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
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Pages 782 to 985

APPEARANCES

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--- Upon commencing at 9:07 a.m.

THE CHAIRPERSON: Okay, good morning, everyone.

Ms. Everard, do you want to pick up where you left off?

MS. KATHY KALINOWSKY: Actually, Mr. Chairman, I have a number of things that I'd like to get on the record this morning, with respect to clarification of a couple of things that arose over the last couple of days of testimony. One (1) is that we do have an exhibit to file that I've passed to Mr. Singh already and he'll just pass it around. I would recommend that it be called the AOCI Impact Gap and IFRS and we'll have somebody speak to that. That would be MPI Exhibit Number 17.

Also spoke with Board counsel earlier this morning...

THE CHAIRPERSON: I think it might be 18 isn't it, Ms. Kalinowsky?

MS. KATHY KALINOWSKY: I think so, Mr. Chairman. I think the exhibit from yesterday with Mr. Olfert was 17.

THE CHAIRPERSON: Yes, so it will be 18.

--- EXHIBIT NO. MPI-18: The AOCI Impact Gap and IFRS

MS. KATHY KALINOWSKY: Thank you for that correction. I'd also like to have both Ms. McLaren and Mr. Palmer speak to two (2) different items. One (1) relating to cost allocation issues on some implementation issues perhaps, and the other one is IFRS clarification of some of the testimony yesterday.

I know that you said towards the end of the day, well you have to reflect on something, and the panel members would very much like to provide some evidence on that to assist you in your reflections.

THE CHAIRPERSON: Very good. Thank you.

MS. KATHY KALINOWSKY: And one (1) further item is -- we'd promised yesterday in response to an undertaking with respect to commercial vehicles and we'll be prepared to put that on the record today, this morning, also.

THE CHAIRPERSON: Thank you.

MPI PANEL 1 RESUMED:

MARILYN MCLAREN, Resumed

DONALD PALMER, Resumed

OTTMAR KRAMER, Resumed

MR. DONALD PALMER: One (1) of the things that we talked about yesterday was the implementation of the cost allocation methodology, as discussed by Mr. Olfert. And we talked very briefly about some of the details of the implementation, but it was three (3) bullet points and we didn't want to minimize the amount of effort that we'd have to put forth to implement that cost allocation methodology.

The three -- the three (3) issues that I'd like to cover are cost purification, the work effort studies, and the determination of some of the detail within the allocators.

First on cost purification, that will entail a real analysis of all our cost centres to break them up into their different components, and part of that is the set up of sub accounts within our financial system. We haven't used that current functionality to any great extent so far, so not only is it setting them up, it's really testing, going through that whole effort to make sure that they roll out properly.

So it's not only -- it -- it really is an extra implementation step, if you will, of our financial system just because it's finan -- functionality we haven't used yet. So that certainly will take some considerable effort.

The second point is with regard to the

work effort studies. To take a look -- and again, it's not something that we've got a whole lot of experience in, so -- to take a look at how we would do it. But I think more importantly for this Board is how we would verify it to come up with a -- a real concrete process for the implementation. Because we know it really has to be auditable that goes into our audited financial statements for the Basic Autopac line that are prepared for this Board.

So anything that we do of course has to be auditable, so that again is an extra step that would be extra effort so to speak.

The third area is the allocators that Mr. Olfert talked about and a number of them -- that Level 'D' -- was based on claims incurred. It sounds pretty straightforward, but as we know one (1) of the difficult questions we get in -- in any context is to tell us what claims incurred are. Well, that could be allocated by one (1) year claims incurred and I think that's what everybody has in their mind.

But we did talk about stability. I've talked about that a number of times. So it doesn't necessarily have to be one (1) year. We could use a three (3) year rolling. We could use a five (5) year rolling, we could base it on just financial year statistics. We could base it on accident year statistics which may be even better. So there's all that detail that we'll have to work through in terms of once we have the allocator of claims incurred, to expand that in -- into exactly what that might mean.

Customer contact ratio is probably another thing that will take us some effort to -- to really look -- and we talked about setting up maybe new categories of -- of claims classi -- or call classification, and again, do we look at that over a one (1) year period, over a three (3) year period, or rolling five (5) year period, that those details have to work out, as well as how we might look at handling exceptions. We do have a number of situations that arise from time to time that result in abnormal cla -- call volume, something like a hail storm, where all of the sudden we get twenty-five thousand (25,000) claims coming in at a certain time.

We -- in the past, we've seen something like a mail strike which could, all of the sudden, influence our call volume to a great extent. A rebate, if that was to arise in the -- in the future, that's announced and we immediately get thirty thousand (30,000) calls saying, Where's my cheque? So, again, those kind of abnormal call volumes, we'll have to have some sort of verifiable process and policy on how we might handle those.

So that's, in a little more detail, the -- some of the work that we will soon undertake, in terms of implementing that new cost allocation methodology.

THE CHAIRPERSON: That's helpful, Mr. Palmer. I'm sure we all imagined there would be a significant amount of work attached to putting in a new cost allocation formula. Just, if you wouldn't mind reminding us, when you finished all of the work, how it is applied? Retrospectively or retroactively?

MR. DONALD PALMER: We are looking for implementation on March 1st of 2011. Of course, we'll have to forecast what that allocation will be. So we'll -- for the future al -- allocation, when we apply for our 2011 rates, we will have to look at the actual allocators on a retrospective basis.

THE CHAIRPERSON: So, in other words, in simple English, you're not going back in time?

MR. DONALD PALMER: We're -- we're not restating financials, but we're using that as our -- for our pro forma financials in support of the 2011 GRA.

THE CHAIRPERSON: Okay. Thank you very much.

MS. MARILYN MCLAREN: Mr. Chairman, that leads me to make a few comments, with respect to what we would be looking for, what would be the most helpful for us in -- 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 -- 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 first or -- or very early after the 1st of December of this year. If, in fact, the Board rejects this cost allocation that we've talking about here, then we would anticipate filing the 2011 GRA with the existing cost allocation approach. If the Board was to adopt its use for rate making purposes, you may still want us to wait one (1) more year; you might want to see in the 2011 Rate Ap. all 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, af -- as we have a chance to understand the implementation choices. 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 -- 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 to implement it in 2011.

THE CHAIRPERSON: That's helpful too. Thank you, very much.

MS. MARILYN MCLAREN: Bear with me. I've volunteered to talk about IFRS implementation, because I think the time lines are -- they're -- they're hard to grasp and I think it's really important that -- and I think we may not have done a very good job about really communicating how this all will unfold over the next period of time. And because of the rate approval process, we're very early, and the decisions that we're talking about making, probably in January, many organizations won't make until the very next January, a year later.

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, 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 where we think we're going with IFRS, and you'll have a 2011 Rate Ap. based on the decisions that the Board has taken to that 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'd 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 and public until basically we report the first quarter results of the '11/'12 year, which is five (5) to seven (7) months after we had your order in December of 2010.

THE CHAIRPERSON: Thank you, that's helpful too.

MR. DONALD PALMER: My turn again. Going back to one of the implementation issues that we talked about on IFRS, and that was the -- the one time do-over of the bond portfolio. And that's the purpose of our Exhibit MPI-18, which in fact is an addition at the bottom to what we filed last week as MPI-16, which shows what the AOCI was at March 1st, May 31st, and August 31st, and what that would have meant if we had that one time do-over, so to speak, to our RSR.

So in March 1, 2009, the impact on the RSR would have been in fact a decrease of $9.2 million. It was 134.9 million, it would have been $125.7 million. So again, the question was yesterday: What would the impact be if we -- you had that do-over? As at the beginning of this fiscal year, it would have in fact been negative.

In June, as the markets have turned around, it was just about zero AOCI, just about awash with about a half a million dollars. Again, our RSR was reported at one hundred forty-four point eight (144.8). It would have been, with that do-over, hundred and forty-five point three (145.3). At the end of the second quarter, our bond portfolio had increased in value because of decreasing interest rates, so our RSR was reported one hundred and forty-seven point three (147.3). It would have been a hundred sixty point nine (160.9).

If we fast forward into the end of this fiscal year with the rather heroic assumption that there won't be anymore change in market value of those bonds, we would look at the RSR. We are currently forecasting that, and again that was included in one of the exhibits, Exhibit 14. We had reported that it would be a hundred and twenty-three point four (123.4) and with that one time do-over it would increase to $137 million.

What that speaks to is some of the stability that we would introduce with the matching of liabilities and -- and the market value of the bonds. With -- we are currently forecasting a loss in the current fiscal year of some $11 million. Part of that loss is due to the decrease in interest rates and, hence, increasing value of our liabilities. That's the mismatch that we talked about. With this one (1) time do-over, that in fact flips around so -- so in fact that $11 million loss would be better by the $13.6 million, or in fact $21 million of that change in value of the marketable bonds.

So that's where that stability comes. So instead of having RSR decreasing from a hundred and thirty-four point nine (134.9) to a hundred and twenty-three (123), if we had that do-over, it in fact would increase from the one twenty-five (125) to one thirty-seven (137), which is very close to what our original forecast was.

THE CHAIRPERSON: Thank you, Mr. Palmer.

We'll certainly reflect on this. This is a useful table to think about. Have you modelled -- I guess you wouldn't for February 28th, 2010.

This is based on decreased long-term rates, correct?

MR. DONALD PALMER: That's rates as we see them today. So they've decreased to the point today. We have not forecast any further increasing or decreasing rates for the next -- for the rest of the year, that's why we have not changed that impact on the RSR from September '09 of thirteen point six (13.6) to that end-of-year estimate. That's why those numbers are the same.

THE CHAIRPERSON: So you're saying rates as they are now, basically flat?

MR. DONALD PALMER: That's correct.

THE CHAIRPERSON: When you say "rates" you're taking into account not only if you want the coupon rate, but you're also taking into account the spreads and things like -- all those things that seem to move in opposite directs?

MR. DONALD PALMER: That's correct. We've --we've got a list of all of the -- the economic environmental factors at the bottom: The -- the interest rate environment, inflation rates, the spreads, corporate bonds over government bonds, and in fact provincial bonds over federal bonds have a spread as well, and also the amount of the available for-sale bonds in the portfolio. Those are all taken into consideration.

THE CHAIRPERSON: I appreciate your comments about the offsetting effect on the liability side because that's common to pension plans, too. When rates fall, the obligations go up. I'm just wondering whether you've looked at the possibility of long-term rates, if you like, spiking?

MR. DONALD PALMER: That's -- that's the beauty of this immunization strategy. When you have both the change of value of the bonds offsetting the change of liabilities it really doesn't matter what happens because they will work -- as long as you're somewhat duration matched they will work in concert to offset each other, to really immunize your profit and loss statement from those changing interest rates. So that's really the purpose of reclassifying those bonds so you don't get the mismatch between your operating statement and your AOCI.

THE CHAIRPERSON: No, I understand reasonably well the whole idea of immunization. I mean, a non-immunized portfolio almost brought down the Credit Union system over twenty (20) years ago. Pretty close. Thank you.

MS. MARILYN MCLAREN: And commercial

vehicles. Last point, I promise.

I guess first of all I -- when I was answering your questions yesterday, Ms. Everard, I was neglecting to -- to point out and even sort of notice the difference between registration and insurance. And because we were talking about cost allocation and allocating what had been known as DVL costs, we're talking about commercial registration, not the same necessarily as the commercial class, major class, with the insurance rate making process. So with respect to the insurance uses that can purchase Extension in the commercial major class of insurance uses, those are all handled by brokers, and so they're really a moot point.

So, yes, there are lots of -- there's about fifteen thousand (15,000) heavy farm trucks and a couple a thousand common carrier local passenger vehicles, but brokers handle those, and those are not the transactions at issue in the commercial vehicle group within the DVL group at MPI. Those people in that group handle vehicle registration classes that are -- are not -- they're not able to be handled by brokers: taxicabs, common carrier uses, international reciprocity plan users, things like that.

Taxicabs have significant insurance premiums in an insurance component, so that's why some of their costs are proposed to be shared with Basic insurance, because they carry Basic insurance. But none of those classes of vehicles that must be serviced at MPI directly have any Extension insurance on them, so it's really a moot point.

CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. I'm going to move to some questions about the cost saving initiatives that the Corporation has in place. I'm looking at SM.5.3 in Volume I of the Application, which has some commentary with respect to those things.

(BRIEF PAUSE)

MS. CANDACE EVERARD: If we look at page 4 of SM.5.3, there are three (3) initiatives that are mentioned for bodily injury claims cost savings.

MS. MARILYN MCLAREN: Yes, we have that.

MS. CANDACE EVERARD: I just want to ask a couple of questions about the second one that's mentioned, the negotiated fee agreements. It's reflected here that there's currently in place a three (3) year agreement with the Manitoba Chiropractors Association, and that is set to expire on December 31st, 2010.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: So I would assume then that, given that expiry date, is still quite far into the future. You're -- the Corporation is not at a point where it's discussing a new agreement.

Is that correct?

MS. MARILYN MCLAREN: Right. Yeah, right.

MS. CANDACE EVERARD: The next sentence there in SM.5.3.B, references multi-year agreements with the Manitoba branch of the Canadian Physiotherapy Association, or CPA, and the Manitoba Athletic Therapist Association, or MATA, both of which expire December 31st, 2009, which is not that far away.

Are those renegotiations underway at this point?

MS. MARILYN MCLAREN: There are discussions ongoing, yes.

MS. CANDACE EVERARD: And is it the Corporation's hope that new agreements will be put in place for the beginning of 2010?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And are there any cost consequences expected related to the renegotiations?

MS. MARILYN MCLAREN: Nothing beyond what we would have incorporated into our forecasts.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Did the forecasts include an increase in the costs?

MS. MARILYN MCLAREN: Generally what we do with respect to all of the claims service providers, both on the injury and physical damage side, is include something approximating CPI.

MS. CANDACE EVERARD: Thank you. The next section in SM.5 is 5.4, which relates to all perils claims cost savings initiatives. In the first section there, 5.4.A relates to after market and recycled parts usage. It states that:

> "After market parts are new parts manufactured by someone other than the original equipment manufacturer, whereas recycled parts are parts that have been reclaimed from vehicles which have been sold for parts."

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: In the second

paragraph under SM.5.4.A it's reflected that during the 2008 calendar year the Corporation had estimated net savings of $13.7 million from the use of after market parts, which was an increase for 10.8 million during the 2007 calendar year.

MS. MARILYN MCLAREN: That's correct.

MS. CANDACE EVERARD: Now, with respect to recycled parts for the fiscal year ending February 2009, states the Corporation had an estimated saving of $14.1 million from the use of recycled parts, which was also an increase in the savings, up from 13.8 million in the previous fiscal year.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: I'd next ask you to look at SM-5.4.C which is on page 6 of SM-5. In the second paragraph, this is under the heading of labour and materials costs, it reads:

"To this end we have an agreement in place with the MMDA and the ATA covering labour, paint, and materials, in southern Manitoba, expiring August 31st, 2009."

What do those acronyms stand for, MMDA and ATA?

MS. MARILYN MCLAREN: Manitoba Motor Dealers Association and the Automotive Trades Association.

MS. CANDACE EVERARD: Thank you. In the next paragraph there's reference to a -- a study that the Corporation is partnering with these two (2) entities on to undertake a -- a health of the industry analysis.

Is it the case that the Corporation, the ATA and the MMDA are three (3) equal partners in that analysis?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the costs for that, I believe, pursuant to one of the IRs posed by CAC, namely Number 34 in the First Round, is about a hundred and sixty-four thousand dollars ($164,000)?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And those costs will be allocated to Basic?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And where does the study stand, in terms of the -- the process? Has it been completed?

MS. MARILYN MCLAREN: No, it hasn't been completed. The consultant is nearly or is completed, with respect to gathering the information from the shops who chose to participate by completing the survey.

A very detailed survey with respect to their costs of doing business, issues with respect to -- to managing the shops and running at a reasonable profit. That's the kind of thing that we were trying to delve into through the survey.

So they're pretty much done collecting the information but the analysis has really not begun in any way, shape or form.

MS. CANDACE EVERARD: Now it's my understanding and this is also in response to an IR posed by CAC which is Number 20 in the Second Round, that the Corporation is proposing to increase the body shop rate by 3 percent, effective September 1st, 2009?

MS. MARILYN MCLAREN: We did. We did that already.

MS. CANDACE EVERARD: And so that's already in place?

MS. MARILYN MCLAREN: It is. Just further to that point, Ms. Everard, there's no doubt that this study is a big deal. This is very important and it will be important to understand where we go in the future. It's critically important to Manitoba Public Insurance that we have a healthy and profitable auto repair trade in this province. Very critical. But we're also very committed to work with them in finding ways to really enhance their efficiency, enhance the business processes.

In all honesty, we're doing this study because the Corporation was not prepared to hand over the rate increase that, in all honesty, the trade did receive next door in Saskatchewan. If we had increased labour rates as they had asked us to a little over a year ago, which is comparable to what the trade received in Saskatchewan, the impact would be somewhere between a 3 and 4 percent rate increase on Basic Autopac rates. Huge.

That's why we're doing the study and we're very committed to work with them to find ways to keep this highly efficient for their perspective and for ours, and reduce to the extent to which we really have to simply throw money at a problem. They have lots of issues with recruiting new talent. This is maybe not the -- maybe there's not the same cache of being an autobody tech that there might have been a generation ago. That's an issue for us as well as for the trade. We know there -- there are things we can do from the business perspective that will make their administration easier and therefor probably a bit more profitable.

But -- but this is a very serious

comprehensive study as an alternative to simply giving them a bunch more money.

MS. CANDACE EVERARD: Thank you for that extra information. I didn't have any other specific questions about that topic, but I did have a couple on page 8 of SM-5.4 --

THE CHAIRPERSON: Ms. Everard, if you don't mind, just a couple of general background stuff that we could plow through to find it, but speaking about the autobody industry, just roughly, is the industry populated by about the same amount of firms that has been in the past or has it winnowed down?

MS. CANDACE EVERARD: I think it's probably winnowed down a bit but nowhere near to the extent that brokers, you know, like in the early '90s there was four hundred and twenty-five (425) brokers and now there's a little over three hundred (300), through no action on our part at all. That's just through consolidation and reduction for their own business needs. Probably a few more body -- a few -- fewer body shops but not to the same extent.

THE CHAIRPERSON: It's not more concentration with the dealers because of the computerization and things of that nature?

MS. CANDACE EVERARD: That's happening

but it's -- you know, again, coming back to -- the average vehicle in Manitoba's about nine (9) years old, it -- it hasn't hit that hard yet, so the Motor Dealers' Association does tend to pick up a little bigger share of the work every year, but it's not a huge, huge factor yet. I -- I think it may very well continue to be -- depending on what happens sort of internationally. You know, there are -- it's sort of like the autobody repair version of the right to work. There's huge political machinations in the US about the right to repair vehicles, going into court to make sure that GM and others cannot force the repair at dealers.

So it's hard to say how some of those things will work out, but what see here in Manitoba, is the MMDA members pick up a little bit more every year but it's -- it's not huge.

THE CHAIRPERSON: They'd have an advantage through their warranties, along with the technological advantage, I guess, the motor -- dealers?

MS. MARILYN MCLAREN: They -- they do and I think probably with -- you know, if we split that analysis by model year you'd probably see that they get, you know, quite a bit more of the newer vehicles both from that perspective. But also I think there's -- you know, we've talked about here before people are sometimes funny about their vehicles and -- and I think there's somehow more of an assessment that someone might do a better job if they're from a dealer with my new car but it's not the same issue as the vehicle age is perhaps, I'm not sure.

THE CHAIRPERSON: Just roughly, do you happen to know off the top of your head what level of investment would be required to be able to operate an autobody shop these days?

MS. MARILYN MCLAREN: No, I don't, but more than it use to be. Other things are coming to bear with them, as well as the move, you know, away from the VOCs, the volatile organic compound paints. They're all having to adopt water-borne paint technology, the downdraft paint booth, things like that. So it's becoming a more expensive -- it's becoming a more capital-intensive business, but certainly also very reliant on human resources as well.

THE CHAIRPERSON: Will the study get into that area as well, the capital investment --

MS. MARILYN MCLAREN: Definitely, definitely.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman. So if you could turn to page 8 of SM.5.4, Ms. McLaren, I just had a couple of questions on Section 'F' which relates to the moped and motor scooter estimating initiative. It's reflected here in the first paragraph that although the number of physical damage claims involving those types of vehicles is fairly small, concerns have been raised in the past over the Corporation's ability to accurately estimate and evaluate the vehicles without having to rely on local dealers for part pricing and other information. And then in the second paragraph there's reference to a -- a new two (2) pronged initiative that's being implemented.

Can you speak to us about the -- that new initiative.

MS. MARILYN MCLAREN: Sure. Purchasing specialized software for the mopeds and motor scooters is something that we believe will be helpful. We also have centralized the claims estimating process. We didn't get either of those implemented until July, though, so we really don't have much to say about the results. It was too short a time this year, but by this time next year we'll have a better assessment.

MS. CANDACE EVERARD: The -- the software is called "CycleMate," is that right?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: And just in terms of the centralizing of the -- the claims centre, how will that work for individuals that are in rural Manitoba? Will they have to bring the vehicle to Winnipeg to be --

MS. MARILYN MCLAREN: No, this is with respect to Winnipeg, where the vast majority of mopeds and motor scooters are.

MS. CANDACE EVERARD: So somebody who may have a moped or motor scooter that's in rural Manitoba can continue to deal with whatever --

MS. MARILYN MCLAREN: Definitely, yes.

MS. CANDACE EVERARD: -- their closest centre is?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Okay, those are my questions on SM.5.4, so I'm going to move to a couple of questions on reinsurance. The reference is Question 81, posed by the Board in the First Round, which is not in the book of documents.

(BRIEF PAUSE)

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: Thank you. The

question at (a) of 1-81 was to provide a chart of the Corporation's reinsurance premium cost for Basic, in a similar format to what had been provided last year. And we see that there a table there which includes both the casualty and ca -- catastrophe reinsurance programs.

It would appear that the -- over the years listed, if we look at the bottom row of the table entitled "Reinsurance Premiums Written," that there is a fairly steady increase in those total premiums proceeding from '08/'09, the first year, shown to 2013/'14, the last year shown.

Can you comment on those increases.

MR. DONALD PALMER: They would just be increases that follow our volume and our in -- inflation. So those are the two (2) -- two (2) sources that we -- they are -- both of the programs are dependent on the gross written pre -- direct written premium of the Corporation. And since we have both the volume increase and an upgrade increase, they just follow that.

MS. CANDACE EVERARD: Now, in Question 'B' here at 81 the Corporation was asked to provide a comparison between the chart in 'A' that we just spoke about, and that provided last year in coverage and premium costs for '08/'09 through 2012/'13 and explained the differences. And if we -- we go over the page, we see two (2) charts that have been provided, with respect to premiums, and then a bit of a narrative. There's a couple of paragraphs there.

Can you comment on that answer.

MR. DONALD PALMER: With regard to those two (2) -- the two (2) programs, casualty and catastrophe, you'll notice that the casualty program is pretty flat, in terms of what we had anticita -- anticipated to be last year. Again, upgrading, because our volume was a little higher than -- than we had anticipated it to be, so the -- those are reflected in the higher premiums.

On the catastrophe side there would be those upgrades up -- updating those premiums using both our volume and -- and upgrade. But, also, our renewal last year went up because of our recent claims experience, and also the hardening of the market. Due to the global financial meltdown, there was a decrease in capacity in the reinsurance marketplace, so that was reflected in the rates. So that's, based on those increases, rolled forward.

MS. CANDACE EVERARD: If I understand your evidence correctly, there haven't been any changes really in the coverage that the -- that the Corporation has.

MR. DONALD PALMER: No.

MS. CANDACE EVERARD: So its risk retention hasn't changed, is that fair to say?

MR. DONALD PALMER: It hasn't changed to what we expected it to be. We place our reinsurance program on a three (3) year rolling basis. Meaning, when we buy next year's coverage, we're not really buying next year, we're buying one-third (1/3) for next year, a third for the following year, and a third for the following year after that.

A couple of years ago we did change our retention from $10 million and -- to $15 million. That is working itself through right now. At the -- in the current year we have two-thirds (2/3s) of our program at a $15 million retention and one-third (1/3) of our program at a $10 million retention. We had expected that last year when we did our forecast, so those would have been in -- both included in both this year's forecast and last year's.

I would say that that same goes on the top end of that scale. A couple of years ago we added a top layer of a $100 million excess, $200 million. We have that two-thirds (2/3s) placed. We have not added that extra one-third (1/3) this year. So we are continuing to have that two-thirds (2/3s) coverage, but that was also forecast last year.

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. I'm going to move into a different area. Those are the only questions that we had with respect to re-insurance at this point.

So I'm going to ask you to turn to Tab 28 of the book of documents. This is Question 58 posed by the Board in the First Round, and this is going to be some questioning with respect to the business process review.

(BRIEF PAUSE)

MR. DONALD PALMER: We have it.

MS. CANDACE EVERARD: Thank you. If we look at Question 'D' to 58, the question was to provide a comparison of the cost estimates by project provided at the last GRA, with the actual and forecast costs this year. And if we look at the attachment to (d), it's the first schedule to the answer.

There's a comparison of the numbers that were produced last year at the two -- at the '09 GRA and the left table is the current numbers.

Is that right?

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

MS. CANDACE EVERARD: And I believe that this chart -- I'm looking at the -- the one for the year of the Application, the 2010 GRA -- reflects the costs to Basic of the BPR.

Is that right?

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

MS. CANDACE EVERARD: And the total, if we look at the bottom section of the table where it's entitled "Total by Project," we're looking at about $77.1 million to Basic for the five (5) projects listed.

Is that right?

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

MS. CANDACE EVERARD: With respect to those five (5) -- and I know Mr. Williams asked a couple of questions on this yesterday, but we do want to go through it in a -- a little bit more detail. We'll look firstly at the Program Management Project. That appears to be forecasting a -- a total cost of some 38.6 million in program management.

Is that right?

MR. OTTMAR KRAMER: Yes, that thirty-eight six (38.6). And program management isn't so much of a project, it's -- it manages all the project and that's where the -- the costs to manage each project are -- are included in and they're allocated to the various projects.

MS. CANDACE EVERARD: And that was going to be my next question, so thank you.

Just to further clarify that, what I would like to know is whether this 38.6 million for program management is for the management of the four (4) projects that are listed below it, or is there any other component to that thirty-eight point six (38.6)?

MR. OTTMAR KRAMER: No, it's -- it's for the management of those projects.

MS. CANDACE EVERARD: So is it fair to say given that the total is 77 million in rough numbers that about half of the cost is program management and the other half is the implementation costs?

Would that be a fair characterization?

MR. OTTMAR KRAMER: No, I -- I don't think that's a fair -- a fair statement. The -- what -- what's included in each of the projects, specifically DSR, Streamlined Renewal, et cetera, are direct costs that are directly attributable to the project.

Program management is the department that oversees all of the projects, ensures all the projects are continuing, has a lot of the subject matter experts that will work on those projects, but aren't 100 percent allocated or 100 percent working on -- on those projects themselves. So there might be a person who is working on some DSR, some PIPP, some Enterprise Data Warehouse, they're going to be included in -- in project management, not in the specific progra -- project themselves.

MS. CANDACE EVERARD: So if I understand you correctly, the -- the four (4) sets of costs which you've called "the direct cost" which appear on the Driver Safety Rating line, the Streamlined Renewal line, and the other two (2) are directly attributable, so to speak, to those projects. Whereas the program management cost, the thirty-eight point six (38.6) on the first line, is perhaps not as clearly assignable to a project.

Is that fair to say?

MR. OTTMAR KRAMER: It -- it's -- it's people and costs that are not 100 percent applicable to that projects. You know, they're -- they're -- they're definitely assignable to that project but they are not working 100 percent on the project. They might span two (2) or three (3) projects. They're definitely project people, but they might span several projects.

MS. CANDACE EVERARD: Okay.

MS. MARILYN MCLAREN: Sorry, just on that point. We really need to keep in mind that these are not separate projects either, for the most part. PIPP certainly is. But Streamlined Renewals is also one (1) part driver licence DSR, the extent to which we have to be able to integrate the development, the systems changes, because all of these changes are being implemented at once. That -- and that's -- that's a huge role that the program management office plays, is the integration of all the different things that are going on, and making sure that all the various components are -- are ready, operationalized when they need to be, in a very complex environment where there's many things going on at the same time.

MS. CANDACE EVERARD: Thank you for that additional detail, with respect to the work. I would like to have you look at Question 25, posed by the Board in the Second Round. It's not in the book of documents.

(BRIEF PAUSE)

MS. CANDACE EVERARD: If we look at the last page of this IR response, this is where Mr. Williams had a couple of questions yesterday, we see with respect to the same $38.6 million in program management costs, an allocation or a -- or a percentage to Basic.

Can you comment on that?

MR. OTTMAR KRAMER: Yes, I can, and obviously I misspoke several minutes ago. That $38.6 million is the total program management, not the project management allocated to Basic. This schedule shows and indicates the pieces that -- or the amount that is allocated to Basic. So what was in that initial schedule on PUB-1-58, I believe -- 1-58 is total project management. And we -- we showed that year over year what the total project management once -- and this response, 2-25, shows the -- the piece that is allocated to Basic.

MS. CANDACE EVERARD: Thank you. Now if we look at the program management line, it's indicated that there is 31.01 percent allocated to Basic and then we've got the dollar amount that follows of the eleven point nine (11.9).

That's a pretty cise -- or pretty precise, pardon me, percentage. How was that determined, that percentage?

MR. OTTMAR KRAMER: The -- the amount of project management is allocated to -- to Basic and -- and ideally to each of those projects is based on the deferred development that is incurred by the project. So that was the allocator basis -- the deferred development that each project directly has is used to allocate the project management costs.

MS. CANDACE EVERARD: And is it the case that the program management cost that we've been speaking about are paid to third parties external to the Corporation?

MR. OTTMAR KRAMER: There -- there's some that are a third party, there's some that are internal. As I've mentioned, some of them would be third parties that -- that are helping run all the projects, but there's also internal staff who are 100 percent allocated to project management, but not to a specific project that would be included in that.

MS. CANDACE EVERARD: Okay. Thank you. Now, looking back for a moment, and keep -- keep your finger on 2-25, if you would, but looking back at Tab 28 in the book of documents and the -- the schedule that reflects the -- the larger costs, we also see 9.9 million for a Driver Safety Rating. So based on your earlier evidence, that would not just be -- or I guess in this case it is 100 percent attributable to Basic, if we look back at -- at 2-25, so that 9.9 would -- would all be in Basic, if I'm right?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And these costs

were incurred with respect to the background to create the DSR, or can -- can you just give us a bit of an explanation as to how they came about?

MS. MARILYN MCLAREN: It would be largely related to the systems develop work, not solely. It would be anything that is directly attributable to preparing the Corporation to implement Driver Safety Rating.

Autopac online needs what we call a "rating engine." Anytime a transaction is done, what is the rate to be applied to that person in that vehicle at that time? It has to be completing rewritten to reflect DSR. Building an interactive website so people can understand the scale and -- and their movement on the scale, that would be charged to here as well. Any of the information, for example, that will be coming out in people's renewal notices may -- pro -- probably would be charged to program management because it'll cover Streamlined Renewals, one (1) part licences, DSR altogether. Things that are specifically identifiable as DSR are within that $9.9 million.

So a lot of it would be systems development work. Some of it would be preparing training materials and executing on the training for brokers, and staff, and so on, but -- but everything that it takes to really prepare the Corporation to administer DSR.

MS. CANDACE EVERARD: Thank you. The third line item here is relating to the Streamlined Renewals, and that's about 7.4 million. And we see from 2-25 that 80 percent of that is to be allocated to Basic.

Is that right?

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

MS. CANDACE EVERARD: And how is that percentage determined, the 80 percent?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: That was determined at the start of the project. It was based on an estimated work effort between Basic and other line of business.

MS. CANDACE EVERARD: So is it so -- an allocation that's being reviewed periodically as things go ahead, or --

MR. OTTMAR KRAMER: Currently, no. We -- we stuck it at the 80/20 split and have left it at that and consistently applied it over the years.

MS. CANDACE EVERARD: Okay. Now I see that, with respect to the Streamlined Renewal, and, also, the program management line, I'm looking at 1-38 in Tab

29 -- or sorry, 1-58, pardon me -- we have dollar amounts for both of those lines items, in the year of the application and in 2011/'12. How are those budgets determined in those outlook -- in that one (1) outlook year and in the year of the Application?

MR. OTTMAR KRAMER: Sorry, Ms. Everard, whi -- which projects are you speaking about?

MS. CANDACE EVERARD: I'm speaking about program management, which is the first line, and then Streamlined Renewal. Those are the only two (2) of the five (5) that have entries for the year of the Application in 2011/'12, so I'm just wondering how those budgets were determined for those future periods.

MR. OTTMAR KRAMER: Ba -- based on our normal budgeting process, the -- the managers that manage the projects prepare their annual budgets and go through the normal budget process.

MS. CANDACE EVERARD: Thank you. If we look at -- going back to -- down to the bottom section of the table, there is a line item for the PIPP infrastructure study, which is 18.9 million.

Is that correct?

MR. OTTMAR KRAMER: Yes, the amount at eighteen point nine (18.9) is -- is correct. It's more than just an infrastructure study, it's the implementation of the -- the new software.

MS. CANDACE EVERARD: Thank you. And according to 2-25 which we looked at, 100 percent of that cost is to be allocated to Basic.

Is that right?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And the last line item looking back at 1-58 is the Enterprise Data Warehouse, and that's a cost of some 2.2 million reflected here.

Is that right?

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

MS. CANDACE EVERARD: And per 2-25 posed by the Board, 78.3 percent of that 2.2 million is to be allocated to Basic?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And how did that -- that's another pretty precise figure, how did that be or how was that calculated?

MR. OTTMAR KRAMER: That percentage is based on data record count, data that -- or records that are in the data warehouse. And I believe we answered that on another IR. I don't have the number off the top of my head on -- on how we allocate that.

MS. CANDACE EVERARD: Thank you. As we

spoke about a moment ago, there's only the two (2) line items that have costs through the outlook period in 2011/'12 so would it be the case then that these projects are anticipated to be completed in the years -- in the last year I guess where we would see an expense for them?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: Now, we know that there --

MS. MARILYN MCLAREN: Sorry, Ms. Everard, for the most part, nothing that specific. And I'm not exactly sure when all of these budgets would have been struck. We know we expect to implement the new PIPP system into the 2010/'11 year, so whether some of these costs end up being pro rated over a larger -- larger period of time, that may in fact happen, When next year when you're looking at the 2010 and the 2011 GRA you'll probably see something in the 2010 year, but it's not going to be more that the eighteen nine (18.9). We are confident that we have a -- a good strong budget position on that project.

MS. CANDACE EVERARD: So if I understand you correctly, the timing in which -- with which the funds are expended may change but the overall dollar amount should stay the same?

MS. MARILYN MCLAREN: With that one, yes.

The Enterprise Data Warehouse is -- is being used. It was as critical part of a couple of the projects including DRS. And DSR, Streamlined Renewals, and so on, will be live before the fiscal year starts, so it's really the PIPP project that we're talking about.

MS. CANDACE EVERARD: Now, we know that there are BPR projects that do not relate to Basic or that are not being funded at all by Basic. That's right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And just for the purposes of the record, which projects are those?

MR. DONALD PALMER: That would be the enhanced driver's licence enhanced ID cards, which are now live, one (1) -- one (1) piece driver's licence, service centres, and -- and the new driver licence system in '06 was also a BPR project that was charged -- not charged to Basic.

MS. CANDACE EVERARD: And none of those projects or the costs that go with them are referenced on the schedule that we've been looking at, 1-58 (d)?

MR. DONALD PALMER: Only the -- the program management that is allocated. And Streamlined Renewals, some of that is also allocated to other lines of business.

MS. CANDACE EVERARD: Now, we do have

another schedule that relates to BPR costs, it's at 1-52 posed by the Board. It's not in the book so I'll ask you to turn there.

(BRIEF PAUSE)

MS. CANDACE EVERARD: In particular, (d) of Number 52 asked that, for each of the BPR projects there be an indication of how the costs would be allocated using the proposed methodology and compare with the current allocation me -- allocation methodology. So if we look at the schedule, this is sort of a summary of what we've just been speaking out -- or speaking about and sets out all of the BPR projects and where the allocation falls.

Is that fair to say?

MR. OTTMAR KRAMER: Yes, that's correct, and that was the schedule that -- that I was referring to, that I -- I didn't know where it was at, but, yes.

MS. CANDACE EVERARD: So, just to be clear, this schedule does include all BPR projects, and while it doesn't indicate the actual dollar amounts, it does set out which lines of business are sharing which costs.

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: Now, I don't know that we have on the record, and -- and correct me if I'm wrong because it -- it may just not be at my fingertips, but I don't know that we have anywhere a record that would include this information but also have all of the dollar amounts for each project.

Is -- is that something that's -- that the Corporation has provided, and, if -- if not, can it do so?

(BRIEF PAUSE)

MR. DONALD PALMER: Through the combination of this IR and the other one that we had referenced, we have provided all the dollar amounts for the Basic projects.

MS. CANDACE EVERARD: I understand that. And I guess what I'm asking is for the BPR as a whole. And I -- I think we, on -- on our side of the room, recalled having a document like that last year, and it may just -- we may not have specifically requested it this year, and we can certainly have a looksee, but I -- I -- we -- more than one (1) of use remember having something like that for sort of an overall BPR, jus -- just with the -- the dollar amounts, the totals, not --

not a lot of detail.

MS. MARILYN MCLAREN: We may have provided it last year. We -- we haven't prepared it this year. We -- we don't have it available this year. Basically, our perspective that, because you've got what you need for Basic, the -- the rest isn't -- isn't relevant, but that's why we haven't prepared it and don't have it.

MS. CANDACE EVERARD: Is it something that the Corporation will provide?

MS. MARILYN MCLAREN: Again, I guess it doesn't seem relevant to these proceedings to us.

MS. CANDACE EVERARD: We'll reflect on that and we may come back to that point.

Now, we had some discussion, a little bit of discussion yesterday in the cost allocation context on the decommissioning of the DVL mainframe system. And I know, Ms. McLaren, your evidence was that you -- the Corporation couldn't say at this point when that would be done, or when it would completed.

MS. MARILYN MCLAREN: That's correct.

MS. CANDACE EVERARD: What about the anticipated cost of that? I don't think there was a lot of detail yesterday with respect to a dollar amount. What can you tell us about that?

MS. MARILYN MCLAREN: Again, we -- we don't really have any good solid estimates for that one.

MS. CANDACE EVERARD: I know -- and -- and we -- we did recall having some discussion on it last year, and, again, if we had a document that had more of that information, we may have -- that may be where this came from. But we do have a reference that there was an indication that it would be about 13.5 million, at least that was a ballpark that the Corporation had put forward last year.

Ca -- can you tell me if there's any reason --

MS. MARILYN MCLAREN: Yeah.

MS. CANDACE EVERARD: -- to think that's changed drastically --

MS. MARILYN MCLAREN: We -- we haven't done anything with that number, yeah.

MS. CANDACE EVERARD: So that -- it stands?

MS. MARILYN MCLAREN: It stands. It stands, yeah.

MS. CANDACE EVERARD: And with respect to the allocation of the cost to decommission the mainframe, whenever that does happen and -- and whatever the final number is, is it the expectation that there will be an impact to Basic? In other words, it is expected that Basic will be funding that?

MS. MARILYN MCLAREN: I -- I did put some weasel words around that yesterday, suggesting that, you know, in light of the cost allocation, we may take a different view. But, you know, we have on the record here in response to this IR, that it is 100 percent charged to Extension -- to DVL. It's a DVL project. You know, I mean I think it's important to maybe just take a second to -- to really reflect on the reality and -- and in large part the basis of the cost allocation. You know, because I think that was the context of my ques -- my comments yesterday, is that if we'd known then what we know now, we would have had a heightened respect for the need that Basic insurance has on the data that's in that mainframe.

I think a more particular point is a much more expensive project which was the new driver licence system. Significant benefit to Basic insurance, driver licence ratepayers. Huge benefit to that. The fact that -- particularly anybody that has a surcharge. You know, they can finance that just like they can finance their Autopac premiums now. The access to service. Huge benefits to the insurance aspect of a driver licence.

But it was all 100 percent charged to DVL.

So I don't think -- I -- I -- you know, if -- if the Corporation was really to go back in time and reconsider whether it really wanted to charge 100 percent of this mainframe decommission to something other than all to DVL, we would provide plenty of notice and plenty of rationale. I don't think that's going to happen, but I just think it's important to make the point that -- that Basic ratepayers will receive benefit. They certainly receive a benefit from the driver licence system even if the DVL line pays for both of them.

MS. CANDACE EVERARD: Thank you. Just one (1) more question, with respect to the mainframe. Are there ongoing maintenance costs to maintain that -- that system, and if so, are any of those borne by Basic?

MS. MARILYN MCLAREN: There are ongoing costs and none of them are paid by Basic.

MS. CANDACE EVERARD: Thank you. Still at Tab 28 of the book, which is 1-58, just turn to the page -- actually we'll just stick with Schedule 'D' for a moment, the one that we've been looking and just look at one of the upper portions of the table. We focussed on the very bottom section, but the top section of the table indicates that the majority of the seventy-seven point one (77.1) listed here are treated as deferred development costs and that's some 55.8 million.

Is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: How does the Corporation decide which external costs are deferred versus those which are capitalized? And you may want to have reference to 2-11 which is not in the book.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Thank you for that reference number and -- and I'll just read for the deferred development piece.

"External costs paid to outside consultants to develop..."

In this case it was talking new PIPP process.

"...or any other BPR project are capitalized and amortized over future periods."

MS. CANDACE EVERARD: Thank you. Now CAC asked a question in the First Round that I'd like to take you to. It's Number 74.

(BRIEF PAUSE)

MS. CANDACE EVERARD: This was a question posed by CAC that -- asking that the Corporation provide from '08/'09 through to 2011/'12, an analysis and explanation by expense type, by project, the capital expenditures reported under data process equipment and deferred development costs for BPR initiatives, and to add the periodic expensed operating cost, if any, during the same time period for each project and to explain how the expenditures will benefit policyholders.

If we look at the answer, it's a schedule divided into three (3) sections: one (1) for data processing equipment, one (1) for deferred development costs, and one (1) for operating costs.

Now, it's -- it's our understand that the data processing equipment costs and the deferred development costs reflected here are capitalized, whereas the operating costs are expensed.

Is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: That was a lot of preamble for just that one (1) question about that IR, so we'll -- we can close that one for the moment.

Speaking about the business process review there have been some questions posed of the Corporation with respect to bodies, staffing, and how the work is being completed. The Board posed a question, Number 33, in the First Round, this is not in our book of documents but I'd like to have you take a look at it, 1-33, and in particular I'm looking at (g).

(BRIEF PAUSE)

MS. CANDACE EVERARD: The question posed at (g) was to please indicate the number of staff by department dedicated to the business process review and whether they are employees of the Corporation or seconded staff.

And maybe you could just read in the narrative answer at (g). It's just a couple of sentences.

MR. OTTMAR KRAMER: Okay. The -- the response to PUB-1-33G:

"At February 2009 there were a total of 228.9 FTE MPI employees assigned to the business process review. There were 12.0 FT in human resources and two hundred and sixteen point nine (216.9) in business innovation and insurance operations."

MS. CANDACE EVERARD: And how are the

salaries of those 228.9 FTEs treated by the Corporation?

MR. OTTMAR KRAMER: Those are expensed, consistent with the response in -- I lost my reference.

MS. CANDACE EVERARD: CAC-1-74?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And I -- I do have some fairly detailed questions about staffing levels that I'll come to, but just speaking about these 228.9 FTEs, is it the plan that those positions will be culled or cut, eliminated in due course?

MS. MARILYN MCLAREN: Probably most of them, not all of them.

MS. CANDACE EVERARD: So when the business process review initiatives are completed the ones that wouldn't be cut would be shuffled into other things, or what would you envision there?

MS. MARILYN MCLAREN: Sure, some of them will be required to run the new operating environment, to -- to participate in -- in supporting whether they are new systems, new processes, new work assignments. An example might be the fact that it was really through the business process review that the Corporation adopted a very strong commitment to change management. And for many years our change management staff have been almost -- not exclusive, but almost -- solely dedicated to BPR projects.

As the BPR itself winds down, we will need fewer people permanently assigned to change management but we will always need some, and they will be part of a change management unit in the human resources department. So, that's an example.

MS. CANDACE EVERARD: Thank you. Mr. Chairman, I do have a few more questions on the -- the BPR and then I have some questions on staffing but I just need to review a couple of points before I continue, so if it's okay with you could we take the morning break now?

THE CHAIRPERSON: Of course.

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

--- Upon resuming at 11:04 a.m.

THE CHAIRPERSON: Welcome back. Ms. Everard...?

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. Thank you, Mr. Chairman. For the MPI panel, I am actually going to go back to SM.5.4 just briefly. There's another piece of 5.4.C that I wanted to ask a few questions about. It's page 7 of 5.4 in SM.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So I'm looking at the last paragraph of SM.5.4.C, where it's reflected in the first sentence that there is recognition of the fact that loss of use represents another component of the Corporation's exposure on the physical damage side.

Are you with me?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And there's a reference here to entering into an agreement with the Manitoba Car and Truck Rental Association. But my question is: The -- the reference here to the loss of use component, that relates to the rental of replacement vehicles by motorists whose vehicles have been damaged in accidents.

Is that correct?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And, as stated here, the Corporation has entered into an agreement with MCTRA, the Manitoba Car and Truck Rental Association, in March of this year, so 2009, for a two (2) year period, which reflects a 1 percent increase in rental vehicle rates over the duration of the agreement.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And I just wanted to clarify, in what circumstances does MPI cover the cost of a rental vehicle for a person that's been in an accident?

MS. MARILYN MCLAREN: Under the Basic program it's a first party coverage for people whose vehicles are stolen, a seventy-two (72) hour waiting period. We will pay for a replacement vehicle for -- as a first party coverage.

There's also a third party coverage. If Basic ratepayers who cause damage to someone else's vehicle, the third party would be eligible for a rental car while their vehicle is out of commission, so to speak.

MS. CANDACE EVERARD: So with respect to the latter option that you described, is it fair to say that, where there's a collision, the not-at-fault vehicle owner has, through the third party coverage, a rental vehicle, that it can be provided?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Whereas the at-fault driver, unless they have Extension coverage, would not have a rental vehicle.

MS. MARILYN MCLAREN: Exactly.

MS. CANDACE EVERARD: And in the two (2) scenarios that you described, the first party coverage and the third party coverage, are the criteria that are applied to entitle someone to the rental vehicle any different, or is it -- is it just as you described?

MS. MARILYN MCLAREN: No, I think there -- there's more flexibility on the part of the recipient of the third party coverage. You know, that -- that's something that they have access to. It's something that they can sue for, so to speak. So it's not something that we can put coverage parameters around the same way we can for a first party coverage.

MS. CANDACE EVERARD: And is it the case that MPI adjustors let people know, in the case of the not-at-fault driver in a collision, that they have a rental vehicle available because they were not at fault?

MS. MARILYN MCLAREN: Yes, but they rarely need to because people know.

MS. CANDACE EVERARD: We noticed that there isn't reference to this detail in the standard brochure on coverage that comes out with renewals. Is that something that -- that might be included there in the future or is the Corporation satisfied that it's just a generally known fact?

MS. MARILYN MCLAREN: No, it's a generally known fact, absolutely. And in the policy guide there would be a section on if -- you know, if someone causes damage to your vehicle, what you're eligible for, and so on, would -- would be there. No, peop -- people understand that in Manitoba.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. I'm going to move into some questions then, with respect to staffing. So I would ask you to turn to Tab 2 in the book of documents of the Board. That's where we find TI.7.A.

So at Tab 2 of the book of documents we have TI.7.A which is a summary of Basic expenses by category and it would appear that for the year of the application, the 2010/'11 year, compensation expenses represent about $92.6 million.

Is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And that's of total expenses of 158.3 million, is that right?

MR. OTTMAR KRAMER: Yeah, 158.4 rounded.

MS. CANDACE EVERARD: I have trouble rounding off that second digit. You've probably noticed that.

So the 92.6 would be about 58 percent of the total operating budget, is that correct?

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

MS. CANDACE EVERARD: So compensation would therefore be the largest component of the Corporation's operating expenses?

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

MS. CANDACE EVERARD: Thank you. Now another document that we have that speaks to salaries is 1-32 posed by the Board which is in the book of documents at Tab 22. And this is a document that reflects salary levels.

I'll ask you to turn to the attachment or the chart that's found on the second page of this IR. This sets out by year average salaries in four (4) classifications.

Is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And we have along the very bottom of the table, the inflation rate year over year.

Is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And then we have at the far right column of the table, a column entitled "Compounded Annual Growth Rates" which sets out firstly for '08/09 through '10/'11, a two (2) year period, the compounded annual growth rate.

And then secondly, from 2003/'04 through 2010/'11, a seven (7) year period, the compounded annual growth rate over that period.

Is that right?

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

MS. CANDACE EVERARD: Now if we look at the -- just the -- the '08/'09 through 2010/'11 compounded annual growth rate column, which I appreciate is a two (2) year period, we see in each category growth rates of around 3 percent or in the case of management about 6.4 percent.

Is that right?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: Can you explain for the Board why it is that these compounded annual growth rates exceed the inflation rate percentages that are across the bottom of the table?

MR. OTTMAR KRAMER: The primary reason is due to the fact that staff have retired and new staff are hired. When new staff are hired, they're generally hired at a lower salary rate level than a person who's been with the Corporation for numerous years. And the -- the new hired person then receives incremented increases thereafter. So, the -- that will influence the -- the overall salary increase in those future years.

At first you'll get a drop for the -- the senior person leaving and then a new person coming in and thereafter you'll see increases.

MS. CANDACE EVERARD: So if it's growth that's being examined, there will be more growth for a newer employee in the first few years than there would be at the tail end of someone's career.

MR. OTTMAR KRAMER: That's correct. And you'll also see a drop as -- as the -- the person with numerous years' service leaves. There'll be a drop and that's exhibited also in that schedule that you see in '08/'09. There's a drop in the management average salary.

MS. CANDACE EVERARD: Yes. And that was actually going to be my next question is why the -- for the management line, the 6.4 percent CAGR is there which is quite significantly more than we see in the other lines.

Is there anything further that drives that increase besides what you just described?

MR. OTTMAR KRAMER: No. That -- that's primarily what's driving that. If -- if you take a look at the -- if you take a look at the seven (7) year CAGR or Compound Annual Growth Rate, it's 2.2 percent and -- and that eliminates the, you know, the one (1) or two (2) year impacts of -- of people leaving and new people being hired.

MR. LEN EVANS: Excuse me, if I could just interrupt? I wonder, my arithmetic isn't that great but looking at the table how can you get a corporate average for the two (2) years '08/'09 to '10/'11 being 2.813 percent which is less than any of the components?

And I guess that applies to the seven (7) year period, as well.

MR. OTTMAR KRAMER: That -- that would be driven by I believe the weightings of -- of the -- the number of people in -- in the clerical, technical, supervision, management. If the weightings change, that will influence the -- the overall growth rate and -- and the pieces may be different than the -- the whole.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: We'll double-check

that. I -- I haven't taken a, you know, calculator myself to it. I see -- I see your point that the rationale I gave is -- is, you know, what comes to mind but we can double-check that, but -- but, like I said, I know weightings will influence that significantly.

MR. LEN EVANS: Well, I can understand weighting, how it applies, but the four (4) parts of this average are all higher than the -- the bottom line so it's gotta be strange. It's very strange.

MR. OTTMAR KRAMER: Well, I'll -- I'll get -- I'll get someone to -- yeah, I see your point. I'll get someone to take a look at it and we'll let you know.

MR. LEN EVANS: Yeah, thank you.

--- UNDERTAKING NO. 14: To advise how they get a corporate average for the two (2) years, '08/'09 to '10/'11, being 2.813 percent, which is less than any of the components in Table TI.7.A

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. I would ask you then to turn to Tab 3 of the book of documents where we find TI.9 from the Corporation's filing.

And TI.9, of course, sets out year-over-year staffing levels in terms of number of bodies or number of FTEs?

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

MS. CANDACE EVERARD: Now if we look at the very first year that's represented here in TI.9, it's -- it's 2004 total staff or FTEs filled at March 1st, so that would be for the '04/'05 fiscal year.

Is that right?

MR. OTTMAR KRAMER: That's -- that's an as-at snapshot as at March 1st so, you know, if March 2nd somebody was hired, somebody quit, those numbers would change. So it's an as-at March 1st of that period or that time.

MS. CANDACE EVERARD: Thank you. Now, we see that as at March 1st of 2004 the totals FTEs for the Corporation was thirteen hundred and sixty-five and a half (1,365 1/2).

Is that right?

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

MS. CANDACE EVERARD: Now, can you tell me -- and I appreciate that March 1st of '04 is the first statistic that we have in this document but can you tell me whether in prior years, say even five (5) years prior to '04, the staffing level was fairly consistent in and around that thirteen sixty-five (1,365) number or can any of you recall significant changes to that in a that time frame?

MS. MARILYN MCLAREN: There were small increases. I think in and around the thirteen hundred (1,300) might have been true for a couple of years. It was probably twelve hundred (1,200) before that, eleven hundred (1,100). There were increases. There's always been increases but reasonably small compared to the large one between '04 and '05.

MS. CANDACE EVERARD: And -- and we'll definitely get into some of the -- the subsequent years.

One (1) other question that I have is I -- I know that the -- the Corporation used to sell general lines of insurance at one (1) time. When did that stop?

MR. DONALD PALMER: 1990.

MS. CANDACE EVERARD: I appreciate that over the -- the course of years that we're looking at here in TI.9 the -- the number of staff increases and in the very recent years we have, of course, more staff due to the BPR initiatives and we appreciate that.

Ms. McLaren, can you recall what the -- the reason was for the fairly sharp increase from '04 to '05?

MS. MARILYN MCLAREN: That would be the addition of DVL.

MS. CANDACE EVERARD: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now we see with the addition of DVL prior to the March 1st of 2005 chart, that the staffing level rises to about seventeen hundred and one (1,701). And if we look through to the end of the -- this particular document, which gives a forecast for March 1st of 2014, we see that the staffing levels are anticipated to drop back down to around seventeen hundred and eight-nine (1,789).

So it's fairly close to the seventeen-o-one (1,701) that -- that was there in 2005, is that right?

MS. MARILYN MCLAREN: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So is it fair to say that, with the integration of the DVL staff in -- in '04, which gave rise to the larger number in '05, at the end of the day, even after the BPR initiatives and the various streamlining and -- and synergies, that the Corporation is still ending up with a little bit more staff than it had when -- when DVL merged? I'm just -- I'm trying to get my head around that overall level.

Can -- can you comment on that.

MS. MARILYN MCLAREN: I think these projections are certainly in the ballpark. You know, it could be a hundred or two hundred (200), more or less. It's largely driven by our service model, our commitment to service.

And there are lots of situations where we believe that -- and whether it's on the insurance side of things or the DVL side of things, that -- that service needs to be enhanced. It's service that has to be provided by people. And we don't -- we don't squeeze FTE accounts. If there's a legitimate need to improve service, we staff for that.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. Now looking at the current year and the year of the Application, we see that as of March 1st of 2009, so about six months ago, the staff level for the Corporation was sitting at about nineteen hundred and ninety (1,990), and the anticipation is that, by March 1st of 2010, that will increase to about two thousand one hundred and thirty-six (2,136).

Is that right?

MR. OTTMAR KRAMER: Yes, that was -- that was the forecast. That is the forecast.

MS. CANDACE EVERARD: Now, we see that, looking at those two (2) years, from March 1st of '09 to March 1st of 2010, we got an increase in the technical and professional individuals in the Business Innovations and Insurance Operations Department, I guess if we -- if that's what we call it. And it looks like there's about seventy (70) more FTEs for technical professional in that department.

Is that right?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And what are the duties of that department, the benis -- Business Innovations and Insurance Operations Department?

MS. MARILYN MCLAREN: That's the division that is responsible for managing all the BPR projects, for managing the evolution and implementation of the PIPP legislative changes, responsible for managing the relationship with brokers, supporting brokers with all these changes that are coming down the line. It is --

it's the area that's been responsible for the front-end service delivery within the Corporation, the call centre, broker services, and so on, as well as the -- the change engine, so to speak, for the initiatives.

MS. CANDACE EVERARD: Thank you. And we see still within that department, under the clerical line, there's another increase from March of '09 to March of 2010 of about forty-eight (48) positions, from four-o-seven (407) up to four fifty-five (455).

Is that right?

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

MS. CANDACE EVERARD: Now if we look at Question 33 posed by the Board in the First Round, which is not in the book...

(BRIEF PAUSE)

MS. CANDACE EVERARD: There was a pretty specific question asked of the Corporation with respect to the very increases that we've just been speaking about, which was:

"Please explain the forecasted continued increase in technical/professional seventy-one (71) in clerical, forty-nine (49) staff in

2010?"

And the answer from the Corporation at (d) was:

"In 2010 the further increases in business innovation and insurance operations of seventy and a half (70 1/2) technical/ professional positions and forty-eight point six (48.6) clerical positions are mainly due to additional staff required for the non-Basic business process review initiatives."

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And in the next question posed, (e) of 33, the Corporation was asked to comment on the projected subsequent decrease in the same departmental staff leading up to 2012, and describe the process being contemplated to reduce staff levels.

And since I've been doing a lot of reading I would ask one (1) of you to read in the answer at (e).

MR. OTTMAR KRAMER: Okay, the -- the answer to PUB-1-33E:

"Business innovation and insurance operation staffing is expected to decrease leading up to 2012 due to the completion of some business process review initiatives. A large number of the clerical positions were hired on a term basis for non-Basic initiatives and will be released once their term ends. The PIPP, mainframe decommission, and service centre initiatives have planned staff reductions and program management staff will return to their regular positions once the projects are completed."

MS. CANDACE EVERARD: In that answer there's a reference to a large number of the clerical positions being hired on term.

Do we know roughly how many is that large number of the forty-eight (48)?

MS. MARILYN MCLAREN: Well, all -- all told there's probably about eighty (80) clerical term positions that'll be wound down when those terms end. Some of those would have already been on staff as of March 1st of 2009. But the forecast right now is that most if not all of approximately eighty (80) people will be gone before March 1st, 2010.

MS. CANDACE EVERARD: And of the ones

that were not hired on a term, is there a cost expected associated with ending their positions?

MS. MARILYN MCLAREN: We're not ending any terms. We're not ending any positions that were not hired as terms.

MS. CANDACE EVERARD: So, Ms. McLaren, when you gave evidence earlier that of the two hundred and twenty-eight (228) people working on BPR initiatives most but not all would be gone, those would be the ones that you're referring to?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Thank you. Now, there's evidence on the record in one of the IR's posed by CAC -- it's 2-43, you can go there if you want, but I don't -- I don't know if -- if you need to -- that in addition to the staff -- since you're going there, I'll just wait for you to get there.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Palmer, you have it, or Mr. Kramer?

MR. OTTMAR KRAMER: Yes, we have it.

MS. CANDACE EVERARD: That answer reflects that in addition to the staff that we've been speaking about, there were also about one hundred and two (102) outside consultants hired by the Corporation to work on BPR initiatives, that was as of June 30th of 2009, with an average hourly rate of a hundred and twenty-seven dollars ($127).

Is that right?

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

MS. CANDACE EVERARD: So just for the clarity of the record, when we talk about outside consultants we're just talking about contracts, just outside -- independent contractors I guess who aren't staff of the Corporation.

MS. MARILYN MCLAREN: No, very few independent contractors. May -- maybe a small number. But somewhere else I think we broke down the -- largely deferred development -- with respect to the deferred development costs there's EDS, there was Bearing Point, Gartner, Dominion. Those four (4) companies provide contract resources for BPR projects.

And that's -- that's one of the real advantages of dealing with a -- or -- or running our systems and IT development processes, the combination of internal staff and contractors. You -- you can staff up, you can staff down much more easily when you use a combination of staff and contractors.

MS. CANDACE EVERARD: Thank you. Looking back at TI.9, we looked at a comparison between March 1st, '09 and March 1st, 2010, that was the increase from nineteen ninety (1,990) FTEs to two thousand one hundred and thirty-six (2,136) FTEs. We see the protection for March 1st of 2011, so a further year into the future down back to about one thousand eight hundred and forty-six (1,846) FTEs.

And I -- I take it, based on the evidence that's on the record, that that decrease is due to the completion of most BPR projects by that point in time?

MS. MARILYN MCLAREN: And a reflection of the staff savings inherent in those projects.

MS. CANDACE EVERARD: Just with respect to staffing in the union context, we've spoken and we -- we didn't go into detail on this when we were looking at SM.5, I think there was reference to it there, but the Corporation is also party to one or more collective agreements with various unions.

Is that right?

MS. MARILYN MCLAREN: Yes, just one (1).

MS. CANDACE EVERARD: And which union is it again?

MS. MARILYN MCLAREN: Manitoba Government Employees Union.

MS. CANDACE EVERARD: And what is the term of the current agreement that's in place and when does it expire?

MS. MARILYN MCLAREN: It's a four (4) year contract that started last fall.

MS. CANDACE EVERARD: Thank you. Those are my questions with respect to staffing at this point in time. So I'm going to turn back to Tab 2 of the book of documents for a moment. This is TI.7.A. We looked at it briefly with respect to just the compensation line.

If we look at -- if we look at the second line of TI.7.A, there's reference to the Corporation's data processing expenses. And it would appear that those expenses increased from '06/'07 to '07/'08 by about 41.2 percent, from '07/'08 to '08/'09 of about 16.6 percent, and from '08/'09 to '09/'10 about 14.4 percent.

Is that correct?

MR. OTTMAR KRAMER: Yes, that is correct.

MS. CANDACE EVERARD: And is it the case that those increases in large part were due to spending for the BPR and other operational initiatives?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: I'm going to ask you to go to 1-28 posed by the Board in the First Round. It's not in the book. This was an IR where the Board asked for some further detail on TI.7.A.

If we look at the data processing section on the attachment -- I'm looking at the line that's entitled "Normal Operations," which I take it is exclusive of BPR or other operational initiatives?

MR. OTTMAR KRAMER: Yes. That would be correct.

MS. CANDACE EVERARD: We see for '08/'09, the year that just ended, the expense was about 8.6 million and that's forecasted to increase by about 2.1 million in the current year to 10.7.

What does that increase relate to?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: That -- that increase is driven primarily due to just normal data processing upgrades, projects that aren't initiatives, et cetera, within the Corporation that were not completed in '08/'09 but are scheduled to completed -- be completed thereafter, licensing fees, those sort of things.

MS. CANDACE EVERARD: Thank you. Sticking with data processing for a moment, I'm just going to ask you turn over to 1-29 posed by the Board, which is not in the book of documents. This sets out compounded annual growth rate with respect to the various categories of basic expenses. And we see -- if we look at data processing, which is the second line in the table, the compounded annual growth rate between '04/'05 and '08/'09 was 8 -- about 8 1/2 percent.

Is that right?

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

MS. CANDACE EVERARD: And the compounded annual growth rate for the period from '09 to 2011/'12 is 3.45 percent.

Is that right?

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

MS. CANDACE EVERARD: Has there been a change within the operations of the Corporation to allow for that, that the -- the costs are expected to increase at a lower amount than was previous?

MR. OTTMAR KRAMER: As -- as we just previously discussed, some of those increases in -- in '07/'08, '08/'09, are driven due to the BPR projects. And wit -- with that tailing off, those increases are not expected back to more normal increases.

MS. CANDACE EVERARD: Is there a percentage of the data processing costs of the Corporation that are paid to external consultants?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Some of it would be. We have an annual support contract with EDS, with respect to primarily Autopac online and -- and the claims processing system. Major development, which, you know, recently has all been BPR related, would not be in this line, but the cost of that contract, the -- the portion of it that's related to the ongoing maintenance, sort of the -- the break fix, regular upgrades, things like that, would be charged to data processing.

It's probably -- this -- are these Basic or Corporate?

MR. OTTMAR KRAMER: This is Basic.

MS. MARILYN MCLAREN: Okay, so it would probably be in the range of, the last few years, anyway, maybe a million and a half/2 million a year.

MR. OTTMAR KRAMER: And -- and this would also include other software maintenance agreements and -- and licensing fees.

MS. CANDACE EVERARD: Thank you. I'm going to ask you to go back to TI.7.A, which, as we've been looking at, is at Tab 2. And we'll move down to the next line in the table, which is the special services line.

The Corporation is -- are we there? I just want to make sure we're all --

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: -- on the same page. The forecasted increase in special services for the current year, '09/'10, over last year, '08/'09, is about 63 percent. And we have some information in PUB/MPI-1-28A, that this is relating to the implementation of IFRS and increased external labour costs for the AOL and CARS systems.

Is -- does that account -- or do those explanations account for the whole of the 63 percent increase?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Ye -- yes, that answer is -- is correct.

MS. CANDACE EVERARD: Now, if we look at 128-A, which we looked at a moment ago, with respect to data processing, we see under the Special Services heading there is a line for normal operations, which, as we indicated for data processing is the -- the cost exclusive of BPR initiatives or other operational initiatives. And we do see an increase in the normal operations from the '08/'09 actual to the '09/'10 forecast of about $1 million.

What accounts for that increase?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: It -- it's driven by, I believe, several factors: One of them is that '08/'09 was actually one of our -- our lower years. If you look on TI.7.A, the '06/'07, '07/'08 numbers were a little over $3 million. So '08/'09 was -- we -- we had some lower spending. The '09/'10 normal ops is increasing getting back to more normal levels, plus a project such as the IFRS which we'd budgeted it about 250K for that.

MS. CANDACE EVERARD: Thank you. Moving away from special services looking back at TI.7.A, the fourth line which is building expenses, we do see a pretty significant increase from the current year, '09/'10, to 2010/'11, that's of 19.3 percent. And that relates to four (4) new service centres, I believe.

Is that correct?

MR. OTTMAR KRAMER: Yes, that -- that's primarily due to the new service centres that are under construction currently.

MS. CANDACE EVERARD: And that's

reflected in the answer to PUB/MPI-1-28A also. Those would be the service centres in Winnipeg South, Winnipeg Northeast and Winnipeg North?

MR. OTTMAR KRAMER: Yes. One -- one is being replaced. The -- the King Street location is being replaced with the Winnipeg North. But -- and -- and two (2) new additional service centres.

MS. CANDACE EVERARD: Thank you. The next line on TI.7.A relates to amortization. Before we look at the -- the numbers, can you advise if there have been any changes to the Corporation's amortization policy since last year.

MR. OTTMAR KRAMER: No, there have been -- there have been no changes.

MS. CANDACE EVERARD: Thanks, sorry about that. I wasn't trying to hog the mic.

Now looking at the numbers for amortization, we do see a -- a very substantial increase from the current year, '09/'10, to the year of the Application, 2010/'11, of about 87 percent. This is due to the impact of the BPR initiatives and the new service centres.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct and detailed on 1-28A.

MS. CANDACE EVERARD: Would you be able to provide probably by way of undertaking, the amortization expense by BPR project through the outlook period?

MR. OTTMAR KRAMER: Continuing on '12/'13, '13/'14?

MS. CANDACE EVERARD: Yes, please.

MR. OTTMAR KRAMER: Yes, we could do that.

--- UNDERTAKING NO. 15: To provide the amortization expense by BPR project through the outlook period, '12/'13, '13/'14

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. And is it the case that the higher level of amortization related to the BPR will occur over a five (5) year period?

MR. OTTMAR KRAMER: Yes, the deferred development related to the BPR initiatives is written off over five (5) years. Some other capital may be written off over a different period, but primarily that deferred development is five (5) years. Others, depending what type of equipment, data processing and maybe whether it be a physical building, changes, et cetera, may be written off over a different period, but the bulk of it, being the deferred development, is written off over five (5) years.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Going back to 1-28 posed by the Board in the First Round, still speaking about amortization, it appears that the amortization expense if forecast to increase from just over 2 million in twenty-nine ten (2910) to about 6.6 million for the year of the application.

And this is due to the -- the increased spending on BPR initiatives, is that right?

MR. OTTMAR KRAMER: It's -- it's due to the -- the initiative being completed in full year impacts in -- basically. In -- in the '09/'10 forecast for BPR initiatives you wouldn't have full year amortization of the deferred development. The project wasn't completed by the start of that year. And, in '10/'11 there's a full year for some of them, and continues to grow into '11/'12 as the projects are completed and the costs are amortized.

MS. CANDACE EVERARD: Thank you. Still

looking at the amortization section on 1-28 and the normal operations line, we see that the -- there's a decrease projected for the year of -- sorry, for 2011/'12, which is four point eight (4.8), and that follows on a couple of consecutive years of increases.

What's the cause behind that projected decrease in 2011/'12?

MR. OTTMAR KRAMER: That's related to our work station refresh project that we -- we started at late '07/'08 and into '08/'09 and was amortized over a three (3) year period, and as that becomes fully amortized, the total amortization drops.

MS. CANDACE EVERARD: Thank you. Just a couple more questions with respect to these things. 1-29, which we looked at briefly, I'll just ask you to go back there. It's not in the book.

This was the schedule that reflects basic expenses and the compounded growth rate for those expenses over certain periods of years. We see, for the Driver Education Program line, which is the third last row, that the CAGR from '04/'05 through '08/'09 was five point seven six (5.76), and that's anticipated to grow to just over 9 percent for the period from '08/'09 through 2011/'12.

What's driving that anticipated increase?

(BRIEF PAUSE)

MR. DONALD PALMER: We'll have to check on that one.

MS. CANDACE EVERARD: That would be great. Thank you.

--- UNDERTAKING NO. 16: To indicate what's driving the anticipated increase Driver Education Program, and confirm what is included or what items are tracked under Other

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: And just one (1) other question about this same schedule, 1-29. We see the last row on the table refers to the expense category of Other. Before we get into the numbers, can?

MR. OTTMAR KRAMER: We have an IR and a response, but off the top of my head, I -- we're -- we're researching it right now.

MS. CANDACE EVERARD: That's fine. We can -- we can wait a bit for that. When we do look at the numbers relating to that line on this compounded annual growth rate chart, we see that the rate moved up from four point four (4.4) between 2004/'05 and 2008/'09 to about 9.18 percent for 2008/'09 through 2011/'12.

So my next question was just going to be the reasons for that, but obviously we'll need to know what it represents before you can answer that. So if you could give me both pieces when you have it I'd appreciate it.

MR. DONALD PALMER: We'll include those combined in one (1) undertaking.

MS. CANDACE EVERARD: Thank you. Mr. Chairman, it's about twelve (12) minutes to 12:00. I can either go into capital expenditures or we can take the lunch break now. I'm -- I'm in your hands.

THE CHAIRPERSON: Okay. It sounds like a good time to break then. If it's okay with everyone we'll come back at one o'clock. Thank you.

--- Upon recessing at 11:49 a.m.
--- Upon resuming at 1:06 p.m.

THE CHAIRPERSON: Okay. Welcome back, everyone. Whenever you want to...

MS. KATHY KALINOWSKY: Good afternoon,

Mr. Chairman. Mr. Evans asked an arithmetical question and the comptroller was not able to respond, but now is able to respond.

THE CHAIRPERSON: But it's not the comptroller that's answering it.

MR. DONALD PALMER: Not the comptroller. That -- those increases are in fact possible that the -- the total is the lowest number. And it's possible because there's a flow into the clerical -- it -- it's almost -- like we talk about upgrade, there's a downgrade, so we've got more and more of the clerical staff, so you've got not only those individual lines adding up, but the distribution is different, so you have another multiplier going into the lower numbers, so it -- it is mathematically possible because the distributions aren't the same.

MR. LEN EVANS: Yeah, so it's not a simple math -- it's not a simple mathematical average of those four (4) lines --

MR. DONALD PALMER: No, it's -- it's a weighted --

MR. LEN EVANS: -- numbers, it's not --

MR. DONALD PALMER: It's a weighted average weighted by the number of employees. So because you have a higher number of employees over those years going into the clerical section, that you have a down drift, so to speak, in the total averages. So it's -- it is quite possible.

THE CHAIRPERSON: So the chart actually needs footnotes then.

MR. DONALD PALMER: The -- the chart, you'd be able to follow that if we had the number of employees in each category.

MR. LEN EVANS: I accept your answer, but I've never seen this before and I doubt that I'll ever see it again, but, who knows. Thanks.

MS. MARILYN MCLAREN: And with respect to following up with a little bit of detail on the questions about loss of use and communicating that, the information that we talked about, in terms of the third party access to coverage for loss of use, is found on pages 46 and 47 of the Autopac guide. And it's also on the Corporation's website in the Claims section under a category basically called "Replacement Vehicle Coverage When Another Party Was At-fault For Your Damage."

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. Thank you, Mr. Chairman. Thank you, Ms. McLaren, for that information. I'm going to move to a few questions about capital expenditures on the part of the Corporation, so I'd ask you to turn to Tab 4 of our book of documents, where we find TI.10, which was included in the filing.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Are you with me?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: Now it would appear for the current year, 2009/'10, the Corporation is forecasting total capital expenditures of $82.8 million.

Is that right?

MR. OTTMAR KRAMER: That was what was submitted in the original filing of the GRA. However, that was updated in PUB-1-36C, which was in the First Round of interogs, and we had an update there.

MS. CANDACE EVERARD: Thank you. And I -- I was going to take you there but I appreciate you bringing up the reference, the difference in the two (2) documents being the fifty thousand dollar ($50,000) expenditure for Cityplace having been included at 1-36C.

MR. OTTMAR KRAMER: Yeah, 50 million.

MS. CANDACE EVERARD: Did I say fifty thousand (50,000)? Yeah, not so much. 50 million.

Thank you for correcting me.

In both schedules, the one that was the original TI.10 and the one that's the revised TI.10, we see about 3 million being spent on data processing equipment for business process review initiatives.

Is that right?

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

MS. CANDACE EVERARD: And again, in both schedules, one of the numbers that stayed the same under the heading of "Deferred Development Costs," again relating to the BPR initiatives, is some $38.6 million.

Is that right?

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

MS. CANDACE EVERARD: Now, if we look at the increase and if we turn to (e) of 36 which is actually just on the -- the over -- page over from (c). It's page 4 of 1-36.

We have a comparison for the current year, 2009/'10 of what was projected at last year's GRA, versus what was included with the current GRA filing.

Are you with me?

MR. OTTMAR KRAMER: Yes, I have that.

MS. CANDACE EVERARD: And we've identified of course, even that this 82.8 million has now been increased due to the Cityplace acquisition. But leaving that aside for the moment we still have a -- a $16.6 million increase in the current forecast for the current year over that which was projected last year. And this appears to be driven by five (5) main factors. And those are set out at the narrative portion of the answer.

So I would ask you to -- to turn there and then we'll talk about each of them in turn. We see under 'E' (1) for buildings there's an increase of about 3.8 million. And it's stated here that the increase is primarily due to increased material costs, $2 million in budget carryover due to construction delays and additional square footage and functional requirements.

Can you speak to us a little about the -- the construction delays and as well the additional square footage requirements.

(BRIEF PAUSE)

MR. DONALD PALMER: In terms of construction delays, we're -- we currently have three (3) service centres and we have had some delays, mostly weather, related given that this has been a -- not a good summer for construction. For example, our Winnipeg South claim centre, we had a little bit of a landslide that caused some issues with some piles. That was certainly one (1) of the delays that -- that caused that.

In terms of additional square footage, the service centres -- when we went back and took a look at the square footage of the service centres and all the functional requirements required, they were expanded a little. So that is also the additional square footage due to the size of the service centres.

MS. CANDACE EVERARD: Thank you.

MR. OTTMAR KRAMER: If I could just add to that also. If you look at the response to PUB-1-34, which details some of the actual expenditures in '08/'09 versus the forecast and projected, you will see that the forecast that we had -- had put forward last year were considerably higher under the building categories and the actual was considerably lower.

So that's just some movement in between years of some of the construction costs.

MS. CANDACE EVERARD: Thank you. If we continue to look at the narrative at 1-36(e), we see Item 2 relates to a capital lease and that's about 5.6 million. And the -- the explanation is that the increase is due to a service centre building not owned by the Corporation.

Can you give us a little bit of detail on that.

MR. DONALD PALMER: Our new service centre on Main Street that replaces the existing service centre on King is on land that is leased, not owned, and because the owner of that particular lot wou -- wouldn't sell. So we do have a leased lot that the new service centre is on.

MS. CANDACE EVERARD: And is that the only service centre that on leased property?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: With respect to Note 3, the land variance of about 1.2 million, there's a note that this is due to carryover from last years budget.

MR. OTTMAR KRAMER: Yes. Essentially, I'd refer you again to PUB-1-34, and -- and you can see the carryover of the -- the dollars that were budgeted in '08/'09.

MS. CANDACE EVERARD: Thank you. The next note relates to land improvements for about $1.6 million, and it's indicated that the increase is mainly due to additional city of Winnipeg zoning requirements as well as additional requirements for land improvements not foreseen at the last GRA.

Can you speak to us a little bit about the zoning requirements that are mentioned.

MS. MARILYN MCLAREN: Probably not off the top of our heads, but we can check and come back, for the record.

MS. CANDACE EVERARD: Just at a high level, we'd appreciate that. Just so we have an idea.

--- UNDERTAKING NO. 17: To speak of Winnipeg zoning requirements

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: And then the fifth note relates to deferred development costs of almost 5.6 million, and there's a reference that this was also due to budgets being carried over into the current year, in 2010/'11, as a result of time lines being later than anticipated.

Which projects does -- does that relate to?

MS. MARILYN MCLAREN: I think all three (3) buildings. Actually, we had the shovels into the ground later than we thought we may have when we did this a year ago.

It just took longer to -- to get some of the City's requirements, issues with respect to having to build new roads to get onto the site, issues finalizing the capital lease that we talked about a few minutes ago.

MS. CANDACE EVERARD: Thank you. Those are my questions on capital expenditures. I'm going to move to a few questions with respect to the Corporation's acquisition of the Cityplace property, which I guess is a capital expenditure, but we'll just focus on that one and it won't be a general discussion, for a bit.

We know that on May 1st of 2009 the Corporation purchased Cityplace and the surrounding parking lots.

Is that right?

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

MS. CANDACE EVERARD: And can you explain why the Corporation decided to purchase its head office?

MR. DONALD PALMER: We were faced with the situation that our existing lease was coming to an end in 2013. Initially we had been presented with a renewal proposal that was really unacceptable to the Corporation and started looking at alternatives for our administrative offices. And there are basically three (3) alternatives: either find existing space in a suitable location, renovate an existing building, or build a new building.

All of the -- the last two (2) options,

very expensive, and the first option, to move to some other -- other place, didn't really have any acceptable alternatives that were apparent to us.

In the meantime, the credit crisis hit and the owner of the existing building, City -- Cityplace was running into some credit difficulties.

And at that point in time it became apparent to them and us that possibly it was -- would be a good situation for us to purchase that building because if we could do it within an acceptable financial terms. Because certainly, we didn't really want to move. We've been in that location since 1980. The costs associated with moving some thousand employees somewhere else are certainly not insignificant. And we started negotiating on -- on that basis, taking into account certainly our existing costs, our lease costs, our current lease costs and possible future lease costs beyond the time that our lease was going to expire. And it certainly was attractive to us on a financial basis to look into the purchase of that building.

We -- now, the whole package include not only the office building, but also the associated retail space and the parking lots. We thought briefly about condominiumizing and buying only the office tower. That really didn't -- wasn't feasible to do that. We looked at the existing price of it. We noted that we do have an allocation to real estate in our investment portfolio, it seemed to match with that, and the decision was made on that -- that total basis, to go ahead and -- and purchase the building, because the terms that we were able to negotiate were acceptable to all parties.

MS. CANDACE EVERARD: Okay. I just want to follow up on a couple of the comments that you made.

You said that the Corporation was presented with a proposal to renew the lease that was unacceptable.

Was that basically just due to the amount of the rent that would have been charged, or were there other terms of that renewal lease that were unattractive?

MR. DONALD PALMER: For specifically -- it was the -- the renewal terms of that lease that were unacceptable. There were also some other existing things within our building. We had some storage space in the basement of Cityplace that we got kicked out of. It was those kind of operational difficulties that really made it more attractive to -- to have our own ownership and control of our own space.

MS. CANDACE EVERARD: The -- the lease that was offered, I believe, was for a further ten (10) year term, so it would have gone from 2013 to 2023.

MS. MARILYN MCLAREN: Do you have a reference for that?

MS. CANDACE EVERARD: Yeah, I think it was 1-357(h). The -- the question was and this may be slightly different, we asked for details of the occupancy cost to be incurred by the Corporation through 2013/'14. And then the answer said the final -- or, you know, this is the same -- the rejected final renewal offer from the previous owner for the ten (10) years would have cost 61 million in net rent alone.

So that's where I got that from.

MS. MARILYN MCLAREN: Okay, yeah. Then that's what they presented to us was the ten (10) years, yes.

MS. CANDACE EVERARD: Okay. And, Mr. Palmer, you spoke about one (1) of the options for the Corporation being to find other existing space and you said there were no alternatives.

Was -- was that just a matter of size and the -- the number of -- of square feet that the Corporation would need and the number of bodies that it had, there just wasn't anything available in downtown Winnipeg, or is there something else behind that?

MR. DONALD PALMER: Let me backtrack a little bit from that. In terms of readily available that

-- that we knew about, we didn't look very hard because this other option came up sort of ahe -- ahead of time. There -- but certainly in terms of -- of parcels of vacant space of the -- the size that we needed, it wasn't readily apparent to us. So I will say that there wasn't a concerted effort to do that. That was soon to be our next step, which we didn't have to pursue.

MS. CANDACE EVERARD: Thank you. Now you mentioned the -- the fact that the Corporation knew its lease was going to expire in 2013, and then the crisis -- or the credit crisis, rather, hit in the fall of 2008.

So would it have been roughly fall of 2008, September/October, that this idea sort of first came to life? We -- we know that the BMO report is dated December of '08, so...

MR. DONALD PALMER: It -- it would have been about the November time -- timeframe.

MS. CANDACE EVERARD: So was BMO retained in November then to -- to conduct the analysis that it did?

MR. DONALD PALMER: I don't recall the exact date. It would have been about a month before the date of the report.

MS. CANDACE EVERARD: Okay. And did the Corporation conduct, or cause to be conducted, an analysis or a study looking at the lease, verse -- versus purchase idea, or was it its own considerations that it -- that it looked at, as opposed to anything specific?

(BRIEF PAUSE)

MS. CANDACE EVERARD: I -- I -- maybe I can clarify that. I mean the -- the evidence that you've given is that the -- the renewal option that was put forward by the former landlord wasn't attractive for a couple of reasons, lack of control over the space, the amount of the rent, et cetera, and so, when the idea came up to buy, it sounds like the Corporation was quite insisted for a number of reasons.

So what I'm trying to get at, and maybe a little bit awkwardly, is, did it do anymore formal of an analysis between the -- to weigh the pros and cons of both options, or was it a fairly straightforward or fairly clear at that point that -- that the will was simply to purchase and to proceed to pursue that?

MR. OTTMAR KRAMER: Well, a part of the BMO report shows us some of the financials arou -- around the -- the Cityplace property. And some of the assumptions that they have kind of answered that question, and the assumptions on future revenues that

that property would generate, whether we or were not -- we are or are not the tenant. And some of the lease rates that they had assumed out there in the -- in the future years were considerably lower than the -- than the option that was presented to us as -- as leasee.

So looking -- looking at all those factors, it -- it still continued to -- to make sense to purchase the building.

MS. CANDACE EVERARD: So what you're saying is, the -- the BMO report was informative, from the Corporation's perspective, and gave some information that it could consider in deciding whether to make the purchase. But it's my understanding that that analysis is really an acquisition analysis, as opposed to looking at it in the light of is it better for this Corporation to lease or buy.

Would that be fair to say?

MR. OTTMAR KRAMER: I -- I wouldn't -- I wouldn't say that. The BMO report provides information on the -- on the purchase -- pot -- potential purchase price, but it also shows the economics around leasing versus -- versus, you know, an -- an outlay of -- of cash. So I would -- I would say it serves both those purposes.

MS. CANDACE EVERARD: Did BMO...

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Just some further clarification. You know, I've pointed to the BMO report, but we did -- after we received the BMO report, also did some additional work ourselves, lease -- lease versus purchase. So, you know, maybe I've referenced the BMO report a little bit too much, but that was the -- that was the basis for doing the -- the lease versus -- leasing space versus purchasing a building.

MS. CANDACE EVERARD: Is the -- the work product of that internal analysis on the record? I -- I don't think it is, but tell me if I'm wrong, because I know there's a lot on the record.

MR. OTTMAR KRAMER: No, it's not.

MR. DONALD PALMER: The only thing that is on the record is in the quarterly statement where we have estimated the annual savings to be about $3 million per year, that is on the record.

MS. CANDACE EVERARD: And -- and I do want to speak about that a little bit further and we -- we will come to it.

The BMO -- just so that -- that we have the -- the full picture -- BMO got a commission on the sale, right?

MR. DONALD PALMER: Yes, they did.

MS. CANDACE EVERARD: We -- we have the amount of that, and I'll come to that when we speak about what the savings are -- or, pardon me, what the -- what the costs were. I was making a note about the savings.

Now, the -- we've spoken a little bit about the purchase including the office tower, the retail space, and the parking lots, and just a little bit of detail on the parking. It's my understanding there are five (5) lots, two (2) of which are underground and three (3) of which are above ground.

Is that right?

MR. DONALD PALMER: Not quite. There's two (2) lots that are contained within Cityplace: one (1) is an underground lot and one (1) is a parkade-type above -- above-ground parkade. So those are the two (2) lots within Cityplace.

There's also the multi-level lot just behind us here, the -- what -- referred to as the old Eaton Parkade, is the way we've referred to it. There's also a surface lot on Hargrave and Graham, and also a surface lot immediately south of Cityplace on Donald Street bo -- on the north by York, St. -- sorry, St. Mary.

MS. CANDACE EVERARD: Okay. So there are

five (5) lots but only one (1) of them is underground. The other four (4) are either surface or above ground.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And there's a total of just shy of fourteen hundred (1,400) parking spaces?

MR. DONALD PALMER: That sounds about right?

MS. CANDACE EVERARD: I think it came from one of the IRs posed by the MBA. But it's, subject to check, it's thirteen ninety-eight (1,398).

MR. DONALD PALMER: Sure. I'm getting a "yes," so yes.

MS. CANDACE EVERARD: I want to turn to the BMO report in a little bit more detail. It's attached as part of the answer to 35(a) posed by the Board in the First Round.

Now, we see -- I'll wait until you're with me.

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: So we've got, I don't know, probably eight (8) or so pages from BMO directed to the Corporation, December 18th of 2008, and the opening paragraph of the letter states:

"We have completed a significant amount of financial due diligence and we are now in a position to provide you with

our preliminary evaluation results.
The following summarizes our overall approach, methodology, assumptions, and preliminary conclusions. Please consider this as a draft working document that we will refine and finalize early in the new year."

Are you with me?

MR. DONALD PALMER: Yes, I am.

MS. CANDACE EVERARD: And under the heading of "General Approach," just in the next paragraph, the report reads:

"The purpose of this analysis is to provide MPI with an indication of market value of Cityplace and the associated parking facilities, assuming the sale to an arm's length investor."

And then it goes on to -- to set out some of the things that -- that they considered.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So we see in the next paragraph that the property incorporates three (3) distinct investment elements, namely the office component, the retail component, and the parking lot, or parking lots, plural, pardon me.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So if we have a look through the report and we'll just -- we'll just hit a few of the -- of the points, they say under Section 'B' that they estimate the market value before deductions of parking payments, sky walk, non-recoverable capital costs, et cetera, to range from between approximately 79 million and 86 million.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And BMO went on to consider each of the three (3) components, the office, retail and parking lots, and to come up with a range, a value for each.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: So if we look at the office component first, just because it's the first one that we come to in the report, the report sets out various details with respect to the office component and comes to the conclusion and -- and the pages in my copy aren't numbered which is a bit cumbersome, but I think I'm on the fourth page of the report where the -- the office section winds up and then the retail section begins.

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: So BMO states in the last paragraph of the office section, that in applying discount rates of between 9 and 9 1/2 percent unleveraged IRR and reversionary capitalization rates of 8.5 percent to 9 percent, we arrive at a total market value range for the office component of between $44 million and $47 million.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And for the retail component, again, there's an analysis, and at the -- at the very bottom of the next page which is the end of the retail section, the conclusion, with respect to that component, was a range of between 10.3 and 12.4 million, yes?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And then lastly, under the parking section, the conclusion is between 25 million and 27 million, yes?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So the value of the parking lots is actually more than the retail but less than the office component?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Now the purchase price that the Corporation ultimately paid for the three (3) components was 81 1/2 million.

Am I correct?

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

MS. CANDACE EVERARD: And that would be within the range identified by BMO; we've looked at the components, we've looked at the total, and closer to the lower end of the range.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: That was the range of seventy-nine (79) to eighty-six (86), I believe. Yes.

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

MS. CANDACE EVERARD: Just looking at the -- the retail section for a moment. There's some commentary in -- in this section about office conversion and there's a statement. I'm looking at the second page of the retail section, it says:

> "Office conversion is projected for Year 2 and is estimated to cost approximately seven dollars ($7) per square foot and generate a net of ten dollars ($10) per square foot."

What does that piece relate to?

MR. DONALD PALMER: Just a quick correction. For the estimated cost of conversion is seventy dollars ($70) per square foot, not seven (7).

MS. CANDACE EVERARD: What did I say?

MR. DONALD PALMER: Seven (7).

MS. CANDACE EVERARD: Good thing I'm the lawyer and you're the actuary. I was almost about to say accountant, but I caught myself. I'm sure you wouldn't want me to say that.

MR. DONALD PALMER: If you didn't, I would have.

MS. CANDACE EVERARD: I hear you. Okay. So, can you tell me about the office conversion factor.

MR. DONALD PALMER: For some of the space within -- for costing purposes, there is significant vacant space within the retail component, so one of the options could be to convert to offices at some point in time. So that was just included in the costing model. We don't have any concrete plans for that as yet.

(BRIEF PAUSE)

MS. CANDACE EVERARD: With respect to that potential conversion of retail space to office, is that something that the Corporation would consider for its own offices, if it had the need to move any outside offices in, or would it be for office conversions to be then leased out?

MS. MARILYN MCLAREN: I think this report contemplates doing it for rent. But it's possible that that would be an option for ourselves if we needed more space.

MS. CANDACE EVERARD: Does the Corporation foresee that it may need more space within the foreseeable future?

MS. MARILYN MCLAREN: Not likely within the next several years.

MS. CANDACE EVERARD: Thank you. Now, there's reference in the BMO report to the lease that was existing as between the former landlord and the Corporation.

What can you tell us about the -- the value of that lease in considering the value of the property, as set out by BMO?

MR. DONALD PALMER: If there is an existing lease on any property, then there's value to that. If there's empty space, there's less value. So the fact that the building is -- the office space is almost fully occupied, that would certainly be a factor in the evaluation of the lease.

MS. CANDACE EVERARD: And in -- in the section of the BMO report that deals with the office component, and I'm looking towards the end of that section, they say they've done a ten (10) year cash flow, which is attached, the MPI tenancy represents the greatest unknown, and if MPI was not to renew, value would be impacted significantly.

That's the idea that you're referring to?

MR. DONALD PALMER: Yes. And -- and there was a renewal probability of 75 percent that was included in that evaluation cashflow.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, it's my understanding that the BMO report did not include any analysis or have consideration of any foregone investment income to the Corporation, in the event that it went through with the purchase.

Is that right?

MR. DONALD PALMER: Not specifically. I guess, implicitly, there's an internal rate of return that's included in the cal -- calculation, so if you could do better than the rate of return on investments, then there would be more foregone investment income. If it would be less than what's here in the internal rate of return, then the purchase of the building is probably a good idea.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Palmer, we're looking at the -- previously, at the last paragraph, under the office section, which immediately precedes the retail section. And we looked at the first sentence of that last paragraph, which speaks about applying the discount rates, in bracket, the un-leveraged IRR and reversionary capitalization rates, and in doing so BMO arrived at the -- the valuation range.

Can -- can you tie that -- or those comments in with your evidence that, while the foregone investment income is not specifically addressed, it is addressed implicitly?

MR. DONALD PALMER: Yes. That discount rate, that 9 percent, is sort of that comparative yield. Right now a fixed income yield for new money and new investment is probably somewhere in the 3 to 4 percent range. So certainly that 9 1/2 -- 9 to 9 1/2 is more attractive than our current new money yield. I can also tell you that our yield on our total portfolio last year was minus 5.7 percent, so this is significantly better than that too.

MS. CANDACE EVERARD: Thank you. Just before we leave the BMO report, where in the report do we find the place where BMO addressed the lease versus purchase analysis; that is, in terms of weighing the benefits and detriments of a -- of a purchase?

MR. OTTMAR KRAMER: They specifically didn't. We used that BMO report then internally to -- to weigh the benefits prior to making a decision.

MS. CANDACE EVERARD: That -- and you used the BMO Report to conduct the internal analysis that we spoke about a few moments ago?

MR. OTTMAR KRAMER: Correct.

MS. CANDACE EVERARD: Now, immediately after the BMO report in the filing here, at the answer to Number 35, is an appraisal that was obtained with respect to the property. This was as at April 1st, of '09, from Advantis realty advisors which provides that the value of the property, including the parking lots, is 86 million.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Okay. Under the Corporation's response to 35(c) -- so, we're still at the same IR -- the Corporation has advised that the -- the total rent plus operating and taxes that it was paying at Cityplace was about five point five (5.5) in the last fiscal year, which was '08/'09, and slightly less than that in the two (2) proceeding years.

Is that right?

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

MS. CANDACE EVERARD: And we've already spoken about -- which is a little bit lower down on the page at (h), that the -- the offer from the landlord was a ten (10) year lease, which would have been 61 million in rent over the course of the lease. So, for easy figuring it was six point one (6.1) a year, although I'm assuming there was an acceleration clause, so it was probably less at the beginning and more at the end.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And when the Corporation says here at (h), that the cost would have been $61 million in net rent alone, I take it that excludes operating costs and taxes?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So, when we're comparing in (c) what the Corporation was paying, the five point five (5.5), if -- the way I read total rent, plus operating and taxes was five point five (5.5), that would be an all inclusive number. So, really the five point five (5.5) -- and if we were using six point one (6.1) for the -- what the landlord wanted, it's really not an apples to apples comparison.

Is that right?

MR. DONALD PALMER: No, the six point one (6.1) was more than that.

MS. CANDACE EVERARD: It would have actually cost more than six point one (6.1), because that was just the rent component?

MR. DONALD PALMER: That's -- that's what I meant, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Would you be able to let us know, just so we do have the apples to apples, what the net rent was under the existing lease, backing out the operating costs and the taxes?

MR. DONALD PALMER: Yes, we can do that.

--- UNDERTAKING NO. 18: To indicate what the net rent was under the existing lease, backing out the operating costs and the taxes

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. Now, Mr. Palmer, we've spoken a little bit about the evidence that's in the annual -- is it in the annual report or the -- it's in the second quarter report, that the Corporation anticipates about $3 million in annual savings arising from this real estate purchase.

What I would ask that the -- the Corporation provide, with respect to those savings is...

(BRIEF PAUSE)

MS. CANDACE EVERARD: Does the Corporation have a -- a net present value analysis for that 3 million in annual savings going forward?

(BRIEF PAUSE)

MR. DONALD PALMER: No, that -- that was essentially a comparison between rent savings and net of foregone investment income.

MS. CANDACE EVERARD: Okay. Would the Corporation be in a position to provide to us a net present value analysis of the lease costs from 2010 to 2023, assuming the $5.5 million per year costs, which I appreciate is inclusive of operating costs and taxes, for the existing lease period and the new rent cost that was proposed by the landlord from 2013 to 2023, using a discount rate of 9 percent?

MR. DONALD PALMER: Yes, we can perform those calculations.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 19: To provide to a net present value analysis of the lease costs from 2010 to 2023, assuming the $5.5 million per year costs for the existing lease period and the new rent cost that was proposed by the landlord from 2013 to 2023, using a discount rate of 9 percent

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: The second calculation that I would ask for if you can do, is a net present value analysis of the $2.9 million in foregone investment income over a ten (10) year period using the same discount rate used by BMO?

MR. DONALD PALMER: Yes, we can do that?

--- UNDERTAKING NO. 20: To provide the net present value analysis of the $2.9 million in foregone investment income over a ten (10) year period using a discount rate of 9 percent

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: And lastly, can you do a comparison of the leasing costs per square foot in 2013, based on the assumed renewal rate and operating costs and taxes with the cost per square foot to purchase? In other words, the all-in costs, including building amortization and associated costs including the foregone investment income?

MR. DONALD PALMER: That's a little tougher but we'll -- we'll give it a good shot.

MS. CANDACE EVERARD: If it makes you feel any better, it all sounds like Greek to me but you keep saying you'll do it so you must understand it better than I do.

--- UNDERTAKING NO. 21: To provide a comparison of

leasing costs per square foot
in 2013, based on assumed
renewal rate and operating
costs and taxes with the cost
per square foot to purchase

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Now we know that there is another leg of the -- the Skywalk system in downtown Winnipeg that's going to be connected to the south end of Cityplace. If I'm right, that'll go -- is it going to go kitty-corner across that intersection to the Delta or --

MR. DONALD PALMER: No, it goes to the -- directly straight to the HSBC Tower, I think, is the name of the -- used to be the Royal Trust Tower. So it goes directly from Cityplace into that tower and then there will be another existing tunnel across to the -- to the Delta.

MS. MARILYN MCLAREN: Elevated walkway, not --

MR. DONALD PALMER: Yes.

MS. MARILYN MCLAREN: -- a tunnel?

MR. DONALD PALMER: An overhead tunnel.

MS. CANDACE EVERARD: I think that's an

oxymoron but that's okay.

And what are the -- or are there any costs that the Corporation will incur, as the owner of Cityplace, relating to that construction?

MS. MARILYN MCLAREN: There are. We have to prepare our building on the receiving end for the walkway that will cross to the -- what used to be the Royal Trust Building. Just going from memory, I think it's about seven-fifty (750) or eight hundred thousand dollars ($800,000), our obligation.

MS. CANDACE EVERARD: And that relates to the physical construction costs of whatever supports or girders or whatever you have to do?

MS. MARILYN MCLAREN: And -- and modifying the entranceway at the south end of the building, just -- just doing our preparation to connect with the Skywalk.

MS. CANDACE EVERARD: And is -- are those costs included in the forecast that are before the Board relating to capital expenditures?

(BRIEF PAUSE)

MR. DONALD PALMER: We'll double check on that.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 22: To advise if the costs related to the construction of the Skywalk are included in the forecast that is before the Board relating to capital expenditures

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I'd like you to have a look at 2-14 posed by the Board. This gets into the acquisition costs.

(BRIEF PAUSE)

MS. CANDACE EVERARD: (c), so 2-14(c), was a request that the Corporation provide an estimate of the expenses that it anticipated it would incur for this real estate purchase, including amounts paid to or forecast to be paid to BMO, Advantis, or others.

And maybe I'll just you -- one (1) of you read in the response at (c).

MR. DONALD PALMER:

"Manitoba Public Insurance paid

Advantis Realty Appraisers ten thousand dollars ($10,000) for their Cityplace valuation. BMO Capital Markets Real Estate was not paid for their evaluation. BMO was paid eight hundred and fifteen thousand dollars ($815,000) commission for the purchase of Cityplace. The 1 percent commission was reviewed in advance and was determined to be a normal market condition."

MS. CANDACE EVERARD: And at (d), the Corporation was asked to indicate whether it had assumed a mortgage in connection with the purchase or acquired the property free and clear of debt.

And can you just read in the response at (d), please?

MR. DONALD PALMER:

"Manitoba Public Insurance paid a fee of seven hundred and fifty thousand dollars ($750,000) to the first mortgage holder, CDPQ, to discharge the first mortgage. The second mortgage was discharged by the previous owner. Manitoba Public Insurance acquired

Cityplace free and clear of any debt."

MS. CANDACE EVERARD: So if we add together the three (3) expenditures that are covered in 'C' and 'D', we're at about 1.5/1.6 million?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now we've heard evidence that the purchase of the property was funded with short-term investments. We spoke about that, I think, last week.

MR. DONALD PALMER: That's where the cash came from, yes.

MS. CANDACE EVERARD: And the decision to -- to make the purchase was made in the early part of 2009, following on the BMO report in December of '08.

So would that be fair to say?

MR. DONALD PALMER: It was -- and I can't remember the exact date of our intent to purchase but it would have been in about the March time period. We did have time to have a subsequent event note in our annual report, which would have been finalized about the end of April.

MS. CANDACE EVERARD: And the closing date for the deal was May 1st?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So it makes sense

to me, just commonsensically, that you probably reached the deal in March by the time due diligence was done and -- and that kind of thing.

So are you happy with the March 2009 characterization?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And did MPI sell any security specifically to fund the purchase?

MR. DONALD PALMER: No, they were just normal maturities that we did not reinvest.

MS. CANDACE EVERARD: We looked last week at some of the realized losses that the Corporation had, particularly in the later part of '08, and then in the early part of '09. That was that AOCI continuity schedule. We can go there if you'd like. It's at Tab 17 of the book.

But did any of those dispositions relate to the purchase of Cityplace?

MR. DONALD PALMER: No.

MS. CANDACE EVERARD: Did the Corporation consider at any point, rather than funding the purchase with matured investments, just renewing those investments and borrowing to fund the acquisition?

MR. DONALD PALMER: Not directly. The intent was not to incur new debt. So given that borrowing rates are greater than -- than deposit -- or interest rates, we didn't seriously consider that option, no.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Looking back at the BMO report, which is at Tab 35 -- or sorry, undertaking -- Interrogatory 35 posed by the Board in the First Round, there's reference on the second last page and I'm looking at the tail end of Section -- well, the first Section E.

I guess there are two (2) sections called E in the report. The first one is financing implications, the second one is value summary and conclusion. So I'm in the financing implication section. The second last full paragraph reads:

> "To the extent that MPI wished to acquire Cityplace free and clear of any debt, it would be necessary to defease the mortgage which we assume will cost approximately $11 million but given the high defeasance costs we presume MPI or any new purchaser would assume the..."

And presumably it said "mortgage" under there before it was redacted.

Did the Corporation consider assuming that existing mortgage rather than incurring the -- the cost of seven hundred and fifty thousand (750,000) that we spoke of earlier?

MR. DONALD PALMER: Yes, we did consider and -- and certainly with the mortgage prepayment penalties that we were initially looking at, we likely would have assumed the mortgage.

With the -- we did the analysis as far as the savings with the seventy hundred and fifty thousand dollar ($750,000) penalty rather than the...

(BRIEF PAUSE)

MR. DONALD PALMER: The seven hundred and fifty thousand dollar ($750,000) penalty certainly was -- was affordable and a better deal than -- than assuming the mortgage. The $11 million figure that was originally thought wouldn't -- would not have been -- given us economic value to pay that payment penalty. But we were able to negotiate it down to the seventy fifty (750).

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, Mr. Palmer, are you saying that the $11 million mortgage was negotiated down to a seven hundred and fifty thousand dollar ($750,000) fee? Yeah.

MR. DONALD PALMER: No.

MS. CANDACE EVERARD: Didn't think so. Can you just explain that one (1) more time?

MR. DONALD PALMER: Sure. The existing mortgage...

(BRIEF PAUSE)

MR. DONALD PALMER: The -- the mortgage which the amount on the -- in the table under Financial Implications, $51.4 million, the cost of discharging that mortgage would have been $11 million. That was the -- that was the penalty that we were faced with.

MS. CANDACE EVERARD: I'm sorry. Where are you?

MR. DONALD PALMER: The table under E, Financial Implications.

MS. CANDACE EVERARD: Okay, yes, I see that.

MR. DONALD PALMER: That was the mortgage that we would have assumed and it was that mortgage that there was initially thought to be an $11 million penalty which is just not economic for us to do. So on that basis the decision would have been to assume the $51.4 million mortgage.

Rather than doing that, we sought to negotiate a lower penalty to make it economically viable and it was on that basis that we were able to negotiate a penalty of seven hundred and fifty thousand dollars ($750,000) instead of a penalty of $11 million.

MS. CANDACE EVERARD: Thank you.

Now just staying in the BMO report just for one (1) more set of questions, on the very last page of the report, the first paragraph, which is a continuation from the previous page, references the idea of a sale leaseback. Are you familiar with that idea?

MR. DONALD PALMER: Yes, I am to -- probably not fully in depth but certainly familiar with the concept, yes.

MS. CANDACE EVERARD: And BMO has stated here that they believe - I'm reading from the third last line of that first paragraph:

"We believe that with a fifteen (15) year lease extension at market rates a price of at least $95 million under a sale leaseback could be achieved, reflecting an almost immediate profit of roughly $12 million."

Are you with me?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And did the Corporation consider proceeding with that option?

(BRIEF PAUSE)

MR. DONALD PALMER: For starters, that option is available to us at any time. So to that extent, it -- it still is a possibility. That said, again, to anybody that would make that deal would be to make money from that deal which is right now our money to -- to be made. So -- so we haven't seriously considered that at -- at this stage but, certainly it's something that is always open to us.

MS. CANDACE EVERARD: Thank you. I just want to get into a little bit, still speaking about the Cityplace acquisition, the accounting that the Corporation has had to do relative to that acquisition.

Now it's my understanding that, under IFRS, the amount of costs that had been capitalized relating to the building is anticipated to change, is that correct?

MR. OTTMAR KRAMER: Preliminary analysis, yes, it will change.

MS. CANDACE EVERARD: And, if I understand it correctly, that's because, under current GAAP, all of Cityplace would be treated as a capital expenditure, whereas under IFRS, the pieces that are not occupied by the owner, so not occupied by the Corporation, have to be accounted for as an investment asset.

Is that correct?

MR. OTTMAR KRAMER: In layman's terms, yes. We're still trying to work through the detail as of exactly what would be an investment asset versus an operating asset. Then we're still working through those details, trying to understand IFRS and what the implications are.

MS. CANDACE EVERARD: Now, under GAAP, the cost of the building was recorded at 67 million, and that's what is reflected in the application before the Board?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And is the amortization of the building that's reflected in the application based on that amount?

MR. OTTMAR KRAMER: Yes, it is.

MS. CANDACE EVERARD: So is it possible,

and I appreciate you said that things surrounding IFRS on this point are still under consideration, but could it end up that the building will have to be recorded at 50 million, and the remaining seventeen (17) be allocated to the nonowner occupied space?

MR. OTTMAR KRAMER: I would be guessing if I told you what amount it -- it will be because the -- the evaluation -- the entire property will have to be split between investment and operating asset, and I don't have that information to do that currently.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I think where the fifty thousand (50,000) is coming or -- I said it again -- the 15 million is coming from -- if only it cost fifty thousand (50,000) -- where that is coming from is the comparison in TI.10 that we looked at earlier, whereas the original filing was eighty-two (82), and then the revised filing pursuant to the IR was one thirty-two (132), and that was the fifty (50) for Cityplace.

Does that help you?

MR. OTTMAR KRAMER: Yes, and that -- that is an estimate. I -- I just don't want to be held to that, to be honest with you, because we do have a lot of details to work through, but it is an estimate, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So once IFRS takes effect and the Corporation has had a chance to decide how the -- the figures will be split, that will occur, but in the meanwhile, for rate setting purposes, we're working with the 50 million?

MR. OTTMAR KRAMER: For rate making purposes, it's -- it's the $67 million.

MS. CANDACE EVERARD: Okay, so we're dealing with the sixty-seven (67) at this point?

MR. OTTMAR KRAMER: Correct.

(BRIEF PAUSE)

MR. DONALD PALMER: And just to that point, the net bottom line is the same. There is revenue that's still generated off part of that sixty-seven (67). It's not recorded as investment income, it's recorded as service fees. So, bottom line, it's a wash.

MS. CANDACE EVERARD: And that would be the rent from the retail space, the revenue from the parking lots, that kind of thing?

MR. DONALD PALMER: Not the external parking lots, the -- the internal lot, and also any office space within the tower that we don't occupy.

MS. CANDACE EVERARD: So you don't have any revenue coming from the rest of the parking lots?

MR. DONALD PALMER: That's not part of the 67 million. That's part of the investment, the actual real estate investment that we recorded as the other parking lots.

MS. CANDACE EVERARD: I understand. When the time comes to change the recording of the value of the asset under IFRS, there will be an impact on the amortization expenses that will flow?

MR. OTTMAR KRAMER: Yes, likely there will be. IFRS requires us to look at amortization overall anyways and -- and that's one of the IFRS considerations, is amortization, amortization periods, et cetera.

MS. CANDACE EVERARD: Thank you. And we looked briefly at the acquisition costs with respect to the purchase, the one point five (1.5).

How were those treated for accounting purposes?

MR. OTTMAR KRAMER: Those were also capitalized as part of the acquisition.

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Chairman, I'm -- I think I'm done on this score, but before I move into a completely new area, we've been going at it for about an hour and fifteen (15), why don't we take the afternoon break a bit early and then go from there?

THE CHAIRPERSON: That's fine.

MS. CANDACE EVERARD: Thanks.

--- Upon recessing at 2:16 p.m.

--- Upon resuming at 2:42 p.m.

THE CHAIRPERSON: Okay, Ms. Everard.

CONTINUED BY MS. CANDACE EVERARD:

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

I just have a few more questions about the Cityplace piece and then we're going to go on to a completely different area.

We spoke at some length about the BMO report that's part of Number 35 posed by the Board in the

First Round. And we spoke about -- the report came out in December and probably BMO was retained in November I think was your evidence, Mr. Palmer, without meaning to narrow it down to a specific date.

How was it that the Corporation selected BMO to provide the analysis? Was it through a tender process or some other way?

MR. DONALD PALMER: It was provided as a firm that does business with the Government of Manitoba.

MS. CANDACE EVERARD: When you say "provided," was it suggested to the Corporation by the Government to use BMO or...

MR. DONALD PALMER: "Suggested" is a good word, yes.

MS. MARILYN MCLAREN: That just means that "provided" was the wrong word. Don't read anything into the word "suggested."

It was really just a recommendation from our contacts. The Department of Finance, they -- they deal with BMO, they understand that market a little bit and thought that that would be a good firm for us to talk with.

We brought them in, met with them, learned a little bit about them, the -- the principals who would be engaged in the study and how they would approach it before we decided to award the work to them.

MS. CANDACE EVERARD: So it wasn't the case that BMO had any relationship with the seller in this transaction?

MR. DONALD PALMER: No.

MS. CANDACE EVERARD: It wasn't the case that -- that BMO was the agent or the listing agent of the property or anything like that?

MR. DONALD PALMER: No.

MS. MARILYN MCLAREN: No. There -- there was certainly another entity involved as the agent for the seller.

One of the advantages for us to use BMO was that they had sold the property. It was -- they were the listing agent I guess, so to speak, when the property was sold to Huntington -- to Huntington back a few years ago. So they knew the property very well.

MS. CANDACE EVERARD: So they had some familiarity with it?

MS. MARILYN MCLAREN: A lot of familiarity, yes.

MS. CANDACE EVERARD: Okay, I understand. So the commission that we spoke about that was paid by the Corporation to BMO when the sale went through was just -- arose from the contract, if you will, between the

Corporation and BMO for the services provided?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now we spoke a little bit about the -- one (1) of the mortgages that was on the property prior to the purchase going through, the -- the one with the balance of about 51 million and we read in the part in the BMO report where the name of the mortgagee was redacted from the document prior to filing.

Does the Corporation know whether that mortgagee -- and I'm not asking for a name, but whether it had any relationship to the seller? I mean, you -- you see that sometimes where there's an owner of a property and then there's a related corporation, for example, or something like that, that may hold a mortgage?

MR. DONALD PALMER: It did not.

MS. CANDACE EVERARD: There's been a little bit of evidence given with respect to the tenancies within the property, and vacancy rates, and I think there were a couple of comments made in passing.

Do you know whether, if the Corporation had not purchased the place, if there couldn't have been another lease entered into, you know, if terms hadn't have been agreed upon and the Corporation had decided to go elsewhere, like build or take property elsewhere, whether there were any alternative tenants that were known that could have come in to Cityplace?

Is that something that -- that you have knowledge of, if there was someone else out there that -- that might have been a viable option?

MR. DONALD PALMER: I have no knowledge of that, no.

MS. CANDACE EVERARD: Okay. I'm going to move into some questions then, on a completely unrelated area, which is red light cameras, otherwise known as intersection safety cameras.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And the Board asked some questions with respect to red light cameras, and I'm looking in particular at the question and answer at 80(d), posed by the Board in the First Round. It's not in the book.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Are you with me?

MS. MARILYN MCLAREN: We're with you.

MS. CANDACE EVERARD: Okay. So 80 (d),

and I appreciate this question was asked in the context of the report on the cost of speed related crashes, but the question was:

"Given the results of that study indicating the relationship between speed and accidents, and related claims costs, does the Corporation not agree that red light camera infractions ought to be utilized for Driver Safety Rating, or DSR purposes by either driver identification, or as assess -- as an assessment against the vehicle owner?"

And the Corporation in it's answer referenced the section of the Highway Traffic Act, which is 261(1.1), which provides that convictions resulting from photo enforcement are exempt from being forwarded to the Registrar of Motor Vehicles, therefore are not recorded on a driver's record, and in the absence of any conviction record the Corporation cannot consider these infractions for driver safety rating purposes.

That was a bit of paraphrasing, but is that correct?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: So -- and we spoke

about this in the spring at the DSR Hearing. As it stands red light camera convictions will not impact the DSR scale that will be taking effect in March of 2010?

MS. MARILYN MCLAREN: That's right.

MS. CANDACE EVERARD: And I know we spoke about this section of the Act, and this scheme, if you will, or this set up at the Hearing in the spring but can you tell us, for the record in this proceeding, whether the Corporation has any comment or any view on the safety implications of this set up; that is that photo enforcement convictions don't go to one's driving record in any way?

MS. MARILYN MCLAREN: No, the Corporation does not have a view. Clearly this is a matter of public policy of the Government of Manitoba, it's legislation, as is the schedule of convictions that do move people on the DSR scale. This is an HTA section. The DSR scale infractions themselves are in the -- to the MPI -- regulation to the MPIC Act. It's government policy. We don't have an opinion.

MS. CANDACE EVERARD: Is there any opportunity when we look at the sharing of data between the Corporation and the Winnipeg Police, probably information coming to the Corporation from the Winnipeg Police, whether there's any correlation between vehicles that have had intersection safety camera infractions and the involvement of those vehicles in speed-related crashes?

MS. MARILYN MCLAREN: Can you repeat the first part of your -- the -- the preface to your question again?

MS. CANDACE EVERARD: Sure. It was just that we know that there is some sharing of data between the police service and the Corporation, right?

MS. MARILYN MCLAREN: Yes, some, yes.

MS. CANDACE EVERARD: So in the -- the stream of that correspondence or exchange of information would it be possible to get information from the police with respect to any correlations between speed-related crashes, which we know they have, and information with respect to infractions under cameras?

MS. MARILYN MCLAREN: I don't believe there would be any opportunity, no.

MS. CANDACE EVERARD: Is that because you don't think the Winnipeg Police has that information or that it wouldn't give it to the Corporation if it did?

MS. MARILYN MCLAREN: I -- I think there are discreet processes for submitting information to the Registrar for inclusion on the driving record and it's a completely different process that the police use by which they access vehicle owner address information to administer their photo radar infraction process.

So they send information to the Registrar about a certain number of infractions and in a separate process they access information about addresses of the vehicles caught by cameras and they deal with that as their own -- own process.

MS. CANDACE EVERARD: So when you say they send information to the Registrar about infractions, that's not with respect to camera infractions? That's with respect to warm-body-officer-issued tickets?

MS. MARILYN MCLAREN: Yes, the infractions that are required to be reported to the registrar under the HTA.

MS. CANDACE EVERARD: And I appreciate that the Corporation commented on this issue at -- at SM8.7.6, which is the section that deals with issues raised by the Board in the past, by this Board in the past, and it -- the Corporation has stated there that it does not receive records with respect to the camera infractions at this point.

Is the Corporation in a position to -- to be able to get those, whether it's from the police or whether it's from the Commissioners office who also plays a role, particularly with respect to the mobile units?

Is that something that it has considered?

MS. MARILYN MCLAREN: We certainly wouldn't have any access to the Commissionaires. This is -- and the work that they do is clearly for the Winnipeg Police Service. So it -- this is about the Winnipeg Police Service. And I think, you know, given that under the Drivers and Vehicles Act, the Registrar of Motor Vehicles is -- is an employee of Manitoba Public Insurance and that there's legislation prohibiting the sharing of information about photo radar convictions to the Registrar, I think for us to try to get that information some other way would be -- it's almost like going against the legislation. You're trying to get information that is -- is quite clearly expressly prohibited.

MS. CANDACE EVERARD: And you're referring to section 261 sub 1.1. I guess the section says -- and I mean, I'm just looking at the IR answer, I don't actually have this -- the language of the section in front of me -- it certainly says that photo enforcement convictions are exempt from being forwarded to the Registrar, but I'm not necessarily sure that that's the same as prohibition.

MS. MARILYN MCLAREN: That's a fair

point. I -- I think the Government policy is clear though, you know, that the Registrar is not intended to have that information.

MS. CANDACE EVERARD: So at this point, and this is also reflected in SM8.7.6, the Corporation does not intend to review statistics relating to camera convictions?

MS. MARILYN MCLAREN: Given -- and, you know, I mean I'll -- I stand to be corrected, but my view of this is given that section of the HTA, I would anticipate the Corporation would need quite explicit direction on that from the Government. It's not something that would be appropriate to do on its own with that legislation in force.

MS. CANDACE EVERARD: Thank you. Just a -- a quick comment on the cost of speed crashes study, that's at AI.10. This is still in the context of the -- the intersection safety cameras. You can confirm that that study did not take into account any camera conviction data?

MS. MARILYN MCLAREN: Right, it had the data that we had, the Registrar had, in the driving records.

MS. CANDACE EVERARD: And the Corporation's given an explanation at 1-80(e) that confirms that it was not included and says that that data does not contain any information from ticket or red-light camera infractions unless the police issue an offence notice and even then the notice does not necessarily lead to a conviction?

MS. MARILYN MCLAREN: Right.

MS. CANDACE EVERARD: Thank you. I'm going to get in then to some further questions on road safety sort of related to the camera issue.

Historically, the Corporation's three (3) main priorities when it comes to road safety have been occupant restraint usage, impaired driving, and unsafe speed.

Is that correct?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And those continue to be the Corporation's three (3) main priorities?

MS. MARILYN MCLAREN: They do.

MS. CANDACE EVERARD: I'd ask you -- I'd ask you to have a look at one (1) of CAC's questions, it was Number 105 and it is in the book, my book of documents. It's Tab 39.

This is a -- was a question from CAC/MSOS asking that information be provided with respect to Basic's share of road safety expenses.

And we see if we look at that schedule, I believe the three (3) priorities are the second, third, and fourth line items on the table, is that right? That would be impaired driving prevention strategies, speed management strategies, and occupant safety education strategies?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And we see the projections for spending for the year of the application, and I appreciate this is Basic's share, but they're fairly similar to what they've been in the last number of years, just slight increases.

Is that fair to say?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And I believe the Corporation had indicated to the Board in response to one (1) of its IRs that the Corporation is satisfied that its efforts are properly focussed on those three (3) areas?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: Now, just looking at this table a little bit further, that's still the -- the table at the last tab of the Board's book of documents, we see that in the '05/'06 fiscal year there was a large step up on the auto crime prevention line, which, of course, relates to the anti-theft initiatives that the Corporation undertook and those numbers continued to increase through '08/'09 and then have dropped off in the last two (2) years of the table.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And we'll get into some pretty specific questions on the anti-theft stuff in a minute.

Now we also note here on the very last line of this table for the -- the line item that's called "Departmental Expenses," if we look at the '03/'04 number we're at about 1.6 million and then if we look to the far right of the table for the year of the application it looks like that number's about doubled, it's almost at three point two (3.2).

What do those departmental expenses entail at that line item?

(BRIEF PAUSE)

MR. DONALD PALMER: Those would be the general operating expenses of the road safety department.

MS. CANDACE EVERARD: Now we see there was a bit of a step-up on that line between the '04/'05 year and the '05/'06 year. Is that a coincidence that it's at the same point in time that the anti-theft initiatives started to get into full swing or was that the cause of the increase?

MS. MARILYN MCLAREN: All of the staff related to the anti-theft initiatives should be in the anti-theft initiatives line, so then it would be a coincidence. I don't know that we have any information on the specific drivers of these increases at the departmental level for road safety, and we can take that away if you have specific questions about it.

MS. CANDACE EVERARD: I don't necessarily have specific questions, other than if you can -- I mean, it's -- as we pointed out a moment ago, in an eight (8) year period it's doubled.

So, is there something driving that beyond just the usual inflationary considerations and things of that nature?

MS. MARILYN MCLAREN: Yeah, we'll come back with something on that.

MS. CANDACE EVERARD: Okay. Thank you.

--- UNDERTAKING NO. 23: To advise if there is something driving the increase in departmental expenses as shown in the

answer to CAC/MSOS IR 105
beyond just the usual
inflationary considerations
and things of that nature

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. I will ask you to go then to AI.10, which is the speed study that we've spoken about a little bit.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, so we have at AI.10 some commentary on this speed related study, and then we have the study itself following that commentary.

It appears from looking at the first page of the Corporation's commentary, third paragraph, that there were two (2) objects -- or objectives, pardon me, to the study.

Can you read those in, please?

MS. MARILYN MCLAREN:

"The objectives of the study were to
determine the number of people killed
or injured and the number of vehicles
damaged as a result of speed related

crashes, and to determine the direct financial costs incurred by Manitoba Public Insurance as a result of speed related crashes."

MS. CANDACE EVERARD: Thank you. In the fifth paragraph, or second last paragraph on that page, it's reflected that the study was completed internally using two (2) data sources, firstly, police reported data, and secondly, the Corporation's claims data. Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: The police reported data contained information on the cause of the crash, location, injury types, victims, et cetera; while the Corporation's claims data provided the comprehensive financial claims information needed?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the last paragraph on that page reflects that there were two (2) methods used to estimate the cost to the Corporation, the number of people killed or injured, and the number of vehicles damaged as a result of crashes.

Those were the police data-based accident count method, and the probability method, and those appear at the top of the page 2.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And why was it concluded that the actual cost to the Corporation of these speed related crashes was more accurately reflected by the probability method, rather than the police data base method?

That conclusion, just for the record, comes from the third full paragraph on that page, that -- that was the conclusion reached.

MR. DONALD PALMER: The number of claims is certainly under-reported based on the traffic accident reports that we get from the police. So there are many more traffic -- or many more claims that we have compared to traffic accident reports that we get from the police.

So in terms of getting the total cost of the crashes that are speed related, using only the traffic accident reports would be under-representative of what -- what we actually pay in claims.

So those numbers, essentially, are grossed up because we would assume that some percentage of the crashes that we don't have a traffic accident report are still speed related.

MS. CANDACE EVERARD: And in terms of the dollar amount, as reflected in that third full paragraph, under the probability method the cost to the Corporation of speed related crashes is about $40.3 million per year?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Thank you. I'm going to ask you then to go to question -- I guess, back to question 80, posed by the Board in the First Round, which relates to the report at AI.10.

The question at 1-80(a), asked:

"Since completing the report at AI.10, what steps are being taken to increase road safety and reduce future speed related crashes in Manitoba?"

And the Corporation was asked to outline the strategies in place and those planned for future implementation. In response, the Corporation gave us a narrative answer, and maybe I'll just ask one (1) of you to read that in for the record.

Sorry, 1-80(a), please.

MR. DONALD PALMER:

"The speed costing study, as well as the two (2) prior costing studies, provide us with an order of magnitude estimate on the direct cost to the Corporation relating to speeding, impaired driving, and non-use of occupant restraints, and serve to validate that the Corporation's current road safety priorities are appropriately focussed. With respect to current strategies to address speed related risks, the Corporation continues to educate Manitobans and raise awareness about these risks through a variety of sources, including television and radio advertising campaigns, quarter-page advertisements in the Winnipeg Free Press, 60-Second Driver campaigns, information on our public website, extensive information on speed related risks incorporated into the high school driver education curriculum, and various community and public presentations. The Corporation also continues to expand its community based speed watch and residential speed reader board loaning programs. And in 2009 we enhanced the Speed Watch School Program by introducing a grade 9 thematic unit in which students lead research into speed related issues, including speed watch data collection and analysis. We also continue to work closely with the RCMP, Winnipeg Police Service, and Brandon Police Service to encourage greater speed enforcement. And in Winnipeg we are exploring new ways to partner with the WPS on joint awareness and enforcement campaigns. All of these initiatives will continue in 2010."

MS. CANDACE EVERARD: Thank you. Just with respect to that last bit of working with law enforcement to encourage greater speed enforcement, can you give us a bit of an update on what's being done in that regard?

MS. MARILYN MCLAREN: Well, with respect to the RCMP, we're continuing to fund their data analyst position that we've talked about before. There's been a significant increase over the last two (2) years, a large increase two (2) years ago, a smaller increase, but still an increase in the number of convictions by the RCMP, a very healthy increase by the WPS last year.

We continue to talk to them, work with them, and believe that they are -- both organizations are committed to continue the progress that's been made.

MS. CANDACE EVERARD: Thank you. And does the Corporation envision that there will be any costs incurred on its part with respect to any new initiatives or flowing from the discussions with law enforcement?

MS. MARILYN MCLAREN: Probably nothing on the horizon with respect to the RCMP beyond what we're doing already. It -- it's possible we may be able to focus our efforts more collaboratively with the WPS, but that's still in discussion.

I'm sure that it makes that much sense for both organizations to run anti-speeding TV campaigns different points in the year without having a more cohesive team approach to -- to doing that, but, you know, we're early in those discussions.

MS. CANDACE EVERARD: Ms. McLaren, you spoke about the increased enforcement on the part of the RCMP and the Winnipeg Police. Just for the purposes of the record, those statistics are at SM.8.7.5, reflecting that RCMP enforcement is up about 2.4 percent in '08 over '07.

Does that sound right, or -- or you could certainly go there, if you wish?

MS. MARILYN MCLAREN: That sounds about right, yes. The year before was a larger increase.

MS. CANDACE EVERARD: Yeah, actually, the reference at SM.8.7.5 is that that was the third year of increased enforcement on the part of the RCMP, and it was a 69.9, or pretty much 70 percent increase in convictions since 2005.

MS. MARILYN MCLAREN: Yes, that sounds right.

MS. CANDACE EVERARD: And you had mentioned the funding that the Corporation provides for the data analyst position for the RCMP. There's also a reference in the SM.8.7.5 filing for funding for enforcement in northern Manitoba.

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: And turning to the Winnipeg Police, you had indicated that their increases in convictions have been more significant; that's certainly the case. According to the filing in 2008 there was a 20 percent increase in convictions arising from Winnipeg Police tickets over 2007?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: And just one (1) other question with respect to road safety: It's reflected in TI.15.A, which isn't in the book of documents, it's in the -- the regular filing.

(BRIEF PAUSE)

MS. CANDACE EVERARD: If we look at the road safety loss prevention line in TI.15.A we see the forecast for the current year at just over 20 million and we see the forecast for the year of the application at thirteen point two (13.2).

Is that correct?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the road safety loss prevention line is projected to stay in and around the 12 million, $13 million dollar mark through the outlook period?

MS. MARILYN MCLAREN: Yes, that's correct.

MS. CANDACE EVERARD: And this decline would be due to the completion of the anti-theft initiatives?

MS. MARILYN MCLAREN: Yes, the Immobilizer -- and specifically the Immobilizer Program.

MS. CANDACE EVERARD: Thank you. That's a good lead-in because that's where I'm going.

I'll ask you to have a -- a look-see at SM.8.3 which has some information about the Corporation's anti-theft initiatives.

In particular, if you could look at page 3 of SM.8.3, the Corporation has made some commentary about recent theft statistics, in particular -- and I'm at the first paragraph of page 3 in SM.8.3 -- the Corporation has stated that in the 2008/'09 fiscal year there were four thousand and two (4,002) vehicles stolen in Manitoba which was a 37.3 percent decrease from the previous year.

Is that correct?

MR. DONALD PALMER: Sorry, what was the question again?

MS. CANDACE EVERARD: Okay. No, that's fine. I don't mind repeating it. Just by the look on your face I thought I must have misspoken in some horrible way but I don't think I did.

So I'm at the top of page 3 in SM.8.3 where the Corporation has stated that in the 2008/'09 fiscal year there were four thousand and two (4,002) vehicles stolen in Manitoba which was a 37.3 percent decrease from 2007/'08.

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And the Corporation has further reported that this decrease follows a 30 percent decrease in thefts reported in 2007 compared to the prior year for a total decrease of 56 1/2 percent in thefts reported over the two (2) years from fiscal 2006 to fiscal 2008.

Is that right?

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

MS. CANDACE EVERARD: Continuing on in that paragraph the Corporation has reported that during the same two (2) year period, so '06 to '08, attempted thefts have decreased by 56 percent?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: If we have a look at the Corporation's answer to Question 75 posed by the Board in the First Round, and that's at Tab 32 of the book of documents, we'll see a further illustration with respect to theft statistics, sort of the picture is worth a thousand words type approach. So I'm at Tab 32 of the book of documents, 1-75?

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: We have at (a) a bar graph which reflects the province-wide total theft numbers from 2000 through to the first two (2) quarters -- or, pardon me, the first half of 2009 because I guess this is on calendar year not fiscal year?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: It would appear that the -- as we've discussed, the theft claims for the first half of 2009 are, looks like, less than they have been in any of the prior years shown on this table?

MR. DONALD PALMER: Yes, we are returning back to levels that we haven't seen since the early 1990s.

MS. CANDACE EVERARD: I assume then that for the three (3) months in 2009, spanning from July to September, we'd be seeing a similar trend?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now if we turn over the page we have another two (2) graphs which is just the information on the first graph broken out into two subsets: one (1) being Territories 1 and 5, Winnipeg and the commuter territory, and the other being rural Manitoba.

Is that correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And again, it would appear that the split, if you will, between thefts in rural Manitoba and Winnipeg and the commuter territory has also diminished significantly and that while Winnipeg and the commuter territory still have more, the -- the relativity is a lot closer?

MR. DONALD PALMER: Yes, I would agree with that.

MS. CANDACE EVERARD: And it would be

fair to say that the Corporation attributes these very successful results to the immobilizer program as well as the WATSS program?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now under the immobilizer incentive program the Corporation funded, and I understand continues to fund, the installation of approved after-market immobilizers in those vehicles deemed most at risk to be stolen.

Is that right?

MR. DONALD PALMER: That is correct and that we're just at the very tail end of -- of that program.

MS. CANDACE EVERARD: Now we know that the most at risk vehicles were first identified in 2006 and then in October of 2008 the list was expanded to another fifty thousand (50,000) vehicles?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And it's the case that any vehicles on the -- the MaR lists must be immobilized prior to being re-registered or moved into Manitoba?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: I'll have you look then at the question posed by the Board at number 77 in the First Round, which I don't believe is in the book.

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: Thank you. There's a reference in the answer to A, 1-77-A, and I'm looking at the paragraph number 2, that the -- the cost of installation of the immobilizers has increased.

Is that right?

MR. DONALD PALMER: That's correct, yes.

MS. CANDACE EVERARD: And what prompted that increase to take place?

MR. DONALD PALMER: Are you referring to the adjustment in 2009/'10 from three hundred dollars ($300) to three hundred and thirty dollars ($330)?

MS. CANDACE EVERARD: Yes, I am.

MR. DONALD PALMER: That was due to the increased cost associated with those installations, labour cost this is mostly.

MS. MARILYN MCLAREN: The price had been frozen since 2005 or 2006 and the installation community made a case that their cost had increased and we increased the price.

MS. CANDACE EVERARD: Thank you.

If we turn over the page to the answer at 77-B, we have tables that tell us about the number of immobilized earned units.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And we see in the first table the numbers with respect to Winnipeg and the distribution of immobilized earned units within Winnipeg. We see that there's been an increase from 2004/'05 where the percentage of protected vehicles was fifteen point four (15.4), and I'm looking at the bottom row on the table, to the current year '09/'10, where we're at about 68 percent and that is forecasted to increase to about 82 percent through the outlook period.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And in the third table shown on this page, it's a similar analysis but for rural Manitoba rather than Winnipeg. And again we see from '04/'05 there's 12 percent -- pardon me, 12 percent protected up to a projected 64 percent to be protected through the end of the outlook period?

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

MS. CANDACE EVERARD: Now, if we continue on in this IR response we will get to one (1) of the attachments. It's the first one (1), and the -- the page is -- well, it's page numbered 4 but the page numbering is a little funny because I think one (1) of these attachments was an IR from last year. So what I'm looking at is entitled "PUB/MPI-1-77 Attachment" and it's got a Number 4 at the bottom of the page. It's -- it immediately follows the answer from last year at 1-52.

MR. DONALD PALMER: Yes, I think I have it.

MS. CANDACE EVERARD: Okay. It's a -- it's a chart that runs horizontally across the -- the wide side of the page. So we see here that, in '05/'06, there were just over eighty-three hundred (8,300) immobilizer installations done by the Corporation.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And if we look at the second line of the table, which gives us the cumulative number of installations over the years, by 2014/'15, that number is forecasted to accumulate to almost a hundred and ninety-six thousand (196,000).

Is that right?

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

MS. CANDACE EVERARD: And for the year of the application, 2010/'11, the Corporation is expecting to do about four thousand (4,000) installations.

Is that right?

MR. DONALD PALMER: That was our projection last year, yes. I'm sorry, my date is punched out.

MS. CANDACE EVERARD: Yeah, so is mine but I -- I thought that this was part of the current filing as opposed to being part of last year's answer, but if I'm wrong, then please tell me.

(BRIEF PAUSE)

MR. DONALD PALMER: Thank goodness Mr. Johnston's hole punch is a little different than ours and, yes, it's this year.

MS. CANDACE EVERARD: Well, God bless Mr. Johnston.

MR. DONALD PALMER: I agree.

MS. CANDACE EVERARD: Now, the level of or the number of installations that the Corporation is forecasting through the outlook period is to decline fairly steadily to about a thousand by the last year shown on this table?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And does this analysis that we've been looking at include estimates for installations into out-of-province vehicles that come in?

MR. DONALD PALMER: Yes. Yes, it does, and the expectation for this particular assumption is that's the bulk of -- of the installations that we would be looking at.

MS. CANDACE EVERARD: Thank you. Now, the funding of the Immobilizer Program came primarily from Basic retained earnings through the Immobilizer Incentive Fund.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And how much of Basic's retained earnings were invested in this program through the IIF?

MR. DONALD PALMER: There was an initial investment of $40 million and then that was increased by an extra $10 million for a total of fifty (50).

MS. CANDACE EVERARD: And as we've seen, it would appear that the -- the life of the program if you will, while it continues, is essentially complete?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now if we look at the financial impacts that are reflected here, we see for the '08/'09 year on the line item entitled "Anti-Theft Discounts Basic" a cost of about $6 1/2 million to the Corporation and that would be because those are discounts that are being afforded.

Is that right?

MR. DONALD PALMER: Those are the forty dollar ($40) after-market discounts for vehicles that have an anti-theft device installed, yes.

MS. CANDACE EVERARD: And the next line item is the same discount but on the Extension side of about six hundred and fifty-five thousand (655,000).

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And the third line is a reduction in Basic claims incurred for the year that just ended was about 21.6 million. So that's, if I understand it correctly, a reduction in claims incurred arising from the reduced auto thefts that were experienced?

MR. DONALD PALMER: That's the reduction from the baseline that we established a couple of years ago.

MS. CANDACE EVERARD: And the next line down is the same number but, again, on the Extension side, of 4.5 million?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So when we net out those four (4) figures that we've just reviewed, on the line entitled "Total impact on premiums and claims incurred on income statement," we've got a positive result for the 2008/'09 year of just under $19 million.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now if we continue down into the next session, sticking with the '08/'09 year, which is entitled "Impact on expenses," we see the costs that MPI incurred with respect to the immobilizers, the significant one being the 14.1 million?

MR. DONALD PALMER: In '08/'09, yes.

MS. CANDACE EVERARD: And there are some smaller components there, as well, but if we get to the -- the last line of that section, entitled "Total impact on expenses increased to expenses," we see an impact of $15.9 million.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And then following this analysis through to its conclusion, we see an impact on underwriting operations for the '08/'09 year of a positive $3 million, a negative impact on investment income of seven hundred and twenty-nine thousand (729,000), for a total impact of $2.3 million on the positive side for that year?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And with respect to the current year, I won't take you through the level of detail that I just did, but the bottom line is a total positive impact for 2009/'10 of about 15.9 million?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And the same line projected through 2014/'15 is about 40 million in that year?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Now would it be fair to say, if we take into account the total impact line across this table, all the way from '05/'06 through to 2014/'15, that the net result is about $191.8 million by way of a positive result?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So would it be fair to say that, for the $50 million investment through the IIF, the Corporation got a return of about a hundred and ninety one (191)?

MR. DONALD PALMER: In hard dollars, absolutely, plus certainly the societal benefit of having less stolen cars being operated on the roadways, yes.

MS. CANDACE EVERARD: Thank you. I just want to speak a little bit about the WATSS program. This was a program, as the -- the record in this proceeding has shown in the past, under which Manitoba Corrections and the Winnipeg Police Service conducted aggressive monitoring and supervision of level 4 youth offenders, which were those considered most at risk to re-offend in auto theft.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And this strategy was intended by the Corporation basically as a bridging strategy until a sufficient portion of the vehicle fleet was immobilized?

MR. DONALD PALMER: Yes, that was the original intent.

MS. CANDACE EVERARD: And the Corporation's funding of the WATSS program expired on July 31st of 2009?

MS. MARILYN MCLAREN: No, it was going to, but when we filed our response to I think it was PUB 235, our funding is continuing.

MS. CANDACE EVERARD: That's -- that's my oversight, so I apologize for that. As per that answer, which was the one (1) filed just at the beginning of the

-- the GRA hearing, it's provided that the Corporation will continue with the program and that the funding will be at the same levels that it was until 2011/'12?

MS. MARILYN MCLAREN: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I appreciate that there's a bit of a narrative here in the answer that, even though the original commitment was to end the funding in July of '09, there was a strong argument to continue because even though thefts have decreased there's still a lag time between apprehension, charge being laid, and -- and the sentence being carried out.

Is there anything further that the Corporation can add in terms of its rationale to continue the program, seeing as it was intended as sort of a bandaid at the beginning?

MS. MARILYN MCLAREN: Yeah, I think so. I think clearly there's an obvious case to extend it beyond the July '09 expiry because of the lag time, the story, again, in the paper about one (1) of these level 4 offenders, you know, creating mayhem in the City and territories beyond.

And I think as we referenced in our

response to one (1) section of 1-78, there was a fair bit of discussion around the program. The design of the program very likely has application beyond the boundaries of auto theft.

And the Minister was quoted making statements about its applicability with respect to dealing with the youth in gangs and so on. And the Corporation was certainly engaged in those discussions internally about what would be an appropriate role for the Corporation.

But at the end of the day the decision was taken that really there's a very clear relationship to MPI and rate payers and auto theft and the cost of auto theft.

And quite frankly, beyond that we can tell you, you know, it's something that we've never really factored into any of the analysis that basically we could fund the WATSS program based on savings from partial theft claims and vandalism claims, which we've never really talked about in this forum at all.

It's hard to say that there are -- there are fewer hub caps being stolen, and that there are fewer, you know, theft from vehicles, or vandalism claims because of immobilizers. So probably that's because of WATSS.

You know, I mean, I think the people who are involved in the WATSS program were probably engaged in some of those other kinds of claims, as well.

So, we -- we can fund that program with savings that we've never factored into the cost savings before. There's still a belief that the program itself has -- has not -- the need for the program has not begun to wind down yet, largely because of the delay through the court system.

And so maximum we've made a funding out to the -- to the window that you just referenced into '11/'12. And we certainly have options to end it before that if it seems appropriate, but right at this point we're comfortable with what we're doing.

MS. CANDACE EVERARD: And in particular, the funding goes to, I believe, it's fourteen (14) positions within Justice and Corrections?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: Okay. Just a few additional questions on anti-theft but away from the immobilizers and away from WATSS.

We have a question and answer at Number 79, posed by the Board in the First Round. It's not in the book. The attachment at Tab A sets out the costs of all anti-theft initiatives.

MR. DONALD PALMER: I have it, yes.

MS. CANDACE EVERARD: And sorry, I know I just said a minute ago we were going to move away from immobilizers, but I just do have one (1) question on this chart on those.

The first row of the chart, entitled "Immobilizer Project," has a series of numbers from '03/04, all the way through to 2013/'14. And I believe if we add those sums -- or those numbers together, it's about 65 million in total on the immobilizers.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now the third line of the chart references Winnipeg Police auto theft but I don't believe that that's the WATSS program. So what -- what is that expense incurred for?

MS. MARILYN MCLAREN: For years now, far earlier than we started funding WATSS, we were funding, basically I think it's seven (7) or eight (8) WPS officers in the stolen auto unit. That has continued for a long period of time and at this point we haven't gone back to renegotiate the relationship with the WPS.

I think to a certain extent, you know, the success of WATSS really means the success of WATSS and the stolen auto unit working very tightly together so, you know, we'll look at this at some point in the future but for now it's there, it's in the budget. We continue to expect to fund it for some period yet.

MS. CANDACE EVERARD: Thank you. The next line on the table I appreciate relates to a very small dollar amount so we're not going to spend much of any time on it but the -- the title is "Auto Crime Strategies." Can you just give us a very brief explanation as to what those are?

MS. MARILYN MCLAREN: I think it's just related to parking lot signage, advertising to protect your contents, protect your vehicle, things like that.

MS. CANDACE EVERARD: And then for the very last line of the table, "Auto Theft Countermeasures," the same question.

MS. MARILYN MCLAREN: Some of that is for the Crown prosecutors who -- who focus on auto thieves and some of that, as well, I believe is for the -- the COP, the Citizens on Patrol program that -- that we fund. Basically, we are the -- the key funder for the entire province for that community watch program which has begun -- and this will be rationalized to a certain extent but as auto theft has wound down they used to be very involved, these community groups. There's -- there's many of them across the province in -- in neighbourhoods.

They're -- they're not large in Winnipeg but there's probably fifteen (15) or more groups here in the City of Winnipeg and across the province there's many, many more.

And they -- we're looking for, you know, suspicious activity on vehicles, things like that. We supported that. They're starting to migrate and these -- these groups are now one (1) of the -- the greatest users of those neighbourhood speed reader boards and are focussing on -- on speeding in their communities now. So I think this will likely migrate to more of a road safety focus.

But I think they're -- they're terrific organizations. They're community led. They're very committed to helping their -- their communities be safer and I see us continuing our funding beyond when we have an auto theft problem.

MS. CANDACE EVERARD: Thank you. I'd just ask you to turn the page back to the first page of 1-79 where the Corporation was asked to provide a cost benefit analysis referencing the theft related claims data in TI.17 and the Corporation has given us a chart that reflects some savings.

First of all, we can confirm I think by the heading to the table that it does include both theft and attempted theft numbers?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And it's just for Basic, not Corporate-wide?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And what I'm going to ask you to do is look at the savings columns that appear here and then look back at 1-77, page 4, which was the -- that horizontal table that we looked at a few moments ago.

The -- there are different dollars reflected and there's probably good reasons for that but I would just ask that the details of those differences could be pointed out.

(BRIEF PAUSE)

MR. DONALD PALMER: The main source of differences, the -- all the numbers in 1-77 Attachment 2 are what we call snapshots, which is the incurred during a fiscal period. The amounts shown in Number 1-79 are what we call accident year basis so based on the year of occurrence of the -- the theft. So because there is a carryover in -- in reporting, the two (2) won't jive exactly.

MS. CANDACE EVERARD: Okay. Thank you.

Okay, those are my questions with respect to anti-theft issues. We've got some time left so I'm going to move into some questions about Driver Safety Rating.

Now we know that the current Bonus-Malus system will be replaced by the DSR system on March 1st of 2010, and that the driver premiums and vehicle premium discounts for 2010/'11 have already been ordered by the Board pursuant to the hearing we had in the spring.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And the Corporation isn't seeking any changes to that order in this proceeding.

MR. DONALD PALMER: We are not.

MS. CANDACE EVERARD: As per what the Board ordered, DSR level 15 will take effect on March 1st of 2010, and it'll be drivers that are fifteen (15) years claims and conviction free that will be placed at that level?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And the implication of that is that about 47 percent of drivers that would otherwise have been put at DSR level 10 will be put in that fifteen (15), does that sound right?

MR. DONALD PALMER: Sounds about right, yes.

MS. CANDACE EVERARD: So I want to get into some questions about the financial impact of that order, and I'll ask you to turn to TI.18 for that purpose.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Excuse me, Ms. Everard, is the reference TI.18?

MS. CANDACE EVERARD: Yes.

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: We're just getting ours. This time you have to wait for me.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. So I'm on page 33, and there's a chart reflected there which sets out the revenue impact relating to driver premiums.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And, Mr. Palmer, you spoke about this a little bit on the first day of the hearing, pursuant to some questions from Mr. Saranchuk, but we're going to just go into a little bit more detail with it. This chart, as I understand it, reflects what would have been collected by the Corporation, as far as it can tell, under the existing system and compares it with that which it is -- with which it is expecting to collect under DSR.

Is that right?

MR. DONALD PALMER: For the driver's premium portion, yes.

MS. CANDACE EVERARD: Yeah, I appreciate it's just for the one (1) component. And if we look at the last row of the table, which is entitled "DSR Driver Premium Impact," we see that there is, in fact, a negative impact until the last year reflected, which is 2013/'14?

MR. DONALD PALMER: That's correct. That's mainly -- the biggest decrease is in the '11/'12 year, which is due to the accident surcharges being eliminated, so it takes some time to get those built up through the movement on the DSR scale.

MS. CANDACE EVERARD: And that was going to be my next question, that the positive result that we're looking at here for 2013/'14 is expected to arise by revenue paid by drivers on the demerit side of the DSR scale as they have rate increases on that scale?

MR. DONALD PALMER: As they have rate increases and also as they drift, unfortunately, into the demerit categories.

MS. CANDACE EVERARD: Yes. Now on page 35 of TI.18, there's a similar chart that deals with vehicle premium. So I'd ask you to go there and we'll take a look at those numbers. You also spoke about this a little bit on the first day.

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE EVERARD: Thank you. Now the Corporation states just in the end of the narrative prior to the table that it is anticipating that drivers with twelve (12) or more merits will be offered a 27 1/2 percent vehicle premium discount in 2012/'13 and a 30 percent discount in 2013/'14.

MR. DONALD PALMER: That's the current projections, yes.

MS. CANDACE EVERARD: Now we see from the chart that there are -- and I appreciate this is only the vehicle premium side -- there is a negative impact projected throughout the years that we see here, seven point seven (7.7) in the year of the application, five point six (5.6) in the year after and then some significantly larger numbers in the following two (2) years.

Is that right?

MR. DONALD PALMER: As the increased

discounts are provided in '12/'13 and '13/'14, that's the reason for the real increase in the -- in the discount levels, yes.

MS. CANDACE EVERARD: Yes. Thank you.

Now we were speaking a moment ago about the narrative part, the last sentence before the table, which talks about what the Corporation is anticipating for the future. When the DSR application was filed, the Corporation had a -- a plan, if you will, or a -- a set of what it -- of numbers of what it thought may be used going forward. We know that the premiums that the Board ordered for 2010/'11 were not what were applied for.

Is the Corporation still working with the balance of that original filing for years going forward or is there a new, if you will, plan that the Corporation has, because I -- I don't believe we -- the Board has any update on that score?

MR. DONALD PALMER: We are still continuing with the implementation beyond '10/'11 as we had originally planned. The complete outline of the anticipated premiums and surcharges is included in TI.18 at Appendix A. That would be page 62 of TI.8.A.

MS. CANDACE EVERARD: Thank you for that reference. So if the Board is interested in -- in refreshing its memory on what the -- the balance of those numbers were, seeing as the DSR Hearing was back in the spring, that's where they should look?

MR. DONALD PALMER: That's the specific table, yes.

MS. CANDACE EVERARD: Thank you. Now we have a third table which is just below the vehicle premium table that we just looked at and this, if I understand it correctly, sets out the cumulative effect of both driver and vehicle premium under DSR versus under bonus-malus.

Is that right?

MR. DONALD PALMER: Sorry, Ms. Everard, the reference again?

MS. CANDACE EVERARD: Same page, page 35, it's just the -- the lower table. It's under the heading of "Step 10."

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So this is a combination of the two (2) charts that we just looked at, the one for driver premium and the one for vehicle premium? Yes?

MR. DONALD PALMER: Yes, it is.

MS. CANDACE EVERARD: So as we see here, just to tie this together, for the year of the application, which is the first year of DSR, the

Corporation is expecting a negative impact of 8.6 million; for the year following, a negative impact of 16.6 million; and that is projected to increase to a negative impact of 29 1/2 million by 2013/'14?

MR. DONALD PALMER: That's -- that's correct, yes.

MS. CANDACE EVERARD: And if we went across that bottom row of total impact and combined the -- the negative impact over the four (4) year period, we'd have a premium reduction of about 77 million? Does that sound about right to you?

MR. DONALD PALMER: Sounds right, yes.

MS. CANDACE EVERARD: Now how does the Corporation propose to offset this reduction in premium? We know from the DSR hearing that there has been a new arrangement with brokers. So I'm anticipating that that was going to be the main part of your answer.

Can you give us an overview of that renegotiation?

MR. DONALD PALMER: With -- as a result of streamlined renewal there will be -- it won't be necessary for a customer to enter a broker's office every year as currently is the case. There will be five (5) year policies and with an annual update but that update will be just a statement. It won't be necessary for the customer to visit the broker.

On that basis, we have renegotiated the broker commission schedule. We are stepping down over the next few years from the current 5 percent commission on the basic product to 2 1/2 percent, and that is stepped down over the next few years.

MS. CANDACE EVERARD: And I believe it's set to go to 2 1/2 percent by November 1st of 2012?

MR. DONALD PALMER: Yes.

MS. MARILYN MCLAREN: Ms. Everard, just a little point of elaboration, since this is I think the first time we've talked about the streamlined renewal changes that are coming up. Five (5) year policies, annual reassessment for rate setting purposes, rate making purposes. So four (4) years out of five (5), people will receive notification of their change in annual premium.

Most people who do not pay the full amount up front, pay through the monthly payment plan. So when they sign up for their five (5) year policy, they'll sign up for sixty (60) monthly payments, and at every twelve (12) month interval we will tell them exactly how that monthly payment changes, but for most people they won't have to make the trip to the broker. So it is an annual rating process, annual premiums, but within the context of a five (5) year policy.

MS. CANDACE EVERARD: Thank you. Just a further question with respect to the broker commissions and the -- the step down that we've discussed from the 5 percent to the 2 1/2, I believe it's the case that, whereas the brokers have a decrease with respect to Basic business, there are increases on the Extension and SRE sides.

Is that right?

MS. MARILYN MCLAREN: Yeah, the increases on the -- SRE is not really part of the equation, but there are increases on the extension side that took effect about a year ago already and translates to maybe about 1 percent on Basic commissions is the equivalent.

So net sum game is still a significant overall decrease for brokers. The savings to Basic, the 2 1/2 percent in, you know, today's dollars represents about $20 million a year.

MS. CANDACE EVERARD: Was there also an increase for brokers on one (1) time transactions?

MS. MARILYN MCLAREN: Yes, there was. And also built in CPI based increases on a going forward basis. So that we don't let those transaction fees get static, and -- and lose their relevance, there -- there's a built-in escalation factor, as well.

MS. CANDACE EVERARD: Are those on the Basic side or the Extension side?

MS. MARILYN MCLAREN: Those are all Basic paid, yeah.

MS. CANDACE EVERARD: Okay. I'll ask you to go to a question posed by CAC in the First Round, it's Number 89.

(BRIEF PAUSE)

Now in particular looking at attachment C2, which is part of the filing from the Driver Safety Rating Hearing that we had in the spring, and this particular schedule sets out projections of broker commissions to be paid by Basic from the current year through to 2013/14, and sets out the -- the spread, if you will, between the old percentages and the new, is -- is there any update to these numbers, since this is a -- a repetition of a filing from the spring, or are these still fairly current?

MR. DONALD PALMER: They would have been updated slightly due to a change in basic volume. The updated forecasts would incorporate what the actual volume changes had been up until the beginning of

2009/'10, the current year.

These numbers may not have included those. They would have been captured on a different base. But overall, the changes would be approximately the same.

MS. CANDACE EVERARD: So if we look at these dollar amounts, which reflect savings in the year of the application and each of the subsequent years for a total savings of about 52 and 1/2 million, we're -- we're still in the ballpark?

MR. DONALD PALMER: We're in the ballpark definitely, yes.

MS. CANDACE EVERARD: And as was touched on when we led into this discussion about broker commissions, is it fair to say that this 52.4 million in savings is somewhat of an offset to the reduction in premiums that the Corporation will see as a result of DSR?

MR. DONALD PALMER: It's -- it's one (1) of the offsets, yes.

MS. CANDACE EVERARD: And I -- I'm glad you said one (1) of, because my next question was going to be, if we look at the numbers we had about seventy seven (77) in reduced premiums because of DSR, we've got about fifty two and a half (52 1/2) in savings in brokers, so we've got about a $24 million difference.

What can you tell us about how that difference will be offset?

MR. DONALD PALMER: Remember that the -- also what happened in the interim is a change in claims forecast. We did decrease the PIPP, the annual PIPP costs fairly significantly on a -- on an annual basis.

We also have built into the forecast some savings in the PIPP program due to the PIPP initiative that will be seen in the '11 -- late in the '10/'11, but a savings going through '11/'12, as well.

We -- our forecasts with regard to theft are lower than they were last year, and you've alluded to the success in the anti-theft initiatives, so that has brought those forecasts down, as well.

MS. CANDACE EVERARD: The second factor that you mentioned were the savings due to the PIPP initiative. Can you give us a bit more detail on those?

MR. DONALD PALMER: We -- we have those outlined somewhere in the filing. We're just looking for it.

MS. CANDACE EVERARD: Thank you. It's the case though that the forecast that the Corporation has put forward with respect to the filing do not anticipate any claims cost savings as a result of DSR, and I think we've spoken about that before and the reasons for that.

MR. DONALD PALMER: That's correct. And, too, you have talked about offsetting the decreases in premiums due to DSR with other things. It's -- it's one (1) big package. You can't necessarily attribute one (1) against the other. It's a complete forecast of all of our costs, and the bottom line result is the pro forma financials that we have presented in TI.15, among other places.

MS. MARILYN MCLAREN: And, I guess more specifically, even beyond that, is the fact that I think we're a little uncomfortable with the characterization of costs of DSR or -- or premium reductions because of DSR.

As of March 1, 2010, DSR will be in. And if the rates never change again going forward, there will be no costs at all associated with DSR other than the project development costs.

So we, at some point, expect to apply for enhanced vehicle discounts. If the Board approves them, those will be enhanced vehicle discounts. They're not really costs associated with DSR.

MS. CANDACE EVERARD: Okay. We -- I -- I raised just a moment ago the question of projected claims cost savings as a result of DSR being implemented, and we -- we know that the Corporation hopes for that but doesn't necessarily expect it, I -- I believe.

MS. MARILYN MCLAREN: Has no basis on which to project the value of any claims cost reductions.

MS. CANDACE EVERARD: That's fair. Is the Corporation considering, with respect to DSR once it's up and running, any measures to gauge its success as a program?

MS. MARILYN MCLAREN: I think we talked about some of those back at the DSR hearing. I think certainly public acceptability and understandability are -- are certainly success measures.

I think it will be important for us to gauge, you know, new driver behaviour then and now, so to speak. Those will be some things that we will focus on for sure.

MS. CANDACE EVERARD: Thank you. And just one (1) follow-up question. Just coming back to the broker commissions for a moment, Ms. McLaren, you gave evidence that, although the percentage commission on the Basic side is decreasing, there are some other increases that brokers will -- will have.

And can you give us a sense of -- of -- and -- and I think you may have commented on this sort of in passing, that, overall, the brokers will still be getting less under -- all things taken into account, the brokers will be getting paid less, even taking into account all of the lines of business.

MS. MARILYN MCLAREN: Yes, that's right. I -- I think it would equate to about a point and a half on -- on Basic rates. So if -- if we're reducing about 2 1/2 percent Basic commissions, they might get the equivalent of a 1 percent increase on Extension commissions, for a net reduction of about one and a half (1 1/2).

MS. CANDACE EVERARD: Okay.

MR. DONALD PALMER: Just in answer to a previous question with regard to the savings due to the PIPP initiative, originally they were referenced in CAC/MSOS/MPI-1-75 and a followup in Round 2 PUB/MPI-2-26.

MS. CANDACE EVERARD: Thank you. Mr. Chairman, I'm about to go into another area. It's four o'clock, so I don't know if you want me to keep going or if you want to call it a day?

THE CHAIRPERSON: No, I think you could probably have a rest at this point and we will start again tomorrow.

MS. CANDACE EVERARD: Okay.

THE CHAIRPERSON: I am sure the panel will enjoy it too.

I just have a couple of questions to

follow-up on something. Ms. McLaren said a little bit earlier -- just for understanding sake, that is all it is about. You indicate that the Corporation has no view as to whether red light cameras and photo radar infractions should be taken into account in the DSR, is this correct?

MS. MARILYN MCLAREN: Right.

THE CHAIRPERSON: You also indicated that you are of the view that such a linking would represent public policy and the public policy rests with the Government, not with MPI, is this correct?

MS. MARILYN MCLAREN: Such a linking, did you --

THE CHAIRPERSON: Linking, like the linking of red light cameras with --

MS. MARILYN MCLAREN: Yes, because it -- it's in legislation. Both the DSR factors are in a -- a Regulation of the MPIC Act and the -- the exemption for giving them to the Registrar is in the HTA.

THE CHAIRPERSON: Thank you. That is what I took from your response.

Can we take from your responses then that in the absence of direction from Government, MPI will not undertake any research into the matter such as would be required to form an informed view?

MS. MARILYN MCLAREN: I think that's

fair.

THE CHAIRPERSON: Thank you. Ms. McLaren, as the Crown Corporation, which of course is a corporate entity owned by but incorporated separate from the province, does not or have not the Corporation ever formed views on certain matters related to its mandate independent from Government, and brought them to the attention of Government?

MS. MARILYN MCLAREN: The Corporation, as long as I can remember, the Corporation has been very careful about operating within its legislated mandate and -- and certainly is very willing and able to -- to give advice when asked. And as we've talked about here before, you know, the conversations happen and discussions happen that are, you know, protected through FIPPA and -- and not public, so to speak.

But, you know, right back from the beginning of -- of the discussions around what to do about the never-ending increase in Autopac rates in the early '90s and whether a no-fault program was right for Manitoba, the Corporation didn't engage in that conversation.

That was a public policy debate. We -- we were not seen publicly lobbying for a no-fault program or for anything else. That just was not the role that

Corporation has played in a public way.

THE CHAIRPERSON: So basically it is when asked, if you like?

MS. MARILYN MCLAREN: Within the environment we have to work within, yes.

THE CHAIRPERSON: To meet MPI's legislative mandate, would it be fair to say that Corporation has a responsibility to consider matters related to road safety and develop views and, where warranted, pursue related actions, whether or not the Government agrees and whether or not the Government agrees to work towards implementation of certain actions when it agrees with the Corporation?

MS. MARILYN MCLAREN: Sure, that's fair. And, you know, and maybe we were putting too fine a point on it when we said we would give advice only if asked. I -- I suspect that hasn't been true in every case in the Corporation's history. But -- but we don't want to engage in -- in giving them advice publicly.

THE CHAIRPERSON: Okay, you are making a distinction between providing advice and providing advice publicly.

This may be a little bit repetitive because I am still thinking about what you said before, but I do not want to prolong it too much tonight. Ms.

McLaren, would it be fair to say that the Government does not have a significant staff devoted to motor vehicle insurance issues and relies on MPI to bring forward ideas requiring government approval and related to road safety benefit enhancements, DSR and other insurance matters, at least relies in part?

MS. MARILYN MCLAREN: Certainly. And I would say there's very limited sources of expertise related to insurance things. They do have other people at the Department of Infrastructure and Transportation who do give advice on road safety matters beyond the Corporation for sure.

So pure insurance, probably a little expertise other than the Corporation, but road safety is broader than just MPI.

THE CHAIRPERSON: Thank you. That's helpful, that broadened explanation. Would you agree that, in the absence of research done by MPI and possibly also in the absence of an opinion given by MPI, this Board's only means to advance, in the public interest, research into factors that may or may not drive accident frequency and severity, is to direct recommendations directly to government rather than to MPI?

MS. MARILYN MCLAREN: In this specific issue that we're talking about that led to this discussion, I -- I think so. I think the Corporation has been pretty clear as to why it -- it sees it's limited in this regard. And I - I don't think that would be an unreasonable perspective if, you know, if he Board sees our role differently, based on the legislation, than -- than we've articulated. That would important for us to know. But excepting that, I think directing a request to the government would not be inappropriate.

THE CHAIRPERSON: I imagine, given your responses to the situation I was talking about, would also presumably apply to motor vehicles and the environment and potential options from that respective, given that that would too, I believe you indicated before, you considered to be public policy up to government?

MS. MARILYN MCLAREN: Yes. And -- and, you know, we had clear indication of that yesterday during the cost allocations when the Deloitte Report articulates what is MPI's role and what responsibilities are the government retaining, and -- and sustainable transportation policies was one (1) of them that they felt the need to put in the agreement that they will retain ownership of.

THE CHAIRPERSON: Okay, that's helpful too. I appreciate that. And without trying to make an all inclusive list, would the Board's recommendations, in which, I believe, we portrayed as sort of gaming the system with respect to multi-driver households, would it fall under the same category too, public policy, or does that fall into a matter that MPI would research?

MS. MARILYN MCLAREN: Oh, I think that's absolutely the Corporation's responsibility, absolutely, as -- as it affects insurance rating and -- and access to insurance discounts.

If, at the end of the day, there seem to be no option other than somehow changing registration rules within the HTA, then it might be appropriate for -- for you to -- to look to the government. But I think certainly we have to do a lot of work from an insurance rating and insurance discounting perspective and -- and have those discussions here.

THE CHAIRPERSON: Well, very good. That's very helpful. Anyway, I think we're all done for the day. We'll see you tomorrow at 9:00.

(MPI PANEL NO. 1 WITNESSES RETIRE)

--- Upon adjourning at 4:09 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.