MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2024/2025 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

400, 330 Portage Avenue

Winnipeg, Manitoba

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Pages 943 to 1237

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

PANEL CHAIRPERSON: Good morning, everyone. Good morning, Mr. Guerra. Would you introduce any documents you have and then your panel?

MR. ANTHONY GUERRA: Yes. Good morning, Madam Chair. So a couple of housekeeping issues. I'll read into the record a few exhibits for MPI, and then My Friend from the PUB will read into the record an undertaking that we discussed last week.

So to begin, MPI Exhibit number 79 is its response to PUB Pre-ask number 5. MPI Exhibit number 80 is the blackline and clean version of its response to PUB Pre-ask number 1. MPI Exhibit number 81 is its response to PUB Pre-ask 6. MPI Exhibit number 82 is part 10, Financial Condition Testing Report prepared by Ernst & Young. And MPI Exhibit number 83 is its response to PUB Pre-ask number 2.

--- EXHIBIT NO. MPI-79: Response to PUB Pre-ask 5

--- EXHIBIT NO. MPI-80: Blackline and clean version of response to PUB Pre-ask 1

--- EXHIBIT NO. MPI-81: Response to PUB Pre-ask 6

--- EXHIBIT NO. MPI-82: part 10, Financial Condition Testing Report prepared by Ernst & Young

--- EXHIBIT NO. MPI-83: Response to PUB Pre-ask 2

PANEL CHAIRPERSON: Thank you. And, Ms. McCandless, you have something to introduce as well?

MS. KATHLEEN MCCANDLESS: Yes. Just a matter of housekeeping. There was one (1) undertaking that I had given to MPI over email last week for the Ratemaking Panel, and I'm just going to read it into the record now.

So the undertaking was: Using the Office of the Superintendent of Financial Institutions investment yield calculation, line 46, page 10.60 of the Annual P&C Return: (1) for MPI to apply to each of 2024 through 2027/'28, then confirm that this yield is net of investment expenses; confirm that the actual forecasted yield is higher than the 4.22 percent that MPI proposed to use for ratemaking, or the 4.26 percent based on the asset allocation; confirm that it is based on the actual expected investment income net of expenses of the Basic claims portfolio that MPI is forecasting; and last, does MPI have any insight as to why this investment yield, based on the OSFI formula, applied to the forecast financials is higher than the expected investment yield based on the asset allocation. Thank you.

--- UNDERTAKING NO. 14: Using the Office of the Superintendent of Financial Institutions investment yield calculation, line 46, page 10.60 of the Annual P&C Return: (1) for MPI to apply to each of 2024 through 2027/'28, then confirm that this yield is net of investment expenses; confirm that the actual forecasted yield is higher than the 4.22 percent that MPI proposed to use for ratemaking, or the 4.26 percent based on the asset allocation; confirm that it is based on the actual expected investment income net of expenses of the Basic claims portfolio that MPI is forecasting; and last, does MPI have any insight as to why this investment yield, based on the OSFI formula, applied to the forecast financials is higher than the expected investment yield based on the asset allocation.

PANEL CHAIRPERSON: Thank you. Mr. Guerra, would you please introduce your panel?

MR. ANTHONY GUERRA: Yes. Thank you, Madam Chair. The next panel this morning is our Financial Forecasting Panel. The members of the panel are as follows: Ryan Kolaski, our vice-president, finance, and chief financial officer; Ms. Cara Low, our vice-president, chief actuary and chief risk officer.

There's going to be a change this morning. Cherity Ostapowich, our director of valuation and capital management, was expected to attend and testify this morning. Unfortunately, she is not well and is actually not able to speak, so she is in the back row this morning.

But taking her role on the front row is Martin Marion who is our manager of value -- excuse me, manager of valuations, and so I believe he's the only witness who will need to be sworn in.

Glenn Bunston, our director of ALM and investment management, is also in the back row, accompanied by Diane Hopkins, our manager of financial reporting and investment accounting; Amy Mohr, our manager of accounting services; Dean Dunstone, our manager of forecasting; and Lynn Onofreychuk, our assistant manager, project accounting.

So maybe I'll ask that the witness be sworn in, please.

PANEL CHAIRPERSON: Thank you, Mr. Guerra.

MPI FINANCIAL FORECASTING PANEL:

CARA LOW, Resumed

RYAN KOLASKI, Resumed

MARTIN MARION, Sworn

EXAMINATION-IN-CHIEF BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: And just for everyone's benefit, for the -- the purposes of the court clerk -- this I think applies mostly to Ryan and -- and to Martin -- if you could try to get into the habit of introducing yourself before you give your responses, it just makes it easier for our court clerk who's calling in remotely. Thank you.

And, Ms. Schubert, can I ask you to pull up the financial forecasting presentation, please.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Thank you. Before you, there is MPI Exhibit number 72, the Financial Forecasting Presentation.

Do you see that, Mr. Kolaski?

MR. RYAN KOLASKI: I do.

MR. ANTHONY GUERRA: And is this the presentation that you and your team prepared for this morning's evidence?

MR. RYAN KOLASKI: It is.

MR. ANTHONY GUERRA: And this will form the basis of your direct evidence in this proceeding this morning.

Is that correct?

MR. RYAN KOLASKI: That is correct.

MR. ANTHONY GUERRA: Okay. What I'll do is I'll turn it over to you. I may have some questions for you and your team as we go through this presentation, so please look out for me if I have any questions.

But other than that, I'll turn over the -- the table for you now and -- so you can present with your team. Thank you.

MR. RYAN KOLASKI: Thanks, Anthony. We have prepared for you a brief presentation related to financial forecasting. In terms of the agenda and the format, it's a little different format than you will have seen in the previous presentations.

Rather than walking you through a series of a slides, and then a conclusion, it's really meant to kind of bounce around between key observations that we're seeing in the forecasting model.

So, in that respect, it's a bit disjointed. But on the other hand, hopefully, it's a little more interesting and informative for first thing Monday morning. Next slide, please.

So before I jump into the first observation, I thought I would just take a moment and just recognize what an interesting dynamic and, depending on the day, quite traumatic journey it has been leading up to preparing and filing the General Rate Application you have before you this year.

The Application embodies a number of firsts for MPI. It's the first year we had a government directive for a zero percent rate change. It's the first year the government directed an organizational review months in advance of a provincial election. It's the first year we went IFRS-17 to IFRS-4. It's the first year we went from IFRS-8 to IAS-39.

It's the first year we were asked to introduce IFRS-14. It's the first year we had labour interruption, senior management changes, board of director changes. It's the first year in which we actually issued financial statements for last year, and then, for comparative purposes, have to restate them under IFRS-17 and suggest a potential rebate.

It's also the first year the expense allocation in the forecasting model saw some material changes. For anyone who thought accounting was boring, they certainly weren't working in the finance group at MPI this year. Next slide, please.

MR. ANTHONY GUERRA: Mr. Kolaski, just before we go to the next slide, can you just for the record identify what the term IAS stands for?

MR. RYAN KOLASKI: Sure. That's just a typo. It should be IAS, which is International Accounting Standard number 39.

MR. ANTHONY GUERRA: Thank you.

MR. RYAN KOLASKI: Government directives. MPI received two (2) government directives this year. The first was for -- to apply for a zero percent rate increase, which we did. The -- the -- we also, as part of the Application, applied for our standard AAP rate indication, which was minus 1.5 percent.

The second directive was for an organizational review; that review was awarded to Ernst & Young. That was done through an RFP process. The cost of the organization review will be captured in '23/'24. And because we don't know the findings of what that review may entail, we haven't taken any -- I can't even speak -- specific action items related to reflecting anything in the '24/'25 forecast. Next slide, please.

IFRS-17 MCT impact highlights. This will probably consume some of the -- the -- today, in the morning, and probably a lot of this afternoon. And, as I said, we've kind of adopted IFRS-17 versus IFRS-4.

So for '22/'23 we issued financial statements under IFRS-4, and the MCT for Basic was approximately 111 percent.

Then, on April 1st, 2023, we adopted IFRS-17. In adopting IFRS, we are required to restate the comparative prior year, being 2023, under those rules. When we restate the -- the 2023 financial statements under IFRS-17, the MCT under Basic is suggested to be approximately 136 percent.

I use the word "suggested," and it's very specific, because the model is very high level and it has a number of assumptions. Outside of the financial model we haven't landed the MCT calculation with the OSFI template as of yet; it's fairly complicated. And even as of last week, we spoke with a number of external advisors to determine the nuances and configuration of some of the balances related to it.

So our hope is to finalize that, and

the use that as a validation related to the 136 percent, and then make updates to the model in the future if it's required. That being said, the 136 percent would suggest that there is potentially a rebate related to '22/'23.

Our stance is, no, we're not going to apply for a rebate application at this time. The reason being, is that IFRS-17 was effective on April 1st, 2023, and the 2022/'23 year is being restated for comparable purposes only. As such, IFRS-4 remains in effect for 2022/'23.

And just for a point of clarification, it sounds that we're taking the same information and just restating it, so it should be apples to apples, but the adoption of IFRS-17, as it relates to April 1st, 2023, and the restatement is not the same as if you actually adopted IFRS-17 on April 1st, 2022. It's actually very different and the accounting would be very different.

Just for an example -- because I did say I was going to keep this brief -- under the re-statement of those statements under IFRS-17, the accounting standard that's being applied for '22/'23 is IAS-39. If we had adopted IFRS-17 on April 1st, 2022, the accounting standard we would have had to use is IFRS-9. Again, that's just one (1) example, but there's a host of examples related to that.

That being said, the MPI Act that -- reads that:

"A rebate will be determined and paid the first day after the year has ended."

Our position is the ending balance on March 3st is, in fact, the opening balance on April 1st, being that which is calculated under the IFRS-4 standard.

The MPI Capital Management Plan also requires that the MCT be based on audited financial statements. While it is not a requirement of the MPI Act, we feel that this reflects prudent financial management overall. Next slide, please.

This is a quick summary of the Extension forecast related to the MCT. Do not have any transfers related to Basic for '24/'25 as we are under the 200 percent limit.

Then as we go through the forecast, there will be transfers in the future which then suggest, based on the forecasting model, '26/'27 would be the year in which a rebate could possibly become potentially available.

In terms of pricing, we are looking at revising the pricing and product mix for Extension. That process will undertake after this -- after these Hearings and that will be throughout the course of next year.

Depending on what that process looks like, it is possible there will be price changes and possibly pulling forward transfers into Basic as we go through this process. Next slide.

What you have before you is allocated corporate expenses to Basic for '24/'25. It's a very simple bridge. It starts with the preliminary Application that was done and then trues up to the final Application you have before you today.

The big takeaway is the 256 million starting point and the 256 million ending point. There was a very conscious effort this year in order to land the preliminary Application and then, basically, make sure there wasn't a material drift in terms of the final Application in terms of totality of dollars.

So while there is some drift on individual line items, the goal was trying to, basically, ensure that the forecasting became a little more accurate and a little tighter. Next slide, please.

IFRS-14 regulatory deferral accounts. IFRS-14 is a very specific accounting standard. It is a standard that deals with deferral accounts for regulated entities. We were asked to consider it this year in terms of our Application. Our initial review of the standard was that it would not apply.

We then obtained an opinion from a third party. That third party was Deloitte. They came back with an opinion that said IFRS-14 could not be adopted by MPI.

That being said, the forecasts do break out and illustrate the deferral amounts in a similar fashion, as if we did apply IFRS-14. Thank you. Next slide.

Labour interruption and FTE impacts. As I started, the labour interruption is very real and has a very meaningful impact on MPI.

Unfortunately, we're not at a point where we can quantify exactly what that impact is, so we have not undertaken to reflect any consideration for the labour impacts within our forecasting model at this time.

But there is some positives that came out of labour interruption. And I just kind of want to highlight what those are because it's -- while it is kind of a bad news story, on the other hand, there is some kind of positive aspects.

So a couple of ones that I thought were interesting was we did adopt a hail scanning technology. MPI had a number of hail claims this year and the scanning technology helps us, basically, work through that backlog in a very efficient and fast manner.

The second thing that came out of it was FNOL, First Notice of Loss. Customers can now make claims online initially. And that escalated what was part of the overall mandate within NOVA to bring that forward. So very kind of positive kind of impacts.

The slide below is just budgeted full-time equivalents. And I'm sure it's going to be a key theme here today, but I wanted to just highlight that our budget for '23/'24 is holding steady to '24/'25 effectively.

And that's a very conscious decision that was made by MPI in terms of one of our quarter goals, going into the budget, was to hold flat on FTEs overall. Thank you. Next slide.

DVA Transfers from Extension. DVA is

expected to run a deficit for '24/'25. We have not been given specific direction on how self-sufficiency will be obtained in this line of business. We do not expect transfers from Extension over to DVA during '24/'25.

We expect to use the retained earnings of that line of business to fund the operating losses as we move through that year.

Hopefully, as we go through next year, we'll get better vision on what the government is thinking in terms of how we will remove -- or -- I'm sorry, how we'll move the self-sufficiency overall. Thank you. Next slide.

I will now turn it over to my friends to the right. Ms. Low...?

MS. CARA LOW: Good morning. As Ms. Ostapowich was supposed to present these slides, I am -- will be reading from her speaking notes, so please bear with me.

So there has been several major changes through the Claims Incurred Section in the GRA. Last week we had a claim forecasting panel, which is the losses tied to the rating year.

After the claims forecasting is completed, it is sent over to the valuation team, where they convert it to fiscal year. So, an accident year is tying all the losses back to when the losses happen; the fiscal year is when it goes through the financial statements.

The other big change has been the implementation of IFRS-17 Accounting Standard.

To help understand that was presented in the claims forecasting chapter to this section of the Financial Forecasting Chapter, it is important to know that the claims incurred line on the income statement pro forma is a fiscal year change in the forecasted accident year ultimate losses that risk adjustments and discounting applied.

There are no risk adjustments in the ratemaking section, as we talked about, we estimate to be best estimate and not to a conservative estimate.

As a reminder, the fiscal year runs from April 1st to March 31st of the following year. What this means, is the accident year ultimate loss estimates are broken down into a stream of future cash flows. So, how will these claims be out into the future, when these are discounted and a risk adjustment is applied?

When these discounted cash flows with risk adjustments are converted to a fiscal year basis and this is what you will see in the income statement pro forma.

The following slides will highlight the major changes and assumptions that were impacted and then the last two (2) slides will be a bridge between the '23 to '24 GRA rate updates, so the June to the October numbers. So, the next slide please.

So '23/'24 years, the first year the IFRS-17 was implemented, the change to this accounting standard affected some of the claims assumptions, but not all of them.

For example, as the slide shows, there were no changes to the ultimate loss estimates due to IFRS-17, so -- so again on the Claims Forecasting Panel, IFRS-17 does not impact ratemaking. IFRS-17 is only a financial reporting presentation.

The Unallocated Loss Adjustment Expense provision, known as ULAE -- in the slide U-L-A-E -- is unchanged and the indexation of PIPP benefits and the rating reserve for the indexation is unchanged.

The financial reporting assumptions that did change under IFRS-17 was uncertainty provisions and the discounting. The uncertainty provision accounts for the volatility and the best estimates.

So, again, ratemaking, best estimates, financial reporting, best estimates plus the uncertainty provision.

Under IFRS-4, there are three (3) provisions for adverse deviation, uncertainty in claim forecasting, uncertainty in interest rates and uncertainty in re-insurance. Under the new accounting standard, there is only a risk adjustment.

The ever change due to the implementation of IFRS-17 was mainly from a flat discount rate. So, a single discount rate to using a yield curve.

As we go through the next few slides, I want to point out that MPI is still working on IFRS-17, so there could be future changes still to these numbers. Next slide.

In the performance, under IFRS-4, so, under the old accounting standard, the claims incurred line, including the components, is seen on the left-hand side of the slide. This includes a change in the accident year ultimate losses, so, if the claim's forecast changes, which also incl -- which is comprised of the change in reported losses and allocated loss adjustment expenses ALAE or A-L-A-E and, also, includes IBNR, which is the actual estimate of reserves.

The claims incurred line also includes a change in unallocated loss adjustment expenses, discounting, and the provision for adverse deviation and the surlet (phonetic) of the insurance recoveries. There is also a line for premium deficiency, on the right, down in the deferred policy acquisition expenses.

Under the new accounting standard, most of the incurred claim line, under IFRS-7 -- or under IFRS-4, maps them to something called the insurance service result. So, those are the green lines.

The differences under IFRS-17 versus -4, is that there is a risk adjustment, instead of a PfAD, and a yield curve, rather than a flat discount rate. The interest rate -- interest rate impact under IFRS-4, so that's the third item from the bottom on the left-hand side, translates now to two (2) different categories under IFRS-17.

So, it's impacted both and -- or it's included in both the insurance service result line and the insurance finance expense line.

And, then, the very last item, in the left-hand side, is a change in premium deficiency or DPAE. It's no longer measured under IFRS-17. So, it doesn't exist any more. Next slide.

So, this chart shows where the incurred claims would have been under IFRS-4 compared to IFRS-17. So, the first row at the top of the chart -- or the first two (2) rows, are as of March 31st, 2023, so that's what was included in the June application, however, Row Number 2 has been updated. So, it doesn't quite match what you would have seen.

There's two (2) things that we corrected on there. One is that there was a spreadsheet error, a linking issue in the spreadsheet. So, that's been updated in Row Number 2 and they also included commercial -- commercial mortgages into the yield curve, 'cause, as of April 1st of this fiscal year, our investment policy statement includes commercial mortgages.

Our investment team is busy working on implementing commercial mortgages, so it's not yet in our investment portfolio, but the decision was, because it's in our investment policy statement, it should be included in our yield curve for discounting and, as you would have seen in the Ratemaking Panel, it did provide a lift to our discounting for ratemaking.

Row 3 is the difference between IFRS-17

-- IFRS-17 and IFRS-4 and most of the difference is coming from changes in this discounting methodology, moving from a single discount rate to using a yield curve. There is also a difference when moving to -- from PfADs to risk adjustments and, then, Row 4 shows the updated IFRS-17 incurred claim numbers, using the August 31st yield curve.

So, one is March 31st under IFRS-4. Two is revised IFRS-17, as of March 31st, and Row 4 is using August 31st yield. Next slide.

So, this slide bridges the 2023 October GR -- GRA rate update to the 2024 GRA October rate update. So, October over October, a year apart, but for this current fiscal year.

So, last year, at this time, the fiscal year was starting at -- and was projected to be nine hundred and thirty-eight million dollars ($938,000,000) and, then, as we move und -- under IFRS-4, there were some minor adjustments, which adds one point five million (1,500,000) and you will recall this from the Claims Forecasting Panel. There was very little changes to the forecasted claims, as a new -- and -- but there was a change in the claims discount rate, as we have rising interest rates. So, that decreased the incurred claims by twenty-seven million dollars ($27,000,000), bringing us to nine hundred and twelve million (912,000,000), which is what you would have seen on the prior slide.

Then, the transition to IFRS-17 from IFRS-4, increasing incurred claims by seventeen point seven million dollars ($17,700,000). This is a conversion to the yield curve and the application of the risk adjustment and the removal of the provision for adverse deviation.

The subtotal here brings us to $925 million and this is an amount that was shown on previous slide where the incurred claims are at March 31st, 2023.

And lastly, the yield curve is updated to August 31st as we continue to see rising interest rates and this decreases the claims by $68 million to about a 60 basis point drop, total down to $857 million. Next slide.

So this is the same bridging exercise but for the fiscal year '24/'25. So -- and last October's update, we started at $986 million under the old accounting standard, and so that was our starting balance. Then we bring the March 2023 -- sorry, to bring that to March 2023 under IFRS-4 claims forecast increased the incurred claims by $20 million.

And there was also a decrease to the claims discount rate from August 31st to March 31st, 2023, which increased the claims incurred by $10 million. So under IFRS-4 at March 31st, 2023, the subtotal is $977 million, which was presented on a previous slide.

Then moving from IFRS-4 to IFRS-17, resulting in a decrease of $12 million, and once commercial mortgages were incorporated, which had a small impact, the IFRS-17 total was $964 million.

Then to bridge from March to the October rate update, the only change was updated a yield curve to be as of August 31st which increased claims incurred by 19 million as forward rates decreased over the period.

So to summary the claims incurred section, the change to IFRS-17 from IFRS-4 has an impact to claims incurred not only in the way it's presented, but also in the amounts in terms of discounting and risk adjustments that does not impact the ratemaking.

Then moving on to the interest rate impacts, we have just one (1) slide. So MPI continued to manage interest rate risk in the Basic investment port -- portfolio which supports the Basic claims.

The Corporation believes that naive interest rate forecast is still the best estimate. Historically, a naive approach was used on both the asset side and the liability side when forecasting, so a net impact of zero in the future years.

However, with the transition to IFRS-17, there's a disconnect in our financial forecasting model as the asset side continues to use a naive approach -- so no changes in interest rates in the future -- but the discounting of liabilities has now changed.

The liabilities are now discounted in future years using a forward yield curve whereas assets continue to assume no future changes. The yield curve used to discount liability, the addending (sic) yield curve moves both expected and unexpected credit spread which amplifies the mismatch between assets and liabilities.

In addition, the yield curve has non parallel shifts whereas the assets are always estimated using a simple formula that assumes only parallel shifts into the future.

If you look at the left-hand side of the slide, it shows a disconnect now between the impact of interest rates on liabilities and the impact of interest rates on assets.

In '23/'24, you can see actual numbers as of August 31st, and then forecasting numbers into the future for the remaining part of the year.

The interest rate assumptions for the assets changed by 66 basis points from March to August, as you can see on the right-hand side. This slide didn't get updated, but it shows 68 percent. It should be sixty-six (66).

The orange line should be at 66 percent, which is straight line, so a parallel shift. And yet, the discounting curve between March 31st and August 31st we can see is not a parallel shift.

We do have a few additional issues between the impact on the liabilities and the assets due to shifts in interest rates. We have -- the assets were over-funded until July of this year 'cause between March 31st and July 31st, we were working on IFRS-17.

As unpaid claims balance dropped in the IFRS-17, that meant we didn't need as much funds sitting in the Basic claims portfolio, and we were able to move some money over to the RSR.

We also have the addition, like I said, of mortgages to the liability curve, and until we actually implement and actually have commercial mortgages in our bond portfolio, we continue to have the mismatch.

And that's all I have.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Thank you, Ms. Low. Just one (1) quick question for the panel. If we can go back to slide number 8, please, Ms. Schubert. Thank you.

At the bottom of the slide, it indicates pricing on Extension products to be reviewed in 2024. This could favourably impact the Extension line of business and accelerate transfers to Basic.

Do you see that, Ms. Low?

MS. CARA LOW: I do.

MR. ANTHONY GUERRA: Could you please provide the Board with some more information about what is presently the situation for reviewing of the pricing on Extension products?

MS. CARA LOW: So back in the springtime we did a very high-level review of Extension, and we had selected zero percent, and that's what went through the pro formas: no change to

Extension rates.

We are doing an annual review right now, and since the pricing team is finished at the PUB, they are currently working on it right now. We will be making a selection and taking it to the executive committee next Tuesday and then to our board of directors on November 9th.

So that will be in effect for April 1st, and I fully expect a positive rate change for the Extension. And then we'll vary by product.

MR. ANTHONY GUERRA: Thank you very much. I have no further questions.

PANEL CHAIRPERSON: Thank you, Mr. Guerra. Mr. Andres...?

MR. ANDRES: Thank you, Madam Chair.

CROSS-EXAMINATION BY MR. TODD ANDRES:

MR. TODD ANDRES: Good morning. My name is Todd Andres. I am co-counsel to the Public Utilities Board, and I will be asking questions of the panel generally this morning. Obviously, whomever has the most I guess precise knowledge of the question can feel free to answer, but I will be lobbing the questions towards you in a general manner.

Having said that, I will also turn it

over at the end of my questions to Ms. McCandless who has some questions that were held over from the Ratemaking Panel.

So to start, we're going to have a look at -- we will start with operating expenses, staying with the theme of keeping things exciting for a Monday morning, reviewing corporate to Basic. And so, Ms. Schubert, we'll start with 2024 GRA part 9, EXP-5, which is up on the screen.

And now if I understand correctly, this shows actual and budgeted total corporate operating expenses of the Corporation, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And in the 2023 GRA, MPI filed this same chart, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And it was just the same detail, but one (1) year earlier, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And then during the 2023 GRA, MPI was asked to file an update to these numbers, and it did so in October of 2022, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And, Ms. Schubert, if we can pull that up, that's the October update. And just as a matter of convenience, I'll refer to this document as the October update.

(BRIEF PAUSE)

MR. TODD ANDRES: And again, this is same chart as was discussed before, but the date range is different. It's 2021/'22 actual to 2026/'27 forecast, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And, Ms. Schubert, we'll actually go back to 2024 GRA, EXP-5.

And this is the 2022/'23 actual year going through to the 2027/'28 forecast, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And then if we scroll down to line 29 -- and perhaps we can just maybe scroll -- perfect. You read my mind.

Corporate expenses totalled $358.4 million for 2022/'23, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: That's a forecast increase to 416.7 million in '23/'24?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And then declined to

398.2 million in '24/'25, yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And then it will be stable in the following year, in '25/'26, at three eighty-nine point two (389.2)?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And then decline in the following year going down to three seventy-three point five (373.5).

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And so that's $15.1 million less roughly between '25/'26 and '26/'27 forecast, yes? Pardon me.

MR. RYAN KOLASKI: Subject to check, yes.

MR. TODD ANDRES: Yeah. Sorry.

MR. RYAN KOLASKI: That's okay.

MR. TODD ANDRES: And the number I'm actually looking for as well, we've got from -- if we look at the '23 October update now, sorry. Ms. Schubert, if we can pull up the October update.

MR. ANTHONY GUERRA: And, Counsel, just to confirm, I believe we were looking at the October update from the 2023 GRA, correct?

MR. TODD ANDRES: Okay. Sorry.

MR. ANTHONY GUERRA: That would be MPI Exhibit number 90 --

MR. TODD ANDRES: Yeah, yeah. That's correct.

MR. ANTHONY GUERRA: -- from the 2023 --

CONTINUED BY MR. TODD ANDRES:

MR. TODD ANDRES: So it's figure -- yeah. And so what I'd like to be looking at is the October update. This looks like EXP-5 rather than the October update.

(BRIEF PAUSE)

MR. TODD ANDRES: Make sure I have the right document.

(BRIEF PAUSE)

MR. TODD ANDRES: Thank you. That's the one. So again, keeping in mind that three fifty-eight (358) number that we looked at, which was the actual for '22/'23 from the '24 GRA, and that's $15.1 million less than was forecast in the '23 October update, right? That's the three seventy-three point five (373.5)?

MR. RYAN KOLASKI: Just to clarify, so we're confirming the 373 versus the 417?

MR. TODD ANDRES: No, 373 versus the 358.4 from the previous document.

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And the differences were in compare -- pardon me -- compensation and data processing, correct?

MR. RYAN KOLASKI: One moment. Is it possible to do a side-by-side?

MR. TODD ANDRES: I think that would be helpful, yes. Ms. Schubert, is it possible to have them side-by-side?

MR. RYAN KOLASKI: Just not that fast.

MR. TODD ANDRES: There we go. Yeah, that's much better.

MR. RYAN KOLASKI: That's helpful. If you could just repeat your question again, sorry.

MR. TODD ANDRES: So we're comparing the 358.4 on the left-hand side of this screen, which is the 2022/'23 actual, and we're comparing that with the 373.5 forecast from the October update, which is in the right-hand screen.

MR. RYAN KOLASKI: Correct, yeah.

MR. TODD ANDRES: So that's the distinction. That's the difference. So we are comparing the actual to the forecast.

And the actual came in 15 million lower than the forecast?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Okay. And, notably, the differences -- the significant differences were in compensation and data processing, correct?

MR. RYAN KOLASKI: For the most part, yes.

MR. TODD ANDRES: Thank you. And last year, in the October update, which is in the right-hand screen, compensation was forecasted at 200.5 million, correct? That's in the second column on the right-hand screen, line number 6.

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And that was an $11.1 million increase over previous years' actual, correct?

MR. RYAN KOLASKI: Subject to check, yes, correct.

MR. TODD ANDRES: Well, it's line 7. It actually says, "11.1," immediately below.

MR. RYAN KOLASKI: Perfect. Thank you.

MR. TODD ANDRES: Thank you. And in the current GRA, which is in the left-hand portion of our screen, the actual total compensation, which is line 6, was 191.2 million, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so comparing that 180.5, which is the 2021/'22 actual, to that 191.2 actual in the following year represents an increase of 5.9 percent, yes, subject to check?

MR. RYAN KOLASKI: Subject to check, yes. Correct.

MR. TODD ANDRES: And so that's $9.3 million less than was forecast, subject to check?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And so would this overall lower level of spending on compensation in the last fiscal year be related to delays in Project NOVA and hold back in hiring plans?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Thanks for your

patience. The change is kind of indicative of a staffing plan. So when we're budgeting, we create a staffing plan related to it. And then as we're rolling on the year and filling those roles, it's a timing gap.

What I can't speak to is whether or not that's directly related to NOVA. So, as it relates to NOVA, I guess I would ask for an undertaking, or perhaps Anthony would, I guess, more formally.

MR. ANTHONY GUERRA: I've instructed the witnesses not to volunteer undertakings.

MR. TODD ANDRES: That's okay. I'll put it -- so -- so the --

MR. ANTHONY GUERRA: But -- but, certainly, if that's something that we can resolve --

MR. TODD ANDRES: Yes, please.

MR. ANTHONY GUERRA: -- we certainly can do so.

MR. TODD ANDRES: Yeah. And just for the record, the question was, the lower all level of spending on compensation in the last fiscal year, was that related to delays in Project NOVA and a pull back in hiring plans.

MR. ANTHONY GUERRA: Sure. Counsel will give that by way of undertaking. Thank you.

--- UNDERTAKING NO. 15: For MPI to provide whether the overall level of spending on compensation in the last fiscal year, was that related to delays in Project NOVA and a pull back in hiring plans

MR. TODD ANDRES: Thank you, Mr. Guerra. And thank you for the response.

CONTINUED BY MR. TODD ANDRES:

MR. TODD ANDRES: So staying with this year's GRA, which is, again, on the left-hand side of our screen, we see the data processing expenses for '22/'23 were $8.6 million lower than forecasted in the October update, subject to check?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And, again, I'll just ask you to confirm, was this difference due to a delay in Project NOVA?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Unknown.

MR. TODD ANDRES: So the answer is "no"?

MR. RYAN KOLASKI: No, the answer is, unknown.

MR. TODD ANDRES: Unknown. Thank you. So I'll ask for a similar, I guess, add-on undertaking to the first undertaking we've asked.

MR. ANTHONY GUERRA: Yes, Counsel, we can provide that undertaking.

MR. TODD ANDRES: Thank you, Mr. Guerra.

--- UNDERTAKING NO. 16: For MPI to provide whether this difference was due to a delay in Project NOVA

CONTINUED BY MR. TODD ANDRES:

MR. TODD ANDRES: So, looking at last year in the October update, MPI was forecasting significant growth in operating expenses for the period of '21/'22 all the way through to '26/'27. So, again, that's on the right-hand side of our screen.

We're going from -- and it's the bottom row, line 29. We've got 327.3 in '21/'22, going all the way up to $430 million in '26/'27. You see that?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so expenses were set to increase respectively by more than a hundred million dollars over that period, correct?

MR. RYAN KOLASKI: Subject to check, correct.

MR. TODD ANDRES: The basic math that I'm doing here, just for clarification, is I'm taking the 430 million in the right-hand column and subtracting the 327 that's in the left-hand column, which gives me roughly, using lawyer math, about $103 million.

MR. RYAN KOLASKI: That's pretty good math. Yeah. Correct.

MR. TODD ANDRES: And so that's about a 31 percent increase to operating expenses during that period, yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And MPI has referred to this as the bubble period where expenses are going to be elevated for a period of time until NOVA is implemented?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And you would agree that in this year's application, that forecast has -- forecast growth has been moderated?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And you'll agree that the forecast growth rate set out in the October update was substantially higher during that '21/'22 through to '26/'27 period than the growth rate for the same period in this Application. And, again -- so I'll let you answer that question.

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: So, again, I appreciate that in the document on the left-hand side of your screen we don't have the '21/'22 number, but it is an actual number that we can import using the '21/'22 numbers from the October update, right.

So, if we use that starting number of 327.4, which is the bottom of the '21/'22 column?

MR. RYAN KOLASKI: Correct. Yes.

MR. TODD ANDRES: And then we use that the starting point for the numbers used in the GRA, which is now to the left-hand side of our screen.

And then the ending point would be 373.5, which is in the bottom of the column '26/'27 on the left-hand side of our screen?

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And, again, using some lawyer math, this is a $46.1 million increase over that period of time?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Rather than 100 million over the same period that is projected a year previous?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And this represents roughly a 55 percent decrease to the forecast for overall growth and operating expenses during the same period, yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And, again, we may -- I have a feeling we have a trend emerging, but I'll ask you to confirm whether this was attributable to a lower level of staffing and lower data processing costs?

MR. RYAN KOLASKI: Just one moment. Those are the primary contributors.

MR. TODD ANDRES: Thank you. So I

want to touch on some compensation-related issues now.

You would agree the compensation represents the largest expenditure of the Corporation?

MR. RYAN KOLASKI: In terms of operating costs because, again, claims incurred is probably bigger but, yes, that is correct.

MR. TODD ANDRES: Sure. Sorry. And it is -- we're -- we're looking at operating expenses.

MR. RYAN KOLASKI: Yeah. No, I just wanted to --

MR. TODD ANDRES: So that is -- that's a fair clarification, yes.

MR. RYAN KOLASKI: -- clarify, yeah.

MR. TODD ANDRES: Yeah. Thank you for that. And looking at the 2024 GRA, we're on the left-hand half of our screen again, line 6, in respect of the 2022/'23 year, the number is $191.2 million, yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And that accounts for over half of the -- or 53 percent of total expenses?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And the forecast in this year's Application is to increase by 12.7 percent in the next year, yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so, again, looking at these figures side by side, it's helpful because it shows that compensation is growing in the 2024 GRA but at a much slower rate than was contemplated in the October update, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. So just to put some meat on the bones to that question, in the October update MPI forecast compensation to grow by a hundred and -- pardon me -- from 180.5 million in '21/'22 all the way up to 232 million in '26/27, yes?

MR. RYAN KOLASKI: Just one moment.

MR. TODD ANDRES: Sorry. And those -- that's line 6 in figure 3. I'm just taking the number in the left-hand column and comparing it to the number in the far right-hand column.

MR. RYAN KOLASKI: If you could just -- one moment.

MR. TODD ANDRES: Certainly.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Thanks for your patience. If you could just repeat your question again. Sorry.

MR. TODD ANDRES: Certainly. What I'm -- what I'm asking is -- what I'm wanting to do here is, looking at the October update, MPI is forecasting compensation to grow from 180.5 million, which is the left-hand column of line 6, to two-thirty-two-point-one (232.1) in '26/'27. Do you see that?

MR. RYAN KOLASKI: Yeah, I do. Correct.

MR. TODD ANDRES: Thank you. And I've, again, worked that out to be an increase of 51.6 million over this period. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Roughly 29 percent, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And in the current GRA, for the same period, again, we're going to start with that one-eighty-point-five (180.5) figure and we're going to transpose that to the left -- left-hand side of our screen.

So we're going to go one-eighty-point-five (180.5), but then the end point is going to be two-ten-point-six (210.6). And Ms. Schubert has helpfully got the cursor beside that number.

And that's under the 2026/27 forecast, yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so, comparing those two (2) trajectories, we have an increase for that period of $30.1 million. Yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And that's roughly 17 percent over that period, yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so, there is an increase in compensation but, again, using our math -- not lawyer math -- it was 41 percent lower than was forecast in the October update in 2022. Yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And again, I'll ask you to confirm that the lower overall forecast in compensation from last year is largely due to lower staffing?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. So I'll touch now on data processing for a moment.

Starting with the left-hand side of your screen again, EXP-5 from this year's GRA. So what I'll -- I guess maybe I'll eliminate some questions.

But subject to check, can you confirm that, in the 2023/24 year, data processing costs were approximately 22 percent of overall corporate expenses? That's the 78 million over the 358.

MR. RYAN KOLASKI: That looks about right. Correct.

MR. TODD ANDRES: Thank you. And can you confirm that MPI is forecasting significant increases in data processing expenses to deliver Project NOVA?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Thanks for your patience. We are forecasting increases. The term "significant," I guess, is open for interpretation.

MR. TODD ANDRES: Okay. But you'll acknowledge there is an elevated level of spending?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And the elevated level of spending has been described in the GRA as improvement initiative expenditures?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And so, reviewing the numbers from the October update, MPI forecast last year, for data increase -- data processing increase -- pardon me. I'll start that question again.

MPI forecast last year for data processing expenses to increase from 58.5 million -- again, that's the left-hand column on the -- under '21/'22 in the October update, line 8.

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And that will peak at 107.5 million, '24/'25, which is what was forecast last year?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And then, decline to 70.4 million in '26/'27. Yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And the change then overall is 11.5 million, using the trajectory from point A to point B, being '21/'22, all the way through to '26/'27. Yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And in this year's GRA, using the same numbers and same -- pardon me, using the same starting point, '21/'22 -- so again, I'm transposing that $58 1/2 million into the table on the left-hand side of your screen -- data processing costs are expected to spike in '23 and '24 at 103.384 million?

MR. RYAN KOLASKI: That's correct.

MR. TODD ANDRES: And that's in '23 and '24?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And then, decline to 66.2 million in '26/'27. Yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: So the change over that period of time is 7.8 million. Yes?

MR. RYAN KOLASKI: Correct. Subject to check, yeah.

MR. TODD ANDRES: Subject to check. As -- as compared with the 11.9 million we had discussed for the same period from the October update. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And so, over this period of time, MPI is forecast to spend about $20.2 million less on data processing expenses than was forecast in last year's October update. Yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. So Ms. Schubert, if we can pull up now PUB IR-1-49. That's the one. Thank you. If we can just have that as a full screen? Perfect. Thank you.

And now, for context, if you look at the preamble, this IR relates to MPI's representation in the 2023 GRA -- thank you -- that it estimated general wage increase for the 2022/23 year at 5 percent. Right?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: So if we go back down to figure 1, so that's an update to figure EXP-9, which is expanded to include some additional years. So it's an update from numbers that were in the GRA, but expanded to provide some additional context.

And so, if we look at the left-hand column, 2020 and 2021, and 2021/2022, the data processing costs are roughly $32 million and $34 million, respectively. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And then, in 2022/23, that jumps to $41.8 million?

MR. RYAN KOLASKI: Yes.
MR. TODD ANDRES: And so, would it be fair to say that looking at normal operations, data processing costs are forecast to be in and around $40 million annually for the Corporation overall?
MR. RYAN KOLASKI: Based on this table, yes.
MR. TODD ANDRES: Thank you. And that's for normal operations expenses, yes?
MR. RYAN KOLASKI: Correct.
MR. TODD ANDRES: This is without reference to the improvement initiatives?
MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.
MR. TODD ANDRES: Thank you. All right. So we're going to have a quick look at PUB IR-2-22. If we can jump forward to page 3. And looking at line number 33, we have some totals there.
And sorry, just for context, if we can scroll up to the page before. I apologize, Ms. Schubert.
So this is normal operations corporate.

It's a five (5) year summary of corporate expenses by category. This is an update provided in IR-2-22. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And so, if we scroll back down to line number 33, page 3, and just by way of context, these are normal costs, independent of improvement initiatives. Yes?

MR. RYAN KOLASKI: Just one moment. That is correct.

MR. TODD ANDRES: Thank you. And so, the cost of data processing to carry on normal operations was 34.4 million in '21 and '22. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Increased to 41.8 million in '22/'23. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And currently forecast to peak in '23/'24 at 43.9 million. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And so, is the growth in costs here attributable to increases in licensing agreements and the move to cloud based computing system -- pardon me, cloud based computing arrangements?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And, now we're going to scroll down to pages 4 and 5, so just stop at page 4 for a second.

And, so now we're going to dive into Improvement Initiatives Corporate. So this is a five (5) year summary of Corporate expenses by category and these are the initiative expenses, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And so if we can scroll down to the next page, looking again at line number 33, this is an examination of data processing expenses.

We have two (2) years of actuals, followed by three (3) years of forecast. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And for the four (4) year period starting in 2022/'23, that's the $36 million -- 36.2 million, in the second column.

Do you see that?

MR. RYAN KOLASKI: I do, yes.

MR. TODD ANDRES: Going through to the '25/'26 end point of 50.719 million.

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: So, MPI is forecast to spend about, again using my math, $203 million on data processing, above and beyond, the level required to run the business during this period. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. Can you confirm that MPI has deferred basic sharing of this initiative spending?

MR. RYAN KOLASKI: Just one moment. That is correct.

MR. TODD ANDRES: Thank you. Okay, so we're going to turn now to MPI Exhibit 24. This is CAC-IR-1-1, pages 10 and 11 are the ones we're going to look at.

And so at the bottom of page 11, if you can just scroll down -- thanks, Ms. Schubert, if you can just scroll down a touch. So, we're going to start at page 11, at the very bottom. Thank you.

And so there's a column entitled, Total Implementation Expenses Deferred -- to the top of the page, right in the middle.

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Can you confirm that that represents $98.7 million of Basic related expenses?

MR. RYAN KOLASKI: Just one moment. That is correct.

MR. TODD ANDRES: And so that represents about half of all implementation data processing spending during that period, if we're comparing it to that $203 million figure we just examined?

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. So, if we can go back to PUB/MPI-IR-1-49, looking at figure 1. And again, if we're looking at forecast spending in '26/'27 and '27/'28, right?

MR. RYAN KOLASKI: Okay.

MR. TODD ANDRES: Again, this is in line 8, the data processing expenses remain elevated in the $40 million range. Correct?

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. So, does MPI expect that any NOVA related expenses in '26/'27 and '27/'28 relate to Basic?

MR. RYAN KOLASKI: One moment. Yes.

MR. TODD ANDRES: Okay. That being

the case, I would ask for an Undertaking that MPI update MPI Exhibit 24, which is CAC-IR-1-1.

MR. ANTHONY GUERRA: We may need a little bit more detail as to what's being sought there, Counsel.

MR. TODD ANDRES: Sorry, Ms. Schubert, if you can put that last one back up.

(BRIEF PAUSE)

MR. TODD ANDRES: I see, pardon me. Thank you. So, hopefully, right -- so if we look at this document up on the screen in front of us, CAC-1-1, you'll see the left-hand portion for Implementation Expenses Deferred, we've got actual forecast budget -- budget, for years '22/'23, '23/'24, '24/'25, '25/'26, and we'd like the numbers for '26/'27 and '27/'28, please.

MR. ANTHONY GUERRA: Yes. Counsel, we'll provide the Undertaking.

MR. TODD ANDRES: Thank you.

--- UNDERTAKING NO. 17: MPI update MPI Exhibit 24, CAC-IR-1-1 and provide the numbers for '26/'27 and

'27/'28

CONTINUED BY MR. TODD ANDRES:

MR. TODD ANDRES: All right. So, we're going to touch now on Corporate Costs Allocated to Basic. And I -- I suppose we'll start with Figure EXP2. Thank you.

And so, I would just ask that you confirm line 2 appears to cover the total Corporate and Basic Expenses, except it's a ten (10) year summary. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And the expenditures that we see on line 2, there you'll see familiar figures, starting under '22/'23, there's that 358.358 number?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And the balance of the numbers to the right of that are consistent with EXP5, largely?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. So, if we look at line 8, again, in the middle column, we see two hundred and forty-eight point one (248.1) million is allocated to Basic through ICAM, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And, sorry, can you just clarify. What does ICAM stand for?

MR. RYAN KOLASKI: Just one moment.

MR. TODD ANDRES: I -- sorry, I can -- it was a trick question. It's -- is it Integrated Cost Allocation Methodology?

MR. RYAN KOLASKI: That is correct, yeah.

MR. TODD ANDRES: Thank you. And so, just confirm that the total expenditure is allocated to Basic. Actual was that $248.1 million number.

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And then in the following year it's -- it drops to -- pardon me, it's supposed to go up to two-seventy-three point 4 (273.4) million, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And Basic's share of allocated expenses is to change from 69 percent, in '22/'23, to 65.6 percent in '23/'24. Do you see that?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so if we look at the trend, moving forward, in the Corporate Expenses, on line 9, that get allocated to

Basic, the share of expenses has declined from 75 percent, pardon me 75.9 percent if we look at 2018/2019, to the mid sixties (60's) and certainly below 70 percent when we get to the end of this chart.

Do you see that?

MR. RYAN KOLASKI: I do, yes.

MR. TODD ANDRES: Thank you. So, the trend generally is to allocate less cost to Basic in this forecast period. Yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And can you confirm this reduction in allocated expenses is due to an overall increase in Corporate spending on NOVA and other areas of the Corporation?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MS. CARA LOW: And I'm just going to jump in here.

As we use the net incurred claims for allocating expenses, a lot of the expenses are now being assigned to the Special Risk Extension, the SRE line of business.

And the reason for that, is back a few

years ago, I forget the exact year, we started offering higher liability limits. So, we were offering up to $20 million of TPL limits for long haul trucking going down to the US and we've had a few $20 million liability losses coming out of the US trucking business.

We are looking to do some work on that in the near future, but just because severity has gone up in SRE, there are no additional FTEs being assigned the SRE Book of Business, like it -- from the claims staff.

So, this is kind of a very misleading allocation and exactly why we aren't looking to use these numbers in our ratemaking which, I believe, is, maybe, the line of questioning that's going to be happening later.

MR. TODD ANDRES: Right. So, it -- it might be helpful if we pull up PUB/MPI-1-20. Just keep scrolling down and sorry, keep going down. Right.

And, so, this is NOVA costs by line of business and, so, we see that there are, again, expenses being allocated -- pardon me -- an overall increase in corporate spending on NOVA in other areas of the Corporation. Do you see that?

MR. RYAN KOLASKI: Is this back to me? Correct.

MR. TODD ANDRES: Correct. Thank you, and ICAM will be changing, due to the requirements of IFRS-17 insurance contracts. Correct?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: The adoption of IFRS-17 isn't actually changing the allocation methodology but what will, potentially, change through this rate-setting period is the E&Y org review. They've been asked to review and look at our allocation methodology.

So, it's possible that, at the end of that review, the allocation methodology that's employed could, potentially, change.

MR. TODD ANDRES: Thank you. And a review of allocation costs was undertaken by the Finance -- Finance Department of MPI. Correct?

MR. RYAN KOLASKI: That is correct, as it relates to IFRS-17. Yes.

MR. TODD ANDRES: Thank you. And can you confirm whether an RFP has been issued to undertake an updated ICAM review, based on the new accounting standard?

MR. RYAN KOLASKI: Sure. One second. A separate RFP hasn't been undertaken. It was actually the requirements for the review is within the scope of work related to the Ernst and Young org review that's being undertaken today.

MR. TODD ANDRES: Okay. Thank you. And, so, when the study is completed, will the study be provided next GRA?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. TODD ANDRES: As Ms. Kacher had already indicated, we do require the Board authorization, as well as the government's authorization, in order to release those findings. So, at this point, it's unknown.

MR. TODD ANDRES: My understanding is that Ernst and Young is doing an updated ICAM review for the Corporation. Is that correct?

MR. RYAN KOLASKI: That is part of the organizational review. Yes.

MR. TODD ANDRES: Thank you. Thank

you. Do you know what the timing is for the completion of that study?

MR. RYAN KOLASKI: One moment.

MR. TODD ANDRES: That's the ICAM study. Pardon me.

MR. RYAN KOLASKI: Yep. Nope. That's fair. As it relates to the ICAM study, the -- my understanding is it will all come together, once the org review is completed in totality.

MR. TODD ANDRES: Thank you. So, I'm going to touch on Basic direct expenses briefly and, so, this is Figure Exp. 2.

Now, if we look at the lower section of this table, lines 10 through 12, both commissions and premium taxes are assigned directly to Basic. Yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And premium taxes on line 12 are 3 percent of gross written premiums. Correct?

MR. RYAN KOLASKI: One moment. That is correct.

MR. TODD ANDRES: Thank you. And premium taxes are collected based on motor vehicle premiums net of any rebates. Yes?

MR. RYAN KOLASKI: One moment. That

is correct.

MR. TODD ANDRES: So, in other words, if a rebate is issued, that reduces premium taxes collected. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And, so, if we look at line 12, right, we see that premium taxes are lower in 2020/2021, as well as 2021/2022. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And they're lower than the remainder of the figures in that same line. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And that's because of the rebates paid during that relevant time period. Yes?

MR. RYAN KOLASKI: One moment. That is correct.

MR. TODD ANDRES: And that reduces the premium subject to the tax. Yes?

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And so, the commissions paid, that are indicated on line 11, those are paid to brokers?

MR. RYAN KOLASKI: One moment. That

is correct.

MR. TODD ANDRES: Thank you, and broker commissions are set to increase during this forecast period. Yes?

MR. RYAN KOLASKI: One moment. That is correct.

MR. TODD ANDRES: Thank you. And commissions are expected to move on to the new brokers's Schedule of Rates when on-line services are available. Correct?

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And broker commissions are based on the amount of premium written, which is also forecast to grow?

MR. RYAN KOLASKI: One moment. That is correct.

MR. TODD ANDRES: Thank you. And so, subject to check, the level of broker commissions forecast this year are, generally, lower than was forecast in the last GRA. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And this is due to the re -- renegotiation of the agreement with the Insurance Brokers Association Manitoba or IBAM. Yes?

MR. RYAN KOLASKI: One moment. That is correct.

MR. TODD ANDRES: Thank you. And so, now looking at Basic expenses, start by looking at Appendix -- Exp. Appendix 2.

And, so, this is a summary of Basic expenses by category. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And MPI separates its -- its expenses by category. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And, in particular, whether they relate to normal operations or improvement initiatives. I believe we've established that. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And so, starting with normal operations here, if we look at page 2 of 6 of this table, line 33, compensation overall is increasing from one hundred and thirty point four million (130,400,000) in '21/'22.

Do you see that?

MR. RYAN KOLASKI: I do. Yes.

MR. TODD ANDRES: Thank you. All the way up to one forty four point nine seven seven

(144.977). Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And, looking at the data processing numbers on the same page, line 34, data processing costs for normal operations and, again, this is dealing only with normal operations, goes from the $10.26 million?

MR. RYAN KOLASKI: No.

MR. TODD ANDRES: Pardon me, I'm wrong. Twenty-seven point seven nine five million (27,795,000). Pardon me. I got a line ahead of myself.

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And then, ending at twenty-seven -- twenty-eight point seven seven six million (28,776,000). Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And there's a peak in the middle, in '23/'24, at thirty-three point one million (33,100,000). Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And that difference, just this short period of time, going from '21/'22 to '23/'24, represents an increase of five point four million dollars ($5,400,000). Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And can you explain why the normal level of data processing expenses forecast to peak in '23 and '24?

MR. RYAN KOLASKI: One (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Unknown.

MR. TODD ANDRES: And so can you firm -- confirm, looking at the '25/'26 number, which is $28.8 million in the right-hand column, is that indicative of what the Corporation expects the data processing run rate will be in the future?

MR. RYAN KOLASKI: One (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Approximately, yes, that is correct.

MR. TODD ANDRES: Thank you. And so if we move forward to the improvement initiatives portion of this appendix, which is pages 4 of 6 and 5 of 6 -- and, sorry, Ms. Schubert, can you scroll down just a touch. That's perfect, yeah. If we're at 4 of

6 -- sorry, scroll back up, please. Thank you.

And so when looking at improvement initiative expenses, these will be considered either normal ongoing once IT projects are completed or incremental one-time implementation costs.

Is that correct?

MR. RYAN KOLASKI: Just one (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: And so looking at like number 32, confirm that compensation is forecast to increase to 2.3 million in '23/'24 in this chart? It's like 32, middle column of the total.

MR. RYAN KOLASKI: Sorry. Just to clarify, you're saying it's increasing to 2.3 million?

MR. TODD ANDRES: Correct. There -- if we look in the -- on line 32, directly under the word 'total' --

MR. RYAN KOLASKI: Yeah.

MR. TODD ANDRES: -- there's $2.3 million, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Right. And then it's going to drop to 1.3 million in '24/'25?

MR. RYAN KOLASKI: One (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Sorry. And just to clarify, it's gone up from three hundred (300) -- three hundred and sixty-six thousand (366,000) to 2.3 million from '22/'23 to '23/'24, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Can you explain why that jump is forecasted to take place between '22/'23 and '23/'24?

MR. RYAN KOLASKI: Sure. One (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: The increase is related to bubble staffing.

MR. TODD ANDRES: Okay. And that's bubble staffing related to Project NOVA?

MR. RYAN KOLASKI: Just one (1)

moment. That is correct.

MR. TODD ANDRES: Thank you. And so if I look at the far right-hand column, we have a negative number for compensation in '25/'26.

Can you explain how that is?

MR. RYAN KOLASKI: Sure. One (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That represents the potential savings -- or I shouldn't say potential -- the forecasted savings related to Project NOVA.

MR. TODD ANDRES: Thank you. And I'm nearly at a natural break point in my cross. I just have a couple more questions, and then perhaps we can break for the morning.

So subject to check, in the 2023 GRA, which is of course last year's Application, data processing costs were forecast 2 almost double from 10.8 million in '21/'22 to 21 million in '22/'23, and then almost 22 million in '23/'24?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And in this year's Application, MPI spent $12.1 million on data processing implementation expenses, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And so MPI is forecasting substantially higher levels of data processing implementation expenses than it forecast last year, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And that's increasing to $26.9 million in that 2023/'24 column that we see in the middle there on line 33?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Then it'll drop to 25 million in the subsequent year?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: The final year is 28 million, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And again, is this elevated level of implementation data processing expenditure going to end with the completion of Project NOVA?

MR. RYAN KOLASKI: One (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: If you could just repeat your question just to make sure I heard it right.

MR. TODD ANDRES: Certainly. Is this elevated forecast level of imple -- pardon me -- implementation data processing expenditure going to end with the completion of Project NOVA?

MR. RYAN KOLASKI: What's -- what's included in a data processing includes a transformation to cloud adoption. So once the Cloud Adoption Program comes to an end, then, yes, that line would decrease and compress as it moves over to normal operations.

MR. TODD ANDRES: Thank you. And can you confirm that these improvement initiative implementation expenditures have been deferred for rate-setting purposes?

MR. RYAN KOLASKI: One (1) moment. That is correct.

MR. TODD ANDRES: Thank you. So, Madam Chair, this is probably a good time for our morning break, if that suits the Panel.

PANEL CHAIRPERSON: Thank you very much, Mr. Andres. So it's 10:28. Can we be back at 10:45, please.

--- Upon recessing at 10:28 a.m.
--- Upon resuming at 10:47 a.m.

PANEL CHAIRPERSON: Mr. Andres...?

MR. TODD ANDRES: Madam Chair, if I can have maybe another five (5) to ten (10) minutes to continue conferring with my colleague, it might be helpful in terms of the flow of this morning. If we could have just another five (5) to ten (10). Thank you.

(BRIEF PAUSE)

MR. TODD ANDRES: Thank you for the indulgence, Madam Chair. I am ready to proceed.

PANEL CHAIRPERSON: Thank you. Please proceed.

CONTINUED BY MR. TODD ANDRES:

MR. TODD ANDRES: All right. So we're going to deal with the issue of compensation briefly. And, Ms. Schubert, I'm jumping ahead to page 17 in my cross. So I'd like to look at MPI IR-1-50, figure 4, which is at page 4 of 6. Thank you.

So it looks like there is an overall -- if we look at the end, the far right-hand column, 2024/'25, there is a negative change from the previous year being forecast.

And can you confirm that this lower growth in compensation expenses is driven primarily by the lower forecast staffing growth, as well as changes in assumption on compensation contract changes?

MR. RYAN KOLASKI: Sure. Just one moment.

MR. TODD ANDRES: Thank you.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And if we scroll up to figure 1 in this same document, looking at lines 23 through 28 -- pardon me -- 24 through 28, it shows that the compensation per position is lower in this Application than it was forecast in the previous year, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Now, if we go to EXP Appendix 12-1, line 2 -- thank you, Ms. Schubert -- gross salaries are slated to increase. Thank you.

So looking at line 2, yes, gross salaries are slighted to increase, if you look at the change column, by $18.17 million in 2023/'24, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: As well as 2.4 million in '24 and '25?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And then 7 million in '25/'26, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And then there's also the change in the rate of vacancy allowance, and that's all -- all along line 3, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And can you confirm that the vacancy allowance is a recognition that there will be open positions at any given time?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And that this vacancy allowance lowers the forecast gross budgeted compensation expense, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so the vacancy allowance we see in line 3 under 2022/'23 actual was 6.2 million, yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And increases to -- sorry -- it changes to 5.3 million in '23/'24?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And then the change in vacancy allowance increases compensation expenses by $.9 million, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. So now, looking at line 9, total compensation inclusive of improvement initiative and benefits, that's forecast to increase by 25.7 million, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And so now we're going to explore the reasons for the increases. So, if we go to figure EXP 10, which is assumed wage increases.

(BRIEF PAUSE)

MR. TODD ANDRES: Right, this -- this represents the forecast for economic increases for in-scope employees, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And then if we -- if

we pull up the 2023 GRA, the same figure, EXP 10, MPI had forecast -- if you look at line 8, in 20 -- September 24, '22, wage settlements of 5 percent for fiscal year 2023 -- 2022/'23, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And the increase was to impact '22/'23 by 2.5 percent for that year, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And that's because of the timing of that increase, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And you'll confirm that this is an estimate?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And so, if we go ahead to this year's Application, so same document, figure 10 in the 2024 application, you'll see that that figure has been revised at line 8 to 1.5 percent.

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: With a 4.75 impact on '22/'23, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And that in September 24, 2023, the rate is scheduled to be -- or forecast to be 1.75 with a 1.63 percent impact on

'23/'24?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Can you explain why there were revisions to the forecast for this year's Application?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. TODD ANDRES: And just to clarify, what I'm interested is the swing between the 1.5 and the 5 percent.

MR. RYAN KOLASKI: That -- yeah. I was just going to clarify that, yeah.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That change reflects a change in the environment in terms of expectations at the time of filing.

So in the previous amount for 5 percent, a much more conservative approach was taken in terms of actual salary costs. We now have a better vision on what that amount would be, so we advised it -- or we revised it accordingly.

MR. TODD ANDRES: Thank you for that, Mr. Kolaski. So we're now going to jump ahead to MPI IR 1-49. We're at page 20 of my cross, Ms. Schubert, just for reference. And if we can scroll down to figure 2. Thank you.
And so we're going to spend a little time looking at the -- the actual salary changes for 2022/'23 and the change in actual FTE and the turnover rate now.
So looking at this, MPI IR 1-49C, it shows a turnover rate of 6.06 percent in the 2022/'23 year. You see that?
MR. RYAN KOLASKI: Correct.
MR. TODD ANDRES: And you'll agree that the turnover rate was materially higher in '22/'23 than in previous years, yes?
MR. RYAN KOLASKI: It was higher, but, again, materiality is subject to interpretation.
MR. TODD ANDRES: Right. I mean, with the exception of the COVID year of 2020/2021, the balance are within the 4 percent range, yes?
MR. RYAN KOLASKI: Yes.
MR. TODD ANDRES: Okay, and this is a jump to 6 percent, yes?
MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And can you explain why that might have been?

MR. RYAN KOLASKI: A jump from the 2.3 percent to the 6 percent or --

MR. TODD ANDRES: Sorry.

MR. RYAN KOLASKI: -- just kind of directionally?

MR. TODD ANDRES: Just the -- the elevated cost -- the elevated number in 2022/'23 as opposed to the balance of them, which are in the 4 percent range.

MR. RYAN KOLASKI: Sure. One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Unknown.

MR. TODD ANDRES: So there's a -- there's a Second Round Information Request that came out of this. It's MPI 2-38.

(BRIEF PAUSE)

MR. TODD ANDRES: Thank you, Ms. Schubert. And if we have a look at the response to question 'B', which is on page 2 of 3, in the narrative beneath this table, a number of factors are listed for the increased turnover, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. They talk about, you know, leaving for new job experience, challenge, opportunity for individuals to advance their career inside MPI, dissatisfaction with the work, dissatisfaction with compensation, as well as personal reasons.

How are these explanations collected?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That particular response was drafted by our HR department. So they have insights into that -- the nature of the turnover.

MR. TODD ANDRES: And do you know how MPI is tracking turnover this year?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: I believe that's in the response to 'C'.

MR. TODD ANDRES: Okay. If we can scroll down, Ms. Schubert. Is there any update to this information?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: We don't have any specific insights beyond what's presented. While it's possible to get some insights, because of labour interruptions, we wouldn't be able to provide you an updated in a timely fashion.

MR. TODD ANDRES: Fine. Thank you. So looking at MPI IR-1-49 again, this is response 'F' in figure 4, page 5 of 5.

And line 3, the severance and retirement payouts were around $2.6 million, correct, for 2022/23?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And that's forecast to spike in '23 and '24, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: To 5.5 million?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And can you explain

this increase in severance and retirement allowance forecast for '23/'24?

MR. RYAN KOLASKI: Sure. One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: It's a combination of things. I can't give you specifics. So I'm going to go with unknown.

MR. TODD ANDRES: Can I ask you to undertake to provide an explanation as to the significant increase in severance and retirement allowance forecast for '22/'23 -- pardon me, for '23/'24?

(BRIEF PAUSE)

MR. RYAN KOLASKI: Actually we just had an update from one of our team members. So the major driver of the increase in change is based on our staffing plan related to future potential retirements. So we're forecasting out what that retirements look like.

MR. TODD ANDRES: Thank you. Now, Ms. Schubert, for your own purpose, I'm jumping ahead to page 23 of my cross, dealing with staffing levels. So if I can ask you to pull up IR-1-47. Thank you.

So figure 1, on page 2 of 3. Right. And this shows the changes in actual FTE for '21/'22 to '22/'23. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And I'll ask you to confirm that the total staffing -- pardon me, the total corporate staffing at the end of '21/'22 was eighteen-seventy-nine-point-five (1,879.5) FTE?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: '22/'23, the number becomes two-thousand-five-point-six (2,005.6) FTE?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Increase of one-twenty-six-point-one (126.1) FTE. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And the majority of that increase, you'll agree, was in operations, which grew by ninety-point-seven (90.7) FTE. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. Followed by increases in IT, as well as customer and finance?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. Now if we look at EXP Appendix 10, staffing levels by category. Thank you.

Ask you to confirm, for budgeting purposes, that MPI groups together both its normal operation staff and specialty programs. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And including in the staffing level are fifty-seven-point-eight (57.8) FTE that relate to delivering initiative projects. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Scroll down the page and we'll see that number. Yeah.

Yeah. There it is. And so, for the -- if we look at figure 2, for the '23/'24 current fiscal year, which was the subject of last year's Rate Application, MPI was -- pardon me, is forecasting two-thousand-one-hundred-and-fifty-point-eight (2,150.8) FTE. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And that represents an increase of one-hundred-and-forty-five-point-two (145.2) FTE over '22/'23. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so, if we look at figure EXP Appendix 11-1 -- all right -- we see that for normal operations staffing level, the total budget for '23/'24 -- that's two-thousand-forty-six-point-eight (2.046.8)?

MR. RYAN KOLASKI: That's correct.

MR. TODD ANDRES: Thank you. And improvement staffing was forecast to grow -- scroll down to the bottom -- to ninety-five (95) FTEs.

Right?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And the overall normal operations staff, of course, also includes the -- the nine (9) FTE and specialty operations. Right?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: So now, if we go back to EXP Appendix 10, looking at the actuals from '22/'23, fifty-seven-point-eight (57.8) -- sorry, we're looking at EXP Appendix 10.

(BRIEF PAUSE)

MR. TODD ANDRES: Thank you. At line -- right -- looking at the actuals from '22/'23, we scroll down to the following page again. All right. Line 29, fifty-seven-point-eight (57.8) FTE working on initiative projects.

And so, in the current year, that means a difference of thirty-seven-point-two (37.2) FTEs.

Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so, can you confirm that most of this year's forecasted increase in staff is for normal operations?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That's correct.

MR. TODD ANDRES: Thank you. If you can pull up MPI IR-10-50. All right.

Figure 2, provides the detail of the Corporate Annual Salary and changes year over year. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: It follows that average number of normal operations FTEs. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And for 2022/'23,

which we've just discussed, the overall compensation for normal operations went up by 7.11 percent. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And this is due primarily to the increase of normal operations staff for that year. Correct?

MR. RYAN KOLASKI: One moment. It's a combination of that, plus the general wage increases and merit increases, the in-step increases. So it resembles all three (3) of those in combination.

MR. TODD ANDRES: Thank you. So, then if we look at figure 3, line 7.

That shows normal operation staff levels increased by 132.5 FTE from the prior year, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And so, confirm that for 2022/'23, normal compensation went up by nine point five (9.5) million. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And half that nine point five (9.5) million relates to the change in FTEs. Yes? The column immediately to the left.

MR. RYAN KOLASKI: Yeah. Correct.

MR. TODD ANDRES: Thank you. And the

balance relates to both economic increases in the staff step in (sic) scale changes. Yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: So, if we go back up to figure 2, line 7 and 8, total compensation for normal operations is forecast to increase by 16 million, if I'm not mistaken.

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And of that increase, again, the majority relates to changes due to salary, FTE and other changes. Correct?

MR. RYAN KOLASKI: Correct, it's a combination of all three (3), the staffing, the general wage increase and then the merit, in-step wage increments.

MR. TODD ANDRES: Thank you. And as of September, what is the current staff complement for both normal operations and the Corporation overall?

MR. RYAN KOLASKI: As of September? One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Due to the labour interruption, I can't pull the exact data, so I'm going to have to say, unknown.

MR. TODD ANDRES: Does the Corporation expect it will meet its current forecasted staffing increases?

MR. RYAN KOLASKI: It's a fair question, but the challenges are really related to labour interruption. We just don't have vision what that's going to look like in terms of the final settlement or what the final mix of staffing complement will be.

The additional challenge also, in terms of a visionary direction, is because of the labour interruption, we're subject to a large backlog on operations. And then we're going to have to work through that backlog. And we haven't actually landed plans as to how we will go about doing that.

So, in terms of a specific answer, I can't really give you one, other than we're comfortable with the forecast as it stands today.

MR. TODD ANDRES: Thank you. You're -- Mr. Kolaski, in your testimony during the benchmarking portion of the hearing on day, I believe it was day 1, you indicated that staffing levels were to be frozen at 2023/'24 levels. Correct.

MR. RYAN KOLASKI: It is correct.

We're trying to hold to that level overall for FTEs.

MR. TODD ANDRES: And so is the 2023/'24 levels to be considered to be a cap for just one year or how far into the future do you project that?

MR. RYAN KOLASKI: That's a fair question. So for '24/'25, we decided we're going to hold to the FTE levels that we have.

What we have, directionally now, is we're going to have a new president that's permanent coming up. So their vision and direction may change the nature of the Corporation.

We have a new government, which may change the direction of the Corporation.

So, we have a number of things that are in flight, so I can't really give you a definitive answer where that stands.

But, I think it's fair to say, directionally, we're basically taking a pause and just focusing on delivery for operations and -- as it relates to NOVA.

MR. TODD ANDRES: Thank you. I'm going to move on to external consult --

PANEL CHAIRPERSON: Excuse me, Mr. Andres. Can I ask a question here?

MR. TODD ANDRES: Certainly.

PANEL CHAIRPERSON: On this figure 2, is -- are the years just mis-stated or are we missing '23/'24?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: It would appear that '23/'24 is missing. We'll have to investigate that.

PANEL CHAIRPERSON: Thank you.

(BRIEF PAUSE)

CONTINUED BY MR. TODD ANDRES:

MR. TODD ANDRES: All right. So, Ms. Schubert, I'm up at page --

MS. KATHLEEN MCCANDLESS: So, just to clarify, Madam Chair, that I think we would want to make sure that's an Undertaking to advise as to -- the reason for the missing 2023/'24 found at figure 2, of EXP13 and provide the information.

MR. ANTHONY GUERRA: Yes. Counsel, I've -- I guess I would just preface it by the first question being, is 2023 missing or just mis-stated and so if it is, then providing the response to that or rationale for that would be the next logical question, so we have -- we'll give that Undertaking.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 18: MPI to advise as to the reason for the missing or mis-stated 2023/'24 found at figure 2, of EXP13 and provide the information.

PANEL CHAIRPERSON: Sorry. Mr. Andres, carry on.

CONTINUED BY MR. TODD ANDREAS:

MR. TODD ANDRES: Thank you, Madam Chair, and that eliminates the line of questioning for me. So, I'll move on to External Consultants Cost which, Ms. Schubert, is at page 28 of my Cross.

So, our understanding is that MPI plans to use staff to deliver NOVA and consultants to backfill operational positions. Is that fair?

MR. RYAN KOLASKI: That is fair. Yes.

MR. TODD ANDRES: Thank you. And, so

if we look at 2024 GRA EXP Appendix 19-7.

So, there's a note there, if you can maybe zoom in, it says any changes to the plan improvement initiatives for '23 -- '22/'23 and '23/'24, will impact the number of consultant improve -- and improvement initiatives for '23/'24, including 2 percent CPI. So it's just that first line that I mentioned it in.

So, just confirming, is -- is the budget for consultants fairly fluid?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Thanks for your patience. So, I guess that's fair to say, it's somewhat fluid. 'Cause you have -- so it's -- it's fluid in a sense that you bubble staffing.

So, there's a team of consultants which are fairly constant. Then we have, what we call external labour, or bubble staffing. And that is relatively fluid.

And then, depending on the nature of the project and the nature of the work, it kind of moves between do we have FTEs or do we have bubble staffing, right?

So, there's this natural shift that does tend to happen based on needs and resources that are real time. So, hopefully, that answers your question.

MR. TODD ANDRES: Thank you. So, it just to be clear, I think you've said this, but it -- it's going to change --

MR. RYAN KOLASKI: It is fluid, yeah.

MR. TODD ANDRES: -- yeah, so it's going to change based on the timing of the delivery of planned initiatives and so on?

MR. RYAN KOLASKI: That is correct. Yes.

MR. TODD ANDRES: And it -- would it have an impact on the number of FTE forecast?

MR. RYAN KOLASKI: It can, 'cause that's what I was trying to articulate, right. If we don't use bubble staffing, then, I have to use FTE resourcing, or I can go the other way, right? So, depending on the need and the availability, one can be act -- impacted with an off-set to the other, right?

MR. TODD ANDRES: Thank you.

MR. RYAN KOLASKI: But, again, the overall corporate objective is to hold our FTEs basically constant, right?

MR. TODD ANDRES: Okay, and -- and, so, you'll agree that, this year, the level of external consultants is lower than in the previous year's GRA. Correct?

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And can you confirm that the lower data processing expenses for normal operations is, in part, based on that lower forecast FT -- or consultants?

MR. RYAN KOLASKI: Sure. One moment. That is correct.

MR. TODD ANDRES: Thank you. So, does the 2025/'26 level of consultants that we have working on internal operations, in particular, does that represent what might be expected on a go-forward basis, once Project NOVA is completed?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: I think the challenge is we haven't gone through R-3 discovery yet and, until we do, it's really kind of tough to get a sense of what that steady state is going to look like.

MR. TODD ANDRES: Thank you, Mr. Kolaski. And, so, Mr. Kolaski, on Day 1 of the hearing, you indicated that you were in touch with SGI regularly?

MR. RYAN KOLASKI: From time to time. Yes.

MR. TODD ANDRES: And have you inquired as to SGI, in terms of their strategy for consultants or out-sourcing?

MR. RYAN KOLASKI: I have not. No.

MR. TODD ANDRES: Do you know to what extent they -- they outsource?

MR. RYAN KOLASKI: I do not. No.

MR. TODD ANDRES: Bear with me for a moment.

MR. RYAN KOLASKI: Sure.

MR. TODD ANDRES: We're finding efficiencies in my cross-examination as well. Okay. Moving on to DVA operations. It's page 36 of my cross-exam, Ms. Schubert, and, if you can pull up MPI, yeah, Exhibit 10, which is the 2022 Annual Report Excerpts and moving to page 71 of 85, scroll down. Keep scrolling down. Oh. Sorry. Up two (2) pages. It's 71 of 85, pdf page 69, I believe. Thank you, Ms. Schubert.

So, do you know if it's the intent of the Province to fully fund and reimburse MPI for its costs of administering DVA on behalf of the Province?

MR. RYAN KOLASKI: We do not at this time. No. There's ongoing discussions, like I said, in terms of self-sufficiency, but we don't know exactly what the timing is like or what that program will look like.

MR. TODD ANDRES: Can you just and -- and I see here that we have in the note at the bottom of the page -- we have a 2021 transfer of 57 million, right, and, then, in 20 -- 2020/2021, a 60 million transfer. See that?

MR. RYAN KOLASKI: I do. Yes.

MR. TODD ANDRES: Thank you. And that's a transfer from Extension line of business to the DVA line of business. Yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And can you confirm that the transfers were to defray both historical losses as well as the cost of Project NOVA?

MR. RYAN KOLASKI: One (1) moment. Yeah, that is correct.

MR. TODD ANDRES: And if not for these transfers, DVA operations would have been in a deficit as of March 31, 2023?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And my understanding is that the funding from the province right now is approximately $40.250 million, correct?

MR. RYAN KOLASKI: For the -- for the fiscal '23/'24?

MR. TODD ANDRES: So we can -- you know, it might be helpful if we go to IR-1-41.

(BRIEF PAUSE)

MR. TODD ANDRES: Thank you, Ms. Schubert. If we go to page 4 and line 26 -- pardon me, line 27, government funding.

So you'll see there, from 2018 to -- from 20 -- pardon me, 2018/'19 all the way through to 2021/'22, the funding level is thirty point two five oh (30.250). You see that?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And then it spikes for two (2) years in '22/'23 and '23/'24.

Do you see that?

MR. RYAN KOLASKI: That's correct, yeah.

MR. TODD ANDRES: And the actual -- the actual cost of running the DVA business was -- in terms of the expenses in 2022/'23 of $54.6 million, correct?

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: And then in again 2022/'23, there was an operating deficit of 10.6 million for the year, yes?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And so if we scroll up to the top of the chart there, yeah, if we see this, it's a ten (10) year summary of total DVA operating expenses.

We have five (5) years of actual and five (5) years of forecast, correct?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And so the annual level of cost for DVA to run the department was approximately -- you know, if we scroll back down -- $33 million or thereabouts from 2018/'19 all the way through to 2020/2021. That's line 26.

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Right. And then there's a jump to $51 million in '21/'22 --

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: -- and it remains elevated for the balance, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And so would this level of expenditure be the anticipated normal annual run rate?

MR. RYAN KOLASKI: One (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And I -- I believe I heard you say this morning that there would be no transfer for 2024/'25.

Did I hear that correctly?

MR. RYAN KOLASKI: There is no expected transfer for '24/'25 today.

MR. TODD ANDRES: So this schedule does not reflect that, does it?

MR. RYAN KOLASKI: It does not, no.

MR. TODD ANDRES: Thank you. And can I ask that this schedule be refiled as updated, please. I guess that's a question for Mr. Guerra, an undertaking to refile this as an updated schedule.

MR. RYAN KOLASKI: Just to clarify,

what would we update?

MR. TODD ANDRES: Well, the fact that there's no anticipated transfer for the '24/'25 year whereas you have a transfer expected there of 30.250 million.

MR. RYAN KOLASKI: No. So there's -- so just to clear up the confusion.

So the increase from thirty point two (30.2) to forty point two (40.2), it's not a transfer. What those represent is funds that are otherwise dispersed to the province are withheld on behalf of MPI related to DVA.

So the government has agreed to fund approximately $10 million in '22/'23, as well as in '23/'24. Then that funding is no longer available.

So it's going back to the original funding of thirty point two (30.2), and I believe there's an IR that kind of talks about that as well.

MR. TODD ANDRES: I see. Thank you for that clarification.

Now, given that we do have a shortfall indicated in this, what options has the Corporation discussed relating to addressing the DV -- DVA funding shortfall?

MR. RYAN KOLASKI: In discussions with

the province, there was a review that was done on -- on their behalf. We're not privy to the report and the findings that have come out of that.

That report and findings, they are contemplating what that means in terms of returning to self-sufficiency, so that is ongoing in terms of what they're prepared to do. But we have not been given vision on what that plan looks like so far to date.

MR. TODD ANDRES: Thank you, Mr. Kolaski. I'm going to jump ahead now, Ms. Schubert. I'm at page 43 of my cross. That's the move to IFRS-17 and the deferral of integration costs.

It's my understanding -- and I'll just read this in:

> "In Order 4/'23, Directive 1, part 'D', the Board directed the Corporation as follows: The Board therefore directs MPI to defer these integration costs through a regulatory deferral account for rate-setting purposes. The account will accumulate the integration costs and be recovered when Project NOVA is fully in service. The period of recovery will -- will be

established in the 2024 GRA when MPI
is expected to provide an updated
time line for the delivery of
Project NOVA."

So can you confirm whether MPI has complied with this directive and reduced rates for these implementation expenses?

MR. RYAN KOLASKI: One (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: We have deferred those costs, yes.

(BRIEF PAUSE)

MR. TODD ANDRES: And have you established an asset for doing so?

MR. RYAN KOLASKI: One (1) moment. No, we haven't. So the crux of your question is -- is kind of -- is MPI going to adopt IFRS-14? And as I indicated today, MPI is not in a position to adopt IFRS-14.

MR. TODD ANDRES: Thank you for that.

(BRIEF PAUSE)

MR. TODD ANDRES: Now, my understanding is MPI is monitoring IASB's prog -- progress with the exposure draft, regulatory assets, and regulatory liabilities, correct?

MR. RYAN KOLASKI: We're aware of the exposure draft. I wouldn't say we're monitoring it, though.

MR. TODD ANDRES: Are you aware that IASB's guidance is that, upon the new standards release, it will replace current IFRS-14?

MR. RYAN KOLASKI: I am aware that that's proposed. I'm also aware that that hasn't actually been enacted in terms of an actual actionable accounting standard, which is why it's still an exposure draft.

MR. TODD ANDRES: For your initial -- from your initial review of the exposure draft, would MPI be subject to rate regulations set out in the yet-to-be-issued standard?

MR. RYAN KOLASKI: Because this is an exposure draft, I can't really comment.

MR. TODD ANDRES: And back to the issue of the deferral, how does MPI propose to reflect the deferral in its Basic financial statements?

MR. RYAN KOLASKI: Again, because we're not in a position to adopt IFRS-14, we'll continue to reflect our accounting related to initiatives as they're currently presented on for external reporting purposes.

MR. TODD ANDRES: So I suppose the question then is: How does the Corporation propose to address the Board directed treatment for implementation expenses for rate setting and financial reporting regulatory -- for regulatory purposes?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: There is currently no accounting standard that we can currently comply with and apply.

MR. TODD ANDRES: All right. Is there consideration of preparing a separate set of financials to comply with the Board directive?

MR. RYAN KOLASKI: It's a fair question. At this time, the answer is no. Again, preparing a separate set of financials becomes complicated. I'd have to, like, take this back under advisement because, again, it's a specific purpose financial statement which would require a separate, basically, work product outside of our current financial statements.

So, in essence, what you're asking me for is would I prepare a specific accounting statement that is not necessarily IFSR compliant for your purposes only. I'd be happy to engage in that discussion but, currently, we're not looking at doing that.

(BRIEF PAUSE)

MR. TODD ANDRES: Okay. So I'm going to jump ahead to a run through of the financial statements for 2022/'23. Ms. Schubert, this is page 47 of my cross. And if we can pull up PF1. Thank you for that. Right.

So this is the financial forecast that was filed with Application, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: And this forecast reflects the restatement of the 2022/'23 financial year from IFRS-14 to the IFRS-17 new accounting standard, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And it also provides a forecast update for 2022 -- pardon me -- 20 -- 2023/'24, which is in last rate's -- last year's rate application, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. So just quickly running through this with you.

Line 13, MPI reported total net premiums earned of $1.08 billion?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. 27.3 in -- million in service fees and other revenues?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And 1.109 billion in total earned revenues, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And you'll confirm that reported claims incurred of 801.7 million, including the impact of interest rate changes --

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: -- (INDISCERNIBLE) 19. Thank you. Road safety costs of 10.5 million, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Total claim costs of 958.5 million, correct?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And MPI reported operating expenses of 86.5 million, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And you'll confirm the commissions paid to brokers for writing Basic policies of 47.5 million?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you.

(BRIEF PAUSE)

MR. TODD ANDRES: So I think the balance of it is self-evident, but if we look to the top row, there is an adjustment being made from IFRS-4 to IFRS-17, correct?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: It's the column -- or the row in red.

MR. RYAN KOLASKI: Yes, that is correct.

MR. TODD ANDRES: And that's because it's elected to adopt IFRS-17, insurance contract standard effective April 1, 2022/'23 -- pardon me -- April 1, 2023?

MR. RYAN KOLASKI: That is correct, yes.

MR. TODD ANDRES: And you'll confirm that MPI will be restating its financial results for 2022/'23 to reflect the changes?

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you. And under IFRS-17 there's a requirement to categorize service fees and other revenue as either attributable or policy or non-attributable and non-policy for the issuance fulfilment of maintenance of service contracts, correct?

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: Thank you.

(BRIEF PAUSE)

MR. TODD ANDRES: So if we can pull up MPI number 20 -- Exhibit number 24, CAC IR 1-1.

(BRIEF PAUSE)

MR. TODD ANDRES: And go to page 11 of

11.

(BRIEF PAUSE)

MR. TODD ANDRES: Pardon me. No, it's CAC 1-1.

(BRIEF PAUSE)

MR. TODD ANDRES: Thank you. Sorry about that. And so we're looking at the first column.

(BRIEF PAUSE)

MR. TODD ANDRES: And scroll down to the bottom of the page, please. Back up, sorry. I'm trying to see the page number on here. 11 of 11.

(BRIEF PAUSE)

MR. TODD ANDRES: Ms. Schubert, if I can get you to scroll up to the top of the page, please. Yeah. Down just a bit more. You know what? We'll have to come back to this. For the time being, can you skip forward to PF3. Thank you. Line 9.

And can you confirm that MPI has not included the net income for rate-setting purposes in its -- its PF3 changes in equity?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: It is included.

MR. TODD ANDRES: Thank you.

(BRIEF PAUSE)

MR. TODD ANDRES: I may have some follow-up questions for this after the lunchbreak, but for now, I will --

MR. TODD ANDRES: Sure.

MR. TODD ANDRES: -- turn it over to Ms. McCandless for her follow-up questions for the Ratemaking Panel. Thank you.

MR. RYAN KOLASKI: Thank you.

PANEL CHAIRPERSON: Thank you.

MS. KATHLEEN MCCANDLESS: I don't expect to be very long. It's just one section of questioning that was posed to the Ratemaking Panel last week which was deferred, and it's with respect to employee future benefits.

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And so, first, if we could please pull up Exhibit -- or EXP 38, please. Thank you.

And so, at this table, we see the six (6) year summary of Basic normal operations expenses by category?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: And I'm looking at line 4, compensation benefits. We see that for normal operations for 2024/'25, compensation benefits are forecast at 25.9 million?

MR. RYAN KOLASKI: Correct.

MS. KATHLEEN MCCANDLESS: And then, 26.3 million for 2025/26?

MR. RYAN KOLASKI: Correct.

MS. KATHLEEN MCCANDLESS: These benefits would include employee future benefits?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MS. KATHLEEN MCCANDLESS: Thank you. Now, if we could go to PUB/MPI-1-30B, Appendix 2. And specifically, figure 4. Thank you, Kristen.

So this table is a summary of employee future benefits investment income for Basic line of business?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: And so, we see the last four (4) columns show this for the -- for Basic for employee future benefits pro rata?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: And line item 36 -- we'll need to go down somewhat -- thank you -- shows a pension expense for 2024/'25 and 2025/'26 each of $11.7 million. Yes?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: And then, after accounting for that line item, the total Basic line of business investment income on line 40 would be 11.95 million for '24/'25?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: And 13.3 million for 2025/'26?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: And this

would be investment income that would be part of PF-4 -- PF-1, pardon me, investment income?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. And then, if we go to PUB/MPI-2-26? Thank you. And I'm just going to go to the question here.

MPI was asked why the investment income on the employee future benefits related to Basic is significantly greater than the pension expense.

And that was asked of MPI?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: Then if we go to the response, MPI states that:

"The pension expense is the employer portion of pension contributions required to meet the future liability of pension payouts. The rate is set annually by the external actuary for MPI. Investment income for each asset is calculated by multiplying the total market value of each asset by the expected return for that respective asset. The total investment income is the sum of investment income for all asset classes. The goal is for investment income on the EFB portfolio to match or exceed the pension expense."

Yes?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: And given that we just saw the amounts are 11.9 million to the positive for 2024/'25, and 13.2 million to the positive for 2025/'26, MPI projects the investment income to significantly exceed the pension expense. Right?

MR. RYAN KOLASKI: Correct.

MS. KATHLEEN MCCANDLESS: If the projected excess investment income were to be removed from the compensation benefits cost for Basic normal operations, then that would serve to reduce the expenses for the rating year for ratemaking purposes by the average of 11.9 million and 13.2 million?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: And so, subject to check, the average would be about 12 1/2 million?

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: And some of this would fall under claims expense and some under operating expense?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MS. KATHLEEN MCCANDLESS: Thank you. This is likely an undertaking.

What would the change in the rate indication with a reduction in expenses in the ratemaking -- what would be, sorry, the rate -- change in the rate indication with a reduction in expenses in the ratemaking calculation. That would be some combination of claims, incurred expense, and operating expense of 12 1/2 million?

MR. RYAN KOLASKI: Well, subject to check. I'm just joking. I'm -- it's an undertaking.

MS. KATHLEEN MCCANDLESS: I think we would just ask, with -- with that in mind, an undertaking to provide a revised RI-10, PF-1, PF-2, and PF-3, reflecting the change in the rate indication with a reduction in expenses in the ratemaking calculation, some combination of claims incurred expense, and operating expense of 12 1/2 million.

MR. ANTHONY GUERRA: Yes, Counsel, we'll give the undertaking.

--- UNDERTAKING NO. 19: MPI to Provide a revised RI-10, PF-1, PF-2, and PF-3, reflecting the change in the rate indication with a reduction in expenses in the ratemaking calculation, some combination of claims incurred expense, and operating expense of 12 1/2 million.

MS. KATHLEEN MCCANDLESS: Thank you.

MS. CARA LOW: Just to note, in the rate indication, we use 18 percent as a proportional amount, so there won't be any impact to the claims expense and the rate indication.

MS. KATHLEEN MCCANDLESS: Thank you. Those were all my follow-ups on that issue. Unless I have to jump in just before -- and I am advised that Mr. Andres is prepared to go back to wrap up his line of questioning.

CONTINUED CROSS-EXAMINATION BY MR. TODD ANDRES:

MR. TODD ANDRES: Thank you. And so, as it turns out, it was, indeed, MPI Exhibit number 24. So if I can have that. And PF number 1 pulled up, please. Right.

So if we start with PF-1, can you just confirm that it does not reflect an adjustment for 2022/'23 net income?

MR. RYAN KOLASKI: Your question was that it does not?

MR. TODD ANDRES: Correct.

MR. RYAN KOLASKI: One second.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Can you just repeat your question again, sir? Sorry.

MR. TODD ANDRES: A couple questions we're looking at there.

So -- so on this schedule, MPI indicates that the initiative expenses -- or indicates the initiative expenses that are not being included for ratesetting purposes. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And then, adjusting for this initiative expenses, MPI re-states its net income for ratesetting purpose as 27.5 million in '23/'24 and 43.8 million -- this is line 30; so you'll have to go down to the bottom -- so 27 1/2 million.

MR. RYAN KOLASKI: Gotcha.

MR. TODD ANDRES: And then, 43.8 million --

MR. RYAN KOLASKI: That's correct.

MR. TODD ANDRES: Thank you.   And so, PF-1 does not reflect an adjustment for '22/'23 net income. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. So if we now go to MPI number 24. Perfect. Thank you.

And if we scroll down to the bottom, it indicates 16.8 million in initiative expenses in 2022/'23? You see that's the --

MR. RYAN KOLASKI: Yeah.

MR. TODD ANDRES: -- far left-hand column at the bottom?

MR. RYAN KOLASKI: Yeah.

MR. TODD ANDRES: And is it the intent to re-state the 2022/'23 net income for ratesetting purposes?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: We're not looking to do an update at this time.

MR. TODD ANDRES: All right. So jumping forward to PF-3, Ms. Schubert. Thank you.

And can you confirm that MPI has not included the net income for ratesetting purposes in its PF-3 changes in equity?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MR. TODD ANDRES: And can you confirm that the MCT calculations do not incorporate the net income for ratesetting purposes?

MR. RYAN KOLASKI: One moment. That is correct.

MR. TODD ANDRES: How does the Corporation propose on reflecting the directive of the Board, in its financial reporting -- and I guess we've covered that to a certain extent already.

Have -- have -- has, you know, deferral of cost been recorded on a balance sheet of the Corporation --

MR. RYAN KOLASKI: You know I -- it goes back to the whole IFRS-14 adoption, right.

Again, we're relying on Deloitte's opinion in terms of we are not in a position to adopt IFRS-14 and then in terms of options, it's a special report, potentially.

I believe we addressed that in a couple of IRs. Again, we're open to the discussions and how we can work with you folks on -- on what we can do here.

(BRIEF PAUSE)

MR. TODD ANDRES: Ms. Schubert, can I get you to pull up Order 154/'98 and, in particular, I'm interested in pages 49 -- the section starting at page 49 of one (1), four (4) -- 15498.

So, this is an older Order of the Board

that required it to introduce a Rate Stabilization Reserve. Do you see that?

MR. RYAN KOLASKI: I do, yes.

MR. TODD ANDRES: Thank you. And so while this is an older Order, you were required -- or MPI was required to track the balance of the funds generated by the capital rebuild as a component of retained earnings. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. So, it's fair to state that MPI required a surcharge to rebuild the Rate Stabilization Reserve?

MR. RYAN KOLASKI: One moment. That is correct.

MR. TODD ANDRES: And that surcharge had to be monitored. Correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: Thank you. And the amounts accumulated from that surcharge, had to be disclosed separately for both rate-setting purposes and/or financial reporting purposes?

MR. RYAN KOLASKI: One moment. At that particular point in time, yes, that's correct.

MR. TODD ANDRES: Thank you. And so is it fair to say then that this type of account is a regulatory deferral account under this interim standard?

MR. RYAN KOLASKI: One moment. Unknown.

MR. TODD ANDRES: Was this information regarding the Rate Stabilization Reserve provided to Deloitte in advance of preparing its opinion?

MR. RYAN KOLASKI: The opinion you're referring to is the IFRS-14 opinion?

MR. TODD ANDRES: Correct.

MR. RYAN KOLASKI: It was not. No.

MR. TODD ANDRES: Thank you.

(BRIEF PAUSE)

MR. TODD ANDRES: Okay, we are mercifully coming close to the end. Can you pull up PF-11, page 23 of 33?

All right. Can you -- can -- confirm that this represents the mapping of the existing presentation of operations as it relates to the new presentation under IFRS-17?

MR. RYAN KOLASKI: One moment -- that's... That is correct.

MR. TODD ANDRES: And can you

summarize at a high level, the changes that aggregate and regroup the financial information that has previously been provided to the Board?

MR. RYAN KOLASKI: When you refer to previous information, what does that refer to? Sorry.

MR. TODD ANDRES: Of the existing presentation. It's on the left-hand side of the screen.

MR. RYAN KOLASKI: Sure. I guess, effectively on the left-hand side, you have a presentation that shifts over to IFRS-17, so in terms of the allocations that would be -- how do I say this -- your IFRS-4 presentation on the left, is moving over to your IFRS-17 presentation on the right.

So, each one of those line items is showing where the new configuration of the P&L will look. So, when you look at motor vehicle revenue, or premiums, for example, it will show up in insurance revenue.

So, each one of those core items under IFRS-4, is now being presented in a different fashion under IFRS-17. And, directionally, each one of those line items is now directing you to where those dollars will be presented on a go-forward basis.

MR. TODD ANDRES: Thank you. And if

we look at, again, PF-11, pages 10 and 11.

You confirm that this represents the new presentation of the income statement pursuant to IFRS-17?

MR. RYAN KOLASKI: One moment. That is correct.

MR. TODD ANDRES: And would you agree that this provides substantially less detail than what was provided previously to support prior rate applications?

MR. RYAN KOLASKI: I think that's open to interpretation, depending on which side of the fence you sit on.

Again, we were -- we have to adopt IFRS-17 as of April 1st. So, we have to adopt this presentation going forward. It's the new accounting standard, overall.

MR. TODD ANDRES: Okay. And Ms. Schubert, can I ask you to pull up MPI-71, which is Pre-ask 4? Thank you.

And would you agree that this IR confirms, at least, in part, that MPI has completed its cost allocation review?

MR. RYAN KOLASKI: One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: With respect to IFRS-17, on the expense allocation side, we're comfortable with those numbers.

As it relates to IFRS-17 and the calculation of MCT, as I indicated this morning, we're still working through the OSFI template and trying to land that and then use that to validate the high level model that is being presented here today. So, it's a bit of a combination, to be honest.

MR. TODD ANDRES: So, Madam Chair, I do have a few more questions to go, but given the time, perhaps we'll have to break for lunch and then I can further streamline.

PANEL CHAIRPERSON: Okay. We'll break now then. It's five (5) after 12:00. Can we come back at five (5) after 1:00 please? Thank you.

MR. TODD ANDRES: Thank you.

--- Upon recessing at 12:05 p.m.

--- Upon resuming at 1:04 p.m.

PANEL CHAIRPERSON: Good afternoon, everyone.

We'll carry on, Mr. Andres.

CONTINUED BY MR. TODD ANDRES:

MR. TODD ANDRES: Thank you, Madam Chair. So I have a few questions left, and we'll start by turning to GRA part 9, PF-1. And I think it's probably a good idea to get set up with Exhibit 50, PF-1 as well. We're doing some back and forth.

But to start on PF-1 from the 2024 GRA, if we look at claims incurred, that's line 16.

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Thank you. And so under IFRS-4, it's 903.1 million, correct?

MR. RYAN KOLASKI: Correct.

MR. TODD ANDRES: The IFRS-17 adjustment is 57.1 million, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: And resulting in 2022/'23 claims incurred under IFRS-17 of 960 million, yes?

MR. RYAN KOLASKI: Yes.

MR. TODD ANDRES: Okay. Now, so if we flip to Exhibit 50, PF-1, page 533. Okay. And again, down to line 16, and we see nine-o-three (903) in the left-hand column, nine-o-three one twenty-nine

(903129). Okay. But if we jump to the column immediately to the right of that, you'll see the adjustment here is only six hundred and four thousand dollars ($604,000), yes?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And resulting in a claims incurred under IFRS-17 of nine-o-three seven thirty-three (903733), correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: Thank you. And looking at line 7 indicates that there was -- pardon me, I guess we're going to jump to page 10 of Exhibit 50 now. This is PF-4. Thank you. There we are.

So if we look at line 7, it indicates a $55 1/2 million change that's attributed to an IFRS-17 model change for Personal Injury Protection Plan, or PIPP?

MS. CARA LOW: Yes.

MR. TODD ANDRES: That's worth $55.4 million, correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And so I -- I believe, and correct me if I'm wrong, that MPI has acknowledged that this was a spreadsheet error.

Is that --

MS. CARA LOW: It was a spreadsheet error, yes.

MR. TODD ANDRES: Could you explain how and when it was caught?

MS. CARA LOW: It was caught, not when we were necessarily doing the update for October, but as the -- they were taking the financial model and comparing it to the GL transaction.

So as the actuaries feed transactions, they feed them to both the forecasting team to put into the financial model and also to the financial reporting team to put in the GL. And they're very similar if not the same adjustments.

And then over the summer we were going through the two (2) sets of adjustments and we realized that there was a linking issue in one (1) of the spreadsheets.

MR. TODD ANDRES: Thank you. Sorry, 'GL' being general ledger?

MS. CARA LOW: The general ledger, correct, yes.

MR. TODD ANDRES: Can you comment on what steps have been taken to ensure that another error of this nature is avoided?

MS. CARA LOW: I would say that it is

avoided because we check our financial model to the general ledger, and we did that over the summer. What the issue was, was because we had this timing issue. We had to get the GRA application out the door, and we had nothing else to compare it to, and so it looked reasonable at the time.

And so we do have a control in place 'cause we can take the forecasted model, we can take the actual model, we can compare the two (2), and so the controls worked. Unfortunately, just didn't -- it wasn't done in time for the June filing.

MR. TODD ANDRES: Thank -- thank you for that answer.

So returning to the 2024 GRA PF-1, line 18, claims incurred, interest rate impact -- do you see that line?

MS. CARA LOW: Yes, I see it.

MR. TODD ANDRES: Okay. And so the impact under IFRS-4 was negative 101.4 million, yes?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And then IFRS-17 impact was negative 21 million, yes? Pardon me, 31 million.

MS. CARA LOW: 31 million, yes. 31 million adjustment.

MR. TODD ANDRES: Thank you, yeah.

MS. CARA LOW: Yes.

MR. TODD ANDRES: Then there's an impact of -- if we see the line immediately -- or, sorry, the column immediately to the right is one thirty-three two thirty-one (133231), yes?

MS. CARA LOW: Yes.

MR. TODD ANDRES: In the October update -- oh, pardon me, that is the updated one, sorry.

MS. CARA LOW: It's the --

MR. TODD ANDRES: If we can go -- if we can go back to the 2024 GRA. Thank you. Right. Now my numbers are going to be making sense.

So again, line 18. And zoom in just a touch. Thank you.

Okay. So now we have the one oh one point four (101.4). We have an adjustment of twenty-one (21), resulting in one twenty two four fifty-five (122455), yes?

MS. CARA LOW: Yes.

MR. TODD ANDRES: Okay. And then we know that the numbers have changed, and the swing is about $10.8 million, correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: Thank you. And if we pull up Exhibit 68 which is PUB-MPI Pre-ask 3, Response A.

All right. In the October rate update, there was a -- a change in the interest rate impact for March 31, 2023, under IFRS-17, correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And that impact was not included in the 2024 GRA, correct?

MS. CARA LOW: Sorry. What was the adjustment?

MR. TODD ANDRES: So when filing the rate update, MPI updated the logic for the interest rate impact to include the impact on risk adjustment, correct?

MS. CARA LOW: Risk adjustment, yes. Yes. In the June Application, the -- risk adjustments are discounted, but it wasn't called out in that impact of discounting line. But they were discounted enough because under IFRS-17, they're up under insurance service expense, they're not in the insurance finance expense, so it was missed. But again -- the control was -- as we were going through GL transactions, it was caught.

MR. TODD ANDRES: Thank you. So then

if we look at PF-4 of Exhibit 50 -- so if we're back at Exhibit 50, page 10, line 2.

This was an impact of $11.2 million, correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: Thank you. And did this also cause the favourable interest rate impact of negative 10.8 million?

MS. CARA LOW: One (1) minute.

MR. TODD ANDRES: Thank you.

(BRIEF PAUSE)

MR. MARTIN MARION: So this is Martin, manager of valuation.

So this is just moving it from one (1) bucket to the other as it came out of insurance service expense and into the impact of discounting.

MR. TODD ANDRES: So -- so I guess the question is: Did -- did this cause the favourable interest rate impact of 10.8 million?

MR. MARTIN MARION: I would say yes.

MR. TODD ANDRES: Yes. Okay. So then should the favourable interest rate impact not be labelled as the change in logic for the risk adjustment?

(BRIEF PAUSE)

MR. MARTIN MARION: Yes, I think you make a good point. Yeah.

MR. TODD ANDRES: Thank you. And if we move forward to PF-5, within Exhibit 50 -- thank you -- starting at line 2, looking at the incorporated change in yield curve on risk adjustment of 4.9 million --

MS. CARA LOW: Yes.

MR. TODD ANDRES: -- is there an offsetting impact that is aggregated in the favourable interest rate impact?

MS. CARA LOW: Yes.

MR. TODD ANDRES: Okay. And could you explain what the other yield curve impacts were, and if there are more than one (1), how much did each of them contribute to the $12.6 million decrease that is shown at line 4?

(BRIEF PAUSE)

MR. MARTIN MARION: So this would

include the changes to unwinding and the -- unwinding of the discount rate and the discounting on current accident year claims.

MR. TODD ANDRES: Thank you. And then moving forward to line 5.

The $65 million favourable interest rate impact, is that due to the increase in yield curve from March 31 to August 31?

MR. MARTIN MARION: Yes, that's correct.

MR. TODD ANDRES: Thank you. And for the yield curve for claims liabilities, discounting for all years ends 2023/'24, correct?

MR. MARTIN MARION: Sorry. Can you repeat that?

MR. TODD ANDRES: So for the yield curve for claims liabilities, discounting for all years ends in 2023/'24, correct?

MR. MARTIN MARION: Sorry. Can you repeat that?

MR. TODD ANDRES: So for the yield curve for claims liabilities, discounting for all years ends in '23/'24, correct?

(BRIEF PAUSE)

MR. MARTIN MARION: Sorry. Yes, that's correct.

MR. TODD ANDRES: Thank you. And thereafter, using a naive assumption, that the yield curve will remain at the level it is as of August 31, 2023?

MR. MARTIN MARION: Just to clarify, is that for future years or...?

MR. TODD ANDRES: Yeah. So thereafter. So, yes, after that.

MR. MARTIN MARION: Yeah. So we use the forward rates which are derived using the -- are based on the underlying yield curve. So I would say implicitly, yes.

MR. TODD ANDRES: Thank you. So, if we look at PF3 of the 2024 GRA, that's page 7 of 33 -- thank you -- it shows the following impact of changes to returned earnings due to IFRS-17 to the 2022/'23 year-end.

It looks like there's restatement of claims discount rate of 86.3 million at line 6, correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And this was mainly due to the release of the interest rate provisions for adverse deviation, correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: Thank you. Line 7 there's a restatement of risk adjustment; 13.3 million, at line 7?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And this did -- and this does not reflect the 11.2 million mentioned recently?

MS. CARA LOW: Sorry, it doesn't reflect which?

MR. TODD ANDRES: The 11.2 million.

(BRIEF PAUSE)

MS. CARA LOW: It would not.

MR. TODD ANDRES: Thank you. In respect of the deferred policy acquisition cost, or DPAC, at line 8 there's negative 37.7 million?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And in the 2023 GRA hearing, an amount of around 60 million was discussed under this heading, correct?

MS. CARA LOW: In the 2023 GRA?

MR. TODD ANDRES: Yes.

MS. CARA LOW: Do you have a reference?

MR. TODD ANDRES: I -- I don't have a reference. But what we'll do is we'll say subject to check.

MS. CARA LOW: Subject to check.

MR. TODD ANDRES: Thank you. But the larger amount was actually for the Corporation as a whole, whereas the impact for Basic was only 37.7 million?

MS. CARA LOW: Oh, back row is saying that was a corporate number and not a Basic number.

MR. TODD ANDRES: Okay. Yeah. So that was for the Corporation as a whole. So the $60 million impact for the Corporation as a whole, 37.7 for Basic?

MS. CARA LOW: Correct.

MR. TODD ANDRES: So line 9, we have net income -- or loss from operations of 38.4 million?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And this was due mainly to the combination of the claims incurred impact of 57.1 million offset by the interest rate impact of negative 21 million, correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: Thank you. And my apologies. I'm going to jump back up to the questions we were dealing with before about the naive assumption, that the yield curve would remain at the level it is as of August 31, 2023.

(BRIEF PAUSE)

MR. TODD ANDRES: Could you provide PF1, PF2, and PF3, based on the agreed use of the naive forecast for interest rates, including the yield curve used for discounting with all year-ends 2023, '24, and thereafter based on August 31, 2023, yield curve and not the implied forward curve which would imply changes over time?

MS. CARA LOW: One (1) minute.

MR. TODD ANDRES: Thank you.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Yes, Counsel, we'll give the undertaking.

MR. TODD ANDRES: Thank you.

--- UNDERTAKING NO. 20: For MPI to provide PF1, PF2, and PF3 based on the agreed use of the naive forecast for interest rates, including the yield curve used for discounting with all year-ends 2023, '24, and thereafter based on August 31, 2023, yield curve and not the implied forward curve, which would imply changes over time

CONTINUED BY MR. TODD ANDRES:

MR. TODD ANDRES: All right. So, again, back down to line 9. There's net income loss from operations of 38.4 million?

MS. CARA LOW: I believe that was the number. I don't see it right now, but I believe that was the number, yes.

MR. TODD ANDRES: It's -- it's line 9, second column.

MS. CARA LOW: Oh, yes, I see it now.

MR. TODD ANDRES: Yeah. And that was due mainly to the combination of claims incurred impact of 57.1 million offset by the interest rate impact --

MS. CARA LOW: Right.

MR. TODD ANDRES: -- of negative 21 million, yes?

MS. CARA LOW: Yes. Yes.

MR. TODD ANDRES: Okay. And then, given the error in the PIPP enhancement calculation, when was this corrected?

MS. CARA LOW: When was it corrected in the financial model?

MR. TODD ANDRES: yes.

MS. CARA LOW: Late August, early September.

MR. TODD ANDRES: Okay.

(BRIEF PAUSE)

MR. TODD ANDRES: So if we look back to Exhibit 50 -- it's the revised PF-3 that we want to look at. That's on page 7.

And it shows the following impacts for IFRS-17 on retained earnings. So line 6, restatement of claims discounting inflation negative 30.2 million at line 6, correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And -- and why has this changed from the previous impact of positive 86.273 million?

(BRIEF PAUSE)

MR. MARTIN MARION: Yeah, so there was a reallocation that was done when this was produced. So, previously, the restatement of claims discounting included the removal of interest rate PfADs. And under this version, that -- that interest rate PfAD got bucketed into the restatement of claims PfAD.

MR. TODD ANDRES: Thank you. And the restatement of claims PfAD risk adjustment is plus 116.438 million, which I guess represents the swing that we just discussed, correct?

MR. MARTIN MARION: That would be correct, yes.

MR. TODD ANDRES: So, if we look at line 9, net income loss from annual operations, negative 6.2 million. See that?

MR. MARTIN MARION: Yes.

MR. TODD ANDRES: Okay. Thank you. And that includes both IFRS-4, income of negative 38.7 million, and therefore a change due to IFRS-17 of about 32 million relative to the previous impact of 38.4 million?

MR. MARTIN MARION: Yes.

MR. TODD ANDRES: And the change in income is mainly due to the correction of the error for PIPP worth 55 million, plus change due to interest rate impact, correct?

MR. MARTIN MARION: I would say so, yes.

MR. TODD ANDRES: Thank you. And the minimum capital required on line 31 of PF-3, if we can -- oh -- oh, sorry, PF-3 of the GRA. Roll down. Ah, even better.

Yeah, so in 20 -- year ending '23, budgeting was three fifty-one three seventy-three (35373) under IFRS-17? So it's the third column to the right on line 31.

MS. CARA LOW: Sorry, which number?

MR. TODD ANDRES: So the minimum capital required --

MS. CARA LOW: Oh, yes. Yes, okay.

MR. TODD ANDRES: -- is three fifty-one three seven three (351373) --

MS. CARA LOW: Yes.

MR. TODD ANDRES: -- for 2022? And

that's under IFRS-17?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And if we go back to the update which is Exhibit 50. Perfect.

All right. That number is now three forty-one three twenty-nine (341329), correct?

MS. CARA LOW: Correct. Yes.

MR. TODD ANDRES: And what's caused this change?

(BRIEF PAUSE)

MS. CARA LOW: So it's mainly from the update that we're talking about for PIPP enhancements with some other small updates.

MR. TODD ANDRES: Thank you.

MS. CARA LOW: Yeah.

MR. TODD ANDRES: And minimum capital required for 2023/24 and thereafter have all decreased substantially with 2023/24 reducing to four-o-seven-three-fifty-seven (407357) from four-thirty-three-ninety-eight (430398). I don't know if we need to go there or if we can just take it as face value.

So four-o-seven-three-fifty-seven (407357) is the second column to the right under minimum capital required?

MS. CARA LOW: Right.

MR. TODD ANDRES: Okay. And if you'd like, just for reference, we can go back to the GRA, the --

MS. CARA LOW: Yeah. No, I see the numbers.

MR. TODD ANDRES: Okay. And then -- but the -- the comparator number -- comparative number from the GRA, if we scroll down -- yeah.

Oh sorry, back to the previous document. My apologies.

Yeah. It was four-o-seven-three-fifty-seven (407357).

MS. CARA LOW: Yes.

MR. TODD ANDRES: And currently, MPI is not 100 percent certain on IFRS accounting treatment for certain items. Is that fair to say?

MS. CARA LOW: For the MCT, we're still doing some analysis and we are talking to a variety of third parties.

MR. TODD ANDRES: You pre-empted my next question which is what is MPI doing about the uncertainty in -- to try to resolve this?

MS. CARA LOW: We're trying to

clarify, yes.

MR. TODD ANDRES: So part of the uncertainty is as to whether certain items will end up in the liability for remaining coverage or the liability for incurred claims, correct?

MS. CARA LOW: Correct.

MR. TODD ANDRES: And that could have up to a 10 percent swing in MCT, correct?

MS. CARA LOW: Yes.

MR. TODD ANDRES: Thank you. I'll just confer with my colleague for a moment. We may be done.

(BRIEF PAUSE)

MR. TODD ANDRES: Mercifully, my questions are done. Thank you.

PANEL CHAIRPERSON: Thank you, Mr. Andres. Ms. Dilay...?

MS. KATRINE DILAY: Thank you, Madam Chair.

CROSS-EXAMINATION BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Good afternoon. I've met some of you before. My name is Katrine

Dilay. I'm co-counsel to the Consumers Association of Canada, Manitoba Branch.

I'll be starting -- I'll be doing most of the questioning for this panel. My colleague, Chris Klassen, will have a few questions towards the end. I'll pose my questions generally to the panel and I'll invite whoever is best suited to respond.

At a high level -- or you'll agree that MPI is a regulated Crown Corporation?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And it is the Public Utilities Board that regulates MPI?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And the PUB sets just and reasonable rates that MPI can charge customers for its Basic insurance, correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And you'll agree that one regulatory principle that is considered by the PUB is that customers should only be charged for prudently incurred costs?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And is it your understanding that this regulatory principle is based on Generally Accepted Regulatory Practice?

MR. RYAN KOLASKI: One (1) moment.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Without speaking too much for Mr. Kolaski, I think we've reached the -- the end of his knowledge of regulatory law.

So this is not something that we're going to be disputing in this rate application, but I just don't know if these questions would be more appropriate for a lawyer, as opposed to a financial officer.

MS. KATRINE DILAY: Thank you, Mr. Guerra.

CONTINUED BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Mr. Kolaski, you'll agree that customers being charged only for prudently incurred costs is a prudent overall or general business practice that is important to protect the public interest and ratepayer confidence in MPI's operating -- operations, pardon me?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And you'll agree that regulated entities have a responsibility to manage themselves in a prudent manner?

MR. RYAN KOLASKI: That is correct. Although I'd like to just say that 'prudent' is open to interpretation overall.

MS. KATRINE DILAY: Thank you for that. And so the responsibility to manage in a prudent manner applies to MPI as a regulated entity.

Correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: With the caveat that you indicated previously.

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: Thank you. And you'll agree that MPI, as a Crown Corporation, is accountable to all Manitobans?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And all Manitobans are MPI customers by virtue of the Personal Injury Protection Plan?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And it would be fair to say that the vast majority of Manitobans are also MPI customers for auto insurance?

MR. RYAN KOLASKI: I believe that is correct as well.

MS. KATRINE DILAY: Ms. Schubert, I'd like to go to PUB Order 4 of '23.

And you see that -- that that's the PUB Order 4 of '23 before you on the screen?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And is it your understanding that this was the PUB's decision in last year's GRA, in the 2023 application?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And if we could turn to page 109 of this decision, in the last paragraph.

So you see there, in the last paragraph, the first sentence, that the PUB stated it was concerned with the rate at which the Corporation plans to increase its staffing complement. Do you see that reference?

MR. RYAN KOLASKI: I do.

MS. KATRINE DILAY: And the Board continued by saying:

> "In particular, the Board is not persuaded that the -- the mobilization of staff devoted to delivering on Project Nova will ultimately prove to be a prudent

decision on the part of the
Corporation."

Do you see that reference?

MR. RYAN KOLASKI: I do.

MS. KATRINE DILAY: And you'll agree that the Government of Manitoba is MPI's sole shareholder on behalf of all Manitobans?

MR. RYAN KOLASKI: I agree.

MS. KATRINE DILAY: And at a high level, you'll agree that the minister responsible for MPI, Justice Minister Kelvin Goertzen, expressed concerns about MPI's hiring plan for 2023/24, a few months ago?

MR. RYAN KOLASKI: I do recall this, yes.

MS. KATRINE DILAY: And Ms. Schubert, if we could turn to CAC/MPI-1-2.

And you see there that CAC, in its preamble to this Information Request, included a reference to a media article regarding Minister Goertzen -- Goertzen's comments?

MR. RYAN KOLASKI: I do, yes.

MS. KATRINE DILAY: And just going down a little bit. Thank you, Ms. Schubert.

And if we look at the second paragraph

from the bottom on -- on our screens here, the article cites Minister Goertzen saying that MPI had come forward with a number of two-hundred-and-fifty (250) in terms of new staff for 2023/24?

MR. RYAN KOLASKI: I see that, yes.

MS. KATRINE DILAY: And Minister Goertzen is cited there saying that it struck him as significantly too high, correct?

MR. RYAN KOLASKI: I see his comment there as well, yes.

MS. KATRINE DILAY: And he commented that MPI committed to going back. Do you see that as well?

MR. RYAN KOLASKI: I do, yes.

MS. KATRINE DILAY: Now, if we could turn to PUB/MPI-1-47.

And I know Mr. Andres had a few questions for you on this, but I'm hoping to -- to have a few -- to also ask you a few questions on this document.

So if we go to page 2, at the very bottom right. So the number at the very bottom right shows the difference in staffing levels between 2021/22 actual versus 2022/23 actual, correct?

MR. RYAN KOLASKI: Yes, that is

correct.

MS. KATRINE DILAY: And the difference there is a hundred-twenty-six-point-one (126.1) FTEs?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And while it's cited there as -- in parentheses which my understanding is that means it's a negative -- you'll confirm that this is an increase in FTEs of a hundred-and-twenty-six-point-one (126.1) between 2021/22 to 2022/23, correct?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And if we can go to page 3.

And just confirming the number at the very bottom right, you'll agree this shows the difference in staffing between 2022/23 actual and 2023/24 budget, correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And so, it shows an increase of a hundred-and-forty-five-point-two (145.2) FTEs?

MR. RYAN KOLASKI: Just one (1) minute. I just got to process it.

MS. KATRINE DILAY: And it may help, Ms. Schubert, if we could just show the -- the dates for the first --

MR. RYAN KOLASKI: Yeah, that might be helpful. Thank you.

MS. KATRINE DILAY: Oh, sorry, Ms. Schubert, just the -- yeah, this page in its entirety. Perfect. Thank you.

MR. RYAN KOLASKI: Yeah. There we go. Thanks.

That is correct.

MS. KATRINE DILAY: Thank you. And so, if we add both of those numbers together, the one hundred and twenty-six point one (126.1), from the previous table, and the one hundred and forty-five point two (145.2) for this table, you'll agree that between the actual increase in 2022/'23 and the budgeted increase in '23/'24, that is an increase of, subject to check, 271.3 FTEs for both years?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And just a -- a question of clarification relating to your presentation from this morning, Ms. Schubert, could we turn to MPI Exhibit 72, which was the Financial Forecasting Presentation from this morning, and slide 13.

So, looking at the table, or the graph,

rather, at the bottom of this page, and specifically the years 2021/'22 and 2022/'23, you'll agree those are referred to as 'budget'.

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: But you'll agree that those fiscal years are completed.

MR. RYAN KOLASKI: They are completed, yes.

MS. KATRINE DILAY: And so the actual numbers that we just looked at in PUB-1-47 would be more accurate?

MR. RYAN KOLASKI: They would, yes.

MS. KATRINE DILAY: Thank you. Ms. Schubert, could we turn to PUB-MPI-2-72.

And if we look at Figure 1 on this page, you'll agree this table provides changes in salary, due to FTE and other changes?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And if we look at the column in the middle, entitled 'Change in Corporate Annual Salary from Prior Year', you'll agree that the two (2) biggest increases are in 2022/'23 and '23/'24?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: With an almost 9.5

million increase in '22/'23?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And just over 16 1/2 million increase in '23/'24?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And if we move to the right. So the next column to the right indicates the changes due to economic increases?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And those would be related to increases in collective agreements?

MR. RYAN KOLASKI: Just one (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: Thank you. So it does not relate to FTEs being added to MPI's staff complement, correct? That specific column?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And you'll agree that for approximately seventeen hundred (1,700) of MPI's employees currently on strike there's no finalized collective agreement?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: So, it would be fair to say that the 16.5 million increase in '23/'24 is -- or -- uncertain currently, given the uncertainty and the content of the finalized collective agreement?

MR. RYAN KOLASKI: There is a couple of components, right? There is -- what the final agreement will entail, both in terms of general wage increase. There'll be the nature of the agreement itself, in terms of a settlement, and then retro-pay related to previous years. And then, within that line item, there will be labour interruption, labour savings, on a relative basis, right?

So, it's a combination of all things, but if you're specifically talking about the merit and in-step increases to the agreement itself, the answer would be yes. But in totality, that number will definitely change.

MS. KATRINE DILAY: But in terms of the merit -- so in terms of --

MR. RYAN KOLASKI: So they normally increase, yeah.

MS. KATRINE DILAY: Thank you. And so there is potential for those amounts that you're referring to, to go up depending on what will be established in the finalized collective agreement?

MR. RYAN KOLASKI: And equally potential for it to go down in the finalized agreement, 'cause it's still ongoing negotiations.

MS. KATRINE DILAY: Thank you. And so we just looked at the -- the economic increase column, and if we look to the step-in scale column, that's the next one to the right. You see that?

MR. RYAN KOLASKI: I do, yes.

MS. KATRINE DILAY: And this would relate to employee salaries increasing as they gain seniority or meet certain productivity requirements?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: So, it does not relate to FTEs being added to MPI's staff complement, correct?

MR. RYAN KOLASKI: It does not, no.

MS. KATRINE DILAY: And then the last column is changed due to FTE and other changes?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And for the year 2022/'23, this number is close to 5 million. Correct? Just under 5 million?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And for '23/'24,

that number is close to 11.5 million?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And we can go to an IR response if you'd like, but when we take that 11 -- almost 11.5 million, it relates to a few different things, but the main component of that increase would be changes due to FTEs?

MR. RYAN KOLASKI: Just one (1) moment.

(BRIEF PAUSE)

MS. KATRINE DILAY: And if it would help, I can take you to an IR reference.

MR. RYAN KOLASKI: No, that's okay. I just wanted to expand kind of the context of the -- of my answer.

So you are correct that it does largely relate to the change in FTEs. What is missing though is that there's a change in bubble staffing on a corporate basis as well.

So, again, when I talked about how does MPI weigh those options between external labour and internal labour, there's also a dynamic at play here related to that. But it is purely related to an increase in FTEs.

MS. KATRINE DILAY: And when we change -- when we talk about changed to FTEs, that means changes in the level of FTEs employed by the -- the Corporation.

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: I'd like to bring you to the response to CA IR-2-12 which is MPI Exhibit 54.

And if you look at the preamble for a moment, you'll agree that these are some of the numbers that we looked at a few minutes ago for the increases in FTEs for the years 2021/'22 and 2022/'23?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And you'll agree here that the preamble refers to total corporate staffing FTEs, correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And then just to -- to refresh our memories about what this IR asked, if we could look to the questions posed in parts C and D.

So you'll agree that, taking a look at these questions, CAC asked MPI to calculate the compensation expense for maintaining staffing levels at '21/'22 and '22/'23 levels.

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And CAC asked for Corporate staffing, correct?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And then just looking at parts E and F, CAC asked for updated pro formas, including impact on rates of holding the staffing levels constant to '21/'22 and '22/'23, correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And again for Corporate staffing, correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And taking a look at the response, if we can look to part A first which is on page 2.

So you'll see there MPI agrees with the FTE staffing changes that CAC outlined in the preamble, correct?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And then Figure 1, on page 3 of this IR response.

So this is where MPI calculates the compensation expense reduction by maintaining corporate staffing at '21/'22 levels; that's the title of the table?

MR. RYAN KOLASKI: Correct, yes.

MS. KATRINE DILAY: So just to -- to explain what is happening here: In other words, MPI calculates how much less it would have to pay in salaries, if the staffing levels were kept at the '21/'22 levels, correct?

MR. RYAN KOLASKI: All things being equal, yes.

MS. KATRINE DILAY: Thank you. And so to do this, MPI has to first look at what level of staffing it used to make its projections in the rate application?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: Then calculate how much less the compensation expense would be, based on the difference between the staffing level it projected and the staffing level at '21/'22, correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And, so, if we look at the first line of this figure, you'll agree MPI used here the normal operation's FTEs. Correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: Which is two thousand fifty-two and fif -- dot fifty (2,052.50)

FTEs for '24/'25?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And two thousand seventeen point eight (2,017.8) for '25/'26?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And to confirm where those numbers were taken from, Ms. Schubert, could we turn to Exp. 11 from the General Rate Application. It's in the Financial Forecasting Expenses chapter at page 21.

And, so, if we look at the years '24/'25 and '25/'26, at lines 9 and 10, you'll confirm those are the same numbers that were used, that we just saw in the IR response to 2-12. Correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And, if we look at the 2021/'22 staffing level in this figure for normal operations staffing, the actual, you'll agree that was one thousand eight hundred and fifteen point three (1,815.3)?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And, just jumping back to the IR response, to compare what was used by MPI, in terms of the line 4 for maintain FTEs at '21/'22 level, you will agree that number is different. Correct?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And is it because, in Exp. 11, we were looking at normal operations staffing, whereas, here, the '21/'22 staffing levels that CAC requested were for total -- total corporate staffing?

MR. RYAN KOLASKI: Just one moment. That is correct.

MS. KATRINE DILAY: And total corporate staffing is higher than normal operations staffing. Correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And, so, if we look, then -- so, just to confirm, again, this is Figure 1, where we're looking at the '21/'22 levels of staffing. Correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And, if we look at Figure 2, on the next page, here, this is the compensation expense calculated for the staffing level at '22/'23?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And so, you'll agree, for the first line, for normal operations FTE for '24/'25 and '25/'26, the same numbers were used. Correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And that was for normal operations?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And, then, if we look at the staffing levels in line 4, for maintaining FTEs at '22/'23, the number that was used is two thousand and five point six (2,005.6)?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: But that's for total corporate staffing. Correct?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And just jumping back, one last time, to Exp. 11 and, if we look at the year 2022/'23, actual, line 7, you will agree that the corporate staffing number is higher than the number that we see here. Correct?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: So, by comparing normal operations staffing to total corporate staffing, MPI has underestimated the difference in staffing. Correct?

MR. RYAN KOLASKI: One minute.

MS. KATRINE DILAY: CAC 2-12.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And, then, just to confirm what else was provided in response to CAC 2-12, you'll agree MPI also provided pro formas in response to this IR, which provide the change to the rate indication, by holding staffing levels for '21/'22 and '22/'23?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And at a high level, if we look at page 5, this is the rate indication, if staffing levels were held constant at '21/'22 levels? A rate indication -- the change to the rate indication?

MS. CARA LOW: The change to the pro formas. It's not a change in the rate indication.

(BRIEF PAUSE)

MS. KATRINE DILAY: And is it your recollection that CAC asked for what would the -- what the change would be to the -- to the rate in this IR?

MR. RYAN KOLASKI: Change to the rate?

MS. CARA LOW: At the top of the page, it does have the change to the rate indication. The exhibit, itself, is not the rate indication.

MS. KATRINE DILAY: Thank you for that. So -- so, this IR response is providing the change to -- what the change would be to the rate indication, if staffing levels were held constant to '21/'22?

MS. CARA LOW: I believe, in the top, in the title, the minus 0.42 percent is the impact, due to the staffing changes staying steady, but the exhibit, itself, is not a rate indication. It's a statement of operations.

MS. KATRINE DILAY: Thank you for that. Thank you for that clarification.

And, so, the Basic rate change at -- that is contemplated in this pro forma would be minus 0.42 percent?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And, on page 8 of this IR, this would be the -- similarly, the Basic rate change, if staffing levels were held constant, at '22/'23 levels?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And, it's minus 0.19 percent. Correct?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: But you'll agree that the compensation levels that were used to produce these pro formas was calculated in Figures 1 and 2, that we just saw earlier?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: Where normal operations staffing was used for '24/'25 and '25/'26 forecast, but total corporate staffing was used for the '21/'22 and '22/'23 levels?

MR. RYAN KOLASKI: I just want to ask a clarification on my answer.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And, so, would it be fair to say that MPI was comparing apples to oranges, rather than comparing apples to apples, in terms of staffing levels?

(BRIEF PAUSE)

MR. RYAN KOLASKI: In the purest sense, yes, but if you actually included the FTEs from the initiatives on an overall basis, it'll actually work out to be very similar, so not materially different.

So I don't know that it's necessarily apples to oranges. It's probably not that big of a drift.

MS. KATRINE DILAY: But you'll agree that, if MPI had consistently used total corporate staffing levels in the calculation of the compensation expense difference, that difference would be larger, correct?

MR. RYAN KOLASKI: Directionally, yes.

MS. KATRINE DILAY: Because total corporate staffing level is higher than normal operations level.

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And so the pro formas would be different as well, correct?

MR. RYAN KOLASKI: It would be different. It's just a question of materiality, but yes.

MS. KATRINE DILAY: In that it is likely that the compensation reduction is understated

-- again, subject to your caveat of materiality?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And so the change to the rate is likely understated as well?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And so could we ask for an undertaking for MPI to revise its response to CAC/MPI-2-12 to use total corporate staffing forecast levels for '24/'25 and '25/'26 rather than using normal operations staffing?

MR. ANTHONY GUERRA: Yes, Counsel, we'll give the undertaking.

--- UNDERTAKING NO. 21: MPI to revise its response to CAC/MPI-2-12 to use total corporate staffing forecast levels for '24/'25 and '25/'26 rather than using normal operations staffing

MS. KATRINE DILAY: Thank you. And I do have -- in terms of an undertaking, I have two (2) follow-up questions that I'm -- I'm wondering if MPI would be able to provide an answer to as well.

We looked at PUB-1-47 as well as EXP-11 from the Application. So is it possible for MPI to reconcile Figure EXP-11 with PUB/MPI-1-47 specifically for the FTE levels for '21/'22 and '22/'23 and explain the difference in terms of what FTEs are not reflected in the normal operations staffing in EXP-11, and then to update Figure EXP-11 for total corporate staffing?

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Yes, Counsel, we'll give the undertaking.

MS. KATRINE DILAY: Thank you.

--- UNDERTAKING NO. 22: MPI to reconcile Figure EXP-11 with PUB/MPI-1-47 specifically for the FTE levels for '21/'22 and '22/'23 and explain the difference in terms of what FTEs are not reflected in the normal operations staffing in EXP-11, and then to update Figure EXP-11 for total corporate staffing

CONTINUED BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Moving on to a slightly different topic, at a high level, you'll agree that key performance indicators, or KPIs, are a type of perform -- performance measurement?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And again at a high level, a key performance evaluator -- or, sorry, indicator -- evaluates the success of an organization of a particular activity in which it engages?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And KPIs can also be used to set objectives or targets for a corporation, correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And those can be based on where the Corporation is currently and where it would like to go for specific performance measures, correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And where an organization uses consistent KPIs over time, that organization can track its progress towards objectives?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And if we could turn to PUB Order 4/'23, specifically at page 111 at the very top, Ms. Schubert. Thank you.

And you see there at the top that the Public Utilities Board accepted CAC's position that MPI should be using Key Performance Indicators to establish performance measures and targets across all aspects of the business, including IT.

You see that reference?

MR. RYAN KOLASKI: I do, yes.

MS. KATRINE DILAY: And if we could turn to CAC/MPI-1-92. So at a high level, looking at the question here, you'll agree generally that this IR asked MPI about Key Performance Indicators, indicators, guidelines, targets, or expectations that were used in -- in the development of the 2024 budget?

MR. RYAN KOLASKI: Specifically as it relates to the budget, yes.

MS. KATRINE DILAY: And if we turn to page 2 of this IR, you'll agree that, for the year '23/'24 -- so at the top of the page -- MPI indicates that:

"A bottom-up approach by department focussed on NOVA execution and ancillary support required for NOVA."

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And MPI went on to indicate that:

"No KPIs were used in the budget process for '24/'25 as they do not exist."

MR. RYAN KOLASKI: In terms of KPIs integrated into the budget process, that is correct.

MS. KATRINE DILAY: And just if we look at the year that is referred to in that line, would it -- would you be able to clarify whether that should refer to '23/'24, just given the subtitle?

MR. RYAN KOLASKI: No. The KPI line refers to '24/'25, and the -- so, yes, it's '24/'25, not related to '23/'24.

MS. KATRINE DILAY: Thank you. So just to focus in on what bottom-up approach would mean, at a high level, would that mean that individual departments provide their needs in terms of staffing resources which were then combined to put together the budget and forecast for the Corporation overall?

MR. RYAN KOLASKI: So my understanding of the PAC (phonetic) practice on bottoms-up was individual VPs would look at their department, determine their resourcing requirements, and basically look at their GAAP analysis as well, then build up a budget from that.

It would come to a budget committee, and that committee would review their plans. Then those plans would get approved, and then it would be put together on a consolidated basis forming the overall budget for MPI.

So effectively, yes, it's very much bottoms-up from that approach.

MS. KATRINE DILAY: Thank you for that explanation. And then if we look at the subtitle '24/'25, you'll agree this is the rating year that is the subject of this Rate Application?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And if we go to the next page, Ms. Schubert, there's an underlined subtitle there for Key Performance Indicators or KPIs?

MR. RYAN KOLASKI: That's correct.

MS. KATRINE DILAY: And MPI states:

"Early stages, MTI can -- MPI continues to mature the focus here."

MR. RYAN KOLASKI: I see that, yes.

MS. KATRINE DILAY: And about halfway through the paragraph, MPI states:

"In short, no KPIs were employed in creating the budget."

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: So based on what we went through, you'll agree MPI did not use KPIs to create the '24/'25 budget that is the subject of this Rate Application?

MR. RYAN KOLASKI: If you could just scroll back up to the screen. I just want to use it as part of my answer, sorry. Yeah, if you could stop there.

So for '24/'25, we did not have an integrated process of KPIs as it related to the budget. We do have what are called OKRs, or Objectives for Key Results, that we have developed outside of the budget process which is part of the maturing process we have at MPI.

So in terms of '24/'25, I kind of came in right around the time of the budgeting process itself, so it's fair to say, when we looked at where we were, what the forecast is, I worked with Eric Herbelin and we decided we're going to take a pause.

We're going to focus on business as usual, get back to basics. We're going to focus on implementation and delivering on NOVA, and then we're going to use continuous improvement for cost containment and overall operational betterment.

So if you look at what the budget is on a corporate basis for '24/'25, that budget, where it's landed in the update, is 402 million, subject to check. That budget actually translates back to the Treasury Board approved budget for '23/'24 as it relates to this current fiscal year.

Then, as we move forward to '24/'25, the goal was to literally land what I'll say is like a deja vu budget which is literally to land around $400 million overall corporately.

So the four o (40) -- so when you look at the preliminary filing for '24/'25, it was $398 million when you look on a corporate basis. And then when you look at the final updated GRA, it's 403 million.

So there's a very intentional direction to drive out a flat-line operating cost envelope. So basically go from four-o-two (402) to basically land what you have for an updated budget today of four-o-three (403), so very much back-to-back same year.

That was intentional, and that was meant to drive out the timing and cadence that's related to this process.

So when you look at when we start this process, it starts very early on, in around April or May. Then we have to do the preliminary GRA. And it was intentional to land that number so that by the time I got to the final update, my overall corporate process was kind of locked in and I didn't have a lot of drift.

Then you'll appreciate what happens after this process, is that the budget, which is your forecast in your application, goes before the Board, and then it goes before the Treasury Board for final approval. That process happens well after you folks have made your decision.

So what I was trying to drive out this year in my short stint with MPI was to basically align that cadence of timing with overall dollar cost envelope, really challenging to do as the new guy, but I actually landed it pretty good overall, I believe.

But that's why the KPI approach wasn't full integrated, because it was more about taking what -- where I was in '23/'24 for approved budget, and then holding that line across while I then move forward and improve end cost down the business going forward.

So you look at the five (5) year forecast. You'll see the expenses coming down. And that's really kind of the message that was intended to be sent here.

So I appreciate the integration of KPIs, but there is a specific reason why it wasn't done, and that's why. And then outside of that, there's the OKR process which is maturing and ongoing with -- with MPI.

So sorry for the long-winded response, but I just wanted to make sure how you guys understood where we landed relative to the Ask on KPIs because, in the end, directionally, we're trying to control costs and contain them, and KPIs is one (1) rule. The other way is top down and contain costs overall, and then work forward to move it, and that's kind of what we did for that year.

MS. KATRINE DILAY: Thank you for that information. So just you referred to I think OKRs?

MR. RYAN KOLASKI: That is correct. So OKRs is Objectives and Key Results, very similar to KPIs. There's nuances but, at the end of the day, it's a framework for developing objectives. And typically, you would have OKRs to set objectives. And then budgeting would -- would then entail after that.

Again, that process is really maturing at MPI, so it was more about how do we land a budget, and then work forward on improving from there overall.

MS. KATRINE DILAY: Thank you for that. And I think you mentioned earlier on in your response, as well, that the Objectives and Key Results, or OKR, is currently outside of the budgeting process, correct?

MR. RYAN KOLASKI: That is correct. It's not integrated today. The goal is to bring -- to bring them together. So in a typical, like, cadence, you would have goal setting or OKRs established; that would kind of give you guidance on framework.

Then you would do your budgeting because, again, you're driving your goals to your budget. Then you can track how you're doing against your OKRs, as well as doing your financial budgeting.

So you kind of bring them together in together, but that's just not quite where we are today, but that is a goal overall. I can't speak to how fast we're going to get there, but we definitely are working on that.

MS. KATRINE DILAY: And -- and MPI has

referred to this in its response to this IR, where it says that the focus is maturing for MPI, correct?

MR. RYAN KOLASKI: That is correct, yes.

MS. KATRINE DILAY: And just to go back for the budget the '24/'25, which is the topic of this rate Application, in this particular budget, MPI cannot tie proposed changes in its operating budgets to KPIs or other performance objectives, such as OKRs, that it has set for itself and is currently monitoring, correct?

MR. RYAN KOLASKI: Sorry, I'm just trying to think how I can link it. So, individually, departments have various Key Performance Indicators, service metrics.

So, if you look at operations, they have a number of KPIs developed today that we run to in terms of how long does it take to process a claim, what is the call centre volume, et cetera.

So there's a number of KPIs related to that and operating standards around that.

So, on an individual basis, the managers, when they set their budget, will have considered those formally in terms of the actual budget itself.

However, in terms of the budget, literally, as an EC, we decided overall costs, and then said here is the total dollars you have to play with. So, if you can't work within the confines of the dollars that you've been given, you have to come forward and explain why. And then we'll manage and stick handle dollars between departments and competing objectives.

So, in terms of setting the budget, no one came forward saying that their expectations related to individual performances by department were a problem. People agreed begrudgingly that they could work within these confines.

And then, as we roll through the year, if we need additional funding, then we'll play with how those funds will get available between the different departments.

So it's very much the active management to hold to the budget that has been done subject to a very good business case, why it should be something different and, therefore, logical improvement to allow for a drift.

So, in some respects, I do have KPIs, but in other respects, I don't have here are the KPIs tied to the specific dollars spend. That's a little more granular in terms of the department itself.

Sorry for a long explanation. It's just kind of complicated to put the two (2) together.

MS. KATRINE DILAY: We certainly appreciate that response. And just a couple last questions on this.

You'll agree that MPI tracks many performance measures through its benchmarking activities at a high level?

MR. RYAN KOLASKI: At a high level, we do benchmark ourselves against different organizations for sure, yes.

MS. KATRINE DILAY: But as far as you know, MPI has not set targets through its benchmarking activities, correct?

MR. RYAN KOLASKI: We have not set targets specifically related to specific benchmarks. And here's just a practical challenge, right. Everyone wants to say a benchmarking is good; hard to argue it's not.

But then when you're set -- setting yourself up for a benchmark, you have to ask yourself, number 1, do you want to be the benchmark, aka, everyone else is chasing you, do you want to be average, aka, the benchmark, or do you want to be slightly under the average of the benchmark overall.

And then you have to literally say to yourself, depending on where you are in your life cycle as a business, where should you be relative to others, and then are those others relative to you, does that make sense.

And that's kind of the challenge with benchmarking; like, it gives you relativity. But I know everyone wants to drive out actionable items. And when you're going through a big transformation, it's really tough to kind of figure out, as you say, the apples and the oranges in order to make sure you land, right.

That's why kind of the top-down approach was used for '24/'25. Again, in order to mature, we would like to add benchmarking in a more formal capacity, but it's really kind of working with you folks and understanding which key benchmarks would you like us to employ.

MS. KATRINE DILAY: Thank you, Mr. Kolaski. I have a few questions now on data processing expenses.

MR. RYAN KOLASKI: Sure.

MS. KATRINE DILAY: Could we turn to PUB/MPI-2-36, Ms. Schubert, specifically, at page 3.

You'll agree that this figure here presents total data processing expenses for Basic?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And just focussing on the -- the last line, line 12, total data processing Basic, you'll agree that data processing expenses are projected to increase by almost 15 million, from 45 million to 60 million, between '22/'23 and '23/'24?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And then projected to be around 55 million in '24/'25?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And just under 57 million in 2025/'26?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And at a high level, you'll agree that there are three (3) main cost drivers of data processing expenses?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: That would include licence charges?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And are you able to clarify whether these are relating to Project NOVA or not?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: I understand that a portion of NOVA is included in that number. I just don't know the amount that has been included in that number.

(BRIEF PAUSE)

MS. KATRINE DILAY: Thank you for that. And another driver of -- sorry.

Another main driver of the data processing expenses is the IBM data centre?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And the third is external labour. Correct? In terms of main driver.

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And just looking at external labour, there's a major increase in external labour in '23/'24?

MR. RYAN KOLASKI: It increases from 15 to 22 million, yes.

MS. KATRINE DILAY: And this would be partly due to external consultants working on Project NOVA?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: The increase is primarily related to bubble staff. And yes, related to NOVA.

MS. KATRINE DILAY: So at a high level, you'll agree that MPI's vendor management processes will be critical to keeping these costs for external labour at their forecasted levels?

MR. RYAN KOLASKI: Agreed.

MS. KATRINE DILAY: I just have a few questions on the -- the labour interruption and its impacts.

MR. RYAN KOLASKI: Sure.

MS. KATRINE DILAY: You'll confirm that MPI is facing a labour interruption from approximately seventeen hundred (1,700) of its in-scope employees?

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And you'll agree,

those seventeen hundred (1,700) employees have not been at work since end of August 2023?

MR. RYAN KOLASKI: August 28th, I understand.

MS. KATRINE DILAY: Thank you for the precision. And you'll agree that MPI does not pay those employees during a labour interruption.

Correct?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And you'll agree that the amount MPI is not paying to staff during the labour interruption is not reflected in compensation amounts in MPI's financial forecasts used for this Rate Application. Correct?

MR. RYAN KOLASKI: That is correct. We have not quantified labour interruption costs, both savings or additional costs related to labour interruption. We're just not in a position to quantify those as yet.

So additional costs that we've incurred related to labour interruption are also excluded from this Application as well.

MS. KATRINE DILAY: And I -- I do have a few follow-up questions that will touch on your answer as well.

But to the extent that MPI's actual compensation expenses are lower than its forecast, that would mean that its forecasts are over-stated in the Application. Correct?

MR. RYAN KOLASKI: Sorry, could you repeat your question?

MS. KATRINE DILAY: So if MPI's actual compensation expenses turn out to be lower than the forecast, due to the labour interruption, that would mean that the forecasts are over-stated.

MR. RYAN KOLASKI: So in isolation, you could say yes. But again, we have additional costs related to interim staffing, overtime, various other components.

So while I am receiving labour savings, I'm also incurring costs. So the unknown is literally what is that delta, right? 'A' minus 'B'.

And the other thing you have to remember in this process is labour interruption has caused a very large backlog in terms of actual operating metrics. So then the issue becomes how do we work through that backlog and what does that plan look like?

Because every day that labour interruption is out, that backlog grows. And

Manitobans want their service. So as soon as we say we're back to work, everybody wants to show up and, like, get -- get service. And that's just not going to be a reality.

So there's going to be a bunch of costs related to that. So is it going to be overtime? Is it going to be additional staffing in terms of how you work through that?

So we have -- we have to work through what that looks like. And part of that plan is dependent upon literally the duration of labour interruption.

So on one hand, I'm getting savings. On the other hand, I'm creating a large backlog which has to ultimately get resolved.

Because, as you have said, no one has any other choice but to use MPI. And from a service perspective, they're going to want to see that service sooner rather than later.

So that's why I'm kind of cagey on what that means overall in terms of the Application and why it was specifically excluded.

(BRIEF PAUSE)

MS. KATRINE DILAY: Thank you, Mr. Kolaski. You definitely anticipated my questions.
So as you referred to, the labour interruption is also resulting in additional costs for the Corporation?
MR. RYAN KOLASKI: That is correct.
MS. KATRINE DILAY: Such as overtime paid to out of scope if they've had to work additional hours, that might be one example?
MR. RYAN KOLASKI: That is one example, yes.
MS. KATRINE DILAY: Having to resort to third parties to do some of the work that MPI staff would typically be doing?
MR. RYAN KOLASKI: That is correct, yes.
MS. KATRINE DILAY: And you referred to a backlog. And would it be fair to say that the labour interruption is delaying work on certain projects?
MR. RYAN KOLASKI: Is it fair to say your question is related to NOVA? Or just projects in general?
MS. KATRINE DILAY: Projects in general, sir.

MR. RYAN KOLASKI: Yes. In general, yes. I mean, ultimately, when seventeen hundred (1,700) people approximately are out, a lot of work -- both initiatives and just literally day-to-day activity -- is definitely on pause or in various cadence of proceeding.

MS. KATRINE DILAY: And so, there will be costs associated with bringing this work up to date and addressing the backlog once the strike is over, as you've addressed. Correct?

MR. RYAN KOLASKI: Correct. Yes.

MS. KATRINE DILAY: And so, is it possible for MPI, by way of undertaking, to prepare a document showing the impact of the strike on MPI expenses, including, but not limited to, compensation saved; overtime paid, if any; potentially delayed work; and the cost of bringing this work up to date once the strike is over?

MR. RYAN KOLASKI: Just one sec.

(BRIEF PAUSE)

MR. RYAN KOLASKI: I think it's fair to say that we're not in a position to quantify in any realistic material way what the labour interruption costs or savings are.

There's also going to be a lot of implications related to claims. A lot of our claims data, right, hasn't been entered or is in partial entry. So there is -- there's a lot of work that we have to go through as an organization.

So yeah, I mean, I would not be able to respond in any meaningful if an undertaking was given today.

MS. CARA LOW: I could add to that too. We expect to see claim severity to maybe increase due to labour interruption. And that's going to take a long time to quantify.

But when the team members do come back to work, we want them to be working on the backlog in serving Manitobans. So we're not going to be doing a lot of this quantification right away either.

MS. KATRINE DILAY: Thank you for that -- that thoughtful response. And so, we'll -- we'll leave the undertaking.

I have a few questions on the deferral of improvement initiatives for ratesetting purposes.

I can take you to a reference, but at a high level, you'll agree that, in the 2023 GRA, the Public Utilities Board ordered the removal of initiative expenses from expense forecast for '23/'24 and '24/'25 for ratesetting purposes. Correct?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And subject to check, this led to a reduction of negative 1.92 percent in the rate indication?

MR. RYAN KOLASKI: (INDISCERNIBLE) or I can say subject to check.

MS. KATRINE DILAY: We can go with subject to check.

MR. RYAN KOLASKI: Sure. Yeah. Subject to check. Correct.

MS. KATRINE DILAY: And is it your understanding that the PUB found it appropriate to defer these costs as they are for systems that do not benefit current ratepayers?

MS. CARA LOW: That was the logic, yes.

MS. KATRINE DILAY: And so, is it your understanding that the Public Utilities Board was referring here to the concept of inter-generational equity?

MS. CARA LOW: Correct. That current ratepayers shouldn't be paying for something they're not having the benefit of.

MS. KATRINE DILAY: Thank you for answering my next question as well.

And so, essentially, customers should not have to pay any costs incurred to provide services to customers in any other period?

MS. CARA LOW: Correct. Yes.

MS. KATRINE DILAY: And you'll agree this principle is consistent with the setting of rates that are just and reasonable?

MS. CARA LOW: It is. It will eventually lead to rate shock when we do have to incorporate those costs in though.

MS. KATRINE DILAY: To a what, sorry?

MS. CARA LOW: Rate shock. So there is the -- getting away from rate stability.

MS. KATRINE DILAY: And you'll agree that the impact on rates will depend on over what period those expenses are recognized?

MS. CARA LOW: Very true.

MS. KATRINE DILAY: And you'll agree that for initiative expenses, customers can start benefitting from those initiatives once they are implemented. Correct?

MS. CARA LOW: Correct.

MS. KATRINE DILAY: And before they

are implemented, they are not benefitting customers because they are not being used by the Corporation to serve customers?

MS. CARA LOW: Correct.

MS. KATRINE DILAY: And you already addressed this this morning, but at a high level, it's MPI's position that it is not eligible to apply International Financial Reporting Standard or IFRS-14 regarding rate regulation. Correct?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And you'll agree that in January 2021, the International Accounting Standards Board, issued an exposure draft on regulatory assets and regulatory liabilities?

MR. RYAN KOLASKI: I -- yes.

MS. KATRINE DILAY: And this exposure draft proposes rate-regulated entities report regulatory assets and liabilities and regulatory income and expenses in their financial statements.

Is that your understanding?

MR. RYAN KOLASKI: That is my understanding.

MS. KATRINE DILAY: And you'll agree that if finalized as an IFRS standard, the proposals would replace IFRS-14 and could result in MPI reporting regulatory assets and liabilities under IFRS?

MR. RYAN KOLASKI: It could -- it could, yes. I mean if the standard -- we kind of -- if the exposure draft moves to an actual standard, which then is available for adoption, and then based on that criteria for adoption, it is possible, that MPI would be adopting that new standard, once it becomes available.

I can't adopt an exposure draft; that's the challenge.

MS. KATRINE DILAY: Right, so MPI has to wait for it to be --

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: -- finalized as an IFRS standard.

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And so, I think you just confirmed this, but when the exposure draft is finalized as a standard, then MPI could report regulatory assets and liabilities under IFRS?

MR. RYAN KOLASKI: Yes, in the general context of what's being proposed, assuming it moves forward, in fruition to -- as a proposal, then, yes, we would be potentially able to do that.

MS. KATRINE DILAY: And, just to confirm something that was in your presentation this morning, you'll agree MPI retained Deloitte to prepare an opinion on the -- this IFRS-14 issue?

MR. RYAN KOLASKI: We did. Yes.

MS. KATRINE DILAY: And that opinion was prepared, but has been filed confidentially, pending a PUB decision on MPI's confidentiality motion?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: But, you did indicate in your presentation this morning, that Deloitte found IFRS could not applied -- applied by MPI --

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And that was their opinion that they provided.

MR. RYAN KOLASKI: That was their opinion, yes.

MS. KATRINE DILAY: So, essentially, Deloitte agrees with MPI that it is not eligible to apply IFRS-14. Correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: I just have a few last questions. Again, on your presentation from this morning.

MR. RYAN KOLASKI: Sure.

MS. KATRINE DILAY: Ms. Schubert, could we turn to slide 7 of the Financial Forecasting Presentation?

And are you able to confirm whether you prepared this portion of the presentation?

MR. RYAN KOLASKI: MPI prepared the -- the presentation. Yes.

MS. KATRINE DILAY: And if we look at the second bullet from the bottom, you'll agree that this bullet refers to the MPI Act?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And it indicates that in quotation marks,

> "A rebate will be determined and paid the first day after the year has ended."

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And, Ms. Schubert, if we could go to Section 18(4) of the MPI Act.

You'll agree this section refers to Rate Stabilization Reserve Surplus.

MR. RYAN KOLASKI: Yes.

MS. KATRINE DILAY: And outlines the

items that must be met in order for a rebate to be paid out.

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: You'll agree that this does not refer to a rebate will be determined and paid on the first day after the year has ended?

(BRIEF PAUSE)

MR. RYAN KOLASKI: Yeah, go ahead.

MS. CARA LOW: I would agree. I was around last year when we were drafting this and the intention was, our opening balance is usually equal to your ending balance from the previous year.

And the thought process was we wanted to ensure that all monies transferred between line of businesses were completed. And that's why we had the beginning of the next fiscal year, but the intention always was, it's a year end audited financial statements.

MS. KATRINE DILAY: So, you'll confirm that what we saw on slide 7 in quotation marks, does not appear anywhere else in the Act. Correct?

MS. CARA LOW: I'd agree.

MS. KATRINE DILAY: And just going

back to slide 7 of the Financial Forecasting Presentation and the last bullet there, you'll agree that MPI's Capital Management Plan has not been approved by the Public Utilities Board, but rather is being proposed by MPI in its rate Application for approval?

MS. CARA LOW: Correct.

MS. KATRINE DILAY: Thank you. Madam Chair, I believe Mr. Klassen has about less than ten (10) minutes of questioning. So, we're open to the Board whether you'd like to take a break and continue or -- or have Mr. Klassen ask questions now.

PANEL CHAIRPERSON: I think we'll take a break now. Come back at quarter to 3:00 with Mr. Klassen and then we'll -- Ms. Meek as well.

MS. KATRINE DILAY: Madam Chair, I believe Ms. Meek does not have questions of this panel. And so my apologies.

Would it make more sense for Mr. Klassen to finish with this panel and then the panel can change during the break?

PANEL CHAIRPERSON: Yes, it would. Please proceed then.

MS. KATRINE DILAY: I apologize for the confusion.

MR. CHRIS KLASSEN: Thank you, Madam Chair.

CROSS-EXAMINATION BY MR. CHRIS KLASSEN:

MR. CHRIS KLASSEN: Good afternoon, MPI witnesses. I'll have a few questions for the panel on MPI's road safety, budgeting and, as Ms. Dilay suggests, that I don't expect to be very long.

Ms. Schubert, if you could display on the screen, EXP Appendix-15 at page 2.

And while that's coming, the panel will confirm, please, that part of MPI's expenses go toward road safety and loss prevention programming. Correct?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: And if we need a source, we'll find it on page 2 of this appendix.

But, sir, you'll confirm that the budget for road safety and loss prevention for the rating year is in the range of $12.1 million.

Correct?

MR. RYAN KOLASKI: Correct.

MR. CHRIS KLASSEN: And the panel will confirm, that investment in road safety and loss prevention is intended to improve road safety outcomes for Manitoba road users. Correct?

MR. RYAN KOLASKI: That is correct.
MR. CHRIS KLASSEN: And, in general, sir, you would agree that MPI understands its road safety work to be of value for Manitobans?
MR. RYAN KOLASKI: That is correct.
MR. CHRIS KLASSEN: And this would be partly attributable, you'll agree, sir, to the importance of reducing tragic losses of life and serious injuries that can be caused by motor vehicle accidents. Correct?
MR. RYAN KOLASKI: That is correct.
MR. CHRIS KLASSEN: And at a high level, sir, we can look to numbers of injuries and fatalities on Manitoba roads as -- as well as trends in these figures over time, as indicators of improvements in road safety. Correct?
MR. RYAN KOLASKI: Correct.
MR. CHRIS KLASSEN: And road safety investments should also provide a return on investment in the form of reduced claim costs. Correct?
MR. RYAN KOLASKI: Just one second. That is MPI's position.
MR. CHRIS KLASSEN: Thank you. Ms. Schubert, if we could return to page 1 of this appendix.

And I'll ask the panel to confirm that the set of three (3) columns on the far right of the page provides data for the 2022/'23 fiscal year.

Correct?

MR. RYAN KOLASKI: Correct.

MR. CHRIS KLASSEN: And we see in line 17, again in the columns on the far right, that actual road safety expenditures in that fiscal year, being the last fiscal year, were just over $10.5 million.

Correct?

MR. RYAN KOLASKI: Correct.

MR. CHRIS KLASSEN: And, under budget, we see that that 10.53 is compared to a budget of $12.3 million. Correct?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: And in the final column we see that the road safety budget in 2022/'23, was underspent by a little over $1.7 million.

Correct?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: Ms. Schubert, if you wouldn't mind turning us now to Exhibit 50 from the 2023 GRA, being last year's rate application, at page 18. Thank you.

And I'll ask the panel to confirm that

this table provides us with a comparison between figures as they were presented in MPI's June filing of the rate application and its subsequent rate update provided in October of that year. Is that correct?

MR. RYAN KOLASKI: Yes.

MR. CHRIS KLASSEN: And, if we look to line 19, sir, we'll see that the initial 2023 filing contemplated a $12.6 million budget for road safety in 2023/'24. Correct?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: And the next column over, on the same line, we see that in the October rate update that budget was increased to 14.9, just shy of $15 million, for that same year. Correct?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: An increase of $2.3 million. Correct?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: Ms. Schubert, if you could now take us briefly to the transcript from October 26th of 2022, which was a discussion about road safety at last year's GRA.

Mr. Kolaski, I'll ask you to confirm, beginning from lines 7 through 12, we have Mr. Doell, confirming to Ms. Kara Moore, the presence of that, roughly, $2 million budget increase that we just looked at in Pro forma 6, from Exhibit 50, from that year. Correct?

MR. RYAN KOLASKI: Yes.

MR. CHRIS KLASSEN: And, if we turn our attention a little bit further down the page, I just wanted to confirm -- I may have misspoken, Ms. Schubert. We're on page 1,430 which, I believe, is pdf 97 of this document. Sure. Thank you, and I moved ahead too quickly, Mr. Kolaski, and I apologize for that.

So, before we get ahead of ourselves, we'll go back to lines 7 through 12, and you'll see Mr. Doell confirming that increase of $2.3 million introduced in the rate update. Correct?

MR. RYAN KOLASKI: Yes.

MR. CHRIS KLASSEN: And, now, turning our attention further down the page, beginning on line 17, we see Mr. Michael Triggs, confirming that that budget increase was not allocated to any specific initiative, but that it was intended to have funds pre-approved and available for use on projects as "ideas" come up. Correct?

MR. RYAN KOLASKI: Yes.

MR. CHRIS KLASSEN: Thank you for --

for bringing up this transcript, Ms. Schubert.

If we could go back to the Exhibit 50 rate update, again, from the 2023 GRA, this time to page 13 instead of 18.

And, here, sir, you'll agree that we see a multi-year statement of operations providing actual figures for 2022, a forecast budget for 2023, and forecasts for 2024 through '27?

MR. RYAN KOLASKI: Yes.

MR. CHRIS KLASSEN: And, if we look at line 21, we'll see figures pertaining to road safety and loss prevention.

And, sir, if -- leaving aside the first common -- column, and turning our attention to the 2022/'23 forecast budget, there at line 21, we see the initial $12 million figure?

MR. RYAN KOLASKI: Yes.

MR. CHRIS KLASSEN: And, the next year, we see the budget for road safety and loss prevention increased by an amount roughly equal to that $2.3 million we saw added to the budget in the October rate update. Is that correct?

MR. RYAN KOLASKI: Yes.

MR. CHRIS KLASSEN: And the road safety and loss prevention budget stays in the range of $14 to $15 million, through to the end of the forecast presented on this page. Correct?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: Turning back to the current GRA, Ms. Schubert, if we could go back to Exp. Appendix 15 and, in particular, Figure Exp. App. 15-2.

And looking back at line 17 here, Mr. Kolaski, we see budgets presented in the 2024 GRA for the rating year 2024/'25 and future years. Correct?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: And, based on what we see in line 17, those budgets for future years appear to be back down in the $12 million range, as opposed to the $14 million range that we confirmed a moment ago. Correct, sir?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: And, sir, does this suggest that MPI is no longer budgeting for an approximate $2 million unallocated road safety fund?

MR. RYAN KOLASKI: I'm just trying to think for a moment. Throughout the course of the year, from time to time, as I understand it, we get government directives, as it relates to road safety, where we in -- insert other programs into our road safety program. So, what we've done for '24/'25 is we've looked at exactly what best value options we have, in consultation with our stakeholders.

So, we have a mix of programs that we believe will drive value and, then, as we forecast through that period, because we don't have vision on specific programs that we know of today, we've held the dollars constant.

So, that doesn't mean, when we come to this process next year that those dollars will be different, 'cause it's a dynamic program and those programs change. So, we're not going to forecast placeholders, in the event where we don't know what those are.

So, we've taken a conservative approach on forecasting out a run rate, based on what we do know, based on the programs we have that add value and, then, as that makes changes over time, we'll adjust that spend accordingly.

MR. CHRIS KLASSEN: Thank you for that explanation, sir.

And, so, if I'm understanding you correctly, I'll ask you to confirm that MPI isn't identifying any specific program impacts associated with the budget reduction from '24/'25 through to the end of the forecast presented on this page?

MR. RYAN KOLASKI: That is correct.

MR. CHRIS KLASSEN: Thank you, sir, and to the Panel. Those are my questions. Madam Chair, those are my questions.

PANEL CHAIRPERSON: Thank you, Mr. Klassen. We'll take a 15-minute break now and come back with Board questions and redirect at five to 3:00, please.

--- Upon recessing at 2:42 p.m.

--- Upon resuming at 2:56 p.m.

PANEL CHAIRPERSON: Ms. McCandless, before we start with Board questions, could you please put on the record the change in the order of matters to be heard?

MS. KATHLEEN MCCANDLESS: Thank you. So it's almost three o'clock, and we haven't started what was -- is to be today's second panel, Capital Management Plan, so unlikely that we will conclude with that -- that panel today. We still have some questions from the Board on financial forecasting and then re-direct.

So tomorrow, we have Project NOVA

scheduled for the whole day and are starting the day at nine o'clock on the confidential module for the Board to hear submissions on Deloitte's claim for confidentiality over the IFRS-14 opinion.

So what I believe works for all parties here is that we will -- where ever we finish today on the Capital Management Plan, we will then defer any -- anything that's left to Wednesday so that tomorrow's schedule will not change. It will start with the CSI motion and NOVA.

If there's any follow-up on NOVA that needs to run into Wednesday, I would expect we would continue that on Wednesday and then, ultimately, resume the Capital Management Plan panel at some point after that on Wednesday.

And I -- I believe that everyone -- I have not checked with MPI about this, but everyone that was in the room until a few moments ago is able to stay until 4:30 today, if that suits the Panel. We just need to hear from MPI in that regard.

MR. ANTHONY GUERRA: That should be fine.

MS. KATHLEEN MCCANDLESS: Okay. Thank you.

PANEL CHAIRPERSON: Yes, that's fine,

and the Panel will sit until 4:30.

MS. KATHLEEN MCCANDLESS: Thank you.

PANEL CHAIRPERSON: Thanks very much. Mr. Gabor...?

BOARD CHAIR GABOR: Sorry. Kristen, could we go to page 8 of the presentation? Okay. I'll just throw this to the panel. I don't know if it's going to be Mr. Kolaski or somebody else, but just quickly.

Your -- your projections for Extension, those numbers are the numbers you're projecting at the end of the year. Is that correct?

MS. CARA LOW: That is correct --

BOARD CHAIR GABOR: Okay.

MS. CARA LOW: -- yes.

BOARD CHAIR GABOR: But that -- but the number for Extension, for example the day before, may be higher than that. Is that correct?

MS. CARA LOW: The plan would be to move the money over from Extension that exceeds 200 percent before year end, so, yes, that could be.

BOARD CHAIR GABOR: Right, but if you decide you wanted to move the money to DVA or another project before the end of March, you could do so?

MS. CARA LOW: Right. And as we'll

talk about in the Capital Management Plan Panel, MPI's management will never move it anywhere else, that would be a board of directors decision.

BOARD CHAIR GABOR: Okay, but in terms of those projections, does that anticipate that that will be, for example, the amount in Extension as of March 28th or 30th, no transfer, or is this -- there -- there are amounts contemplated that will be transferred prior to the end of March?

MS. CARA LOW: This would have transfer in there 'cause you have the 200 percent flat amounts, and that's because it's been transferred over to Basic.

BOARD CHAIR GABOR: Sorry. Yeah. We're talking parallel.

MS. CARA LOW: Okay.

BOARD CHAIR GABOR: Money going from Extension reserve to something else prior to March 31st. Does this contemplate monies going to --

MS. CARA LOW: No, it --

BOARD CHAIR GABOR: -- so this is Extension stays whole, not like before where monies were transferred to -- to DVA prior to month end.

MS. CARA LOW: Correct.

BOARD CHAIR GABOR: Okay. Thank you.

I think, Mr. Kolaski, the -- the last two (2) areas I've got are for you.

OKRs. When did that first start? That's the first I've heard of it.

MR. RYAN KOLASKI: Just one (1) second.

(BRIEF PAUSE)

MR. RYAN KOLASKI: I understand we're into year 2.

BOARD CHAIR GABOR: So it was mentioned in a prior hearing. Is that your understanding?

MR. RYAN KOLASKI: I don't know if it was mentioned. I'll just check.

My understanding is the term 'OKR' was not used last year.

BOARD CHAIR GABOR: Okay, but -- but that MPI did use the concept before?

MR. RYAN KOLASKI: Yes.

BOARD CHAIR GABOR: Now, you made -- you made the comment about wanting to integrate it.

How long do you think it will take to integrate it in MPI?

MR. RYAN KOLASKI: It's a fair question. Directionally was your question comes down to two (2) things. It's a maturing process, number 1; and then, number 2, kind of the vision of the permanent CEO and then what the tone of the government is, right?

So part of OKR is setting objectives relative to corporate strategy, and then you work towards that.

So we have today a plan of sorts that's maturing, but it's disconnected from the budget. So it's really kind of a process of, once there's a permanent CEO in place, working with them to align what that vision is and then cascading that down through individual objectives.

So in an ideal world, to get to your answer, sooner rather than later is what you would like to see, and we're aligned with that. I just can't give you a specific date or anything.

BOARD CHAIR GABOR: What's the role of KPIs once OK --

MR. RYAN KOLASKI: Well, they're -- they're both kind of the same.

BOARD CHAIR GABOR: I'm the one who's absolutely opposed to using these.

What is the role of Key Performance Indicators after Objectives to Key Results are integrated?

MR. RYAN KOLASKI: This is like a theoretical framework. I'm not an expert on the matter, but here's my interpretation, subject to check, 'cause that seems to be a good point to put in place.

So OKRs are Objectives of Key Results, so you set a higher level objective, kind of an ambitious goal, and then you work towards that; whereas a KPI is more very specific, performance service based. How many people walked into the service centre today? How many people were at this level of service?

So KPI is very much more operational tactics, whereas an objective is a little higher end, like a little more visionary. So think of KPI sometimes when you would look at, in a very typical cadence, very timely and over a long period of time.

OKRs are more objective setting, so you check in with them say every three (3) months, quarterly, and then you revise those on an annual basis type of cadence. But again, I'm not the best person to do that, but Shayon is here tomorrow and he can kind of give you a broader perspective --

BOARD CHAIR GABOR: Yeah.

MR. RYAN KOLASKI: -- of what that would look like.

BOARD CHAIR GABOR: Okay. Thank you. On labour disruption, you made the comments about there are savings and there are costs, and that.

How long after the disruption can you go back and look at all of the items and say, Here's the final result?

MR. RYAN KOLASKI: Good question. So there's going to be -- there's two (2) things around that. To the extent we can, we've created labour interruption tracking. So what is the -- like so if there's overtime, it's going to a labour interruption code, so I can kind of track what those costs are, so I kind of have some vision on what that is.

The challenge is literally how will we get through the backlog first, right? 'Cause that's a priority to deal with servicing Manitobans. And then second to that is, putting together the quantification of what were the impacts related to it, right?

And probably the biggest challenge -- and I'll turn it over to Cara -- is that whole claims piece, right, 'cause again there's a lot of data that's missing or the timeliness of that data, and then what are the implications of that time lag in terms of the IBNR.

But I'll -- maybe you can give some comments.

MS. CARA LOW: Because right now when the valuation team pulls in the data, there are no claims for the whole entire month of August because it didn't get uploaded, or September. And we know that there's backlogs, so the longer a claim stays open, the more it's going to cost. And we think there's going to be implications because we have raised the authorization of body shops, right?

So you have up to two (2) years to report a claim, so this could be a long time for quantification. I think by the end of this year we'll have an estimate, but I think it's a long ways off.

BOARD CHAIR GABOR: Okay. By the end of this year, you're talking March 30th of -- of '24?

MS. CARA LOW: Right, as we go through our Q2.

BOARD CHAIR GABOR: Yeah.

MS. CARA LOW: Like we were looking at Q2 financials being completed maybe in January, and then we'll do our Q3, and then of course we'll be leading into the GRA analysis. So around that time, we will have to have an estimate.

But will it be an accurate estimate? It'll be hard to say 'cause it'll be a long time before we can see some of this data. I mean, you're talking about thousands of backlogs, right? So by the time this information gets into the system, we can see if there's severity increases, what kind of claim counts we're looking at.

BOARD CHAIR GABOR: Would I be correct that we would have some sort of update as best as you could for next year's GRA?

MS. CARA LOW: Yes.

BOARD CHAIR GABOR: Okay. Thank you. Those are my questions.

PANEL CHAIRPERSON: Ms. Boulter...?

BOARD MEMBER BOULTER: Thank you. Following the resumption of work, how long do you think it would take for MPI to get right back to where it should be with service standards and work?

Do you need a month, two (2) months? What -- when do you think the public will be at their level that they need?

MS. CARA LOW: There's a lot of people currently working on that. We know that it's going to take at least a day or two (2) after labour interruption is over to get people back working.

Their laptops are no longer trusting the -- I think that's the right term -- trusting the MPI server, so they physically have to come in to MPI office in order for their laptops to recognize MPI servers, and they have to have the passwords were set.

So, you know, we need seventeen hundred (1,700) people to come through the doors in order to just get their laptops up and working. There will be some discussions with their managers. There will be some -- and a lot of them -- because we don't have space for everyone, they will then have to return home in order to turn on their laptops, so it's going to be a day or two (2) to get up and running again.

BOARD MEMBER BOULTER: What I meant was, let's say everything's up and running --

MS. CARA LOW: Yes.

BOARD MEMBER BOULTER: -- the two (2) days have gone by, but you got masses of backlogs, you got tonnes of work.

When can the public expect that their service levels will resume?

MS. CARA LOW: There is a plan being worked on right now. I don't have the details necessarily to share. I have seen it. It's in draft. There's a team working on it right now.

MR. RYAN KOLASKI: I guess the simple answer is it really depends on how long the staff are out, and then how quickly can we get through that backlog.

And part of getting through that backlog is which streams in terms of service can we overstaff or kind of use bubble staff in order to work through that more quickly in terms of not necessarily hiring staff, but perhaps keeping staff in place for a certain period of time, and it's really challenging because we just don't know.

One (1) of my team members who's working on that plan has estimated that it will -- it will be between six (6) and twelve (12) months. So it's not going to be a very short period of time, it's going to be literally a longer period of time overall.

BOARD MEMBER BOULTER: Okay. Thank you very much. I'd also like to look at figure 1 of PUB/MPI-1-20 where we're talking about NOVA costs. Bring that up.

On the chart there, I'm kind of intrigued. It looks like DVA is going to cost more than Basic, Extension, or SRE. If you pull the numbers all the way across, it looks like it's close to a hundred thousand for -- a hundred million for DVA and not as much as the others.

I'm -- I'm rather surprised that DVA's conversion to the new system is more expensive. Is there any comment on that?

MR. RYAN KOLASKI: Just one second.

(BRIEF PAUSE)

MR. RYAN KOLASKI: I will defer that to the NOVA Panel that's meeting tomorrow. They're in a better position to answer.

BOARD MEMBER BOULTER: Yeah, I have "NOVA" beside it so -- to remind me to ask for their -- tomorrow.

One (1) thing that I'm always concerned about is staffing. And you've had significant turnover, almost 11 percent over the last two (2) years.

And CAC asked the reasons for leaving, and HR provided those for you to report to us, but I'm wondering if there's anything more formal, like exit interviews, an external HR review, because I'm concerned about the morale and why people are leaving.

MR. RYAN KOLASKI: Sure. And one -- one moment. I just want to confirm something.

(BRIEF PAUSE)

MR. RYAN KOLASKI: I can confirm that we actually do exit interviews and compile information. In terms of additional studies, we're currently not aware of any.

BOARD MEMBER BOULTER: Thank you. And, again, with the morale issue, CAC, on page 45 of their Round One questions, asked about the impact on morale, and the answer was that it was deemed minimal.

My -- my question is: Who deemed this minimal?

MR. RYAN KOLASKI: Could you pull up the reference, just so I could see it.

BOARD MEMBER BOULTER: It's Round One questions from CAC, page 45.

(BRIEF PAUSE)

BOARD MEMBER BOULTER: I've got page 45. I wrote that down but CAC. No, I didn't write that down. Okay. Okay. Yeah. Okay. I'll have to get back to you on that one.

MR. RYAN KOLASKI: Sure. No problem.

BOARD MEMBER BOULTER: Okay. Thank you. And you were really kind in getting the Undertaking number 1 to -- back to us with the merit performance increase for out-of-scope staff.

And I'm wondering, is that all the bonuses and extras and is there anything else that isn't included in that?

MR. RYAN KOLASKI: Specifically as it relates to the definition of "merit"?

BOARD MEMBER BOULTER: Yes --

MR. RYAN KOLASKI: Just one moment.

BOARD MEMBERS BOULTER: -- or performance payments of any kind above and beyond a salary.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Unfortunately, we don't have anyone from HR present to quantify that. So, again, I just don't know the specific person who drafted that.

BOARD MEMBER BOULTER: Okay. Thank you very much. That's all.

PANEL CHAIRPERSON: Thank you. Ms. Nemec...?

BOARD MEMBER NEMEC: I have a number of different questions, so whoever can answer them, I appreciate that. My first question is on -- on DVA. And there were a couple large transfers that went into DVA from Extension in the last couple of GRAs.

So I'm just curious as to what the cumulative equity -- I think it's still in an equity position in DVA -- what would that be?

MR. RYAN KOLASKI: There is a positive equity balance. There was a -- someone had shown it I think when you were -- when we were talking about DVA earlier. I think, subject to check, it's around 79 or $80 million.

BOARD MEMBER NEMEC: So that would be at the beginning of this year?

MR. RYAN KOLASKI: Correct. Yeah. There was a -- there was an IR that illustrated that.

BOARD MEMBER NEMEC: Okay. Thank you. And in looking at DVA I saw some of the information that you presented today showed some changes in data processing and -- costs in the DVA, and I think it started about 2.4 million annually starting in 2021, moved up to perhaps in 2023/'24 14.1 million, then up to 20.5 million.

So just wondering about the -- those increases.

MR. RYAN KOLASKI: Sure. One second. That is primary licensing costs related to NOVA.

BOARD MEMBER NEMEC: And so those would already be expensed at this point in time?

MR. RYAN KOLASKI: Just one moment. That is correct.

BOARD MEMBER NEMEC: Okay. As I -- maybe remind me. I think the first year's licence fees would be capitalized; that's -- is that one (1) of the policies of NOVA, is to have the first year capitalized, and then, afterwards, expense?

And I'm assuming -- or are these different licence fees for something else happening with DVA versus NOVA?

MR. RYAN KOLASKI: Just one moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Subscription costs are fully expensed.

BOARD MEMBER NEMEC: And are those subscription costs for the NOVA piece of DVA?

MR. RYAN KOLASKI: It's a combination of both, but let me just confirm.

BOARD MEMBER NEMEC: Because it was 2.4 million starting in -- with all of the data processing in '21/'22, I believe.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Primarily related to NOVA, yes.

BOARD MEMBER NEMEC: And is that appropriate, that they should be expensed already? Is that consistent maybe is a better way to ask that?

MR. RYAN KOLASKI: Just one second.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That is the correct treatment as we can't capitalize those costs.

BOARD MEMBER NEMEC: Okay. The next question's on -- and I'm wondering, Ms. Schubert, if you could pull up -- and it's figure EXP5. And any possibility of putting the -- from the GRA -- both '24 GRA and '23 side by side. I think it was side by side when you -- you showed it to us earlier this morning.

And I'm looking down to the 'M' -- thank you. And I'll be looking down close to the bottom of the page.

MR. ANTHONY GUERRA: Just to confirm, are we -- are we talking about the two (2) figures that were being shown this morning? Because that would be EXP5 from the 2024 General Rate Application compared to figure 3 from the rate up -- or the update from October from 2022.

BOARD MEMBER NEMEC: Sure. That -- that's fine. Yes. Thank you.

(BRIEF PAUSE)

BOARD MEMBER NEMEC: I had the EXP5 was the right one. Yeah.

If you can scroll up -- scroll down and I can start talking about it. And what I'm looking at is the amortization of the deferred development costs.

And in 2024 GRA, when I looked 2027 and 2028 forecasts, I see that 17.4 million. And when I looked at the 2023, I think, October update, that was significantly more; like $48 million. So that's why I wanted to pull that up.

So I just wanted to understand the

difference between that 2023 GRA updated amount in '27/'28 and the difference in 2024 GRA, I think, for a similar period.

MR. RYAN KOLASKI: Do you have the '23 table, just for a reference?

(BRIEF PAUSE)

MR. MARTIN MARION: Sorry, maybe I can assist. It's MPI-96, Undertaking 15.

MR. RYAN KOLASKI: I do know part of that answer will be the change in the NOVA amortization. Prior, it was five (5) years, and now we've incorporated NOVA amortization based on a ten (10) year period. So all things being equal, the amortization of NOVA is now longer than it was prior.

BOARD MEMBER NEMEC: And throughout all of these forecasts, that changes happen -- I don't remember reading that. I'm just surprised.

MR. RYAN KOLASKI: No, that's fair. So in the current Application, it's based on a -- on the -- it's based on a ten (10) year period.

BOARD MEMBER NEMEC: Okay. So that is -- is that in your external financial statements as -- as far as what you've done in your past years' financial statements?

MR. RYAN KOLASKI: Just one second. Yes, it is, ma'am.

BOARD MEMBER NEMEC: It is. Okay. I think it's up now, which --

MR. RYAN KOLASKI: And then, the other drift that you have is the timing related to the releases and when things start to amortize related to initiatives.

BOARD MEMBER NEMEC: Okay. So it was up to 43.52 million, so that's a big change in timing.

So are you saying -- so the 2023, the document Exhibit 96 on the right is based on five (5) years as well? And the document on the left, which is a 2024 GRA, is based on a five (5) year -- or a ten (10) year amortization period?

MR. RYAN KOLASKI: That is correct. Last year was five (5); this year is ten (10).

BOARD MEMBER NEMEC: Okay. Thank you. I have a couple more.

Quick question on benefits. And -- and I might have missed it, but benefits seems to have increased by about 10 percent this year. I'm not sure if it was the Basic line or the overall corporate expenses. And I'm -- I can't remember anyone discussing that 10 percent increase.

Can you address that?

MR. RYAN KOLASKI: Sure. I believe there's an IR that actually has a table that shows what the change in the increase is.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Does your question relate to EXP-17 of the expense chapter?

BOARD MEMBER NEMEC: I think you can just look at the document on this -- yeah, on the screen right now. From thirty-six (36) -- thirty-six (36) -- probably from '22/'23, 36.1 million to '23 to '24. That increase is perhaps what I'm -- I saw the 10 percent increase.

(BRIEF PAUSE)

BOARD MEMBER NEMEC: And then it actually stays quite stable.

MR. RYAN KOLASKI: The primary change is the superannuation expense.

BOARD MEMBER NEMEC: And was that excluded last year?

MR. RYAN KOLASKI: No.

BOARD MEMBER NEMEC: Just an increase?

(BRIEF PAUSE)

MR. RYAN KOLASKI: That's unknown at this time.

BOARD MEMBER NEMEC: How do I get to know?

MR. ANTHONY GUERRA: Ms. Nemec, we can provide an undertaking, if that's suitable.

BOARD MEMBER NEMEC: I'd appreciate that.

MR. ANTHONY GUERRA: Thank you.

--- UNDERTAKING NO. 23: MPI to confirm if the superannuation expense increased from last year

BOARD MEMBER NEMEC: My next question is about the allocation of initiative expenses. And I understand you have an integrated cost allocation methodology that's very -- I think it's 68 percent this year, somewhere around there -- between sort of your general operating expenses.

But when it comes to the initiative expenses, just would like a little background on how that gets allocated and the objectivity of that allocation.

MR. RYAN KOLASKI: Sure. One moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Each individual project is reviewed and then determined which line of business benefits the most from it. And then, that allocation is applied to that specific project.

The person who determines that is the project accounting team.

BOARD MEMBER NEMEC: So is that an amount that each month they look at the costs and allocate it? Or does it actually come down to consultants directing their time in a specific manner? Is it -- or is it a decision just of the project manager?

MR. RYAN KOLASKI: Sure. Let me just confirm that.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That -- that percentage allocation is done up front at the initiation of the project. And then that allocation holds true through the balance of that project.

BOARD MEMBER NEMEC: So the -- the division that is accepting those charges, do they approve it or they -- they're an allocation to their actual department's costs -- is that something that is done in coordination or it's just an allocation that is accepted? I'm not sure if I'm asking that right.

MR. RYAN KOLASKI: I know what you mean, so let me just confirm.

(BRIEF PAUSE)

BOARD MEMBER NEMEC: And that comes down -- a bit of a budget process then.

(BRIEF PAUSE)

MR. RYAN KOLASKI: So the person introducing the project would be the business owner, typically the VP. So, prior to it coming to Project Management, they've already signed off, as to the expectation of who's going to own that particular project.

BOARD MEMBER NEMEC: Okay. Thank you. Question about deferred policy acquisition costs and I think it's -- said that the new IFRS-17, and I believe that's a choice to accept expensing of those deferred policy acquisition costs.

So, MPI's decided to expense those on an ongoing basis and not to defer them. And I think it's been said that that's a one time kind of hit in that it's impacting the opening surplus.

So, for -- not really a hit on the financial statements, but where it might impact and -- in -- and I'm just trying to make sure I understand this correctly, is that the MCT each year will have a reduced surplus on an ongoing basis by that thirty-eight (38) million, per se, I think is -- which is the amount of the Basic-only portion of the deferred acquisition costs.

Is that correct? So, each year MCT equity will be lower, so it has an impact on that MCT ratio annually.

MR. RYAN KOLASKI: It is just a one time transition. So, it just happens at the beginning of adoption of IFRS-17.

The actual acquisition costs that were

deferred, are now being expensed on an ongoing basis.

BOARD MEMBER NEMEC: Right, but it still -- but I'm just trying to understand, it's to -- it always has an ongoing impact on equity because it would have been -- there would have always been $38 million --

MR. RYAN KOLASKI: Prior -- under IFRS-4, you're correct, it wouldn't have been in there --

BOARD MEMBER NEMEC: So, it's cumulative.

MR. RYAN KOLASKI: Yeah.

BOARD MEMBER NEMEC: So, it -- it has a one time impact on your financial statements, but it's a cumulate impact on that MCT ratio.

MR. RYAN KOLASKI: Yeah.

BOARD MEMBER NEMEC: Correct. Thank you. And the improvement initiate -- I'm almost done.

The Improvement Initiative Expenses, in '22 and '23 have not been included, I think, in -- in the MPI schedules, as sort of -- of --

MR. RYAN KOLASKI: Pardon me.

BOARD MEMBER NEMEC: -- for deferring them and going forward. So, I think that's 11.7 million in fiscal '22, 13.1 million in fiscal '23.

So, in effect, because those weren't deferred, the rate pay -- they were included in the rate indication, so that was part of rates that customers, ratepayers, would have paid.

So, I'm assuming the only way that that gets recognized for those customers is in the future -- a future refund, in that that those monies are now in equity.

So, it would be -- I'm trying to look at that equalization for ratepayers, or that -- and I think it comes at some point in the future when they actually have a rebate.

MR. RYAN KOLASKI: That makes sense.

(BRIEF PAUSE)

MS. CARA LOW: That would be correct.

BOARD MEMBER NEMEC: Okay.

MS. CARA LOW: It's in the rate, so therefore, eventually, if the MCT gets high enough, they would get it back as a rebate.

BOARD MEMBER NEMEC: Okay, thank you. And I think this is my final question.

I've heard the IFRS-17 is not finalized or IFRS figures are subject to change and there's an ongoing review.

I'm just wondering where you are in that process; when you -- when will it be finalized. Are you almost there or what do you mean by not finalized?

MS. CARA LOW: We're feeling much more comfortable with the income statement transactions and the balance sheet transactions.

Where we need to do a lot of work still is on the MCT. When will it be finalized, I think would be after Q4 of next year, so March 31st, 2024, after it's audited.

But we're not the only ones struggling with IFRS-17. It's a big change and we hear from our peers or hear, you know, even in the insurance news that other companies are struggling with it.

But we're in a much better position now than we were a few months ago even.

BOARD MEMBER NEMEC: Okay. Thank you. Thank you.

PANEL CHAIRPERSON: Mr. Bass...? Mr. Gabor...?

BOARD CHAIR GABOR: Yeah, I have a supplementary question on the issue of NOVA.

I must have missed it in the rate

application. I didn't realize the amortization rate --rate had changed from five (5) years to ten (10) years.

And I'm just wondering if -- if either this panel or the NOVA panel, tomorrow, could point to the Application where it states that the amortization changed from five (5) years to ten (10) years.

So, you -- you can either do it by way of Undertaking or whoever is handling the NOVA panel tomorrow, they could -- could point it out.

(BRIEF PAUSE)

MR. RYAN KOLASKI: We'll have the NOVA panel present that tomorrow. We'll dig out the IR in which that was actually addressed, so.

BOARD CHAIR GABOR: Thank you very much, appreciate it.

PANEL CHAIRPERSON: Mr. Guerra...?

MR. ANTHONY GUERRA: Thank you, Madam Chair, I have no further redirect, but I do want to make sure that I give Ms. Scott her due.

I, unfortunately, missed addressing Dorothy Scott, our Financial Standards Specialist, as a back row member of our panel this -- this afternoon.

So, my apologies for that. And right behind me.

PANEL CHAIRPERSON: Thank you very much. And thanks very much to the Financial Forecasting Panel and we will not carry on with the Capital Management Plan and we need the same members.

(PANEL STANDS DOWN)

PANEL CHAIRPERSON: Mr. Guerra...? Oh, I'm sorry, Mr. Scarfone?

MR. STEVE SCARFONE: That's perfectly all right, Madam Chair. Thank you.

Yes, so we will now proceed with the Capital Management Panel and as you've indicated, Madam Chair, we have Ms. Low and Mr. Kolaski on the front row to make that presentation for you.

Supported in the back row by, Ms. Ostapowich, our Director of Evaluation and Capital Management; Mr. Dunstone, Manager of Financial Forecasting; Mr. Gaudry, Manager of Budgeting; and, Mr. Bunston, who is our Director of Asset Liability Matching and Investment Management.

And, you have before you the presentation and so, in the interest of time, I'll just have the panelists go through the presentation for the Board.

Sorry, Madam Chair, we're just trying to determine if two (2) of the back row members are appearing virtually.

Okay, so, correction. It is just Ms. Ostapowich that's appearing virtually. Mr. Gaudry is not joining the back row support.

PANEL CHAIRPERSON: Thank you.

MPI CAPITAL MANAGEMENT PANEL:

CARA LOW, Resumed

RYAN KOLASKI, Resumed

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MS. CARA LOW: Okay. So, we'll get started now on the Capital Management Panel presentation for the agenda.

I'm going to do the entire presentation. We're going to do a quick introduction. We're going to talk about what the purpose of the Rate Stabilization Reserve is, what is a MCT, then we're going to talk about the proposed Capital Management Plan and how it's applied.

So, if we can go to the next slide. There has been debate over the last few GRA's on the appropriate amount of the RSR, in order to achieve its purpose.

The Government of Manitoba amended Section 18, of the MPIC Act and that received Royal Ascent on November 4th, 2022.

So, now that the Capital targets are now in legislation, the focus of this GRA's discussion now turns to the items requested in last year's PUB Directive 12.12.

So, the proposed CMP establishes how MPI proposes to achieve and maintain a 100 percent MCT target; as well, the processes and criteria in order to provide a rebate back, a capital rebate.

There are no changes to the capital build provision as it's been presented in the last few GRAs. So to the next slide.

So what is the purpose of the RSR? It's to protect ratepayers from unexpected events. As we talked about in the Claims Forecasting Panel and also the Ratemaking Panel, when actuaries do their pricing, we price to the best estimate to the expected cost for the rating year.

The RSR is for unexpected events, not built into pricing. So items such as high inflation, maybe past claims costing more than we expected, so pricing risk in the past, or large catastrophic events.

There's been two (2) recent events where the RSR came into play. Over the last two (2) fiscal years, not including the current, the last two (2) fiscal years, MPI put away $118 million for the indexation of PIPP benefits due to unexpected inflation.

And the other one is a recent hail event, and we do fully expect -- even though we don't have all our data yet, we do fully expect it to -- those hail events to cost more than we factored into pricing for this current rating year.

So if we go to the next slide, what is the MCT? MCT is a metric used to determine the level of the RSR; so how much money should be in the RSR. It's a standardized test used by the property and casualty insurance industry, and it was developed to assess key risks faced by all insurance companies and to harmonize capital requirements across Canada. It's a risk-based approach that provides a standardized measure of capital adequacy.

So the MCT itself is just a simple ratio: How much capital does a company have divided by how much capital does a company require. So when you look at the numerator, the top piece of the ratio, it's fairly easy to calculate 'cause it's your retained earnings less a few adjustments from the accounting side, AOCI and a few items. We call that the Rate Stabilization Reserve in the Basic line of business, but it's basically a retained earnings.

How do we calculate capital required? Well, it's a formula-driven calculation, and it assesses the riskiness of both assets and liabilities -- so both sides of the balance sheet -- as well as off-balance sheet risks such as operational risks.

This assessment is achieved by applying various factors that are set to an industry target confidence level of 99 percent over a one (1) year time horizon -- so the set calculation across the industry.

Now in the last few GRAs, there's been talk about maybe this required capital calculation from the MCT is maybe not applicable to MPI because of who we are, and maybe we're not the same as other insurance companies.

So if we turn to the next slide, we can see MPI's board of directors approved risk taxonomy. A risk taxonomy is just a list of risks within the Company, and this has been approved by our board of directors in the last couple of years.

So like all companies, MPI has operational risk, but what is operational risk? It's a risk of a loss resulting from inadequate or failed internal processes, people, systems, or from external events.

So if you look at the list of operational risks on this slide, you'll see many categories on that list that correspond to recent events at MPI, the top one being, labour interruption as a people risk.

When you look at financial risk, you can see that we have market, credit, and revenue risk. Under market risk, we would have interest rate risk. MPI has significant interest rate risk.

We have a longer claims duration probably than any other insur -- property and casualty insurance company in Canada, and it's very difficult to manage this interest rate risk when we don't know what's going to happen with interest rates thirty (30), forty (40) years from now.

So we want to make sure that our assets and liabilities are moving in tandem to mitigate interest rate risk.

And then when we go down to the bottom

insurance risk where reserve risk is big; if it's going to take thirty (30), forty (40) years to pay out a PIPP claim, very difficult to know how much money to put aside.

Now, if we have trouble determining sometimes how to quantify claims that have already happened in the past, as you can imagine it's difficult to project how claims are going to play out in the future when we haven't even sold those policies yet, so therefore those claims haven't even happened and that is pricing risk.

And then of course the very last one, cat risk, catastrophe risk. Well, we've had a very bad claims year for hail, and that's cat risk. So this again is an MPI board-approved list of risks that we worry about.

So if you flip to the next slide, we will not go through this calculation, but this is how we calculate required capital. And this is coming out from the OSFI, so the Office of the Superintendent of Financial Institutions, the federal government, the guidelines.

This is under IFRS-4, but it's very similar under IFRS-17, but with slightly different wording. And all I want to point out is: What does

OSFI worry about? Reserve risk, pricing risk, the insurance risk, cat risk, market risk, credit risk, and operational risks.

So again, they're worried about all the same risks that MPI is worried about. So this why MPI continues to believe the MCT calculation is an appropriate metric to use.

So let's move on to the Capital Management Plan and what we're proposing. So the RSR target is 100 percent. MPI's interpretation is that the target is (INDISCERNIBLE) and the Basic MCT is at 100 percent or greater based on year-end audited financial statements.

Even though the target is 100 percent, a range is required as there are natural fluctuations and it wouldn't be logical to get into a rebate-rebuild kind of cycle back and forth and back and forth. So we have an upper threshold built into legislation that's 120 percent MCT.

MPI would apply for a capital rebate when the Basic MCT exceeds one twenty (120). If the MCT falls below 100 percent, MPI would establish a plan for a capital build to bring the Basic MCT ratio back to at least a hundred (100) within five (5) years.

MPI is also proposing -- and this is new this year -- that ratepayers on a Rebate Surcharge Program such as Fleet or any future TNC blanket policies are excluded from the CMP as they've not contributed to any capital surplus or deficiency.

One (1) thing to note, and -- 'cause this may not be obvious, the calculation of the Basic rate indication is independent of the CMP. So like I keep saying, the rate indication is for expected costs, CMP is for unexpected costs.

So any capital surplus or deficiency is due to unexpected results from the past. So this could mean that rebate is proposed in the same year as a rate increase is filed, or a capital build could be proposed in the same year a rate decrease is filed. They're independent events. Next slide, please.

So the Basic MCT discussed in the previous slide is after any capital transfers from the Extension line of business. The targeted MCT for Extension is 200 percent. If at the year end audited MCT exceeds 200 percent, the CMP states that all excess capital is transferred over to the Basic line of business before year end is closed off.

This is what the CMP states, and this is a plan for the MPI executive. However, the MPI board of directors may transfer excess funds to cover subsequent or existing shortfalls in other lines of business. For example, DVA funding is needed as the funding is not enough to sustain the DVA line of business. Next slide.

So let's look at the capital rebate in a little bit more detail. The legislation says that MPI cannot pay a rebate from the RSR unless the MCT exceeds one twenty (120) at the beginning of the fiscal year.

The opening balance for a fiscal year is normally the same as the closing balance for the previous fiscal year, but the legislation was written this way to ensure any transfers between line of businesses were completed.

MPI's interpretation of the legislation is a rebate can only be paid if the year-end audited financial MCT exceeds one twenty (120). The legislation is written so that MPI can provide a rebate over one twenty (120), but it is not mandated.

So our plan is, as soon as it's over one twenty (120), we would rebate, and that would be what the MPI executive team would use, but that is up to the discretion of the MPI board of directors.

The plan is to pay the full rebate

regardless of any projections into the future -- this is a change from last year -- and the timing of -- of a potential rebate is laid out at the bottom of the slide.

The year-end MCT is finalized in May. By mid-June it's been audited. It goes through our audit committee into our board of directors where it is approved. Then we would file around mid-June to end of June, and in that filing we would include a special rebate application, maybe we would go through this process. And the rebate would be paid in February of the following year. So next slide.

When we look at triggers, there is no decision making for a rebate trigger. If it's over one twenty (120) at year-end, we would pay a rebate. In contrast, there is a decision process for applying for a capital build. A capital build would be proposed if the forecast shows that the MCT is not restored to a hundred percent within a five (5) year period.

But MPI continues to propose a capital build provision would be capped at either 5 percent as a combined AAP rate indication and a capital build. So if we had a rate indication of 3 percent, we would only do a 2 percent capital build, and this is just to provide rate stability. And then the next slide.

I'm not going to -- one (1) more, please, thank you -- dwell on these because Mr. Kolaski about this a little bit earlier, but this is a conversion at -- from one accounting standard to the new accounting standard.

But, as we know, IFRS-17 MCT is still under investigation, so there's still a lot of uncertainty. But there is a expectation that available capital will change. As you can see, the required capital does not change by much; it's all in the available capital.

And we do expect the MCT to increase for Basic; it's -- the question is by how much, and that's due to the actuarial assumptions for the time, value of money, and the provision for uncertainty.

And on the Extension side, because it's shorttail, it would be decreasing, and that's because of the deferred acquisition expenses.

So if you go to the next slide, what we have here is year-end for -- that just past under the old accounting standard, and then the five (5) year forecast under the new accounting standard. So this doesn't have the conversion for March 31st, 2023.

The first part of the slide shows the

MCT without any kind of Capital Management Plan applied or Extension transfer.

And then the middle one would be the Extension transfer, so you see the 200 percent. And then the last one has the capital rebate.

So, based on this five (5) year forecast, you're looking at a capital rebate in the '25/'26 year but, again, there's still a lot of uncertainty around this MCT.

But where -- what we really do want to look at is under our year-end financial statements, IFRS-4, we are at a 110.8, so very comfortable within out capital range, and so there is no application for a capital rebate, nor for a capital build.

So, in conclusion, the very last slide, we are looking for alignment with PUB on how we achieve and maintain a Basic RSR of a hundred percent MCT and the criteria and processes for when we would do a rebuild -- a rebate, I should say, but -- and then continue use of the capital build provision, so no changes since the 2020 GRA.

And that concludes the presentation.

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

MR. STEVE SCARFONE: Thank you, Madam

Chair.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you for that presentation. Just a couple questions. Ms. Schubert, if you'd go to slide 3, please

So last year, Panel members, you'll recall that the Corporation did bring before this Board a proposed Capital Management Plan that was rejected by the Board. I understand that the Corporation has brought a new and improved CMT.

I'm just wondering, Ms. Low, I heard you mention a couple different things, one (1) of which is that the current CMP that's now being proposed does not project -- or does not look to projections of the RSR into the future; that is, whether it would fall below a hundred percent MCT. That you said is different. Also, the exclusion of TNC and fleet customers from the rebates; that, too, is new.

Is there anything else that's new with respect to this CMP that's before the Board?

MS. CARA LOW: I don't believe so.

MR. STEVE SCARFONE: So those are the two (2) main elements that have changed since last year?

MS. CARA LOW: Exactly. Yes.

MR. STEVE SCARFONE: Thank you. Mr. Kolaski, I know you've already described this in the Financial Forecasting Panel but, sir, the CMP -- or sorry -- the MCT is at 135.5 percent, correct?

MR. RYAN KOLASKI: One thirty-five when you say IFRS-17 restated?

MR. STEVE SCARFONE: Yes.

MR. RYAN KOLASKI: That is correct. That's our current -- current suggested MCT based on what we know today.

MR. STEVE SCARFONE: And so that, of course, is above the 120 percent MCT trigger, correct, under the CMP?

MR. RYAN KOLASKI: That is correct.

MR. STEVE SCARFONE: If the Corporation was to apply for a rebate, and I know that the Corporation is not, would the Corporation soon be applying for a rebuild?

MR. RYAN KOLASKI: Just to clarify, so you're suggesting that if we did in fact issue a rebate related to '22/'23, then that would then transpire into future years, creating a potential situation in which there would be a rebuild?

MR. STEVE SCARFONE: Yes, correct. If -- if they used the MCT number that occurred following the transition to IFRS-17.

MR. RYAN KOLASKI: Are you specifically, again, just to clarify, looking on how that rebuild process would work?

MR. STEVE SCARFONE: No, whether in fact a rebuild might be necessary if a rebate was to be applied for today.

MR. RYAN KOLASKI: Just one second.

(BRIEF PAUSE)

MR. RYAN KOLASKI: I think I'd have to go through actually and do the math, right, on what the change to the MCP -- MCT impact would be. But -- but quickly math and using legal math, as been put forward here today, it would be under a hundred percent.

If we did drop down below a hundred percent, then we would have to look at how quickly the MCT is being built back up to a hundred versus looking at a capital build situation.

MR. STEVE SCARFONE: Okay. Thank you. And under the new Capital Management Plan, Mr.

Kolaski, is there still some discretion that's left with the Board of Directors to transfer excess equity from Extension to other lines of business before end of fiscal year-end?

MR. RYAN KOLASKI: That is correct, yes.

MR. STEVE SCARFONE: And so that remains the same from the CMP that --

MR. RYAN KOLASKI: From last year.

MR. STEVE SCARFONE: -- from last year?

MR. RYAN KOLASKI: That is correct, yes.

MR. STEVE SCARFONE: The requirement to make use of audited financial statements isn't found in section 18, correct?

MR. RYAN KOLASKI: That is correct.

MR. STEVE SCARFONE: So that's something that the Corporation decided to include in its CMP as a policy reason?

MR. RYAN KOLASKI: That is correct. We felt it was just good financial prudence; that's why we've suggested it.

MR. STEVE SCARFONE: And, Ms. Low, was there any changes made to the manner by which the

Corporation would apply for a rebate under the new CMP?

(BRIEF PAUSE)

MS. CARA LOW: I just wanted to clarify how we would calculate the rebate because I think I missed that, is that if you look at slide 13, and if you look at the first bullet point, the second half:

> "And rebate not projected to bring RSR below 100 percent."

Our interpretation of that is that year-end audited financial statement that exceeds 120, the amount that would bring it back to a hundred because that's a audited known number. So it's not based on a forecast, it's a audited known number. And so that's our interpretation of the quantification of the rebate.

MR. STEVE SCARFONE: Okay. Thank you for that explanation.

And what is the Corporation's position with respect to applying for a rebate before this Board if the -- if the MCT was to exceed 120 percent? Is there any discretion with respect to that?

MS. CARA LOW: Our plan is that anything over 120 we would do a special rate -- rebate application; that is the plan. MPI executives have no control over any decisions made by the MPI Board of Directors, but that is what we would propose. That is what the policy -- or the plan states.

MR. STEVE SCARFONE: So is there any scenario under which MPIC would have its RSR exceeding 120 percent MCT and not apply to this Board for a rebate?

MS. CARA LOW: No.

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

PANEL CHAIRPERSON: Thank you. Ms. McCandless...?

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. I'm not sure that I'll make it through all of my Capital Management Plan questions before 4:30 today, but I will start.

And so first, Ms. Low, I just wanted to follow up on something you mentioned in your presentation about the recent hail event.

I understand that, over the past year,

MPI increased its re-insurance retention from 40 million to $50 million?

MS. CARA LOW: That is correct.

MS. KATHLEEN MCCANDLESS: And so, then the hail event -- the recent hail event, I take it would not have been a hit of 50 million or more triggering re-insurance?

MS. CARA LOW: Very, very preliminary numbers because there's not a lot of data right now because of labour interruption. But high level, we're thinking might be about 70 million. There might be about $20 million of recoveries. But we do not expect even a 50 million, never mind a higher level, in our pricing.

It's about $30-some million that gets into pricing. Because if we were to hit $50 million every year, then our retention is too low and we wouldn't need to by the insurance, right, so.

MS. KATHLEEN MCCANDLESS: Thank you. Now, I want to ask some questions about capital required. And MPI Exhibit 50 -- or 77 is the correction, so maybe we would go to that exhibit.

And this was -- has already been canvassed a fair bit. Just wanted to scroll down to line 31 here. And so, we're looking at the minimum capital required at 100 percent MCT at 2022/'23 year end.

Under IFRS-17, that is line 31, $341.3 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And then, just moving one to the right, the corresponding minimum capital required at 100 percent MCT at 2023/'24 year end is $407.4 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And this is about $30 million less -- less than the amount shown in PF-3 in the filing? And probably helpful if we took you there. Now we're looking at MPI-77, going to PF-3.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Can we just scroll down a little bit, please? Thank you. Okay.

So we're looking at the -- line 31 MCT?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And so, you see 430.4 million, at line 31, for 2024 forecast?

MS. CARA LOW: Yes, I do.

MS. KATHLEEN MCCANDLESS: And so, just to confirm, that's roughly 30 million more than what we just saw at MPI number 77?

MS. CARA LOW: I would agree, yes.

MS. KATHLEEN MCCANDLESS: What was the cause of this decrease?

MS. CARA LOW: One moment, please.

(BRIEF PAUSE)

MS. CARA LOW: It's a combination of many different reasons as we continue to work through IFRS-17.

MS. KATHLEEN MCCANDLESS: And if we could go to PUB/MPI-1-18. And first, the question 'B'. Thank you.

So here, MPI was asked to explain why the required capital increased by 79 million in 2024 forecast from the level required in the 2023 budget forecast.

Due almost entirely to changes in capital required to support invested assets. Whereas, the Mercer report indicated a required increase of about $57 million?

MS. CARA LOW: I do see that.

MS. KATHLEEN MCCANDLESS: And then, the response, at page 3, was that -- and I'm just going to paraphrase -- the -- that the increase was due to the fact that the MCT guidelines seemed to miss nuances that can be picked up in an economic model.

In this case, the diversification benefits that are captured through correlations?

MS. CARA LOW: Yeah, there is no diversification benefit between asset classes and the OSFI MCT calculation.

MS. KATHLEEN MCCANDLESS: And as you've confirmed, MPI has a legislated 100 percent MCT target for Basic.

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: And that requires MPI to ignore the diversification benefit when determining whether to request a rebate or a capital build?

MS. CARA LOW: Correct. Because it's on an AMCT.

MS. KATHLEEN MCCANDLESS: Thank you.

MS. CARA LOW: There's diversification between the various risks; insurance risk versus investment risk. But there is not within the classes of assets.

MS. KATHLEEN MCCANDLESS: And now, with respect to the current status of the Capital Management Plan, historically -- so in last year's Order -- and perhaps we could go there for reference. So that's Board Order 4/'23, and I'm looking at page 68, just below section 4.4.

The second paragraph there, the Board confirmed that the Capital Management Plan that had been approved in 2019 was extended for one (1) year in the 2022 GRA and, as of last year, had expired?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And Mr. Scarfone had mentioned, when he was asking some questions before his departure, that the Board had dismissed MPI's request last year for approval of the -- of the Capital Management Plan?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And so, there's no -- currently no approved Capital Management Plan, so no approved mechanism for either a capital rebate or a capital build provision at this time?

MS. CARA LOW: Agreed.

MS. KATHLEEN MCCANDLESS: Okay. And as you are well aware, I'm sure, Ms. Low, the Board directed the Corporation in last year's Order 4/'23 to file the revised Capital Management Plan in this GRA?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And the proposed CMP as filed by MPI, just to confirm, has three (3) steps. So capital transfers from Extension?

MS. CARA LOW: Correct. Yes.

MS. KATHLEEN MCCANDLESS: Two, determine the capital rebate provision, if applicable.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And three, determine the capital build provision, if applicable.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: Okay. Now, looking at capital transfers from Extension -- and I'm going to do a bit of a historical walk through this.

If we start at EPF-1 from the 2020 GRA, appreciating, Ms. Low, this was before your tenure with MPI, and so, this was the Extension Statement of Operations filed in 2019. And we're going to go down to line 29. Thank you. Perfect. Okay.

So -- and then, I'm looking at the projected net income of Extension in 2020. So line 29. And it's 2020 forecast budget, and we see that that projected net income was $46.4 million?

MS. CARA LOW: I see that.

MS. KATHLEEN MCCANDLESS: And then, if we could move up in the pro formas from the 2020 GRA to PF-3. Perfect. Thank you.

So this shows the statement of changes in equity and this is, again, from the 2020 GRA. Looking to line 7, we see that there was a transfer from Extension to Basic in 2020.

So 2019/20 forecast budget of $63.1 million?

MS. CARA LOW: I see that, yes.

MS. KATHLEEN MCCANDLESS: And if we stay at PF-3, it also shows, at line 7, transfers from Extension to Basic forecasted in every future year?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: Then moving on to the 2021 GRA and EPF-1 from that filing. Thank you.

So this is as of June 17, 2020. And again, we're looking at line 29. For Extension, the actual net income for 2020 actual -- so we're looking at the year's ended of March 31. And line 29 -- or 31, the actual net income was $37.88 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: Okay. And

then, moving up to PF3 from that same year, thank you.

We see, now looking at line 8, for 2020 actuals, so twenty-nine -- 2019/'20 actual, the transfer -- there was no transfer from Extension to Basic retained earnings. Right?

MS. CARA LOW: Right. Yes.

MS. KATHLEEN MCCANDLESS: It was rebated to Basic policy -- policyholders directly from Extension during the pandemic period.

Are you familiar with that -- I appreciate it's before your time.

MS. CARA LOW: Yes, I -- yeah, I am.

MS. KATHLEEN MCCANDLESS: And the net income, if we go back to EPF1, please, from this same year, line 29.

The projected net income of -- for Extension from -- for the 2021 forecast budget as reported in the 2021 GRA, at line 29, was $51.8 million.

MS. CARA LOW: I see that.

MS. KATHLEEN MCCANDLESS: Okay. And then if we go back up to Pro -- Pro forma 3, there was an expected transfer to Basic at line 8 for 2021 forecast budget $64.7 million?

MS. CARA LOW: Right. I see that.

MS. KATHLEEN MCCANDLESS: And then to the next GRA, so 2022 and EPF-1. Perfect, thank you.

So, now we're looking at the filing from the 2022 GRA and the actual net income from Extension for 2020/'21.

And, looking down at line 29, we see the actual net income was $55.7 million.

MS. CARA LOW: I see that, yes.

MS. KATHLEEN MCCANDLESS: And then if we go to PF-3, here again, we see that there was the -- there was no transfer, again, to Basic because it was instead transferred to DVA.

MS. CARA LOW: Right. Yes.

MS. KATHLEEN MCCANDLESS: And if we go back down to EPF-1, from the 2022 GRA, the projected net income for 2021/'22 forecast budget for Extension was line 29, $57.2 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And, again, there was no expected transfer to Basic that year because it was projected to be transferred to DVA instead?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And then last year's GRA, EPF-1. Thank you Kristen, and going down to line 29, the actual, oh -- EPF, pardon me. Perfect. Thank you.

Again, looking at line 29 and we are looking at the actual net income for 2022 for Extension and that was $49.6 million.

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And if we go to PF-3, we see there was no transfer at line 8 from Extension to retained earnings for Basic.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. And in last year's GRA, it was projected at line 8 that all the future years would see transfers from Extension, retained earnings to Basic. Correct?

MS. CARA LOW: Correct, under IFRS-4.

MS. KATHLEEN MCCANDLESS: Right. Okay. And so, for example, we see that there would be an expected transfer in 2023 forecast budget of $42.3 million and that's based on, if we go down to EPF line 29, that would have been Extension net income, pardon me, of $51.9 million at line 29 for 2023?

MS. CARA LOW: Correct. Yes.

MS. KATHLEEN MCCANDLESS: Now, if we're looking at the 2024 GRA and we could go to PF-3, again, I think we've got that there. Perfect. Okay.

We see that the transfer to Basic at line 11 for 2023 actual was 34 million -- the final --

MS. CARA LOW: Yes, I see that.

MS. KATHLEEN MCCANDLESS: And that the actual net income of Extension, which would be at EPF-1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Yeah. Thank you. Under IFRS-4, and line 29, 2023 actuals shows a net income for Extension of $38.4 million. Yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And, if we could go back to PF-3. Thank you. And we're looking again at line 11.

The projected transfers to Basic from -- to Basic from Extension, according to PF-3, for 2024 and 2025, are zero (0). Is that right?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And then if we could go to the Financial Forecasting Presentation, and we're looking at page 8, so that's Exhibit 72.

So, the bullet under the chart here says,

"No Capital Transfers from Extension
to Basic are Forecasted."

Yes?

MR. RYAN KOLASKI: That was in specific reference to '24/'25. So, it's 189 percent, so it's less than 200 percent. So, there's no transfers.

And then my comment was, going forward, the transfers would occur, bringing you back to two hundred thousand (200,000) and then there would be a potential rebate in '26/'27 under Basic, at that point in time.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. So, if we go to Exhibit MPI-77, PF-3. Thank you. Line 11 shows transfers from Extension to Basic in 2025/'26 of 27.7 million. Yes?

MS. CARA LOW: Yes. Yes.

MS. KATHLEEN MCCANDLESS: And then in 2026/'27, we see a transfer forecasted of $44.4 million.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And in 2027/'28, forecasted transfer of $48.4 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: So,

obviously for -- MPI is forecasting transfers from Extension to Basic.

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: In those years.

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: According to my math, the total projected net income from Extension from 2021 to 2025 was approximately $200 million, based on the walk-through that we just did.

Would you agree, subject to check?

MS. CARA LOW: Subject to check. Yes.

MS. KATHLEEN MCCANDLESS: And, now the projected total value of the actual transfers of that net income to Basic is $34 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And you would confirm that the original Capital Management Plan had transfers from Extension to Basic projected in all years?

MS. CARA LOW: In all years, yes, and under IFRS-4.

MS. KATHLEEN MCCANDLESS: And Extension was still profitable in each of those years that we looked at, right?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And if Extension's profit had been transferred to Basic in 2021/2022 and 2023, again, subject to check, that would have been around $140 million?

MS. CARA LOW: Subject to check.

MS. KATHLEEN MCCANDLESS: Thank you. Now, some questions on the Capital Rebate Provision.

So, we've heard that if the MCT ends a year at over 120 percent, then MPI has indicated that it will file an application for a rebate in the next rate hearing, pending approval from the Board of Directors from MPI?

MS. CARA LOW: Correct. Yes.

MS. KATHLEEN MCCANDLESS: And would you recall, Ms. Low, that in last year's GRA, in the October update, it was indicated that MPI would exclude any accumulated other comprehensive income from its employee future benefits when determining the MCT relevant to the rebate determination?

MS. CARA LOW: Yes, we did have that conversation last year.

MS. KATHLEEN MCCANDLESS: Does MPI still intend to adjust the MCT for this?

MS. CARA LOW: No, we do not.

MS. KATHLEEN MCCANDLESS: And does MPI -- is MPI contemplating any other adjustments at this time?

MS. CARA LOW: No. What happened is we went back and we had a lot of discussions and we decided, if you adjust for one item, then you have to adjust for other items, and you're going to miss something. You're going to miss a black swan over there, 'cause who's going to figure out that there's a pandemic going to happen or whatever it's going to happen next, right.

And, then, we thought about it. The capital's built up from the ratepayers in the past and it's an inter-generational issue and, so, if we're at 120 -- or exceeding 120, we will plan to rebate it back.

MS. KATHLEEN MCCANDLESS: Thank you. If we look at the current rate update, Exhibit 77 or -- oh, we're right at it anyway, Pro forma 3, and that reflects a correction. I think this might be -- is this the clean version? Oh. No. It's not the black one. Okay. Perfect. Thank you.

So, the capital available -- if we can just scroll up, please, so we can see here -- at line 30, for 2022/'23 is about $462.4 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And the MCT, at the end of '22/'23, as we've heard, is 135.5 percent?

MS. CARA LOW: As of today, that's our estimated, but we're still doing a lot of work on there -- that one.

MS. KATHLEEN MCCANDLESS: And, so, higher than the 120 percent by about $52 million?

MS. CARA LOW: Capital required? Yeah. I would agree with that.

MS. KATHLEEN MCCANDLESS: And, so -- and higher than the 100 percent MCT target that's in legislation by around $121 million?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And we've heard MPI is not applying for a rebate at this time?

MS. CARA LOW: No. We are not, because this is still subject to change. If the number is still this high at year end, March 31st, 2024, we would apply for a rebate.

MS. KATHLEEN MCCANDLESS: And I believe one of the -- another part of the rationale is that the IFRS-17 financials for 2022/'23 have not been audited?

MS. CARA LOW: They have not been.

MS. KATHLEEN MCCANDLESS: And does MPI believe that the IFRS financials are accurate at this time.

MR. RYAN KOLASKI: When you said they -- IFRS-17 -- I'm losing my voice here -- financials are you referring to what is, potentially, Q1, in terms of external reporting, are you referring to the financial forecast model?

MS. KATHLEEN MCCANDLESS: We're talking about what's on PF3.

MS. RYAN KOLASKI: Again, as Ms. Low had indicated, we're still working through the MCT calculation for IFRS-17, so, it's really tough to say how accurate the financials are related to that particular element.

MS. KATHLEEN MCCANDLESS: And does MPI have a sense as to how much an auditor change could affect the financials?

MR. RYAN KOLASKI: Do you mean a change in like the external auditor?

MS. KATHLEEN MCCANDLESS: Yes.

MR. RYAN KOLASKI: Theoretically, all the big four -- we'd have to go through an RFP process. So, theoretically, all the big four (4) firms are subject to the same professional guidance as our current auditor. So, I don't know that changing auditors would be -- would have an impact overall.

MS. KATHLEEN MCCANDLESS: Sorry. I -- I -- I guess my question wasn't clear. I meant how much could changes made by an auditor have an impact on the financials?

MR. RYAN KOLASKI: Do you want to take that?

MS. CARA LOW: Right now, we're still trying to determine what goes into the liability for incurred claims. Historically, it's only been the NP claims balance, but there could be some receivables going in there.

So, we're talking to num -- a number of parties about what goes into the LIC (phonetic) and that could have about 10 points, I believe.

And, then, the other issue we're looking at for capital available, whether the net pension asset should be reducing the capital available too, and that could have a significant impact.

MS. KATHLEEN MCCANDLESS: Thank you. And, theoretically, could changes recommended by an auditor bring the MCT to below 100 percent MCT?

MS. CARA LOW: I mean in theory, it

could, but, no. It's probably going to increase would be the most likely.

MS. KATHLEEN MCCANDLESS: Okay. So, directionally, that number would go up rather than down?

MS. CARA LOW: That would be our hunch.

MS. KATHLEEN MCCANDLESS: When will the IFRS-17 financials be audited?

MS. CARA LOW: It will be completed by June -- mid June 2024.

MS. KATHLEEN MCCANDLESS: Exhibit 77 shows no rebate from Basic in '27/'28, even though the MCT is forecast to be over 120 percent at the end of '26/'27. Correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And, if we go to MPI Exhibit Number 73, so that's the presentation, page 17.

So, just with respect to the exhibit we just looked at, so, was that an error and the financials should have shown a rebate of $147 million in '27/'28?

MS. CARA LOW: The pro formas, yeah, did not reflect the capital rebate, but it should. It would be in there.

MS. KATHLEEN MCCANDLESS: Now, with respect to the capital build provision so, just to confirm, after applying all assumed capitals -- capital transfers from Extension, MPI, then, determines the need for the capital build provision?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And, if the MCT is below 100 percent at the beginning of a current fiscal year, MPI will require a capital build and will apply for one with its GRA, unless assumed capital transfers from Extension can build capital up to the 100 percent MCT target in less than five (5) years?

MS. CARA LOW: That's the plan. Yes.

MS. KATHLEEN MCCANDLESS: Thank you, and the capital available would depend on, One, net income?

MS. CARA LOW: It would depend on net income. Yes.

MS. KATHLEEN MCCANDLESS: Two, other comprehensive income?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And, third, capital transfers to Extension?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: MPI's position is that the regulatory deferral account is not part of its equity. We've heard that.

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And, as shown on MPI Exhibit Number 24 -- thank you -- and we are going to page 11. I think it's, maybe, page 4 of the exh -- or page 2 of the exhibit. Thank you.

So, this shows the Basic implementation expenses deferred for rate-setting purposes in the Recovery schedule and, if we're looking at the far right of the schedule, at the bottom, we see that the regulatory deferral account, line 70, is expected to build to $98.7 million over time?

MS. CARA LOW: I see that.

MS. KATHLEEN MCCANDLESS: This $98.7 million asset would not be included in the capital available. Right?

MS. CARA LOW: That's my understanding. Yes.

MS. KATHLEEN MCCANDLESS: And, so, it's not included in MPI's PF3. Correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And if, as a result of excluding this asset, the MCT would be under

100 percent MCT, and projected to remain below 100 percent MCT, the Corporation would, then, apply for a capital build provision?

MS. CARA LOW: One minute, please.

(BRIEF PAUSE)

MS. CARA LOW: If it's under a hundred and we don't expect to get back in the next five (5) years, we would apply for a capital build.

MS. KATHLEEN MCCANDLESS: Okay. And so, consequently, that would increase the amount the customers would be paying in that year?

MS. CARA LOW: Yes, and for a number of years, potentially.

MS. KATHLEEN MCCANDLESS: Okay. And in addition, then, the exclusion of this asset would also delay the payment of any rebate by about $98.7 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. Members of the Panel, I just have a handful of questions on the FCT. I know it's 4:29. My estimate is five (5) to ten (10) minutes.

PANEL CHAIRPERSON: That's fine.

MS. KATHLEEN MCCANDLESS: Is that -- provided it's acceptable to everyone else in the room and, then, I'll be finished my cross-examination.

PANEL CHAIRPERSON: Okay. Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. And, so, the FCT report is Exhibit 82, and apologies for using the acronym, but it is the 2023 Financial Condition Testing report prepared by E&Y?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And it was signed early October 2023?

MS. CARA LOW: Yes. Yes. The first week of October.

MS. KATHLEEN MCCANDLESS: Okay. And if we scroll down to page 5, 1.2, and we're looking at guidance -- thank you.

So here, the external actuary indicates that it used the new IFRS standard 17 in its preparation?

MS. CARA LOW: For the future years, but not -- they did not restate '22/'23.

MS. KATHLEEN MCCANDLESS: Thank you. And then I'm jumping ahead to page 19. We're just going to look at some of the scenarios.

And so the base scenario in the FCT represents the Corporation's business plan as close as possible. Is that fair?

MS. CARA LOW: Agreed, and they were using the GRA rate update is what they received from us for their -- and we call that the business plan --

MS. KATHLEEN MCCANDLESS: Thank you.

MS. CARA LOW: -- yes.

MS. KATHLEEN MCCANDLESS: And if we scroll down to page 22 or 20 -- 21, the adverse scenarios that E&Y used, they assume that adversity began in 2024/'25.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And if we scroll down to the bottom of page 21, we see a number of solvency scenarios here, right?

MS. CARA LOW: That is correct.

MS. KATHLEEN MCCANDLESS: And the worst adverse scenario would be the combined scenario that we see here as the first row under the scenarios, the white line there?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And this was deemed to be a 99th percentile event?

MS. CARA LOW: For all the solvency ones, they were done to the 99th percentile.

MS. KATHLEEN MCCANDLESS: The adverse scenario tested a combination of equity returns, high loss ratio, policy liabilities, inflation, and interest rates, right?

MS. CARA LOW: Correct, yes.

MS. KATHLEEN MCCANDLESS: And then if we go to page 22 -- thank you -- there are a couple of tables here.

So we've got one, results without assumed management action, and one with management action, right?

MS. CARA LOW: Right.

MS. KATHLEEN MCCANDLESS: And if we're looking at the results with assumed management action -- and in this adverse scenario, the Corporation started at the end of 2023/'24 with 490 million in equity, right? So we're looking at the base scenario 2023?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And then if we go to the far -- or the other side of the table here and we're looking at adverse scenarios, we see for 2025 that the Corporation reached a low of $173 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: So a decrease of approximately $317 million over that time?

MS. CARA LOW: That is correct.

MS. KATHLEEN MCCANDLESS: And so that management action incorporates the action which would be written premium increases of 5 percent per annum in 2024/'25 and 2025/'26?

MS. CARA LOW: Correct, and it does not include Extension transfers. So he did it -- the appointed actuary did this as a stand-alone exercise for the Basic line of business.

MS. KATHLEEN MCCANDLESS: And without management action, if we go up to the -- the top table, we see, without that management action, the estimated equity would fall to $115 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: So then that's a decrease of $375 million over that time?

MS. CARA LOW: Right.

MS. KATHLEEN MCCANDLESS: With an adverse event occurring in 2024/'25, which would likely make it too late for a rate increase to be requested in an October hearing in 2024, the earliest that rates could be increased, subject to some other process, would be October hearing -- the October hearing in 2025? Is that right?

MS. CARA LOW: That would be true, yes.

MS. KATHLEEN MCCANDLESS: And so the premiums -- the written premiums would only start to increase in the 2026/'27 year then, right?

MS. CARA LOW: That would be true.

MS. KATHLEEN MCCANDLESS: If the Corporation had started with only $376 million of equity at the end of '23/'24, this scenario would have approximately resulted in a decline to about $1 million in equity at the end of 2025/'26 if rate action did not take effect until 2026/'27?

MS. CARA LOW: Subject to check.

MS. KATHLEEN MCCANDLESS: Does the FCT reflect the bond overlay strategy as a mitigation strategy for any inflation scenarios?

MS. CARA LOW: One (1) minute, please.

(BRIEF PAUSE)

MS. CARA LOW: The cost of the bond overlay is included, but the assumption is that the strategy worked, so therefore, there is no impact other than the cost.

MS. KATHLEEN MCCANDLESS: Thank you. And does the FCT reflect the diversification benefits of the revised investment strategy?

MS. CARA LOW: Yes, it does.

MS. KATHLEEN MCCANDLESS: Thank you. I believe those are all my questions, so thank you for your time and thank you for the extra six (6) minutes.

PANEL CHAIRPERSON: Thank you, Ms. McCandless, and thank you, everyone.

We'll adjourn for the day and be back tomorrow at nine o'clock, at which time I believe the motion will be heard. That's correct? Okay. Thank you.

--- Upon recessing at 4:36 p.m.

Certified Correct,

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Wendy Woodworth, Ms.