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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 17th, 2007
Pages 1268 to 1332

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1 --- Upon commencing at 2:31 p.m.

2

3 THE CHAIRPERSON: Good afternoon. Okay,
4 Mr. McCulloch, you can begin at any time.

5

6 CLOSING COMMENTS BY MPI:

7 MR. KEVIN MCCULLOCH: Thank you, Mr.
8 Chairman. First of all, I want to note that Ms. McLaren
9 is relegated to the back row by her own choice. She has
10 to leave partway through the proceedings. But I've told
11 her that with the amount of paper that I've got in front
12 of me, she can probably come back after her other
13 commitment is concluded.

14 I do want to thank the Chair and -- and
15 Members of the Board for accommodating my final argument
16 this afternoon. I can assure you that the time was --
17 was put to use. You'll determine whether it was good or
18 not. And I can also assure you that it didn't result in
19 a shortened presentation.

20 In my opening remarks back on the 3rd of
21 October, I referenced the evidence which forms the basis
22 of this General Rate Application. And now, at the
23 beginning of my closing statement, I want to start by
24 stressing the fact that this is an evidence-based
25 process. I think that's an important concept to keep in

1 mind, not only as you listen to the final submissions,
2 but also during your deliberations on this Rate
3 Application.

4 And as indicated, the Application itself,
5 five (5) volumes of material, two (2) full rounds of
6 Information Requests, and five (5) days of testimony from
7 the MPI panel; in addition, the volume of evidence is --
8 includes the exhibits filed by the applicant, exhibits
9 that were filed by the Board, and also by the
10 Intervenors. And again, I want to make the point that
11 that's where the stream of evidence stops.

12 When the MPI panel is excused at the
13 completion of its cross-examination, with the exception
14 of some undertakings that were filed, that puts an end to
15 the evidence that is before the Board for this Hearing.

16 And really, I feel that there's no need to
17 remind you -- but I'm going to anyway -- that what you
18 hear from myself, counsel for the Intervenors,
19 representatives from the various Intervenors, doesn't
20 constitute evidence. It's merely argument, an attempt
21 at persuading you to take a certain view of the evidence
22 and to apply the evidence in a manner favoured by their
23 client or organization.

24 And I say this just as -- as Board counsel
25 is required at the start of proceedings to put the two

1 (2) onus questions to the MPI panel. I too would be
2 remiss in my duty, as counsel for the applicant, not to
3 stress the importance of relying on the evidence before
4 you and using it as part of your deliberations.

5 Unlike previous years there was no direct
6 evidence called by Intervenors, no outside experts, and
7 the evidence then exists in the manner in which I have
8 already described.

9 There are really two (2) key elements to
10 this General Rate Application. The first is the rates
11 for the 2008/2009 insurance year. And in that key
12 element I include the proposed \$49.1 million rebate. And
13 then the second portion is the multi-year process to set
14 rates for 2009/'10 and 2010/'11 without the need for a
15 formal rate hearing.

16 Now these two (2) are really quite closely
17 aligned, and factors that I will suggest should lead you
18 to accept the proposed rate application for 2008/2009,
19 should also, in my view, lead you to accept the proposal
20 for the multi-year program.

21 Dealing with the rates, you have heard
22 evidence -- and I would suggest unchallenged evidence --
23 that the applied for rates are actuarially sound and
24 statistically driven. You've also heard that they
25 reflect the rate making methodologies developed over time

1 and approved, again over time, by this Board.

2 As we approach the twentieth anniversary
3 of MPI's appearance before the Public Utilities Board, I
4 believe it's important to reflect on how these
5 methodologies have evolved.

6 Nineteen (19) years ago the application
7 was very different from what you see before you today.
8 The Corporation has moved from what was a rudimentary
9 loss ratio methodology to an actuarially based
10 calculation of rates. And the Corporation credits the
11 process -- the PUB process -- with significant advances
12 in developing, tightening, and validating how rates are
13 set at MPI.

14 And I think it's worthwhile to spend a
15 little time talking about some of the major steps in that
16 process. The movement to actuarially sound rates was
17 significant. In the initial years MPI did not have an
18 actuary on staff. We now have two (2) with, I believe,
19 one (1) actuarial student also in the compliment.

20 The actuarially sound rate making
21 methodology introduced concepts of minimum bias
22 calculation, credibility weighting, all of which are
23 issues that have been discussed over the past years and
24 have been developed and -- and commented on favourably by
25 the various boards.

1 The idea that the rates should be
2 statistically driven, that we should use actual past
3 experience in forecasting and looking forward to the rate
4 making process, is an important element.

5 The introduction of CLEAR, which was some
6 years ago, introduced on a staggered basis so that there
7 wouldn't be rapid movements of vehicles from one rate
8 class to another, but the introduction of those -- that
9 CLEAR rating system was an important element in the
10 development of MPI's rates.

11 Experience adjustments. Again, as I say,
12 we moved from the rudimentary loss ratio method to the
13 actuarially based method. And also the introduction of
14 various caps reflecting the impact that a pure actuarial
15 calculation might have on certain vehicle classes or
16 vehicle populations.

17 And at this point, I think -- and this is
18 a tie-in to the second element, the three (3) year or the
19 multi-year plan -- I think it's worthwhile going to SM-9
20 in volume I of the filing at page 10. And on that page,
21 the Corporation sets out ten (10) factors, ten (10)
22 principles, ten (10) approaches that drive the 2008/2009
23 Rate Application. And what's more, these are principles
24 and processes that the Corporation is committed to in the
25 second and third year of a multi-rate application.

1 And I want to look at them initially from
2 the point of view as to how much discussion, how much
3 controversy these items raised in this year's General
4 Rate Application. And running through them quickly:

5 Number 1 is CLEAR adjustments and offsets.
6 No discussion, no cross-examination, no suggestion that
7 there's a problem with the CLEAR adjustments and the
8 CLEAR rating groups.

9 Rate groups for heavy trucks vintaged each
10 year with offsets, again no evidence to refute the
11 Corporation's approach in handling the rate groups for
12 heavy trucks.

13 Rate line adjustments for passenger
14 vehicles, light trucks, heavy trucks, and motorhomes
15 using the minimum bias method with offsets. Again, this
16 is an approach that was recommended by the Board some
17 eight (8) years ago, fully implemented five (5) years ago
18 and again not the object of any discussion this year.

19 Number 4 is rate line adjustments for
20 motorcycles with no offsets. Again, I would suggest no
21 substantive challenge to the rate line adjustments for
22 motorcycles.

23 Classification offsets. Again, no
24 significant challenge to the calculation that the
25 applicant included in the rates for 2008/2009 on

1 classification offsets.

2 Major classification rate indicators.
3 These are found in MPI filing TI-20 and a review of the
4 transcript indicates that this issue was subject to four
5 (4) questions in the process of the Hearing, aimed
6 largely at confirming the fact that BI claims form a
7 large part of the motorcycle experience. So really no
8 challenge to the way the calculations were done, merely
9 confirmation that motorcycle experience includes a large
10 component of bodily injury costs.

11 Number 7. The experience adjustments
12 using the minimum bias method outlined in TI-20 along
13 with the various capping rules shown in AP-2. Again, no
14 questions.

15 Number 8. Rates are subject to the
16 relative ranking rules outlined in SM-6.4. No challenge
17 there.

18 Number 9. Overall capping rule,
19 established in previous PUB Orders. No challenge in the
20 evidence, although certainly in final argument some of
21 the Intervenors may have expressed comments on these
22 capping rules and -- and suggested other approaches, but
23 nothing in the evidence to suggest that the Corporation
24 was applying these capping provisions improperly.

25 And finally, offroad vehicle rates to

1 remain at current level for the three (3) year period.
2 Again, not a major issue. Explanation given. A question
3 asked as to why that was happening and the explanation
4 given the same as previous year, that with the
5 introduction of the underinsured motorist provisions, the
6 experience of that group was still unknown.

7 Now, the application for 2008/2009 is
8 clearly founded on all ten (10) of these. They were --
9 it was not challenged, and I can't see it becoming an
10 issue in year 2 and year -- year 3, if the Corporation --
11 or sorry, if the Board grants the Corporation's
12 application for a multi-year rate app. If there were
13 deficiencies and problems with these factors, surely they
14 would have been raised in previous years or at least in
15 this year.

16 Taking all this into account, I believe
17 it's safe to say that the Corporation has arrived at a
18 very solid rate-making model and methodology. Now that's
19 not to suggest that there may be room for improvement,
20 but MPI takes pride in the fact that it has developed a
21 strong model that serves Manitoba ratepayers well, a
22 model that provides rates that are just and reasonable,
23 which is the test that Board Counsel said the applicant
24 must meet; you must show that the rates are just and --
25 and reasonable.

1 On that basis, I would suggest that this
2 Board should have no hesitation in approving the
3 2008/2009 rates which form the basis of the application.
4 And in that regard, I would like to refer the Board to
5 last year's Order, which is Board Order 156/06, and
6 particularly at page 54. And in that order dealing with
7 rates, the Board states:

8 "MPI's rate-making methodology is well
9 established and thoroughly tested at
10 these annual rate hearings. The
11 approach continues to be actuarially
12 sound and statistically driven."

13 That same statement appeared in the
14 Board's Order from 2005. And actually if you can -- you
15 can go back all the way to 2001 and find statements in
16 the orders that verify and -- and justify the methodology
17 that the Board has -- or that Corporation has placed
18 before the Board.

19 And at a later point when dealing with
20 part of the submission made by Mr. Oakes, I am going to
21 refer to this again, because I think Mr. Oakes was
22 clearly mistaken when he said:

23 "This Board hasn't approved the
24 methodology, they've only approved the
25 results."

1 I don't believe that that's a correct
2 statement of -- of what the Public Utilities Board has
3 done.

4 I want to move then to the discussion of
5 the rebate. As disclosed in the application, the
6 Corporation is proposing a rebate of \$4.1 million to be
7 paid out in fiscal 2008/2009, in a similar manner to the
8 last two (2) years where rebates were ordered by the
9 Board.

10 The rebate is based -- and this was given
11 in evidence -- on the fact that at the end of the 2006
12 fiscal year, the -- sorry, the 2007 fiscal year -- the
13 Corporation had a \$23 million surplus in the RSR.
14 Evidence was given that since that time the Corporation
15 has taken approximately \$26 million in portfolio gains
16 and that's the basic calculation that led to the \$49.1
17 million. And if at some point I may have said four point
18 one (4.1), Mr. Palmer has corrected me; it is forty-nine
19 point one (49.1).

20 Exhibit TI-15 shows the projected RSR at
21 the end of fiscal 2007/2008, to be 110 million, that's
22 the current year; that would be slightly in excess of the
23 PUB approved range which has a top of 105 million, but
24 there's still, I believe, a CPI adjustment to be made to
25 that.

1 But basically the proposed forty-nine
2 point one (49.1) rebate would take care of the projected
3 surplus at the end of the current fiscal year.

4 Now, future rebates are addressed in the
5 multi-year application, and that's to be found at pages 6
6 and 7 of SM-9, and in particular, the Corporation is, as
7 part of its proposal, suggesting that a trigger point for
8 future rebates in the '09/'10 and the '10/'11 years would
9 be -- first of all, that you'd want an amount of a rebate
10 that would produce at least a fifty dollar (\$50) per
11 policy rebate. Lower than that, the -- the cost and the
12 effort of -- of producing a rebate may not be -- be
13 justified.

14 But if rebates were to be triggered only
15 when the RSR amount exceeds the PUB target by 5 percent
16 or more of gross premium written, the average rebate
17 would be fifty dollars (\$50) and the Corporation in the
18 second and third year of a multi-year program would
19 automatically produce a rebate based on that calculation;
20 that's the trigger point.

21 Moving to the concept of the multi-year
22 Application, the Corporation's Application is founded on
23 the fact that the legislation clearly contemplates a
24 multi-year Application up to a maximum of three (3)
25 years.

1 In SM-9, page 1, the particular statutory
2 provisions - and these come from the Crown Corporation's
3 Public Review and Accountability Act - are set out, and
4 Section 27(1) talks about the fact that a multi-year
5 Application can be made.

6 And yet, interesting and -- and must be
7 noted, there's a further provision in Section 27(3) that
8 in a situation where a multi-year application has been
9 made, the Board on its own motion, or on application of a
10 corporation, or on the application of an interested party
11 may review that order where there has been a substantial
12 change in circumstances of the corporation.

13 So an important element to realize, that
14 if this Board sees fit the multi-year or approve the
15 multi-year Application, it's not written in stone.
16 There's a trigger provision in the Act that any
17 significant change and on the request of any interested
18 party a -- a hearing can take place to deal with the
19 significant change.

20 Now, while the legislative framework
21 clearly exists and while we have to accept -- and I will
22 expand on this perhaps later -- accept the fact that the
23 legislators, in their wisdom, when they passed this
24 provision, were fully aware of the type of organization
25 that MPI is, they were fully aware of the universal

1 compulsory insurance program that the Corporation
2 administers, and yet they had not difficulty putting in a
3 provision allowing for a multi-year rate application.

4 One thing the Corporation is not able to
5 do in this multi-year rate application is to commit to a
6 specific rate or revenue requirement in the second and
7 third year. And that is due to a number of factors, but
8 in particular -- and this was evidence given by Mr.
9 Palmer -- the CLEAR rate groups are recalculated on an
10 annual basis. And it would be imprudent for the
11 Corporation to commit to a rate that didn't allow for
12 adjustment to those CLEAR rate recalculations.

13 To commit in the manner, to a full three
14 (3) years, could leave significant premium shortfall at
15 the end of 2010/'11 in the event of adverse claims costs
16 experience, for example, or significant CLEAR rate group
17 changes.

18 Now, to address the fact that the
19 Corporation isn't able to commit to a fixed rate or fixed
20 revenue requirement in the future years, it's put forward
21 a formula, a process for determining rates in a second
22 and third year. And again that formula is found in
23 volume I, SM-9, at page 9.

24 And I have no difficulty -- and I'm not
25 much -- much of a mathematician -- understanding this

1 formula. I find it fairly clear and -- and straight
2 forward, not at all puzzled by it. And I think it's
3 worthwhile, again, touching on the three (3) elements of
4 the formula.

5 The formula is based on a commitment to
6 the overall actuarial indicator, as driven by those
7 principles and factors that we talked about earlier. If
8 the overall actuarial indicator is between minus 1
9 percent and plus 1 percent, the Corporation will seek no
10 change in overall revenue.

11 The second element indicates that if the
12 overall actuarial indicator is between minus three (3)
13 and minus (1) or between plus one (1) and plus three (3),
14 the Corporation will modify the rates applied for in this
15 multi-year application for the full amount of the
16 actuarial indicator. Again, important to note that it's
17 tied to the actuarial indicator.

18 And there's a -- an explanation given
19 there that it's important that these relatively small
20 trends be recognized annually to avoid the necessary --
21 the necessity, rather, of a large catch-up at the end of
22 the three (3) year period.

23 And finally, if the overall actuarial
24 indicator is less than minus 3 percent or greater than
25 plus 3 percent, the Corporation will request a hearing.

1 And that's over and above the statutory provision that
2 any significant change noted by the Board or by an
3 interested party could warrant a hearing.

4 Now I have to admit that this is one area
5 where my non-mathematical mind needed a little help. I
6 looked at that and said, Well that can't be right, if it
7 says less than minus three (3). Surely it means greater
8 than minus three (3). But I'm assured by Mr. Palmer that
9 minus four (4) is less than minus three (3) in
10 mathematical terms.

11 Again, the annual process is confirmed at
12 page 10 of SM-9, those ten (10) factors that we looked
13 at. Work will continue in the Corporation to prepare a
14 rate filing. There will be, obviously, a filing in each
15 year.

16 And another important exhibit that I want
17 to refer the Board to is found in PUB/MPI second round
18 number 34 and the attachment to that information
19 response. And that's the document that sets out what
20 information will be filed in the second and third years
21 with the Board.

22 It also lists information that is filed in
23 this year's rate application. And if it's not going to
24 be filed in the upcoming second and third year, there's
25 an explanation given as to why that information would not

1 be required or, alternatively, where -- a commitment that
2 there would be no change in the multi-years to the
3 information that's contained in those -- in those
4 documents.

5 So again, I think that's an important
6 exhibit for the Board to -- to look at and keep in mind
7 when it's examining the proposal for a three (3) year
8 rate app -- or a multi-year rate application.

9 The other question that I'm sure is raised
10 in many minds and -- and has been commented on by -- by
11 many of the Intervenors is: Why a multi-year rate
12 application at this time?

13 I think Ms. McLaren's evidence was really
14 the clearest explanation of what prompted the Corporation
15 to bring this proposal to the Board at this time. Her
16 response was:

17 "If not now, then when would a multi-
18 year application be appropriate?"

19 The Corporation is financially strong.
20 And in that regard I also refer the Board to last year's
21 Order, Order 156/06, at page 53, where the Board states:

22 "In short, the Board considers MPI's
23 current financial situation and
24 prospects as being very good."

25 And certainly, with the quarterly

1 statements for this fiscal year -- the two (2) quarterly
2 statements that have been filed with the Board -- I would
3 suggest that there's nothing that would lead the Board to
4 move off that opinion. The Corporation is financially
5 sound.

6 Rate stability has existed for a good
7 number of years in the past and in the forecast and
8 projection into the multi-year application, continued
9 rate stability is anticipated. The projection and the
10 outlook years anticipate no overall revenue increase
11 required in 2009/'10 and 2010/'11.

12 And the plan for applying the overall
13 actuarial indicator -- and I had mentioned that
14 previously -- again, I think is an important part of --
15 of this proposed multi-year plan. It's a commitment that
16 the Corporation will be bound by whatever the actuarial
17 indicator discloses as a requirement in those future
18 years.

19 The other thing that the Corporation
20 clearly acknowledges is that each element of this
21 proposal is open to review by the Board. If you believe
22 the range proposed is too broad, you can narrow it, set a
23 range of minus 2 and minus 1 percent and plus 1 and plus
24 2 percent. If you believe the range is too narrow, you
25 can broaden it. If you believe three (3) years is too

1 long for this first crack at a multi-year process, then
2 it's clearly within the Board's jurisdiction to go for
3 two (2) years.

4 Having said that, the Corporation, as
5 based on the evidence given before this Board, is clearly
6 comfortable with the proposal as presented; three (3)
7 years, with the proposed ranges as set out in SM-9. But
8 the decision clearly is the Board's.

9 And while the Corporation put forward
10 evidence that there would be some cost reduction in a
11 multi-year rate application, it's more significant that
12 there will be a considerable reduction in staff effort.
13 The Information Request process alone takes up a --
14 considerable time and takes up considerable resources
15 that could be applied elsewhere.

16 There was a discussion with Board counsel
17 that there would be an approximate saving of two point
18 five (2.5) FTEs, and I believe there -- there was some
19 inconsistency as -- or some confusion as to whether that
20 included the hearing time. The evidence before the Board
21 is that it is -- it does not include the hearing time, so
22 it's two point five (2.5) FTEs just in the -- the process
23 and the -- the preparation leading up to the Hearing.

24 And it's also -- it also should be noted
25 that a lot of this time is very concentrated between the

1 filing of the application in June and the closing of the
2 Information Requests, usually near the end of August.
3 That is where there is a -- a considerable concentration
4 of employee resources in dealing with that process.

5 Even though in this year's hearings we
6 only used up six and a half (6 1/2) days, counting this
7 afternoon -- which is somewhat shorter than usual -- we
8 can't lose sight of the fact that it really involved
9 fourteen (14) staff members, who were here the entire
10 time. And that's a -- an uncalculated saving, but a
11 saving nonetheless.

12 And when we get to a discussion of the
13 reaction from various Intervenors, of their reaction to
14 this multi-year application, I'll get into more detail.

15 But certainly it's the Corporation's view
16 that the predictions of gloom and doom are without
17 foundation, and disagreeing with Chicken Little, the sky
18 is not falling, and the sky won't fall if the Board
19 decides to approve this application.

20 I want to deal with some issues that were
21 identified by the Board and then I also want to move to
22 some specific responses to issues raised by Intervenors.

23 The question has been raised in -- in more
24 than one (1) area as to the reliability of the -- the
25 Corporation's forecasts. One must keep in mind, the

1 Corporation's mandate is to breakeven over time. The
2 Corporation's forecasting acc -- accuracy over the long-
3 term has been proven time and time again, and in previous
4 there have been specific exhibits filed showing that over
5 a long-term the Corporation has an extremely accurate
6 forecasting process.

7 Mr. Palmer has given evidence as to the
8 input that goes into both the claims and the financial
9 forecasting, how it's multi-disciplinary, all aspects of
10 the Corporation are involved. It's a very robust
11 process. You can't pick isolated years, such as was done
12 in CAC/MSOS Exhibit Number 9, with an isolated factor,
13 PIPP costs, and then try to draw any reasonable
14 conclusion from those figures. You just can't do that.

15 Forecasting is something that has to be
16 based over time, and one of the admissions that Mr.
17 Williams made in his closing submission is that looking
18 at his own exhibit there was volatility both ways. We
19 will always have variances year to year.

20 You can't select the most volatile element
21 of the basic program, PIPP costs, and ask the Board to
22 jump to the conclusion that MPI doesn't have adequate
23 forecasting processes. Differences that ap -- that
24 appear from time to time, that occur from time to time,
25 flow through the retained earnings and allowances have

1 been made for those differences, as you move forward.

2 There was an issue with respect to
3 retained earnings in SRE and Extension and what role
4 those should play in the Board's deliberations. The
5 Corporation's position, I would suggest, has been clear
6 on this issue for time immemorial. The position is that
7 for rate setting purposes, rate making, and rate approval
8 purposes, the only factor to be taken into account is the
9 basic financial information, the basic financial status
10 of the Corporation.

11 You well know the Basic program is the
12 only line of business regulated by this Board, and the
13 Basic program is mandated to stand on its own
14 financially. In the past, Boards have spoken about
15 looking at the overall financial health of the
16 Corporation, and I would suggest that might be a relevant
17 factor in looking at whether or not you should approve a
18 multi-year Rate Application. But it's still MPI's
19 position that the overall health of the Company has no
20 role to play in setting basic rates, and that, of course,
21 is your statutory mandate.

22 There were some questions relating to
23 environmental issues. And in particular, should
24 environmental impacts related to motor vehicles be taken
25 into account in rate setting for individual vehicle

1 groups or major classes. MPI's position on that is that
2 the rate making method, which is actuarially sounds,
3 statistically driven, is a risk transfer method.

4 The basic premise of rate making is risk
5 transfer, and this is the only valid consideration that
6 should go into a rate making decision or rate approval
7 decision.

8 There's been no evidence presented that
9 vehicles which might present a lower environmental risk
10 would present less of a financial risk to the program.
11 And in particular, if -- if one assumes that motorcycles
12 are more environmentally friendly than SUVs, all you have
13 to do is look at the fact that in this last year,
14 2006/2007, motorcycles had their worst claims experience
15 in over ten (10) years, an \$8.2 million claims expense.

16 And this is post PIPP cost allocation. So
17 this is after the adjustments to allow for vehicle
18 collisions where the motorcycle was not at fault. They
19 still had \$8.2 million in claims costs. And these are
20 costs that are reported claims figures; they include
21 PAYDs, plus open reserves, and they're not fully
22 developed.

23 As you know from past experience, the
24 development in bodily injury claims increases with time
25 in certainly in -- in catastrophic cases or cases that

1 develop a worse experience than was orig -- originally
2 anticipated. And that figure of 8.2 million, by the way,
3 is found at TI-20, Exhibit 12, pages 34 and 35.

4 So it's the Corporation's stated position
5 that if environmental concerns and we include pay-as-you-
6 drive or assumed positive environmental impact by
7 individual vehicles or vehicle groups, if those are to be
8 taken into account in rate setting, this is an issue of
9 social policy and direction would be required from the
10 Government before the Corporation would be justified in
11 moving to those types of concerns.

12 It's also the Corporation's position that
13 the Sustainable Development Act has no application to
14 rate making. Even though the Corporation is bound by the
15 Sustainable Development Act in its day-to-day operations
16 and, as given in evidence last year, complies in our day-
17 to-day operations with the provisions of that Act, it
18 doesn't have a role in rate making.

19 The question was raised with respect to
20 project priorities. And clearly the MPI Board and MPI
21 management are responsible for setting priorities with
22 respect to corporate projects. Listed in this question
23 was the PIPP benchmarking, driver safety rating,
24 investment matters, business process review, and road
25 safety.

1 I believe the evidence shows that the
2 Corporation has been open and transparent in its answers
3 with respect to these projects and with respect to the
4 current status of these projects. They are moving
5 forward. Clearly the Corporation has indicated that some
6 are not moving as quickly or developing as quickly as had
7 originally been anticipated, but they are moving forward.

8 And the Board was told that it was
9 expected that DSR would be implemented by 2009, that the
10 PIPP benchmarking is part of the PIPP infrastructure
11 project -- and we'll talk about that later -- that the
12 investment -- or that the asset liability study is set to
13 commence in 2008 and will clearly be completed in that --
14 in that calendar year.

15 And the Corporation has also given a full
16 explanation as to why it believes the initial 2004 Order
17 from the Board, with respect to PIPP benchmarking, is
18 better served as part of the PIPP infrastructure project.
19 It's a much broader project than what was obviously
20 anticipated by the Board back in 2004, and I'm going to
21 comment on that at a later point.

22 The other point I wanted to make here when
23 we're talking about projects is that this has been a very
24 busy two (2) years for the Corporation. As every driver
25 in Manitoba is personally aware, we have a new driver

1 photo card. We have the possibility the -- the option of
2 renewing our driver licenses at any broker in the
3 Province.

4 And this is something that previously
5 rural Manitobans had -- had the option but it's new for
6 Winnipeg, Brandon, and -- and the urban centres. That
7 required significant legislative changes.

8 We have a new Highway Traffic Act and a
9 new Driver and Vehicles Act which separates the driver
10 and vehicle registration function from the Highway
11 Traffic Act. You've been told that the business process
12 review is ongoing and is a multi-faceted project.

13 These were things that didn't just happen
14 overnight. These are things that assumed and consumed a
15 lot of time and effort from the Corporation. They were
16 accomplished in a relatively short period of time, and
17 they brought great benefits, I would suggest, to
18 Manitobans.

19 Manitobans can now renew their driver's
20 licence and their Autopac on the same day. Now that
21 meant a stub period where you took the four (4) because
22 the -- the Autopac renewal is -- is a four month offset
23 from your birth date, so your driver's licence was -- was
24 previously renewed at -- by the end of your birth month.
25 So this required issuance of a four (4) month stub

1 license and then a return to the broker or to the DVL
2 office to get your twelve (12) month licence.

3 A lot of work went into -- into that and
4 that was a project delivered on time, within budget, and
5 as I said, is a great benefit to Manitobans.

6 So it's not as if the Corporation isn't
7 doing multiple things and we're just sitting back and --
8 and delaying DSR for some undefined reason, as some might
9 suggest.

10 I want to move now to the motorcycles.
11 And I'd already commented that the motorcycles have
12 experienced the worst loss experience in -- in the last
13 ten (10) years, and as a result of that, the actuarial
14 indicator for motorcycles calls for a 9.2 percent
15 increase.

16 And that was arrived at after applying all
17 the capping provisions -- the pure rate obviously would
18 have been significantly higher -- but applying the
19 capping provisions, this is the actuarially indicated
20 rate for motorcycles. And that is set out in a chart
21 form at SM-8.6 at page 6. That was not challenged by any
22 of the Intervenors.

23 The other item that I initial -- point
24 that I want to make, with respect to motorcycles, is
25 reference to the NAMS study which was contained in the

1 CMMG book of documents, which was CMMG Exhibit Number 3,
2 at Tab 1. And in particular, I want to direct the Board
3 to -- it's page 5 of the study, but it's page 12 in the
4 upper right-hand corner where CMMG renumbered all of the
5 exhibits in its exhibit book.

6 But in any event, at that page, I want to
7 highlight the following. This is a statement from the
8 NAMS study, which was the US study. It says:

9 "Motorcycle riders face more risks of
10 crashing and being injured than
11 passengers in four (4) wheeled
12 vehicles. Two (2) wheeled motorcycles
13 are more difficult to operate and more
14 unstable than four (4) wheeled cars and
15 trucks. Some roadway design and
16 maintenance features add additional
17 risks. Other drivers may not expect to
18 see motorcycles on the road, may not
19 watch for them and may not know how to
20 accommodate them in traffic, and when
21 they crash, motorcycles provide almost
22 no protection for their riders. Crash
23 data confirms these risks. NHTSA
24 estimates that 80 percent of motorcycle
25 crashes injure or kill a motorcycle

1 rider, while only 20 percent of
2 passenger car crashes injure or kill an
3 occupant. For each mile of travel in
4 2004, motorcycle riders were eight (8)
5 times more likely to be injured in a
6 crash, and thirty-four (34) more times
7 likely to die than passenger car
8 occupants. Motorcycle riders now
9 account for about 10 percent of all
10 traffic fatalities nationwide."

11 This confirms the position that the
12 Corporation has been taking for years that motorcycles
13 are inherently dangerous. That has been challenged by
14 CMMG, challenged only in cross-examination, but by their
15 own evidence I would suggest, it clearly demonstrates a
16 fact that quite frankly we all knew before reading the
17 NAMS study.

18 The other reference that I want to make to
19 the NAMS study relates to a number of initiatives that
20 had been taken in the United States. and these
21 initiatives were put by Mr. Oakes to the MPI Panel in
22 cross-examination, and were referenced by him in final
23 argument.

24 The important thing to note about those
25 initiatives is that these are state government

1 initiatives aimed at improving the safety for motorcycles
2 on their highways.

3 This is entirely consistent with the
4 approach that MPI has taken with respect to
5 infrastructure, where it has been suggested that MPI
6 should be concerned about cleaning up the -- the debris
7 that is left on the road from the pothole patching
8 machines, that MPI should be involved in putting up signs
9 in -- in areas that may be more dangerous for
10 motorcycles.

11 This clearly confirms the Corporation's
12 position that this is a concern for the appropriate
13 government level not for the Crown Corporation automobile
14 insurer. And it's consistent with the MPI -- the MPI
15 Board decision that basically we don't do infrastructure.

16 Now, once again, and I mentioned it
17 earlier, I have some issue with the approach taken by
18 counsel for CMMG and, to some extent, counsel for the
19 other Intervenors. And that approach is to elicit some
20 information, either in the Information Request process or
21 in cross-examination, confirm a fact, and then ask the
22 Board to jump to an unsubstantiated conclusion.

23 And I've got some examples that I want to
24 -- to highlight. In his submission, Mr. Oakes suggests
25 that there should be a cap on motorcycle rates; presents

1 no basis, presents no evidence, presents nothing to
2 challenge the actuarial indicated rate of 9.2 percent,
3 and nothing to challenge the worst claims experience in
4 the last ten (10) years, but merely states you should cap
5 motorcycle rates.

6 He complains that there's inconsistent
7 loss development factors and IBNR in -- in the
8 calculations that are done for lost development factors
9 in IBNR. But it's been given in evidence that these
10 calculations are certified by the external actuary and
11 verified by the external auditor.

12 Again, you can't select an isolated time
13 frame or element of the calculation and claim
14 inconsistency. There's no inconsistency when you look at
15 the entire history, and there's not inconsistency when
16 you realize the professional verification that is given
17 to these calculations.

18 The suggestion was made that motorcycle
19 serious losses should be capped at five hundred thousand
20 dollars (\$500,000) and pool the rest to the other major
21 classes. This clearly violates the basic principle of
22 risk transfer and ignores the severity of losses inherent
23 in motorcycle operation. This would merely constitute
24 more subsidization over and above what already goes on
25 for the motorcycle class, because they are still rate

1 deficient.

2 There was questioning of the single
3 vehicle accident history as -- as presented by MPI. And
4 Mr. Palmer explained this in cross-examination, at page
5 1001 and 1002 of the transcript, where he talked about
6 the fact that in 2004 the motorcycle risk study used data
7 not directly used in rate setting. The Board, at that
8 time, ordered MPI to use single vehicle indicators in
9 rate setting.

10 And as part -- this was to be part of the
11 PIPP cost allocation. An extensive review was conducted
12 by the Corporation and, yes, data changed, but that was
13 fully explained by Mr. Palmer. The data changed because
14 the -- the Corporation had been ordered to use single
15 vehicle indicators in rate setting and in PIPP cost
16 allocation, and it wanted to make sure that it had those
17 indicators correct.

18 So you can't question the fact that there
19 was a change and suggest that there's been some
20 skullduggery here and -- and maybe that's one of the
21 reasons why motorcycle rates should be capped.

22 Discussion of wildlife and livestock
23 claims seems to be based on the assumption that the
24 driver would never be responsible for hitting a deer or
25 hitting livestock on the highway. It's quite possible

1 that the driver was negligent in not noticing the animals
2 in there in time. So you can't work on the assumption
3 that -- that there's no negligence on the drivers part
4 and therefore, all these claims should be pooled.

5 And this also is -- is a situation where
6 there is a failure to account for the inherent risk and
7 lack of protection that motorcycles afford their drivers
8 and their passengers. And there's no valid reason why
9 this risk should be pooled.

10 Another issue that was raised and -- and
11 it was raised in a number of -- of different areas by a
12 number of different people -- criticism that in the
13 period 1994 to 2007 there was a 65 percent increase in
14 support staff at the Corporation. And this was
15 information that was provided in MPI Exhibit 16 in
16 response to PUB Pre-Ask number 4.

17 And the explanation given there was the --
18 the Corporation was asked to exclude DDL employees and
19 then do the calculation. But the explanation was given
20 that only those DDL employees who were still doing 100
21 percent DDL operations or functions could be removed.
22 That those figures include former employees of DDL who
23 are now doing MPI and DDL functions, and also includes
24 former MPI employees who are doing mixed MPI and DDL
25 functions such as the employees in the call centre.

1 So really given the -- the parameters of
2 the question and the information that was provided it's -
3 - it's not as shocking as -- of an increase as some would
4 -- would suspect.

5 I was tempted to repeat Mr. Oakes' comment
6 that he was shocked and dismayed at some of the
7 responses.

8 Sport bike differential, that's an
9 interesting one. Mr. Oakes is suggesting here that there
10 be a freeze of the sport bike differential due to low
11 credibility. And that's correct.

12 The -- the credibility of those figures is
13 fairly low, but that's why in the credibility weighting
14 the Corporation applies an 8.6 credibility weighting.
15 It's a low weighting to reflect the value of the
16 information. And that's found at TI-20, Exhibit 18-5.

17 And again we get the suggestion from Mr.
18 Oakes that a claims based credibility approach is more
19 reasonable, but no evidence is called to support this and
20 no testing of that theory. In fact, the MPI credibility
21 weighting has been adopted in previous rulings and has
22 been approved in previous rulings.

23 Mr. Oakes also challenges the zero percent
24 credibility for rate line purposes, and the explanation
25 given in evidence was that we use, or that the

1 Corporation uses zero percent because there's no
2 distinguishable pattern that would indicate relationship
3 between rate group and PIPP costs. And that's the -- the
4 credibility with respect to the PIPP costs on the rate
5 line adjustments.

6 Now as part of his explanation or his
7 justification for the suggestion that motorcycle rates be
8 held constant Mr. Oakes referred -- and this is in
9 argument at page 1,119 -- to five (5) factors that would
10 supposedly justify holding these motorcycle rates
11 constant.

12 The first is the demonstrated ongoing
13 conservatism in the Corporation's approach to rate
14 setting, specifically with respect to claim loss
15 development. There's no evidence to support that.

16 The second is the opportunity for the
17 Corporation to better control their costs. No challenge
18 to the Corporation's cost control measures.

19 Third is a need to review alternative
20 approaches to align collision with wildlife and similar
21 claims. Again, the need exists apparently only in the
22 minds of Mr. Oakes and -- and the CMMG. Certainly
23 nothing before this Board that would identify that need.

24 Ongoing concerns, he says, with the
25 approach in credibility -- to credibility and the unknown

1 potential effects of using credibility with claims cost
2 counts as the basis. Again, the Corporation's approach
3 to credibility has been clearly put before the Board and
4 has not been challenged by any expert evidence.

5 And finally the -- he identifies a
6 continued concern with the single vehicle accident data
7 for motorcycles and the inconsistency -- inconsistency of
8 the application of MPI's models to the rate line
9 adjustment. Again, motorcycle data, single vehicle
10 incident, fully explained in -- in the evidence.

11 So it's the Corporation's position that
12 there's nothing on the record to justify holding
13 motorcycle rates constant and that the plus 9.2 percent
14 should go forward.

15 This -- I referenced this earlier and I
16 won't make any great issue of it, but Mr. Oakes made the
17 statement that previous Boards and this Board have
18 approved rate making methodologies -- or haven't approved
19 mate -- rate making methodologies that have only proved
20 the results.

21 Clearly, that statement is -- is put to
22 the lie in -- in page 54 of PUB Order 156/06, and I would
23 suggest clearly underestimates and -- and undervalues the
24 work that this Board has put into helping MPI develop
25 rate making methodologies over the years.

1 In another CMMG exhibit, 1-21.1, Mr. Oakes
2 questions the rate differential that's applied between
3 pleasure motorcycle rates and all purpose motorcycle
4 rates. And he does that on the basis of information that
5 he asked -- he asked in CMMG-1-21.1; for the Corporation
6 to provide the difference between pleasure and all
7 purpose rates in three (3) vehicle classes. I believe
8 the private passenger vehicles, light trucks, and
9 motorhomes.

10 And when that information was provided, it
11 shows a spread that is sometimes greater than 10 percent.
12 But again, this is an example where Mr. Oakes takes this
13 bit of information and says, Well, then you should apply
14 that to motorcy -- the differential between pleasure
15 motorcycle and all purpose motorcycle, and it should be
16 much higher than 10 percent.

17 But what that doesn't indicate is that
18 there are other factors that go into those vehicle
19 classes, such as their -- their rate group. And the
20 Corporation wasn't asked to provide that, so you can't
21 base this assumption on the information that the
22 Corporation was asked to provide and did provide.

23 And I think it's also worth noting that in
24 October 2005, when the Corporation brought forward an
25 Application that included new rate groups -- or -- or new

1 use, rather -- motorcycle pleasure and motorcycle all
2 purpose -- that the 10 percent rate differential was put
3 forward at that time.

4 And reading from the transcript at page
5 1356, Mr. Oakes says:

6 "Motorcyclists were happily surprised.
7 It's something you haven't heard from
8 us this afternoon, but the introduction
9 of pleasure use for motorcycles
10 provided them with the same
11 classification plan as used for
12 passenger vehicles and light trucks.
13 And we accept the differential which
14 was proposed, the same 10 percent
15 differential that's being provided in
16 this year's Application."

17 The other issue to be looked at here is
18 it's admitted that the -- the 10 percent was an estimate,
19 but there's only been one (1) riding season of experience
20 by -- completed by the time the Corporation filed this
21 Rate Application in June of this year. So really,
22 there's not sufficient information to move off the 10
23 percent, which was clearly acceptable to Mr. Oakes two
24 (2) years ago.

25 Mr. Oakes makes a statement that doing the

1 Basic DCAT study is wasted money. Approximately forty-
2 one thousand dollars (\$41,000), I think, is the evidence
3 that was given. But that's wasted money.

4 There is evidence before this Board that
5 the standards of actuarial practice require the DCAT
6 analysis to be done as part of the external actuarial
7 review process. You can't decide not to do the DCAT and
8 get a professional statement and professional review from
9 your actuary. They're obliged to do it.

10 Interesting issue that Mr. Oakes raises
11 with request to RSR reporting, and he says:

12 "The Corporation is falsely reporting
13 its position in RSR."

14 And I presume he was referring to MPI
15 Exhibit Number 10, which is the quarterly financial
16 report for the second quarter, which was filed in these
17 proceedings. And as part of that report there are some
18 gauges which indicate the RSR target. And if you look at
19 it, it shows that there are two (2) elements to the RSR
20 target. There is the RSR target which is set by the MPI
21 -- sorry, by the PUB panel, and there's the RSR target
22 that is the preferred rate or the preferred target by the
23 MPI Board.

24 And what this chart clearly shows is that
25 currently the PUB target is exceeded, but the MPI Board

1 target is not. So it's not false reporting. It's just a
2 matter of reading the chart a little more carefully and
3 understanding what it says.

4 Mr. Oakes raised issues with the long-haul
5 trucking training program. I believe him to under -- to
6 comment that this was a drain on -- on the basic program.
7 It's not a drain on the basic program; that training
8 program is being paid fully by SRE customers that are out
9 of the SRE premiums.

10 Interesting issue and -- and I thought by
11 the time he got to -- to final submissions Mr. Oakes
12 would have given up on it -- he's been complaining about
13 the fact that there's no comprehensive coverage on
14 motorcycles and that if a motorcyclist purchases a Lay-up
15 policy, they don't get third party liability coverage.

16 Well, let's make a couple of things clear.
17 And I thought it was clear in the evidence and in
18 responses that were given to Mr. Oakes. Lay-up is an
19 Extension product sold by the Extension line to any
20 vehicle owner that wants to purchase it. There is no
21 third party liability coverage included in the Lay-up
22 policy. So whether you're a car owner or a motorcycle
23 owner, if you buy a Lay-up policy, you don't get third
24 party liability coverage.

25 Now, if motorcyclists find a need to

1 maintain their third party liability coverage, all they
2 need do is keep the motorcycle registered for the twelve
3 (12) month period.

4 It's at no extra cost. The premium
5 charged to them is a five (5) month premium to cover the
6 riding season, basically May to September. They can
7 leave that plate on, and they continue with that
8 coverage.

9 If they decide to truck their motorcycle
10 down to California in December for a week's holiday, they
11 have coverage on their MPI plate for the operation of
12 that vehicle in California. So there's really no issue
13 with a lack of third party liability coverage.

14 On the issue of comprehensive coverage,
15 Mr. Oakes seemed to be bemoaning the fact that
16 comprehensive coverage wasn't available -- or wasn't
17 included in basic for motorcyclists and that some
18 motorcyclist owners may not understand that they don't
19 have that coverage.

20 What he didn't advise the Board is that
21 that coverage used to be part of the basic motorcycle
22 coverage, but at the request of CMMG some years back,
23 that was removed. And if the motorcyclists have changed
24 their mind and now want to have that coverage
25 reinstated as part of their basic, all they need do is

1 come and speak to the Corporation.

2 This is a point that was raised by more
3 than one (1) individual and -- and it deals with the
4 increase in crime due to all the immobilized vehicles
5 that are going to be out there. This was raised by CAA.
6 It was raised CAC/MSOS, and also by Mr. Oakes.

7 And really it's almost a situation of
8 damned if you do and damned if you don't. The argument
9 is that once you immobilize all these vehicles, then
10 we're gonna have carjackings and home invasions and all
11 sorts of attempt theft and vandalism.

12 And I found it interesting that -- that
13 CAA would take this position, since they are one (1) of
14 the two (2) main suppliers of immobilizers that are part
15 of the Immobilizer Program. But in any event, they
16 express that concern.

17 I think Ms. McLaren's response was really
18 the most effective that you could have. She pointed out
19 that the Manitoba Auto Theft Task Force, which fully
20 supports the Immobilizer Program, is made up of
21 representatives from not only MPI, but police forces, the
22 Justice Department -- the justice system is involved in -
23 - in this task force -- and experts in dealing with auto
24 theft. They all support this provision.

25 And if they really were concerned about an

1 you like to take a few minute break?

2 MR. KEVIN MCCULLOCH: Yes, that would be
3 find.

4 THE CHAIRPERSON: Okay. We will come
5 back in ten (10) minutes, fine? Or fifteen (15)?

6 MR. KEVIN MCCULLOCH: Ten (10) is more
7 than enough.

8 THE CHAIRPERSON: Very good.

9

10 --- Upon recessing at 3:40 p.m.

11 --- Upon resuming at 3:50 p.m.

12

13 THE CHAIRPERSON: Thanks, Mr. McCulloch.
14 As you could probably guess, the break is as much for us
15 as it is for you, so --

16 MR. KEVIN MCCULLOCH: But I do appreciate
17 it.

18 THE CHAIRPERSON: -- we cannot take much
19 credit for it.

20 MR. KEVIN MCCULLOCH: I was moving to --
21 responding to the position of CAC/MSOS on the multi-year
22 application. And I think it -- it's pretty clear that
23 the concern expressed by Mr. Williams on behalf of his
24 clients would be that this plan would shut out public
25 interest groups for two (2) years from the process.

1 That's absolutely true. But that is the
2 result of the governing legislation and MPI believes that
3 the Board should take direction from the legislation.

4 There's been much talk about Hydro at
5 these proceedings. And at this point, I think it should
6 be put again on the record that when MPI in SM-9 talked
7 about other utilities that have multi-year rates given to
8 them or approved for them, the evidence from Ms. McLaren
9 and -- and from the other panel members was that this was
10 merely put forward as a point to demonstrate that
11 Manitobans wouldn't be surprised by the fact that this
12 Board might order a multi-year application.

13 It wasn't put forward to suggest that MPI
14 was moving to a postage stamp rate or a price cap model.
15 And that was clear from -- from the responses that the
16 panel gave, that really it was only there for a very
17 limited purpose. It wasn't there to promote application
18 of those other models to the MPI experience.

19 But in any event there's -- there was
20 other talk about -- about Hydro and -- and there's a
21 utility that went six (6) years without public hearings
22 before this Board. And both the public and Hydro seemed
23 to have survived fairly well from that experience.

24 And while the Corporation in no way
25 minimizes the public interest element of the Public

1 Utilities Board, it does want to point out to the Board
2 that MPI is subject to many other accountability forums.

3 There are public review meetings -- Crown
4 Corporation Council, which prepares quarterly and annual
5 reports on the Corporation. The Corporation reports to a
6 Minister of the Crown. The Corporation, of course, has a
7 Board of Directors appointed by the Government that it
8 reports to. The Corporation reports to Standing
9 Committee of the Legislature, which reviews annual
10 reports. The Corporation publishes quarterly financial
11 reports and these reports are -- are publicly published
12 and also filed in the Legislature.

13 The Corporation has its activities in --
14 in -- with respect to surcharges reviewed by the Rates
15 Appeal Board. Individuals can go to the Rates Appeal
16 Board to have their surcharges reviewed. And the
17 Automobile Injury Compensation Appeal Commission deals
18 with individual BI claims -- or claimants who are
19 dissatisfied with benefits that they've received under
20 the PIPP plan.

21 The Corporation is responsible to
22 inquiries placed through the Ombudsman's Office and is
23 also subject to the Freedom of Information and Protection
24 of Privacy Act. There are numerous applications for
25 access to information that come to MPI.

1 And finally, the Corporation is subject to
2 the court of public opinion, including media scrutiny.

3 Quite frankly, it's the Corporation's view
4 that it really has nowhere to run and nowhere to hide,
5 and that is not an element that forms part of its multi-
6 year rate application.

7 The Corporation has always been open to
8 work with interested parties, have met with Professor
9 Miller, and met with representatives of CMMG. And these
10 are all areas, not in any way replacing the role that the
11 Public Utilities Board plays, but they are all other
12 areas of accountability to which the Corporation is held.

13 Again, I want to emphasize that this plan
14 that's been put forward is based on past practices,
15 provides rate stability for the second and third year,
16 and there's a built in safeguard with respect to the
17 range that has been proposed.

18 In reference to Hydro's practice, Mr.
19 Williams appeared to question why MPI's CEO and Vice
20 Presidents and top executives would appear at these
21 hearings. The Corporation sees this as a positive thing,
22 reflecting the importance that the Corporation places on
23 these hearings.

24 Starting at page 1206 of the evidence, Mr.
25 Williams makes three (3) recommendations which he seems

1 to suggest as an improvement to the regulatory process.
2 Quite frankly, the Corporation doesn't believe that the
3 process is broken or needs fixing.

4 In fact, part of the Corporation's
5 rationale behind the three (3) year application is the
6 confidence that it has in this regulatory process.

7 Mr. Williams raised issues with respect to
8 MPI Exhibit Number 16, which is the response to PUB Pre-
9 Ask Number 4, and these are the comparisons with MPI,
10 SGI, and ICBC.

11 And again, Mr. Galenzoski was very clear
12 in his -- in his evidence that this not a valid
13 comparison. There's problems with the raw data. For
14 example, policy count to claim count may different -- may
15 differ from company to company; the cost allocation
16 process may differ from company to company; amortization
17 period may also be different; and SGI, in particular,
18 involves multiple lines of business.

19 What this chart does is confirm the
20 difference in growth rate from a set point in time, but
21 it doesn't explain why that difference exists. And
22 again, this is a situation where you can't use part of
23 some information to jump to another conclusion.

24 There was discussion about op -- OMA
25 (sic), and -- and the OMA comparison. And in particular,

1 Mr. Williams was speaking about Centra Gas, which I
2 understand only does an O&A, not an OM&A.

3 But in any event he indicates that this
4 sort of a calculation would be an important tool for the
5 organization. And in that regard -- and I've asked Ms.
6 Everard if she would -- I want to have the Board look at
7 an exhibit that was filed in these proceedings. This is
8 TI-20 Exhibit 8, where MPI does a comparison -- or does a
9 calculation of the operating cost per unit.

10 And this exhibit shows fifteen (15) years
11 of data. And in particular, the results have been
12 relatively flat on the cost per unit since 1995/'96, and
13 you see, moving from fifty-six point fifty-six (56.56) --
14 fifty-six dollars and fifty-six cents (\$56.56) to fifty-
15 six dollars and ninety-nine cents (\$56.99).

16 And more telling, I would suggest, the
17 operating expenses as a percentage of premium has
18 declined in that same time period from 11.35 percent to
19 8.02 percent.

20 So clearly MPI does a -- a calculation
21 similar to an O&A -- or OM&A, and the results are very
22 positive for the Corporation.

23 In addition, the Corporation has certain
24 goals with respect to its operating expenses. And -- and
25 those have been, again, placed before this Board, that

1 the goal of operating expenses to be 50 percent of the
2 industry average. And the evidence is that the
3 Corporation has achieved that goal.

4 And also the Corporation has a goal to
5 return 85 percent of the premium dollar to claimants.
6 And, in fact, in the Exhibit 10, the second quarter
7 annual report, that figure is at 97 percent. All those
8 are strong indications of operating expense control on
9 the part of the Corporation.

10 There was suggestion that the PUB reduce
11 the approved capital forecast. And the Corporation, in
12 response to PUB-2-15, gave evidence that this capital
13 forecast really has a minor impact on future rate making.
14 It's only the loss of investment income on a portion of
15 that capital forecast that impacts rate making.

16 And the other thing to be noted is that in
17 -- in past experience and -- and by past history, the
18 Corporation has shown that it only spends capital budget
19 when there is a business reason to do so.

20 PIPP forecasting, we've dealt with that,
21 about the high variability, and in particular, the
22 Exhibit Number 9, CMMG, that produced showing the
23 variances over a certain number of years. Mr. Williams
24 would have you believe that this suggests the Corporation
25 has no handle on experience, but in fact I would suggest

1 he makes the Corporation's point: There are considerable
2 variances in those PIPP costs.

3 And the forecast is based on expected
4 costs, which is the average of past costs. So those
5 variations are clearly taken into account.

6 And the other issue is, or the other
7 factor to be taken into account, is that forecasts do go
8 either way, and again, that confirms that there's no bias
9 in the forecasting process. And this is an inherent fact
10 of life in the insurance industry. You have to reflect
11 on the industry that we're dealing with.

12 The failure to respond to the benchmarking
13 study is identified by Mr. Williams as a failure of the
14 Corporation to have any real understanding or control of
15 the PIPP experience and the PIPP costs. There are a
16 number of elements that prove that position to be
17 incorrect.

18 First of all, we're dealing with a scheme
19 of statutory benefits; they're clearly set out in the
20 Legislation, in the Regulation. Case managers make
21 decisions on a case-by-case basis, appeal processes
22 exist, and the reported number that have been filed
23 before this Board show that there is an extremely low
24 number of appeals and internal reviews being conducted
25 for claimants who are dissatisfied with the benefits that

1 they are receiving.

2 There are considerable tools available to
3 case managers to do their job and to deliver the program
4 efficiently and correctly. And these are confirmed by
5 the Customer Satisfaction Surveys and also by our
6 customer service standards which the Corporation
7 regularly reports on, and which shows that the people
8 handling the PIPP claims are meeting those customer
9 service standards.

10 The Barron report which was filed in
11 response to the 2004 PUB Order, confirmed that at a
12 program level costs were in line with expectations, the
13 program is affordable, and the PIPP costs are stable and
14 affordable.

15 Having said all that the Corporation,
16 through its witnesses, has acknowledged that we need
17 better tools and more data that would lend themselves to
18 a better analysis, and that is being addressed through
19 the PIPP Infrastructure Project.

20 And it was for that reason, because they'd
21 embarked upon the PIPP Infrastructure project, that the
22 Corporation felt it wouldn't be prudent to do a separate
23 benchmarking study. The PIPP Infrastructure product
24 (sic) will provide benchmarks and much, much more.

25 And the concern over this -- this

1 benchmark issue appears to be driven by the innuendo that
2 there's something wrong with PIPP. Again there's just no
3 justification to suggest that. It's not true, the
4 system's working. There have been no rate increases in
5 the past number of years, there's been stable experience
6 over time, and I've already referenced the appeal
7 experience.

8 On one of his PIPP recommendations, Mr. --
9 or as part of his PIPP recommendations, Mr. Williams
10 suggests that claims incurred and claims costs are not
11 reasonably and prudently incurred. There's no evidence
12 to show that. And unless you have evidence to support
13 that contention, it's not something that can be taken
14 into account by this Board.

15 Road safety is -- is again an interesting
16 issue. The Corporation maintains the position that its
17 role is one of education and awareness. The Corporation
18 does not agree that its -- that its participation in the
19 Immobilizer Program has, as Mr. Williams said, 'crossed
20 the rubicon.' For years we have put on -- the
21 Corporation has put on the record that it is -- its
22 intention to stay with education and awareness until
23 sound loss-prevention programs can be brought forward.

24 The -- Immobilizer Program is clearly a
25 loss-prevention program and that is why the Corporation

1 embarked upon it. If there were to come forward a
2 reasonable loss prevention program dealt with occupation
3 restraint and drunk driving issues, the Corporation
4 wouldn't hesitate to investigate that program and become
5 involved if it thought that there was a business case to
6 do so.

7 Again, as a continuing theme, Mr. Williams
8 suggests that road safety expenditure are not reasonably
9 and prudently incurred. Recommendation is not -- that
10 recommendation is not supported by his suggestion that we
11 do more. The Driver's Ed Program, the Awareness Programs
12 are well in place and have a great deal of -- of public
13 support and nothing to suggest that they are not being
14 prudently operated.

15 On the issue of DSR, Mr. Williams talks
16 about consultations, and it's been the Corporation's
17 position in evidence, that there's every expectation that
18 consultations will occur prior to any DSR rate hearing.
19 We've identified that public consult -- consultation is
20 the key to the success of the DSR Program, so that is not
21 an issue that this Board should be concerned about.

22 At the end of the day, Mr. Williams
23 suggests that there be a 1 percent reduction in the
24 revenue requirement which forms the basis of the
25 Corporation's Rate Application. He seems to suggest that

1 PIPP handling issues would support this reduction.

2 Again, no evidence, no justification.

3 Road safety. Same response. Suggests
4 that the conservatism in the approach taken by the
5 Corporation is sufficient to justify a 1 percent
6 reduction. Again, nothing on the record, I would
7 suggest, that would drive the Board to accept that
8 recommendation.

9 The issue of budgeting for a loss, in
10 fact, would come into play if there was to be a 1 percent
11 reduction because in response to PUB-1-1, the figures
12 show that a 1 percent reduction would produce a loss in
13 the Application year.

14 The issue of long-haul truck -- truckers
15 and, in particularly, the contention that they get a free
16 ride on the PIPP Program, it should be pointed out that
17 that is not a subsidy from one line of business to
18 another. It's no different than the pool subsidizing
19 motorcyclist. It's no different than the pool
20 subsidizing children who are injured in automobile
21 accidents, or adult individuals who don't own a vehicle,
22 don't have a diver's licence, don't pay any premium to
23 MPI. All of those individual as Manitoba residents are
24 entitled to PIPP benefits, and the pool covers the
25 payment of those benefits.

1 So really the issue with long-haul
2 truckers is no different than that. You can't treat it
3 as a subsidy of SRE because in many instances we're
4 dealing with a Manitoba resident who's employed by an
5 Alberta trucking company, driving vehicles insured in
6 Alberta and doing business in Alberta.

7 The only revenue MPI see -- sees from that
8 individual is the driver's licence premium. MPI and
9 particularly SRE seems -- sees nothing from his employer.
10 The vehicles are insured elsewhere, premiums are paid to
11 insurers in Alberta. It's only by virtue of the driver's
12 Manitoba residency that he qualified for PIPP benefits
13 and that's a statutory provision that was clearly the
14 intent of the Government when they introduced the no-
15 fault legislation.

16 Moving to Mr. Dawson again, his major
17 issue appeared to be the lack of response to the
18 benchmarking study. And he is looking for a benchmarking
19 study separate from the PIPP infrastructure project.

20 Benchmarks may provide assurance of
21 efficient and effective delivery of the PIPP Program, but
22 benchmarks will not identify individual claims which are
23 not being properly handled. And that supposedly was the
24 concern of the Manitoba Bar Association represented by
25 Mr. Dawson.

1 So I'm suggesting that the benchmark
2 study, even when it's completed through the PIPP
3 Infrastructure Program, will not address the issue of
4 individual claims problems. There is a statu -- an
5 appropriate statutory tribunal to direct or to address
6 those issues and that's AICAC.

7 And Mr. Dawson took it a step further,
8 suggesting that MPI's failure to address the benchmarking
9 order is reason for the Board to in effect punish the
10 applicant by turning down the multi-year application. If
11 that's his rationale, then I'm afraid it's a doomed to
12 failure, because Ms. McLaren is on record that
13 benchmarking, as part of the PIPP infrastructure, will
14 not be delivered in the next year or two (2) that would
15 be covered by the multi-year application.

16 So it would have no effect. Denying the
17 multi-year application will have no effect on producing
18 this benchmark study. Both the -- the Infrastructure
19 Project and the data gathered is some years down the
20 road.

21 Now, Mr. Dawson and Ms. Wankling both
22 referenced the presentation made by Ms. McGee on October
23 3rd at -- at the public presentations, and I believe Mr.
24 Williams may have done so as well.

25 The Corporation has always taken the

1 position that it's inappropriate for it to comment on
2 presentations dealing with individual claim files or
3 issue. From a privacy issue alone, it would not be
4 appropriate.

5 However, it is also inappropriate to draw
6 inferences, as both Mr. Dawson and Ms. Wankling have,
7 that such presentations demonstrate systematic claims
8 mishandling. This is one (1) of fifteen hundred (1,500)
9 bodily-injury claims. Again, there's a legislated
10 review, an appeal process to address individual claim
11 file issues, and past evidence has been that that process
12 works extremely well.

13 There is another assumption that you
14 cannot jump to on the basis of a public presentation
15 which, as I echo the comments of -- of the Chair,
16 certainly brings a human element to the discussion of
17 injury costs and -- and claims. And no one would ever
18 deny that.

19 Again, my numbers are being corrected.
20 It's fifteen thousand (15,000) BI claims in a year, not
21 fifteen hundred (1,500).

22 Some smaller issued. There -- there was a
23 suggestion, again by Ms. Wankling and to some extent by
24 Ms. Everard, that there was insufficient evidence to
25 satisfy the Board that costs were being properly

1 allocated, particularly costs in relation to DVL. And
2 again it's our position that that is simply not correct.

3 On an annual basis the Corporation
4 produces an audited basic financial statement, financial
5 statement dealing only with basic operations. In the
6 preparation of that statement the external auditors
7 confirm that costs are properly allocated between the
8 lines of business in accordance with the formulas filed
9 with this Board.

10 That was one of the main purposes for the
11 Corporation producing this basic financial statement,
12 going to the expense of having the basic financial
13 statement audited, so that the Board could be satisfied
14 that those cost allocations were being properly handled.
15 So there's no need to produce further extension or SRE
16 information to provide with that assurance.

17 One other matter that I think ought to be
18 clarified, and again my reading of -- of a comment by Ms.
19 Everard in -- in the transcript at page 1,099, seemed to
20 indicate that comprehensive income was to be included as
21 a separate item within the Corporation's retained
22 earnings. I'm advised that the accounting practice is
23 that comprehensive income appears on a separate line on
24 the liability side of the balance sheet, but it is not
25 included as a portion of retained earnings.

1 One other response to the suggestion --
2 and I believe it came from -- from Mr. Williams -- was
3 that in a multi-year application, the Corporation might
4 budget for a loss and this is something that -- that
5 clearly is not acceptable to this Board.

6 Well, applying the overall actuarial
7 indicator, which the Corporation has committed to do in
8 its multi-year application, makes it impossible to budget
9 for a loss. If you're applying for the indicator, the
10 actuarial indicator, you can't have a loss.

11 In a previous application -- I believe it
12 was back in 2003 -- the Corporation did budget for a loss
13 as a method of smoothing the actuarial indicator over two
14 (2) years. It got very clear direction from this Board
15 that it was not to go in that direction, and, as I
16 stated, applying the actuarial indicator absolutely
17 prevents budgeting for a loss.

18 One comment on -- on the rebates that have
19 been paid in the last two (2) years and -- and are
20 proposed for this particular year, there was suggestion
21 that this was due to overcharging of rates. And I think,
22 again, the evidence in -- in previous years and this year
23 is quite clear that the proposed rebates or the -- the
24 monies that are being used in the proposed rebates are
25 largely due to increases in investment income and not

1 overcharging of basic rates.

2 I want to conclude speaking about the
3 multi-year rate application because clearly without that
4 element, I think we would have been through here in a day
5 or two (2). And perhaps more than any other Intervenor,
6 Mr. Williams, on behalf of CAC/MSOS, painted a very dire
7 picture; doom and gloom, if there was a multi-year
8 application.

9 It appears -- his position appears based
10 on the assumption that in the absence of public scrutiny,
11 the Corporation will abandon all of the sound business
12 practices it has established over the years and will run
13 amok to the detriment of ratepayers.

14 Nothing could be further from the evidence
15 of the MPI panel before this Board. Clearly, the
16 Legislature in its collective wisdom contemplated multi-
17 year applications. They did so with full knowledge and
18 understanding of the operations of a government
19 compulsory automobile insurance plan. MPI had been in
20 existence some seventeen (17) years before coming under
21 PUB regulation and before coming under the provision for
22 a multi-year rate application.

23 The proposal is limited in nature, tied to
24 actuarial indicators, constrained by the minus three
25 (3)/plus three (3) range and subject to recall in the

1 event of any significant change -- or that any
2 significant change in circumstances that might occur.

3 The proposal is based on the Corporation's
4 current financial stability and reflects the tried and
5 tried mate raking -- nate -- rate making processes.

6 There's nothing sinister in the proposal.
7 It's clear and unambiguous, and the Corporation has
8 acknowledged each element of the pro -- proposal is
9 subject to review and change by this Board. Nothing in
10 these proceedings has caused the Corporation to alter its
11 position.

12 In fact, the applicant is even more
13 convinced that, as stated by its CEO, if not now, when.
14 Under what possible circumstances could a multi-year
15 application receive more favourable consideration. That
16 completes my presentation, Mr. Chairman, Members of the
17 Board.

18 Again, I want to thank the Board for
19 accommodating me this afternoon in -- in final argument.
20 And I reiterate the position taken by the Corporation
21 that it appreciates the process and certainly appreciated
22 the opportunity to bring forward its evidence and its
23 application at this Hearing. Thank you.

24 THE CHAIRPERSON: Thank you, Mr.
25 McCulloch. This brings the Hearing to a close. Once

1 again thank you to all participants, those appearing
2 before us and those in support. We fully realize the
3 time and energy and commitments that are required and
4 take very seriously the participation, the evidence, and
5 the closing remarks of all parties.

6 The Board panel will now deliberate and
7 MPI may expect an order at some point in November.

8 So we stand adjourned. Thank you.

9

10 --- Upon adjourning at 4:24 p.m.

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12 Certified Correct,

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17 Rolanda Lokey, Ms.

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