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
September 24th, 2008
Pages 477 to 677

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APPEARANCES

Walter Saranchuk Candace Everard	)Board Counsel)
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LIST OF EXHIBITS

UNDERTAKINGS

--- Upon commencing at 9:05 a.m.

THE CHAIRPERSON: Okay, good morning everyone.

MPI PANEL:

WARD KEITH, Resumed

DON PALMER, Resumed

MARILYN MCLAREN, Resumed

OTTMAR KRAMER, Resumed

THE CHAIRPERSON: Ms. Everard, do you want to continue your cross-examination? Oh, sorry.

MR. KEVIN MCCULLOCH: Fine, Mr. Chairman.

Before Ms. Everard continues her cross-examination, we have three (3) undertakings which we would like to file written responses to, and then in a fourth Undertaking, Mr. Kramer will provide a verbal response.

The first one, the response to Undertaking Number 8, we will file as MPI Exhibit Number 7. That has to deal with updates on the sources for the projected interest rates that appeared in one (1) of the Information Responses.

So that's Undertaking 8, Exhibit Number 7.

THE CHAIRPERSON: Thank you.

--- EXHIBIT NO. MPI-7: Response to Undertaking 8

MR. KEVIN MCCULLOCH: The response to Undertaking Number 10, dealing with the relatively low spread between the yield on long-term bonds and the yield on universe bonds, Undertaking Number 10 -- MPI Exhibit Number 8.

--- EXHIBIT NO. MPI-8: Response to Undertaking 10

MR. KEVIN MCCULLOCH: And Undertaking Number 12, provide the ratio of mean to volatility for the two (2) recommended scenarios would be MPI Exhibit Number 9.

THE COURT: Thank you.

--- EXHIBIT NO. MPI-9: Response to Undertaking 12

THE CHAIRPERSON: Thank you.

MR. KEVIN MCCULLOCH: And, Mr. Kramer...?

MR. OTTMAR KRAMER: I -- I will address

the undertaking. I don't have the specific wording in front of me but it was related to the -- the question with regards to the DVL staff.

MS. CANDACE EVERARD: It's Undertaking Number 5.

MR. OTTMAR KRAMER: Okay, Undertaking Number 5.

And I'd like to refer everyone to the -- the answer that was given in -- in -- to the question PUB-1-40(C) where it was asked that re-file TI.9 limited to Basic only and I'd like to read our response to -- to that undertaking because it addresses the DVL staff issue.

And -- and I'll read as follows our response in -- in round 1:

> "The detailed information contained in TI.9 cannot be produced in Basic in that level of detail due to the fact that Basic operations are integrated throughout the Corporation along with other lines of business. In the past, in an attempt to segregate Basic employees [and you could put Basic, you could put Extension, SRE, or DVL in; it doesn't matter which line of business]

but in an attempt to segregate Basic employees, Direct, Extension, SRE, and DVL employees were removed. However, this methodology significantly overstates the employee count required to support the Basic line of business as many of the employees shown have job responsibilities that encompass other lines of business."

What we're really saying here, and now I'm not reading anymore, is that the DVL line of business as the Extension line of business and SRE is really integrated throughout the Corporation. The DVL employees are not integrated into Basic but they're integrated in the Corporation as a whole.

And it is difficult if not impossible to pull out the specific employees that are related to DVL because employees do numerous functions.

And I believe it's on record and Mr. Palmer had indicated that I believe our -- our first day and gave the example of the call centre.

In the past, there would have been a separate department that dealt with DVL calls. As DVL was integrated into the Corporation, we have one (1) call centre and those call centre employees now take calls for

DVL, they take calls for Extension questions, SRE, and Basic. And our allocation process as we've also disclosed and submitted then deals with the allocation of those resources.

And so what we've done here in -- in this IR response and -- and I'll start reading again, it's the second paragraph of that response:

"As a more reasonable representative of the true Basic employees is a count based on the approved expenses allocation formulas used to allocate compensation costs. The Basic compensation shown -- is shown in TI.7A. Based on this approved allocation compensation, the aggregate employee counts are shown below."

And we've got what the effective staff is in the Basic line of business. We haven't done that for DVL or Extension or SRE but for -- for this purpose we show what the effective employees are for the Basic line of business. Taking the compensation dollars in total by average compensation we've -- we've shown in this IR response effectively what the Basic employees are for -- for those given years.

And then in Round 2 -- 2-11 we were

requested to push that back to I think '99 and 2000, those years and we've -- we've also given those numbers.

And basically what we're saying here is you cannot have for -- for each line of business exactly the number of people, say Susie does this and Tom does that, but based on the allocation and the approved allocation formulas here are the effective number of employees that are related to the Basic line of business.

And we've shown it also as a percentage of the total employees just as a reference point to see how many employees that the basic has relative to the total Corporation.

And in the final footnote, we just -- as -- as another reference point we've also indicated that for the year ending February '08, Basic revenue was 78 percent -- 78.5 percent of total revenue.

So the Basic revenue piece is 78, almost 79 percent and the Basic employees for that time period that are on that pages hovering it around 70 percent of our total employee base.

THE CHAIRPERSON: We'll digest that, Mr. Kramer, when we read the transcripts.

Is it fair to say that MPI couldn't operate Extension or SRE without Basic but you could operate DVL?

Or has the integration gone past that?

MR. DON PALMER: Yeah, I wouldn't agree with that -- that statement, no.

THE CHAIRPERSON: Where would you differ?

MR. DON PALMER: We could run any of the lines of business independently again with -- with the right staff and staff com -- complement.

So I -- I'm not quite sure with the base is. Certainly before DVL ran on its own and -- and now is integrated into MPI, which gives us some savings absolutely. But to say that none of the divisions could operate independently, I -- I don't agree with that.

THE CHAIRPERSON: Okay, thank you.

Ms. Everard...?

CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

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

Firstly, I just have a general question for the panel and Mr. McCulloch may wish to assist in the answer and that's -- that's okay.

Just to have confirmation that as a general proposition, the Board of Directors of the Corporation has a fiduciary duty to act in the best interest of the policyholders.

MR. KEVIN MCCULLOCH: I wouldn't disagree with that statement. The -- under the MPIC Act, the Board of Directors is the Corporation.

MS. CANDACE EVERARD: Thank you.

Next, I have a few followup questions relating to some of the topics that were covered yesterday before we move on to new areas.

And the first question is: What options are available to the Corporation with respect to retained earnings or specifically the retained earnings of extension and SRE that may be deemed by the Corporation to be in excess of the targets for those lines of business.

(BRIEF PAUSE)

MR. DON PALMER: I would see two (2) options: We could keep it or we could spend it.

THE CHAIRPERSON: Spend it on what?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Sorry, Mr. Chairman, we're struggling a little bit with sort of the -- we can take time to speculate. Right now, we have retained earnings for the competitive lines of business in the categories that we've talked about here.

We have the Extension development fund and we have retained earnings for SRE and for Extension. We don't have sort of a -- I mean, we could speculate. Do you want us to speculate? We -- we can do that. I'm just not sure of the basis of the question.

THE CHAIRPERSON: Well presumably there's legal restrictions on what you can -- what use you could make of the retained earnings of the competitive lines.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Within the MPIC Act, the activities in which we are allowed to engage is -- is reasonably broad within the context of insurance. Auto insurance. Going in to things like, you know, research development, road safety, so on. It's a fairly broad mandate within the Act.

It's very -- the Act is very restrictive in terms of the fact the government cannot take funds at all. Cannot take funds from -- Basic end Extension are -- are treated in one (1) section of the Act; they are not allowed access to those funds at all.

And there also -- there's a -- a formula in the Act that speaks to how much excess retained earnings SRE would have to have before the government would be able to take any additional excess over and above that amount.

And that's a very high test. They have -- we've never had that much retained earnings in SRE so that it would even be an option.

So the -- the government is restricted; Corporation really not so much so.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Would the panel agree that the fiduciary duty that we spoke of a moment ago would extend to the retained earnings for extension in SRE?

MS. MARILYN MCLAREN: Sure. And -- and just from a good governance perspective, you know. I mean, we are -- in a practical sense, we would not have the flexibility to spend excess retained earnings in any way that the Corporation itself saw fit. It has to always meet the test of: Is it reasonable and prudent in the minds of Manitobans. I think a sim -- a similar test would probably -- publically-traded insurance companies would probably be held to a similar test by their shareholders.

Privately-held companies probably have more flexibility. Anything the Corporation does -- and as Mr. McCulloch said, the Board is the Corporation -- has to meet the test of, you know, do Manitobans think that it's a reasonable and acceptable, and -- and fiduciarly responsible use of the funds, for sure.

MS. CANDACE EVERARD: It continues to be the case though that approximately 90 percent of the Extension customers are also Basic policy holders?

MS. MARILYN MCLAREN: That may be a little high, but not much high, yeah.

Sorry, a hundred percent of our Extension customers are basic customers. It's about somewhere 80 to 90 percent of Basic customers are also Extension customers.

(BRIEF PAUSE)

MS. CANDACE EVERARD: It's been put on the record in previous years, the rationale for the transfer of the funds in the past from the retained earnings of the other lines of business to the Basic RSR.

Can the panel put that on the record in this proceeding, please?

MS. MARILYN MCLAREN: Can you repeat the

question?

MS. CANDACE EVERARD: The rationale behind the transfers from the retained earnings of the Extension and SRE lines in the past to the Basic RSR.

Can you please explain the rationale for that having been done in the past?

MS. MARILYN MCLAREN: Yes, that was done to -- and I'm not using precisely the words, but that was done to rebuild an inadequately funded RSR.

MS. CANDACE EVERARD: And in turn, to reduce rates?

MS. MARILYN MCLAREN: Not to reduce rates. To contribute to inadequately funded RSR. And whether -- there -- there are SRE customers who are not Basic customers. There are a small number of Extension customers who are not Basic customers.

Manitoba as a whole -- Manitobans as a group, are well served by a well funded and strong and financially strong Basic program.

So, no, it was not to -- fundamentally was not to avoid the need for Basic ratepayers to pay an RSR rebuilding surcharge. It was to help fund an inadequately funded RSR to the benefit of everyone; it was not to give them a rate break.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Given the duties that we've been speaking of that extend to all of the customers of the Corporation, can the Corporation envision transfers being made for the purpose of keeping Basic rates at -- at a minimum level as possible?

MS. MARILYN MCLAREN: That would really be cross-subsidization, right? That would be a subsidization of Basic ratepayers by other, sometimes the same ones, but not always the same ratepayers; certainly subsidization of other lines of business to the Basic plan.

No, that, I -- I don't foresee a time when that would happen. You know, there -- there may be a time in the future.

I mean, I think we talked about this. Actually, we may not have talked about this last year because it was fairly soon after the Dauphin hail storm. But the modelling that we've done, working with our reinsurance broker, if -- the Dauphin hail storm, we talked about the fact that it really -- we had claims from Roblin and Russell, we had claims from Falcon Lake, it came across, but the intensity was in Dauphin.

The analysis shows that if that intensity had hit even a portion of Winnipeg we wouldn't have an RSR today, we'd -- we would not have one at all.

It would probably have cost 300 million or so if the storm of that severity had hit Winnipeg instead of hitting Dauphin. We didn't have reinsurance cover to fully protect us against a loss other than the deductible.

So I think, you know, we can talk about the potential in the future. If excess funds were available and if Basic was potentially in some sort of negative retained earning situation, there may be another transfer, I would not preclude that.

But the concept was to fund an inadequately funded RSR to the benefit of all Manitobans. I don't see the Corporation coming forward to recommend rate subsidization of the Basic ratepayers.

THE CHAIRPERSON: Is your experience with that hail storm in what could have been a reason for the adjustments made to the reinsurance?

MS. MARILYN MCLAREN: The new upper layer, yes.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Turning for a moment to the funds that the Corporation is going to be continuing to expend with respect to the business process review, which we understand are being met by the extension development fund.

Is it fair to say that there -- this could lead to an increase in revenue and retained earnings of Extension sufficient to fully offset the cost of that project, that process?

MS. MARILYN MCLAREN: Could we paraphrase your question to -- are you suggesting that we expect the extension development fund to cover the costs of the BPR projects?

MS. CANDACE EVERARD: It -- it's our understanding that in the main the business process review is being funded by the extension development fund, right?

MS. MARILYN MCLAREN: Yes, other than the projects that are specifically for Basic.

MS. CANDACE EVERARD: So the question is: Is it expected that that will lead to increase -- an increase in revenue or the retained earnings of Extension that would be sufficient to offset the project's costs?

In other words, will the savings gleaned from the BPR be sufficient to offset the costs that are being expended by the -- or through the extension develop fund?

MS. MARILYN MCLAREN: I think it's fair to say that the BPR projects are expected to significantly mitigate the costs of running DVL today that are in excess of the revenue we receive from government to run DVL today.

So the -- the projects, the BPR, is intended to make the operation measurably more efficient, less costly.

MS. CANDACE EVERARD: Just on that point of the payment that the Corporation receives from government with respect to DVL, the -- the 21 million.

It was our understanding in previous years that that $21 million dollar annual payment would not be subject to a reduction. We now understand that it was reduced last year by five thousand dollars ($500,000).

Why did that occur?

MS. MARILYN MCLAREN: That was just a one (1) time reduction to offset the loss of government revenue related to changing the staggering of driver licence renewals to align with Autopac renewals.

So our desire to improve service cost the government some money; they offset that loss against the 21 million. It was a short-term one (1) time reduction. It's finished.

MS. CANDACE EVERARD: We had an exchange

yesterday about IFRS and I appreciate that that's in the early stages from the Corporation's perspective. Can the panel advise of whether to IFRS the costs of the business process review can be deferred?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: At this point in time, we can't give you an answer to that question. We would need to investigate that fully and -- and understand the IFRS rules more completely.

MS. CANDACE EVERARD: And just coming back to a moment to the -- the BPR and DVL, and in particular the -- this new initiative relating to the one (1) piece ID cards that will provided to non-drivers as well as licensed drivers.

Is there any anticipation of those costs being charged to government or having any adjustment made to the $21 million annual payment?

MS. MARILYN MCLAREN: Yes, there's anticipation of all of that. Not all the details have been worked out, but there's any number of different components related to the basic identity card, the enhanced identity card for crossing the US border.

Those are the two (2) big ones that really we're doing at the request of government and there's -- there's startup costs, there's -- there's new revenue associated with it, there's any number of things that have to be worked out between now and post-implementation.

MS. CANDACE EVERARD: We've heard evidence in the last couple of days, specifically from Mr. Palmer, about the level playing field when there was evidence about the Board's oversight of DVL, Extension, and SRE.

What did you mean, Mr. Palmer, when you were using the phrase "level playing field" in that context?

MR. DON PALMER: What I meant in -- in that context was if we were in front of this Board with full disclosure of everything related to SRE and Extension, I'm sure that the gallery would be filled with all our competitors.

There -- there is -- part of the competition is some confidentially -- confidentiality of information. We are fully disclosing everything with regard to Basic operations.

So it's -- it's either we -- we don't do it or if every other insurance company writing in Manitoba were to come to the Public Utilities Board and we could sit in the gallery and watch them. That's sort of what I meant in -- in terms of the level playing field.

And I think with all the insurance companies in Canada who -- who may write in -- in Manitoba, I'm not sure there's enough weeks in the year for the PUB to -- to hear all of those.

So -- so I -- I have a feeling that if we were subject to that scrutiny, we would be the only ones and -- and that would be absolutely unfair.

MS. CANDACE EVERARD: But isn't the reality though, from the perspective of the average Manitoban that walks into a broker's office to renew their policy, that the purchase of Extension coverage, whether it's the reduced deductible or whatever piece, is really just the ticking off of a box or the -- the clicking of a mouse if you're -- when the broker's in AutoPac online?

What I mean by that is it -- in practice, would the panel agree that the purchase of those Extension pieces has just become a matter of -- of practice and perhaps a lot of Manitobans don't even understand that what they're purchasing is from a separate line of business or that there are other options available to them?

MS. MARILYN MCLAREN: No, we wouldn't agree with that. In fact, brokers go out of their way to explain choices. It's very, very important to the typical citizen, the typical consumer today, to understand that they have choices and feel that they have the understanding and the ability to exercise those choices.

So it is not all melded together. There is no sense that this is just all the stuff you have to buy or, oh, by the way, you don't really have to buy any of it. It's not like that at all. It's not how the process works.

With respect to the question of technology, maybe many, many years ago where it really sort of was a tick off on a form, there was an advantage to brokers to do a transaction for someone that included a Basic and Extension AutoPac on one form. The technology -- that advantage isn't even really there anymore.

With the ability to -- to move data, import data, the broker and the brokers who do sell competitive Extension product, have both of those applications running on the machine, they copy the data they need into their application.

Customer doesn't even know except maybe

they'll walk out with two (2) pieces of paper instead of one (1). But it doesn't take more time; it's no more effort for the broker. There's no real advantage there with the technology.

MS. CANDACE EVERARD: Would the panel agree that the success of its Extension and SRE lines of business is related to the fact that the Corporation does have a monopoly on the Basic side?

MS. MARILYN MCLAREN: SRE, I'd say not at all, no. It is really the most stand-alone; is not really integrated at all. Don't think it has really much to do with the fact that there is a monopoly for the compulsory insurance.

Extension, maybe to a certain extent but I think that is every bit as much because we, you know, we're offering products on the Extension line of business that other people aren't offering. We have added news products to that line of business. We work very hard to meet customer needs. They choose us when they don't have to. We like that. We're proud of it and we work to maintain that.

So I think maybe there is a limited advantage but I think there's a bigger advantage by the way we work with brokers to get them to support our products and we work with Manitobans to make sure they're the products they want.

MS. CANDACE EVERARD: Would it be fair to say, based on what you're saying, that where MPI offers a product in common with a competitor, that MPI considers itself to be competitive in terms of price of those competitors?

MS. MARILYN MCLAREN: Yeah, that's fair.

MS. CANDACE EVERARD: And when we're speaking of MPI and the 80 to 90 percent of the -- of the market, can -- does the panel have any idea or can -- can the Board be given a number -- or at least an approximate number of what that 10 percent of the extension market extends to that is not in the MPI fold?

MS. MARILYN MCLAREN: Every year, the Superintendent of Insurance publishes statistics about the volume of automobile insurance business written here and who it's written by. We can dig some of that out and share it if you like.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 15: MPI to provide Board with statistics of volume of automobile insurance business published by the Manitoba Superintendent of Insurance

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Just coming back for a moment to the process that unfolds when an insured comes into a broker's office to process a renewal.

Does MPI provide information or suggested scripts to the broker to recite to a customer or how does that -- how does it come to be? What details the broker is providing to the insured when the renewal is being processed?

MS. MARILYN MCLAREN: No, we provide information about our products and it really -- we make sure through broker training, broker certification, that they are well positioned to provide that counsel to people. But it -- it's really up to them in terms of how they market it. Whether they choose to market ours.

MS. CANDACE EVERARD: Thank you. I now have some questions following up on a different area. If I could ask the panel and probably this will be for you, Mr. Palmer, to turn to AI.18 and in particular page 12.

(BRIEF PAUSE)

MR. DON PALMER: AI.18, you're referring to the 2007 Dynamic Capital Adequacy Testing Report?

MS. CANDACE EVERARD: That's the one.

And now that you've read that into the record we'll say that we're going it DCAT from now on.

MR. DON PALMER: It's fine with me.

MS. CANDACE EVERARD: Mr. Palmer, can you confirm that the table on page 12 of AI.18 is a summary of the results of the base scenario forecast in DCAT prepared by Mr. Christie of Ernst and Young, the Corporation's external actuary?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Can you also confirm that this DCAT was released in December 2007 and was based on the financial results reported up to the end of fiscal 2007?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Is it generally the intention of DCAT that the base scenario be consistent with the Company's business plan?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Is that the case in this instance or at least was it at the time that the DCAT was entered -- undertaken?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: What MCT, or Minimum Capital Test ratio or range of ratios, has the Corporation adopted as its target for Basic operations?

It may be of some help to you to take a look at page 29 of the annual report.

MR. DON PALMER: The target that we have talked about is the 50 to a hundred percent of the MCT.

MS. CANDACE EVERARD: Turning back for a moment to page 12 of AI.18 and the table that we were speaking of, can you confirm what this table projects for net income? That is, looking forward from 2006/2007?

MR. DON PALMER: You mean '07/'08 and beyond? MS. CANDACE EVERARD: Yes. The pattern?

MR. DON PALMER: The net income shows $3.8 million for '07/'08, a loss of 15.7 for '08/'09, a loss of $2.8 million for '09/'10. Income of 3.8 million for '10/'11, and a loss of eight hundred and sixty thousand (860,000) for '11/'12.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Can you comment on the retained earnings pattern set out in this table over the forecast?

MR. DON PALMER: Sure, again I'll read them in. Starting with the end of '07/'08 is 159.3 million; for the end of '08/'09, 127.3 million; the end of '09/'10, 102.7 million; end of '10/'11, 114.9 million; and '11/'12, 125.3 million.

MS. CANDACE EVERARD: So you would agree that those numbers represent an initial decline and then a reasonably -- or a reasonable recovery? Or perhaps a slight recovery?

MR. DON PALMER: I would agree with that and -- and I'm trying to recall the -- the assumption on revenue changes in this particular document, if there was any rate increases or not.

And -- and I refer to our projections that we talked about in the last couple of days where they're showing a fairly significant bottom line in the years later on that we had not assumed any rate change.

And likely when we get out there, there would be a rate change because we wouldn't -- certainly would not come to this Board showing a profit -- I think, in that -- in that previous exercise was -- was $30 or $40 million.

So with that one caveat then, yes, I agree with what you said.

MS. CANDACE EVERARD: So how does this compare with the forecast projection and outlook in the current GRA and its -- those numbers are reflected at Tab 9 of the book of documents, if that helps you.

(BRIEF PAUSE)

MR. DON PALMER: The current -- the current outlook is more financially favourable, has -- has bigger retained, if that's the measure.

MS. CANDACE EVERARD: At a high level, to what major assumption or modelling differences can you attribute the different patterns being presented in these two (2) forecasting exercises?

(BRIEF PAUSE)

MR. DON PALMER: I think a net income in '07/'08 of -- of $69 million is a good place to start. So as a different starting point that would certainly be the major contributor.

MS. CANDACE EVERARD: What about the comprehensive income adjustment? The transition adjustment, that is?

MR. DON PALMER: That -- that would be different as well, sure.

MS. CANDACE EVERARD: Thank you.

I also have a few follow-up questions on pension liability. Yesterday we were advised that the pension liability for the Corporation was recalculated in

2007 using the revised discount rate of 5.4 percent which was decreased from 5.65 percent in the previous year.

That sounds about right?

MR. DON PALMER: Yes, that sounds correct.

MS. CANDACE EVERARD: The Board is of the understanding that the Province's actuary for the civil service pension plan is the same as MPI's actuary for the pension fund.

Is that right?

MR. DON PALMER: I don't believe that's true. The -- there is a firm called Element and Element (phonetic) which is two (2) of them, obviously. One of them is our actuary and the other one (1) is for the superannuation. So same firm, different people.

MS. CANDACE EVERARD: The Board also understands that the Province's pension liability was calculated using a discount rate of 6.5 percent.

Is the Corporation aware of that?

MR. DON PALMER: I knew their discount rate was -- was higher. The exact quantum I'll take your word for it, sure.

MS. CANDACE EVERARD: Can you explain why there should be a difference in the -- the two (2) discount rates?

MR. DON PALMER: The discount rates are -- are set by management. It's management's opinion that our assumption is more prudent. It's for liability for our purposes.

So I can't really comment on -- on the reasons for their decisions but -- but certainly that's our best estimate as -- as management.

MS. CANDACE EVERARD: Would it be possible for the Corporation to re-calculate its pension liability based on a 6.5 percent discount rate and then to quantify the impact of that on the statement of operations for '07/'08 through to the year of the application?

MR. DON PALMER: No.

(BRIEF PAUSE)

MR. DON PALMER: It would take a fairly long period of time, I -- I can't say exactly how long, but certainly longer than the duration of these hearings to make those calculations.

We do not have any actuaries on staff who are qualified in pension valuations. The actuaries that we have on staff, myself and -- and Mr. Johnston are fellows of the Casualty Actuarial Society.

We don't have training in -- in pension valuations beyond our professional expertise. So -- so we -- we could not do those calculations. We would have to get Mr. Element or -- or some other actuary trained in pension valuations to do that.

So -- so is it possible for us to do that over some protracted period of time? Sure. Can we do it in-house without contracting external resources? No, we can't.

MS. CANDACE EVERARD: Well --

THE CHAIRPERSON: Is the reason the discount rates because of the different asset mix of the civil service fund?

(BRIEF PAUSE)

MR. DON PALMER: Sorry, Mr. Chairman, what was the question?

THE CHAIRPERSON: I was trying just to go to the heart of it. Isn't the difference in the discount rate due to the different asset mix of the civil service plan?

Is that not one (1) logical reason?

MR. DON PALMER: Sure. We -- we certainly are -- are using our own return on assets as our assumption.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I just have one (1) follow-up question on the investments following from our discussion yesterday.

The Corporation has made it very clear on the record that it's the Department of Finance that manages the investments. If that management were to be handed to the Corporation itself, can you comment on whether there would be different investment decisions or strategies being made and if so, can you explain?

MR. DON PALMER: Could you repeat the first part of that question?

MS. CANDACE EVERARD: Sure. It's -- it's been made very clear on the record in the last couple of days that the Department of Finance makes decisions with respect to the investment portfolio.

If the Corporation had that control rather than the Department of Finance, would it be doing the same thing?

Can it comment on that or would it be implementing different strategies and making different decisions?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Ms. Everard, we're -- we're not going to speculate about what might happen differently in the future.

I can tell you, though, that in my experience, working with the Department of Finance, sitting in on investment committee working group meetings, taking the -- taking those decisions to the Board, in my experience, there's never been a time where the Corporation would have done anything or recommended anything different than what the Department of Finance did.

MS. CANDACE EVERARD: Okay, I'm going to get in then to some questions relating to claims incurred.

So I'd ask you to turn to TI.4, which is at Tab 1 of the book of documents, and in particular the first page of TI.4.

(BRIEF PAUSE)

MR. DON PALMER: Okay, we're ready.

MS. CANDACE EVERARD: It would appear from the first page of TI.4 that, in 2005/2006, there was some $194 million incurred in PIPP claims, which decreased in the subsequent year, 2006/2007, to 184.5 million. Is that right?

MR. DON PALMER: I'd round it to 184.6, but sure.

MS. CANDACE EVERARD: In 2007/2008, the claims incurred for PIPP claims were 167.2 million, and that number has been forecasted for the current year, 2008/2009, to be 239.3 million.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So that last spread between 2007/2008 and the forecast for the current year being some 72 million?

MR. DON PALMER: Yes, but just a brief explanation to -- to these numbers.

These are fiscal year reported numbers, not accident year numbers that would be for rate setting purposes.

The reason that we have seen an increase is that the $167 million, and -- and really the $184 million, as well, had some actuarial reserve releases that contributed to those -- to those numbers.

So -- so yes, there's an increase of $72.1 million, but that doesn't -- that's more an indic --

indicator that the '07/08 number is -- is low, rather than the -- being actually increased by that amount to get to the two thirty-nine (239).

MS. CANDACE EVERARD: Thank you. And if we look at the same line of PIPP claims for the year of the application, and for 2010/11, we see an increase firstly to 249 million, and secondly to 259 million?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: With respect to the collision line on the same chart, we see 207.3 million having been incurred in 2005/2006, which increased to 234.4 million in 2006/2007?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And then up from there to 241.3 million in '07/08, and a forecast of 253.6 million in the current year?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Similarly, we see an increase for the year of the application to 266.5 million, and in 2010/11 to 283.8 million.

MR. DON PALMER: I'll agree with those, yes.

MS. CANDACE EVERARD: Okay. With respect to comprehensive, that line in 2005/2006 there were six hundred (600) -- or pardon me, $68.3 million incurred, and in 2006/2007 that number increased to 75.4 million?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And up in the next year, 2007/2008, to 76.2, together with a forecast for the current year of 66.2 million which would be approximately a $10.1 million decrease?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And is that attributable to the decrease in theft claims?

MR. DON PALMER: Partially. The $76.3 million in '07/08 also included the Dauphin hail storm which, although was largely reinsured, it still included our $10 million retention so that would serve to make that number bigger than it would be in normal circumstances.

MS. CANDACE EVERARD: And looking at the last two (2) years on this chart, the figure projected for the year of the application for comprehensive claims incurred is 63.4 million, set to increase in 2010/11 to 64.4. Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: If I could ask you to turn to question 25 posed by the Board in the first round which is not in the book. We see a chart setting out the PIPP costs incurred over the last number of years.

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: If I am reading this correctly, the cost incurred for income replacement indemnity has increased from some 23.4 million in 1995 to about 59.7 million for the year ending February, 2008? Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And in relative terms, that is an increase of 41.2 percent?

MR. DON PALMER: No. The 41.2 percent is the composition of total PIPP benefits and, in total for 2008, $59.7 million for income replacement is 41.2 percent of the total PIPP expenditures for '07/'08.

MS. CANDACE EVERARD: I -- I understand. So if we're comparing that 41.2 percent to the figure that existed in 1995, we'd be looking at the 25.8 percent reflected on this chart?

MR. DON PALMER: In -- and just to be clear, in 1995, income replacement was 25.8 percent of the total PIPP expenditures.

MS. CANDACE EVERARD: If I could ask you to turn to the question and answer to number 30 posed by the Board in the first round, we have a table that reflects PIPP claims by type. It would appear that the -

- in terms of severity, I'm looking at the -- the bottom chart on Schedule 1 and, particularly, the line relating to quadriplegic injuries. That number of one point four (1.4) or one point five (1.5) represents a significant increase over the previous year, is that right?

(BRIEF PAUSE)

MR. DON PALMER: Sorry for the delay, Ms. Everard. These numbers tend to fluctuate significantly from year to year and from a low of -- I think the lowest one, and a quick look is for quadriplegia is a hundred and seventy-six (176) and going up to $2.6 million. These are actually the severities of in-year accidents taken at the end of year, divided by the number of claims.

So that has to do as much with timing of setting reserves as it does with actual severities. So I would caution that even though there is an increase from five hundred and one thousand (501,000) to 1.5 million almost, that's probably just a question of timing of -- of when the full quantum of the reserves was set up on individual cases.

MS. CANDACE EVERARD: If we look at the upper chart on the same schedule relating to number of claims and in particular the line entitled "Whiplash", which is the third from the bottom, am I reading this correctly when I say that the -- that particular line represents whiplash claims in the late '90s in the neighbourhood of six thousand (6,000), seven thousand (7,000), nine thousand (9,000), up to fifteen thousand (15,000) for 2008?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Is there any particular reason for that change over time in the Corporation's view?

MR. DON PALMER: There are a few reasons. Again, I wouldn't think that the actual increase is -- is as you've -- you've given or looked at the numbers. I would ask you to take a look at the "Other" row that has gone down significantly in that same time period, not exactly offsetting but certainly to -- to some extent it's much less now and that's due to better coding. And I would say that a large number of those Other would be now coded as whiplash.

MS. CANDACE EVERARD: Thank you. I'm going to ask you to turn now to TI.11 which is at Tab 3 of book of documents.

MR. OTTMAR KRAMER: Yes. Yes, we've got that.

MS. CANDACE EVERARD: Okay. TI.11 reflects, at the line entitled "Net claims incurred" that the actual claims incurred for 2007/2008 were about 64.2 million below the forecast presented in last year's GRA?

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

MS. CANDACE EVERARD: And of this amount, about 64 million of it, so very close to the whole, is attributable to PIPP benefits?

MR. OTTMAR KRAMER: Yes, I believe that's correct based on the earlier discussion we had.

MS. CANDACE EVERARD: And can you confirm that there was about $52.2 million in favourable runoff on the -- on the PIPP years to the benefit of the fiscal 2000 -- two thou -- pardon me, fiscal 2007/2008? And I do have a reference for that AI.17B, Exhibit 3, sheet 16, if you wish to refer to it.

MR. OTTMAR KRAMER: Subject to check, we'd accept that.

MS. CANDACE EVERARD: And can you confirm that that amount was comprised of about $75.2 million of favourable runoff on the insurance years ending 2005 and prior, and about 23 million of unfavourable runoff on the two (2) most recent insurance years, so in other words 75.2 million of favourable runoff offset against 23 million of unfavourable runoff?

MR. DON PALMER: And -- and now I would ask for the reference again.

MS. CANDACE EVERARD: AI.17B, Exhibit 3, sheet 16.

(BRIEF PAUSE)

MR. DON PALMER: And again, can I have those last figures?

MS. CANDACE EVERARD: Sure. $75.2 million in favourable runoff for the insurance years of 2005 and prior, and about 23 million of unfavourable runoff on the two (2) most recent insurance years.

The 75.2 million of favourable runoff that I'm referring to comes from offsetting the 1.614967 and the 1960169 if that helps you.

(BRIEF PAUSE)

MR. DON PALMER: There's far too many numbers in these actuarial reports.

MS. CANDACE EVERARD: I'm glad I'm not the only one that thinks that.

(BRIEF PAUSE)

MR. DON PALMER: So the favourable runoff of $52 million is the difference between the 2022905 and the 2075105?

MS. CANDACE EVERARD: Yes.

MR. DON PALMER: And there's unfavourable runoff in the '06/'07 year and favourable runoff in the '05/'06 year of about 4.7 million.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Would you agree that the years leading up to the year ending 2005 in the aggregate reflect favourable runoff of 75.2 million?

MR. DON PALMER: Subject to check, I would accept that, yes.

MS. CANDACE EVERARD: And then in the two (2) most recent insurance years, there's aggregate unfavourable runoff of 23 million.

MR. DON PALMER: With the correction I'll say three (3) most recent years from the '05/'06 that had -- okay, we're on the same page. We're good.

MS. CANDACE EVERARD: Excellent. So the net is when we offset the 75.2 of favourable runoff and the 23 million of unfavourable runoff, we net out 52.2 million in favourable runoff?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Great. Can you describe for the Board the sources of the overall favourable runoff for net accident benefits? And you may want to reference question 27 in the first round if you wish.

And I'm just talking about the favourable runoff in the last fiscal year.

(BRIEF PAUSE)

MR. DON PALMER: There is an explanation on page 3 of that answer giving an explanation of the runoff in rather precise terms, talking about exact change in development factors, and -- and whatnot.

I can tell you that over the last probably three (3) years, and I think this was pointed out in one (1) of the Information Requests about the positive development over the last three (3) years, and, yes we have recognized that.

We have brought -- and -- and really that comes a part that the -- the runoff of -- of actual, reported and paid claims is less than we had expected.

It certainly is -- and -- and part of that is we -- we did introduce a new reserving calculator in about '04/'05 time period that I -- I know that we have talked about at these proceedings in -- in past years.

But really after seeing some years of -- of adverse development, we are seeing some -- some positive develop -- development.

We are certainly taking a hard look at that, and we may be bringing down, or talking to the actuary about bring down some of the lost development factors over the next -- in the next evaluation.

With that positive development, it could be that the -- the factors and the expectation of the unpaid claims reserves are too high, and we will be taking a hard look at that in -- in this year's evaluation.

Certainly there's a -- you can have one (1) good year or two (2) good years, once you start having three (3) you start looking for trends within the data, and we're certainly at that point.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So just to confirm, that impact would occur in the current fiscal year?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Palmer, does the unfavourable runoff in the last two (2) years tell us anything, or -- or teach us anything going forward?

MR. DON PALMER: Again, with this particular line of business, the reserves are subject to some timing.

After twelve (12) months you take a look at them, and there could be some huge case reserves that are -- are put in in the first three (3) or four (4) months of -- of the ensuing year.

We have a practice -- a case reserving practice when we get a serious incident to get it into the serious reporting mill, so to speak.

We put on a -- a reserve of -- of five hundred thousand dollars ($500,000) immediately, and then once the injury stabilizes in a period of six (6) to nine (9) months, we would take a -- a harder look at the evaluation of an individual claim.

So those case reserves can fluctuate rather wildly in -- in the first year, and are subject to timing. If they -- if that six (6) to nine (9) months period goes over a -- a year end, then in the second year you can see some -- some big development.

And -- and I would suggest that that might have been what happened in the '06/'07 year when we took a look at it at the end of the '07/'08 year.

So -- but I -- so that may -- that's probably a one (1) time occurrence. Certainly the -- the positive development in the -- in the older years likely may be more systematic.

And -- so -- so there's some pluses and minuses, but I think that certainly the positive development is something that we're going to have to take a hard look at.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And is the valuation done on a best-estimate basis?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And what does an actuary typically mean by the phrase "best estimate"?

MR. DON PALMER: That would be the expected value of the future runoff of -- of claims.

MS. CANDACE EVERARD: And within the Corporation how does this work, that is, underlying a given valuation breakdown between in-house staff versus the external valuation actuary?

MR. DON PALMER: This report belongs to Jim Christie, the appointed actuary.

Typically, in-house staff will perform the calculations, will provide input. Mr. Christie goes over the assumptions, may change some assumptions, has a little bit of back and forth discussion, but the final estimate is his.

MS. CANDACE EVERARD: And can you confirm why the Corporation which employs in-house qualified actuaries engages in external valuation actuary?

MR. DON PALMER: It -- it's deemed that there is value in -- in having a third party do -- do this, as an extra set of eyes.

MS. CANDACE EVERARD: What impact can be expected on claims incurred related to the change in the reinsurance program, or pardon me, the reinsurance margin, for adverse deviations, specifically?

(BRIEF PAUSE)

MR. DON PALMER: I would ask you to turn to Exhibit 7, sheet 11 of that report. Or I would ask Mr. Pelly to turn to Exhibit 7, sheet 11 of that report.

(BRIEF PAUSE)

MR. DON PALMER: Column 12 on the lower half of that page that's entitled, "Reinsurance PFAD Amount," that's "Provision for Adverse Deviation," shows a total at the bottom of $1.5 million. So in previous years that would have been zero, so that's an additional $1.5 million that's included in this valuation report.

There is an offset, however, on the books of the company where we did have an allowance for unrecoverable reinsurance that we have taken off and in fact I think it was somewhat greater than that $1.5 million. So the addition of this to this report was actually a net gain to the Corporation.

MS. CANDACE EVERARD: Can you give us an indication of the magnitude of the provision for doubtful accounts that existed previously?

MR. DON PALMER: It might be most advantageous to give that right after the break. Mr. Perlmutter has advised me it will be five (5) or ten (10) minutes until he can dig that number up.

MS. CANDACE EVERARD: Thank you.

I 'm going to ask you to turn to Tab 4 of the book of documents, which is TI.12. Still dealing with claims incurred.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: It would appear that there was a decrease in the claims incurred forecast from that forecast last year of some $12.4 million.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And in terms of the factors that are expected to lead to that decrease, can you turn to Schedule 1 of the same document which is on page 5?

MR. DON PALMER: I anticipated that and yes, I'm there.

MS. CANDACE EVERARD: So can you explain for the record, the main factors that lead to the decrease?

MR. DON PALMER: The two (2) most significant would be primarily in the comprehensive line of business and that would be attributed to our theft suppression strategies, and there is also a decrease in the -- in PIPP of about -- our number $3 million.

And that would essentially be the carry -- carry forward of the changes that was made to the evaluation of unpaid claims liabilities that we just talked about. Taking those numbers as a base and rolling them forward into the rate setting years will cause a -- a decrease as well.

MS. CANDACE EVERARD: Thank you.

Next, if you can turn to Tab 5 of the book of documents which is TI.13, it would appear that claims incurred are projected for the year of the application at some $21.4 million more than that which was forecast last year.

Is that right?

MR. DON PALMER: No. That's not correct. These are both in the -- contained in the 2009 rate application. One (1) is for the '08/'09 year and one (1) is for the '09/'10 year.

So that increase would -- would be mainly to claims inflation and volume growth factors.

MS. CANDACE EVERARD: Thank you. I -- I misspoke. I appreciate you correcting that. The -- you said that the 24 -- or the $21.4 million was mainly attributable to volume factors. My understanding was that the breakdown of that increase was reflected on Schedule 1 on page 5.

MR. DON PALMER: Yes. The -- the breakdown is on Schedule 5. It doesn't tell you the reasons for the increases. So certainly if you look at the column of the number of covers for instance for collision going from one hundred and nine thousand

(109)to one hundred and eleven thousand (111), that would be mainly due to volume.

The average cost per cover, which is shown in each one of those, that would be a claims inflation number. So if you combine those two (2) you would get to the total of $21.4 million.

So I would characterize those as sort of natural claims growth due to inflation and volume.

MS. CANDACE EVERARD: Thank you. If I can ask you to turn two (2) more tabs ahead in the book of documents to Tab 7 and, in particular, TI.15A, it would appear that total claims costs forecast for the current year at 711 million are projected to increase to some 815 million through the end of the outlook period, 2012/'13.

Is that correct?

MR. DON PALMER: That would be inclusive of claims, expenses and road safety and loss prevention. The claims incurred themselves, corresponding numbers, would be 603.4 million in '08/'09, growing to 707.3 million in '12/'13.

MS. CANDACE EVERARD: Thank you.

With respect to the road safety loss prevention line, it appears that for the year of the application, there's a projected expense of 19.8 million and that is projected to be reduced in the subsequent year, 2010/'11 to two hundred (200) -- pardon me, to 12.2 million. What does that decrease reflect?

MR. DON PALMER: That would be the reduced installation of immobilizers.

MS. CANDACE EVERARD: And can the Corporation please comment on the overall claims cost trend from its viewpoint?

MR. DON PALMER: Again, as I had stated in -- in the previous tab, we would characterize that as sort of normal growth due to claims inflation and volume growth.

MS. CANDACE EVERARD: My next question relates to asking that the Corporation provide an update as to the status of any remaining pre-PIPP tort claims.

Is that something that can be provided now or by way of undertaking?

MR. DON PALMER: Mr. Keith is just diving at the mic.

MR. WARD KEITH: I'll try not to speak for twenty (20) minutes. The -- as of the end of August, there are eleven (11) tort claims remaining involving nine (9) plaintiffs for a total reserve of 1.7 million.

MS. CANDACE EVERARD: Thank you.

I'm going to get into a couple of

questions relating to claims forecasting accuracy and I'd ask Mr. Palmer, I assume you'll be answering these, to turn to Tab 20 -- or, pardon me, question and answer 20 posed by the Board in the first round.

(BRIEF PAUSE)

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: Can you begin by describe -- by describing for the record what is reflected on the exhibits attached to this IR response?

MR. DON PALMER: For each of the years, going back to 2003/'04, it shows what our original projected number was with the rate application, that would be the forecast on which the rates were based; a revision to that forecast which would be the in -- in year forecast presented during the hearings; and the actual being the end of the day, what did it come out as.

And that is shown for each of the years, '03/'04 through '08/'09. So for the '08/'09 year, for example, our original projected would be what was presented last year in the -- for the '08 rate application.

The revised forecast would be our estimate today and since we're not at the end of '08/'09 yet, there is no actual shown.

MS. CANDACE EVERARD: And do these tables provide any evidence of systemic bias in claims forecasting?

(BRIEF PAUSE)

MR. DON PALMER: In general, and I'm -- and I'm looking at Table 3, which is the incurred comparison, over the last two (2), or -- well three (3) years -- well even four (4) years, our actual did come out under the original projected. So for four (4) years, there has been an overestimate.

As I mentioned with -- when we were talking about the evaluation of liabilities, the runoff has been less than we had -- had expected. So certainly we will be taking a -- a very hard look at -- at that, and the reasons for that.

To call it systemic bias at this point, I think, might be overstating it, but certainly it's something that we will -- would take a look at, as -- as the underlying source.

I would also say that if you look at '03/'04, there was an underestimate in that year, and I think there had been some underestimates in maybe the two

(2) or three (3) years prior to that.

So we have had a good run in -- in terms of -- of the last three (3) or four (4) years. We're going to take a hard look at it, and -- and see if there's anything there that could indicate that -- that our underlying data, and our -- and our -- our outlook may be more positive, but that's -- that's about the extent of it at -- at this stage.

MS. CANDACE EVERARD: So, Mr. Palmer, continuing to look at Table 3, which is 1-20(c) attachment, and in particular the -- what is reflected here for 2008/2009, can you advise of whether the current year-to-date experience, so that which has unfolded since the filing of the GRA, has tended to narrow or widen the gaps between the projected and revised claims incurred by coverage?

(BRIEF PAUSE)

MR. DON PALMER: Our current year experience continues to be positive, so less than our projections.

MS. CANDACE EVERARD: Can you give us any indication of the magnitude, or quantum?

MR. DON PALMER: We haven't changed the

forecast, so I wouldn't -- we have the opportunity always to -- to change the application. We have not done that at this stage.

So the significance -- it's not enough to change -- change our forecast on a going forward basis.

MS. CANDACE EVERARD: Thank you.

THE CHAIRPERSON: What percentage change would be -- that would suggest a requirement to make a change?

Do you have any materiality standard benchmarks?

MR. DON PALMER: I think it depends where it is. If we had all of a sudden seen a 5 percent drop in collisions, for instance, then that's something that we would certainly look at.

When the -- the positive runoff is in old PIPP years, which is -- is what we've seen mainly the contributing factor PIPP claims, the -- the runoff being less than expected for, that occurred in '05/'06, '06/'07 and '07/'08, and that there is some of that positive development that continues to happen this year.

Until we get the actuarial evaluation and go through that exercise, we really can't change the forecast from that PIPP perspective.

THE CHAIRPERSON: So the positive element could be material in a monetary sense but you're just not comfortable until you do the actuarial work?

MR. DON PALMER: That's correct.

THE CHAIRPERSON: Could we -- Ms. Everard, do you mind if we take our break now?

MS. CANDACE EVERARD: Of course, I'm in the Board's hands. However, I do have a few questions on forecasting accuracy and I would prefer if Mr. Pelly was here when I ask them and he'll be leaving us in about ten (10) minutes so.

THE CHAIRPERSON: Then we'll wait.

MS. CANDACE EVERARD: Thank you. I'd appreciate it. There's -- there's just a few.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Mr. Palmer, if you could look at Tab 4 of the book of documents which is TI.12

(BRIEF PAUSE)

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: With reference to TI.12, can you comment on the sources of the significant difference between the original projection and the current forecast with respect to the contributors to net income for this year 2008/2009?

(BRIEF PAUSE)

MR. DON PALMER: Earned revenues are -- are up by $7.6 million. Claims incurred are down by $12.4 million and we've discussed the reasons for that.

Investment income, our projection is down by $13.2 million. So the bottom line has deteriorated by $19.5 million but after transfer from the immobilizer fund our net income for rating purposes is down $2.5 million.

So at -- at the -- or down $3 million, sorry. So at the end of the day the -- the net -- the net difference of -- of those, rather, there's ups and downs so it's pretty close to what we had put in the GRA last year.

MS. CANDACE EVERARD: And in your view did the changes that you've described provide any evidence of systemic bias in the forecasting process?

MR. DON PALMER: No.

MS. CANDACE EVERARD: To the extent that MPI controls the decisions on whether or not to realize gains or losses in -- on investments categorized as available for sale, how do the forecasted amounts for investment income capture this reality?

MR. DON PALMER: We include in our forecasts $5 million in -- in gains on bonds that we have seen over the last few years. We have also bundled all equity income within our -- our equity assumptions which includes the equity risk premium.

We haven't specifically said that gains would happen this year or next year or the year after, they would be smoothed over the entire forecast period.

MS. CANDACE EVERARD: And lastly, have there been any changes incorporated in the current GRA filing which the Corporation expects will improve its forecasting accuracy?

(BRIEF PAUSE)

MR. DON PALMER: We certainly are understanding some of the programs; for instance, the immobilizer program. We are seeing with significant claims decreases that -- that our -- that the immobilizer program is working as we had expected it to work. So I think that's verification of the assumptions that we had made last year or a couple years ago.

Certainly, when you embark on a new

program like the immobilizer strategy, that we were convinced that it was the right strategy, that it was going to work, that it was going to result in significant decreases in claims costs, to actually go through a period of time where those savings are actually proven in actual results, I think that -- that means that on a going forward basis there's certainly great confidence within our comprehensive line of business and -- and those particular forecasts.

So -- so I would say that that's -- that increased confidence goes forward. Certainly our experience on collision claims -- we have a very good handle on the collision claims. Year after year our -- our forecasts are within -- or the actuals are within a hair of what -- what the forecasts were, so that continues to give us great confidence.

Where we continue to see some improvement, as -- as you've pointed out, is in our PIPP forecasts. We're continuing to learn about the -- the PIPP. We've now been in the PIPP business for fifteen (15) years. And the fact remains, we're still forecasting reserves for runoffs that can be up to sixty (60) years on fifteen (15) years of experience. So there are still things that we will have to learn and refine as we go forward on -- on PIPP.

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

THE CHAIRPERSON: Thank you. Okay, we will have our break now. We will see you back in fifteen (15) minutes. Thank you.

--- Upon recessing at 10:43 a.m.

--- Upon resuming at 11:07 a.m.

THE CHAIRPERSON: Any time you are ready, Ms. Everard.

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

MR. KEVIN MCCULLOCH: Mr. Chairman, I'd indicated to Ms. Everard that Mr. Palmer has an answer to provide to the panel on the issue of the reinsurance PFAD.

THE CHAIRPERSON: Oh, very good. Mr. Palmer...?

MR. DON PALMER: The 10 percent allowance as at February 29th of '08 would have been $3.9 million. That was replaced by the re-insurance provision for adverse deviation in the actuarial liabilities which, as we mentioned, was $1.5 million for a decrease of 2.4 million.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you.

Just following up on one of our discussions earlier this morning. Can the panel confirm how many Extension policyholders there were in say '07/'08, the last fiscal year ending?

I'm happy to take an undertaking.

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

--- UNDERTAKING NO. 16: MPI to provide Board number of Extension policyholders there were in '07/'08

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Would it be fair to say that all Extension policyholders would also be Basic customers?

MR. DON PALMER: Most, not all. For instance, a lay-up policy. For instance, by definition someone is not driving their vehicle so they may be parking it and are no -- and as a result don't have Basic coverage so would not be a Basic policyholder.

They may not have a driver's licence so they wouldn't have Basic insurance on their driver's licence. So that's one (1) specific instance where an individual would not be a Basic policyholder but would have an Extension policy.

There's -- I can probably think of many other examples that that could happen.

MS. CANDACE EVERARD: Would it be possible to also provide the number of -- within the Extension policyholders that are not also Basic policyholders?

Can that be done?

MR. DON PALMER: That's not something that we've ever done before so I'm -- I'm not sure the -- the work effort that would be required to do -- to do that. So I really can't give you an answer to that.

THE CHAIRPERSON: Could you say it's basically immaterial?

MR. DON PALMER: There wouldn't be many but whether that is a hundred or ten thousand (10,000), I -- I can't say.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you.

Just another followup on a different

point. Understanding that the continuing positive development in pre-2005 PIPP requires further analysis before it can be quantified, confirmed and booked, what is the quantum of the continuing positive development in the current fiscal year?

(BRIEF PAUSE)

MR. DON PALMER: We haven't changed any of our procedures or -- or forecast. So in terms of -- and -- and again before we do the actuarial analysis and, for example, maybe our case reserves may be down but that would have to be offset by an increase in IBNR.

So exactly what the quantum of that is I can't say at this stage.

MS. CANDACE EVERARD: Can you give an indication in any way as to whether the development carried through to year end is likely to be in the magnitude experienced in the last two (2) years?

MR. DON PALMER: I really can't comment on that.

MS. CANDACE EVERARD: Thank you.

Coming back to reinsurance for a moment which has been touched on a little bit, I'd ask you to turn to Tab 23 of the book of documents, which is the question and answer posed by the Board in the first round, at number 65.

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: Thank you.

The question posed by the Board at -- at 65(b) was to:

"Please advise as to the reinsurance premium impact arising out of that event."

Being the -- the Dauphin hail store that we've been referring to. Can you read in the answer at (b) please?

MR. DON PALMER:

"The reinsurance premium impact arising out of the hail catastrophe is directly related to purchasing of a second reinstatement cover for the second layer 25 million -- excess 25 million of a hundred and fifty thousand dollars ($150,000), and reinstatement premiums of approximately $3.2 million."

MS. CANDACE EVERARD: Turning to the question --

MR. DON PALMER: There -- sorry, there's a second paragraph in that.

"The Corporation is unable to determine
the impact to future premiums '08/'09 due
to the hail catastrophe and/or general
market conditions."

MS. CANDACE EVERARD: Thank you.

Looking at the question and answer at number 66, which is not in the book of documents, can you summarize the changes in reinsurance coverage that are reflected in that answer?

(BRIEF PAUSE)

MR. DON PALMER: The short answer is that we're in a process of increasing our retention from a $10 million -- $10 million to a $15 million, and we're also in the process of increasing the top layer maximum coverage up to $200 million as it previously was to $300 million.

That -- that's the short answer. A little longer answer than that, we do buy our policy, it's a three (3) year policy, and we buy -- we add a third each year, and -- and stack those -- those thirds on -- on top.

So in fact for the 2008 year, our coverage -- we have two-thirds of the cover -- coverage at a $10 million retention, and a third at a $15 million retention, and we actually have two-thirds of the top layer of 100 million, excess 200 million.

MS. CANDACE EVERARD: Is it the Corporation's view that these changes in reinsurance have brought the risk back to reasonable levels?

MR. DON PALMER: There has been risk mitigation for sure. As Ms. McLaren stated this morning, in -- in talking about the Dauphin hail storm, had that Dauphin footprint happened in -- in Winnipeg, we would have been looking at -- the -- the estimate would be around $300 million. So to the -- to that extent, that risk has been mitigated.

Certainly, there is always a -- a possibility that you could get a storm greater than that in -- in Winnipeg, somewhat bigger, so certainly that layer up to $300 million doesn't completely eliminate risk of us having a significant loss due to a hail storm.

MS. CANDACE EVERARD: And does that circumstance support the idea that a new risk analysis be undertaken? Or an updated risk analysis be undertaken?

MR. DON PALMER: No. Within our risk analysis, when you're talking about -- it -- it's based on probabilities.

The probability of that Dauphin hail storm would be very low, so it would probably not even impact the risk analysis way out -- way out on the tail of the distribution somewhere.

I -- I would characterize us purchasing up to $300 million as more sleep at night cover. I -- I always say that I don't want to be the guy after a big loss standing in front of -- of this Board or a Board of Directors saying that some event probably shouldn't have happened.

So given that it -- I don't think it would have any material impact on our risk analysis.

MS. CANDACE EVERARD: If we go to Tab 26 of the book of documents which is the question and answer posed by the Board at number 19 in the second round.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Can you just summarize for the record what this table reflects? The table provided in the answer.

MR. DON PALMER: The table provides a comparison of the premium earned with claims incurred for claims that have been ceded to reinsurers. We did it on two (2) bases.

First, what we labelled as "fiscal," which means the actual financial entries that -- that would be made in our financial statements.

So for instance for 2007/'08 we had a premium earned of $16.6 million and claims incurred of $45.3 million. The second columns both under "Premium Earned" and "Claims Incurred" that we've labelled "Treaty" that's the actual premiums and claims that were assigned on -- on a given on a Treaty year. So that would be analogous to an accident year analysis as -- as the Board is very familiar with.

So, for instance, in 2007/'08 we had the -- the premium paid for that year of $15.5 million and our claims against that Treaty of $39.4 million.

Again, that's pretty close to the $40 million that we would have from the $50 million hail storm with the $10 million retention. So that's pretty close for round numbers.

MS. CANDACE EVERARD: Thank you. Going to turn then to some questions dealing with claims expenses, firstly can you confirm what it is that claims expenses represent?

MR. OTTMAR KRAMER: The claims expenses -- and I assume you're not talking about the incurred, but the -- the other line item called on our income statement that's called Claims Expense. I'm just trying to turn to an income statement --

MS. CANDACE EVERARD: Yes and actually I was going to take you next to Tab 4 which is TI.12.

MR. OTTMAR KRAMER: Right and -- and that's where I am. So the claims expense line, this 79.9 million in '08/'09, that number?

MS. CANDACE EVERARD: That's the one, yes.

MR. OTTMAR KRAMER: Okay. That -- that claims expense is -- is basically to run the -- the claims division to handle all the claims, to assess the claims, et cetera for -- for running the claims division.

MS. CANDACE EVERARD: And looking at that line on TI.12, it would appear that the revised forecast for the current year has increased by some $6 million over that forecast at the last GRA?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: I'd ask you then to turn to the question and answer posed by the Board in the first round at number 33, which is not in the book.

And in particular sub (a) of that question which deals with the trend analysis. The -- there are a number of entries on this attachment, Schedule 1 at 1-33(a) that -- where it's reflected N/A or which presumably stands for "not available" and actually that -- this is a number of pages where that appears.

Is that right?

MR. OTTMAR KRAMER: On -- on Schedule 1?

MS. CANDACE EVERARD: Yes.

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

MS. CANDACE EVERARD: Okay, and why is it that that -- that the letters "N/A" appear in many places on this particular schedule?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: If -- if you look more towards the bottom at line 13, number of claims, we don't have the -- the counts to support what is a -- just a Basic claim. We don't track it by -- by claims.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Would it be possible -- seeing as this schedule was prepared on the basis of the original TI.5, would it be possible for a revised schedule to be prepared using the same basis as was done in TI.5, but to extend the years through the end of the outlook period?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: I'm not understanding the question because Schedule 1 of PUB-1-33 goes out to 2013. It has been extended for -- and TI.5 only goes out to 2008, so we have extended it.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Would it be possible to, on the same basis as TI.5, extend the schedule through the end of the outlook period, and provide the information that has not been provided in the answer that's been given?

(BRIEF PAUSE)

MR. DON PALMER: No. The -- and -- and if I understand the question, you're looking for an extension of TI.5 into the outlook period.

Because that's done on a corporate basis, we don't have outlooks for extension in SRE going forward, so we can't do it.

MS. CANDACE EVERARD: Thank you.

If you could turn to TI.5 as filed with the GRA filing, and in particular line 6 of TI.5 which deals with claims expense per claim.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, I've got that.

MS. CANDACE EVERARD: Thank you. Line 6 reflects a change in the claims expense per claim from 2006 at 10 -- 10.25 percent over the previous year and then another increase of 7.2 percent from 2006 to 2007.

Is that correct?

MR. OTTMAR KRAMER: Yes, that's on the schedule.

MS. CANDACE EVERARD: Following, from 2007 to 2008, there's an increase -- a lesser increase reflected of some 2.48 percent.

Is that right?

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

MS. CANDACE EVERARD: Can you confirm what factors have driven that percentage increase -- although increases are taking place year-over-year to be decreased in terms of that volume?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: One of the large factors driving that increase, especially in 2006, is -- is the -- if you look at the previous year, 2005, there was a -- a 5 percent reduction. So the -- the 10 percent increase would be mitigated by that previous year decrease and then so if you average it over two (2) years, it's about a 5 percent increase.

MS. CANDACE EVERARD: And can you confirm whether the business process review that's being undertaken is expected to impact claims expenses, the expenses incurred to process claims for the record?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: As we've earlier discussed, the PIPP infra -- infrastructure study will impact and -- and costs are in claims expense for that -- that initiative which is a part of, you know, the BPR umbrella.

MS. CANDACE EVERARD: And can you confirm whether that impact will be positive or negative?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Initially, and especially over the -- the current forecast period, there was an increase in costs as -- as we're embarking on the PIPP infrastructure. Over the long term, there are savings that are -- that are forecast.

MS. CANDACE EVERARD: Thank you.

If you could turn to the question and answer posed by the Board in the first round at number forty (40), which is not in the book of documents and, in particular, 40(c), this relates to staffing.

MR. OTTMAR KRAMER: Yes, I have that.

MS. CANDACE EVERARD: Now I appreciate that there was some evidence given on Monday, when Mr. Saranchuk was examining, relating to this idea of former DVL employees having been brought into other lines, et cetera. This particular IR-40(c) was a request to re-file TI.9, limited to Basic only.

Can the panel summarize the response and explain why that request was not fulfilled?

MR. OTTMAR KRAMER: First of all, I'd like to clarify that the integration of DVL is in -- it isn't into other lines of business, it's into the Corporation. So they're not integrated into other lines of business, they are integrated into the Corporation which has several lines of business. And I think that's an important distinction to make.

With regards to 40 sub -- 140(c), that was the response that I read this morning and I believe we have done a -- to -- to the -- to the best that it can be done, provided what the Basic employees are based on some assumptions that we've laid out in -- in that response. So we -- we have re-filed -- well, we cannot do it to -- to the level of detail that was requested but at -- at a high level we have given the -- the number of Basic employees based on the assumptions that are given in that response.

MS. CANDACE EVERARD: The chart in this response, if I'm correct, is a calculation that's done based on the overall number of employees versus, that is, corporate-wide number of employees based on the -- or, pardon me, as compared with the number of employees that are Basic only and then a percentage is arrived at on the bottom row of the chart.

Is that right?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: Given that that information is available, is it possible for the Corporation to provide to the Board a similar analysis broken down by department within the Corporation?

MR. OTTMAR KRAMER: This calculation or these numbers were arrived at by -- by using the allocated costs that we filed in TI.7 and the calculation was done. We do not have the -- that -- that information by department of -- of what each compensation dollar is.

That would take, I'm not even sure right off the top of my head how easily that -- well, it's definitely not easy to do if it -- if it even can be done because we've got numerous departments, numerous different type of allocators per -- per department, et cetera, and we don't have that information by -- by department, which is a tribute -- basically done it on an overall basis and has shown the Basic employees as a -- as a percentage of total corporate.

And that's based on the allocation principles as -- as we've discussed earlier in this hearing.

MS. CANDACE EVERARD: Thank you. It would be fair to say that the compensation expenses incurred by the Corporation comprise the majority of its operating expenses on an annual basis.

Is that right?

MR. OTTMAR KRAMER: On the operating expense comparison, yes, as a percentage of operating, yes.

MS. CANDACE EVERARD: I'd ask you to turn to the question and answer posed by the Board in the first round -- pardon me, I was going to ask you to go to forty-three (43) but that's not the right number. Just bear with me for one moment.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I'll just come back to that point once I put my fingers on the -- the reference that I wanted.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Let's go to the question posed by the Board in the first round at number 39, which does relate to salary levels.

In that attachment it is set out -- or the growth rates, the compounded annual growth rates, are reflected.

Are you with me?

MR. OTTMAR KRAMER: Yes, I have that.

MS. CANDACE EVERARD: And it would appear that the growth rate between 2007/2008 and 2009/2010, that two (2) year period the -- for the Corporate average was 2.84 percent.

Is that right?

MR. OTTMAR KRAMER: Yes, that's a forecast not an actual, so it's a forecasted to growth rate.

MS. CANDACE EVERARD: Thank you. And that rate is in excess of inflation according to the face of this chart?

MR. OTTMAR KRAMER: Yes, it is.

MS. CANDACE EVERARD: Now, we understand that the contract in place between the Corporation and the Manitoba Government Employee's Union or MGEU will expire on September the 27th of 2008.

Has a new contract been reached at this point?

MR. DON PALMER: No, it has not.

MS. CANDACE EVERARD: Does the Corporation have a sense of when that may occur?

MR. DON PALMER: In reasonably short order. We're only half the party so I can't really speak for the other half.

MS. CANDACE EVERARD: Before we leave the topic of operating expenses, is it the case that the Corporation has made a commitment to donate to the Canadian Human Rights Museum in Winnipeg?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And to what extent?

MR. DON PALMER: Five hundred thousand dollars ($500,000) a year for two (2) years.

MS. CANDACE EVERARD: So a total of 1 million?

MR. DON PALMER: Yes. And it's coming from the special risk Extension line of business.

MS. CANDACE EVERARD: That was going to be my next question. So that expenditure is not being funded by Basic in any way?

MR. DONALD PALMER: No.

MS. CANDACE EVERARD: Okay. Let's turn to capital expenditures, and in particular question 41 posed by the Board in the first round.

Looking at the attachment, Attachment "A," which is the only attachment to that particular IR. If I'm reading this attachment correctly, it provides looking at firstly 2002/2003 fiscal year the Corporation had initially projected capital expenditures of some 9.9 million and the actual incurred was about 5.8 million.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct and I'd like to just make sure that we're clarified. That's on a Corporate basis. This is not for Basic but it is for the Corporation as a whole.

MS. CANDACE EVERARD: Thank you.

In 2003/2004 the projected expenditure for the Corporation was some 12.3 million and the actual incurred was 5.5 million?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: 2004/2005 the projected amount was 13.6 million and the actual incurred 6.2 million?

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

MS. CANDACE EVERARD: And in 2005/2006 the original projected amount was 7.4 million compared -- with an actual spent of 9.3 million?

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

MS. CANDACE EVERARD: In 2006/2007, the original projected amount was 12.1 million, and the actual incurred was 11.3?

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

MS. CANDACE EVERARD: And finally in 2007/2008, the original projected amount was 15.6 million compared with an actual spent of about 15.4 million.

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

MS. CANDACE EVERARD: Now, in 2007/2008, the revised forecast reflects an anticipated expenditure of 8.3 million, whereas the actual incurred was three hundred and fifty one thousand (351,000).

Is that right?

MR. OTTMAR KRAMER: On -- on land? Is -- is that your reference point?

MS. CANDACE EVERARD: Yes.

MR. OTTMAR KRAMER: I -- sorry, I didn't hear the land comment, but yes, land was forecast in '07/'08 at eight point three (8.3), and we spent about point four (.4).

MS. CANDACE EVERARD: And that was because a particular expenditure was delayed until 2008/2009?

MR. OTTMAR KRAMER: Yes, that's correct. The -- the transactions were closed in -- in early in the 2008/'09 year.

(BRIEF PAUSE)

MS. CANDACE EVERARD: How much did the Corporation actually spend on land of the roughly $8 million forecast that's set out here?

MR. OTTMAR KRAMER: I -- I don't have the figures -- the -- the total figures in front of me, but we can take that as an Undertaking, because I -- I don't have the numbers in front of me.

But that was for -- for several transactions, which like I said occurred in -- early in the '08/'09 year.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 17: MPI to indicate to Board the actual amount spent on land from the forecasted $8 million

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Now, is it the case that rates are set and depreciation based on the forecasted capital spending budget?

MR. OTTMAR KRAMER: Yes. The -- the General Rate Application includes amortization of projected capital spends.

MS. CANDACE EVERARD: So what is the effect when the Corporation spends less than what was considered by the Board in a particular GRA?

MR. OTTMAR KRAMER: The effect is often fairly minimal because the amortization is over numerous years.

And in the -- in the case that we had just discussed, land in particular, there is no amortization, so there is no -- no amortization expense impacted at all.

If it's -- if it's -- you know, another category such as buildings, the amortization period would be forty (40) years.

So the -- the effect on the General Rate Application of -- of not meeting, whether you're over or under, the -- the projected spend is -- is fairly minimal.

MS. CANDACE EVERARD: Thank you.

If I could ask you to turn to question 12 posed by the Board in the second round, so 2-12, which also relates to capital expenditures.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: I have that now.

MS. CANDACE EVERARD: Thank you.

In particular, I'm looking at the attachment to that IR, which is a chart that has certain details set out for the years of 2004 to 2005 through to fiscal year ending 2008; however, for the previous years, '97, '98 through to 2003/'04, there's a reference that the detailed breakdown by asset category is not readily available.

Are you with me?

MR. OTTMAR KRAMER: Yes, I have that.

MS. CANDACE EVERARD: Now it -- it's our understanding that last year at this proceeding that information was provided in the answer at 2-16.

So what I'm going to ask for, and I'll ask for this by way of undertaking, is to set out and explain to the Board why the information that we believe was provided last year is now -- now not readily available or if perhaps the two (2) are not the same, then to explain that issue for the Board's benefit.

MR. OTTMAR KRAMER: Okay, sure, I'll do that. You hit the nail on the head that the two (2) are not the same. What -- what is provided this year in -- in 2-12 shows the actual amortization expense that -- that was booked for the Basic -- or, no, this corporate line of business, the forecast and the initial projection based on the capital spend at that point in time while we were making the General Rate Application. And we've got that for all the years.

The response last year was -- was a -- a totally different response. It was a mechanical calculation of the amortization of capital spend, and I'll -- for an example, if we had a capital spend of $10 million in 2001, it would be the amortization of that $10 million. If we were to not spend the money but re-budget for it in 2002, that $10 million would have been amortized in 2001 and for the -- the future period. But in 2002, because we re-budgeted for it again because we didn't spend it in '01, it was again amortized.

So, yes, it was a mechanical calculation but it was actually very erroneous and the information was -- doesn't even provide accurate detail because you end up double or triple or quadruple amortizing one (1) item just because they weren't spent in the first year or the second year or third year.

So we provided this information which is much more relevant than last year's information. Last year's was mechanically accurate but it -- it was erroneous in that it -- it double or triple amortized the same expenditure if it wasn't made in that given year, if it was made in a future year.

So that's -- that's why we provided this information which we feel is much more accurate.

MS. CANDACE EVERARD: But in -- regardless of which table we're looking at or which way the calculation was done, the fact is that the rate that the Board is approving in a given year are on the basis of the projected expense which is in -- for a given year, or I'm looking at 2-12, the far right-hand side column.

MR. OTTMAR KRAMER: Yes, that is correct but last year's calculation didn't have -- wouldn't have -- wouldn't have shown this result. It was actually a -- a mechanically correct calculation but it would not have related to these amounts because if the spend isn't made in a particular year, the next year it wouldn't be included in the amortization as we filed in the next year.

MS. CANDACE EVERARD: So we're agreed that the rates are based on the forecast?

MR. OTTMAR KRAMER: The rates are based on the forecast and if a spend wasn't made in the previous year, it is not included in that next year's amortization and -- and so, the rates are based on the correct forecast.

Whereas last year's submission that we made, not the GRA submission, but the IR response submission was an overinflated amortization number and rates were not based on that. It was -- it was just an example or a calculation.

The rates are based on the amounts that we have filed in 2-12 -- in the 2-12 response.

MS. CANDACE EVERARD: Mr. Chairman, I'm about to move into another area and I'm just noting the time of ten to 12:00.

Would it be appropriate to take the lunch break at this point?

THE CHAIRPERSON: That's fine. Would it be all right if we come back at one o'clock?

--- Upon recessing at 11:52 a.m.
--- Upon resuming at 1:02 p.m.

THE CHAIRPERSON: Whenever you're ready, Ms. Everard.

MR. KEVIN MCCULLOCH: Mr. Chairman, before Ms. -- Ms. Everard gets started and this is by way of information. It's not a response to an undertaking, it's not an answer to a question that we took under advisement.

But around the noon hour today there was a press release about a new broker agreement between MPI and its brokers handling issues related to broker commissions on a go-forward basis.

The matter clearly will have, down the road, implications for the basic program related to the one (1) piece driver license and -- and a number of other developments that are coming up.

So we felt that we wanted to file this with the Board and because of the potential implications for Basic, I think it's -- it's worthwhile to have it marked as an exhibit and the Board will have it for information.

THE CHAIRPERSON: Thank you.

MR. KEVIN MCCULLOCH: I have been asked

to confirm that there's no impact in '09 or '10. But it's for Basic.

THE CHAIRPERSON: Thank you. Do we have an exhibit number? Ten (10).

--- EXHIBIT NO. MPI-10: Broker agreement between MPI and its brokers

THE CHAIRPERSON: Everyone seems to be smiling in the picture.

(BRIEF PAUSE)

THE CHAIRPERSON: I was a football coach for the -- the fellow from the Brokers Association. He looks a little different now. Okay.

CONTINUED BY MS. CANDACE EVERARD:

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

There are just a couple of followup questions on some of the evidence that was given earlier today.

First of all, I believe the record reflects that the Corporation gave as an undertaking to advise of the number of extension policyholders for -- for 2007/'08.

I'm just following on that. What the Board would like to learn is the number of Basic policyholders who have purchased Extension coverage.

Now I understand from the information that Mr. Palmer provided that there are lay-up policies that issue which may be purchased by individuals who are not Basic policyholders and that there are some other examples of that -- that type of scenario.

What we would like though is for the Corporation to undertake to arrive at the best figure that it can for that number of Extension policies that are issued to existing Basic policyholders.

Is that something that the Corporation will do?

MR. DON PALMER: We'll -- we'll endeavour to get that information, yes.

--- UNDERTAKING NO. 18: MPI to provide Board with: 1. Number of Extension policies that are currently issued to Basic policyholders; and 2. Number of Basic policies that are

currently issued to Extension
policyholders

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: And based on that information that I've just requested, please also provide that corresponding percentage of Basic policyholders who purchased Extension coverage. So that goes hand in hand with the first request.

MR. DON PALMER: One --

MS. CANDACE EVERARD: Just another -- oh, I'll -- I'll wait for you, Mr. Palmer, if you're...

MR. DON PALMER: Just to clarify, there is also Basic insurance on a driver's licence. Do you want us to -- so someone who has a driver's licence has an extension policy, as opposed to a Basic vehicle policy, or are we just restricting this to Basic vehicle policies?

MS. CANDACE EVERARD: Just Basic vehicles.

MR. DON PALMER: Thank you.

MS. CANDACE EVERARD: One (1) other follow-up question on some of the evidence that was given earlier with respect to the donation to the Human Rights Museum.

I believe the -- the evidence was that that particular donation was being funded by SRE?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And why is that the case?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: The Corporation determined that that was the appropriate way to fund it. A little bit more information that -- that we discussed -- released at the time that it became public that we made it, is that, you know, in -- not a -- not an insignificant part of the decision was really looking at the leadership that some of the major trucking firms have shown with respect to funding this Manitoba initiative.

And as the primary insurer of many of these trucking fleets, it seemed appropriate for SRE to follow the lead of some of its clients, the -- some of the -- the businesses that it is in the business to serve.

MS. CANDACE EVERARD: Thank you.

I would ask you then to turn to Tab 2 of the book of documents, which is TI.10. I'm going to be asking some questions about the business process review.

It's reflected in this schedule that the Corporation is forecasting to spend about $66.1 million in the year of the application in terms of Corporate capital expenditures, and about $34.8 of that is to be spent on the business process review.

Is that right?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And this piece, that is the $34.8 million piece to be spent on the business process review, is a fairly significant increase from that which was forecasted last year.

Now that is not on this schedule, but it is at I.42(d) asked by the Board -- or -- yeah, asked by the Board. So in looking at the attachment, I.42(d), it would appear that the previously forecasted number was about eight thousand (8,000) -- or pardon me, 8 million?

MR. OTTMAR KRAMER: You -- you're referring to specifically the preferred development?

MS. CANDACE EVERARD: Yes.

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: Now I take it that the increase that we're speaking about is primarily due to the business process review initiatives?

MR. OTTMAR KRAMER: Yes, that's correct, and that's found on page 2 of the IR response.

MS. CANDACE EVERARD: Thank you.

Now looking back at TI.10 at Tab 2 of the book of documents for the one (1) year of the outlook period that's referenced there, 2010/'11, it would appear that the Corporation is projecting to spend $24.2 million in capital expenditures of which about $13.4 is to be spent on the business process review.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct, and I'm not sure if it was on the record, but these are all Corporate capital expenditures, not Basics.

MS. CANDACE EVERARD: Yes. Now if we look at TI.10 a little more closely, it appears that the total dollar amount reflected on the document for business process review initiatives, looking from left to right from 2007/'08 through to 2010/'11 is about 89 million. Is that fair?

I'm adding the -- the seven point five (7.5), the thirty-three point three (33.3), thirty-four point seven (34.7) and thirteen point three (13.3).

MR. OTTMAR KRAMER: Did you say 89 million?

MS. CANDACE EVERARD: I did.

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

MS. CANDACE EVERARD: Can the Corporation tell the Board of whether there are any amounts that are anticipated to be spent on the business process review beyond 2010/'11?

In other words, in addition to the 89 million that we've just discussed?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: The -- these years that are shown here, that is the largest share of the business process review but there is some dollars that -- that continue on.

As you can see, the -- the '10/'11 year, the capital expenditures are starting to decline and they continue thereafter. But there is -- there is still some spending that happens after this period -- these periods shown.

MS. CANDACE EVERARD: Can you give me an idea of how much?

MR. OTTMAR KRAMER: I've just been told that it's less than $2 million.

MS. CANDACE EVERARD: Now we've noted that the schedule at T1.10 begins -- or the first year that's reflected is 2007/2008. Can you confirm for the record whether there were funds expended in the business process review prior to that year, in '06/'07 for example?

MR. OTTMAR KRAMER: Yes, there were funds expended in -- in the previous year.

MS. CANDACE EVERARD: And can you give me a round number or an approximation as to how much that would have been in those previous years?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: If you -- if you look at the attachment -- the PUB-1-41A attachment which shows us some of the historical perspective on the capital spend. I'm not sure if it's in your book of documents or... But --

MS. CANDACE EVERARD: I've got it.

MR. OTTMAR KRAMER: -- you can see the deferred development dollars that were spent in '05/'06 and '06/'07 and that's primarily related to BPR initiatives related to the driver's conversion.

MS. CANDACE EVERARD: So that would be the 4 million in '05/'06 and the seven point seven (7.7) in '06/'07?

MR. OTTMAR KRAMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, it's reflected on the record at question two (2) posed by the Board in the first round, which is in the book of documents at Tab 9, tat the balance in the extension development fun -- I'm looking on the last page of that particular IR -- was some 35.4 million as of the end of fiscal 2008.

Are you with me?

MR. OTTMAR KRAMER: Yes, I see that and that's correct.

MS. CANDACE EVERARD: So my question is having that figure in mind and comparing it with the total cost of the business process review which in -- in round numbers, we've just established is the 89 million reflected on TI.10 plus we'll say 2 million going forward, plus about 12 million historically which, just at quick math, would be about 103 million.

How is the difference between the balance and the extension development fund that we just looked at and that $103 million total going to be satisfied?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: The totals that we

were just talking about or that you had mentioned, they would be $103 million, that's -- that's for all projects which include a Basic component such as the PIPP initiative and driver safety rating which would -- would go against the Basic line of business and that would not be coming from the extension development fund.

And the balance of the dollars to the extent that the extension development fund, which is sitting at $34 -- $35.4 million, it would cover some of those other costs.

And to extent that there is additional costs over and above what's in the extension development fund that would be coming from the non-basic lines of business.

MS. MARILYN MCLAREN: Sorry, but we also expect some of the costs particularly related to the enhanced identity card and the identity card to be reimbursement from Government.

MS. CANDACE EVERARD: Just to -- to try--

MS. MARILYN MCLAREN: And also there's new revenue associated with those programs as well that will likely offset some of the implementation costs.

MS. CANDACE EVERARD: To try to attach details to as much of this as we can, I think the Board would greatly appreciate it if the Corporation could provide a document that would be broken down by year and by component of the business process review in terms of -- so first of all, dollars spent on each particular piece in each of the years that we've been discussing and as well that set out which line of business was funding the same and to what extent, and to the -- to the extent that the Government comes into the picture as well to include that, so that all of these details that we've been discussing are summarized in one (1) place.

I'm hoping that's something that the Corporation will provide.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: We will provide as much of that as we believe that it would be possible and -- and prudent for us to do.

We'll certainly be able to articulate the -- within those global costs which are Basic and so that -- we'll make sure that you understand completely Basic's limited exposure with respect to BBPR costs.

And as much of the rest of it as we think we're in a position to do.

MS. CANDACE EVERARD: And just for the purposes of the record so we all know what we're talking about. The components -- because I happen to have a list of them in front of me -- would be the PIPP infrastructure piece, the service centres, driver safety rating, the completed driver license system, the streamlined renewals and one (1) part licenses and the enhanced driver licenses.

MR. DON PALMER: Just if I may just direct your attention to something that's already on the record. That's PUB-142 Attachment E.

MS. CANDACE EVERARD: Yes.

MR. DON PALMER: That shows the deferred development costs by major project on each of the years '07/'08 through '10/'11 and that breaks it down by -- by piece.

Certainly, driver safety rating would be all Basic, PIPP infrastructure would be all Basic, call centre re -engineering would certainly have some component allocated to Basic as would standalone computer operating and service delivery would have some component of Basic.

Enterprise Data Warehouse would have some component of Basic as well, as would streamlined renewable.

MS. CANDACE EVERARD: Thank you for -- for drawing that to our attention. I would note though that this chart doesn't include all of the years that we've requested in the other piece and as well the -- the dollar amounts that are along the bottom of the page.

I -- I appreciate that in the -- under the heading, Major Project, it says, "Projects that impact Basic [colon]:" and then it has a list. But the total deferred development costs that are here are the -- the same corporate numbers that are in TI.10.

So we would appreciate that additional level of detail.

THE CHAIRPERSON: Just to add to that, we would appreciate as much information as possible because although it would appear most of these expenditures are not related directly to Basic, the Board's position has been from the beginning that we look to the overall financial health of the Corporation.

So for a hundred million expenditure we are quite interested to know what you get and how it will be accounted for and how will it affect the overall capital structure of the Corporation by the time it is finished.

We are also quite aware about the, if you want to call it, the risks and benefits of IFRS. So I imagine that factors in as well.

I imagine in looking at this that we are not talking about fixed assets here, we are talking about software development and systems and things of that nature, other than the ones that are identified as being data processing equipment?

MS. MARILYN MCLAREN: Yes.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I just had a couple of questions for the Corporation with respect to the mainframe decommissioning.

Is that, just for the purposes of the record, is that part of the business process review or is that considered a separate piece?

MR. DON PALMER: It's part of the business process review, yes.

MS. CANDACE EVERARD: I believe last year the Corporation had indicated that two hundred and fifty thousand dollars ($250,000) had been set aside to plan the decommissioning and that the decommissioning should be completed by 2010.

Can you provide some current information or an update to the Board with respect to that issue?

(BRIEF PAUSE)

MR. DON PALMER: We really don't have any more information to share at this time. Part of the $13.4 million in 2010/'11 likely will be for mainframe decommission but likely the mainframe decommission will be a little longer term than that.

MS. CANDACE EVERARD: And will that expense have any impact on Basic?

MR. DON PALMER: Likely it will, yes. A driver's licence system which includes the basic driver's component is -- is a Basic product so there will be some effect on that.

MS. CANDACE EVERARD: Do you have any sense of the quantum that would be attributable to Basic?

MR. DON PALMER: No.

MS. CANDACE EVERARD: If I could ask you to turn to question 11 posed by the Board in the second round, 2-11, and in particular sub (b) of that question.

The Corporation was asked to indicate the total number of increased staff in each department to address business process review initiatives and the answer reflects that the total increase was some hundred and thirty-six (136) positions, include eighteen point five (18.5) in human resources and a hundred and seventeen point seven (117.7) in business innovation and insurance operations.

And my question is: Are these positions or is it anticipated that these positions will be eliminated in due course once the business process review is completed or is there some other expectation at this point?

MR. DON PALMER: They're project people that largely will be wound down.

MS. CANDACE EVERARD: When you say "largely" that means...?

Can -- can you give me a rough percentage or a fraction of the 136 when you say?

MR. DON PALMER: Not exactly. Certainly as volume and -- and other...

(BRIEF PAUSE)

MR. DON PALMER: Did you like my clever diversion?

With long term staffing issues as volumes change as some of the savings are realized over time, I really can't identify exactly how many of these staff would be possibly rolled into -- to other divisions.

And so -- so they are project people. The FTEs (phonetic) associated with those projects will be eliminated, but exact -- the exact numbers I -- I can't say.

MS. MARILYN MCLAREN: Just to elaborate a little bit further. We're fundamentally changing the way the Corporation does its work.

And let's talk about PIPP for a minute because I think that's a good example. The people working on the PIPP infrastructure initiative, the people who are preparing to implement the FINEOS product, are all charged to the Business Innovation Insurance Operations Division at this point.

We will have more people employed in the Business Insurance -- Business Innovation Insurance Operations Division looking after the ongoing evolution of PIPP than we do today.

And that's because we have been unable to do as much as we believe we needed to do. When we talk about the benchmarking that we need to do, that -- that will be done by staff who are not employed doing that today. They'll be in the Business Innovation Insurance Operations Division. The ongoing understanding of the coverages and the products themselves and how those might need to change through time, they will be employed in the Business Innovation Insurance Operations.

They're probably the people who are learning everything there is to know about PIPP and

FINEOS today and working on the project. So I think that's a good example.

We are not -- we have not identified exactly how initiatives like streamlined renewals will affect the Corporation's operations. There will be some changes associated with that. Just like auto theft.

You know, one (1) of the questions in the IR's was, you know, you're talking about ending the immobilizer program, you're talking about ceasing the funding of WATTS. What about some of the other auto theft strategies?

We have not yet determined that. But the auto theft unit needs to fundamentally change as auto theft basically becomes a much, much smaller issue for the people of Manitoba.

Since 1992, Manitoba Public Insurance has been adding staff everywhere in the Corporation to handle more theft claims. We need to review that through the budget process coming up.

We need to better understand how streamlined renewal processes will change our operations. All of the people doing the work of auto theft, doing the work of preparing for streamlined renewals and PIPP and everything else, right now they're working in business innovation insurance operations.

Some number of them really will stay, they won't go away because they will be supporting the new way we work over the long term.

So it's really impossible to say more than that. Certainly more than half of the project related people will not be working on projects once they're implemented. Certainly more than half.

MS. CANDACE EVERARD: Thank you.

Is it possible for the Corporation to give the Board a sense -- and speaking about the -- the business process review and -- and we've had some evidence and there's that undertaking relating to the expense that is being incurred as a result of that over a period of years, so that's on -- on the one (1) side.

But on the flip side, is it possible for the Corporation to give the Board an idea of a forecast of what the savings or the expected reductions in expense are going to be going forward?

In other words, is there any sense at this point of what the bang is going to be for that buck?

MS. MARILYN MCLAREN: On an initiative-by- initiative basis and the information filed with the Board with respect to the PIPP project included an estimate of savings, once that is implemented. That -- that was in the material filed.

We have not done that with driver safety rating or -- or with streamlined renewals because we don't know the specifics of those yet. Those have yet to be defined.

We talked to you -- even though it wasn't anything that really sort of affected Basic ratepayers but we talked to you about the driver licence system with respect to the fact that it was going to save us about anywhere between two and a half (2 1/2) and $3 million once it was implemented because it's so -- on a project by project basis, we've gone through, just like we did with the immobilizer strategy: Here's the costs. Here's the benefits. Here's the portion of those benefits that are financially cost savings. So we've done that on a project-by-project basis.

MS. CANDACE EVERARD: Okay, thank you.

Speaking of anti-theft, I want to switch gears and turn to that for a moment and, in particular, SM.8.6.

(BRIEF PAUSE)

Looking at SM.8.6, page 4, the Corporation has reported and I'm looking at the second paragraph under the auto theft heading, second sentence:

"In the last fiscal year, there were six thousand four hundred twenty-six (6,426) vehicles stolen in Manitoba, a 30.2 percent decrease from 2006/2007."

Are you with me?

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: And continuing in that paragraph:

"The Corporation has advised that these claims cost -- these claims cost premium payers about 25.9 million in physical damage costs, a 22.5 percent decrease from 2006/2007."

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: Now, in the next paragraph the Corporation has gone on to note that:

"The vast majority of vehicle thefts continue to occur within the City of Winnipeg."

And it's provided:

"That in 2007/'08 [last year], five thousand one hundred ten (5,110) thefts or 80 percent of the claims in -- occurred in Winnipeg."

MR. WARD KEITH: Right.

MS. CANDACE EVERARD: In the next paragraph, the one that begins, "The Corporation attributes", it's set out that:

"These declines in theft claims are the result of the continuation of two (2) separate but complimentary initiatives, namely the Winnipeg Auto Theft Suppression Strategy or WATSS, as well as the Immobilizer Program."

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: Now, I'm going to get into WATSS in a little bit of detail in a moment but I understand and this -- the details of some of the other detailed initiatives, aside from WATSS and the Immobilizers, are set out at AI.10. You may want to go there.

That's the youth at risk, the awareness initiative and the offender's initiative. Perhaps you can just at a high level, describe for the Board the details of those pieces?

(BRIEF PAUSE)

MR. WARD KEITH: Yes, I can give a high level.

Our involvement with respect to auto theft is really focussed on four (4) areas up until now. The first is addressing youth at risk. The second is awareness strategies. The third is dealing with offenders. And the fourth is dealing with vehicle owners which speaks to the immobilization strategy.

With respect to youth at risk, our primary objective here with working with other stakeholders is to deal with those who have not yet -- young people who have not yet been involved in auto theft but are at risk to do so, by discouraging them from becoming involved and encouraging them to channel their efforts and skills at other more productive venues.

And there are some strategies -- specific strategies, and groups, and initiatives listed there with respect to getting at those youth at risk.

With respect to awareness. We continue to be involved again with other stakeholders in terms of raising awareness of the risks associated with auto theft, and we are involved in Auto Theft Awareness Week.

We continue with our vehicle audit program, where we use summer students to visit parking lots across -- primarily across the City of Winnipeg, and look for vehicles that are either left unlocked or with valuables in the vehicle, or that sort of thing.

And leave friendly reminders for the owners of those vehicles, how they've left their vehicles in a -- in a state where -- where they could be the subject of auto crime.

And as well, we do a -- a number of presentations across the city, both in -- in schools for young people, as well as in working with community groups in order to raise the awareness of the risks of auto theft.

This year in particular, we had an initiative where we really wanted to focus -- sorry, last year -- really wanted to focus on making sure people are aware what the immobilizer sticker looked like, and what the immobilizer meant.

So that people who might be looking at potentially stealing, or trying to steal a vehicle, would recognize when that vehicle had been immobilized, and could not -- and could not be stolen.

And then we get into offenders. And with respect to offenders, we continue to support the specialized auto theft prosecution team, where we fund a senior prosecutor -- Crown prosecutor, as well as two (2) junior prosecutors, specifically targeting at -- at those who are charged with auto theft offences.

We continue to support the Winnipeg Police

Service in terms of providing funding for six (6) of their officers in their auto theft unit and -- and the work that they do in order to -- to control the offenders.

We also continue to support the fingerprint unit. And under this program where there is a vehicle that's the subject of auto crime, we pay for that vehicle to be fingerprinted, and where there are fingerprints that can be lifted then those are then sent to the police service in an attempt to identify who the perpetrator of that crime was.

With respect to the auto theft suppression strategy itself -- I don't know if you want me to carry on with that?

MS. CANDACE EVERARD: Yes, go on.

MR. WARD KEITH: Okay. With respect to the auto theft suppression strategy, this is an initiative that we continue to fund, and we have funded since 2005 in conjunction with the Department of Justice and the Department of Corrections. As well, the Winnipeg Police Service is involved.

And really what it -- what it involves is intensive monitoring of those who are deemed at a high risk to re-offend. So what we call Level 4 auto theft offenders.

And this ensures that there are regular curfew checks, as well as constant communication with these offenders once they are released back onto the street in order to ensure that they don't re-offend, and if they do re-offend, then to bring them back into custody as quickly as possible.

And that program, because of the -- what we believe to be the success of that program in conjunction with the immobilizer incentive program, we have extended our funding for the WATSS program through to July of 2009.

MS. CANDACE EVERARD: Thank you.

Just picking up on a couple of things relating to the WATSS program, you mentioned that it began in 2005, and that it's now been approved to continue through to July of 2009.

If my memory is correct, this was a program that was initially, I think, a one (1) year commitment, and then another two (2) years, and then now for a fourth year.

Is that correct?

MR. WARD KEITH: No, the initial program was two (2) years, and then it was extended for a third year, and now has been extended for a fourth.

MS. CANDACE EVERARD: And you've

commented on the success of the program, particularly in conjunction with the immobilizer strategy.

In prior years, I believe the Corporation indicated that WATSS was sort of a stopgap measure to take effect until such time as the majority, or a certain target percentage of the fleet was immobilized.

Would it be fair to say at this point, given the success that has been experienced, that rather than WATSS being so much a stopgap measure, it's actually become an integral part of the success of the anti-theft campaign?

MR. WARD KEITH: I think we would still see the WATSS strategy as a stopgap measure, if you will. A short term initiative until we get to the point where the majority of the most-at-risk vehicles are immobilized and can't be stolen.

And what we've seen through -- as Mr. Palmer explained in the first day of the hearings, is that while we have -- while the government has identified the mandatory immobilizer requirement for registration of the first most-at-risk list, and as we've seen those vehicles become immobilized against theft, the theft experience have -- has dropped quite dramatically and significantly for those vehicles.

At the same time what we've seen is that the -- the target of auto theft is starting to change and so there are -- there is a new group of vehicle that -- vehicles that we now call them R-2 group, some of which were voluntarily -- sorry, voluntary MaR vehicles previously and some of which were not even on the radar previously, to be honest with you.

And what we've seen is that the theft experience has grown with respect to that particular group, which is why the government in May of this past year announced an extension to the mandatory most-at-risk list that -- that will address that group of vehicles as well.

But what it speaks to is the fact that -- that until such time as -- as that group has been immobilized that there are still vehicles out there that can be stolen and that are being stolen and so the WATSS strategy continues to be an important measure until that time.

MS. MARILYN MCLAREN: And maybe just another way to come at the same response.

Beginning in approximately the spring of '07 we started to see a decrease in auto theft that basically, and I think we talked at these proceedings last year, that really that was attributable to WATTS. And for several months until late '07 we saw about a 25 to 30 percent decrease in auto theft each month compared to the same month in the previous year, consistent. We really believe that was largely attributed to WATTS.

Since then it has been more like 40 percent. So -- so the tip, if you will, that we started to see really is the immobilizer program. And WATSS absolutely did, as intended, carried us through to the point where the immobilizers made a different -- a difference. So it really was the stopgap.

And that's sort of a more the statistical way of -- of measuring what Mr. Keith said.

MS. CANDACE EVERARD: Thank you.

Just following up on a couple of points related to the cost of WATSS, as is set out in AI.10 that, Mr. Keith, you were just reviewing, the cost historically has been about nine hundred thousand dollars ($900,000) per year and it's our understanding that the cost for the additional year of the program that we've talked about is going to be about 1.14 million, is that correct?

MR. WARD KEITH: Yes.

MS. CANDACE EVERARD: And that funding is go towards the cost of the fourteen (11) additional positions within Manitoba Justice that are required to effect the program?

MR. WARD KEITH: Yes. What it -- what it does is, in fact, is it provides full funding for the operation of the WATSS unit for a further year.

MS. CANDACE EVERARD: Thank you.

At question 56 posed by the Board in the first round there's some information dealing with the increase in funding for WATSS for this final year, the spread between the nine hundred thousand (900,000) and the one point one four (1.14), specifically sub (b) of that question, 1-56, deals with the funding component, what -- what factors have driven that increase?

I -- I appreciate that the footnote to the chart references the increase and says it was based on numbers provided by Justice re: Request.

How did that come about?

MR. WARD KEITH: Basically, when the request was first made to fund the WATSS program the request was for eight hundred and ninety-six thousand dollars ($896,000) a year for each of the two (2) years of the first term of the -- of the agreement.

And really what that was intended to do is fund the salaries for the fourteen (14) people -- or the -- sorry, the fourteen (14) positions that had been assigned as part of the -- as part of the initiative.

It didn't include things like benefits, it didn't include things like overtime and standby time, which the Department of Justice and Corrections are required to pay under the terms of their collective agreement. And it also didn't include any merit or cost of living increases that they would have been obliged to pay the -- the people who filled these fourteen (14) positions.

And then when the agreement was extended for an additional year in -- for the third year, again, a request was made for the eight hundred and ninety-six thousand dollars ($896,000) in funding which really represented a third year of under funding of -- of the program.

So when a request was received from Justice for funding for a fourth year, the request was in fact to provide funding in that fourth year again for the full cost of the program which took into consideration all of the resulting benefit increases, overtime costs associated, indirect costs with the positions that are -- that are involved in the WATSS program.

And that request was for the fourth year of the agreement. There was no request made and no agreement to provide funding retroactively for the -- for what was in effect under-funding for the first year -- three (3) years of the agreement; the request was for full funding for the fourth year.

MS. CANDACE EVERARD: So if I understand your evidence correctly, for the first three (3) years while the actual cost to Justice of the program may have been the 1.14 they were only receiving about nine hundred thousand (900,000) from the Corporation and eating the difference, and in the fourth year the Corporation is covering the full cost.

Is that pretty much what you're saying?

MR. WARD KEITH: Close except that I -- I wouldn't think the funding would be -- their costs weren't 1.14 for the full four (4) years. They would have started out just over eight ninety-six (896) and then there would have been a gradual creeping up of the costs over the term of the agreement to the point that we're now at where we know it costs 1.14.

MS. CANDACE EVERARD: Thank you.

I believe the record reflects -- and that's probably at AI.10 although I don't have the specific reference in front of me -- that the Corporation may give consideration to whether or not the WATSS program should continue beyond July of 2009.

Is there any updated information to be provided on that or is too early to say?

MR. WARD KEITH: I think it's too early

to say. What we said in the response is that we would reconsider the matter probably in January or February of 2009, with a view to determining where we go after July of next year.

MS. CANDACE EVERARD: Thank you.

I'll turn then to some questions with respect to the immobilizer program.

Firstly, can you confirm that the cost per installation is still three hundred dollars ($300) for the purposes of the current application as it has been in the past?

MR. WARD KEITH: Yes, that's the cost for an approved immobilizer and a standard installation.

MS. CANDACE EVERARD: Now, we know that over the period of years, from 2005/2006 and 2006/2007, the immobilizer incentive fund was established which comprised a $50 million transfer from the Basic RSR?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now, if we look at TI.14, the most recent version of which is at Tab 6 of the book of documents, we see --

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: -- we see that in the current year 2008/2009 it is contemplated that there will be an eight hundred and ninety-three thousand dollar

($893,000) transfer from the IIF.

Is that right?

MR. DON PALMER: In 2009/'10 the transfer would come from the IIF which would deplete that fund.

MS. CANDACE EVERARD: Okay. Now my understanding is that the Corporation is forecasting immobilizer installations of some $8.2 million for the same year. Can you confirm how those installations are going to be funded if not from the IIF?

MR. DON PALMER: They will come from our claims expenses.

MS. CANDACE EVERARD: So there's no intention on the part of the Corporation to transfer any additional funds from the RSR for immobilization purposes?

MR. DON PALMER: No.

MS. CANDACE EVERARD: If I can ask you to turn to Tab 20 of the book of documents, which is the question and answer to number 52 posed by the Board in the first round, and in particular the last page of that IR, which is Attachment 6.

(BRIEF PAUSE)

MS. CANDACE EVERARD: It appears to be

the case that the Corporation -- and I'm looking at the -- the first line of the chart entitled, "Immobilizers Installed Current Year," and looking forward past the year of the application, the Corporation continues to expect to be funding approximately one thousand (1,000) installations per year through the outlook period.

Is that correct?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now we've spoken in general terms about the latest expansion to the MaR list in May 2008 of some fifty thousand (50,000) new vehicles?

MR. DN PALMER: Yes.

MS. CANDACE EVERARD: And I understand that installation with respect to those new vehicles on the list are set to commence in October of this year.

MR. DON PALMER: That's the official start of -- of notifying, but certainly there have been a large number of -- of customers on the MAR-2 list who have already immobilized.

MS. CANDACE EVERARD: Okay. And we have the -- the updated MaR list as part of the response by the Corporation to question 53 posed by the Board in the first round, which is at the very next tab of the book of documents, Tab 21.

(BRIEF PAUSE)

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And if I -- from reading these charts correctly, the first attachment, the Attachment 2 sub (a), is a list of the new vehicles that have been added which reflects the odds of theft for those vehicles, firstly in 2006 and secondly in 2007?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: So if we look at just as an example, the -- the first entry on the list, the Acura TSX, model year between 2000 and 2004, it's reflected that the odds of theft in 2006 were 9-9-9-9, and the odds of theft in 2007 were 1 in 70.

Can you explain for the record the -- why the quadruple nine (9) appears there?

MR. DON PALMER: That would be zero (0) thefts, so it could also -- it's -- the odds are infinite.

MS. CANDACE EVERARD: Thank you.

If we turn over the page, and look at the first part of the B attachment, the 1.53 sub (b) attachment, and look at the same vehicle line, the Acura TSX, it reflects that for that type of vehicle and year, there were no thefts in 2005, no thefts in 2006, and one

(1) theft in 2007.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So can you explain for the record why one (1) theft in that category over a three (3) year period warrants that vehicle being added to the new MaR list?

(BRIEF PAUSE)

MR. DON PALMER: In -- in these cases with the Acura TSX for instance, there are small numbers in that category, so they would be grouped with larger groups of vehicles to determine that 1 in 70.

So specifically for that, there's so few of them -- there -- there was one (1) theft, but the characteristics are grouped with others and that's why they made the list.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Palmer, when you say that that particular vehicle, as an example, was grouped together with other vehicles for the purposes of calculating the 1 in 70, can you just explain that a little bit more?

Grouped with what other vehicles and why?

MR. DON PALMER: In -- in the modelling exercise, when we have small -- small numbers of vehicles and they're either grouped with other vehicles or the experience even as a -- as a group, and we're unsure if this one is a group -- many are, we don't know if this particular one is or not, but even if it is not, with a small number of vehicles -- and we take the top five hundred (500) make, models of vehicles -- even one (1) theft, if there are a small enough number in the population, that would be a 1 in 70 chance.

So in this case, the simplest, if there are seventy (70) of these vehicles and there's a theft, that gives you a 1 in 70 chance and that would cause it to make the list.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. The Corporation has indicated and I'm looking at AI.10, page 10, that it does not anticipate needing to expand the listing beyond this most recent grouping of fifty thousand (50,000). So is it fair to say that the list is now considered static and we cannot expect further changes in the future?

MR. DON PALMER: There may be some minor changes to the list and there have been cases where it was not reported to Insurance Bureau of Canada that a particular make, model of vehicle had a -- an approved immobilizer, a factory-installed immobilizer in it when, in fact, it has one. So minor tweaks like that to the list are certainly possible.

But in terms of a wholesale change or addition of -- of numerous vehicles, we don't anticipate that list to change at this time.

MS. CANDACE EVERARD: Thank you.

Turning to Attachment 'E' at 1.53 which is the -- the actual list, we note that some of the vehicles on the list are classified as "L" vehicles which stands for "legislated"; "V" which stand for "voluntary" or "N/A".

First question, in previous years, the coding has been "M" and "V". "M" as in Mike and "V" rather than "L" for legislated.

Is it fair to say that "M" for mandatory and "L" for legislated are really synonymous?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And what does the "N/A" rating entail or represent?

MR. DON PALMER: That would be vehicles that formerly were need -- on neither the legislated or the voluntary list.

MS. CANDACE EVERARD: And it's fair to say that all three (3) categories of vehicles, whether legislated, voluntary or N/A are eligible for free immobilizer installations?

(BRIEF PAUSE)

MR. DON PALMER: Just for clarification, the "L", "V" or "N/A" is prior to the new -- the MAR-2 list so this is the updated list. So -- so prior to MAR-2, that's -- that last column, "L", "V" or "N/A," it refers to the old list. Last year's list.

MS. CANDACE EVERARD: So it --

MS. MARILYN MCLAREN: Excuse -- excuse me, it will be helpful to remember where we came from. A number of iterations of this program.

So when we first offered free immobilizers, it was on a completely voluntary basis. Then some became mandatory, but we continued to offer 50/50 funding for everybody else.

Not all of the most-at-risk list that were offered free in the first place moved to the mandatory.

So that's where we had a mandatory immobilizer list, and voluntary qualifying for free, and then everybody else qualifying for 50/50.

Everything that you see in the attachment that you're just talking to is now part of the MAR-2 mandatory, and all that column on the far right side does is, where did it come from.

Was it mandatory before? Was it voluntary before? Or did it not even hit our radar. Was it part of the 50/50, basically. That's what the N/A really means.

MS. CANDACE EVERARD: Now the listing that we've been looking at, 153 dash -- or pardon me, 1-53 sub (e), if you look at the last page of it, it provides a total of -- total number of the earned units that are referenced on the list, and that is ninety-three thousand eight hundred and sixty-six (93,866).

Is that correct?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now is it correct that that number reflects the unprotected earned units, or vehicles, in Winnipeg, Territory 1, and as well, in Territory 5?

(BRIEF PAUSE)

MR. DON PALMER: It's Winnipeg in the '07 year, so last year. And some of those vehicles that showed as unprotected last year, would have been protected in the meantime.

MS. CANDACE EVERARD: So what is the effective date of this list, 1-53 sub (e)? What date is the list as of?

MR. DON PALMER: October 1st.

MS. CANDACE EVERARD: Of 2008?

MR. DON PALMER: That's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So the ninety three thousand eight hundred and sixty-six (93,866) vehicles reflected on this list includes the fifty thousand (50,000) most recently mandated by government to be added to the list?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, we'd like to try to have the Corporation reconcile some of these numbers with some of the numbers that we had last year, just so that the Board can understand where this has come from, and -- and where we're going.

Last year -- I'm looking at the book of documents that was used at this hearing, and in particular the schedule that was provided as part of the Board's IR.2-31, which was a very similar looking list.

And at that point in time, the -- the MaR list provided for some three hundred and eighty-eight thousand (388,000) unprotected units on the list.

And as we've just been discussing, the current list, or the one (1) that -- that takes effect on October the 1st, has some ninety-three thousand (93,000) vehicles on it. Is it possible for the -- the Corporation to explain how the number has evolved from three hundred and eighty-eight thousand (388,000) to ninety-three thousand (93,000)?

MR. DON PALMER: I would like to see the list because I don't think we've ever had a MaR list with three hundred and eighty-eight thousand (388,000) on it.

Just if I -- if I may -- that may have been the entire odds of theft list for the top five hundred (500) make/models of vehicles so I would like you to check that reference.

MS. CANDACE EVERARD: Why don't we, with the Board's permission, take a short break? We can sort this issue out and then come back. I don't have much left. And then Mr. Williams can take the stage.

THE CHAIRPERSON: Very good.

--- Upon recessing at 2:07 p.m.
--- Upon resuming at 2:27 p.m.

THE CHAIRPERSON: Okay, welcome back, everyone.

Just a followup question, and I am sure MPI is undoubtedly closer to the market than the Board's understanding of it, but we are really puzzled as to whether or not there is more than one actual true competitor to MPI in the extension market. We wonder how many brokers are even offering the other products. We are -- remark on the form that is provided just to the regular customer from the broker when we -- when we buy our insurance, it does not even seem to make a segregation between basic and extension.

Are there more competitors than one (1) out there actively in the market?

MS. MARILYN MCLAREN: Yes, definitely, with varying levels of interest on different aspects of auto extension but, yeah, there are, for sure.

THE CHAIRPERSON: Okay, thank you. Ms.

Everard?

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Mr. Palmer, just prior to that break, we had a question about the new MaR list at 1-53(e) and last year's list and I understand that there was some discussion over the break as a result of which you can explain the difference between the two (2) numbers that I asked you about?

MR. DON PALMER: Sure. The -- the earned units on the list that was filed last year, that was based on three (3) years' data so the number of -- of units is each year, each car year, being one (1) unit. So -- so one (1) car that would be insured for three (3) years would show up as three (3) units.

So in very round numbers, that three hundred and eighty-eight thousand four hundred and twenty-four (388,424) that you pointed out isn't the number in one (1) year, it's the total of three (3). So to roughly relate that to the number of vehicles, you would have to divide that number by three (3).

I would also -- one (1) other -- although they -- they are labelled the same, both of these lists are unprotected vehicles. Now there was a lot more unprotected vehicles in 2004 and 2005 on a percentage basis than -- than there are today, so that would further decrease the number.

So if you take the three eighty-eight (388), divided it by three (3), and then subtract the difference that are unprotected, you get pretty close to reconciling those numbers.

MS. CANDACE EVERARD: Thank you. I'd ask you to turn then back to Tab 20 of the book of documents which is IR.1-52 posed by the Board, and in particular to go to page 4 of that response. There are a series of tables appearing on pages 4 and 5 but the last paragraph of narrative reads:

> "The data in the tables is as of March 1, 2008. However, the Most-at-Risk tables have been updated to include the latest version of the MaR list as of July 15, 2008, since this list was not finalized at the time the forecast was made."

Can you just expand upon that and explain what that paragraph is intended to communicate about the tables that follow?

(BRIEF PAUSE)

MR. DON PALMER: The -- the list that is in regulation for October 1st was finalized as at July 15th of 2008. So we knew in general the vehicles, the number of immobilizers going to entail and whatnot. There was a few final little tweaks and decisions with regard to that list. It doesn't materially change any of the -- the tables.

MS. CANDACE EVERARD: Okay. Thank you.

Looking at the -- the tables, and firstly the second table on -- appearing on page 4, the one that's entitled "Winnipeg - Distribution of Immobilized Vehicles at Fiscal Year End", and looking at the column relating to the 2007/2008 year, does this table reflect, at the bottom row where it reads percentage protected, that roughly half of the Winnipeg vehicle pool was immobilized as of the end of fiscal 2008? Is that what that reflects?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And if we look to page 5 and the second table on page 5, which is entitled "Total - Distribution of Immobilized Vehicles at Fiscal Year End", looking at the same year, 2007/2008, and the same row, the percentage protected, does this reflect that some 43 percent of the overall vehicles in the province were immobilized as of that date?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now, this may have already been -- been said on the record but I just ask that it be confirmed, that the most recent additions to MaR list of the fifty thousand (50,000) vehicles are mandatory installations and, as such, will be funded by Basic?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: If I could ask you to look at question 51 posed by the Board in the first round, which is not in the book, there was a request by the Board that the Corporation explain the financial impact upon it of the recent expansion of the immobilizer program for 2008/'09 and 2009/'10.

And if I read the answer at sub (a) correctly, it's reflected that the immobilizer installation costs are 1.5 million for 2008/2009?

MR. DON PALMER: That's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: What we're wondering about, and having trouble understanding is, if the most recent expansion to the list pertained to fifty thousand (50,000) vehicles, and the cost of each installation is three hundred dollars ($300), wouldn't that be $15 million, rather than $1.5 million?

(BRIEF PAUSE)

MR. DON PALMER: We're just double checking the source of -- of this. Just -- and -- and yes, fifty thousand (50,000) vehicles at three hundred dollars ($300) a pop would be $15 million.

We did forecasts previously that -- that had an assumption of a -- a number of immobilizer installations on a per year basis. And in last year's, I -- I think we had an expectation that we would immobilize up to having 90 percent of the Winnipeg fleet immobilized by 2013, or I think '13/'14.

So this is probably a comparison to that rather than the overall list. So -- so yes, I would agree with you that the total would be $15 million, but -- but that's not above what we had forecasted last year.

MS. CANDACE EVERARD: But doesn't the current forecast show about seventy-eight thousand (78,000) fewer installations?

MR. DON PALMER: Yes, because we're now

not forecasting to go to 90 percent of the fleet. We're up to, I think, 80 percent of the Winnipeg fleet, and -- and something smaller of the provincial fleet.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just so that we understand that evidence, Mr. Palmer, is it the case that the answer at 1-51 sub a, where it reflects the 1.5 million, is that then correct, or incorrect?

And if it's incorrect, does that affect the forecasted installation schedule that's at 152-A?

MR. DON PALMER: The -- there's no affect on the forecast, for starters.

The 1.5 million that's shown in there, and we're just double checking it right now, is the difference -- the extra compared to what we had forecast previously.

So it -- it's not incorrect, it's just not what you thought the answer was portraying.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Chairman, that would conclude the examination on the part of Board counsel at this point in time.

THE CHAIRPERSON: Thank you, Ms. Everard. We'll be moving on now to Mr. Williams. Mr. Williams, are you ready to begin, or if you want another short break?

MR. BYRON WILLIAMS: I'll -- I'll just -- if I -- just a three (3) minute break would probably be appropriate, Mr. Chairman.

THE CHAIRPERSON: Very good.

--- Upon Recessing at 2:40 p.m.
--- Upon Resuming at 2:42 p.m.

THE CHAIRPERSON: Mr. Kruk just wants to jump in for a few seconds.

Okay, Mr. Kramer's back so, Mr. Kruk, go ahead.

MR. JERRY KRUK: Thank you, Mr. Chairman.

CROSS-EXAMINATION BY MR. JERRY KRUK:

MR. JERRY KRUK: Mr. Chairman, I just want to ask a couple of questions that relate to the question that you had asked the panel as it related to insurance companies that offer extension insurance in this marketplace.

And, Ms. McLaren, I think you answered that there were -- there were several, there were many competitors that you people had with respect to that product.

And -- and I wonder whether or not you could -- you could give me a sense of the names of some organizations because I -- I can tell you that from my own personal perspective, I've only seen one (1).

MS. MARILYN MCLAREN: One (1) of the undertakings I believe that we discussed this morning is we would provide the superintendent of insurance list of companies writing auto in Manitoba. And I think we will probably be ready to file that when we return on Monday.

But it is also on the superintendent's website; the access is there. There's a number of them. The total premium written is not huge, but there are a number.

MR. JERRY KRUK: The number would, in fact, provide the similar kind of coverage for personal automobile insurance that Autopac presently does?

MS. MARILYN MCLAREN: Some do. Some compete directly with Autopac Extension. Some are probably exclusively targeting the trucking business and -- and other, you know, specialized commercial.

You know, I don't have intimate

familiarity with all of them and -- and what they're doing, but certainly I would say that there's more, definitely more than one (1) going after regular private passenger auto extension.

MR. JERRY KRUK: Ms. McLaren, has that number increased or decreased over the last five (5) years?

MS. MARILYN MCLAREN: I would speculate it's fairly static; maybe decreased a bit.

MR. JERRY KRUK: Thank you, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Kruk. Thank you, Ms. McLaren. Mr. Williams...?

MR. BYRON WILLIAMS: Yes, and, Mr. Chairman, before we -- I invite you to -- to delve too deeply into the book of documents that's been presented by CAC/MSOS, the MPI -- I -- I can advise that I'm going to suggest that we make it one (1) page shorter.

The MPI back row folks or the front row folks, someone there, there may be an issue with one (1) of them, page 15, which is marked in the top right-hand corner. It's -- it's one (1)called "Investment Income."

If you go -- and so I would just recommend that the Board strike that out or -- or delete that page or pull it out as I've just done with my version.

THE CHAIRPERSON: This is 000015?

MR. BYRON WILLIAMS: Yes, sir. And I'll consult with the MPI staff, with Mr. McCulloch's permission, afterwards to -- to see the issue with that one.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And, Mr. Chairman, just in terms of this -- just with reference to the CAC/MSOS book of documents, I can advise that most of it is material that's been on the record either in this General Rate Application or others, but there are -- if you just turn to the index, there are -- there is some material that is new to this record. And I'll -- we'll come to it eventually, but I'll -- I'll -- I'll flag it for the Board's information.

At page number 2, it's not actually information but it's a hypothetical so it's just to allow people to follow along in -- when I present it in my less than elegant fashion.

At page 24 on the index, near -- towards the bottom, there's "Fatality and Injury Data" which comes from Statistics Canada and Transport Canada but that is new to the record so...

And also at the references at pages 27 and pages 30, Transport Canada occupant safety information, that's new to the record, as well. I've shared it with -- with Mr. McCulloch, not with as much notice as I should have but as much as I could and he's kindly, as I understand, agreed that it can be presented to the Board.

So, for that reason, I'd -- I'd suggest that the book of documents actually be marked as an exhibit and the appropriate number I would suggest would be CAC/MSOS, number 4.

THE CHAIRPERSON: Very good, sir.

--- EXHIBIT NO. CAC/MSOS-4: Book of Documents

MR. KEVIN MCCULLOCH: And, Mr. Chairman, just to follow up on -- on that comment -- sorry -- from -- from Mr. Williams, certainly there's -- we haven't raised an issue with presenting this document as an exhibit and for information to be considered by the Board and used by Mr. Williams in cross-examination, but it may well be that MPI witnesses may take issue with some of the information in these pages.

THE CHAIRPERSON: That's fine.

MR. BYRON WILLIAMS: And before I start and -- and my math may be wrong but I'm -- I'm advised, and again I could be wrong, that this may be Mr.

Saranchuk's twentieth (20th) year in appearing before the Board in -- in matters relating to Manitoba Public Insurance.

So on behalf of -- if my math is right and I hope it is -- on behalf of my clients -- even if it's only nineteen (19), we congratulate Mr. Saranchuk for two (2) decades of service to the Board but also to the public and Manitoba consumers. So my clients would like to express that to Mr. Saranchuk.

And finally, on behalf of my clients, I did want to thank Board council and their advisors. I'm going to take awhile and I'm not going to finish today but they certainly have reduced the -- the task that I have to undertake on behalf of our clients.

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: So after all those weepy comments, Mr. Palmer, I just have a few questions for you of clarification. And just to assist my clients, obviously, certainly in this proceeding, MPI has presented some projections relating to the revenues and expenditures for the 2010/2011 year. Is that right, sir?

MR. DON PALMER: And beyond, yes.

MR. BYRON WILLIAMS: But as I understand it, MPI is not seeking rate approval for the 2010/2011 year. Is that right, sir?

MR. DON PALMER: Almost, depending on what you mean by the 2010/'11 year. The nine (9) -- the 2009/'10 rates that we were seeking approval for do get earned over the 2009/'10 and '10/'11 fiscal years.

So -- so yes, on -- and I'm going to throw out another definition on a policy year, so all policies written with respect to this particular rate application, 2009 policy year, that's true, that extends over two (2) fiscal years, '09/'10 and '10/'11.

MR. BYRON WILLIAMS: With regard to the policy year, 2010/2011, it's -- it's quite conceivable MPI could come in with a rate application, seeking an increase or decrease next year. Is that right, sir?

MR. DON PALMER: That's correct.

MR. BYRON WILLIAMS: And so you're not asking for approval with regard to the policy year 2010/2011. Is that right, sir?

MR. DON PALMER: That's correct.

MR. BYRON WILLIAMS: And in terms of the reasonableness and prudence of the Corporation's expenditures for the policy year 2010/2011, you're not asking the Public Utilities Board to pass judgment on that in this proceeding, are you, sir?

MR. DON PALMER: Again, to the extent

that some of those expenditures relate to the -- the '09/'10 policies, and expenditures may be a little -- expenses a little looser but certainly claims expenses or claims and hence claims expenses, as well, are related to the policies written in 2009. So from that standpoint, yes, they are relevant.

From an earned -- earned basis, the 2009/'10 policy year for rate setting purposes is very close to the average between the '09/'10 and '10/'11 years. And, in fact, and you don't have to turn to it, but in TI.20 it goes through the -- the actuarial rate making methodology.

When we add operating expense for instance into the -- into the list of expenses, we take the average of the '09/'10 and '10/'11 expenses. So, yes, they are relevant to this particular rate setting exercise.

MR. BYRON WILLIAMS: Okay. Let's talk about 2007/2008, Mr. Palmer.

MR. DON PALMER: And just to correct the record, and -- and I'm sorry for this, it's TI.19. My staff pulled a fast one on me after me being here for about eighteen (18) years, not quite as long as Mr. Saranchuk, and it was always called TI.20. They changed it on me, it's now TI.19. So I apologize just to correct the record.

MR. BYRON WILLIAMS: I think there might have been one (1) or two (2) TIs changed in this proceeding.

Let's talk about -- and you can turn to the book of documents, 01 or page 000001, Mr. Palmer? We'll call it 1, how's that? Does that work for you, sir?

MR. DON PALMER: Either way is fine.

MR. BYRON WILLIAMS: And I want to chat about the 2007/'08 year just for a second and we'll come back to it later.

Am I right in suggesting to you that the General Rate Application for that fiscal year would have been in the fall of 2006; is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: It confuses me so I -- I appreciate the -- the notable pall.

So in the fall of 2006, with regard to the '07/'08 year, your projection for claims incurred was about 582 million; would that be right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And the actual -- and you've discussed this with Ms. Everard so I don't want to go over it too -- too much -- was about 525 million; would that be fair?

MR. DON PALMER: That's fair.

MR. BYRON WILLIAMS: So about 57 million less, correct?

MR. DON PALMER: About, yes.

MR. BYRON WILLIAMS: And so in terms of your projection projecting out eighteen (18) months you were almost 10 percent off in terms of claims incurred; is that fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Now, in -- in fairness, assuming then unbiased forecasts, you can be 10 percent too low on claims incurred in one (1) year and then 10 percent too low -- excuse me, 10 percent too high on claims incurred the next; would that be fair, sir?

MR. DON PALMER: Yes, and -- and certainly, again in the eighteen (18) years of -- of being here, we've seen both ways, yes.

MR. BYRON WILLIAMS: And I think -- I certainly haven't been here for nearly as long as you or Mr. Saranchuk but I've been here for a while, and in every hearing you -- you say that the only certainty about a forecast is that it's not going to be perfectly right. Do you agree with that, Mr. Palmer?

MR. DON PALMER: I think you're being

extra kind but, sure, I'll agree with that.

MR. BYRON WILLIAMS: And you'd agree with me, as well, that the farther out in time that we forecast, generally the less reliable that forecast will be; would that be fair?

MR. DON PALMER: There are changing conditions, yes.

MR. BYRON WILLIAMS: So you'd have, for example, more confidence in your forecast of the results for the '08/'09 year than you would for the '09/'10 year; would that be fair?

(BRIEF PAUSE)

MR. DON PALMER: On a general basis, I would agree with that, although certainly there is much uncertainty in weather patterns. I don't know what's going to happen in the winter of '09/'10 any better than I know what's going to happen in the winter of '13/'14. So there is certainly uncertainty in both -- both forecasts.

We -- we know of current market conditions, economic conditions, certainly in the nearer term better than the longer term. So with a lot of caveats, I would agree with your initial premise.

MR. BYRON WILLIAMS: There were a lot of caveats there but I -- I think you'll agree that in terms of the simple question of all other things being equal, if you look at the forecast for '08/'09 or the projection for '09/'10, you would have more confidence in the '08/'09. Would that be fair?

MR. DON PALMER: Marginally, yes.

MR. BYRON WILLIAMS: Let's take '09/'10, your projection for that versus 2010/2011. All other things being equal, you would have more confidence in the 2009/2010 projection, sir?

MR. DON PALMER: Again, slightly.

MR. BYRON WILLIAMS: You would have more confidence in a forecast six (6) months out than a forecast thirty (30) months out. Is that correct, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Going to the 2010/'11 year just for a second, can you tell me with confidence that the Corporation will earn a positive net income of $6 million, sir?

MR. DON PALMER: The forecast is for $6 million. We're not here to make predictions so if you say, Is that my forecast of all things being equal with the trends and the assumptions we made? absolutely. If you're going to ask me to bet on that number that we will be plus or minus a dollar, I'm not going to bet on it.

MR. BYRON WILLIAMS: And I appreciate your candour, sir. And in terms of betting, given the -- the figure of $6 million, can you tell me with confidence that the Corporation will even enjoy a positive net income on the basic program in 2010/'11?

(BRIEF PAUSE)

MR. DON PALMER: Sorry, could you repeat the question please?

MR. BYRON WILLIAMS: Can you tell me with confidence that the Corporation is even going to have a positive net income for the 2010/'11 year?

MR. DON PALMER: For any given year in the forecast period, I can -- I can tell you it's more likely, given that the $6 million is -- is the mean of our -- our estimates and it's above zero, that there's probably more likelihood that it's positive than negative.

MR. BYRON WILLIAMS: But we're not talking 50 million as the mean, sir, are we?

MR. DON PALMER: No, the mean is 6 million.

MR. BYRON WILLIAMS: So it's pretty

close?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And you'll agree with me, given the relative proximity of that mean to zero, that assuming unbiased rate making, it's pretty close to a 50/50 chance that the Corporation will lose money in 2010/'11. Is that --

MR. DON PALMER: It's -- our mandate, as has been expressed over a -- a number of years, is to break even over the long term. So our -- our mission and -- and given that -- that our RSR is fully funded as it is, is to break even and to come up with forecasts that are very, very, very close to zero and that's what you see for that '10/'11 year.

MR. BYRON WILLIAMS: And I'm not criticizing you for that in the least, Mr. Palmer, but I just -- perhaps maybe my question wasn't clear. But given its relative proximity of the mean to zero and assuming an unbiased rate making forecasting process, it's pretty close to a 50/50 chance that the Corporation will lose money in 2010/'11. Would that be fair?

MR. DON PALMER: Sure.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Palmer, this is kind of a -- I don't know if it's a silly question, but it's just -- just -- just to make sure I understand, a one (1) in fifty (50) year event, would it be accurate to say that that happens with the probability of point zero two (.02) or 2 percent in any given year?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And likewise, a one (1) in one hundred (100) year event, would it be accurate to say that that happens with the probability of point zero one (.01) or 1 percent in any given year?

MR. DON PALMER: Again, assuming a uniform distribution, yes; in complete randomness, yes.

MR. BYRON WILLIAMS: And thank you for the -- the answer. It's a little more sophisticated than my -- the question and I appreciate that.

Focussing on again this one (1) in fifty (50) year event of this one (1) in one hundred (100) year event, in any given year with the assumptions that you added in the last answer, would it be fair to say that there's a 1 percent difference between one (1) event happening versus the other?

MR. DON PALMER: No, I would say that there's a 100 percent chance of a difference between one (1) and the other.

MR. BYRON WILLIAMS: You're saying one (1) is twice as likely to happen as the other?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Fair enough.

MR. BYRON WILLIAMS: And I -- again, this is another kind of probability question that I just...

Are you at all familiar with regard to inflation and the -- the rule of 70? Does that ring a bell?

MR. DON PALMER: I'm not familiar with that.

MR. BYRON WILLIAMS: And recognizing that, I'll -- I'll put it to you and if -- if it doesn't work, you'll -- you'll just let me know? But if I suggested to you that 1 percent -- 1 percent inflation annually -- I mean, you know, Mr. Palmer, given -- I'll -- I'll back off that and I'll perhaps come to it at another time.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I want to talk with you for a few minutes about -- and I should note, Mr. Chairman, that Ms. Desorcy from CAC is -- is here. She visited us this morning and was so enthralled she decided she'd better come back for the afternoon, as well.

Mr. Palmer, it's probably you again. I want to talk to you a little bit about coins and eggs and raincoats and sunglasses for a few minutes so you'll -- you'll bear with me, sir?

MR. DON PALMER: I'm with you.

MR. BYRON WILLIAMS: Just let's -- you don't have to go to the hypothetical yet, but let's just talk about coins.

If I toss a fair two (2) sided coin in the air, you'll agree I have a one-in-two (1:2) chance that it will be heads and a one-in-two (1:2) chance that it will be tails; is that fair?

MR. DON PALMER: That's fair.

MR. BYRON WILLIAMS: And if I were to toss that same, fair two (2) sided coin again, and focussing only on that one (1) -- you know the next coin toss, again I would have a one-in-two (1:2) chance it would be heads and a one-in-two (1:2) chance it would be tails, correct?

MR. DON PALMER: The coin doesn't remember what happened the first time.

MR. BYRON WILLIAMS: And even though -- and recognizing the coin's dearth of memory, and recognizing that each individual flip has a one-in-two

(1:2) chance of being tails, it wouldn't really surprise you if, in tossing a fair coin two (2) times in a row, you got heads twice?

MR. DON PALMER: No, that's -- that's a reasonable expectation that would happen 25 percent of the time.

MR. BYRON WILLIAMS: That's right. So the chances of it happening would -- would be one in four (1:4); would that be fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And just to show off my mathematical brilliance, you calculated that, it's basically zero point five (0.5) times zero point five (0.5) equals point two five (.25); is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Or one in four (1:4), thank you.

And so it would be more likely that I would not get two (2) heads in a row, but I would have a one-in-four (1:4) chance of getting two (2) -- two (2) in a row; is that fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And I -- without going through the math, if we were going to look at the probability that I would get four (4) heads in a row, would you agree with me that that would be a one-in-sixteen (1:16) probability, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Five (5) heads in a row would be one in thirty-two (1:32), correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And eight (8) heads in a row would be one in two hundred and fifty-six (1:256); would you agree with that?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I'm going to ask you to turn in the -- in the book of documents to page 2 or 000002, Mr. Palmer?

MR. DON PALMER: Yes?

MR. BYRON WILLIAMS: And just -- especially I'm glad my client's here for this. I want to talk for you a little bit about the concepts of diversification and correlations. And I know for you it's quite simplistic, but you'll bear with me, sir? Thank you.

And let's assume -- and -- and let's call this individual Denton because I -- I do love that name that --

MR. DON PALMER: Is he from Souris?

MR. BYRON WILLIAMS: I think it's Palmer, Denton Palmer is his name.

But let's assume young Denton Palmer's away at university and -- and he loves eggs and he runs out of eggs. And he's very stressed because tomorrow's Tuesday and he always has eggs on Tuesday. So you're with me so far, Mr. Palmer?

Problem solver that he is, with his acute mathematical mind, Denton calls mom collect and asks her to send him a dozen Omega-3 brown eggs by overnight express. Okay? You're with me? You're nodding your head?

MR. DON PALMER: I'm there.

MR. BYRON WILLIAMS: Okay. Mom agrees, buys the eggs, and heads to the shipping depot.

And I'm going to read this through and then I'll ask you some questions. She finds out two (2) very important facts about the overnight express service.

First, she finds out that they charge by shipping by weight only, and secondly, on average, she finds out that when a basket of eggs is shipped, half (1/2) the time a basket is dropped during handling and transporting, breaking all the eggs while the other half (1/2) of the time, a basket of eggs will be delivered in mint condition.

So you're still with me, Mr. Palmer?

MR. DON PALMER: I am.

MR. BYRON WILLIAMS: So I'm going to present to you two (2) options for mom: She can put all her eggs in one (1) basket, ship all her eggs in one (1) basket, or alternatively, she can ship half (1/2) a dozen eggs in one (1) basket and the other half (1/2) in a -- in a separate basket. And let's assume that the cost of shipping is the same for both options. You're prepared to make that assumption?

MR. DON PALMER: There's a lot of assumptions there, but --

MR. BYRON WILLIAMS: Okay.

MR. DON PALMER: -- it's your story.

MR. BYRON WILLIAMS: And the last assumption I'll -- I'll ask you to make is that the probability of a basket being dropped is independent of what happens to the other basket. Will you make that assumption, sir?

MR. DON PALMER: Sure.

MR. BYRON WILLIAMS: Just going down to the table that should appear in the hypothetical, if she chooses the first option, if mom does, of putting all the eggs in one (1) basket, one (1) possible outcome is that the basket will be dropped and that there'll be zero eggs for Tyler; is that right, sir? For -- I've got a typo there, it should be for Denton.

MR. DON PALMER: You've obviously used this before, but okay.

MR. BYRON WILLIAMS: And so the proba -- and if I was just trying to figure out the average, I'd multiply the -- the number of eggs from that scenario being zero by the probability and to get the -- the probability from this scenario, it's -- excuse me, the eggs that would result from this scenario would be zero if I was putting it into the average; is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Another possibility is the basket is not dropped, and Denton, or Tyler as we've got him named here, gets all twelve (12) eggs; is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: So if she chooses the first option, all other things being equal, half (1/2) the time Denton will get twelve (12) pristine eggs and half the time he will get twelve (12) broken eggs that must be discarded; is that fair?

MR. DON PALMER: Under these assumptions, that's fair.

MR. BYRON WILLIAMS: So on average, he -- he will get one-half (1/2) dozen eggs; is that accurate?

MR. DON PALMER: All else being equal and the uniform distribution, yes.

MR. BYRON WILLIAMS: But he will never get this average value in a single shipment. It's either all or nothing; would that be fair, sir?

MR. DON PALMER: That's fair.

MR. BYRON WILLIAMS: Let's turn to option number 2 and there's four (4) possible outcomes if we've got six (6) eggs in one (1) basket and six (6) eggs in another basket; would you agree with that, Mr. Palmer?

MR. DON PALMER: Again, under these assumptions, sure.

MR. BYRON WILLIAMS: One (1) is that both baskets will be dropped and poor Denton will get zero eggs; would that be right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Another is that you drop basket 1, you don't drop basket 2, and he gets six (6) eggs; is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Another would be

that you drop basket 1 -- excuse me, that you don't drop basket 1, you drop basket 2 and again you get six (6) eggs, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And finally, the happy result, if you don't drop either basket, Denton gets enough eggs to last him for another week; he gets twelve (12), is that right?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And you'd also agree with me that the average on under half (1/2) your eggs in one (1) basket and half (1/2) your eggs in another basket is still six (6) under these probabilities, sir?

MR. DON PALMER: That's correct.

MR. BYRON WILLIAMS: If I were going to compare the two (2) options though, under option 2 you'll agree with me that the worst outcome being zero eggs only happens 25 percent of the time, is that right?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Whereas under option 1 it occurs 50 percent of the time, would that be fair?

MR. DON PALMER: That’s fair.

MR. BYRON WILLIAMS: And under option 2, so the risk under option -- option 2 is a little bit less in terms of broken eggs, is that fair?

MR. DON PALMER: If your measurement is zero eggs and as the riskiest outcome, yes.

MR. BYRON WILLIAMS: And assuming my measurement for the best outcome is twelve (12) eggs, under option number 1 Denton could get that 50 percent of the time, is that not right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: But under option 2 only 25 percent of the time, would that be fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: So the probability of an extremely good or extremely bad outcome is reduced under option 2 assuming that the, again, the -- the bad outcome is zero eggs and the good outcome is twelve (12), is that fair?

MR. DON PALMER: Yes, that -- under your --

MR. BYRON WILLIAMS: Okay.

MR. DON PALMER: -- assumptions, yes.

MR. BYRON WILLIAMS: You also agree with me while it's not possible for Denton to receive six (6) good eggs under option 1, under option 2 that's -- there's a 50 percent probability, was that -- is that right?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: So by not putting all his eggs in one (1) basket by diversifying, the risks of the extreme outcomes is reduced, would that be fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And that's what's happening here because the -- the results are independent of each other, there's no correlation between the two (2), is that fair?

MR. DON PALMER: The way your example has been constructed, yes.

MR. BYRON WILLIAMS: Mr. Palmer, we won't be much longer but I want to go to another example. That's on page 2. Excuse me, page 3. It's example 2. And I'm going to ask you to suppose you have a hundred dollars ($100) to invest and you're considering two (2) companies, one (1) of which makes raincoats and the other which makes sunglasses. Okay, Mr. Palmer?

MR. DON PALMER: Yeah.

MR. BYRON WILLIAMS: And I'm going to narrow your options here. Next summer will either be rainy or sunny and the weather forecast says that it's equally likely to be either rainy or sunny. Okay, Mr. Palmer?

MR. DON PALMER: Again, it's your example.

MR. BYRON WILLIAMS: And let's assume as well, Mr. Palmer, that shares are priced at ten dollars ($10) for both companies and assume, as well, that if next summer is rainy that's good for the raincoat business so -- so that raincoat company shares will be twenty dollars ($20) and the sunglass company shares will be five dollars ($5).

Likewise, please assume that if next summer is sunny, the sunglass company shares will be twenty dollars ($20) and the raincoat company shares will be worth five dollars ($5). Okay, Mr. Palmer?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: So option number 1, you invest a hundred dollars ($100) in the sunglasses company, and so you've got all ten (10) shares. You'll agree with me that if next summer is sunny your shares will be worth ten -- ten (10) shares times twenty dollars ($20) or two hundred dollars ($200), correct, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: If it's rainy, bad news, your shares will be worth ten (10) times five (5) or fifty dollars ($50). Would that be right, sir?

MR. DON PALMER: That's correct.

MR. BYRON WILLIAMS: I'm going to suggest to you that the expected value of this portfolio would be a hundred and twenty-five dollars ($125). Would you accept that or do you want me to do the math for you?

MR. DON PALMER: I accept that.

MR. BYRON WILLIAMS: So it's got an expected value of a hundred and twenty five dollars ($125) but there's a 50 percent chance of two hundred (200) and a 50 percent chance of fifty (50), is that fair?

MR. DON PALMER: That’s fair.

MR. BYRON WILLIAMS: It's a fairly -- assuming that you want to at least protect your initial hundred dollars and hopefully make a bit, you're taking a -- a 50/50 gamble, would that be fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Let's take option number 2, invest a hundred dollars ($100) in the raincoat company. Again, you have ten (10) shares. If next summer is rainy, good news, your shares will be worth ten (10) times twenty (20) or two hundred (200), correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And if it's sunny, your shares will be worth fifty dollars ($50), correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And again, we don't need to belabour it, but the expected value of your portfolio would be a hundred and twenty-five (125), but you'd have a 50 percent chance of making or moving up to two hundred dollars ($200) and a 50 percent chance of seeing a decline down to fifty (50); is that correct, sir?

MR. DON PALMER: I'm right there, yes.

MR. BYRON WILLIAMS: So let's try option 3, investing fifty dollars ($50) in --in the sunglass company and fifty dollars ($50) in the raincoat company.

So I wonder if you'd agree with me that if the next summer is sunny, your sunglass shares would be worth five (5) times twenty (20) -- a hundred (100) and your raincoat shares worth five (5) times five (5), twenty-five (25), so your portfolio will be worth one twenty-five (125) again?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And likewise, if it's rainy, good for the raincoat shares and bad for the suncoat -- sunglasses shares. Again, your investment portfolio would be a hundred and twenty-five (125); would you agree with that, sir? I could do the math for you if you want. No? okay.

MR. DON PALMER: That's fine.

MR. BYRON WILLIAMS: So under option 3, you'd have the same expected return as you do under the first two (2) options or portfolios, but the -- the risk of going below a hundred dollars ($100) in terms of your investment is lowered; is that right, sir?

MR. DON PALMER: Again, under your assumptions, yes.

MR. BYRON WILLIAMS: In fact, under this assumption, it would be lowered to zero?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Now, just to -- to finish up here, you'll agree with me that correlation is a statistical measure of how a pair or random variables tend to move together; would that be fair, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: So if, when one (1) price increases, the other price tends to increase, then the two (2) prices are positively correlated; would that be fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And if two (2) prices always move in the same direction, would you call that perfectly positively correlated, sir?

(BRIEF PAUSE)

MR. DON PALMER: Yes, I will agree with

that.

MR. BYRON WILLIAMS: And again, just to go to a negative correlation, if when one (1) price increases, the other tends to decrease, then those are negatively correlated, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And if they always move in the same negative direction, they're perfectly negatively correlated; would that be fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: So going back to option 3, the -- the five (5) shares in raincoats, the -- or in raincoats and the five (5) shares in sunglasses, in that case, by diversifying, one (1) has, given the limits of this example, completely eliminated the risk in the portfolio of going below one hundred dollars ($100); is that fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And the reason for that is that the two (2) assets in this, again, limited example are perfectly negatively correlated; would that be fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Meaning when the price of one (1) goes up, the price of the other goes

down? They don't move in the same direction, correct?
MR. DON PALMER: Correct.
MR. BYRON WILLIAMS: But in the real world, those -- those perfect matches are a bit -- bit hard to find, you'll agree?
MR. DON PALMER: I'd say impossible.
MR. BYRON WILLIAMS: But the theory that I'm hoping to underline, and we'll come back to this later next week, but diversification reduces risks as long as you're not diversifying among assets where the prices are perfectly positively correlated; you'll agree with that?
MR. DON PALMER: Yes.
MR. BYRON WILLIAMS: And you'll agree, as well, that as the degree of positive correlation decreases, the reduction in risk increases?
MR. DON PALMER: Could you repeat that, please?
MR. BYRON WILLIAMS: Yeah, it's a bit -- would you agree that as the degree of positive correlation decreases, the reduction in risk increases?
MR. DON PALMER: Yes.
MR. BYRON WILLIAMS: Just a housekeeping matter, and with Mr. McCulloch's permission Mr. Johnston assisted me with this answer but in offline discussions,

Mr. Palmer, we noted that there's a slight difference in terms of the projected claims incurred for '04 and '05 and '05/'06 as reported in PUB-1-20 and 1-21. You're aware of that -- that offline discussion, sir?

MR. DON PALMER: I am, yes.

MR. BYRON WILLIAMS: And we don't need to -- to go through it for my purposes, but the Corporation's advice to me, which I certainly will take, is that the figures in PUB-1-21 for projected claims incurred for '04/'05 and '05/'06 are more -- more reliable.

Is that your recollection as well, sir?

MR. DON PALMER: That's how I've been advised, yes.

MR. BYRON WILLIAMS: If you turn to page -- just the next page in the -- in the brief -- or excuse me, in the background material, page 4, and I -- I apologize for the -- the photocopying, but you'll see that what we're looking at is -- this is from -- Mr. Palmer, at the top right-hand corner you'll see this is from last year's rate application, "Basic Operating & Claims Expenses". Do you see that, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And I just want to draw your attention, and hopefully I've circled it, in last year's GRA you'll agree with me that for basic operating and claims expenses for the 2008/'09 year the Corporation was total -- projecting 142.972 million.

Is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And again moving one (1) line to the right in that column, its projection for 2009/'10 was 148.339 million, sir, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And both of you are heading into bifocal range, so I apologize for this.

And for the -- its projection for 2010/'11 was 152.406 million, correct, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And that's from last year's GRA, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: If you flip over one (1) page to page 5, and I see the photocopying is a little better here, I'll draw your attention now to the Corporation's forecast for the '08/'09 year. You'll agree with me that it's 156.143 million; is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Would you also agree that it's about 13.171 million higher than what the Corporation projected last year in the General Rate Application?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Subject to check, would you accept that that is 9.2 percent higher?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Okay. And keeping in mind that $156 million figure that you're now forecasting for the '08/'09 year -- and just flipping back one (1) page to the -- last year's projections, you'll agree that -- that what you're now -- the Corporation is now forecast to spend on basic expenses in the '09/'10 year -- excuse me, in the '08/'09 year of $156 million is -- is actually higher than what you were projected last year to spend in 2009/'10.

Is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: So when you -- when the Corporation came before the Public Utilities Board last year for basic expenses, it said, We're looking at getting to about one forty (140), one forty eight (148) in '09/'10, and you've actually surpassed that, based upon your most reliable -- recent forecast for '08/'09.

Is that fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And it would also be fair to say that that $156 million figure that you're currently forecast to spend in basic expenses for '08/'09 is higher than what the Corporation present -- projected in last year's GRA for the 2010/2011 year.

Would that be right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: I'm going to flip on a few pages, page 6.

(BRIEF PAUSE)

MR. DON PALMER: And -- and just to help you out, the -- the reasons for those increases are given in CAC -- or CAC/MPI-1-34.

MR. BYRON WILLIAMS: Yeah, and we -- we want to stay with forecasts. We'll get to reasons on -- on Monday, Mr. Palmer, but certainly any time you want to help me out, please feel free.

What I want to draw your attention to -- to next is, this is again at -- staffing levels by department, TI.9, and you'll agree with me that it's again from last year's rate application? Mr. Palmer, you see that in the top right-hand corner of page 6?

MR. DON PALMER: Yes, last year and also I'll point out that these are corporate numbers.

MR. BYRON WILLIAMS: And I wasn't sure if I should ask these questions of you or Mr. Kramer. It's really at the -- the forecasting levels. And I am mindful that these are corporate numbers and I'm also mindful that there are some issues, for example in breaking out basic numbers to the departmental level. You'll agree with me, Mr. Palmer?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And just to -- and again remembering that we're focussing on last year's full-time equivalents at the corporate level as projected in last year's General Rate Application, as we go through the years you'll see at the bottom of the page 1 the results of the -- the '03/'04 year being thirteen hundred sixty-five point five (1,365.5) and you'll agree with me that there's a significant jump as we move on to the next page, '04/'05, and that's related, I'm going to suggest to you, to the DVL merger, is that right, Mr. Palmer?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And the jump -- or the -- the increase is in -- in '04/'05 about -- up to seventeen hundred (1,700), would that be fair?

MR. DON PALMER: Yes. And -- and again

these are filled at March 1st of each year.

MR. BYRON WILLIAMS: And if we just follow through the -- the history of FTEs or full-time equivalents as presented in last year's rate application, I'm going to suggest to you that for the -- the '05/'06 year, the '06/'07 year, we have slight rises and, as presented last year, a peak in the '07/'08 year, would you -- of being seventeen fifty-nine (1,759), would you agree with that, Mr. Palmer?

MR. DON PALMER: Again, not really the '07/'08 year but as at March 1st of '07.

MR. BYRON WILLIAMS: Yeah. As at March as portrayed in -- in -- and I guess there's again a, perhaps in the -- as portrayed at March 1st of '08, again a -- a slight rise to seventeen ninety-five (1,795), is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And then as -- as we go out farther, as portrayed at March 1st, 2009, we see a slight decline and likewise from -- and a -- a levelling off at March 1st, 2010, is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And even as of March 1st, 2011, the Corporation has not got back to those March 1st, 2008 numbers of seventeen ninety-five (1,795), is that fair?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: I wonder if you could just move to the -- to the next page of the -- the materials, being page 11.

And you'll agree, Mr. Palmer, what we've attempted to do here and -- and I'm going to take your caveat that it -- we're really looking at March 1st rather than the 2008. I understand your -- your point on that, Mr. Palmer, but we've tried to compare the projections in last year's GRA to -- to this year's GRA. Do you see that, sir?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I've got the numbers okay, Mr. Palmer?

MR. DON PALMER: They balance with our TIs, yes.

MR. BYRON WILLIAMS: Okay. I was a little nervous. I did that myself and, you know, it's pretty complicated.

So if we just look then, if we're comparing last year's foreca -- or projections as presented in the General Rate Application to this year's, we'll see that the -- the first line, last year you were looking at seventeen forty-seven (1747) and this year we're looking at one thousand nine hundred and sixty-three point four (1,963.4); is that right, sir?

MR. DON PALMER: That's correct.

MR. BYRON WILLIAMS: About two hundred and sixteen (216) higher; will you accept that?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And again, looking at these projections, you'll agree with me that for the next year and the -- for all three (3) years the -- the -- the figures projected in last year's General Rate Application are lower than the figures projected in this year's General Rate Application; would that be fair, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Mr. Chairman, if I might have two (2) minutes?

THE CHAIRPERSON: Sure. While you're doing that, Mr. Williams, I'll use up the air space.

I'll just give a little bit of preamble to this. As MPI realizes, the Board has always stated its case in as order that when we're reviewing your rate applications we consider the overall financial strength of the Corporation. And to some degree, that's significantly determined, in part at least, by Extension and SRE.

So the question comes down to this: The first question is, does the Corporation have retained earning forecasts for Extension and SRE going into the future? Are they done?

MR. DON PALMER: Yes, they are.

THE CHAIRPERSON: What are their forecasts? What are the forecasts and what is the composition? How are they arrived at?

MR. KEVIN MCCULLOCH: Mr. Chairman, I -- I believe the position taken by the Corporation in the past is that it would only provide information with respect to Extension and SRE that was contained in the most recent annual report and -- and going back. I don't know that we had agreed to provide projections for the future but we can take that under advisement.

THE CHAIRPERSON: I would appreciate it if you do because I'm trying to determine how the Board can conclude on the application thoroughly without the information because the Corporation in the end is one (1) Corporation. So please think on it.

MR. KEVIN MCCULLOCH: We'll do that.

THE CHAIRPERSON: Mr. Williams, are you ready again?

MR. BYRON WILLIAMS: Yes, and I thank you for your indulgence.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I want to stay on the -- the subject of forecasting and perhaps we can turn to page 12 in the CAC/MSOS materials.

And, Mr. Palmer, I understand Mr. Saranchuk talked with you about the upgrade factor. I -- I want to talk with you just for a few minutes on -- on volume forecasts.

And just going back to your discussion with Mr. Saranchuk from two (2) days ago now I guess, my understanding is that as the Corporation projects its changes in revenues from rates there's -- among the important factors that it looks at are -- are calculations relating to the -- the rate by which volume is expected to -- to grow, as well as the -- the vehicle upgrade factor. Those are two (2) factors that you look at?

MR. DON PALMER: I would say that the volume factor is, for rates, is largely insignificant. Rates are calculated on a per vehicle basis as outlined in TI.19. And if there is -- now for pro forma basis, yes, the volume factors factor into that. But again, as

I had mentioned to Mr. Saranchuk, that if you get your volume factor wrong or -- or mis-estimate from some magnitude, that generally they're self-correcting.

And we did demonstrate that in one (1) of the Information Requests that not only does your -- if you are under in your volume estimate, then it'll be offset by being under in your -- your claims estimate, all things being equal.

MR. BYRON WILLIAMS: And if I recall that figure, you were looking at a zero point 5 (0.5) difference in -- in volume and you were suggesting that that could have a two hundred thousand dollar ($200,000) impact to the bottom line. And that was taking into account your calculation of the relationship between volume and -- and claims incurred; is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Just -- just on that point though, just so I understand, you're -- you're basically suggesting that whether you look at the upgrade factor or the volume factor there is a correlation between -- between those factors and claims incurred, is that fair?

MR. DON PALMER: Absolutely. That's how we base our rates.

MR. BYRON WILLIAMS: Yeah. And -- and

certainly Mr. Zacharias used to chat about that in other hearings.

Just so I understand it though, you're not suggesting there's a perfect correlation between those factors and claims incurred, sir?

MR. DON PALMER: No, there -- there are situations where your volume could go down and your claims could go up.

MR. BYRON WILLIAMS: And likewise there's situations where your volumes could go up and there wouldn't be a proportionate or -- excuse me, the same directional rise in claims incurred?

MR. DON PALMER: That's true.

MR. BYRON WILLIAMS: Now just in terms of the actual forecasting, if we look to the -- the volume forecast versus actual -- and you'll agree subject to check that this is an excerpt from your response to PUB/MPI 1-3(c), sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: If I go through those years, certainly we can go through them one (1) by one (1) if you wish, but I wonder if you'd agree with me that in all the years from '00/'01 through '04/'05 the forecast was actually less than the actuals? Would you agree with that, sir?

MR. DON PALMER: No, I wouldn't agree with that. '05/'06, they were equal.

MR. BYRON WILLIAMS: That's what I was going to come to -- to next. So I -- I think I asked the right question. You probably heard the wrong question though.

Okay. On -- well let me try it again: On all these years here, except for one (1), the -- the Corporation's forecast was actually less than the actual, is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And that one (1) exception is '05/'06 where they were equal, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And in '07/'08 the forecast was -- the actuals doubled the forecast, is that right, sir?

MR. DON PALMER: Yes. And -- and just to clarify, there are many ways of -- of measuring volume. This is a number of policies, so on that basis, yes.

MR. BYRON WILLIAMS: If I were just to -- to look at the period from '04/'05 through to '07/'08, I wondered if you'd agree with me that the GRA volume forecasts, if you added them together, being one (1), one point five (1.5), one point five (1.5) and two (2), you'd get an average of one point five (1.5)? Would you agree with that, Mr. Palmer?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And I wonder if you'd agree with me that the actuals over this period, being two (2), one point five (1.5), two (2) and four (4), you'd get an average of two point three seven five (2.375), is that correct, sir?

MR. DON PALMER: Mr. Kramer is way ahead of you.

MR. BYRON WILLIAMS: Well, let's see how quick Mr. Kramer is. I wonder if you'd agree with me that the actual average, the actual was one point five eight (1.58) times the forecast, over this period?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And I apologize for this because I know it's not the most exciting stuff, Mr. Palmer, but you're going to have to grind through with me. Flip back, if you would, to page 1 and we'll talk about claims incurred. And I realize some of this you've done with Ms. Everard, so I'll try not to -- to trench on this and I'll be very brief.

But can we agree, Mr. Palmer, that for the last four (4) years the protected claims incurred in the General Rate Application has been higher by the -- than the actual in each -- in each of those years, is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And the low range, the lowest percentage difference was a negative 3 percent in '05/'06, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And in -- in '04/'05 and '07/'08 you were getting to percentages differences pretty close to 10 percent, is that right, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And flipping over now to page 13, and again, you've had some of this discussion with Ms. Everard, so I don't wish to -- to belabour it but can we agree that the projections for PIPP incurred over the last four years have been higher than the -- the PIPP incurred actuals, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: The lowest difference being minus nine point six (9.6) in '05/'06, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And the largest being close to 30 percent in '07/'08, sir?

MR. DON PALMER: That's correct.

MR. BYRON WILLIAMS: And just finally, on page 14, can we agree which is the -- the comparison of net income GRA projection versus actual -- and this is sourced from CMMG 1-18. Can we agree that in the last four (4) years the projections for net income have been lower than the actuals? Would that be fair, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And do you take any issue with the calculation of that difference totalling over $290 million?

MR. DON PALMER: Yes, they -- they look okay.

MR. BYRON WILLIAMS: So you don't -- you agree with that calculation?

MR. DON PALMER: Yes, I do.

MR. BYRON WILLIAMS: Mr. Palmer, I'd ask you to turn one more page over to a table that's described as "Excerpted", E-X-C-E-R-P-T-E-D, "Basic Expenses by Category". And I apologize, Mr. Kramer, if I'm directing it to the wrong person.

MR. DON PALMER: Yes, I'm -- I'm going to punt.

MR. BYRON WILLIAMS: Mr. Kramer, I'm going to ask you, certainly I'm going to suggest to you that this was sourced from PUB 1-36. And what I'm going to suggest to you, and perhaps you can take this subject to check, is that as you will recall that that Interrogatory Response is -- or the table is much lengthier, or perhaps you might want to have it just beside you just to compare.

PUB 1-36. I don't think the Board needs it but I want MPI to be confident that I'm -- that I'm not taking liberties with their tables.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, I see that and I -- I've checked just one (1) -- one (1) of the rows to -- to confirm.

MR. BYRON WILLIAMS: The one (1) thing I want to draw the Board's attention to is the bottom line which says "Total". It's not a total of just those five (5) columns of expenses, "Compensation", "Data Processing", "Amortization", "Building Expenses" and "Safety/Loss Prevention", it's a total, Mr. Kramer, you'll agree with me, of the entire -- the entire table? Is that right, sir?

MR. OTTMAR KRAMER: Yes, it's a -- it's a total of all the basic expenses.

MR. BYRON WILLIAMS: So things like

printing, postage, et cetera, are in the original and -- and for the -- you'll agree with -- or you'll accept that for the sake of ease of -- of comparison we -- we've excluded those results from this excerpt -- excerpted table, is that -- that fair, sir?

MR. OTTMAR KRAMER: If what you're saying is the -- the individual amounts are in the total but you don't have the individual amounts shown, yes, I would agree with that.

MR. BYRON WILLIAMS: Okay. And I thank you for that. And certainly, if we've misrepresented this in any way, you'll certainly get back to us.

I want to take look at the -- the big picture for a few minutes in terms of basic expenses. And -- and just -- would I be correct in suggesting to you that probably starting in the '05/'06 year there were starting to be some small expenditures in terms of the immobilizer program?

It's not that material but you might see them starting to show up in the safety/loss prevention line about them. I see Ms. McLaren nodding her head.

MR. OTTMAR KRAMER: Yes. I -- I've been told that we had some small in '05/'06.

MR. BYRON WILLIAMS: But if we look to the -- the safety/loss prevention line, starting in

'06/'07, that's when you start to see the -- the larger impact of the immobilizer expenditure, would that be fair, sir?

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

MR. BYRON WILLIAMS: And it looks like if we move out to '08/'09, that's really the peak being at the safety/loss prevention program including the immobilizer being at 19.622 million; is that fair, sir?

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

MR. BYRON WILLIAMS: And there's still also some significant dollars related to the immobilizer in the safety/loss prevention line in the '09/'10 year; you'd agree with that?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: Being around eleven point five four seven (11.547) for the whole line; is that fair?

MR. OTTMAR KRAMER: Yes, for -- for entire including immobilizer and other programs.

MR. BYRON WILLIAMS: And we see those expenditures starting to -- to trickle -- trickle down by 2010/2011; would that be fair?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: So I just want to

take a closer look at a couple of the years when the IFF was a major element in Basic expenditures on the safety loss prevention line.

Let's start with '06/'07. You'll see that the total expenditures for that year was a bit in excess of, in terms of Basic expenses, was a bit in excess of 132 million; is that right?

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

MR. BYRON WILLIAMS: And -- and you might want to have your nimble calculator with you, Mr. Kramer.

If I look at the expenditures for that year related to compensation being a bit over 77 million, data processing being over -- a bit over 6 -- 6 million, amortization three point six (3.6), and building expenses, I wonder if you'd agree with me that they would total something like 94.725 million, sir?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: What -- what was your number again?

MR. BYRON WILLIAMS: I got to 94.725 million.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, that's what we've got.

MR. BYRON WILLIAMS: So if I took those, the big -- the big four (4) as a percentage of total expenditures, I wonder if you'd agree with me that that would amount to about 71.6 percent in the '06/'07 year? Correct?

MR. OTTMAR KRAMER: Seventy-one point six (71.6) you said?

MR. BYRON WILLIAMS: Yes.

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: So you're confirming my -- my numbers?

MR. OTTMAR KRAMER: Yes, a quick calculation, that's what I've got, too.

MR. BYRON WILLIAMS: Okay. Let's jump to the '09/'10 projection year. Again, we see at the bottom line that the projected expenditures are a 156.605 million, correct, sir?

MR. OTTMAR KRAMER: Correct.

MR. BYRON WILLIAMS: And I'll suggest to you that if we total the compensation, the data processing, the amortization, and the building expenses, we'll get something like 120.051 million; would that be about right?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, we would confirm that $120 million number.

MR. BYRON WILLIAMS: And I'm sure Mr. Palmer's already calculated that as a percentage of the total. Would it -- would you agree that it's about 76.66 percent?

MR. OTTMAR KRAMER: Yes, we could confirm that.

MR. BYRON WILLIAMS: My apologies for leaving my mic off.

Let's move over to the projection year 2010/'11. Again, we've got total Basic expenditures of 156.678 million projected; is that right, sir?

MR. OTTMAR KRAMER: Correct.

MR. BYRON WILLIAMS: And you'll agree, subject to check, that for the big four (4) we're looking at expenditures, I'm going to suggest to you, of 128.447 million; would that be fair?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: And that would be about 82 percent of Basic expenditures?

MR. OTTMAR KRAMER: Yes, Mr. Palmer confirms that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Let's move up to data processing expenditures. And again, I'll try and avoid the area that Ms. Everard was going through.

If I were to compare the projected data processing costs that I saw from '05/'06 to '09/'10, the growth, you'd -- you'd agree with me that they've increased from about six point six eight one (6.681) in '05/'06 to close to twelve point -- or twelve point seven zero five (12.705) in '09/'10; is that about right?

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

MR. BYRON WILLIAMS: We could do the -- the math certainly but would you accept that that's been about a 90 percent increase?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: Let's move up one (1) -- let's move down one (1) line. Let's look at amortization costs from '05/'06 being 3.290 million out to the projection year of '09/'10 of seven point eight two five (7.825).

And I -- I wonder if I'd be correct in suggesting that they have more than doubled; would that be fair?

MR. OTTMAR KRAMER: Yes, that is correct.

MR. BYRON WILLIAMS: Moving out one (1) year farther, would I be correct in suggesting to you that they're projected to almost double again to increase by more than 90 percent; would that be fair?

MR. OTTMAR KRAMER: Yes, they -- they don't double individually in that year. It's -- 91 percent is what you said?

MR. BYRON WILLIAMS: I said more than 90 --

MR. OTTMAR KRAMER: Okay.

MR. BYRON WILLIAMS: -- because I wanted to be cautious like Mr. Palmer.

MR. OTTMAR KRAMER: Yes, it doesn't double but a little over 90 percent.

MR. BYRON WILLIAMS: And just let's move up to compensation for a second and perhaps we'll finish for the day.

If I'm comparing the GREA -- GRA years of '09 -- '05/'06 to '09/'10, would I be correct in suggesting to you that compensation costs have risen close to $15 million from the '05/'06 year of being

75.591 million to the '09/'10 year of a bit over 90 million; would that be fair?

MR. OTTMAR KRAMER: That's -- that's close, yes.

MR. BYRON WILLIAMS: Would you accept, subject to check, that that would be about a 19.8 percent increase?

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

MR. BYRON WILLIAMS: About 5 percent a year; would that be fair?

MR. OTTMAR KRAMER: It's a little less than 5 percent per year.

MR. BYRON WILLIAMS: How much less?

MR. OTTMAR KRAMER: Four point six (4.6) on a compounding basis.

MR. BYRON WILLIAMS: I'm not -- I don't have a calculator that compounds, Mr. Kramer but thank you for that, four point six (4.6).

And Ms. Everard asked a couple of questions about the -- the current collective bargaining negotiations with the -- with the MB -- MGEU. I note that for the -- the -- for the '09/'10 year you've built in an increase in compensation of 3.7 percent from the previous year; is that -- is that fair?

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

MR. BYRON WILLIAMS: And are you confident that that will be enough to -- to handle the -- the pending negotiations, the current negotiations, the results?

MR. DON PALMER: That is our projection.

MR. BYRON WILLIAMS: And because we sometimes forget to do this in the next round of Interrogatories, in -- in terms of the high-level results of the -- the -- this round of collective bargaining, would the Corporation be prepared to provide a -- a summary of them for the next General Rate Application, assuming the contract is signed by then?

MR. DON PALMER: As -- as soon as the contract is signed, it's public information so, yes.

MR. BYRON WILLIAMS: So you'll provide it in the context of the GRA?

MR. DON PALMER: We can -- we can do that.

MR. BYRON WILLIAMS: Mr. Chairman, being five to 4:00, I wonder if this would be a good time to break?

THE CHAIRPERSON: Very good, Mr. Williams. Thank you all. We'll see you next Monday at nine o'clock.

(PANEL RETIRES)

--- Upon adjourning at 3:55 p.m.

Certified Correct

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Cheryl Lavigne, Ms.