MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE
2010 GENERAL RATE APPLICATION

Before Board Panel:
Graham Lane - Board Chairman
Eric Jorgensen - Board Member
Len Evans - Board Member

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 26th, 2009

Pages 1182 to 1384

APPEARANCES

Walter Saranchuk, Q.C.		)Board Counsel
Candace Everard		)
Kathy Kalinowsky		)Manitoba Public Insurance
Raymond Oakes		)CMMG
Byron Williams		)CAC/MSOS
Nick Roberts	(np)	)MUCDA
Donna Wankling	(np)	)CAA
Jerry Kruk		)
Robert Dawson	(np)	)CBA/MBA

TABLE OF CONTENTS

LIST OF EXHIBITS

UNDERTAKINGS

UNDERTAKINGS (Con't)

No.	Description	Page No.
40	To indicate the number of fatal vehicle collisions for 2008 to get the full year and the comparative number; outline the number of fatal collisions; the consequences for drivers and passengers, in terms of who died; indication of whether these were single vehicle or multi-vehicle accidents; and for each incident involving a fatality, an indication whether the failure to use seatbelts, wear a helmet, unsafe speed, or the use of drugs and alcohol was identified. Also to include the urban/rural split	1358

--- Upon commencing at 9:08 a.m.

THE CHAIRPERSON: Okay, good morning, everyone. Ms. Kalinowsky, do you have anything for us?

MS. KATHY KALINOWSKY: No, we don't actually. I've got a number of photocopies sitting in the back room. Other than myself, I was the only person at the office last week as different people were -- or Friday, sorry, Friday afternoon -- other people were away nego -- renegotiating and negotiating reinsurance treaties. So they just have to be approved by various people, but we expect to be -- the lunch hour hopefully, filing a large number of documents at that point, sir.

THE CHAIRPERSON: Thank you. Mr. Williams...?

MR. BYRON WILLIAMS: Yes, thank you, Mr. Chairman, and good morning. I have, to assist in the cross-examination, a -- a book of documents that -- subject -- I just want to make -- subject to any comments by MPI, I would like to distribute to the Board.

We've shared the materials with MPI so my understanding is that they don't have an objection to it being introduced as an exhibit. But I just asked Ms. Kalinowsky to confirm that, if she could.

MS. KATHY KALINOWSKY: Yes, I can confirm that Mr. Williams shared a number of exhibits with us the past weeks, so we're in accordance with this being marked.

THE CHAIRPERSON: Very good, thank you.

MR. BYRON WILLIAMS: Mr. Chair, I would recommend that it be marked as CAC/MSOS Number 5.

THE CHAIRPERSON: Okay, subject to check. And that's correct.

--- EXHIBIT NO. CAC/MSOS-5: Book of documents

MR. BYRON WILLIAMS: And, Mr. Chair, before embarking upon the cross, I think just to assist, certainly Board counsel and the Board, in -- in terms of what is actually in this book of documents because there are a number of documents that were not on the record prior to the introduction of this exhibit.

So I would just like to -- I -- I'll certainly go through them in my cross-examination but I -- I thought it might be helpful for Board counsel, at least, if I highlighted them.

Mr. Chairman, there's a -- a table of contents, I think a couple pages in, and you can see that the -- the book of documents is divided into three (3) headings: Road Safety, Cost Control and Risk Analysis

Rate Stabilization Reserve.

All three (3) entries, being Tabs 1, 2, and 3 under "Road Safety," are new documents that -- that have not previously been on the record and those have been shared with MPI.

Under 'B', Cost Control, Tabs 7, 8, and 9 are -- are new documents. They're based in part on calculations, CPI calculations from the Bank of Canada, and part from calculations of documents on the record.

But those are new to the Proceeding and they have been shared with MPI.

Tabs -- under "Risk Analysis Rate Stabilization Reserve," Tabs 14 to 18 are old excerpts from the -- the misty past of the Risk Analysis which we -- we put in to assist in refreshing our memories. Tab 21 and Tab 22 are new documents. They're -- they're based on information on the record but there are new calculations that have been shared with MPI. And Tab 20 is just a -- a very simplistic hypothetical with pretty coloured dice and things like that just for -- to assist the -- the discussion.

MPI PANEL 1 RESUMED:

MARILYN MCLAREN, Resumed

DONALD PALMER, Resumed

OTTMAR KRAMER, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And Mr. -- Mr. Palmer, I'm probably going to be starting with you and on the subject of the risk analysis. Ms. McLaren, you can always feel to chip -- chip in whenever you would like. And it may be helpful to the -- to you, Mr. Palmer to have near at hand both the CAC book of documents, as well as the AI.18 series, being AI.18.1 through 4. We may get to all of them right away but we will within the next hour or two (2).

MR. DONALD PALMER: It's --

MR. BYRON WILLIAMS: Do you have those, Mr. Palmer?

MR. DONALD PALMER: They're all close at hand, thank you.

MR. BYRON WILLIAMS: Who says we can't cooperate, eh, Mr. Palmer?

MR. DONALD PALMER: Certainly not me.

MR. BYRON WILLIAMS: Mr. Palmer, I don't want to call you old, but you've been working for this Corporation since the late 1980's, would that be right?

MR. DONALD PALMER: December 4th, 1989.

MR. BYRON WILLIAMS: The very late 1980s.

And since that time you've regularly attended PUB Proceedings, fair enough?

MR. DONALD PALMER: I have, yes.

MR. BYRON WILLIAMS: And in your roles originally as Actuary and now as VP Finance and all-around Grand Poobah you've had the opportunity to participate in and review the debates before the Public Utilities Board regarding the RSR target range and the treatment of surcharges and dividends.

Would that be fair, sir?

MR. DONALD PALMER: I have, yes.

MR. BYRON WILLIAMS: And of course you've studied with great, almost religious fervour the PUD -- PUB decisions over these many long years relating to the RSR target range and the treatment of surcharges and dividends.

Would that be fair?

MR. DONALD PALMER: I have.

MR. BYRON WILLIAMS: Just for a very quick second I'd ask you to turn to AI.18.2, page 4. AI -- AI.18.2 is of course the 2009 report on DCAT, Dynamic Capital Adequacy Testing.

MR. DONALD PALMER: I have it.

MR. BYRON WILLIAMS: Mr. Palmer, I just want to direct your attention to the top of this page and you'll see two (2) tables, one (1) a base scenario results and then a base scenario with a 2 percent decrease in 2010/'11.

Do you see that, sir?

MR. DONALD PALMER: Yes, I see it.

MR. BYRON WILLIAMS: And just to go to the -- the dialogue in the first paragraph under "base scenario results in millions," you'll see the -- the -- the suggestion that a zero percent rate change in 2010 provided for higher net income then would otherwise be realized with, in quotation marks, "break even rates."

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And if I compare the two (2) tables, specifically the 2010/'11 year and the 2011/'12 year, what it essentially illustrates is that with a 2 percent rate de -- decrease, earn revenues would decrease from the base scenario of 770 million in 2010/'11 to 762 in the alternative scenario, so a -- an $8 million difference.

Is that right, sir?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And rolled out an extra year to allow for staggered renewals, I would see between the base scenario of earned revenues of 794 million versus the base scenario with the 2 percent rate decrease earned revenues of 778 million or a $16 million difference.

Would that be fair, sir?

MR. DONALD PALMER: Yes. One -- 1 percent is approximately $8 million so 2 percent being the sixteen (16) is bang on.

MR. BYRON WILLIAMS: And going back to that -- to that first paragraph, you'll see about the -- the -- the fourth and fifth line in, essentially MPI is making the point here that the additional premium collected from this rate, in quotation marks, "load," end quotation marks, is essentially an RSR rebuilding surcharge.

Is that correct, sir?

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

MR. BYRON WILLIAMS: And, Mr. Chairman, I should just note that Ms. Desorcy is here, and -- and if you could allow me two (2) seconds, I'd -- I'll be very quick.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Palmer, and you

can turn there if you want, it's in the transcript at page 1167 or you can just accept my -- my word on it.

So on -- on the topic of this rebuilding surcharge built into the rates, in our conversation at page 1167 on Wednesday, October 15th you confirmed at the time that there was an -- at the time of the Application there was an implicit RSR surcharge build in in the range of 2 percent.

Do you recall that, sir?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And I'm not going to worry about percentages, Ms. McLaren, but a bit later on that day at page 1169 you also indicated that we -- we do have at line 20 an implicit 1 to 1 1/2 percent RSR rebuilding surcharge in the Rate Application.

Do you recall that, Ms. McLaren?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And it's the word "implicit" that, on behalf of my clients, I -- I want to focus on. And I'd like to direct your appli -- your attention to the Application itself, which you can find in the CAC book of documents at Tab 10, Mr. Palmer. That's CAC Exhibit number 5. Tab 10, Mr. Palmer.

MR. DONALD PALMER: Yes. I have it.

MR. BYRON WILLIAMS: If I look to the

Application, Mr. Palmer, I'd be correct in suggesting to you that there would be no mention there of an RSR surcharge, would there, sir?

MR. DONALD PALMER: That's correct. This Application deals directly with -- or this description deals directly with the rate changes, so there is no overall rate change, so that's reflected in this.

MR. BYRON WILLIAMS: And if I turned to Tab 11 to the public notice, Mr. Palmer, again you'd agree with me that I'd see no reference to a RSR surcharge amounting to somewhere between $8 and $16 million, sir?

MR. DONALD PALMER: And again, this specifically talks about rate changes and their -- the overall rate change was basically zero, so that, again that's what's reflected in this.

MR. BYRON WILLIAMS: So you'll agree with me that in the -- both the Application and the notice there is no reference to the fact that built into the rates for 2010/'11 is an implicit surcharge that will amount to consumers paying $8 million more in 2010/'11 and $16 more than they otherwise would in 2011/'12, all other things being equal?

MR. DONALD PALMER: If we had applied for a break even -- the comparison between what we're applying for and break even, I would agree with that. Yes.

MR. BYRON WILLIAMS: Excuse me. Just flipping over again to Tab 12, which is the statement of operations, TI.13. There would be no reference -- if I were the diligent, but time stressed consumer, I wouldn't see a separate line referencing the incremental revenue pro -- projected to be generated by the RSR surcharge, would I, Mr. Palmer?

MR. DONALD PALMER: Well, you would because there's a positive bottom line of $8.5 million, so that's the implicit amount that would be put into the RSR.

MR. BYRON WILLIAMS: There's no express reference to an RSR surcharge on this page, sir.

MR. DONALD PALMER: Not in those terms. No.

MR. BYRON WILLIAMS: And again, turning to TI.14, the statement of retained earnings, there's no expressed reference to a RSR surcharge or the incremental revenue flowing therefrom, is there, Mr. Palmer?

MR. DONALD PALMER: Again, for each of the '10 and '11 and '11/'12 years there is a neg -- net income which shows as a -- as a deposit, if you will, to the RSR, so it's specifically in there that there is a contribution to the RSR.

MR. BYRON WILLIAMS: If I were looking for a separate line referencing the incremental revenue projected to be generated by the RSR surcharge and identifying to that, I would not find it, correct?

MR. DONALD PALMER: It's identified as the net income.

MR. BYRON WILLIAMS: I wonder if you'd agree with me that the -- the lack of expressed disclosure of a multimillion dollar RSR surcharge in the Application or the public notice is a break with the past practice of MPI, in this regard?

MR. DONALD PALMER: No, I would not agree with that. We have al -- always disclosed net income. Some years it's on -- on the two (2) years that -- whatever rate application that we're talking about because of the affect of the stagger.

We have talked about maybe a little negative in the first year and a positive in the second year, which averages to zero. So always the net income is disclosed, and that is the -- the bottom line that's the deposit into the retained earnings, so I wouldn't say that that's a break, so to speak.

MR. BYRON WILLIAMS: We'll come to that point in just one (1) second, but -- but you'll agree with me that one (1) of the justifications for this not charging a break even rate in the application was an implicit RSR surcharge, sir?

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

MR. BYRON WILLIAMS: Turn, if you would, to Tab 15, which is an excerpt from PUB order 116/96. And if you'd turn to the last page of that excerpt you'll see an appendix 'A', 'B', in the Application.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And, Mr. Palmer, there you'll see that this expressly sets out a RSR reserve increase and it expressly identifies that 2 percent increase -- 2 percent is being increased -- the 2 percent increase is being assessed on all rates to help fund the rate stabilization reserve, do you see that, sir?

MR. DONALD PALMER: I see that, and that was ex -- an explicit RSR surcharge because the rates actually went up 2 percent because of that.

MR. BYRON WILLIAMS: Well let's turn to an example where the ra -- rates didn't go up, Mr. Palmer. Let's go to an example where they stayed the same. Turn, if you would, to Tab 16, which is an excerpt from PUB Order 154/08 (sic). And, again, I would direct your attention to the -- the last page, Mr. Palmer.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And you'll see on the Application there, that expressly set out, again, is the reality that it's a con -- a continuation of an existing minus 5 percent adjustment to fund the -- the Rate Stabilization Reserve.

Do you see that, sir?

MR. DONALD PALMER: I -- I see it, and I don't know that it was minus 5, but it was probably plus 5, but I see it, yes.

MR. BYRON WILLIAMS: So -- and, certainly, in the past, certainly with regard to the GRA leading up to rates for 1999/2000, even when no express rate increase was sought, MPI, clearly and separately, designated that a surcharge was being put on rates to help fund the Rate Stabilization Reserve.

Is that correct, sir?

MR. DONALD PALMER: That would result in a positive bottom line in the Application years, yes.

MR. BYRON WILLIAMS: And would you agree with me that, from the consumer perspective, it's important to know that they're paying rates over and above a break even rate for the purposes of rebuilding the RSR?

MS. MARILYN MCLAREN: Thanks for the invitation to chip in whenever I felt the need, I think I'll do that now. I'm a little concerned about the context of this line of questioning, Mr. Williams, because clearly we've begun today talking about implicit RSR rebuilding revenue.

It's not, in any way, shape, or form, explicitly a surcharge, so I think we really need to understand the context. And from the consumer's perspective maybe the parties to these Proceedings want to think a little bit about that for the future. Maybe, you know, the Board and the Corporation would think about different approaches to public notices.

But with respect to the consumer's interest for information, I think this really does come down to the public notice. And if in fact, it was deemed to be appropriate that somehow the PUB, in signing and publishing that notice, the Corporation, in preparing a draft of that notice, thought it would be important to draw the attention to the important matters to be discussed at the upcoming Proceedings beyond rates.

You know, that -- that might be something that we would do in the future. Clearly everyone is on record, I think in these Proceedings, is that the key issue -- one (1) of the key issues, one (1) of only two

(2) key issues in the minds of the Board itself, are resolving the issue with respect to RSR.

The Corporation has not buried the fact that we are applying for rates that will generate additional revenue. It's almost front and centre in my pre-filed testimony.

It is in all the financials in the context of previous Board orders, it is -- our Application is consistent with the previous Board order with respect to trying to resolve that issue.

And it's also consistent with direction from the Board in the DSR hearing proceedings where they declined to reduce rates by the equivalent of a further $10 million because there was uncertainty about RSR targets, uncertainty about potential IFRS impact and -- and other cost allocation.

They listed a number of things that created the situation where it did not seem appropriate to reduce rates as the Corporation had proposed. All of that is context. So in terms of consumers who are interested in understanding the context of these Proceedings, the orders, the Application, the transcripts, have been fully transparent and forthcoming in that regard.

The matter, to be perhaps looked at with

20/20 hindsight now, is the extent to which we talked about the context of the revenue that will be generated and the issue to be determined with respect to an RSR target.

That's why we have extra money flowing to the bottom line through this Application because of the question with respect to the RSR target.

MR. BYRON WILLIAMS: Thank you for that, Ms. McLaren. Simple question. Does the Corporation agree that from the consumer perspective, the fact that it's expressly -- excuse me, that it's seeking to rebuild the rates, to build up the RSR and so is charging more than a breakeven rate, should be included in its Application and its notice? Simple question.

MS. MARILYN MCLAREN: It was not included in the public notice. I would certainly consider that perhaps it should have been. You're asking for a definitive, was it or was it not? Absolutely it was not included in the notice.

MR. BYRON WILLIAMS: I -- I'm not asking you to -- or criticizing you for past actions. We're talking about rebuilding an RSR. Let's talk about future actions.

Should, going forward, the Corporation provide notice to the consumers expressly, in its

Application and in its public notice, that it is seeking to charge more than a breakeven rate to rebuild the reserves?

MS. MARILYN MCLAREN: As a general principle, yes. And if we have an agreed committed RSR target, that would certainly be the Corporation's practice.

So if in fact, you know, play that out a little bit I guess. If in fact, this Board accept the $185 million, if in fact the rates remain -- the rate levels remain as proposed in this Application and if in fact our financials showed that a year from now we could have a 1 percent rate decrease, other than wanting to continue to work towards $185 million, I would expect the Corporation would draw that to the consumer's attention in the next public notice.

MR. BYRON WILLIAMS: The -- and we can turn there if -- if you want, but again going back to older history, you recall, as well, that the -- the Public Utilities Board in -- in older decisions directed MPI to expressly identify the entire incremental revenue generated as a result of RSR rate adjustments -- excuse me -- in the -- in the -- in the early filing for example in TI.13 or in TI.14. Do you recall that at a -- at a general point? I can refresh your memory if you need to, Mr. Palmer.

MR. DONALD PALMER: Yes, and always the bottom line net income is the contribution to the RSR.

MR. BYRON WILLIAMS: That's correct, Mr. Palmer. But you'll recall in the 1990s, the -- the Board expressly directed MPI to set out and expressly identified the RSR surcharge as a separate line item.

Do you recall that Mr. Palmer? Again, I can refresh your memories, if you don't.

MR. DONALD PALMER: I don't know if it was the exact words, but sure, I -- I'll take your word for that.

MR. BYRON WILLIAMS: And again, going forward, in the event that there are future RSR surcharges, does the Corporation agree that expressly setting out the incremental revenue in the -- the basic filing documents, whether those are TI.13 or TI.14, would be appropriate.

MR. DONALD PALMER: And as you've expressly pointed out in TI.14 with the line being net income that increases the RSR I think we've done that, but if there is an extra note or saying this amount is -- goes into the RSR, then sure, I don't have any problem with that.

MR. BYRON WILLIAMS: Thanks, Mr. Palmer.

Just moving -- moving back in time for a little while still, you'll recall -- it seems so long ago now, Mr. Palmer, that you had a brief discussion with My Friend Mr. Saranchuk about the -- the gen -- genesis of the risk analysis.

Do you recall that vaguely, sir?

MR. DONALD PALMER: I do.

MR. BYRON WILLIAMS: And I -- I have to tell you that my recollection was a little -- a little bit hazy, as well, and so to assist both my clients and hopefully the Board I -- I'm going to ask you to assist in refreshing the memory of the Board by turning back to some of those Board Orders in the early days when the risk analysis was being developed, Mr. Palmer.

And I put them in there merely to refresh your memory. I -- I suspect you won't need it much, but just as a -- as a guide.

You're prepared to do that, Mr. Palmer?

MR. DONALD PALMER: Well, you already called me old once in this Hearing, so refreshing my memory probably doesn't hurt.

MR. BYRON WILLIAMS: I -- I hate to say this, but I think Mr. Saranchuk, yourself, and I are the veterans in this room now, Mr. Palmer, and Mr. Kruk. Turn, if you would, to Board Order 154/98, which is at

Tab 16 of the CAC book. And expres -- expressly I'd ask you to turn to page 50 of that document, Mr. Palmer.

MR. DONALD PALMER: I have it.

MR. BYRON WILLIAMS: And again, you can certainly refer to pages 50 and 51 if you feel the need the refresh your memory, but I'm going to suggest to you that it was in that proceeding that the Corporation first prepared an internal risk review using the statistical variance approach relating to the variability of four (4) separate risk factors.

Do you recall that, Mr. Palmer?

MR. DONALD PALMER: Yes, I recall that.

MR. BYRON WILLIAMS: And those factors were the same as four (4) of the five (5) that we speak of today, being premium revenue, claims' costs, claims' expenses, and operating expenses, correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Just, if you want, again to help you follow along, flip to the next page. At that point in time investment risk was not part of -- of the -- of the analysis, would that be fair, sir?

MR. DONALD PALMER: Not in that risk review, no.

MR. BYRON WILLIAMS: And you'll also recall that, at the time, an underlying assumption of the

Corporation's analysis was that the four (4) risk factors identified were perfectly correlated?

That's your recollection?

MR. DONALD PALMER: Yes. That -- that's correct. And also, in that paragraph when it says investment risk was excluded and then there is a reference with regard to investment policy which was then changing to include equities and more variability would be introduced, so that's in there.

MR. BYRON WILLIAMS: And I'm certainly not criticizing the Corporation, Mr. Palmer. I'm just trying to put the bricks back together. Just to, to again assist the Board, if you turn to page 58 for just one (1) second of Board Order 154-98 -- /98.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And, again, directing your attention to the -- the bottom part of the -- the page, you'll agree, or you'll recollect that the Board, at that time, disagreed that the four (4) risk components were perfectly correlated.

Is that correct?

MR. DONALD PALMER: I recall that.

MR. BYRON WILLIAMS: And, again, it's suggested that some correlation analysis should be conducted.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And it also directed that investment risk should be considered.

Would that be accurate?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Turn, if you would, Mr. Palmer, again, to assist your recollection, to Board Order 177/99, and, specifically, page 29, please.

MR. DONALD PALMER: I have it.

MR. BYRON WILLIAMS: You'll agree that the Corporation provided a revised risk analysis for the purposes of this Proceeding, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And one (1) of the new intriguing elements of this analysis was a proposal -- proposal to measure the impact of the investment risk, called value at risk.

Is that correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the Corporation suggested that VaR was becoming a dominant methodology for certain institutions to determine their investment risk and expressed the view that it was a useful tool.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Now, at that time, the in -- the consultants for the Corporation were suggesting a time horizon of three (3) years.

Would that be accurate, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Okay. And, of course, at the three (3) year time horizon, given the relatively conservative nature of the investments at that time, the investment risk was -- was zero.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Okay. Just, if you will, Mr. Palmer, turn on -- turn a few more pages on to pages 36 of the Board's decision. And you'll see at page 36, and we don't need to dwell on it, but there's a debate between the Corporation and the Public Utilities Board into whether or not operating expenses should be included in the analysis, and that really hinged on the -- the question of whether those expenses were controllable.

Would that be fair?

MR. DONALD PALMER: Yes, I recall that.

MR. BYRON WILLIAMS: And, again, there's also a de -- debate about what data to use in terms of the loss cost analysis and whether or not PIPP data should be used exclusively or not.

Would that be fair?

MR. DONALD PALMER: Yes. And -- and, certainly, at that time, when we only had probably four (4) years of PIPP data, I do recall that, but there would be real variability in that, not -- not only from the fact that you have very few years, but on those first few years, as we were kind of understanding the program, there was great volatility.

MR. BYRON WILLIAMS: Thank you. And just -- you can turn there if you want, to page 39, but I just ask you to recollect as well, that the Board was asking MPI to come forward with a plan in terms of -- in the very last line of that -- the last few lines of that page 39, Mr. Palmer, if you're looking, the Board was coming forward and asking MPI at the time to come forward with a plan how to deal with the RSR when its levels exceeded or fell short of the Board -- bard -- Board's target, is -- is that your recollection as well?

MR. DONALD PALMER: Yes. And, again, that -- that's coming off some year -- I think '90 -- the '94/'96 fiscal period, when, at the end of that, we were in a fairly large deficit situation, so that's kind of the un -- context of that too.

MR. BYRON WILLIAMS: And the -- the other part of that context, and I thank you for pointing that out, was, at this point in time, the Board -- actually, the -- the RSR was approaching -- was approaching relatively healthy levels again and the Board was starting to address its mind to what to do in terms of, if it exceeded the target range, you'll agree with that?

MR. DONALD PALMER: Yes, that was prior to any talk of any -- that was prior to any rebates, yes.

MR. BYRON WILLIAMS: And it would be your recollection that, indeed, for the next general rate application the Board -- or the Manitoba Public Insurance brought forward a plan to address both RSR target range shortfalls and surpluses.

Is that correct, sir?

MR. DONALD PALMER: The next after this Board Order in 77/99? Yes.

MR. BYRON WILLIAMS: Okay. Turn if you would to Tab 18 which is an excerpt from Board Order 151/00, page 45 would probably be a good place to -- to turn.

And I'll -- I'll direct your attention, again, MPI presented an Updated Operation Risk Analysis and VaR in this Proceeding, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And I thought you'd get a kick out of this. Directing your attention to page 45, the -- the last paragraph:

"The Board is expressing a desire to bring some closure to the debate about the methodology."

Do you see that, Mr. Palmer?

MR. DONALD PALMER: I see it, yes.

MR. BYRON WILLIAMS: We are getting old, aren't we? The -- turning your attention to page 46, I wonder in broad strokes, you'll see that the Board in this decision essentially set out the elements of the Risk Analysis as it -- as it is performed today.

Would you agree with that, Mr. Palmer?

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

MR. BYRON WILLIAMS: And we see reference to the '95 percent confidence level about including and excluding operating expenses and as well at '97 including and excluding.

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes, I see it.

MR. BYRON WILLIAMS: Ultimately, the Board by this time is suggesting include only PIPP data.

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And using a Value at Risk analysis assuming a 25 percent equity component and a time horizon of between two (2) and three (3) years.

Is that correct?

MR. DONALD PALMER: Yes, and I think we explicitly made that two and a half (2 1/2) years in our analysis going forward.

MR. BYRON WILLIAMS: Just under the bullets there, you'll see the Board's rationale, Mr. Palmer, for moving to that 25 percent equity component.

And I wonder if you'll agree with me that the Board's expresses rationale was that:

> "The movement to a 25 percent equity component was appropriate since the Corporation's plans for its investment portfolio were expected to take it to this level over the next two (2) years."

Do you see that, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Thank you, Mr. Palmer. I'm going to jump around for the next few minutes and this answer's probably on the record somewhere.

But I wonder if you could indicate when exactly the Corporation adopted the DCAT methodology for setting the RSR?

MR. DONALD PALMER: That would have been this year. It was adopted by the Board of Directors and I'm not sure the exact date of that meeting, but it was during 2009.

MR. BYRON WILLIAMS: Would it have been prior to February 28th, 2009 or after February 28th, 2009?

MR. DONALD PALMER: It would have been after year end. It is -- we've got the minute somewhere in the -- in the evidence.

MR. BYRON WILLIAMS: Okay.

MR. DONALD PALMER: Yeah, we'll -- we'll go through the exact timing. We would have adopted the explicit target of the one eighty five (185) after all the DCAT's were run utilizing the year end data.

We may have adopted the DCAT as the methodology before the actual target of the one eighty-five (185) was set.

MR. BYRON WILLIAMS: Thank you. So you've -- you've anticipated my next question. So just so I understand, the -- the actual target of one eighty-five (185) would have definitely been adopted after

February 28th, 2009?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And you're undertaking to check when the exact date that the DCAT methodology was adopted by the Board of Directors of MPI?

And you can do that verbally, Mr. Palmer.

MR. DONALD PALMER: Yes. We're -- we do have it as -- as an Information Request I recall and we'll get the exact number for you.

--- UNDERTAKING NO. 35: To determine the exact date that the DCAT methodology was adopted by the Board of Directors of MPI

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Moving back a year, when would the target figure for the 2009/'10 year of 107 million to 214 million have been approved?

MR. DONALD PALMER: One o seven (107) to two fourteen (214) was the then MCT target, I'm thinking around three (3) years ago but, again, I can get the exact date for you.

MR. BYRON WILLIAMS: I'm not in -- th -- that's fine, Mr. Palmer. So my -- my question was really directed at the fact that the -- the target prior to -- to this year would have been set -- or, excuse me, the target for the 2009/'10 year would have been set a year or two (2) previous to that, is -- or would it -- or would it have been set in the 2009/'10 year, th -- that's my question.

MR. DONALD PALMER: No, the original target was prior to that. And -- and then has been since revised to the one eighty-five (185).

MR. BYRON WILLIAMS: Am I right in suggesting to you that the Corporation has never taken other comprehensive income into account in considering -- in considering whether its Basic retained earnings are consistent with the RSR target?

Is that correct, sir?

MR. DONALD PALMER: Other comprehensive income is not included specifically in our retained earnings target, I would agree with that. Other comprehensive income is indirectly included in the MCT calculation.

So from that standpoint when we were using MCT as a -- as a target, then again, indirectly there is some -- some use of that in the calculation of the MCT. But specifically RSR is always stated before any addition or subtraction from the AOCI.

MR. BYRON WILLIAMS: Just turning to -- to the MCT, in the Corporation's view is it consistent with generally accepted actuarial principles, I don't know the fancy word for that, Mr. Palmer, to exclude -- would it be consistent to exclude AOCI from the MCT calculation?

MR. DONALD PALMER: There is no accepted actuary principle or standard of practice with regard to that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: In the Corporation's view would it be appropriate to conduct the MCT analysis without taking into account AOCI?

MR. DONALD PALMER: No, the MCT is a specific calculation that's set out by the Office of the Superintendent of Financial Institutions, so that includes unrealized capital gains as part of the calculation. The MCT was actually put in prior to the CICA standard 88-73, which is the one that talked about AOCI. So, in fact, the MCT's test itself doesn't talk about AOCI but it talks about unrealized capital gains and losses.

MR. BYRON WILLIAMS: And just a few more

questions about the MCT. Going back to 2005, that's when the Corporation adopted the policy to base the RSR on the mim -- minimum capital test, that's right, sir?

MR. DONALD PALMER: Sorry, could you repeat that?

MR. BYRON WILLIAMS: It was in 2005 that the Corporation adopted a policy to base the RSR on the minimum capital test, correct?

MR. DONALD PALMER: Yes, that sounds about right.

MR. BYRON WILLIAMS: And more precisely -- it's in your evidence, Mr. Palmer -- more precisely, it set a target range for the Basic RSR that would be the equivalent of an MCT of between 50 and 100 percent, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And currently, as I understand it, your sister Crown Corporations use the M -- MCT for the purpose of setting their retained earning targets.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: We'll come to the DCAT in a few minutes, but in terms of the MCT I have a few more questions.

Did the Corporation prod -- I'm trying to get a sense of, on an annual basis, how often, if at all, the MCT was performed for the Corporation between 2005 and 2009.

Would it be performed annually, monthly, quarterly? I'm trying to get a sense of that, Mr. Palmer.

MR. DONALD PALMER: It would have been done annually.

MR. BYRON WILLIAMS: And would it be done subsequent to year end?

MR. DONALD PALMER: Yes, the year end figures are those that are used in -- and used in the calculation of the MCT ratio.

MR. BYRON WILLIAMS: So in the early spring of the -- after the year end, approximately, would that be when it was calculated?

MR. DONALD PALMER: Maybe later than early spring. We probably didn't have it calculated at the time that we had the annual report, which is usually ready for the end of April. It would have been done subsequently -- subsequent to that, sometime between that and the time we file the Rate Application, which is mid June, so some -- somewhere in that sort of late April to mid June time period.

MR. BYRON WILLIAMS: Going forward, referring to the DCAT, how often does the Corporation anticipate conducting that, on an -- annually? Some insight, please.

MR. DONALD PALMER: I guess the formal report will be done on an annual basis. The -- any adverse scenarios could be run more than that if we were doing some analysis to a change in some risk variables that -- where we could run adverse scenarios at that time.

Even in this Hearing we did publish the -- the DCAT -- the DCAT like report in our Rate Application. We have run several adverse scenarios since that point in time, so I would call it kind of a dynamic -- more of a dynamic process than -- than just doing it once, putting it in a closet and forgetting about it.

I -- I think that's probably closer to what we used to do with the DCAT. Now it's really a part of our ongoing risk management protocol, so I would say that it's -- the model itself is dynamic and ongoing. Formal published report would be annually.

MR. BYRON WILLIAMS: Thank you. And -- and just a few last questions on the MCT, and perhaps you could turn to AI.18.4, please. Mr. Chairman, if I could be excused for just one (1) second.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Now, Mr. Palmer, Mr. Saranchuk has gone through AI.18.4, the one (1) page minimum capital test, Mr. Palmer.

MR. DONALD PALMER: I have it.

MR. BYRON WILLIAMS: The -- Mr. Saranchuk -- my Friend, Mr. Saranchuk, has gone through this in some detail, so I don't plan to spend too much time on it, but I -- I want to -- to turn to the -- to -- to the calculation, first of all, for the prior year.

And I presume that the prior year is the '07/'08 year, is that right, Mr. Palmer?

MR. DONALD PALMER: It would have been as at February 28th of '08, yes, February 29th, of '08.

MR. BYRON WILLIAMS: And -- and, essentially, at a high level, the Corporation's analysis involves looking at the total capital available dividing it up by the minimum capital required and that gives some sense in terms of the adequacy of its capital.

Is that fair?

MR. DONALD PALMER: You say the Corporation describes or calculates. This -- this is a prescribed form as per the Office of the Superintendent of Financial Institutions, so it's their calculations.

We have -- we have adopted those and -- and performed them as prescribed in the MCT test.

MR. BYRON WILLIAMS: That's the logic of the analysis, though, Mr. Palmer. You take the total capital available, divide it by the minimum capital required, and you get some sense of the adequacy of the capital, correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And I certainly apologize for suggesting it's the Corporation's process. Now, just looking at the year ended February 28th, '08.

In that year the Corporation had a total capital available of 158.696 million, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And that was about 71 percent of the minimum capital required under this analysis.

Is that right?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Now, moving to the -- to the fiscal year end '08/'09, we see the Corporation has a total capital available of about 16.6 million.

Would that be correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: With -- and with the minimum capital required of 228.8 million that would've been a bit over 7 percent of the minimum capital requirement under this -- this test?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Looking at the '08/'09 year, the year ended February 28th, '09 and the figure of total capital available of 16.6 million, would I be right in suggesting to you that to get to even 50 percent of the minimum capital required, the Corporation would've needed to have total capital available under this analysis of about 115 million.

Would that be fair, sir?

MR. DONALD PALMER: It's close. Sure.

MR. BYRON WILLIAMS: So it would've required an additional, approximately, perhaps a bit less than 100 million in additional capital pursuant to this analysis?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So in this one (1) year the Corporation went from 70 percent -- or 71 percent of the MCT required to about 7.3 percent under this analysis?

MR. DONALD PALMER: Yes. As a result of the market meltdown, and we haven't done the MCT score for the end of the second quarter, but it would probably be back up to close to that 70 percent mark.

MR. BYRON WILLIAMS: And it was really as a result of a -- a material variance in the availy -- available capital variable, would that be fair?

MR. DONALD PALMER: I can go one (1) step further. It was a direct result of the unrealized capital loss in equities and in debts. The minus $92 million and the minus 9.2 million, so specifically on the unrealized capital losses.

MR. BYRON WILLIAMS: And just the point I want to get at, Mr. Palmer, it wasn't -- there was not a -- a material change, I would suggest to you betw -- in the minimum capital required. It was in the -- it was instead in material change in the total capital available for the reasons you stated?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Is that a robust result, Mr. Palmer?

MR. DONALD PALMER: I don't know that I would necessarily use that term, but certainly there is variability in that number, yes.

MR. BYRON WILLIAMS: And to a certain degree it might give the Corporation pause in applying the -- using the MCT due to that variability?

MR. DONALD PALMER: Yes, I would agree

with that.

MR. BYRON WILLIAMS: Mr. Chairman, I -- I have a -- a nice small section to go through, which would take us conveniently probably to ten (10) after, quarter after. Then I have some longer sec -- sections, so I'm proposing, subject to your wishes, that we could go for about ten (10) minutes on this subject, take a quick break, and then be right back at her, if that's appropriate.

Ms. McLaren, I've been ignoring you this morning. I apologize for that. You'll like this question. Over the past decade it's fair to say that it's been quite rare for the Corporation to seek an overall rate increase, would that be fair?

MS. MARILYN MCLAREN: Once since 1998.

MR. BYRON WILLIAMS: So in -- and --- and you say that in your annual report. In ten (10) of the last years it hasn't held the line or reduced rates, fair enough?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And, again, no overall rate adjustment's been sought for the 2010/'11 year as well, correct?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And when you and Mr.

Palmer have been using the words, in quotation marks, "Stability, stability," end quoma -- quotation marks, throughout this Hearing, you have been referring, at least in part, to the fact that it has been quite rare for the Corporation to seek an overall rate increase.

Would that be fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Over the past decade?

MS. MARILYN MCLAREN: Yes, in part.

MR. BYRON WILLIAMS: And, Ms. McLaren, just to assist my clients, you use these words, "Stability, stability," define them.

What -- what do you mean by that?

MS. MARILYN MCLAREN: We know that it's very important that Manitobans can rely on reasonably small rate changes from year to year.

MR. BYRON WILLIAMS: Would it be fair to say that, while there's been no overall rate increase, individual vehicle owners owning the same vehicle may experience changes in the -- in the rates they pay for a particular vehicle?

MS. MARILYN MCLAREN: Absolutely. That's a fundamental aspect of the rate making methodology. There's a significant difference between overall rate changes and individual rate changes.

For the most part, somewhere in the neighbourhood of 40 to 60 percent of passenger vehicles go up or down a little bit, almost always less than twenty dollars ($20) a year.

MR. BYRON WILLIAMS: And we'll ge -- we'll get to those figures in just one (1) second, but the individual rate changes experienced by various consumers, some of them may flow due to changes in the -- in the loss experience of the -- the rate group to which they belong, as published in the -- the relative loss indices of -- of CLEAR.

Would that be fair?

MS. MARILYN MCLAREN: In -- within the rate making methodology, in the ten (10) years where there was no overall rate increase, what we're able to say to people, actually, is that it comes down to not only the rate group, but rate group and insurance use territory combinations.

So if somebody has -- and -- and for the most part, let's take it a step further, the stability that we have had in the rates for the largest rating territory, which is the all-purpose insurance use in Winnipeg, we've been able to say to people with a vehicle of a particular rate group, insured as all-purpose in

Winnipeg, if their rate went up, it's because their particular vehicle has higher claims costs than we anticipated it would and in relation to the all the other vehicles in Territory 1 in the all-purpose use.

So we can really isolate it in that fashion, for people, so that they really understand it's specifically their vehicle that has had a higher claims cost than other vehicles in that same rating cell.

MR. BYRON WILLIAMS: And just to follow along that point, even in the circumstances of no overall rate increase, consumers are experiencing -- certain consumers -- many consumers are experiencing some volatility due to changes in their -- in their rate group, correct?

MS. MARILYN MCLAREN: I -- I think, in these Proceedings, a word like "volatility" is sometimes a loaded word. They're rate changes for sure, but it's often very minor changes overall.

MR. BYRON WILLIAMS: And another major driver would be the -- the -- well let me back up a second. Would it be also fair to say that the Corporation has indicated in its evidence that the way that accident benefit rate groups are calculated will result in significant dislocation of vehicles in comparison to the prior AB rate groups?

Would that be fair?

MR. DONALD PALMER: I don't think --

MR. BYRON WILLIAMS: Page AI.16 -- AI.16, page 2, Mr. Palmer.

MR. DONALD PALMER: Is there a specific line on this page that you're referring to?

MR. BYRON WILLIAMS: I don't have it right in front of me, Mr. Palmer. You'll agree subject to check that that's been the Corporation's evidence?

MR. DONALD PALMER: The evidence would be that if we installed or implemented the new IBC rate groups, that there would be volatility.

As any change that the Corporation has ever meant -- made with respect to implementing a new methodology when we went to an actuarial methodology, to back in the mid '90s in terms of insurance use territory relativities, there was some dislocation. We phased that in over several years. When we went to clearer rate groups, we phased that in over several years. This would be no different than that. So in -- there could be dislocation if we just immediately went to the new accident benefit rate groups.

We're not going to do that. We'll phase them in over a longer period of time.

MR. BYRON WILLIAMS: Are you withdrawing

the word "significant dislocation", Mr. Palmer, or not?

(BRIEF PAUSE)

MR. DONALD PALMER: There would be significant dislocation in rate group if implemented all at once. There will be no significant dislocation or change in a specific rate in one (1) year.

MR. BYRON WILLIAMS: Okay, I'll ponder that answer. We've talked about individual rate groups. It's fair to say that an equally important factor and how, in terms of changes in -- in rates may be the -- is how rate groups relate to each other?

Would that be fair? Rate group relativities?

MR. DONALD PALMER: Yes, that's our rate line calculations, yes.

MR. BYRON WILLIAMS: And so to use Ms. McLaren's word, revisions in the relationship between rates and rate groups may induce some rate changes for particular vehicles even though the Corporation is not seeking an overall rate increase, correct?

MR. DONALD PALMER: I'm sorry, could you repeat that?

MR. BYRON WILLIAMS: Actually I can.

Revisions in the relationship between rates and rate groups may induce some rate changes for particular vehicle owners even though the Corporation is not seeking an overall rate increase, correct?

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

MR. BYRON WILLIAMS: And if you want just to -- my last few questions, if you're looking for a reference to -- to -- in case you don't trust me, you can turn to SM.6 at page 7 for this.

MR. DONALD PALMER: Yes, I recall those words.

MR. BYRON WILLIAMS: Yeah. Well I'm -- I'm going to be just putting a few questions to you from that -- that reference, Mr. Palmer, if you -- if you require it.

MR. DONALD PALMER: And just as I'm turning to that, the reference to the word "significant dislocation" that we had in AI.16.1, the last line in that where it says:

> "The change in the way AB rate groups are calculated by IBC will result in a significant dislocation of vehicles in comparison to their prior AB rate groups."

That's specifically with regard to the IBC rate groups, not the MPI rate groups. So I just wanted to clarify that so --

MR. BYRON WILLIAMS: And I appreciate that.

MR. DONALD PALMER: -- the significant -- the significant dislocation would be their rate groups, not ours.

MR. BYRON WILLIAMS: Just last point on that. Now, we'll -- we'll go to -- we talked about the -- the fact that there can be -- while no overall rate increase signif -- excuse me, movement among individual ratepayers, and just for example, in this year, you'll agree with me that based upon the Corporation's best estimate at the time it filed the Application, about 51 percent of vehicles would be experiencing a rate decrease and about 45 percent a rate increase despite no overall rate increase.

Would that be fair, sir?

MR. DONALD PALMER: That sounds right, yes.

MR. BYRON WILLIAMS: And would it be fair to say that about sixty-five thousand (65,000) vehicles will be seeing rates rise by more than 5 percent but less than 10 percent, sir?

It's right there, Mr. Palmer.

MR. DONALD PALMER: That sounds right, yes.

MR. BYRON WILLIAMS: And about fifteen thousand (15,000) vehicles will see rate increases between 10 and 15 percent, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And over three thousand (3,000) vehicles will see increases between 15 and 20 percent.

Will that be right, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Mr. Chairman, that would be a -- just convenient time to break.

THE CHAIRPERSON: Okay, very good. We'll come back in fifteen (15) minutes.

--- Upon recessing at 10:12 a.m.
--- Upon resuming at 10:39 a.m.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you, Mr. Chairman. Mr. Palmer, we're going to stick on the RSR -- oops, go ahead.

MR. DONALD PALMER: Before we -- we go there, you were asking me previously the Information

Request that dealt with when the Board approved the DCAT. And that was specifically CAC/MSOS/MPI-2-6.

MR. BYRON WILLIAMS: Thank you, Mr. Palmer. We're going to stay on the Risk Analysis issues probably for the bulk of the morning and probably a bit into the afternoon.

And again, I'm not trying to step on where My Friend, Mr. Saranchuk, has gone but there's -- there will be a bit of overlap.

Mr. Palmer, at a high level I'm going to take you through in the next few minutes, I just will want to confirm my understanding of the Corporation's position with regard to various aspects of the RSR target, the process for setting it, its purpose of the RSR and the approach to be used in -- in rate settings.

So I'm going to take you through a number of those areas, okay?

MR. DONALD PALMER: That's fine.

MR. BYRON WILLIAMS: And -- and it's fair to say that the -- for the 2010/'11 year, the Corporation's RSR target is 185 million and that was set after consideration of the results of the Dynamic Capital Adequacy Testing, correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And, Mr. Palmer, you can -- you can do this at the break if you wish, but in terms of the actual DCAT report, you don't need to turn there now, but is there an -- an express reference where it sets out the derivation of the 185 million figure?

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, it's -- it's in there. It's -- it's the level with the -- under one (1) of the adverse scenarios that takes us to zero RSR balance essentially.

MR. BYRON WILLIAMS: And again, we can probably get that from you off line. It's fair to say that the -- the RSR -- or the DCAT analysis is undertaken by the DCAT Committee of Manitoba Public Insurance?

MR. DONALD PALMER: The assumptions underlying the adverse scenarios, yes.

MR. BYRON WILLIAMS: And in developing the assumptions underlying the adverse scenarios, it's fair to say and -- and again, if you're looking for a reference, the reference would be CAC-2-13, that the DCAT Committee considered all forty (40) of the risk profiles submitted to the Corporation's audit committee.

Would that be fair?

MR. DONALD PALMER: That amongst other

things, yes.

MR. BYRON WILLIAMS: And it'll also be fair to say that only those risk factors that in -- in the opinion of the DCAT Committee would have had a significant effect on retained earnings, were considered in the DCAT analysis.

Would that be fair?

MR. DONALD PALMER: Yes. The whole purpose of the DCAT is to stress test the financial pro forma financial statements. So from that standpoint, we considered many things. There's these forty (40) that you have outlined that are specifically in our risk profiles.

There's a number of scenarios that are specified within the DCAT standard of practice, so we would have taken a look at all of those and specifically reported on the ones that had the most significant adverse effect.

MR. BYRON WILLIAMS: And on that point, it's fair to say that, from the Corporation's perspective, the adverse scenarios in the DCAT represent the most significant financial risk faced by the Corporation, correct?

MR. DONALD PALMER: I'll add one (1) word to that, most significant plausible risks. And plausibility is as defined in the DCAT standard of practice.

MR. BYRON WILLIAMS: And, again, Mr. Palmer, if you're looking for a reference for -- for the -- the next few questions, it's -- it would be PUB 1-68, which is in -- in the -- the Board's ex -- book of documents, Tab 30.

There's probably not a need to go there, but if -- if people are trying to follow along.

MR. DONALD PALMER: Okay.

MR. BYRON WILLIAMS: In -- in terms of the...

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Tab 30, Mr. Palmer. And from --

MR. DONALD PALMER: Thank you.

MR. BYRON WILLIAMS: -- for your aid, Mr. Kramer, Part 'C' and 'B' of PUB-1-68, please.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And in terms of the -- the report DCAT presented as AI.18.2, it's fair to say that the Corporation's external actu -- actuary was not directly involved in the preparation of the -- of the report.

Would that be fair?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And it would also be fair to say that the report prepared by the Corporation differs from others filed in the past with regard to DCAT in that it does not contain an opinion signed by the external actuary.

Would that be fair?

MR. DONALD PALMER: That's correct. And that was outlined in this particular response, yes. And -- and the opinion specifically is with regard to the satisfactory or unsatisfactory condition of the Corporation.

MR. BYRON WILLIAMS: Thank you for that elaboration, Mr. Palmer. It's a bit trite to say this, but in terms of the purpose of the RSR, the Corporation still takes the position that it's to protect motorists from rate increases made necessary by unexpected events and losses arising from nonrecurring events or factors.

Would that be fair?

MR. DONALD PALMER: It's bang on, Mr. Williams.

MR. BYRON WILLIAMS: Rare, isn't it, Mr. Palmer? In terms of whether the RSR should be expressed as a range, the Corporation's recommendation to the PUB is that the -- the RSR no longer be expressed as a range, but as a minimum limit, would that be fair? I'm going from your evidence, page 8.

MR. DONALD PALMER: It's -- it's a target, yes.

MR. BYRON WILLIAMS: Your advice is that it -- it no longer be expressed as a range, but as a minimum limit.

Would that be fair?

MR. DONALD PALMER: Could I get the reference, please?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I'm looking for -- I'm looking to page 8, Mr. Palmer, of your pre-filed testimony. If you're looking in the CAC book of documents, that would be Exhibit -- or Tab 19.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: The reference to the minimum limit is in the first sentence. The reference to not saying a range is in the last sentence of the -- the -- the large paragraph on that page, sir.

MR. DONALD PALMER: We haven't specifically said in this, as I read it, that the RSR target is a minimum. It says that:

"This is the minimum level that
satisfies the requirement that a
negative RSR will not occur."

So -- but it's the target. I wouldn't say a minimum target. I would say the target.

MR. BYRON WILLIAMS: And I apologize for the adjective. It is fair to say that your recommendation is that rather than set a range is recommended that the specific financial circumstances dictate remedial action at any given time, was that right?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: So in -- in essence, this would require an alteration from past practice where a range was set if -- if we were below a range, a surcharge would be triggered and if we were above the range a rebate would be triggered.

Would that be fair?

MR. DONALD PALMER: That -- that's

correct. And I think the perfect example of that is what we saw with the MCT target as at the end of February of this year. With that MCT having 7 percent that obviously would've necessr -- necessitated a RSR rebuilding strategy.

We're six (6) months later and we no longer have that, so I -- I think you definitely have to look at the circumstances that got you to the level and then based on those circumstances you can come up with a strategy of rebuilding the RSR.

MR. BYRON WILLIAMS: That's certainly not why you changed from the MCT to the DCAT, though, Mr. Palmer?

MR. DONALD PALMER: No. And -- and let me also say that the -- as I had discussed with Mr. Saranchuk earlier in these Proceedings that the MCT and DCAT are not necessarily mutually exclusive. The MCT target is a measurement as at a given point of -- in time.

A DCAT is a stress test analysis over a protracted period of time. So they're -- they can be complimentary.

MS. MARILYN MCLAREN: Sorry, Mr. Williams, if I could? With respect to your character -- characterization of the range whereby surcharges would be activated or rebates would be activated, that -- that was in fact not the practice, that was the policy. And it's an important difference between those. And I think it speaks to the -- the discussion and consideration on the part of the Corporation in moving away from a range to a target.

And some of this consideration is also in, you know, the -- the context of the conversation that Mr. Palmer had with Mr. Saranchuk, as well, with respect to there would circumstances where you can see that all else being equal the RSR will return to the target in a reasonable period of time without any action.

So a hard fixed range is not appropriate. It speaks to other, you know, leading management practices in this day and age that are situational. They are not hard and fixed rule based approaches. And that's really what we're trying to do in establishing the target.

We can see that we could be well under the one eighty-five (185) and not be coming forward to apply for a surcharge. And then --

MR. BYRON WILLIAMS: I didn't mean to interrupt, Ms. McLaren. You're looking for a situational based response rather than what you've characterized as a rule-based response, fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: I think I have your point on transfers, but just to make sure I do, with regard to transfers from other lines of business, would it be safe to assume that short of a -- a dramatic shortfall and Basic retained earnings, the Corp -- Corporation does not anticipate further transfers from Extension to the Basic RSR?

MS. MARILYN MCLAREN: Yes. That's fair.

MR. BYRON WILLIAMS: And it's safe to say that -- and I'm going to use the adjective routine, but there certainly will not be any kind of transfers as of routine from Extension to --

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: -- to Basic?

MS. MARILYN MCLAREN: Correct.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Just going back to the Corporation's DCAT Committee, and that's how I'm going to describe it, would it be fair to say that apart from any discussions with the external actuary it would be accurate to say that in developing and preparing the various plausible scenarios set out in part AI.18.2, the

Corporation did not seek independent external advice from an expert in corporate finance or an expert in economics.

Would that be fair?

(BRIEF PAUSE)

MR. DONALD PALMER: In terms of external -- no, we had no external input. We didn't have our internal experts on corporate finance on the committee. In terms of an economist, she was not specifically on the committee but she did have input through other members of the committee.

MR. BYRON WILLIAMS: And thank you for that, because that short-circuits a -- a future question. But in terms of -- it's fair to say that there was not independent external advice sought with regard to the various plausible scenarios set out in section AI.18.2.

Would that be correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: Again, just a few clean-up questions here. In terms of the purpose of the Rate Stabilization Reserve, and I got it bang on in terms of the express purpose, you'll recall in our discussion, well, perhaps you will, from so long ago, Wednesday, October 14th, and the reference is page 1170, if you're looking, Mr. Palmer, but you'll recall we had a discussion regarding the appropriation from the Basic retained earnings to fund the Immobilizer Incentive Fund, do you recall that discussion, sir?

MR. DONALD PALMER: I recall that, yes.

MR. BYRON WILLIAMS: And in response to an inelegant question by me asking whether further appropriations were planned, you indicated that no additional appropriations were planned but the Corporation indicated that you were not going to shut the door on that possibility.

Do you recall that discussion?

MR. DONALD PALMER: Yeah, I think the context of -- of that was if we were faced with a opportunity similar to that of the Immobilizer where we had a -- almost a guaranteed solution to save the policy holders significant amount of money with, also making the roads safer, that that was a possibility. We don't see any of those particular opportunities presenting at this point in time.

MR. BYRON WILLIAMS: And thank you, Mr. Palmer. The question which follows from -- from your response and our discussion from the 15th is whether or not the Corporation believes that the -- the purpose -- the express purpose behind the RSR should be modified to

-- to any degree to -- to, again, still capture the objective of protecting motorists from un -- unforseen events, but also to provide the Corporation with accessible capital to the -- invest in certain cost-effective initiatives?

MR. DONALD PALMER: No, I -- I wouldn't agree with that. The reason that we had an appropriation of the RSR was because there was excess from the -- the targets that were set by the Public Utilities Board. So we took that appropriation to still have the balance that satisfied, at least in the PUB's opinion, this specific use or purpose of the RSR.

MR. BYRON WILLIAMS: Just to go back to the issue of transfers for -- for just a second, you'll agree that as of February 28th, 2009, whether one used the MCT analysis or the Corporation's DCAT analysis, the Basic retained earnings of Manitoba Public Insurance were below where the Corporation believed they should -- they should be.

Would that be fair?

MR. DONALD PALMER: I would -- I would agree with that below the target. So there was requirements for additional funds to flow into the RSR, yes.

MR. BYRON WILLIAMS: Was consideration

given to holding off on transfers or future -- further transfers to the Extension Development Fund until the Basic insurance reserve was in a better position from the Corporation's perspective?

MR. DONALD PALMER: No.

MR. BYRON WILLIAMS: At a high level - and I'm not looking for a financial exactitude here, Mr. Palmer - would it be fair to say that the Corporation's investment in terms of staff hours to prepare the Risk Analysis, leaving aside the VaR, was less than a hundred thousand dollars?

(BRIEF PAUSE)

MR. DONALD PALMER: It's less than a hundred thousand dollars, yes.

MR. BYRON WILLIAMS: A lot less?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Along those same lines, Mr. Palmer, would it be fair -- be fair to say that the Corporation's investment in preparing the VaR would be materially less than a hundred thousand dollars?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And in terms of the DCAT, would it be fair to say that it was less than one hundred thousand dollars ($100,000)?

And I see you pausing there, Mr. Palmer.

MR. DONALD PALMER: For the Basic DCAT it would be less than a hundred thousand dollars. Probably about -- and because they're internal costs, it's hard for me to -- to come up with an exact figure.

The external costs for the appointed actuary when -- when he did the DCAT was less than a hundred thousand dollars.

MR. BYRON WILLIAMS: Thank you for that. And likewise in terms of the MCT, it would be fair to say that the -- the costs in terms of preparing it would be less than a hundred thousand dollars?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Regardless of the outcome of the proceeding in terms of the PUB approved methodology for setting the RSR for rate setting purposes, would it be fair to say that the Corporation will continue to perform and file its internal DCAT, Mr. Palmer?

MR. DONALD PALMER: Absolutely. The DCAT has now been accepted by the Corporation as a very useful risk management tool to really link the risk profile of the Corporation and -- and quantify that.

So it certainly will be done by the -- by the Corporation and, certainly, I would have no reason not to file it.

MR. BYRON WILLIAMS: Going forward, does the Corporation expect to retain the external actuary to perform and file a DCAT?

MR. DONALD PALMER: No. I -- I think it's better served by the Corporation to still do the work internally. I think we get a much better result in terms of the DCAT committee, in terms of really linking the risk profiles with the quantification of that.

I would likely say that in the future, we would probably have a peer review of that DCAT done in terms of we, in some instances, didn't comply exactly with the standards of practice.

Those items are listed in the Information Request, I think PUB-1-68. So I would say that in the future we would get a peer review opinion done on -- on the DCAT and to conform more explicitly with the standards in terms of explicitly talking about standards and materiality, explicitly having an opinion signed by the internal actuary, this -- in this case, Mr. Johnston.

And, also, within the -- the standards to be more explicit in the completeness and outline all of those adverse scenarios that are explicitly stated in the standard of practice, we -- we did not have that because they weren't material to our -- to our calculations.

So there are some minor areas that we will have further work on our DCAT, and in order to fully match the standards to have that peer review, so we would do that in the future.

MR. BYRON WILLIAMS: In terms of the MCT, is it the Corporation's intention to continue to perform and -- and file that analysis, Mr. Palmer, with regard to the Basic program?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And how about the VaR, or value at risk? Is it the Corporation's intention to continue to perform and file that analysis?

MR. DONALD PALMER: Currently, it would not be our intention to perform and file that, but that would be subject to the orders of the Public Utilities Board.

MR. BYRON WILLIAMS: And the -- the next area I -- I wanted to chat about a little bit are areas of principle or concept as we consider the Rate Stabilization Reserve. And, certainly, Mr. Palmer, you're a principled conceptual guy, you can answer them.

Ms. McLaren, again, if there's some where you -- you feel the need or the desire to pop in, feel free, but I'm going to start with Mr. Palmer.

And from your many years of involvement with rate regulation, you're familiar with the concept of inter-generational equity, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And you'll agree that, at the heart of that concept is the idea that, to the degree possible, today's ratepayers should pay today's ratepayer's costs because it would be unfair to defer those costs to future generations.

Would that be fair?

MR. DONALD PALMER: That's fair, although within the monopoly environment, they're likely the same policyholders. So, yes, I would agree in principle with -- with what you've said, but there -- it is softened a bit in a mon -- monopoly situation.

MR. BYRON WILLIAMS: You're not saying the concept of inter-generational inequity is unimportant to the regulation of a basic monopoly in an insure -- public insurance?

MR. DONALD PALMER: No, I'm not saying that, no.

MR. BYRON WILLIAMS: You'll agree as well, just following along the concept, to the same effect, it would be unfair to load the expected future costs of future rate -- ratepayers on today's ratepayers.

That would be correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: So in deference to the -- what we consider to be the legitimate value of the concept of en -- inter-generational equity, we try, on the regulatory process, to the extent possible, to assure -- to ensure that today's ratepayers pay today's ratepayer's costs, fair enough?

MR. DONALD PALMER: And that's right in the definition of a rate because we're talking about a finite policy year, and they're set with that policy year in mind, yes.

MR. BYRON WILLIAMS: This may be a harder reach for you, Mr. Palmer, and -- and if you're not familiar with this concept, you can -- you can let me know.

But from your many years of involvement in -- in the rate regulation of the public insurance monopoly, are you familiar with the economic model known as the Averch, A-V-E-R-C-H, hyphen, Johnson, J-O-H-N-S-O-N Effect?

MR. DONALD PALMER: I am not.

MR. BYRON WILLIAMS: So you're not familiar with the models suggesting that certain forms of public regulation created an incentive for firms to over

invest in -- in tangible assets?
MR. DONALD PALMER: No.
MR. BYRON WILLIAMS: Okay. Here's a concept I think you are familiar with, Mr. Palmer. At a high level, you're familiar with the concept of moral hazard, are you not, sir?
MR. DONALD PALMER: Yes, I am.
MR. BYRON WILLIAMS: And I'm going to suggest to you that the definition of that is -- one (1) workable definition, in any event, is:

> "It's an empirical phenomena that a group of persons who are insured against a certain risk tend to be more victimized by that risk more often or more severely than a comparable group of not insured."

MR. DONALD PALMER: I -- I wouldn't characterize it quite in that way. You talk about being victimized more, but I think it's the ability to man -- manipulate the insurance system or the insurance classifications to better take advantage of that victimization, if you will. Do you have a -- a reference for that definition?
MR. BYRON WILLIAMS: If you'll excuse me just one (1) second, Mr. Chairman?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: We may be using different words, Mr. Palmer, but we're -- you'll agree we're talking the same concept?

MR. DONALD PALMER: Sure. And I -- and I was taking one (1) step beyond that quote and the reason that they are victimized, but I think that's moot, at this point.

MR. BYRON WILLIAMS: Moving just a step outside the concept of individual insured under an insurance program, you're -- you're aware as well that the concept of moral hazard is -- is sometimes employed in the context of government support to certain businesses in distress with the concern being that offering relief for a firm or industry that is engaged in risky behaviour may encourage the prospect of that firm engaging in future risky behaviour.

Would that be fair?

MR. DONALD PALMER: Yes. And I -- and I did get a quick update on definition of moral hazard ver -- very close to what you had said where:

"Moral hazard is when exciss -- excessive risks are taken by a group due to the lack of consequences that

could be caused by that form of
insurance."

So specifically you could possibly use the example of US banks behaving recklessly because they knew they were quote "too big to fail," so to speak. So we're talking the same concept. Yes.

MR. BYRON WILLIAMS: The idea that if you subsidize risky behaviour you create a -- a potential incentive for risky behaviour in the future, would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: We'll -- we'll come back to that a bit later. I want to confirm my understanding that the regul -- regulatory principals as they apply to the RSR -- and a bit of this is a rehash, Mr. Palmer, so I apologize for that, but it's your understanding that the PUB approves the Rate Stabilization Reserve for rate setting purposes, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And in effect, what that means is that when considering the appropriate rate one (1) factor the PUB may consider is whether the rate stabilization reserve is in adequate shape, from its perspective, fair?

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

MR. BYRON WILLIAMS: And if the reserve is too low it's a legitimate element of rate sating -- setting to increase rates above the break even level for the purpose of replenishing the -- the reserve, fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And I have a -- a modest hypothetical to -- to share with you. Let's -- let's assume that the -- the Public Utilities Board for the 2010/'11 year accepts MPI's recommendation of a 185 million target for the Basic RSR reserve.

MR. DONALD PALMER: I'm very happy to accept that assumption.

MR. BYRON WILLIAMS: Well, I want to make you even happier, Mr. Palmer. Let's assume that at fiscal year end February 28, 2011, the Basic reserve is at 225 million, leaving MPI 45 million above the targe range.

Are you prepared to accept that?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Would it be fair to say that, subject certainly to any limitations provided by the -- the MPI Board, the approval of the regulator, the Public Utilities Board, would not be required if MPI seeks to spend, let's say, 40 million in retained earnings on a specific project?

Would that be fair?

MR. DONALD PALMER: I -- I certainly think that we would be -- we would understand that the PUB may have an opinion on the appropriateness of that and they may take rate action as a result of that appropriation.

MR. BYRON WILLIAMS: And if I'm asking you to go beyond where you're comfortable, Mr. Palmer, I'll -- I'll understand that. It would be your understanding that if the Corporation chose to draw down the reserves to $186 million shortly after February 28th, 2011, that decision would not be -- would not require the approval of the Public Utilities Board?

MS. MARILYN MCLAREN: That -- that's true.

MR. BYRON WILLIAMS: Ms. McLaren, again, this may be better for you or it may be for Mr. Palmer, so just staying -- staying on -- away from methodology and more to principles and concepts for a minute -- a few minutes.

I take it, you'd accept that, as we debate issues around the RSR such as an appropriate target and what to do if -- what to do if we're below or above target, one (1) important policy consideration you would recommend that the Board keep in -- in mind is the concept of stability, as you defined it.

Would that be fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And by -- by that I mean the idea that an objective of -- that there’s some value in insuring that overall rate increases do not exceed a certain amount in any particular year as a consequence of unforseen non-recurring ac -- actions.

Would that be fair?

MS. MARILYN MCLAREN: Yes. But again, you know, within a -- the context of situational appropriateness.

MR. BYRON WILLIAMS: And I believe you clarified this earlier, but when we're talking about stability we're talking about overall rate increases, we're not talking about actuarially-indicated rate changes for individual ratepayers as a -- as a consequence of clear or rate-group relativities.

Fair enough?

MS. MARILYN MCLAREN: Yes, except that within the rate-making methodology there is consideration to temper extreme changes in actuarial-indicated rates at an individual ratings cell level as well. So, we certainly carry it to an individual level but the overall concept that we're talking about is year-over-year predictability for the most part.

MR. BYRON WILLIAMS: We're not going to draw down the RSR to protect individual ratepayers from actuarially-indicated rate changes?

MS. MARILYN MCLAREN: No, that's right. Overall the Corporation needs to be in a reasonable financial position even if that means some cells subsidizing other cells.

MR. BYRON WILLIAMS: And looking at, again, kind of core concepts as -- as we look at setting -- the methodology for setting the RSR and also how to deal with surcharges or et cetera, you'll agree, especially in terms of methodology, that whatever mechanism is employed, consumers, the regulator and the company should be able to trust that it is credible and that it is analytically principled and not results driven.

You'd agree with that?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: I wonder if you'd go one (1) step further and agree as a general statement, that a methodology might be considered less likely to be results driven if it was prepared by sources external to an independent of any particular party to this

Proceeding?

MS. MARILYN MCLAREN: No, I'm not sure I would be willing to go that extra step.

MR. BYRON WILLIAMS: I didn't think you would, Ms. McLaren. You did not disappoint me. Again, looking at these general broad principles, I wonder if you'd agree that a third important principle in considering the process for both determining an appropriate target and setting rates is transparency?

And by that, I mean from a consumer's perspective, they should have the right to understand how the rate -- the reserve target is calculated, the impact that the reserve is having on their rates and also the purpose to which Rate Stabilization Reserves are being used.

Would that be fair?

MS. MARILYN MCLAREN: I think that's fair. And -- you know, with reference to the DCAT, I think it's particularly helpful to be able to talk to Manitobans about the specific risks that their insurance fund faces and how we've actually dealt with that in the methodology.

It-- it's helpful to be able to talk to people about what would be the impact on our reserves if a Dauphin size hailstorm hit Winnipeg, for example.

MR. BYRON WILLIAMS: And likewise, it's your evidence that it would be helpful to explain to consumers that they're receiving an increase in their rates due to a concern that equities may trough like they did in the middle of the Great Depression?

MS. MARILYN MCLAREN: Whatever the cumulative basis for the target is, would be an appropriate thing to communicate to Manitobans.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: We'll come back to that. I wonder if you'd agree when we look at the Rate Stabilization Reserve that another important concept is inter-generational equity, in that we don't want today's consumers to be unduly -- unduly assuming future costs?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: This might be another one (1) you choose to disagree with, Ms. McLaren. I wonder if you would agree that a fifth concept or principle to take into account is moral hazard.

And by that I'm -- I'm going to suggest to you, the concept that the reserve should not be set so high as to encourage unduly risky behaviour by the Corporation or excessive expenditures in the confidence that excessably risky behaviour would be backstopped by high reserves.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Conceptually and off the top of my head, I -- I would not disagree with that. I -- you need an overall context absolutely.

And with respect to overly risky investments, you know, it's -- it's critically important for this Corporation to continue to come forward with an investment policy statement and get feedback from Intervenors and this Board on that investment policy statement.

If we were to abandon the one (1) we have now in favour of something that was far higher risk and therefore lobby for a higher RSR, that would not be appropriate.

MR. BYRON WILLIAMS: And -- and I thank you for that thoughtful answer, Ms. McLaren. And I guess, another example might be reinsurance in that one would not want to set a RSR so high that it would encourage the Corporation to offload all of its reinsurance insurance.

MS. MARILYN MCLAREN: To have a suff --

sufficiently high RSR so that we stop purchasing reinsurance, that would fall into the category of not appropriate. If in fact, at some point in the Corporation's future it is deemed advisable to stop purchasing reinsurance, which is some possible likelihood, to my understanding the SAAQ does not purchase reinsurance, the Quebec no-fault automobile injury compensation system, but that would certainly be worthy of significant analysis and conversation in this forum.

MR. BYRON WILLIAMS: Thank you for that. I -- I want to turn, if I might, to the risk analysis, which I believe appears at -- at AI.18.3. And, Mr. Chairman, if I might have two (2) seconds, please?

(BRIEF PAUSE)

MR. DONALD PALMER: I'm at 18.3.

MR. BYRON WILLIAMS: I -- I misspoke, Mr. Palmer. It's AI.18.3.

MR. DONALD PALMER: I think that's what I said, but we'll let the transcripts figure that one out.

MR. BYRON WILLIAMS: I might have heard AP.3, but -- I don't have a specific reference for you, but there's a couple of terms, Mr. Palmer, that before we get too deeply into this section I want to clarify for you. The first one (1) I -- I want to addr -- address is the term "standard deviation," and you'll agree with me that amongst your evidence in AI.18.3 there's reference to the term "standard deviation"?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And it's a statistical measure of the spread in distribution, would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And assuming that lovely bell curve normal distribution, would it be fair to say that any -- in any sample that is normally distributed about two-thirds or 65.87 percent of the sample observations will be within one (1) standard deviation, sir, of the mean?

MR. DONALD PALMER: Assuming a normal distribution, yes, I would agree.

MR. BYRON WILLIAMS: And again, assuming a normal distribution, nineteen (19) out of twenty (20) of the data point -- points will be within two (2) standard deviations of the average or expected value.

Would that be fair?

MR. DONALD PALMER: With a normal sample, yes.

MR. BYRON WILLIAMS: I just want to -- to -- certainly to assist my client, illustrate how that concept is considered and again a very modest hypothetical of two (2) --two (2) communities, Mr. Palmer. Let's assume that in Community 1 the average height of adult females is 5 feet with the actual heights of adult females varying between 4.75 feet and 5.25 feet.

You're not going to need to do math on this, Mr. Palmer. You are prepared to make that assumption, though?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Community 2, let's assume again we have the same average height of -- of adult females being 5 feet with the actual heights of adult females varying from 4 1/2 feet to 5 1/2 feet, you'll make that assumption?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And what we'll conclude -- I'm going to suggest to you we might conclude from this is that while the average or mean height is the same for both, there is more spread in the height distribution in Community 2.

Would that be fair?

MR. BYRON WILLIAMS: In -- that would be -- could be the observation, yes. It may be because of a difference in the size of the communities that they're -- and your particular sample and sample size, but, sure, I'll -- I'll -- I'll --

MR. BYRON WILLIAMS: Assuming two (2) communities the same -- same size, Mr. Palmer, the difference would be there's more spread in the height distribution of Community 2?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And so the standard deviation would be higher for Community 2 than it is for Community 1.

Would that be fair?

MR. DONALD PALMER: That's -- that's fair.

MR. BYRON WILLIAMS: You made a reference to sample size, and perhaps anticipating where I'm going, Mr. Palmer, would you agree with me that it's standard practice when samples are smaller than twenty-five (25) or so are available and distributions are normal to use the 'T' distribution to get confidence levels?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And, as I understand, the "T" distribution, it looks like a normal bell curve, but it just has wider tails.

Would that be fair, sir?

MR. DONALD PALMER: You're -- you're testing my memory of statistics about thirty-five (35) years ago, but Mr. Johnston's is significantly less than thirty-five (35) years ago, and he's nodding, "yes," so we're good.

MR. BYRON WILLIAMS: And that allows for a greater range, fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Now, the word "correlation" also appears extensively in your risk analysis, fair enough?

MR. DONALD PALMER: More than I care to remember in terms of some of the past hearings, but, yes, it's there.

MR. BYRON WILLIAMS: And we won't spend long on it, Mr. Palmer, but that's a statistical term, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And when two (2) variables are positively correlated, they tend to move up and down together, fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: When they're negatively correlated, when one (1) increases, the other tends to increase, and vice versa?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And if two (2) variables are perfectly, positively correlated, when one (1) increases, the other always increases, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Their correlation coefficient would be one (1)?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And if two (2) variables are uncorrelated, their corre -- co -- correlation coefficient would be zero, correct?

MR. DONALD PALMER: Yes, they would move independently in your example.

MR. BYRON WILLIAMS: An example of zero correlation would be success of coin toss or dice rolls, would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Mr. Palmer, turn with -- with me, if you would, to Tab 20 of the CAC book. And I just want to follow along the concepts of zero correlation and perfect correlation for a couple minutes. That's Tab 20, Mr. Palmer.

MR. DONALD PALMER: I have it, yes.

MR. BYRON WILLIAMS: Do you like the colours?

MR. DONALD PALMER: Not particularly.

MR. BYRON WILLIAMS: Mr. Palmer, I'm going to suggest to you and I'm going to ask you to assume-- we've got two (2) lovely colours, a red die, which represents adverse outcomes of operational risk, and a yellow die, representing adverse outcomes of investment risk, do you see that? Will you accept that, sir?

MR. DONALD PALMER: That's what it indicates, yes.

MR. BYRON WILLIAMS: And focussing on the red die for a second, I'm going to ask you to asse -- accept that the adverse outcome in terms of millions of dollars will be a reflection of the -- the die roll.

For example, a $2 million die roll leads to a negative $2 million result, will you accept that, subject to -- Mr. Palmer?

MR. DONALD PALMER: Sure.

MR. BYRON WILLIAMS: So if a two (2) is -- is rolled, the net income will be $2 million below forecast, fair enough, in this assumption?

MR. DONALD PALMER: Okay.

MR. BYRON WILLIAMS: And if a six (6) is rolled and it's the red die, the actual net income will be 6 million below forecast.

Okay, Mr. Palmer, you're prepared to assume that?

MR. DONALD PALMER: I can assume that, yes.

MR. BYRON WILLIAMS: Based on this hypothetical, Mr. Palmer, you'll agree with me that in terms of operational risks the worst possible outcome will be a -- a six (6) -- yielding a negative 6 million, would that be fair?

MR. DONALD PALMER: That would be fair.

MR. BYRON WILLIAMS: And if only that were the case for Manitoba Public Insurance.

The probability, looking exclusively at the red die of that negative outcome is one (1) in six (6), correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: So at a confidence level of 83.3 percent, i.e., five (5) and six (6), your net income will be within 5 million of forecasts looking solely at operational risks, correct?

MR. DONALD PALMER: On a one (1) year period, yes.

MR. BYRON WILLIAMS: Just moving to the yellow die for a second, Mr. Palmer, again you're prepared to assume that the number rolled on the die results in an -- the corresponding negative outcome in terms of millions of dollar in terms of investment risk, would that be fair?

MR. DONALD PALMER: That's your assumption, yes.

MR. BYRON WILLIAMS: And you're prepared to make that assumption?

MR. DONALD PALMER: I am.

MR. BYRON WILLIAMS: So again a roll of two (2) yields you a negative 2 million, a roll of six (6) would yield you a negative 6 million.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So at a confidence level of five (5) out of six (6), given the time horizon selected, a loss of more than 5 million in terms of investment risk would occur with a probability of one (1) in six (6)?

Let me -- the probability of a -- of a negative result of more than 5 million is one (1) in six (6).

Would that be fair?

MR. DONALD PALMER: Yes, wi -- with these dice you're always assuming that there will be a loss, so that's a -- an a -- a prio -- priority assumption.

MR. BYRON WILLIAMS: And that's an important part -- point, Mr. Palmer. This is a simplified example and -- and you'll understand that we're only looking at adverse outcomes. You're prepared to make that assumption?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And if we are looking at the worst possible assumption or the -- excuse me, the worst possible outcome in this simplistic example, the worst possible outcome would be a -- a negative 6 million flowing from a die roll of red six (6) and a negative 6 million roll flowing from the investment risk totalling 12 million.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Now, Mr. Palmer, just again assume that I want to calculate my risk of total losses greater than -- than $10 million, you're okay, sir, you're prepared to do that?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Let's assume for a moment that every time I get the worst possible result with operational risk I also get the worst possible result with investment risk, will you make that assumption, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: In other words, when you roll a six (6) with one (1) die, the other die also comes up as a six (6), would that be fair?

MR. DONALD PALMER: It sounds like you're describing perfect correlation.

MR. BYRON WILLIAMS: I am indeed, Mr. Palmer.

If it was perfect correlation you would have a one (1) in six (6) chance of having total losses exceeding $10 million, correct?

(BRIEF PAUSE)

MR. DONALD PALMER: I think it's a one (1) in three (3) chance, because you would roll -- or -- or you're saying more than ten (10) or ten (10) or more?

MR. BYRON WILLIAMS: Exc -- exceeding 10 million, Mr. Palmer.

MR. DONALD PALMER: Then I'll accept your one (1) in six (6), yes.

MR. BYRON WILLIAMS: Okay.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Thank you. Now I just want to direct your attention to the -- the grid that's at the bottom of the table.

And I'm going to ask you to assume now, Mr. Palmer, that the - the red die -- the role of the red die and the role of the yellow die are now uncorrelated?

You'll make that assumption, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And by that I mean the probability of one (1) die coming up a six (6) is unaffected by what the other die shows.

You'll make that assumption?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Under that assumption, you'll agree with me that there would be -- within the limits of this hypothetical, thirty-six (36) different possible outcomes of the role of the dice.

You might get a one (1) on the red die and a one (1) on the yellow die or you might get a -- et cetera, you'll agree that there's thirty-six (36) possible outcomes, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Now again, if I'm looking at outcomes that would yield a loss greater than $10 million, referring you again to the grid , one (1) possible outcome would be a red die five (5) and a yellow die six (6), Mr. Palmer, yielding $11 million, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So that's the second last corner on the grid. And another possible outcome would be a red die six (6) and a yellow die five (5), correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And a third possible outcome would be a yellow six (6) and a red six (6), fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So assuming the risk is uncorrelated, three (3) possible outcomes out of the thirty-six (36) could yield a loss of more than $10 million, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Again, under the assumption of uncorrelated, the -- my risk of having combined operational losses and combined investment losses, totalling more than 10 million would be three (3) and thirty (36) or one (1) in twelve (12), correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: That would be about half as likely as the perfect correlation assumption?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the chance of actually having a loss of $12 million, the worse case under this scenario, would be about one (1) in thirty-six (36) or less than 3 percent.

Correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So assuming there's not a perfect correlation between the red die representing operating risk and the yellow die representing investment risk, I would be overstating the probability of a loss greater than 10 million if I said it was a one (1) in six (6) risk.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Turn if you will, Mr. Palmer, to AI.18.3, page 4. At a high level, Mr. Palmer, you'll agree that the currently approved methodology for say in the RSR, involves considering operational risk and investment risk separately than combining the separate components under various assumptions to come up with a target range.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And we've gone over Board order 151/2000 before. Basically the analysis are to be provided at the 95 percent and 97.5 percent confidence levels.

Correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And it's fair to say that the reported risk in -- in dollars will be higher at the 97.5 percent confidence level than the 95 as illustrated by Table 1?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: To be more confident in your estimate, you have to widen the range.

Correct?

MR. DONALD PALMER: Absolutely, yes.

MR. BYRON WILLIAMS: And conceivably if we were incredibly masochistic we could do this at the 99 percent confidence level as well.

Correct?

MR. DONALD PALMER: We could, yes.

MR. BYRON WILLIAMS: Looking at Table 1 for just a second and you'll see under the -- the column at a 95 percent confidence limit, the -- the figure of $66 million for operational risk, Mr. Palmer, do you see that?

You might be working on the older version, Mr. Palmer. Just one (1) second.

Mr. Chairman, I'm using the updated version and I apologize for that. That should be the results of PUB-1-64, Mr. Palmer. And I'll -- I apologize for that. I'll allow you to gather that.

(BRIEF PAUSE)

MR. DONALD PALMER: I'm there.

MR. BYRON WILLIAMS: Thank you. And if anyone in the room is still looking, if one goes to the PUB book of documents Tab 29, these results are there and it's a fair ways in, it's the section towards the middle or end of that particular response.

Mr. Palmer, just in terms of -- you -- you now see that under the column 95 percent confidence level, there's a reference to operational risk including operating expenses of 66 million.

Do you see that?

MR. DONALD PALMER: I see it, yes.

MR. BYRON WILLIAMS: And I apologize for the confusion. In colloquial terms, when I look at the figure of sixty-six (66), would I be correct in saying that the probability is 95 percent of the time we expect the actual net income from operations will be above forecast, equal to forecast or not more than 66 million below forecast?

Would you accept that?

MR. DONALD PALMER: Above or below sixty-six (66), yes, I'll agree with that. I think that's what you said.

MR. BYRON WILLIAMS: Let me try that again. In colloquial terms we'd say that the probability is 95 percent of the time we expect the actual net income from operations will be above forecast, equal to forecast or not more than 66 million below forecast.

Would that be fair?

MR. DONALD PALMER: No. I wouldn't agree with that. It would be 66 mill -- 95 percent of the time you'll be within $66 million, plus or minus.

MR. BYRON WILLIAMS: That'll work for me, Mr. Palmer. Perhaps more techno termin -- excuse me, more correct in terms of the technical language, we could also state that -- that 95 percent of the times we do this type of analysis, the outcome will be no worse than this number?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: In terms of operational risk, you'll -- excuse me, in terms of operational risk you'll agree that the analysis, it would be performed twice, with operating cost included and with operating cost excluded.

Fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the results excluding operating -- operating expenses as shown in Table 1 are -- are somewhat lower.

Correct?

MR. DONALD PALMER: A little bit lower, yes.

MR. BYRON WILLIAMS: In Table 2 on page 4, you show the standard deviations for the cost and revenue components of operating net income.

Correct, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And again, we've discussed that standard deviation is a measure of spread, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: You'll agree that the higher the standard deviation of a component, the more likely it is that it may vary widely from the expected costs -- expected value or average, correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: You'll see, looking at this -- the column under standard deviation, the middle column, that the standard deviation associated with loss costs is 40.7 million, while the standard deviation associated with claims costs is around 3.5 million, sir -- claims expenses, excuse me?

MR. DONALD PALMER: Claims expenses, yes, I agree.

MR. BYRON WILLIAMS: Based on these figures, you'll agree it -- it's far more likely that loss costs will be 10 million above forecast than it is that claims expenses will be 10 million above forecast.

That's fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And these standard deviations are calculated using the standard statistical formula based on -- on actual data, sir?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MR. DONALD PALMER: Again, calculation of these confidence intervals on the assumption that your distribution is normal. Right now, we don't have great confidence that our distribution of operating losses or gains is in fact normal.

MR. BYRON WILLIAMS: We'll come back to

that, Mr. Palmer. And you -- you actually corrected me on this point earlier, so -- but I just want to confirm it. When you do the -- the operational risk analysis you're only looking at the possibilities of bad or adverse outcomes, would that be correct?

MR. DONALD PALMER: No, that's not correct.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: You're not worrying about the low probability that net income will be 66 million or more above forecast, are you?

MR. DONALD PALMER: We're not worried about that, but that's not how the risk analysis is done, so we are doing our confidence intervals on both sides of the distribution.

MR. BYRON WILLIAMS: I guess that's my question, Mr. Palmer. Are you performing a kind of one (1) tailed testing proce -- procedure?

MR. DONALD PALMER: No, it's a two-tailed test.

MR. BYRON WILLIAMS: And just to follow up this point for a second, Mr. Palmer, and you can certainly turn there, if I (sic) want, if I went to page

1 of Exhibit 1 of Appendix C, you -- I'll see that the 'Z' statistic at 95 percent is one point six four five (1.645). It's page 1 of Exhibit 1 of Appendix C, Mr. Palmer.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Do you have that, Mr. Palmer?

(BRIEF PAUSE)

MR. DONALD PALMER: I have it.

MR. BYRON WILLIAMS: And I'll see there that the Z statistic at 95 percent is one point six four five (1.645), correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And at 97.5 per -- percent, the confidence interval, it's one point nine six (1.96).

Is that correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Does that suggest that you are using a one (1) tailed test and assuming a normal distribution, sir?

(BRIEF PAUSE)

MR. DONALD PALMER: We'll -- we'll double check on -- on whether it's one (1) tail or two (2) tail.

--- UNDERTAKING NO. 36: To indicate whether they're using a one (1) tail or two (2) tail test

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: So you -- I'm going to suggest to you, Mr. Palmer, that you're using a one (1) tailed test and assuming a normal distribution.

MR. DONALD PALMER: Subject to check, I'll -- I'll accept that.

MR. BYRON WILLIAMS: Let's go back to Table 2 on page 4, Mr. Palmer.

MR. DONALD PALMER: I have it.

MR. BYRON WILLIAMS: And you've accepted, subject to check, that you're using a one (1) tailed test and assuming a normal distribution, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And looking -- let's, for a second, look at loss costs, that line exclusively, with the standard deviation of 40.7 million, do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Using my handy-dandy 'Z' statistic chart that I've shared with you, Mr. Palmer -- you don't need to refer to it, Mr. Palmer, unless you're -- as long as you're prepared to accept these calculations subject to check.

MR. DONALD PALMER: Sure.

MR. BYRON WILLIAMS: Using my handy-dandy 'Z' statistic charch -- chart, the standard normal table, would I be correct in suggesting to you that 84.13 percent of the time, the results would differ adversely from expected by no more than one (1) standard deviation?

MR. DONALD PALMER: Yes, I can accept that.

MR. BYRON WILLIAMS: Can I suggest to you as well that 97.72 percent of the time, the results would differ adversely from expected by no more than two (2) standard deviations?

MR. DONALD PALMER: Yes, I can accept that.

MR. BYRON WILLIAMS: So that would be loss costs are, at most, 81.4 million above forecast?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And could I suggest to you that 99.87 percent of the time, the results would differ adversely from expected by no more than three (3) standard deviations?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: That would be that loss costs are, at most, 122.1 million above forecast, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: At the bottom of this table you give the total standard deviation of $40.1 million, do you see that, Mr. Palmer?

MR. DONALD PALMER: I do, yes.

MR. BYRON WILLIAMS: And that's taking into account actual correlations and recognizing the directional impact on net income?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And it's a bit less, actually, than the -- than the loss costs figures above, is that correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Assuming a one (1) tailed test in normal distribution, can we interpret this figure as indicating that 84.13 percent of the time it will differ adversely by no more than 40.1 million?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And that 97.72 percent of the time, the results will differ adversely from expected by no more than 80.2 million?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So that would be one (1) in forty-four (44) years, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: I'm just moving to a new area, Mr. Palmer -- or, excuse -- excuse me, Mr. Chairman. Probably an appropriate time for a break.

THE CHAIRPERSON: Okay, we'll see everybody back at 1:15. Thank you.

--- Upon recessing at 11:57 a.m.
--- Upon resuming at 1:22 p.m.

THE CHAIRPERSON: Okay, welcome back everyone. Mr. Williams, whenever you're ready.

MR. BYRON WILLIAMS: I believe My Friend, Ms. Kalinowsky may have some comments.

THE CHAIRPERSON: Sorry. I forgot that you were going to file a bunch of material which I see you have.

MS. KATHY KALINOWSKY: Yes, we have

answers to thirteen (13) different undertakings here. It's not all of the undertakings but most of them will be completed now. There's still a few outstanding. If I could just run through these quickly. I've already had Mr. Gaudreau assist in passing them out.

But I would suggest that MPI Exhibit Number 23 is Undertaking Number 10, which is the improvement in AOCI.

--- EXHIBIT NO. MPI-23: Response to Undertaking 10

MS. KATHY KALINOWSKY: Undertaking Number 16 which is the increase in the Driver's Ed -- Education Program, would be MPI Exhibit Number 24.

--- EXHIBIT NO. MPI-24: Response to Undertaking 16

MS. KATHY KALINOWSKY: Undertaking Number 18 will be the net rent for Cityplace and that will be Manitoba Public Insurance Exhibit Number 25.

--- EXHIBIT NO. MPI-25: Response to Undertaking 18

MS. KATHY KALINOWSKY: Undertaking 19 would be the net present value analysis of Cityplace lease costs and that would be Exhibit Number 26.

--- EXHIBIT NO. MPI-26: Response to Undertaking 19

MS. KATHY KALINOWSKY: Undertaking Number 20 would be the net present value analysis of foregone investment income, which would be marked as Exhibit Number 27.

--- EXHIBIT NO. MPI-27: Response to Undertaking 20

MS. KATHY KALINOWSKY: Undertaking Number 21 is the leasing costs per square foot for Cityplace. That would be Exhibit Number 28.

--- EXHIBIT NO. MPI-28: Response to Undertaking 21

MS. KATHY KALINOWSKY: Undertaking Number 22 would be the skywalk construction costs, and that's Exhibit Number 29.

--- EXHIBIT NO. MPI-29: Response to Undertaking 22

MS. KATHY KALINOWSKY: Undertaking Number 24 is the cyclist injury claims data and that would be marked as Manitoba Public Insurance Exhibit Number 30.

--- EXHIBIT NO. MPI-30: Response to Undertaking 24

MS. KATHY KALINOWSKY: Undertaking Number 25 is the forecast to actual difference between the rebates and that would be Number 31.

--- EXHIBIT NO. MPI-31: Response to Undertaking 25

MS. KATHY KALINOWSKY: Undertaking Number 26 is the AOCI and the fluctuation -- fluctuating interest rates and that would be Exhibit Number 32.

--- EXHIBIT NO. MPI-32: Response to Undertaking 26

MS. KATHY KALINOWSKY: Undertaking Number 30 is the PIPP infrastructure cost breakdown, and that would be Manitoba Public Insurance Exhibit Number 33.

--- EXHIBIT NO. MPI-33: Response to Undertaking 30

MS. KATHY KALINOWSKY: Undertaking Number 32 are the invoices from service providers data and that would be Manitoba Public Insurance Exhibit Number 34.

--- EXHIBIT NO. MPI-34: Response to Undertaking 32

MS. KATHY KALINOWSKY: And finally for today, the retained earnings as per August 31st, 2009, Undertaking 34 will be marked as MPI Exhibit Number 35.

--- EXHIBIT NO. MPI-35: Response to Undertaking 34

THE CHAIRPERSON: Thanks very much.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you and good afternoon, Mr. Chairman and Members of the Board. Mr. Palmer, just one (1) simple followup from this morning. We're agreed now that it was a one-tailed test?

MR. DONALD PALMER: Yes, we are.

MR. BYRON WILLIAMS: We're still on AI.18.3 and I'm referring you to -- on page 4 this is the revised response as found in PUB-1-64 Investment Risk.

And again, at the risk of treading over where Mr. Saranchuk has gone before, for investment risk, a Value at Risk analysis is undertaken, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the VaR analysis on a given portfolio is defined by two (2) parameters, a probability and a holding period.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: For example, just looking at Table 3 on -- on page 4 of AI.18.3, as reproduced, and PUB-1-64, the figure of 64 -- when MPI states that the VaR at the 95 percent level of confidence is 64.6 million, with the two point five (2.5) year horizon, it means the portfolio will lose no more than 64.6 million over the next two point five (2.5) years with 95 percent probability.

Fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the assumed equity in this calculation is 25 percent, correct?

MR. DONALD PALMER: The weight in the asset mix -- is 25 percent of equity.

MR. BYRON WILLIAMS: Thank you for that precision. Just flipping to the next page, having calculated operational and risks and investment risks separately at two (2) levels of confidence, the task confronting MPI is then to combine them somehow to determine a target range under this methodology.

Correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And if we look at page 5 and 6 of this revised response -- or information, it's set out -- out here, at least in broad strokes.

Fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And turning to table 4, and the top, right-hand corner you'll see the -- under the 97.5 confidence, combined 231.6 million, you'll see that reference, Mr. Palmer? That's Table 4, top right-hand.

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

MR. BYRON WILLIAMS: And this would be the -- the worst possible case considered by MPI in this analysis, i.e., the 97.5 percent confidence level, where operational risks and investment risks are considered to be perfectly correlated.

Fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And it also includes operating expenses.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Now, so I want to then turn to the -- the best case considered by MPI. That would be in Table 5, under 95 percent confidence level, you'll see the figure combined, ninety-one point three (91.3), Mr. Palmer.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And, basically, this is a scenario where operating risk and investment risks are considered to be not correlated at all and it's excluding operating expenses.

Would that be fair?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And, essentially, to the -- the final step to get your RSR range of -- if you were looking at PUB-1-64, the range of 97 million to 246 million is simply a -- a scale it up to reflect the expected growth in written premiums.

Is that correct, sir?

MR. DONALD PALMER: Yes, and that was based on one of the recent PUB rulings to index by that growth in earned premium.

MR. BYRON WILLIAMS: Thanks. And I have a few questions for you regarding the value at risk analysis. I -- I don't think they're particularly technical, but -- so I'm not sure whether Mr. Johnston needs to leave or not, but in -- in your analysis -- and if you're looking for a reference, Mr. Palmer, it's Appendix B to the AI.18.3.

(BRIEF PAUSE)

MR. DONALD PALMER: Okay, go ahead. We'll get it.

MR. BYRON WILLIAMS: In your discussion of VaR methodology at page 4 you cite the work of U of M finance professor, Gady Jacoby, G-A-D-Y, and last word, J-A-C-O-B-Y.

Is that fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And you reference material that's found on his website.

Is that correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Based on -- on the material from his website, would -- would I be correct in suggesting to you that there are a number of different estimating methods for the VaR distribution?

Would that be fair?

MR. DONALD PALMER: That's fair.

MR. BYRON WILLIAMS: And I don't think

I'm going to catch them all, but these -- one -- one of these would be the delta normal, or parametric model.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Another would be the historical pattern or method.

Correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And one of my favourites is the -- the Monte car -- Carlo simulation method. That's another method.

MR. DONALD PALMER: One of my favourites too.

MR. BYRON WILLIAMS: The analysis the Corporation used in -- in its approach in this Proceeding was, of course, the historical simulation method.

Correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: You'll agree that the results of the VaR method are sensitive to the choice of VaR distribution estimate method?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And just in terms of your analysis for the purposes of this Proceeding, would I be correct in suggesting that you -- you did a bit of -

- that -- that you used the other methods to -- to just test the reasonableness of your historical analysis?

MR. DONALD PALMER: We did not do that this year. We did it in previous years.

MR. BYRON WILLIAMS: You've done that in previous years but not this year?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: Mr. Palmer, if you can turn to CAC book of documents, Tab 21, please?

MR. DONALD PALMER: I have it.

MR. BYRON WILLIAMS: Just a couple of preamble questions, Mr. Palmer. The assumptions that MPI has used in -- in developing its risk analysis are -- of course are pursuant to prior Board directives, including those flowing from Order 151/'00.

Correct?

MR. DONALD PALMER: And -- and again, just -- I don't know that I would call this MPI's risk analysis, it's the risk analysis we did based on the rules that were set by the Public Utilities Board.

MR. BYRON WILLIAMS: Fair enough, Mr. Palmer. And -- and along tho -- tho -- that line of thinking, MPI was directed to perform a -- a VaR calculation using a two point five (2.5) year time horizon and assuming twenty fer -- 25 percent equity weighting.

Is that fair?

MR. DONALD PALMER: That's fair.

MR. BYRON WILLIAMS: And without elaborating, I don't think we need to get into a debate about this, but it's fair to say that the Corporation does not agree with the two point five (2.5) year time horizon for VaR.

Would that be fair?

MR. DONALD PALMER: We would prefer a shorter period of time, yes.

MR. BYRON WILLIAMS: Indeed at page 10, and again I don't think you need to turn there but AI.18.1, you suggested a one (1) year time horizon would be more logical from the Corporation's perspective.

Correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And you've had this discussion with Mr. Saranchuk an -- and again, if anyone's interested in looking at the Information Requests regarding this, you would find them at the PUB book of documents, Tab 15, but you -- you had a discussion with Mr. Saranchuk with regard to the fact that the Corporation did not hold the -- a 25 percent equity as of February 28th, '09.

Is that correct?

MR. DONALD PALMER: That's correct. With the decrease in market value it dipped below 25 percent.

MR. BYRON WILLIAMS: And it would be fair to say as of the end of '08/'09 it was probably just a bit above 13.4 percent, or 13 percent? Mr. Palmer, and if you're looking for a reference, the response to PUB/MPI-2-5, the attachment.

MR. DONALD PALMER: Yes, I -- subject to check, I'll confirm that.

MR. BYRON WILLIAMS: And with the vast majority of the remainder being in cash or -- or debt at that point in time.

Correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And likewise, and again using PUB-2-5, the attachment as the source, the projection for 2009/'10 is that MPI will -- will hold about 79 percent of investment portfolio in debt with another 3 percent in cash, roughly.

Would that be fair, sir?

MR. DONALD PALMER: It sounds about right, yes.

MR. BYRON WILLIAMS: So again, in -- in the current year it's not expecting to be at 25 percent in terms of equity?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: Now I just want to addre -- direct your attention now to the -- the material found at Tab 21 of the CAC book of documents, being CAC/MSOS exhibit book number 5, and just by way of preamble, Mr. Palmer, your -- the bright analytical minds on the MPI team have had an opportunity to review this material, both the numbers, the source numbers and the methodology.

That's correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And you'll agree that it's essentially replicated the MPI risk analysis methodology, except for, it substitutes actual equity as of February 28th, '09, for the deemed 25 percent equity, and it also ta -- uses a one (1) year as opposed to a two point five (2.5) year time horizon.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And focussing on -- on page 1 of this analysis, we'll -- we see the results of the calculation using actual equity at a 95 percent confidence level assuming zero correlation and excluding operating expenses.

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: That's kind of the -- the best case scenario, and -- correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the results, you'll agree, are about 98 million after allowing for a 6 percent increase in gross writtens premium -- gross written premiums?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And turning to the second page, you'll see the results of assuming 95 -- 97.5 percent confidence intervals, perfect correlation, and including operating expenses.

Mr. Palmer, is that your understanding?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And that yields a figure of about 196 million, assuming actual equity as of February 28th, '09 and a one (1) year time horizon.

Correct?

MR. DONALD PALMER: I'll agree with that.

MR. BYRON WILLIAMS: So, just using these assumptions, an RSR range using actual equity as of February 28th, '09 and assuming a one (1) year time, a VaR time horizon would yield a range of 98 million to about 196 million.

Fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And would you agree that the midpoint of that would be in the range of 147 to 150 million?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Mr. Palmer, if you could flip over one (1) more tab, you'll see a table titled "RSR Target Ranges - Variations on PUB Methodology," which is found at Tab 22 of CAC/MOS Exhibit Number 5.

MR. DONALD PALMER: Yes, I see it.

MR. BYRON WILLIAMS: And, again, you've had the opportunity both to check the numbers and the -- and the calculations here, Mr. Palmer?

MR. DONALD PALMER: I have.

MR. BYRON WILLIAMS: And you'll agree that it's calculated using the same approach as set out in the -- in the previous tab, being Tab 21?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Okay. So the

Corporation doesn't take issue with the mathematical results that flow from those calculations.

Correct?

MR. DONALD PALMER: We do not.

MR. BYRON WILLIAMS: So just to run through these -- these lines sequentially, the first line we'll see is actually the results that we just discussed, actual equity at February 2009 with the VaR time horizon of one (1) year.

Correct, sir?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: The second line shows actu -- actual equity at February 2009 with a VaR horizon of two point five (2.5) years, sir, is that right, your understanding?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the RSR target range flowing from that is 68 million to 139 million.

Would that be fair, sir?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: Flowing down the next list -- line item is the assumption of 25 percent equity at February 2009 and a one (1) year VaR period.

Correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And that range is, of course, substantially larger, being from a -- higher, being from 141 million to 266 million.

Correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And the -- the next line is actually the -- the results that were presented in -- in this Proceeding, although the -- the final number might -- maybe should be 246 million, but it's essentially what was presented in the risk analysis of the Corporation.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And finally, the -- the last two (2) lines -- the second last line shows actual equity at July 2009 with a VaR period of two point five (2.5) years.

You'll agree with that, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the final line shows 25 percent equity at assumption of 25 percent equity at July 2009 with a VaR period of two point five (2.5) years.

Fair enough?

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

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And, Mr. Palmer, just a housekeeping item on this table. You'll agree based upon the results from 2-27 -- PUB Information Request 2-27A and 'B', you don't probably need to turn there, but those responses did not contain one (1) year VaR data?

MR. DONALD PALMER: We likely did them with two and a half (2 1/2) years. Yes.

MR. BYRON WILLIAMS: And I simply point that out to explain why that calculation hasn't been -- been done with regards to the equity as at July 2009. Thank you, Mr. Palmer.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: If you wish to turn there, Mr. Palmer, sticking with a Appendix B, it's AI.18.3, you might turn to page 5, sir. It might be in the main text, Mr. Palmer, but there's some confusion, I guess, because we're going between -- between the two (2).

MR. DONALD PALMER: Yes. That's from the original eight point (8.) -- eighteen point three (18.3).

MR. BYRON WILLIAMS: You'll see a statement that:

"VaR is an intuitive and useful number that summarizes a portfolios risk is widely used by institutional investors to measure the risk inherent in their portfolios and provides a signal number which can be compared across asset classes and between managers. In the wake of several high profile losses in the investment inder -- industry, risk management practices have come under intense scrutiny. The result has been that VaR has become an increasingly valuable tool in understanding and measuring these risks or as a best practice within the ins -- institutional investment industry."

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes, I see it, and I agree with what's in there.

MR. BYRON WILLIAMS: And the Corporation agrees with that statement?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Would I correct in

suggesting that the Corporation has not tested for the correlation between net income from operations and investment income, as represented in the VaR?

(BRIEF PAUSE)

MR. DONALD PALMER: Again, we -- we've done it in the past. We haven't done it this year.

MR. BYRON WILLIAMS: What was the most recent year it was tested, Mr. Palmer?

(BRIEF PAUSE)

MR. DONALD PALMER: It would've been done I'm -- either 2005 or 2006. The last time that we did major overhaul with the RSR.

MR. BYRON WILLIAMS: At that point in time, the Corporation would've had what, seven (7) -- seven (7) or so years of VaR data to -- to perform that analysis.

Would that be about right?

MR. DONALD PALMER: It's probably less than that but if we're talking ranges, that would be the upper range.

MR. BYRON WILLIAMS: Mr. Palmer, would it be much bother to file the results of that -- that analysis?

MR. DONALD PALMER: That we did in '05 or '06? We could get that, yes.

MR. BYRON WILLIAMS: So you'll undertake to provide the -- for the benefit of the court reporter, the results of the analysis done by the Corporation in 2005 and/or 2006 relating to the correlation between net income from operations and investment income risk as -- as measured by VaR?

MR. DONALD PALMER: Yes.

--- UNDERTAKING NO. 37: To provide the results of the analysis done by the Corporation in 2005 and/or 2006 relating to the correlation between net income from operations and investment income risk as measured by VaR

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: We're going to come to the DCAT in -- in just a few minutes, Mr. Palmer. But I do want to talk to you for just a couple of minutes about consensus.

And you recall in last year's Board order, you don't need to turn there I'm sure, but the Public Utilities Board expressed a desire to bring about consensus in terms of the RSR range, correct?

MR. DONALD PALMER: I recall that, yes.

MR. BYRON WILLIAMS: And I think the word "consensus" appears a couple of times in -- and it's used in the context of the RSR range or consensus as how to set and amend the RSR.

You recall that, sir?

MR. DONALD PALMER: It appeared in the PUB Order, it also appeared in our annual report of our desire to also achieve consensus on those two (2) items.

MR. BYRON WILLIAMS: So that anticipated my next question, Mr. Palmer. And certainly you'll agree that from the Corporation's perspective, consensus should not be just limited to the PUB and -- and the Corporation to the extent possible you're looking for buy-in from interested parties as well.

Correct?

(BRIEF PAUSE)

MR. DONALD PALMER: Through this process, yes, I would agree with that.

MR. BYRON WILLIAMS: Now consensus has been used by the PUB in the context of the RSR range or in terms of setting and amending the RSR range, we've agreed on that, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And I'll give you some specific examples in a second. But I wonder if you would agree with me that when we were looking at issues related to the RSR, there are a number of other issues apart from the methodology by which the range or target is set and amended.

Would that be fair? I'll give you the examples, Mr. Palmer, if you feel more comfortable.

MR. DONALD PALMER: Please, Mr. Williams.

MR. BYRON WILLIAMS: One (1) issue might be the purpose of the RSR, correct?

MR. DONALD PALMER: The purpose of the RSR has been stated and has been unchanged for many years.

MR. BYRON WILLIAMS: Well, one (1) issue might be the appropriate reaction when reserves are below or above target and whether the reaction -- the response should be rules based or situational.

Correct?

MR. DONALD PALMER: Sure.

MR. BYRON WILLIAMS: And another issue might relate to the -- whether or not there should be the potential of transfers from lines of business such as Basic -- or Extension which are integrally related to the Basic RSR.

MR. DONALD PALMER: I would not agree with that. I -- these Hearings are based on its Basic Autopac line of business and do not entail the other lines of business.

MR. BYRON WILLIAMS: So you -- you believe that the existence of the potential for transfers is irrelevant to this discussion?

MR. DONALD PALMER: Yes, I do.

MR. BYRON WILLIAMS: And finally, although this ultimately goes to the -- to methodology. There are issues related to the type of risk we wish to protect against and -- and the tolerance for those risks as well.

Would that be fair?

MR. DONALD PALMER: Certainly, it's all those risks that have to be measured, and -- and tested. So if you -- if you missed some, I suppose you wouldn't -- might get different results.

MR. BYRON WILLIAMS: And also the -- the

degree of tolerance we have for risk, that's another issue, sir.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Going back to the stated objective both of the Corporation, and the Board, to achieve consensus, would you agree that the cornerstone of consensus is credibility?

Would you like me to elaborate, Mr. Pal -- Palmer?

MR. DONALD PALMER: Please.

MR. BYRON WILLIAMS: Would you agree that it's difficult to build a consensus around a methodology unless the -- the process by which it is achieved is credible, and the resp -- the results are seen to be as credible?

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

MR. BYRON WILLIAMS: I want to turn to a discussion of the DCAT, or Dynamic Capital Adequacy Testing, and so you may wish to have at hand AI.18.2, and also the Corporation's rebuttal evidence, which was filed on September 28th, 2009. And Mr. Palmer, just to assist you, that's found in the CAC/MSOS book of documents at Tab 23.

MR. DONALD PALMER: I have them both.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Let's -- let's start with the hardest question first, Mr. Palmer. Would you agree that if one (1) did a rigorous time series analysis of stock returns and bond returns over an extended period of time, you would find a strongly negative correlation?

(BRIEF PAUSE)

MR. DONALD PALMER: We'd say negatively correlated. I don't know if I'd use the term strongly negatively correlated.

MR. BYRON WILLIAMS: You would go so far as to accept a negative correlation?

MR. DONALD PALMER: Yes, I would.

MR. BYRON WILLIAMS: And you'd agree, as well, that there is a direct inverse relationship between interest rate changes and bond prices and returns?

MR. DONALD PALMER: That I will absolutely agree with.

MR. BYRON WILLIAMS: Turn to the rebuttal evidence of MPI, Mr. Palmer, if you would, at page 5.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Do you have that, Mr. Palmer?

MR. DONALD PALMER: I do.

MR. BYRON WILLIAMS: And I -- and I wish to direct your attention to a sentence that caught my issue towards the bottom of the page, the last paragraph, and it's about one (1), two (2), three (3) -- seven (7) lines down. It's the sentence starting, "The adverse scenarios..."

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Just above your circle. Yes, I see it.

MR. BYRON WILLIAMS: Yeah, I should be careful about marking up my documents. The statement is:

> "The adverse scenarios were selected based up -- based on the assumed distribution of possible outcomes [e.g. equity values, interest rates, hail storms]."

Is that right, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Focussing on your use of the word, "distribution" in this context, Mr.

Palmer, does the word "distribution" mean a probability distribution?

(BRIEF PAUSE)

MR. DONALD PALMER: Well, we were able to come up with some kind of a probability distribution like a hundred years of equity returns, for instance. Then we would use the actual distribution of those. For things like hail storms where we don't have that much data, we don't have a hundred years of hail data or a hundred of specific hail storm data, we had to make some assumptions on the -- on the distribution.

MR. BYRON WILLIAMS: We don't need to do it in -- in the context of -- of the oral conversation, Mr. Palmer, but in terms of the distributions for which assumptions had to be made instead of using probability distributions, would you be prepared to provide those so my clients can have them out of certainty, sir?

(BRIEF PAUSE)

MR. DONALD PALMER: Where we have those kind of assumptions it is in the documentation that we filed.

MR. BYRON WILLIAMS: So you've used words like judgmental, for example?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Okay. Let's turn to the -- thank you, Mr. Palmer. Then that -- that's sufficient. I -- I appreciate that. Now, you mentioned that in terms of equity returns, for example, you had done a probability distribution, Mr. Palmer?

MR. DONALD PALMER: We looked at the actual distribution, the actual historical distribution, yes, and got probabilities from that actual distribution.

MR. BYRON WILLIAMS: Then we would expect that that distribution would have a parametric form, Mr. Palmer?

(BRIEF PAUSE)

MR. DONALD PALMER: We would use empirical data not parametric, so we haven't tried to define the specific probability distribution.

MR. BYRON WILLIAMS: Mr. Palmer, turn if you would to page 8 of your rebuttal evidence. I probably circled this one, as well, Mr. Palmer. You'll see in the middle of the page the statement that each DCAT scenario provides an estimated probability of occurrence.

Do you see that, Mr. Palmer?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Focussing on the integrated scenario presented at Section 4.6 of your evidence at page 32, I wonder if you could turn there, for a second?

MR. DONALD PALMER: That's the integrated scenario on low interest rates and decline in equity markets.

MR. BYRON WILLIAMS: Thank you, Mr. Palmer. Is it your evidence that prior to filing AI.18.2 you had calculated the joint probability distribution of the sustained low interest rate and -- and a decline in equity market scenario?

(BRIEF PAUSE)

MR. DONALD PALMER: On the next page we describe that we judgmentally chose that, and then in an Information Request that followed that up, we did identify one (1) particular period that the description here has happened in history.

MR. BYRON WILLIAMS: And -- and we'll come to that in just one (1) second. So -- just so I'm clear, though, at the time you filed the DCAT analysis you had not conducted a joint probability distribution.

Would that be fair?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: These numbers were judgmentally adjusted, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And if -- certainly if you want to turn there you -- you can. Does the Corporation -- and -- and just to back up -- we'll come to the calculation that you did in a second, but does the Corporation recall responding in its response to PUB-1-69A that it was impossible to calculate an exact probability of the low interest rate decline in equity market scenario?

MR. DONALD PALMER: All of those probabilities are estimates, so an exact calculation wouldn't be possible.

MR. BYRON WILLIAMS: I'm just trying to understand your -- your reference. And of course, Mr. Palmer, the PUB did ask you in -- and you can turn there -- an Information Request 2-33 to -- to provide an analysis of the estimated compound probability of the interest rate steady state and the decline in equity's adverse scenario as filed.

Do you recall that, sir?
MR. DONALD PALMER: Yes.
MR. BYRON WILLIAMS: And as I understand your analysis, you -- you had some challenges going back beyond 1936.
Would that be fair, sir?
MR. DONALD PALMER: That was the earliest data we had for a ten (10) year bond date specifically.
MR. BYRON WILLIAMS: And in the calculation you -- you were able to perform in terms of the compound probability of the seventy-two (72) periods in -- in question, you identified one (1) four (4) year period where interest rates remained at that sustained low rate and equities declined by more than 20 percent.
Is that correct, sir?
MR. DONALD PALMER: That's correct.
MR. BYRON WILLIAMS: So that would be one (1) out of seventy-two (72) or a bit less than 2 percent, sir?
MR. DONALD PALMER: Yes.
MR. BYRON WILLIAMS: And the period in question was of course from 1937 to 1940, was it not?
MR. DONALD PALMER: It was.
MR. BYRON WILLIAMS: So that would be in the Great Depression and then trickling into the Second

World War, sir?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And that would've been a time when some countries were under the gold standard and some -- some were not? Would that be your understanding, sir? And if not, if you can't answer that, Mr. Palmer, no worries.

MR. DONALD PALMER: Yeah. I can't confirm that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: The one (1) period you are able to identify in terms of this scenario was in the prewar Great Depression period.

Fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: I wonder if you can turn, in your evidence, to Section 4.4, decline in equity's market at page 24, please, Mr. Palmer. Again, that's AI.18.2.

MR. DONALD PALMER: I have it.

MR. BYRON WILLIAMS: And, Mr. Palmer, just to -- to assist, you might also want to grab -- or to -- to retrieve the response of the Corporation, the

CAC/MSOS-1-7. It's not in the materials.

MR. DONALD PALMER: We have it.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Looking to the Corporation, first of all, to it's description of its analysis, you conducted a historical analysis of the cumulative four (4) years returns on the TSX from 1919 to present.

Correct?

MR. DONALD PALMER: We did.

MR. BYRON WILLIAMS: And the fifth percentile event or alternatively the observation that was worse than 95 percent of the observations was negative 44.19 percent.

Is that correct, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And would I be correct in suggesting to you that that calcula -- that event took place in the four (4) year period ending on March 31st, 1935, sir?

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

MR. BYRON WILLIAMS: And would that be in the middle of the Great Depression?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And if I look to the post-depression, post World War 2 ev -- material, would I be correct in suggesting to you that the comparative cumulative return at the fifth percentile event would be minus 14.3 percent?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So that would be minus 14.3 percent, as compared to minus 44.19 percent?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I apologize for the page flipping, Mr. Palmer, but if you could turn to sec -- back to section 4.6 of your evidence, page 32.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Again, Mr. Palmer, you'll see that this is the sustained low interest rate and decline in equi -- equity's market scenario, sir.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And just focussing

on the first two (2) lines of the scenario description, the assumption is that interest rates in 2010/'11 and 2011/'12 remain at the same level forecasted in 2009/'10 and the Corporation's equity assets declined by 20 percent in 2010/'11.

Do you see that, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Would it be conceivable that the equity assets might decline by 25 percent in 2010/'11, but interest rates are slightly higher in 2010/'11 and 2011 and '12 than contemplated in this scenario?

MR. DONALD PALMER: Sure. This is an assumption of a scenario. It could be worse, it could be better.

MR. BYRON WILLIAMS: And if I were going to look at your DCAT analysis as it is today, would you be able to tell me the probability of that?

MR. DONALD PALMER: We could give you empirical probability based on the actual data, yes.

MR. BYRON WILLIAMS: You haven't done that analysis to date?

MR. DONALD PALMER: No, we have not.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I want to spend the last little while in terms of the DCAT looking at your large hailstorm and a decline in equity's market scenario, which can be found at AI.18.2, pages 35 through 37, please.

MR. DONALD PALMER: I have it.

MR. BYRON WILLIAMS: If you're looking at -- for a reference, Mr. Palmer, it's on the next page, but the large hailstorm and decline in equity market was judgmentally assumed to -- to be a one (1) in one hundred (100) year event.

Was that right, sir?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And I just want to look at how you came about this calculation. We can probably start under scenario justification on page 35. Would it be fair to say that you start by noting that MPI has experienced three (3) major hailstorms in the last fifteen (15) years, which has resulted -- which results in a estimate of a 20 percent change of a major hailstorm in any given year.

Would that be fair?

MR. DONALD PALMER: Well, since this was written, we had a fourth, so there's been, in fact, four (4) in fifteen (15) years.

MR. BYRON WILLIAMS: Yeah, Mr. Palmer, I'm asking you how you calculated this scenario. So...

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And then what you did, as I understand it, Mr. Palmer, is you looked at the T -- TSX da -- data, it's on the next page, if you're looking, going back to 1919 and found that the tenth percentile of the cumulative four (4) re -- four (4) year returns on the TSX is approximately negative 20 percent.

Would that be right?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So, as I understand it, you took all possible four (4) year periods in that period, and determined that in 90 percent of the cases, the four (4) year TSX cumulative return was minus 20 percent or better?

That's what the debt percentile means?

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

MR. BYRON WILLIAMS: And I'm assuming from there, Mr. Palmer, that on the assumption that a hailstorm, a Manitoba hailstorm and the TSX returns are independent, zero correlation, you multiplied the 20 percent probability of a major hailstorm by the 10 percent figure we just talked about to get a 2 percent probability.

Would that be right?

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

MR. BYRON WILLIAMS: And then to get all the way to one (1) and one hundred (100), the inclusion of a re-insured default was judgmentally assumed to be -- to bring this to a one (1) and one hundred (100) year event.

Fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And it would be fair to say that you -- you didn't look at the -- any -- or attempt to do any correlation co-efficience between re-insured default than large hailstorms or re-insured default and protract the decline in the equity market?

MR. DONALD PALMER: We did not. I -- I suspect that there is a correlation between drop in equity markets and re-insure default but we didn't specifically do that.

MR. BYRON WILLIAMS: Okay. And, Mr. Palmer, I -- I accept your point that there's been a -- a fourth hailstorm subsequent to your analysis. But in terms of how you calculated your estimate in terms of the probability of a major hailstorm, would I be correct in suggesting to you that your analysis at that time was based on a -- a sample of fifteen (15) data points.

Would that be correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And of those, three (3) of those data points were events where major hailstorm observations took place.

Correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And so twelve (12) of these data points would be observations where no major hailstorm observations took place.

Would that be correct?

MR. DONALD PALMER: That's correct too.

MR. BYRON WILLIAMS: In terms of the TSX data, you'd used data again, I think we've confirmed that started in 1919, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And that would be just after World War 1 ended?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Just before the roaring '20s?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: The '20s boom and the stock market that only Mr. Kruk remembers in this room?

MR. DONALD PALMER: And during the last flu epidemic, yes?

MR. BYRON WILLIAMS: The crash of 1929?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Then we had ten (10) years of -- of the Great Depression, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Then we had World War 2.

Would that be fair?

MR. DONALD PALMER: Mm-hm. That's correct.

MR. BYRON WILLIAMS: Would it be fair to say that within your ninety (90) year sample, we could look and find six (6) years of a great World War and also nine (9) or ten (10) years of a Great Depression, sir?

MR. DONALD PALMER: That specifically in those terms, yes, they occurred in -- during that period and I would label both of those, adverse scenarios.

MR. BYRON WILLIAMS: Sixteen (16) years of the -- sixteen (16) non-overlap years of your ninety (90) year sample included those rather major historical events, fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: About 18 percent?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: You're not suggesting that the equity results from the Great Depression are representative of the future expectations or expectations of the present era, Mr. Palmer?

MR. DONALD PALMER: They're not expectations by -- as none of the adverse scenarios could be labelled as expectations. They are adverse scenarios, things that could happen and -- and items that we're protecting ourself against with our Rate Stabilization Reserve.

To say that they're expectations, any of these adverse scenarios wouldn't be our expected results but they are plausible adverse scenarios.

MR. BYRON WILLIAMS: I -- I think I know the answer to this, Mr. Palmer, but you didn't give less weight to the results in the Great Depression era than the post-war era.

Would that be fair?

MR. DONALD PALMER: We did not.

MR. BYRON WILLIAMS: And we've confirmed this already as well, I believe, but your decision to use ninety (90) years of TSX data was not con -- reviewed with an independent expert in finance or an independent expert in economics working outside the Corporation?

MR. DONALD PALMER: No.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Would you accept the possibility that a ninety (90) year historical sample of TSX returns might not reflect today's expectation of future equity returns given, that's changes, such as the move off the gold standard, Mr. Palmer?

MR. DONALD PALMER: There are many factors which would -- could change possible distributions of equity returns. The -- the move from the go -- gold standard could be one (1) of them. I'm not an expert in -- to fully be able to comment on that.

MR. BYRON WILLIAMS: Another one might be changes in the treatments of dividends and capital gains, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Another one might be changes in fiscal and monetary policy, correct?

MR. DONALD PALMER: Yes. It could also include changes in regulatory environment.

MR. BYRON WILLIAMS: OPEC.

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: We're going to move

just for a few minutes, and then we can probably aim towards our -- our break, Mr. -- Mr. Chair, with the Board's permission, to the pre-filed evidence of the Corporation, and I believe it's at the bottom of page AI.18.1.

And, Mr. Palmer, I apologize, I'm not sure if the page numbering will be changed a little bit with -- in terms of PUB-1-64 or not. And, Mr. Chairman, just with your permission, so that there's not confusion, I'll -- I'll show Mr. Palmer the reference that I'm directing him to.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Excuse me. I am interested in -- I'm going to refer you to a statement, and -- and I'm interested in getting at the math behind the statement.

You make -- the Corporation makes a statement that:

> "During any fifteen (15) year period, a one (1) in one hundred (100) event would only be expected to occur about 14 percent of the time, while a one (1) in forty (40) year event would only be

expected to occur about 32 percent of
the time."

Do you see that statement?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: In terms of the calculation of the 14 percent, I'm assuming that MPI started with the probably zero point zero one (0.01), or one (1) in a hundred (100), and assumed that the occurrence of the event in any year was independent of whether it had occurred in a previous year.

Would that be fair?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: So the probability of it occurring in any particular year is zero point zero one (0.01), correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And then I'm assuming that you say the probability of it not occurring in any year is thus -- is thus 0.99 percent of that hundred year period, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And, Mr. Palmer, don't worry, I'm not -- I'm not suggesting your math is wrong, I just want to make sure I understand it. So the probability of it not occurring in any fifteen (15) year period is zero point nine nine (0.99) times zero point nine nine (0.99) fifteen (15) times, or --

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: Yeah. Thank you. In other words, it's zero point nine nine (0.99) raised to the fifteenth power, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And this of course gives you a zero point eight six (0.86) or 86 percent chance that the one (1) in one hundred (100) year event does not occur in the fifteen (15) years, correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: You performed a similar calculation for the one (1) in forty (40) year event, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And just on that point, I'm -- I'm going to ask you to accept, subject to check, that my math is right and I'm going to put a few more probabilities to you, Mr. Palmer.

Will you -- will you accept that?

MR. DONALD PALMER: Sure.

MR. BYRON WILLIAMS: And again, Mr. Palmer, probably, you know, certainly you can accept these subject to check. And suppose we have a one (1) in one (1) ten (10) year event, in -- I wonder if you'll accept, assuming that these are independent, that's there -- that the probability of this event not occurring in any given ten (10) year period is 34.87 percent, subject to check?

MR. DONALD PALMER: Thirty-four point nine (34.9), yes.

MR. BYRON WILLIAMS: And the probability that it would not occur in twenty (20) year period is 12.16 percent, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Let's take a one (1) in one hundred (100) year event, you'll accept, subject to check, that the probability of the event not occurring in any given hundred year period is 36.6 percent?

MR. DONALD PALMER: I can confirm that.

MR. BYRON WILLIAMS: Mr. Chairman, this might be a good -- good time to have a break.

THE CHAIRPERSON: That's fine then. We'll be back in fifteen (15) minutes.

--- Upon recessing at 2:24 p.m.

--- Upon resuming at 2:52 p.m.

THE CHAIRPERSON: Any time you're ready,

Mr. Williams.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes. And just to advise the Board, and as well MPI, of my estimated time of arrival or schedule. Generally, I -- I think I can say that, on behalf of my clients, that they're largely done the risk analysis, RSR area. There's one (1) undertaking we're just pondering asking.

I'm quite confident -- I'm going to propose that we reinject the human element into this by looking at road safety for the -- the bulk of the remainder of the afternoon. And I -- there will be some carryover to the next hearing, in terms of cost control, and -- but I don't expect that it will be a whole morning or anything like that. Just to assist the Board.

Ms. McLaren, I'm assuming you're the -- the road safety person, am I -- am I right on that?

MS. MARILYN MCLAREN: I am.

MR. BYRON WILLIAMS: And just to -- in -- in terms of the references that I may be referring to, certainly Tab A of the CAC book of documents, there's the three (3) documents there. And you also may want to have nearby the PUB book of documents, Tab 39. That's the last one.

Ms. McLaren, I think we also preface our discussions about road safety in this way: We can agree that while MPI may be part of the solution to issues of safety in Manitoba, it's only part of the solution.

Would that be fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And you'll understand, as we discuss statistics and results related to road safety, you'll understand that my clients are -- are not suggesting that the whole brunt of responsibility for -- for the relative state of statistics lies on MPI.

You understand that as well?

MS. MARILYN MCLAREN: Yeah, I accept that.

MR. BYRON WILLIAMS: If you could, Ms. McLaren, the PUB book of documents, Tab 39, contains the Corporation's response to CAC-1-105, and I'll refer you specifically to the attachment, please.

MS. MARILYN MCLAREN: Yes, I have it.

MR. BYRON WILLIAMS: And you had a discussion with My Friend, Ms. Everard, on -- on this, but I do want to take a quick look at line 4 which out -- sets out, you'll agree with me, Basic's share of the road safety expenses associated with occupant safety education strategies?

Do you see that, Ms. McLaren?

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

MR. BYRON WILLIAMS: And occupant safety or seatbelt use as -- has been a long standing top three (3) priority, in terms of road safety on the part of Manitoba Public Insurance.

Would that be fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And its significance in that role has indeed only been reinforced by the costing studies that the Corporation has done, whether on -- on issues such as occupant's safety.

Is that fair?

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

MR. BYRON WILLIAMS: And, Ms. McLaren, there's no need to do an undertaking or -- but -- but there was, you'll agree, an order of magnitude estimate of the direct costs of the Corporation related to non-use of occupant restraint that was conducted in the past?

Do you recall that?

MS. MARILYN MCLAREN: Yes, I recall that.

MR. BYRON WILLIAMS: And, again, would -- would I be safe in saying that -- that the flow -- the estimate that flowed from that of the annual costs of non-occupant restraint usage was well in excess of $20 million?

Would I be safe in saying that, subject to check?

MS. MARILYN MCLAREN: Subject to check, I'll accept that.

MR. BYRON WILLIAMS: I'm going off of memory as well, Ms. McLaren, so if -- if you're -- it's rare but you'll check that and if I'm in error -- you'll check that.

And apart from obviously the economic cost there's a tremendous social cost as well, fair enough?

MS. MARILYN MCLAREN: Yes, definitely.

MR. BYRON WILLIAMS: Now the attachment to CAS/MSOS/MPI-1-105, covers the seven (7) years of occupant safety education strategy expenditures running from the actual year of 2003/'04 through the projected year of 2010/'11.

Would that be fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And if we start back in 2003/'04 looking at the actuals, we see the Corporation's actuals in that year were about three hundred and eight thousand (308,000), in terms of occupant safety education strategies.

Fair enough?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Seven (7) years later, we -- we would see that they're projected to be about forty-six thousand dollars ($46,000) higher at three hundred and fifty four (354,000).

Would that be accurate?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: On this one, I am confident of my -- my math, Ms. McLaren. You'll agree that over the seven (7) years the line item has grown a bit less than 15 percent, correct?

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

MR. BYRON WILLIAMS: Not allowing for compounding, simplistically about 2 percent a year?

MS. MARILYN MCLAREN: Sure.

MR. BYRON WILLIAMS: Ms. McLaren, when one looks at the small pace of growth in expenditures, would I be wrong in concluding that the Corporation has essentially concluded that it cannot play a meaningful role in promoting occupant restraint strategies?

MS. MARILYN MCLAREN: I think that would be an incorrect assumption. I think what this demonstrates is that the Corporation has not identified and -- and, therefore, has not chosen an increased commitment to this area. We have not found legitimate opportunities for us to expand our role, with respect to occupant restraint.

MR. BYRON WILLIAMS: Thank you for that, and -- and I'll come back to that, perhaps. I take it the Corporation has not yet prepared a budget for occupant safety education strategies for 2010/'11.

Would that be fair?

MS. MARILYN MCLAREN: That's right, not a detailed budget for the next year, yes.

MR. BYRON WILLIAMS: You do have the 2009/'10 budget, would that be accurate?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: In spe -- speaking specifically of occupant safety education strategies, are -- are you prepared to provide the detailed budget for the 2009/'10 year, Ms. McLaren?

MS. MARILYN MCLAREN: The breakdown of the three hundred and thirty three thousand dollars ($333,000)?

MR. BYRON WILLIAMS: Yes.

MS. MARILYN MCLAREN: Sure.

---UNDERTAKING NO. 38: To provide the breakdown of the three hundred and thirty

three thousand dollars
($333,000) of occupant safety
education strategies

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. McLaren, you may want to turn to Tab 3 of the -- the CAC/MSOS book of documents.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And I -- I'm quite confident, Ms. McLaren, that you don't need to -- to turn to this Information Request, but you may recall that in CAC/MSOS-1-107 the Corporation was asked to provide an intra-jurisdictional comparison for casualty rates and updated one, and its response was that Transport Canada has not yet published casualty rates information for 2007 and 2008.

Do you recall that, Ms. McLaren?

MS. MARILYN MCLAREN: Yes, I do.

MR. BYRON WILLIAMS: And -- and, to your knowledge, Transport Canada has still not published the 2007 and 2008 data --

MS. MARILYN MCLAREN: That's -- that's --

MR. BYRON WILLIAMS: -- data, would that be fair?

MS. MARILYN MCLAREN: Yes, that's right, to my knowledge.

MR. BYRON WILLIAMS: So -- so that leaves us with the 2006 data as the most recent publically available intra-jurisdictional comparison, would that be cor -- correct?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: We'll turn to that in just a second. But it's fair to say that, from time to time, the Corporation makes use of this Transport Canada data relating to motor vehicle related con -- collisions.

Would that be fair?

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

MR. BYRON WILLIAMS: And it -- it's -- its considers it to be a credible and reliable source of intra-jurisdictional comparisons?

MS. MARILYN MCLAREN: Yes, I believe so. A little bit of hesitation there because I'm -- I'm not completely sure that it's an apples to apples comparison in all cases.

MR. BYRON WILLIAMS: It's pro -- you'll agree that it's probably the best available comparison, Ms. McLaren?

MS. MARILYN MCLAREN: Yes, definitely.

MR. BYRON WILLIAMS: Going to the -- the fact that Transport Canada has not yet published the 2007 results, you'll agree that it's -- would you agree that it's unusual for it not to publish the 2007 data by this time?

MS. MARILYN MCLAREN: I believe so, but I don't think it's the first time that there's been some extended delays in -- in the publishing of the data.

MR. BYRON WILLIAMS: Okay, well, let's go to the -- the most recent we have, which is the 2006 data. And we're going to make our way fairly rapidly to page 4, but as we kind of leaf our way through, Ms. McLaren, without asking you to comment, you'll see that on the -- the first page after the cover page there's a summary of collisions and casualties from 1987 through 2006, do you see that, top of the -- the first page, Ms. McLaren. Top of the second page.

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And going onto the next page at the top, there's fatalities by the road user class from 2002 to 2006.

You see that?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And onto the next page, I just want to draw your attention to -- to the table marked "casual -- casualty rates."

Do you see that, Ms. McLaren?

MS. MARILYN MCLAREN: Yes, I do.

MR. BYRON WILLIAMS: And at a high level, this table looks at the Canadian average, and then the results from various provinces in terms of fatalities and injuries, using three (3) different comparators, those being per one hundred thousand (100,000) population per billion vehicle kilometres and per one hundred thousand (100,000) licenced drivers.

Would that be fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And if we look at the -- the per one hundred thousand (100,000) population, we'll see the Canadian average at about eight point nine (8.9) fatalities.

Is that correct?

MS. MARILYN MCLAREN: Yes, it is.

MR. BYRON WILLIAMS: Moving down about halfway down that column, we'll see Manitoba at ten point one (10.01).

Would that be fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And with injuries, as well, we would see the -- the Manitoba numbers at seven forty-one point two (741.2) per one hundred thousand (100,000) pop being somewhat above the Canadian average for injuries of six hundred and four (604).

Would that be fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And without going through the actual specific numbers, you'll agree, as well, that if we were to compare the Manitoba average to the Canadian average either in per billion vehicle kilometres, or per hundred thousand licensed drivers, Manitoba would tend to be somewhat above the Canadian average.

Would that be fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Ms. McLaren, just looking below to the table entitled, "Percentage of Fatally Injured Drivers Tested and Found to Have Been Drinking," would you share the conclusion with me that in the 2005 year over 30 percent of the drivers, fatally injured drivers tested were found to have been drinking?

Is that -- is that the conclusion you would draw from that table, as well?

MS. MARILYN MCLAREN: Yes, I believe so.

MR. BYRON WILLIAMS: If you just flip to the next page, Ms. McLaren, you'll see a table "Percentage of Drivers and Passenger Fatalities and Serious Injuries Where Victims Were Not Using Seatbelts, 2002 to 2006."

Do you see that?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And looking to the last column, and again these are national results, not Manitoba, but you'll see the -- that 36.9 percent of driver fatalities were in circumstances where the victims were not using seatbelts.

Do you see that, Ms. McLaren?

MS. MARILYN MCLAREN: Yes, I do.

MR. BYRON WILLIAMS: And 38 percent -- excuse me, 38.7 percent of passenger fatalities occurred where -- in circumstances where the victims were not using seatbelts.

Would that be accurate?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Certainly that doesn't say the failure to use seatbelts was the causal factor, but there's obviously a strong relationship.

You'll agree with that, Ms. McLaren?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: I wonder if you can turn back one (1) tab in the CAC book of exhibits to a document entitled "Results of Transport Canada Rural and Urban Surveys of Seatbelt Use in Canada, 2006 top 2007."

Do you have that?

MS. MARILYN MCLAREN: I have that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. McLaren, again, and this has nothing to do with MPI, but usually around this time of the year we would be examining the results of a -- the most recent report of Transport Canada regarding rural and urban seatbelt usage updating us to the 2008 year.

Would you agree with that?

MS. MARILYN MCLAREN: I believe so, yes.

MR. BYRON WILLIAMS: And to your knowledge would it be correct to say that there's no publicly available report more recent than January 2008, which is this document?

MS. MARILYN MCLAREN: I believe that's true.

MR. BYRON WILLIAMS: And MPI is not aware of any publicly available results from Transport Canada more recent than this material?

MS. MARILYN MCLAREN: No, I'm not.

MR. BYRON WILLIAMS: And again, subject to your apples and oranges comparison, you'll agree that the Corporation has made use of this seatbelt data from the Transport Canada survey in the past?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And it considers it relevant and credible?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: To your knowledge is Transport Canada still conducting these surveys?

MS. MARILYN MCLAREN: I can't be sure, but we could check on that.

MR. BYRON WILLIAMS: Would you undertake, Ms. McLaren, to make enquiries as to whether Transport Canada is continuing to conduct and publish the results of its rural and urban surveys, and if it's publically available, if it's not doing so, if -- if you could undertake to -- the reasons why it's not.

MS. MARILYN MCLAREN: We will undertake to do that, yes.

--- UNDERTAKING NO. 39: To advise if Transport Canada is continuing to conduct and

publish the results of its
rural and urban surveys, and,
if not, the reasons why

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Looking to the 2006/'07 results and acknowledging, Ms. McLaren, that -- that they're a couple years out of date, you'll see on the first paragraph, under "Background" -- if you could, that's page 1 of the document, Ms. McLaren. There's -- in the first paragraph, there's a stated objection of the National Occupant Restraint Program to achieve a minimum 95 percent for national seatbelt use and the proper use of child restraints by all motor vehicle occupants.

Is that correct?

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

MR. BYRON WILLIAMS: And that was part of the road safety vision 2010, correct?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: The objective then being to achieve this target by 2010.

Would that be accurate?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Is Canada going to reach that objective, Ms. McLaren?

MS. MARILYN MCLAREN: Can't tell from this data.

MR. BYRON WILLIAMS: How about Manitoba?

MS. MARILYN MCLAREN: Again, we rely on the Transport Canada data, so it is somewhat out of date what we have here in front of us.

MR. BYRON WILLIAMS: Just in terms of the Transport Canada methodology, and that's on the third paragraph of this first page, it's your understanding that, at least up until September 2007, Transport Canada has done annual seatbelt usage surveys, with a survey running in rural Canada in one (1) year, and sequentially followed by a survey in urban Canada the subsequent year.

Is that correct?

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

MR. BYRON WILLIAMS: And by rural Canada, we are looking at towns with a population of fewer than ten thousand (10,000) but -- but more than a thousand (1,000).

Is that correct?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: It catches my town of Souris. Urban -- urban Canada communities are those with a population of over ten thousand (10,000).

Fair enough?

MS. MARILYN MCLAREN: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Moving to page -- the third page in, Ms. McLaren, in your document, you'll see a chart titled "Rural Canada Seatbelt Use, All Occupants of Light-duty Vehicles by Province or Territory 2006."

Do you see that?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And you'll see the results for 2006 show the Canadian average at the bottom at eighty-eight point three (88.3), with the Manitoba average of eighty-six point four (86.4) appearing in the middle of the page.

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: So Manitoba would be somewhat below the -- the Canadian average, correct?

MS. MARILYN MCLAREN: That's -- that's correct, yes.

MR. BYRON WILLIAMS: Moving to Chart 2 on the next page, titled "Urban Canada Seatbelt Use, All Occupants of Light-duty Vehicles by Province or Territory 2007," you'll see at the bottom the Canadian average of

93.1 percent, Ms. McLaren?

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

MR. BYRON WILLIAMS: In the middle of the page, just under Manitoba, you'll see our neighbours to the west, Saskatchewan, being at 95.4 percent, correct?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And Manitoba is just above that at eighty-nine point seven (89.7), would that be accurate?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Again, Manitoba would be below the urban Canada seatbelt use average based on this result?

MS. MARILYN MCLAREN: Yes, it is.

MR. BYRON WILLIAMS: Ms. McLaren, if you -- if you would, if you could turn to Tab 1 of the CAC book of -- CAC/MSOS book of documents, and there you'll see a garish headline in the Winnipeg -- from the Winnipeg Free Press, "Spike in driving fatalities this year," do you see that, Ms. McLaren?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And I'm not sure if you'll recall this, Ms. McLaren, after so many -- so many days ago, but in your evidence on October 14th, Ms. McLaren, again, you -- you mentioned referencing reports in the media related to matters related to MPI. It wasn't on this specifically, but you talked about media reports relating to MPI.

Do you recall that?

MS. MARILYN MCLAREN: The one I recall is related to auto theft, I believe.

MR. BYRON WILLIAMS: Okay. Part of the role of MPI and the Corporation is to monitor and at times comment upon media stories relating to matters within the purview of MPI.

Would that be fair?

MS. MARILYN MCLAREN: That's fair.

MR. BYRON WILLIAMS: And certainly I -- I provided this story to your counsel a couple weeks ago, but I'm presuming that you were aware of this media report prior to me providing it to you.

Would that be fair?

MS. MARILYN MCLAREN: Yes, I was.

MR. BYRON WILLIAMS: And indeed the media relations person of MPI is -- is quoted in -- in this story.

Would that be fair?

MS. MARILYN MCLAREN: Yes, he is.

MR. BYRON WILLIAMS: And, Ms. -- Ms. McLaren, certainly I'm not holding you to the accuracy of anything in this story. I want to run through it with you, and we'll do that in a second. But you'll agree based upon your many years of experience in the auto insurance industry that the frequency or severity of automobile injuries can be expected to vary materially on a year-to -- to-year basis?

Would that be fair?

MS. MARILYN MCLAREN: Yes, particularly in Manitoba with a million plus people, the frequency and severity of serious injuries and fatalities swings around a lot.

MR. BYRON WILLIAMS: And so I think that's an important context. When we -- we look at this story, one (1) year does not a trend make.

Is that fair?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Directing your attention to the first two (2) paragraphs of that -- this story, you'll see the suggestion that after a few years of reduced fatalities in terms of motor vehicle deaths, results in -- in 2009 to date are disappointing.

Do you see that, Ms. McLaren?

MS. MARILYN MCLAREN: I do.

MR. BYRON WILLIAMS: And my question to you is based on the Corporation's knowledge. Do you agree with the general statement that the 2009 results to date in terms of motor vehicle fatalities are less positive as compared to resulted from the past few years?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Yeah, we would agree that fatalities are up this year. Serious injuries are too.

MR. BYRON WILLIAMS: Ms. McLaren, what would be helpful from my clients' perspective, and if you're able to assist, that -- that would be great, they would appreciate the Corporation, if this data is available to it, providing the number of fatal vehicle collisions to date in 2009, and they'd appreciate the Corporation being able to outline the number of fatal collisions, the consequences for drivers and passengers in -- in terms of who died, and indication of whether these were single vehicle or multi-vehicle accidents, and for each incident involving a -- a fatality, an indication whether the failure to use seatbelts, wear a helmet, unsafe speed, or the use of drugs and alcohol was identified.

Does the Corporation have that information?

MS. MARILYN MCLAREN: The contributing factors about drugs and alcohol, seatbelt use, and so on is one (1) of the -- likely unable to provide unequivocal information on that, but most of the other factors that you identified we should be able to pull together.

MR. BYRON WILLIAMS: The other thing I neglected to add was urban/rural split. Would you be able to do that, as well?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: We should be able to give you something on that. We'll identify what it is.

MR. BYRON WILLIAMS: And certainly my clients would appreciate for 2009 to date and also for 2008. Would that be possible without too much labour?

MS. MARILYN MCLAREN: Do you want the 2008 up to the end of September or October or the full year?

MR. BYRON WILLIAMS: I think the full year, Ms. McLaren.

MS. MARILYN MCLAREN: Okay.

THE CHAIRPERSON: Mr. Williams, if you get the data for the prior year, for the full year and the data for 2009 just till now, you won't have a comparison.

MR. BYRON WILLIAMS: I'm glad I've got you checking up on me, Mr. Chairman.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. McLaren, would it be possible for 2008 to get the full year and the comparative number?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Thank you, Mr. Chairman.

--- UNDERTAKING NO. 40: To indicate the number of fatal vehicle collisions for 2008 to get the full year and the comparative number; outline the number of fatal collisions; the consequences for drivers and passengers, in terms of who died; indication of whether these were single vehicle or multi-vehicle accidents; and for each incident involving a fatality, an indication whether the failure to use seatbelts, wear a helmet, unsafe speed, or the use of drugs and alcohol was identified. Also to include the urban/rural split

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. McLaren, back to the -- the Free Press story, In paragraph 4, you'll see reference to the RCMP undertaking a targeted seatbelt enforcement campaign in October.

Do you see that?

MS. MARILYN MCLAREN: Yes, I do.

MR. BYRON WILLIAMS: To your knowledge did such a campaign take place?

MS. MARILYN MCLAREN: I can't tell you that right now. I suspect that -- I imagine there's no reason to think that it didn't.

MR. BYRON WILLIAMS: Just so I understand the -- the relationship between police service providers and the RCMP, would it be ordinary for the -- the police to consult with MPI or advise you that -- that a targeted campaign is -- enforcement campaign is taking place?

MS. MARILYN MCLAREN: Most likely in the planning stages. So clearly, we would have been informed that it was going to just like this media report talks about.

I don't necessarily expect that in every case they would come back to us and say, okay, it started this morning and is going to be -- and come back and tell us when it finished.

However, there are circumstances where we do initiatives like this jointly, so we are very much a part of it, a collaborative process.

In this particular case, we know they were planning to and -- and I have no updated information as to whether, in fact, it started, exactly what day it started and how long it was intended to continue.

MR. BYRON WILLIAMS: In this particular campaign, would MPI be playing any role via financial contributions?

MS. MARILYN MCLAREN: No, I don't believe that we were contributing to this particular blitz, so to speak, with -- with a financial contribution, but this month we did start our own occupant restraint media campaign, advertising, bus boards, billboards, all about occupant restraint, the focus being, you know, no matter whether your trip is a long one or a short one, the distance between you and the windshield is the same if you don't wear a seatbelt.

So clearly, there's some synergy there and we expect things like that to work much more effectively when they're done together than if they're done apart.

MR. BYRON WILLIAMS: That's where I'm going, Ms. McLaren. Is -- is it -- is it generally the case that these targeted enforcement campaigns are co-ordinated with the Corporation in terms of the Corporation's targeted media campaigns, and specifically both to the RCMP and the City of Winnipeg Police?

MS. MARILYN MCLAREN: Yes, that would be the intention. We are in conversation, consultation with them. We would not expect the traffic -- the individuals responsible for traffic enforcement at the WPS and the RCMP to be surprised when they see our commercial on TV.

We expect there to be that kind of co-operation and discussion. It does not always happen in every case that -- that we actually do something in a co-ordinated fashion each and every time, but they certainly are aware of what we're doing and we work as closely as we can.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Is the Corporation aware of any empirical evidence suggesting enforcement campaigns of either a short or long-term effect on seatbelt usage?

MS. MARILYN MCLAREN: This may not qualify as empirical evidence. I think we can point to information that's been discussed and -- and filed as part of these proceedings years ago.

You'll remember a number of years ago when the fines were increased and demerits were added -- no, I think both.

I think the risk of -- the perceived risk of being caught failing to comply with seatbelt legislation I think can be demonstrated to have had an impact on the increase in seatbelt wearing that Manitoba had a few years back when the fines were increased and demerits were added. I think we've talked about that here before.

MR. BYRON WILLIAMS: Has the Corporation made any recent inquiries of the Province of Saskatchewan in terms of their approach to occupant restraint as compared to -- to Manitoba's?

MS. MARILYN MCLAREN: No, not -- not recently, no.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Going back to the story in paragraph 6, the -- the media relations coordinator for the Corporation is referring to data relating to drops in seatbelt usage. Presumably, that's the Transport Canada information that -- that we went through?

MS. MARILYN MCLAREN: I believe that's right. It -- it references this year, but I think really what it is talking about is exactly the same Transport Canada data we looked at earlier.

MR. BYRON WILLIAMS: So there's no surveys out there that -- that we've missed, to your knowledge?

MS. MARILYN MCLAREN: Exactly.

MR. BYRON WILLIAMS: Turning to the -- the very last paragraph of this story, Ms. McLaren, or the -- the last section, you'll see a reference to motor vehicle accidents in the -- the last three (3) years, seventy-four (74) fatalities, including twenty-nine (29) not wearing seatbelts; eighty-two (82) fatalities, including 31 not buckled up; a hundred (100) fatalities in 2006, including thirty-seven (37) who weren't wearing seatbelts.

Does the Corporation take issue with these numbers?

MS. MARILYN MCLAREN: No. Ours will be a little different because we -- we do count things differently, but -- but directionally, that's exactly what we had. And I -- I think we may never have had, you know, a couple of years as low as they were in '07 and '08.

MR. BYRON WILLIAMS: I'm going to -- to flip to the area of cost control. We will not finish it today, Mr. Chairman, but Mr. -- Mr. Kramer, is that you?

MR. OTTMAR KRAMER: That may be.

THE CHAIRPERSON: Mr. Williams, just a question that comes to mind on this, and I think I know the answer, but just to confirm it. In cases where people are not wearing their seatbelts and they get badly injured or death, it doesn't affect the payout at all, does it?

MS. MARILYN MCLAREN: No, not at all.

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: What if you've been drinking, you were impaired and you were injured, is there any financial penalty that's assessed to that?

MS. MARILYN MCLAREN: We'll have to check on whether or not your permanent impairment payment would be jeopardized, but the one (1) I'm -- I'm very clear on is, if you're convicted of drinking and driving, your IRI would be eliminated for a maximum of one (1) year.

THE CHAIRPERSON: Thank you.

MS. MARILYN MCLAREN: And anyone who's incarcerated also is prevented from receiving IRI.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: The -- you may want to have at hand TI.5, which appears in the -- in the CAC book of documents at Tab 6, and also the Corporation's response, which is not in the book, to PUB-1-26 and PUB-2-12, please.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I know that's a lot of paper to ask you to shuffle, Mr. Kramer. In specific -- specifically with regard to TI.5, I'm asking you to turn your attention to page 3.

MR. OTTMAR KRAMER: I've got it.

MR. BYRON WILLIAMS: And I'd like to chat with you at a -- at a high level about possible metrics or ways for the regulator and -- and Intervenors to look at the productivity of MPI, especially with regard to the -- the basic program.

Okay, Mr. Kramer?

MR. OTTMAR KRAMER: Okay.

MR. BYRON WILLIAMS: On the claims side, one possible measure would be the ratio of claims expenses to claims, which I -- I think as indicated are six (6) year.

You'll agree -- you'll agree with that?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: And one, at least conceivably, might use that to track the inflation in costs per claim, would that be fair? I'm not suggesting you're doing that now, Mr. -- Mr. Kramer, but that's one (1) way you could use it to -- to look at the productivity of the Corporation.

MR. OTTMAR KRAMER: It -- it is one (1), but I think there's numerous others, too.

MR. BYRON WILLIAMS: You're agreed that it's one (1) way that you could look at this?

MR. OTTMAR KRAMER: Yes, subject to looking at variations and explanation as to why numbers would move around.

MR. BYRON WILLIAMS: Another possible indicator in terms of looking at metric for productivity would be claims expense per claims employee, which is, I think, your Indicator Number 8.

Would that be fair?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: And you might use that to provide -- to analyze the growth and cost per employee in the claims department? That would be a potential use that it could be used for, correct?

MR. OTTMAR KRAMER: Yes.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Did you say claims per claims employee or claims costs per claims employee?

MR. BYRON WILLIAMS: I was going to get to claims per claims employee in just a second, Mr. -- Mr. Kramer. So I was suggesting you -- to you that one metrics that you might use is claims expense per claims employee, and that you might use it to provide for the growth in costs per employee in the claims department, correct?

MR. OTTMAR KRAMER: Yes. The -- the -- however, to this -- looking at this page 3 of TI.5 is --

it's done on a corporate basis not on a Basic basis, and -- and henceforth the assumption of DVL operations has -- has made some of these comparatives uncomparable.

MR. BYRON WILLIAMS: And we're going to get to that in just a second, Mr. Kramer, and I accept that. I'm looking at a theoretical basis on some certain ways that one can look at metrics for measuring the productivity of -- of the Corporation.

You understand that?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: A third possible measure in terms of claims productivity might be claims per claims employee, correct?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: And that would be a direct measure of productivity in that -- in that group, correct?

MR. OTTMAR KRAMER: Yes. Consider -- as long as you've got pure data, yes.

MR. BYRON WILLIAMS: And that's probably a useful segue to the Corporation's response to PUB-1-26A. If you could turn there for a second?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: If I wanted to look at these metrics or indicators for the basic program and by these I mean claims expense per claims, claims expense per claims employee, and claims per claims employee, I would have to know, Mr Kramer, three (3) things I'm going to suggest to you, the Basic claims expense, the Basic claims FTEs, and the Basic -- and the number of Basic claims.

Would that be fair?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: And Basic -- Basic claims expense is available to us, that information, sir?

MR. OTTMAR KRAMER: Yes, it is.

MR. BYRON WILLIAMS: It would be fair to say though that currently the Corporation is unable to calculate Basic claims FTEs.

Would that be accurate?

MR. OTTMAR KRAMER: Yes.

MR. DONALD PALMER: We can -- we can do an allocation of claims, employee salary, I suppose, in terms of an assignment. And we've talked in the cost allocation of assignment versus allocation. We don't specifically do an allocation of FTEs, we do an allocation of costs, so I think that's where the difficulty arises.

You could do a proxy of saying claims per fifty thousand dollars ($50,000) of salary, or something like that, which probably gets you close to a number that you're doing, so -- so the specific, as you've deci -- defined, not quite, but there are ways to get proxies.

MR. BYRON WILLIAMS: So just so I understand your equivalent -- or your -- your answer, Mr. Palmer, it is possible by using a proxy, such as a salary average, to do a calculation, a proxy for Basic claims FTEs.

Is that correct?

MR. DONALD PALMER: FTE equivalents would be another way to -- to look at it. I guess the -- the difficulty is, for assignment purposes, we don't have one (1) set of staff that does Basic claims and another set of staff that does Extension claims.

One (1) adjuster would -- would handle both claims in a specific instance, so you could do an -- an allocation or an FTE equivalent.

MR. BYRON WILLIAMS: So in future proceedings, for example, if one was looking at creating a metric based upon that, it would be possible to establish some sort of Basic FTE equivalent.

Would that be fair?

MR. DONALD PALMER: You would have to

make some assumptions on -- on that equivalent but, yeah, it's possible.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: In terms of the number of Basic claims, is -- am I correct in suggesting that MPI is not currently in a position to provide an estimate on the number of Basic only claims.

Would that be fair?

MR. DONALD PALMER: I think the difficult would be Basic only claims. We could probably do claims that have a Basic cost component in them. That's probably doable.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: The -- the reason you're seeing some hesitation on my part, Mr. Palmer, is in PUB-1-26, the Corporation was -- was asked to do some calculations, such as claims per claims employee, claims expense per claims, and -- and its response was that this information on -- for the Basic program was not available.

Do you recall that response?

MR. DONALD PALMER: Yes, I do. And -- and as it has been sort of defined here, it's not. But making some assumptions and approximations, you could probably get there with -- if you had defined assumptions.

MR. BYRON WILLIAMS: So what you're telling me is that, for future proceedings, a proxy could be developed for Basic claims and Basic claims FTEs.

Is that fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: I'll ponder that. Also in the Corporation's response to PUB/MPI-1-26A it was also not able to provide the -- a -- it was also not able to provide the calculation of Basic policies per Basic support employees.

Is that correct?

MR. DONALD PALMER: And that would be based on the same logic. We don't have Basic employees but you could probably do a -- some sort of an allocation or a proxy.

MR. BYRON WILLIAMS: So for future proceedings, that's something that -- that could be done?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: This may go to Mr. Kramer or it may go to Mr. Palmer.

I would like to talk for a -- if you could turn to CAC -- the CAC book Tab 7, I'd like to talk about inflation for a couple of minutes.

It's more likely you, Mr. Palmer, I'm guessing, but...

MR. DONALD PALMER: Sure, I'll take it.

MR. BYRON WILLIAMS: Without asking you to elaborate too much, I think this one's a gimme. But you'll agree that inflation forecasts are central both to the revenue and cost forecast of the Corporation, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And again, without commenting upon the directional impact, you'll agree that a sustained bout of relatively high inflation could be expected to have a material effect on a variety of Corporate endeavours including investments, discounted policy liabilities, claims and operating expenses, pension expenses.

That would be fair?

MR. DONALD PALMER: Claims cost too, so yes, I would agree with all of those.

MR. BYRON WILLIAMS: Obviously for these reasons it's important for the Corporation to monitor trends in terms of inflation, as well as, the approach of policymakers to inflation.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And you'd agree with me that a central component, in terms of the understanding both of trends in terms of inflation as well as to the approach of policymakers to inflation, would be an understanding of the approach of the Bank of Canada?

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Mr. Palmer, I -- I'm pretty sure I could dig up an excerpt from the Bank of Canada quarterly reports if I needed to, but I wonder if you would accept, subject to check, that in February 1991 the Federal Government and the Bank of Canada jointly agreed on a series of targets for reducing total CPI inflation to the midpoint of a range of 1 to 3 percent by the end of 1995?

MR. DONALD PALMER: I seem to recall that, yes.

MR. BYRON WILLIAMS: And that inflation

target has been extended a number of times, fair enough?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And in November of 2006, you'll accept subject to check, that the agreement was renewed for a period of five (5) years to the end of 2011?

Would that be fair, subject to check?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the terms of this agreement provide that the Bank will continue to conduct monetary policy aimed at keeping total CPI inflation at 2 percent with a control range of 1 to 3 percent.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And the Bank in Canada indeed has been targeting an inflation rate of 2 percent, the mid point of 1 to 3 percent, the 1 to 3 percent control range since 1995, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Mr. Palmer, I just want to look at how the Bank of Canada has done and there's a number of sources for this on the record but I'll ask you to turn to the CAC book of exhibits Tab 7 which I believe you have in front of you, sir.

MR. DONALD PALMER: I do.

MR. BYRON WILLIAMS: And you'll agree that we shared this document with you previously, along with the source CPI numbers from the Bank of Canada website?

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And you've had the opportunity to review the figures and the calculations, correct?

MR. DONALD PALMER: Yes, they look fine.

MR. BYRON WILLIAMS: And you'll agree with me that basically what this table tracks is the relative trend in CPI levels from August of 1995 through August of 2009?

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And at August 1995 the CPI was eighty-seven point seven (87.7).

Is that correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: And August 2009 it's a hundred and fourteen point seven (114.7), correct?

MR. DONALD PALMER: That's correct.

MR. BYRON WILLIAMS: And you'll agree,

subject to check, that the increase from August 1995 to August 2009 is what would've been experienced had the CPI increased by 1.94 percent per year.

Would that be fair?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: So in -- in targeting at 2 percent and achieving 1.9.4 percent over the fourteen (14) year period, you'd agree that the -- the Bank of Canada seems to have a relatively good handle on this issue, sir?

MR. DONALD PALMER: For the last fourteen (14) years, yes, I would agree with that.

MR. BYRON WILLIAMS: Mr. Chairman, I've got one (1) section that'll probably take about eight/ten (8/10) minutes and then I'm heading into a longer one (1), so I propose to finish that, and then perhaps aim for a -- a break or a -- the close of business, if that's acceptable? Back to you, Mr. Kramer, I believe and if you can turn to Tab 5 of the CAC book of documents, which is from the app -- the TI.78.

You have that, sir?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: And again, you -- you took -- you canvassed some of these issues with Ms. Everard, so I -- I'm anxious not to trample on her turf.

Focussing on the 2010/'11 year, the projected year, Mr. -- Mr. Kramer, you'll agree that the four (4) largest factors affecting expenses relate to compensation and staffing, data processing, building expenses, and amortization for the 2010/'11 year, sir?

MR. OTTMAR KRAMER: Yes. That's correct.

MR. BYRON WILLIAMS: And as we look at the projected expenses for that year of a -- Basic expenses for that year we see -- you'll agree that the projection is for 158.36 million.

Is that correct, sir?

MR. OTTMAR KRAMER: Yes. That's correct.

MR. BYRON WILLIAMS: And would you agree subject to check that the compensation figure of 92.59 million accounts for about 58 percent, sir?

MR. OTTMAR KRAMER: What did you say?

MR. BYRON WILLIAMS: Fifty-eight percent?

MR. OTTMAR KRAMER: Yes. That's correct.

MR. BYRON WILLIAMS: And subject to check that the data processing of 11.3 amounts to just a bit over 7 percent, sir?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: And that 9.2 million related to building expenses accounts for about 6 percent.

Fair enough?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: And the fourteen point three (14.3) related to amortization amounts to about 9.2 percent of the total.

Would that be fair?

MR. OTTMAR KRAMER: I've got 9 percent. It's close.

MR. BYRON WILLIAMS: Collectively, you'll agree that these -- the big four (4) in this year account for 80 percent of the total.

Would that be fair?

MR. OTTMAR KRAMER: Subject to check, yes.

MR. BYRON WILLIAMS: I wonder if you could turn to CAC-1-37, which appears at Tab 4 of the materials of the CAC exhibit book?

Do you have that, Mr. Kramer?

MR. OTTMAR KRAMER: Yes, I do.

MR. BYRON WILLIAMS: And you'll agree with me that the attachment details -- one (1) element of what it details is Basic share of the actual corporate expenditures for the year 2005/'06 through 2008/'09 in -- in terms of the corporate budget, Mr. Kramer.

Would that be fair?

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

MR. BYRON WILLIAMS: And it also includes the approved budgets for 2005/'06 through to one (1) additional year out, which would be 2009/'10. It's at page 2, I think, of the attachment, if you're looking for it, Mr. Kramer.

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: Turning your attention, first of all, to page 2, not of the answer, but of the attachment, you'll see the Basic share of the 2009/'10 approved expense budget.

Would that be fair?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: Speaking exclusively of the approved budget, would it be fair to say that the approved budget for 2009/'10 anticipates somewhat lower costs for the Immobilizer Program in 2009/'10, than in 2008 -- or 2007/'08, which appears on the previous -- the -- the actuals for -- excuse me, than the actuals for 2008/'09, which appear on the previous page?

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

MR. BYRON WILLIAMS: And if I were to compare the approved safety and loss prevention budget for 2009/'10 of 12.163 million, and then looked to the actuals for '08/'09 of 18.176 million, there's about a $6 million difference?

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

MR. BYRON WILLIAMS: So about 6 million less in -- in -- budgeted in '09/'10 for immobilizer than in the previous year.

Would that be fair?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: Turning to page 3 of the attachment, you'll see the actual expenditures in the middle column for the '05/'06 year, sir, do you see that?

MR. OTTMAR KRAMER: Yes, I do.

MR. BYRON WILLIAMS: And actual expenditures for that year were about 118.4 million, correct?

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

MR. BYRON WILLIAMS: Excuse me. Flipping back to page 1 of the attachment you'll see the actual expenditure for 2008/'09.

Mr. Kramer, do you see that?

MR. OTTMAR KRAMER: Yes, I do.

MR. BYRON WILLIAMS: And you'll agree that four (4) years later the actual expenders -- expenditures attributed to Basic were some 29.1 million more than in the Basic share of the Corporate budget in -- four (4) years previously, '05/'06.

Would that be right?

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

MR. BYRON WILLIAMS: And I could hear your calculator whirling. Would you agree that that -- subject to check, that that would be about 24.5 percent higher in terms of actual expenditures between those four (4) years?

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

MR. BYRON WILLIAMS: Mr. Kramer, I want to look at approved budgets, a four (4) year comparison as well, so I wonder if you would turn to page 4, and you'll see the expense budget -- approved expense budget for 2006/'07 in the first column, sir, page 4.

MR. OTTMAR KRAMER: Yes, I have it.

MR. BYRON WILLIAMS: And you'll see that the -- the approved expense budget for 2006/'07 Basic share of the Corporate total was 123.3 million approximately, sir?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: Just to flip back to page 2, we -- you'll see the 2009/'10 approved budget with a figure of 158.2 million approximately, sir?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: Would you agree, subject to check, that four (4) years later the approved expenditure for 2009/'10 is about 35 million higher, let's say 34.9 because I know you're precise, as compared to the 2006/'07 approved budget in terms of basic share of the Corporate budget, sir?

MR. OTTMAR KRAMER: Yes, that is correct, due to numerous factors, including immobilizer spending.

MR. BYRON WILLIAMS: It would be about 28.3 percent higher in -- in four (4) years, sir?

MR. OTTMAR KRAMER: Yes.

MR. BYRON WILLIAMS: And the approved budget for 2009/'10 also shows a material reduction in immobilizer costs as compared to the actuals for '08/'09 of $6 million.

Is that right?

MR. OTTMAR KRAMER: Yes, a reduction from '08/'09, but an increase from '06/'07, which you've previously asked me to compare.

MR. BYRON WILLIAMS: Fair enough. Mr. Chairman, that's a convenient place to break. I probably, for the Board's information, have thirty (30) to forty (40) minutes on operating costs, a few questions about forecasting, and just a little follow-up from October 15th, so I'm relatively confident I could do it in about an hour on -- when we next sit.

(MPI PANEL NO. 1 WITNESSES RETIRE)

THE CHAIRPERSON: Very good, Mr. Williams. Okay, so we'll see you back, Ms. Everard, do you want to remind us when we next come back together? Is it January or February?

MS. CANDACE EVERARD: It's in one (1) week, Mr. Chairman, on Monday November 2nd.

THE CHAIRPERSON: Thank you.

--- Upon adjourning at 3:54 p.m.

Certified correct,

____

Cheryl Lavigne, Ms.