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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APPEARANCES

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--- Upon commencing at 10:02 a.m.

PANEL CHAIRPERSON: Good morning, everyone. Mr. Scarfone, do you have exhibits to enter?

MR. STEVE SCARFONE: Yes. Thank you, Madam Chair. MPI Exhibit 114 is the response to Undertaking number 32; MPI Exhibit 115 is the response to Undertaking number 33; MPI Exhibit number 116 is the response to Undertaking number 31; MPI Exhibit 117 is the response to Undertaking number 29; and MPI Exhibit 118 is the response to Undertaking number 34. Thank you.

--- EXHIBIT NO. MPI-114: MPI Response to Undertaking 32

--- EXHIBIT NO. MPI-115: MPI Response to Undertaking 33

--- EXHIBIT NO. MPI-116: MPI Response to Undertaking 31

--- EXHIBIT NO. MPI-117: MPI Response to Undertaking 29

--- EXHIBIT NO. MPI-118: MPI Response to
Undertaking 34

PANEL CHAIRPERSON: Thank you. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you.

CLOSING REMARKS BY BOARD COUNSEL:

MS. KATHLEEN MCCANDLESS: We have now completed the evidentiary part of this public hearing with respect to the 2024 General Rate Application, or GRA, filed by Manitoba Public Insurance.

The Board will soon deliberate upon the Application for base rates and premiums charged for compulsory vehicle and driver insurance to take effect on April 1, 2024.

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

Rate indications are interest sensitive, and market interest rates are always changing. The -- this gives rise to significant risk of estimation error in deriving Basic rate indications.

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

To further mitigate this uncertainty, in recent GRAs the Corporation has updated its rate indications to reflect market interest rates at approximately the time the GRA hearing commences.

In June 2023, the Corporation filed its General Rate Application and Public Notice requesting a zero percent overall rate change in accordance with a directive issued to it by the Government of Manitoba.

However, the directive does not affect the jurisdiction of the PUB which operates independently and has legislative authority to establish Basic insurance rates for the 2024/'25 insurance year.

For the 2024 GRA, the Corporation submitted an initial Application and Public Notice to reflect a provisional rate indication derived in the usual manner which was updated before the commencement of the public hearing.

The rate indication calculated in accordance with accepted actuarial practice was a decrease of .13 percent based on market interest rates as of March 31, 2023.

On October 4th, the Corporation filed an updated rate indication of a decrease of 1.48 percent based on interest rates as at August 31, 2023.

The average rate adjustment in the October update for each major vehicle class is as follows: for private passenger, an overall decrease of .4 percent; for the commercial class, an overall increase of 11.4 percent; for the public class, an overall increase of 10.4 percent; for motorcycles, an overall decrease of 6.2 percent; for trailers, an overall increase of 11.3 percent; and for off-road vehicles, an overall decrease of 2.8 percent. This amounts to no overall rate change.

MPI has applied for changes to vehicle discounts available through the Driver Safety Rating system by increasing the scale to discounts applied to drivers at DSR levels plus 9 to plus 17 on the DSR scale, increasing the maximum merit level under the DSR scale from plus 17 to plus 18 in the 2023/'24 policy year, offsetting the negative 5 percent impact of the increased DSR discounts, with an overall increase in base premiums of 5.2 percent and making no changes to DSR driver premiums.

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

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

In total, the current vehicle population is one million two hundred and forty-one thousand seven hundred and thirty-nine (1,241,739) vehicles, to which the proposed rate would be applied as follows, excluding the impact of the movement of vehicles on the DSR scale: four hundred and fifty-five thousand four hundred and thirty-three (455,433) vehicles, or 36.7 percent of the overall fleet, would receive a rate decrease, the majority of which would be one hundred dollars ($100) or less; six hundred and sixty thousand two hundred and thirty-three (660,233) vehicles, or 53.2 percent of the overall fleet, would receive a rate increase, the majority of which would be one hundred dollars ($100) or less; and one hundred and twenty-six thousand seventy-three (126,073) vehicles, or 10.1 percent, would receive no change in rates.

This movement is based on the original June filing and does not reflect the changes in the October update as, due to the ongoing labour interruption, MPI is unable to produce an updated dislocation analysis.

In addition, it is based on the overall rate request of no change and not the accepted actuarial practice rate indication.

The Corporation has proposed a new Capital Management Plan in which capital will only be returned to customers through rebates separated from premium payments, instead of capital releases, which were combined with premium payments.

The Capital Management Plan, or CMP, aligns with amendments to the Manitoba Public Insurance Corporation Act which received royal ascent on November 3rd, 2022, and pursuant to which MPI is required to maintain the Basic Rate Stabilization Reserve at a target amount equivalent to a 100 percent minimum capital test ratio.

MPI can only apply to the Board for a

rebate if the Basic RSR's ratio is greater than 120 at the beginning of a fiscal year and the requested rebate will not reduce the RSR's ratio to less than 100 percent MCT.

In the Application as filed, MPI advised that, by implementing IFRS-17 insurance contracts, its reported Minimum Capital Test for 2022/'23 at 110.8 percent, which was then based on a prior standard IFRS-4 insurance contracts, would be restated at 115 percent below the 120 percent Minimum Capital Test threshold.

MPI corrected its Application in the October update for an error in the determination of the IFRS-17 estimate and revised the 2022/'23 MCT under IFRS-17 to be 135.5 percent.

MPI advises that it is not applying for a rebate for Basic RSR notwithstanding this change because this revised number has not been audited and may be subject to change.

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

For the 2024 GRA, attention was given to five (5) assumption areas: new money yield, forecast claims costs, forecast claim expenses, forecast expenses, and the distribution of the cost of fleet rebates across three (3) major classes, private passenger, commercial, and public, in proportion to the fleet vehicles within each major class.

With respect to the new money yield, the Corporation updated the 2024 GRA rate indication with interest rates as of August 31, 2023, reflecting more recent yields. The use of more recent yields is consistent with the approach that MPI followed in the 2023 GRA.

The Corporation did, however, propose two (2) changes to the approach approved in Order 4/'23 after the 2023 GRA in its approach to calculating the new money yield, the duration of bonds used for the estimation of the yield, and including commercial mortgages in estimate.

The new money yield underlined the approved rate change in Order 4/'23 following the 2023 GRA was based on a weighted average of estimated provincial and corporate yields of bonds with a duration of equal to that of the claims liabilities, as well as the investment portfolio supporting the claims liabilities, which was a little less than ten (10) years, an approach consistent with prior years.

In February 2023, the MPI Board of Directors approved a new investment policy which included investments for the Basic claims portfolio in commercial mortgages and real estate and to incorporate inflation protection through the use of a bond overlay strategy.

The goal of the overlay strategy is to create a synthetic provincial real return bond. The new investment policy does not include a split in the investment portfolio between short duration and long duration claims which had been proposed during the 2023 GRA.

This year, MPI included commercial mortgages in the estimate of the expected yield on investments but did not include MUSH, which is municipal, schools -- university, schools, and hospitals, bonds, or real estate.

The Application, as filed, was based on yields as of March 31, 2023, generating a new money yield of 4.35 percent before investment management expenses and 4.22 percent after and a breakeven rate indication of a decrease of .13 percent.

The October update, based on yields as of August 31, 2023, generated a new money yield of 5.16 percent before investment management expenses and

5.04 percent after, an increase of 82 basis points. This decreased the rate indication by 1.35 percent.

This new money yield proposed by the Corporation is based on short-term government, corporate, and overall bond indices published by FTSE Russell and also removes the .124 percent for expected investment expenses.

The rationale provided by the Corporation was that the average duration of the premium liabilities was only two point six seven (2.67) years and that this would be within accepted actuarial practice.

If, alternatively, the new money yield uses the expected investment income to be earned on assets that might be acquired with the net cashflows resulting from the revenue and based on a weighted average using the target asset allocation weights of provincial, corporate, and MUSH bonds, along with commercial mortgages and real estate expected yields, with a duration equal to that of the claims liabilities, as well as the investment portfolio supporting the claims liabilities, which was about nine (9) years, that the new money yield based on March 31, 2023, market yields would have been 4.45 percent before investment expenses and 4.26 percent after expenses.

The expenses at .19 percent are higher due to the inclusion of commercial mortgages and MUSH bonds. Based on market yields as of August 31, 2023, the alternative new money yield would be 5.06 percent before investment expenses and 4.87 percent after expenses.

The resulting rate indication with the 4.87 percent new money yield would be negative 1.21 percent.

In normal market conditions, longer term bonds have higher expected yields than shorter term bonds, but as at August 31, 2023, there is an inverted yield curve where shorter duration bonds have higher yields than longer duration bonds.

As a result, while normally the use of alternative -- the alternative approach would generate a higher new money yield than the approach proposed by the Corporation, currently the opposite occurs.

An additional estimate of the investment yield for each forecast year based on the October update financial forecast, was calculated using a standard approach included in the Office of the Superintendent of Financial Institutions Financial Return, for federally regulated insurance companies, resulting in a yield of 5.05 percent for '24/'25, 5.26 percent for 2025/'26, 5.3 percent for 2026/'27 and 5.32 percent for 2027/'28.

The resulting rate indication using a new money yield based on the average yield for '24/'25 and '25/'26 would be negative 1.66 percent.

The sensitivity of the AAP rate indication at current interest rates, is such, that each .1 percent increase in the new money yield, results in a .71 -- .17 percent decrease in the required rate level.

With the initial 4.22 percent new money yield proposed by the Corporation, the break-even indication was a decrease of .13 percent.

A 4.87 percent new money yield would decrease the break-even rate indication to a decrease of 1.21 percent. A 5.0 percent new money yield would further decrease the break-even rate indication to a decrease of 1.48 percent. And, finally, a 5.16 percent new money yield would decrease the break-even rate indication to a decrease of 1.66 percent.

Now with respect to forecasted claims costs, projected undiscounted claims costs by coverage, which would exclude any interest rate impact, were forecast in this GRA for the 2024/'25 rating year, which is a weighted average of '24/'25 and '25/'26 accident years, to be increased by point seven (.7) million dollars from the level forecast in last year's GRA.

In the October update, the Corporation did not make any changes to its projected undiscounted claims costs for the '24/'25 and '25/'26 accident years.

The Corporation has made significant improvements to its claims forecasting methodology using more robust trending approaches and applying selected trends to the most recent five (5) year -- five (5) accident year average of claims costs to improve the predictability and stability of the claims cost indications.

In this GRA, significant attention was paid to claims costs trends, both for frequency and severity, as well as which accident years should be included in the accident year weighting used as the starting point of the claims projection.

Rajesh Sahasrabuddhe, called by CAC as an expert witness, testified about accident year weightings, as well as about differences in projected frequency and severity for multiple coverages.

With respect to accident year

weightings, MPI replaced accident year 2020 with 2017 for all coverages, in which the pandemic had an impact on claims.

Mr. Rajesh Sahasrabuddhe, suggested an alternative approach, giving no weight to 2017, increasing the weights for 2018, 2019 and 2022 to 25 percent from 20 percent, and varying the weights for each of 2020 and 2021, based on their relative livelihood.

This approach reduced the rate indication by 2.52 percent. An alternative estimate, giving 20 percent weight to each of 2018 to 2022, resulted in a rate indication that was 1.28 percent lower than the filed indication.

CAC's expert witness also suggested alternative trend selections for seven (7) coverages, with an overall impact based on the CAC accident year weightings of a decrease of 1.11 percent, estimated as the difference between the overall impact of negative 3.3 -- 3.63 percent and the impact of accident year weighting of negative -2.52 percent.

The coverage with the largest potential impact of a change in trends, was collision. For this coverage, the two (2) trend model for severity used by MPI was not contiguous at accident year 2020.

Adjusting the model to make it contiguous, reduced the rate indication. The impact depended on the accident year weightings selected.

Using the MPI weightings, the impact was a decrease of 9 -- .93 percent, with the CAC weightings the impact was a decrease of .79 percent. And using the 20 percent weights for 2018 to 2022, the impact was a decrease of 1.87 percent.

The impact of the COVID-19 pandemic was bottled in the claims forecasting using two (2) approaches.

The first applied for the trending and projection to accident year 2022/'23 and the second applied to project the new normal from accident year 2022/'23.

First, a mobility factor, based on Google data, on commuting to work and school was included in the trend model selection process and, where it was deemed significant, was included in the final selected model for many coverages. The Google data ended in October 2022.

Second, a survey of Manitobans was performed to compare their driving during the 2022/'23 accident year to their expected level during the 2023/'24 accident year. The average number of days commuting to work or school was three point six (3.6) in 2022/'23 and three point eight (3.8) in 2023/'24, for a net increase of 5.56 percent. This factor was used to adjust for the anticipated return to normal from accident year 2022 to accident year 2023/'24.

If an additional decimal point had been included in the calculation, the estimate would have been about 6 percent.

Another estimate that could have been used was the change in the total number of kilometres estimated to be driven in 2022/'23 versus 2023/'24, which would have been about 5 percent.

Moving on to forecast claims expenses, MPI assumed an unallocated loss adjustment expense ratio of 18 percent of claims costs, based on the appointed actuary's valuation. This translated to a discounted claims expense of a hundred and twenty-one dollars and four cents ($121.04) per unit.

In the financial forecast, however, the projected claims expense levels were shown to be lower than 18 percent for each of the fiscal years.

Based on a ratio of the forecast paid ULAE to pay claims for each fiscal year throughout the forecast period applied to the expected claims payments for the rating year '24/'25 throughout the forecast period, the expected ULAE ratio is 16 percent and the use of a 16 percent ULAE ratio would translate to a discounted claims expense of a hundred and seven dollars and eighty-seven cents ($107.87) and a rate indication of a decrease of 3 percent and that is a decrease of 1.52 percent from the October update.

Moving on to forecast expenses. Consistent with Board Order 4/'23, where the Board considered it appropriate and consistent with accepted -- accepted actuarial practice to defer costs that are for systems that do not benefit current ratepayers, MPI excluded initiative expenses from the rate indication.

The total amount of these -- these expenses in this GRA was $29.2 million in '24/'25 and $26.1 million in '25/'26, for an average of $27.2 million in the '24/'25 rating year.

If these expenses had not been deferred, the rate indication would have been 2.41 percent higher.

In MPI's financial projections, MPI has used a five-year amortization period for initiative expenses, other than Project NOVA, and a 10-year amortization period for NOVA expenses, once the systems are implemented.

Operating expenses included rate -- included in rate-making decreased from eighty-five dollars and twenty-one cents ($85.21) per vehicle in the October update of last year's GRA to fifty-four dollars and nine cents ($54.09) per vehicle in the October update of this GRA. The largest portion of this decrease was increase -- pardon -- decrease -- pardon me -- was due to the removal of the initiative expenses and a smaller portion was due to a reduc -- reduction in projected staffing.

Employee future benefits expense is one component of the expenses included in the rate indication. The goal for the -- for the employee future benefits investments is to match or exceed the pension expense.

In the 2024 GRA, the projected excess investment income is $11.9 million for '24/'25 and $13.1 million for '25/'26, for an average of $12.5 million for the '24/'25 rating year. Removing this amount of expenses from the rate calculation would have an impact on the rate indication of about negative -1.1 percent.

Moving on to fleet rebate allocation. In Order 4/'23, Directive 12.6, the Board required MPI to file an analysis and proposal for modifications to the Fleet Program to better reflect cost/causation.

MPI initially attempted to eliminate the net rebate surcharge by recalibrating the net -- the rebate or surcharge scale. MPI was unable to find an adequate solution.

MPI proposes an interim solution to distribute the cost of rebates across the three (3) major classes -- private passenger, commercial, and public -- in proportion to the fleet vehicles within each major class.

This resulted in substantial changes in per-unit costs per major class, changing from an average of twenty-one dollars and eighteen cents ($21.18) if all vehicles received the same cost per unit to a level of eleven dollars and fifty-two cents ($11.52) per unit cost for private passenger, one hundred and thirty dollars and twenty-five cents ($130.25) for commercial, and two hundred and forty-nine dollars and twenty-six cents ($249.26) for public.

The increased per-unit costs for commercial and public increased the rate indication for each of these classes by over 10 percent. MPI was unable to determine actual fleet rebates by major class.

Moving on to financial results. The Corporation has provided actual financial results for 2022/'23 and an updated forecast of the current year 2023/'24.

For the 2022/'23 fiscal year, Basic earned a net loss of $38.7 million compared to a forecasted net loss of $16.1 million in the 2023 GRA October update based on the existing IFRS-4 accounting standards.

This negative variance was attributed by the Corporation to many factors: a negative impact on net income due to an increase in net claims incurred of $12.1 million; due to increases of $54.7 million related to inflation; forty-four (44) -- $40.4 million in higher collision claims; higher interest rate impacts of $32.8 million due to lower-than-forecast increases in interest rates; and $16.4 million in higher comprehensive claims.

These increases were offset by lower PIPP claims of $125.5 million and $8.4 million lower in internal loss adjustment expense.

Investment income was adversely affected by $18.8 million due to a combination of the write-down of available for-sale assets and lower-than-forecast returns on real estate, infrastructure, and dividend income totalling $15.7 million which were offset by $9.8 million lower-than-forecast loss on marketable bonds due to interest rate impacts and higher-than-expected interest income of $6.6 million.

MPI restated its '22/'23 financial results to reflect the change in accounting standards to IFRS-17 from IFRS-4. In making adjustments to reflect the new standard, the Corporation initially reflected a net loss of $77 million.

MPI provided an update of the '22/'23 results in its October filing. In that update, MPI corrected the impact on claims incurred with the increase on claims incurred of $.6 million, a reduction in the claims incurred interest rate impact of $31.8 million, with small adjustments to expenses and service fees, generating an improvement in the net income with the move to IFRS of $32.5 million, resulting in a net loss of $6.2 million.

In addition to the IFRS-17 impacts on the net income for the 2022/'23 year, there were also restatements of a decrease of $30.2 million in retained earnings for claims discounting and inflation and an increase of $116 point million (sic) for the replacement to the claims, investment, and reinsurance provisions for adverse deviation, with a risk adjustment for non-financial risk and a decrease of $37.7 million for the writing off of the existing deferred policy acquisition expenses.

There were also two (2) IFRS-9 impacts in the financial forecast affecting the 2023/'24 year. IFRS-9 being related to the portrayal of invested assets in the financials.

And this was a $46.8 million increase in retained earnings due to the movement of accumulated other comprehensive income on available-for-sale assets to retained earnings and a $6 million decrease in retained earnings due to the movement of MUSH bonds to a fair value through profit-and-loss basis.

With respect to the current year, '23/'24, in the 2024 GRA, MPI revised its forecast net loss to $1.7 million from a net loss of $29.9 million which was forecast in last year's compliance filing, so an improvement in the financial result of $28.2 million.

MPI's revised forecast reflected a reduction of net claims incurred costs of $7.8 million from last year. The reduction was primarily attributed to a lower forecasted PIPP and liability claims of negative $17.9 million offset by higher forecasted interest rate impact of $7.6 million and higher forecasted collision claims of $6.1 million.

Forecasted investment income also contributed to the revised improved net income. Investment income was forecast to be $5.2 million higher than forecast last year due primarily to higher-than-expected realized gains on alternative investments.

In the October 4th update, MPI updated the Basic forecast for '23/'24 to a net loss of $35.5 million, a $33.8 million deterioration in operating results from the $1.7 million net loss forecasted in the Application.

MPI revised its forecast of net claims incurred to $857.1 million from $930.1 million in the Application for a decrease of $72.9 million. And this decrease was due primarily to a favourable impact of forecast increased invest -- in interest rates of $65.1 million, a positive impact to other yield curve impacts of $12.6 million, and was offset by changes in the risk adjustment used in yield curve determination of $4.9 million.

MPI also updated its forecasted investment income for '23/'24. It was originally forecast at $125.6 million and revised downward to a

$10.4 million -- to $10.4 million, which was a decrease of $115.2 million. And this is mainly due to an interest rate impact of $110.9 million and lower invest -- investment income.

MPI has advised that between March 31, 2023, and August 31, 2023, the weighted average interest rates had increased by eighty-two (82) basis points, causing the bond portfolio's market value to fall.

In Order 4/'23, as I mentioned, the Board stated that:

"With respect to initiative expenses, the Board considers it appropriate and consistent with AAP to defer costs that are for systems that do not benefit current ratepayers."

And the Board had directed MPI to defer these integration costs through a regulatory deferral account for rate-setting purposes. The account will accumulated the integration costs and will be recovered when Project NOVA is fully in service.

MPI has stated that it intends to adjust its financial forecasts for regulatory purposes, taking into consideration the deferral account for the purposes of General Rate Applications.

MPI holds the view that it is not eligible to apply IFRS-14 for regulatory deferral accounts which, therefore, affects its financial statements.

MPI filed an opinion from Deloitte supporting this position. As a result, this will create a misalignment between rates approved by the PUB, which are based on forecasts, and MPI's financial statements.

MPI has adjusted its financial forecast to reflect the Board's directive to provide net income from operations and then adjusted for initiative expenses to a net income or loss for rate-setting purposes.

The 2023/'24 $35.5 million net loss from operations is adjusted to $7.8 million after accounting for initiative expenses. The '24/'25 forecast net income from operations is $6.2 million, and after considering initiative expenses, the net income for rate-setting is $30.2 million.

Similarly, the net income for operations for '25/'26 is forecast at $32.8 million, and for rate-setting -- setting purposes is $57 million.

MPI has not reflected this higher net income in its equity, nor has it established an asset for the deferred regulatory costs in the forecast of this Application, in effect, making a one-sided accounting entry on the income statement for the forecast prevent -- presented in this Application.

MPI provided details of what it anticipates deferring, which totals $108.2 million to be recovered commencing in 2026/'27. MPI has acknowledged that this amount is material to its financial reporting.

MPI is making changes to its financial presentation to comply with IFRS-17. These changes result in less detail -- detailed financial information being presented due to the aggregation of amounts that were previously presented separately under IFRS-4.

Now moving on to the Rate Stabilization Reserve, or RSR. The purpose of the RSR is to protect motorists from rate increases made necessary by variances from forecasted results and by unexpected events or losses arising from nonrecurring events or factors.

Section 18 of the Manitoba Public Insurance Corporation Act mandates capital target levels for each MPI line of business. The targets are based upon the capital management framework for the Office of the Superintendent of Financial Institutions and the Minimum Capital Test.

The Minimum Capital Test is a ratio of capital available to capital required and uses a risk-based formula to assess the capital adequacy of an insurance company. The Act establishes an MCT target of a hundred percent for Basic, 200 percent for Extension, and 300 percent for Special Risk Extension.

The Corporation has, as of March 31, 2023, $665.3 million in retained earnings, including $354.7 million in Basic, $83.2 million in Extension, $153.7 million in special risk Extension, and $73.7 million in DVA, or Driver and Vehicle Administration.

DVA's positive level of equity was the result of transfers from Extension retained earnings of $60 million in 2020/'21 and $57 million in '21/'22.

Overall Corporation total equity as of March 31, 2023, including accumulated other comprehensive income, was $747.4 of which $411.5 million was related to Basic operations, $93.1 million to Extension, $157.2 million to Special Risk Extension, and $85.7 million for Driver and Vehicle Administration.

Based on the October update and reflected in the transition to IFRS-17, Basic's '23/'24 retained earnings were restated to $434.8 million and accumulated other comprehensive income totalled $54.9 million for a total equity of $490.7 million, an increase of $79.2 million.

For '23/'24, MPI is forecasting Basic retained earnings to be $441.2 million, and after accumulated other comprehensive income of 22.3 -- 22.2 million -- $22.3 million -- pardon me -- total Basic equity of $463.5 million.

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

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

The report on the FCT investigation includes an opinion from the signing actuary on the financial condition of Basic. This report formally under the DCAT acronym has been included with the Basic General Rate Application for many years.

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

With the approval of the Capital Management Plan in the 2020 GRA and the amendments to the MPIC Act, the role of the FCT investigation in the GRA has been diminished.

While the FCT investigation continues to provide insight into the resiliency of Basic's capital position, a matter of importance to the Corporation, the amendments to the MPIC Act in 2022 eliminated any link between the FCT investigation and the setting of Basic target capital levels.

During the course of the Hearing, the FCT analysis results were queried, and it was confirmed that the capital corresponding to an MCT ratio of 42 percent would be sufficient for the Corporation to consider itself in compliance with the new legislation, which requires it to be able to return to a 100 percent MCT ratio within five (5) years.

The most adverse 1:100 year event required a capital level of about $376 million to remain solvent over the forecast period, absent management action.

Moving on to the Capital Management Plan specifically. The Board first approved the Capital Management Plan in the 2020 GRA. MPI now proposes a revised Capital Management Plan, or CMP, that is consistent with the MPIC Act.

MPI proposes the continuation of AAP rate-making, capital targets by line of business, capital transfer rules, the capital bill provision, and a capital rebate provision.

MPI is applying for a capital rebate version in principle for this GRA. The mechanism will replace the prior capital release provision.

A rebate application would be allowed. In other words, MPI would be able to apply for a rebate when the Basic MCT ratio is 120 percent or greater at the end of an audited fiscal year or excess capital of approximately $80 million based on '22/'23 capital requirements and the MCT does not fall below the 100 percent target as a result of the rebate.

Even when the MCT exceeds 120 percent, a rebate is not mandated by the legislation. MPI has stated that the decision to apply for a rebate will depend on the audited financials and will be at the discretion of the Corporation and that the plan would be to pay out a full rebate regardless of any projections in the future.

If the 2022/'23 financials under IFRS-17 were audited and MPI, therefore, applied for a rebate, then the approximate amount would have been $121 million.

Now, with respect to the transfer of excess Extension capital to DVA. As I mentioned a few moments ago, over 2020 and '21 and 2021/'22, MPI transferred $117 million from Extension to DVA.

The transfers were done to defray the impact of historical losses in a DVA line of business, as well as the costs associated with the technology changes related to Project NOVA. As a result, DVA's retained earnings were $73.7 million on March 31, 2023.

MPI secured an increase in funding from the province for both 2022/'23 and 2023/'24 from $30.25 million to $40.25 million. Even with the increased level of funding, MPI incurred a deficit of $10.6 million in 2022/'23 and is forecasting a deficit of $15.6 million in 2023/'24 due to the implementation expenses of Project NOVA.

MPI has not permanently secured a higher level of funding and reverts to $30.25 million in provincial funding annually for the remainder of the forecast.

MPI forecasts deficits in DVA of $22.9 million in '24/'25, $18.5 million in '25/'26, $13.4 million in '26/'27, and $11.8 million in '27/'28. DVA's current level of retained earnings are forecast to be in deficit in '27/'28 without additional funding from the province.

MPI's interim president and CEO testified the discussions with the government on DVA funding sustainability are ongoing.

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

MPI indicated a plan to increase the

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

Directive 116 from Order 134/'12 following the 2022 GRA required the Corporation to bring forward a DSR transition plan to manage the required increase in the base rate and year-to-year rate dislocation while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner.

In Direction 12.15 of Order 4/'23, the Board ordered that, in this GRA, all DSR discounts be moved by one-fourth (1/4) of the way to the actuarially indicated amount, rounded down to the nearest whole number.

MPI complied with this Order, updating the actuarially indicated discounts and moving one-fourth (1/4) of the way to the actuarial indication and adding DSR level plus eighteen (18).

For DSR plus eighteen (18), the indicated discount was 66 percent and the proposed discount is 48 percent.

Given the current discount for DSR plus seventeen (17) is 40 percent, applying the one-fourth

(1/4) rule could potentially reduce the proposed discount for DSR plus eighteen (18), from 48 percent to 46 percent.

With the discounts as proposed, the overall impact on the average premium charged is negative 5 percent, which requires offsetting increases to the base rates of 5.2 percent, which vary by major class, due to the differing proportion of DSR eligible vehicles by class.

With a proposed discount for DSR of plus eighteen (18) of 46 percent, the overall impact on the average premium charged is a decrease of 4 percent, which would require offsetting increases to the base rates of plus four (4) one (1) -- 4.1 percent, varying by major class.

Directive 12.16 of Order 4/'23 required MPI to file an update to its five (5) year plan for the implementation of changes to the Basic insurance model.

The Corporation has filed an update to the plan with a six (6) year time frame, for the implementation of the new model and advised that the time frame was based on estimates.

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

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

The purchase of four (4) time bans would allow for twenty-four (24) hours, seven (7) days a week operation.

For the Passenger Vehicles for Hire or VFH category, the Corporation employed a scan of the -- the VFH rates in other Canadian jurisdictions, and judgmentally set the passenger VFH rate for purchasing all four (4) time bans at a 20 percent premium, above the current private passenger all-purpose rate for the corresponding vehicle type and rate group.

Rates would then decline incrementally by five (5) percentage points, based on the number of time bans level of coverage.

The Corporation has been developing a blanket policy for Passenger VFH. It is the

Corporation's intention that this blanket policy will replace the current Passenger VFH category.

The Corporation initially submitted the blanket policy for approval in this GRA, including a proposed rate per kilometer, but withdrew its request for approval of the proposed rate per kilometer after Uber objected to the filing of its data with the Board or sharing it with Interveners, without which the parties to this GRA could not analyze the information underpinning the proposed rate.

MPI has maintained its request for approval of the methodology and framework.

The Corporation has also been working on a telematics project for taxis. At this time, the project has been delayed because in 2023, MPI received no responses to an RFP for the project.

The Corporation also proposes to remove the existing time bans for taxis, once the blanket policy is effective, but may create a part-time taxi category.

Now, moving on to Asset Liability Management. As a result of recommendations made by Mercer in a 2017 Asset Liability Management or ALM study, MPI separated its comingled investment portfolio into five (5) unique portfolios, including

Basic claims, Basic RSR, Employee Future Benefits or Pension, Extension and Special Risk Extension.

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

In June 2021, with the assistance of Addenda Capital, in order to protect it from changes in interest rates, MPI implemented a hybrid strategy, including cash flow matching and moment matching.

The moment matching matches both the duration and convexity between the Basic claims portfolio, and claims liabilities.

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

The duration and convexity are monitored by Addenda Capital on a daily basis and re-balanced as necessary.

The strategy was revised in April 2023, as MUSH bonds were classified as fair value through profit and loss due to the adoption of IFRS-9 and as a result are now reported at market value. Therefore, cash flow matching is no longer necessary.

MPI believes the strategy has been affected -- effective with year-to-date net impact of interest rates of $5.5 million on a Corporate basis, or $7.7 million for Basic claims -- pardon me, $15.5 million on a Corporate basis, or $7.7 million for Basic claims at March 31, 2023.

MPI noted the performance of the strategy in a year when interest rates increased sharply, causing significant stress for financial institutions and where two (2) regional U.S. banks and Credit Suisse collapsed as a significant achievement.

IFRS-17 affects the discount rate used to calculate the present value of the Basic claims liabilities, effective April 1, 2023.

MPI has made an accounting policy decision whereby the discount rate under IFRS-17, which is now a yield curve instead of the single rate, will be based upon a reference portfolio, which reflects the actual asset allocation of the Corporation's asset portfolio.

The discount rate will be adjusted to remove market risk premiums due to credit risk. Addenda calculates the IFRS discount curves every month and they are used by MPI's valuation team to calculate the present value of the claims liabilities.

Addenda will continue to use a moment matching strategy to manage interest rate risk. As a result, MPI advised that the new asset allocation will have no impact on MPI's ALM strategy.

Based on the October 4th update, MPI forecasts a $45.6 million negative overall financial impact in 2023/'24, due to changes in interest rates.

This level of financial impact brings into focus the continued effect of the existing ALM strategy managed by Addenda.

MPI is in early stage discussions on how to revise the ALM strategy, including adjusting the proxy for the MUSH portfolio and to try to better align the assets with the liabilities to mitigate this emerging risk.

MPI engaged Mercer to provide an Asset Liability Management study in accordance with PUB Directive 11.19, from the 2022 GRA.

As a result of that study, new asset mixes were developed for each investment portfolio. MPI's Investment Committee Working Group presented the new asset mixes to the Investment Committee in February 2023.

The new asset classes approved by the Board were real estate, infrastructure, commercial mortgages and inflation linked bonds.

With respect to inflation linked bonds, the Corporation made an initial investment purchasing $84.4 million in real return bonds in December 2022.

Based on recommendations from Addenda Capital, MPI will implement a bond overlay strategy which, in effect, results in the creation of a synthetic real return bond through the use of purchase and re-purchase agreements with counter parties.

MPI has a preliminary estimate of approximately a $30 million favourable impact on equity, due to a reduction in the carried claims liabilities due to the overlay strategy.

Now, moving on to investment income and the Investment Portfolio. The funds available for investment are primarily backing unarmed premium reserves and unpaid claims reserves.

The Investment Portfolio supports both the payment of accident claims, as well as the pension obligations of the Corporation.

The Corporation's investment assets as at March 31, 2023, were over $3.6 billion. The size of the Basic line of business investment portfolio, including Basic claims portfolio, the RSR portfolio and the benefits portfolio is $2.98 billion for

2022/'23, forecast to be $2.9 billion in '23/'24 and projected to grow to $3 billion for '24/'25.

One legacy of the COVID-19 pandemic, among others, is stubbornly high inflation. This resulted in the largest and quickest increase in interest rates by the Bank of Canada in history, from .5 percent to 4.5 percent, in an effort to contain inflation expectations.

These increases in the overnight rate have been effective as the Consumer Price Index fell to 4.3 percent in March after reaching the highest level in forty (40) years. However, there is fear that the rapid rise in rates may lead to a recession, which is weighed on equity markets. This environment led to sharp increases in -- increases in interest rates.

The yields on corporate bonds rose by between 120 to 121 basis points, at March 31, 2023, while provincial bonds increased by 79 basis points in Government of Canada 10-year bonds, increased by 49 basis points.

As a result, the Corporation reported within the total return for the Basic claims portfolio was negative -1.8 percent, while the RSR and employee benefits portfolios returns were only .2 percent.

MPI reported a Basic investment loss of $17.4 million, after recording marketable bond unrealized losses of $45.5 million and realized losses of $70 million.

Also contributing to this loss was the Corporation's decision to write down $26.1 million in fixed income assets in the employee future benefit and RSR portfolios on corporate bonds, private debt, and venture capital, as a result of the market value of these investments being lower than the book value for a prolonged period. Basic share of this write-down was $18.8 million.

Based on the October 4th update, the new money yield rate increased from 4.22 percent in the Application to 5.04 percent, based on a proposed revision to the setting of the new money yield, an increase of 82 basis points.

The 2024/'25 budget revision was due to a continuation of increases in the yields on both provincial and corporate bonds since March 31, 2023.

On August 31, 2023, the yields on corporate -- corporate bonds held by the Corporation increased by between 52 and 56 basis points. The yield on provincial bonds increased by 59 basis points and the Government of Canada's 10-year bond increased by 67 basis points.

Now, on operating expenses, total corporate operating expenses, including the costs of administering claims costs and road safety increased from $327.3 million in '21/'22 to $358.4 million in '22/'23.

In the Application, MPI forecast total corporate expenditures to be $416.7 million in '23/'24, $398.2 million in '24/'25, and $389.3 million in '25/'26.

MPI's total corporate costs are allocated among the insurance and non-insurance categories of business by automobile insurance lines of business in a way that does not give rise to cross -- cross-subsidization.

Costs are allocated to Basic through an integrated cost allocation methodology approved in the Board in Order 157/'12. Upon completing the integrated cost allocation methodology process, expenses attributable to the Basic program were established for normal operations and improvement initiatives.

In this Application, MPI did not propose any material changes to its integrated cost allocation methodology.

MPI advised that E&Y, as part of its organizational review of MPI, has been tasked with reviewing the integrated cost allocation methodology and it could, potentially, change.

MPI will be filing a third-party review of the methodology in next GRA.

Total Basic allocated corporate expenditures were $248.1 million in '23 -- '22/'23 or 69.2 percent of corporate expenses and are forecast to increase to $264.9 million in '23/'24 and $256.3 million based on the October update.

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

Since 2018/'19, the Corporation has experienced compound annual growth of salaries and benefits of 2 1/2 percent with Basic compensation that has grown from $124.1 million in 2018/'19 to $136 million -- $136.8 million in '22/'23.

In this Application, Basic salaries and benefits were forecast to grow to $145.7 million in '23/'24, which is an increase of 6 1/2 percent from the previous year, and are forecast at $142.2 million in '24/'25, which is a two point four (2.4) decrease over '23/'24.

MPI's staff complement was two thousand and five point six (2,005.6) full-time equivalents in 2022/'23, including one thousand nine hundred and forty-seven point eight (1,947.8) full-time equivalents in normal operations and fifty-seven point eight (57.8) full-time equivalents in improvement initiatives.

MPI's forecasting to grow its total staff complement to two thousand one hundred and fifty point eight (2,150.8) full-time equivalents, an increase of a hundred and forty-five point two (148.2) full-time equivalents, in the '23/'24 fiscal year.

MPI forecasts normal staff to two thousand fifty-five point eight (2,055.8) full-time equivalents and the improvement initiative staff complement to ninety-five (95) full-time equivalents.

MPI attributes the increases in improvement initiative staffing as bubble staff to deliver Project NOVA.

Crown benchmarking has been used to compare MPI against peers providing public auto insurance: Saskatchewan Government Insurance, and Insurance Corporation of British Columbia.

While comparisons were drawn among MPI

with SGI and ICBC, MPI does note significant variances exists among the entities, making direct comparisons difficult. MPI has indicated that its operational benchmarking will continue with Crown benchmarking, despite these variations.

MPI also filed an operational benchmarking study prepared by AON. The AON study provided key performance metrics; comparisons of MPI with the Canada Personal Auto benchmark, consisting both of private and Crown corporations.

MPI does not plan to take any specific actions as a result of the findings in the AON study, as the findings, generally, support that MPI is operating within benchmark averages.

In addition to Crown and AON operational benchmarking, MPI undertakes IT benchmarking, and Gartner has provided its IT assessment for the period of fiscal year '21/'22.

Due to the timing of reviews, the Gartner assessments do not align with funding cycles, because MPI's funding planning is one year ahead of the assessments from Gartner.

Gartner has indicated MPI's maturity level, for both strategy and execution and program and portfolio management, which was scored at a value of one, the lowest possible score.

Regarding program and portfolio management, MPI indicates the score is an enterprise view and does not represent Project NOVA. Project NOVA has its own program and portfolio management, which, according to MPI, is more mature than the enterprise as a whole.

MPI has further noted that the wrong group participated in interviews with Gartner, which was a contributing factor to the maturity score.

Moving on to value assurance. MPI has rebranded the Value Management Office as Enterprise Value Assurance or EVA, in 2023. EVA is ramping up its understanding of MPI's portfolios and is working towards documentation of common definitions and terminologies to assist with the evolution of practices. EVA also supports lean portfolio management practices to assess and review epics and project allocation requests.

MPI has noted that the benefits realization management process is under review and revamp and will plan to implement the new processes in 2024.

MPI noted, during the hearings, that the value assurance model continues to evolve. MPI has relied on the usage of funding envelopes for allocation of budgets to epics and projects for all projects in fiscal year '22/'23.

MPI noted that the maturity level for use of funding envelopes is not assessed. For example, MPI noted the processes to allocate funding envelopes are not fitting its needs and should be re-aligned to support strategy and portfolio management, although a definitive timeline does not exist.

Finally, with respect to Project NOVA. In the 2022 GRA, MPI indicated the budget for Project NOVA was $101.7 million, plus a contingency of $16.8 million, or 15 percent, for a total of $128.5 million and that this was more refined than the original Legacy System's Modernization business case.

The original LSM business case estimated the project cost to be $85 million, plus a $21.4 million, or 25 percent, contingency, for a total cost of $106.8 million. This original business case for LSM was based on a top-down budget analysis, before any pricing was received from vendors.

In the 2021 re-baseline, which was presented in the 2022 General Rate Application, MPI reported that the project continued -- continued to be producing -- projected to be producing a positive Net

Present Value. However, this was highly dependent on many factors, and the margin of error was very slim.

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

Upon completion of McKinsey's project assessment in February 2022, MPI management and McKinsey recommended the time line for the project be extended to sixty (60) months from forty (40) months, and that the budget be increased to $224.1 million plus contingency of $32.9 million to $65.8 million, a range of 20 to 40 percent, equal to a new budget range overall of $257 to $289.9 million. The midpoint cost estimate of this rebaseline is $273.5 million.

With the new higher estimated project cost and revised lower budget project savings benefits, the Net Present Value of the Project NOVA business case changed to a negative $188.9 million, which represented a $207.9 million decrease from the 2021 rebaseline business case.

MPI's revised business case in this GRA has been adjusted to a negative $181.7 million based on the midpoint contingency of 30 percent.

With respect to the NOVA releases, Project NOVA has not kept pace with the flattened delivery schedule. Release 1 for commercial insurance, while delivered, has complications due to missed or misunderstood requirements.

Release 2 has elements that have been deferred and has missing elements due to some key financial requirements identified late during the testing process.

Release 3 has completed pre-Discovery, but the Discovery phase did not commence as planned and was rescheduled for January 2024, and has also been affected by labour interruptions.

MPI also reports that dependent projects for NOVA have been affected by labour interruptions, further adding to time line risk of the overall NOVA initiative.

When labour interruption is added, the schedule is further affected as MPI needs to allocate resources to clearing the backlog prior to refoc -- refocussing on IT projects including NOVA which could take six (6) months.

MPI has noted consistently that the scope of NOVA has not changed since the original Legacy Systems Modernization Project. MPI is moving away from use of the term MPI 2.0 due to it being a misunderstood concept. MPI has stated that MPI 2.0 has no road -- roadmap and does not have any associated initiatives.

With respect to NOVA governance, for the period of October '22 to September '23, MPI has been operating NOVA without a governance consultant. While McKinsey provided elements of risk for a period of time, these services did not encompass the full scope of program governance.

MNP has been selected to deliver program governance for Project NOVA through to the planned delivery period of 2025.

With respect to NOVA budget, with Releases 1 and 2, issues have arisen that have combined the usage of over -- of additional planned usage of $7.6 million contingency and a planned -- overall planned overage potential contingency -- contingency usage of $16.6 million. Pardon me. That was a mouthful.

MPI notes the overall certainty of NOVA's budget will be increased once discovery for Release 3 is completed. Release 3 is the most complex of the four (4) releases.

MPI has also indicated that a firm

assessment of contingency cannot be accomplished until Discovery of Release 3 has been completed.

MPI has stated that Project NOVA is trending within the $290 million budget, which is the upper bound of the estimated project work and includes the 40 percent contingency level.

The Board heard testimony from Mr. Scott Greenlay, an independent consultant commissioned by CAC, to provide an expert opinion and recommendations on the current state of Project NOVA progression, along with observations related to other areas of IT spending.

Mr. Greenlay agreed with PwC's commentary, from last year, that Project NOVA is an ambitious IT project and, in his opinion, Project NOVA is too complex and large for -- for MPI.

From a progress perspective, Mr. Greenlay noted concerns with the size of the Project NOVA budget, scope increases, actual progress to date, program governance gaps, and confusion with the concept of MPI 2.0. He noted that MPI should continue to invest in technology but be wary about over-investing.

During his testimony, Mr. Greenlay reinforced his key recommendation to pause, de-risk, and re-scope Project NOVA going forward. This recommendation is based on his observed issues with the project to date, concerns with resources and leadership and, in his view, would provide MPI with the opportunity to break the large initiative into smaller, more manageable projects by a careful triaging.

In Mr. Greenlay's opinion, this will help MPI to work with the existing approved budget and reduce the risk that the project budget will increase further.

Madam Chair, Panel Members, I have attempted to comment on the main issues that arose this year. I would like to thank the Panel and counsel to the MPI and Interveners for their cooperation extended throughout the hearing. Thanks as well to MPI and CAC witnesses and to the Board staff for their dil -- diligence and invaluable assistance over the past several weeks. Thank you.

PANEL CHAIRPERSON: Thank you, Ms. McCandless.

We'll take the morning break now, coming back at 11:25, and then if possible try and break MPI's comments at around 12:30, whatever -- at some reasonable break point, if you -- we can try and aim for that time. Thank you.

--- Upon recessing at 11:11 a.m.
--- Upon resuming at 11:27 a.m.

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

FINAL SUBMISSIONS BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Thank you, Madam Chair. Good morning, Panel. Good morning to everyone today.

Before you is MPI Exhibit 119, which is the closing submission for the 2024 General Rate Application. And, as you can see, it is quite -- quite significant in terms of its size, so I don't want to read the entire document verbatim, but I will take the members through, along with my colleague, Mr. Scarfone, the material aspects of the -- the closing that we believe should be highlighted, as well.

We're obviously open to any questions that the Panel members may have as we go through this process. And I would just note that Mr. Scarfone and I will be taking turns as we go through some of the topic areas, so there might be some back and forth.

And we'll try to make sure that's adjusted as appropriately as we can.

So just some background context. Ms. Schubert, you can go to page 3. Just it seems somewhat trite these days just to talk about the -- the context, the uncertainty, the theme of this rate Application being uncertainty again this year.

You know, since the COVID pandemic in 2020, we -- we kind of see ourselves in this perpetual state of -- of uncertainty. And we understand that it's not just MPI, it's also Manitobans who are experiencing these challenges, and they're happening now and -- and they will happen in the foreseeable future, as well.

So to address that, MPI, as you heard from our interim vice -- our interim President and Chief Executive Officer, Ms. Kacher, the Board of Directors has provided us with the clear mandate to execute three (3) key business objectives: the first one being to meet our financial objectives, the second one being to deliver Project NOVA, and the third being to improve service delivery.

And so MPI believes that focussing on what makes its -- up its core mandate and core mission is what will help bring it through this period of uncertainty and be able to deliver for Manitobans going forward.

And just want to take some time to -- to note here that this rate Application is being brought in an exceptional time in the Corporation's history.

The fact that we were able to deliver a robust and largely complete Application and to present to -- to this Panel more than forty (40) witnesses and subject matter supports over a three (3) week oral hearing is -- is truly a testament to the hard work and dedication of our staff and the consultants that we work with.

And so I just wanted to take some time today to just, you know, identify the -- and reflect on the past few weeks that we've had here, be cognizant of the significant effort it takes to put in this Application each year and to express our sincere gratitude to all those who helped to make this happen.

My -- my friend, Ms. McCandless, did go through the relief requested, and so I won't necessarily focus too much time on this area, but it is important to note that MPI's approval is for no -- or request rather is for approval of no changes to its overall rates for service, no changes to permit certificate fees and driver premiums.

We will talk about the relief request in respect of the Driver Safety Rating, or DSR, which includes the addition of a plus level 18, as well as moving the discounts closer towards their actuarially indicated targets.

We will talk about the approval of the proposed Capital Management Plan that MPI requests this year, as well as modifications to the Fleet Rebate Program and approval of a new Vehicle for Hire framework.

In terms of the applied for overall rates for service, as the Board will know, MPI was required to request no changes for this current -- or for the next rather insurance year.

And this request accords with Manitoba Order in Council 94/'23 which I identified in that -- in that blurb there that you've seen.

And so what this means effectively is that MPI is -- is requesting a zero percent overall rate indication. And I talk about how that actually interplays with the major classes, and as we go through the -- the subclasses, as well.

But suffice to say, that zero percent overall rate indication will affect everyone uniquely.

And there's also just natural movements where we add new vehicles to the fleet and individuals move up the Drive Safety Rating scale, perhaps they buy a new vehicle, things like that, which will impact their -- their year-to-year premiums.

And, also, I should note that in terms of moving the DSR targets towards their actuarial targets, that required MPI to move up the -- the base rate rather to -- to compensate for that, so we'll talk a little bit more about that as we go through the DSR section.

So MPI wasn't -- wasn't able to apply for an overall rate indication determined in accordance with accepted actuarial practice. However, the PUB did hear evidence this year outlining that what it would have sought.

I'm sorry, Ms. Schubert, I'm on page 6 now. I'll try to do a better job of keeping you updated. But back to my point.

We did present evidence as to what an overall rate indication would have been in accordance with AAP. And just before I pause there though, I do want to mention that the PUB did hear from Ms. Low, our vice president and chief actuary and chief risk officer, that even though MPI is applying for a zero percent overall rate indication, there are some suggestions that, at the end of the day, it would perhaps not be unjust and unreasonable for -- for the Board to consider even something in the nature of zero percent overall rate indication.

And so Ms. Low has pointed out some of the uncertainties in the future that -- that we look at that suggests that perhaps this would be something that the Board should -- should actually seriously consider.

And we'll talk a little bit more about those uncertainties in the future, but it would be important to note that the uncertainties that we're talking about are uncertainties that are arising following the issuance of the -- the claims forecast, which we know was -- was prepared in -- in accordance with the June 2023 filing.

But if we go down to page 7, the AAP overall rate indication, the Board will know that -- that MPI originally filed an AAP rate indication that suggested a requirement of a negative 0.13 overall rate indication and then updated its rate filing in October of this year to request a final AAP over -- overall rate indication of negative 1.48 percent.

And so slide 8 of MPI Exhibit number 65

depicts how MPI arrived at that final AAP rate indication. And the biggest impact from it obviously is the expected yiel -- yield rather rate on new money yield which reduced the rate indication by negative -1.35 percent.

As indicated, there -- there's no request for any changes to permit certificates fees or driver premiums, so I'll move over to the next issue, which is approval of the changes to the DSR scale and vehicle premium discounts.

And so while Order in Council 94/'23 prevents MPI from seeking changes to the overall vehicle premiums, it does also contain a provision that requires MPI to comply with PUB directives.

And one (1) of those directives from last year from Order 4/'23 requires that all DSR discounts be moved by one fourth (1/4th) of the way towards their actuarially indicated targets -- excuse me -- rounded down to the nearest whole number.

And so to comply with this Directive, what MPI did while maintaining a zero percent overall rate indication, it increased the base rate by 5.21 percent.

And so MPI requests approval to apply for changes to the DSR, including changes to the discounts and the introduction of DSR level. The impact of moving these changes is reflected in figure RC, Appendix 6-4, which indicates that the biggest changes would be experienced by registered owners at DSR levels plus 12 and above and DSR level plus 18 would be set to receiving a discount of 48 percent.

The PUB heard that MPI used synthetic data to determine the discounts for DSR levels plus 1 to plus 20, and then used the newly created discount scale to establish the targets towards the current discounts where -- sorry -- where the current discounts would move.

And so next year what the PUB can expect is an application by MPI to introduce DSR level plus 19 followed by an application the year after for DSR level plus 20.

As noted, MPI is applying for approval of a new iteration of its Capital Management Plan, or CMP. And so I note that last year an earlier iteration of the CMP was proposed but approved by this Board as there was still a lot to explore in terms of the -- the new legislation and some concerns that were raised.

And we do hope that the Board will see that this new iteration, the CMP, although requests some relief similar to what was proposed last year, is a more robust and more improved, at the end of the day, application -- or plan rather I should say.

So applying this new CMP, MPI is not seeking a capital build or a rebate based upon the Minimum Capital Test ratio of the Basic Rate Stabilization Reserve at the beginning of the fiscal year 2023/'24 as set out in the audited financial statements, which indicate that, as of March 31st, 2023, the MCT ratio of the RSR was at 111 percent, and so less than the 20 -- 120 percent threshold as required by the Manitoba Public Insurance Corporation Act for it to apply for rebate but also higher than the 100 percent MCT ratio trigger that would require MPI to apply to this Board for a capital build provision.

Modifications to the Fleet Rebate Program. So, last year, you'll note that the -- that this Board directed MPI to file an analysis and proposal for modifications to its fleet program to better reflect cost/causation.

In this GRA, what MPI has presented is an interim; what it believes is a more equitable solution that allocates net rebates based upon the proportion of fleet rebates in each major class and seeks to -- approval rather of this Board for a -- of a full review of the fleet program.

And so MPI expects that this review will be completed in an updated -- sorry -- completed in future years with an update to be provided in the next rate application.

The PUB heard that those who participate in the fleet program, so those who have ten (10) or more vehicles registered to them, are eligible for a DSR merit; however, they do not receive their DSR discounts, instead, they receive a rebate or surcharge based upon their actual loss experience.

So where the fleet rebate -- sorry -- where the fleet experience is better than what the premiums charged would support, the result is a reduction in premiums for all vehicles in the same major class whether they have a fleet.

And while this does not impact the overall rate indication, the PUB did hear from our Ratemaking Panel that this program must be revenue neutral to be actuarially sound; a larger issue that can't by addressed by this interim solution.

So, as I mentioned before, although we believe that this is moving towards a more equitable practice, there's more work to be done and more updates and a better solution should be forthcoming in the future.

In terms of the Vehicle for Hire policy framework. And so, again, a directive from last year required MPI to -- to file rather a revised Vehicle for Hire policy framework which explains the blanket policy for Transportation Network Companies, or TNCs; ensures that it doesn't result in any cross-subsidization; and also ensures that Vehicle for Hire operators are able to access the technology that they need to participate in the blanket policy.

And so, in this rate Application, MPI requests approval of the Vehicle for Hire policy, which includes the following items: Number 1, the said Transportation Network Company, or TNC, blanket policy famework and methodology.

And a pause to note here that we are making the exception for the per kilometer rate. So, MPI is just asking for approval of the framework and methodology with the actual per kilometer rate to be submitted and approved at a later filing, whether that be next year or the -- the year after. And we'll talk about why that might be.

Number 2: A Directive from the PUB that commercially sensitive kilometers traveled data, belonging to the TNC's supporting the per kilometer rate that we just talked about, be received by the PUB in the 2025 GRA and in perpetuity thereafter, in strict confidence, to the exclusion of the public and all representatives, counsel and consultants of any Interveners.

And the decommissioning -- Number 3: the decommissioning of the time ban model. This is at the same time as introduced -- introduction rather, of the TNC blanket policy and replacing the time ban model with a full time Vehicle for Hire use.

And so, the PUB heard that MPI will be unable to implement this framework without approval of each of these elements.

And, I'll just pause to note there, that again, without some methodology or some approved practice for transportation network companies to be able to submit their confidential information to the PUB, this -- this simply does not work.

Forecasting of Claims and Ratemaking. So, this year, MPI presented separate witness panels for the topics of claims forecasting and for rate-making.

And so, while rate-making does rely upon the claims forecasting process, the issues are in practice separated to some degree and so we've discussed them separately in this -- in this Application and this closing.

And forecasting claims is a rather large issue for us to deal with and as the PUB heard, approximately 70 percent -- 76 percent, rather, of the total required premiums go to paying for the cost of claims, and that includes the Allocated Loss Adjustment expenses or ALA.

And for MPI that translates to a nearly a billion dollars. So, even small adjustments to the forecasted trends and rates, may seem small, but in practice, even small changes can -- can have significant impacts to the indicated rates.

And, so for the 2023 GRA, MPI introduced its new additions to its -- its AIR team, it's AIR or Actuarial Investments and Risk division and this year we introduced the business insights and analytics team. Their responsibility is for analyzing data for trends and providing insights to decision makers.

And in this GRA, I think it was well -- well received in terms of everyone understanding the robustness, but this was the first time that the PUB could witness the benefits of our additional resources.

And so MPI presented a new claims forecasting chapter, which provided a dedicated loss trending analysis, an accident year claims forecasting, as well as provided additional clarity between the claims forecasting process and rate-making.

And I pause here to note that even the representative of Oliver Wyman, Mr. Rajesh Sahasrabuddhe, testified and acknowledged the -- the improvements to the -- the MPI methodology and said and -- I'm not going to read this quote verbatim here, but largely looked upon the new methodology very favourably and -- and also, like others, noted that it was more robust and more in keeping with -- with industry standards. I'm on page 12 now, Ms. Schubert.

So claims forecasting is an estimate of future costs. Right, so we're trying to figure out what the loss costs or peer premiums will be before a future year, based upon a prediction of the probability that specific types of claims will occur in the future, which is frequency and the average amount those claims will cost, which is severity.

So, sometimes, the data tells us different stories. And we have a quote here from Ms.

Low, who described the claims forecasting process as being both a -- a combination of an art and a science.

So, the science is the math that goes into the modeling, she says, and the art is understanding and interpreting the data and then making the correct selections.

And, so I've asked some questions here, 'cause I think these are important questions for us to consider.

And so, we should be asking ourselves: Does more recent data support the emergence of a new trend? Are past trends still relevant and predictive of the future?

The PUB heard that actuaries like Ms. Low and her team, are using different tools, including regression models, statistical measures, research, market research, internal-external research, things like that, and visual analysis, sometimes known as the eye test, to help understand the predictive nature of their data.

If one is too conservative, the ratepayers will pay the price through higher rates than required to sustain the insurer.

But too optimistic, and the insurer fails to recover sufficient revenues to cover its costs.

And, so I would suggest for consideration of this Board, that the task here should be to balance or choose among the following potentially inconsistent regulatory principles.

Number 1, cost of service standard, which requires this Board to set rates that allow the regulated entity to recover the costs of its regulated operations.

2: The inter-generational equity principle, which provides that customers in one period should not incur the costs of providing services to customers in another period.

And 3: Rate stability and predictability, which provides that rates for services should be stable and predictable to the extent that it's possible.

Forecasting is an estimate of the future. We talked about that and as Ms. Low describes it, when we look at our forecasts, the only thing that we -- we know is it's going to be a best estimate. It's not going to be 100 percent accurate and we know that it's going to, likely, defer from what the future actually holds.

And so, Ms. Low, says the only thing we

know about forecasting is we know it's going to be wrong and the question is just how wrong is it going to be.

And so MPI believes that it's essential that this Board always be mindful of these facts. So neither MPI nor, in this case, Oliver Wyman, will predict the future with perfect accuracy.

But we would submit that the standard of -- at play here, is not perfection. It's reasonableness. And so, the applicable standard of reasonableness is because this Board is tasked with approving just and reasonable rates.

If MPI's forecasts are reasonable, then all things equal, its rates should be as well.

So, I've put here a few things that I believe that this Board should consider when looking at whether a forecast is reasonable.

1: Does the forecast -- is the forecast, rather, a product of industry accepted analysis?

2: Are the forecasts considerate of material contextual factors, such as eco -- macroeconomic influences, weather, management action, things like that?

And 3: If the forecast represent

deviations from accepted practices or novel approaches, is there a reasonable justification for the deviation or novelty?

Ultimately, MPI is of the view, that the PUB should satisfy itself as to whether the forecast presented by MPI fall within the range of possible selections as determined by standards of the industry.

Importantly, if the PUB is ever inclined not to accept the forecast of MPI, it should explicitly state that it does not so, based upon the fact that it had found the forecast to be unreasonable and not in keeping with accepted standards of practice.

Another important consideration for the PUB, is the point in time nature of the forecasting process.

MPI provides its forecast with its initial June filing. Unfortunately, due to labour interruption, it was not possible for MPI to provide an updated forecast with its October update.

And this is important because the circumstances continue to change afterwards, as I mentioned. And so, the PUB here -- heard from the Claims Forecasting Panel that the team believes that they put together their best estimate with the knowledge that they had at that point in time, but that knowledge changes almost on a daily basis.

And we have more knowledge now than we did a few months ago, and that's true. We have labour interruption internally and external. We watched the auto industry workers across the continent who are on labour interruption, as well, and we think both of those are going to drive up severity.

There's still uncertainty about how many Manitobans are going to return downtown to the core of Winnipeg, which has a big impact on our collision frequency.

We also see a -- a re-acceleration of inflation. The CPI has risen in July and August, so there's still uncertainty about the CPI and where that's going ahead for the 2024/'25 rating year.

So, the sophistication and the improvements that you're going to hear about, are being introduced to balance responsiveness of what is happening with claims, along with rate stability.

And so what we heard from -- sorry, I'm going to try to catch up with you there, page 14. From Mr. -- Mr. Sahasrabuddhe, from Oliver Wyman, is that they reviewed the forecasting and results from

MPI and the underlying analysis and proposed several alternative assumptions.

However, and if you can continue to page 15, Ms. Schubert, I would just stop here to make sure that this Board knows that even though Oliver Wyman has proposed alternative assumptions, its view is that those assumptions are more appropriate or more reasonable than the assumptions provided by MPI.

And so, in my conversation with Mr. Sahasrabuddhe yesterday, I asked him:

"Is it fair to suggest what Oliver Wyman is actually saying is MPI's forecast is not reasonable?"

And his response was:

"What we're saying is we believe our forecast is a reasonable estimate than that put forward by MPI."

And so I said:

"So not necessarily that MPI's forecast is not reasonable, but that there's a better alternative. Is that -- is that fair to say?"

And his response was:

"Correct, because ultimately the ratepayer pays a single rate, so

what's the more -- what's the more --
most appropriate rate is what
we're trying to put forward."

And so our submission is that the PUB should not discount or reject the MPI forecast assumptions where Oliver Wyman presents an alternative since what appears to be at issue here is not whether MPI has selected a forecasting assumption that is unreasonable, but whether or not there may be something that is, in their opinion, more reasonable.

And so we'll talk about a few of the -- the trend selections and the issues that were at -- at issue in this rate Application, the first one, and probably the most important one, being on accident year weights.

And so the question here is: How much weight should MPI give to accident years 2017 and 2020? Should MPI give any weight to 2017 or -- or to 2020? And so these are the questions that we believe the PUB must resolve in this rate Application.

The PUB did hear that, for the accident year weighting -- sorry, that accident year weighting contributes to rate stability by smoothing out fluctuations in historical loss experience.

MPI selects a five (5) year period, and

in this case extended that out six (6) rating years because it excluded the experience from the year 2020 which was the COVID-19 lockdown year. For the remaining five (5) years, the PUB heard that MPI judgmentally gave weight -- in this case, equal weight or 20 percent credibility -- to each of the accident years.

To be clear, MPI assigned weight to -- sorry, assigned no weight to and, therefore, excluded the 2020 accident year from its future projection of loss costs for two (2) main reasons: first of all, its work-from-home adjustment already unwinds the impact of the work-from-home environment due to COVID-19; and two (2), COVID-19 makes the 2020 accident year exceptional and irrelevant for forecasting of future claims costs.

What does assigning weight to an accident year mean in terms -- or practically, I should say? The PUB heard that it means that there is a possibility that a particular accident year will be predictive of the future.

In other words, by selecting zero weight for 2020, MPI believes that that year offers no predictive value for the future. Is that unreasonable? MPI submits that it's not given the exceptional nature of the COVID-19 lockdowns.

What about 2017? Well, MPI believes there's a 20 percent chance that 2017 will have predictive value. Oliver Wyman excluded the year, not because it didn't have predictive value, but simply because it didn't fall within the five (5) year time frame, a time frame that is not a requirement but a common practice among large insurers.

Oliver Wyman admitted that there's no formal or informal standard for weighting, indicating that it was all over and that it would not be unreasonable for MPI to select a proxy for 2020 like 2017 if it did not believe that 2020 was predictive of the future.

In spite of all this, Oliver Wyman suggests an alternative approach that gives no weight to accident year 2017, some weight to accident year 2020, more weight to accident years 2018, 2019, and 2022 in some instances, and variable weights to 2021.

The PUB heard that this approach, which gave no weights to accident years 2020 and 2021 based on a -- sorry, they gave more weight to accident years 2020 and '21 based on a relative likelihood approach, a novel approach, that is generally not appropriate and only attempts to respond to a once-in-a-lifetime event.

That said, that approach gives predictive value to this exceptional event, and in the case of coverages such as accident benefit other non-indexed, comprehensive, the Oliver Wyman approach not only assigns predictive value to 2020, but it also assigns just as much predictive value to that exceptional year as it does to 2022.

In other words, what Oliver Wyman is trying to tell you is that 2020 -- 2020 and 2022 are probably equally as predictive of the future.

Therefore, MPI submits that the PUB should find that MPI's decision to give equal weighting years -- equal weight, rather, to the years 2017 to 2019 and 2021 to 2022 is reasonable in the circumstances and to not change or disturb that.

Let's talk about the accident benefits other weekly indemnity, and then the accident benefits other indexed, and then the property damage, other trends because all of those have a very similar story to them.

In these cases, Oliver Wyman is suggesting that the alternative model that they're proposing for frequency or severity, depending on the trend, is or should be used on the basis because MPI is using different time periods for its models, and the use of the same time period as the default, and if you're going to depart from that, you should have good reasons for doing so.

In this case, however, the PUB received evidence that the results of regression analysis of the contested trends selected by MPI were either better or, essentially, the same as the results of the regression analysis offered by the Oliver Wyman alternative trends.

In other words, not only are MPI's selected trends the product of industry-accepted analysis, but the results of this analysis also produced R-squared and adjusted R-squared values that are considered good fits, and the time 'P' values are significant.

For R-squared values, the PUB heard that the range is zero to one (1), with one (1) indicating a hundred percent of the data is explained by the model.

For 'P' values, the PUB heard that the value closer to zero means less probability of observing the value randomly or by chance.

So let's look at a comparison of the subject trends that we're talking about here. In the case of Oliver Wyman -- excuse me -- in the case of accident benefit other weekly indemnity for severity, you'll see that the adjusted R-squared value for MPI's trend is higher, the 'P' value is the same.

For the accident better -- excuse me, accident benefits other indexed for severity, the MPI trend is better for the adjusted R-squared value and comparable for the -- the time 'P' value.

For the property damage other, frequency-severity -- or frequency trend rather, the MPI adjusted R-squared value is better, and so is the time 'P' value.

In addition to the equal or preferable regression analysis results we just looked at, MPI submits that there is good reasons for selecting different time periods for each of these coverages.

For one (1), for the accident benefits, weekly indemnity severity trend, MPI states:

> "MPI estimates future claims severity trend to be the same as past claims severity trend as there is no credible evidence suggesting future wage inflation is expected to be higher than historical levels. While MPI recognizes the minimum

wage increase implemented in April 2023 and the planned October 2023 increase are likely to increase weekly indemnity claims severity, MPI does not have a credible source of wage inflation forecast, and thus the impact of these minimum wage increases remains uncertain. However, MPI believes a severity growth period of 4 percent is appropriate for the five (5) year forecast period."

For accident benefits other, indexed severity trend, MPI states:

"MPI selected future claims severity trend to be the same as past claims severity trend as there are no credible evidence to suggest future experience is likely to deviate significantly from the past. While MPI recognizes the minimum wage increase -- increases effective April 1st, 2023, and planned increase effective October 1st, 2023, will likely result in a slight

increase in ABO indexed claims
severity, MPI does not have a
reliable source of wage inflation
forecast and the impacts of these
increases compared to historical
experience remains uncertain."

And then finally, for the property damage other frequency trend, MPI says:

"The indicated frequency trends
range from approximately negative
-6.68 percent to negative -1.3
percent for the period starting with
2009 to 2019, with high R-squared
and adjusted R-squared values,
indicating a good fit."

It's not only as -- what MPI is saying here, that the regression analysis is -- is better than or equal to Oliver Wyman, it actually is providing some justification for why it's selecting these trends. It's providing you with industry-accepted practices, and it's also explaining the context around its selections.

For accident benefits other non-indexed, here the issue is whether this coverage -- is whether or not MPI has successfully -- sorry, excessively tempering the recent frequency experience in its future trend selection.

So, in response to this criticism, Ms. Christine Zhou, our Director of Business Insights and Analytics, defended the decision to temper the lost cost trend, from a -4.9 percent to a zero percent, stating we don't believe tempering the past trend by half, which is suggested by Oliver Wyman, to 2.47 is reasonable in the sense of, in our profession, we don't usually jump from minus -4.9 to zero.

So, she's saying we don't normally do what we did. We appreciate that. She says I acknowledge that and I acknowledge the concern and 50 percent is a reasonable approach -- that's the Oliver Wyman approach -- but, then, we have to look at the lost cost and we look at the recent actual year over year volatility and frequency and, then, we look at our lost cost regression analysis.

We don't believe minus two point five (-2.5) frequency assumption to be used in the next five years is reasonable. In other words, what she's saying is, we don't believe that the Oliver Wyman regression analysis -- or selected trend, rather, is the appropriate trend.

So, we have a situation here where it's

a difficult decision to be made. We believe that we have justification for the decision we've made. We also believe that, at the very best, Oliver Wyman is also in a similar situation, where it's a tough decision. It's not keeping with what we would normally expect in the circumstances, but we're doing the best that we can.

For collision claims, we heard that this is one of the -- the -- the biggest trends that we have to look at here in this rate Application.

And, so, the question here is whether MPI's approach for its collision severity model, specifically, the selection of a different severity trend between the 2020 and 2022 years, based upon a two-parameter model fit to three (3) data points is reasonable. The claims forecasting chapter of the 2024 GRA provides a review of the available data, considers the contextual factors, admits vulnerabilities, and explains the basis for the decision.

Now, I didn't include it here verbatim, 'cause it's more than four (4) pages, but I would encourage this Panel to look at the explanation provided. This is not just numbers that MPI is picking out of a hat. There is serious science and serious analysis that's going into the selection of these trends.

For property damage third-party loss of use, the issue here is whether MPI's proposal to select a frequency trend that uses the -- the time period 2010 to 2022 and a severity trend that uses the period 2009 to 2022 is reasonable and, so, MPI notes a correlation between this trend and collision and, therefore, applied a similar approach to this trend as it did to the collision trend and, again, MPI submits this represents a reasonable decision, informed by contextual factors.

For property damage third-party deductible transfer, we heard that MPI selected frequency and severity trends for differing time periods, in this case, 2020 -- sorry -- 2010 to 2022 for frequency and 2029 -- 2009 to 2022 for severity.

And, in each case, the results of the regression analysis produced adjusted R-squared values and 'P' values that exceed the trends selected by Oliver Wyman as their suggested alternatives and, therefore, for this particular trend, MPI submits that these trend selections are reasonable in the circumstances, and, again, submits that these should not be disturbed by the PUB. That's claims forecasting.

Let's talk a little bit more about rate-making and, so, we talked a little bit more about the overall rate indication based upon accepted actuarial practice and the compliance with the Order in Council for no changes in the overall rates and, then, we also talked about changes to the rate-making process, including changes to the discounting of claims and the improvement of the allocation of fleet rebates and, then, also, what was discussed this year was the credibility weighting for taxis and vehicle counts under the Highway Traffic Act.

I'm not going to go too much into the applied for rates. We talked about that in too -- in a lot of context here, although I'll just pause to note that MPI, unfortunately, was not able to update its dislocation reports, due to the labour interruption. So, unfortunately, we don't have that information for you, but the PUB heard that, even with no request for a change in the overall rate, there would be changes within each major class and within each different risk classification.

Discounting of claims costs. And, so, how best to discount claims costs under AAP; that's the issue here and MPI is proposing, again, this year to use the naive interest rate yield, based upon the duration of the underlying expected cash flows from the rating year cohort of policies being priced.

So, specifically, what's MPI asking here is to -- to use the duration of premium liabilities as opposed to the duration of the claim liabilities, as it did last year and historically.

The provision of gross naive yield was 4.35 percent, gross of investment expenses calculated as of March 31st, 2023, for the Basic claims portfolio with an average duration of two point six seven (2.67) years. And the PUB heard that the yield is based upon target weights for government bonds, corporate bonds, and for -- and new for this year rather commercial mortgages as per the MPI investment policy statement.

And the PUB also heard that, typically, the approach of using premium liability duration results in a lower investment yield than the approach that uses the claim liability duration.

However, in this current environment with an inverted yield curve, the PUB heard the short-term interest rates would be higher than the long-term interest rates, meaning that this recommended approach also results in higher investment yield and a lower required rate.

And so, if we look at Exhibit number 81 for MPI, that shows us the result of using the historical approach, being the lower investment yield of 4.86 percent compared to a 5.04 percent and a higher overall rate indication of negative 0.89 percent compared to the MPI rate of negative 1.48 percent.

And so MPI provided this location reports, as I mentioned before, but we're not able to update that. And -- and, hopefully, we'll be able to do so shortly, but I -- I can't tell you what the time frame might be at this point in time. As you know, we're entering -- well, we're completing week 9 of our labour interruption and we don't know what the future holds for us at the moment.

Let's talk a little bit about the relocation of fleet rebates. So Directive 12.6 from Order 4/'23 from last year's rate application required MPI to file an analysis and proposal for modifications to the fleet program to better reflect cost/causation.

And so what we saw here is the interim proposal at risk classification chapter Appendix 7 of our rate Application.

And, as I mentioned before, this provides a more equitable basis for the allocation of fleet rebates, and -- and it does so by allocating net rebates on the proportion of the fleet policies in each major class.

So, historically, MPI allocated these rebates based upon the number of vehicles in each major class, and so MPI is proposing this year it is more equitable because it addresses the additional benefit that major classes with more fleet vehicles would receive over other major classes.

Using the fleet policy data from November 1st of 2022, MPI determined per unit rebate amounts of twenty-one dollars and eighteen ($21.18) cents. Under the existing system, this rebate would be issued uniformly of units in each major -- subject major class; in this case, the private passenger, the commercial, and the public major classes.

Under the new system, the same rebate would be issued based on the proportion of fleet vehicles in each class. So the result of using this new methodology would decrease rebates for policyholders in the private passenger major class from that twenty-one dollars and eighteen ($21.18) cents to eleven dollars and fifty-two ($11.52) cents on average but would increase rebate to policyholders in the commercial major class from that twenty-one dollars and eighteen ($21.18) cents to a hundred and thirty-five dollars and twenty-five ($135.25) and to policyholder -- policyholders rather in the public major class from the twenty-one dollars and eighteen ($21.18) cents to two hundred and forty-nine dollars and twenty-six ($249.26) cents.

This change in methodology does not result in any impact in the overall rate indication.

And so the PUB heard that there remains work to be done on this process, may even involve a complete redesign of the Fleet Rebate Program. And MPI anticipates returning to the PUB next year with some additional updates and progress in that regard.

Let's talk a little bit more at this point about the generalized linear modelling update that the PUB directed us to provide this year. And in compliance with the directive, the -- sorry -- MPI filed an update and presented this to the -- the Panel in the Hearing.

And so the PUB heard that MPI successfully completed installation of its new GLM software and user training.

As building a GLM model as an iterative process, MPI is currently gathering, processing, and cleaning major class 1 data and is building and validating a new model that will be -- and will be completing rather at this location analysis to investigate the impacts of the new structure on its policyholders.

As it concerns the GLM system though, the PUB heard that MPI anticipates no further costs associated with its implementation. And MPI used a consultant previously to help set up the use of the GLM system but has since hired a manager of pricing and transformation and has transitioned those responsibilities to that individual.

Credibility weighting for taxis. During this Ratemaking Panel presentation in this year's rate Application, the Taxi Coalition engaged in a line of questioning about whether the appropriate minimum credibility to be signed to the loss experience for smaller insurance groups like taxicab Vehicle for Hire, whether that was appropriate.

And so the PUB heard that MPI currently assigns these types of groups a 10 percent minimum credibility weighting to the loss experience for the current year.

So at issue here is a choice between rate stability and predictability and rate responsiveness. Increasing that minimum credibility weighting for the loss experience of the current year, so moving that from a 10 to a 20 percent, increases the rate responsiveness, absolutely, but at a cost of rate stability.

Rates become more volatile for policyholders and could experience large fluctuations in their rates from year to year. MPI doesn't endorse this approach as it impacts -- as the impacts of doing so would be, on an overall basis, undesirable in its opinion.

And further, MPI does not support assigning different credibility weightings among different insurance uses. So we heard from Mr. Khurram Masud, our director of pricing, that it wouldn't -- it would be essentially picking and choosing where to apply this credibility weighting. It wouldn't be consistent with different major classes and it's something that MPI isn't supporting in this particular case.

And finally, vehicle counts under the Highway Traffic Act. MPI will continue to monitor future growth of its fleet of vehicles to account for changes in things like immigration patterns or other potentially impactful patterns -- or factors rather I should say.

There was also some discussion about electric vehicles. And MPI is -- is prepared to at some point conduct a deep dive into what this means for our industry, the impact on future claims costs and things like that. So that's something you should expect to see from us in the future. I can't commit for next year, for example, but certainly it's something that's on our radar and something we look to do in the future.

So it's about quarter after 12:00 now. I think I can finish the financial forecasting. And then maybe we'll able to pause for our lunchbreak if that's okay.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: So the PUB heard from our Financial Forecasting Panel about a variety of topics, including the actual budgets, the forecasted budgets, expenses, things like compensation, data processing expenses, the allocation of those expenses to the Basic line of business; and the use of key performance indicators in the budgeting process; the transition to International Financial Reporting Standards, or IFRS-17, and its impact on our claims incurred; the inability of MPI to adopt the IFRS-14 standard for regulatory deferral accounts; the status of the Drive and Vehicle Administration line of business and its road safety budget.

Let's talk about expenses just at a high level here. We heard from our -- our new vice president and chief financial officer, Mr. Ryan Kolaski, that the budget for the upcoming hear is really getting back to basics, in his -- his word.

And he also used the term "deja vu budget" because what he's trying to do here is he's trying to match what was presented to the Treasury Board in the last fiscal year to this fiscal year.

So he quotes here, when you look at the preliminary filing for '24/'25, it was 398 million. And when you look on the corporate basis, look at the -- the final updated GRA, it's 403 million. And that's very intentional direction to drive out a flat-line operating cost envelope.

So, basically, we go from the 402 to basically land where you have an updated budget today, 403, so very much back to the same. And so by comparison, when we look at the '23 GRA, MPI was forecasting a forward budget for this next coming year of 430 million, so we're -- we're scaling that back significantly, so a 403 budget from a 430 budget.

And so this represents essentially no overall -- no overall change from the plan expenditures on a year-to-year basis. And it -- but what it does represent though is an increase from the actual spend for 2022/'23. And the PUB heard that that was $358 million but was down from what was expected of 379 in the 2023 GRA.

So how do we allocate those expenses to the Basic line of business? We heard that approximately 70 percent of total corporate spend to Basic was allocated in 2022/'23 with plans to allocate even less to Basic in 2023/'24 at 66 percent and even less the next year, 2024/'25, at 64 percent.

In allocating those expenses, the PUB heard concerns with using our net claim incurred for allocating expenses given the sharp increase in severity for the Special Risk Extension Line of Business.

And that Ernst & Young is conducting an organizational review, which we expect to be completed by the end of this calendar year, that will review the existing integrated cost allocation methodology.

Excluding these claim -- excuse me, excluding claims expenses for the Basic Line of

Business, the MPI forecast -- MPI is forecasting, rather, a total spend of $191 million for 2024/'25 under IFRS-17, up from its budgeted spend of $186 million in the current fiscal year, 2023/'24 under IFRS-17 and its actual spend of $172 million in 2022/'23 under IFRS-4.

Within these total expenses, MPI is forecasting a spend of ninety-four (94) million on operating expenses under IFRS-17, down from its budgeted spend of ninety-four (94), sorry ninety-five (95) in the current fiscal year, but up from its actual spend of eighty-seven (87), in 2022/'23 under IFRS-4.

In its forecasts, MPI is projecting a steady decline in Basic operating expenses, from ninety (90) million in 2025/'26, to eighty-six (86) million in 2027/2028.

And, so if we look at Exhibit -- sorry, look at figure, rather, EXP-3, the ratio of operating expenses to net premiums earned is dropping from 23.5 percent in the current fiscal year to 19.3 percent in 2027/'28.

And this brings it to historical lows not seen since the year of the COVID-19 pandemic. And as indicated by the Financial Forecasting Panel, the primary drivers of this forecasted decline in overall growth, of operating expenses, of lower -- lower staffing levels and lower data processing costs.

So, let's talk about staffing compensation. As it pertains to that issue, the PUB heard that compensation represents the biggest operating expenditure, about 53 percent of our total Corporate expenses.

And last year, MPI had a total Corporate staffing complement of two-thousand-five (2,005) full-time equivalents and for this year is budgeting twenty-one-fifty (2,150) for full-time equivalence. But, we are now in week nine (9) of our labour interruption, in which seventeen hundred (1,700) staff are being excluded from our FTE accounts.

And MPI anticipates that it will end the year in a significantly lower position than budgeted simply because of this fact.

For 2024/'25, MPI budgets a total Corporate staff, twenty-one-fifty-six (2,156), but again, MPI notes that this forecast will be impacted either lower or higher, based upon the ongoing labour interruption and future efforts to restore services to normal expected levels once it resolves.

What do I mean by that? Well, how quickly do we want to get back to normal? If we want to get back to normal very quickly, that means bringing on more people.

So, the PUB received evidence that MPI forecasts total corporate compensation for the upcoming year, to be two-hundred and twenty (220) -- sorry, two-hundred and twelve (212) million, under IFRS-4, which is three (3) million lower than the budgeted amount for the current fiscal year, but higher than the $191 million for the 2022/'23 year.

For basic compensation, oops -- sorry, Ms. Schubert, can you just go back up there, thank you.

The forecasted spend is a hundred forty-two (142) million in 2024/'25, which is three (3) million lower than the hundred and forty-five (145) budgeted for this fiscal year and higher than the hundred and thirty-six (136) million for the 2022/'23 year from last year.

A lower growth in compensation for '2023/'24 is primarily related to a lower forecast staff growth and changes in assumptions to compensation contract changes.

For initiative expenses, while MPI

expects an increase in related compensation expenses for this year, relaying to bubble staff for Program Nova, it also forecasts a sharp decline next year and then contemplates compensation savings in the year after.

Compensation benefits were also discussed, with a focus on basic employee future benefits. Specifically, the PUB received evidence that MPI earned investment income from -- for the employee future benefits, for last year, in the amount of approximately three point four (3.4) million, with a budget increase of twelve point eight (12.8) million this year, eleven point nine (11.9) million next year and thirteen point three (13.3) million the year after.

The PUB also heard that factoring into the calculation are pension expenses that MPI in the years 2024/'25 and 2025/'26 forecast to be eleven point seven (11.7) million per year.

And moving to Projected Excess Investment Income from Compensation Expense -- from Compensation Benefit costs, for basic normal operations, would reduce expenses for rate-making purposes and the overall rate indication by negative two point (2.) -- two point eight (-2.8) percent.

Data processing. This was the other major expense that we discussed this year related to the costs of maintaining and licensing computer hardware/software and system applications including external labour and computer costs.

By comparison, data processing costs represents about 25 percent of total Corporate operating expenses. And that's compared to the 53 percent that we just talked about before for compensation.

So, for 2024/'25, MPI is forecasting to spend forty-one (41) million on data processing for normal operations, excluding improvement initiatives, which is two (2) million less than its budget for the current fiscal year. And roughly the same as its total -- as its actual spend, rather, for last year.

If we add improvement initiatives, we increase the total Corporate spend on data processing to $78 million last year. The budget for this year is a hundred and thirty (130) -- sorry, a hundred and three (103) million, followed by a decline to ninety-eight (98) million for next year. And a further decline thereafter.

The total share of data processing, normal operations that is attributed to Basic is roughly thirty-three (33) million, last year; thirty-three (33) million this year; thirty (30) million next year.

If we include improvement initiatives, it adds eight (8) million to the data processing spend to Basic last year, eighteen (18) million budgeted for this year and a decrease of sixteen (16) million forecasted for the upcoming year.

The Financial Forecasting Panel testified that MPI expects data processing cost to be higher this year, compared to last year, due to additional spending on Program Nova and Cloud adoption.

The PUB heard that MPI anticipates that this level of spending will decrease as Cloud adoption program ends and moves into normal operations with a lower forecasted -- lower forecast, rather, for external consultants.

Further, MPI confirmed that a deferred for Basic, this spend, on improvement initiatives for rate-setting purposes and I -- I'd suggest that you're looking at Undertaking No. 17 in that regard.

Key performance indicators were also discussed this year. And the PUB was advised that it -- MPI should be using key performance indicators or

KPIs to establish performance measures across all aspects of its business.

And MPI was asked to confirm that it did not integrate the use of KPIs in the development of its 2024/'25 budget, adding that the budget for 2024/'25 intentionally employed a top-down approach, which essentially, holds flat the same budget that we talked about for 2023/'24 and contains costs by reconsidering the reasonability of additional spending in some areas.

MPI also indicates that it remains in the early stages of using KPIs, in that, the integration is challenging with the existing technology.

But MPI does have a goal of -- of incorporating the use of benchmarking and KPIs into its budgeting process. That's something it wants to -- to do and we'll -- hopefully we'll see some updates on that in the future.

Claims incurred in IFRS-17. So, in addition to our expenses, the topic of claims costs, specifically claims incurred costs, was addressed during this hearing.

And, so for some context, last year MPI incurred $802 million in net claims costs under IFRS-

4, restated to 771 million under IFRS-17.

For this year, MPI budgeted net claim -- claims incurred cost to be 857 million, which is down from 912 million, under IFRS-4 and forecasts that to increase next year to 984 million up from 977 million under IFRS-4.

The PUB heard that the -- the impacts of transitioning from IFRS-4 to 17 were on the reporting of claims. And to be clear, the move from IFRS-17 impacts the way in which claims incurred are reported and the assumptions used to discount the claims' liabilities.

So, the PUB heard that the major difference under IFRS-17 is the use of a risk adjustment for non-financial risk over the use of provisions for adverse deviation and the use of a yield curve over the use of a flat discount rate.

Within claims incurred costs are Unallocated Loss Adjustment Expenses, or ULAE, which are claims -- expenses that can't be allocated to any particular claim.

And the PUB heard that the percentage of claims adjusting expenses allocated to Basic, in this case, the ULAE ratio, is expected to be lower in 2024/'25 and 2025/'26 than MPI previously forecasted in the last GRA.

But, at this hearing the -- the Financial Forecasting Panel cautioned against reliance on this lower allocation for the purposes of rate-making, stating:

> "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 (this is Ms. Low speaking), we started offering higher liability limits. So we're offering up to 20 million in third-party liability for long-haul trucking down in the US, and we've had a few $20 million liability losses coming out of the trucking business. So this is kind of very misleading allocation and exactly why we aren't looking to use these numbers in our rate-making."

For the rate-making purposes, the PUB received evidence that selecting a ULE ratio of 18 percent using an industry standard of pay-to-pay method due to steady claims expenses and increases in claims cost.

But even Oliver Wyman confirmed that the 18 percent ULE provision selected by MPI is consistent with the assumption from the 2023 GRA and indicated no concerns with its use in this GRA. Using that 18 percent ratio means that, for every claim dollar, eighteen (18) cents is paid from the claims expenses.

The PUB received evidence that using that ratio that looks at the incurred ULAE to in claims -- to incurred claims, i.e., a 16 percent ratio reduces the overall rate indication by 3 percent.

However, MPI is strongly cautioning against this practice as total claims incurred includes time, value of money, which may materially understate the ULAE ratio and may not represent true costs. In other words, using the pay-to-pay method results in a more consistent and comparable year-over-year basis, IFRS-14 and the deferral of initiative expenses.

And so in this GRA, MPI defended its position that it is unable to adopt IFRS-14 in its financial reporting notwithstanding the directive from

PUB Order 4/'23 -- if we can just go down, Ms. Schubert, thank you -- that directs MPI to defer program NOVA integration costs through a regulatory deferral account for rate-setting purposes.

And so at this hearing, MPI confirmed that it complied with the deferral directive to reduce the rates for the implementation expenses, but it couldn't establish an asset for doing so because MPI is not able to adopt the IFRS-14 standard.

And so the PUB heard that MPI is unable to comment on whether it would be subject to regulations set out in a currently unissued IASB exposure draft, and that MPI would continue to reflect accounting relative -- related, rather, to initiatives as it currently does for external reporting purposes, but is not currently looking at preparing separate financial statements. It's prepared, however, to collaborate with the PUB on what might be a workable solution.

BOARD MEMBER BASS: Mr. Guerra, on that, there was evidence that there was a particular deferral account back in the late 1990s which was a fact that -- I think it was Deloitte who you got the opinion from -- they did not know about that.

So are -- are you not going to follow

up on that and see if that changes their opinion?
MR. ANTHONY GUERRA: That's a good question, Mr. Bass, and I would say it would be something that we would certainly take back to the team to see if we can get an updated opinion.
At this point in time, our -- our position is set out, as it is in our closing. That's the evidence that we have, but that would be a reasonable request.
In terms of driver and vehicle administration expenses, here MPI notes the history here and -- and appreciates that this has not been well received in the past, the transfers from Extension excess to -- sorry, the excess in the reserve capital for Extension to the DVA line of business.
And in this GRA, the PUB heard that MPI expects the DVA to be in a deficit position in 2024/'25, and which deficit MPI plans to fund through the earnings retained in the DVA which are currently about $80 million, which will avoid the need for a further transfer from Extension.
The PUB heard that MPI doesn't currently have a solution, a workable solution, with the Government of Manitoba on how the DVA line of

business will attain self-sufficiency.

And so the DVA line of business bears a portion of NOVA expenses, and as we see in the response to Information Request PUB/MPI-1-20, MPI witnesses clarified that the consistent use of story points helped to allocate the costs.

But on the flip side, the PUB heard evidence that expected FTE reductions and savings pertaining to this line of business -- and we note here now many that might be in the -- in the future -- might help to ensure that service targets are -- are ultimately met.

It's an issue that we're continuing to work on. I wish I had an update to provide to you that was satisfactory. All I can say to you is that we will continue to work with the government, now our new government, and see if we can come up with something to bring back next year, and hopefully before we are ever -- ever in a position to talk about what to do with DVA deficits. Continue to scroll down, please.

Road safety budget. Although I note that this wasn't designated as a topic of detailed analysis, there were several questions during cross-examination on the road safety budget and whether or not MPI has plans to optimize same.

The PUB received evidence that, in 2028 -- in 2023, MPI spent on average 10.4 million on road safety programs and plans to spend 12.1 million next year. This represents a roughly $2 million decline in forecasting -- forecasted spending from what the PUB received last year in relation to the unallocated road safety fund.

The Financial Forecasting Panel was asked whether MPI continues to budget for this, and essentially, the response received from Mr. Kolaski is that we don't budget for placeholders at this time, but that doesn't necessarily mean that there -- there can't be some -- some further analysis on the road safety budget and how that could be optimized.

And so I think this is the perfect time for us to pause -- 12:30.

PANEL CHAIRPERSON: Right at 12:30, yes. Thanks.

BOARD CHAIR GABOR: Sorry, Mr. Guerra. Can I ask a favour?

MR. ANTHONY GUERRA: Yes.

BOARD CHAIR GABOR: Over lunch, can you fix your table of contents?

MR. ANTHONY GUERRA: Yes, I --

BOARD CHAIR GABOR: 'Cause they're not -- they're -- they're all over. It appears that CMP was put in late in the day and the table of contents wasn't adjusted.

MR. ANTHONY GUERRA: I don't know how that happened but, yes, we will make sure to take care of it.

BOARD CHAIR GABOR: Yeah, if you could.

MR. ANTHONY GUERRA: Yeah.

BOARD CHAIR GABOR: Thank you.

MR. ANTHONY GUERRA: Thank you.

PANEL CHAIRPERSON: Thanks. And can we be back at 1:30, please?

--- Upon recessing at 12:31 p.m.

--- Upon resuming at 1:28 p.m.

PANEL CHAIRPERSON: Thank you. Mr. Scarfone, your mic's on, so I'm assuming it's over to you.

MR. STEVE SCARFONE: Yes.

PANEL CHAIRPERSON: Thank you.

MR. STEVE SCARFONE: Yes. Thank you, Madam Chair. And good afternoon, Madam Chair and the

Panel members and everyone else. Let me just quickly update you where we -- where we're at.

Mr. Guerra, in his submissions this morning, canvassed four (4) of the ten (10) areas that we intend to cover here today, so we've got six (6) left, some of which require more attention than others, but we're hoping to get through them in the next hour or so.

And I just wanted to say before I begin, you have Mr. Wishnowski with us here today, but also to my right is this good looking young lad. He's our articling student, Brandon Gray (phonetic). And so he was good enough to help us out during the course of this Hearing by providing some good research on the test for confidentiality, the issue of bias as it relates to expert witnesses, all of which we can't share with you because it's privileged, but he did some good research for us, and -- and we thank him for that.

So I'm going to begin with the Capital Management Plan as Ms. Schubert has before you on the screen.

So last year, Madam Chair, MPIC presented its Capital Management Plan for your consideration. The PUB respectfully declined approval of the CMP last year and asked that MPIC bring back to it this year a more robust version, I would suggest, including, as it says there:

"...specific criteria and processes under which the Corporation will apply to the Board for a capital rebate."

And so, the Corporation didn't just take that advice and return to you the same Capital Management Plan. We heard from Ms. Low that some changes were made for your consideration, not the least of which is the Corporation will no longer look forward to see if a rebate might lower the RSR to below its target of a hundred percent MCT.

So that was something that the Corporation included last year. And I would suggest it gave the Corporation perhaps more discretion than this Board would have liked, and so now that's not the case. There's no forward looking to see what impact the rebate will have on that target.

Also, as it indicates before you, there's an exclusion of certain customers because they're already part of a rebate surcharge program.

And lastly, you heard Ms. Low talk about a third change, and that's how the rebate gets quantified, how it's calculated. And so that, as she indicated, is based on year-end audited financial statements.

And so what that means is, when the auditor says we are over 120, we can rebate with more precision in her view and bring it back down to a hundred percent on what she called an audited known number.

And so the mechanics of the plan that were proposed last year, the methodology, that hasn't changed. And that was designed largely to comply with section 18 of the MPIC Act. And you have that there before you. Thanks, Ms. Schubert.

But the application of that plan will occur by following the three (3) familiar steps that were in the plan last year; the step 1, determine capital transfers; step 2, determine the capital rebate provision, if applicable; and lastly, determine the capital build provision, if applicable.

So the starting point is the capital position of the Extension line of business; it must be over 200 percent MCT, so we know that. If it does exceed 200 MCT at fiscal year-end, March 31st, that excess capital will be transferred to the Basic RSR.

If the transfer of that capital brings

the audited Basic RSR above 120 at the beginning of the fiscal year, so the day following the transfer, MPIC will apply to this Board for a capital rebate to lower that RSR no less than 100 percent MCT. And these are all pursuant to the provisions that you see there before you.

Should the PUB approve the rebate application, and that's another stipulation under 18(4)(c):

"A rebate will be paid in an amount that is not projected to lower the Basic RSR to less than 100 percent.

And that's another statutory provision, 18(4)(d).

And, as I just indicated, because the MCT ratio is an audited number, MPIC will, with some confidence, be able to rebate precisely down to its target of 100 percent MCT.

Of interest to the Board and Interveners, there does remain discretion as it concerns the transfer Extension capital above the 200 percent MCT threshold so long as that occurs before the fiscal year-end.

And that discretion, as we heard, lies not with the executive, but with the MPIC Board of

Directors. And this was confirmed by Mr. Kolaski in that exchange that I had with him back when he testified on this issue.

Having said that, under the CMP that discretion is absent once a transfer from Extension occurs and the RSR MCT ratio exceeds 120 percent. And Ms. Low confirmed that, that there's no scenario under which MPIC would have its RSR exceeding 120 and not apply to this Board for a rebate.

Mr. Gabor...?

BOARD CHAIR GABOR: Sorry, Mr. Scarfone. I'll let you -- I'll let you finish this point. And then I've got a question on it.

MR. STEVE SCARFONE: Okay. Thank you.

BOARD CHAIR GABOR: Sorry.

MR. STEVE SCARFONE: So that's -- that's step 1. Step 2 would be to determine the capital rebate provision, if applicable. And again, should the RSR exceed 120 on April 1, MPIC applies for a rebate, and that is part of the rate application filed with the PUB in June of each year.

So we would have those two (2) application consolidated; that's our preference. And the rebate would be paid out to customers in February of the following calendar year; that's our proposal ultimately to be decided by this Board.

BOARD CHAIR GABOR: Okay. Sorry. Can I ask the question now?

MR. STEVE SCARFONE: Sure.

BOARD CHAIR GABOR: Where in the legislation does it mandate that you must make the application?

MR. STEVE SCARFONE: The -- it --

BOARD CHAIR GABOR: What -- what the legislation, as I understand it, reads is -- sets out the process. And (b) says:

"The Corporation applies to the PUB for approval to pay the rebate."

There's nothing that says you must apply for a rebate, does there?

MR. STEVE SCARFONE: Agreed.

BOARD CHAIR GABOR: You could be 150 percent, and when you do the rebate -- if you did a rebate, you'd be 120 percent. It's all -- it's -- it's all at the discretion of MPI.

So MPI -- you know, I -- I understand this thing about, well, it's not audited and this, this, and this. The reality is, the way this legislation is drafted, if MPI does not want to apply for a rebate, it doesn't have to apply for a rebate, the targets are irrelevant.

Is that correct?

MR. STEVE SCARFONE: I agree with you, Mr. Gabor.

BOARD CHAIR GABOR: Thank you.

MR. STEVE SCARFONE: And -- and that was the reason I put that question to Ms. Low --

BOARD CHAIR GABOR: Yeah.

MR. STEVE SCARFONE: -- is there any scenario under which this Corporation would not apply if we're over 120. She said, No.

BOARD CHAIR GABOR: Well -- so, I mean, I don't want to, you know, go back to past history, but we had understood when we -- when the PUB proposed this CMP that there would be an automatic transfer from Extension to Basic if it hit two hundred (200).

And then out of the blue we were told, no, it could be for DVA. It was -- the question -- when it was proposed to us, it was, you hit two hundred (200), there's a transfer.

It later changed to, well, it's two hundred (200) at March 31st and, yes, we can use it for DVA. And then the following year it was, we can use it for anything we want. The -- the question is simply, what's in Extension as of March 31st.

So that's what -- I just wanted to make it clear the law is -- it's nice to have this from MPI, but the law is you have complete discretion to ask for a rebate.

MR. STEVE SCARFONE: In terms of the application, you're correct.

BOARD CHAIR GABOR: Okay. Thank you.

MR. ANTHONY GUERRA: Sorry, if I can just add one (1) thing. We -- there's always been this debate about the jurisdiction over Extension. And -- and I appreciate that, you know, the PUB doesn't have jurisdiction over Extension at law.

And the CMP is meant to try to -- is to bridge the gap between not having a plan in place with what to do with Extension capital and having that jurisdiction there for the PUB, right.

So it's not going to be perfect. We're not -- we're not proposing to give jurisdiction over Extension to the PUB, but we are trying to make it more difficult for MPI to exercise its discretion without justification, right. It's continuum.

BOARD MEMBER BASS: So, Mr. Guerra, I appreciate your point that, as a matter of law, Extension is outside of our reach, but what do you think of the equities of the situation?

Because you'll recall that there was a line of questioning about all of that excess capital in Extension has come from Basic policyholders.

So isn't there some equity there that whatever excess capital there is in Extension should go back to Basic and should not be going to DVA?

MR. ANTHONY GUERRA: Well, and that's -- that is, you know, essentially the intent of the Capital Management Plan. However, I would just pull back and say, you know, we -- we do have a shareholder, which is the Government of Manitoba.

And, you know, if they -- if they wanted to provide that requirement for Extension to -- to automatically transfer, they could have put that in the legislation. They -- they didn't do that.

So their intention, obviously, was to provide some -- some discretion on the part of the Corporation, and even through its own shareholder, the Government of Manitoba, to be able to direct those moneys where it need be.

However, what we're trying to do is, like I said, work on this continuum with the -- the PUB to try to provide some solace that -- to the extent possible, that Extension transfers will go to

Basic, right.

Again, it's not going to be completely perfect but, you know, it is a step in the right direction we would say.

BOARD MEMBER BASS: Thank you.

MR. STEVE SCARFONE: Just picking up where I left off, Madam Chair.

So on that consolidation issue very quickly, having a rebate application consolidated with the annual rate application process reduces the administrative effort, we'd say and the cost associated with that.

And an interesting point was raised by Ms. Nelko about a partial rebate, something the Corporation hadn't given consideration to, and -- and I've indicated there not prohibited under the legislation.

So I think what she was suggesting is, you know, if you're concerned that your numbers aren't accurate and you're at one thirty-five (135), well, why not rebate down to one fifteen (115)? And there's nothing, again, that prohibits the Corporation from doing so, but as we've indicated there, the use of audited financial information is -- is what Ms. Low is advocating.

And we don't want to be in a situation where the Corporation is rebating down to something other than 100 percent MCT, meaning we're still at or near the one twenty (120) target, then having to bring a second rebate application the following year 'cause we've just moved up above that threshold rather quickly.

And the third step in the -- in the plan is -- is the one that has the Corporation determining whether a capital build provision is required. And the Board is familiar with this provision. It -- it has us looking at capital and reaching that target within five (5) years.

I would say, on the capital build, of course since I've been doing this and since the Capital Management Plan has been before this Board, the Corporation has never before applied for a capital build.

It's -- it's interesting to think about when that might ever happen because they would have it occur over five (5) years. But if the threshold is met after one (1) or two (2) years, then the whole plan seems -- the whole capital build provision seems to fall apart 'cause we're now at the target without having to charge the ratepayers any extra money.

So we've never encountered that since we've been doing this, not to say that it couldn't happen, but I've said there since the inception, MPIC has never made use of its capital build provision.

The CMP, in our view, does improve upon section 18 for the Basic customers. And what I mean by that is approval of this Capital Management Plan by the Public Utilities Board provides the Board with some measure of control as it concerns the use made of the retained earnings and the Extension line of business.

Without the CMP, there's no obligation on the Corporation to transfer that capital from Extension into the RSR; that's not in the legislation.

So in theory, the Corporation could just let the money grow in Extension, let it grow to 2-, maybe 3- or 400 percent. And then, when a need arises in another line of business like the DVA, just direct it all there before fiscal year end.

Under the CMP, we can't do that. Under the CMP, every time it exceeds the 200 percent MCT, it gets moved to Basic. And as Mr. Guerra said, that is the intent of the plan, and indicative of that, notwithstanding that this Board didn't approve our plan last year, MPIC transferred $34 million from

Extension to Basic last year under the plan that wasn't approved by this Board.

So this is some measure of control that the -- the Basic customers don't get with section 18.

So how does all of this apply to this GRA? Well, with that background, the RSR balance is currently above its target of 120 percent MCT. We've heard that. It's at one thirty-five five.

So why did MPIC decide against filing the special rebate application with this year's General Rate Application? There's a whole page there, but as Ms. McCandless said -- she can do it much more succinctly than I can -- she said this morning, Why no rebate? Because the one thirty-five (135) is not yet audited, and also may be subject to change.

That's what she said, and that's exactly right. Those are the two (2) reasons. And -- and that particular rebate, if it was to occur -- we heard from Mr. Kolaski. He said, We're not at all confident in that number.

Ms. Low said the industry's struggling with the new calculations under IFRS-17, and so when I asked them, How confident is the Corporation at one thirty-five five, they kind of both looked at each other and, Not very.

And Mr. Kolaski said, And if we were to rebate, we could find ourselves at 85 percent MCT and asking for a capital build next year. So remember that. That is the -- the important take-away for that question: Why did MPIC decide against filing the rebate application this year?

Having said all of that, the forecast would suggest in the 2027 GRA, there will be a rebate application. And that's when the Extension transfers are projected to resume 'cause we saw the pro formas. Extension capital is at the lower levels right now and not expected to exceed 200 percent MCT for a couple of years, couple or three (3) years.

So that is our submission on the Capital Management Plan.

I'd like to now move into Project NOVA. We heard extensive evidence from the NOVA Panel members, along with an expert witness -- and I'll touch upon that shortly. But the important part that's set out right at the beginning there is that Project NOVA was described by Mr. Campbell as a vitality project.

And the Corporation, as it did last year and is it did in its review and vary application, and the same again here today, the scope of Project

NOVA has not changed since it was rebranded from Legacy Systems Modernization.

It's still a transformation project with a name to replace the Legacy Systems, and this Panel heard from Mr. Campbell, the interim vice-president and CITO, about the vital nature of Program NOVA. And this is some of the highlights from that quote that's before you.

So he asked himself, Why Project NOVA? The technology is aging. It was built in the 1980s and the 1990s, and he mentioned some software -- I think it's software, I'm not a tech person -- COBOL and PowerBuilder, that he essentially described as redundant, of no use.

Now, you heard from anecdotal evidence, I would suggest, from the expert witness, Mr. Greenlay, say, Well, banks are still using that software. Why is it good enough for them if it's not good enough for MPI?

Well, Mr. Campbell in his experience has said, We've got to bring people out of retirement to work on this stuff, it's that old, and it's expensive to maintain, and there's a security risk in maintaining this old software.

And so, in his view, it absolutely

needs to be replaced, and that is at the essence of Project NOVA. It always has been.

The PUB heard about the iron triangle comprised of scope, time, and budget. And we'll deal with each of those in turn, but they're all tied together.

So, for example, decreasing time without a corresponding change to scope and/or budget could result in a decrease in the quality of the project and the -- and the quality of the -- the product, I would suggest, at the end of this road.

And indeed, thinking back, it's the reason this schedule was flattened last year. You'll recall evidence last year, the flattened delivery schedule was to reduce the risk associated with people having too much on their plate.

And that was what McKinsey said needed to occur. They confirmed MPI's own internal review that the schedule had to be flattened.

As it pertains to the scope, again MPI appreciates that there have been much debate on whether the scope has changed from what was originally envisioned. The scope has not changed. The budget's certainly changed due to the flattening of the budget -- 'of the schedule' I think that should read -- and the de-risking of the program overall.

And this was canvassed last year, but Mr. Campbell tried to explain it again, and he made a very interesting response to one (1) of the questions by Ms. McCandless. He said, When you're replacing technology on this level, you have a choice to make. You can build off-the-shelf products -- the acronym is COTS -- like Duck Creek on Demand -- that was the example he provided -- and they -- those products are -- they have -- they come with an ability to customize.

But if you go down -- too far down that customization path, you're now hindering yourself on what use you can make of that product, of that software, and the ability to update it becomes hindered.

So he said, You have a choice to make. You can either customize the product, make all these changes to the product which limits its effectiveness at some point, or the alternative is you can make adjustments to your business processes.

And that's what MPI did. They're taking the products -- they're adjusting their business to fit the technology. And that's why it's a transformation project.

Corporations replacing its core technology, that means changing the way it conducts its business fundamentally. And that's why the Corporation keeps saying over and over, the scope hasn't changed, it's transformational, everything changes.

And so Mr. Campbell said we take a look at our business processes and those business processes have to be adjusted to accommodate the new technology.

When you replace the technology and this is now at the bottom of page 42, Ms. Schubert, when you replace the technology, you take a look at your business processes to make sure that you onboard your staff, that you have addressed those business processes to align with the technology offers.

The hearing also canvassed the issue of missing elements, following the implementation of NOVA. The Corporation learned that there were enterprise, architectural maturity issues, Cloud infrastructure and capability issues, DVA Cloud hosting issues, organizational capacity building issues and a DVA billing architecture -- architecture system that was required.

The PUB heard that these missing elements only became apparent to MPI after it selected its specific products and looked at how they could be made to fit together.

The fact that MPIC discovered missing elements, does not necessarily translate to an increase in program scope in our submission. As the scope remained, as I've said, the replacement of the Legacy Systems.

Further, this -- this does not mean as advanced by the expert witness, that MPIC should hold its vendors to account for what he said was bad advice.

And there's a quote before you, that I won't read, where Mr. Campbell explained MPI's position with respect to that.

On the time issue as it -- as it concerns the time control, the PUB heard that while the schedules for releases 2 and 3 have been impacted by a combination of missed requirements and the ongoing labour interruption, it remains too early to say what impact there will be on the overall program schedule. It currently runs until December 2025.

Is that date at risk? I would suggest it is, particularly with the delays that we've heard about for the Discovery of release 3.

The PUB did hear the overall project

time line is at risk, but also that the specific impact of the schedule that -- will not be known until that Discovery process is complete.

Discovery is expected to take approximately four (4) months and the implementation is -- is expected to take another two (2) years.

There are still many unknowns and it does not -- MPI does not wish to set time frames for when the final -- when NOVA will be operational.

On the budget, and this was a big issue that was canvassed with the panel members, a concern was raised that Program Nova posts a negative Net Present Value. There's been a lot of discussion about the NPV and that there's no payback under the 2022 rebaseline over the life of the project.

As the PUB heard from MPI, vitality programs such as NOVA, are considered on a risk basis. And typically, do have a negative Net Present Value.

The expert witness, Mr. Greenlay, was critical of MPI for departing from the original LSM business case and its positive NPV.

Under cross-examination, however, a source document cited in his own report was put to him that set out the disadvantages of the Net Present Value.

And you'll see that quote before you, but essentially what it means, panel members, is the Net Present Value is a point in time measurement. And why it was listed as a disadvantage, is it doesn't allow for changes to a complex transformational project like this.

In real life, as the quote says, projects that can be readily and affordably altered in response to large changes in these elements, will add more to the firm's value than its -- NPV suggests.

And you'll see there that I've referenced his assertion that the Net Present Value was the gold standard for Crown Corporations, I -- I canvassed that with the gentleman on cross-examination. I think he admitted that -- yeah, it's not the gold standard for Crown Corporations. Those were my words, that was his opinion.

And, I won't re-argue what was done during his qualification stage, but the expert's evidence, we would submit, must not unfairly favour one party's position over another. That's the role of the expert.

And in the White Burgess Test -- or the White Burgess case that Madam Chair alluded to, the acid test is whether the expert's opinion would not change regardless of which party has retained him. That's the test.

Because, as you might expect where I'm going with this, is this Panel, when deciding between the evidence you heard from the NOVA panel members and Mr. Greenlay, you should accept the evidence of the panel members for NOVA.

Less weight should be given to Mr. Greenlay, for the reasons I've indicated.

BOARD CHAIR GABOR: Mr. Scarfone, can I just ask you a question?

MR. STEVE SCARFONE: Yes.

BOARD CHAIR GABOR: And it's a brief question. We -- we heard Mr. Guerra talking about forecasting before -- going forward, when we're looking at information and -- and MPI is saying here's what we think is going to happen, going forward, should we be looking back at what MPI said before -- in previous years as to what was going to happen and where we're at right now?

MR. STEVE SCARFONE: NOVA?

BOARD CHAIR GABOR: Yeah, I mean, one of the -- one of the things we were told why we should approve NOVA, in a previous hearing, was because it had a positive NPV.

And we were told that NPV was important and the fact that it was important -- sorry, the fact that it was positive, was something we should take great notice of.

Now we're told, because it's negative, it's a vitality project. Don't -- so -- I've got a -- you know, I -- I -- I could spend probably the rest of the day and -- and then I don't want to, but I just need that one answer.

Can we go back and say, here's what we were told before in terms of schedule and costs and all these other things, here's where we are now.

Or, are we barred from doing that and only go on the basis of -- well, just -- just -- trust us at this hearing, here's what's going to happen.

MR. STEVE SCARFONE: I encourage you to go back.

BOARD CHAIR GABOR: Yeah.

MR. STEVE SCARFONE: I encourage you to go back because I think if you do that detailed analysis and part of the evidence was adduced when I put to Mr. Greenlay, Mr. Bunko's evidence, for example.

When Ms. McCandless asked him, well how confident can this Board be in this initial LSM budget. He's like, not very. There's too much -- there's too many unknowns. That was his evidence. That was from our Chief Information Technology Officer back when Ben Graham was president.

BOARD CHAIR GABOR: Okay, I -- I asked the same question. When you were talking about NOVA, I -- I believe the question I asked was: What level of comfort do we have now that the schedule and the budget will be missed -- met, considering that R-1 was late and over budget, R-2 was late and over budget, and R-3, according to this right now, you don't know.

So, you know, and -- and I -- I -- I'll just sort of do that and throw it out to you. What level of comfort do we have that R-3 -- R-3, we were told, going back, R-1 -- I -- I'll use very loose terms, was a slam dunk. It was the simplest one, it was SRE.

R-2 was more complicated. R-3 was always the one you had to look to. That was the one. What we have right now is -- the schedule is unknown. We won't know what the cost of the entire budget is until R-3's done, to see if it works.

So, when -- when you're going through it, I'd like to have that level of comfort.

MR. STEVE SCARFONE: Yes, and -- and,

Ms. Kacher addressed that. She said we're still confident that we're within the two ninety (290) and you heard from Mr. Ramirez, he said the same thing.

And part of that reason is 'cause Mr. Dessler said, well we've already stood up a lot of this technology in releases 1 and 2. And we're going to make use of it again in 3. I think his number was 30 percent.

He said that should give the Board some confidence that there's some efficiency of costs that are on the horizon with respect to the third release.

But, having said that, they all acknowledged, until Discovery is complete, we can't say with any certainty where this is going to fall and -- and I think that's fair comment.

And, so, when I'm asking you to think about the weight that you need to consider between what Mr. Greenlay has said and I know at least members of this Board have been along this -- have been along on this journey since it started, think about those witnesses that are before you and, if any of them cause you concern, Mr. Ramirez, right, Mr. Campbell, our Chief Transformation Officer, Mr. Mitra.

Is there anything about these individuals that makes you think I just, you know, I'm not confident in that person's abilities to deliver here, as opposed to a fellow who came before you, having conducted a review of the materials that were filed in this GRA.

Well, this project been going on for four (4) or five (5) years. There's a journey here. You've seen the evolution and you heard Mr. Ramirez say we shouldn't have put that initial business case to you before we were aware of who our vendors were going to be, before the contracts were signed, and that changed everything.

And, so, you heard Mr. Greenlay say, well, you need to hold Deloitte to account. They led you astray and he would have us go back and, perhaps, sue them or seek monetary compensation from Deloitte.

That -- that, in our view, isn't the approach here. The approach is to move forward and -- and work on working the bugs out for Release 1, getting Release 2 done, Discovery for Release 3, moving forward with the project under the 2022 re-baseline budget.

BOARD MEMBER BOULTER: Oh. I have a question. In this section, on time, I'm puzzled still. It says December 25th, 2025. The most generous take on that I'd given you right to December

31st. That is 26 months. Scoping out what I've heard and what you're presenting here, recovery from the labour interruption is six (6) to 12 months. R-3 Discovery were given as four (4) months and R-3 implementation, twenty-four (24) months. So, as I said, the end of December 2025 is twenty-six (26) months. If you just add up that, it comes to thirty (30) to forty (40) months. There's a big disconnect there in timing.

MR. STEVE SCARFONE: Ms. Boulter, the math doesn't seem to work with that date, but, what the evidence was, was, until R-3 Discovery is complete, we can't say for certain. We can't comment on that date.

And -- and -- and, you'll recall, the evidence, as well, is the new governance vendor was signed until that date. That wasn't a coincidence. They're on board until that date, where we expected NOVA to go live. I'm not here saying that won't change, after the third -- after R-3 Discovery, but that's our date right now.

BOARD MEMBER BOULTER: Well, it is, but it doesn't add up. I mean. I'm a layperson and I'm just doing some math here and we're looking at thirty (30) to forty (40) months.

So, what you're telling me doesn't connect with twenty-six (26) months massive outlay.

MR. ANTHONY GUERRA: And I agree with you and, Ms. Boulter, I would just say we -- we did -- we did confirm that the 2025 date is at risk, the question is by -- by how much and -- and I can't throw out a number, saying it's going to be, you know, April 2026, or whatever the case is. So, we have this tentative schedule right now.

BOARD MEMBER BOULTER: M-hm.

MR. ANTHONY GUERRA: It will be updated after Release 3 Discovery is completed, and, then, we'll have a better sense as to what -- what's going to happen.

I would also mention that, at the bottom here, this paragraph, there's going to be this -- this decision that has to be made by our Board of Directors, verily -- fairly soon, rather, about how quickly to get through this labour interruption backlog, right.

And, so, we heard that it's going to require subject matter experts to help clear the backlog, who would also be working on NOVA. And, so, how do you find that sweet spot between working on the, you know, the labour interruption backlogs and --

and NOVA, and how can we try to do some of that. Being mindful of this time-line, it's going to be a difficult task.

BOARD MEMBER BOULTER: Thank you.

MR. STEVE SCARFONE: So, as it concerns the expert evidence you heard, Madam Chair and Panel members, I would just end by saying that the PUB should exercise some caution when considering how much weight to assign the opinion evidence of Mr. Greenlay. If he wasn't there already, he came awfully close, in my submission, to advocating on behalf of the CAC.

He quarreled with me on certain things in his experience. I have put a very simple question to him about his experience with a -- an auto insurer that provides driver licensing services. His response was, I do have that experience, 'cause I did employment insurance with drug manufacturing licensing.

You -- you don't want the expert witness to quarrel with you. You -- you know, you want him to just provide an answer that he would provide either to myself or to Mr. Klassen in the same manner.

You know, I would suggest to compare

that evidence to Mr. Sahasrabuddhe, who, you know, as Mr. Guerra said, you know, admitted to Mr. Guerra that, yeah, the -- MPI's forecasting is not unreasonable, before a Board that has to set just and reasonable rates, but he's like, but ours is just more reasonable, right? So, that's an admission that you would expect from an expert witness.

We didn't get that from Mr. Greenlay, in our submission, and, you know, I'll take you -- in fact, I'll skip ahead to some commentary, an exchange between -- sorry, Kristen, it's page -- actually, an exchange between Board Chair Gabor, at page 56, and -- and I've skipped head. I'm going to go back a little bit, but I want to -- I think it's -- it's -- it's timely to review this exchange because, at the end of the day, I don't envy the position the Board is in.

Well, what do you do with Mr. Greenlay's advice? What are his recommendations because, as Mr. Gabor says, you know, he was -- he was confused. He's like first, you're saying, sir, to pause R-3 and, then, you say to stop work on R-3, and, then, in your testimony, you said to the effect, well, you know, go ahead with R-3, but you have to bring it in under budget.

Well, what is the man's advice? We

don't know and -- and, there, further, you see Mr. Gabor say so, is it that you move forward and say we're prepared to pay 'X' dollars? Mr. Greenlay said yes, that's what you do.

Or Mr. Gabor says or you figure out what to do and you start pulling things back and you start laying off people and Mr. Greenlay agrees with him there as well.

And then, lastly, he's like, or would you need to be -- do a major re-evaluation immediately to determine how you proceed and Mr. Greenlay is like yes. Otherwise, you know, R-3 is going to come in over budget and over time. So, we don't -- I don't know that we're left with any concrete advice from the expert.

He certainly was here, offering a creek -- a critique, sorry, on what's happened in the past, but, as it concerns his recommendations, our submission is it leaves this Board in an uncomfortable position about how to proceed with Project NOVA.

And, Ms. Schubert, going back, please, to page 47.

I will just end by saying that CAC's expert witness repeatedly made reference to the original business case for Legacy Systems

Modernization and he pointed to the departure from the costs that were estimated for LSM following the assessment that was done by Deloitte. And in his report, at page 9, Mr. Greenlay asked why MPIC, after receiving costing information from the vendor community, and I mentioned this earlier, did not go back to Deloitte for an explanation on those discrepancies. He called for a reckoning. Hold them accountable.

In his view, the original business case was meticulously developed and MPIC was entitled to rely on the original budget. Well, that statement is a reflection of his experience, as it relates to NOVA, and, when I say that, I mean he reviewed the 2024 GRA.

He is making that statement, I would suggest, in a vacuum, without the historical background and context that this Board has and they would know -- and when I say "they" you Panel members would know -- that LSM business case was not meticulously developed. There were missing elements.

We saw, on the confidential module, without revealing too much, there were sixteen (16) external firms that hadn't been signed to contracts under that LSM business case, sixteen (16).

But, again, on page 48, it makes

reference to Deloitte again, and don't forget, this is the same gentleman that bid on the contract that Deloitte got. It is surprising that Deloitte's original work on the original business case would vary so greatly from what costs they were experiencing. I did ask in my questioning in this realm is, what was the statement of work for Deloitte?

And it would have been very reasonable for MPI to go back to Deloitte and say, why are we so off here. And then I go on to ask him -- and, sir, I take your comments to my earlier questions to mean that we should -- notwithstanding what Mr. Bunko's evidence was, we should have learned from Deloitte what those uncertainties were.

And when I'm talking about the uncertainties, I'm talking about the Request For Proposals that hadn't yet occurred, the vendors that hadn't yet been selected, the contracts that hadn't been signed. Those are the uncertainties back then.

And he's like, Certainly, MPI should have gone back to Deloitte. He -- his opinion evidence was there is always uncertainty at this stage in a project. But what we heard in testimony last week, that's the reason why MPI has a 50 percent contingency at this stage, and that would have been a reasonable assumption.

And there before you, you see that -- the sixteen (16) contracts that I made reference to earlier and in my cross-examination. Mr. Greenlay, in MPI's submission, was more interested in pointing to Deloitte as responsible for MPIC exceeding the original LSM budget than acknowledging perhaps that last year's re-baseline is a more accurate assessment of the amounts needed to complete Project NOVA.

I want to repeat that. He was more interested in pointing to Deloitte, the vendor who beat him in that contract bid, pointing to them as -- as MPI's -- as the fault of MPI's problems rather than just acknowledging perhaps that the 2022 re-baseline is a more reasonable budget that the Corporation is still operating under.

BOARD MEMBER BASS: Mr. Scarfone, can you explain to me how he was beaten in the contract?

MR. STEVE SCARFONE: His evidence under cross-examination, Mr. Bass, was that he bid on the contract and it was awarded to -- to Deloitte.

BOARD MEMBER BASS: Was it that he bid on it or MNP bid on it?

MR. STEVE SCARFONE: No, his company. At the time, he -- he was the lead on that. It was with -- with his company at the time.

BOARD MEMBER BASS: That meant he bid on the contract?

MR. STEVE SCARFONE: Yes, but he was the lead bidder.

BOARD MEMBER BASS: And he was still at the -- at the company at that time. He had not retired?

MR. STEVE SCARFONE: As I understand it, he was just about to be retired.

BOARD MEMBER BASS: Okay.

MR. STEVE SCARFONE: I think that was his evidence.

BOARD MEMBER BASS: Thank you.

MR. STEVE SCARFONE: You're welcome.

(BRIEF PAUSE)

BOARD MEMBER BOULTER: Excuse me. I have a question.

MR. STEVE SCARFONE: Yes.

BOARD MEMBER BOULTER: Was Mr. Greenlay's request for accountability -- or -- or suggestion of accountability tied into financial accountability, or was he just saying can we -- like, information accountability, why were these elements missed, why was this? Like, there's a -- there's a big difference between trying to get money out of a company or get information out of a company.

MR. STEVE SCARFONE: And that's a good question, Ms. Boulter. And -- and if you look at his report when he -- when he speaks to holding them to account, and a reckoning, my interpretation of those comments is it -- it was for monetary compensation.

And I would encourage you to look at that portion of the report. I believe it's at page 9.

(BRIEF PAUSE)

MR. STEVE SCARFONE: I want to move forward now away from the expert witness and Mr. Greenlay to page 50 of the submission, Ms. Schubert, on controls.

And these are important because the -- the Board heard about the different controls in place to ensure the successful delivery of NOVA.

The NOVA Panel explained that for Release 2, the costs are going to be measured against the deliverables which ensures progress on required activities and limits the spend while resources are idle or deployed due to the labour interruption.

And that's an important point because you heard evidence from the Panel that they were uncertain as to how this would look once the labour interruption was over and -- and how much delay that might cause to NOVA.

But there was an interesting submission, I would suggest, made by Mr. Ramirez, and it does, in fact, fall in line somewhat with Mr. Greenlay's recommendation to pause.

And Mr. Ramirez told this Board that before the Corporation proceeds with R-3 Discovery, there are six (6) critical criteria, or entry criteria, that have to be met, and you have them there before you on page 50 of 89. The effect of those are, until those criteria have been completed, there will be no further work on R-3.

As it concerns the governance vendor, the Corporation would only say -- and -- and this was alluded to this morning -- the governance vendor, PwC, whose contract ended about a year ago this month, they were discharged under their contract. And we heard evidence that a new bid was put out and PricewaterhouseCoopers did not bid on that contract.

During that interim time, we did have

until March of 2023 McKinsey under contract. And now with the bidding process having been completed, with know that the Myers Norris Penny firm will be the new governance vendor until December 2025.

So where Mr. Greenlay is critical of the absence of the governance vendor, MPI's position with respect to that is twofold: One, we did have the McKinsey firm available until March of 2023. And perhaps just coincidentally, the Release 1 was issued and -- and became operational without a governance vendor in place, that was in January of this past year.

BOARD CHAIR GABOR: Except, Mr. Scarfone, the directive from the Board was an independent third-party governance vendor. McKinsey wasn't independent because, effectively, they were overseeing -- as part of your suggestion, they were overseeing their own work.

MR. STEVE SCARFONE: And -- and that's a fair comment, Mr. Gabor.

We would also just add that, if you are to accept some of the evidence of Mr. Greenlay, he did acknowledge that the PricewaterhouseCoopers firm effectively managed its role, played its role, in his view. The important part from our perspective is PwC, who had been engaged with the Corporation for three (3) years, did not, when they were -- when their contract was expiring, suggest any type of pause or to stop progress on Project NOVA.

And very quickly, I just want to go through the status of the releases. And then I'll have Mr. Guerra speak to information technology.

Release 1, which is the Special Risk Extension line of business, was operational, as I just said, in January of 2023. However, the team has identified some requirement gaps that need software enhancements to resolve, as well, of defects that must be remediated to avoid business complications, and you heard evidence about that.

But we want to be clear about the scope of Release 1, as well, and that the budget -- or -- neither the budget, nor the scope of Release 1 is changed.

However, MPI adjusted the time control by delaying its operational date from March of 2022 to January of 2023. And, again, the labour interruption will have some impacts on that.

The Release 2 status is not yet operational. The Release 2 impacts customers enrolled in the International Registration Plan and involves moving them from a Legacy system to a new system that will simplify and automate some manual processes.

The important part about Release 2 and IRP -- and we heard Mr. Dessler talk about this -- is the business risk as compared to Release 3.

So where Release 2 and IRP would involve approximately twenty (20) employees, Release 3 is the big one that impacts all of Manitobans. And so there's a significant business risk and technical risk, disparity, between Releases 1 and 2 and Release 3.

And that's the important takeaway from this, is that a lot of the architecture has been laid down, as Mr. Dessler said. So where the technical risk has been reduced, we can now focus on the business risk associated with Releases 2 and 3.

And I think that, with respect to NOVA, is my submission, subject to any questions, and I'll turn it over to Mr. Guerra to speak to you about information technology.

MR. ANTHONY GUERRA: Thank you, Mr. Scarfone. And just in the interests of time, I'm not going to spend a lot of time on information technology and value assurance other than to say that we did hear from our panel this -- this year on these two (2) topics.

When it comes to information technology, right now it's all about keeping the lights on, as it were. We -- we heard that the focus of our IT division is less on the -- you know, the -- the IT -- sorry, I should say the -- the automation, the artificial intelligence, those types of -- of projects, and -- and more about reducing the focus onto exactly what is needed to -- to keep the lights on. And -- and that's -- and that's essentially it at the moment.

And when it comes to the initiatives, they've been looked at again. They've re -- re-prioritized, rather, and reassessed, and in some cases we have made the decision not to move forward with some of those initiatives, and discontinued certain IT projects unrelated to Project NOVA, and perhaps contemplating concepts with -- related to MPI 2.0.

And so we also heard about labour strategies and the desire to reduce the consultant complement, and that continues today.

And then we also looked at -- and I'm going to go quickly here now to the IT benchmarking section. And we heard that the benchmarking exercises are conducted by Gartner. This is the final report that they provided, and my apologies, I'm on page 61. They provided their final report this year, and there'll be an RFP for another type of provider in the future which may or may not be Gartner, obviously.

And in terms of the value of the IT benchmarks, there's a quote here which talks about -- about that specifically, so I'd encourage you to take a look at that as well.

But to be clear, the value of IT benchmarking is at a high level. It's useful for determining whether IT spending and investments are appropriate on an overall basis, but the exercise doesn't consider specific projects and is, therefore, less useful in that regard.

The PUB heard this year that MPI continues to compare fair -- fairly to the peer group, which is comprised of eleven (11) private-sector firms.

And I appreciate that this doesn't include those -- those public-sector organizations that some of the Interveners may wish that it would include because the levels of intensity and efficiency in the public sector have diverged from the insurance industry peers.

And so really what we're talking about

is public-sector organizations don't typically behave like private-sector automobile insurance companies. And so then you get into this question as to, you know, where -- what's the best approach or what's the best way to -- to measure MPI? Is MPI more like a private-sector automobile insurance company or is it more like Manitoba Liquor and Lotteries?

And we submit that it's probably somewhere in the middle, and so maybe it does make sense for IT benchmarking to -- to not only include the GEICOs of the world, but also the Manitoba Liquor and Lotteries. And when you're looking at those types of IT benchmarks, maybe looking at it from the perspective of, well, maybe the public-sector floor is too low, and maybe the private automobile sector is too high.

And there maybe needs to be another sweet spot in there somewhere where MPI follows because it doesn't have just a compulsory line of business; it also has those -- those competitive lines of business. And it doesn't just have insurance; it has the -- the DVA section as well. So that's important to be mindful of.

And so that's where we think that the future of IT benchmarking probably lies, and we're committed to re-analysing the scope of our IT benchmarking exercises to contemplate the inclusion of public-sector organizations in addition to the private-sector automobile insurance.

BOARD MEMBER BASS: Just on that, Mr. Guerra, I remember when the witness was talking about State Farm, GEICO, Allstate, and Canada Life. A lot of those aren't applicable to your sort of situation. GEICO doesn't even do business in Canada, as far as I know, and I believe it's a direct writer, whereas you have a broker model.

So I would caution you in making the comparisons and make sure you're comparing apples to apples when you do get to that point.

MR. ANTHONY GUERRA: Thanks for that, Mr. Bass. That's -- those are important comments, and they -- you know, the -- the advice is definitely heeded.

One (1) thing we heard is that it's -- it's impossible to find another MPI out there. We're -- we're the proverbial unicorn, if -- if you will, and so we're always going to be comparing ourselves to something other than a true apple.

The question is is what is that going to look like and -- and how close can we find a peer group that includes something like an SCI or an ICBC. And so we will do our best but, you know, we also have to work with the market that we have. And so I think that's where we need to have this continuum of those private-sector and the public-sector organizations. But thank you very much for that.

So I won't go much further through the Gartner benchmarking review. We talked about that at length, and just in shortness of time here, I want to get to our enterprise value assurance section, so page 65.

We introduced this year our newly rebranded department which replaces our previous value management office that was established in 2017. And we also heard from the members of that panel some of the benefits that we will start to realize from this organizational change.

And I don't want to go through that too much other than to say that the team is -- is continuing to be stood up, talked about what we should expect from them in the future, and they hope to get working on -- on some of that as well in the near future.

I -- I will pause here to note that, in terms of -- so this is page 66 -- in terms of the 2025

GRA, the Panel expressly requested that the Capital Master Summary reporting include epics and with a threshold of fifty thousand dollars ($50,000), which would be up from the thirty thousand dollars ($30,000) in light of the resource constraints that they face and a consideration of the -- the cost or effort-to-benefit ratio.

So this year you'll note that the value assurance chapter of this rate application contained over seven hundred (700) pages of content, with forty-three (43) specific appendices containing lean or detailed business cases. There will still be a robust chapter, I would imagine, but certainly it would have to be looked at in terms of the -- like I said, that benefit-effort ratio.

And with that, I will turn it over to Mr. Scarfone to talk about our investments and ALM strategy at page 68. Thank you.

MR. STEVE SCARFONE: Thank you. I feel like I rushed you by spending too much time on NOVA. I feel bad.

But I won't spend a lot of time on investments because we heard from them this week, and you'll recall I asked Mr. Bunston, Well, what's the take-away? What's the story here for this Panel? And

I asked him that 'cause I had to write this portion of the closing.

And, you know, it's two (2) things: it's inflation and it's interest rates. So there's no surprises there.

And in the closing submission -- and if I -- if we didn't say it before, we're not obviously covering everything that's in the closing, so we encourage the Panel members to read it, and then read it again, and you'll have our points.

But the ALM strategy is working well, and we heard evidence from Ms. Low to that effect. You know, with interest rates having risen as they have over the past year, the bond portfolio took a significant hit: $116 million.

Notwithstanding that, it was that effect -- the ALM strategy countered that effect. And the claims incurred due to the discount rate change, that was $104 million effect from interest rates. And so this amounted to a net impact of $15 1/2 million, and the Corporation had budgeted for interest rate changes of $15 million.

So that's I would suggest very compelling evidence that the ALM strategy is working and working well. And -- and it's important to keep that in mind when certain Interveners are suggesting changes to the portfolio, to the Basic claims portfolio.

That will upset the ALM strategy, without question, and you have evidence before you to that effect in the response to the last Undertaking 34. If you start inserting equities into the Basic claims portfolio, well, first of all, what's that mean? How are going to fund those purchases? You've got to sell -- sell some bonds.

Well, the fixed-income portfolio is what provides the benefit to the ALM strategy, so you're upsetting the ability of the ALM to work effectively by inserting certain asset classes that don't align with the duration of the liabilities.

Those are very important points to take away on interest rates. And the Corporation continues to make improvements to its ALM program.

And the new asset mixes as recommended by Mercer last year, are well under way. You've heard that. There will be a 10 percent allocation to real estate which will provide some measure of inflation protection. 'Cause we heard evidence that rent paid on the property is -- is linked to increases in inflation.

And, of course, we have the bond overlay strategy that the Addenda folks have put together for MPIC to deal with the inflation hedging that they're recommending.

On the -- just before I move on to the bond overlay strategy, I touched upon this, so -- if, for example, the Corporation was to purchase growth assets as the CMMG has recommended at 34 percent. So, remember, that's the allocation that the Corporation has identified for real return bonds.

There -- and -- and the CMMG said, well wait, not real return bonds. Let's use equities 'cause you get better returns.

Well, a couple things there. Not only is it contrary to MPIC's investment objectives and Basic, we -- you heard evidence repeatedly that the Corporation's main objective is not the returns.

But, it would also require an additional $205 million in capital. So, you may recall, some members of this Board may recall, this is not a novel recommendation by the CMMG. They always want us to have equities in our portfolio, because the bigger returns help offset some of their long tail injury claims.

Well, Mr. Johnston, years ago, said

that's all good and fine, but what happens when the equity market turns? Who's paying for all those losses? The motorcyclists? No. Basic customers are paying for those losses.

'Cause equity markets do turn. And so, you have to be very careful about what mixes you put into the Basic claim portfolio. And that's why you see equities only in the RSR and EFB.

On the bond overlay strategy, you had the gentleman here from Montreal talking about this rather complex strategy, I would suggest, but the takeaway on that strategy is two-fold.

One, it allows MPIC to maintain the current bond portfolio and the increased yield that provincial and corporate bonds offer the Corporation, compared to the cash RRBs that are being avoided under the bond overlay strategy.

The second point to this is, purchasing real return bonds on a cash basis, which the Corporation is not doing, would mean selling provincial bonds, not unlike the equity suggestion, to fund the purchase. Thereby, again, weakening the interest rate risk management strategy under the ALM.

And -- and it does that because real return bonds are difficult to buy on a duration neutral basis and given the limited selection of maturity dates, 'cause they're a hard product to find in the market.

And, so while the strategy, in principle, has been approved by the Board of Directors, the allocation to the strategy we heard, the hedge ratio has yet to be determined and that hedge ratio, in turn, determines the amount of inflation protection that MPIC will have in place.

So, the dollar number of real return bonds. So, for example, the evidence was that a hedge ratio of 100 percent and, again, that number hasn't been finalized, translates to approximately $1.1 billion in real return bonds.

Like all investment decisions at MPIC, that hedge -- hedge ratio, as confirmed by Mr. Gabor, will be determined by the Board of Directors on the advice of the Investment Committee.

And the impact of inflation on MPI has been significant. You heard $119 million over the last two (2) years, which impact would have been averted, had the bond overlay strategy been in place in 2021.

And, so, I asked the gentleman from Montreal, you know, are we too late in the game here and he -- his response was interesting. He said, I don't know what you're talking about. You either -- you're hedged or you're not. Right? This is a strategy, just like any other strategy. We're at -- we're not recommending an exit strategy if inflation drops, you just always keep these bonds in your portfolio or these synthetic bonds and the -- and the financing agreements that make up the overlay strategy.

You keep this strategy in place, forever. And now you're hedged. And now you have better protection against rising inflation if it starts to climb back up again.

Mr. Guerra already touched upon the -- the new money yields, so I won't deal with that very much. But, we did hear from Ms. Low, that under IFRS-17, the naive yield curve, that is the flat curve, does not exist and so there's an embedded forward curve, meaning that MPIC no longer uses a -- a single discount rate for discounting its claims liabilities.

MPIC made use of a five point zero four (5.04) new money yield, as at the end of August and, as again, as we've heard from Ms. McCandless, this year includes commercial mortgages in addition to the provincial and corporate bonds.

And very quickly on the interest rate forecasting, the Corporation is, again, making use of the naive interest rate forecasting methodology. Mr. Bunston is very strong on this. He feels as though it's been more accurate than has the surf in -- in -- in his experience and more importantly, he says MPIC prefers not to take a position on the future direction of interest rates.

And you'll see there my exchange with him and he was very polite in his response by not just saying why is this dumb lawyer asking me this question.

But I asked him, you know, what's the impact on interest rates continuing to rise on your forecasting for investment income? And his response, well, none, 'cause we just use a naive -- there's no impact. It -- we don't -- and so, you'll see that the Bank of Canada has held steady its interest rate, its key lending rate, for the past couple announcements and so if that was to continue, the interest rate forecasting risk is significantly lower.

What we don't want, of course, is forecasting interest rates to go up and they go down, or they hold steady and then the Corporation loses lots of money as we have in the past.

And then, lastly, on investment performance, there was, as I've indicated a significant loss on the bond portfolio from the interest rates having gone up.

Contrast that to the strong performance of MPIC's equity portfolio against the benchmarks. You heard Mr. Bunston talk about that.

And the performance evaluation completed by Ellement, showed that the Basic and EFB portfolios have outperformed what he called the policy portfolio by small amounts, less than 1 percent, but a -- an outperformance nonetheless.

And lastly, aside from the market forces that had a negative impact on an all bond investors last year, MPI's investment fund is managed well, the Corporation says.

The ALM strategy has fully mitigated the losses and it is important to remember that favourable returns, again, are not the primary objective of the Basic claims portfolio, but rather to ensure that funds are available to pay claims and to hedge risks associated with the Corporation's liabilities.

MR. ANTHONY GUERRA: The next issue is the Basic insurance model and the Driver Safety Rating system. I'm actually just going to focus my attention on the Basic insurance model, 'cause I think, you know, we have in our comments what we do want to say on the DSR.

What I would leave this Board with on the Basic insurance model, is there is -- there's this debate going on about whether or not MPI has what it needs from a legal perspective in order to start beginning the process of collecting information for the development of a new Basic insurance model.

And so the PUB heard, and I'm going to go to page 75, Ms. Schubert, thank you.

That the updated plan, that's been presented this year includes two (2) phases, the first phase meaning -- being the driver data collection phase and analysis phase and then there's the implementation phase.

And, so, MPI plans to build functionality to collect driver information into Release 3 of Program Nova. And so we just comment there, that if there are delays in the implementation of Release 3, obviously that's going to delay the ability for MPI to collect that data and then bring it to the PUB and provide an analysis and proposal for the new model.

But let's just get back this idea of why are we wanting to collect and analyze data at all. And we heard from our -- our team there that the -- and also in the Basic insurance model chapter, that without the data MPI can't assess the impact of any potential change on ratepayers and from -- on to the DSR model.

So, not only must we be able to collect data, but we also must be able to compel driver data, rather than just rely upon its voluntary production and so, as the panel suggested to the -- to the PUB, an individual at DSR level 17, for example, who -- who lives alone, is far more likely to volunteer information than maybe somebody with the same rating who lives at home with another driver at DSR level zero (0).

And so, without compulsion, MPI risks collecting data that -- that doesn't provide a representative sample of DSR eligible policies and that can skew its findings and the impact on its ultimate proposal.

And, so, MPI is of the view it doesn't, currently, have the means to collect and, more importantly, compel production of driver data. And, so, during this hearing, there were two (2) provisions that were discussed that -- that maybe are -- are going to be suggested -- do -- do allow that, and that's section 6(2) of the Manitoba Public Insurance Corporation Act and section 33 of the Automobile Insurance Plan Regulation.

So, with respect to 6. -- sub -- subsection 6.2 of the MPI Act, it gives MPI the authority to create forms and prescribe the information to be entered upon those forms and, while MPI may be able to leverage the authority, in its view, that the ability to rely upon this -- this authority and whether it should rely on -- sorry -- let me -- let me rephrase that.

While MPI may be able to leverage this authority, is of the view that its ability to rely on it and whether it should rely on it are two (2) different considerations.

An updated form would require applicants to provide the name, driver's licence number, and, perhaps, other identifying information, everyone who they expect to drive the vehicle at some point in the subject rating year.

Not only might this lengthen the amount of time required to complete the transaction, but it also may require multiple trips to a broker or service agent, require the attendance of multiple individuals, and, ultimately, create a poor customer experience, and this assumes the information can be obtained by the registered owners from -- from the other drivers.

If that required information cannot be obtained, what are the consequences? Can MPI deny the registered owner a discount on their vehicle premiums? Can it deny them a vehicle policy altogether? Further, what would be the consequences if someone, other than the registered owner or identified driver, are operating the vehicle and are held to be at fault for an accident? Would MPI be able to deny the claim?

Keep in mind that the purpose of requesting information would be for the purposes of conducting an analysis, not for determining entitlement to or the amount of a vehicle premium discount. So, that's section -- sub -- subsection 6.2 of the MPI Act.

What about the second one, Section 33 of the Automobile Insurance Plan Regulation? That gives registered owners the ability to assign another driver to their vehicle policy for the purposes of obtaining a vehicle premium discount and it is a voluntary option that, in practice, is typically used in exceptional cases where individuals are not driving due to a medical condition.

In these types of scenarios, it is an incentive for the registered owner to assign a driver to their policy. Without assignment, the registered owner receives no discount on their vehicle premiums, however, that incentive is immediately lost when the result of an assignment would, effectively, decrease or, even eliminate, the premium discount altogether.

Further, nothing within this section permits MPI to require an assigned driver, and this section doesn't address the indirect collection of information. So, does section 33 of this regulation support a claim that MPI already possesses the authority to collect driver information? MPI respectfully submits it doesn't.

As indicated in the Basic Insurance Model chapter, MPI is of the view that section 36(1) of the Freedom of Information and Protection of Privacy Act doesn't give MPI the authority to collect and compel primary or listed driver information, which is not the same thing as a voluntary assigned driver.

In fact, section 33 of that regulation reinforces the importance of the ability to compel the production of driver data from someone other than the driver.

Currently, the only time that MPI is authorized to receive driver information directly from a driver is when it's voluntarily provided.

The Basic Insurance Model chapter identifies some high level changes to the regulation that MPI would need to address the concerns and, so, those are identified here.

And the PUB heard that MPI has initiated the communication process with the previous government and will continue to do so with the current government and that it remains on track and is hopeful that the amendment process can start in the next quarter of this fiscal year and, so, MPI also provided an indication that it plans to re-engage with stakeholders on the topic of the Basic Insurance Model and that was previously scheduled but hasn't happened yet.

The Product Enhancements Panel testified that MPI expects to consult with the government and the stakeholder process will begin shortly and MPI remains committed to working with all stakeholders, to ensure that the survey materials provided are accessible and appropriate. So, now, I'll turn it over to Mr. Scarfone.

MR. STEVE SCARFONE: Thank you. On

Vehicles for Hire, Madam Chair and Panel members, there's a framework that's before you, in compliance with the Directive from last year. The Product Enhancement Panel talked about the TNC, the Transportation Network Company's, blanket policy, which includes both a pricing element and the framework itself.

But this year, there was a bit of a hiccup, as we -- we refer to it. The proposal does not include the per kilometre rate given the position taken by one (1) of the TNC's with respect to its confidential data, and the Board is aware of that.

But the -- the framework itself would see the replacement of the existing time bans with the TNC blanket policy.

It is -- not unlike in other jurisdictions, it operates in the same manner; that is, the TNC purchase blanket policy applies when the driver is either carrying out his or her responsibilities of travelling with passengers or en route to pick up a passenger. Other than that, the all-purpose Basic policy purchased by the registered owner of those vehicles would apply.

The Corporation believes this framework to be fair and equitable to all members of the Vehicle for Hire industry as the technology required to readily track and report kilometres travelled is widely available and already used by a variety of users, including the taxicabs.

The TNC blanket policy we heard accords with AAP rate-making, and the pricing is based on a methodology which uses a projection of kilometres driven at initial estimated per kilometre rate. And so that is what gave rise to what I'll call the Uber issue. And I don't mean by that the -- the supreme issue, but, in fact, one (1) of the companies that operates in this province.

And you have before you some relief that was requested by MPIC to get this framework moving. The Corporation is still looking for a directive from this Board that would have that particular company share its kilometre data with this Board to analyze with its advisors and lawyers to set the pricing for this new product.

And that would be -- and I'm glad Ms. Wittman is not here -- to the exclusion of the Interveners. And that, we heard from Ms. Mann and others, is not unlike other jurisdictions where that data is not shared amongst competitors. And, you know, from our perspective, that makes good sense.

Uber's concern, as I understand it, and I don't want to speak for them, and they've never intervened in one (1) of these proceedings, but they have a market share that they feel might be compromised if that CSI is -- is shared with its competitors.

We -- we heard, again, from Ms. Mann that the proposed framework would have a reconciliation occur at the end of each year that would adjust to make sure that the pricing and the premiums paid are -- are accurate based on claims experience.

And so, really, what you have here is the Corporation wanting to set an accurate pricing at the outset of the P&C blanket policy, and then at the end of the year that would be reconciled. But the Corporation prefers to have it as accurate as it can before that reconciliation occurs at the end of the policy year.

And then the last part of the framework, of course, would be the decommissioning of the time ban model that's currently in use. There's some data there that would suggest MPIC has confirmed that such a move from the time ban model to a full-time model would increase the premiums of approximately 8 percent of the Vehicle for Hire policies, meaning 92 percent would see no change in their premiums strictly because of moving to a full-time model because they are, in effect, as we've heard in past proceedings, already there by making use of all four (4) time bans.

Lastly, there was an Undertaking number 5 that showed this larger increase is expected to impact; that is, some customers will see an increase to their premiums, and this larger increase is expected to impact only seventy-four (74) of two thousand three hundred and eighty-five (2,385) Vehicle for Hire policies, or approximately just 3 percent of the total number of the Vehicle for Hire policies.

So you have a greater good philosophy before you, utilitarianism I think it's called. Notwithstanding that, the Corporation does its best to try and accommodate everyone. And so we haven't discounted entirely the possibility of having a part-time model.

And you'll see there at the top of page 84 that the Taxi Coalition was not amenable to the model mockup and the preliminary rates that were put forward by MPI.

And so the path forward is to have that

telematics pilot program and working with the Taxi Coalition to try and come up with a part-time model that would work for both the insurer and its customers. And that's the -- that's the submission on Vehicle for Hire.

In the interest of time and out of respect for Mr. Klassen and Ms. Dilay, I'm going to skip right past the benchmarking portion of the submission, but I don't want to do that and offend Mr. Wishnowski, who did a great job in writing that. So I encourage you to -- to read that Panel members.

And I'll just end by saying that MPIC is at a critical junction, as Mr. Guerra indicated, in its fifty-two (52) year history. To succeed, it must deliver on its promise to Manitobans to be fiscally prudent, deliver Project NOVA, and improve service delivery all on the heels and in the midst of a labour interruption that the Corporation has never before experienced.

Having reviewed its General Rate Application and the evidence presented during this Hearing, the Corporation trusts that the PUB will agree that the relief requested herein is just and reasonable.

And subject to any questions, those are

the submissions of myself and Mr. Guerra.

PANEL CHAIRPERSON: Thank you. Mr. Gabor...?

BOARD CHAIR GABOR: Thank you, Mr. Scarfone. I'm taken by the -- the last -- the last sentence because it's the area I want to -- to cover. I -- I only have one (1) area to cover. And I don't know if it's Mr. Guerra, who spoke to the point, or Mr. Scarfone, who cross-examined on the point, but I want to look at page 13. Yeah, if you -- right there. Right there.

Mr. Guerra, is -- I just want to make sure I understand this argument, and this has to do with forecasting.

Near the bottom it says:

> "Neither MPI nor Oliver Wyman will predict the future with perfect accuracy, but the standard at play is not perfection, it is reasonableness."

And what I understand during Mr. Scarfone's cross-examination was were we reasonable. And then it got switched to, did MPI do anything that was unreasonable. Is the -- is the test reasonable versus unreasonable, or is it, here's what you did, can you do it better?

MR. ANTHONY GUERRA: That's a good question. So I actually did the cross-examination of Mr. Sahasrabuddhe.

BOARD CHAIR GABOR: Okay. Sorry. Sorry. Sorry. Yeah.

MR. ANTHONY GUERRA: That's okay. And I also prepared this -- this part of the closing, so I -- I think I'm best prepared to --

BOARD CHAIR GABOR: Sure.

MR. ANTHONY GUERRA: -- speak to this. And so, I mean, in -- in our view, reasonable is -- it's -- it's the opposite side of the coin from unreasonable, right, so to say Mr. Sahasrabuddhe wasn't prepared to say that MPI was being unreasonable. What he had said was, MPI is reasonable, we just think we are more reasonable, right.

And so we don't think that's the test. We think the test is, is MPI acting within the -- the realm of accepted practice in the industry? That's what reasonableness means to us, is -- is the decisions we've made defensible within the industry.

BOARD CHAIR GABOR: Okay. So then it appears that your view is the onus is on you to prove you were reasonable. Once you've shown that, if the other side can show that there's a better way to do it, that doesn't matter, as long as you're not unreasonable.

Is that your position?

MR. ANTHONY GUERRA: And so here's a situation where you have two (2) people, or two (2) entities in this case, trying to forecast the future. Nobody -- everyone knows they're going to get it wrong, right. Mr. Sahasrabuddhe knows he's going to get it wrong just as much as Ms. Low knows that she's going to get it wrong, right.

So both are saying, we think we have reasonable predictions of the future. Mr. Sahasrabuddhe believes that his is more reasonable and Ms. Low believes hers is more reasonable.

In the circumstances, though, I would suggest to this Board that its main consideration should be: Is the decision made by MPI defensible? Because a reasonable decision on a forecast, we would submit, leads to a reasonable decision on the rate selection.

BOARD CHAIR GABOR: Well, that -- that was the other -- the other question. The Board makes the decision on whether it is just and reasonable.

Somehow you've morphed that into a standard, and I don't know if it's because the word 'reasonable' was used.

As I read the last sentence:

"And the applicable standard is reasonable because the PUB is tasked with approving just and reasonable rates."

That's a test for us, not for you.

"Therefore, if MPI forecasts are reasonable, all things equal, the rates should be as well."

You seem to have pushed the test that we follow by way of legislation into a standard. And I'm just wondering what -- what does one have to relate to the other?

MR. ANTHONY GUERRA: You -- you get to reasonable rates through the forecasting of claims. That's one (1) aspect of it, right? You forecast the -- the claims, and then we also projected our expenses.

And so if -- if the PUB is inclined to say that MPI has done a reasonable job in forecasting its claims, all other things equal, the rates should flow from that, and they should also be equal.

BOARD CHAIR GABOR: But does that apply to everything else? As long as you've been reasonable, we should accept it because it's reasonable? You were reasonable on Project NOVA, but we could find better ways to do it, but you weren't unreasonable, so therefore, we're -- we're required to accept that?

MR. ANTHONY GUERRA: So this analysis here applies in the case of claims forecasting --

BOARD CHAIR GABOR: Right.

MR. ANTHONY GUERRA: -- right? So I'm not suggesting that it's -- it can be -- this can be completely taken off the page and moved to analysis of, you know, a specific project, for example. That would have to be done in the context of that particular project.

What I'm saying here, though, is that when the PUB is looking at things like claims forecasting that is admittedly an estimate of the future, these are the things that they should be looking to to determine is MPI acting reasonably, right?

And in this case, it's not just that it's reasonable, it's as equally reasonable as the other evidence that's been presented here.

So I've -- I've tried to -- I've tried to show you, number 1, MPI is -- is being reasonable, but the alternative analysis is just as reasonable.

BOARD CHAIR GABOR: So tie goes to the runner.

MR. ANTHONY GUERRA: Tie goes to the runner, exactly.

BOARD CHAIR GABOR: Okay. So I guess the final question is -- when I'm looking at the first line -- the quote is:

> "When we look at our claims forecast [this is Ms. Low], we're looking at we think is our best estimate."

Why isn't it a reasonable estimate? That's my point. She didn't say it's a reasonable estimate. She says, This is our best estimate. So the standard we go for is actually -- I was going to say more than reasonable.

MR. ANTHONY GUERRA: So Ms. Low's not going to sit here and say, you know, We -- we're -- we're just winging it. We -- we're just going to, you know, play the -- you know, the -- the bottom line here.

There -- you've obviously seen the -- the claims forecasting chapter and all the -- the hard work that went into it. This team -- this team really did a superb job of trying to figure out what an uncertain future might look like, appreciating all the complexities that arise from the COVID pandemic, and then get thrown in, you know, labour interruption and all that kind of stuff that happens to it. This is not an easy time to be an actuary, I would imagine.

That said, I don't want us to get hung up on the -- the -- like, they're saying that they are putting their best efforts forward, right? The best efforts that they put forward are governed by all those things that we talked about.

Are they applying industry best practice and using regression analysis, using a visual analysis in some cases, using contextual factors in all those cases? They're trying to get to the best point, but they're doing it in a reasonable way.

At the end of the day, they're results are defendable. They're justifiable. Somebody in the industry looking at it can say, yeah, I can see how you got there, and -- and that makes sense. Maybe it's not the selection I would have made, but I'm also not saying that this is completely out to lunch.

And that's I think what we need to look at here is: Did this team do a defensible job? The rates that are resulting from their work, is there -- is there a defence there that these are -- these are reasonable rates. Thank you.

BOARD CHAIR GABOR: Sorry. I appreciate your comments, Mr. Guerra.

MR. ANTHONY GUERRA: Thank you.

PANEL CHAIRPERSON: Ms. Boulter...? Ms. Nemec...?

BOARD MEMBER NEMEC: Just one (1) quick clarification, and -- and I think you said it and I'm not sure I just understood it totally.

When you talked about the Uber potential, the CSI issue of providing information, did you talk -- I think you said they're sensitive to information going to Interveners.

And did you say that the information to the PUB itself would be only to legal counsel and advisors, or to the Panel in itself?

MR. STEVE SCARFONE: Oh, no. That would include the Panel members, of course, yes. So the -- the PUB proper, its lawyers, and its advisors.

BOARD MEMBER NEMEC: Thank you.

PANEL CHAIRPERSON: Mr. Bass...? Thank you very much for your closing submissions. I think we could take a short break, perhaps not a full fifteen (15) minutes.

Can you give us an estimate of how long you might be, Ms. Dilay?

MS. KATRINE DILAY: Sure, Madam Chair. And -- and Mr. Klassen and I sort of I guess are noting the time, as well as the estimate of our presentation. We're going to try to keep it at two (2) hours. That's an estimate.

So I -- I guess there's probably three (3) options. We could either do the full presentation today. We have identified one (1) spot about halfway that we could stop if we wanted to do half today and half tomorrow morning, or -- and just recognizing energy levels, we are also prepared to just go tomorrow morning. So just for the Board's discretion.

PANEL CHAIRPERSON: Thank you. No, I think that we should proceed this afternoon, and I think that we should try and conclude this afternoon so that you're not having to divide up your submissions.

So everybody can perhaps just take a really quick health break and be back as quickly as possible, five (5), ten (10) minutes.

--- Upon recessing at 3:01 p.m.

--- Upon resuming at 3:11 p.m.

PANEL CHAIRPERSON: Thank you very much everyone for coming back so quickly. Ms. Dilay...?

MS. KATRINE DILAY: Thank you, Madam Chair and Board members.

FINAL SUBMISSIONS BY CAC (MANITOBA)

MS. KATRINE DILAY: As I said, we will -- we will try to be around two (2) hours. We did prepare a relatively detailed presentation, so we will not be going through every word and every citation, but you have our written materials, as well for your consideration.

We've titled our presentation, this afternoon, 'A Critical Time for Regulatory Action in the Face of Imprudence and Imbalance'. And we thank the Board for the opportunity to present these submissions.

As you'll see, the first three (3) slides, the first three (3) pages will be an overview. After that, we'll present you with a roadmap for the rest of the submissions.

I'll be doing the bulk of the

presentation, but Mr. Klassen will also be presenting on a few key issues throughout the presentation.

So, on -- on slide 2, Ms. Schubert, this presents a very high level sematic overview of the key issues that we intend to cover this afternoon.

In CAC's submission, the evidence presented in this hearing does not inspire confidence in management decisions by MPI, including budgeting, the treatment of capital or the Corporation's handle on Project Nova.

In our clients' submissions, the Corporation does not have control over Project Nova and we will canvass that issue in detail, including lapse in third-party governance at a critical time in the project. Costs that have the potential to significantly escalate an instability in the Corporation. And we'll also talk about the lack of asking tough questions when a business case significantly changes.

The next big issue is excess -- are there excessive cushions in claims forecasting. Our assumptions in claims forecasting, building excessive cushions at the expense of ratepayers. And we'll canvass that in a lot more detail throughout the presentation.

A third key issue that has an impact on ratepayers is unjustified imprudence -- unjustified and imprudent staffing increases, that are not justified through performance measures or linked to budgeting processes.

And finally, our client submit that there's over collection and excessive reserves. And despite this, MPI does not contemplate a rebate and keeps the door open to transferring out money, that should instead be benefitting Basic ratepayers.

CAC (Manitoba)'s position is that MPI's actions and proposal -- proposals in this GRA have demonstrated imprudence and imbalance and those terms go right to the core of the rate-setting function as we will canvass throughout this presentation.

And who pays the price of these actions and these proposals by MPI? It's MPI's captive customers. MPI's -- MPI's ratepayers pay the price.

And, so what do we do about it? And this is really -- I would say that the crux of our presentation, is that there is a need for regulatory action in this GRA.

MPI ratepayers have no option but to stick with MPI for Basic insurance. That's the definition of a monopoly. And, as such, they look to the PUB, the Public Utilities Board, to strike the balance between them, the customers, and the Crown Corporation.

And, so at a high level this is going to be -- going to be a summary of our recommendations. CAC Manitoba will make recommendations in the public interest that are really intended to restore confidence in the Corporation; including a strong revenue requirement signal that MPI is on an unreasonable and imprudent path in terms of expenditures, specifically, as it relates to Project Nova, IT expenses, operating expenses, specifically related to staffing, and overall budgeting processes.

CAC (Manitoba) will also make recommendations about alternative assumptions and claims forecasting, that better reflect the needed balance.

We will also make recommendations on behalf of CAC about management of reserves that better reflects the balance between the financial health of the Corporation and the interest of ratepayers.

We will make recommendations regarding MPI's investment strategy and, finally, we will make a recommendation regarding the overall rate. And we'll break this down later in the presentation, but our --

the recommendation of CAC will be an overall rate decrease of at least 5.45 percent, to reflect rates that are just and reasonable, that incent prudence and that better balance the interests of captive ratepayers and the monopoly.

So, on the next three (3) slides, we've tried to make this presentation accessible to you, so we're hoping you can use five (5) -- you can use slides 5, 6 and 7, you know, for reference as you need to go back to the presentation.

So, on page 5, we start the roadmap. In part 1 of our presentation, it will be mostly context and what is the role of the PUB. Why are we all here?

In part 2, we will go into imprudent and unreasonable expenses. And you'll see this is probably the biggest part of the presentation, with a number of sub-headings in there.

On page 6, we've listed part 3 of the presentation, where we have three (3) important issues that all go to decisions by MPI that have a cost to ratepayers and going to that balance between ratepayers and the Corporation.

In part 4 we will discuss a few issues about the fair allocation of costs to customers. And finally, a short section at the end, about just and reasonable rates and, again, a summary of that theme of being a critical time for regulatory action.

So, going right into part 1, which again, is the context section as well as the role of the PUB. We'll first talk about a Corporation influx on slide 8.

And we've heard a lot of evidence about this -- this GRA, that there is currently instability and change at MPI. There has been significant turnover in the executive office with the former CEO let go in May of 2023 and the former Chief Information Technology Officer resigning in June of 2023.

In addition, there's been Board turnover, with the former Board Chair resigning in May of 2023, as well as a Board member with extensive IT experience leaving in July of 2023 and, of course, that's relevant because of the current large IT project going on at -- at MPI. And, finally, a new Board just announced on October 20th, 2023.

We've also seen evidence in this hearing of high staff turnover. Higher than average over the last two (2) years, in general, at more than 6 percent in 2022/'23 and we heard it's over 9 percent in the current fiscal year to date.

And we would submit all of these -- this turnover and these changes, lead to a loss of institutional knowledge within the Corporation.

And, so, why is this important? Why do we care in the regulatory process?

Well in our clients' view and from what they've seen in the evidence in this proceeding, changing leadership impacts the key priorities of the Corporation.

And, then in turn, changes in leadership and key priorities can have an impact on Corporate culture, as well as staff morale.

So, as we just alluded to there's a high staff turnover rate. And while MPI didn't seem to have specific insights regarding why is there such a higher than average turnover rate, we submit it would be a reasonable inference to find that changes in leadership, culture, key priorities may be the -- one of the reasons impacting staff morale and turnover.

And then as -- as a follow-up to that or as a result of that, staff morale can impact the Corporation's progress on key elements and key projects.

The success of large projects, such as

Project Nova, requires stability and commitment, as well as institutional knowledge and some of that was lost in the turnover and the -- the key changes.

So, on the next two (2) slide -- two (2) slides, we want to acknowledge who our clients represent, which is Manitoba consumers.

Manitoba consumers face difficult economic circumstances. We heard that in evidence. There's high inflation, high interest rates, and rising cost of essentials. All of us in this room feel it.

And what happens for Manitoba consumers, when they face tough economic circumstances? They have to make choices. They have to make choices about what they spend their money on.

When it comes to auto insurance, however, MPI customers have no choice. They are stuck with MPI for Basic insurance, even when they're not happy with the services they receive, even when they're not happen with decisions that the Corporation is making, especially regarding what the Corporation is spending their money on, the ratepayers' money.

On the next page, we've included a page from the MPI Exhibit 50, which was the October Update. Just to make the quick point that the impact of MPI's rate Application is not felt equally by ratepayers, and this is something that -- that is acknowledged every year.

But, while we see very high level numbers, those numbers tell a story of different customer classes, different customer groups, and even different levels, such as the DSR levels, within the private passenger class.

And, so, the only point we really want to make here is that different customers will see different impacts of the rate that is ultimately approved by this Board.

And, so, in this context of instability and change at the Corporation's level and difficulties faced by Manitoba consumers, generally, we want to talk about the importance of the regulatory process.

Public utilities are regulated because they provide services of special public importance or necessity in a monopoly or effective monopoly environment and that's what we have here.

We've included one (1) citation or, rather, two (2) citations from the Manitoba Court of Appeal about the role of the Public Utilities Board and I won't -- I won't read them verbatim, but you have them there, but the point we want to make is really the balancing the interests of the utilities ratepayers with the financial health of the utility. Broadly speaking, those interests represent the general public interest and that's really why we're here and that's the role of the Public Utilities Board.

In our clients' submission, the Public Utilities Board regulatory process provides continuity, stability, accountability, and transparency. As we all know, the PUB sets just and reasonable rates for MPI.

So, MPI's captive customers look to the PUB to regulate in the public interest, as we've just seen and as confirmed by the Court of Appeal. Essentially, customers are looking to the PUB to play that role that the competitive marketplace would play otherwise, to put pressure on the Corporation.

And, as I said, there's that continuity, stability, accountability, and transparency provided by the process, and this is especially important when stability and continuity are lacking within the Corporation itself.

In this context, Crown Corporations must be accountable and transparent to all Manitobans, because, really, MPI funds are ratepayer funds.

On page 14, this is a -- a short point that we just want to make regarding the public nature of the regulatory process and that it cannot be undermined. This is of significance importance to our clients, especially given that they -- they represent the biggest class of individuals that are MPI customers.

The public nature of the process demonstrates accountability and transparency for the public in general and for MPI captive ratepayers more specifically.

The public nature of the process is so critical that it is the default for these reasons. CAC (Manitoba) wants to thank and we are very appreciative of all the work that MPI has done in the last few years and, especially this year, in streamlining the confidentiality process, including the confidentiality tracker which, for our clients, and -- and, especially for the legal team I'll say, was a very helpful tool -- tool.

We just want to caution that, while our clients recognize that there is a need for a confidentiality process for narrow exceptions, as outlined by this Board, MPI should not be able to hide behind broad and unsubstantiated claims of confidentiality from third-party vendors, especially on issues that are core and central to the rate-setting process.

And we've made -- we made submissions in response to MPI's confidentiality motion for the Financial Condition Test Report and the IFRS-14 opinion by Deloitte. So, we would invite you to just take another look at those submissions.

And CAC (Manitoba) appreciated hearing from MPI that they -- they have committed to having conversations with their vendors going forward regarding the public nature of the rate-setting -- the regulatory process.

In terms -- continuing on the Public Utilities' role -- Public Utilities Board role, pardon me, the PUB has previously confirmed its commitment to ensuring prudence in MPI costs and we've included three (3) different citations here from two (2) Board Orders.

And, so, of course, one of -- one part of the test is ensuring that actual and projected costs incurred are necessary and prudent and, in the past, the Board has specifically cited that commitment to prudence, as it relates to staff levels as well as physical damage re-engineering, which was a -- a previous program of the Corporation.

In terms of what is the test for setting just and reasonable rates, we've set it out here, on page 16. Are actual and projected costs, necessary and prudent? Are forecasts reasonably reliable? Are revenue needs reasonable in the context of the overall general health of the monopoly? Is there an appropriate allocation of costs between ratepayers. And, finally, and -- and we think it's kind of a summative question, are the proposed rates just and reasonable, in accordance with statutory objectives? And we're hoping that the rest of our presentation starting on -- in Part 2, will address these questions, for the Board's consideration.

So, having gone through -- Ms. Schubert, if we could go -- thank you so much.

So, having gone through what is the role of the PUB, here we have, well, what can the PUB do, pursuant to this role? And, so we suggested that the role of the Public Utilities Board includes making Orders and Directives for MPI, providing recommendations, and that can be for MPI, as well as for the legislator or the Manitoba Government and, finally, the setting of just and reasonable rates.

It's important to -- to remember and

recognize that the onus is on the Crown Corporation, MPI, to demonstrate that its application should be approved. And we submit that MPI relies on the evidence in its rate Application, so the written evidence, as well as the testimony of its experts, its witnesses, to prove its case.

In terms of the evidence overall and the treatment of the evidence that the Board has received from MPI, we would say that there are overall challenges with the credibility of the Corporation in terms of the confidence that we can have in the evidence that was received.

And this is important because, in our clients' submission, the credibility of the Corporation must be assessed by the Public Utilities Board in examining the rate Application. We submit the question has to be asked: Can the evidence of the Corporation be trusted and relied upon for purposes of setting just and reasonable rates?

In our clients' view, overall, changes and instability at the Corporation have led to a lack of continuity and stability relating to key priorities, as well as a significant learning curve for new employees to the Corporation or employees that are in new or interim positions. And, in our clients' view, this is not stewardship.

The evidence presented in this hearing, in our clients' view, does not inspire confidence in management decisions, including budgeting and staffing, or the Corporation's handle on Project NOVA.

And, so, the recommendations that CAC (Manitoba) will make are aimed at restoring confidence in the Corporation, in that the Corporation has to demonstrate evidence that they have the systems, the measurements, to prudently manage, and that they are showing mastery on their own management operations and processes. They have to prove their application and that their application should be approved.

So on the previous slide, those were overall challenges with the confidence that we can have in the evidence. Some specific credibility challenges that we are raising here relate to MPI 2.0. While MPI is now distancing -- distancing itself from this nebulous concept, references remain throughout the rate Application.

On Project NOVA there's been no third-party assessment since October of 2022. There appears to be a desire to delivering NOVA at all costs. And in contrast to that, we had the independent expert evidence of Mr. Scott Greenlay. And, of course, we will go into that in more detail.

Another issue we've seen is that there were key witnesses in leadership positions not demonstrating mastery of their -- their portfolios and, of course, that relates to the learning curve and the changes in the Corporation.

But in terms of the trust that we can put in the evidence for setting rates that then customers have to pay, that raises significant concerns from our clients' point of view.

Expenses and financial forecasting. We've seen that budgeting practices, including for staffing expenses, are not tied to any kind of performance measures or objectives.

In terms of reserves, we heard that MPI appears to have assisted in drafting changes to legislation, they have not committed to any rebate, and they've left the door open to transferring funds out of Extension despite the acknowledged advantage received by Extension from Basic.

And so we submit what we see here is a pattern of bias towards corporate interests, and that comes at the expenses of ratepayers because they're the ones paying rates.

And to finish this Part 1 of our

presentation we want to briefly touch on the organizational review. As we all know, there's a government ordered organizational review currently underway ordered, in part, because of concerns relating to MPI expenditures in the last rate application.

We canvassed this in cross-examination, but some of the items being -- being considered as part of the organizational review are core to the rate setting process, including the revenue -- revenue requirement and rates for service.

Despite the centrality of these issues to the rate-setting process, there's no external stakeholder engagement planned by MPI or Ernst & Young as part of this organizational review.

And to our clients, this raises questions about trust and legitimacy of the organizational review in a time where they see trust and legitimacy regarding the Corporation's actions and plans more generally as the -- as wanting.

And so this leads us to our first recommendation for the Public Utilities Board. In order to build trust and legitimacy, PUB should recommend that MPI engage with external stakeholders and customers on the organizational review and that

Ernst & Young engage with external stakeholders and customers as part of its work on the organizational review.

And just as a matter of -- of logistics, we've tried to have all of our recommendation slides be bolded just for your reference as you go through our written presentation.

So moving into Part 2, which is going to be the longest part of our presentation, imprudent and unreasonable expenses.

So, this page here relates to overall MPI's -- as it relates to MPI's expenses. Our clients' recommendation overall in this section is that there is a critical need for regulatory action.

As a Crown Corporation, MPI's accountable to all Manitobans and customers should only be charged for prudently incurred costs.

And MPI agreed that this is a PUB regulatory principle, and also just a prudent general business practice that is important to protect the public interest and, also, ratepayer confidence in MPI's operations.

And so our clients submit there are significant concerns about the reasonableness of MPI expenditures in this GRA because of at least five (5) elements: no control over Project NOVA; lack of accountability in IT expenses more generally; staffing increases that are too high and not adequately justified; no budgeting processes based on performance measures; and a lack of value in benchmarking exercises. And we'll go through all of these items in a bit more detail.

Starting with Project NOVA on page 25. In last year's GRA, the PUB warned the Corporation about potential unreasonable costs. And so I -- I've excerpted -- we have excerpted three (3) quotes here, but I just want to draw your attention to the last one.

The Board last year said:

> "If MPI cannot demonstrate that it has made prudent choices in its plans for Project NOVA and is making efforts to contain costs, there is a significant risk that MPI's next rate request will be found to not be just and reasonable."

And we'd just like the Board to keep this in mind as we go through the rest of this section of our presentation.

And last year was not the first time

that the Board raised concerns about Project NOVA. In the 2022 GRA, so the year just before, the Board found that there is a significant risk that IT initiatives will increase in scope.

And then the Board actually referred back to the year before. So that means in total, three (3) years of concerns with Project NOVA. The Board said it noted its concern in Order 1 of '21 with a budget overruns early in Project NOVA. So three (3) years of warnings from the Public Utilities Board in terms of expenses relating to NOVA.

Despite these warnings from the regulator, NOVA appeals to -- appears to be going full steam ahead. And on this page we're just providing a refresher in terms of the NOVA costs and benefits journey.

In terms of budget, NOVA has more than -- NOVA budget has more than doubled since the initial business case in 2018/2019 and is still going up.

The initial business case was 106.8 million. Then it was changed to 128.5. Then it was changed to going up to 289.9 million with the onetime modernization cost there being 224.1 without the contingency.

And then we heard revised numbers this

year, that the onetime costs without the full contingency were at 240.7 million. So there's already a planned drawdown of 16.6 million, although we heard that wasn't confirmed yet.

And, of course, in this GRA, the Net Present Value remains negative with no payback period. The Board will recall that in the initial business case there was a Net Present Value of 18.4 million with an associated payback period. And the Net Present Value currently remains at negative -188.9 million.

Despite these -- the PUB warnings that we saw, as well as rising costs that we have just seen, as well, it appears that MPI's position is Project NOVA at all costs.

And, in our clients' view, this was illustrated by one (1) of MPI's key business objectives as defined by its now former Board chair being delivering on Project NOVA. It's a key business objective.

And, as presented in testimony by Mr. Scott Greenlay, this raises questions of completion bias, which we submit is the tendency for one to feel compelled to finish a task once it has completed.

There's been no evidence that vendors

to date have been asked to reduce scope or look for means to reduce costs. It's just Project NOVA at all cost.

And the red flags that led to the PUB warnings in 2022 -- or in the 2022 and 2023 GRAs have only been exacerbated over the last year since the last rate hearing.

And we'll go through these four (4) points in the next few slides, but it's been -- those warnings have been -- or those risks have been exacerbated by a lapse in governance vendor and key risks not addressed, no confidence in the constellation of costs associated with NOVA, instability in the Corporation, and apparent scope creep of the project, as well.

So starting with what our clients see as a critical issue, MPI made a disturbing error by allowing a lapse in critical project governance services.

As we heard in evidence, PricewaterhouseCooper's engagement ended mid-flight, in the middle of Project NOVA; that resulted in a lapse in -- of project governance services for eleven (11) months.

And MPI has stated from the outset that

it doesn't have the skills required, and so that's why it needed a governance vendor to compensate for that.

So having that lapse is very concerning, and that lapse came right after concerns from this Board were raised about the cost of the project. That lapse came in the midst of critical steps in the project, namely, the implementation of the first releases, Release 1 and Release 2, and just before Discovery of the biggest, most complex release, which is Release 3.

It's unclear from the record of the proceeding whether MPI could have chosen or asked to extend PricewaterhouseCoopers' contract given that the time line for the project had expanded, as well as PricewaterhouseCoopers already -- already being familiar with the project, including the risks that they flagged in their reports.

And so we heard in this rate proceeding that MNP LLP will be acting as governance vendor for the first time, so of course, they will have to familiarize themselves with the materials, the risks, the issues, and our clients see that as a significant loss of continuity and knowledge in governance vendor services.

This is really critical because

governance vendors play a key role. Their role is to provide MPI's executive team and technology committee of the board of directors on ongoing risks assessment of the program, and to recommend areas of focus to proactively address risks and issues to maintain program schedule and budget.

And so we heard from independent expert Mr. Greenlay: Why did the project continue without a governance vendor? And our clients ask the same question. And we've included two (2) citations from Mr. Greenlay on this page as well to that point.

In addition to not having a governance vendor at all for eleven (11) months, key risks that were flagged by PricewaterhouseCooper do not appear to have been addressed.

Consistently throughout its engagement, PricewaterhouseCooper candidly flagged risks for MPI, including in its last report in October 2022, and we heard that those themes were of complexity, capability, and capacity.

And of course the PricewaterhouseCoopers' reports are not on the public record, and so we'd invite the Board to take a look at our very short confidential submissions on this topic. We do not propose to present orally on those. We only have five (5) slides of confidential submissions.

According to independent expert Mr. Greenlay, the budget increases, the delays, the quality issues we heard of in terms of defect, the staff turnover are all symptoms and indicators of this project's complexity and MPI's insufficient capability and capacity.

One (1) of the key risks identified by PwC was that MPI lacks expertise in terms of general contractor role, and we -- that was confirmed that MPI continues to act as general contractor.

And so to use the words of Mr. Greenlay:

> "Especially for a project of this scale, and given the risks that were previously identified, not having a third-party governance vendor is, to say the least, disturbing."

So moving on to another issue related to Project NOVA is that there's no confidence in the constellation of costs estimates and time lines for NOVA. And we chose the word 'constellation' very specifically because it's not just the one (1) time costs that are associated to NOVA.

There are other costs that are impacted

by -- by time line delays and -- and budget overruns, and we'll go through those. But on this page, we talk about no confidence in the estimated one (1) time modernization costs or the time line associated with NOVA.

So we see defer -- we've seen deferred deliverables. Release 1 is partially in use. Defects were identified, and so they're working through that now. Release 2 was delayed and then some items deferred to Release 3. And of course Release 3 Discovery is delayed.

We've heard no budget commitment pending the outcome of Release 3 Discovery, which is the biggest, most complex, and high risk of the releases.

And what our clients submit the evidence shows is that Release 3 Discovery outcomes would -- will be the primary drivers of the budget because that's where they validate work effort, assumptions, and schedule duration needed to successfully deliver the release, as well as how MPI will implement the requirements. So in our clients' submission, that drives the budget.

And we just want to note that MPI has said in evidence that it is currently under budget for

Release 3, and in our clients' view, that's misleading because it's due to having paused, in part because of labour interruption, and essentially being late on Discovery activities.

And finally, we note that both Releases 1 and 2 were over budget.

We confirmed with MPI witnesses that if the uncertainty acknowledged with Release 3, if that uncertainty leads to budget changes, these changes will not be a lower budget. It will be a higher budget.

And given the track record for Release 1 and 2 up to date, Mr. Greenlay expects Release 3 to be over budget based on his experience with large projects of this nature.

And then a key theme we heard from the NOVA Panel was the additional uncertainty, primarily from labour interruptions and delay with the Release 2 go-live, that compounded the already existing uncertainty for budget and time lines. And that applies to the project generally, but more specifically Release 3.

And in terms of time line, we heard that the December 2025 time frame will likely need to be extended.

So then on -- on page 34, we just touch briefly on that constellation of costs. So it's not just the NOVA costs, but there's also that bubble budget that we heard about that is not part of the one (1) time costs.

But our understanding is that those costs would be impacted by project delays because those bubble costs have to remain in place to support the Organization until NOVA is fully proficient in Project NOVA and can then decommission the older systems. So those bubble costs will also be impacted by the time line.

And then the third part of that constellation of costs are the budgets for projects depending on NOVA. So that was -- it was confirmed that they're not part of NOVA costs, but they may be impacted by project delays as well.

And we've just excerpted this part of the transcript here where Mr. Dessler said in the second last line, "There are so many unknowns." And of course he's talking about time line here in a conversation with Board Chair Mr. Gabor, but we would submit that this theme also applies to the budget as we just went through over the last few pages.

Instability in the Corporation is a

symptom of complexity, as Mr. Greenlay said, and our clients submit that could also impact the project's success.

So we've seen board and executive turnover, including key IT personnel, which leads to significant loss of institutional knowledge. And Mr. Greenlay said leadership turnover is to the advantage of vendors.

Project NOVA appears to be overwhelming the Corporation, and a symptom of this is likely high staff turnover. And we've already alluded to this, but while it was not confirmed in evidence because the Corporation did not have that information, it would be reasonable to make an -- an inference that turnover is related, at least partly, to staff morale.

Of course, labour interruption implications mean backlogs and delays, and then we just want to point out as well IT maturity scores that could be impacted by instability in the Corporation and can also, in turn, impact the success of the project.

Two (2) key areas that -- that would appear to be directly linked to the ability to deliver NOVA successfully would be strategy and execution in portfolio management where MPI had lower scores than last year and lower than peer benchmark.

The relatively quick point on page 36 is the -- the scope of Project NOVA. And we just want to make the point that, while MPI is now distancing itself from this nebulous concept of -- of MPI 2.0, it does appear to have at least partly influenced the scope of Project NOVA and the direction of the Corporation as a whole.

And as we saw in this GRA, MPI 2.0 is a concept that was developed by former CEO, Mr. Eric Herbelin, with no internal stakeholder input. And we've -- we've cited there the Information Request where MPI confirmed this.

And we would also bring your attention to the Information Request PUB/CAC-20 which is at footnote 83 here, where Mr. Scott Greenlay laid out specific instances that he saw on the record, where MPI 2.0 was referred to and which, in his view, would indicate movement toward MPI 2.0. And then we've just included an excerpt from that specific Information Request, in terms of what does future business state mean in -- especially in the technology world.

We heard in evidence that MPI has discontinued IT projects, or least some IT projects, that are not -- that are unrelated to Project NOVA are deemed not critical, saving 11.6 million in the current fiscal. And MPI witnesses confirmed there is some chance that some of these projects have a higher return on investment that -- than Project NOVA. And so continuing with Project NOVA at all costs means that other IT projects which may have a higher return on investment for MPI and for ratepayers are not proceeding.

So on -- on page 38, this is what brings us to what we say is one (1) of the most critical questions from our client's perspective. Why hasn't MPI taken a step back on Project NOVA?

Given all these warning signs from both within the Corporation, in terms of budget increases, the negative NPV, the delays, the instability in the Corporation, as well as outside the Corporation, through PricewaterhouseCoopers, why did MPI not take the time to attempt to reduce scope and return -- sorry -- and return to a more reasonable time line and return on investment? That, we submit, is one (1) of the most important questions on Project NOVA.

Mr. Greenlay would have expected this, based on his experience, especially at the point in time when the net present value became negative. So Project NOVA, at that point in time, turned from a project that pays for itself over time to a project that is an investment. And so that's what we -- we've included his quote there, and it's exactly what -- what he says there.

And Mr. Greenlay also said:

"When you see risks relating to complexity, capability, capacity, the first thing to do is to reduce scope."

And so we're saying on this page different questions have to be asked when a project doesn't pay for itself.

To continue on that same question of why hasn't MPI taken a step back on NOVA, there's no evidence that the question of whether Project NOVA is a Lamborghini or a Nissan, no evidence that those questions have been asked.

And if -- Mr. Greenlay here put "this is an ambitious project" based on his experience. And then in the second quote towards the middle of the page he doesn't see the rigour about taking that step back to say, "what could we take out of scope?"

And another related question in terms of taking that step back is why hasn't MPI considered breaking down Project NOVA in smaller components? We heard from Mr. Greenlay that project size matters. And he -- he had an interesting response; I believe it was in response to my friend, Ms. McCandless.

"So 'better' is a very subjective word --"

He agrees with that.

"-- but smaller projects tend to be more -- we get them done on time, we get them done more within budget, they're easier on the people's side of the equation. So to me maybe that's better, right?"

So what our clients see here is willful blindness on risks. Despite all the acknowledged risks to the budget, MPI is not committing to a re-baseline of the budget. And, of course, they're waiting for this -- the Discovery of Release 3 for -- for that information to come in.

And so our clients are urging this Board to consider that now is the critical time to act on Project NOVA to ensure the success of the project and value for the Corporation and its ratepayers.

MPI's interim CEO indicated that:

"The Corporation is committed to full transparency on this project and to provide updates on project to the Board at our earliest opportunity."

Our clients say that is not enough for accountability on this project. Given the risks and uncertainty and the apparent lack of control over the project, just providing information next year will not be enough. Instead, a pause and a reset are needed to restore confidence in the Corporation's management of this project to demonstrate prudence of expenditures.

Just a couple of slides on Mr. Greenlay before we go into recommendations on Project NOVA. Our clients submit that he is a credible, independent, solutions-oriented witness. Mr. Scott Greenlay presented independent evidence to the Public Utilities Board for the first time this year. We note, of course, he was retained by CAC (Manitoba) last year as a consultant, but did not provide evidence.

Mr. Greenlay's report and his evidence and his oral testimony are the first third-party review of Project NOVA since October of 2022, when PricewaterhouseCoopers provided their last report, and it's the only independent evidence in this hearing on Project NOVA.

As you heard, Mr. Greenlay has decades

of IT experience working in and for public sector and private sector. We just -- in the third white bullet, we just confirmed there is area of expertise that was, of course, approved by this Board, prior to Mr. Greenlay given -- giving his testimony.

And, in our client's view, he's providing solutions-oriented recommendations that are geared to the regulator putting pressure on the monopoly Crown Corporation to demonstrate rigour and prudence in its IT expenses. And it's intended to restore confidence in MPI's management of the project and to increase the likelihood of value for MPI and ratepayers. We would say that is in stark contrast to what MPI would like you to adopt which is full steam ahead on NOVA at all costs without pausing to reassess after major changes in budget, NPV, and significant uncertainty.

In terms of how Mr. Greenlay's evidence was -- how MPI engaged with Mr. Greenlay's evidence, we would say that they barely engaged with the substance of the evidence. No Information Requests were asked by MPI of Mr. Greenlay. MPI did not file rebuttal evidence in response to Mr. Greenlay's evidence. They did attempt to limit his expertise, then took the highly unusual step of requesting that he not be qualified due to reasonable apprehension of bias, and of course that was not accepted. In our client's view, that is an implicit recognition of a credible and important witness, who, of course, is providing recommendations that are counter to those of the Corporation.

We'll note that the cross-examination by MPI did not focus on the substance of Mr. Greenlay's evidence, but rather clarified the implications of a single footnote. In our clients' view, the lack of engagement on the substance of Mr. Greenlay's report and what his recommendations mean for the Corporation is telling.

That leads us to our recommendations -- our client's recommendations on Project NOVA. As this -- as this Board knows, Project NOVA costs can only be reflected in rates if the Corporation demonstrates that they are prudent and necessary.

The PUB issued a strong caution to MPI last year, and it is not evident that MPI has demonstrated the reasonableness and prudence of Nova expenses. And as a result, in addition to the warnings that have been given, MPI requires guidance from this Board on how it can prove it cost -- its costs are eligible for inclusion in rates.

And so CAC (Manitoba) recommends to this Board the adoption of Mr. Scott Greenlay's recommendation to pause, de-risk, and re-scope. And his recommendation is a lot more detail than what we've included here, and I would invite the Board to see the full recommendation in Exhibit CAC-6 at pages 19 and 20.

But the recommendation boils down to pausing the work, de-risking, and re-scoping, and especially looking at whether it can be broken down into smaller components, reintroducing -- and as well as reintroducing financial measures and providing that accountability and rigour that this project desperately needs.

BOARD CHAIR GABOR: Sorry, Ms. Dilay, just a short question.

I'm trying to remember. It was put to him how long the pause would be. Am I right, he said six (6) months or was it --

MS. KATRINE DILAY: My recollection was three (3) to twelve (12).

BOARD CHAIR GABOR: Three (3) to twelve (12) months. Okay. Thank you.

MS. KATRINE DILAY: The next section we're starting here is IT expenses; prudence needed for IT expenses.

As we know MPI funds are ratepayer funds and so funds that MPI spends on a particular IT project, are then not available to spend on another project. Those funds are also not available to reduce premiums, and MPI must exercise prudence in how it spends ratepayers' money. At a high level, MPI agrees -- agrees that comprehensive business cases should be included for significant monetary expenditure decisions, including a decision-making criteria.

In our clients' view, there are concerns of accountability for IT expenses, in part, due to the pace of change. So, we've -- we've heard that there's a significant change in methodology for IT projects, and this is being done at the same time as the Corporation is undertaking a complex, high-risk modernization project.

And so this raises concerns about the ability of the Corporation to provide sufficient accountability for IT expenses, due to the pace and scope of change. And we've referred to Mr. Greenlay's testimony there as well, given the amount of stress on the Corporation.

We heard instances in this proceeding that MPI is still familiarizing itself with lean portfolio management which makes sense. They just switched, I -- if I'm not mistaken, last year. So the methodology has changed to the SAFe, S-A-F-E, framework and lean portfolio management, where funding envelopes are created and reallocations permitted, although we heard that's not the preferred approach and so the using -- the usage of funding envelope's currently under review.

And we heard that there's been a change where now a lean business case is provided with the epic, as compared to a detailed business case provided previously.

We heard that unallocated funds are lost and cannot be used in future years. And so, to our clients, this raises the question of over-collection for ratepayers -- from ratepayers for IT expenses that are forecasted and then projects don't happen or are not well defined.

Vitality projects is something that we heard quite a bit about from MPI, as well as Mr. Greenlay. MPI has indicated there does not need to be a defined return on investment for vitality projects and this is relevant to Project NOVA and other vitality projects.

Vitality projects are replacing

existing functionality in order to address risk, and so MPI indicated most vitality projects have a negative NPV value.

Interestingly, we heard from the independent expert, Mr. Greenlay, that he couldn't disagree more. In his view, MPI and stakeholders, including the regulator, should ask: What can we afford? What's the investment that we can make?

And I'll just make it clear, our clients are not necessarily saying you can never have a negative NPV but, rather, that the evidence has to be demonstrated that those questions have to be asked. If there's a project with a negative NPV, then what are those other benefits that you're seeing? Are there other options that might have a positive NPV?

There's just not that evidence showing the prudence of costs. And Mr. Greenlay recommends that even vitality projects should be subject to financial criteria to ensure the accountability of those projects.

At a -- at kind of an overall level, and we recognize, you know, benchmarking is not the be all and end all, but it is a tool that the regulator can use to assess the reasonableness of expense levels. And in IT benchmarking, Gartner found that

MPI's IT expenses are higher than peers without NOVA, and when you look at with NOVA, it's significantly higher, and 10.3 percent higher than peer average with NOVA.

In testimony, Mr. Greenlay clarified that digital transformation expenses would be built into those peer benchmarks. So, while MPI is asking you to look at the 'without NOVA' comparator, MPI's IT expenses with NOVA would actually be the appropriate comparator, according to Mr. Greenlay. And, so, Gartner's finding there would be that MPI is significantly higher in terms of IT expenses than private sector peers.

And that brings me to the second point on -- on -- on Gartner, is that it's only based on private sector firms; there's no public sector organizations. Those operate in very different market places.

And just the last point here is that IT expenses as assessed by AON are also higher in their report, as compared to the Canada personal auto benchmark, the Canada industry benchmark, and the US personal auto benchmark.

So, we've just excerpted a -- a slide from Mr. Greenlay's presentation here. MPI's operating reality, our clients would submit -- submit, means that it should not be a leading edge innovator. In some of the indications we're seeing, in terms of IT expenses, make us question what is MPI trying to be.

Unjustified cyber-security scores may be driving up IT expenses as well. We saw -- Mr. Greenlay, commented on this, and he outlined the scores in his report. And so MPI's cyber-security goal is four point two (4.2) in terms of rating. They are currently -- currently at two point four five (2.45). So, they're already higher than the public sector average, and the standard for insurance -- for the insurance industry is two point seven five (2.75).

And we just excerpted a part of Mr. Greenlay's testimony where he quotes the former CEO of Shadowbox when he stated:

> "You could spend your entire IT budget on cyber-security and still be hacked."

And so again, the questions that are being raised by our clients is: Why does MPI need to have a higher cyber-security score than the average? And then how is that driving up costs or is it? And what is the appropriate level of investment in cyber-security, given MPI's situation as a monopolistic Crown?

So over the last -- the next three (3) slides, we go on the topic of -- we talk about the rigour required in IT vendor processes.

So at a high level, there's not much debate that vendor management and processes are crucial. I think the question here is -- is MPI demonstrating -- demonstrating this?

Vendor management is crucial. Mr. Greenlay said if MPI is going to continue to use vendors which they obviously are, they must be excellent in this area. MPI's maturity scores in the Gartner results in vendor management have gone down since the previous year.

And so really the next three (3) slides are about -- MPI has to exercise and demonstrate rigour around defining and monitoring the work of vendors, and must be able to demonstrate the compliance with the statement of work to its regulator, to demonstrate prudence of expenses.

So in practice, there were some specific concerns raised by Mr. Greenlay about MPI's process in this area, for example, in the McKinsey statement of work and how it was drafted, whether it actually responded to what MPI needed or whether it was more driven by what McKinsey wanted to provide, as well as variances between the Deloitte and Avasant and MPI's actual expenses as they worked through NOVA.

And so I -- I'll go relatively quickly through the next two (2) slides. But, essentially, processes for vendor selection must be rigourous. And we've -- we've outlined there, agreement from the Corporation -- essentially agreement with Mr. Greenlay's report, in terms of vendor selection. And there also needs to be rigour around vendor delivery monitoring. Again, agreement from the Corporation. The Corporation agrees this has to be done and it's good practice. We're raising these concerns because it also has to be demonstrated to the regulator and to the public that this is being done.

And this last point, I made briefly earlier. IT benchmarking is a tool that can be used to look at, overall, whether IT spending and investments are appropriate at MPI. And it appears that MPI is deriving value from the Gartner exercise that has been undertaken over the last number of years.

For example, this year, MPI has reviewed and accepted the detailed recommendations provided by Gartner. But we just note that MPI's reality is as a monopoly Crown corporation, not as a private-sector firm which is what is included in Gartner. And Gartner did confirm in responses to Information Requests that it could, if -- if MPI asked, it could include public-sector organization as part of its report.

And so that brings us to our recommendations on information technology. Similarly to Project NOVA, IT costs can only be reflected in rates if the Corporation demonstrates reasonableness and prudence. And again, our clients submit that MPI requires guidance from this Board on how to prove that its costs are eligible for inclusion in rates. Again, here CAC (Manitoba) recommends the adoption of Mr. Scott Greenlay's recommendations.

And we just want to address one (1) relatively small point that I believe was made by our friends at MPI earlier. There was no suggeston -- suggestion from Mr. Greenlay that MPI should hold vendors financially accountable to what they had put in their reports.

Rather, what Mr. Greenlay was alluding to is an -- a rigorous exercise of vendor oversight and management, so going back to vendors to inquire where there's significant deviations between the work product of the vendor and what MPI is actually seeing in reality. There's no evidence that this was done. And as it's clear, we'll just direct you to the -- the -- Mr. Greenlay's written report for the -- the detailed recommendations relating to IT.

Moving on to the topic of staffing. In the 2023 GRA, the PUB warned MPI about too high increases to staffing. And the Government of Manitoba also warned MPI about high -- too high increases to staffing, and citing then Minister Goertzen that two hundred and fifty (250) new FTEs for '23/'24 was too high.

And despite warnings from the PUB and government, MPI is proceeding with an increase of over two hundred and seventy (270) FTEs over two (2) years. That's the years 2022/'23 and 2023/'24. And of course there's associated increases to compensation expenses directly impacting revenue requirements and rates. And CAC (Manitoba) submits this is too high, and we will explain why over the next few slides.

Right at the outset though, we want to acknowledge that there is uncertainty in compensation expenses. So of course we know that there's a collective bargaining agreement that's currently being negotiated, and so the budget forecast for compensation is likely to increase as a result of that. And then there's also impacts of labour interruptions on financial forecasts that MPI indicated are currently unknown. But, based on the evidence we've heard, it's likely to go both ways.

So MPI has indicated, yes, there will be some savings due to not paying staff during the labour interruption, but then there's also additional costs relating to interim staffing, overtime, and then addressing backlogs and project delays, claims severity, when things come back to normal.

MPI, of course, was not in a position yet to quantify those costs. That makes sense to our clients. The labour interruption is not over, and this information will likely be provided in the 2025 GRA. But important to note that there may be impacts going both ways: reductions as well as increases to budget.

We'll note as well that NOVA is one (1) of the driver -- one (1) of them -- of staffing increases. Resources form -- resourcing forms 53 percent of the NOVA budget, and incremental resources for '23/'24 is forecast as sixty-two (62). And so if the project is to be put on hold, as recommended by

Mr. Greenlay and adopted by our clients, this would assist in justifying also putting staffing increases on hold.

While not determinative in and of itself, recognizing differences between MPI and benchmarking peers, we do think benchmarking results demonstrate that MPI has higher FTEs than SGI and ICBC, and so it can corroborate a finding that MPI staffing levels for '22/'23 and '23/'24 are too high. MPI reports on FTEs per 100 million of gross premiums written, and they confirmed a lower ratio is preferred for this metric, and they have the highest FTEs among the Crown comparators in '21/'22, as well as in the latest report we had which was of Q3 of '22/'23, where MPI's results for this performance measure had actually gone up.

And then the other benchmarking report from Gartner suggests higher IT FTEs than peers, both with and without NOVA. With NOVA, 24.9 percent, so higher -- so MPI IT staffing being 24.9 percent higher than peers, significantly higher than the peer average as I believe -- as stated by Gartner, and then 19.2 percent without NOVA.

So again, benchmarking results are not determinative in and -- in and of themselves, our clients would submit, but they can corroborate other evidence of too high staffing levels. And we'll just note again the -- Mr. Greenlay's point that comparators in the Gartner report have already completed digital transformation, and so those -- that would already be built into the comparators.

And so in our clients' position -- our clients' position is that staff levels should reflect fiscal prudence. Given that MPI executive has been in flux for the past eighteen (18) months, and until MPI can demonstrate appropriate staffing levels based on a business plan, performance measures, productivity metrics evidence, staffing levels from '21/'22 would be more appropriate for rate-setting purposes.

And just in terms of like practically what does that mean? Our clients asked for rate-change scenarios in the Information Request CAC-2-12. And in cross-examination we confirmed that they -- in that IR, they compared normal operations to total corporate staffing levels, so it resulted in understating the compensation reduction and the resulting rate change.

So that led to an undertaking where they did compare corporate staffing levels, but we'll explain on -- on the next page, the rate change may still be under-estimated.

So in terms of our clients' recommendations on staffing expenses, MPI must demonstrate that its operating expenses are prudent and reasonable. And so CAC (Manitoba) recommends a reduction in expenses for rate-setting purposes of at least minus 0.54 percent -- so that would be the rate change to recognize that -- to recognize maintaining '21/'22 staffing levels.

And so we've -- we've included in a footnote here, essentially, Exhibit MPI-110, what our clients can see is that the only change made was to premiums -- was for premiums, and that no changes were made to any of the expenses, in other words, the claims expenses or the operating expenses, where our client would have expected to see the compensation expenses located. And so what they would recommend is essentially that MPI should -- should adequately reflect this change in their compliance filing with the Board.

Then the second part of this recommendation is an adjustment to the reduction in expenses to recognize that uncertainty with the collective bargaining agreement. And so what MPI -- our understanding of what MPI has built into their forecast would be salary increases of 1.88 percent in '24/'25, and 2 percent in '25/'26 for in-scope employees. And so we would recommend a 1 percent increase over that to recognize that the collective bargaining agreement is likely to be higher than 2 percent for the next few years.

So this -- on slide 63, we considered putting this topic as part of staffing because it is one (1) of the rationales for our clients' recommendations on staffing, but it was really important to our clients to keep it separate because it does apply more broadly to MPI's budgeting practices.

So there's no evidence-based performance-based budgeting practices currently. So they confirmed -- MPI confirmed that they -- they seem to have KPIs and Objectives and Key Results, but it's not integrated into budgeting practice.

And this lack of evidence-based budgeting raises significant concerns about the reasonableness of changes in their operating budget in this GRA, especially as it relates to staffing, in our clients' view, where they're requesting -- or they're proposing large increases over two (2) years.

And, so, in terms of a -- in terms of

what the PUB could do about that, we do note that, in the past, in the hydro context, the PUB has encouraged the use of stretch targets to mitigate inflationary pressures and has also emphasized the need for evidence-based information to support operating expenditure decisions.

So, then, that leads us to CAC's recommendation on budgeting process that, in the '25 GRA, MPI should be directed to demonstrate progress in tying performance measures to budgeting practices, in order to justify changes to its operating expenses, on an evidence-based basis.

So, moving on to the topic of benchmarking. Benchmarking exercises can bring value to the Corporation and its ratepayers, by providing a sense of how well a company is doing and identifying opportunities for improvement. And we confirmed that -- that with MPI's witnesses.

And, specifically, for MPI, as a Crown monopoly, which does not operate in a competitive environment, benchmarking reports can assist the regulator, the Public Utilities Board, in examining whether MPI's expenses are reasonable and, in fact, the PUB has previously found that it views benchmarking as an essential exercise undertaken as a matter of course in a well-run corporation.

MPI has also recognized the value that benchmarking can bring and, here, we're talking about operational efficiency benchmarking, which relates to the capacity of MPI to deliver products and services to Manitobans in the most cost-effective manner possible, while ensuring the high quality of MPI's products, services, and support.

And MPI has previously acknowledged the value of these benchmarking exercises to identify and quantify its performance and to identify opportunities for future improvement.

MPI witnesses agreed that in order to bring value benchmarking should be data driven and include items that are relevant, unambiguous, and measurable, provide measurement against a group of appropriate peers, in that they should have relatively similar characteristics, and measure performance over time. However, it appears that, currently, MPI is not getting much value from its operational efficiency benchmarking. So, we're not talking about Gartner here. We're talking about the -- the combination of the Crown benchmarking and the AON benchmarking.

So, MPI states that Crown bench -- Crown benchmarking does not provide it with insights into actions that it can take, because it can't be easily compared to peers. So, there's no -- there's no objectives that are set for the Corporation, based on those exercises. The AON report didn't have recommendations or actions from the report. So, there was no need for an implementation plan for MPI or action on that report.

We would note that inconsistency in operational efficiency benchmarking -- that there's been some inconsistency, in terms of who they retained to do their reporting and what do they report on, in terms of this benchmarking. So, there's no ability to measure performance over time. And MPI has admitted it's still figuring out the best way to get value from benchmarking.

In our clients' view, benchmarking should not just be a check box on a check list but, instead, MPI should -- should demonstrate value and consistency from the benchmarking exercises it undertakes.

So, it could become a strategic and useful tool for -- I should say tool for MPI, the regulatory process, and Manitobans more generally. It could -- it should lead to recommendations and actions for improvements. Otherwise, why are we doing it?

And it should look at comparable performance measures over time, in order to track process, and we would points (sic), as I mentioned before, our clients see the IT benchmarking by Gartner as an example of good benchmarking practice, appearing to bring value to the Corporation, where you have recommendations, an implementation plan, and you track process over time.

In our clients' view, Ms. Schubert, if we could just go back again for -- thank you -- value and consistency from benchmarking exercises should be demonstrated before discussion of removing benchmarking from the issues that are reviewed in this GRA could be had.

And just as a -- as a final point before recommendations here, sort of linking benchmarking to those performance-based or evidence-based budgeting process, benchmarking already compares MPI's performance on certain activities; they already track that. And then they compare it to their -- to comparable entities.

And so certain of the activities from MPI's benchmarking activities are already effectively gauging the Company's overall short-term and long-term performance and could assist in developing those -- those other performance-based objectives.

And so in terms of recommendations on benchmarking, given the value that can be obtained from these types of exercises, including for the regulatory process, MPI should be directed to continue to undertake the Crown benchmarking exercises, continue to retain a third-party vendor who should identify areas of improvement and prepare an implementation plan, and that part could be MPI or the vendor, consider using some of its benchmarking performance measures as part of it -- part of its work on linking KPIs and OKRs to budgeting practices, and track and monitor progress consistently and report to the PUB.

And our clients would say, once MPI demonstrates that they have consistent operational efficiency benchmarking and it's bringing value to the regulatory process, then perhaps discussion around whether the issue should be moved to every two (2) or three (3) years could be had at that point.

This is a very short point, but our clients noted with concern that there are significant uncertainties flagged by MPI regarding Cityplace renovations and associated expenses.

So I won't go into detail, but, essentially, there's a lot of uncertainty about the return to work and the hybrid strategies, as well as the office -- the space available for employees to work.

And so the last point is that there's significant uncertainty associated with Cityplace renovation costs currently estimated at 1.5 million, but that could be a lot higher.

And so really the only recommendation here is that, given the impact of this on ratepayers, MPI should be directed to report back on its final strategy and what its associated expenses will be for purposes of the reasonableness of revenue requirement.

And you'll be glad to know you can get a break from me. Mr. Klassen will touch upon the next topic, which is road safety.

MR. CHRIS KLASSEN: And it will only be a short break. The last section of our presentation on MPI's expenses relates to road safety.

And, as this Board heard during the hearing through evidence over the last number of weeks, road safety is of significant importance to MPI's customers, and Manitobans more broadly, for two (2) reasons.

One (1) and perhaps most obvious is that it contributes to saving lives and preventing injuries. And I expect that that's an objective that all of MPI's stakeholders can get behind together.

But second -- secondly, it's also important for the rate-setting process in terms of claims avoided, both through collision and injury, which leads directly to lower claims costs.

CAC (Manitoba) notes further that MPI is uniquely positioned in Manitoba to leverage the data that it collects on road safety through partnerships with stakeholders to improve road safety outcomes for all of Manitobans and that that creates opportunity but only within the bounds of prudent spending.

For the purpose of this General Rate Application, in CAC (Manitoba)'s view, the proposed road safety expenditures for the test year appear to be reasonable. CAC (Manitoba) notes with appreciation the removal of the $2 million unallocated fund which was referred to in last year's road safety technical conference, memorably as the road safety slush fund.

And we look forward to prudent budget planning in the road safety portfolio in the future. However, in order for that planning to take place effectively, ongoing engagement is necessary to achieve both safety outcomes and optimization of investment for purposes of rate-setting.

And to achieve those outcomes, CAC (Manitoba) reiterates its longstanding view of the significant value in the Road Safety Technical Conference exercise.

This biannual event, at least in recent experience, has offered in-depth mutual learning on both MPI's initiatives and their outcomes and also serves to facilitate helpful collaboration and information sharing between road safety practitioners.

And so for the purposes of spending, CAC (Manitoba) suggests that the proposed road safety budget in this proceeding should be considered reasonable.

But with respect to the Board's direction in the last GRA to MPI to collect feedback from stakeholders on the importance and the -- the ideal frequency of road safety technical conferences, the Corporation's words from last year were ringing in our clients' ears.

We recall with concern the consideration MPI was giving to the possible value of road safety being addressed outside of the GRA process. CAC (Manitoba) notes that road safety is important for many reasons, one (1) of which is road safety -- sorry -- one (1) of which is rate-setting.

And it's for that reason that CAC (Manitoba) recommends that the Road Safety Technical Conference continue to take place every other year and that road safety and loss prevention issues receive close attention in every other General Rate Application.

MS. KATRINE DILAY: I'm sorry. That was a very short break from me, but you will get another break in approximately just under twenty (20) slides.

So we're moving into part 3, so we're done the -- the biggest part. And the first issue that we're talking about under part 3 is, essentially, financial health of the Corporation and the management of its reserves.

Our clients want to start this section by identifying that the assessment of the financial health of the Corporation, which is an integral part of rate-setting, has now been removed from PUB authority.

Historically for MPI, the assessment of the financial health of the Corporation has included the setting of appropriate reserves in the Rate Stabilization Reserve.

And, of course, with the legislative changes to the MPIC, the Manitoba Public Insurance Act in November of 2022, this integral element of rate setting was removed from the Public Utilities Board authority.

And so our clients go -- are going to spend a bit of time talking about this. Given the timing, the changes were implemented -- or came into effect during the hearing last year. This is really the first opportunity that our clients have had to see what the impact is of those changes on the rate setting process and MPI's approach to managing -- proposed approach to managing capital.

And we'd suggest that the impacts we have seen, and we will go through them, are to the benefit of the Corporation and its financial health and to the detriment of both the independent rate-setting process and to the detriment of MPI's captive ratepayers.

So what is the purpose of the Rate Stabilization Reserve? It's protection from rate shock. We see that here. So it acts as a cushion. And we -- we confirmed this in cross-examination with Ms. Low. It acts as a cushion against bad weather, of course, subject to reinsurance, and we're careful to say that as -- as Ms. Low appropriately identified.

It's a cushion against high inflation and resulting sharp drop in value of bond portfolio -- these are just examples -- but it's also a cushion against imprudent management, such as drastic increase in operation expenses.

So it's protection, and it's meant to stabilize rates and keep them relatively constant.

Of course, intergenerational equity is relevant to the Rate Stabilization Reserve level determination because excessive reserves are unfair to past ratepayers -- they would have to pay too much towards that reserve fund -- to the benefit of future ratepayers who will be able to benefit from a drawdown in reserves.

And so, of course, this represents an opportunity cost to customers because customers, or ratepayers, could use their share of excess reserves whether they receive it through a rebate or whether they just don't pay it to MPI. They could use that for other purposes such as paying down credit card debt or mitigating the rising price of food.

As this Board will know, the Rate Stabilization level -- Rate Stabilization Reserve level has been determined by the PUB through a variety of methods, including percent of premiums, value at risk, or the risk analysis method, and more recently, the Dynamic Capital Adequacy Testing.

Overall, the goal of the Board as our client understands it has been to set the RSR level at a level that balances interests of the Corporation in having a financial cushion to protect from rate shock. We -- we understand and acknowledge and appreciate that risk -- or that goal, but it has to be balanced against the interest of ratepayers to have that extra money in their pockets to address other needs.

And we just note here that the 120 percent MCT that is now found in legislation was never found appropriate for rate-setting purposes by this Board.

And our clients also note that when the PUB approved the use of the Minimum Capital Test as a methodology in the 2020 GRA as part of the Capital Management Plan, that was approved on a trial basis for two (2) years and then extended by one (1) year.

So, now capital levels are set in legislation, through changes to the Manitoba Public Insurance Act. We've listed them there. And as I said, that's removing an integral element of rate-setting from the PUB Authority.

Just a little bit -- our clients definitely want to touch upon the use of the MCT. As -- as this Board will -- will know our clients have advocated against using this -- this tool and so we just want to touch briefly on why.

The Minimum Capital Test is a tool that's used by the Office of the Superintendent of Financial Institutions or OSFI, to ensure a property and casualty company maintains adequate capital and adequate forms of liquidity.

It's also one of several indicators to assess an insurer's financial condition. So, MPI first followed the MCT by choice and now it's in legislation and our clients did note, with interest, that it appears MPI assisted in drafting the legislative changes that came into effect last year.

And so, it's -- our clients just want to remind the Board that MPI is not regulated by OSFI. It's a monopoly Crown Corporation. And OSFI's goal in regulating is to ensure that companies have sufficient reserves to weather an adverse year, which include a lost of ratepayers if they go to other competitors and still meet the obligations of their insured, so of their remaining clients.

For companies in a competitive

environment, they must be mindful of the impact of rates. And I would add of -- of decisions, management decisions, that they make, they have to be mindful of the impact of that on whether customers will stay with them or move to a competitor. And these companies also don't have the implicit backing of the Province of Manitoba in the event of a bad year.

Of course, this Board knows that the same considerations do not apply to MPI as a monopoly Crown Corporation that's regulated by the PUB.

Customers do not have a choice but to purchase Basic insurance from MPI. They cannot go anywhere else, if they are unhappy with MPI's service or MPI's management decisions, or MPI's rates.

So, moving to the Capital Management Plan as proposed by MPI, under the proposed Capital Management Plan which, of course, is under the legislation, the PUB cannot order a rebate unless MPI applies for one.

Our clients note this is in stark contrast to the PUB's authority to set just and reasonable rates, where the PUB can order a rate increase or a rate decrease, even if MPI seeks no rate change.

And, actually, this is the situation we

have here where MPI is seeking zero (0), but the PUB has confirmed that they could -- they could order an increase or a decrease.

So, essentially the proposed Capital Management Plan, and the legislation requires customers to trust that MPI will apply to the PUB for a rebate when the Basic MCT ratio exceeds 120 percent.

And so, our clients note with alarm, that the PUB essentially no longer has any jurisdiction over MPI's capital reserves, despite the financial health of the Corporation, being an integral element of rate-setting.

For our clients, this Board, MPI all recognize that the PUB does not have direct jurisdiction over Extension as a competitive line of business, however, in the past few years, the proposed Capital Management Plan, by MPI, has implicitly recognized the benefit that Extension receives from Basic. And we canvassed this in cross-examination by MPI.

95 percent of Basic customers also purchase at least one (1) Extension product, translating to about 80 percent of eligible policies with an Extension product and so, those customers are essentially the same individuals. Extension receives

a benefit from its relationship with Basic through the seamless shared service delivery. Extension has the same access to customer information. There's no structural separation between the two (2) lines of business.

And, it's probably the case, that many Extension customers are not aware that they actually have competitive options when it comes to Extension.

Despite these benefits, that were acknowledged, MPI confirmed multiple times on the record of this proceeding, that it is under no obligation to transfer Extension excess reserves to Basic and could, instead, transfer to other lines of business, thus removing potential rebates to Basic customers. So, our clients see that as a significant risk to Extension reserves.

And, of course, MPI has a history of transferring funds from Extension to the Driver and Vehicle Administration line of business, including a hundred and seventeen (117) million in 2021 and '21/'22. And, so it's not unreasonable to think that they will do it again.

And this is even more worrisome because there's no long term funding solution for other lines of business and the -- the main one we want to talk about here is Driver and Vehicle Administration.

So, the Government of Manitoba, directed MPI not to transfer funds from Extension to DVA for two (2) fiscal years in '22/'23 and '23'24, but we -- we confirmed this Directive does not apply to future years. And the current capital that's in DVA will not last forever. That was also confirmed.

The Government has neither provided any guidance to the self-sufficiency of DVA to MPI, nor has it indicated when such guidance will be provided.

And so I've -- I've already alluded to this, but over the long term, the existing capital available cannot in and of itself sustain the DVA line of business as it's currently operating.

And, so, it's clear that DVA will require additional funding and so will Extension reserves, which should benefit Basic ratepayers under the CMP, the Capital Management Plan, because of that benefit that that line of business receives, are at significant risk.

And this is a -- a relatively short point, but worth noting, that our clients didn't see and -- and they confirmed this, that there was no official policy for funding capital shortfalls for Extension and for Special Risk Extension.

So, it's clear that, you know, there are levels set in legislation and for Extension, at least, once it's above that capital target, then it gets transferred out, wherever it goes, maybe Basic.

But it's not clear that there's no -- there's no policy, rather, for what happens if there's a capital shortfall. Where is that money going to come from? And so, to our clients, that's another risk to Basic ratepayer funds, that they are noting with some concern.

On the next few slides within the issue of management of capital or reserves, we addressed the issue of a potential rebate.

So, we heard that the RSR level is at a hundred and thirty-five point five (135.5) MCT, according to re-stated IFRS-17 numbers, but no rebate application is to be seen.

MPI has cited the lack of audited financial statements and specifically uncertainty relating to the MCT calculation. And it was noted, I believe it was by Ms. Low, that this could have an up to 10 percent swing in the MCT.

And, so we understand that to mean a 10 percent swing, in that one hundred and thirty-five point five (135.5) number, the re-stated number that is uncertain. So, I just want to keep that in mind as we move through this section.

Despite MPI's evidence that it is still finalizing its MCT calculation under IFRS-17, what we saw in the independent financial condition test, by Ernst & Young, we saw that MPI's financial strength is considerable and significant. And we've excerpted there from that report.

And the last point here is that the FCT report states that the -- I'm sorry, the Financial Condition Test report states that the MCT is forecasted to remain above the Company's target level of 100 percent MCT by substantial margins.

And the Board will remember that those future years, the FCT report looked at, were re-stated IFRS-17 numbers.

And, so, our clients looked at this and said, okay, well, is it -- is a rebate desirable? And they came to the conclusion that, yes, it is. This is because of four (4) reasons:

First, MPI's evidence that it expects the MCT at fiscal year end, '22/'23, when its audited under IFRS-17 numbers, to be higher than the 111 percent under IFRS-4.

So, we're going to be higher than a

hundred and eleven. The number -- the tentative number that we have, under IFRS-17, is a hundred and thirty five point five (135.5), with the potential, up to 10 percent swing. So, it could actually be 145.5 or it could be 125.5, but our understanding is, you know, up to 10 percent swing, the lowest that it -- that it would be, based on Ms. Low's estimate, would be 125.5.

The third consideration is the considerable and significant financial health of the Corporation, as we just discussed from the Financial Condition Test Report, and the fact that there's no legislative requirement that rebates be based on audited statements.

However, recognizing that uncertainty, and the MCT calculation that MPI witnesses discussed, it may not be prudent for a rebate going down to a hundred percent MCT, but a rebate going down to between a hundred and ten (110) to a hundred and twenty (120) percent, somewhere within that, would better balance the financial health of the Corporation with the needs of ratepayers than no rebate at all, and we've just -- we had confirmed some of those numbers on the record.

So, it would be between 52, almost 53

million -- between 53 million and 121 million, somewhere within that range. And, of course, Ms. Nelko, for the Taxi Coalition, confirmed with MPI that there's no legislative rule that a rebate must rebate down to 100 percent; that's just MPI's preference for consistency.

A relatively quick note here. We will not have a recommendation on this particular point, but it just is there to highlight how the issues with the MCT -- with relying on the MCT are exacerbated, we think, by this point.

The MCT guidelines do not reflect the benefits of asset class diversification. So, MPI has taken steps to reduce portfolio risk in its investment portfolio to reduce portfolio risk but, because of the mechanistic MCT, it's a formula-driven ratio, the steps that MPI has taken actually cost customers more to maintain capital adequacy.

The capital charges associated with the new Basic claims asset classes have increased the market risk component of the MCT by 65 percent and, so, there are -- we have a quote there from Mr. Bunston. There are some asset classes that help to reduce risk and surplus volatility, but their capital charges don't reflect that and, so, it's just another point. Capital requirements add to customer burden, delay capital rebates, and inaccurately reflect risk.

And, so, this leads us to our recommendations on the capital management plan, but, more generally, relieve the management of reserves, and we have three (3) pages of recommendations on this topic, but -- but I'll note just the importance of the issue for our clients, given my -- my first comments about the integral role of financial reserves and financial health in rate-setting.

So, the first page here is recommendations for this GRA. So, our clients would, first, ask the PUB to recommend that MPI apply for a rebate to bring the MCT down to between a hundred and ten (110) to a hundred and twenty (120). To -- to balance that uncertainty would be 135 percent, but, also, the considerable financial strength of the Corporation, including going forward.

And our clients would recommend the PUB not approve the capital management plan proposed by the -- the Corporation, because MPI has failed to provide a satisfactory plan for the long-term funding of DVA, therefore, jeopardizing Extension reserves and prospective Basic capital rebates, and the CMP is premised on the statutory removal of an integral element of the PUB's rate-setting authority.

BOARD MEMBER BOULTER: Can I ask you a quick question?

MS. KATRINE DILAY: Of course.

BOARD MEMBER BOULTER: On Slide 89, you talk about the 10 percent swing. Is that on 135?

MS. KATRINE DILAY: That was our understanding. Our understanding is that the 111 percent MCT that was under IFRS-4 was audited. That was final and, so, where the uncertainty is is on 135.5, restated under IFRS-17, and -- and Ms. Low indicated up to a 10 percent swing. So, we understood that to mean it could be between 125.5 and 145.5.

BOARD MEMBER BOULTER: So, 10 percent swing on 135, would that be 13 percent? I'm not good at math.

(BRIEF PAUSE)

MS. KATRINE DILAY: Ms. Boulter, we appreciate the question. Our understanding was that it was at 10 -- 10 percentage points.

BOARD MEMBER BOULTER: Oh, okay.

MS. KATRINE DILAY: That was our understanding of the evidence that was given. If we misunderstood, we -- we hope MPI would correct us.

BOARD MEMBER BOULTER: Okay. Thank you.

MS. KATRINE DILAY: And so continuing to the second page of our recommendations on Capital Management Plan, we would ask the PUB to consider making recommendations to the Government of Manitoba that the full independence of the PUB should be restored, and that includes two (2) components:

Capital targets should be removed from legislation to recognize the integral role of capital requirements and rate setting.

And the requirement for MPI to apply for a rebate should be removed from legislation to recognize again the integral rate-setting rule of the PUB. The PUB's authority to vary relief sought by MPI should apply equally to capital as to rates.

And finally, another recommendation for government, would be that government and MPI should work on a long-term, self-sustaining funding strategy for DVA including updating the 2004 master agreement. This long-term strategy should be reviewed every year so we're not in the same situation, and should reflect the responsibility of taxpayers to pay for DVA as opposed to MPI ratepayers.

And finally, on that short point I talked about earlier, a recommendation that we would ask the PUB to make to MPI, would be that MPI should develop a long-term strategy to ensure that Extension and SRE, Special Risk Extension, remain capitalized without any reliance on Basic ratepayers.

And I'll turn it over to Mr. Klassen for our section on investments.

MR. CHRIS KLASSEN: Turning our attention now to the evidence canvassed over the last couple of weeks regarding MPI's investment portfolio, CAC (Manitoba) wishes to highlight two (2) themes that emerged.

1. Lessons learned.

2. Missed opportunities.

And we note that both come at customers' expense.

And before getting into the discussion in this section, we reproduce here on this slide an excerpt from the most recent Board Order -- not the most recent Order, but the Board's Order following the most recent GRA, Order 4 of '23, confirming that the Board's role with respect to investments is one of oversight.

But instead of minimizing the -- the

importance of this consideration, we note that the Board's review of MPI's investment portfolio is both critical to the Board's examination of the overall financial position of the Corporation and an important consideration in the assessment of the reasonableness of the rate request.

Beginning first with lessons learned. Much time and attention has been paid over the last number of weeks to the changes made to MPI's investment policy statement, as a result of the recent asset liability management study conducted by Mercer which was ultimately implemented in changes to the policy statement that were approved in March of this year.

And many of those changes, at least with respect to the Basic claims portfolio, boil down to the implementation by Mercer of a real liability benchmark in the asset liability management study, which means that, for the first time in recent memory, MPI's ALM study was not assuming that inflation would stay constant forever, but recognized that inflation might change.

Unfortunately, in CAC (Manitoba)'s view, that was a reactionary decision that came too late to mitigate significant losses in the bond portfolio in both 2021 and '22 and 2022/'23. And we'll note briefly that CAC (Manitoba) first recommended the use of a real rather than nominal liability benchmark in 2018 to mitigate inflation risk, and has been continually reminding MPI of that recommendation since.

And so following two (2) years of concerning performance, related to the mismatch between inflation and the design of MPI's bond portfolio, in March of this year the investment committee made the decision and approved the recommendation to evolve the Basic claims portfolio to include inflation-linked bonds which we understand to be real return bonds.

However, it was confirmed before this Board that the lack of the inflation hedge in the Basic claims portfolio persists and continues to cost ratepayers, and will continue to cost ratepayers until MPI has fully implemented the changes approved in its investment policy statement change.

And the conclusion that this brings CAC (Manitoba) to is that MPI's past inflation assumption, being the nominal liability benchmark, caused hundreds of millions of dollars and counting in losses in the bond portfolio across three (3) fiscal years.

This was a risk taken by MPI without prospect of reward. In CAC (Manitoba)'s view, it constitutes a significant misstep, and we hope that it serves as a long-standing reminder to the Corporation of the need for prudence, and the importance of taking only the right risks weighed properly.

Moving on to missed opportunities. We see a pattern in the decisions made by MPI governing the management of their investment portfolio of the Corporation taking advantage of opportunities to reduce risk at the expense of returns, absent support in changing risk tolerance. We note that it's on the record of this proceeding that MPI's investment risk tolerance remains materially unchanged since the time before, not just the most recent ALM study, but the second past ALM study. And after that study and the most recent study, we see examples of MPI choosing to reduce risk at the expense of reward.

And we see this illustration on the screen here which received quite a bit of attention earlier this week: The move from the green dot labelled 'current' to the mid-point dot on the red line involves, as we see in the black text, both less risk and more return.

And we note that, as was explained

earlier this week, any of the number of points along the red line between 'D' and point 'B' could have been choices made by MPI that sacrificed less risk and earned more return. And we note that this is a pattern in MPI's investment management, dating back both of the most recent ALM studies.

Reducing risk has an opportunity cost, and MPI's actions are demonstrably at odds with its risk tolerance and customers' interest in reasonable returns. And we note for the Board's consideration that these effects compound over time, and real costs to customers are accumulating.

Lessons are learned in the past, but with respect to MPI's investment portfolio management, we note that there is opportunity for improvement in the future.

Our first recommendation with respect to investments is that this Board find that MPI's continued reduction of risk, absent parallel reductions in risk tolerance, that it is not prudent and that it has a cost to customers.

(BRIEF PAUSE)

MR. CHRIS KLASSEN: Ms. Schubert,

would you mind taking us back to slide 99, please.

I apologize for this, Madam Chair. I missed a slide before getting to recommendations, so I'll just address this point very quickly.

This Board may hear more tomorrow from other Interveners about the importance of -- of additional asset classes in its Basic claims portfolio. But we note for the Board's information that it's on the record of this proceeding that it was confirmed in cross-examination that small amounts of equities can be added to investment portfolios with immaterial impacts on risks, and that responses to Information Requests confirm that many of the risks cited by MPI in persisting in its reluctance to add equities to the Basic claims portfolio are confirmed to -- that it's possible for them to at least be partly mitigated. And so MPI's continued reluctance to meaningfully consider a cautious introduction of high-earning assets is another missed opportunity with cost to customers.

And back to slide 100. Thank you, Ms. Schubert.

Our second recommendation with respect to investments is that the Board recommend that MPI's continued development of its asset liability management program more closely reflect the recommendations made by Mr. Valter Viola, adopted by this Board in Order 162 of '16, including in particular his comments on avoiding costly constraints.

MS. KATRINE DILAY: So our -- we're now on slide 101. And you'll be happy to hear this will be the last large section of our presentation. After this, we'll have a few short sections before ending.

So on this slide here we present some high-level context on the importance of claims forcating -- forecasting. It is the most critical assumption in the rating process. One (1) small change in claims trend can have a significant shift in the indicated rates and what MPI needs to charge customers. And we heard that from Ms. Low.

What we heard also from Mr. Sahasrabuddhe is that claims costs are the largest component of premiums, and then within that there's different coverages that form a bigger or smaller share of the total claims costs, with collision being the largest percentage of claims costs at 59.17 percent. And so depending on the coverage's share of claims costs, small adjustments can make a big or small difference.

Our clients note with appreciation enhancements that have improved MPI's claims forecasting since 2023 -- since last year. And, of course, this was discussed by MPI. It was also discussed by Mr. Sahasrabuddhe. There is a new actuarial group called the Business Insight Analytics Team monitoring, reviewing, and projecting claims trends. And then Oliver Wyman looked favourably upon specific methodology enhancements made by MPI.

Mr. Sahasrabuddhe indicated that those methodology enhancements reflect what they have seen in other provinces, and so we've list -- listed them there for your consideration.

Mr. Sahasrabuddhe also noticed -- or noted improvements to loss trend methodology. So he noted that -- the improvements favourably. The only point he made of caution was that it does make it more difficult to compare to prior years.

So on the next two (2) slides -- Ms. Schubert, if we could -- perfect. Thank you.

So actuarial judgment can be appropriate, but our -- our clients just caution that conservatism in assumptions and judgment comes at the expense of ratepayers. And so my friend, Ms. -- Mr.

Guerra also referred to this, that claims forecasting is truly an art and a science, but when it comes to -- and so includes the math as well as the art or the judgment -- but when it comes to the balance between ratepayers and the Corporation, judgment that is too conservative comes at the expenses of ratepayers because it means that more money will be required to pay out the claims. And in some cases, we note that actuarial judgment is applied to select the most appropriate future trend -- future trend rate for the forecast period.

And Ms. -- Ms. Low confirmed in the excerpt we have here, of course, that conservatism isn't good for ratepayers, but optimism can lessen a rate deficit, but you -- you get away from rate stability. And so forecasting, you're really trying to get to the best estimate, and that was confirmed by Ms. Low.

So I'll spend a little bit of time on this page. But I think then I will be able to move quicker through the remainder of the pages, sort of similar to what Mr. Sahasrabuddhe did in his presentation, where he kind of grouped issues, talked about them, then moved quickly when issues repeated themselves.

So what we heard this afternoon -- this morning and this afternoon from MPI is that if MPI's estimates are within a range of reasonableness for claims forecasting, it should be accepted by this Board. So it appears that MPI's argument boils down to: This is good enough. If it's reasonable, it's good enough.

In CAC (Manitoba)'s view, this is absolutely not good enough. The PUB's role is to set just and reasonable rates; there's only one (1) rate that is set. And so in -- in order to appropriately balance the interests of the Corporation and the interests of ratepayers, the best, the most reasonable forecast, should be selected. Nothing short of the best estimate should be used.

And in our client's submission, based on the independent expert that -- that they had the opportunity to present to this Board, some but not all, some of the assumptions used by MPI in this GRA are not best estimates. And the result of not using a best estimate, in this case anyways, is that it leads to an excessive cushion for MPI at the expense of ratepayers.

And, of course, our clients note, if -- if the best -- if the estimates went the other way, then it would be too optimistic and MPI would not be collecting enough. But here what we heard from the independent expert is that it's going to lead to an excessive cushion: They're going to collect too much.

So at a high level, MPI indicated that for all the issues that Mr. Sahasrabuddhe canvassed, that he agreed MPI's approach was reasonable. We will actually point out that for one (1) of them, Mr. Sahasrabuddhe said MPI's approach was unreasonable, and we'll get into that in a couple of slides.

At a high level, some of the issues that came up in Mr. Sahasrabuddhe's evidence is, first, that premiums should not be increased based on uncertainty. So, yes, there is uncertainty in MPI's future, but premiums should not be set based on uncertainty. That is just not a best estimate.

A second high-level issue that this Board heard is that frequency and severity should be based on the same time periods. This should be the default. And the reason cited by Mr. Sahasrabuddhe is that these are not independent variables.

And the third high-level issue that you -- you will see a few times come up is that a single model for trending is preferable to two (2) different models. And you -- this Board probably remembers the visual of the disjointed model where the lines -- MPI used two (2) models, and so the lines didn't actually connect. That results in a -- in a disjointed model.

The other issue with using two (2) models that Mr. Sahasrabuddhe talked about, is that one (1) of the models was based only on three (3) data points and, therefore, that seriously questions the credibility of that second model.

So what we heard in MPI's submissions this afternoon -- or this morning, I'm sorry, I can't remember -- is that, so MPI in cross-examination tried to demonstrate that the selection MPI made for trends were better than those selected by Oliver Wyman, right? They were comparing that R-squared -- combination of R-squared and 'P' value, saying, Oh, yeah, it's better.

But we would bring -- and I'm sorry, I don't -- I don't have the reference in this slide, but I would -- for the -- for purposes of the record, we would like to bring the Board's attention to the transcript at pages 2,080 to 2,081. And, Ms. Schubert, I don't think you need to go there; it's just for reference.

In cross-examination by Mr. Guerra of Mr. Sahasrabuddhe, by our count, MPI attempted to get

Mr. Sahasrabuddhe to agree seven (7) times that you could just compare the R-squared and 'P' value and say one is better than the other. But Mr. Sahasrabuddhe did not agree. What he said is, Well, no, actually, you can't compare them directly because it's a different data set. And he established that very clearly in his response. It's a different data set, and so there may be more volatility around the data.

And so that's a technical point we would just like to draw the Board's attention to, in terms of Mr. Sahasrabuddhe responding to a line of questioning and then confirming: You can't look at those numbers; they're just not comparable.

And so our clients will rely on the recommendations and the evidence provided by Oliver Wyman. And they would ask this Board to give significant weight and to adopt the recommendations of Oliver Wyman, given that they are credible, experienced, and evidence-based. Of course, they provided -- their team of experts provided written evidence.

And Mr. Rajesh Sahasrabuddhe testified before the Board their team has experience in almost all Canadian provinces reviewing rate filings. They estimate that they review approximately seventy-five

(75) Canadian rate filings per year, that's in addition to certain US rate filings. And they -- they confirmed in their report their duty to be fair, objective, and non-partisan. And we note that no rebuttal evidence was filed by MPI.

And so Oliver Wyman, in their report, noted the favourable enhancements implemented by MPI, but they did identify very specific issues that they take issue with; with accident year weightings, as well as alternative trends that would be more reasonable and appropriate.

And again, we just note multiple approaches can be considered reasonable, but for our purposes we're looking for the best estimate to have that appropriate balance between ratepayers and the Corporation. And, in our client's view, the Oliver Wyman recommendations, based on their extens -- extensive experience reviewing rate filings are more reasonable and appropriate and are a best estimate and as a result better balance the interest.

We have a few pages on accident year weights. This was, of course, the most material issue identified by Mr. Sahasrabuddhe.

This Board will recall for coverages where the impact of the change in mobility during the

COVID-19 pandemic is significant, MPI proposes to assign no weight to 2020 and then 20 percent weight to all other years from 2017 -- 2020.

And MPI's proposal, in our clients' view, does not recognize actual experience relating to snowfall, with 2020 being a good year and 2021 being a bad year. It does not recognize best practice relating to experience periods, with six (6) years being too long.

And it also does not recognize the uniqueness of both the 2020 and 2021 years, resulting from the COVID-19 pandemic.

And we'll just break those three (3) issues down over the next couple of pages.

So, regarding snowfall, Mr. Sahasrabuddhe's evidence is that, MPI's frequency models, frequency regression models over predict the 2020 observation and under predict the 2021 observation.

And so MPI's approach, Mr. Sahasrabuddhe indicates, only includes the bad year and not the good year. And he said the loss cost should represent the average, not unusually good or bad years if we want protection to be equitable.

And so we've excerpted there what --

what they find and it's that both '20 and 2021 better reflect the average snowfall levels that would be expected in a normal year.

In terms of the experience period, MPI effectively uses a six (6) year experience and Oliver Wyman noted that rate filings that they review and recall that's approximately seventy-five (75) per year, consider the most recent three (3) to five (5) year as the experience period to which weights are assigned.

And, I'll just clarify my comment there, because he talks about those for insurer -- insurers with higher premium volumes, such as MPI. So, to be fair, the -- the seventy-five (75) probably don't -- are not all the same volume as MPI.

And so, Oliver Wyman find the older 2017 experience may be less reflective of the most -- the more recent emerging data. And that's cited there from his evidence.

And, finally, in terms of the work-from-home adjustment uncertainty, MPI indicates that it excluded 2020 for coverages where COVID-19 impacted frequency.

And, so, Oliver Wyman just don't find MPI's rationale for excluding 2020, but including 2021 to be compelling and so they find it more reasonable to consider appropriate weights for both the '20 and 2021 accident years.

They indicated -- or Mr. Sahasrabuddhe, indicated, while there's more uncertainty in 2020 and 2021, giving the full weight to 2021 and no weight to 2020, which was actually a better year, in terms of claims, just does not seem fair to ratepayers.

And the -- MPI's proposal actually does not recognize MPI's own evidence that more people worked from home in both of the years 2020 and 2021, and they made adjustments to those two (2) years elsewhere in their assumptions. And so we've excerpted there from Ms. Zhou's testimony. Those two (2) years loss costs were lifted upwards.

And so, in our clients' view, really Oliver Wyman proposes a novel approach to unique and novel circumstances.

MPI's approach is more responsive to the unique circumstances. And it's not inconsistent with other approaches that are taken in unusual circumstances, so, perhaps, this is not the time to be more traditional in terms of your approach.

Oliver Wyman's proposal attempts to more reasonably recognize the relative likelihood of those observations and its preferable, for best estimates that balance the interest of the Corporations -- the Corporation and ratepayers.

And so this is where Mr. Sahasrabuddhe actually, specifically said, that set of facts is unreasonable as it relates to MPI's proposal for accident year weightings.

And, exact -- that set of facts, he's referring to those three (3) issues, right, the rationale for snowfall, the experience period of six (6) years and then the work-from-home weighting.

In other rate filings that Oliver Wyman has reviewed, the treatment of pandemic years has been all over the place. Of course, they acknowledge that, but what they have not seen is a situation where one (1) pandemic year is removed and the other one is left in.

So, so I'm actually going to move pretty quickly through the next few slides. Accidents -- Accident Benefits Weekly Indemnity.

We -- we thought Oliver Wyman's presentation and their sort of summary slides were very effective for our clients' learning anyways, and so we've excerpted the -- them there.

So, Accidents Benefit -- Accident

Benefits Weekly Indemnity trend uses different time periods and Oliver Wyman, for reasons we cited previously and that are included on this slide, do not agree with this and provide their best estimate.

The same issue is identified with Accident Benefits Other Indexed on one -- page 112.

So, in terms of accident benefits other, not indexed, the issue is a little bit different. This is where MPI's proposal to increase future -- frequency future trend was to go from the minus four point nine (-4.9) to zero (0) and Oliver Wyman said, well, no, that's too significant.

And even MPI acknowledged that this big jump is not usually done in the industry. And so, to Oliver Wyman, the long-term trend that was seen before, is compelling evidence that overall costs are decreasing and to not recognize that does not result in fair and reasonable premiums that are charged to ratepayers.

The jump from minus four point nine (-4.9) to zero (0) is just too significant -- too extreme and so more modest tempering would be more appropriate.

So, I -- I won't go through this one, this is just the -- the recommendation and their rationale excerpted from their presentation.

In terms of collision trend, this is where they had the disjointed model because they relied on two (2) models for -- so, essentially, one for before 2020 and then one for 2020 to 2022.

That's unusual and severely limits the predictive power of regression. MPI confirmed it does not usually rely on a trend established by only three (3) data points due to lack of credibility.

But they did not consider using a single model with additional parameters to isolate the impact of inflation. And, again, that -- that disjointed model issue was seen in a visual by the -- the cross-examination by PUB Counsel.

And, so on slide 116, Oliver Wyman's proposal would be more reasonable where he used one single model and the visual we saw was that the lines then connected, while still recognizing the differences.

On slide 117, it's a slightly different issue as well, but Oliver Wyman proposal for comprehensive trend is more reasonable because it utilizes more data and includes a parameter for 2017 management actions.

So, it essentially builds on MPI's

rationale and MPI's evidence, but -- but just goes a step further to try to look at -- well, how could we do this a little bit better. And we've included their rationale and recommendation there.

For Property Damage Third Party Loss of Use, once again, this was the two (2) models used, rather than one (1) model with different parameters.

For Property Damage Third Party Deductible Transfer, Oliver Wyman spoke to this. Their recommendation better reflects the flatter trend beginning in 2014. So, again, they're trying to -- to better reflect the trend that they saw emerging for the -- the more recent years, starting in 2014. And their recommendation is there for the Board's consideration.

And, finally, under Property Damage Other, that is again the same time period issue that I spoke about where the time period should be the same -- that should be the default. Because those variables -- frequency and severity, are not independent.

I -- I won't go through this slide in much detail, both Oliver Wyman and MPI agree that MPI should continue to monitor the Highway Traffic Act Unit Growth Forecast for both COVID-19 and information post pandemic, rather, and for changes in immigration in the future.

So, in terms of recommendations, it will come as no surprise that CAC (Manitoba) recommends the Board adopt the Oliver Wyman recommendations relating to -- to the items listed here as they would consider -- they consider these to be best estimates and to better reflect that needed balance between the Corporation and ratepayers.

PANEL CHAIRPERSON: Ms. Dilay, you're about 10 minutes over your two-hour estimate. Can you conclude by 5:30?

MS. KATRINE DILAY: Yes, Madam Chair. I -- yes. The Board has -- will have our written comments and, so, if you just give me one minute, I can just see if I can actually skip over a few of the slides.

PANEL CHAIRPERSON: Sure. Thank you.

(BRIEF PAUSE)

MS. KATRINE DILAY: Madam Chair, we're going to skip Slides -- from Slide 124 to 128. We will rely on our written comments for those pages and, so, we will -- I'll pass it over to Mr. Klassen for a few minutes on Driver Safety Rating.

PANEL CHAIRPERSON: Thank you.

MR. CHRIS KLASSEN: And, Ms. Schubert, we could even move ahead to the next slide which, in the table reproduced, confirms, for the Board, that it's on the evidence of -- in the evidence in this proceeding, that customers at the higher end of the DSR scale continue to cross-subsidize drivers further down the scale and recognizing the process being made, CAC Manitoba continues to find this reality unacceptable and urges MPI to continue to make progress resolving cross-subsidization in the DSR.

Perhaps more importantly, for today's purposes, we'd like to spend a little bit of time addressing the Basic Insurance Model, recognizing that it's real understood that the registered -- registered owner model doesn't accurately reflect risk. Alternatives have been presented in greater detail in this proceeding than we've seen in the past but, still, today, CAC (Manitoba) will refrain from endorsing an alternative Basic Insurance Model and CAC (Manitoba) is not anticipating being in a position to endorse a particular model, until it can do so, informed by both the pricing data collected by MPI and future consumer engagement results.

We understand, from MPI, that driver

information is required for detailed, accurate pricing analysis, and it's CAC (Manitoba)'s position, based on the contents of the material before the Board, that MPI has the authority to collect the data it requires.

We note that the Corporation's now tired legal position has been the subject of skepticism from both this Board and the Manitoba Court of Appeal and that it breaks down in the present application.

MPI acknowledged, as recently as today, that the provisions cited on the slide, could enable the Corporation to create a form and collect the necessary information, and that the source of its reluctance, essentially, is a concern that providing the form and requiring -- or inviting completion of the form would be quote "onerous" for customers and brokers.

We note, further, that MPI, in its application, contemplates data collection methods that do not rely on regulatory change and note, further, that MPI merely cautions that a voluntary data collection process would simply take longer to achieve a representative sample than would be required under a situation where data is compelled and, in -- in addition to the references quoted on the slide, for that point, we commend to your reading BIM.5.12, at page 25 of that chapter, for the purposes of the transcript.

Regarding consumer engagement CAC Manitoba has significant concerns with the proposed plans for consumer engagement. In particular, we note that the forthcoming 2023 engagement will be the most recent engagement results available to MPI when it begins developing recommendations in 2026 and, further, that the 2026 engagement results will barely be ready before the recommendation is finalized.

Further, there are no plans to follow up with consumers, after a decision is made, to seek input on implementation, nor is there a plan to follow up after implementation to learn about customer experience.

In CAC's (Manitoba) -- in CAC (Manitoba)'s view, this is not representative of best practice consumer engagement and will not enable MPI to make an appropriately-informed decision with respect to the Basic Insurance Model.

And, in summary, with respect to CAC Manitoba's recommendations on Driver Safety Rating and Basic Insurance Model, we recommend that MPI be directed to continue on its five-year plan for correcting cross-subsidization in the DSR and that that can be achieved in next year's proceeding by moving the DSR discounts one-third (1/3) of the way toward actuarially indicated rates.

CAC (Manitoba) further recommends the adoption of the Oliver Wyman recommendation that MPI treat DSR levels as ordered categorical variables, rather than continuous numeric variables. And detail on that technical matter is provided both is Mr. Sahasrabuddhe's report and the transcript from his testimony yesterday.

We further recommend that MPI be directed to increase the frequency, depth, and detail of its planned consumer engagement to ensure that decisions made can be properly informed and so that consumers can be appropriately involved.

And finally, that MPI be directed to begin driver data collection.

And with respect to Vehicles for Hire, for the time being, as explained before you, CAC (Manitoba) takes no position on the proposed Vehicle for Hire blanket policy, but identifies a few points that will attract its attention in future proceedings.

MS. KATRINE DILAY: And that brings us to Part 5, our last few slides.

In terms of just and reasonable rates, our clients see that as being the PUB prerogative. So of course the ministerial directive to MPI was to not seek any rate changes pending the results of the organizational review, but the PUB has confirmed that it is not bound by that ministerial directive.

MPI seeks a zero percent rate change despite the -- the actuarial accepted practice in Canada rate indication being minus one point four eight (1.48). While MPI still tried to justify their zero percent rate change, they pointed to some uncertainties in the forecast, so they're comfortable with that.

But again, we -- our clients don't believe that the zero percent rate change reflects best estimate and that it should be rejected. And for justification on that, we would just point the Board to their prior decisions going back all the way to 2016 where the Board has found the AAP rate indication to be the best estimate.

So as I just said, our recommendation based -- on behalf of our client, CAC (Manitoba), is that the MPI proposal, the zero percent, should be rejected, and instead CAC (Manitoba) recommends a just and reasonable rate would be at least a minus 5.45

percent. And we break that down in the AAP rate indication, being minus one point four eight (1.48), the Oliver Wyman alternative assumptions adding up -- or -- or resulting rather in a minus 3.58 percent, and then rate changes based on staffing recommendations.

So there's that -- those two (2) kind of differences we're recommending. So a reduction in compensation expenses to reflect the '21/'22 staffing levels which would be at least minus 0.54 percent, but then bringing that up by about plus 0.15 percent to reflect uncertainties relating to collective bargaining process.

And so in conclusion, this is a critical time for regulatory action, in our clients' perspective, given that the MPI evidence on key issues in this hearing does not inspire confidence. MPI ratepayers look to the PUB, to this Board, to strike the balance between captive customers and a Crown corporation.

Given some of these issues and where they might progress to by next GRA, the next time we sit in this room, our clients say now is the time for regulatory action in the face of the evidence presented in this proceeding.

And so I'd just like to thank the

Board, Board staff, Board counsel, and advisors. Thank you to MPI and their -- their staff and their work, especially during theses challenging times. And we'd like to thank the CAC (Manitoba) board of directors, as well as the Consumers Advisory Panel, who advises them on key issues, for constantly reminding us, their legal team, of why this work is important -- it's about the consumers that they represent -- and for deeply engaging on key issues and recommendations with their legal team.

Subject to any questions, those are our submissions.

PANEL CHAIRPERSON: Thank you, Ms. Dilay and Mr. Klassen.

Mr. Gabor...? Ms. Boulter...? Ms. Nemec...? Mr. Bass...?

Thank you very much for your closing submissions. And thank you, everyone, for staying until 5:29 and forty (40) seconds.

See you tomorrow morning at nine o'clock. Thank you.

--- Upon adjourning at 5:29 p.m.

Certified Correct,

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Wendy Woodworth, Ms.