MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE

2010 GENERAL RATE APPLICATION

Before Board Panel:

Graham Lane - Board Chairman

Eric Jorgensen - Board Member

Len Evans - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

November 12th, 2009

Pages 1954 to

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

THE CHAIRPERSON: Good morning, everyone. Welcome back. This is the last day of closing argument and I believe up first is Mr. Oakes for CMMG.

Good morning, Mr. Oakes.

CLOSING SUBMISSIONS BY CMMG:

MR. RAYMOND OAKES: Good morning, Mr. Chairman, members of the Board, ladies and gentlemen, Learned Friends. I want to start first by expressing my gratitude to Board Counsel, MPI Counsel, and of course the Board for their cooperation and courtesy in allowing me to deliver argument this morning. I was out of the province on Monday. And that cooperation and courtesy, of course, has been a hallmark of the relationship between the parties that come to this Board each year, certainly since I started in 1992.

Mr. Chairman, I wanted to speak first about the premium experience and the state of the union, if you will, with respect to motorcyclists and the application for the increase the Corporation is seeking.

As we saw -- and the reference would be page 1,407 of the transcript -- out of the Manitobans for 2010 that will receiving an increase of more than a hundred dollars, 34.7 percent of them are motorcyclists.

Mr. Chairman, viewed against the backdrop of the minimal amount of inflation that this country and this province has experienced, the request for premium increases, which in some cases, with respect to motorcyclists, amount to some 15 to 20 percent, especially in referencing Territory 2 and some of those vehicles. Frankly, that level of rate increase being sought in these less than inflationary times is patently ridiculous.

We're seeing significant premium escalations: Corporations looking for more than 6 percent across the board for motorcyclists, and looking for some $13.1 million for motorcyclists in Manitoba. When we review the evidence, and we started on our cross-examination with CMMG IR-1-1, we saw that in two (2) out of the five (5) years, this most recent claims experience wasn't even representing losses of a third to a quarter of the premium sought for motorcyclists. Some 40 percent of the last five (5) years have had that low level of claims costs and yet the premium remains unchanged, and in fact the Corporation every looks for an increase for motorcyclists.

The Corporation was kind enough to provide Undertaking 44 after the cross-examination. When we look at Undertaking 44, the -- it reviews the same years, the loss experience in '04, '05, '06, '07, '08. MPI in that Undertaking provided a comparison of actual versus projected motorcycle incurred losses in premium per unit for those five (5) insurance years.

In '04 we saw actual motorcycle losses of three million seven hundred and sixty-six thousand (3,766,000). At the same time, MPI was looking to project premiums and actually earned premiums of some six million five hundred and ninety-eight thousand dollars ($6,598,000), al -- almost double the amount of the total motorcycle losses in that year.

In six thousand (6,000) -- or in the year 2005 that followed, they had six million four hundred ninety-three thousand (6,493,000) in losses, but took in, again, premium of seven million four hundred and sixty-four thousand (7,464,000). Similar in 2008, had losses of six million seven hundred and thirty-eight thousand (6,738,000), but took in ten million six hundred and eighty-six thousand (10,686,000).

You'll recall the dialogue with Mr. Palmer where he -- I indicated that he can't tell us whether the losses for 2010 are 3 million or 10 million. And he was reluctant, as one would be, to -- we used the example of betting your house. He can't tell us, despite all of the methodology the Corporation's de -- has developed, it's no better than a guess. It has a -- certainly a methodology that gives -- makes it a better guess than most, but given the swings of 3 million to 9 million, certainly we can't have much comfort in those guesses.

And that inability to forecast with any certitude, Mr. Chairman, would be the reason that I think that in next year's hearing CMMG will be looking to cross-examine on the issue of -- of the claims -- or the increases being limited to something less than 15 percent, that we've got to reexamine the rate shock considerations in lieu of the -- or in view of the inflation that the Corporat -- or the comp -- the country experiences. And just as MPI wants to rejig the RSR levels, I think that all of that has to come under intense examination.

No one (1) vehicle, based on the type of fluctuations in loss experience, should be subject to 20 percent increases, only to have the next year result in loss costs that are a fraction of what the Corporation's been forecasting. That's especially true with respect to Territory 2. We're seeing some vehicles in Territory 2 having 20 percent increases. We're seeing, on average, double digit increases sought across the board for Territory 2, and that's based on some sixty (60) to seventy (70) claims a year. Yes, the Corporation looks at ten (10) years worth of data and the like, but now we're talking seven hundred (700) claims.

So that hugely variable experience results in these knee-jerk reactions of the Corporation to instituting increases that are tenfold over the in -- the inflation rate. And I'd suggest in this environment that those increases have to be held down to something far less than 15 or 20 percent.

We spent a great deal of time, Mr. Chairman, speaking about wildlife claims. As the Board is aware, after these many years of cross-examination, single vehicle accidents are a very large percentage of the claims experience that motorcycles are ultimately charged for.

We want to make it clear that in the majority, and I would say in almost all cases with respect to wildlife interactions, these are not the fault of motorcyclists. Mr. Palmer admitted that, generally, those are the faults of the wildlife. And there's a number of factors that -- that result in any vehicle striking wildlife: the fact that a number of them run out on the road at the same time, that they double back, that it's often at night under difficult conditions.

And as it indicated at -- the transcript at page 1420, there's no opportunity to break in those -- many of those situations.

So first we -- we look at the fact it's not the fault of the motorcyclist, a significant part of their loss experience. And what is the analogy that comes to mind? Well, what comes to mind immediately is it's other types of interactions of that sort: Pedestrians darting out in traffic, bicyclists falling off their bicycles in front of an oncoming vehicle, or making some turn immediately in front of them.

Well, in those cases, Mr. Chairman, the Corporation spreads those losses across the entire pool of vehicles. And I would suggest that those are the only analogies with respect to wildlife claims.

Of course, we get back to the defensive position of the Corporation, as we saw all those years in loss transfer, and the Corporation trots out, Well, pooling those claims wouldn't be actuarially sound. No references were provided by the Corporation, but they, in this example, look to the Board and rely on the Board's direction, apparently.

The reference in the transcript was page 1,420, where they said, well, the Board has indicated that the actuarially sound method of dealing with these is to continue to charge them against the motorists resp

-- irrespective of fault, it seems.

And so, I thought it worthwhile, Mr. Chairman, to go back to PUB Order 97/'05, which was the special hearing this Board had with respect to loss transfer, and the ultimate system that this Board engineered. And we -- when we look at that Board Order, it's immediately relevant. You'll recall, the CCMG had brought Mr. Liam McFarlane, an actuary with Dion, Durrell & Associates, who prepared an extensive report. He talked about the fact that motorcycle insurance rates have increased 369 percent over the past ten (10) years, prior to that hearing. Whereas, over that same decade, private passenger rates had only risen 18 percent.

And we -- we went back to the introduction of no-fault at that time, and Mr. McFarlane, his conclusion was that the move from a tort to a no-fault environment should have resulted in savings for everyone, rather the -- than the experience that was resulted for motorcycles. He stated, that in a tort environment claims cost are more appropriately allocated amongst rating groups than for the no-fault, and went on to say that the change from tort to no-fault should not have changed the attribution of costs to the various classifications. The change in the delivery mechanism shifted cost to motorcycles that previously under tort would have been allocated to other vehicle classes.

Now, the situation is slightly different with respect to wildlife, obviously: Wildlife we can't allocate the cost to the deer; we can't charge the deer a premium. In that respect they're exactly the same as pedestrians and cyclists, and so we would argue for the adoption of that same methodology with respect to the pooling of losses.

You'll also likely recall from that same Hearing that the experience in Manitoba, with respect to single vehicle accidents, is quite different based on Mr. McFarlane's testimony than what he has seen in Ontario and other jurisdictions. And I would suggest to you that the Board has an opportunity to further it's work that it did in engineering the system dealing with transfer of loss costs, and has an opportunity to deal with the fact that the single vehicle accident costs in -- for Manitoba motorcyclists has been many fold over it's counterpart in other jurisdictions. And this is an opportunity to -- to deal with those difficulties that continue to be experienced.

We saw that when the -- when loss transfer was introduced in Ontario, some 17 percent of the costs were transferred from motorcyclists to private passenger. This Board may recall that the amount that -- of transfer in Manitoba was some 6 percent, and that was based on what the Corporation forecasts the effect of the adoption of the model in Manitoba to be.

So we have a situation where those deficiencies can be dealt with. The Corporation testified at page 1,425 of the transcript that the result of pooling those wildlife claims would result in a 6.3 percent rate reduction, or approximately 6 percent rate reduction, without costing the private passenger major class of vehicles more than one dollar ($1).

So in this year's Application there would be no increase sought generally for motorcycles. The situation with respect to wildlife claims would be that they would be not charged to a motorcyclist based on a situation over which he has no control about. And let's talk about that for a second because we anticipate that MPI will, in their opportunity to address this argument, they'll say, Well, it reflects the risk, motorcycles are more risky.

Well, the situation is no different with respect to a deer than it is with respect to a pedestrian or a cyclist. If a motorcyclist hits a racoon he may loose control of his bike and go down, that's admitted. The same thing would happen with respect to a bicycle, if he hits a bicycle he's likely to come off or lose control of his vehicle.

Now, of course, there are other situations in which a motorcycle is far safer than a car: It has better opportunity for braking, shorter braking distances. It has the ability to evade a -- an oncoming problem, whether that be a deer or whether that be a cyclist, and being not surrounded by windshields and the like, it has an opportunity to view more readily some of the risks that are presented. But I'd suggest to you that the situation with respect to all of these is a difficult one that the Board can address in a significant way, and on a way that's consistent with the other types of accidents of that nature.

Now we look at what is the Corporation doing with respect to wildlife? Well, they tell us they're doing some education, but that's really not going change the pattern of the wildlife; they're not educating the deer. They've admitted that with respect to these accidents that there's little or no opportunity to avoid the deer, so I'm not sure that driver education is all of the answer or a significant part of it.

We saw from the Free Press article that was introduced as an exhibit and cross-examined upon, that Manitoba conservation is -- is doing something. They are GPS'ing the locations of these deer vehicle interactions and presumably using that to come up with a plan to deal with it. Here we have a Corporation that's sustaining $30 million a year in wildlife losses and it appears their only strategy is, well, let's educate some drivers.

We don't see the Corporation getting involved with wildlife corridors such as you see in the Coquihalla when you drive in BC. We don't see the significant steps taken by the Corporation to deal with the problem, and I say to the Board, if the Corporation isn't making significant efforts to reduce these wildlife interactions then why should the motorcyclists be penalized when it's certainly not their fault?

So equity and fairness, we would suggest, requires the Board to deal with pooling of these losses on a basis that I suggest to you, just like the issue of loss transfer, would be equally as actuarially sound as their present method.

Move from the issue of wildlife to the issue of road safety. They say in anything you can always follow the buck and that will definitely tell you the state of affairs. The state of affairs with respect to MPI's investment in road safety is poor, I would suggest. It's very clear what their biggest priority has been. The biggest priority, and Ms. McLaren readily admitted it, has been the Immobilizer. And congratulations to them in instituting a innovative and apparently very effective program of dealing with private passenger theft.

But now that that's done, Mr. Chairman, I suggest that the priorities should change. The priorities should address those that have the most problematic, both loss costs and premium escalations.

When I asked Ms. McLaren about the situation: What would happen if private passenger increases were forecast to be 15 percent, would MPI not be frantically looking for solutions? And I suggest to you that -- and that exchange is at page 1,436 of the transcript. I'd suggest to you that the answer's a little disingenuous and that commonsense tells us that if the private passenger vehicle owners in the province were asked for a 15 percent increase, there would be considerable focussing on looking for a solution to that.

The Corporation presently spends ninety-one thousand dollars ($91,000) on motorcycle road safety. It's a drop in a bucket, Mr. Chairman, compared to what we've talked about and the numbers that we've looked at over the last month for the Corporation. It is not significant. It doesn't deal -- deal with the fact that motorcycle safety should priorized (sic) as a problematic area, and given the resources of the Corporation, it shouldn't -- not be the category that receives the least amount of investment.

There was talk back and forth as to whether motorcycles should be included in the category of vulnerable road users. We note that in Undertaking 45 the Corporation talked about its goals and they tell us that they focus on Transport Canada road safety 2010 visions and targets, which, according to Transport Canada, includes motorcyclists as a vulnerable road user. MPI doesn't include it in their investment for road safety for vulnerable road users though.

We'll be very interested as the years come by in seeing specifically what MPI is doing to achieve their stated compliance with Transport Canada's road safety vision which talks about a 30 percent decrease in the number killed or seriously injured, with respect to vulnerable road users. And we'll be following that intently.

I suggest to you that motorcycles have a different mandate than -- and the issue of road safety should have a different mandate than what the Corporation has adopted to date, that there should be a higher amount of expenditure. There should be research. The evidence dealt with the fact that the Corporation doesn't spend any money on motorcycle safety research at this time, and I'd suggest that there's more effort required that'll be appropriate to the amount of both losses and premium escalations.

Those are the issues we covered, Mr. Chairman, in this year's intervention. In the past, we certainly have got into the area of the Corporation's investments in RSR targets and the like, but those were certainly adequately canvassed by the other counsel that are present at this Hearing. We would be making an application for costs in due course. And I appreciate everyone's patience and courtesy throughout a very long hearing this year. Thank you.

THE CHAIRPERSON: Thank you, Mr. Oakes.

Ms. Kalinowsky, are you prepared to begin or would you like a short break to reflect on Mr. Oakes' comments?

MS. KATHY KALINOWSKY: I'd just like a short break to reflect upon Mr. Oakes' comments, please.

THE CHAIRPERSON: Okay. Is fifteen (15) minutes all right?

MS. KATHY KALINOWSKY: Abso -- ten (10) minutes is fine even.

THE CHAIRPERSON: Thank you.

--- Upon recessing at 9:27 a.m.

--- Upon resuming at 9:43 a.m.

THE CHAIRPERSON: Ms. Kalinowsky, did you have enough time?

MS. KALINOWSKY: Yes, I did. Good morning. I'd like to start off with prior to going into my closing argument with -- Board Counsel provided a lengthy and comprehensive summary of the very significant amount of information that's been placed before the Board in this proceeding. As usual she did a most admirable task. The Chair of the Public Utilities Board noted that MPI was free to provide any corrections if required. There's only two (2) items that I'd like to correct on the record.

And the first item was with respect to DVL operations. Ms. Everard indicated that MPI did not disclose the DVL costs in the 2008 Annual Report. If you look at page 27 of that annual report it is disclosed that the shortfall from DVL operations was $8.3 million. Also on that page it is indicated that MPI received a $21 million recovery from the province to offset operating costs. So twenty-one (21) plus eight point three (8.3) equals $29.3 million in operating costs, which is also disclosed. Plus there's an additional 7.7 million in project costs.

So it is very much disclosed in that annual report on that page.

The second item that Ms. Everard, I believe, just misspoke on briefly, was --

THE CHAIRPERSON: Ms. Kalinowsky, just so I understood you, the shortfall is clearly mentioned at 8.3 million and you properly refer to the receipt of 21 million; just adding backwards, that comes to 29.3.

But then you said plus there's 7.7 million in project costs. Is that a separate issue?

MS. KALINOWSKY: Yes.

THE CHAIRPERSON: Okay. So the total expenditures then would be approximately 37 million then. Is that correct?

MS. KATHY KALINOWSKY: Total, yes.

THE CHAIRPERSON: Thank you.

MS. KALINOWSKY: And that's also --

THE CHAIRPERSON: Now the project costs, just so we understand it, that's possibly part of deferred costs, is it not? For later amortization.

MS. KALINOWSKY: Sorry, I'm just kind of pausing here awkwardly giving evidence and so on, but, yes, it would be funded through the EDF.

THE CHAIRPERSON: Sorry, just rather than leaving us to guess. Thanks.

MS. KALINOWSKY: That's fine. And the other item is with respect to staffing costs. TI.9 discloses staffing level as at March 1st for the years 2004 to 2014. The heading is "Total Staff FTE." This is for the entire Corporation, not just for Basic, which Ms. Everard referred to, so then this is consistent with prior years and has been discussed in the past.

So those are just two (2) very minor aspects but I did seek a chance to clarify those prior to launching into closing argument.

THE CHAIRPERSON: Thank you. That's helpful.

CLOSING SUBMISSIONS BY MPI:

MS. KALINOWSKY: I'm going to start with respect to a few comments on jurisdiction of the Public Utilities Board and this process. At the commencement of this Hearing process on October 5th, 2009, the Chair of the PUB made preliminary comments on the record that MPI seeks to address at the outset of its closing argument. The PUB advised of two (2) major objectives of this Hearing, and I'll just read in from the transcript.

"The Board views this process as one which should ensure transparency in terms of the Corporation's operations and financial positions.

In fulfilling its mandate, the Board will pursue two (2) major objectives at this Hearing.

1. To receive adequate information to allow the Board to reach an accurate finding as to the overall financial position outlook of the Corporation, which forms the basis for the Board's decision on Basic rates. And;

2. To conclude the divergence and -- of views over what constitutes a reasonable rate stabilization reserve balance, which is also related to the first objective."

And that's located on the transcript, page 10. The Corporation submits that it respectfully disagrees with this characterization of reaching findings on the overall financial condition of the Corporation. The only finding the PUB needs to reach is the financial condition of Basic to assist it in approving rates. That is the jurisdiction of the PUB as is currently in this legislation. Findings do not have to be made by the PUB on suggested legislative amendments as set out in previous orders, and not acted upon by the only entity that can change that jurisdiction, namely, the Province of Manitoba and the Legislature.

Another comment that the Corporation wishes to make with respect to the objectives of the Hearing, is the absence of the most obvious objective of this Hearing process, namely, the approval of rates. That's the reason why we're here and why there's an application, and of course that is the exclusive and sole jurisdiction of the PUB.

The Manitoba Bar Association raised the issue of Bill 36, PIPP enhancement too, in their words, at transcript page 37, provides a springboard to investigate the way in which initia -- initiatives such as this arise. The comments we have with respect to that are that this is unrelated to the function of rate setting of the Public Utilities Board. This information is not needed for rate approval, which is the exclusive function of the PUB. This information is subject to cabinet confidences and privileged as confidential discussions between the Minister -- sorry, with the Minister of the Crown and the Corporation.

It is interesting as a governance issue. It's interesting as a political item. It's interesting, again, as to the interaction between a Crown Corporation and the province but, again, it is unrelated to the approval of rates, with which this is the task at hand.

The Corporation submits that the PUB got it right in 1994 with respect to its jurisdiction, when it stated that it would look at the financial implications of the move to no-fault, but would not question the Corporation regiding -- regarding the legislated development of that change to no-fault.

In response to a number of information requests regarding topics such as the enhanced driver's licence, the Corporation indicated that that matter was not germane to the rate application. This is a reasoned and it's a considered response, based upon the basic rate setting function of this Board.

The MBA stated in closing argument there was a distinct lack of transparency in an attempt by MPI to not disclose information. When ordered by the PUB to disclose that information MPI provided the information by providing links and a website to the standing committee Hansard reports from the Legislature, thereby showing that this information was not only already on the public record, but had already been disclosed to the Legislature of the Province of Manitoba.

The Corporation also provided copies of news releases issued by the Corporation, thereby showing that the material was once again in the public domain already. MPI has always responded to requests for information, whether in the form of interrogatories or cross-examination, with respect to Basic insurance. The Corporation is fully engaged in ensuring that the regulatory process is provided with all the information the PUB or Intervenor's request on Basic rates and operations, to enhance and assist in the transparency of the Basic rates and will commit -- continue to commit to do so.

In the interest of fairness to the Corporation, and in recognition of the massive undertaking of providing responses to -- close to a thousand information requests this year, in nine (9) days of hearing in this GRA, creating eighteen hundred (1,800) transcript pages, plus an additional two (2) days of closing argument, MPI has a request of the PUB.

In it's Order this year, MPI requests the PUB to make it abundantly clear, and be unequivocal in stating that the Corporation has complied with the current legislation in disclosing information sought in the rate setting process for Basic Compulsory Automobile Insurance. MPI further requests that this be included in any press releases or discussions with the media. Thank you.

I'm now going to turn in a little bit different order in -- from what I've prepared -- my closing comments, to address those comments from CMMG, since I understand CMMG counsel has a meeting to attend to back to the office. And also thought that it'd be appropriate, given that it's fresh in the minds of the Board right now.

The Corporation takes the following positions, with respect to CCMG's arguments. The first argument brought forward by CCMG is that motorcycles are leading the single highest rate increase of any class. MPI's comment is that claims experience is what the rate methodology is based upon. Departing from that would lead to arbitrary rate setting and cross-subsidisation of the motorcycle class by other classes, and it doesn't intend to do that.

The second argument brought forward by CMMG, is that Undertaking 44 shows favourable claims experience, so MIP is, in essence, making money in the past year. MPI states that the rate methodology is well established, and uses a longer history to establish the expected value of future claims. Credibility procedures and smoothing techniques have been accepted by this Board. Although the CMMG has long argued that there is too much credibility assigned to the motorcycle class, they are now, in essence, saying that low claims years should have full credibility, and high claims years should be disregarded. That's just not actuarially sound.

The Corporation was pleased to have CMMG's counsel refer to Undertaking Number 44, which demonstrates that loss costs in last -- in the last year is favourable at $6.7 million. However, in 2007, that loss cost was $9.7 million, whereas in 2006, it was $13.4 million, more than double.

Another comment in its argument, with respect to CMMG, was the aspect of Territory 2 being -- Territory 2 being a very small pool. This point is irrelevant, MIP submits. There are many small pools on which MPI has to set rates. The credibility and the averaging techniques have been established solely to account for this. The techniques used for motorcycle rates, including Territory 2, are exactly the same as the techniques for all other categories of small pools.

Counsel for CMMG spoke at length this morning about wildlife crashes being put into the overall pool since it is not the fault of the motorist. And he made the analogy to the -- to the 97/'05 Board Order following the Loss Transfer Hearing. This a poor analogy. The whole point of the loss transfer is to assign costs to what can be called involved classes, and where that was not possible, to spread the costs to all classes, essentially as a last resort.

For wildlife claims there is only one (1) involved class, since animals are not insured and do not, of course, carry third party liability. Again, the treatment of claims costs where there is no individual fault is consistent amongst all categories of vehicles. For example, vehicle types that are more susceptible to theft claims are charged more, motorcyclists are more susceptible to injuries due to wildlife collisions, so they are charged more too.

The treatment of these claims categories, where there is never fault assigned, is not only consistent within all classes of vehicles at MPI, it is also the standard treatment with other insurers. CMMG Information Request 2-8 outlines the treatment of these claims at ICBC and SGI, which is the same way that MPI does it.

With respect to wildlife, I will reiterate the testimony of Ms. McLaren, who identified and provided examples of wildlife posing a fundamentally increased risk to motorcyclists than other vehicles. MPI is willing to provide a motorcycle risk analysis with an emphasis on wildlife collisions, including deer, skunks, dogs, birds, squirrels, et cetera, and provide further data for the General Rate Application next year.

I also want to say that Mr. Oakes makes the analogy on loss transfer to the car/pedestrian scenario. However, this is not an accurate analogy because in the car/ pedestrian scenario claims and the losses are funded high at high levels because of the loss costs paid to the pedestrian. MPI does not make PIPP payments to injured or deceased wildlife, but it does make PIPP payments and very, very large PIPP payments to injured pedestrians or deceased pedestrians. In fact, an enormous number of the serious losses, or indeed the catastrophic injuries, are precisely made to pedestrians.

A final item that Mr. Oakes provided argument on was with respect to road safety expenditures being the smallest for motorcycles. I'd like to comment, on behalf of the Corporation, that the percentage of road safety expenditures, exclusive of Immobilizers, is close between motorcycles and other vehicles. And that's located in CMMG-2-7.

In fact, it could be argued that it is double for motorcycles, since they gain advantage from both motorcycle-specific programs and the overall programs as well. It is appropriate to exclude Immobilizers from this comparison since these costs were funded by an appropriation of excess RSR. Since motorcycle premiums have always been inadequate, they have never contributed to this excess RSR.

Those are the comments of the Corporation with respect to the argument of CMMG. Now I'll proceed just into the area of rates.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I want to discuss rates right off, because that is the one (1) reason why MPI is before the PUB with this Application. The Corporation, once again, continues to be pleased that after years of refinement and work on its rate-making methodology, the Interveners expressed no comments regarding the rate-making methodology other than CMMG's comments regarding motorcycles. Indeed, the Intervenors barely commented on rates, with CAC/MSOS providing a scant eight (8) lines of support for no overall change in rates within a sixty-four (64) page closing argument; the MBA never once mentioning it in its closing argument and thereby taking no position, and similarly CAA.

The Corporation notes the last change in rate metho -- rate-making methodology was in 2005 following the loss transfer hearing. In this case MPI will take the silence of the Intervenors as a compliment to the successful rate-making methodology developed by the Corporation through these proceedings. Thank you.

MPI is applying for approval of premiums to be charged with respect to compulsory vehicle insurance for 2010/'11. The rates will take effect on March 1st, 2010, and, as applied for, are based on no overall change in written premium. In this Application, by using the Corporation's rigourist and robust forecasting in its rate-making processes, all of which have been tested and validated repeatedly through this regulatory process, Basic Insurance rates could decline by approximately 2.4 percent, as actuarially indicated.

Rather than that, the Corporation has applied to retain the current level of revenue, keep rates at an existing overall levels and build the RSR, based on its belief that for effective risk mitigation purposes, to the benefit of Basic insurance ratepayers, the RSR should be approximately $50 million larger than it was at February 28th, 2009.

Witnesses for the Corporation make it clear that this Application does not seek any additional RSR surcharges to increase the RSR, unlike the unique RSR surcharges that were specifically applied for more than a decade ago, as part of a multi-year RSR rebuilding strategy that was discussed at length in numerous hearings. However, this Application does include, in effect, an amount that will be used to build the RSR above the break-even. Both Ms. McLaren and Mr. Palmer have stressed the importance of achieving the RSR target of 185 million under the DCAT plausible adverse scenarios.

CAC/MSOS argued that MPI had departed from past practices in not providing separate notice, and argued that this was indeed an implicit RSR surcharge. MPI responds that the RSR surcharges more than a decade ago were instituted in a very, very different situation, namely, the RSR was at a $50 million deficit. Furthermore, the RSR surcharges were always accompanied by separate rate increases. So, for instance, a 2 percent RSR surcharge was accompanied by a 2.5 percent overall rate increase in 1996, thereby making it a 4.5 percent increase for consumers. In 1997 it was a 2 percent RSR surcharge on top of a 2 percent overall rate increase for a 4 percent.

In this same Application, however, rather than apply for a decrease in overall rates, but then at the same time an increase in an RSR surcharge, the Corporation merely applied for no overall change in premiums charged for compulsory vehicle insurance. As stated in the notice and stated in the Application, the Corporation is requesting approval for Basic Autopac rates effective March 1st, 2010, which would result in no overall change in premium revenue.

I'm going to discuss briefly rate planning and forecasting issues. One of the questions that always emerges in these rate hearings is: Into the future, beyond the year of this Application, what has the Corporation indicated would likely ensue for rate increases or rate decreases?

Mr. Palmer noted that the statement of operations, TI.15A, did not have built into it any rate increases, or, indeed, any rate decreases. He also noted that there would not likely be any rate increases in 2010/'11 through to 2013/'14. And that's at transcript pages 1 -- 103 to 105. But he noted that there would likely be rate changes into the future to preclude the projected net income of 40 million in 2012, and 60 million in 2013/'14.

With the current Application forecasting 8.5 million in net income in 2010/'11, once the $185 million target for the RSR is achieved, as per the forecast in 2012/'13, then likely rate reductions would be sought, either in 2012/'13 or 2013/'14. The 8.5 million in 2010/'11, of course, has been revised downward to $3.5 million, based on the second quarter financial reports. And that exhibit was filed with the Public Utilities Board.

Again, for rate making purposes, one must remember that -- the effect of staggered renewals, in average, any rate change over two (2) years. So 20 -- 2011/'12 had projected 18.5 million, which was revised downwards to 15.6 million, averaging the updated numbers out over the two (2) years, one emerges with 9.5 million which MPI considers close enough to break even.

Of course, these forecast and projected numbers are, as with all else being equal -- and we do know that events will intercede to alter that. Just look at the second quarter financial report that was filed during this Hearing, for the effect a large hailstorm in different claims history can have.

It is really important to note that had the IBNR favourable adjustment not been made, and indeed not been favourable, then a significant decrease would've occurred which could've eliminated the RSR. That the RSR is forecast to be $146 million in 2009/'10 is, in some ways, fortuitous, and it is the result of two (2) separate, or what we term in this regulatory arena, non-correlated events, namely, the evaporation of investment income from 125 million to $4 million and the favourable adjustment of approximately $60 million within the same fiscal year.

The reasons for that investment income decrease in 2008/'09 was:

Number 1. The losses on the equity portfolio.

Number 2. It was marking some of the investments as being impaired and;

Number 3. The hedge of the foreign exchange ins -- in -- investments.

Had those investments loss -- losses not been un -- offset by the serendipity of the favourable IBNR adjustment and lower claims experience, the RSR would have been depleted. MPI was lucky, the PUB was lucky, and the ratepayers, of course, were very lucky, in not having the RSR depleted in one (1) year. But we don't want to leave it to luck in the future and we do know that similar economic events could recur.

Witnesses for MPI also indicated the DCAT target of 185 million for the RSR was an important achievable target, that there would be bumps along the way in achieving it, and it would not be a smooth ride to that $185 million which is locate -- and that reference is located at transcript page 1,169.

A short-term fluctuation has already

occurred in the first six (6) months of this fiscal year and that was attributed to two (2) main reasons: The August hailstorm and decline in interest rates. Fluctuations will also happen due to claims variances from forecast, amongst any other number of things.

(BRIEF PAUSE)

MS. KALINOWSKY: I'd like to speak about the Rate Stabilization Reserve now. The purpose of the RSR, of course, is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors. The Corporation prepared its analysis on the basis that this was not the subject of debate or alteration at this Hearing, and was most surprised to hear CAC recommend in its closing argument that the purpose be revised; was particularly surprised given that this was not canvassed in cross-examination or the Information Requests. Nevertheless, the Corporation does not see merit in mending the purpose of the RSR.

The method and target of the Rate Stabilization Reserve has long been a source of debate between the Corporation and the Public Utilities Board. The Public Utilities Board has set a range of $77 to $117 million for 2009/'10 based on the risk analysis value-at-risk approach completed in 2006, indexed by the gro -- growth in gross written premium. This analysis has been updated using the prescribed methodology and current data, and now indicates an exploded RSR range of $97 million to $246 million, a range of $150 million.

In Board Order 157/'08 the PUB has clearly shown a will -- willingness to reach an RSR level that is agreeable to the parties as indicated by the following. And I'll read the quote in:

"The Board finds the divergence of views between the Board and MPI as to what should be the RSR Range not to be in the public interest, and will attempt to bring about a consensus on -- on a RSR range that can be accepted by all parties, namely, Board, MPI, and Intervenors." Closed quotes.

The Corporation has done further analysis on the Risk Analysis Val -- VaR, and MCT, and neither approach truly analyzes the effect on the Corporation of, going back to the purpose of the RSR, the unexpected events and losses arising from non-recurring events or factors.

The risk analysis is only based on events that have occurred in the last fifteen (15) years, rather than plausible events that can occur in the future. This weakness is demonstrated by the extreme change in results when new adverse data is inserted and included into the calculation. The inclusion of the 2008/'09 data has more than doubled the indicated result for the RSR. Similarly, the MCT analyzes the risks inherent in the balance sheet, but does not study other operational risks inherent within the Corporation.

MPI has indeed attempted to reach consensus on this issue. The Corporation did not pursue the PUB's offer to revise the MCT, given the enormous variation within the MCT attributable to unrealized investment losses, which caused the MCT to fluctuate from 70 percent to just 7 percent in one (1) year. Any tool that contains that kind of variation and fluctuation, is hardly adequate, nor, indeed, appropriate as a methodology to calculate the RSR if the purpose of the RSR is to protect motorists from unexpected rate increases.

Furthermore, such volatility does not -- volatility does not assist in achieving the objective of stability for ratepayers. Indeed, the tools of MCT, and the tools of the risk analysis, in and of themselves, inject a massive dose of instability into what should be a smoothing tool, and this really is in -- in essence, contraindicated.

MPI wants the Board to know that upon receipt of Order 157/'08 last December, the Corporation had utmost intentions of revising the MCT to achieve the consensus. However, once viewing that enormous volatility one (1) bad year of experience had created, the Corporation sought another approach, namely the DCAT.

If the MCT had been relied upon, then MPI would have been required in this GRA to apply for a significant increase contained within an extensive RSR re-building plan. MPI chose not to do so in this instance.

Similarly, the Corporation questions the veracity of the risk analysis, by which the upper limit bounced from 117 million to 246 million within one (1) year. Again, such a tool can hardly be valid for rate setting purposes if stability and smoothing is an underlying objective of the RSR. Accordingly, the Corporation submits that this is a further reason for departing from the risk analysis for calculating the RSR.

In it's attempt to reach consensus, a third tool was introduced, and that's the Dynamic Capital Adequacy Test. The DCAT is a stress test of the

Corporation's future financial pro forma statements that determines the financial impact of the various, significant risks that the Corporation is exposed to. In short, the DCAT demonstrates the effect on the Corporation of unexpected events and losses arising from non-recurring events or factors, which is the purpose of the RSR.

By its very nature, this approach of DCAT explicitly measures the impact of adverse, unexpected events on the finances of the Corporation. The principle goal of the DCAT process is the identification and quantification of possible threats to the financial condition of the Corporation and the appropriate risk management or corrective actions to address those threats.

The process arms the Corporation with useful information on the course of events that may lead to capital depletion and relative effectiveness of alternative corrective actions if necessary. Furthermore, knowing the source of the threat, it may be advisable to strengthen the monitoring systems within the Corporation where it is most vulnerable.

The analysis and supporting documentation provides a sound rationale for the PUB to adopt the Dynamic Capital Adequacy Test as the method for determining the required RSR.

In 2010/'11 the RSR target under the DCAT approach is 185 million. This compares to an RSR range of 97 million to 246 million under the PUB's risk analysis method, and an RSR range of 114 million to 229 million under the 50 percent to a hundred percent MCT method. It is important to note the massiveness of those ranges resulting from both the MCT and risk analysis methodologies.

Traditionally, the RSR has been expressed in terms of a targeted range. The purpose of the range was to de -- define a minimum and a maximum where remedial action could be initiated. That is, if the RSR falls under a minimum, a surcharge would be triggered, and if the RSR was over a maximum, then a premium rebate would be generated.

The difficulty with this approach, however, is that the management in the PUB response should be situational rather than rules based. For example, in the scenario of a large hailstorm, net income returns close to base case levels without any special intervention. However, two (2) large inflation ensario -- sorry. However, the large inflation scenario requires management action just to maintain adequate rates, and the RSR balance is still at precariously low levels after four years and a special rate intervention is required to build the RSR by surcharges, and that would likely be sought.

Before delving fully into DCAT I still want to discuss consensus. MPI has long disagreed with the use of the risk analysis in VaR as a methodology to calculate the RSR target. In several annual reports up to 2007, MPI included the following statement to demonstrate the extent of management's view. And I quote:

"The Corporation has significant concerns that the future financial strength of the Basic insurance plan has been compromised by the PUB's actions with respect to the RSR target. The Corporation's ability to provide Manitobans with continued rate stability has been weakened by the PUB's actions." Closed quote.

Recognizing that the PUB had sought to perhaps review the MCT approach once again and adopt an industry standard, in the 2008 report the Corp -- Corporation did not include that sentence again, but instead included the following sentence. "While the Corporation" -- in a quote, sorry.

"While the Corporation agrees that the divergence in views is not in the public interest, it remains strongly committed to the use of industry standard techniques and processes for assessing financial risk. Management believes that such techniques and processes are most appropriate when directly applicable to the Corporation's particular circumstances." Closed quotation marks.

The Corporation made that change in the spirit of consensus, and consensus to MPI entails each participant to the hearing process. The PUB, MPI, and the Intervenors realize that the desired approach will entail compromises.

The Corporation has compromised by presenting a DCAT with what it views are the most plausible adverse scenarios, but has indicated that these scenarios can be rerun, so to speak, by direction from the PUB.

Still along the lines of consensus, MPI would note that the MCT was at a level of more than $250 million. MPI did not further that approach, but went to another approach, which had a target of 185 million. Furthermore, what is really remarkable about this new reproach (sic) is that the PUB can set its own adverse scenarios of its own choosing. And rather than be bound by a rules-based mechanism that I described above for determining if the RSR needs additional funds or a premium rebate, the PUB can exercise its discretion since it is contectual -- contextual and situational-based.

Of the nearly one thousand (1,000) Information Requests submitted there was one (1) IR that MPI thought long and hard about and came back to several times in this Hearing, and that was PUB/MPI-2-2. And I'll read the question and the response:

"If, through the hearing process, an agreement is reached with an -- on an RSR target, will the Corporation resume routine transfers of excess retained earnings from Extension and SRE to Basic?"

The response from MPI is, quote:

"Rather than routine transfers, the Corporation made purposeful transfers to Basic in an effort to build the RSR to the Corporation's target. Since the PUB did not accept that higher target, considered the RSR to be in excess, and ordered the rebates, the transfers were ceased.

The Corporation has the following perspectives on this matter:

1. Should the Basic RSR require significant replenishment and should the competitive lines have excess retained earnings, transfers to Basic for the specific purpose of replenishment may be appropriate.

Number 2. Routinely excessive retained earnings in any line of business should be avoided, and;

3. In the absence of a significant need to replenish the Basic RSR, excess retained earnings should be directed to the line of business and its policyholders that generated the excess." End, closed quotation marks.

I think it's important to look at the context of the transfers and clarify any misconceptions that may exist. The history of transfers from other lines of business since 1994 is as follows.

In 2002 the first transfer occurred from

SRE to Basic, $14.5 million, at a time when the RSR was at $50 million.

In 2003 there's a second transfer from SRE to Basic of $4 million, at a time when the RSR was at $35 million.

In 2004 there were transfers from both SRE to Basic of 29.6 million, and Extension to Basic of $4.3 million at a time when the RSR was $42.8 million.

And in 2005 SRE transferred to Basic $8.4 million, and Extension travelled to -- transferred to Basic $11 million, at a time when the RSR was $126 million.

The history demonstrates that transfers were not routine and were only instituted when the level of the RSR was what could be termed as being severely compromised, thus play -- placing ratepayers at significant risk. In 1996 the RSR was at negative $50 million, however, the other lines of business also had what could be termed as less-than-desirable retained earnings, thus precluding any transfers such as those that were initiated later.

The Chairman imposed a question to MPI during this Hearing, and that question was, and I'll quote, it's from page 165 of the transcript:

"If the PUB were to adopt the higher

DCAT target of $185 million for the RSR target, would the transfers from competitive lines to Basic resume?"

This key question is not only interesting on many levels, but it also really seeks to examine the interplay between the two (2) separate lines of business. The answer provided by Ms. McLaren was that no such policy is in existence now, that it had not been contemplated to date, yet it was possible and could not be precluded. Further, she advised that the RSR does not require a significant replenishment now like it did in the 1990s, because Basic ins -- is in a much stronger financial position.

We'd like to add that since $185 million target is projected to be attained within the forecast period, MPI will not likely be transferring excess retained earnings from Extension, or SRE, to Basic.

A question was por -- posed by Board counsel in cross-examination that also bears further reflection and discussion, and that was between trans -- transcript pages 169 to 170. That question was:

"At the present time is there a need to replenish the Basic RSR?"

To which Ms. McLaren responded:

"Yes, that is why we did reply -- that

is why we did not apply for a rate
decrease in this Application."

She elaborated that although the Corporation has picked a target, that target has not yet been approved by the PUB. Furthermore, MPI is in excess of the PUB stated target right now, though the PUB itself has suggested that a methodology for the target be revisited.

She then summarized the position -- the Corporation's position as follows:

"Does the Corporation require more
money in the RSR to hit what the
Corporation believes to be the
appropriate target? Yes."

I'm going to proceed into a section on why the Dynamic Capital Adequacy Test should be used to determine the basic target for the -- should be used to determine the RSR target for the Basic Autopac program.

(BRIEF PAUSE)

The Corporation has identified the following benefits of using DCAT:

1. It assists management and the PUB in the identification, in the measurement, in the mitigation

of key risks faced by the Corporation, by creating a framework to the impact -- sorry, by creating a framework to analyze the impact of adverse events. All components of the risks can be considered.

2. It creates a forward looking measure of risk, i.e., it's not the retrospective measure like other capital tests. The financial impact is determined by analyzing the financial statements over a five (5) year period. This shows, not only a yearly impact, but also the longer term impacts of one (1) year -- or of one (1) time events.

Number 3. It uses company specific assumptions for adverse scenarios, ripple effects, and management action, as opposed to prescribed rules that are the same for every company. The operation of the MPI Basic Autopac program is unique because a monopoly insurer faces different risks than private insurers do. The DCAT methodology can be tailor-made to specifically study those specific risks that MPI, as a monopoly insurer, faces.

Number 4. It produces an opinion based on the RSR targets for Basic, as set by the Manitoba Public Utilities Board. This approach not only assists the Corporation and PUB in setting the RSR target for Basic, it can also be used to determine the adequacy of various target levels. For example, an RSR at the maximum level in the range indicated in the new risk analysis, is one that is excessive because all adverse scenarios still result in a positive RSR.

Number 5. Creates a clear linkage between the required RSR for Basic and the amount of risk faced by the Basic line of business within the Corporation.

Number 6. It's a met -- recognized mess -- method of the Canadian Institute of Actuary in OSF -- OSFI.

Number 7. The adverse scenarios and associated assumptions can be easily modified at the request of the PUB. Considerable management judgement must be used in DCAT testing to create the adverse scenarios. By den -- definition, the adverse scenarios are low probability events, i.e., 1 percent to 5 percent probability of an occurrence, so there will be some debate amongst stakeholders as to whether the assumptions used in the given scenario are, in fact, plausible.

However, the Corporation has made a determined effort to create -- create scenarios that are supported by actual historical evidence, example, stock market returns, and reasonable management and regulatory actions, example, RSR surcharges.

Further, if the Public Utilities Board

does not agree with the assumptions used in the adverse scenarios, they can request alternate assumptions be used for testing. And the importance of that last sentence I think really has to be underscored.

MPI has prepared the DCAT on the basis of adverse scenarios that it considers to be plausible. The Corporation has defended both its advice of adverse scenarios and the plausibility calculations on the basis that these are management's best judgment.

However, MPI has extended the offer to the PUB that they can request alternate scenarios be prepared, different methods to calculate, the probabilities can be employed.

However, the Corporation is inflexible concerning the use of DCAT as a best tool or me -- methodology to calculate the target RSR. In other words, there's two (2) separate questions and decisions to be made by the PUB here: 1) is whether to use the DCAT and 2) if yes to -- to the Number 1, then whether to use the adverse scenarios that management considers most plausible, or to substitute its own judgment and impose new adverse scenarios. Nevertheless, the Corporation will continue to use DCAT in the future regardless of the Board order to be issued December 1st, 2009 with respect to Basic rates.

I'm going to talk a little bit about some of the attributes of the risk analysis, MCT, and DCAT.

Another key IR was PUB 2-28, which set out a number of attributes to be tested against the risk analysis/value at risk, the MCT and the DCAT. And those attributes were subjectivity, objectivity, potential for estimation error, transparency, dependence on historical results, degree of conservatism, stability over time, and relevance to the current situation.

There was extensive cross-examination by Board counsel on this information request, as Board counsel sought elaboration on each of those attributes. These are contained and elaborated in PUB 2-28 and I would encourage the PUB to review that IR once again in its deliberations on the RSR methodology.

The Corporation submits that these attributes are, in essence, criteria for determining which methodology is to be used to calculate the RSR. The Corporation further submits under each of these attributes the DCAT is equal to or outperforms MCT and the risk analysis, with the exception of objectivity.

The DCAT, of course, is the most subjective of the three (3). However, once again, it's important to reiterate that MPI has offered the PUB the chance to share in that subjectivity.

The DCAT Committee within MPI has set the management judgment for the adverse scenarios. Those individuals include -- that are included in the committee are the manager of Actuarial Services and has a def -- designation FCIA. There's the corporate controller and director of finance, CA; manager of internal audit, CA; manager of financial reporting, CGA; manager, budgeting and planning, CGA; and manager of investments, FCA.

These adverse scenarios have been approved by the Corporation's executives and by the Corporation's Board of Directors. As prudent custodians of Manitoba's Basic auto insurance program, MPI developed these plausible adverse scenarios and calculated the probability.

No one can predict everything that's going to happen in the future, but MPI must use its best efforts to predict future events that will impact Basic auto insurance rates.

MPI is relying upon the professional judgment and standards of actuaries who universally recommend and adopt the DCAT methodology. It is important to note that actuaries are indeed a very highly trained profession in identifying and calculating risk for insurers. Indeed, it is the single most important and integral part of their professional expertise, and their required tool under their professional standards of practice is the DCAT.

I'd like to proceed and provide some comments with respect to the CAC/MSOS witnesses, Doctors Hum and Simpson.

CAC/MSOS witnesses have said that MPI is being ultraconservative in adopting the DCAT. This is from the witness who stated, quote, he is a "risk loving person. I'm willing to take a little bit of a gamble in my life."

And that's transcript page 1,635. It is surprising to MPI that the CAC/MSOS has backed the risk loving individual rather than the ultraconservative insurer to determine the RSR for Basic.

As an academic, it might be appropriate to be risk loving and taking gambles, but do you really want your insurer to engage in this? MPI is emphatic in urging the PUB to not take a gamble with the RSR.

Doctors Hum and Simpson have characterized MPI as being ultraconservative and worrying about minuscule probabilities of adverse scenarios occurring. I'll provide you an example of being ultraconservative and adverse events of minuscule probabilities occurring, but at the individual, not at the overall basic level.

Analysis can show that there is less of a

0.004 percent chance that an individual driver from St. Vital with a fifteen (15) year claims free driving experience will be involved in a serious accident in 2010.

According to Professors Hum and Simpson, such an event of 0.004 percent chance is so minuscule that it should not be a concern. It is an outlier of the greatest type, well out in the tail of the distribution. They might even say that, based on those numbers, that it would be reasonable not to take the appropriate safety precaution of wearing a seat belt because the risk of harm is just too small. And indeed, based upon being a risk loving individual that's willing to take gambles, one (1) of them may choose not to wear their seatbelt.

MPI does not think that way. We believe that MPI should assess all risks and take appropriate responses. It is appropriate for good drivers to wear seatbelts even though the risk of serious harm is indeed minuscule in terms of probability.

The government also does not think this way since it is a legislated requirement to wear a seatbelt while in a moving vehicle. Both the government and MPI are ad idem on this issue. Both are ultraconservative in their acceptance and assumption of risk.

CAS/MSOS and their witnesses, Professor Hum and Simpson, have recommended the risk analysis. This is a methodology that only looks at the past events. Its fundamentally failing is that, if an event never happened in the past, it's not going to happen in the future.

There's never been a severe hailstorm in St. Vital. Therefore, according to the risk analysis, there will never be a severe hailstorm in St. Vital. In the past fourteen (14) years Manitoba has experienced four (4) severe hailstorms, and yet had not ever experienced a severe hailstorm in its first twenty-three (23) years of operation.

The DCAT permits MPI to consider the plausibility of a severe hailstorm hitting St. Vital or other parts of Winnipeg using the realities of today's world in climate change. It is not prudent to limit MPI's consideration to a past world that no longer exists.

The strength of the DCAT is its flexibility to look at the realities of the ever changing world. The fundamental underlying assumption of the risk analysis is the reliance only on past events to predict the future.

We're in the midst of the most -- of one of the most significant negative economic events that has occurred in the past seventy (70) years. Based upon the CAC/MSOS witnesses' recommended data set of economic history and data post OPEC mid 1970s, this event should never have occurred.

Economists throughout the world, including Doctors Hum and Simpson, were blindsided, but what is -- by what is likely the most significant economic event of their careers.

Even though they are experts in economics -- economics, they were unable to forecast the biggest economic event they will likely ever experience. In fact, they were literally dumfounded when they testified at last years GRA, when they were confronted with late breaking news of an eleven hundred (1,100) point drop in the TX -- TSX that very morning.

This is what happens when you limit your forecasting methodology to only considering recent past events since 1994, or post OPEC 1970s, on theories that something cannot happen.

There is a not a single insurance regulator in Canada that relies exclusively on historical data to approve rates charged for automobile insurance. Insurance deals with future claims, and future events, which appears to be a weakness in the CAC/MSOS evidence.

This is what the professors, with all due respect, seem to miss.

While historic events and data may be helpful, they are limited in an ever changing world. This is not an academic exploration of past history, it's about predicting the future. And that is precisely why MPI requires an actuarial tool, one that is tried and tested by the actuarial profession that deals in future insurance risk regardless of whether that insurer is a government owned monopoly or private and competitive.

As set out in the rebuttal evidence filed, MPI noted the following deficiencies in Professor Hum's and Simpson's report. They misunderstood that DCAT dealt with the overall financial condition of the Corporation, and not just with Basic; and hence, their covariance calculations and analysis should be ignored.

The DCAT implicitly recognizes the monopoly position of MPI, in its choice of adverse scenarios and their plausibility. The reliance on historical data since 1994 does not address future risks.

Large unforseen events are, in essence, outliers, which is why MPI picked these for adverse scenarios for the DCAT. The DCAT does not allow for favourable scenarios, as set out in the standards of practice. It does not allow for opportunity gains.

They also misunderstood was that each DCAT adverse scenario does contain a probability. It does not contain the underlying working papers to calculate that probability though.

Effective risk management requires knowledge of: 1) Historical data on risks/returns, volatilities, and correlations; 2) Future business and investment plans that may alter the firm's risk profile; and 3) Current risk exposure.

The risk analysis fails on all three (3) of those factors, whereas the DCAT incorporates each of those elements. Given this, the PUB has to ask, why would anyone want to continue using the risk analysis?

Doctors Hum and Simpson prepared their report as an exegesis, which is really -- it's a critical analysis which is, for better words, an academic paper. However, in preparing the report they did not consult with The Canadian Institute of Actuaries' DCAT Standards of Practice. They glanced at the Canadian Institute of Actuaries' DCAT education note; and whether he understood it or not was another question according to Dr. Hum.

They did not review any academic papers on DCAT. They did not speak to a professor of actuarial studies at their own university. Professors Hum and Simpson agreed that DCAT is an actuarial tool, not an economists tool. They understood that DCAT was accepted by OSFI. They agreed that DCAT was an insurance industry tool -- sorry, an insurance industry standard.

Professors Hum and Simpson agreed that it was beneficial for MPI to commit to using an industry standard techniques in assessing risks; had no questions with the DCAT, and said that it was a good tool to stress test MPI.

They agreed that if the PUB finds the adverse scenarios chosen to be plausible, then that would be fine too, they said. And they agreed that the consensus of the DCAT $185 million was at the midpoint of the new risk analysis target of a hundred to 250 mill -- of approximately a hundred to 250 million was merely serendipitous.

Really, Doctors Hum and Simpson simply disagreed with some of the adverse scenarios chosen. It was here that the Corporation found the testimony and the reasons of the professors to be somewhat frustrating, and also somewhat contradictory.

For the adverse scenario of the extremely large hailstorm, they want further meteorological data. However, for economic events, when provided with the data of a plausible event occurring sixty (60) years ago, they argue for only using more recent economic data. This inconsistency must be viewed by the PUB with -- with an element of skepticism.

With respect to the argument of CAC/MSOS, the Corporation was also frustrated when it heard that sustained low interest rate/low equity returns adverse scenario attacked by the two (2) professors as being counterintuitive to theory and to empirical evidence.

However, the Corporation provided the data that this occurred for four (4) years, from 1937 to 1940. In that case, Professor Hum and Simpson stated that material changes had occurred since then that would preclude the event from recurring, in theory.

Furthermore, reliance on data was described as being problematic by Dr. Hum. In other words, don't let the data get in way of the theory?

CAC/MSOS's argument focussed in part on the evidence of Professors Hum and Simpson that, quote:

> "There is no sound basis for grounding the calculation of an RSR solely on the basis of a set of hypothetical outliers." Closed quotation marks.

Dr. Simpson further stated that, quote:

> "The tails of a distribution are particularly hard to characterize." Closed quotes.

The Corporation agrees with Dr. Simpson on this point. It is precisely those outliers that MPI is seeking to protect ratepayers from.

Here's an analogy. Each ratepayer pays an annual premium of approximately eight hundred dollars ($800). Really, the ratepayer could self-insure for most of the accidents which have a severity of a couple of thousand dollars and -- and do not usually occur on an annual basis but is rather infrequent for most ratepayers.

What that ratepayer is really insuring for is that outlier, that there may be unfortunately -- that they -- that they may be unfortunately involved in a bodily injury serious loss or that their new expensive vehicle is written off.

Similarly, the RSR is insuring for that unexpected and nonrecurring event on a corporate wide level. The DCAT actually wrestles with the problem of those tails of a distribution that are particularly hard to characterize. It does not ignore them because they're problematic. That is the nature of insurance.

In its closing argument, CAC/MSOS endorsed the position of Doctors Hum and Simpson, that effective risk management cannot be addressed by examining only part of a corporation.

The PUB has never taken the position that the RSR is to include all lines of business and rate increases made necessary by unexpected events and losses arising from nonrecurring events or factors in all lines of business.

Professor Hum provided the analogy to a shareholder in GM, wanting to know what the Chevy line is doing, along with trucks and along with Buicks, but that's, again, not an accurate analogy.

If MPI were to apply this analogy to the lines of business, this is what would ensue: The PUB is able to set rates for Chevies, but it can't set rates for Buicks, and not, indeed, for any other GM products.

There exists a longstanding line of regulatory jurisprudence and practice that there is to be no cross subsidization between the various lines of business. In other words, monies and services are not to be transferred from the Chevy and Buick lines, but only under certain conditions, such as an approved cost allocation study or specific transfers.

In this proceeding, what matters is only Chevy rates because that is what the PUB's jurisdiction has limited. The PUB is simply not analogous to a GM shareholder.

Doctors Hum and Simpson and the CAC/MSOS in their closing argument have stated that DCAT is not the appropriate methodology for a monopoly Crown insurer. The underlying rationale seems to be that MPI has the apparent unlimited financial backing of the Province of Manitoba. Let's pause and let's think about that for a moment.

Take a scenario whereby, due to investment losses because of an extended market meltdown, the RSR is negative $200 million. Does that mean that the government sits at the cabinet table during this period of economic malaise sweeping the province, in an era of balanced budgets, and decide to write a cheque to MPI for 200 or more million dollars to fund the RSR, and thereby take away money from education, from healthcare, from social services, from infrastructure?

No. Its monopoly and Crown status only means MPI has a group of ratepayers to whom it can charge approved rates set by the PUB, nothing more.

In closing argument, CAC, in its Recommendations Number 4 and 5, argued that the actual equity of 13.4 percent should be used rather than the 25 percent target in calculating the RSR target range. By this, CAC emerges with a recommended target of a hundred and four (104) to $147 million.

But here's the problem with that

recommendation: CAC used actual equities as at February 28th, 2009, a point when the market was almost, but not quite, at its -- one of its lowest points. MPI calculates the VaR on the basis of targeted equity holdings of 25 percent, because that is what is into the future and that is what the future is what the RSR is trying to -- to address.

If the Corporation were to use actual equity holdings for calculating VaR, then that will lead to significant variations. For instance, as at September 28, the aquity -- the actual equity levels were just over 20 percent of the portfolio. However, this shrunk to 13.4 percent some six (6) months later due to the intervening market meltdown. Already, this is back up to 17 percent.

Given the volatility in the market which continues today, MPI strongly suggests that this form of calculating the target be rejected as it, in and of itself, will create excessive volatility in the target and not aid in that purpose of stabilizing rate increases and protecting motorists from unexpected rate increases.

Can you imagine ordering rate increases one (1) year, based on an under -- underfunded RSR attributes, due to high actual equity holdings in a strong bull market, only to order decreases the following year due to a decline in actual equity holdings because of a poor bear market conditions?

And if the market were to rebound the following year under this scenario the rate increases may be required again. Of course, this scenario of low actual equities would also be correlated with low investment income which would have a hit on the income statement.

MPI requests the PUB not adopt actual equity in the calculation of the RSR target but, instead, continue with the target of 25 percent, to which MPI is working. Again, this is consistent with insurance practices which are forward looking.

MPI has provided testimony as to the importance of establishing a single point value rather than a range for the RSR. Rather than having a range, this is an automatic trigger. It depends on how you got there. A move towards a more situational decision making approach, contextual, as opposed to rules based in figuring out how to get to the RSR target. As reasons provided before, this is what MPI assists -- or that MPI trusts that the Board will engage in that kind of dialogue in future Rate Hearings.

In moving away from the topic of RSR and some of the evidence provided by -- or argument provided by CAC/MSOS, MPI did want to state that it fully endorses the position of CAC/MSOS that the RSR is no substitute for good management and that's taken very seriously by the Corporation.

In conclusion on this section of the closing argument of the RSR, MPI requests that the Public Utilities Board use DCAT and adopt DCAT as the methodology for assessing risk for the purposes of establishing the Rate Stabilization Reserve for Basic. The methodology is universally acceptable by the actuarial profession in other insurers. The only legitimate question MPI submits are the adverse scenarios and their plausibility.

And the Corporation has, in its filing in DCAT -- of DCAT in AI.18, offered the PUB the ability to alter and to run different adverse scenarios. The Corporation further requests that if the PUB accepts the adverse scenarios, as selected by MPI as being plausible, then the RSR target be set at 185 million. If the PUB does not accept the adverse scenarios but accepts the DCAT as being appropriate methodology, the PUB can be as prescriptive as desired with respect to choosing adverse scenarios.

In doing so, if the PUB chooses the route of selecting adverse scenarios, the PUB must ask itself if -- if it is willing to support a financial outlook that could result in a negative RSR should any of the plausible events occur. The answer to that question is absolutely crucial for the PUB and will have a significant effect on the target that the PUB determines.

In formulating the DCAT target, MPI was very careful to choose the target of 185 million, as with that amount, the occurrence of any -- any plausible scenario never resulted in a negative RSR. MPI requests that the Board, in this order, if it requires alternate adverse scenarios and a different target, less than $185 million, that the PUB state its position that it will be acceptable for retained earnings to be less than zero should any of the newly PUB selected plausible scenarios occur.

(BRIEF PAUSE)

THE CHAIRPERSON: Do you want a short break, Ms. Kalinowsky?

MS. KATHY KALINOWSKY: No, I'm ready to proceed. Thank you. Just moving away to another topic, which is another major topic, and that is cost allocation.

PUB order 150/'07 ordered MPI to undertake a cost allocation review and file the results of the review at the next GRA. Well, it took two (2) GRAs, but in response to this order, MPI retained Deloitte to conduct a study to review the current allocation approach and to provide recommendations to update the methodology.

The report was filed at this GRA and MPI produced Mr. Richard Olfert, FCA, of Deloitte, to testify. Mr. Olfert testified in a manner that was credible, was thoughtful, forthright, perceptive, and demonstrated his thorough knowledge of MPI's businesses, it's accounting methods, and of course cost allocation, in general. The Corporation submits that he was a most impressive witness of the highest possible caliber.

The Corporation also submits that the cost allocation report is a very strong, it's a robust, and it's a principled document that can be adequately -- and appropriately allocate the operating expenses between Basic and other lines of business to the satisfaction of the PUB, to ensure that Basic rates are fair and are equitable and do not contain costs that are incurred for the purposes of Extension, SRE, or for the purposes of driver licensing and vehicle registration.

Extensive research was undertaken by Deloitte into cost allocation, and more particularly, to the vastly differing experiences of ICBC and SGI. SGI has a cost allocation that is not a public document and has not been the subject of significant regulatory scru -- scrutiny in a public hearing. ICBC, on the other hand, has been bogged down -- and I use that term specifically -- in a six (6) year regulatory process of public hearings and workshops and still does not have a final cost allocation methodology.

The Corporation submits neither model is to be emulated, of course, and trust that this Board will accept this cost allocation methodology, though it may want to make and provide directions on certain alterations in this order.

In preparing its report, Deloitte was guided by a series of guiding principles. The Corporation submits that these are appropriate for the PUB to use in determining the effectiveness and the appropriateness of this cost allocation methodology. It's guiding principles are:

1. Fair and reasonable.
2. Practical and efficient.
3. Flexible and adaptable.
4. Acceptable in a regulatory context, and;
5. It's consistent with industry standards.

PUB Exhibit Number 17, was a decision tree allocation methodology, broken down by four (4) different levels, and included the dollar figures attributable to each level, and the choice of the allocation, and it used the pro rata full cost approach.

Level A was to identify all cost categories exclusively related to one (1) category of business, whether it's Basic, Extension, SRE, or non-insurance.

Level B was to identify all cast -- all cost categories comprised exclusively of costs that are insurance, or non-insurance.

Level C, allocating between insurance and non-insurance, on the basis of a number of allocators. These allocators include: estimated work effort, category of business salary ratio, enterprise wide per square foot basis, percentage of base salary costs, weighted customer call centre contact ratio.

Level D, allocated to the category of business items assigned and allocated to insurance on the basis on a number allocators. The allocators for Level D included: claims under management ratio a -- assigned to Basic lines of business, percentage of claims reserves and unearned premiums by insurance line of business, net claims incurred percentage.

It is interesting to note, that at the Level A allocation, 82 percent, or $804 million, is assigned directly to a line of business, and that the Level D is an assignment of a hun -- nearly $160 million, of which 139 million is assigned to Basic insurance using the numbers for the 2009/'10 insurance year but -- insurance year.

Mr. Olfert testified that BPR costs are of a fundamentally different nature than ordinary operations, as they are a limited time period, are done on a project by project basis. The methodology was flexible, and it was adaptable enough, to accommodate within into -- and no further changes would be required to the methodology. Mr. Olfert testified that ongoing vigilance is required by the Corporation to ensure the process by which the BPR costs are aggregated for use in the methodology.

And I have a quote here from Mr. Olfert:

> "So, because we anticipated that the transition to service centres would be amongst the most significant of those changes, we recommended purification steps to handle that particular item. But if a BPR project introduces a new type of cost, or a new process, then

the Corporation will need to assess that process to determine how these costs are accumulated, trying to protect the principles of maximizing assignability and making sure that allocated costs are allocated fairly and reasonable." Closed quotation marks.

CAC/MSOS has stated that the Deloitte Report is a really good start, but then expressed concerns with one (1) Level D allocator, the percentage of net claims incurred. And predictably, it recommended a workshop to consider both claims incurred and premiums earned. CAC also recommended the percentage of premiums earned be used to allocate these cost categories, rather than percentage of net claims incurred.

As the PUB may recall, net claims incurred percentage is to be used as an allocator for a number of cost categories, including service centres, IT -- corporate IT costs, HR, legal, pricing and economics, internal audit, and several other cost categories.

Net claims incurred percentage is the net claims incurred by each insurance line of business as a percentage of the total net insurance claims incurred. The rational for net claims incurred reflects the net insurance claims activity in a given year.

The majority of MPI's operating costs related to the provision of insurance services are, of course, related to claims. Net claims incurred by insurance line of business, as a percentage of total net claims incurred, provides a reasonable allocator to apply to share costs of providing insurance services and the supporting functions to the provision of insurance services.

Mr. Olfert expanded on this and testified -- and I'm going to read in a quote from page 709 to 711 of the transcript. Please bear with me, but I think it is very important to hear what he said. All -- and I start the quote now.

"All of those individual types of costs are incurred for the purposes of managing the claims activity, and so it was our view that the relative proportion of the claims was a reasonable basis on which to allocate the cost which supported the management of those claims. I think, in the final analysis, that the point on which the conclusion turned, however, prior to thinking about that point and going back to the guiding principles which you referred to in your earlier question, when, with the objective of coming up with fair and reasonable, our view would be that it would be best if the measure that's used for each of the lines of business to which the costs are to be allocated if those basis were determined in a similar fashion based on similar principles.

And so, when we considered the premiums alternative, it seemed to us that on the Basic insurance, which operates on a cost recovery basis with rates set by this Board, that the premiums were influenced by different factors than they would be for either Extension or SRE, where the co -- Corporation is free to do as it see -- sees fit, with respect to the profit element.

And so the inclusion of a corporation determined profit element in the measure for two (2) of the lines of business, but not in the first line of business, where it's determined by the

Board, our view was that it was more fair and more reasonable to go to a basis on which they were similar and uniform, which was on the basis -- which was on the basis that was chosen being that of claims incurred." And that's the end of the quote.

When questioned by Board counsel about applying the five (5) guiding principles, to choosing between premiums earned and claims incurred, Mr. Olfert again explained with respect to fair and reasonable, he said, for the reasons above, which were in the quote, claims incurred is better.

With respect to practical and efficient, both are equal. With respect to flexible and adaptable, both are equal. With respect to being acceptable in a regulatory context, Mr. Olfert notices that ICBC uses premiums earned on elements like insurance underwriting, where there is an effort to split it between the Basic and the competitive co -- collision split, which is a vastly different -- different scenario and purposes than MPI would be using this. And he had the same comments with respect to -- in being consistent with industry standards.

Mr. Olfert explained that Deloitte had

considered net premiums earned, but had concluded claims incurred was a better allocator and was more reasonable.

I've quoted Mr. Olfert on length on this issue to emphasise his expertise and his careful measured approach in explaining the rational and principled way in which Deloitte made its decision on using its best judgment as experts in cost allocation. MPI urges the PUB to support and follow this recommendation of Deloitte. Mr. Palmer also provided evidence and spoke to ways in which the volatility sometimes associated with claims incurred could be stabilized by introducing a mechanism, such as a five (5) year rolling average or other instances.

I'm going to talk briefly with respect to the process for cost allocation. MPI has, of course, stated that it requires further work on cost allocation prior to implementation. The two (2) areas identified were cost purification and work effort studies. These are to be completed in advance of the 2011 GRA, and to ensure it's meaningful, measure -- measurable, and auditable, if indeed auditable is a word.

The Corporation agreed that the financial statements for Basic will be prepared on the basis of the new cost allocation methodology. Witnesses for the Corporation were also questioned by CAC/MSOS as to whether a workshop approach to refine the cost allocation study similar to that used by ICBC as mandated by the BCUC was feasible. The response was, Well, it depends on the Board order, noting that great specificity is required in the Board order.

And we also noted that the ICBC workshop approach has consumed six (6) years of work without completion, though of course we acknowledge that MPI Study is further along than the ICBC was when it initially launched into the workshop approach. And the other aspect mentioned by the Corporation is, you have to look at whether there'd likely be material gains from such a workshop. These are all mentioned at transcript pages 1,177.

The position of the Corporation is to request the Board to obs -- adopt the percentage of net claims incurred, recognizing that the costs are mostly direc -- mostly directly -- directly attributable to claims, the very essence of MPI's function as an insurance company.

The Corporation is seeking implementation for March 1st, 2011, to be included in the 2011 GRA rate filing next year. I'd like to remind the PUB of the comments of Ms. McLaren, with respect to the implementation in the Board order, and I'm going to read those in, from pages 793 to 795, because I believe they're very important. And she stated, and quote:

"Mr. Chairman, that leads me to make a few comments with respect to what we would be looking at, what would be the most helpful for us in an order coming out of these proceedings with respect to cost allocation, because we do have this lead time that we've proposed. We're dealing here with the 2010 GRA and a cost-allocation methodology proposal that could be used a year later. In the interest of, you know, cooperation and collaboration, and being as understood as possible, I think it's important for me to say that we would look for as much clarity as you can provide in the order that we will receive in the 1st, or early after the 1st of December of this year. If, in fact, the Board rejects the cost allocation that we've been talking about here, then we -- then we would anticipate filing the 2011 GRA with the existing cost allocation methodology.

If the Board was to adopt its views for rate making purposes you may still want us to wait one (1) more year. You may want to see, in the 2011 Rate Ap, all of the results of the implementation work that Mr. Palmer just spoke of. So I think there's a number of things, whether it is an adoption and immediate use and let's just look at the consequences, an adoption and a delayed use as we have a chance to understand the implementation choices. What -- what will be very difficult for us to deal with is an order to implement something that we haven't seen or talked about here. And I would just hold out the possibility that, in fact, if there was something quite unlike anything that's been discussed in these proceedings, we may in fact not be able to just proceed with implementation in 2011." Closed quote.

Thank you for bearing with me on that, but I did think it was very important to bring that forward to the Board's attention once again.

As a summary on the issue of cost allocation, MPI requests that the Board approve the methodology as proposed by Deloitte. With the cost allocation in place the Board can be satisfied, as MPI stated in their opening comments when discussing the relationship between Basic and other lines of business, that, in quote:

> "My clients are hopeful that some measured strides to improving accountability can be taken with consideration of the new proposed cost allocation methodology."

And that was from page 30 of the transcript. In Order 150/'07, the Board wrote that, quote:

> "The Board is of the view, given the integration of DVL, as well as other changes internally within the Corporation, the time has come to revisit the cost allocation methodology." End quote.

The Corporation is now fulfilled that with the provision of the Deloitte Report, which it encourages the Public Utilities Board to endorse.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I'm going to talk very briefly about IFRS. MPI has indicated that it is currently entering into the lection -- election stage for the adoption of IFRS. Further information and development is required prior to determining the financial implications, and accordingly, such information could not be brought before the PUB at this time in this General Rate Application. The Corporation indicated it would be bringing such information before its Board of Directors for election over the next several months, and into the -- and in the new year.

The Corporation has heard the PUB express its interest in keeping abreast of the potential impacts of elections made by MPI, and the consequent implications this may have for Basic ratepayers. MPI will take this under advisement and consider this, recognizing the Chair's comments regarding the possibility of the PUB not agreeing with the Board of Directors of MPI on election choices, and therefore creating a scenario where there's a separate set of financial statements for rate setting purposes, as compared to the regular financial statements. Obviously, this is a situation we all want to avoid.

I'm going to read in another quote, and please bear with me. It's from Ms. McLaren, and it's located on pages 795 to 796 of the transcript. And it says, quote:

"So, I think it's fair to say, as I understand it, that for IFRS purposes our 2010/'11 fiscal year is really just a non-issue, particularly from this GRA period. And if we think ahead in -- what will we be looking at and what will we have available to us in June of 2010?

In June of 2010, at almost the same time, you'll see our annual report, which has really just a qualitative description of what we're thinking we're doing with IFRS. And you'll have a 2011 Rate Ap based on the decisions that the Board has taken to this point in time. And I think, for all intents and purposes, we envision, sort of, the consultation and the discussion around the policies adopted by the Corporation to play out during the 2011 GRA process/ Because, if, in fact, as you had suggested, that the PUB may have a different view, and may adopt, sort of, regulatory accounting different from the Corporation's policies, we would in fact learn about that in December of 2010, and still have ample time to go back to our Board and say: This is what the PUB will be doing. Do we want to run two (2) sets of books, or do we want to reconsider some of the policies that, at that point, our Board would have adopted almost a year ago, because none of this has to be used in public until basically -- report the first quarter results for -- in the '11/'12 year, which is five (5) to seven (7) months after we had your order in December of 2010." End quote.

Thanks for bearing with me, but I thought that was really important to, again, bring that forward to the Board's attention. And I'm not going to talk about IFRS anymore.

I'm going to talk instead about operating and maintenance and capital expenditures. And you can bear with me because this is a finish -- almost finishing up my closing argument.

The Corporation continues to manage and be vigilant on all operating and maintenance and capital expenditures. MPI believes it has shown in the evidence, both in written and oral testimony, that it makes these expenditures with the appropriate degree of fiscal prudence, whether it's the staffing numbers, whether it's compensation amounts, whether it's benefits, whether it's data processing, or whether it's postage.

With respect to capital expenditure, this year saw the acquisition of Cityplace and surrounding parking lots for $81.5 million. In making this expenditure, MPI followed best practices by obtaining, not one (1), but two (2) external appraisals in support of the purchase price. Extensive cross-examination by Board counsel and Undertakings demonstrated a favourable business case for this purchase, namely $3 million in annual savings, plus obtaining ownership of the building at the end of the day. We believe there could be no criticism of this purchase.

The expenditure also saw the first direct purchase of the parking lots that are classified as a real estate asset within the investment portfolio. The Corporation underwent significant cross-examination on the PIPP infrastructure project, and it's implementation for spring 2010.

The Corporation is very excited about this initiative and has put forward a business case outlining the forecast savings, whether the savings are attributable to the improved paperless case management, whether it's attributable to automation, or through leakage being suppressed.

This is a very significant IT project with a cost of $27.1 million. Again, the Corporation has -- believes it has exerdi -- exercised impeccable fine -- fiscal prudence in making such an expenditure.

MPI strongly believes in the PIPP infrastructure program and would have proceeded regardless of whether these savings would result. This is one of those -- these -- those ideal projects, however -- I'm sorry, this is one (1) of those ideal projects whereby MPI creates opportunities to both improve service and reduce costs through re-engineered processes.

The Corporation's vigorous project management protocols place significant emphasis on benefit realization. MPI will report to the PUB after implementation on this benefit realization and achievement of product goals and deliverables, and we will be discussing this, no doubt, at length at the next general rate application.

In conclusion and in closing, MPI submits that it has satisfied the onus put forth, that its rates as applied for are just and reasonable, and requests the PUB to approve them. As stated at the outset of this Hearing and in conversations with Board counselling (sic) while the scheduling was being worked out, and notwithstanding this late date of closing argument, the Corporation requires an order on December 1st or 2nd, 2009, less than three (3) weeks away.

So, with that, I say good luck and thank you very much to -- for all your considerations during the hearing process. Thank you.

THE CHAIRPERSON: Well, we'll get straight at it, Ms. Kalinowsky. Thank you, particularly for your contributions, this being your first year representing MPI as MPI's counsel at the General Rate Application. Your contributions are appreciated. We also, again, appetite the conscientious participation of MPI's senior management team throughout these hearings.

This year's Hearing was marked by breaks of time, with respect to hearing days, as we all know. Well, next year we will attempt to shorten the breaks.

There were some advantages, I may note. The breaks have assisted the Board in absorbing, as you point out, one thousand (1,000) IRs and things of that nature, and reflecting on the evidence, which makes our attention to your comments and the comments of the Intervenors more easily absorbed by us. Our order may be expected by the time that you are seeking it, although we do grant it will be a tighter work schedule this time around, but we will attempt to make the first week of December.

So thanks again to all participants in the Hearing, and this closes the public phase of the 2010/'11 General Rate Application. Thank you.

--- Upon adjourning at 11:25 a.m.

Certified correct,

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Cheryl Lavigne, Ms.