MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE
2008 GENERAL RATE APPLICATION

Before Board Panel:

Graham Lane - Board Chairman
Alain Molgat - Board Member
Len Evans - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 4th, 2007
Pages 296 to 513

APPEARANCES

Walter Saranchuk, Q.C.	)Board Counsel
Candace Everard	)
Kevin McCulloch	)Manitoba Public Insurance
Raymond Oakes	)CMMG
Byron Williams	)CAC/MSOS
Nick Roberts	)Manitoba Used Car Dealers
	)Association (MUCDA)
Donna Wankling	)CAA Manitoba
Michael Mager	)
Robert Dawson	)CBA/MBA
Peter Miller (np)	)RCM/TREE

TABLE OF CONTENTS

LIST OF EXHIBITS

UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
3	MPI to indicate for Board, in the year 2006/'07, the aggregate value of both equities sold and equities purchased	340
4	MPI to advise Board if the actual year-to-date experience for 2007/2008 has tended to narrow or widen the gaps between the projected and revised frequencies, and also has the actual year-to-date experience for 2007/'08 tended to narrow or widen the gaps between the projected and revised claims incurred	360
5	MPI to indicate for the Board the cost of the computer system	371
6	MPI to confirm for the Board the duration of agreement with Nugenit and the costs included to customize the products	374

UNDERTAKINGS (Con't)

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

THE CHAIRPERSON: Good morning everyone. Another beautiful day for Winnipeg in October. Too bad we're not outside.

Mr. McCulloch, you have something for us?

MR. KEVIN MCCULLOCH: Yes, Mr. Chairman. We have the response to Undertaking Number 2; MPI to provide the Board with a breakdown of the reduction in costs involving the three (3) different bodies, Public Utilities Board, Claimant Advisory Office and the Automobile Injury Compensation Appeals Commission, filed as MPI Exhibit Number 12.

THE CHAIRPERSON: Thank you, sir.

--- EXHIBIT NO. MPI-12: Response to Undertaking 2

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you, Mr. Gaudreau.

Ms. Everard, are you ready to begin again?

MS. CANDACE EVERARD: Yes, Mr. Chairman. Thank you.

MPI PANEL, Resumed:

BARRY GALENZOSKI, Resumed

OTTMAR KRAMER, Resumed

DON PALMER, Resumed

MARILYN MCLAREN, Resumed

WARD KEITH, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. So we left off yesterday talking about investment income and I'm now -- keeping with that theme, we'll be moving to the topic of returns.

So if I could ask you to turn to Tab 14 of the book of documents which is the answer to Information Request Number 5 asked by the Board in the First Round, and in particular Attachment A.

(BRIEF PAUSE)

MS. CANDACE EVERARD: In re -- are you there? Yes?

In reviewing the investment income components it would be fair to say that the majority of the returns are from bonds?

MR. DON PALMER: Yes, that's correct.

MS. CANDACE EVERARD: And that would be due to the weighting of bonds within the portfolio?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Thank you. Turning back to the investment policy statement for a moment and again it -- it appears at Tab 11 and as well at Tab 19, or 18 rather, of the book of documents. It doesn't matter which one you -- you go to.

I want to look at Article 5.5 which -- at the one in Tab 11 is at page 12, and in particular the table set out at Article 5.5.

It's my understanding that this table represents the investment return objectives; is that correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And going through each of the objectives or benchmarks on the list can you advise how the Corporation determined that these benchmarks were the appropriate ones?

MR. BARRY GALENZOSKI: Yes, that was determined through our investment department, the people that are familiar with the various indexes available, and they would recommend to the investment committee working group and then subsequently to the investment committee of the Board the indexes that we should be tracking.

MS. CANDACE EVERARD: Now, at Tab 19 of the book of documents is the response to Question 10 asked by the Board in the first round, which sets out the actual and expected returns for each benchmark over the last number of years.

And we'll -- we'll go through it in a moment but perhaps first off you could just confirm that it's the investment managers that manage these numbers?

MR. BARRY GALENZOSKI: The investment managers manage the investment pools of funds that are assigned to them. They would -- and we would -- they would get returns that we would then put against the benchmarks and so I guess there's a joint managing of these particular numbers.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Looking at the column -- the first column after "Asset Class" which sets out the figures for 2007, I note in looking at the line for Canadian Equities or the -- under the heading of "Canadian Equities" for large capitalization equities the actual return for the year ending February 28th, 2007 was 14.2 percent whereas the benchmark for that period for that item was 15.9 percent.

Is that right?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: And moving one (1) line down to small to mid-capitalization equities, the actual return for the year ending February 28, 2007 was 11.1 percent, whereas the benchmark for the same period for that item was 14.1 percent?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: Now, we note that for that particular category, small to mid-capitalization equities, there were no numbers or it's indicated "N/A" or not applicable, for the years prior to 2007.

Is that because there were no investments in that category at -- at those times?

MR. BARRY GALENZOSKI: Before that we didn't have a manager dedicated to that particular asset class.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So when did the manager come on board?

MR. BARRY GALENZOSKI: I believe some

time in 2006.

MS. CANDACE EVERARD: Okay. Continuing on in this particular chart under the heading of "US Equities" and the line again dealing with large capitalization equities. If I'm reading this correctly, for 2007 the actual return was 11.4 percent, whereas the benchmark was 13.6 percent.

Is that right?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: Certainly though in that particular year the benchmark was -- or the actual result was closer to the benchmark than it was in 2006 when there was a difference of about 5 percent?

MR. BARRY GALENZOSKI: Yes, that's correct. And then if you look back to the previous year to that we were -- we exceeded the benchmark by a considerable amount.

MS. CANDACE EVERARD: Thank you. And for -- still under the heading of "US Equities" the heading -- or the line rather small to mid-capitalization equities for 2007 there's reflected a return of 18.7 percent versus a benchmark of 16.4 percent, which is again a -- a large improvement over 2006.

Is that right?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: Can you explain for the -- the record, the reasons behind these variabilities in these particular returns?

MR. BARRY GALENZOSKI: Yes. The index of course is measuring the performance of -- of a larger group of investments. Normally an investment fund manager would have fifteen (15) to thirty (30) investments that they're holding for you which is selected from a much larger pool of investments that would be in the index.

And their results are very much dependent on the sector selection and the stock selection within the sector selection. So it -- it comes down to the skill of the manager that you're -- you've got under contract.

MS. CANDACE EVERARD: Now, I note as well that the returns on the Canadian equities have been, at least for the large capitalization equities, have been better than for the US equities.

What does that represent?

MR. BARRY GALENZOSKI: That represents good news of course if you're more heavily weighted on Canadian equities. Canadian equities have out-performed US equities overall for a number of years, and so that performance is reflected in our allocation that we've made to the two (2) different types of investments.

MS. CANDACE EVERARD: Has there been any impact on the returns to the Corporation due to the increase in the value of the Canadian dollar over the last number of months?

MR. BARRY GALENZOSKI: The increase in the value of the Canadian dollar actually takes away from your returns. As the dollar goes up, you actually lose return on the US side.

We were fortunate enough to hedge the currency throughout that entire period so we didn't lose any of those gains whatsoever.

MS. CANDACE EVERARD: So is the US equity index benchmark in any way influenced by foreign exchange?

MR. BARRY GALENZOSKI: No.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So while the returns may be effected by foreign currency exchange, the benchmarks are not?

MR. BARRY GALENZOSKI: The benchmark is not impacted. The returns when you put them back into

Canadian dollars would be impacted. If you were measuring the returns in US dollars of course then they wouldn't be impacted.

It's the fact that we are a Canadian based company and we report everything in Canadian dollars, that's where the impact would happen. So as a result of the hedging of the -- of the currency we eliminated that.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. What is the Corporation's comments on the performance of its investment managers?

Is the Corporation generally satisfied with the returns that it's receiving?

MR. BARRY GALENZOSKI: The Corporation is generally satisfied. We -- we don't -- we don't concentrate entirely on annual returns. We -- we do performance evaluations of our fund managers on a rolling four (4) year basis. And then based on that we would determine whether we need to take any kind of corrective action or not.

And just -- you know, you have to give it a longer term view; that's -- that's what we do from a contractual point of view with all of our managers and from a practical point of view.

So we keep an eye on -- on what's happening year over year of course, but when we're evaluating the performance of an individual manager it's based on a longer term view, primarily a four (4) year rolling review.

MS. CANDACE EVERARD: So it's four (4) years. The first time I wasn't sure if you said "forty (40)" but I thought that -- that must have been wrong.

MR. BARRY GALENZOSKI: That's just my tongue twisting around whatever I've got in my mouth right now, thanks.

MS. CANDACE EVERARD: Thank you. Can you confirm for the record as well, in a situation where a benchmark is not achieved what if any steps are taken by the Corporation at that point?

MR. BARRY GALENZOSKI: Well, first of all we would look to the reasons why the benchmark wasn't achieved. We're actually looking over the long term for performance that exceeds the benchmark by 1 1/2 percentage points or a hundred and fifty (150) basis points.

So we would look at the reasons behind the -- the fund manager not achieving the benchmark and talk to the fund manager obviously. And in some cases we may decide on taking some kind of corrective action with respect to the amount of money we might have with that particular fund manager. We have never terminated a fund manager to date but that's -- that would be a plausible scenario at some point in the future.

So we definitely want to understand the reasons behind the poor performance and go from that point.

MS. CANDACE EVERARD: Thank you. The -- the next line of questioning relates to the allocation of investment income. And to get into that area I'd ask you to turn back to Tab 14 of the book of documents which is again the answer to Question 5 posed by the Board in the first round.

And while you're turning to that for a specific question, perhaps you can just confirm initially that of the Corporation's total overall investment income there is a portion that's allocated to Basic?

MR. OTTMAR KRAMER: That is correct.

MS. CANDACE EVERARD: Okay. So looking at Attachment A at Tab 14, if I'm reading this correctly it would appear that the projected investment income for the year of the application for the Corporation as a whole, is approximately 114.3 million?

MR. OTTMAR KRAMER: For the Corporation

as a whole, yes.

MS. CANDACE EVERARD: And basic share of that is projected to be 11.2 million or 87.68 percent of the whole amount?

MR. OTTMAR KRAMER: Yes. Yes, that's correct.

MS. CANDACE EVERARD: And can you set out for the Board how it is that that percentage or basic share is determined. And there is an IR on it, which is at Tab 17 of the book of documents.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Perhaps just to make it a little bit simpler, if you can look at Tab 17 which is the response to Question 8 posed by the Board in the first round and review the -- the formula at a high level?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Basically the -- the allocation between Basic and the other lines of business is on the -- the equity that each line of business has and -- and the percentage of the total that -- that Basic has of the total equity for -- they have various lines of business that we have, that that's how the Basic share is determined.

MS. CANDACE EVERARD: Thank you. To what extent, if at all, do the external auditors review that particular allocation methodology when they're auditing the investment income?

MR. BARRY GALENZOSKI: The auditors are required to look at all of the allocation formulas and verify that they're in compliance. And that's further strengthened by the fact that they are certifying a basic annual report which is also filed with the Public Utility Board material.

So in order to do that, that ensures that -- and that's the reason we've done that is to ensure that they've done that for the sake of this particular venue.

MS. CANDACE EVERARD: I note from the chart at Tab 17 that there's no column related to DVL. Why is that?

MR. BARRY GALENZOSKI: DVL basically has no assets, no pooled assets because it's costing us more to operate DVL than the monies that we're bringing in. So there is no allocation to them. They're actually a draw on -- on the allocation that would go to the extension line of business.

MS. CANDACE EVERARD: So DVL in itself has no retained earnings?

MR. BARRY GALENZOSKI: DVL has -- has no funds available for investment; if that's what you're getting at.

MS. CANDACE EVERARD: Okay. And can you confirm that the alloca -- allocation, pardon me, methodology set out at Tab 17 is consistent from that which has been applied in previous years. Or have there been changes this year?

MR. BARRY GALENZOSKI: No there have been no changes, it's consistent.

MS. CANDACE EVERARD: Thank you. Turning back to Question 5, which is at Tab 14, for a moment, and just -- we've already noted that for the year of the application, it's anticipated that Basic will be receiving 87.68 percent of the overall income. And it would appear that that's projected to increase through the outlook period up to 88 -- just over 88 percent in 2011/12.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And what's the reason for the -- the increase in the allocation to

Basic? Is it just simply based on size?

MR. OTTMAR KRAMER: The increase to basic is due to the fact that the -- the equity as I -- I previously mentioned for the basic pool is continuing to increase.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. Okay, keeping on this tab but turning the page and looking at Attachment B; and I appreciate, Mr. Galenzoski, that there is a revised version of this at a different IR but none of the numbers that I'm going to be going to change, so we'll stick with this one because it's in the book of documents.

If I could direct your attention to the "Corporate Total" line, it would appear that in the year 2006/2007 the actual Corporate investment income was just over 120 million compared with the original projected amount of about 88 million, is that right?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And for basic in the same year the actual income was about 104 million, whereas the original projected amount was about 78 million?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And in previous years -- and I don't know that we have to go through every single one of them -- but it would appear that the original projected amount was significantly less than the actual income received.

Would that be fair to say?

MR. OTTMAR KRAMER: That -- that's true in some of the cases, but in 2002/2003 the -- the actual was lower than the projected.

MS. CANDACE EVERARD: Fair enough. But in the subsequent years on this table it would the -- the reverse?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And just for the purposes of the record so that it's clear, each year when the Corporation comes forward with the general rate application, it would be the projected number or the number on the far right of each column that the rates are based on?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: Now, if I can direct your attention to the "Equity Gain and Loss" line on this particular schedule; and there is one of those figures that's slightly different in the -- the other version of the document.

Again, would it be fair to say, based on what we see here, that in each year the original projected amount is significantly different from the actual amount?

And I appreciate that 2002/2003 there was a gain projected which turned out to be a loss, but then in subsequent years it was -- the -- the income was significantly more than originally projected?

MR. OTTMAR KRAMER: Yes, there's a degree of variability to that and that's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And can you confirm, for the record, the reasons behind the large degrees and variability over the years?

MR. BARRY GALENZOSKI: That would relate very much to the market conditions, the -- the way the market is going, both on the Canadian as well as the US side with respect to the market just growing through earnings and our ability then to take the gains from the equity portfolios.

MS. CANDACE EVERARD: And is it true that the degree of variability will be mitigated at least to an extent by virtue of the inclusion of the equity risk premium going forward?

MR. BARRY GALENZOSKI: Well, if you assume that -- that it's going to actually be there then that will mitigate the difference between these two (2) numbers. However, by including it and then hopefully relying on that and if it's not there then of course then you've got the reverse situation occurring.

But generally speaking I answer positively to your question, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Turning then for a moment to the way that the projections and the forecasts are determined, can you explain for the record the basis and the factors that are -- that are included in -- in setting those numbers.

MR. DON PALMER: We include the expected investment returns as -- as one (1) of the components in our Revenue Forecast Committee, which again sort of like the Claims Forecast Committee is a committee of the Corporation made up of multi-discipline from the Pricing and Economics Department. We have an economist on that committee from Budgeting and Planning from insurance operations.

Based on a number of external forecasts we take a long-term view of both bond -- expected bond returns, expected bond yields, and also equities; that's essentially where the equity risk premium would come from, as well.

MS. CANDACE EVERARD: Now, is it correct that variances from the assume rates of return have consequences on the RSR?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And can you elaborate on that?

MR. DON PALMER: Any -- with the forecast on which the rates are based, any variances from that will either add to or take away from the RSR. So if the yields and returns are less than what is expected then that will be a direct draw on the RSR. Or if the yield is in excess of what we said then that will be an addition to the RSR.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So is it based on -- sorry, your earlier answer, that the equity return is based on a projection of the bond return and the equity risk premium, as opposed to being a forecast of an equity yield?

MR. DON PALMER: I'm not sure I really see the distinction, but we use the bonds plus the equity risk premium to get the equity yield, yes.

MS. CANDACE EVERARD: Now, there were some questions and responses yesterday dealing with the $49 million rebate that's been requested and just -- I want to explore how that is tied in with investment income. And I appreciate that there was an exchange about the timing of when years close and -- and things of that sort.

So is it -- is it possible from the Corporation's perspective that there would be an impact on the rebate that's being requested if there was a significant equity loss in the current year?

MR. DON PALMER: Again, with the timing and -- and I know there was some discussion about the -- the intent of -- of Board Order and -- and adjustments that could be made or could not be made, but theoretically if there was swings between now and year-end that could affect the -- the amount of the re -- rebate, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. Staying with Tab 14 and looking at Attachment A, particularly I'd ask you direct your attention to the projections beyond the year of the application, which we haven't touched on. And if I'm -- I'm looking at the -- the section at the very bottom of the table entitled, "Yield Percentage."

Am I correct that last year, the year that just finished, 2006/2007, the yield percentage on short-term bonds was 4 percent overall and that's projected to increased for that particular category to 4 1/2 percent by 2011/'12?

MR. DON PALMER: Yes, that is correct.

MS. CANDACE EVERARD: And for long-terms bonds, the -- the next line item, the actual return last year, '06/'07, was 4.9 percent, which is projected to increase -- well, to actually decrease and then to increase again throughout the -- the six (6) years reflected on this table, ending at just over 5 percent in 2011/'12?

MR. DON PALMER: Yes, that's correct.

MS. CANDACE EVERARD: And is the -- the Corporation satisfied with these level of returns that are being forecast?

MR. DON PALMER: Those are from long-term, mostly consens -- consensus of external forecasts, so they are what they are, I guess.

MS. CANDACE EVERARD: Okay. So that's a "yes"?

MR. DON PALMER: That's a yes.

MS. CANDACE EVERARD: Thank you. The next and the last line under that section is "Equities," and again looking at the year that just closed, 2006/2007, the actual was 8.14 percent and that's projected to increase quite substantially for the year that we're in, 2007/2008, and then to drop thereafter.

Can you, I guess first comment on the -- the projected increase for the current year, the 2007/2008 year?

MR. DON PALMER: That would include the -- the capital gains that we've already taken, and then on a going forward basis we would expect that to be more on a average perspecti-- perspective rather than -- than necessarily expecting large capital gains. And -- and those numbers do also included the equi -- equity risk premium.

MS. CANDACE EVERARD: Thank you. And to what extent, if at all, are historical returns incorporated into the forecasting of the future equity returns?

MR. DON PALMER: Really they're not,

other than the fact that the equity risk premium is -- can be derived from the equity risk premium than the historical performance therein. But the future equity yield is -- is derived, as I said, from the bond yield with the -- the equity risk premium.

MS. CANDACE EVERARD: Thank you. If you could now turn to Question 11 asked by the Board in the first round, which is not in the book.

(BRIEF PAUSE)

MR. DON PALMER: I had a bit of a binder explosion, but I have it.

MS. CANDACE EVERARD: Do you want to take a minute to deal with that?

MR. DON PALMER: No, it's here, it's okay.

MS. CANDACE EVERARD: Alrighty. The -- the IR asked, obviously, was to discuss and provide detail on how the yield assumptions were determined for each class of investments. And there's a -- obviously a chart here and then there's a note at the bottom of the charter just underneath the chart which gives rise to more charts.

Perhaps you can just read in the -- the

note immediately behi -- or underneath the -- the chart on the first page.

MR. DON PALMER: The note reads:

"Each projected yield is based on the median interest rates from the following financial institution -- institutions: Scotia, CIBC, RBC, TD, BMO, NB, and Global Insight. The median composites for each projected yield are..."

And then I'm not going to read in those charts.

MS. CANDACE EVERARD: That's fine. So, if I understand -- stood your earlier answers and -- and this answer correctly, once the median is determined based on what you just read in, the equity risk premium is added.

Is that right?

MR. DON PALMER: Added to the ten (10) year bond, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, thank you. That's it for that binder, so I'm sure you'll be happy to hear that.

So turning back to Tab 14 and Attachment 5(a) that we've -- we've already looked at on a couple of points.

If you could turn you attention to the -- under the heading of "Investment Income", the lines entitled "Equity Dividends and Equity Gain/Loss," and just explain for the record the -- the separation between the two (2).

(BRIEF PAUSE)

MR. OTTMAR KRAMER: I -- I believe this split between the dividends and the gain/loss on the equity side is about 35 percent for dividends and 65 for the gain/loss on -- on -- just on the base numbers excluding the -- the one (1) time gain that we've got in -- in '07/'08.

MS. CANDACE EVERARD: All right. Thank you. Looking -- we -- we've talked about what's been forecast in this particular table in terms of yield percentages, but just looking at the dollar amounts for a moment, if you can again direct your attention to the "Corporate Total" line, it would appear that from the year of the application through the -- the end of the outlook period here, it's projected that the investment income, as of 2011/'12, should be around $144 million. I think that's what this reflects.

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And basic share of that is projected to be about 127 million?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: Now, I note back to the "Equity Gain and Loss" line that for the current year, the year that we're in, 2007/'08, there's forecast and equity gain of about 48 -- or 46 million, pardon me.

I'm assuming that the -- the reason why that gain is significantly higher than the other numbers on that line is because of the capital gains that have already been taken that were referenced a moment ago. Or am I -- am I wrong about that?

MR. OTTMAR KRAMER: No, that's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, has the Corporation taken any additional gains after this filing that have not yet been put on the record?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, we have taken some additional gains.

MS. CANDACE EVERARD: Can you give us an idea of how -- how much in broad numbers?

MR. OTTMAR KRAMER: I believe in magnitude of approximately $50 million in total. In total, not additional, in total.

MS. CANDACE EVERARD: Sorry, did you say fifty (50), five zero (5-0), or fifteen (15), one five (1-5).

MR. OTTMAR KRAMER: Five -- five zero, (5-0), fifty (50).

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: And those -- those results would be included in the quarterly financial statements that have already been filed.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. So just sticking with the "Equity Gain and Loss" line on this particular schedule, 5(a), I note that for the year of the application, the -- there's an equity gain projected of just over 20 million which is projected to increase to about 31 million through the end of the outlook period.

What's the rationale or the reasons for that projected increase?

MR. OTTMAR KRAMER: The -- the increase is due to the increasing size of the portfolio, the equity portfolio.

MS. CANDACE EVERARD: Thank you. If you could turn now to Tab 16 of the book of documents which is the answer to Question 7 posed by the Board in the first round, and in particular the schedule that's attached to that answer.

It would appear that for the year ending in February of 2007, there were about 80.2 million in unrealized gains, is that right?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And last year for 2006, it was about 81.5 million, is that right?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And how do the unrealized gains in the portfolio impact rate setting?

MR. DON PALMER: From a historical

perspective, they don't. The -- the rates are -- are set on a prospective basis, so using expected investment income not the past.

Now as those -- those gains are -- are realized and as you said they add directly to the RSR which could impact any amount of -- of surplus refund if -- if that was in play in a given year. So from that perspective I guess that's the effect on rate.

But as far as future projections, we rely on the -- the projections, not the past amount of the unrealized capital gain.

MS. CANDACE EVERARD: So should unrealized gains be considered for rate setting purposes in the Corporation's view?

MR. DON PALMER: It's -- it's a historical statement of what was and rate setting is prospective exercise, so, no.

MS. CANDACE EVERARD: Now do the investment managers have discretion to realize gains in a given year, or is that up to -- rather, is that up to MPI that -- the Corporation, or is that up to the -- the outside investment managers?

MR. BARRY GALENZOSKI: Investment managers are free to buy and sell within their mandates, so they can do that as they wish. With -- and then the

Corporation can then request through a basis that we've set up -- and it's spelled out in the investment policy statement, we can request that they take gains and we've done.

And we've done -- and that's generally how we get most of the gains on the portfolio. That's specific to equities by the way, that discussion.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. I'm going to shift into -- this is the -- the last bit on investment income and it relates to the change in accounting.

Now I appreciate that at the -- and I haven't taken a peek at the second quarterly report on this point, but certainly in the first quarterly report which was AI-8 there was an explanation and an introduction to this comprehensive accounting issue, so you may want to refer to that.

But in any event I would ask you to explain, for the record, what the change is that's been implemented?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: As indicated in the Q1 Report and it's also in the -- our second quarter report, August 31st on page 5, effective March 1st, 2007, we adopted the recommendations by the CICA on -- on the comprehensive income accounting -- on the financial instruments.

That standard requires and -- and I'll -- I'll read page 5:

"...that all financial assets and liabilities are to be classified in various categories: held for trading, held to maturity, available for sale, or loans and receivables."

And really what that required us as a corporation to do is take a look at our financial instruments and determine which class that they held in: either held for trading, held to maturity, available for sale. And last year we -- we went through that exercise to determine which class those assets would fall into.

Based on the class that those assets fall into there's specific accounting provisions on how to -- to classify the unrealized gains.

MS. CANDACE EVERARD: So will these changes have an effect on the Corporation's income statement, and if so can you explain those changes at a high level?

MR. OTTMAR KRAMER: No, those -- those changes don't impact our income statement. What they do impact is a calculation called "comprehensive income." And the unrealized gains are included in a comprehensive income but not in our income statement or in our retained earnings.

MS. CANDACE EVERARD: And this policy change is in compliance with GAAP; is that correct?

MR. OTTMAR KRAMER: Yes, it is, as indicated -- the CICA handbook sections.

MS. CANDACE EVERARD: And just for the record, GAAP is the Generally Accepted Accounting Principles?

MR. OTTMAR KRAMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. You had indicated that in the Corporation's view unrealized gains do not impact rate setting or were not considered for rate setting.

Is it the Corporation's view that the -- that comprehensive income should be taken into account for rate setting?

MR. DON PALMER: Again, from a prospective basis we're looking at the long-term average yield on a going-forward basis. So as gains are realized or unrealized they will just naturally flow through, but specifically other income -- other comprehensive income wouldn't specifically affect rate setting, no.

MS. CANDACE EVERARD: And why not?

MR. DON PALMER: Because they will eventually be realized. Again, it's a -- it's an average flow going into the future and -- and an as-at basis at a given point in time isn't really relevant.

(BRIEF PAUSE)

MR. DON PALMER: Just -- just for an illustration of the point, I -- I would ask you to take a look at our second quarter financial report, page 9.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you.

MR. DON PALMER: The -- over the last two (2) quarters, for instance, we had an unrealized loss on available for sale financial assets of $34 million. We -- I think if we looked at other comprehensive income as -

- as an input to rate setting we'd be essentially rate setting by yo-yo because they go up and down very frequently.

So again, so it's the long-term expected averages that we're basing our rate setting on.

MS. CANDACE EVERARD: So are you saying that by applying the comprehensive income there would be increased volatility?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Okay. Okay. So it is our understanding that the adoption of the comprehensive net income accounting in accordance with the CICA standard, that -- that has been mentioned, will require the Corporation's actuary to amend his basis for selection of a discount rate.

Is that correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So given that the -- the Corporation is proposing that it will not use comprehensive net income for rate setting purposes, will the actuary not be required to use a different set of assumptions for discounting purposes?

MR. DON PALMER: The discounting assumptions will change based on expected yields, yes.

MS. CANDACE EVERARD: And how will they

change?

MR. DON PALMER: They will change based on the expected yields of the portfolio, at the time of evaluation.

MS. CANDACE EVERARD: But its market yields not book yields, right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: In the discount rate used for the purposes of the rate makings, it's the same as for financial reporting?

MR. DON PALMER: Not quite. Just from a -- a rate setting perspective, our -- the way that we account for investment income is using the expected future yields, expected future market yields, so the way it flows through the -- the process might be a little different. Again, the evaluation is an as-at on a retrospective basis. The -- the outcome would likely be the same.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So will this effect on the assumptions affect the costs of the Corporation? And if so, by how much?

MR. DON PALMER: Could you explain what

you mean by "costs"?

MS. CANDACE EVERARD: The actuarial costs, sorry.

(BRIEF PAUSE)

MR. DON PALMER: Different assumptions on your actuarial evaluation will lead to -- to different results. So from that perspective, yes, there's a difference in the actuarial provisions that are required.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So -- so to what extent has that been taken to account in this application, or has it -- hasn't it been?

MR. DON PALMER: The -- the evaluation of liabilities that will take place in -- at the end of this year, which I guess is the end of the -- or the beginning of the rate year that we're looking at hasn't been completed, so that ha -- has not been considered.

MS. CANDACE EVERARD: So it's not in the -- the evaluation?

MR. DON PALMER: The evaluation has not been done.

(BRIEF PAUSE)

MR. DON PALMER: At the time that that evaluation is done, any changes will flow through the income statement and effect our SR, either positively or negatively, depending on the effect.

MS. CANDACE EVERARD: Okay. I note that the Corporation's investment guideline indicates that the average duration of bodily injury liabilities are approximately nine (9) years.

Does that include PIPP liabilities?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And what is the average duration of the maturity of the bond portfolio?

MR. DON PALMER: It's around seven (7), I think.

MS. CANDACE EVERARD: Given the forecasts of the large equity net gains each year, does this suggest that the equity portfolio is heavily traded?

MR. BARRY GALENZOSKI: No, it doesn't mean that it's heavily traded. It -- it -- by in large, a lot of the fund managers hold the investments primarily year over year. It just means that there's been movement in the market value of those bonds and then a decision made whether to take the gain or not. I said "bonds", I meant equities, sorry.

THE CHAIRPERSON: What is the aggregate level of the sales of the equity portfolio, of say last year?

MR. BARRY GALENZOSKI: I -- I don't think we'd be able to give you that -- that piece of information; it's not something that we specifically track. We do -- we do track the fees that some of these -- these managers track just because of movement within the portfolio, and some managers trade their portfolio more frequently than others.

And so it would be different by a different fund manager, but I don't specifically have a response that I could provide you right now on that.

THE CHAIRPERSON: Could you take it under consideration?

MR. BARRY GALENZOSKI: Could you provide just what you were looking for again, specifically?

THE CHAIRPERSON: Yes, we will.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay, just one (1) followup question on the actuarial issue that we were discussing.

Under the -- the new CICA regulation, with the available for-sale assets, is it true that claims incurred are more susceptible to changes in market yields?

MR. DON PALMER: There could be more fluctuations, yes.

MS. CANDACE EVERARD: Okay. I think that wraps up the questions on investment income for the time being, so I'm going to be moving to a new area, which is claims incurred. So I'd ask you to direct your attention to Tab 2 of the book of documents, TI-4.

THE CHAIRPERSON: Ms. Everard, I have that question just to let things flow along.

For 2006/'07, please indicate the aggregate value of both equities sold and equities purchased.

--- UNDERTAKING NO. 3: MPI to indicate for Board, in the year 2006/'07, the aggregate value of both equities sold and equities purchased

THE CHAIRPERSON: Thank you. Okay, Ms. Everard.

MS. CANDACE EVERARD: Thank you, Mr. Chairman.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. So Tab 2, TI-4. Looking at the -- the PIPP line and noting that this is an eight (8) year claims-incurred comparison, it would appear that the projections with respect to PIPP costs for the year of the application are projected to be about 242 million.

Is that correct?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And through the end of the outlook period that figure is projected to increase to about 276 million, is that correct?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: Looking at the collision line, the next one down in the table, it would appear that figure as of the first year on this table, 2004/2005, was about 202 million, projected to increase to about 253 million in the year of the application, 2008/2009, and then projected to increase further to about 293 million in 2011/'12.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And looking at "Comprehensive," the next line on the table, again the number is projected to increase. In 2004/2005, the figure for comprehensive was about 63 million, projected to increase to 76 million in the year of the application, and then projected to decrease through the end of the outlook period at about 71 million in 2011/'12.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And what would be the -- the reason behind the projected decrease in comprehensive through the end of the outlook period?

MR. DON PALMER: That would be the effect of our anti-theft programs, especially the Immobilizer Program.

MS. CANDACE EVERARD: Thank you. Looking at Tab 20 of the book of documents, which is an Information Request that was asked on TI-4 -- this Number 17 posed by the Board in the First Round -- and particularly the attachment; this is a breakdown of the PIPP costs by component.

I note that in 1995 the percentage of PIPP costs allocated to income replacement was 25.8 percent.

That number grew to over 60 percent by 2005 and then is projected to decrease to thirty-five point nine (35.9) in the current year.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now, looking at the -- the 2007 column, the current year, as I indicated there is a dip in the percentage allocation for income replacement.

Can you explain the reason for that dip relative to the other pieces of coverage?

MR. DON PALMER: We have been undergoing over the last couple of years some re-statement of reserves, and they have a large effect on the direct reported costs that we see in this -- this table. And to -- as an illustration of that, if you look at the 2006 year the total incurred for all of PIPP for that year was in fact a negative $89 million. That's -- I think the actuarial term I coined last years was "a bit wonky" and so I think we can throw that out for -- for comparison purposes.

MS. CANDACE EVERARD: Thank you. And so looking at 2006 on the table at Tab 20 and the obvious different numbers that are there, particularly the -- the negative 79 million and the negative 54 million appearing under Income Replacement and Personal Care respectively, those numbers would be driven by the same factor that you just mentioned?

MR. DON PALMER: That's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. If you could now turn to Tab 4 of the book of documents which is TI-11, and in particular Schedule 1 which is the second last page of the document.

It would appear that over -- or from the year that just finished '06/'07 -- pardon me, relating to -- to 2006/2007, the -- the actual figures compared with the revised forecast that would have been provided at last year's application, saw some changes. And if I'm reading this correctly there was a -- a decrease in the PIPP number of approximately 41 1/2 million.

Is that correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the figures for collision and comprehensive were also actually different than had been forecasted in the case of collision for about 6.3 million, and in the case of comprehensive for about 13.4 million, is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So overall if we turn back to the first page of TI-11, those changes gave rise to a decrease in the claims incurred between that which was forecast and that which actually materialized of about 22.6 million.

Am I right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Thank you. Turning over one (1) tab to Tab 5 which is TI-12, and focussing for a moment on the first page of TI-12, and at the line in particular dealing with claims incurred. It would appear that there was an increase in the claims incurred from that which was forecast last year -- and this is for the current year that we're in -- of about 7 million.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And as is the case in TI-11, Schedule 1 sets out how that $7 million difference is arrived at.

So again, if we look at Schedule 1 of TI-12, it would appear that there was a -- a decrease in the PIPP benefits of about 6 million, a decrease in collision of about 2 million and an increase in comprehensive of 14 or so. And that's how we get the -- the $7 million overage.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. Turning then to Tab 7 of the book of documents which sets out TI-14, and if I'm reading this schedule correctly it compares the year of the application as previously -- as it previously formed part of the outlook period at last year's GRA, compared with the revised projections for the year of the application now, or as of the time of the filing of the application?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So between those two (2) time intervals, we note an increase in the claims incurred of about 3.3 million, is that right?

MR. DON PALMER: That's our change in projection, yes.

MS. CANDACE EVERARD: And again, Schedule 1 sets out how that figure is arrived at or what comprises that figure. And Schedule 1 reflects an increase in comprehensive of about 10.7 million and a decrease in PIPP of about 6.3, which -- and I appreciate that there are some other numbers there -- but that would be roughly where the three point three (3.3) comes from, is that right?

MR. DON PALMER: Those are the two (2) big ones, yes.

MS. CANDACE EVERARD: Thank you. Turning to Tab 9 of the book of documents which is TI-16, dealing with claims costs, I note that claims costs -- and I -- and I'm looking at the -- the line entitled, "Total Claims Costs" about have way down the table.

The claims costs are forecasted to increase from about 6 -- 626 million in 2006/2007, and that's an actual number, to about 796 million through the end of the outlook period in 2011/'12.

Is that right?

MR. DON PALMER: That's total claims inclur -- in -- including claims expenses and road safety; loss prevention expenses, yes.

MS. CANDACE EVERARD: Thank you. So relating to net claims incurred, the number -- the actual number last year would've been 535 million, and that's projected to increase to 692 million by the end of the outlook period?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And would you be able to comment on this trend or the projected increases from the Corporation's point of view?

MR. DON PALMER: Most of those increases

would be natural in -- inflationary increases, as well as increases in the size of the fleet, for instance. Your starting points, the '06/'07 number, is somewhat suppressed just because that there was some one-time actuarial adjustments made that would have brought that number down. I think you pointed out the decrease in -- at $41 million.

So -- so that number is somewhat artificially suppressed. I think the -- the better comparison is if you start at -- as your base year of '07/'08 and work that forward, those would largely be inflationary increases that we would naturally ex -- expect.

MS. CANDACE EVERARD: Looking at the second quarterly report that was provided yesterday and has been entered as MPI Exhibit 10, and in particular page 4, it is set out that -- and I'm looking at -- on page 4, just at the bottom of the first column and spilling over onto the top of the second column, it's set out, that activity, to August 31st, 2007.

Or pardon me, I'm looking in the wrong place. One (1) moment. Sorry.

I'm just -- I was just looking at the -- the wrong place. I'm looking at the left-hand side column, the first -- or the second full paragraph under the heading, "Current Year and Last Year," where it's reflected that claims costs for the six (6) months ending August 31st, 2007 increased by 23.8 million or 6.8 percent, compared to last year.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Thank you.

MR. DON PALMER: Maybe I was expecting your next question. A large portion of that increase in due to the Dauphin hail storm.

MS. CANDACE EVERARD: And I -- I do have some questions specifically about that, in about two (2) pages.

MR. DON PALMER: We'll wait.

MS. CANDACE EVERARD: Thank you. Just while we're in claims incurred, we -- the Board generally does like to -- to hear an update on the status of the remaining pre-PIPP/tort claims, so this is that point in time.

MR. DON PALMER: We'll pull -- pull those figures out for you; there's not much left.

MS. CANDACE EVERARD: Understood. Thank you.

All right. Turning, for the moment, to the subject of claims forecasting, I'd ask you to take a look at SM-5.2.

(BRIEF PAUSE)

MR. DON PALMER: We have it.

MS. CANDACE EVERARD: Thank you. I would ask you to briefly review the claims forecasting methodology with respect to each of the three (3) methods referenced.

MR. DON PALMER: You want me to give you a brief description?

MS. CANDACE EVERARD: Yes, please.

MR. DON PALMER: Three (3) methods are the financial method, the linear method, and the exponential method. The financial forecast is done with the basis of the work of the claims forecasting committee, which is a multi-disciplinary committee within the Corporation comprised of people from Pricing and Economics, from Finance, from Claims, from Insurance Operations; that use both past trends and -- and current field information to -- to forecast what expected claims will be going forward through the outlook period.

The linear and exponential approaches are -- are more formulaic approaches using a fitting of a exponential curve for the exponential method by -- by coverage. For instance, there's a -- a different curve that's -- that's fitted to PIPP costs, to collision costs, to comprehensive costs and so on. And then -- and then that curve is -- is added up to get the exponential forecast.

Linear forecast is very close to that. Inste -- but instead of fitting a exponential curve to the past data, we fit a straight line, and again, to -- it gets a formulaic approach for future forecast.

MS. CANDACE EVERARD: So, is it fair to say that it's the linear and exponential methods that are actuarially sound and statistically driven?

MR. DON PALMER: I would say all three (3) methods are actuarially sound and statistically driven.

MS. CANDACE EVERARD: But based on your answer, I -- if I've understood it correctly, the financial method could properly be said to be a hybrid of actuarially methods and management judgments, is that true?

MR. DON PALMER: I would agree with that characterization. I -- I -- the -- what I may disagree with is the definition of "actuarially sound." To -- to me that's -- an actuarially sound is just the projection of expected costs and different methods will achieve those expected costs.

MS. CANDACE EVERARD: Thank you. Turning, then, for a moment, to the question 14 that the Board posed in the first round, which is not in the book of documents.

MR. DON PALMER: Are you expect -- asking me to pull out my exploding binder again?

MS. CANDACE EVERARD: No, that's a different one, I think, isn't it? Well, if it is, I apologize.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay, we will take our break now. We will be back at 10:30. Thank you.

--- Upon recessing at 10:17 a.m.

--- Upon resuming at 10:35 a.m.

THE CHAIRPERSON: Ms. Everard...?

MS. CANDACE EVERARD: Thank you, Mr. Chairman.

MR. OTTMAR KRAMER: Mr. Chairman, if I could at this point, Mr. Keith is prepared to respond to the question that Ms. Everard had with respect to the tort runoff.

THE CHAIRPERSON: Very good. Mr. Keith...?

MR. WARD KEITH: Thank you. As of February of 2006, there were twenty-three (23) remaining tort claims and as of February of '07 that had reduced to fourteen (14) and as of the current date, we're sitting at thirteen (13) tort claims involving eleven (11) separate claimants.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Do you have a sense of what the reserves are with respect to those thirteen (13) outstanding claims?

MR. WARD KEITH: Yes, the remaining reserves are set at 3.2 million, and that includes financial provisions.

MS. CANDACE EVERARD: Great, thank you. Okay, Mr. Palmer, before we go to number 14 in your fancy binder that you fixed, I just have a couple of follow-up questions about the adjustments that were made in the '06/'07 year that you described as odd or wonky.

MR. DON PALMER: Wonky.

MS. CANDACE EVERARD: Those are the ones. If I can direct your attention to AI-16 part 'A'.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now I understand this to be a report from Ernst and Young.

MR. DON PALMER: That's correct. This is the annual appointed actuary's report -- did you say Tab 'A' or Tab 'B'?

MS. CANDACE EVERARD: Tab 'A'.

MR. DON PALMER: As at October 31 of 2006 that was issued in January of 2007.

MS. CANDACE EVERARD: And -- and if I understand the -- the idea of the report is to update on the first eight (8) months of the fiscal year so the report would be from February through October of 2006, is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. If I can direct your attention to page 23 where we're dealing with the comparison to the prior year's estimate; this is Section 9.

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: And under the heading from February 2006 to October 2006, it's noted that there was a favourable direct development of 73.4 million and a favourable net development of 75.2 million.

And then in the next paragraph where it says "This can be attributed to..." that's obviously an explanation for the -- the developments that I just mentioned. Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now, under the first bullet of the -- the preamble, "This can be attributed to:" it reads that:

> "The direct favourable development of 57.8 million for accident benefits, weekly indemnity was caused largely by, sub (I), the reversal of the special 28 million IBNR provision for insurance year 2003/'04 and 16.5 million for insurance year 2005/'06 that was established last year."

And just for the purposes of the record, can you confirm what IBNR stands for?

MR. DON PALMER: That's "incurred but not reported."

MS. CANDACE EVERARD: And following on the provision that I just read, can you advise why these IBNR provisions were put up and then why they were put down?

MR. DON PALMER: With both of those years we had some conflicting data as to the -- the incurred for those two (2) given accident years.

And for our seriously injured claimants, it does take some time for claims to -- to develop for us to really be able to know how -- what the quantum of any particular large claim will be.

Within the context of those two (2) years, what we were seeing was that there was a number of serious accidents that were put up that had claims reserves on the personal care coverage, but didn't have a corresponding increase on the income replacement coverage that we thought was unusual.

But really, from a -- at -- with that short amount of time between the time of the accident and the time that we were doing the provisions, we said let's put up a provision to account for that to bring them up more to the level of what we would -- would expect based on the personal care reserves.

So we -- we put those reserves up. And then, through the passage of time, when you can be better informed as to what the exact quantum of individual claim files would be, we looked at that and we didn't have an associated runoff that would indicate that the higher level of reserves were required. So, at that time, we brought them down.

MS. CANDACE EVERARD: Thank you. Okay. So going back to number 14 --

MR. OTTMAR KRAMER: If I can just interrupt real quickly? We have a response to the -- the question that was posed by the -- the Chairman; "What was the aggregate value of equities purchased and sold in 2006/'06 fiscal year?"

And our response is the book value of purchases for the equity portfolio from March 1st/'06 to February 28th, 2007; the purchases were $405 million. Sales for the same period totalled $368 million.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Great. Thank you. Okay. So Question 14 posed in the First Round; Mr. Palmer, if you could describe, in general terms, the information shown on the tables. And I think it's pretty much set out in the question.

MR. DON PALMER: For -- for each of the accident years, '02/'03 through '07/'08, we show an original projected which would be the amount that the rate application was based on. So, for instance, this year our -- our projected year would be '08/'09, then the revised forecast, which is the forecast that's given at the GRA during the year.

So, again, this year, for illustration purposes, the revised forecast would be given for the '07/'08 year because that's the year we're -- we're in. And the actual is what actual -- actually occurred for purposes of financial reporting at the end of that year.

MS. CANDACE EVERARD: Thank you. Looking at Attachment 1 to this IR which deals with a claims frequency comparison, to what does the Corporation attribute the significantly improved accuracy for the physical damage coverages since 2005/2006 compared to the underestimations that we note in previous years?

For example, in 2003/2004 the original projected estimate for collision was 84 million; the actual was 98 in '04/'05. For the same line, Collision, the original projected was 90.3, the actual was a hundred and eight (108) and for Comprehensive, the projection was fifty eight point three (58.3) and the actual is seventy-two point two (72.2). But in '05/'06 and -- and subsequent years, it seems much more accurate.

MR. DON PALMER: I'd like to tell you we're just getting a lot smarter, but I don't think that that's necessarily true. There will always be fluctuations in our forecasts, and we have got a very good process in terms of the claims forecast and -- and we are well-versed in -- in the field.

But there are unusual events that happen in terms of -- of different weather related -- the -- the unfortunate increase in -- in theft claims that all of a sudden sort of came out of the blue. There are -- can be large fluctuations in -- in terms of PIPP forecasts.

Again, we're -- we're always forecasting on the expected line, but there will be fluctuations from that line. And to -- to look at a specific year and say there was a large fluctuation that year and, therefore, it was a bad forecast or, alternatively, to say you were bang on, it was a good forecast, I think is -- is oversimplifying, and I think you have to look over the longer term.

But certainly our -- our forecast -- forecasting team has been together for a number of years and -- and does improve. But to look and -- and say one (1) year, you've got it right now, I don't we can say that.

MS. CANDACE EVERARD: Thank you. Still looking at table 1 dealing with frequencies; has the actual year-to-date experience for 2007/2008, since the time of the answering of the question, tended to narrow or widen the gaps between the projected and revised frequencies?

(BRIEF PAUSE)

MR. DON PALMER: We'll have to take that as an undertaking.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 4: MPI to advise Board if the actual year-to-date experience for 2007/2008 has tended to narrow or widen the gaps between the projected and revised frequencies, and also has the actual year-to-date experience for 2007/'08 tended to narrow or widen the gaps between the projected and revised claims incurred

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Turning to table 3 of the same IR dealing with claims incurred and looking at, in particular 2004/2005 though 2006/2007 and the accident benefits categories, it would appear, again that the projections have been, in those years, for the most part, sig -- significantly higher than the actual -- at least in -- in 2006/2007 for -- for pre-PIPP. And in the other years, as well, the projection -- and -- and I'm now looking at the PIPP line -- the projection -- or projected numbers were higher than -- than the actual.

Can the Corporation comment on the -- the tendency for over-projection in those particular years?

MR. DON PALMER: I -- I wouldn't call it a tendency to over-project. Over the last couple of years, two (2) to three (3) years, we have had some actuarial adjustments to bring down the provision that that would be the main reason for -- for those, as you characterize, over-projections.

MS. CANDACE EVERARD: So would that answer apply to the -- the bodily injury line, which is shown here as post-March 1st, of 1994, as well?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So, again, similar to one (1) of the questions that I asked you about table 1; with respect to table 3, has the actual year-to-date experience for 2007/'08 tended to narrow or widen the gaps between the projected and revised claims incurred?

MR. DON PALMER: We'll add that to the other Undertaking.

MS. CANDACE EVERARD: Thank you. And just one (1) additional question with respect to these tables. Is it the Corporation's opinion that the tables provide evidence of any systemic bias in claims forecasting?

MR. DON PALMER: No.

MS. CANDACE EVERARD: All right. That's -- that's it for that IR for the moment.

If I can ask you to turn now to Tab 5 of the book of documents, which is TI-12. And I want to -- I appreciate we looked at this schedule earlier with respect to the increase in net claims incurred, but I'd like to now direct your attention to the column on the far right indicating the -- or -- well, either the -- the very last column or the second last one, but the ones dealing with the increase or decrease of the forecast, and in particular, the section on expenses.

I note that under the -- the heading of "Expenses" on the line entitled "Premium taxes", there appears to have been a 7.4 percent decrease. And on the -- the line immediately following for regulatory and appeal expenses, there appears to have been a 23.74 percent decrease. Can you comment on those figures?

MR. OTTMAR KRAMER: The -- the premium tax decrease is related to the $49 million rebate that we proposed in this filing.

With regards to regulatory and appeal, the

'06 -- '07/'08 initial forecast was based on our '06/'07 projection. And as we filed yesterday, the -- the '06/'07 numbers were down and we've stated the reasons why, and the '07/'08 revised forecast builds off of the '06/'07 numbers.

MS. CANDACE EVERARD: Thank you. Turning to TI-14 for a moment, which is at Tab 7 of the book of documents. If you could again comment on the -- the 23 percent decrease in the regulatory and appeal expenses; is that related to the -- the previous answer or is there a different explanation?

MR. OTTMAR KRAMER: No, that would be the same answer.

MS. CANDACE EVERARD: So, in the Corporation's opinion, do the -- the changes and estimates that we've looked at in TI-12 and in TI-14 provide any evidence of systemic bias in forecasting?

MR. OTTMAR KRAMER: No.

MS. CANDACE EVERARD: And have there been any changes incorporated in the current GRA that the Corporation expects will improve for -- forecasting accuracy?

MR. OTTMAR KRAMER: No.

(BRIEF PAUSE)

MS. CANDACE EVERARD: All right. Moving away from claims incurred for the moment, then, and turning to claims costs and, in particular, claims costs control initiatives; I'd ask that you turn to SM-5.3 in Volume I.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I note that at page 4 of SM-5.3 there is a section entitled "Bodily Injury Claim Cost Savings Initiatives" and there are three (3) initiatives li -- listed as subheadings, being "Practitioner Education and Liaison, Negotiated Fee Agreements, and Prolonged Recovery Units."

Perhaps you could briefly elaborate on each of the initiatives for the record.

MR. KEITH WARD: Under "Practitioner Education and Liaison," we have a health care services team which is made up of health care professionals and they are actively involved in the community in terms of doing presentations to -- within the community. And in the 2006 year, they did seventeen (17) such presentations.

With respect to Negotiated Fee Agreements, again, we do continue to maintain our policy of -- of negotiated fee agreements with service providers on the bodily injury side.

And the paragraph that follows outlines the various fee agreements that are in place and their -- their pending expiries or their -- or the date that they do expire.

Would you like me to provide details on that or...?

MS. CANDACE EVERARD: Sure, please.

MR. WARD KEITH: Okay. We have negotiated a new three (3) year agreement with the Manitoba branch of the Canadian Physiotherapy Association. And this will now expire in Decem -- on December 31st of 2009. And it compliments -- it follows, in a very similar fashion, the multi-year agreements that are already negotiated with the Chiropractic Association and the Manitoba Athletic Therapist Association.

And the later two (2) -- two (2) agreements expire on December 31st of this year, so are currently in the process of being negotiated.

With respect to the Prolonged Recovery Unit, we hae established a dedicated unit within our Casualty and Rehabilitation Services department. And this unit is responsible for re-evaluating files where rehabilitation efforts have been unsuccessful to date.

And the intent here, really, is to take a second look at how these files have been handled in the past and look for new and potentially alternate ways in order to -- in order to assist in -- in bringing the -- the injured person back to pre-accident status or as close to pre-accident status as possible.

And what we've estimated is that in the last fiscal year, we achieved approximately $3 million in savings as a result of our efforts in that regard.

There are eight -- up to eighty (80) files that are handled by the Prolonged Recovery Unit at any point in time, and they are handled by a total of five (5) staff: one (1) senior supervisor as well as five (5) senior case managers.

MS. CANDACE EVERARD: And just an additional question kind of related to the -- that last initiative, but -- but possibly slightly different.

In following on the -- the presentation that we heard yesterday from Ms. McGee I believe her name was; the lady with the daughter who had the spinal cord injury.

Can you confirm for the Board whether the Corporation gives any form of priority to claims involving catastrophic injuries like the one that -- that Ms. McGee described?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I can give you a little bit of background on that. We have a special department within the Injury Division responsible for the most serious losses.

They are our most senior case managers; the case managers with the lowest number of cases per case manager, and they focus exclusively on our most seriously injured claimants.

Our priority in situations with, you know, in the early stages of severe spinal cord injuries or brain injuries -- those are really the two (2) categories of most serious claims that we have -- is really to make very early contact to make sure that the family does know that we're there to support.

But during the earliest stages following the injury, they really are in the hands of the healthcare system. So, MPI's significant resources to assist in reintegrating with society and rehabilitating people with those most serious injuries last throughout the rest of their lifetime, and really starts to gear up in a very extensive way once they're ready to move from the hospital environment back into the community.

MS. CANDACE EVERARD: So while the -- the person is in the hospital, is there ongoing consultation between MPI and the healthcare providers?

MS. MARILYN MCLAREN: Yes, absolutely. And that will continue, again, throughout the -- the claimant's active engagement with Manitoba Public Insurance.

We deal always with the claimant, with their family, with their support system, as well as the healthcare professionals.

MS. CANDACE EVERARD: Thank you. Moving back to SM-5.3 then, and -- or pardon me, as in 5.4, which would be the next section on page 5 of SM-5.

This deals with the all-perils claims cost savings initiatives. And just keep that open for the moment. But if you could also turn to Tab 22 of the book of documents which is the answer to question 20 posed by the Board in the first round dealing with the purchasing by the Corporation of after-market or recycled parts.

Maybe you could just summarize the results or the -- the content of the table that appears at Tab 22.

MR. WARD KEITH: Certainly. What the table indicates is that with respect to the total cost of parts; that in the 2006 year, 61 percent of -- of the total cost of the parts was invested in new parts.

After-market parts accounted for 23 percent for a total of 25.1 million, and use of recycled parts accounted for 16 percent. And -- and those -- those percentages are -- are consistent with the previous year, 2005.

MS. CANDACE EVERARD: But over the last number of years, the Corporation has been able to increase the number of -- or the relevant percentage of after-market and recycled parts that it utilized even over five (5) years ago.

MR. WARD KEITH: Yes, absolutely. And that does remain our focus in terms of cost containment; is increasing the use of after-market and recycled parts wherever that's feasible.

MS. CANDACE EVERARD: With respect to, well, both after-market and recycled; I appreciate that the dollar amounts have increased but the relative percentages have stayed the same over the last couple of years.

Does the Corporation anticipate being able to increase the percentages of after-market and/or recycled parts?

MR. WARD KEITH: We look each year to increase the use of after-market and recycled parts. And that -- that is used to derive our estimated cost savings with respect to the use of those parts.

There is one particular initiative in here that's identified which is creation of a new computer system through the recycler's central office which we -- which we anticipate will result in an additional of recycled parts.

MS. CANDACE EVERARD: Thank you. And I actually was just going to ask about the -- the computer initiative that you just mentioned which is referenced in SM-5.4 on page 6.

What is the status of that initiative at this particular point in time?

MR. WARD KEITH: That initiative is ongoing at the current time.

MS. CANDACE EVERARD: So, do you have a sense of when it might be implemented?

MR. WARD KEITH: I would expect it would be implemented within the next fiscal year.

MS. CANDACE EVERARD: Do you mean by the end of February 2008, or do you mean in the fiscal year of 2008/2009?

MR. WARD KEITH: I mean within the fiscal year 2008/2009.

MS. CANDACE EVERARD: And is there an estimate of the costs that are associated with that computer system?

MR. WARD KEITH: We've estimated the cost -- I'm sorry, the cost of implementing that system or the savings that will result from that system?

MS. CANDACE EVERARD: Both, please.

MR. WARD KEITH: I will need to take an Undertaking on the cost of the system. But with respect to the savings that we expect will come from implementation of that new system, we're expecting that will be approximately $1 million per year.

--- UNDERTAKING NO. 5: MPI to indicate for the Board the cost of the computer system

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: You mentioned a few moments ago about the negotiated -- oh, sorry, scratch that.

Continuing on page 6 of 5.4, and in particular 5.4.c on page 6; there's reference to a couple of agreements that the Corporation entered into in December of 2004.

And, first of all, can you indicate for the record what the acronyms stand for; MMDA and ATA?

MR. WARD KEITH: Yes. The MMDA is the Manitoba Motor Dealers Association and ATA is the Automotive Trades Association.

MS. CANDACE EVERARD: And the information on page 6 is that these agreements are set to expire at the end of the calendar year 2007?

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: And is there negotiation ongoing at this point for renewal purposes, or will that be coming?

MR. WARD KEITH: No, negotiations are ongoing at this time.

MS. CANDACE EVERARD: So does the Corporation anticipate that new agreements will be reached by January 1st of 2008?

MR. WARD KEITH: That's our expectation.

MS. CANDACE EVERARD: And is there any impact on the current projections relating to what the outcome of the negotiations might be?

MR. WARD KEITH: I believe we responded to that question in one (1) of the IRs. Because these are subject of ongoing negotiations, we're not really in a position to talk about what the projected impacts are, although we did in the IR response provide percentage increases both in -- in terms of labour, paint, and --

and shop supplies with respect to the current agreement.

MS. CANDACE EVERARD: Thank you. Continuing in SM-5.4, in particular, looking at Sub D relating to the estimating compliance audit product; it's set out here that in March of 2006 a multi-year agreement was reached with Nugen -- N-U-G-E-N-I-T -- for the use of their estimating, compliance, audit tool, data warehousing, and management reporting capabilities which are being custom developed to suit the needs of the Corporation.

Can you confirm for the record what the duration of that agreement is and what the annual costs are?

(BRIEF PAUSE)

MR. WARD KEITH: I will need to check that information and report back.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Yeah, that would be appreciated if you would do that. And my next question was going to be whether the -- the costs include the costs of customizing the products. So if you could include that in the undertaking, that would be appreciated

--- UNDERTAKING NO. 6: MPI to confirm for the Board the duration of agreement with Nugenit and the costs included to customize the products

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Can you tell me how the expenses for this initiative are treated for accounting purposes? Are they capitalized or are they expensed?

MR. OTTMAR KRAMER: Those costs are expensed in the claims incurred.

MS. CANDACE EVERARD: Okay. And can you confirm that the annual savings arising from this initiative will cover or offset the costs over the life of the contract?

MR. OTTMAR KRAMER: Yes.

MR. WARD KEITH: I would, if I may, like to make one (1) clarification or correction. I'd stated that with respect to the recycler central officer computer system that we're in the course of developing, that estimated savings were -- would be about $1 million a year. In fact, when I referred to that, I was thinking about the -- the audit compliance tool here.

The -- the anticipated savings with respect to the new computer system will really depend on the extent to which we can increase participation amongst the recyclers within the province and -- and the extent to which we can -- we can increase the recycled -- the use of recycled parts as a result of that technology.

MS. CANDACE EVERARD: So did the Corporation conduct a cost benefit analysis with respect to the computer initiative?

MR. WARD KEITH: The -- the initiative -- there is a -- there is a computer system currently in use that -- that, by all accounts, is -- is not particularly useful with respect to the number of recyclers that are participating and their access to this computer system, and therefore our ability in order to canvass recyclers for available recycled parts is compromised.

So that was really the driving force behind -- behind redoing this computer -- this computer system.

MS. CANDACE EVERARD: All right. I am now a couple of pages hence past where I was before, so we're at the Dauphin hailstorm section.

I note in the news release that was filed yesterday as MPI Exhibit 11, the result of the recent Dauphin hailstorm was about thirteen thousand (13,000) claims with an estimated value of $50 million; is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the release also indicates that the real exposure to the Corporation is $10 million.

Is that the anticipated cost?

MR. DON PALMER: That's the retention on our rate insurance.

Just let me correct the record. We call it "the Dauphin hailstorm" but in fact it was Dauphin and then the storm track that went through the interlake and into Northern Winnipeg and into Selkirk. So of those thirteen thousand (13,000) claims about half of those would be in Dauphin.

MS. CANDACE EVERARD: Thank you for clarifying that. And with respect to the -- the thirteen thousand (13,000) claims filed are -- I would imagine that they're comprised of glass claims and what we commonly call "tin claims"?

And can you give a rough breakdown of how much would be in each of those categories.

MR. OTTMAR KRAMER: If it's got glass damage, it's going to have tin damage and so we don't break it down between the two (2) components.

MS. CANDACE EVERARD: Thank you. Can you confirm the -- the details of the reinsurance coverage that's available to the Corporation to offset the costs on this issue?

MR. DON PALMER: We have a reinsurance program in place which has a retention of $10 million, so we're responsible for the first $10 million. That coverage goes up to a total of $200 million in various layers.

We also are responsible for what's called a "reinstatement premium" which is of $4 million to reinstate the coverage after we've had a claim.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. So if I understand your correctly the cost to the Corporation's about 14 million, comprised of the retention and the other $4 million fee that you just mentioned.

And has there been any issue with the reinsurance in terms of collection or providing coverage, any kind of complaints in that department?

MR. DON PALMER: No.
MS. CANDACE EVERARD: And is the -- the $4 million fee that you just mentioned, is that ultimately recorded in the current year or is that incoming for the year of the application?
MR. DON PALMER: It's in the current year. It's included in the quarterly that we filed.

(BRIEF PAUSE)

MS. CANDACE EVERARD: All right. I just have a -- a couple of questions on what we commonly refer to as "loss transfer."
Can you characterize what the in -- or the impact has been of the cost allocation changes that were ordered by the Board, and how specifically those allocation provisions have impacted the -- the current GRA that's before the Board at this time?
MR. DON PALMER: In broad terms the -- first the -- the PIPP cost allocation that was specifically ordered by the Board after our loss transfer hearing of 2005, with any multi-vehicle claim involving two (2) parties, regardless of fault, 50 percent of the total cost of the injury claims was allocated to the classification buckets of the two (2) involved vehicles.

Or more -- more than that. And then there's specific rules on single vehicle accidents or -- or accidents involving pedestrians as well, in terms of allocation to the pool as a whole and whatnot.

The -- the bottom line of that allocation was to increase the expected costs on commercial vehicles because they're large, and decrease the expected costs on motorcycles because they are more susceptible to injury, and really no effect on the other classifications.

In terms of the extension of that methodology into this year for collision claims, which has not been specifically ordered by the Board, the indication from the ruling last year, was that that should be extended for collision claims as well, which really is not feasible from a -- in terms of a workload.

So we have done an estimate of -- of the effect only for motorcycle claims, because they are the -- the ones that are most impacted by the cost allocation methodology.

And what we did is we said, Okay, single -- we have the record of single vehicle claims. We said, For all the collision costs from those collision claims for motorcycles, we're going to keep in the collision pool. For any collision costs that are -- for multi-vehicle we are going to assign half of those to the motorcycle class, and the rest into the -- the pool at large, so to speak.

So that decreased the expected claims cost on motorcycles in total by about 3 percent.

MS. CANDACE EVERARD: Thank you. That concludes that broad area. I'm now going to be moving to the broad topic of basic expenses. So a little bit on claims expenses, operating expenses, trend analysis, capital expenditures, et cetera.

So we'll start at TI-7.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And in particular, TI-7(b) is where I'm going to begin.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And looking at the -- the first box, top left, it's entitled, "Claims Expenses".

Can you confirm for the record what claims expenses include.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Claims expenses include the cost to adjust the claims, the compensation, and you know, other various expenses associated with those adjusters.

MS. CANDACE EVERARD: Thank you. And looking at the detail in the claim's expenses box on TI-7(b), I notice that from 2004/2005 and -- and moving into the outlook period for the compensation line, which is the first line on the table, the expenses are projected to increase from about 48 million in '04/'05 to 55.2 million in the year of the application, '08/'09, to 61.3 million in 2011/'12.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And similarly the data processing costs are also set to increase somewhat, from 4.2 million in '04/'05, to four point seven (4.7) in '08/'09, to five point seven (5.7) in '11/'12 -- 2011/'12.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And then if we look at the total line for this particular table, the -- the overall claims expenses are set to increase from sixty-five point two (65.2) in '04/'05, to seventy-three point eight (73.8) in '08/'09, to eighty-one point one (81.1) in 2001/'12.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: Okay, if you can just flip the page, we're going to go back to TI-7 and talk about operating expenses for a few minutes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: It would appear from this table -- and I appreciate that this is op -- entitled, "Operating and Claims Expenses" -- the -- the most significant piece or the majority of the expenses relates to compensation. For the year of the application, the projected compensation amount is 83.3 million out of a total for Basic of 142.9 million.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And we will come back and talk about staffing levels and -- and such a little bit later on.

But continuing with this chart for the moment and looking at the second line on the chart which is data processing, I note that there was a fairly significant increase from the year that just finished, '06/'07, of 6.3 million to a forecast for the current year of 2007/2008 of 9.7 million, which is probably an increase of about 50 percent.

Can you indicate for the record the reason behind the increase there.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: The data processing is -- is mainly due to the CARS and AOL system support that we have that's ongoing.

MS. CANDACE EVERARD: I'm sorry you said "the CARS"; like C-A-R-S?

MR. OTTMAR KRAMER: CARS. It's -- it's one of the systems that we have; CARS and AOL.

MS. CANDACE EVERARD: And AOL. And what those are -- what -- do you know what CARS stands for? Is that an acronym for something?

MR. BARRY GALENZOSKI: It's the claims systems, so it's a -- it's a Claims Administration and Reporting System, I believe is the acronym.

MS. CANDACE EVERARD: And those systems have in place -- have been in place for a number of years, I take it?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: So sorry, what's the -- the reason for the increase? They're being upgraded?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: There's continual upgrades in '06/'07 which you're looking as a -- as a jumping off point, it -- it tends to be a little lower than some of the other years. So in '06/'07 we didn't have quite as -- as high expenditures, but we're just continuing to do upgrades, et cetera. We've also included in data processing is what -- workstation...and that's also driving up some of our data processing expenses.

MS. CANDACE EVERARD: And what is the -- the detail of the work station refresh program? Is it simply a replacement of computers or is there more to it than that?

MR. OTTMAR KRAMER: It's a replacement of computers and printers, some printers, monitors, et cetera, to -- to make sure that we're all working on the same operating system, have the same software, and everything is compatible.

MS. CANDACE EVERARD: Can you just explain for the record the other acronym that you used, AOL.

MR. OTTMAR KRAMER: That's a system called Autopac Online.

MS. CANDACE EVERARD: Okay. And what is that for?

MR. OTTMAR KRAMER: That is what the -- the brokers use. Being my first year, I believe that's what the brokers use to submit and transmit data to us.

MS. CANDACE EVERARD: Okay, continuing on in TI-7(a). Or rather, actually one of the IR's that was asked by CMMG in the first round, and it's not in the book of documents. It's Information Request T or -- pardon me Information Request 26.8 asked by CMMG, and it relates to TI-7(a).

And I'm looking specifically at the attachment to that IR response. This is a -- a schedule of the special services expenses.

And I note about halfway down the list there's an entry or a line item entitled, "Special Services - PIPP Studies".

Are you with me?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And there are three

(3) dollar amounts referenced between 2005/2006 and 2007/2008 which by my calculation total about 1.88 million.

Are these expenses related to the PIPP review that has been mentioned already in evidence or something else?

MR. OTTMAR KRAMER: No, you're -- you're correct, they're related to the PIPP review.

MS. MARILYN MCLAREN: Sorry, Ms. Everard, just for point of clarification, somewhere along the line we -- I'm not sure it was we, but somewhere along the line we started talking about a PIPP review.

I'm not sure where that switch happened. But when we started talking about this during the '05 GRA in the Fall of '04, what we were talking about is making some changes to our ability to manage PIPP into the long term.

We talked about a PIPP infrastructure study. As a matter of fact during the '05 GRA we shared an RFP with you that was labelled "PIPP Infrastructure".

So I -- I really don't want some misunderstanding to take hold that we are somehow reviewing the PIPP program. That -- that's not what we're doing. There is work going on to sort of better enable us to manage the PIPP program into the long term.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I'm sorry, that was in 2005. As part of our submission in the '06 GRA we did file that RFP.

MS. CANDACE EVERARD: Okay. And I -- I appreciate that semantics are important.

What about benchmarking? Is that part of what the Corporation is -- is looking at at the moment in a benchmarking study?

MS. MARILYN MCLAREN: Yes, that's definitely part of it. And again, last year as part of the '07 GRA we filed as part of our additional information, our claims handling PIPP and cost benchmark documents during those proceedings. We do plan to establish a framework of benchmarks.

But what we all need to remind ourselves of is that that's not something you can just buy a package of benchmarks, install it and flip a switch. We need to start to accumulate data that will allow us to benchmark ourselves. Right now the vast majority of important informative data about individual PIPP claims are in paper PIPP files.

We have the claims administration reporting system that enables us to place reserves, make payments and at a very, very rudimentary level administer PIPP claims. But what we need is a much enhanced tool for our case managers to manage PIPP claims. It will also enable us to get more information and more data.

One of the examples I would give you is that we plan to introduce the international standard of categorizing injuries. And we will be categorizing PIPP injuries according to this international standard so that we can in fact benchmark ourselves against others. Right now we can't do that, and that's clearly something we're working hard towards as part of the PIPP refresh.

MS. CANDACE EVERARD: So I -- if I asked you to give me a list or a breakdown of the PIPP studies that are referenced in the CMMG attachment, are you able to -- to do that or -- I mean we -- we've covered a couple of different subject areas in the answer that you just gave, but maybe can you summarize them, just so we have a -- a clear picture of where these funds are being allocated?

MS. MARILYN MCLAREN: What we've been doing to this point is planning. The RFP that we shared with you two (2) years ago was really a document that was going to help us plan to plan.

So we've concluded that work and we are now planning the rest of the work. So we could probably provide a little bit more information but there is nothing substantive in terms of projects underway to implement anything that tangible yet.

So I think what -- what -- and that's why we referenced -- I think it was in my pre-filed testimony -- that the work that we're doing on PIPP will take a long time to come to fruition. It is a very long-term initiative, and you need to really create the base before you can start implementing real changes.

One of the other things that we think would be very important to do to make the process better for our claimants, but also more efficient for our case managers, is to move to a system where, for example, a chiropractor would be able to say, I believe this individual will need twenty-two (22) chiropractic treatments. The case manager would say, Okay. And then, until the twenty-two (22) is hit, there is an automated system of reimbursement that doesn't take any particular effort on anyone's part.

So that is now in our plan, but it's not something that we are spending money on and doing work to create yet.

MS. CANDACE EVERARD: Okay. I -- I think I understand. You said a moment ago that it will take a long time to implement the -- the changes that the

Corporation is looking at. And I think yesterday you said that it would hopefully be completed by about 2012; was that -- was that about right?

MS. MARILYN MCLAREN: Yes. Yes. Once we -- once we make our final decisions about how we intend to create the base and then start the tangible work, we will have a road map -- a game plan -- to establish which project -- which sub-projects -- will be done in which order, and when the last ones would be concluded.

Right now, with the information we have available, I would guess that it would be around 2011 -- 2012 that we would finish the last one.

MS. CANDACE EVERARD: Okay. So again, just coming back to the schedule and the IR -- the CMMG IR-26.8 where there's the 1.88 million set out; if I understand you correctly, those funds that have been expended over the last three (3) years relate to the planning and the gathering stages more so than -- than implementation?

MS. MARILYN MCLAREN: Absolutely. Completely. Yes, no implementation has been begun.

MS. CANDACE EVERARD: And -- and my next question is, looking at, again, this IR response under that line item of special services PIPP studies there's nothing -- no dollar amounts forecasted through the year of the application or the outlook period.

Should I be looking at a different document, or does that mean that there's no money set aside for this in the next four (4) years?

MR. BARRY GALENZOSKI: I can maybe help with that a little bit. This -- these items have been expensed and, in the future, those costs will be put together and they'll be amortized as a deferred development cost and then they'd show up in an amortization expense.

MS. CANDACE EVERARD: Okay. So right now, with the information that we have before us, the fund aren't reflected.

Is that -- is that what you're saying?

MR. BARRY GALENZOSKI: They're not reflected here because this is an expense statement for special services that you're looking at. So the -- what's going to happen is when there -- there's a project going forward, those costs are accumulated and they go into a deferred development cost which is then amortized over a five (5) year timeframe.

So that will show up as an amortization expense at that point in time. But the -- the costs are basically capitalized and then amortized after that. So they wouldn't -- they're not showing up here because they're not -- they're going to be accounted for differently. So right now those -- those numbers are included in our capital expenditures going forward.

MS. CANDACE EVERARD: Okay. Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Can you explain the rationale for why the -- the planning expenditures were not capitalized?

MR. BARRY GALENZOSKI: Yes. We tried not to -- to just defer costs and build up a lot of deferments for amortization at later times, until you're more certain that a project is going to go forward. So smaller costs, like these, are -- are expensed in the year that they're incurred rather than deferred to some future time period.

You can imagine that a long -- a long project like this, you could spend a bunch of money over a number of years and then you'd have this big deferment for -- that would be put against future periods.

Until we get to the point of actually saying we are -- we've got a project that we can go ahead with and implement, we wouldn't start deferring any of those costs. We would expense those costs.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, just to summarize and just to get a -- a clear picture, does the Corporation have a sense of any specific projects that it's going to undertake on this issue? And, if so, is there any idea of what the cost is going to be that are associated with those?

MS. MARILYN MCLAREN: We do expect to either purchase or enhance our car systems to, in effect, provide the better tool that I keep referencing. We need that better tool for our case managers, and a better ability to collect important information for management. We do expect to do that.

In terms of the costs; we don't have anything firm at all, but what we've always been doing as part of the planning process, and will continue to do before we make a decision on expending money, is really look at the cost/benefit, so to speak, and that's clearly a part of the process that we will use.

But it's really also important to keep in mind that part of the cost/benefit considerations for the corporation go well beyond: If we spend money are we going to save money? We don't believe there is any overriding need for the Corporation to be trying to reduce its payments to victims of automobile injuries.

So we need to think in terms of: How can we better help claimants; how can we better support our case managers in helping claimants? There's a lot of softer considerations in terms of considering that the -- the benefit of the expenditures. It's really a business case. Does it make sense to spend this money as opposed to: If we spend five dollars ($5) will we save seven dollars ($7)?

So it's really not a financial cost/benefit that we're -- we're looking at this. And when you look at some of the information that you've just been reviewing with Mr. Palmer, in terms of our annual PIP costs, and certainly our growing PIP liabilities over the long term; any costs related to putting the infrastructure in place will be a tiny, tiny percentage of annual PIP expenses; PIP incurred.

MS. CANDACE EVERARD: So, at this point in time, you aren't in a position to give a ballpark estimate of what the cost would be; is that correct?

MS. MARILYN MCLAREN: I would really not. It would be really ballpark out of my mind, and I -- that -- that wouldn't be any sort of basis to put something on the public record.

MS. CANDACE EVERARD: All right. Still

looking at the CMMG response to 26.8, but moving down to another line item, I note that about a third from the bottom of the page, there's a line item MPI/MTA -- Professional Driver Funding Agreement. I take it that's the agreement between the Corporation and the Manitoba Truckers' Association; is that right?

MS. MARILYN MCLAREN: Yes, that's fully funded by SRE.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. I would next ask you to refer to Question 32 posed by the Board in the first round. It's not in the book.

(BRIEF PAUSE)

MS. CANDACE EVERARD: This IR refers to information technology costs. And if I'm reading this correctly, it would appear that IT expenditures -- the -- the total IT expenditures reflected about halfway down the page are set to increase in the current year to 32.6 million over twenty-two point (22.) -- pardon me, 24.2 million in the '06/'07 fiscal year, so an increase of about eight point four (8.4).

Does that look right?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: Okay, and the data processing costs under total data processing referenced about eight (8) lines, in indicates an increase to about twelve point three (12.3) million for the current year over eight point seven (8.7) last year. And then the projected expenditure for the year of the application is about twelve point four (12.4).

I -- I would assume that the reasons for that increase would be the initiatives that we discussed a couple of moments ago in terms of the upgrading and the work-share -- or workstation refresh, et cetera. Or is there anything in addition to -- to add to that?

MR. OTTMAR KRAMER: No -- no that -- that would be correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And the -- the line item for license charges which forms part of the total data processing -- this is the -- the second line of numbers -- there's indicated from last year, '06/'07, of 1.9 million, a fairly substantial increase through the outlook period to about 3.4 million.

Again, are -- are these licensing charges related to the upgrades and the -- the workstation refresh, or is there some other force behind them?

MR. OTTMAR KRAMER: No, you're -- you -- you would be correct. It's the -- the just a general license and the workstation refresh would also have an impact; numerous software, increase, some of the increased licensing charge for the software.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. Turning to the book of documents, Tab 23, which is the response to question 29 posed by the Board in the first round; my first question is whether you can confirm where these expenses relating to sponsorships and grants and donations are reflected in the GRA filing.

Would -- would they be part of TI-7?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, those -- those expenses would be contained in our income statement for the year.

(BRIEF PAUSE)

MS. CANDACE EVERARD: There was an IR asked in the second round by the Board following on number 29 at Tab 23, and that was number 14. Maybe you could turn to IR2-14 asked by the Board in the second round.

The question was:

"What criteria are applied to determine when and to whom sponsorships, grants, and donations are made?"

And the answer, I -- I suppose, is self-evident, but perhaps could be read in for the record.

MR. WARD KEITH: I can answer that. The question is -- the question was:

"What criteria are applied to determine when and to whom sponsorships, grants and donations are made?"

And the response is:

"Refer to the 2006 general rate application first round information request, CAC/MSOS [MPI-1-40]."

MS. CANDACE EVERARD: Would it be possible for the Corporation to file that response as an exhibit in this proceeding?

MR. KEVIN MCCULLOCH: Yes, we can take care of that.

--- UNDERTAKING NO. 7: MPI to file for Board, the response to question asked by Board in IR-2-14, first round: "What criteria are applied to determine when and to whom sponsorships, grants and donations are made?"

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. And turning back for a moment to number 29 which was the first question asked on this topic that -- that gave rise to the IR that we just looked at.

We note on reviewing the various expenditures made that the -- the majority of them relate to what can probably be characterized as automobile-related issues such as safety, collision repair, accident prevention; that kind of thing. We also noted that there were -- there are a couple of expenditures.

And I'm looking at the 2007 schedule, so the first one related to what could be characterized as ethnic activities, or ethnic entities. For example, on -

- on the first page there's -- there was a sponsorship or a donation to the Rady Jewish Community Centre.

Also on the first page, the Jewish National Fund of Canada, and then on the second page there's one to the New Iceland Heritage Museum and the Italian Canadian League of Manitoba.

And I guess our -- our questions following on noting those details are why or how the Corporation chooses these specific ethnic groups as opposed to others, and whether there's a view in the Corporation that it's not preferable for there to be perceived preferences among the various groups.

So perhaps one of you can speak to those issues?

MR. DON PALMER: There's sort of two (2) overriding guidelines to -- to our policies regarding sponsorships.

The first one, and you -- and you touched on that, was anything that's specifically automobile or road safety-related. On the other side of that is -- is one that more identifies us with our Corporate citizenship and our involvement in -- in the community, and part of the fabric of Manitoba, so to speak.

So, it's more along those guidelines that the latter expenses would be -- would be used. We do have very strict criteria as to how those expenses are approved. Anything over five thousand dollars ($5,000) goes directly to our Board of Directors, for instance.

Amounts under five thousand dollars ($5,000) are, in fact, approved by the CEO. So there -- there are some very strict guidelines and governance procedures regarding those types of ex -- expenditures.

MS. MARILYN MCLAREN: Further to that point, I would just go on to say that we're very sensitive to the -- to the issue that -- that you raised. We tend not to contribute very often to what you would categorize as ethnic events or -- or endeavours.

And I can go back and check, but it seems to me that with the ones that you -- you won't see them in multiple years; some of the ones that you pointed in the '07 year. And there would be something specific about what they were doing that time that did bring it closer to the core business of MPI that would make us more likely to provide support on a one-off kind of basis.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, Ms. McLaren, based on that answer, I take it that you would agree that the focus of these kinds of expenditures by the Corporation, particularly as a Crown Corporation, would be related to automobile issues and safety and all of those kinds of things rather than a focus being put on non-automobile-related ethnic entities or -- or events?

MS. MARILYN MCLAREN: Yes, definitely.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I have a short section on staffing levels that I think we can cover off in ten (10) minutes, so we'll do that and then, presumably, break for lunch, Mr. Chairman? I -- I have a short section that I think I can finish by 12:00.

Is that okay?

So this relates to staffing levels, as I indicated. I would ask that you turn to Tab 37 of the book of documents which is response given to a CMMG IR and particularly Number 28. And this attachment is a re-filing of TI-9 with the removal of any non-basic employees.

And if we look at -- if we look at the comparison between 2006 and 2007 -- so I'm on pages 2 and 3 -- 2006 which is the lower table on page 2, and 2007 which is the -- the upper table on page 3; it would appear that, overall, the staffing level for the Corporation increased from 2006 to 2007 from about fourteen hundred and three (1,403) employees to fifteen hundred and thirteen (1,513).

Is that right?

MR. DON PALMER: That's what this table provides, but if -- if you look at the -- the question it -- it asked us to provide staffing levels with DVL -- driver's licencing Autopac extension and SRE removed.

The issue that arose in the preparation or -- or in this document is to remove the DVL employees. As we are integrating them throughout the Corporation, we do not have the same number of direct DVL-related employees where they're 100 percent DVL. And that's the only amounts that -- or only numbers that we removed off this -- this table from the one that we had initially filed in our rate application.

As we continue to integrate the DVL operations within MPI, the 100 percent direct DVL employee count is reducing. From an allocation basis, we are still continuing to allocate the correct cost to DVL, but staff members that are truly 100 percent DVL-related are -- are being reduced and they're being integrated into our Corporation.

Therefore, the increase from '06 to '07 is

-- is related to that factor; that as we integrate them into the Corporation, they're not treated as direct DVL and are now included in that count. Nothing much has changed except they're not identified as direct DVL anymore.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is the integration of the -- the staff that you've mentioned pursuant or due to the business process review or no?

MR. DON PALMER: Yes, it is.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. And looking at a comparison between 2007 and 2008, which are both on page 3; the staffing level for Basic is set to increase from fifteen hundred and thirteen (1,513) to about fifteen hundred and forty-five (1,545). And it would appear that that increase is due to an increase under the insurance operations and finance divisions, offset by a decrease in claims operations.

Is that about right?

MR. OTTMAR KRAMER: The numbers appear

that -- but due to internal reorganizations, a lot of that is just some reshuffling of some departments and -- and moving of some responsibility with -- between finance claims and insurance operations.

MS. CANDACE EVERARD: Okay. But the -- the overall number for basic has increased or will -- is set to increase from fifteen thirteen (1513) to fifteen forty-five (1545)?

MR. OTTMAR KRAMER: That would be correct.

MS. CANDACE EVERARD: And just on the issue of the reallocation that you just mentioned, particularly in the Finance Department, this table is correct that the Finance Department would be growing from about a hundred and eleven (111) to a hundred and fifty-one (151)?

MR. OTTMAR KRAMER: That -- from '07 to '08, that's the movement of a department into Finance Special -- Special Investigation Unit, and that's what the budget had -- or -- or the forecast had had happening. In reality we've had a reorganization since, that has been moved out of Finance, so the numbers are a little dated.

But there's reorganizations in any corporation all the time, and -- and those movements are

-- are what you see here.

MS. CANDACE EVERARD: So, into which division has Special Investigations been moved, from Finance? Is it one of the other ones shown on the table?

MR. OTTMAR KRAMER: Yes, it's moved into Claims. But -- but that doesn't appear on this document yet.

MS. CANDACE EVERARD: Fair enough.

Okay. Mr. Chairman, I'm about to move into a new area so perhaps it's time for lunch?

THE CHAIRPERSON: Yes, it is probably good to have a break. So will come back at 1:15 all refreshed. Thank you.

--- Upon recessing at 11:56 a.m.
--- Upon resuming at 1:16 p.m.

THE CHAIRPERSON: All the front seats seem all occupied, also to the right, so we are ready to go, Ms. Everard.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman.

I just want to go back for a couple of

minutes to the line of questioning dealing with the PIPP bench-marking, and I appreciate we've covered off the studies and all of that -- that kind of thing.

The question that I have is, or -- or I -- what I would ask the Panel to explain is how the Corporation is managing its PIPP claims up to this point if it doesn't have statistical analysis, including categorization, just at a high level.

MS. MARILYN MCLAREN: Back as part of the 2006 GRA proceedings, we filed a report on PIPP costs. And we have a lot of information -- there's a lot of information as part of this Hearing -- in terms of PIPP costs, PIPP experience, our projections, our forecasts.

We, at the program level -- at the PIPP Program level, we have significant confidence in our financial information and our cost information based on the ongoing operation based on our -- our past experience.

What we're talking about is a level of detail. And it's not so much the financial information as it is information about how best to serve the clients, and how best to understand how the demographic changes and those kinds of changes, going forward over the long term, are likely to affect the operation of the program.

So it's not that we have a shortage of

program financial understanding.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, on a -- on a case-by-case basis, the -- the individual adjuster or counsellor or whoever the -- the person is, are they really making decisions on a case-by-case basis or -- or is there something more specific that directs them?

MS. MARILYN MCLAREN: They are making decisions on a case-by-case basis based on their experience and based on the resources they have available to them which would include access to the healthcare services team as well as their management, their supervisors.

There is not a structur -- a structural systemic way to facilitate some of those decisions of theirs. But they make the decisions in the best interests of the claimant according to the program that exists.

And a lot of the decisions that they're making and, therefore, a lot of the corporate knowledge about how the PIPP Plan is administered, are sitting in paper files, not in a readily accessible format.

MS. CANDACE EVERARD: So, does the

Corporation evaluate the individual decisions that are being made from time to time and, if so, how does it -- how is it able to do that without -- without specific bench-marking?

Or are you saying that it, as a whole, relies on the experience and the other information that -- that you mentioned?

MS. MARILYN MCLAREN: The latter. And, you know, there are training programs for case managers. There are performance evaluations for case managers. There is significant policies, procedures, documentation, claims manuals, available to the case managers.

Those all form the basis of how we assess the performance of individual case managers and, to a certain extent, the program as a whole.

MS. CANDACE EVERARD: Thank you. And I just had one (1) other follow-up question from an area that -- that I covered this morning which was dealing with the staffing levels, and the IR that we looked at that was a -- a recasting of TI-9 with Basic only.

And -- and I know I asked the question about the transfer of certain of the DVL employees into Basic being a result of the business process review. And -- and I know that -- I think it was Mr. Kramer who gave an answer dealing with the costs associated with that, and I'm just -- I'm not 100 percent clear on -- on what's been said and so I -- I want to clarify it.

If -- if the overall number of staff in Basic has increased due to DV -- the transfer in, I guess, of DVL staff, is it the case that there are savings accruing to Basic, or is it the case that there are additional costs accruing to Basic as a result?

MR. OTTMAR KRAMER: First I'd like to clarify. This isn't a Basic staffing. It is our corporate staffing with direct DVL Extension and SRE removed. Some of it is Basic, but there is also allocatable people in -- in these -- in these counts that are allocated to DVL, allocated to SRE and Extension, but just not on a full-time basis.

So these are not Basic staff; these are what's remaining in -- in the corporate after some direct deductions.

MS. CANDACE EVERARD: Okay. So what you're saying is you took the -- the number for the corporate staffing overall, you removed whichever individuals were 100 percent allocated --

MR. OTTMAR KRAMER: Correct.

MS. CANDACE EVERARD: -- to the other lines of business, and any individual that was even partially in Basic, was left in?

MR. OTTMAR KRAMER: Partially in Basic, partially in DVL, partially in Extension, partially in SRE. So you -- you -- this -- this is not Basic. It still is corporate, just with the direct removals.

MS. CANDACE EVERARD: Do you have the -- the pure Basic numbers available?

MR. OTTMAR KRAMER: No, we can't do that because -- if I give an example -- I've got accounts payable -- Accounts Payable Department. I took on an additional DVL person. We now have additional accounts payable because of DVL, but that person doesn't handle DVL payables, so we have to do an allocation.

And I don't have a direct person doing DVL payables, but it's -- it's now a department. And so you -- we -- we have not -- that person would have been in the DVL staff count two (2) years ago now is not in the DVL staff count anymore, and would still remain in this -- on this corporate basis.

MS. MARILYN MCLAREN: And further to that, the -- we -- we have a very good handle on the work associated with doing accounts payable for DVL functions. And DVL will pay for those even though they're done by a person not fully dedicated to DVL.

Call Centre would be another example. In the 2006 stats that you have before you, there were a number of staff working within the DVL division answering phone calls about driver licenses. Now those staff -- that work is being done in the Insurance Operations Call Centre.

And we categorize every call that comes into the call centre, so we know exactly how many calls are being handled on driver license questions, but they are now imbedded in this -- not a 100 percent allocated to DVL anymore, but they're still tracked and the costs are out assigned to DVL.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, thank you. Proceeding then to some questions dealing with the trend analysis at TI-5. I'd ask you to turn to that particular document.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: While they're looking for that, I'm wondering if it would be possible for someone to partially close those two (2) blinds there to Mr. Barron's right.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, so TI-5. Can you confirm whether the analysis set out on this schedule is inclusive of -- of employees where employees are mentioned of DVL extension and SRE, or is this a Basic only document?

MR. OTTMAR KRAMER: This is a corporate document, so it's on a consolidated basis.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is this something that you would have readily available dealing with Basic only?

MR. DON PALMER: There was a pre-asked question that asked us to remove the DVL staff, and that will likely be filed tomorrow.

(BRIEF PAUSE)

MR. DON PALMER: It's essentially the same basis as we did your staff count. It's just with the -- well, even before DVL, there are a number of -- as -- as explained by -- by Ms. McLaren and -- and Mr.

Kramer, that staff aren't necessarily exclusively Basic staff, or Extension staff, or DVL staff.

MS. CANDACE EVERARD: Thank you. Looking at line 3 of TI-5 which deals with the operating expense ratio, and before we -- we get into the numbers that appear here, perhaps you can just confirm for the record what this particular ratio represents and how it's calculated.

(BRIEF PAUSE)

MR. DON PALMER: The operating expense ratio, which I believe you're referring to, is -- is the operating expense over the net revenue excluding investment income.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, thank you. Looking at the figures on line 3 for the operating expense ratio, I note that there is an increase from 2005 at seven point nine (7.9) to 2006 at ten point twenty (10.20). Can you explain the reasons for that increase?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: That -- those increases are attributable to the DVL operation that was included into MPI.

MS. CANDACE EVERARD: Does the Corporation prepare a projection of this analysis through the outlook period, or no?

MR. OTTMAR KRAMER: No, we don't.

MS. CANDACE EVERARD: All right. Turning to line 4, the claims expense ratio; it would appear, looking at the -- the numbers across the board from 1994 through to 2007, that there hasn't been a lot of fluctuation. Does that appear correct?

MR. OTTMAR KRAMER: Could you repeat the time period you were looking at?

MS. CANDACE EVERARD: Across the board. For line 4, in 1994 it's at 11, then it does go down to 10 in '98, up to 12 in '99, stays in and around 12 until '04, goes back down to 11 and then back up to 12. So just the -- the upshot being that there's not a lot of variation there over that thirteen (13) year period.

MR. OTTMAR KRAMER: Yes, I would tend to agree with that. It goes between ten (10) and almost thirteen (13).

MS. CANDACE EVERARD: Okay. Line 5, the next line down, operating expense per policy. Well, actually, perhaps you could just first confirm that that is what line 5 represents.

MR. OTTMAR KRAMER: Confirmed.

MS. CANDACE EVERARD: And I note from 2005 to 2006 there's an increase from sixty-seven dollars and fifty cents ($67.50) to ninety dollars and seventy-one cents ($90.71), an increase of about 34 percent.

Is that due to DVL as well, or was there some other explanation?

MR. OTTMAR KRAMER: You're correct. That would be the DVL impact.

MS. CANDACE EVERARD: Okay. Line 7 of the trend analysis is policy/support employee. Can you just confirm for the record what that represents?

MR. OTTMAR KRAMER: That would be the number of policies divided by the employee base.

MS. CANDACE EVERARD: Okay, and noting on that line moving across the board, there's a fairly significant fluctuation. In 1994 the number was sixteen hundred and twenty-seven (1,627). Across to 2007, its decreased to nine hundred and twenty (920).

Is that due to an increase in the number of support employees, or does it have to do with -- with DVL or something else?

MR. OTTMAR KRAMER: If you -- if you look at 2005, there was a -- there was a sharp decrease and that's due to the DVL employees coming on-stream; the one-time impact of all the employees coming on.

MS. CANDACE EVERARD: Okay. Line 8 is claims/claims employee. What does that represent?

MR. OTTMAR KRAMER: That's the number of claims divided by the number of claims employees.

MS. CANDACE EVERARD: Okay. And in 1994, again, the number is two hundred and eighty-five (285) and through 2007 it's three hundred and thirty-three (333).

So does that mean that there's now fewer employees processing more claims?

MR. OTTMAR KRAMER: That would be more claims that the number employees will have increased, but the -- the volumes of claims have increased even greater than the number of employees.

MS. CANDACE EVERARD: And does the business process review, or will it include a review, of how claims are processed, or no?

MR. OTTMAR KRAMER: No, the business process reviews is DVL initiative.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I'm next going to turn to question 7, asked by the Board in the second round, which is not in the book.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Sorry, that is actually not the -- the one that I was looking for. I am just going to continue and we'll -- we'll come back to -- to that line of questioning when I get the right reference.

I'm going to ask you to turn to number 26, asked by the Board in the first round, and this has to do with allocation of costs.

And as I think is clear, or has been clearly set out on the record, the Corporation in connection with acquiring DVL has undertaken a review of its costs allocation to ensure a fair allocation among the lines of business.

Would that be fair to say?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: Looking at this IR, it's noted that the -- one of the changes to the allocation for 2007/2008 deals with the allocation of expenses from the Call Management Centre and the Fair

Practises Customer Relations Department, as in -- that those allocations now include amounts to DVL.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And maybe just for the purposes of the record, you can explain what the Fair Practises Customer Relations Department is and what it deals with.

MR. DON PALMER: Customer Relations Department deals with individual customer issues that come up from -- from time-to-time and in many areas of the corporation; in some ways the complaint department may be a little more than that, but that's a lot of what they do. Fair Practises is more looking at some of our policies and procedures in terms of whether they're -- they're always fair.

MS. CANDACE EVERARD: Thank you. Now, it's -- it's evident in TI-6 that 10 percent of the costs related to the Fair Practises Customer and Relations Department are to be allocated to DVL; that's on page 2 of TI-6.

My question is: How was that 10 percent allocation determined?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: That was based on the time spent on claims and policy issues, where we looked at the issues and -- and, you know, the complaints that -- that were flowing through that department.

MS. CANDACE EVERARD: So was there an -- a time analysis undertaken by an internal person, or how -- how was it arrived at?

MR. OTTMAR KRAMER: That -- that would have been an analysis done by -- by the manager of -- of that department.

MS. CANDACE EVERARD: The other item going back to the IR response that was mentioned is the Call Management Centre. And I believe that Ms. McLaren testified a moment ago that there is an allocation done as calls come into that centre, presumably by the recipient of the call to earmark --

THE CHAIRPERSON: We're just going to pause just for a second.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay. We're away again.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. So I think my question was about the Call Management Centre and how the Corporation knows where the costs should be allocated. And I think, Ms. McLaren, you had testified that there's some kind of a system in place as the calls come in to deal with that?

MS. MARILYN MCLAREN: Yes, definitely. We track the nature of every call, the length of every call. Those are important pieces of information for us, not only for allocating our costs properly within the Company but also understanding where our customer contact is coming from and for what purpose.

MS. CANDACE EVERARD: Okay. So in TI-6 page 3 where it's indicated that 15 percent of the expenses related to the call centre are allocated to DVL, that would be coming from the result of the statistics that are noted?

MS. MARILYN MCLAREN: Yes, that's right. And it would also include for future purposes things like the example I gave you; if you knew that there were two thousand (2,000) calls a year, for example, had previously been answered in the DVL division itself but that work was moving to the call centre, the calculation would be based on both what you know will happen once that change happens as well as the historic numbers.

MS. CANDACE EVERARD: Thank you. Going back for a minute to the -- the reference that I was not able to find. Mr. Saranchuk has kindly figured it out for me.

It's back in TI-5 -- TI-5, and in particular the attachments and the -- the various charts. And I -- I don't want to get into any of this in -- in a lot of significant detail, other than it would appear, relating to chart 3 on page 6 that is entitled, "Claims Expense," that -- and I'm -- I'm specifically looking at the -- the line with the triangles which is SGI and the line with the squares which is MPI, that from about 19 -- in -- in about 1999 the claims expense for the two (2) corporations seemed to be on par, and after that point both rates appear to have climbed but MPI's seem to have climbed at a -- a more substantial rate.

Is that what this claim -- or what this chart suggests?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Again, you have to understand the source of this information. We're taking all of this from published information and it's just exactly how everybody handles -- things can be very different from one (1) to the other. So we're tracking the expenses they show under their claims expense line as -- as published in their annual reports, and our numbers are -- are showing a more significant increase over theirs, but it -- it all depends on how they're allocating their costs between their various lines of business and so on.

MS. CANDACE EVERARD: Just following on that, the -- the chart on page 8 which relates to operating expenses, shows similar kinds of -- of trends as between MPI and SGI, and my question is whether or not MPI plans to look into this issue further or whether it has or would contact or plans to contact SGI to discuss some of the differences and to get a -- maybe a better handle on some of this information than -- than what's available from the sources at this point?

MR. BARRY GALENZOSKI: Yeah, one of the difficulties with this particular chart is that it starts off in 1988 as everybody being at a hundred (100). But that doesn't give you the relativity of everyone at that point in time.

For instance, if you look at the MPI at three sixty-seven point nine (367.9) for '07, compared to the industry at two ninety-two point six (292.6), I can tell you without a shadow of a doubt that we're at about half the operating expense of the industry, when you look at it from a pure percent of their premium base. Yet that doesn't reflect in here. This is just measuring the growth that's occurred over a period of time.

So because there's a -- a starting point, all you're doing is measuring the growth over that period of time. It doesn't measure the relative value of what -- how the money is being spent, where it's being spent and the results that you can achieve as a result of spending that money.

So there's those types of things that you have to take into account when you're reading a chart like this.

MR. OTTMAR KRAMER: I also want to add that -- that the -- the MPI numbers increase in '06/'07 due to the DVL impact in the operating expenses.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just on the -- the idea or the notion of MPI looking at alternatives in -- in terms of its -- its operations; is that something that it can undertake as a general rule or is it -- is it open to researching best practises of other entities for adoption where -- where that makes sense?

MR. BARRY GALENZOSKI: I guess again I'll go back to the -- when we look at comparing ourselves to others, we're among the lowest operating costs of almost everybody in the industry. The more comparable companies are SGI and ICBC of course.

But, you know, we -- we are always looking at our practices. That's part of what the reviews are and the various projects; how we're going to be dealing with DVL and the amalgamation in the future. All of that is part and parcel as to how we're going to come up with the best cost scenario going forward.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. I'd ask you now to turn to Tab 24 in the book of documents, which relates to capital expenditures. This is question 31, posed by the Board in the first round.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So looking at the attachment to question 31, it would -- and -- and specifically looking at the differences between the actual and the projected capital expenditures year over year, it would appear that in 2002/2003 a figure of 9.8 million was projected and 5.8 million was spent. And a similar situation, I guess you could call, it occurred in 2003/2004 when 12.2 million was projected and 5.4 million was spent. And again in 2004/2005 there was about 13.5 million projected and 6.1 spent.

Does that appear to be correct?

MR. OTTMAR KRAMER: Yes, that is a correct summary.

MS. CANDACE EVERARD: Now in 2005/2006 and 2006/2007 the difference is significantly less. And in 2005/2006 the ultimate expenditure was actually higher than the original projection.

Does this change in the last couple of years reflect a difference in MPI's approach to forecasting? Or how -- how would you explain the change?

MR. OTTMAR KRAMER: There -- no there was no real forecasting difference. In some of the earlier years there was not the activity that was planned to have occurred and in the last few years, '05/'06 and '06/'07, some of the planned activity with regards to DVL integration and the BPR projects has occurred as -- as planned.

MS. CANDACE EVERARD: Turning to Tab 34 in the book of documents, which is a response given to

CAC/MSOS question 56 in the first round.

This deals with the fact that at last years General Rate Application for 2007/2008 the Corporation indicated a budget for capital expenditures of just over 15 million or 15 1/2 million. This is in the -- in the question.

And in the current application that number's been revised to over 28 million. And the response, of course, explains the -- the components of that increase. It would appear that the -- the largest amount giving rise to the increase is the potential land purchase for just over 8 million, is that correct?

MR. OTTMAR KRAMER: Yes, that would be correct.

MS. CANDACE EVERARD: What is the -- the impact on the revenue requirement as a result of these changes?

MR. OTTMAR KRAMER: The impact on the -- on the revenue requirement is minimal because most of these expenditures would not hit the income statement. The land, for example is -- is -- that -- that purchase would never hit the income statement. The only impact would be a potential decrease on some investment income.

MS. CANDACE EVERARD: So in other words the Corporation would have about $8 million less to invest if it spends it on a land purchase?

MR. OTTMAR KRAMER: Yes, that would be correct.

MS. CANDACE EVERARD: And will these expenditures have any effect on depreciation expenses?

MR. OTTMAR KRAMER: The largest one that you're referring to, the land, no that -- that is not depreciated or amortized at all. The land remains on a -- on a cost basis and does not get amortized into income.

(BRIEF PAUSE)

MS. CANDACE EVERARD: If you could turn to Tab 28 of the book of documents, it's the response to question 15 asked by the Board in the second round.

Question 'A' was to provide the business case in support of the budgeted land acquisition. And the response as you'll see, indicates that the land acquisition costs are currently a provision.

How was the Corporation able to determine the amount for the -- the provision in question, the 8.1 million?

MR. BARRY GALENZOSKI: That provision was just a general provision. It's similar in nature to the provision that we put up on an annual basis for deferred development; that's about 8 million also. So the Corporation put up a -- a general provision at that stage.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Has the land purchase in question actually been purchased at this point in time?

MR. BARRY GALENZOSKI: No.

MS. CANDACE EVERARD: Can you give the Board an indication of what the purchase is or -- or what it will relate to.

MR. BARRY GALENZOSKI: Not at this stage, no.

MS. CANDACE EVERARD: Why -- why not?

MR. BARRY GALENZOSKI: It comes down to -- you know, public knowledge of what's happening on this side could interfere with negotiations that are presently underway.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Perhaps before we -- we move to another document, just one (1) final question on this land acquisition: Is it something that would ultimately relate to Basic?

MR. BARRY GALENZOSKI: Potentially, yes, as the biggest piece of our business is Basic.

MS. CANDACE EVERARD: Okay. If I could ask you to turn to TI-10, which is in the book of documents, but I'm -- I'm unfortunately the copy that I have in my book of documents is -- does not have the complete filing for TI-10; it just has pages 1 and 2 and I want to look at page 3. So I'm not sure if everyone else's book of documents is the same as mine; probably are, so I -- I apologize for that.

But if I could ask you to look at the -- the actual filing for TI-10. Page 3 relates to a detailing of capital expenditures in the year of the application and the outlook period. It would appear that for the year of the application the projected capital expenditure is about 16 million.

Is that correct?

MR. OTTMAR KRAMER: Yes, that's correct.

MS. CANDACE EVERARD: And that includes deferred development costs relating to the business process review of about 3.8 million, is that right?

MR. OTTMAR KRAMER: Correct, for those specific programs identified.

MS. CANDACE EVERARD: And for the outlook period the budget appears to hover right around the -- the $14 million mark or between 14 and 15 million.

How are the projected numbers arrived at for the outlook period?

MR. OTTMAR KRAMER: Could you repeat the question?

MS. CANDACE EVERARD: Sure. In the outlook period the -- the projections are between $14 and $15 million for each year, and the question was: How were those budgets determined?

MR. OTTMAR KRAMER: Those budgets were determined looking at the -- the historical spend and -- and seeing what we spend on -- on just normal operations, and then discussions with our managers on any future initiatives and any future one-time spends that would -- that would have to happen.

MS. CANDACE EVERARD: All right. That concludes the questioning at this point in time with respect to capital expenditures, and I just want to ask a few questions about safety initiatives.

This topic was addressed in the -- question 28 that the Board asked in the first round, which is not in the book of documents but I do want to refer to it.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I think it's been put on the record in previous GRAs but I'll just ask that it be confirmed if it still remains to be the case that the three (3) main priorities of the Corporation with respect to safety initiatives, are seat-belt usage or occupant-restraint usage, impaired driving and unsafe speed? Is that correct?

MR. WARD KEITH: Yes, that's correct.

MS. CANDACE EVERARD: Now looking at the schedule attached to question 1-28, it would appear, with respect to those three (3) priorities, that there was about just under $1 million dollars spent in the year that just finished in; 2006/2007. That's just adding together the four fourteen (414), the three seventy-two (372), and the two-o-three (203).

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: Okay. And that those numbers, with respect to those three (3) categories, don't change much in the current year or in the year of the application, for that matter; hovering in and around the -- the million or just over $1 million mark?

MR. KEITH WARD: Yes.

MS. CANDACE EVERARD: Has the Corporation been able to gain any indication of the measure of success that has been reaped from those three (3) initiatives?

MS. MARILYN MCLAREN: Well, as we've talked about in prior years, those are three (3) priorities, and there is many initiatives within each priority. And because we are, when it comes to road safety, in the business of education and awareness, we make sure we establish objectives for each individual program within those three (3) broad categories.

And we -- at the conclusion of that program we revisit the objectives and measure the success we had in achieving the stated objectives per program. So we continue to do that as we've talked about in prior proceedings.

MS. CANDACE EVERARD: So looking still at the attachment to number 28, aside from the -- the auto crime prevention strategies, which I -- I take it is basically the anti-theft initiative for the most part, budgeted at -- for the year of the application thirteen point eight (13.8) -- that's the 2008/2009 column. It would appear that the anticipated forecast with respect to road safety is about 7.9 million or 8 million.

So, again, just to clarify; that would be the $21.7 million dollar total for that year less the thirteen point eight (13.8) allocated to anti-theft?

MR. WARD KEITH: Yes, that's right.

MS. CANDACE EVERARD: Now, of that approximately $8 million that's being spent, there's about two point six (2.6) that's allocated as departmental expenses. Can you explain to the Board what those entail?

MR. OTTMAR KRAMER: The departmental expenses would be salaries for the people in that department, telephone, office basics, et cetera, operating expenses for -- for that department.

MS. CANDACE EVERARD: And I note, looking at this five (5) year schedule, that the -- the departmental expenses have increased from about 1.7 million in 2004/2005 to about two (2) -- just under two point seven (2.7) in the year of the application. What would be the reason for those increases?

MR. OTTMAR KRAMER: That would be -- the primary increase was due to the -- the departmental staff increase due to the Immobilizer Program.

MS. CANDACE EVERARD: All right. Moving on then. The next section; I just have a few questions dealing with DVL and the business process review and how that ties to Basic.

And I -- as a preliminary question, can you confirm that the -- the merger, if I can call it that, or the taking on of DVL by the Corporation was not to impact insurance rates negatively; would that be fair to say?

MS. MARILYN MCLAREN: Yes, that would be fair to say.

MS. CANDACE EVERARD: And we know that the decision has been made to treat DVL as a fourth non-insurance line of business?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And, as a result of that, DVL costs are tracked separately and the net income or loss is included in a separate line in the financial statements of the Extension Division?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Okay. And, as we know, the business process review or the BPR has been undertaken as a result of the DVL merger. And if I could direct you to TI-16, which is in the book of documents at Tab 9, and in particular, page 3 of TI-16 in the note section. Under the heading "Expenses" it's indicated at the last bullet that:

"There are included provisions for costs associated with the various BPR

projects such as drivers licence, long-
term driver safety rating and service
centres."

Can you explain how much of those costs are included in the claims and operating expenses?

MR. OTTMAR KRAMER: I -- I have a correction to make. That on -- on TI-16 on page 3 the provision statement that -- that is there that indicates that BPR projects such as drivers licence and long term driver safety rating and service centres; that's in error.

The drivers licence long-term nor service centres are not included in Basic. The driver safety rating would be and the -- the PIPP Review would be and those are -- have now been classified also under the BPR Department.

But the -- the drivers licence long-term and service centres would be treated as -- as non-basic programs.

MS. CANDACE EVERARD: So with that revision that you've -- that you've advised us, how should that last bullet read? Can you just confirm that for the record?

MR. OTTMAR KRAMER: I -- I would -- I would classify it as this:

"Includes provisions for costs
associated with various business review
projects such as driver safety rating
and PIPP review."

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Last year the Corporation advised the Board that the cost of the BPR would be about 28.8 million. Can you provide an update as to what is expected to be spent on the BPR?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Since we were here at this time last year, there's been no substantive changes in the expected costs of the projects that were identified as BPR projects at that time.

When we were here a year ago, the PIPP infrastructure work; the PIPP projects were not included as part of BPR. For project management purposes, they have now been rolled under that umbrella.

So we have yet to recast the overall BPR cost now that the driver license project is done and PIPP is now included. So that work is not really available -- the -- the results of that work have not yet been done.

MS. CANDACE EVERARD: Now, when we were looking at TI-10 a minute ago, on page 3, and we went through that the -- there's a deferred development cost of 3.8 million related to the Business Process Review for the year of the application.

And I note on that schedule that there are no additional deferred development cost relating to it. Does that mean that it's the expectation that the BPR will be completed within the 2008/2009 fiscal year?

MR. OTTMAR KRAMER: No. That -- that wouldn't be correct. We've got a contingency for new projects also on that which is just below that. The four point one (4.1) in '08/'09 and then 8 million thereafter. That would be encompassed in -- that would include any of the BPR spending also.

MS. MARILYN MCLAREN: But the one big DVL BPR project, being the service centres, is expected to be done by the end of '09.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. If I can ask you to turn to Tab 32 in the book of documents; this an

IR from CAC/MSOS in the first round, number 15, that deals with the business process review. And, in particular, there are three (3) projects referenced in that IR -- the driver safety rating, the service centres and the PIPP Study. And if we look at the attachment to the IR, it appears to set out the specific costs that relate to each of those three projects.

So looking first at the driver safety rating, it's set out under the -- the 2006/2007 column that the -- the total expenses in that year for that project were about 1.4 million, is that correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And then looking at the -- the next page, the forecast in projected costs for the current year, '07/'08, and the year of the application, '08/'09, there's an additional 4.9 and 2 million respectively allocated to driver safety rating. Is that right?

MR. DON PALMER: That was the budget that was cast, yes.

MS. CANDACE EVERARD: So have there been changes to that at this point?

MR. DON PALMER: This original budget was -- was cast with an expectation of -- of DSR implementation in 2008. That now is not going to be the case. As Ms. McLaren indicated, it likely is in the 2009 timeframe. But we haven't had a -- a budget process since this, so the -- the numbers will be different. But we don't have a new budget to present at this time.

MS. CANDACE EVERARD: The -- the three (3) numbers that we've just gone through for this three (3) year period total about 8.3 million. When you say that there will be changes, does that mean there will be a change to that total number, or will there just be a reallocation in terms of timing of the -- the eight point three (8.3) itself?

MR. DON PALMER: It's likely still in the ballpark, but with the timing changes, it also cost changes, so -- but we're close.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just a follow-up question on what I was asking about TI-10, and the -- the costs -- the deferred development costs that are set out there on page 3. And I think my question was there was a specific amount for the business process review in -- in the first year shown on the table, and not in the subsequent, and did that mean that it was going to be done; and the answer was -- I think from Mr. Kramer --

no, but there's money built in there for special projects or contingencies.

Does that mean that the business process review may not be completed until the last year on that schedule, being 2011/'12 -- 2011/'12?

MS. MARILYN MCLAREN: That wasn't the intention of the answer at all. As you revisited with us a little while ago, we used to put about $8 million aside as -- as a contingency for projects, knowing that there are always a number of projects going on. In the past years that you reviewed, we significantly underspent that.

So I think our expectation, going forward, is that more likely than not we will continue to need some level, probably somewhere around $8 million a year, for project work in -- in the capital budgets. That doesn't mean that we have then taken the step to say, oh, BPR is going to keep on going until 2012 or anything remotely like that.

But remembering that BPR is now more corporate, it does include PIPP. I told you that PIPP may very well take until '11 or '12, so that's where some of that alignment with what Mr. Kramer said, but it doesn't mean that sort of the DVL-BPR projects are going to go on that much longer.

MS. CANDACE EVERARD: Thank you. Continuing with the IR at Tab 32 of the book of documents, which breaks out the -- the costs for three (3) of the BPR projects; if we could next look at the service centres lines. The -- the document reflects that the actual budget, or the actual expenditure for service centres in 2006/'07 was about 1.9 million. There's forecasted for 2007 and '8, an additional 6.7 and for the year of the application, an additional -- additional 5.6; so a total of about 14.2 million.

Is that still the plan?

MR. DON PALMER: Yes, that's the plan.

MS. CANDACE EVERARD: Okay, and with respect to the third one -- the PIPP infrastructure -- there was an actual expenditure in 2005/'06 of two hundred and fifty thousand (250,000), another eight hundred and thirty-six thousand (836,000) in 2006/'07. And then there was a -- a forecast for the current year of about 2 million which would be a total of about 3.1.

Now, I appreciate that there was an IR asked by CAC/MSOS and the Corporation put on the record that for the -- the current year; and this -- this provision of 2 million they've actually or you actually only intend to incur about 1.3.

Is that all fair to say?

MR. DON PALMER: That's fair to say, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, and for each of these projects listed, there are components for deferred development costs. Do those include internal costs as well as expenses paid to external parties?

MR. BARRY GALENZOSKI: They -- they include the external expenses and any internal incremental expenses that we would have.

MS. CANDACE EVERARD: Can you give the -- the Board an idea of what the -- the breakdown would be between the internal versus external.

MR. BARRY GALENZOSKI: The vast majority is going to be external costs. The -- there may be some internal incremental costs if you have to have a coup -- some extra people to work on a project for a few years. Those would be included, and those would be part of the costs that are amortize.

But the Corporation does not -- it tracks the project costs associated with internal people working on a project, but it doesn't amortize any of those, so they don't show up in the capitals schedule.

MS. CANDACE EVERARD: How is the

Corporation amortizing the deferred development costs?

MR. OTTMAR KRAMER: Once the project is complete and implemented, the deferred development costs are amortized over five (5) years on a straight-line basis.

MS. CANDACE EVERARD: So what is the impact on the revenue requirement as result of that?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: I'm not sure what project you're referring to. It -- again, it's -- it's on a over five (5) years so 20 percent or one-fifth (1/5th).

MS. CANDACE EVERARD: Okay, we'll scratch that question.

Now, with respect to the BPR costs that we've gone through in the response to CAC/MSOS number 15 in the first round, I take it that there's going to be an issue of cost allocation or cost sharing. And can you just, I -- I think it's been said on the record that the cost of the drivers safety rating is borne by Basic and the -- can you -- can you just confirm that?

MR. OTTMAR KRAMER: Yes I -- I can. The drivers safety rating would be born by Basic and also the

PIPP infrastructure. The service centres is a would -- would be allocated to the DVL line of business.

MS. CANDACE EVERARD: Now the Corporation has put forward some information in AI-9 dealing with the service centre project. It's advised that the project is on schedule, that it's on budget, and that there are anticipated operating expense reductions flowing from it. To what extent will any of the projected savings accrue to Basic, or will that not occur?

MR. OTTMAR KRAMER: Because the service centre project is -- is a DVL related project, the savings would be -- go to the DVL line of business.

MS. CANDACE EVERARD: There's been evidence given over the years about the famous DVL computer with its field of three (3) digits. And I appreciate that in AI-9 there's reference to the decommissioning of that system which is -- it's set out there that that's in the planning stages and that the completion is sought by the end of 2010.

Which line of business will be bearing the expenses associated with that project?

MR. DON PALMER: Some -- some of that would be included in the driver safety rating because a lot of the -- the issues that come up as part of the DVL driver's system that we're talking about, and -- and the three (3) digits are basic surcharges and -- and of course part of the driver safety rating. But the additional costs would be part of the DVL expenditures and not Basic.

MS. CANDACE EVERARD: So I take it that as the project proceeds, the allocation will be made -- decided upon and made a little bit more specific?

MR. DON PALMER: That's correct. Again, with DSR sort of being the determining factor as whether the decommissioning is specifically a DSR-related expense or something else.

MS. CANDACE EVERARD: So does the Corporation have any kind of a system or a guideline in place to ensure that the costs are allocated fairly between the two (2) lines?

MS. MARILYN MCLAREN: What we would expect to do is something that we've done for, I guess, the last several decades -- even before the amalgamation, the merger took place -- is MPI Basic ratepayers have always contributed most of the revenue that was run through the driver licence system. The surcharges and the Basic premium far exceed the driver licence fees.

Any time we needed to change to that system, they would sort of price out the cost of those changes and we would pay DVL to make those changes, as they would pay us to make changes on the registration side of the vehicle administration system.

So that would be the same principle that we would carry forward. Who is it that really needs this change? Is it the Basic system? Is it the driver safety rating that needs these changes to take place? If that's the driving force, then they would pick up the costs.

There are other issues related to the mainframe decommission though. All of the -- for example, other government agencies and the police access the mainframe for their record of driver licence records; that's where that sits right now. So there's certainly more to mainframe decommissioning than simply the surcharges and the driver safety rating component. But we would take same principle that we've used for many years to figure out where should the costs be allocated.

MS. CANDACE EVERARD: Okay. So it would be fair to say at this point that at the end of the day, the whole of the costs would not be attributable to Basic because of that other component that you talked about, but it's going to be a question of what -- what the split's going to be?

MS. MARILYN MCLAREN: Absolutely, yeah.

MS. CANDACE EVERARD: Do you have any sense of what the overall cost for this is going to be at this point?

MS. MARILYN MCLAREN: No. We have not needed to tackle that mainframe decommissioning yet. There have been significantly more value-added initiatives to -- to get underway and to accomplish. Like, we were able to do the entire driver licence system -- you know, rejuvenation in the new driver licence system without decommissioning the mainframe. The service centres are moving forward so we have not fully scoped that project at all yet.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is it within the realm of possibility that the -- that the system would be moved over to Autopac Online or the CARS System; or will this be a distinct system?

MS. MARILYN MCLAREN: No, it will very likely be incorporated within Autopac Online. The CARS System is a claims system. It's highly unlikely that we would do much more with it. But the driver licence system that we keep talking about is really not -- the new driver licence system is not a stand-alone new system.

It is very much new functionality within the umbrella of Autopac Online; this would be, as well.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Earlier -- either this afternoon or this morning, I've already forgotten -- there was evidence given about upgrades to the AOL system and the costs associated with that. Are any of those upgrades related to the potential for the -- this DVL system to be moved, or are those upgrades totally unrelated to the mainframe decommission issue?

MS. MARILYN MCLAREN: No, they're not related because we haven't scoped that out yet. Likely that's where it will show up eventually, but certainly isn't in there now.

MS. CANDACE EVERARD: All right. I just have a couple more questions about the business processor of you and then I'll be moving to a new area. If I can ask you to turn back to TI-6, page 4.

There's an -- there's an indication that at item 13 -- it's where the -- the business processor of you is referenced; is this indicating that there's actually a BPR office within the Corporation?

I -- I just ask that because a lot of the other departments on the list appear to be departments within the Corporation.

MR. OTTMAR KRAMER: Yes, there is a BPR office now.

MS. CANDACE EVERARD: And how many employees does it have?

MS. MARILYN MCLAREN: Five (5) or seven (7) perhaps, somewhere; certainly less than ten (10).

MS. CANDACE EVERARD: And if I'm understanding the -- the allocation column correctly, doe -- well, rather than me guessing at what I think it means, why don't you tell me what it means?

MR. OTTMAR KRAMER: Basically, what it's saying is that the -- the driver safety rating and the -- the PIPP architecture review; those are allocated to basic. The remaining of the BPR projects are allocated to DVL at this time.

MS. CANDACE EVERARD: Just one (1) other question and I -- I don't have specific reference at my fingertips, but it's my recollection or understanding that one (1) of the other aspects to the BPR -- and this may be in line with the service centre issue -- is that some of MPI's facilities would be consolidated and downsized in terms of staff moving and -- and that kind of thing.

And so my -- my question is, if, whether or not after that process all unfolds, the Corporation might have some surplus lands sitting around?

MS. MARILYN MCLAREN: The -- that is a service centre project. And what it really entails is turning all of our claim centres into full service MPI service centres. So we would expect that -- in the City of Winnipeg there are three (3) locations for driving testing.

What we would expect at the end of the business process review is that we would not need those three (3) facilities any more; that the driving testing, private passenger driver testing would happen within the MPI claim centres here in the City of Winnipeg.

Those three (3) facilities are rented facilities. In Portage and in Dauphin, the DVL offices use a small corner of the Provincial Government buildings. So there's a different situation in -- and Thompson; that's true as well.

So, no, we're not going to have any extra building and lands sitting around, but we will certainly be saving on our rental costs. And the reduced facilities expenses is part of the overall savings at the -- which I think is about $2.5 million a year that we will save once the service centre project is complete; the facility savings part of that.

MS. CANDACE EVERARD: What about the -- the DVL office at 1075 Portage? Is that going to be maintained or?

MS. MARILYN MCLAREN: What we've said is our -- our long-term objective would be to be able to incorporate the staff and the services within our other facilities at City Place. We would like to make -- you know, bring those services as -- as part of the MPI Head Office function. It's not part of the service centre project, though.

The service centre project is focussed on front-end customer service transactions on the driver licensing side.

MS. CANDACE EVERARD: Just in -- in line with what you just said about bringing them over to -- to City Place. Is there room there for that now, or would that have to be -- would there have to be -- be changes made or acquisitions of some kind?

MS. MARILYN MCLAREN: Oh, not within the current space. We have absolutely not, no. I think there's probably a hundred and fifty (150) to two hundred (200) people currently working at 1075 doing those functions. No, we would need more space.

MS. CANDACE EVERARD: All right. Ms. McLaren, you can have a break. We're moving to rate-making model TI-2.

THE CHAIRPERSON: Then why don't we take our break now?

MS. CANDACE EVERARD: Oh, okay, fair enough.

--- Upon recessing at 2:28 p.m.
--- Upon resuming at 2:49 p.m.

THE CHAIRPERSON: Ms. Everard...?

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman.

So, Mr. Palmer, turning to TI-2, what -- what I want to do, sort of in broad terms, is to go through the construction of the required rate changes that are set out on this table.

So if you could go through each row and provide -- on page 1 -- and provide a brief commentary on the nature and basis for each component and, as well, any unique handling of a particular component by major class. And then I have a few specific points about certain of the rows, then I'll just jump in when I need to, okay.

MR. BRYON WILLIAMS: Mr. Chairman, I hate to interrupt, but I lost the place of where we were before cross, so if Ms. -- Ms. Everard could --

MS. CANDACE EVERARD: Oh, sorry, Mr. Williams, --

MR. BRYON WILLIAMS: -- could I have her --

MS. CANDACE EVERARD: -- it's TI-2, page 1.

MR. BRYON WILLIAMS: Thank you.

MR. DON PALMER: I'll make sure I have some water ready. This may take a while.

The -- the exhibit that we're looking at is the required rate by major classification; so a forecast of all the claims cost and other revenue, that goes into the rate setting by major class. And the -- the major classes are the columns along with the overall being the first column and the -- the various major classes along the columns.

The '08/'09 units is our projecting -- projection of the number of units of insurance that will be sold for the '08/'09 policy year. And a unit of insurance, by and large, is twelve (12) months of -- of coverage for one (1) vehicle. So, two (2) vehicles that each have six (6) months of -- of coverage still would be one (1) unit.

The exception to that would be motorcycles and ORVs, where one (1) unit essentially is a riding season; for motorcycles being essentially five (5) months, and ORVs; snowmobiles also being five (5) months, I think. Maybe it could be argued ten (10) months in Manitoba, but we'll leave that.

Claims costs are the -- the cost of -- of settling claims. And those come from, on an overall basis, the claims forecast, that we talked about previously, divided by the projected number of units. And then we do a calculation for -- by major class to -- to come to that total amount as well. So though -- those are, looking at past experience, forecasted separately and then balanced to make sure that we get to the -- the overall number.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: And if I can just ask a specific question about the claims line. Does this table reflect the results net of the loss-transfer allocations?

MR. DON PALMER: This is done after the cost allocation, yes.

Claims expenses is the cost to administer the claims, as Mr. Kramer indicated, before the cost of running our claims centres and the cost of -- of salaries for those claims-adjusting staff. That's all allocated on a percentage basis; percentage of claims incurred.

MS. CANDACE EVERARD: And, sorry, just to stop you there with respect to claims expenses.

Does the percentage vary by major class, or no?

MR. DON PALMER: No, it does not.

MS. CANDACE EVERARD: And, if you can just explain to the Board how this allows for differences between the major classes in the composition of claims by coverage.

MR. DON PALMER: More expensive claims, in general -- in general, cost more to administer. So something like a glass claim, which is generally our cheapest claims, but also our simplest to administer, would attract low costs.

Serious injury claims, which are our most expensive claims, would have the involvement of claims adjusting staff for several years and would attract more costs, so it's on that basis that we allocate on the basis of claims incurred.

MS. CANDACE EVERARD: And it would be the Corporation's view that that approach is reasonable?

MR. DON PALMER: That's correct. The --

the road safety costs are the total costs just allocated on a per-vehicle basis.

The one addition to that is some of the theft costs in order -- anti-theft costs that are allocated; those programs are more for the private passenger vehicle -- vehicles, so you'll see a higher allocation on road safety for a private passenger than you would for the other types of vehicles that are not part of the Immobilizer Program.

You will also notice that we have not allocated any of our road safety costs to either trailers or off-road vehicles.

MS. CANDACE EVERARD: And -- and why is that?

MR. DON PALMER: In -- in both of those cases the owners of those vehicles essentially have other vehicles. That would be the same logic as the next line with operating expenses; the cost of administering the policy.

Now we went through extensive discussions a few years ago as to allocating the operating expenses to trailers and off-road vehicles. And, at that time, even though there is a cost of administering those policies, with the claims costs of those types of vehicles being fairly low but still having mandatory insurance, it was deemed not to be fair to force somebody to buy coverage that gives them -- for off-road vehicles, for instance, something less than fifteen dollars ($15) a policy of coverage, and then charge them in the neighbourhood of sixty-five dollars ($65) per policy to administer that.

There's certainly some unfairness in -- within that. So it was decided by this Board back in 2001, I think, to allocate those costs to vehicles that were what we called "Highway Traffic Act Power Units."

So that's vehicles registered under the Highway Traffic Act that can be powered on their own. So that's essentially excluding trailers and all RV's.

With the road safety costs, it used to be part of operating costs. We decided that we would allocate those on the same basis, again, with that exemption of the anti-theft programs.

Commission costs are the commissions that we pay the -- our broker force. And that's -- they're paid based on 5 percent of -- of premium. So that's a flat -- a flat percentage of the bottom-line premium that's paid.

Same with premium tax. We pay the Province of Manitoba 3 percent premium tax and, again, that's allocated on the basis of total premium across all vehicles.

We also pay premium tax on our drivers policies and, again, we have allocated that only to vehicles that have licensed drivers so, again, excluding that allocation from trailers and off-road vehicles.

The next two (2) lines refer to our reinsurance coverage that we -- that we pay for. And the allocation there -- the casualty that is injury costs; so the cost of reinsurance for very serious injuries.

Again, trailers and off-road vehicles are excluded from that. The reason off-road vehicles are excluded is really they don't generally have PIPP coverage; that's just a third party liability and under-insured motorist protection, which is limited to two hundred thousand dollars ($200,000) under the Basic program, so there's no reinsurance required there.

The catastrophe plan that -- that's reinsurance mainly for hail -- also could be flood -- and that's allocated to the vehicles that are susceptible to that type of damage. Motorcycles are excluded from that because they are no covered under comprehensive under the basic Autopac program.

MS. CANDACE EVERARD: Mr. Palm -- Palmer, sorry, just before you move to the next line, I just had one (1) other question with respect to the reinsurance numbers. If reinsurance is included as a cost, then can you confirm that the claims above are included net of reinsurance?

MR. DON PALMER: That's correct. Under fleet rebates, we have a fleet rebate program that our manual rates do not include that fleet rab -- the fleet program, unlike the manual rates on the individual merit discount program are -- are included and built into our revenue requirement, the fleet rebates are not.

We give back more in rema -- bates than we take in surcharges, so there is an off balance which we have to collect monies for and that's -- and, again, there's only certain types of vehicles that eligible for that fleet rebate program, so that cost is not allocated to motorcycles, trailers or off-road vehicles. The --

MS. CANDACE EVERARD: Sorry, Mr. Palmer, just -- just one (1) follow-up question on fleet rebates. Would it be fair to say that the fleets would be equally common within the three (3) major uses that are listed here; private passenger, commercial, and public?

MR. DON PALMER: On a percentage basis, there's likely more -- more of the commercial vehicles or public vehicles as part of the entire fleet that -- that would be included in fleets. But there are many private passenger vehicles included, as well.

MS. CANDACE EVERARD: Is there any risk that there is an off-balance in the difference between the charge- back among the three (3) classes?

MR. DON PALMER: There could be. We -- we have looked at that in the past, and -- and fleets generally are not limited to one (1) -- to one (1) classification. So, I know that -- that there's been some discussion about -- I don't know, U-drive fleets for instance, and -- and that's an example where generally most of the -- the vehicles in that category are U-drives, and would be exclusive, and it would be easy to categorize that.

A fleet like Manitoba Hydro would have many vehicles, like trucks that are -- but would also have many vehicles that are private passenger vehicles, as well. The Manitoba Public Insurance fleet has some -- some trucks that are used; some tow trucks within our compound, but also has private passenger vehicles, as well.

So it's -- it's really difficult to segregate exactly how much would -- would be allocated to each major class.

Anti-theft discount -- that's the discount that's applied -- the forty dollar ($40) discount; and, again, sort of extra to our rate manual, so is added back in, but only for private passenger vehicles and again on an average basis. That's the expense side of the -- the amounts.

The next few lines actually talk about offsets to -- to motor vehicle premiums, so these are revenue sources. Driver premium is -- which includes the basic driver premium and driver surcharges, again allocated to the HTA vehicles that have drivers. So there's no driver premium that's allocated to either trailers or off-road vehicles.

MS. CANDACE EVERARD: Okay and, Mr. Palmer, just for the record, what is the foundation for the level of the average driver premium?

MR. DON PALMER: Driver premium; the base -- the basic premium is forty-five dollars ($45) per driver less five dollars ($5) per merit point. And then the two (2) surcharge system -- the charge one (1) which is for demerit -- for demerit points, and charge two (2) which is accident surcharges.

MS. CANDACE EVERARD: Where did that originate?

MR. DON PALMER: Tho -- the -- the amounts or -- or the -- the forecast?

MS. CANDACE EVERARD: The amounts.

MR. DON PALMER: History, mainly. They

have -- there is no specific coverage that has been allocated to -- to driver premium. It was an amount set some years ago. There is no attempt to match it to any coverage.

It -- it's just a -- a contribution so that every driver is contributing to the fund. As to why it's forty-five dollars ($45) and not fifty (50) or not thirty (30); that's historical basis and we -- we have not increased that for a number of years. And again, the -- the basis that when we did increase it, I think was about 1997 or so, was just to offset some of the increases that we were seeing on the vehicle side at that time.

MS. CANDACE EVERARD: So how do we know that this split between driver premium and vehicle premium is optimal?

MR. DON PALMER: There -- because there is no coverage associated with it, you can't really optimize what that split is. It's reasonable. Our -- our stakeholders believe it's reasonable, and that's -- that's the only basis that I can provide to you.

MS. CANDACE EVERARD: Mr. Palmer, just on the -- the driver premium line, is it correct that a portion of that goes to DVL?

MR. DON PALMER: No. There are -- this

is an insurance premium component to the driver charges. There is also a driver registration fee that goes complete -- completely to DVL, but this is just the amount that comes to Manitoba Public Insurance. Just a correction, that -- that goes to Government, not to DVL.

MS. CANDACE EVERARD: And -- and just for the record, what is that registration fee?

MR. DON PALMER: It's twenty (20) -- twenty dollars ($20).

MS. CANDACE EVERARD: Thank you. So the next line is service fees.

MR. DON PALMER: Service fees is extra charges that we -- that we have. This is -- most of these charges are our financing fees charged to -- to motorists who are financing the premium over a -- a number of payments; either four (4) payments or twelve (12) payments. This is a -- a flat fee plus a percentage interest charge. There are some other service fees as well, but that's certainly the lion's share.

Investment income is our total expected investment income as a percentage of our -- as a percentage of our motor vehicle premium. So it's just added in on a percent -- a flat percentage basis much the same as commissions or premium tax, but the other way.

MS. CANDACE EVERARD: Okay, thank you.

MR. DON PALMER: So you add them all up and come to the required rate. Because of some of those allocations, if you add up all the major classes and -- and add them together to get to the required rate, you don't quite get there. So we balance it out in order that -- that the weighted average of all the major classes is equal to the total premium from -- on an overall basis.

So that's the required rate; parenthesis "bal" (bal), for balanced.

MS. CANDACE EVERARD: And that's the seven-fifty point one seven (750.17) that you're referring to?

MR. DON PALMER: That's correct. The more interesting part is not what we have to charge, but the -- the increases that will be charged from our current rates. So the next part of that calculation is essentially to calculate what the required increases will be.

The '07/'08 average rate is what the current average rate is using '07/'08 rates from our rate model. We have a -- an upgrade that we had talked about in the past with major class drift.

Now, you'll notice that that amount of 6.5 percent is different than the 2.75 percent that we talked about before. In fact this is the drift from the -- the date that we ran the rate model and the mix of vehicles at -- as at January or, I think, November 30th of last year, to the average date of the policy -- the '08/'09 policy.

So that's why it's -- it's not just one (1) year of drift. It's more -- it's more than that.

And we have looked at the historical drift by major class and then prorated it to come up with that total 6.5 percent. So that's why the -- the drift of each of those major classes is something different than the 6.5 percent.

So once we apply that drift to the '07/'08 we get the -- what the average rate would be in '08/'09 without any rate changes; just incorporating the current rate plus the expected drift.

MS. CANDACE EVERARD: Okay. And that's the seven fifty-one point seven seven (751.77)?

MR. DON PALMER: That's correct. The next one is if we did not apply any credibility weightings, just applied what we needed from that calculation, the minus .2 percent is just the seventy fifty-one (751) divided by the seven-o-five sixty-five (705.65) for each major class.

We are not applying for a change of --

MS. CANDACE EVERARD: Sorry, Mr. Palmer, if I can just interject for a minute. You said that the seven fifty -- no, you said that it was relative to the '07/'08 average rate of seven-o-five sixty-five (705.65). Wouldn't it be the case that it's actually related to the balance required rate of seven-fifty point one seven (750.17)?

MR. DON PALMER: Yes, I'm sorry. I -- it's in fact the seven fifty point one seven (750.17) divided by the seventy fifty-one seventy-seven (751.77), so we'll split the difference on that one.

For the full credibility required change or full cred req change, as is indicated on this exhibit, we are not applying for a decrease of 0.2 percent. We're saying let's round that to zero.

So we prorate all the other major classes to -- to -- for that .2 percent so, again, the applied-for change is -- that only is applicable on the overall basis; that's not really what we're applying for by major class; just to make that clarification.

The next line is the credibility weighting that we give to -- to this particular required change. Credibility is a measurement of the believability of the data. With large classes having more credibility, we -- there's less volatility in results, and smaller classes having less credibility. And I won't go too much into that credibility formula. We have gone through that in detail in -- in past hearings.

Or I'm hoping you don't want me to. There's a huge sigh amongst everyone else in the room.

The -- and then after the credibility weighting is the credibility weighted change that -- that relates into a credibility required rate.

Again, we have to balance that because the credibility weighting doesn't quite get you to the overall rate that you need which is the credibility weighted required rate balanced or "cred wght rec rate bal."

And the final line after that credibility weight is the credibility weighted required change.

MS. CANDACE EVERARD: Okay. Thank you, Mr. Palmer, for that on TI-2. What I'd like to do now is turn to question 37 asked by the Board in the first round. It's not in the book.

(BRIEF PAUSE)

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: Thank you. The IR relates to differences in the forecasting methodology over last year, and I am going to ask you to walk through the differences.

But before we do that, just so we have some context, if you could flip to the table -- the attachment. If I'm reading this correctly, it reflects that for the 2007 GRA last year the required weight was -- required rate was seven thirty-three point eighty-three (733.83)?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And this year it's seven fifty point one seven (750.17), and that's one (1) of the same numbers that we saw in TI-2?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So, with that, if you could just, at a high level, review the differences that are reflected in the narrative part of the answer?

MR. DON PALMER: The -- the major swings from last year to this year are road safety expenses which are increased cost to the Immobilizer Incentive Program that is now enhanced over what was planned from last year.

Commission rates are -- are higher. There are some extra costs, besides that flat 5 percent that we talked about, that are now in -- inflating that number into the actual commission received to 5.6 percent from

5.3.

Fleet rebates; that's part of our revenue forecast stream, and we're expecting rebates to be higher in the coming years. The anti-theft discount; there's more vehicles that will be eligible for the anti-theft discount.

Again, that's an offset to the road safe -- the top road safety expense, so that's higher because there's more vehicles receiving that forty dollar ($40) discount.

And the investment income is higher because we're expecting a higher rate of return. A lot of that is due to the inclusion of the 1.5 percent equity risk premium that we talked about previously.

MS. CANDACE EVERARD: With respect to the last bullet point relating to investment income, can you confirm whether the realized capital gains in the current year have any bearing?

MR. DON PALMER: They do not. It's only on a going-forward basis and -- and that's where the equity risk premium comes in.

MS. CANDACE EVERARD: Great, thank you. That concludes the -- the questions on rate-making. I just want to ask a couple of questions about revenue adjustments by a major class.

So for that purpose, if you could turn to SM-6.3?

(BRIEF PAUSE)

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: Great. If you could turn to page 2, and I'm focussing specifically on the table towards the bottom of the page.

And what I'm going to ask you to do is compare the financial forecast indications by major class in that table with the corresponding proposed revenue adjustments in the upper table on page 6.

Specifically, what I'm looking for are the factors and considerations that contribute to the differences between the indicated and proposed revenue adjustments, including anything that's specific to a major class.

MR. DON PALMER: Sure. Did you want me to do the comparison of all three (3) indicators, or just the financial?

MS. CANDACE EVERARD: Just the financial.

MR. DON PALMER: Okay.

MS. CANDACE EVERARD: Thank you.

MR. DON PALMER: Okay. First, I'll do

the easy one on an -- the bottom overall is zero in both cases. That's the number that we're -- we're balancing to, so to speak.

To look -- it's pretty difficult to -- to talk about this on an individual class-by-class basis, because there are caps in place that are required and -- and whenever you have a cap up -- up or down, it means that any extra excess or -- excess requirement has to be allocated amongst the other classes. So -- so the changes are -- come from an -- an overall balancing procedure. So -- so for instance, motorcycles, which show a -- an increase of 16.5 percent, where, because of the experience rating caps that are in place, we're not able to -- to get all that 16.5 percent for motorcycles.

There are other caps in place; the 20 percent cap for instance. Again we have indications for some types of motorcycles -- sport bikes, for instance -- and low-value motorcycles that probably need more than a 20 percent rate increase. But we were limited to the -- do that, so we have to balance that -- that shortfall amongst all other types of vehicles.

So that -- that balancing process is what underline -- lines all the changes from the actual major class indicators to the actual rate model results, which are the amalgamation of all of the adjustments that are attached to every single vehicle in our -- our file.

Bottom line of that -- all of that -- is that the indicator from private passenger vehicles, which was 0.0 percent, goes to a decrease of .1 percent; not much of a shift there. A commercial vehicle is the indicator of minus three point four (-3.4) goes to minus one point two (-1.2). Public vehicles from minus .4 percent to a positive 1.2 percent. Motorcycles from an indication of positive 16.5 percent to a 9.2 percent. Tailers for -- from a minus three point six (-3.6) to a minus four point seven (-4.7). Off-road vehicles is somewhat of a special case; the indicator based on experience, minus thirty-eight point four (-38.4), we are requesting zero. That's because of the addition of the under-insured motorist coverage.

And even though that looks like a huge shift, we're talking about a -- a rate twenty-eight (28) bucks. So in -- in pure dollars, it's not that -- that big.

MS. CANDACE EVERARD: Great. Thank you, Mr. Palmer, for that.

I just want to ask a couple of questions about motorcycles and the rate-line adjustments. So I'd ask you to turn to number 40 asked by the Board in the first round. It's not in the book.

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: First of all, maybe you can just explain the -- the history of the rate-line adjustment and then the -- the information on the -- the table set out at sub (b) of number 40.

MR. DON PALMER: The rate-line adjustment is to match the revenue required by rate group to the actual premium that's charged for that rate group. For motorcycles; the largest component of their rate is injury claims, and as we've seen, this does not really vary by the value of the motorcycle.

The rate groups, in fact, are based on declared value of the -- the motorcycle. So what -- going back to the old tort days, we're really, the injury component was not that big because it was all third party expenses, and when a motorcycle is at fault and hits something, typically they don't do much damage to the other vehicle or -- or have injuries in the other vehicle. So that third party liability component is -- is lower.

And the physical damage to the bike is a much bigger component of the cost, so is very much tied to declared val -- to declared value of the bike. Once we changed to the no-fault, that all changed. And there really is not that much differential from the insurance cos -- required insurance costs based on the value of the bike, for the reasons that I mentioned.

We started quite a few -- few years -- probably four (4) or five (5) years ago -- to rectify that situation and bring the rates of the lower-valued bikes up. What that does in terms of the rate line is, if you sort of picture a graph and a -- and a line with the rates for -- the low value vehicles being kind of at the bottom of line and the line moving upwards -- what we're doing is pivoting that rate line to bring the bottom up.

MS. CANDACE EVERARD: We're just -- we're just -- sorry, we're jus smiling because Mr. Pelley explained it to me in the exact same way when we were preparing. It's just kind of like deja vu, but we weren't laughing at you.

MR. DON PALMER: Actuaries think alike; what can I say. So tha -- that's been the pro -- process, not only within this rate application, but in past rate applications.

From a -- an overall results perspective, it means that the rate group zero is going up 14.8 percent; rate group 1, 5.2 percent, and the rest of the rate groups really don't have much change at all because we've, in fact, got them to the -- the right levels over the last number of years.

MS. CANDACE EVERARD: Thank you. And I note, for the record, in terms of the number of vehicles in each class, that it would appear that rate groups zero, 4, 5 and 7 all contain over a thousand (1,000) vehicles compared to the -- the others. Well, although 6 is close to a thousand (1,000), but the -- the rest appear to be quite a bit less.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And can you just give the Board a -- a brief overview of the characteristics of the vehicles in rate groups zero through 2 versus 3 through 9?

MR. DON PALMER: The -- the declared value ranges are contained in one (1) of the AI's in -- in Volume III. But the more expensive motorcycles would go into the higher rate groups. So -- I can't remember the exact numbers -- but rate group zero would be motorcycles with a declared value of less than a thousand dollars ($1,000).

And then it moves up -- one (1) of the rate groups, I think it's rate group 5, has a value eight thousand (8,000) to fou -- fourteen thousand (14,000), which includes a -- a fair number of -- of motorcycles, so that's why you see a large number in that value range.

And the rate group 9 is those that -- with a declared value of -- I think it's in the thirty (30) to forty thousand ($40,000) range, so there's not many motorcycles of -- of that value.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, thank you. Is the Corporation aware of the Insurance Bureau of Canada publishing clear or, for the record, Canadian Loss Experience Automobile Rating for motorcycles?

MR. DON PALMER: There is no clear rating, to my knowledge, on motorcycles. The -- the Insurance Bureau of Canada has issued differentials on the basis of different body styles, different value ranges; but a full, clear model, to my knowledge ,has not been -- been developed over the last number of years.

MS. CANDACE EVERARD: So is MPI using now the -- the IBC publication that you just mentioned?

MR. DON PALMER: We use that as a guide. I know a few years ago with the -- the body style we -- we tried to use that as a guide to change body style differentials. Again, I'm going back a number of years -- years ago, and that was rejected by this Board.

MS. CANDACE EVERARD: Now, I understand

that in the past there have been some discussions between the Corporation and CMMG with respect to the definition of "sport bike."

Can you give the Board an update as to that process and those discussions.

MR. DON PALMER: We did have discussions on definition of a sport bike with the CMMG. We compiled a list. They compiled a list as well. We -- we looked at the two (2), and I believe in last years rate application we redefined a number of sport bikes.

There were a number of bikes that we didn't have registered last year that have come on to our list this year that we have reevaluated, mostly changing them from the sport bike category to the other motorcycle category.

MS. CANDACE EVERARD: Can you provide a -- a summary for the Board or an overview of the approach to sport bikes versus non-sport bike motorcycles for rating purposes.

(BRIEF PAUSE)

MR. DON PALMER: The basis of our study was horsepower-to-weight ratio. There is also a -- a difference in configuration of the bike; seating and what not, but the real telling description was -- was the horsepower-to-weight ratio.

MS. CANDACE EVERARD: So what's the rating differential that the Corporation is using between the two (2) groups?

(BRIEF PAUSE)

MR. DON PALMER: Bear with us for a second.

(BRIEF PAUSE)

MR. DON PALMER: Compared to -- overall the category, the sport bike is one point six two five seven (1.6257).

MS. CANDACE EVERARD: So, is that a change over last year?

MR. DON PALMER: Yes, it is. The relativity from last year was one point five three nine seven (1.5397).

MS. CANDACE EVERARD: And does the Corporation track the experience for the purposes of testing the differential?

MR. DON PALMER: Yes, we do. Those --

those -- that change in differential is actually based on actual experience, yes.

MS. CANDACE EVERARD: All right, excellent. Mr. Palmer, you can take a break now, I think, because I'm moving on to anti-theft.

And this just so everyone knows --

MR. DON PALMER: I'm not going anywhere.

MS. CANDACE EVERARD: Oh, you're not? Okay, sorry. Maybe I was trying to do you a favour.

This will be -- this is quite a substantial section from our point of view, but this will be probably the last one that we'll finish.

I think, Mr. Chairman, we're going to sit till 4:30 today, is that right? Or did you still want to wrap up at 4:00?

THE CHAIRPERSON: We'll go to 4:15, how's that? Compromise?

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Sure. Okay. So maybe we'll finish with anti-theft.

I'd ask you to turn to SM-8.3, please. And on the first page of SM-8.3 under the heading "SM-8.3.1 Auto Theft Statistics", it's reflected that in 2006/2007 there were nine hundred -- or nine thousand two hundred and eight (9,208) vehicles stolen in Manitoba which was an .7 increase over the previous year of 2005/2006, is that right?

MR. WARD KEITH: Yes, that's right.

MS. CANDACE EVERARD: And the page over on page 2, it's reflected that these theft claims cost the premium payers approximately 33.4 million in physical damage costs, is that right?

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: And in the next paragraph, it's reflected that about 83 percent of these claims, or basically the vast majority of the claims, occurred in Winnipeg.

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: Okay and continuing on in SM-8.3, on page 2 is the first of a number of initiatives that are reflected in 8.3 with respect to -- to theft. The first being Youth at Risk, the second being Awareness and the third being Offenders.

What I'd ask to -- to have done is just to have each of the initiatives within those sections reviewed just at a very high level. And then we'll talk about the WATSS Program.

MR. WARD KEITH: Certainly. Under Youth at Risk, the Corporation's objectives here primarily are to discourage youth from becoming involved in auto theft and encourage at youth risk -- those at risk to become -- becoming involved in auto theft to channel their skills into a more positive direction. And so there are a number of strategies associated with that -- that particular initiative.

The first is involvement in a Level 1 Strategy Committee which is made up of a number of community partners including Winnipeg Police Service, Manitoba Justice, Downtown Bus., and the North End Renewal Corporation.

And it's this Strategy Committee that -- that recommends initiatives and activities that may be useful in -- in getting at -- at youth risk and channelling their efforts into something more constructive than -- than auto theft.

Shifting Gears is a diversion program that, again, is a partnership with Manitoba Justice and MPI. And, really, what this is intended to do is to target youth who've been referred primarily for -- for extra -- extra judicial sanctions.

So these are folks who have been diverted away from the criminal system, away from the court system and -- and into other categories.

Shifting Gears has recently been revised to a -- a program called "Shift to Live" which is -- which is sort of the next evolution of Shifting Gears, but the same sort of strategies and the same sort of objectives out of that program exist.

Choices is a youth program, again, that -- where the Corporation is involved in targeting students in high risk areas again who are considered to be at risk to offend.

And, really, this is about talking to students and youths pro-actively about the various consequences associated with becoming involved in auto theft before they -- they may choose to become involved in auto theft.

As well, there is the Victim Impact Panels which is a panel of a number of different community stakeholders, including reformed offenders and law enforcement.

And these folks are partnered and do presentations to various schools in -- in terms of providing information to at youth risk (sic).

And finally a number of various public presentations, again, through the school system, Winnipeg One Division primarily, and other community organizations where we are asked and our partners are asked to come and do presentations to at-youth risk through community centres and that sort of thing.

So -- so again there, that is -- that is primarily awareness, and -- and trying to -- trying to communicate with -- with youth before they become involved in auto theft about the consequences associated with that.

Awareness is the second initiative and Awareness is about raising a general awareness about auto theft and encouraging Manitobans to participate and become active participants in solving the auto theft problem.

So again, this is primarily, almost exclusively, awareness activities where we participate in auto theft awareness week, which is one (1) week normally dedicated each summer to a number of different activities and public presentations; not just with MPI, but with other safety stakeholders, in terms of raising awareness about -- about the auto theft problem.

We also conduct the Vehicle Audit Program where we -- we have a number of different stakeholders that we partner with to go and do audits of vehicles in parking lots. And -- and they fill out a -- a short report that's left for the vehicle owner that basically identifies, really, how successful that owner has been in protecting their vehicles against theft, and some of the other things that maybe they haven't done so well in terms of avoiding their vehicle becoming a target.

In 2006 and '07, we did about forty-eight thousand (48,000) of those vehicle audits, and this year in 2007, we're on track too, have done about sixty thousand (60,000). And we're just in the process of analysing the results of those audits as well.

But the audits are very interesting and they show some very interesting facts, including the fact that a number -- a large percentage -- a meaningful percentage of vehicle owners leave personal valuables in personal view, leave money in personal view, leave windows and doors unlocked.

Thirty percent of the vehicles that had a steering wheel club, a steering wheel lock, 30 percent of those had the steering wheel (sic) tucked away in the back seat or on the floor or rather than in place on the -- on the vehicle steering wheel; that sort of thing.

Additionally, in 2007, we moved the focus away slightly -- under the audit program -- away from strictly auto theft and tried to make it more generally applicable to other forms of auto crime, vandalism and -- and other types of auto crime that can result from -- from these vehicles becoming targets.

We are also involved in a number of

advertising campaigns, external presentations, and mall and community displays. And, really, all of these initiatives are about raising awareness in general, about the auto-theft issue in Manitoba and, more specifically, trying to target awareness of vehicle owners in terms of the role that each of them can play in -- in protecting their vehicles and preventing them from becoming the subject of -- of a total theft.

We, in this regard, have partnered in the past year with Red River College, Kildonan Place; a number of different community groups and community centres that have requested that we come out and speak to community members about auto theft and what they can do to protect their vehicles.

This primarily relates to information about the Immobilizer Program. And, as well, Garden City Shopping Centre and, again, presentations in various schools and that sort of thing.

And the third initiative deals with offenders. So this is, again, within the overall objective of finding effective ways of dealing with offenders. So -- so these are primarily youth who have -- who have actually committed auto crime and auto theft and, really, to prevent repeat offences. And there are three (3) initiatives under this category and then, of course, the WATSS Strategy.

We continue to fund a specialized auto theft prosecution team which includes 50 percent of the cost for a senior Crown prosecutor and 100 percent of the cost for -- I'm sorry, I had that reversed -- 100 percent of the costs of a senior prosecutor, and 50 percent of the cost of two (2) junior Crown prosecutors.

Really, the intent here is to ensure that there is enough -- there is sufficient attention given to -- to prosecuting auto -- auto crimes -- auto-theft crimes -- within the system. And, as well, the senior prosecutor plays a key role in terms of ensuring that the prosecutors are presenting consistent sentencing recommendations to -- to the court.

We also continue to support the Winnipeg Police Service, and specifically I'm referring here to the Stolen Auto Unit within the police service, which we have funded a portion of that -- of that activity for a number of years and continue to do so.

And what this has really done is established a dedicated unit within the Winnipeg Police Service that is fos -- focussed exclusively on dealing with the issue of auto theft. This is a -- a unit that is -- has become extremely productive and -- and extremely effective in terms of auto theft arrests and auto theft charges, and continues to do -- continues to do very good work.

And, finally, we provide support to a Forensic Fingerprint Unit, and this Unit operates out of our physical damage centre. And this Unit is used for doing fingerprint checks on vehicles that are towed to the compound and have been the subject of auto crime.

So, not just auto theft, but also attempted theft, vandalism; whatever types of auto crime that -- that are presented and that cause the damage to the vehicle. And they dust the vehicle for fingerprints, and -- and where they can lift prints, they then forward them to the Police Service, and they check their records in order to identify who -- who the offenders are.

And if they do -- if they do find a match then they then do what's called a "reverse check", and they go back to past -- past offences and try and link -- try and link previous offences to those same offenders.

MS. CANDACE EVERARD: Great, thank you. Moving to the Winnipeg Auto Theft Suppression Strategy or WATSS, as we call it, which is referenced at SM-8.3.5.

I do have a few questions about this initiative, and perhaps you can begin by just explaining very briefly what the features of this program are?

MR. KEITH WARD: Yes, the -- the WATSS

Strategy -- the Winnipeg Auto Theft Suppression Strategy -- was developed and implemented in 2005. And this is a partnership between MPI, between the Corporation, between Manitoba Justice Corrections and the Winnipeg Police Service.

And really what this program is about is targeting those youth you have been involved in auto theft and who considered a high risk to re-offend. So, not just repeat offenders, but those who have proven to be -- to be at a very high risk to re-offend on -- on a significant basis.

And what the program does is through -- through increasing the number of corrections officers through probation, it combines intensive curfew checks and compliance monitoring to the extent that it -- under this program, it maintains a zero tolerance for youth who have been released back into the community following an offence or while on -- while on conditional release or on bail pending their -- their appearance to make sure that they're abiding -- strictly abiding -- by the terms of their -- by the terms of their conditional release or their bail.

And what this involves is personal contact with each of these offenders at least once a day. Other -- other types of contact, normally by telephone, at least three (3) times a day. And -- and so a -- a regular -- regular, frequent, and -- and consistent interaction with -- at any time, potentially, one hundred (100) nor -- or one hun -- sorry, one hundred and fifty (150) or one hundred and sixty (160) high-level offenders to make sure they are where they supposed to be and -- and, in fact, they're not out stealing more vehicles.

MS. CANDACE EVERARD: Thank you. Now I understand from the material that the initial expectation with respect to the WATSS program was that is was a two (2) year commitment, but that -- that has now been extended for a third year?

MR. KEITH WARD: Yes, that's right.

MS. CANDACE EVERARD: And the cost for the first two (2) years was about nine hundred thousand dollars ($900,000). Is that to be the same for the third year as well?

MR. KEITH WARD: That was the cost for the first two (2) years, and it will be the cost for the third year.

MS. CANDACE EVERARD: And as the material in SM-8.3.5 reflect, the cost goes towards the addition of fourteen (14) positions within Manitoba Justice, is that right?

MR. KEITH WARD: Yes.

MS. CANDACE EVERARD: And based on what you've described, I take it that the positions would be for probation officers, or would there have been other positions included in that fourteen (14), as well?

MR. KEITH WARD: No, it is for the probation officer who are responsible for doing the -- the compliance monitoring.

MS. CANDACE EVERARD: And are these individuals employed by the Corporation, or are they Manitoba Justice employees whose salary is effectively paid by MPI?

MR. WARD KEITH: The lat -- the latter.

MS. CANDACE EVERARD: And are they permanent employees or term employees of Justice -- do you know?

MR. WARD KEITH: I -- I don't know that for certain.

(BRIEF PAUSE)

MS. CANDACE EVERARD: In terms of the -- the decision to extend the program, the materials reflect that -- this in the last paragraph under 8.3.5 -- that WATSS has resulted in a savings to Manitoba Public Insurance of approximately six dollars ($6) for every one dollar ($1) invested.

Was there a -- a detailed analysis undertaken to come up with those numbers, or how was that arrived at?

MR. DON PALMER: A comparison like that is -- it was -- it was come up sort of after the fact. We -- we had some forecasts with regard to the decreases that we would of expected from a program like this, from the experience in Regina.

We knew what the -- the costs of this program were and we divided the two (2). So, that's an expectation. To actually test that with other programs, you never know what the experience would have been if -- if not for that program. That's about the -- the amount based on our trend -- with our previous trend -- without the WATSS program in place.

MS. CANDACE EVERARD: And -- and I appreciate that. It's a bit difficult to -- to quantify precisely. On page 11 of -- of SM-8 under the Section 8.3.12 which is entitled "Effectiveness of the Auto Theft Suppression Strategies", the Corporation has stated that the actual results -- this is in the last paragraph of that section just before the -- the next heading -- states that the actual results show aggregate savings over the two (2) years totalling 15.1 million.

So would that be just an extrapolation on the six dollars ($6) saved for every dollar spent?

MR. DON PALMER: That's correct, and -- and the basis -- the previous trends.

MS. CANDACE EVERARD: Now, in response to one (1) of the questions posed by the Board in the first round -- it's number 49. I don't know if you necessarily need to look at it. Feel free too if you want to.

It's not in the book of documents, but MPI indicated that it would be undertaking an analysis at the end of the current year to determine whether it would go forward with WATSS into the future beyond the -- the third (3rd) year.

Can you just elaborate on what kind of an analysis that would be -- that the Corporation would be undertaking.

MS. MARILYN MCLAREN: It'll really be an analysis of the full auto theft situation at that time. By the time we complete our third year in the WATSS program, we will have just about completed our first year with the Mandatory Immobilizer Program as well. So there will be a continuing shift.

You know, we know auto theft is down. We know both WATSS and the Immobilizer Programs are working. At what extent to -- where is the point in time where you really don't need to provide extra funding for a WATSS program because the immobilizers are now delivering the benefits. That -- we'll have to find a way to figure that out.

MS. CANDACE EVERARD: That was going to be one of my next questions -- is what would the tipping point be in -- on the immobilations -- immobilization side that would -- would satisfy the -- the need that WATSS is fulfilling.

MS. MARILYN MCLAREN: Well, I think a couple of things. You know, clearly we've talked here for the last couple years that -- about the fact that we need high, high penetration of immobilizers in these targeted vehicles. Very high penetration. We're sitting right now at just about 50 percent of all the most at-risk vehicles in Winnipeg are already immobilized, which is great. But that still gives the kids a one (1) out of two (2) chance of finding one that isn't.

So the other thing that we have to consider is whether or not there's any significant migration of target vehicles. Are they now targeting other vehicles now that we've immobilized their choice -- their -- their chosen vehicles right now?

So we need to consider the migration, the extent to which there is a migration, and the extent to which we really have full penetration of immobilizers within the targeted groups.

MS. CANDACE EVERARD: Now, I take it from the material on the record that the Corporation's commitment to WATSS is in the nine hundred thousand (900,000) and that there are no other resources or no other commitments to it.

Is that fair to say or is there another component to the Corporation's involvement in WATSS than the money?

MS. MARILYN MCLAREN: No, that's our full commitment to WATSS. You know, I think year 1 -- I think there was a little bit of money set aside to help put some monitoring measuring systems in place, things like that, but it's -- it's largely the fourteen (14) staff that we can -- the vast, vast majority is the fourteen (14) staff.

We continue to participate on the provincial Auto Theft Task Force and provide, you know, participation on these oversight groups and -- and continue to be part of community efforts but in terms of specific resources to WATSS it is limited to the money for the fourteen (14) positions.

MS. CANDACE EVERARD: Now, I recall last year discussions on the record about some operational problems within WATSS, and there's reference in the materials this year that those have largely been overcome.

Can you just confirm for the Board what the issues were that they have now been overcome and whether there was any specific cost to the Corporation to overcome the issues?

MS. MARILYN MCLAREN: First there was no cost to the Corporation, no. And I don't think the conversation a year ago was as much around problems within the WATSS as it was in some of the issues that the Stolen Auto Unit in the Winnipeg Police Service had earlier in '06. By the time we were here those problems had significantly been addressed by that point.

What we talked about is that early in '06 there was almost a wholesale turnover of the resources in that department, and that made it very difficult for the staff in the Stolen Auto Unit to -- to do the work that they had to do.

By the time we were here talking about it that the group had been together for several months. There had been a commitment from more senior levels within the WPS that they did not expect that kind of turnover and they have -- certainly that has proven to be true. There was virtually no turnover.

So rather than saying the issues have largely been addressed, I -- I think they have been fully addressed and then some.

The Stolen Auto Unit is, I'm told, one of the attractive places to be assigned within the WPS. They've had no turnover this year at all. They -- they have added a second shift to that unit so there is almost twice as many people on the ground, on the street, dealing with auto theft for the WPS than there was a year ago.

And they've had some -- some exceptional results. I think some of those results were reported over the last couple of days with respect to the numbers of arrests and charges, compared to some of the other locations who've chosen other strategies.

MS. CANDACE EVERARD: The -- just -- just with respect to that on the number of arrests, page 11 of SM-8.3 sets out that in the last -- in the last ten (10) months of the reporting period -- and I'm not sure from when until when that would encompass -- but there were nine hundred and sixty-four (964) arrests with thirty-four hundred (3,400) charges laid.

So maybe for the record can you just confirm what ten (10) month period that -- that would be referring to?

MS. MARILYN MCLAREN: Not right minute but we will, yes.

--- UNDERTAKING NO. 8: MPI to confirm for Board what the ten (10) month period SM-8.3 is referring to when it states that nine hundred and sixty-four (964) arrests were made with thirty-four hundred (3,400) charges laid

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. That would be the line of questioning in WATSS and I think we can, in the next fifteen (15) minutes, cover some of the Immobilizer Program questioning.

And what I'd like to do initially is go through some of the -- the history of the Immobilizer Program because it seems to have evolved, as it were, over the last number of years.

So in SM-8.3.6, which is on page 6 of SM-8.3, there's reference to -- or this section which carries over onto page 7 is -- is with reference to the initial financial incentive that was offered by the Corporation.

And I'll just maybe read it in or the way that I've -- I've summarized it, is at that point in time the Corporation offered to a vehicle owner who installed an after-market immobilizer that the Corporation would cover half of the cost, which was a hundred and forty dollars ($140) out of a hundred and eighty (180), for the purchase and installation of an immobilizer.

This proposal was open to all Manitoba vehicle owners, that MPI would finance the customer's share of the hundred and forty (140) -- of the two hundred and eighty (280), with interest free financing over five (5) years. And then once the installation was complete, the owner would qualify for an insurance discount annually of forty dollars ($40).

Does that about sum up the 2005 offer?

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: And as the materials reflect here on page 7 despite extensive marketing of that offer on the part of the Corporation, only 23 percent of vehicles that were considered most-at-risk at that point actually took up the offer -- or took up the plan?

MR. WARD KEITH: Yes. There were a total of about ten thousand (10,000) vehicles that participated in -- in the program at that point, but only 23 percent of those were the ones that -- that were the primary target; the most- at-risk vehicles.

MS. CANDACE EVERARD: Okay. And moving to the next section, SM-8.3.7. In April of 2006, the Corporation took the next step of formalizing a list of vehicles that were statistically at greater risk of being stolen, which we call the MAR list or the Most at Risk list.

And as is set out in the materials, these vehicles on the list were about 10 percent of the vehicles in the Province but accounted for about 62 percent of the total theft claims. Is that --

MR. WARD KEITH: Yes, that's right.

MS. CANDACE EVERARD: So initially, in April of 2006, MPI offered to fund the full cost of the purchase and installation of the immobilizers for the vehicles on the list. And initially that was for territories 1 and 5 only, expanded to all territories in June of the same year.

Is that right?

MR. WARD KEITH: That's right.

MS. CANDACE EVERARD: Plus, in addition to the financing of the full cost of the immobilizer of two hundred and eighty dollars ($280) owners could finance any additional cost, such as the cost of extra key fobs or installation together with a remote starter, interest free for five (5) years.

Is that right?

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: And just for the purposes of the record, when we're talking about extra key fobs, we're talking about the little -- what are we talking about?

MR. WARD KEITH: We're -- we're talking about the little -- no, we're talking about the -- the device on the key chain that -- that is used to -- to send the signal to the immobilizer device.

MS. CANDACE EVERARD: So the --

MR. OTTMAR KRAMER: For illustrative purposes.

MS. CANDACE EVERARD: Thank you. So that -- that's what the extra key fobs would be. Now the -- the aspect of it that relates to the -- the remote starter, my understanding is that a remote starter is the little button that you press to make your car start when you're not sitting in it.

So is it the case -- but -- but that is not necessarily part of the immobilization process, correct?

MR. WARD KEITH: Correct. But to install an immobilizer in conjunction with a remote starter is a more complicated installation process, and so there are -- there were additional costs associated with that.

MS. CANDACE EVERARD: And was that the case if the vehicle had an existing remote starter, or was it just if the two (2) were being installed together that that was the case?

MR. WARD KEITH: Both.

MS. CANDACE EVERARD: So as a result of that, the Corporation would finance -- well, would the Corporation be financing the purchase of the remote starter or just the installation of the remote starter?

MR. WARD KEITH: The Corporation didn't finance the installation of the remote starter. If there was an immobilizer to be installed along with a remote starter then they would be prepared to finance the added cost to properly install the immobilizer so that it worked in conjunction with the remote starter. And that added installation cost was about eighty dollars ($80).

MS. CANDACE EVERARD: So in other words the -- the cost for the supply and install of the remote starter itself is on the dime of the vehicle owner?

MR. WARD KEITH: Yes. This program had nothing to do with installation or purchase of remote starters. Only installation of immobilizers so that they work in conjunction with remote starters, if there was a remote starter in the vehicle.

MS. CANDACE EVERARD: Okay. So coming back to our point in time of 2006, when the offer has been sweetened, so to speak, at that point in time owners would also still receive the forty dollar ($40) discount to their insurance premium once the immobilization process was complete?

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: Okay. Now, we know that in August of 2006, the cost to purchase and install an immobilizer was increased from two hundred and eighty ($280) to three hundred dollars ($300), is that right?

MR. WARD KEITH: That's correct.

MS. CANDACE EVERARD: And this is referenced in an IR that the Board asked in the first round, it's number 47. Here, I am just going to want to take you to one of the tables there.

And -- and just, as well, for the purposes of the record, the -- the price increase as is reflected in answer 'B' in this IR, while it ultimately took effect on August the 1st, the payments were made retroactively as of March the 1st of 2007.

Is that correct?

MR. WARD KEITH: I'm sorry, I -- I'm not sure. Could you repeat what you just said?

MS. CANDACE EVERARD: Sure. I -- when I initially asked the question about the increase in price from two hundred and eighty ($280) to three hundred dollars ($300), I had tied it to the date of August the 1st of 2006.

And I'm just making the clarification as per answer 'B', that although that is the effective date ultimately that was put into place on March the 1st of 2007 and then there was a retroactive set of payments back to August the 1st of 2006.

MR. WARD KEITH: Yes, that's right.

MS. CANDACE EVERARD: Now, in table 'C' attached to this IR, which is on the other side of the page, it's set out that the cost implications of the increase from two hundred and eighty ($280) to three hundred dollars ($300) is about 1.3 million for 2006/2007 and -- 2007/2008.

Is that right?

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: Has the Corporation undertaken a cost estimate of the impact of that price increase over the life of the program?

MR. WARD KEITH: Yes, that additional cost was included in our projections.

MS. CANDACE EVERARD: Okay. So going

back to the timeline and where we left off in -- in June of 2006, when MPI expanded the -- the offer of the free immobilizer to the province -- and this is set out in, again SM-8.3 -- as of September 1st of 2006, the Provincial Government introduced a regulation called "The -- The Approved Anti-Theft Immobilizer Regulation 167/2006," which required that any MAR vehicle last registered in another jurisdiction must have an immobilizer installed before that vehicle could be registered in Manitoba.

Is that right?

MR. WARD KEITH: Yes, that's right.

MS. CANDACE EVERARD: And as is reflected on page 9 of SM-8.3, that regulation was amended to include a provision that any time a MAR vehicle was stolen and recovered, it had to be immobilized before it could be put back on the road.

Is that right?

MR. WARD KEITH: Not quite. The two (2) -- the two (2) provisions were introduced at the same time. So when the regula -- this is a regulation of the Highway Traffic Act, and when it -- when it came effective on September 1st of 2006, it addressed both of those situations. They're outlined here separately for discussion purposes, but they occurred at the same time.

MS. CANDACE EVERARD: Thank you for clarifying that. I think in the word where it says "now requires that's stolen" I think maybe that threw me off in terms of the timing, but I appreciate you confirming that.

And I -- I recall that yesterday at some point Ms. McLaren testified that this provision applies not only to total thefts but to attempted thefts, as well.

And was that the case from the beginning or was -- was that a change?

MR. WARD KEITH: That was an amendment that was made as of September 1st of this year, 2007. So when the initial regulation was implemented, it affected most-at-risk vehicles coming into the province being registered in Manitoba for the first time, and existing most-at-risk vehicles in the province that are the subject of a total theft.

MS. CANDACE EVERARD: Thank you. Now, I appreciate that, as is set out in the material, the implementation of this regulation by government was necessary because of the refusal of some of the MAR vehicle owners to immobilize the vehicles themselves.

Now, as I can see on page 9 of 8 -- SM-8.3 in 2005/2006, the Corporation was doing some tracking with respect to vehicles that had been stolen more than once.

And my question is whether or not the Corporation has any statistics beyond that point in time, with respect to multiple thefts of -- probably at this point it would be non-MAR vehicles, because any MAR vehicles, from what I understand at this point that are stolen, have to be immobilized, so...

THE CHAIRPERSON: There was a story in the Winnipeg Free Press a couple of weeks indicated that his car had been stolen eight (8) times in a period of a year.

MR. KEITH WARD: Ergo the regulation change.

MR. DON PALMER: We haven't specifically done that. We could undertake to do so, but it may take longer than the duration of this Hearing.

MS. MARILYN MCLAREN: We -- we don't expect it to be the same kind of problem because the vehi -- the thefts that take place on the non-most-at-risk vehicles are really random. You know, like, we're down now to 5 percent of the vehicles attributing 50 percent of the thefts.

So if you look at 95 percent of the vehicles, now accounting for the other 50 percent of the thefts, they're -- they're so disbursed. Just -- it wouldn't be the same issue that we were dealing with a year ago.

Somewhat along the same lines though, is that's exactly the same kind of research we did when we were studying the attempted thefts. And I don't have the information right off the top of my head now, but if a vehicle is the subject of an attempt-theft, the likelihood that they -- that that same vehicle would be stolen within one (1) years, two (2) years, three (3) years is staggering. By the time you get two (2) and three (3) years out it's almost a guarantee that that attempted theft vehicle will, in fact, be stolen.

So it's the same kind of analysis that we did that lead to the government making the decision to included the attempt-theft vehicles.

MR. KEITH WARD: Just to provide some additional context to that, with respect to the attempt-theft analysis. The -- the analysis was done based on 2004 statistics and what it revealed is that if a -- if a MAR vehicle is the subject of the attempt-theft, there's a one (1) in thirteen (13) chance that it will be stolen within another year and that -- that odds of theft went to one (1) in six (6) within two (2) years.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. So having dealt with all of the -- the 2006 changes, including the initial introduction of the regulation, as is set out in -- in SM-8.3.10 in March of this year, 2007, the Corporation introduced an updated list of vehicles, the new MAR list, I guess, that's -- that includes any vehicle with odds of theft up to one (1) in a hundred (100).

Is that right?

MR. KEITH WARD: That's right.

MS. CANDACE EVERARD: And the effect of the new list has been that the pool of vehicles that now qualify for a free immobilizer has increased from about a hundred and two thousand (102,000) to about a hundred and seventy-two thousand (172,000). And that's at the top of page 10 or SM-8.3?

MR. KEITH WARD: Yes, exactly. The -- the only difference there being that the changes that were made to the most-at-risk list in March of 2007, there was not a corresponding made -- change made to the regula -- regulated list in the immobilizer regulations. So that's what -- that's where we coined the term voluntary MAR vehicle.

Because while these vehicles weren't

subject to the regulatory requirements under the immobilizer regulation, the vehicle owners nevertheless were entitled to the full -- to -- to the full cost of the device, plus a standard installation.

MS. CANDACE EVERARD: And now that the government further amended the regulation, as of September 1st, to indicate that all MAR vehicles have to be immobilized before they can be re-registered, does that wipeout the voluntary -- no, it doesn't. I didn't think so.

MR. KEITH WARD: No, not quite. With -- with the -- yeah -- it the -- with the September 1st change that was -- was just introduced, that -- that requires mandatory installation of most-at-risk vehicles registered in Winnipeg and -- or operated in Winnipeg, so not the entire province.

And -- and the -- the regulated most-at-risk list was expanded to include approximately an additional seventeen (17,000) or eighteen thousand (18,000) vehicles with odds of theft of -- of one (1) in sixty (60) or greater. But -- but -- but there are still vehicles within the voluntary MAR list that -- that aren't covered by the regulation. But nevertheless vehicle owners qualify for the -- for the full incentive.

MS. CANDACE EVERARD: And in terms of the

-- the new list, including vehicles with a risk of theft of up to one (1) in a hundred (100) what was -- why was the -- the level of odds set at that particular point and -- and I think there's a -- an IR in the book of documents that speaks to this at Tab 30.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And just to be a little bit more specific, I'm looking at paragraph...

(BRIEF PAUSE)

MS. CANDACE EVERARD: It -- it may be that I haven't given you the -- the correct reference, but the -- the point is, I -- I know that it's reflected somewhere, that that particular level of -- of theft risk was set based on the Corporation's maximum annual installation capacity.

Is that right?

MR. DON PALMER: Maybe I can help -- maybe I can help you with that, Ms. Everard. On page 2 of Information Request 2-31, which is Tab 30 of your book of documents point three (.3) on page 2, Mandatory or

Voluntary, the very last sentence:

"The cutoff of -- for the man -- mandatory list was selected based on the Corporation maximum annual installation capacity."

MS. CANDACE EVERARD: Thank you, that was where I was going and then my eyes lied to me.

I just have a few more questions on this and then we can -- sorry, Mr. Chairman, I'm going a little bit over. With respect to the --

THE CHAIRPERSON: Actually, we have a couple too --

MS. CANDACE EVERARD: Oh, okay.

THE CHAIRPERSON: -- past yours, but we can do ours tomorrow. Carry on.

MS. CANDACE EVERARD: Do I -- I can stop now if you'd like to do yours.

THE CHAIRPERSON: Okay. Well, we'll adjourn now because we've got a few ourselves, and it's a very interesting topic, obviously.

Okay, we'll stand adjourned. We'll see you all tomorrow. Hope you have a good night.

(PANEL RETIRES)

--- Upon adjourning at 4:18 p.m.

Certified Correct,

____

Rolanda Lokey, Ms.