peers when the costs of NOVA are factored in. And so, when asked about where MPI would like to be in respect of the Gartner IT benchmark, Mr. Parti replied that he hasn't calibrated it to the Gartner benchmarking number to say, whether it's a 4.5 or it's a 7.5 or a 5.

He says:

> "But the reality is that, even with this 3.39 maturity level, there's a lot of work to be done, including in that service level vertical around various technologies and ecosystems that we have today."

So you might ask yourself: Has MPI reached a point where it no longer needs to worry about maturing its IT services? Mr. Parti is saying the exact opposite. He says:

> "Now is not the time for us to say that we've done enough. There's more to be done."

And so this is what -- this is what he and his team are working on presently. And we should expect to see the benchmarking levels mature in the future with respect to the overall maturity.

Regarding the seventeen (17) recommendations provided by Gartner, MPI has indicated that it's complied with these recommendations. And that material will be available in the next rate application, as well as the results of the 2021/2022 Gartner IT maturity benchmarking study.

On the value management side of things, we heard that MPI continues to actively review all of its IT investments to determine whether they are achieving the forecasted or anticipated ongoing costs and benefits.

We heard about the use of a scaled Agile framework which Mr. Campbell, Director of Enterprise Architecture, testified was:

> "The way that we see this improving is that it allows us to deliver technology earlier or changes for -- other choice but to go -- [sorry, no, I'm sorry, wrong one here] -- I go to the business earlier.
>
> So, when the business can see that value to -- to evaluate whether

that change has merit for them so that they can make decisions on whether or not to proceed and continue down that path versus the old way, which is we deliver all of these features, spend all of the money upfront. And then we would deliver to the business that they would have -- they would then have to make due with what they received because it was not always in alignment with everything they expected."

So that's -- that's a benefit that MPI expects to -- to continue to utilize or -- or build upon in the future.

In terms of the use of the lean business cases, Mr. Campbell also explained their importance saying that if we flip to an Agile process, it's meant to deliver faster as opposed to taking years to deliver the whole package.

So, we deliver a little bit of a package at a time, which is called a program increment, and within MPI, that's a three (3) month window. And so, what we'll start to see is small deliveries come forward and that the business can start to say, yes, this is trending and how we want it to go.

It's delivering the value that we see it's going to deliver. It's going to improve process or enable capability that we did not have before in the way that we wanted it to, and so it's delivering that expectation which then translates to a financial benefit.

So, that is the IT and value management section. So, I'm going to turn it over to my friend, Mr. Scarfone, now to talk about investments and the asset and liability management study.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you, Mr. Guerra. At -- we're at paragraph 171. Oh, never mind. My 171, Ms. Schubert's 165. You're there. Not to confuse things.

Just a bit of a roadmap for the panel. There's not too much left, investments, road safety, the DSR, and Vehicles for Hire, and then Mr. Guerra will conclude the presentation.

On the investments side, I don't -- I don't believe there's much before the panel in terms of the investments. Of course, there's the new ALM study for the Board's consideration.

You heard from Mr. Bunston and Neil Lloyd from Mercer. And you -- you saw and heard Mr. Bunston's presentation. In prepping him I was joking that it -- it seemed rather vanilla, the investment strategy, that is. He kind of got defensive about that, but -- and reminded me that it might seem boring, but it is in line with the Corporation's risk profile, and that is a mandate of risk management and rate stability.

So, when, you know, the -- when the critics, if there are some to the strategy, say, well, where's the equities? There's no equities. Where's the levered bonds? No levered bonds. It's a hundred percent fixed income for the Basic claim portfolio and the reason for that, as we said in the opening, is the Corporation isn't chasing returns.

The Corporation as now set out in the new section 18 of the Act, must establish and maintain a reserve for each line of insurance sufficient to pay future claims-related expenses associated with incurred claims under that line of insurance.

So, for Basic, what that means, is they have to have assets backing those liabilities that they can count on to provide the backing, as I've said, of the liabilities, particularly on the PIPP side. And so, long-term bonds are the answer to that strategy.

And so, like other Crown corporations, MPIC owes its shareholder, the Government of Manitoba, a duty to exercise prudent decision-making decisions.

And for that reason, aside from some rebalancing that you heard of and the asset mixes that are now before the investment committee, the overall strategy going forward, even under the new ALM, will closely resemble the existing strategy, particularly within the Basic claims portfolio.

As I've said, there will be no growth assets. It will be a hundred percent fixed income as it is now. And the reason for that is the volatility and the equities that Mr. Bunston spoke to.

MPI cannot afford to have insufficient funds to pay its future claims costs. And he spoke to that and you see a quote there before you. And as I've indicated, Section 18.2 -- the new Section 18.2 of the MPIC Act now requires MPI to ensure that funds are maintained in the Basic claims portfolio for this very purpose.

A Basic claims portfolio that protects

against inflation, particularly the PIPP liabilities, for the reasons I indicated this morning, are an important development in the -- in the rebalancing.

And -- and so, for that reason, we did hear evidence that the asset mixes are expected to include some inflation protection for the Basic claims portfolio and the pension portfolio. And those will be in the form of real return bonds.

The asset mixes, as we've indicated, will be decided ultimately by the board of directors. And I just wanted to make a note, as indicated there in 171, we hope that the Corporation has provided the parties to this proceeding a meaningful opportunity to provide some input, some recommendations to those asset mixes.

And I had Mr. Bunston confirm, on cross-examination, that anything that will be recommended to the board of directors by the working group will be based entirely on the documents that are filed in this proceeding.

So he confirmed that there's nothing outside of what Mercer's provided that will be recommended to the board of directors. And that's important because it didn't remove the -- the option, if you will, of having a report prepared by one of the

Interveners suggesting certain asset mixes for the Corporation's consideration. But no such information was received from -- from the Interveners.

In the Application, there was, as I indicate there, a study done by Mercer because they thought it was the appropriate time to look at a separate investment portfolio for the motorcyclists to address their unique needs and the -- and the PIPP claims.

That ultimately was recommended -- not recommended and rejected by the Corporation. And that was largely because we heard about the Basic portfolio being spread into short and long. And so, the motorcycles would have the same -- the same claims as -- as will occur under the new Basic long portfolio. And so, those -- those will be addressed in the new strategy.

We also heard that the Corporation will be making use of both a real nominal liability benchmark, as opposed to -- in the earlier study, it was strictly a nominal liability benchmark.

There's going to be a combined benchmark used. And those portfolios that are not exposed to inflation will continue with the nominal liability benchmark. And Basic claims and the EFB will now be protected with the current inflationary environment.

And there was also some criticism -- and I expect it's forthcoming -- about the existing portfolio not having the inflation protection already in place for what we're now experiencing.

And you will recall questioning Mr. Bunston where he -- he made clear that, at the time, in 2017/2018 when the new study was being done, the inflation was projected to remain at 2 percent. And, obviously, that hasn't materialized and the Corporation is addressing that now.

Ms. McCandless spoke about the new methodology that was used in the October update for calculating the new money yield. And Ms. Low confirmed that this has a direct impact on AEP ratemaking.

So as Ms. McCandless indicated, a three-point-four-three (3.43) new money yield, based on the average duration of the unpaid -- unpaid claims, which is approximately ten (10) years, was used in the original filing. And -- and you saw the resulting negative .9 percent rate indication.

In the update, MPIC adjusted this for changes in interest rates and used a four-point-zero-five (4.05) new money yield. This time, based on a two (2) year bond yield.

And that, as Ms. Low explained, is the average duration of the premium liabilities. And this results in the final overall rate indication of negative .1 percent.

So Ms. McCandless also addressed this, but I'll say it again, that when the PUB asked that we provide an alternative rate update using the old methodology, it resulted in a difference of just two (2) basis points from what the Corporation is asking in update.

And the reasons for the change, quite simply, are, as Ms. Low indicated, a 4.05 percent new money yield, based on a two (2) year duration, is the better methodology, in her view.

And -- and the reason -- the reasons she provided are at one-eighty-two (182). It's about writing new business and pricing premium.

So the ten (10) year duration is based on the balance sheet and it's a build up of PIPP claims. And she says there that a lot of money comes in the door through premium on a daily basis and it goes out the door as we pay out claims.

So it never goes into the Basic claims

portfolio and -- and that, I think, we canvassed in our opening statement where the large majority of our claims costs are physical damage. And so they have a shorter duration. So it doesn't make sense for the Corporation to use the ten (10) year duration, as it did -- as it once did.

Concerning that methodology change, this is a good time to do it. Normally, the ten (10) year yield would be much higher than the two (2) year yield -- two (2) year yield, sorry. Meaning that such a change would have a major impact on rate setting.

However, you heard Mr. Bunston say there's an inverted yield curve. And so the impact of the change now is limited.

The timing is excellent. And a change of this kind is necessary based on the actual expected claims in the rating year. Again, the new business that's being written by the actuaries. It might normally lead to a meaningful rate increase, but the yield curve that we have today mitigates against this.

Concerning the performance of the investment fund, you did hear about losses to the fixed income portfolio due to the yields.

But you also heard Mr. Bunston say that the Basic claims, the RSR, and the pension portfolio outperformed the transitional benchmark by 2, 1, and 1 1/2 percent, respectively.

Ms. McCandless spoke about moment matching and the improvements that that brings. And you -- you saw, in Mr. Bunston's presentation, a slide that showed that the net impact of interest rates from March 31, 2022 to August 31, 2022 was a mere $200,000. And so, the matching is working in his view, notwithstanding the losses on the fixed income side of the portfolio.

MPIC is again making use, as the Board is aware, of the naive forecasting methodology. There was a recommendation by Mercer to perhaps look at a movement towards forward rates.

The Corporation is going to give consideration to that. But for the time being, is maintaining that the naive methodology is still the most accurate way of predicting where interest rates will go. And so that was the methodology employed in this year's application and in the update.

And Mr. Guerra's going to speak to road safety and loss prevention.

CONTINUED BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Thank you, Mr.

Scarfone. There were two (2) major issues to deal with this year when it came to the issue of road safety, and that is the -- the new road safety strategy, the 2022/2025 road safety strategy, and then the -- the large vehicle study.

On the strategy itself, the PUB heard that the goal for MPI is to implement a more targeted and effective road safety set of initiatives that are based on improved data sources, enhanced analytical capabilities, and partnerships with external stakeholders.

And the guiding principles that will lead the strategy are that decisions for road safety must be based upon a data-driven understanding of the root causes of traffic fatalities and serious injuries in Manitoba, with the effectiveness of special initiatives in addressing those root causes; an acknowledgement that First Nations in Manitoba face unique road safety challenges, and committing to engaging with First Nations to understand and address those challenges; and to continuously improve the road safety data ecosystem to support MPI's initiatives and those of the external road safety stakeholders.

And so MPI in the day sees itself as a data-based company in terms of its road safety abilities, and so that's where it sees itself being able to lend the biggest hand to those who are tasked with enforcement of -- of traffic laws and -- and things like that.

And so what MPI's data has shown us is that -- excuse me -- collisions resulting in fatalities and serious injuries usually result from one (1) of four (4) different causes. They are: distracted driving, speeding, impaired driving, and the lack of occupant restraints being used, so seatbelts.

And so when it comes to identifying road safety initiatives that will address those, MPI wants to work on solutions that are based -- are backed by its data.

The other thing that MPI -- or that this Board heard from MPI this year is that MPI wishes to fund those initiatives in a more flexible manner. So MPI set aside $2 million that will enable it to identify emerging issues and to be able to fund those programs in a much faster way.

So we could be talking about a matter of months versus a period eighteen (18) to twenty-four (24) months, for example, and the old way of doing things.

Regarding the large vehicle study, obviously there -- there were some take-aways from that. But for MPI, the focus here is, like I said, on the big four (4): distracted driving, speeding, impaired driving, and lack of use of occupant restraints. So to the extent that the large vehicle study looked at the impact of large vehicles in terms of collisions, there just wasn't that same connection here, at least for -- for MPI.

The type of vehicle involved in the collisions was not an indicative factor. Things that were more of an indicative factor were the history of risky driving by the driver in question.

And so to that extent, MPI doesn't believe that further research into large vehicles will produce any meaningful data that can be used to reduce fatal injuries -- sorry, fatal accidents or serious injury collisions.

In terms of the relationship between MPI and its stakeholders, we definitely see a more collaborative relationship there, and -- and MPI values that relationship.

There was a road safety technical conference that was held, as I'd previously mentioned, and also some time in this rate application that was devoted to allowing Interveners the opportunity to bring their concerns and questions to MPI in a -- in a general forum.

That said, MPI does believe that the relationship between it and its stakeholders has matured over some time, and that perhaps the GRA is not the best venue for us to be having detailed discussions about -- about these emerging initiatives.

And so that's not to say that the PUB doesn't play a role and shouldn't play a role in road safety going forward. But the -- the nature of that role and the -- the time and intensity that is -- is -- that is spent looking at the road safety strategy perhaps is not something that we need to be overly concerned about absent an issue or significant issue raised by a stakeholder in terms of their ability to -- to meaningfully collaborate with -- with MPI -- MPI outside of that -- that process.

So with that said, I'll turn it over now to Mr. Scarfone to talk about the Driver Safety Rating.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: So the Driver Safety Rating system wasn't one (1) of the priority issues that came out of the pre-hearing conference. But as I understand that topic, there are two (2) main issues that need to be addressed by the Corporation, the first of which, of course, is whether the existing registered owner model or another driver-based model should be used by the Corporation.

And the second point there being whether the existing divide between actuarially indicated rates and the current rates on the DSR scale should be addressed by MPIC more expeditiously; meaning, should we get there quicker? And Ms. Low spoke to that.

But I wanted to be clear in the closing that, should a transition from one driver model to another occur, that only determines how any discounts are applied to the account of the registered owner. It will not immediately resolve the divide between the current rates on the scale and the actuarially indicated rates. That problem will still exist and will still need to be addressed by the Corporation.

During the course of the hearing -- in fact, on day 1, the decision was rendered by the Manitoba Court of Appeal that confirmed this Board's jurisdiction to direct MPI to provide the Board with information to allow for steps to be taken to implement the primary driver model.

And I put in brackets there "or some variation thereof" because you heard from Mr. Prystupa and his panel that there are other considerations that the Corporation is considering for recommendation to this Board, including a listed driver model and a hybrid model or a combination of the listed driver model and the primary driver model.

As it concerns the implementation and launch of the primary driver model, I'll ask Ms. Schubert if she can to pull up Appendix 1, page 1 of part 6 of the General Rate Application.

And there should be there a chart that the Corporation provided that has a time line set out for the possible implema -- implementation of the primary driver model.

Last year's Order suggested that -- directed, sorry, that a five (5) year plan to lay the foundation of such a model be submitted, and the Corporation did so submit that plan.

And it -- the Corporation has indicated that the major steps of that five (5) year DSR transition plan -- thank you, Kristen -- include the collection of primary driver information from the registered owner.

So that's obviously an important piece, and the Corporation has to look at whether it has that authority to collect, or whether some legislative changes are required before that information can be collected from the registered owner.

The Corporation would have to develop business rules. There would have to be stakeholder consultations, alignment with the data, with the NOVA release 3. And there are system design changes to accommodate the collection of primary driver information as well.

That leads us to the collection, the actual collection of the primary driver information, followed by a pricing examination, and then lastly, the government approval that's required to implement a new model should this Board decide that's the route it wants to go.

So MPIC has indicated both in its Application and during the course of the oral hearing that the plan now in place for implementation of a primary driver model contains certain steps that are outside of its control.

And when I say that, what I mean is government has to be involved in making those legislative changes that might be required firstly to collect the information, but secondly, to imple -- implement the new model once the pricing examination has been performed.

And as indicated there -- I'm now at 204, I believe, Kristen, yes. The panel did set out other driver model options, as I've indicated. And the evidence from the panel was that the hybrid model is actually the superior model to the primary driver one in terms of accurately capturing risk. And you heard evidence that this is the model that's now employed by the Insurance Corporation of British Columbia.

Last year you may have heard that there was some concern that -- well, what happens when someone's driving a vehicle and they're not listed as the primary driver? And the Corporation wondered, does that mean they're in breach of their policy and they're just denied coverage entirely?

Mr. Prystupa said no, what it would likely mean is there's a surcharge on the account of the registered owner if someone is driving that vehicle that's not supposed to be. And that -- that is in line with -- with how that penalty is imposed in other jurisdictions.

There's a good quote from Mr. Prystupa

there and -- and it's a -- it's an important factor. Obviously, we have to consider what the customers want in deciding which driver model is the best for Manitobans.

And the customers have told us that they value simplicity. And this conflicts with the desire to rate risk more accurately, as we further move towards risk rating accuracy, the further we move away from simplicity. And our goal is to strike a balance between improved risk rating accuracy and the customer experience while still demonstrating fiscal prudence for Manitobans.

Just quickly addressing the divide, as I call it, between the current rates and the actuarial indicated rates. That formed part of Order 134/'21, and Directive 11.15 which asked that the Corporation bring forward a DSR transition plan to align those two (2) rates.

You heard from Ms. Low that she asked that given the pending adoption of generalized linear modelling, that that be deferred and she provided the reasons set out therein. I won't read her lengthy quote, but the explanation for the request for that deferral is -- is set out there at page 67.

And having made that request for

deferral, the evidence was that if there was such a move, to immediately have the rates at the actuarial indicated rate, it would mean a 15.6 percent increase to the base rates. And so, such a move, in Ms. Low's opinion, although as an actuary she would advocate for that, would be unacceptable to the Corporation for policy reasons, as it would result in rate shock.

And, so, with that the only relief sought before this Board is the increase from sixteen (16) to seventeen (17) as the maximum merit level on the DSR scale.

On Vehicles for Hire, there has been, as this Board is aware, some flux in the program, particularly, since the ride-sharing companies entered the jurisdiction in 2018. And last year the Board ordered that MPI file its Vehicle for Hire framework review in this GRA, which it did.

And it touches upon a number of matters, including time bans, data collection and any regulatory changes that might be required to give effect to the framework.

The framework included engagement with stakeholders to gain further insight into their business needs, particularly concerning time ban model, which is currently in place.

The results of this engagement revealed, unequivocally, that the time bans, while providing some flexibility, are largely ineffective for our customers.

And we also learned from an external consultation, that a different model is used in other provinces, for the taxis, limos and the accessibles and the Corporation, in light of that, is proposing that a blanket -- a policy -- a basic blanket policy as part of its Vehicle for Hire framework to be implemented.

And so this will result in further changes to the Vehicle for Hire landscape with the introduction of a basic blanket policy and the abandonment of the time ban model.

MPIC will now offer two (2) products to its Vehicle for Hire customers: A blanket policy for the TNC's and a Vehicle for Hire insurance use for taxis, limousines and accessible Vehicle for Hire.

However, it should be noted and was noted during the course of the hearing, that the taxis wouldn't be excluded from making use of the blanket policy. That's something that remains open for them, under MPIC's framework, so long as they can meet the minimum requirements.

However, the blanket policy will be mandatory for all the ride-sharing companies, with the dispatcher paying for coverage during the operation and the registered owner paying for coverage when the application that the driver use is off-line or when the driver is available for hire.

So the -- the -- the main thrust of -- of the movement away from the time ban models, was that the large majority it was shown, approximately 90 percent, are already selecting all four (4) time bans.

And, so, while the -- some taxi operators you'll hear -- I'm sure from the Taxi Coalition -- I've indicated a desire to maintain a part-time operation to be part-time drivers. This flexibility is not currently contemplated under the new framework, but it also hasn't been outright rejected.

You heard Ms. Jatana say that some further data needs to be explored and still looking at how that might be priced, 'cause as she said, approximately two-thirds of the claims do occur in the time-frame of when the part-time model is being proposed or asked for.

So MPIC is confident that the new Vehicle for Hire framework will result in rates that are both just and reasonable. And for premium design, MPIC believes that use of a kilometer based metric in designing the premium will ensure these just and reasonable rates. And this is the same metric that is currently used by SGI and ICBC for their TNCs.

Concerning the claims experience for taxis, MPIC will soon have data available as we've heard from the telematics study to further understand the high loss ratios and how best to reduce accidents.

And, lastly, in compliance with the Order from last year, MPIC has again increased premiums for passenger Vehicle for Hire by 20 percent, to bring that class closer to actuarially indicated break-even rates.

Mr. Guerra is going to deal with benchmarking and then our conclusion.

CONTINUED BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Thank you, Mr. Scarfone. So the last substitive (sic) section here is benchmarking. Although I would suggest for the consideration of this Board that it's actually, probably one of the most important to -- to consider because the entire rate application can be seen through the lens of how MPI is doing internally when it measures its own performance, and also how it's doing compared to -- to others.

And so, what we see here is that, in terms of its -- its own indicators, its own assessments internally of how it's doing, MPI maintains a series of key performance indicators or KPIs, that it uses to measure its performance in achieving a -- it's a -- excuse me -- its strategic objectives.

But in addition to that, we heard that MPI is -- is developing a balanced score card that will highlight its performance with respect to the areas of financial, customer internal processes and learning and growth areas.

MPI recognizes the value in measuring and evaluating its own performance and MPI is focused on being more data driven. So, this is essential in terms of collecting robust quality data that can be easily accessed, interpreted and presented.

But, more importantly, it's also important to look at how MPI is doing compared to its external peers and determining whether it's attaining its mission statement of providing exceptional coverage and service, affordable rates and safer roads through public auto insurance.

And, so, benchmarking, if it's done right, gives MPI and its stakeholders the ability to determine where MPI stands in the industry and if there's any room for improvement.

It also offers MPI the ability to reassess and improve its own objective, standards, plans and practices.

And, so what we've seen is, in terms of the external benchmarks, there are four (4): the Canadian Vehicle Rights Comparison and Average Premium Growth benchmark, the Serving Manitobans benchmark, the Operational Efficiencies, also known as the Crown benchmark and the IT benchmark, by Gartner, which we've previously discussed in the IT chapter.

So, when we look at the first benchmark, the -- the Canadian Vehicle Rights Comparison and Average Premium Growth Benchmarks, we see that, in 2022, MPI does fairly well in terms of providing -- continuing to provide the -- some of the lowest rates in the country, as well as having premiums that grow slower in pace than anywhere else in Canada.

So, the importance of these findings can't be overstated. The PUB should consider this entire rate application in the lens of benchmarking to ensure that it maintains the appropriate perspective. So, again, just to repeat here.

So, even though there are some issues that we are dealing with here, this Board should consider the fact that, when compared to the rest of Canada, MPI has done, and is continuing to do very well, in terms of being able to deliver on its -- its goal of providing affordable rates that are amongst the slowest growing in the country, if not the slowest growing.

In terms of measuring customer satisfaction, MPI does that in various ways, through surveys, both internal and external. And what we've seen from these surveys is that, generally speaking, customers are very satisfied with the services they receive from MPI, with the exception, this year, of some expressing concerns with booking road tests and -- and, then, some having some -- sorry -- with respect to the road tests, there are only being 53 percent who are, overall, satisfied with our process.

More recently, though, we have heard that there are some concerns that are being expressed with respect to customer service and, so, what we expect to see is we actually expect to see those numbers declining, if -- if things aren't done soon to address those. And, so, MPI is diligently working to -- to, hopefully, maintain, if not increase, those numbers in the future but, seriously, there are -- there are issues that -- that are currently putting pressure on those numbers, in a downward -- downward trend.

Externally, MPI uses Forrester Research to measure its overall customer experience, through their customer experience index score and, last year, MPI had a eighty point five (80.5) score and, this year, it's a seventy-six point eight (76.8) score.

And, all of that is to say that that's a downward trend and MPI doesn't think that's appropriate. Even though it's good, we want to be better and, last year, we were better. And Forrester identified a number of areas for MPI to improve on, including its customer service levels, and recommended that MPI focus its attention on them to improve its score in the future and, certainly, that seems to be what MPI is -- is looking to do, through this rate Application.

Mr. Giesbrecht testified as to the need to address emerging issues, as follows. He says that they're seeing rising transaction counts with the natural volume growth with our vehicles and our customers across the province but, as we come out of the pandemic and move closer to pre-pandemic levels, definitely a lot of rising transaction counts and we're seeing, obviously, that with supply chain issues, we are seeing longer customer wait lines -- wait times, rather. Vehicle repair times have lengthened dramatically and we're having customer impact, whether that be calling into the call centre and calls, you know, hitting a busy signal because there's not enough attendants to answer those calls, whether it be coming into the service centre and having hour or two wait, in some cases. We also have lengthy delays, in terms of setting up driver examining and driver testing.

These are issues that are having an effect -- direct impact on customers that we have to address and resolve -- resource accordingly to live up to our mandates to be a customer-centric organization. So all that is to say is that, although there are some good -- good signs, from the benchmarking, there is certainly more that can be done and should be done to make sure that MPI can continue to provide exceptional service to its customers.

Comparing MPI to its peers, in terms of its operational efficiencies, i.e., the Crown benchmark, that is the ability of MPI to provide products and services to customers in a cost-effective manner, while maintaining high quality, can be a difficult exercise.

We understand that MPI is a unique company, even when compared to other corporations who are not profit driven. And, so, that has caused us some issues and what we've seen, again, this year, is that there have been some difficulties in -- in MPI being able to be effectively measured against SGI and ICBC on the internal measures.

So, for example, whereas MPI may reflect well in some of its measures, it may not reflect well in other measures and, so, some prime examples are set out, by Mr. Gandhi, in explaining why that might be the case. He says the major item there is looking at ICBC being significantly larger. They have a lot of economies of scale. We asked them what do you guys see as differences and when are we going through -- and when we are going through our discussions with them, they are saying that there's a lot of economies of scale that they have in their enterprise. Being three (3) times the premium base will allow you to absorb a lot of additional efforts overall. So, that was one side.

On the SGI side, they have a two-company structure: one profit entity and one non-profit entity. So, comparatives become a little bit harder to do. How they break out the FT analysis overall, those do create challenges because it does not allow the exact science of having an apple-to-apple comparative are items that we faced overall.

And the results are that MPI compares favourably to SGI and ICBC, in terms of its ratio of staff to management and total gross expenses per FTE but it doesn't compare favourably to either of those companies on metrics such as FTE per one hundred million dollars ($100,000,000) of gross written premium.

And, so, MPI explains that this is partly a function of its unique business model, the fact that some of these companies outsource more than others, in terms of their insurance functions, and the fact that companies like ICBC have an economy of scale that MPI certainly doesn't.

What we did, also, hear, though, from MPI, in this case, is that it's going to be engaging Aon, also known as the Ward Group, in this case, to assist it with future benchmarking efforts, and that's going to broaden the scope of its comparative group of peers and, hopefully, we'll see a more robust benchmarking set of reports in future rate applications.

It is also to be noted that Aon will provide some IT related metrics, although it's going to be more of a holistic approach and, certainly, won't be duplicating any of the work done by -- by Gartner.

That is the -- the end of our presentation. I -- I just want to this Board to, again, appreciate that when we sit back and look at the situation we currently find ourselves in, it cannot be lost that notwithstanding all the pressures on Manitobans, MPI is applying to the Board for its fourth consecutive negative overall rate indication, while still maintaining its largest transformational project in its 50-year history.

It's easy to be in touch with one's strengths but it's more difficult to be in touch with one's weaknesses and we would submit that, throughout this rate application, MPI has candidly acknowledged where those weaknesses are. It's voluntarily signalled where it must improve and it's committed to doing so.

So, we understand that all is not well

here. There's a lot of criticism that could be levied against MPI but, at the same time, it is capable of making things right, and this rate application is a step in that direction. So the PUB can expect MPI to return next year with some examples of -- of -- some real world examples of actions taken to reduce its risk, improve the quality of its services, and to achieve its mission and vision statements.

And, just for some colour, we've added another quote from the Apollo 13 movie. We certainly do see this as a situation where failure is -- is not an option. So, subject to any questions the Board may have, those are our submissions.

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

BOARD CHAIR GABOR: It's a great quote at the end. I just want to go over a few points and I don't really care which of you answers.

You keep raising the point about this is the fourth year in a row where we haven't seen a rate increase. The one (1) thing I didn't hear is we've had a pandemic for a few years where there wouldn't be a way to have a rate increase because you had so much money because there were no people driving and no collisions. Isn't that correct?

MR. ANTHONY GUERRA: Yes. That is absolutely correct, Mr. Gabor. We -- we can't completely isolate the last two (2) years and say that -- that they didn't have an impact but the reality is is that it's -- it is still a true statement.

The fact is that MPI has, throughout this entire process, we submit done a very good job in terms of being able to be in a position to do other things -- to do things that other insurance companies haven't been able to do.

We've pointed to the fact of all the rebates have been -- have been issued. The fact that the rates have been stable, notwithstanding the pandemic. So, yes, you can say that there's been two (2) years here where no insurance company was coming to the table with rate increases but that doesn't diminish the fact that MPI positioned itself to be in a position to effectively handle a pandemic, we would submit, better than most insurance companies in Canada, private or public.

BOARD CHAIR GABOR: But, Mr. Guerra, are you suggesting that the rate rebate was a result of performance of the Company versus the pandemic?

MR. ANTHONY GUERRA: MPI's position on that has been it's multifaceted. So, certainly, there are -- there is a claims reduction that certainly has an impact on that, but it's also accompanied by the financial prudence that MPI has demonstrated throughout that process. If it hadn't been, then, you know, the -- the amount of the rebates may have been a different issue.

BOARD CHAIR GABOR: Okay. Mr. Scarfone, at one point in your closing, and I didn't -- I wasn't -- I was listening to you rather than following it in writing, you said NOVA has only expended $77 million and it's expected that it will expend the rest in the future balance of the budget.

I just want to get it very clear. The budget as put forward is the best estimate. You don't know what the final budget is, do you?

MR. STEVE SCARFONE: That's correct. I think Mr. Herbelin even indicated quite candidly that when the contingencies were put to him, and said someone has asked him, Well, surely those contingencies will cover releases 3 and 4? He wouldn't commit to that, given the current state of releases 3 and 4, that they haven't entered into the discovery phase.

So, I think the answer to that question is it's just a budget, yes.

BOARD CHAIR GABOR: Yeah. Yeah. Because I think I put to him that this could be a $500 million project. You don't know until you get the pre-discovery and discovery phase --

MR. STEVE SCARFONE: Completed.

BOARD CHAIR GABOR: -- on -- on release 3. It's not saying anything against you; you just don't know.

MR. STEVE SCARFONE: Just don't know. And as Mr. Mitra described release 3 as a monster.

BOARD CHAIR GABOR: Release 3's the monster, that's right.

In terms of the rebate, I sort of find it interesting. The position of MPI, at least at the beginning of the pandemic, was it wasn't going to do a rebate. It did it once; it wasn't going to do it again. It did it twice. They were going to find another way.

The government passed a -- the government had in the regulation you're prohibited from doing a rebate. That got changed. You're now looking at rebates as the primary way of doing it.

But the one (1) piece that is missing is that the position at first of MPI, when it came what the rebate was, it didn't want to do it because it costs -- we threw around the number a million dollars each time. I -- I believe it was nine hundred and thirty thousand dollars ($930,000).

Is MPI not concerned about the cost of the rebate now?

MR. STEVE SCARFONE: Well, certainly, Mr. Giesbrecht addressed that. And -- and I think it was Ms. Meek that put those questions to him, or maybe it was counsel for -- for the Taxi Coalition, Ms. Wittman, about the costs and -- and has MPIC considered better ways, more economical ways and -- and what Mr. Giesbrecht's evidence was that, yes, but that won't come until Nova is further along because we don't right now have the ability to send electronic fund transfers to our customers for example.

So, the only option right now, if we're to do a rebate tomorrow, would be to mail those cheques out --

BOARD CHAIR GABOR: Right.

MR. STEVE SCARFONE: -- or -- or, Mr. Gabor, put a credit on the account. But the -- the drawback there is the customers would say, Well, wait a minute, the rebate suggests that MPIC overcharged me, I would like that money back to spend it how I'd like, maybe not apply it against my driver's licence renewal next year.

BOARD CHAIR GABOR: Okay. I would have to check the record. I thought that was actually put forward and there was some reason why it -- it couldn't be done, but I'm not -- I'm not sure about that.

Two (2) more -- two (2) more questions. In terms of the rebate, the position of MPI is that it is discretionary, correct, that -- that -- here -- here is how I sort of saw it. In previous applications, you wanted a hundred percent MCT. Then it moved to a hundred percent MCT, but the release wouldn't occur unless you had a 120 percent MCT.

Now, the position is it's a hundred percent MCT. You have to hit 120 percent MCT, but if -- even if you hit that, you retain the right to not release -- rebate, sorry, pending unforeseen circumstances. And we -- we looked at the regulation. I -- sorry, the wording you used was "readily apparent threat."

Is there anything in the regulation that requires you to be reasonable? I mean, you talked about the public pressure, but under the regulation, you -- can you just say we're not doing it?

MR. STEVE SCARFONE: Well -- and we -- we actually discussed this with Mr. Giesbrecht, and -- and it's an interesting question because it's incumbent upon MPIC to come to this Board with an application for a rebate. Well, what if we don't do that, you never hear from us, right? But you do hear from us every year during this General Rate Application.

And so the question becomes whether, in the years of a rebate, we do what we did last year, and that is consolidate a rebate application with a General Rate Application. And that's, I think, what the Corporation has in mind, so that if, for whatever reason, we're above that threshold, this Board and the Interveners are going to go, Well, wait a minute, where's your rebate application, MPI?

BOARD CHAIR GABOR: But there's nothing -- Kristen, can you pull up the regulation.

MR. STEVE SCARFONE: There's nothing mandatory in -- in --

BOARD CHAIR GABOR: Yeah, no, in -- in 14 -- I'm just going by memory which is dangerous. 14(b). You file the application, we respond.

MR. STEVE SCARFONE: Correct.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: 18(4)(b), perhaps?

BOARD CHAIR GABOR: Yeah, 18(4)(b), right. That's -- you file the application, we respond. If you don't file an application or if it isn't part of your -- if it isn't part of your GRA, are you saying that we can make a decision about it, or is it that you have to bring the application first?

MR. ANTHONY GUERRA: The position of MPI on that would be that there has to be an application before --

BOARD CHAIR GABOR: Right. Okay.

MR. ANTHONY GUERRA: -- the PUB on that.

To your original question, Mr. Gabor, which is: Do we read the words 'reasonable' in terms of when -- when MPI applies, does it have to have a reason -- like, what's -- what's the test here?

The -- the legislation doesn't have any specific wording to that effect. MPI is reading that into it because it believes that's likely the words that would be read into it or a test to be applied if this was every considered by the courts, for example.

However, there's some good points in the closing arguments as to why MPI would be ill-served in not applying for a rebate if it ever had the means to do so.

The other thing that's -- that's not mentioned here which -- which though bears repeating, or at least some highlighting, is that in our own research, and I believe it's in the Forester report which I appreciate it's on the confidential module, but this is not a confidential aspect of it, is that customers like rebates. And so MPI wants to make its customers happy, and -- and it can do that by making sure that it makes available rebates when it has the ability to do so.

So, not only is there that public scorn aspect that could arise if it chooses not to, but it also does want to make its customers happy.

BOARD CHAIR GABOR: I'd be careful with that argument, Mr. Guerra, because I suspect customers would have been happy to have Extension money go to Basic and get a rebate instead of going to DVA at the same time.

So, you know, the question I had was on the pure -- sort of the legal requirements. And as I read 18(4), the thing that triggers it is (a) and then (b), which is you have to apply, and that's -- that's the trigger, is your application.

MR. ANTHONY GUERRA: Correct.

BOARD CHAIR GABOR: Final question. So, this is my sixth application. We've had six (6) years of flat interest rates. Kept hearing an argument that we should change the system because, at some point, interest rates have got to go up?

Why is naive the best tool to forecast in a time frame when interest rates are going up?

MR. STEVE SCARFONE: I can take that one, Mr. Gabor.

So, as compared to SERFF, it's still, in Mr. Bunston's presentation, out-performed the SERFF indicators even today. Even in -- in the analysis that was performed in this rate application, the naive methodology was better than SERFF and very closely in line with the fifty:fifty (50:50), which makes use of the SERFF.

So I guess the short answer to your question, there wasn't -- the bank's forecasts for where interest rates might go didn't out-perform the naive methodology.

BOARD CHAIR GABOR: But Mr. Scarfone, that's at a -- I assume that's at a fixed point of time. If we're two (2) more --

MR. STEVE SCARFONE: Interest rate hikes, yes.

BOARD CHAIR GABOR: -- if were two (2) more hikes. But the problem is, if you do it at a fixed time and say, Where were we here, but it doesn't take into account the trend and that's -- that's the question I have is: If you see a trend and you fix it at a time, is that the right way of doing the forecasting? Because in the previous hearings, it was always in the position of -- of MPI was, interest rates aren't moving, why would you use SERFF, use naive, interest rates are -- are flat.

Now, the position seems to be use naive -- interest rates are going up, but we'll still use naive. That's -- that's -- and I -- I will certainly review Mr. Bunston's testimony --

MR. STEVE SCARFONE: And I think also, keep in mind Mr. Giesbrecht's comments about the $165 million that was lost because of the interest rate forecasting a few years back. And I would expect the Corporation is still of the view that Mr. Johnston was that we don't bet on these things.

BOARD CHAIR GABOR: Right. So if interest rates go up and you're at naive, you make --

MR. STEVE SCARFONE: A lot of money.

BOARD CHAIR GABOR: -- a lot of money?

MR. STEVE SCARFONE: Yes.

BOARD CHAIR GABOR: Yes. Okay. Yeah, that makes --

MR. STEVE SCARFONE: Which -- which, you know, would -- will be reflected in next year's rate application.

BOARD CHAIR GABOR: Right. It's a conservative --

MR. STEVE SCARFONE: Yes.

BOARD CHAIR GABOR: -- approach to -- yep, okay, thank you. Those are my questions.

MR. ANTHONY GUERRA: Just to add -- just to add to that though, Mr. Gabor, is that, I mean, yes, there's some evidence right now that interest rates could -- could go up again a couple of times, but we don't know what the rest of the year is going to look like. I mean, there's some evidence to suggest that maybe there might be a recession, you know, and we don't know how severe that might be or whatever the case is, right?

So to say that it's a fait accompli, that we're definitely going to be in a higher risk or higher interest rate environment throughout this period, can we really say that?

THE PANEL CHAIRPERSON: Ms. Nemec...?

BOARD MEMBER NEMEC: Thank you. My first question is on item number 32 on the closing submission. I was -- just to be clear a little bit on -- on a comment that was made. And I think this is referring to a comment by Mr. Herbelin.

And the question is -- or where it says:

"The effects will be felt differently if this capital release provision is removed this year, but eventually it will have to be removed at some point as it basically -- it is basically eating capital and is not building a sustainable rate."

And I just didn't understand that. So I'm assuming the similar tests for the MCT and such would still be there for a capital release as it is -- would be there for a refund. So I just wondered if you could clarify that for me.

MR. ANTHONY GUERRA: Mr. Scarfone...?

MR. STEVE SCARFONE: Yes. So I -- I wondered about those choice of words as well, Ms.

Nemec, the 'eating capital' part of it. That -- that wasn't my understanding and Ms. Low and Mr. Giesbrecht both made it clear that the reason for this is, as Ms. Low indicated, they want AAP separate from capital. And -- and right now, with that capital release provision, it's kind of co-mingled, it's baked into -- into the rates, and so they need to remove it.

And -- and, as we've indicated, that's always been the intention of the Corporation -- was to, at some point, remove it. But it wouldn't -- at least my understanding from the evidence, it wouldn't affect the MCT.

BOARD MEMBER NEMEC: Okay. And that's I -- to me, the refund -- and, please, correct me if I'm thinking about this incorrectly but the refund is just a totally separate procedure than the capital release. The release is shown on the Basic ratepayer's invoice or statement, is that not the difference --

MR. STEVE SCARFONE: Oh, yes. And -- and that's -- and the reserves regulation, before it was repealed, would -- would say that the extra capital would serve to reduce the rate indication, and that's -- that's what you're seeing here, essentially.

BOARD MEMBER NEMEC: Okay. I just

didn't understand why that was included.

My next question...

(BRIEF PAUSE)

BOARD MEMBER NEMEC: Sorry. Okay. And the question is more in the allocation of Nova costs, and I guess IT costs as well, and some of the fundamental change to the IT function.

I believe, at some point, there's a twenty (20) -- the allocation to Basic, I guess, is going to be the underlying of my question.

So I believe I've heard some numbers, 25 percent to Basic or maybe it changed to 19 percent to Basic of the allocation of such costs. And so I think that's the allocation in -- in the 2024 GRA.

And I was just curious as to what allocation was used in -- when you're -- in your projections, when you're doing '25/'26, '26/'27. Were you still using the same allocation to Basic?

I guess my assumption is the allocation to Basic will not stay at that rate as we get into release 3 and release 4. It's going to be a lot -- it's going to be significantly higher and having more of an impact.

MR. STEVE SCARFONE: And Mr. Guerra may be able to provide a further response. But we did, in fact, file the undertaking today that sets out the allocations going forward. So you'll recall the undertaking that the Corporation provided where the Board asked: Okay, well, what is the impact to this rate application? Yes, we'll give you that.

But also, you'll see in the response to that undertaking, going forward the impact to the rate applications -- well, Basic, right into '27/'28.

BOARD MEMBER NEMEC: And I haven't seen that yet. But do you know what the allocation percentage was used? Was it the same as used in this current GRA or a different allocator going forward?

MR. STEVE SCARFONE: I don't know the response to that question --

MR. ANTHONY GUERRA: Subject to check, I believe it was the same.

BOARD MEMBER NEMEC: Okay. Because I would assume that's going to have a significantly more --

MR. STEVE SCARFONE: And -- and --

BOARD MEMBER NEMEC: -- a higher impact to Basic.

MR. STEVE SCARFONE: -- there -- and

there before you is the response to that -- that undertaking, Ms. Nemec.

And it would be line 9; is the impact to Basic.

BOARD MEMBER NEMEC: It's showing a decre -- declining impact to the Basic rate over the years, even though costs of Nova will be increasing for release 3 to release that which is -- where Basic would be more affected.

MR. STEVE SCARFONE: I believe what that's showing -- the bottom line is showing the change from -- so the impact next year will be 1.2 percent, and then in the year following the impact is one (1), so it's a reduction by .2 percent from one year to the next.

BOARD MEMBER NEMEC: It seems contrary to the assumption that Basic will be probably allocated more costs when release 3 and 4 occur.

MR. STEVE SCARFONE: The claims release, yes. Release 3 being the claims release.

BOARD MEMBER NEMEC: Right.

MR. STEVE SCARFONE: Yes.

BOARD MEMBER NEMEC: Right. So --

MR. STEVE SCARFONE: No, I understand -- I understand your question.

BOARD MEMBER NEMEC: Sorry, I have one (1) more question. Just give me one (1) second.

A number -- on your point 33, also in your closing submission, halfway through 33, it says:

"From the enactment of BITSA effectively preclude further capital releases."

And I just -- I didn't -- I'm not sure I saw the word 'capital release' in that forty-five (45). Is -- has that -- is that part of the capital release or is that mostly focused on refunds?

MR. STEVE SCARFONE: Sorry, I think --

BOARD MEMBER NEMEC: The Act is there -- or does the Act deal with capital releases or just rebates?

MR. STEVE SCARFONE: Just rebates.

BOARD MEMBER NEMEC: Rebates.

MR. STEVE SCARFONE: So -- and -- and the terminology can be somewhat confusing because whether you rebate or there's a capital release provision, you're releasing capital. So when they say capital release, it could be one (1) of -- one (1) of them.

But for the purposes of the -- of the new legislation, there is only one (1) option and that would be a rebate that releases capital.

BOARD MEMBER NEMEC: I was trying to find a definition in some of the documents for 'capital release' and I -- I never did -- I didn't see that, so that's why I'm trying to clarify the difference between 'rebate' and 'capital release'. Thank you.

MR. ANTHONY GUERRA: Yes, there isn't the words 'capital release' in this -- in this Bill and in this amendment to the Act. And so that's -- MPI's position is that it's specifically excluded because it does only give us the option to rebate.

BOARD MEMBER NEMEC: Thank you. There was one (1) more question but I need time to formulate it, so if you want to continue. Thank you.

THE PANEL CHAIRPERSON: Mr. Bass...? I have one (1) question in relation to the projected full-time equivalents and the comment that there's a real possibility that MPI will be unable to achieve the target of two thousand two hundred and sixty-nine (2,269) FTEs, I believe.

But, in relation to that, are the forecast budgets assuming that there will be all of those positions filled?

MR. ANTHONY GUERRA: Yes. I mean,

well there's -- there's the vacancy allowance, right, so obviously there -- there will -- there will be retirements, there will be some turnover and stuff like that, but the -- the budgets are expecting that's where we'll be.

The reason why we've expanded to say that, practically speaking, we have to be mindful that its going to be difficult, is because that's the reality. Everybody's having difficulty in taking in -- taking in FTEs.

And so, do we hope we're here saying that we have everyone we need to be able to -- to complete all the tasks that we need to serve Manitobans? Absolutely. But the reality is -- is that, you know, over the last number of years, we've -- we've been able -- we haven't been able to -- to meet that task and we're hopeful we can, but chances are we probably won't have all of those people retained.

THE PANEL CHAIRPERSON: Okay. But -- so, in summary, you will be forecasting those FTE -- your staffing expenses as fully expensed minus whatever your vacancy allowance is.

MR. ANTHONY GUERRA: Yes.

THE PANEL CHAIRPERSON: Thank you.

BOARD CHAIR NEMEC: Okay, I'm not even sure I know how to ask this yet, but I -- I'll give it a shot.

You didn't -- I think it was Mr. Scarfone, you mentioned that Ms. Low had talked -- we had talked about the amortization of costs and the accounting recommendations for, I think it was thirty (30) -- thirty-eight (38). I'm looking at Roger. And that Ms. Low might consider or was going to take a look under rate setting, sort of whether there's a different methodology to understand the magnitude of this project, and being that it's -- I'm trying to remember the word she called it -- not fundamental, but a -- oh, all encompassing project.

So -- so will you -- you confirmed, I -- I think, that Ms. Low was going to look at, is there something different in rate setting that could occur to prevent rate shock or to ensure that ratepayers aren't just being charged for this over a, you know, a three (3) year period, where the significant amount of these costs are being actually incurred.

But I guess I'll stop there and say: Is that what you said to me, that Ms. Low would be looking into that?

MR. STEVE SCARFONE: Okay. So just to

confirm, this -- this thirty-eight (38) has to do with the CLEAR rating system for motorcycles. I believe you're talking about the amortization of NOVA costs. Is that correct?

Okay. So, yes, so the discussion ultimately landed on MPI's actually intrigued by that and will be considering it further, but does have some reservations. And so those were expressed, but it was more of -- this is our initial thoughts on the matter. We do want to look at it further and then we -- we can expect to have a -- a more fulsome position on that in the next rate application.

BOARD CHAIR NEMEC: Excellent. That was my question. Thank you.

THE PANEL CHAIRPERSON: Thank you. And thank you for your closing remarks. We will now I believe go on to the confidential section and you need time, Ms. Schubert, to switch systems, is that correct?

Okay. Let's break until three o'clock, please.

--- Upon adjourning at 2:48 p.m.

Certified Correct,

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Wendy Woodworth, Ms.