

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE COMPANY
GENERAL RATE APPLICATION
FOR 2009/10 INSURANCE YEAR

Before Board Panel:

- Graham Lane - Board Chairman
- Eric Jorgensen - Board Member
- Alain Molgat - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 7th, 2008

Pages 1354 to 1420

APPEARANCES

1
2 Walter Saranchuk, Q.C.) Board Counsel
3 Candace Everard)
4
5 Kevin McCulloch) Manitoba Public Insurance
6
7 Raymond Oakes) CMMG
8
9 Byron Williams) CAC/MSOS
10
11 Nick Roberts (np)) Manitoba Used Car Dealers
12) Association
13
14 Donna Wankling (np)) CAA Manitoba
15 Jerry Kruk)
16
17 Robert Dawson) CBA/MBA
18
19 Claudio Sousa (np)) Scootering Manitoba
20
21 Beth Eva) For Witness Robert
22 Kowalchuk
23
24
25

1	TABLE OF CONTENTS	
2		Page No.
3	List of Undertakings	1357
4		
5	ROBERT KOWALCHUK, Sworn	
6	Cross-Examination by Mr. Walter Saranchuk	1359
7	Cross-Examination by Mr. Byron Williams	1391
8	Cross-Examination by Mr. Kevin McCulloch	1392
9		
10		
11	MPI PANEL, Recalled	
12	WARD KEITH, Resumed	
13	MARILYN MCLAREN, Resumed	
14	DON PALMER, Resumed	
15	OTTMAR KRAMER, Resumed	
16		
17	Re-Cross-Examination by Mr. Walter Saranchuk	1398
18		
19	Closing comments by the Chairperson	1412
20	Certificate of Transcript	1420
21		
22		
23		
24		
25		

	LIST OF UNDERTAKINGS		
1	NO.	DESCRIPTION	PAGE NO.
2			
3	35	To provide a copy of KPMG's letter	
4		of engagement dated June 4th, 2008	1362
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1 --- Upon commencing at 9:04 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. Mr. Saranchuk will give us the lay of the land
5 for today.

6 MR. WALTER SARANCHUK: Thank you, sir.
7 Just before we proceed this morning, I would just ask
8 that there be one correction made in the record. This
9 pertains to Undertaking Number 32 which was filed as MPI
10 Exhibit Number 28 yesterday, where the question was MPI
11 to indicate what the net income for Basic will be in the
12 first quarter.

13 There is an error there where the proper
14 question is MPI to indicate what the net income for Basic
15 will be and deleting the words, "in the first quarter"
16 because that question arose out of discussion with MPI's
17 witnesses relative to second quarter financial report.
18 So I'd like to have that clarified and -- to make that
19 clarification and have that noted for the record.

20 THE CHAIRPERSON: Mr. McCulloch, do you
21 have any comment on that?

22 MR. KEVIN MCCULLOCH: No, Mr. Chairman.

23 MR. WALTER SARANCHUK: And that, of
24 course, is for the 2008/'09 year.

25 THE CHAIRPERSON: Very good, Mr.

1 Saranchuk. Mr. Saranchuk, do you want to introduce our
2 new witness?

3 MR. WALTER SARANCHUK: Well, as I
4 understand it, we have Mr. Rob Kowalchuk from the
5 accounting house of KPMG present, along with his counsel,
6 Ms. Beth Eva from the firm of Fillmore Reily and they are
7 to your far left front there, Mr. Chairman.

8 THE CHAIRPERSON: Welcome.

9 MR. WALTER SARANCHUK: Now if we can
10 proceed with the swearing in of the witness, Mr.
11 Kowalchuk, please.

12

13 ROBERT KOWALCHUK, Sworn

14

15 THE CHAIRPERSON: Okay, I am sure -- I am
16 hoping that you were advised of our general process of
17 how Board counsel begins and then we will -- eventually
18 MPI will have an opportunity to ask you questions along
19 with the Intervenors.

20 MR. ROBERT KOWALCHUK: Yes, I was.

21 THE CHAIRPERSON: Mr. Saranchuk...?

22 MR. WALTER SARANCHUK: Thank you, sir.

23

24 CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

25 MR. WALTER SARANCHUK: Mr. Kowalchuk,

1 just by way of background, perhaps you can give us an
2 indication of your educational background.

3 MR. ROBERT KOWALCHUK: Certainly. I'm a
4 chartered accountant, member of the Institute of
5 Chartered Accountants of Manitoba since 1994. Received
6 my university education at the University of Manitoba. I
7 mentioned the chartered accountant designation and have
8 been employed with KPMG LLP since 1991.

9 MR. WALTER SARANCHUK: And what is your
10 status with the firm, sir?

11 MR. ROBERT KOWALCHUK: I'm an Associate
12 Partner.

13 MR. WALTER SARANCHUK: You've held that
14 position for how long?

15 MR. ROBERT KOWALCHUK: For three (3)
16 years.

17 MR. WALTER SARANCHUK: And of course KPMG
18 is the independent external auditors of MPI, is that
19 correct?

20 MR. ROBERT KOWALCHUK: That is correct.

21 MR. WALTER SARANCHUK: And in respect of
22 some of the evidence that was filed in these proceedings,
23 in particular both MPI's 2008 annual financial statements
24 and MPI's Basic divisions financial statements which, for
25 the record, appear at filing of AI-6 in the documentary

1 evidence.

2 I understand that you are the accountant
3 that signed the audit opinions for KPMG in that regard.

4 MR. ROBERT KOWALCHUK: I'm the chartered
5 accountant that authorized the release of the signed
6 opinions in both cases.

7 MR. WALTER SARANCHUK: And can you
8 confirm that KPMG IFRS Advisory Services has provided to
9 MPI advice on issues that may arise for MPI with respect
10 to expected future adherence to the International
11 Financial Reporting Standards.

12 MR. ROBERT KOWALCHUK: KPMG has provided
13 preliminary IFRS conversion services to MPI pursuant to
14 our engagement later -- engagement letter dated June 4th,
15 2008.

16 MR. WALTER SARANCHUK: Yes. And do you
17 have a copy of that letter?

18 MR. ROBERT KOWALCHUK: I do not have a
19 copy with me.

20 MR. WALTER SARANCHUK: Is a copy
21 available? I take it there's no reason why it couldn't
22 be.

23 MR. ROBERT KOWALCHUK: Yeah. There's --

24 MR. WALTER SARANCHUK: Oh, so do you
25 undertake to file that within the next couple of days

1 please? Is that fine, Mr. Kowalchuk?

2 MS. BETH EVA: Yes, we will.

3 MR. ROBERT KOWALCHUK: Yes.

4 MR. WALTER SARANCHUK: Thank you. Thank
5 you.

6

7 --- UNDERTAKING NO. 35: To provide a copy of KPMG's
8 letter of engagement dated
9 June 4th, 2008

10

11 CONTINUED BY MR. WALTER SARANCHUK:

12 MR. WALTER SARANCHUK: Now in respect of
13 the report provided to MPI relative to IFRS, that appears
14 for the record at PUB/MPI-1-43, that's question 43 filed
15 in the First Round of these proceedings.

16 And on that document of course your name
17 appears, Mr. Kowalchuk, this is the quick scan report for
18 MPI. You're aware of that?

19 MR. ROBERT KOWALCHUK: Correct.

20 MR. WALTER SARANCHUK: And is there a
21 particular reason why your name appears on that document?

22 MR. ROBERT KOWALCHUK: I was part of the
23 team that assisted with the IFRS conversion services.

24 MR. WALTER SARANCHUK: And the team
25 comprised as well as yourself, Debbie Grenier, G-R-E-N-I-

1 E-R, and Scott Sissons, S-I-S-S-O-N-S?

2 MR. ROBERT KOWALCHUK: Correct. They
3 were also part of the engagement team.

4 MR. WALTER SARANCHUK: And what was your
5 particular role in respect of the preparation of that
6 quick scan report?

7 MR. ROBERT KOWALCHUK: Being the audit
8 partner on the audit engagement, I was assisting the IFRS
9 specialist that we have on the team in understanding the
10 current accounting policies that MPI follows.

11 MR. WALTER SARANCHUK: And I take it
12 you're aware, sir, that the PUB considers MPI's, that is
13 the Public Utilities Board, considers MPI's overall
14 corporate financial strength and prospects in
15 consideration of MPI's annual rate applications.

16 MR. ROBERT KOWALCHUK: I am aware of
17 that.

18 MR. WALTER SARANCHUK: And how long have
19 you served in the capacity as the lead man so to speak on
20 the MPI audits?

21 MR. ROBERT KOWALCHUK: For two (2) years.

22 MR. WALTER SARANCHUK: And are you aware
23 of the linkages between the recently assumed driver and
24 vehicle licensing department or operations and MPI's
25 Basic line of business?

1 MR. ROBERT KOWALCHUK: I am aware that in
2 -- in 2004 the Province transferred the management and
3 administration of DVL to MPI.

4 MR. WALTER SARANCHUK: And as reported in
5 the Universal Compulsory Automobile Insurance annual
6 report financial statements for the fiscal year ended
7 February 29th, 2008, that's the Basic, if you will, plan.

8 Are you aware if Basic's revenue, expense,
9 assets and liabilities are recorded separately in MPI's
10 accounts?

11 MR. ROBERT KOWALCHUK: It is my
12 understanding that management maintains separate general
13 ledger accounts for the Basic line of business.

14 MR. WALTER SARANCHUK: And are you aware
15 that the financial statements -- or whether the financial
16 statements for the Basic line of business represent
17 special purposes statements?

18 MR. ROBERT KOWALCHUK: We would -- we
19 would consider the Basic financial statements general
20 purpose financial statements.

21 MR. WALTER SARANCHUK: And can you
22 confirm that the amounts shown on the balance sheet are
23 representative of Basic's share of the overall of
24 Corporation's asset and liabilities, revenues, and
25 expenses?

1 MR. ROBERT KOWALCHUK: Well, our
2 engagement was to report on the financial statements of
3 the Basic line of business taken as a whole and we've
4 rendered our opinion on that.

5 MR. WALTER SARANCHUK: And of course your
6 name also appears, or at least your firm name as auditor,
7 appears on the financial statement for the Corporation as
8 a whole, not just Basic, is that correct?

9 MR. ROBERT KOWALCHUK: That's correct.

10 MR. WALTER SARANCHUK: Now, with respect
11 to the annual operating expenses for Basic, which
12 according to the information received have increased
13 materially since the last cost allocation review
14 performed by Arthur Anderson in the late 1990s as
15 reviewed by the Public Utilities Board, can you indicate
16 if those expenses represent direct or allocated expenses,
17 and if both directed and allocated, what was the division
18 between the direct and allocated?

19 MR. ROBERT KOWALCHUK: The -- the
20 expenses would represent both direct and allocated
21 expenses. The allocated expenses are allocated according
22 to a formula that is approved by the Board and that is
23 disclosed in the notes to the financial statements.

24 MR. WALTER SARANCHUK: And when you say
25 "approved by the Board," you mean...?

1 MR. ROBERT KOWALCHUK: The MPI Board.

2 MR. WALTER SARANCHUK: And can you advise
3 of the policy or guidelines that provided for the
4 allocation of expenses to Basic?

5 MR. ROBERT KOWALCHUK: We weren't engaged
6 to perform any analysis on the allocation formula. We
7 were engaged to report on the financial statements as a
8 whole.

9 MR. WALTER SARANCHUK: And therefore, can
10 you comment on whether KPMG, as auditor, accepts or
11 accepted the policy under our guidelines as being fair
12 and reasonable?

13 MR. ROBERT KOWALCHUK: I cannot make that
14 comment. We were not engaged to make that assessment.

15 MR. WALTER SARANCHUK: And in performing
16 the audit, what work was done in respect of the cost
17 allocations?

18 MR. ROBERT KOWALCHUK: Well, as I
19 mentioned, we performed tests as we considered necessary
20 on the amounts and disclosures in the financial
21 statements.

22 MR. WALTER SARANCHUK: So you essentially
23 relied on MPI's indication as to what its cost allocation
24 formulae were or are in assessing those allocations to
25 Basic?

1 MR. ROBERT KOWALCHUK: We performed tests
2 on the allocation formula as approved by the MPI Board.

3 MR. WALTER SARANCHUK: Can you give us an
4 indication of what kind of tests you did perform?

5 MR. ROBERT KOWALCHUK: An example would
6 have been to perform an examination on a test basis on
7 some of the amounts that were allocated to Basic and to
8 ensure that those amounts allocated were in accordance
9 with the approved policy.

10 MR. WALTER SARANCHUK: Did you come to
11 any conclusion in respect of any required amendments or
12 changes?

13 MR. ROBERT KOWALCHUK: No, that was not
14 within the scope of our engagement.

15

16 (BRIEF PAUSE)

17

18 MR. WALTER SARANCHUK: So in respect of
19 the audit, in general, your scope was limited at least in
20 respect of cost allocations; for those you accepted what
21 MPI indicated what they were?

22 MR. ROBERT KOWALCHUK: No, again we
23 reported on the Basic financial statements taken as a
24 whole.

25

1 (BRIEF PAUSE)

2

3 MR. WALTER SARANCHUK: Now, are you
4 aware, sir, of MPI's business process review known as the
5 acronym BPR and the expenditures incurred by MPI relative
6 to the BPR?

7 MR. ROBERT KOWALCHUK: I am aware
8 generally of the BPR initiative.

9

10 (BRIEF PAUSE)

11

12 MR. WALTER SARANCHUK: I'll just refer
13 you to the 2008 annual report that's for the Corporation
14 as a whole if you have that handy?

15 MR. ROBERT KOWALCHUK: I do not have that
16 handy.

17 MR. WALTER SARANCHUK: Perhaps you can
18 get a copy from someone sitting beside you there.

19

20 (BRIEF PAUSE)

21

22 MR. WALTER SARANCHUK: And I take it you
23 are aware, sir, that some of the expenditures incurred by
24 MPI relative to the BPR, being covered off by an
25 extension development fund or a fund in the extension

1 side retained earnings?

2 MR. ROBERT KOWALCHUK: That is my
3 understanding.

4 MR. WALTER SARANCHUK: And that, of
5 course, appears at page 36 of the annual report which is
6 in AI-6 filed in these proceedings. It's Volume 3, Part
7 1.

8 You see that reference to the extension
9 development fund as according to the information on page
10 36, being in the order of \$35.4 million at the end of
11 2000 -- or at least February 28, 2008, the end of the
12 current year as noted in that part on page 36 of the
13 annual report.

14 Do you see that?

15 MR. ROBERT KOWALCHUK: Yes, I do.

16 MR. WALTER SARANCHUK: And there also is
17 reference to that extension development fund in Note 19
18 which appears at sub -- page 72 of the annual report.
19 And essentially gives a little more information as to how
20 that \$35.4 million balance was arrived at.

21 Do you see that, sir?

22 MR. ROBERT KOWALCHUK: Correct, yes.

23 MR. WALTER SARANCHUK: So was that the
24 extent of the information you reviewed in that particular
25 regard or was there something more than you took into

1 account?

2 MR. ROBERT KOWALCHUK: Well, we reviewed
3 to the extent that there are BPR expenditures included in
4 the annual financial statements as part of our audit as
5 the financial statements as a whole.

6 MR. WALTER SARANCHUK: And do you know --
7 can you indicate if any of the BPR expenditures pertained
8 to or were allocated to the Basic side?

9 MR. ROBERT KOWALCHUK: To the best of my
10 knowledge, I'm not aware of any.

11 MR. WALTER SARANCHUK: And you're relying
12 on the information received from MPI in that respect,
13 sir?

14 MR. ROBERT KOWALCHUK: No, I'm commenting
15 on -- in the context of our audit on the financial
16 statements.

17 MR. WALTER SARANCHUK: Do you know, sir,
18 that with regard to the former driver vehicle licence
19 operations any of the costs of -- or expenditures
20 associated with the functions were allocated or charged
21 to Basic?

22 MR. ROBERT KOWALCHUK: I was not aware of
23 that.

24 MR. WALTER SARANCHUK: Now turning to the
25 driver's and vehicle licencing issue and KPMG's

1 indication as to just what the ramifications might be
2 relative to the contract that MPI had with the province
3 and that would be ramifications pursuant to IFRS.

4 In the document, being KPMG's quick scan
5 report and, again, this is at Number 43 of the First
6 Round Interrogatories served by the Public Utilities
7 Board on MPI.

8

9 (BRIEF PAUSE)

10

11 MR. WALTER SARANCHUK: Just turning to
12 page 1 of that quick scan report, sir, can you, with
13 reference to the objectives indicated there on page 1,
14 give us a summary of what those objectives were for the
15 record.

16 MR. ROBERT KOWALCHUK: Well, as it states
17 on page 1, the objectives were to provide a high level
18 diagnostic and a qualitative assessment to assist
19 management in identifying differences between existing
20 Canadian generally accepted accounting principles and
21 international financial reporting standards.

22 MR. WALTER SARANCHUK: And then looking
23 at the scope and approach section, you indicate in the
24 first sentence there that, quote:

25 "This report is subject to the terms

1 and conditions of our engagement letter
2 dated June 4th, 2008."

3 End of quote. Is that engagement letter
4 handy? Do you have it?

5 MR. ROBERT KOWALCHUK: No, that's the one
6 we've undertaken to provide.

7 MR. WALTER SARANCHUK: So that's the same
8 letter then?

9 MR. ROBERT KOWALCHUK: Yes.

10 MR. WALTER SARANCHUK: All right, thank
11 you. And moving on to the body of the Scope and Approach
12 section on page 1, I refer you to the sentence which
13 states, quote:

14 "Such an analysis is by nature limited
15 and its objective is to identify the
16 most significant issues rather than to
17 develop an exhaustive inventory of
18 accounting and disclosure differences."

19 End of quote. Could you just explain that
20 for us please?

21 MR. ROBERT KOWALCHUK: Certainly. Again,
22 it was a very high level diagnostic. A limited amount of
23 hours were spent preparing it. It's preliminary and it
24 makes reference to the fact that further analysis will be
25 required by management to address any International

1 Financial Reporting Standards implementation issues.

2 MR. WALTER SARANCHUK: And at page 8 of
3 that report, sir, there is reference in the second last
4 paragraph on that page to, quote:

5 "Loss making executory contracts, i.e.,
6 onerous contracts."

7 End of quote. Can you explain what that
8 is or what -- yeah, what that is or what those are and
9 outline what is the proposed treatment for such a
10 contract insofar as the expectation under IFRS's concern?

11 And we appreciate that this is at a high
12 level at this juncture.

13 MR. ROBERT KOWALCHUK: Certainly. IFRS
14 would define an onerous contract as one where the
15 unavoidable costs of fulfilling the obligation exceed the
16 benefits expected to be received under the contract.

17 MR. WALTER SARANCHUK: And in terms of
18 dealing with these accounting ramifications of IFRS, was
19 there a particular specialist within your realm so to
20 speak that KPMG relied on in the preparation of this
21 report?

22 MR. ROBERT KOWALCHUK: There was more
23 than one (1) specialist that was part of the engagement
24 team, yes.

25 MR. WALTER SARANCHUK: And you were part

1 of the engagement team?

2 MR. ROBERT KOWALCHUK: Yes, I was.

3 MR. WALTER SARANCHUK: And was -- who --
4 could you give us a couple of other names?

5 MR. ROBERT KOWALCHUK: Debbie Grenier is
6 -- is one (1) of our IFRS technical specialists whose
7 name was on the document.

8 We also concurred with Neil Parkinson
9 (phonetic) who is an IFRS specialist as well.

10 MR. WALTER SARANCHUK: And can you give
11 us an idea of how many person hours would have been spent
12 in the preparation of this quick scan report?

13 MR. ROBERT KOWALCHUK: I would estimate
14 between fifty (50) and seventy (70) hours were spent on
15 the doc -- preparing the document.

16 MR. WALTER SARANCHUK: And with reference
17 to this paragraph here, I wonder, sir, if you would just
18 read it into the record. I'm talking about the one on
19 page 8, the second last paragraph beginning with the word
20 'Provisions' and ending with the words 'further
21 analysed'.

22 If you would just please read that into
23 the record, sir.

24 MR. ROBERT KOWALCHUK: Certainly.

25 "Provisions for loss making executory

1 contracts, i.e., onerous contracts are
2 also required under IFRS. Generally
3 provisions for loss making executory
4 contracts are not recognized under
5 Canadian GAP.

6 The Corporation will need to evaluate
7 agreements such as any long term
8 purchase and supply contracts and
9 various leasing agreements --
10 arrangements rather, to assess whether
11 additional provisions would be required
12 under IFRS.

13 For example, MPI's master agreement
14 with the Province of Manitoba relating
15 to the driver and vehicle licencing
16 operations will need to be further
17 analysed."

18 MR. WALTER SARANCHUK: Yes, thank you,
19 sir. And of course that relates to the DVL
20 implementation and operation costs, just in round
21 figures, which amounts to somewhere in the order of \$29.5
22 million annually?

23 MR. ROBERT KOWALCHUK: I'm not aware of
24 the exact figure.

25 MR. WALTER SARANCHUK: Are you aware of

1 the fact that the Province of Manitoba's subsidy, if you
2 will, or offset is in the order of \$21 million annually
3 so that there's essentially a shortfall in the order of
4 some \$8.5 million?

5 MR. ROBERT KOWALCHUK: I'm aware of the
6 annual subsidy by the Province of \$21 million.

7 MR. WALTER SARANCHUK: And additionally,
8 you're aware that prior to the driver vehicle licencing
9 operation being incorporated into MPI, so to speak, that
10 the Corporation received some \$6 million from the
11 Province of Manitoba as its share of MPI's commissions to
12 brokers?

13 MR. ROBERT KOWALCHUK: I am not aware of
14 that figure.

15 MR. WALTER SARANCHUK: Are you aware --
16 well if you're not aware of that figure, are you aware
17 that those -- or that offset, if you will, or payment by
18 the province was curtailed once the DVL operations were
19 merged with MPI as a whole?

20 MR. ROBERT KOWALCHUK: I am not aware of
21 that.

22 MR. WALTER SARANCHUK: So while you're
23 aware of the shortfall of some \$8.5 million annually
24 because of the shortfall in the offset, if you will, by
25 the province to MPI annually on its overall operations of

1 DVL, you're not aware that there is a further shortfall
2 of some \$6 million annually because of the lack of the
3 commission offset?

4 MR. ROBERT KOWALCHUK: We were not
5 engaged to assess any shortfalls or the arrangements
6 between the province and MPI with respect to DVL. Our
7 engagement was focussed on the financial statements.

8 MR. WALTER SARANCHUK: But, of course,
9 this is the topic that is addressed in the last sentence
10 that you -- or that I asked you to read into the record.

11 Is that correct?

12 MR. ROBERT KOWALCHUK: The last sentence
13 read into the record basically says that MPI will need to
14 further analyse this contract as an example.

15 MR. WALTER SARANCHUK: So you were aware
16 of it -- I take it, you were then referring to the
17 shortfall?

18 MR. ROBERT KOWALCHUK: There -- we were
19 advising that there may be -- there may be contracts --
20 any significant contracts that MPI has would need to be
21 further analysed. This, as well as -- as any others.

22 MR. WALTER SARANCHUK: Then how did you
23 determine that this could perhaps be classified as an
24 onerous contract?

25 MR. ROBERT KOWALCHUK: There was no

1 conclusion made that this was an onerous contract and I'm
2 not aware that management has yet made that assessment,
3 whether this contract would meet the definition of such.

4

5 (BRIEF PAUSE)

6

7 MR. WALTER SARANCHUK: Can you give us an
8 idea of what considerations were taken into account to
9 identify this contract in particular?

10 MR. ROBERT KOWALCHUK: Well, it is one of
11 the significant contracts that MPI has and it was
12 provided as an example of one that management will have
13 to assessed.

14 MR. WALTER SARANCHUK: And what
15 information was provided as an example?

16 MR. ROBERT KOWALCHUK: I'm sorry. I'm
17 not sure I understand.

18 MR. WALTER SARANCHUK: In respect of the
19 details that you received, relative to the contract with
20 the province of Manitoba, what kind of information did
21 you receive?

22 MR. ROBERT KOWALCHUK: Well, we didn't
23 receive any specific information from management in the
24 preparation of the document.

25 MR. WALTER SARANCHUK: So I guess the

1 question really is: How did you single out that
2 particular master agreement then as perhaps being part of
3 the -- or falling within the context of an onerous
4 contract?

5 MR. ROBERT KOWALCHUK: This contract --
6 excuse me -- in particular was merely provided as an
7 example. There was no conclusions reached that it is an
8 onerous contract.

9 MR. WALTER SARANCHUK: Can you give us an
10 idea of what other contracts were provided as an example
11 as possibly falling within the context of an onerous
12 contract?

13 MR. ROBERT KOWALCHUK: I don't believe we
14 provided any further examples in this document of those
15 such contracts.

16 MR. WALTER SARANCHUK: In terms of the
17 information that you did receive, was that provided to
18 you by MPI or was that something that you identified
19 during the course of your overall review as to possible
20 impact of IFRS?

21 MR. ROBERT KOWALCHUK: We based -- we
22 based our comments on our knowledge of MPI in terms of
23 our role as the auditors.

24 MR. WALTER SARANCHUK: If you're not
25 aware of the details, can you tell us to what extent you

1 did have knowledge of this particular contract?

2 MR. ROBERT KOWALCHUK: Well, I understand
3 that the operations, as I mentioned, were transferred to
4 MPI in 2004. The province has been providing an annual
5 subsidy to defray the -- those costs. And that's -- that
6 would be the extent.

7

8 (BRIEF PAUSE)

9

10 MR. WALTER SARANCHUK: Now in terms of the
11 ramifications or impact of an onerous contract, I take
12 it, sir, that when you consider what the possibilities
13 are relative to the contract -- the master agreement with
14 the province of Manitoba, that -- that the financial
15 impact on the Corporation applying the IFRS rules could
16 be significant.

17 MR. ROBERT KOWALCHUK: Yeah, I believe
18 it's premature to speculate on that. Management does
19 need to make that assessment.

20 MR. WALTER SARANCHUK: I'll just refer
21 you to page 13 of your report, sir. And if you would
22 read to me the first paragraph showing in the upper left-
23 hand corner under the words "Considerations based on our
24 quick scan analysis."

25 MR. ROBERT KOWALCHUK: Sorry, the

1 paragraph right after the...?

2 MR. WALTER SARANCHUK: Right after the
3 title "Considerations based on our quick scan analysis,"
4 --

5 MR. ROBERT KOWALCHUK: Okay.

6 MR. WALTER SARANCHUK: -- with the
7 heading, what is the next paragraph?

8 MR. ROBERT KOWALCHUK: "Impact will be
9 significant."

10 MR. WALTER SARANCHUK: Please read that
11 into the record.

12 MR. ROBERT KOWALCHUK: "Impact will be
13 signif --

14 MS. BETH EVA: The whole paragraph.

15 MR. ROBERT KOWALCHUK: Oh, sorry.

16 "Our analysis has been limited but has
17 identified a number of areas in which
18 MPI may expect the IFRS conversion to
19 have a significant impact. We suggest
20 that these priority areas and,
21 ultimately, all accounting differences
22 be subject to a more detailed review in
23 order to further assess the actual
24 extent of differences and their impact
25 on your systems and processes."

1 CONTINUED BY MR. WALTER SARANCHUK:

2 MR. WALTER SARANCHUK: Yes, thank you.
3 So, and again, I'm not trying to pin you down but -- and
4 I know this is off a year or two (2) at least but there's
5 no question, is there, that the impact could be
6 significant. I mean, you say so in your report.

7 MR. ROBERT KOWALCHUK: Well, when we have
8 the title "Impact will be significant," we aren't just
9 commenting on any potential accounting differences, we're
10 commenting on any changes that may be necessary to the
11 systems of MPI, the training of people in understanding
12 IFRS.

13 So it -- it's not commenting specifically
14 on any one (1) aspect.

15 MR. WALTER SARANCHUK: So when you do
16 consider the measurement of that DVL contract, will the
17 cessation of the provincial reimbursement of a portion of
18 Basic commissions to brokers be included in that
19 consideration?

20 MR. ROBERT KOWALCHUK: Well, that's an
21 assessment that management will have to make and once
22 that is done, we will review their assessment.

23 MR. WALTER SARANCHUK: Is there anything
24 that you can tell us about what elements of are related
25 to the contract that would be considered?

1 MR. ROBERT KOWALCHUK: At this time that
2 would be premature.

3 MR. WALTER SARANCHUK: As a partner in
4 charge of MPI's audit, if I can use that terminology,
5 sir, are you aware of some of the previous Board Orders,
6 Public Utilities Board Orders relative to this business
7 of the cessation of the subsidy, if you will, by the
8 province in respect of the commissions?

9 MR. ROBERT KOWALCHUK: I haven't read
10 those Board Orders in detail.

11

12 (BRIEF PAUSE)

13

14 MR. WALTER SARANCHUK: Just for some
15 general information, if you can and, again, we appreciate
16 that this is at a high level and no one really knows what
17 the impact of IFRS will be.

18 But is it a fact that such considerations
19 as a present value of an annual shortfall, such as the
20 one that I referred to, would have to be taken into
21 account in the statement of the operations of MPI and the
22 financial statements in the future?

23 MR. ROBERT KOWALCHUK: If -- if there was
24 determined to be an onerous contract, then a provision
25 would be recorded based on the present value of future

1 cash outflows.

2 MR. WALTER SARANCHUK: In your annual
3 management letter to the audit committee of MPI, has this
4 issue been raised with them?

5 MR. ROBERT KOWALCHUK: I'm not sure I
6 believe what document you're referring to?

7 MR. WALTER SARANCHUK: Well, do you
8 provide an annual management letter to the audit
9 committee of MPI?

10 MR. ROBERT KOWALCHUK: We provide an
11 audit findings report at the conclusion of each annual
12 audit.

13 MR. WALTER SARANCHUK: All right. In
14 that respect then, would this issue have been identified?

15 MR. ROBERT KOWALCHUK: I don't believe it
16 was specifically mentioned in the audit findings report.
17 It was documented in the quick scan analysis.

18 MR. WALTER SARANCHUK: And can you
19 provide your prospective -- or sorry, perspective on
20 whether given the current operational structure of MPI,
21 Basic is a standalone operation that can be measured on
22 its own?

23 MR. ROBERT KOWALCHUK: I don't believe I
24 can answer that question. It's really outside the scope
25 of our engagement.

1 MR. WALTER SARANCHUK: So in terms of
2 your experience as lead individual, if you will, on MPI's
3 audits, there is no comment or professional opinion you
4 can provide to this Board in that regard?

5 MR. ROBERT KOWALCHUK: Not in that
6 regard. Our -- our engagement was to provide an opinion
7 on the Basic financial statements taken as a whole.

8 MR. WALTER SARANCHUK: Just one (1)
9 further question. Well maybe not the last one but
10 another question in respect of the IFRS.

11 Can you advise if it's in -- in its
12 current form that the IFRS will allow for the deferral of
13 expenses being incurred under the business process review
14 project?

15 MR. ROBERT KOWALCHUK: Again, that would
16 be an assessment that management would have to undertake
17 and then we would review their assessment of that.

18 MR. WALTER SARANCHUK: And in the
19 issuance of the audit report on the Basic side, if you
20 will, of MPI, is that audit treated as a separate
21 engagement from the engagement issue re auditor's report
22 for MPI as a whole?

23 MR. ROBERT KOWALCHUK: There is a
24 separate opinion on the Basic financial statements.

25 MR. WALTER SARANCHUK: Is there a

1 separate engagement?

2 MR. ROBERT KOWALCHUK: It -- I believe it
3 is all included in one (1) engagement letter with the
4 Corporation.

5 MR. WALTER SARANCHUK: Can you advise
6 whether these documents were issued separately for the
7 Basic side in respect of your engagement?

8 An engagement letter, I take it was that
9 separate?

10 MR. ROBERT KOWALCHUK: Between Corporate
11 -- or sorry, between Basic --

12 MR. WALTER SARANCHUK: And Corporate.

13 MR. ROBERT KOWALCHUK: -- and Corporate?
14 I -- I believe there was one (1) engagement letter
15 covering off the scope of both engagements.

16 MR. WALTER SARANCHUK: All right. And
17 what about a representation letter?

18 MR. ROBERT KOWALCHUK: I believe there
19 were separate representation letters obtained from
20 management.

21 MR. WALTER SARANCHUK: And what about an
22 audit plan?

23 MR. ROBERT KOWALCHUK: There would have
24 been one (1) combined audit plan.

25 MR. WALTER SARANCHUK: And what about an

1 audit findings letter?

2 MR. ROBERT KOWALCHUK: There was one (1)
3 combined audit findings report.

4 MR. WALTER SARANCHUK: And what about a
5 management letter?

6 MR. ROBERT KOWALCHUK: I do not believe
7 we issued a management letter in the last fiscal year.

8 MR. WALTER SARANCHUK: And where are the
9 audit plan and audit findings letter for the engagement
10 discussed and reviewed with MPI's audit committee,
11 separate from those for MPI as a whole?

12 MR. ROBERT KOWALCHUK: There was a -- one
13 (1) discussion covering off both with the audit
14 committee.

15 MR. WALTER SARANCHUK: Were there any
16 separate issues raised relative to the Basic side?

17 MR. ROBERT KOWALCHUK: None that I -- I
18 can recall.

19 MR. WALTER SARANCHUK: Can you indicate
20 whether you were aware that MPI had sold securities and
21 realized gains and subsequently repurchased the same
22 security recording the acquisition at the acquisition
23 value?

24 MR. ROBERT KOWALCHUK: It's my
25 understanding that management follows an investment

1 policy which is approved by the MPI Board. So, I'm not
2 aware of the details of any specific investment
3 transactions.

4 MR. WALTER SARANCHUK: Are you aware of
5 the one that I just mentioned?

6 MR. ROBERT KOWALCHUK: No, I'm not aware
7 of that one.

8 MR. WALTER SARANCHUK: And just finally,
9 can you advise of your understanding based on what your
10 comments were to MPI in your quick scan report as to just
11 how IFRS may affect such trades and recording and -- and
12 the recording and timing of recording of gains and/or
13 losses?

14 MR. ROBERT KOWALCHUK: We advise that
15 management would need to make an assessment as to the
16 impact that IFRS would have on such transactions.

17

18 (BRIEF PAUSE)

19

20 MR. WALTER SARANCHUK: Those are all my
21 questions of this witness, Mr. Chairman, and we can now
22 proceed with the order that you mentioned earlier, unless
23 you have some questions at this stage.

24 THE CHAIRPERSON: Just a couple of
25 followup. If you wouldn't mind, could you confirm, this

1 is my hearing of what you said.

2 That KPMG can't form an opinion as to
3 whether or not the allocation to Basic was fair and
4 reasonable?

5 MR. ROBERT KOWALCHUK: Right. We were
6 not asked to provide an opinion on that.

7 THE CHAIRPERSON: I believe -- I don't
8 know whether I heard you properly but I don't think you
9 actually answered this question Mr. Saranchuk asked.

10 He asked you specifically what was the
11 division between direct and allocated costs with the
12 costs that were charged to Basic?

13 MR. ROBERT KOWALCHUK: I believe my
14 response referred to the allocation formula approved by
15 the MPI Board and -- and the disclosure that is a note 1
16 to the Basic financial statements.

17 THE CHAIRPERSON: I was getting at the
18 proportion. Proportion that were direct as opposed to
19 being allocated.

20 MR. ROBERT KOWALCHUK: I'm not aware of
21 an exact percentage allocation between direct and
22 indirect.

23 THE CHAIRPERSON: In the -- in the Basic
24 financial statements, it indicates various security
25 holdings of -- of Basic. Does Basic actually have title

1 to securities?

2 MR. ROBERT KOWALCHUK: Again there's --
3 my understanding is there's a working group comprised of
4 members of the Department of Finance and MPI staff that
5 manage the day-to-day operations. I'm not sure of the --
6 the title.

7 THE CHAIRPERSON: You just -- you just
8 allocated out based on a percentage?

9 MR. ROBERT KOWALCHUK: There are formulas
10 used to allocate out the assets and liabilities.

11 THE CHAIRPERSON: Thank you, sir. Mr.
12 Saranchuk, I suppose we should follow our normal order
13 then we start with Mr. McCulloch or should we go with the
14 Intervenor?

15 MR. WALTER SARANCHUK: I really don't
16 know if there is any preference that anyone has. Mr.
17 McCulloch might have some comment. But I thought we
18 would just proceed with the order of the Intervenors,
19 unless there's some strong objection on the part of MPI.

20 MR. KEVIN MCCULLOCH: Mr. Chairman, I do
21 have a comment. I'm going to need a few minutes to
22 consult with my client before I determine what questions,
23 if any, I wish to put to Mr. Kowalchuk on cross-
24 examination.

25 If the Board sees fit, we can proceed with

1 the Intervenors and then when we come back after the
2 morning break I'll be in a position to -- to make my
3 position known.

4 THE CHAIRPERSON: Very good, sir. Why
5 don't we start with Mr. Dawson. Mr. Dawson for the MBA.

6 MR. ROBERT DAWSON: Thank you, Mr.
7 Chairman, but we have no questions for this witness.

8 THE CHAIRPERSON: Thank you, sir. Mr.
9 Williams for CAC/MSOS.

10

11 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

12 MR. BYRON WILLIAMS: Mr. Kowalchuk, I
13 only have one (1) question which is a followup to Mr.
14 Saranchuk and the Chairman's question.

15 You were, as I understand it, you are
16 unable to give an exact figure as to the relative
17 proportion of -- within the Basic financial statements of
18 direct expenses versus allocated, is that right?

19 MR. ROBERT KOWALCHUK: Correct.

20 MR. BYRON WILLIAMS: Order of magnitude.
21 Can you give me some sense are -- are allocated expenses
22 proportionately more or do you have any sense of that,
23 sir?

24 MR. ROBERT KOWALCHUK: I believe that
25 would be a question of management.

1 MR. BYRON WILLIAMS: Then I'll -- I'll
2 leave that for management, sir. Thank you.

3 THE CHAIRPERSON: Mr. Oakes...? I
4 thought I saw him before. Okay.

5 Mr. Kruk, do you have anything for CAA?

6 MR. JERRY KRUK: No questions, Mr.
7 Chairman.

8 THE CHAIRPERSON: Okay, we'll take a
9 short break to allow Mr. McCulloch to consult and then
10 when you're ready, Mr. McCulloch, if you could just let
11 Mr. Saranchuk know and then we'll come back together
12 again.

13 MR. KEVIN MCCULLOCH: Thank you, sir.

14 THE CHAIRPERSON: Thank you.

15

16 --- Upon recessing at 9:45 a.m.

17 --- Upon resuming at 10:27 a.m.

18

19 THE CHAIRPERSON: Mr. McCulloch...?

20

21 CROSS-EXAMINATION BY MR. KEVIN MCCULLOCH:

22 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman.

23 I have just a few questions and, Mr. Kowalchuk, I
24 understand that you have in front of you a copy of the
25 document produced at AI-6 which is the Universal

1 Compulsory Automobile Insurance Annual Report for the
2 fiscal year ended February 29th, 2008.

3 Is that correct?

4 MR. ROBERT KOWALCHUK: Yes, I do.

5 MR. KEVIN MCCULLOCH: And in that report
6 I'd like to refer you to the third page in, not numbered,
7 but it's entitled 'Auditors Report' do you have that?

8 MR. ROBERT KOWALCHUK: I do.

9 MR. KEVIN MCCULLOCH: And I would also
10 direct you to the last paragraph in that report and I'd
11 ask that you read it into the record please.

12 MR. ROBERT KOWALCHUK: Certainly.

13 "In our opinion, these financial
14 statements present fairly, in all
15 material respects, the financial
16 position of the Corporation's universal
17 compulsory automobile insurance line of
18 business as at February 29th, 2008, and
19 the results of its operations and its
20 cashflows for the year then ended in
21 accordance with Canadian generally-
22 accepted accounting principles."

23 MR. KEVIN MCCULLOCH: Now, Mr. Kowalchuk,
24 I understand that that auditor's report can be termed a
25 clean audit opinion. Is that correct?

1 MR. ROBERT KOWALCHUK: It is often
2 referred to as a clean opinion, yes.

3 MR. KEVIN MCCULLOCH: And the opposite of
4 a clean opinion, would be a qualified opinion. Am I
5 correct in that assumption?

6 MR. ROBERT KOWALCHUK: That is correct.

7 MR. KEVIN MCCULLOCH: To your knowledge,
8 in the years that you have been auditing and that KPMG
9 has been serving as the external auditor for MPI, have
10 you ever issued a qualified audit opinion with respect to
11 the Basic program?

12 MR. ROBERT KOWALCHUK: Not to my
13 knowledge, no.

14 MR. KEVIN MCCULLOCH: Those are all my
15 questions. Thank you.

16 THE CHAIRPERSON: Thank you, Mr.
17 McCulloch. Thank you very much, Mr. Kowalchuk, for
18 attending today. Appreciate your testimony. Thank you.

19

20 (WITNESS STANDS DOWN)

21

22 THE CHAIRPERSON: Mr. Saranchuk, does
23 Board counsel have any further questions of the panel?

24 MR. WALTER SARANCHUK: Yes, sir, we have
25 a couple of questions -- or few questions arising out of

1 the information provided by way of undertaking. Although
2 there's, as I understand it, an issue or two (2) that Mr.
3 McCulloch would want to address before we start with
4 these.

5 THE CHAIRPERSON: Mr. McCulloch...?

6 MR. WALTER SARANCHUK: Yes, Mr. Chairman.
7 We're in the -- in a position, I believe, to finalize any
8 outstanding undertakings.

9 The first is Undertaking Number 3 and Ms.
10 McLaren will provide a response to that and that was
11 taken under advisement as to whether the Corporation was
12 in a position to submit the management letter in
13 connection with the latest audited statements.

14 MS. MARILYN MCLAREN: Well, as Mr.
15 Kowalchuk said a few moments ago, there was not a
16 management letter with respect to the last year's audited
17 statements.

18 In the earlier conversation at these
19 proceedings, what the Corporation's witnesses referred to
20 as the management letter would, in fact, have been the
21 audit findings report and that is a confidential
22 document. The Corporation won't be filing it.

23 MR. KEVIN MCCULLOCH: The next issue
24 relates to Undertakings Number 12 and 13 and it's just
25 clarification. In Number 12, the Corporation was asked

1 to provide the ratio of mean to volatility for the two
2 (2) recommended scenarios from the Aon study and in
3 Number 13, to provide the analysis of the Aon scenarios
4 5, 10 and 11.

5 Now, MPI Exhibit Number 9 was filed in
6 response to Undertaking Number 12 and I am advised that
7 there was no other analysis done other than that that was
8 already provided in response to Undertake -- Undertaking
9 12. So Exhibit 9 is a response to both Undertaking 12
10 and 13.

11 Ms. McLaren would also like to address
12 Undertaking Number 20 which -- no, sorry, 21, which asks
13 that the Corporation provide forecasts for extension and
14 SRE as opposed to the past results as reported in the
15 most recent annual report. And that too was taken under
16 advisement and Ms. McLaren has her response prepared.

17 MS. MARILYN MCLAREN: That request came
18 before we filed the quarterly report and in the quarterly
19 report for the second quarter filed with this -- filed as
20 information for this Board, the corporate forecast is
21 there. We've also provided for you the Basic forecast
22 for this fiscal year and with respect to future year
23 forecasts for the competitive lines of business, we won't
24 be providing those.

25 MR. KEVIN MCCULLOCH: The last item I

1 have, Mr. Chairman, is Undertaking Number 33 which was an
2 undertaking given to Mr. Dawson and the -- the request
3 was to provide the statutory obligation to provide all
4 part of DVL database to CSIS and I've spoke to Mr. Dawson
5 in the break and he's agreeable to my putting on the
6 record that the statutory basis for the Corporation
7 releasing that information is to be found in Section
8 135(1) of the Drivers and Vehicles Act.

9 And those complete my comments, Mr.
10 Chairman.

11 THE CHAIRPERSON: Thank you, Mr.
12 McCulloch.

13 Mr. Saranchuk...?

14 MR. WALTER SARANCHUK: Yes, thank you,
15 sir. Perhaps in the circumstances we can excuse both Ms.
16 Eva and her client, Mr. Kowalchuk, and we can
17 reconstitute the MPI panel for a few questions arising
18 out of the undertakings.

19

20 MPI PANEL RESUMED:

21 WARD KEITH, Resumed

22 MARILYN MCLAREN, Resumed

23 DON PALMER, Resumed

24 OTTMAR KRAMER, Resumed

25

1 (BRIEF PAUSE)

2

3 RE-CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

4 MR. WALTER SARANCHUK: The first question
5 that I have arises out of the answer by Ms. McLaren to
6 the question of the outlook period for the extension in
7 SRE divisions.

8 I guess the simple answer is that, from
9 MPI's standpoint, they are not germane to this process
10 but I'm looking for perhaps some elaboration in that
11 regard, Ms. McLaren, given the known, if you will,
12 position taken by the Public Utilities Board that it
13 takes into account in its orders the overall financial
14 wellness of the Corporation?

15 MS. MARILYN MCLAREN: Well, I think, Mr.
16 Saranchuk, fairly briefly, it has been years since the
17 Corporation -- I -- I think many, many years ago, in some
18 of the earliest days in these proceedings, the
19 Corporation provided some of the information for the
20 competitive lines on an outlook basis. It was many, many
21 years ago that that stopped. We're not about to start
22 again.

23 Clearly, in many orders of this Board,
24 statements have been made with respect to consideration
25 of the overall financial condition. I think, generally

1 speaking, the financial condition of a Corporation is
2 understood to be, at most, current and primarily
3 retrospective and on that basis the financial condition
4 of the Corporation is readily available to the Board.

5 MR. WALTER SARANCHUK: Thank you, Ms.
6 McLaren.

7 Now with reference to the information that
8 can be gleaned from the second quarter report, can you
9 confirm, Mr. Kramer, that the revised forecast now
10 estimates the non-regulated lines of business to have a
11 net profit of \$26.6 million plus \$5.6 million for a total
12 of \$32.2 million?

13

14 (BRIEF PAUSE)

15

16 MR. WALTER SARANCHUK: In other words,
17 you're forecasting, according to the latest information
18 provided in Undertaking 32, a \$5.5 million loss from
19 Basic, or in respect of Basic, and you're forecasting a
20 \$26.6 million profit.

21 Does that mean that there is, therefore, a
22 net profit of \$32.2 million in respect of the non-
23 regulated lines?

24 MR. OTTMAR KRAMER: Yes, that -- that
25 would be correct.

1 MR. WALTER SARANCHUK: Thank you, sir.
2 And the summary budget of Manitoba for 2008/'09 contained
3 an estimated loss of \$21.8 million for MPI. Given that
4 that is now estimated to be a \$26.6 million profit, can
5 you give us an indication of the causal factors behind
6 the \$48.4 million improvement?

7

8 (BRIEF PAUSE)

9

10 MR. DON PALMER: That original estimate
11 was predicated on old forecasts, the main one being
12 claims forecast but also revenue forecast.

13 As we have talked about in these
14 proceedings, the PIPP forecasts have decreased. Since
15 the last forecast our theft experience and forecast have
16 decreased substantially.

17 Our revenue has, in fact, increased a bit
18 so those are the major reasons for -- for that
19 difference.

20 MR. WALTER SARANCHUK: So looking at the
21 information provided in response to this Undertaking
22 Number 32, relative to the claims section there's an
23 improvement there of some \$13.4 million.

24 Is that what you're referring to, sir?
25 That's in claims incurred.

1 MR. DON PALMER: That's part of it but
2 certainly the -- the bigger difference would be the
3 difference in forecasts between the old forecast and --
4 and the new forecast that was filed as part of this Rate
5 Application.

6 MR. WALTER SARANCHUK: And now in respect
7 of the question that I asked earlier of Mr. Kramer
8 dealing with the \$48.4 million improvement, I take it
9 that part of that can be attributed to the almost \$14
10 million swing in that income from operations as shown in
11 Undertaking 32; is that correct?

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

14 MR. WALTER SARANCHUK: Given this
15 information that we just dealt with, Mr. Kramer, is there
16 any reason for -- or do you consider that sufficient
17 reason to change your application before this Board?

18 MR. DON PALMER: That would not change
19 our application to this Board. Our -- our forecasts for
20 the rate application in question, '09/'10 and '10/'11,
21 that would be applicable to rates have not changed.

22 MR. WALTER SARANCHUK: Thank you, sir.
23 And now dealing with the response by MPI to Undertaking
24 Number 20 which is MPI Exhibit 19, there is reference to
25 the "program management" operation and it indicates that

1 it has been allocated or at least the cost there expenses
2 as between Basic and Extension.

3 What is the program management operation?

4 MR. OTTOMAR KRAMER: The program
5 management piece of the BPR is -- is the group or
6 department that basically oversees the entire BPR process
7 and has the stream leads, the people responsible overall
8 for the entire BPR programs.

9

10 (BRIEF PAUSE)

11

12 MR. WALTER SARANCHUK: Based on the
13 information filed, and correct me if I'm wrong, sir, I
14 take it that it represents the expenditure of some \$42.3
15 million for the BPR in respect of the Basic allocation or
16 at least that for which Basic will be responsible which
17 represents -- which -- taking that \$42 million, the \$42.3
18 million overall cost, and comparing the allocation for
19 the program management operation to Basic over the
20 current year and the projection period, the outlook
21 period, will you agree that it amounts, the Basic
22 responsibility, if you will, for the program management
23 represents about 25 percent.

24 MR. OTTOMAR KRAMER: I don't see exactly
25 how you do the calculation but I don't think it -- it

1 would be far off.

2 MR. WALTER SARANCHUK: Okay, thank you,
3 sir.

4

5 (BRIEF PAUSE)

6

7 MR. WALTER SARANCHUK: Does the program
8 management cost, does that encompass funds paid to
9 outside consultants or is that internal?

10 MR. OTTMAR KRAMER: That -- that would
11 include both internal and external.

12 MR. WALTER SARANCHUK: Roughly, can you
13 give us an idea of a breakdown percentage wise?

14

15 (BRIEF PAUSE)

16

17 MR. OTTMAR KRAMER: The deferred
18 development primarily is -- is external and a large
19 portion of the expenses are -- are internal, staff costs
20 and costs associated with staff.

21 MR. WALTER SARANCHUK: Percentage wise
22 can you help us, roughly?

23 MR. OTTMAR KRAMER: If I was to do it
24 really quick without detailed information, I -- I would
25 divide in '08/'09, the nine thirty-three (933) divided by

1 the total of fifty-six seventy-nine (5,679) which equates
2 to about 15, 15, 16 percent internal, the remainder
3 external.

4 MR. WALTER SARANCHUK: And now dealing
5 with Undertaking Number 25 and the information filed by
6 the Corporation in response to that, that's MPI Exhibit
7 Number 22, this deals with the compensation expenditure
8 relative to the BPR initiatives and Basic's share.

9 This, I take it, is all internal; is that
10 correct?

11 MR. OTTMAR KRAMER: Yes, that would be
12 compensation for staff. That would be treated as
13 internal.

14 MR. WALTER SARANCHUK: If you would just
15 hold on to that response, sir, to Undertaking Number 25,
16 being your Exhibit Number 22, and also take in hand the
17 response to Undertaking 26, your Exhibit Number 23, which
18 provided an estimate number of full-time equivalents
19 flowing from the Basic program that are associated with
20 the BPR, do the expenses in Undertaking 25 reflect the
21 personnel, the costs associated with the personnel shown
22 in Undertaking 26?

23 MR. OTTMAR KRAMER: Yes, roughly they do,
24 yes.

25

1 (BRIEF PAUSE)

2

3 MR. WALTER SARANCHUK: And so referring
4 to the fact that in 2008/'09, that's the current fiscal
5 year, there is a program management -- or, sorry, a total
6 cost for BPR initiatives allocated to Basic according to
7 Undertaking Number 25, some \$3.5 million; is that
8 correct?

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

10 MR. WALTER SARANCHUK: And that
11 represents fifty (50) individuals?

12 MR. OTTMAR KRAMER: Yes.

13 MR. WALTER SARANCHUK: And in 2009/'10,
14 that is the year with which we are concerned, there's an
15 indication of some forty-five (45) full-time equivalents
16 associated with the BPR from the Extension division and
17 the total cost there is approximately some \$3 million.
18 Does that \$3 million encompass those forty-five (45)
19 people?

20 MR. OTTMAR KRAMER: I believe you said
21 Extension. That -- that is -- it's the Basic and the 3
22 million does refer to the forty-five (45) staff, yes.

23 MR. WALTER SARANCHUK: Thank you. And so
24 we're essentially looking at a five hundred thousand
25 dollar (\$500,000) reduction for a reduction of five (5)

1 employees; is that correct?

2 MR. OTTMAR KRAMER: Approximately, yes.

3

4 (BRIEF PAUSE)

5

6 MR. WALTER SARANCHUK: So just doing some
7 quick calculation, if there is a reduction of some half a
8 million dollars, five hundred thousand dollars (\$500,000)
9 for five (5) people, and an estimation of some \$3 million
10 in costs for forty-five (45) people still remaining, is
11 that \$3 million a valid projection?

12 In other words, are you eliminating five
13 (5) positions of some senior people who are earning, if
14 you will, an average of a hundred thousand dollars
15 (\$100,000) each?

16 MR. OTTMAR KRAMER: It -- it's an overall
17 allocation that would be fully funded, including
18 benefits, et cetera, so no, that wouldn't be a hundred
19 thousand dollar (\$100,000) salaried individual because
20 there's -- there's numerous costs associated with
21 employees also.

22 MR. WALTER SARANCHUK: This is from the
23 cost allocation methodology then, I take it?

24 MR. OTTMAR KRAMER: A -- a high level
25 calculation of -- of what the EFT would be.

1 (BRIEF PAUSE)

2

3 MR. WALTER SARANCHUK: Now it doesn't
4 appear in Undertaking 25, but if we were to look at
5 2010/'11 in the outlook period, in Undertaking 26 you
6 indicate that there's an elimination of some twenty-nine
7 (29) positions, so that there are sixteen (16) people
8 retained.

9 What does that -- what can one conclude
10 from that in terms of a projection for costs?

11 MR. OTTMAR KRAMER: That there would be a
12 reduction.

13 MR. WALTER SARANCHUK: So if you're
14 eliminating twenty-nine (29) people, based on an average
15 of some one hundred thousand dollars (\$100,000) per
16 individual that should eliminate the \$3 million projected
17 for 2009/'10.

18 What have you got left for the sixteen
19 (16)?

20 MR. OTTMAR KRAMER: I -- I think your
21 calculation is extremely simplistic in that you're
22 assuming a hundred thousand (100,000).

23 There is -- if you look at the -- the
24 numbers, there is some rounding involved. We've got
25 fifty (50) people, forty-five (45), or sixteen (16).

1 Those -- those are rounded numbers.

2 Effectively, it isn't a hundred thousand
3 (100,000) per person, but there would still be costs
4 remaining with those sixteen (16) individuals on -- on a
5 proportionate basis relative to the -- the forty-five
6 (45).

7 MR. WALTER SARANCHUK: So looking at
8 Undertaking 20, or MPI Exhibit 19, you're looking at --
9 under the PIPP section where there's one hundred thousand
10 dollars (\$100,000) allocated -- I'm sorry, 100 percent
11 allocated to Basic, the projected cost for 2010/'11 is
12 half a million dollars (\$500,000), so -- and you're going
13 to incur \$1.5 million in program management on the Basic
14 side, what are those sixteen (16) people doing, or going
15 to be doing, in that regard?

16 MR. DON PALMER: These are not
17 necessarily sixteen (16) identical -- identifiable
18 bodies. This is an allocation. We have gone through a
19 number of -- of explanations regarding the -- the fact
20 that we don't allocate individual people to individual
21 lines of business.

22 So we had compensation allocated and we
23 extended that calculation to percentage of total
24 employees rather than identifying six (6) -- sixteen (16)
25 people as far as what they would or wouldn't be doing

1 because, really, those sixteen (16) people as physical
2 entities don't really exist.

3 MR. WALTER SARANCHUK: So when you look
4 at Undertaking Number 20 and the projections for the cost
5 on the allocation of program management to Basic, there
6 is a five hundred thousand dollar (\$500,000) PIPP project
7 that's identified in those two (2) years but nothing
8 else.

9 And yet there is a cost factor of almost
10 \$2.5 million. How do you -- how do you explain that?
11 What programs will be involved?

12

13 (BRIEF PAUSE)

14

15 MS. MARILYN MCLAREN: Firstly, Mr.
16 Saranchuk, the response to Undertaking 20 talks about the
17 components of the business process review initiatives
18 that have a Basic component, that's the first thing, so
19 that there are other projects clearly under that umbrella
20 that have no Basic component are not included on -- in
21 the response to Undertaking 20.

22 The other thing is that we have indicated
23 we expect to go live with the PIPP infrastructure
24 initiative early in the 2010/'11 year.

25 And what that means from an operational

1 implementation perspective within MPI is -- what that
2 means is that throughout that 2010/'11 year the program
3 management responsibilities will be significantly higher,
4 more intensive, more all consuming than the specific
5 project responsibilities at that time.

6 So there will be a lot more involved in
7 managing the implementation through the program
8 management office than there will be within the PIPP
9 project itself because it will in large part have done
10 most of its work.

11 MR. WALTER SARANCHUK: So essentially
12 we're talking about implementation?

13 MS. MARILYN MCLAREN: In -- in 2010/'11,
14 absolutely.

15 MR. WALTER SARANCHUK: Thank you.

16 I have no further questions, Mr. Chairman.

17 THE CHAIRPERSON: Thank you, Mr.

18 Saranchuk, panel. Just step down for about two (2)
19 minutes. I want to consult with Mr. Saranchuk and then
20 we have some remarks before we head into closing
21 argument. Thank you. Just be two (2) minutes.

22

23 --- Upon recessing at 10:56 a.m

24 --- Upon resuming at 11:00 a.m.

25

1 THE CHAIRPERSON: Okay. Welcome back.
2 Before I make some comments, Board comments, and before
3 we go into closing argument, we just have one (1) other
4 question.

5 Ms. McLaren, would you mind elaborating as
6 to why MPI will not provide the audit findings letters --
7 letter provided by KPMG to MPI at least as it may touch
8 on Basic?

9 MS. MARILYN MCLAREN: It -- it's a
10 document specifically intended to be confidential for the
11 express use of the Audit Committee of the Board of
12 Manitoba Public Insurance.

13 It is -- it is intended for no other use
14 whatsoever and while there may be no real issues or -- or
15 concerns on the part of the Corporation with, you know,
16 sharing the content, I think it is not good practice to
17 distribute things that are specifically intended to be
18 confidential and for an -- and to distribute them for any
19 purpose other than the expressly stated purpose for which
20 they were created.

21 It's -- it -- it's process. It -- it's
22 context, much like we were talking about the -- the
23 Corporation's view with respect to, you know, whether the
24 investment decisions are made in what feels like a
25 partnership; there is still a legislated framework.

1 So this document is stated to be
2 confidential. It's expressly for the Audit Committee of
3 the Board. It is not to be used for any other purpose
4 and we want to abide by that.

5 THE CHAIRPERSON: Thank you.

6

7 (PANEL STANDS DOWN)

8

9 THE CHAIRPERSON: This brings to a close
10 the evidence and cross-examination phase of this year's
11 Hearing. Particularly, thanks to MPI and the Intervenors
12 for their efforts to apprise and inform the Board through
13 the process to date.

14 During this year's process which I believe
15 it has been shorter than some that we have had, we have
16 heard from three (3) experts, Mr. Bell of Aon and
17 Professors Hum and Simpson from the University of
18 Manitoba. Along with the MPI panel, we have also
19 received evidence from Mr. Kowalchuk, which is MPI's
20 auditor, KPMG.

21 So we look forward now to closing
22 argument. Closing argument is scheduled for this Friday.
23 In the morning, it will be our understanding that we
24 would hear from Board counsel and CAC/MSOS, then CMMG and
25 CAA and finally MBA. And that -- and then MPI would be

1 provided at least the lunch break to reflect on what is
2 said and then they would provide their closing statement
3 in the afternoon. That is just the plan because we do
4 not know the length of the various briefs.

5 Parties may present written argument which
6 will be read into the record so as to allow for them to
7 summarize positions if that meets with their preference.
8 It is up to them.

9 Ahead of Friday and without restricting in
10 any way parties from presenting the argument that they
11 want to present, Board will present a listing of matters
12 that the Board would be pleased to hear views about.

13 One (1), should the Board accept the rate
14 changes proposed by MPI, the changes reflecting an
15 overall 1 percent drop from existing reports?

16 Two (2), should the Board direct the
17 payment of a rebate given MPI's RSR as reported and
18 projected by MPI appears to exceed the Board's range?

19 Three (3), developments with respect to
20 various recommendations and directions provided the MPI
21 in last year's and prior year's orders including auto
22 thefts; the scheduling of a spring 2009 hearing to
23 consider MPI's proposal for the replacement of the driver
24 bonus/malice system; (c) some evidence of MPI's efforts
25 to achieve more traffic law enforcement; (d) an amended

1 investment asset mix, changes that are reflective of a
2 projected gain and expected excess return although the
3 transition of the new portfolio was expected to take some
4 time; (e) the selection of a consultant to drive a PIPP
5 procedural benchmarking and analysis process and a
6 commitment to a new cost allocation review for the next
7 GRA.

8 Issue number 4, as we call it, would be
9 the jurisdiction issue. Most of MPI's total balance of
10 retained earnings, RSR/IFF extension development fund and
11 current forecasts of net income now rest outside of the
12 Board's jurisdiction. Yet the degree of competition
13 represented in extension has come under question, the
14 market composition suggesting to some perhaps a near
15 monopoly.

16 MPI has declined to provide the Board with
17 its future forecast of results, future retained earnings
18 for the competitive line, and some may think that this
19 restricts the Board's ability to conclude on the overall
20 going forward financial strength of the Corporation.

21 Seven (7), the business process review
22 which apparently involves projected expenses of over a
23 hundred million, excluding capital expenditures, while
24 the BPR is being carried out again outside the Board's
25 purview with the costs recorded within extension. The

1 Corporation has clearly indicated BPR touches all aspects
2 of the Corporation's operation.

3 Five (5), while the now promised met --
4 while now promised for next year's GRA, the lack of a
5 current cost allocation review and new formula may leave
6 the Board with MPI's own assessment of the fairness of
7 the approach of KPMG unable to offer the assurance that
8 the Board may have expected.

9 Six (6), significant overall staff
10 complement and operating cost growth.

11 Seven (7), risk of deferral of operating
12 costs or the treatment of operating costs related to the
13 business process review, the concern being that the
14 deferred costs may be required to be written off with the
15 implementation of IFRS.

16 Eight (8), the DFL contract and, again,
17 IFRS with the concern being the one raised by KPMG in
18 their scan, the concept of an onerous contract for
19 accounting purposes and the implications thereof.

20 Nine (9), the new contract with the
21 brokers, indication of a lower commission rate with the
22 details to come in the spring hearing.

23 Ten (10), the claims incurred forecasting
24 differences. The Board understands that the problem, if
25 you want to call it a problem, lies with the claims

1 development factors and the changes that have occurred.
2 The large net income actual forecast differences in the
3 past have, you could say, driven the rebates of the past
4 three (3) years in part and raised some concerns with
5 forecasting.

6 Twelve (12), the ongoing trucker
7 situation. In short, the Board understands that a
8 trucker claimant may select either WCB or MPI as the
9 insurer even though MPI does not collect premiums for the
10 PIPP exposure. Many other provinces do not allow for,
11 our understanding is, do not allow for an option and
12 require the claimant to access the WCB. The Board's
13 concern would simply be that trucking companies may
14 encourage claims against MPI rather than on WCB. Such
15 claims have no premium consequence for the firm.

16 The Board understands MPI is to resist
17 reimbursing Basic from SRE and that would leave
18 legislation changes seemingly the only fair solution to a
19 situation that appears to be costing Basic drivers about
20 a million dollars a year despite the continuing SRE
21 profits.

22 Thirteen (13), environmental goals in
23 MPI's rate model. The Board understands that MPI takes
24 the position that the use of the rate schedule to benefit
25 the environment and reduce GHGs would have to be mandate

1 by government. The Board understands MPI's perspective
2 and simply wonders if the new advisory committee in which
3 the MPI's Board has been named might examine such issues.

4 Fourteen (14), this is a significant
5 issue, the ongoing difference in view between MPI and the
6 Board over the RSR range. The Board notes that MPI
7 continues to criticize the Board in the annual reports
8 claiming the Board risks the Corporation's financial
9 strength. This is despite MPI's decision not to develop
10 another risk analysis to test the Board's RSR range.

11 In Order 156/06, the Board made it clear
12 that it was willing to accept the MCT as a trend
13 indicator and the deterioration in that indicator could
14 lead the Board to reconsider the range if the trend was
15 significant.

16 Just quoting from 156/06, the Board wrote:

17 "The Board accepts the regular
18 development of MCT capital requirements
19 as a means to monitor the risk trends.
20 And the Board is willing to consider
21 the trend line...of MCT in its annual
22 evaluation of the adequacy of RSR.
23 That said, the Board will continue to
24 rely on the Risk Analysis and [the]
25 VAR, if and when contemplating a major

1 change in the risk profile of MPI with
2 respect to consideration of the Board's
3 RSR range."

4 The Board wishes to remind MPI that from
5 the Board's perspective the problem with MPI's previous
6 approach to promoting the use of MCT in relation to the
7 RCR targets was a failure to adequately establish a basis
8 for their selected target MCT ratios. At that time, MPI
9 indicated it would provide projected MCT ratios along
10 with the forecasted levels of retained earnings.

11 The Board wonders if the absence of this
12 information is because the Board did not accept MPI's MCT
13 proposal, though we note the new DCAT which lags the GRA
14 in any case. Perhaps the inclusion of MCT ratios in with
15 the exhibit of historical and forecasted retained
16 earnings with the next GRA would allow the Board to
17 consider refining its process of updating the RCR range
18 using MCT ratios rather than the Board continuing to rely
19 solely on a very simple surrogate, that being premium
20 volume change.

21 In short, the Board does not consider the
22 divergent views on the RSR range to be in the public
23 interest. It seeks a way to conclude the debate and
24 develop a consensus.

25 In conclusion, the Board expects that it

1 will work through the issues, including those that will
2 be raised by parties in closing argument before reaching
3 a conclusion on the application.

4 Reaching a conclusion may be more
5 difficult, given the oversight jurisdiction issue as a
6 great deal of activity and expenditures are being carried
7 on outside the Board's purview that affect the overall
8 strength of the Corporation.

9 These comments are provided to assist MPI
10 and the Intervenors in preparing their closing argument
11 towards assisting the Board's understanding of the issues
12 before this Hearing.

13 The comments are drawn from the record of
14 this Hearing and past and include all filings and in no
15 way binds the panel as to the decisions that it will
16 take.

17 Thank you again. We look forward to
18 seeing all of you on Friday. Stand down now. Oh, 9:00,
19 Mr. Saranchuk reminds me.

20

21 --- Upon adjourning at 11:12 a.m.

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1 Certified Correct

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6 Cheryl Lavigne, Ms.

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