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2
3
4
5
6
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8
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10
11
12
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14
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17
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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 5th, 2009

APPEARANCES

1
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3 Candace Everard)
4
5 Kathy Kalinowsky) Manitoba Public Insurance
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7 Raymond Oakes) CMMG
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9 Byron Williams) CAC/MSOS
10
11 Nick Roberts (np)) MUCDA
12
13 Donna Wankling (np)) CAA
14 Jerry Kruk)
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	TABLE OF CONTENTS	
		Page No.
1		
2		
3	List of Exhibits	4
4		
5	Introductions	8
6	Opening Comments by CAC/MSOS	24
7	Opening Comments by CMMG	32
8	Opening Comments by CBA/MBA	34
9	Opening Comments by MPI	41
10		
11	MPI PANEL:	
12	MARILYN MCLAREN, Sworn	
13	DONALD PALMER, Sworn	
14	OTTMAR KRAMER, Sworn	
15	Cross-examination by Mr. Walter Saranchuk	47
16		
17	Presentation by Mr. David Gurvey	114
18	Presentation by Mr. Eduard Hiebert	120
19	Presentation by Mr. Doug Houghton	132
20	MPI PANEL:	
21	MARILYN MCLAREN, Resumed	
22	DONALD PALMER, Resumed	
23	OTTMAR KRAMER, Resumed	
24	Continued Cross-examination by Mr. Walter Saranchuk	145
25	Certificate of Transcript	195

LIST OF EXHIBITS		
No.	Description	Page No.
MPI-4	Transcript of Pre-hearing Conference of June 26th, 2009	20
MPI-5-1	The Board's procedural Order, number 109/09	20
MPI-5-2	The Board's procedural Order, number 133/09	21
MPI-6	The reminder notice of this public hearing	21
MPI-7-1 through MPI-7-86	The Board's first round Information Requests and MPI's responses to those requests	21
MPI-8-1 through MPI-8-37	The Board's second Information Requests and MPI's response to those requests	22
MPI-9	Book of documents	22
CAC/MSOS-1	First Round Interrogatories, numbered sequentially 1-1 through 1-117	31
CAC/MSOS-2	Second Round Interrogatories, numbered sequentially 2-1 through 2-49	31
CAC/MSOS-3	Evidence of Dr. Hum and Dr. Simpson	31

LIST OF EXHIBITS (Con't)			
	No.	Description	Page No.
1			
2			
3	CMMG-1	CMMG Interrogatories, Round 1	33
4	CMMG-2	CMMG Interrogatories, Round 2	33
5	CBA/MBA-1	Manitoba Bar Association's First Round	
6		Information Requests	39
7	CBA/MBA-2	Manitoba Bar Association's Second Round	
8		Information Requests and responses	40
9	CBA/MBA-3	Motion filed on September 9th, 2009	40
10	CBA/MBA-4	Reply to Motion's brief that MPI	
11		submitted	40
12	MUCDA-1	Second Round Information Request	41
13	MPI-1	Affidavit of Sherry Komadowski with attached	
14		exhibits, stating that all interested	
15		parties were served with the Notice of	
16		Public Hearing and Application	41
17	MPI-2	Affidavit of Zdenka Melnyk, with attached	
18		exhibits of Notice of Public Hearing and	
19		Pre-hearing Conference	42
20	MPI-3	Affidavit of Zdenka Melnyk and Reminder	
21		Notice of Public Hearing	42
22	MPI-4	The General Rate Application, Volume I	42
23	MPI-5	The General Rate Application, Volume II	43
24	MPI-6	The General Rate application, Volume III	43
25			

1	LIST OF EXHIBITS (Con't)		
2	No.	Description	Page No.
3	MPI/CAAC/MSOS-1-1 THROUGH	MPI/CAC/MSOS-7-5	
4		MPI's Information Requests of Doctors Hum	
5		and Simpson	43
6	MPI-8	Motion's Brief of Manitoba Public Insurance,	
7		submitted to the Board on September 16th,	
8		2009	44
9	MPI-9	Affidavit of Sharon Myshkowsky with respect to	
10		the Notice of Public Hearing and Pre-hearing	
11		Conference	44
12	MPI-10	Affidavit of Zdenka Melnyk, and it is with	
13		respect to public notice being published	44
14	MPI-11	Affidavit of Zdenka Melnyk with respect to	
15		reminder notice of public hearing being	
16		published in newspapers	45
17	MPI-12	Rebuttal evidence of Manitoba Public	
18		Insurance, filed September 28th, 2009, to	
19		Doctors Hum and Simpson	45
20			
21			
22			
23			
24			
25			

		UNDERTAKINGS	
1	No.	Description	Page No.
2			
3	1	MPI to advise how much has been	
4		spent on immobilizers in the	
5		current year	155
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

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

2

3 THE CHAIRPERSON: Okay, good morning,
4 everyone. I now call this 2010 Manitoba Public Insurance
5 Corporation General Rate Application Hearing to order.
6 MPI has applied to the Public Utilities Board for
7 approval of its premiums to take effect on March 1st,
8 2010.

9 This Hearing will be conducted in
10 accordance with the provisions of the Crown Corporation's
11 Public Review and Accountability Act, the Manitoba Public
12 Insurance Corporation Act, and the Public Utilities Board
13 Act.

14 In its Application, MPI is seeking
15 approval of rates charged for compulsory vehicle
16 insurance for the 2010/11 insurance year based on no
17 overall change in written premium revenue.

18 I am joined by two (2) other Board members
19 at this Hearing, Mr. Eric Jorgensen and Mr. Len Evans.
20 Also with us is Gerry Gaudreau, Executive Director and
21 Secretary to the Board. Gerry Barron and Hollis Singh
22 will also be here from time to time as associates and
23 acting secretaries of the Board. Board counsel are again
24 Walter Saranchuk and Candace Everard of Pitblado LLP.

25 And the Board has also retained the

1 services of two (2) other advisor firms well known to the
2 participants. They are, from Cathcart Advisors, Roger
3 Cathcart and Gary Sorba, who is in attendance, and Mr.
4 Brian Pelly of the actuarial firm, Eckler Partners.

5 Transcripts of this Hearing will be
6 recorded by Digi-Tran and made available on our website.
7 Our current expectation is that we will sit today,
8 tomorrow, and Wednesday of this week, Tuesday through
9 Thursday next week, as well as on October 26th, November
10 2nd, and November 3rd.

11 We will have our regular schedule
12 beginning at 9 o'clock, breaking sometime in midmorning,
13 then lunch, another break in the afternoon, and
14 adjourning at 4:00. Following closing arguments, the
15 panel, my two (2) colleagues and myself will sequester
16 ourselves and deliberate to meet our final determination
17 on the matters before us.

18 In the end, we may accept, deny, or vary
19 MPI's application. In reaching our decision, we will be
20 guided by the evidence written in oral in our
21 determination of what represents the public interest.

22 The Board takes its obligation and mandate
23 of protecting the public interest very seriously. We are
24 concerned not only with the short-term economic impact of
25 MPI's operations on both ratepayers and MPI itself but,

1 also, the fairness of that impact on MPI's long-term
2 physical operational well-being.

3 In addition, the Board views this process
4 as one (1) which should ensure transparency in terms of
5 the Corporation's operations and financial positions. In
6 fulfilling its mandate, the Board will pursue two (2)
7 major objectives at this Hearing:

8 1. To receive adequate information to
9 allow the Board to reach an accurate finding as to the
10 overall financial position outlook of the Corporation,
11 which forms the basis for the Board's decision on basic
12 rates; and,

13 2. To conclude the divergence and views
14 over what constitutes a reasonable rate stabilization
15 reserve balance, which is also related to the first
16 objective.

17 The Board will review all relevant facts,
18 including the changing nature of MPI as a corporation, as
19 well as any areas that crossover between its lines of
20 business, including investment, staffing, facilities and
21 contracts, as well as the nature of the relationship
22 among those lines of business.

23 The Board appreciates that in pursuit of
24 all information relevant to basic rates, it may seek
25 evidence that MPI may be hesitant to make public. This

1 Board in its dealings with other utilities routinely
2 receives information in confidence and suggests this
3 method as a potential solution in instances where
4 information is sought from the Corporation that it feels
5 it cannot make public.

6 In other words, the Board is hopeful that
7 a resolution to these issues can be achieved without the
8 need for a formal external decision being made, since
9 such action would entail both costs and an adversarial
10 process being undertaken.

11 The Board does not wish to have any
12 situations arise in the future in which the Corporation
13 does not provide useful information to the Board because
14 it feels it is not in a position to do so. The practical
15 results of that situation is that the Board is left
16 unaware of material facts and as such the Board looks
17 forward to a resolution of this issue being achieved.

18 We trust that the participants at this
19 Hearing will be guided by such considerations as cost-
20 effective participation and will employ a cooperative
21 approach, common goal being to put useful -- put forward
22 useful evidence to assist the Panel in reaching a sound
23 decision on the matters before it.

24 We have as usual weighty and complex
25 issues before us and I am confident that if we all

1 approach this process with civility we can make it work.

2 I now call on Ms. Everard for
3 introductions, followed by introductions by MPI and the
4 Intervenors. Ms. Everard will then give her introductory
5 remarks after which I will call on the Intervenors and
6 MPI to provide theirs. Then we will proceed with the
7 swearing in of MPI witnesses and commence the evidentiary
8 portion of the Hearing.

9 Ms. Everard...?

10 MS. CANDACE EVERARD: Thank you, Mr.
11 Chairman. As you've indicated, I'm Candace Everard from
12 Pitblado LLP. With me is my colleague, Mr. Walter
13 Saranchuk, Q.C., also Board Counsel. To my far left is
14 Robert Cathcart of Cathcart Advisors, and seated in our
15 back row is Gary Sorba, associated also with Cathcart
16 Advisors. We are expecting Brian Pelly to be here,
17 hopefully soon, as his flight would've gotten him into
18 our city this morning and he'll be seated at my right
19 when he does arrive. Thank you.

20 THE CHAIRPERSON: Thank you. Ms.
21 Kalinowsky...?

22 MS. KATHY KALINOWSKY: Good morning, Mr.
23 Chair and other members of the Board and Intervenors,
24 other people that are gathered here today. My name is
25 Kathy Kalinowsky, I'm the general Counsel and Corporate

1 Secretary. I'm very pleased to be in this seat as I've
2 worked on the MPI General Rate Application in various
3 forms, in various different seats I've occupied since
4 1994. So I've moved from back row at Board Counsel to
5 front row, to back at Board Counsel's desk, back row at
6 the MPI, front row, and I'm sure Mr. Williams, Mr. Dawson
7 and Mr. Oakes say maybe one (1) day I'll graduate and
8 really become an Intervenor.

9 But I have here also on my immediate right
10 Marilyn McLaren, the President and Chief Executive
11 Officer of Manitoba Public Insurance. Next to her is Mr.
12 Don Palmer, the Vice-President Finance and Chief
13 Financial Officer, and next to him is Ottmar Kramer, the
14 Director of Finance and Corporate of the Corporation

15 Behind me is what we've mystically
16 referred as the back row, and we have a few new faces
17 this year, obviously. There's Mr. Mike Triggs, who is
18 immediately behind me; he is the Senior Project Manager
19 in the legal department and he is the Designate Director
20 of Legal Services. He will receive his call to the Bar
21 in this province, he's a member of the Bars in other
22 provinces, but will receive his call to the Bar on
23 October 20th, 2009, and at that time he will be the
24 Director of Legal Services. He is not practising law in
25 the province of Manitoba at this time but will be

1 observing at these proceedings merely.

2 Next to him is Darlene Porter, the Manager
3 of Regulatory Affairs. Next to Darlene is Luke Johnston,
4 the Manager of Actuarial Services. And next to him is
5 Glen Bunston, the Manager of Investments. And finally
6 Ms. Jeannine Savard, the Manager of Budgeting and
7 Planning Services.

8 Also want to note for the record that
9 Manitoba Public Insurance responded today to one (1)
10 outstanding IR and they have been distributed to various
11 people, it's PUB/MPI 2-35 and that dealt with the WATSS
12 program. I handed the copies out to Mr. Gaudreau, and I
13 believe he has distributed them to all people. It's one
14 (1) that we said a response would be forthcoming and
15 while reviewing materials, we found that we hadn't
16 provided that response, so, we've provided it this
17 morning.

18 Also want to mention a couple of items
19 with respect to the exhibit list but I'll perhaps wait on
20 that matter at this point.

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

23 MR. BYRON WILLIAMS: Good morning, Mr.
24 Chair, Board Member Jorgensen and Board Member Evans.
25 Byron Williams, Public Interest Law Centre, and I'm here

1 on behalf of the Consumer's Association of Canada, the
2 Manitoba branch and the Manitoba Society of Seniors.

3 And watching -- and I think my front row
4 is Ms. Desorcy, who's executive director of the
5 Consumer's Association. And we'll have some remarks a
6 bit later this morning.

7 THE CHAIRPERSON: Thank you. Mr.
8 Oakes...?

9 MR. RAYMOND OAKES: Good morning, Mr.
10 Chairman, members of the Board, ladies and gentlemen. On
11 behalf of the CMMG, Raymond P. Oakes of the law firm
12 Booth Dennehy, representing CMMG again in -- as an
13 Intervenor, as we have since 1992.

14 Mr. Houghton, the president, is present
15 this morning as well, and we look forward to the upcoming
16 GRA. Just a note, if Ms. Kalinowsky wishes to cross the
17 floor, we'd certainly welcome her with the CMMG with open
18 arms.

19 THE CHAIRPERSON: Thank you. Ms. Charran
20 for the Canadian Automobile Association.

21 MS. SAMANTHA CHARRAN: Good morning, Mr.
22 Chairman, members of the Board, ladies and gentlemen.
23 I'm here with Jerry Kruk, and we'll be joined by Donna
24 Wankling during the course of the -- of the Hearing.

25 We're here on behalf of the CAA, Canadian

1 Association of -- Automobile Association of Manitoba. We
2 represent over a hundred and ninety thousand (190,000)
3 members across Manitoba.

4 And on be -- we're also here on behalf of
5 all Manitoba motorists to ensure that the insurance rates
6 are set fairly. CAA will be conducting a watching brief
7 during this Hearing and maintaining a ver -- very visible
8 presence.

9 We're particularly interested in questions
10 pertaining to the RSR. We plan to test evidence when we
11 have questions and to make final arguments at the close
12 of the Hearings.

13 We will not be filing for any costs. As
14 always, we appreciate the opportunity to participate on
15 behalf of our members. Thank you.

16 THE CHAIRPERSON: Thank you, and welcome.
17 Mr. Dawson...?

18 MR. ROBERT DAWSON: Good morning, Mr.
19 Chairman. My name is Robert Dawson of Winnipeg's Dawson
20 Law Chambers. I appear on behalf of the Manitoba Bar
21 Association.

22 I can indicate to the Board that the
23 Manitoba Bar Association's executive director, Ms. Stacy
24 Nagle, is seated in the gallery this morning and we're
25 ready to proceed.

1 THE CHAIRPERSON: Thank you, Sir. Mr.
2 Roberts for Manitoba used car dealers have indicated to
3 us that he will not be here today and may participate
4 sparingly during the Hearing, but we will see.

5 Now we will return to Ms. Everard for your
6 comment.

7 MS. CANDACE EVERARD: Thank you, Mr.
8 Chairman. Manitoba Public Insurance, or MPI, is applying
9 to the Public Utilities Board for approval of premiums to
10 be charged with respect to compulsory vehicle insurance
11 for the insurance year of 2010/11.

12 The rates would take effect on March 1st,
13 2010 and are based on no overall change and written
14 premium revenue. The rates proposed affect average base
15 rates -- pardon me, average base premiums for each major
16 vehicle class as follows:

17 For private passenger vehicles, and there
18 are approximately six hundred and ninety-five thousand
19 (695,000) of them in Manitoba, a 2 percent -- or a .2
20 percent decrease.

21 For commercial vehicles, and there are
22 approximately forty-two thousand (42,000) of those in
23 Manitoba, a .6 percent decrease.

24 For public service vehicles, and there are
25 approximately ten thousand (10,000) of those in Manitoba,

1 a 2.5 percent increase.

2 For motorcycles, and there are
3 approximately twelve thousand (12,000) of those, a 5.7
4 percent increase.

5 For trailers, and there are approximately
6 a hundred and thirty-eight thousand (138,000) of those, a
7 5.7 percent -- pardon me, a 3.8 percent increase.

8 And for off-road vehicles, and there are
9 approximately forty-nine thousand (49,000) of those, a 17
10 percent decrease.

11 So, overall, there are just over nine
12 hundred and forty-five thousand (945,000) vehicles which,
13 on an overall basis, will experience no change in rates.
14 Actual premiums will, of course, vary depending on
15 claims' experience, driving record, insurance use,
16 territory and vehicle rate group.

17 Driver licence premiums and vehicle
18 premium discounts for the year of the Application have
19 been previously approved by this Board. No changes are
20 proposed to fleet rebates and surcharges or the amounts
21 charged for time payments or service and transaction
22 fees.

23 The Corporation proposes that late payment
24 fees become customer based rather than policy based. The
25 Corporation proposes the following rate adjustments for

1 policies issued between March 1st, 2010 and February
2 28th, 2011:

3 Firstly, that there be combined
4 classification offsets for all vehicles except off-road
5 vehicles to achieve revenue neutrality.

6 Secondly, that there be annual experience
7 based rate adjustments of plus 15 percent to minus 15
8 percent for individual classes, with the exception of
9 mopeds, motor scooters, and trailers with a value of
10 twenty-five hundred dollars (\$2,500) or less, as well as
11 off-road vehicles and dealer moped insurance use.

12 Thirdly, that there be an annual
13 experience based adjustment of up to 25 percent for
14 mopeds and motor scooters.

15 Next, that there be a capping of all rate
16 changes at 20 percent per year, except rate changes for
17 mopeds and motor scooters, which are capped at 25 percent
18 per year, as well as dealer moped use.

19 And lastly, that dealer moped rates
20 decrease to equal the rate for all purpose mopeds with
21 the full indicated experience adjustment without capping
22 for the highest rate group in each territory.

23 With respect to the evidentiary exhibits
24 in this proceeding, I note that there were three (3)
25 entered on the record already at the pre-hearing

1 conference in this matter held in June. Those were
2 Exhibit PUB Number 1, which was the Notice of Public
3 Hearing and Pre-hearing Conference, dated June 10th,
4 2009; Board Exhibit 2, the Board's rules of practice and
5 procedure; Board Exhibit 3, which was the timetable for
6 this General Rate Application, which has since been
7 revised in terms of the Hearing dates, and Mr. Chairman,
8 you've already made reference to those changes.

9 I would now like to enter on the record
10 some additional exhibits, on behalf of the Board. As
11 Exhibit 4, the transcript of the Pre-hearing Conference,
12 which was held June 26th, 2009.

13

14 --- EXHIBIT NO. NO. MPI-4: Transcript of Pre-hearing
15 Conference of June 26th, 2009

16

17 MS. CANDACE EVERARD: As Exhibit 5-1, the
18 Board's procedural Order, number 109/09, dated July 7th,
19 2009.

20

21 --- EXHIBIT NO. MPI-5-1: The Board's procedural Order,
22 number 109/09

23

24 MS. CANDACE EVERARD: As Exhibit 5-2, the
25 Board's procedural Order, number 133/09, dated September

1 25th, 2009, which related to a disclosure motion.

2

3 --- EXHIBIT NO. MPI-5-2: The Board's procedural Order,
4 number 133/09

5

6 MS. CANDACE EVERARD: Exhibit 6 for the
7 Board will be the reminder notice of this public hearing,
8 dated August 5th, 2009.

9

10 --- EXHIBIT NO. MPI-6: The reminder notice of this
11 public hearing

12

13 MS. CANDACE EVERARD: Board Exhibits 7-1
14 through 7-86 will be the Board's first round Information
15 Requests and MPI's responses to those requests.

16

17 --- EXHIBIT NO. MPI-7-1 through MPI-7-86:
18 The Board's first round Information
19 Requests and MPI's responses to those
20 requests

21

22 MS. CANDACE EVERARD: Board Exhibit 8-1
23 through 8-37 will be the Board's second round Information
24 Requests and MPI's response to those requests.

25

1 --- EXHIBIT NO. MPI-8-1 through MPI-8-37:

2 The Board's second Information Requests
3 and MPI's response to those requests

4

5 MS. CANDACE EVERARD: And Exhibit 9, with
6 the Board's permission, will be the book of documents
7 which Mr. Saranchuk and I circulated this morning, on
8 behalf of the Board.

9

10 --- EXHIBIT NO. MPI-9: Book of documents

11

12 MS. CANDACE EVERARD: With respect to the
13 cross-examination that will be conducted by Mr. Saranchuk
14 today and myself, possibly today and over the next couple
15 of days, the following major issues will be addressed:

16 The revenue requirement with reference to
17 net income, including comparisons of actual results to
18 forecasts;

19 Base premiums and rate methodology, in
20 light of the proposed rates representing no overall
21 change in premium revenue;

22 MPI's rate stabilization reserve, or RSR.

23 MPI's investment allocation and investment
24 income;

25 MPI's proposed cost allocation

1 methodology.

2 The incoming International Financial
3 Reporting Standards or IFRS;

4 MPI's claims incurred, including claim's
5 forecasting, claims expenses, operating expenses, and
6 capital expenditures;

7 The anti-theft initiatives undertaken by
8 MPI over the last number of years and the positive
9 results from those efforts.

10 I will now refer to the procedural
11 outline, which was also distributed this morning, and in
12 particular the second page of the outline where it's
13 reflected the order in which matters will be heard.

14 So I note, pursuant to B sub 4, Mr.
15 Richard Olfert of Deloitte is being produced on behalf of
16 the Corporation next Tuesday, October 13th, 2009.
17 Thereafter, it's the plan that we hear from Doctors Hum
18 and Simpson on behalf of the Consumer's Association of
19 Canada, and the Manitoba Society of Seniors, and that
20 will take place on the Thursday, October 15th, 2009.

21 In addition, I believe there are three (3)
22 members of the public who intend to present to this
23 Hearing, and that is set to take place this afternoon at
24 1:15 p.m. Subject to any questions, those are my opening
25 comments. Thank you.

1 THE CHAIRPERSON: Thank you, Ms. Everard.
2 We'll go now to Mr. Williams for CAC/MSOS.

3

4 OPENING COMMENTS BY CAC/MSOS:

5 MR. BYRON WILLIAMS: Thank you, again,
6 Mr. Chairman. CAC/MSOS always approached these hearings
7 with a number of central objectives from -- from their
8 perspective. Certainly, they're looking to ensure that
9 the basic program is off -- offering a cost effective
10 high quality service that's accessible to Manitobans.
11 And at the same time, similar to the -- the Board's
12 comments this morning, they're looking for a -- a process
13 and a result that it is both accountable and transparent.

14 The participation of CAC/MSOS in this
15 Hearing is -- is in form by what they consider to be
16 three (3) central realities of this Hearing. And the --
17 the first is the dominant market position the Corporation
18 has, both in the Extension -- excuse me, both in the
19 Basic and the Ex -- Extension side.

20 And the Board articulated this much better
21 than -- that I humbly could in its Order last year, at
22 page 7. Obviously there's a compulsory monopoly on the
23 Basic side, but the -- the benefits from that Basic
24 monopoly flow over to the Extension side and provide a --
25 what is a defacto Extension monopoly as well.

1 And, obviously, the monopoly offers some
2 potential for very real benefits to Manitoba consumers,
3 but in the absence of effective regulation, it al -- also
4 can leave them vulnerable. It can leave them vulnerable
5 that the Corporation, without the discipline of the
6 marketplace, may make decisions that are not in the best
7 interest of Manitobans, whether avoiding necessary rate
8 increases at politically sensitive times or,
9 alternatively, incurring unnecessary costs that leave
10 rates higher than they otherwise need to be.

11 So in the face of the Corporations de jure
12 monopoly on the Basic side and de facto monopoly on the
13 Extension side, consumers are certainly looking to the
14 regulator to serve as a proxy for the marketplace and
15 impose a discipline on this Corporation necessary for it
16 to realize its full potential on behalf of Manitobans.

17 This monopoly, both in Basic and,
18 effectively, in Extension as well, offers a natural segue
19 to the second reality that my clients wish to underline,
20 and that informs their participation in this Hearing.
21 And that reality is that, certainly under the current
22 accounting rules, the Corporation is, in my clients'
23 view, in a very handsome financial perspective.

24 Now, there's different ways at looking at
25 the -- the relatively strong position of the Corporation.

1 If you look at the reserves for the Corporation at the
2 who -- as a whole, they were in excess of \$280 million at
3 the end of the 2008/09 fiscal year, with Basic being well
4 over 130 million, and that's despite a \$90 million
5 adjustment for enhance retroactive benefits to those
6 suffer -- suffering catastrophic injuries. And another
7 way of looking at the -- the state, the -- the strong
8 state of the Corporation's financial position is perhaps
9 to look at the resiliency of its net income statement.

10 '08/'09 was a disastrous year in terms of
11 investments, yet at the end of the year the Corporation
12 suffered only a relatively modest loss, in terms of net
13 income. Ang going forward into '09/'10, '10/'11, and
14 '11/'12, the Corporation is looking at positive net
15 income despite what appears to be relatively rapid growth
16 in a broad range of basic expenditures, and despite what
17 looked to be significant expenditures related to the
18 business process review, or BPR, in the '09/'10 year, and
19 despite the ongoing impact of the new enhanced benefits
20 for catastrophic injuries, and despite the \$11 million
21 hit to the bottom line in '11/'12, related to the DRS or
22 Driver Safety Ra -- Rating.

23 So my -- my clients certainly in this
24 Hearing are looking at a reality of a Corporation -- a
25 Basic program, both awash in revenue and apparently

1 anxious to spend it. And looking at that from that
2 perspective, my -- my clients are -- are -- have a number
3 of questions that they will be posing in the course of
4 this Hearing.

5 One is a bit of their own internal self-
6 examination, and they're wondering whether they, and
7 perhaps their lawyer, have been as vigilant as they
8 should have been in terms of scrutinizing both MPI
9 forecasts and projected expenditures.

10 Secondly, can the relatively rapid growth
11 in Basic expenditures be justified as reasonable and
12 necessary, in the context of a just and reasonable rate.

13 Third, given recent material variances
14 between projected and actual costs, can the curr --
15 Corporation's current forecast be reasonably relied upon
16 for rate setting purposes.

17 Fourth, with specific reference to the
18 basic elements of the Business Process Review, what, if
19 any, baseline should be established to measure and test
20 ongoing significant expenditures related to the Basic
21 elements of the BPR.

22 Fifth, how, if at all, can we expect the
23 introduction of IFRS to affect the financial statements
24 of MPI for rate setting purposes?

25 The Chairperson spoke this morning of the

1 RSR. And certainly from my clients' perspective they are
2 going to be taking a hard look at those issues, and an
3 open frank look, keeping in mind the Board's objective of
4 trying to achieve some consensus around these issues.
5 Mindful of the Board's desire to bring about consensus,
6 my clients reform -- reformed -- retained both Dr. Hum
7 and Dr. Simpson to take a bit of an agnostic look, both
8 at the risk analysis and the DCAT in terms of their
9 relative strengths and weaknesses.

10 My clients will -- will keep an open eye
11 and an open -- open view on the Corporation's DCAT
12 proposal. Although they do have to note, right off the
13 bat, that there are some elements of the Corporation's
14 evidence, such as setting its target rates, based on its
15 low interest rate equity market performance scenario,
16 which really strain credulity. So while they have an
17 open mind, there's a -- they -- they have some
18 disinclination to accept that particular scenario. My
19 clients, certainly, in terms of the RSR, look forward to
20 the opportunity to attempt to achieve a consensus on this
21 issue.

22 The third reality -- I've spoke of the
23 dominant market position, I've spoken of the handsome
24 financial situation. The third reality is that since
25 2004 at least, MPI is a Corporation that has and is

1 undergoing a material change in circumstances. And
2 that's whether one considers the acquisition of DVL or
3 the introduction of streamline renewals and the reduced
4 role for brokers, or the conversion of claim centres to
5 full-service centres, or the PIPP infrastructure project.
6 MPI appears to be a Corporation which is both materially
7 changing how it delivers its core business and
8 significantly expanding beyond the boundaries of its
9 traditional business. And the enhanced identity cards
10 are just one (1) example of that.

11 And while many of the programs appear at
12 first glance to be outside the regulatory purview, as our
13 clients learn, to their chagrin, or the DSR or Driver
14 Safety Rating process, when desirable changes related to
15 the rollout of the DSR program were rendered inoperative
16 because of technological imperatives related only in part
17 to the Basic program, the rollout of these initiatives is
18 often closely integrated, with actions relating to the
19 Corporation as a whole having a potentially significant
20 spillover to the Basic program.

21 So as a result of third reality of these
22 numerous changes, we have a materially larger provider of
23 monopoly services managing an increasingly diverse
24 Corporation, in a series of often interrelated
25 initiatives but with the regulator with arguably far less

1 than complete access to the information which it requires
2 to confidently regulate the rates for service of the
3 Basic program.

4 And the question may be asked, and
5 certainly CAA has asked this for a number of years, how
6 exactly does one effectively regulate a monopoly where
7 the regulator has access to infor -- information relating
8 to only one (1) part of the operation of the company, but
9 where actions taken in the unregulated parts of the
10 organization may have spillover affects on the regulated
11 monopoly.

12 Perhaps the only complete answer to this
13 question may be found in legislative reform of the Crown
14 Corporations and Public Accountability Act. But my
15 clients are hopeful that some measured stre -- strides to
16 improving accountability can be taken with consideration
17 of the new proposed cost allocation methodology.

18 My clients also intend to actively
19 participate in this proceeding with regard to road safety
20 and loss prevention initiatives, and they certainly
21 intend to give credit to MPI where credit is due. MPI
22 and its partners, in terms of their progress in reducing
23 the cost of actual and attempted thefts, while continuing
24 to ask whether the Corporation is acting prudently and
25 reasonably to assist in reducing the tragic social and

1 economic costs of automobile accidents.

2 In terms of exhibits, Mr. Chairman and
3 members of the Board, CAC/MSOS would ask that -- that the
4 CAC/MSOS First Round Interrogatories, numbered
5 sequentially 1-1 through 1-117 be entered as CAC Exhibit
6 1-1 (sic).

7

8 --- EXHIBIT NO. CAC/MSOS-1:

9 First Round Interrogatories, numbered
10 sequentially 1-1 through 1-117

11

12 MR. BYRON WILLIAMS: Secondly, that the
13 Second Round Interrogatories, numbered sequentially 2-1
14 through 2-49, be entered as an exhibit.

15

16 --- EXHIBIT NO. CAC/MSOS-2:

17 Second Round Interrogatories, numbered
18 sequentially 2-1 through 2-49

19

20 MR. BYRON WILLIAMS: And, third, that the
21 evidence of Dr. Hum -- Doctors Hum and Simpson be entered
22 as CAC/MSOS Exhibit Number 3.

23

24 --- EXHIBIT NO. CAC/MSOS-3:

25 Evidence of Dr. Hum and Dr. Simpson

1 MR. BYRON WILLIAMS: Subject to any
2 questions, those are my opening submissions.

3 THE CHAIRPERSON: Thank you, Mr.
4 Williams.

5 Mr. Oakes...?
6

7 OPENING COMMENTS BY CMMG:

8 MR. RAYMOND OAKES: Thank you, Mr.
9 Chairman. To avoid duplication, not unexpectedly, the
10 CMMG will be concentrating on issues relevant to
11 motorcyclists and motorcycle insurance primarily. The --
12 one (1) of these causes the CMMG extensive concern and
13 that relates to Territory 2 application for an increase
14 of some 18 percent.

15 The CMMG is surprised that, given the
16 number of years of application where its insured saw 15
17 percent, that the Corporation is still requiring those
18 drastic increases from small pools of motorcycle riders
19 and looks forward to a possibility of smoothing those
20 drastic rate increases over time.

21 Other issues, obviously, that concern the
22 motorcyclists, relate to the wildlife and single vehicle
23 accident claims. In the program that the Corporation has
24 at present involving the comparative loss, what we once
25 referred to as loss transfer try -- type of system,

1 obviously those single vehicle accidents effects are
2 exaggerated and form a major driver of premium increases.
3 And we would look forward to the Board, through effective
4 cross-examination, having a chance to evaluate whether
5 MPI might become more of a leader in respect of its
6 program changes, relative to those two (2) types of
7 claims.

8 That leads also then to another major area
9 for cross-examination and review with the panel and that
10 relates to MPI's commitment to safety initiatives in
11 respect of motorcyclists. The CMMG feels that, as the
12 Immobilizer Program starts to wind down, that perhaps
13 this can be more of a priority for the Corporation that
14 is seen in the past years, and we look forward to the
15 Corporation being a leader with respect to safety
16 initiatives as well.

17 Certainly that's a brief summary, Mr.
18 Chairman, and we look forward to testing all of the
19 evidence.

20 With respect to exhibits, we'd ask that
21 the CMMG Interrogatories Round 1 and Round 2 be marked
22 separately as exhibits. Thank you.

23

24 --- EXHIBIT NO. CMMG-1: CMMG Interrogatories, Round 1

25

1 --- EXHIBIT NO. CMMG-2: CMMG Interrogatories, Round 2

2

3 THE CHAIRPERSON: Thank you, Mr. Oakes.

4 Ms. Charran, do you have anything to add
5 to the introductory remarks you made when you were just
6 doing the introductory phase?

7 MS. SAMANTHA CHARRAN: Yeah, we don't.

8 That's all for us for now. Thank you.

9 THE CHAIRPERSON: Thank you. Mr.
10 Dawson...?

11 MR. ROBERT DAWSON: Before I begin, Mr.
12 Chairman, might I remind the Board that someone has to
13 enter the Manitoba Used Car Dealer's exhibits in -- on
14 the record.

15 THE CHAIRPERSON: We will deal with that.
16 I will come back to Ms. Everard.

17 MR. ROBERT DAWSON: Thank you.

18 THE CHAIRPERSON: Thank you.

19

20 OPENING COMMENTS BY CBA/MBA:

21 MR. ROBERT DAWSON: On behalf of the
22 Manitoba Bar Association, Mr. Chairman, my client again
23 thanks the board for granting it Intervenor status. It's
24 been my client's position - and I think one that's been
25 reflected in the Orders of this Board over the years -

1 that it brings a unique perspective to these proceedings,
2 in that it advances positions that are, shall we say,
3 almost in the public interest, as opposed to those
4 specifically in the interests of the constituency that it
5 particularly represents.

6 We have, in the past, and will again this
7 year, pursue broad public policy considerations and, of
8 course, the usual issue that comes up every year, namely,
9 the way in which the Applicant handles personal injury
10 claims, especially where those injuries arise out of the
11 operation of motor vehicles.

12 In terms of the broad public policy
13 considerations to which I've alluded, the primary one, as
14 the Board already knows from the Information Request that
15 my client has submitted, relates to the interaction
16 between the way in which the Applicant deals with the
17 Government of Manitoba.

18 Last year there was an issue that arose of
19 concern to my client, which was the way in which the
20 Applicant handled or -- or addressed Orders and
21 recommendations that came from this Board. And my
22 comment at that time was almost flippant in saying,
23 What's the point of having these hearings if the Board
24 were to make Orders, and put forward recommendations,
25 only to have the regulated applicant essentially thumb

1 its nose at those.

2 And we pressed for that particular point,
3 and indeed plan to do some follow-up on that particular
4 issue this year, but that's an example of how there are
5 broad public policy interests because, of course, as My
6 Learned Friend Mr. Williams has already said, it's
7 important for the regulator to have a full and complete
8 understanding of the body that's being regulated,
9 obviously.

10 So this year, noting that the Board,
11 almost in every year that I've had conduct of this
12 matter, has always pointed to the way in which the -- the
13 Applicant has interacted with government, and to some
14 extent either shielded deliberately, or inadvertently,
15 the operations and oversight that this Board has
16 attempted to exercise, I thought it would be appropriate,
17 and my client agrees, that we should look into that
18 particular area.

19 There are a number of -- as my Learned
20 Friends have already pointed out, there are a number of
21 closely integrated projects between those that fall
22 squarely within the area of regulation of this Board, as
23 well as those that arguably may not. It's our submission
24 that in the course of our Information Requests that we've
25 made, we chose what is surely an issue that is something

1 that can be illustrative.

2 The Board is aware that recent
3 legislation, Bill 36, was proposed, which dealt with
4 catastrophic injuries, and essentially is a very laudable
5 legislative project, namely, to increase the benefits to
6 certain categories of victims of personal injury. This,
7 of course, gave to -- gave us the springboard, shall we
8 say, to investigate the way in which this kind of an
9 initiative would have arisen. For example, from where
10 does the idea come, does the government take into account
11 certain revenues that are available in the applicant's
12 bank, shall we say? There are a number of these sorts of
13 issues at which we're trying to get to the heart.

14 Unfortunately, as the Board is -- is well
15 aware, the Applicant has rejected, for the most part, a
16 substantive answer to those particular issues. It
17 remains my client's hope that this Hearing, as it
18 unfolds, will still offer the Applicant an opportunity to
19 come to me informally, and attempt to resolve these
20 particular issues, because the very worst that could
21 possibly happen - and I don't think it would be useful at
22 all - would be ultimately that the Minister responsible
23 for the Applicant would be brought before the Board to
24 attempt to answer some of these questions.

25 This is not the direction that I think

1 would be the most effective use of the Board's time, but
2 in consultation with Board counsel, as well as hopefully,
3 with the initiative that perhaps the Applicant may come
4 forward and attempt to resolve some of the issues that
5 are outstanding with us, we may be able to avoid that
6 kind of an outcome.

7 So that's the first area in which we
8 certainly wish to highlight the interaction between MPI
9 and the Government. We, again, would also return to some
10 of the issues that arose last year in the context of the
11 way in which MPI deals with Orders and recommendations
12 that this Board makes, but that is more of a way of a
13 follow-up, a clean-up from last year's issues.

14 There are two (2) other substantive issues
15 that arise in the context of the way in which the
16 Applicant handles claims made by victims of personal
17 injury. The first relates to the PIPP infrastruc --
18 infrastructure study that is ongoing.

19 And the second area that we'll handle, or
20 that we'll consider, would be the general way in which
21 the Applicant handles personal injury claims. And always
22 the question before this Board is: Are the revenues that
23 the Applicant is collecting, or purporting to seek,
24 necessarily used in the most effective way that entitles
25 victims to the benefits that the legislation says they

1 should get?

2 There will be a number, as my Learned
3 Friend Mr. Saranchuk sometimes labels them, quick-
4 snappers, which we can deal with in due course. And I
5 can assure the Board that we will work to avoid
6 duplication and cooperatively with all of the applicants.
7 And again, I'm going to say this at the risk of repeating
8 myself, I'm inviting the Applicant, at some point, to
9 discuss with me, informally, attempts to resolve the
10 outstanding disclosure issues. Failing which, I will
11 consult with Board counsel and take steps that may be
12 necessary to enforce the goals that my client is seeking
13 to pursue.

14 In terms of the exhibits that are before
15 us, I note that My Learned Friend Ms. Everard has put
16 before us a list, and we'll suggest that the list of
17 exhibits should be adopted as proposed, namely, Exhibits
18 1 and following would be the first -- the Manitoba Bar
19 Associations first round Information Requests.

20

21 --- EXHIBIT NO. CBA/MBA-1: Manitoba Bar Association's
22 First Round Information
23 Requests

24

25 MR. ROBERT DAWSON: Exhibit 2 and the

1 subsets would be the second round, and the responses.

2

3 --- EXHIBIT NO. CBA/MBA-2: Manitoba Bar Association's
4 Second Round Information
5 Requests and responses

6

7 MR. ROBERT DAWSON: Exhibit 3 would be
8 our Motion, which was filed on the 9th of September.

9

10 --- EXHIBIT NO. CBA/MBA-3: Motion filed on September
11 9th, 2009

12

13 MR. ROBERT DAWSON: Exhibit 4 would be
14 our reply to the Motion's brief that the PUB -- or that --
15 - sorry -- that MPI submitted on the 17th. And failing
16 any questions, that concludes my submission.

17

18 --- EXHIBIT NO. CBA/MBA-4: Reply to Motion's brief that
19 MPI submitted

20

21 THE CHAIRPERSON: Thank you, Mr. Dawson.
22 Before I go to Ms. Kalinowsky, Ms.
23 Everard, do you want to put in MUCDA's stuff?

24

25 MS. CANDACE EVERARD: Absolutely, Mr.
Chairman. In Mr. Robert's absence, I would ask on behalf

1 of MUCDA, that the Information Requests posed by MUCDA,
2 which I believe were only posed in the First (sic) Round,
3 be entered as MUCDA Exhibit Number 1.

4

5 --- EXHIBIT NO. MUCDA-1: Second Round Information
6 Request

7

8 THE CHAIRPERSON: Very good. Thank you.
9 Ms. Kalinowsky...?

10

11 OPENING COMMENTS BY MPI:

12 MS. KATHY KALINOWSKI: With respect to
13 the Manitoba Public Insurance Corporation's Exhibit
14 Number 1, would be the affidavit of Sherry Komadowski,
15 sworn September 16th, 2008, with attached exhibits,
16 stating that all interested parties were served with the
17 Notice of Public Hearing and Application.

18

19 --- EXHIBIT NO. MPI-1: Affidavit of Sherry
20 Komadowski with attached
21 exhibits, stating that all
22 interested parties were
23 served with the Notice of
24 Public Hearing and
25 Application

1 MS. KATHY KALINOWSKI: And Number 2 would
2 be the affidavit of Zdenka Melnyk, sworn September 11th,
3 2008, with exhibits and Notice of Public Hearing and Pre-
4 hearing Conference that was published in the required
5 newspapers.

6

7 --- EXHIBIT NO. MPI-2: Affidavit of Zdenka Melnyk,
8 with attached exhibits of
9 Notice of Public Hearing and
10 Pre-hearing Conference

11

12 MS. KATHY KALINOWSKI: MPI Exhibit Number
13 3, also an affidavit of Zdenka Melnyk, sworn September
14 11th, 2008, with attached exhibits of the Reminder Notice
15 of Public Hearing, dated October 12th, 2008 published in
16 the required newspapers.

17

18 --- EXHIBIT NO. MPI-3: Affidavit of Zdenka Melnyk
19 and Reminder Notice of Public
20 Hearing

21

22 MS. KATHY KALINOWSKI: MPI Exhibit Number
23 4 is the General Rate Application, Volume I.

24

25 --- EXHIBIT NO. MPI-4: The General Rate Application,

1 Volume I

2

3 MS. KATHY KALINOWSKI: Number -- MPI
4 Exhibit Number 5 is the General Rate Application, Volume
5 II.

6

7 --- EXHIBIT NO. MPI-5: The General Rate Application,
8 Volume II

9

10 MS. KATHY KALINOWSKI: And MPI Number 6
11 is the General Rate application, Volume III.

12

13 --- EXHIBIT NO. MPI-6: The General Rate application,
14 Volume III

15

16 MS. KATHY KALINOWSKI: MPI/CAC/MSOS 7-1
17 to 7-5 are MPI's Information Requests of CAC witnesses,
18 Doctors Hum and Simpson.

19

20 --- EXHIBIT NO. MPI/CAAC/MSOS-1-1 THROUGH MPI/CAC/MSOS-7-
21 5:

22 MPI's Information Requests of Doctors Hum
23 and Simpson

24

25 MS. KATHY KALINOWSKI: MPI Exhibit Number

1 8 is the Motion's Brief of Manitoba Public Insurance,
2 submitted to the Board on September 16th, 2009.

3

4 --- EXHIBIT NO. MPI-8: Motion's Brief of Manitoba
5 Public Insurance, submitted
6 to the Board on September
7 16th, 2009

8

9 MS. KATHY KALINOWSKI: MPI Exhibit Number
10 9 is an affidavit of Sharon Myshkowsky with respect to
11 the Notice of Public Hearing and Pre-hearing Conference.

12

13 --- EXHIBIT NO. MPI-9: Affidavit of Sharon
14 Myshkowsky with respect to
15 the Notice of Public Hearing
16 and Pre-hearing Conference

17

18 MS. KATHY KALINOWSKI: And Exhibit Number
19 10 is affidavit of Zdenka Melnyk sworn -- sorry -- sworn
20 and it is with respect to public notice being published
21 in the following newspapers.

22

23 --- EXHIBIT NO. MPI-10: Affidavit of Zdenka Melnyk,
24 and it is with respect to
25 public notice being published

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MS. KATHY KALINOWSKI: And Exhibit number 11 is also with -- by Zdenka Melnyk, and it's also in respect of the reminder notice of public hearing being published in certain newspapers.

--- EXHIBIT NO. MPI-11: Affidavit of Zdenka Melnyk with respect to reminder notice of public hearing being published in newspapers

MS. KATHY KALINOWSKI: And Exhibit Number 12 is the rebuttal evidence of Manitoba Public Insurance, filed September 28th, 2009, to Doctors Hum and Simpson.

--- EXHIBIT NO. MPI-12: Rebuttal evidence of Manitoba Public Insurance, filed September 28th, 2009, to Doctors Hum and Simpson

MS. KATHY KALINOWSKI: And I understand that it was originally sent just to the Board, and I believe the day after was sent by error to -- or in error by being one (1) day late to the Intervenors and other parties.

1 THE CHAIRPERSON: Thank you.

2 MS. CANDACE EVERARD: Mr. Chairman, just
3 before we move forward, two (2) things. One (1) is I've
4 just been reminded that the MUCDA IRs were actually posed
5 in the Second Round not in the First Round. They're
6 still MUCDA Exhibit 1, but I just wanted to clarify that.

7 And the -- the other item is there is a
8 motion pending by the Corporation to review and vary the
9 Board's last procedural Order, and I believe -- and of
10 course, Mr. Chairman, you should correct me if I'm wrong,
11 it's intended that that motion be dealt with in the
12 course of the cross-examination by Mr. Dawson when we get
13 to that stage of the Hearing.

14 THE CHAIRPERSON: Yes.

15 MS. CANDACE EVERARD: Thank you. I just
16 thought the parties in the room should be aware of that
17 plan. Thank you.

18 THE CHAIRPERSON: Very good. Okay.
19 Well, let's proceed then with swearing in of MPI's
20 witnesses and we'll get underway.

21

22 MPI PANEL:

23 MARILYN MCLAREN, Sworn

24 DONALD PALMER, Sworn

25 OTTMAR KRAMER, Sworn

1 THE CHAIRPERSON: Thank you, Mr.
2 Gaudreau.

3 Mr. Saranchuk...?
4

5 CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

6 MR. WALTER SARANCHUK: Thank you, sir.
7 At the outset, and this is directed to Ms. McLaren, that
8 perhaps you can confirm, Ms. McLaren, that the
9 Corporation accepts that it carries the onus of proving
10 its case to substantiate its General Rate Application.

11 MS. MARILYN MCLAREN: Yes.

12 MR. WALTER SARANCHUK: And the
13 Corporation agrees that it bears the onus to establish
14 that its rates are just and reasonable?

15 MS. MARILYN MCLAREN: Yes.

16 MR. WALTER SARANCHUK: With this
17 Application, the -- MPI is looking to premium rates that
18 are to take effect for the insurance year beginning March
19 1st, 2010, and are based in an overall change in written
20 premium revenue.

21 Is that correct?

22 MS. MARILYN MCLAREN: No overall change,
23 yes.

24 MR. WALTER SARANCHUK: And there are to
25 be experience-based rate adjustments ranging from minus

1 15 percent to plus 15 percent?

2 MR. DONALD PALMER: With some exceptions,
3 that's correct.

4 MR. WALTER SARANCHUK: And can you
5 confirm that's to be revenue neutral?

6 MR. DONALD PALMER: That's correct.

7 MR. WALTER SARANCHUK: And, as well, as
8 understand it, there are to be, as in the past,
9 classifica -- classification offset adjustments.

10 MR. DONALD PALMER: That's correct.

11 MR. WALTER SARANCHUK: And, in total, all
12 adjustments are subject to on overriding cap of 20
13 percent, except for mopeds and motor scooters, which are
14 capped at 25 percent, and also subject to, as stated, 37
15 percent decrease for dealer mopeds.

16 Is that correct?

17 MR. DONALD PALMER: That's correct.

18 MR. WALTER SARANCHUK: And classification
19 offset adjustments include rate group and rate line
20 adjustments, as I understand it.

21 Is that correct?

22 MR. DONALD PALMER: Yes.

23 MR. WALTER SARANCHUK: And just at a very
24 high level, Sir, for the record, could you explain what
25 those entail.

1 MR. DONALD PALMER: With the rate group
2 offsets, each year we get a new set of rate group tables,
3 which is assigning rate groups to specific makes and
4 models of vehicles. Those come from the Insurance Bureau
5 of Canada through the CLEAR System, which is the Canadian
6 Loss Experience Automobile Rating, that we have employed
7 as our classification system for certainly a good number
8 of years now.

9 When we get those tables, with some
10 vehicles going up and some vehicles going down, our
11 distribution of vehicles is not the same as that for
12 Canada-wide, so there might be a slight difference after
13 we apply all those new rate groups to the average overall
14 rate. So we offset that with changes, either up, down,
15 by use and territory, in order that that rate group
16 change is revenue neutral.

17 The rate line is also similar to that. We
18 adjust our rates by rate group, the relativity of one
19 rate group to another and, again, any changes in that
20 rate line are adjusted, so there's no ver -- no overall
21 change.

22 MR. WALTER SARANCHUK: Thank you, sir.
23 And the Application reflects no change to the basic
24 drivers' licence premiums and vehicle premium discounts,
25 as approved by the Public Utilities Board earlier, for

1 the period of March 1st, 2010 to February 28th, 2011.

2 Is that correct?

3 MR. DONALD PALMER: As a result of the
4 implementation of DSR, yes.

5 MR. WALTER SARANCHUK: Yes. And DSR
6 being the acronym for the Driver Safety Rating Program.

7 MR. DONALD PALMER: That's correct.

8 MR. WALTER SARANCHUK: And relative to
9 service and transaction fees, effective March 1st, 2010,
10 according to the information filed by the Corporation,
11 late payment fees will become customer based rather than
12 policy based, with late payment fees being charged once
13 per custody per installment due date.

14 Could you explain that at a high level,
15 please, sir?

16 MR. DONALD PALMER: We do have a late
17 payment charge when there -- when there is a payment made
18 late, as the name would indicate. We have those based on
19 a customer, when a customer has more than one (1)
20 vehicle, for instance, and he has a -- he or she has a
21 late payment, formerly, that late payment was charged for
22 each one of the vehicles for that particular customer.
23 We are changing that so that there's one (1) late payment
24 because the payments would all come together on one (1)
25 statement.

1 MR. WALTER SARANCHUK: Thank you, sir.

2 And there's to be no change in fees for permits and
3 certificates.

4 Is that correct?

5 MR. DONALD PALMER: That's correct.

6 MR. WALTER SARANCHUK: And no change in
7 the forty dollars (\$40) discount provided to customers
8 with VIC approved after market and manufacture or dealer-
9 installed anti-theft devices?

10 MR. DONALD PALMER: That's correct.

11 MR. WALTER SARANCHUK: And for the
12 vehicles of modelled years 2009 or newer, they do not
13 qualify for the discount, given that the Canadian Motor
14 Vehicle Safety Regulations require that they be equipped
15 with an immobilizer meeting Transport Canada's standard.

16 Is that correct?

17 MR. DONALD PALMER: Not eligible for the
18 forty dollars (\$40) that you had indicated. For any
19 immobilizers, any vehicle year, not just the 2009 that
20 you had talked about, but any vehicle year, the discounts
21 for anti-theft devices are built in to the CLEAR ratings.
22 So -- so that's -- that would be true for any vehicle
23 year.

24 MR. WALTER SARANCHUK: I see. Thank you.

25 MR. DONALD PALMER: The Transport Canada

1 rule came in for any vehicles manufactured for sale in
2 Canada after September 1st of 2007. For practical
3 reasons we have applied that basically to 2008 model
4 years and newer.

5 MR. WALTER SARANCHUK: Thank you, sir.

6 And according to the Application then,
7 this is referred to in supporting material or SM.6.4 in
8 Volume I, I don't know if there's any need to refer to
9 this, but in terms of the major use changes, as I
10 understand it, there are to be adjustments in the order
11 of minus 16.7 percent for off-road vehicles, and a plus
12 5.7 percent for motorcycles.

13 Is that correct?

14 MR. DONALD PALMER: Subject to check,
15 yes.

16 MR. WALTER SARANCHUK: And on a
17 territorial basis, rate adjustments range from minus 1.4
18 percent for territory 5 for commuters to plus 0.8 percent
19 in territory 4, being the part of Manitoba that's between
20 the 53rd and 55th parallels.

21 Is that correct?

22 MR. DONALD PALMER: Again, subject to
23 check, yes.

24 MR. WALTER SARANCHUK: And just very
25 briefly, relative to motorcycles, their changes there

1 range from an increase of 4.5 percent for rate group zero
2 to a decrease of 0.9 percent for rate group 4, according
3 SM.4.3 in Volume I.

4 Is that correct?

5 MR. DONALD PALMER: Those are
6 specifically for the adjustments due to rate group -- for
7 rate-line changes, yes.

8 MR. WALTER SARANCHUK: Thank you, sir.

9 Now, with reference to driver's licence
10 premiums, this is referred to in TI -- this information
11 is referred to in TI.13, which I don't think one has to
12 refer to as yet, which is in the book of documents at Tab
13 number 7 but, as I understand it, the drivers' premiums
14 projected for 2010/'11 are to be in the order of \$35.75
15 million.

16 Is that correct?

17 MR. DONALD PALMER: Yes.

18 MR. WALTER SARANCHUK: And there is a
19 schedule to TI.13 that sets out the composition of those
20 drivers' premiums, could you just, at a high level,
21 review those, sir, drivers' premiums composition?

22 MR. DONALD PALMER: Those are in the
23 schedule on page 5 of that and they are made up of the
24 basic charge, which is forty-five dollars (\$45) less any
25 applicable discounts to that; also demerit point premiums

1 and accident surcharges. The demerit-point premiums are
2 based on the driver safety rating as at March 1st of
3 2010. Accident surcharges will be collected based on the
4 old program upon renewal.

5 MR. WALTER SARANCHUK: And according to
6 the information filed, the total written driver premium
7 revenue for 2008/'09 fiscal year was \$36.2 million,
8 that's in TI.11, which I believe is at Tab 5 in the book
9 of documents, as compared to \$36.49 million in the
10 revised forecast for 2009/2010, that's the current year,
11 according to TI.12, that's at Tab 6.

12 Would you agree with that, subject to
13 check, sir?

14 MR. DONALD PALMER: Yes.

15 MR. WALTER SARANCHUK: And the
16 introduction of the Driver Safety Rating Program
17 effective March 1st, 2010 eliminates the distinction
18 between basic driver's licence premium, demerit point
19 additional premiums, and accident sure -- surcharges.

20 Is that correct?

21 MR. DONALD PALMER: There's three (3)
22 separate programs that are being combined into one (1).
23 Yes.

24 MR. WALTER SARANCHUK: Yes. So that the
25 basic driver's licence premium and the demerit point

1 additional premium have been combined into one (1) driver
2 safety rating premium, while accident surcharges have
3 been completely eliminated.

4 Is that correct?

5 MR. DONALD PALMER: That's correct.

6 MR. WALTER SARANCHUK: However, accident
7 surcharge amounts due for the past at-fault accidents,
8 that is accidents that occurred prior to the driver's
9 first DSR renewal, will still be collected in 2010/2011?

10 MR. DONALD PALMER: That's correct.

11 MR. WALTER SARANCHUK: And do you agree,
12 sir, that the introduction of the DSR will result in
13 changes to the forecasted vehicle premium revenues?

14 MR. DONALD PALMER: Yes.

15 MR. WALTER SARANCHUK: This is dealt with
16 in SM.3.1 at page 1 in Volume I of the filing. And with
17 reference to that portion of the Application, sir, this
18 is SM.3.1 at the bottom of page 1 and continuing on to
19 page 2, could you please review that information for the
20 record?

21 MR. DONALD PALMER: Upon implementation,
22 there is a decrease of approximately \$7.7 million in
23 vehicle premiums that was due to the transition strategy
24 that we had discussed at the driver safety rating hearing
25 earlier this year.

1 And also over the next few years as we
2 completely transition into the DSR premium, we have
3 included in our forecasts an increase in 2012/'13 to a
4 vehicle premium discount of 27 1/2 percent for drivers
5 that have twelve (12) or more merits at that point in
6 time. Of course, that's a projection and -- and not part
7 of the Application for this year.

8 MR. WALTER SARANCHUK: And can you just
9 comment on the figures, indicated there, is the summary
10 of the DSR impact on vehicle premiums? Just generally.

11 MR. DONALD PALMER: For 2009/'10, of
12 course, there's no effect because the DSR Program is not
13 -- not in effect as yet.

14 For 2010/'11, as you mentioned, there's a
15 decrease in vehicle premiums of \$7.7 million. In '11/'12
16 a decrease of \$5.6 million. In '12/'13 a decrease of
17 \$7.5 million -- \$17.5 million, and in '13/'14 we're
18 projecting a decrease of \$33.4 million.

19 MR. WALTER SARANCHUK: And generally,
20 what is driving the decreases?

21 MR. DONALD PALMER: Generally, the higher
22 level of discounts that we're projecting in those years.
23 We are projecting 27 1/2 percent in '12/'13, and I think
24 in '13/'14 we're projected to have a maximum discount of
25 30 percent.

1 MR. WALTER SARANCHUK: Thank you, sir.

2 And if you just turn over another page to
3 page 4 in SM.3, there's a comment at the top that:

4 "The introduction of the Driver Safety
5 Rating Program on March 1st, 2010 will
6 result in significant changes to the
7 forecasted driver premium revenues."

8 And there are three (3) bullets there, as
9 well as column with some figures. I wonder, sir, if you
10 would again, in summary form, just comment on that
11 information?

12 MR. DONALD PALMER: Upon transition,
13 we're looking at a decrease in driver premiums of about
14 \$.9 million. When we eliminate the driver surcharges
15 there will be a decrease in driver premium of about \$13.5
16 million in 2001/'12 and thereafter. And as we phase in
17 increases in the DSR surcharges at demerit levels, we'll
18 also obviously be increasing the driver premium that's
19 associated with those.

20 In terms of the actual projected numbers
21 for '09/'10, our projected written driver premium is
22 \$36.5 million, going to \$35.7 million in 2010/'11,
23 dropping with the elimination of the accident surcharges
24 in '11/'12 to \$25.8 million, and then rising again in
25 '12/'13 to \$32.5 million in '12/'13, and then '13/'14

1 rising to \$41.3 million.

2 MR. WALTER SARANCHUK: And again, just
3 very generally, what is driving the increases?

4 MR. DONALD PALMER: The increased
5 surcharges at the higher demerit levels.

6 MR. WALTER SARANCHUK: Thank you, sir.

7 Now, while we're on the topic of the
8 Driver Safety Rating, of course, we know that there was a
9 hearing in that respect earlier this year, and there are
10 a couple of matters that were addressed by Ms. McLaren in
11 her pre-filed testimony relative to the Hearing. And in
12 particular, Board Order 98/'09, and this appears on page
13 5 of Ms. McLaren's pre-filed testimony, where there's
14 reference to the comment at page 20 of that Order 98/'09,
15 relative to the commentary by the Public Utilities Board
16 in that Order, relat -- regarding the question of whether
17 there had been any, quote:

18 "Subsequent events that should be
19 taken into account by the Public
20 Utilities Board in addressing matters
21 before it at that hearing."

22 At page 19 and continuing on to page 20 of
23 that Order, there is a comment by the Board that, quote:

24 "The Corporation did not inform the
25 Board at the DSR Hearing of the pending

1 a Bill that would improve the situation
2 for victims of accidents that suffered
3 catastrophic injuries. To our
4 knowledge we are not aware of any
5 details of that. But you're not aware
6 of any subsequent event that would
7 affect the DSR by altering the forecast
8 materially?" That's the end of the
9 quote.

10 And, Ms. McLaren, I wonder if you would
11 read in your answer?

12 MS. MARILYN MCLAREN: From the
13 transcripts of those proceedings or are you --

14 MR. WALTER SARANCHUK: Yes.

15 MS. MARILYN MCLAREN: -- or are you
16 referencing my comment in my pre-filed testimony?

17 MR. WALTER SARANCHUK: That answer to the
18 question in the --

19 MS. MARILYN MCLAREN: I don't have --

20 MR. WALTER SARANCHUK: -- transcript of
21 the Order.

22 MS. MARILYN MCLAREN: I don't have the
23 transcripts in front of me.

24 MR. WALTER SARANCHUK: I see.

25 MS. MARILYN MCLAREN: We would have to --

1 MR. WALTER SARANCHUK: Okay.

2 MS. MARILYN MCLAREN: -- dig that out.

3 MR. WALTER SARANCHUK: Let me remind you
4 that what you said was, quote:

5 "Agreed, we are not aware of any."

6 End of quote.

7 And of course, you provided an explanation
8 at page 5 of your pre-filed testimony relative to that
9 answer and I wonder if you, first of all, will admit that
10 when that ans -- that question was posed of you, that you
11 knew about the \$90 million cost recording at the time
12 relative to the PIPP enhancement?

13 MS. MARILYN MCLAREN: Yes, I did. That
14 wasn't the question that was asked.

15 MR. WALTER SARANCHUK: And that wasn't
16 the answer that I was looking for. You knew at the time
17 that that was the situation, right?

18 MS. MARILYN MCLAREN: Which a few seconds
19 ago I said, Yes, I did.

20 MR. WALTER SARANCHUK: Thank you. Now, I
21 wonder if you would agree that the Chairman's question
22 referred to the PIPP enhancement?

23 MS. MARILYN MCLAREN: The question
24 referred, I think, pretty specifically to comments that
25 the government had made about wanting to consider

1 enhancements, or make -- or make enhancements perhaps.
2 I'm not sure at that point what the actual reference was.

3 MR. WALTER SARANCHUK: So you're saying
4 that you did not know that the Chairman's question was
5 with reference to the PIPP enhancement? Or the cost
6 related to that enhancement?

7 MS. MARILYN MCLAREN: Clearly, Mr.
8 Saranchuk, the context of the Chairman's question,
9 clearly in my mind, was primarily related to uncertainty
10 in the Corporation's future cost base. Clearly that was
11 the context. An example might have been PIPP
12 enhancements, but clearly the context, as I've referenced
13 in my pre-file testimony, was related to subsequent
14 events that might change the forecast, that might change
15 the Corporation's financial picture.

16 MR. WALTER SARANCHUK: And so that
17 essentially is the reason for the answer that you gave as
18 you describe on page 5 of your pre-file testimony.

19 Is that correct?

20 MS. MARILYN MCLAREN: Absolutely. You
21 know, I mean without having that transcript in front of
22 me, I don't want to be absolute about this, because I
23 don't have the full context present in my mind at this
24 point.

25 But what we have are the comments that I

1 made in my pre-file testimony, and -- and that is the
2 complete context of -- in -- in my view, this is my pre-
3 filed testimony, that is the complete context of the
4 question and my response.

5 MR. WALTER SARANCHUK: Let me also draw
6 to your attention that on page 20 of the Order, the Board
7 made the following comment, quote:

8 "It is difficult to reconcile the
9 response to the direct question with
10 the now known facts. Clearly a \$90
11 million enhancement represents a
12 material issue when what is before the
13 Board is a proposal to reduce premiums
14 at a time when investment markets are
15 influx, and the new International
16 Financial Reporting Standards, IFRS,
17 accounting standards present further
18 uncertainties." End of quote.

19 Is there merit to that observation, in
20 your opinion?

21

22 (BRIEF PAUSE)

23

24 MS. MARILYN MCLAREN: You know, again,
25 I'm not being absolute about this, because I don't have

1 the full context in front of me at this point. But I
2 think if, in fact, the concern was that \$90 million of
3 increase in PIPP reserves had not been accounted for, I
4 think that that would certainly enhance the uncertainty.

5 But I -- to the best of my cor --
6 recollection, by the time the Board wrote that, they knew
7 about the \$90 million. They also knew that it had been
8 included in the forecasts that were before them. So I
9 think that would reduce significantly, the uncertainty
10 around this particular matter; notwithstanding that
11 investments in IFRS may certainly continue to -- to pose
12 some uncertainty.

13 MR. WALTER SARANCHUK: Since you say that
14 the Board knew at the time of the \$90 million
15 enhancement, do you know how they -- it came around to
16 knowing about that enhancement?

17 MS. MARILYN MCLAREN: It's when the
18 government announced its Bill.

19 MR. WALTER SARANCHUK: Yeah. So why
20 would you not have drawn it to the Board's attention when
21 you were asked the question?

22 MS. MARILYN MCLAREN: I'm sorry, can you
23 repeat the question?

24 MR. WALTER SARANCHUK: Yes. When you
25 were asked the question by the Chairman, why didn't you

1 draw the PIPP enhancement, \$90 million worth, to the
2 Board's attention?

3 MS. MARILYN MCLAREN: Because it would
4 not be appropriate for this Corporation to announce what
5 the government may or may not ultimately do with respect
6 to issues of legislation.

7 MR. WALTER SARANCHUK: Ms. McLaren, you
8 had recorded a \$90 million PIPP enhancement in the books
9 by the time you were asked that question, so why wouldn't
10 you have answered that there was that recording of that
11 enhancement on the books?

12 MS. MARILYN MCLAREN: For the reason that
13 the financial adjustment was made. We are not the people
14 that announce legislative changes on the PIPP program, or
15 any other part of the MPIC Act, or any other piece of
16 legislation.

17 MR. WALTER SARANCHUK: Do you agree that
18 the \$90 million enhancement represented a material issue
19 at the time?

20

21 (BRIEF PAUSE)

22

23 MS. MARILYN MCLAREN: I'm not sure what
24 else you want me to say on this point, Mr. Saranchuk, \$90
25 million is a lot of money, no doubt about it. In the

1 grand scheme of \$1.2 billion in PIPP reserves, I'm not
2 sure what else you want me to say.

3 MR. WALTER SARANCHUK: Well, what I'm
4 driving at, Ms. McLaren, I don't mean to open up old
5 wounds, but the Board is concerned about transparency in
6 the process. The Board is concerned about full
7 disclosure in the public interest.

8 And so that's why these questions are
9 being asked, to ensure that we have that understanding
10 between the Corporation, and the Board, and the
11 Intervenors at all times.

12 So you understand then where I'm coming
13 from?

14 MS. MARILYN MCLAREN: I understand that.
15 I also understand and I will repeat what I said at the
16 beginning of this portion of your cross, that the -- in
17 my view, the primary context of the Chairman's question,
18 the language of the question, and -- and the concern that
19 I believe was being extress -- expressed through the
20 comments and question was related to uncertainty in the
21 financial situation of the Basic compulsory program, and
22 that was what my answer is based on.

23 There was no concern that the forecast
24 with respect to DSR, the expected net income of DSR would
25 somehow change because of some potential subsequent event

1 or -- or financial uncertainty, other than those we've
2 already mentioned.

3 MR. WALTER SARANCHUK: So the financial
4 forecast that were presented at the -- or was presented
5 at the DSR hearing had already contemplated the fact that
6 the \$90 million enhancement had been booked but it wasn't
7 disclosed.

8 Is that correct?

9 MS. MARILYN MCLAREN: I believe that to
10 be correct.

11 MR. WALTER SARANCHUK: So I guess that
12 brings us to the bottom of page 4 of your pre-filed
13 testimony, Ms. McLaren, on the message that has been
14 clearly heard by the Corporation, and I wonder if you
15 would read in that paragraph at the bottom of page 4,
16 continuing at the top of page 5 for the record so we're
17 sure of exactly what the Corporation's position is in
18 this matter.

19 It starts with the word -- words "one
20 message."

21 MS. MARILYN MCLAREN: Sure. But just to
22 preface that if, in fact, we have misunderstood that
23 message, we're certainly open to having that clarified
24 for us, but -- but in the Corporation's view:

25 "One (1) message from or -- Orders

1 89/09 and 98/09 that the Corporation
2 has clearly heard is that the Board
3 should not be expected to be open to
4 proposals to increase or decrease rates
5 without the support of current up-to-
6 date financial forecasts."

7 MR. WALTER SARANCHUK: And you can read
8 the next sentence, too.

9 MS. MARILYN MCLAREN:
10 "The Board can be assured the
11 Corporation will file future Rate
12 Applications in a manner consistent
13 with this message."

14 MR. WALTER SARANCHUK: Thank you. And
15 there's one (1) final matter. This is arising out of the
16 Board Order that I've been referring to, 98/'09, on page
17 18, and is addressed in your pre-trial testimony at page
18 8 with reference to the regulation 13/209, which was
19 enacted by the government relative to the DSR structure.

20 The comment made by the Board at page 18
21 of its Order states as follows, quote:

22 "Regulation 13/209, the regulation, as
23 proposed by MPI and reflecting the
24 structure of DSR was enacted by
25 government prior to the commencement of

1 the DSR hearing before the Board. In
2 the Board's view, this was both
3 unnecessary and restrictive. The Board
4 is unaware of any reason why MPI sought
5 for the regulation to be enacted prior
6 to the DSR Application hearing and, as
7 such, would've preferred an approach
8 whereby all three (3) involved parties,
9 namely the Board (with the
10 participation of Intervenors), the
11 Corporation, and the government
12 collaborated with a view to
13 establishing the framework for DSR
14 system." End of quote.

15 When you read that in the Order, Mr.
16 McLaren, did you understand what the Board was driving
17 at?

18 MS. MARILYN MCLAREN: I think we would
19 certainly have a understanding of the language used on
20 its face. I -- I'm not sure what else you would have me
21 say on that one. I don't think there's any real lack of
22 clarity on that.

23 MR. WALTER SARANCHUK: And so can you
24 advise us as to why MPI sought the regulation to be
25 enacted prior to the DSR hearing?

1 MS. MARILYN MCLAREN: The regulation is
2 the basis of the program. The classification system and
3 so on has always been a regulation in the MPIC Act, and
4 we have no real basis to calculate financial impact or
5 establish rates to apply to this Board for, if we don't
6 know the basis of the program that drives those rates and
7 rate considerations.

8 MR. WALTER SARANCHUK: On page 18, let me
9 quote to you what the Board's concern was further.

10 Quote:

11 "The Board's jurisdiction is basic
12 rates for service and it's only after
13 the Board's rate decisions arising out
14 of the annual GRA proceedings that a
15 rate regulation is enacted. However,
16 since the DSR regulation was drafted
17 and passed prior to the DSR hearing,
18 the Corporation, through its DSR
19 Application, sought to have the Board
20 fit its analysis, consideration, and
21 findings relative to the DSR within the
22 predetermined framework, which the
23 Board has had difficulty doing in all
24 of the circumstances for all the reason
25 reflected in Order 89/09." End of

1 quote.

2 Do you understand where the Board was
3 coming from in -- and did you understand the dilemma that
4 it said that it was facing in the circumstances?

5 MS. MARILYN MCLAREN: Yes, I believe so.

6 MR. WALTER SARANCHUK: So the answer is
7 not, I would suggest, as you've attempted on page 8 where
8 you said that the Corporation made an offer in September
9 of 2008 sending around a DSR discussion paper to the
10 Board, to eight (8) organizations and indicating that the
11 offer was of some five (5) months before the DSR
12 regulation for these people -- or whoever was interested
13 to consult with MPI relative to the DSR structure.

14 Now, surely you didn't expect, given that
15 the Board was going to have a full-blown hearing, that
16 the Board would come forth as a result of that invitation
17 and say, Oh, I'm the -- for example, someone is here from
18 the Public Utilities Board, tell us about this DSR
19 matter?

20 That's not the answer, I don't think, Ms.
21 McLaren. Why do you use that as an answer?

22 MS. MARILYN MCLAREN: Sorry, I'm not sure
23 I fully understood the complete context of what you just
24 said but, absolutely, we had every expectation that
25 people -- organizations would come forward to offer

1 input, offer perspectives, ask for more information, and
2 have a meaningful, substantive consultation process on a
3 program proposal.

4 MR. WALTER SARANCHUK: Your answer says,
5 quote:

6 "Another message [and this is page 8]
7 from Orders 89/09 and 98/09, that the
8 Corporation has clearly heard is that
9 this Board would have preferred that it
10 and the Intervenors would have been
11 consulted about the DSR Program prior
12 to the regulation being passed. In
13 September 2008, the Corporation sent a
14 DSR discussion paper to this Board, to
15 eight (8) organizations that are or
16 have been registered Intervenors, and
17 nine (9) other stakeholders. The
18 Corporation made this offer of
19 consultation approximately five (5)
20 months before the DSR regulation was
21 approved by government. The cover
22 letter offered a personal meeting with
23 the Corporation's Vice President of
24 Finance, and Chief Actuary. The
25 Corporation received two (2) responses

1 from CMMG, and from MUCDA, or the
2 Manitoba Used Car Dealers Association."
3 End of quote.

4 So are you saying that that somehow
5 excuses the fact that the regulation was passed prior to
6 the DSR hearing?

7 MS. MARILYN MCLAREN: Excuse us, Mr.
8 Saranchuk?

9 MR. WALTER SARANCHUK: Why are you saying
10 that -- well, your notice was given, an invitation was
11 made, so why didn't somebody step forward, other than
12 CMMG and MUCDA?

13 MS. MARILYN MCLAREN: I don't know that
14 we're saying, Why did no one else step forward. We were
15 surprised that no one did.

16 MR. WALTER SARANCHUK: And did you expect
17 the Public Utilities Board to step forward at that time,
18 given that it was having a full hearing in a few months?

19 MS. MARILYN MCLAREN: A full hearing into
20 the rates to be charged under the DSR Program?

21 MR. WALTER SARANCHUK: Yes.

22 MS. MARILYN MCLAREN: Well, yes, in terms
23 of the Program and any other of the issues and
24 considerations and concerns, we absolutely thought that
25 there may very well be some consultation at that point.

1 MR. WALTER SARANCHUK: And was there any
2 notice at all given at that time that the intention was
3 that the regulation would be passed by the government, at
4 MPI's request, prior to the DSR hearing?

5 Was the Board advised to that effect?

6 MS. MARILYN MCLAREN: I don't -- we
7 didn't communicate that specifically, that that would be
8 the process, but in all honesty, I really cannot
9 understand what other process would -- could possibly
10 have been followed. When you talk about some
11 collaborative process between the three (3) parties, I --
12 I honestly don't know what that would be in practice.

13 The government of Manitoba, through
14 regulations to the MPIC Act, has since 1971 retained full
15 authority over a number of the considerations that have
16 formed various versions of demerit point, additional
17 premiums, accident surcharges, the merit discount
18 program. They certainly, you know, have -- have made
19 changes, and have introduced those programs.

20 They have always, for example, retained
21 sole control, absolutely, as a regulation of the MPIC
22 Act, to the kinds of convictions that will attract
23 demerits, how many demerits, so on and so forth. That's
24 the mechanics of the program. So you can't really move
25 forward and propose rates until you know what you're

1 dealing with. And the authority to make those decisions
2 and decide what the program is rests with the people
3 elected to the legislature or the province.

4 MR. WALTER SARANCHUK: You could
5 understand the Board's dilemma, that it thought that its
6 hands were tied to some extent with that regulation
7 having been passed prior to the DSR hearing though, can't
8 you?

9 MS. MARILYN MCLAREN: The program was
10 established. We applied to this Board for rates, and --
11 and their hands were certainly not tied with respect to
12 the rates to be charged.

13 MR. WALTER SARANCHUK: You could
14 certainly understand the Board's dilemma considering that
15 the regulation had been passed prior to the DSR hearing
16 and that it thought that it had its hands tied in the
17 circumstances, you don't understand that?

18 MS. MARILYN MCLAREN: Well, I don't know,
19 Mr. Saranchuk, if -- if you are suggesting that we need
20 to enter into a discussion of jurisdiction and so on, it
21 -- it -- it seems much more straight-forward to the
22 Corporation than it seems to the Board and we did not
23 expect the Board to somehow see that it was in that kind
24 of a dilemma because the legislature author --
25 legislative authority seems pretty clear.

1 MR. WALTER SARANCHUK: Okay, just finally
2 let me quote to you another excerpt from the Board Order
3 98/09, this is the top of page 19, quote:

4 "Indeed in its submission to the Board
5 with respect to this issue, CAC/MSOS
6 stated at page 11 of its submission
7 that quote, 'In the short term the
8 apparent inflexibility raises the
9 question of whether Manitoba consumers
10 will get their regulatory decision with
11 regard to the DSR that they deserve.
12 In the long term the regulatory process
13 itself may be impaired by allowing the
14 technological tail to wag the
15 regulatory dog instead of vice versa'."
16 End of quote from CAC/MSOS submission.

17 Then the Board said, "The Board shares
18 CAC/MSOS's view," end of quote.

19 Do you understand where the Board was
20 coming from and the reason for CAC/MSOS's submission?

21 MS. MARILYN MCLAREN: No, not really.
22 And -- and I think that there is some misunderstanding
23 about what is really driving what, you know, reference to
24 technological tails and so on, and -- and regulatory
25 tying of hands.

1 You know, the -- the issues that came
2 forward as a result of 89/09, the first DSR Order, really
3 in -- in no small part was related to the fact that the
4 Order took a very, very different view on fundamental
5 principles of how the basic Autopac system works and the
6 rating system works, that have never been discussed in
7 this form for years and years. Things like the fact that
8 it is a customer-based system, that you can't simply
9 charge somebody a different rate based on their merit
10 discount level or -- or driver record for one (1) vehicle
11 than you would charge for other vehicles.

12 Some of the issues like that is where
13 those comments come into question. They're not
14 technological issues, they're not necess -- they're not
15 regulatory issues. That Order introduced all kinds of
16 problems related to what we had understood to be standard
17 operating procedure of the Basic compulsory program from
18 both the system and rating perspective basically since
19 1995.

20 MR. WALTER SARANCHUK: Ms. McLaren, all
21 we're talking about is the fact that the regulation was
22 passed prior to the DSR hearing, at MPI's request. The
23 Board saw that as a problem, so did CAC/MSOS, and I would
24 suggest to you that they weren't alone. You say you
25 don't understand why they were taking that position.

1 I think we have a problem, do you agree?

2 MS. MARILYN MCLAREN: If the problem is
3 that Corporation has a different perspective on that,
4 then, okay, we have a problem.

5 MR. WALTER SARANCHUK: How do we rectify
6 it?

7 MS. MARILYN MCLAREN: I'm not sure I have
8 anything else to say at this point in terms of -- with
9 respect to that, --

10 MR. WALTER SARANCHUK: Well, --

11 MS. MARILYN MCLAREN: -- you know. I
12 mean, the -- the Board has referenced the sharing of
13 information on a -- on a private, not public, basis.
14 That's not something in my memory MPI has ever done with
15 this Board. It doesn't mean it can't in the future, you
16 know, I -- I think we'll work through this. I think
17 there is a commitment from the Corporation. I know there
18 -- there is completely a commitment from this Corporation
19 to work cooperatively with the Board and Intervenors
20 within the context of the legislation that governs these
21 proceedings.

22 MR. WALTER SARANCHUK: Thank you, Ms.
23 McLaren. Perhaps that's an opportune time to have a
24 break, Mr. Chairman.

25 THE CHAIRPERSON: Yes, it is right in the

1 middle of the day. Thank you. Or the morning, I should
2 say.

3

4 --- Upon recessing at 10:33 a.m.

5 --- Upon resuming at 10:55 a.m.

6

7 THE CHAIRPERSON: Okay, welcome back,
8 everyone.

9 Mr. Saranchuk...?

10

11 CONTINUED BY MR. WALTER SARANCHUK:

12 MR. WALTER SARANCHUK: Thank you, sir.
13 Well, perhaps we can proceed into an area that is perhaps
14 somewhat less controversial and deal with the interesting
15 topic of the impact of the rate adjustments, Mr. Palmer,
16 and particularly SM.6.5.

17 And I'd like to deal very briefly with the
18 impacts on the numbers of vehicles by dollar and
19 percentage. For example, at SM.6.5, page 6 and 7, there
20 is information as to the impact on the vehicle
21 population.

22 And, as I understand it, sir, the 2010/11
23 rate modelling process considers a vehicle population of
24 approximately nine hundred and forty-five thousand
25 (945,000) vehicles?

1 MR. DONALD PALMER: That's correct.

2 MR. WALTER SARANCHUK: And that includes
3 approximately forty-nine thousand (49,000) off-road
4 vehicles?

5 MR. DONALD PALMER: Yes.

6 MR. WALTER SARANCHUK: And after all
7 adjustments, about 51 percent of vehicles will receive a
8 rate decrease.

9 MR. DONALD PALMER: Yes.

10 MR. WALTER SARANCHUK: And 45 percent
11 will experience rate increases.

12 MR. DONALD PALMER: Yes.

13 MR. WALTER SARANCHUK: With the remaining
14 4 percent experiencing no rate change.

15 MR. DONALD PALMER: That's also correct.

16 MR. WALTER SARANCHUK: And of the
17 vehicles seeing a rate increase, approximately 78 percent
18 will receive an increase less than 5 percent.

19 Is that correct?

20 MR. DONALD PALMER: Yes.

21 MR. WALTER SARANCHUK: And, of course,
22 individual vehicle premiums will be impacted by rate
23 experience adjustments, rate group changes, as we've
24 heard, offset adjustments, clear Canadian loss
25 experience, automobile rating system, rate line

1 adjustments, and rate line differential adjustments.

2 So, although there's no change being
3 sought in overall vehicle rates, 45 percent of vehicle
4 owners will, nonetheless, be paying more with this
5 Application.

6 MR. DONALD PALMER: That's correct.

7 MR. WALTER SARANCHUK: Now, I'll just
8 refer you to SM.6.2, and at page 2, sir, this is in
9 Volume I, of course, and I'd ask you to summarize the
10 indicated experience adjustments by major class, as shown
11 on the table on page 2. And if you would, sir, also refer
12 to the three (3) types of actuarial methodology utilized
13 for forecasting purposes, and perhaps very much at a high
14 level, give an explanation of what that's all about, and
15 so give the Board an indication of what is being
16 reflected in that table, please, sir?

17 MR. DONALD PALMER: When we do our
18 claim's forecast there is the primary method that we
19 utilize that's labelled financial forecast method, and
20 that's specifically talks about the forecast of claim's
21 cost.

22 We have a claim's forecast committee,
23 interdisciplinary committee of the Corporation that
24 utilizes a -- a number of techniques, both statistical
25 and -- and some field research, as well, and in terms of

1 what trends we're -- we're seeing in the field that may
2 not necessarily be reflected in historical experience,
3 and we come up with the claim's forecast.

4 And the rates that are established using
5 that financial forecast method are listed in the finan --
6 financial column. Using those numbers, we had an
7 actuarial indicator of minus 2.4 percent and for various
8 reasons, that I think we'll be getting into probably
9 later in these Hearings, we have decided to apply to a --
10 for a zero percent no rate -- overall rate change.

11 So we've basically prorated the numbers
12 that you see in Table 2 for the private passenger,
13 commercial, public, motorcycles, trailers, and off-road
14 vehicles to balance to that zero percent overall rate
15 change.

16 Two (2) other more statics -- purely
17 statistical or actuarial methodologies, one (1) being the
18 exponential which fits in exponential curve to historical
19 experience by coverage and comes up with a projection
20 projecting into the future what that exponential curve
21 would indicate, again, balanced by the same -- same
22 amount so you've got -- chan -- comparing apples to
23 apples, so to speak. So it comes up after that same
24 adjustment to a required 1 percent rate increase.

25 On the linear methodology, rather than

1 looking at expo -- exponential percent year over year
2 increase, we look at a -- a straight line, which
3 indicates that future increments are a flat dollar amount
4 by coverage.

5 Again applying that same pro-rata
6 adjustment, the rate indicator on that linear approach is
7 minus 1.1 percent. In terms of the requirement by the
8 six (6) major classes, we allocate all costs into the six
9 (6) major classes to come up with an overall rate
10 requirement by major class.

11 And again, just without any consideration
12 of any rate caps or anything like that, just what do
13 those forecasts tells us that the rate should be without
14 any other considerations. And those are the indicators
15 that are shown under each of the three (3) methodologies.

16 MR. WALTER SARANCHUK: Thank you, sir.
17 And again, very briefly, while the matter will be dealt
18 with in some greater detail later, that is with reference
19 to the decrease of 2.4 percent indicated as opposed to
20 the zero percent overall rate change that is being
21 sought, again in Ms. McLaren's testimony, this is at page
22 3, there is an indication that using the Corporation's
23 rate making and forecasting processes, the basic
24 insurance rates could be decline by approximately 2.4
25 percent.

1 tables, sir?

2 MR. DONALD PALMER: After we have the
3 indications that I -- that we just previously talked
4 about, we then put them into our rate model to -- and
5 then apply all the caps and other rules that have been
6 established by this -- by this Board over many, many
7 years, and then get the average rate by major use and by
8 territory after application of all those -- those various
9 capping rules and whatnot. So in terms of our final
10 application on private passenger vehicles, the current
11 average rate under the existing rates, eight hundred and
12 eighty-eight dollars (\$888), our proposed average rate is
13 eight hundred and eight-six dollars (\$886), which is a
14 0.2 percent rate decrease.

15 And then that -- for the other major
16 classes, again, after the results of the rate model, each
17 average rate by major use is -- is calculated. So
18 commercial with a decrease of 0.6 percent and so on down,
19 again, balancing to that overall requirement of zero.

20 With a somewhat different grouping, we
21 also did that same exercise, not grouping by major use,
22 but by territory, Territory 1, Winnipeg; Territory 2,
23 Southern Manitoba; Territory 3, Northern Manitoba;
24 Territory 4, being Middle Ma -- Manitoba; and commuter
25 rates being those in Territory 2, which commute to

1 Winnipeg. Again, the average rate for each of those
2 territories balancing out for the Province as a whole of
3 0.0 percent.

4 MR. WALTER SARANCHUK: Thank you, sir.
5 Now, in terms of dealing with the revenue requirement and
6 dealing with some of the historical information that's
7 been provided, and this again would be in very general or
8 summarized form, if you would take a look at TI.11, which
9 is the Statement of Operations for 2008/2009, at Tab 5 of
10 the book of documents, sir.

11 MR. DONALD PALMER: I have it.

12 MR. WALTER SARANCHUK: Thank you. And
13 can you confirm, sir, that the actual earned revenue was
14 \$3.5 million more than forecast, Mr. Kramer?

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

16 MR. WALTER SARANCHUK: And that the
17 actual total earned revenue equalled \$715 million for
18 2008/09, versus the forecast of \$711 million?

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

20 MR. WALTER SARANCHUK: And can you
21 confirm, sir, that net claims incurred were lower by
22 \$83.9 million?

23 MR. OTTMAR KRAMER: Yes, that's also
24 correct.

25 MR. WALTER SARANCHUK: And of course

1 there's some detail of that in Schedule 1 on page 5. And
2 I wonder, sir, if you could just review the information
3 shown on that schedule, which is entitled "Claims
4 Variance Analysis". And that, of course, leads to an
5 explanation of the reduction in claims incurred by the
6 \$83.9 million figure we alluded to.

7 MR. OTTMAR KRAMER: For example, I'm
8 looking at -- on the left-hand side in the column the
9 description of PIPP, Personal Injury Protection Plan, and
10 there is a \$53 million reduction. That's the kind of
11 information I'm asking you to explain, sir, please.

12 MR. DONALD PALMER: Yes. On -- on that
13 particular chart shows the actual incurred for th
14 2008/'09 fiscal year for no fault accident benefits. Of
15 course, the major expenditure is the PIPP Program. We
16 had an actual incurred -- and that's after all actuarial
17 adjustments, RIVNR (phonetic) exercise of \$186.1 million.

18 We had forecasted that to be \$239.3
19 million, so the actual incurred was \$53.2 million less
20 than we had anticipated. On collision costs we had
21 expected 200 -- \$253.6 million. They actually came out
22 at \$247.6 million, which is a little less than \$6 million
23 less than -- than forecast.

24 Comprehensive was significantly less than
25 forecast by \$18 million. That's primarily because of the

1 effectiveness of the Immobilizer Programs. And the
2 property damage was \$2.7 million less than forecast, and
3 the bodily injury third party liability about \$1.2
4 million less than forecast.

5 MR. WALTER SARANCHUK: Yes. Thank you,
6 Mr. Palmer. And what was driving, essentially, the \$53
7 million decrease in PIPP claims?

8 MR. DONALD PALMER: Two (2) drivers of
9 that. One (1) was -- that we had a -- a significant
10 actuarial adjustment for old claim -- prior year's
11 claims. Each year, of course, we estimate what the
12 future value of all those claims will be. We adjusted
13 those -- those values rather significantly in -- after
14 our February 28th evaluation of liabilities.

15 And I don't have the exact number, but it
16 -- down about \$150 million dollars. Then, of course, we
17 have the PIPP enhancements that adds back 90 -- \$90
18 million to that number. So there is a net decrease in
19 that. We also experienced in that '08/'09 year lower
20 serious severe claims than we had seen in previous years.

21 That's because of the low numbers of those
22 types of injuries, brain injur -- brain injuries,
23 quadriplegics, paraplegics, and -- and so on. They are a
24 very significant dollar claim, so if you have a fewer
25 number of those you see a significant decrease in claims

1 incurred. So those are primarily the two (2) reasons for
2 that decrease of the \$53.2 million.

3 MR. WALTER SARANCHUK: Thank you, Mr.
4 Palmer. To be noted, as well, is the reduction of some
5 \$83 million in investment income compared to the
6 forecast, and there's a brief explanation given on page 4
7 of TI.11 as to what caused that in the Board's est -- in
8 the Corporation's estimation. I wonder if you would just
9 elaborate briefly on the reasons, sir?

10 MR. DONALD PALMER: 2008/'09 was a very
11 difficult year in the investment, to -- to be -- to be
12 kind. Maybe a little more extreme than somewhat
13 difficult. Within our income statement, the loss was
14 driven essentially by three (3) factors. We did realize
15 losses on our equity portfolio. We did mark some of our
16 equities at year-end as impaired investments, so there
17 was a significant write-down from that perspective as
18 well. And the third category was our foreign exchange
19 losses, which losses on our hedge of our foreign
20 investments. So those were the three (3) major
21 contributors into the decrease in investment income.

22 MR. WALTER SARANCHUK: Thank you. And to
23 be noted as well, is that the actual net income was 7.7
24 million dollars, being a 10.2 million dollar improvement
25 over the forecasted loss of some 2.4 million dollars.

1 Is that correct?

2 MR. OTTMAR KRAMER: Yes, that is correct.

3 MR. WALTER SARANCHUK: And while the
4 investment income essentially evap -- evaporated to \$3.6
5 million, as shown on the table, the underwriting loss
6 also dropped, but only to \$11.8 million, versus the
7 \$106.5 million underwriting loss forecast last year.

8 Is that correct?

9 MR. OTTMAR KRAMER: Yes, that is correct.

10 MR. WALTER SARANCHUK: And what are the
11 factors that lead to the collapse in investment income,
12 not resulting in a major loss for the year?

13 MR. DONALD PALMER: That because of the
14 significant improvement in claims experience for the
15 reasons that I have just outlined.

16 MR. WALTER SARANCHUK: Thank you. Now,
17 turning to document number 6 in the Book of Documents,
18 which is Statement of Operations TI.12, for the current
19 insurance year, the revised forecast shows a net income
20 of \$11.5 million, versus a net loss of \$4.2 million
21 projected last year, namely a \$15.75 million variance.

22 Is that correct?

23 MR. OTTMAR KRAMER: Yes, that's a 15.7
24 million improvement.

25 MR. WALTER SARANCHUK: Now just in terms

1 of the changes in the assumptions and the impact on the
2 forecast, looking at the total earned revenues, for
3 example, they were revised down by some \$2.8 million.

4 Is that correct?

5 MR. OTTMAR KRAMER: Yes, that is correct.

6 MR. WALTER SARANCHUK: And claims
7 incurred were revised down by some \$29.1 million.

8 Is that correct?

9 MR. OTTMAR KRAMER: Yes, that is correct.

10 MR. WALTER SARANCHUK: And again, if you
11 turn to Schedule I, on page 4 of this particular
12 document, I wonder if you would just review what is
13 driving the reduction in the claims incurred, please?

14 MR. DONALD PALMER: About half of that
15 reduction is in our projection of PIPP costs. As I had
16 indicated to you, talking about '08/'09 results, we did
17 revise our estimate of prior years claims under PIPP.
18 Those -- so our ultimate value of those claims in prior
19 years decreased.

20 In our claims forecast we take the
21 projection of those prior year ultimate claims into the
22 future, because we had decreased our estimate of those
23 prior year claims. Of course, when you project them
24 forward, they're less than what the previous estimates
25 would be. So that's primarily the reason that we have

1 seen a decrease.

2 Likewise, a fairly large percentage
3 decreases on comprehensive. We have seen our
4 comprehensive claims being lower, primarily because of
5 our theft claims, total theft, attempted theft. And we
6 have revised those projections down as well.

7 In terms of -- there's slight reductions
8 in collision and property damages as well. We have
9 revised our estimates going forward on volume, and
10 upgrade as well, but it did slightly bring those numbers
11 down as well.

12 MR. WALTER SARANCHUK: Oh, volume and
13 upgrade of -- of vehicles?

14 MR. DONALD PALMER: Yes.

15 MR. WALTER SARANCHUK: Now according to
16 the information on TI.12, investment income was revised
17 down by some \$7.8 million with the explanation on page 3
18 at the bottom, sir. I wonder if you would please
19 elaborate on the reasons given for that change.

20 MR. DONALD PALMER: Again, two (2)
21 reasons: Interest rates are at historical lows, so any
22 new money coming that is invested in the -- in fixed-
23 income securities will attract a lower investment yield
24 than in previous years. So that's one (1) reason for the
25 decrease. And because we had significant investment

1 losses over the last year, you have less money to attract
2 investment income on -- so, again, that -- that's a cause
3 for decreased investment income as well.

4 MR. WALTER SARANCHUK: So does TI.12
5 reflect MPI's best estimate of the results for the
6 current year, 2009/2010?

7 MR. DONALD PALMER: As at the time we did
8 this forecast, yes, it does. This was done back in the
9 April timeframe. So there has been some experience, six
10 (6) months, two quarters (2/4s) worth of claims since
11 this time, so our current estimate would be slightly
12 different than this.

13 MR. WALTER SARANCHUK: When can we expect
14 the second quarter report?

15 MR. DONALD PALMER: The second quarter
16 report is required within forty-five (45) days of the
17 quarter end, so that would put us October 14th. So it
18 will be filed before -- on or before October 14th.

19 MR. WALTER SARANCHUK: Thank you, sir.
20 And in light of -- of the forecast revisions here in
21 TI.12, I take it that the Corporation is still not
22 looking for any amendment to the within application?

23 MR. DONALD PALMER: We are not.

24 MR. WALTER SARANCHUK: Now, turning to
25 Tab 7 in the book of documents, and the Statement of

1 Operations, TI.13 in the Application, it compares the
2 2009/'10 revised forecast to 2010 projection, using the
3 financial forecast method.

4 Is that correct?

5 MR. DONALD PALMER: It -- it compares --
6 the actual comparison is to the financial forecast
7 method, yes. The projections are also shown for the
8 linear and exponential methodologies as well.

9 MR. WALTER SARANCHUK: Yes, thank you.
10 In terms of the comparison, though, it's relative to the
11 financial?

12 MR. DONALD PALMER: That's correct.

13 MR. WALTER SARANCHUK: And in that
14 respect, looking at net premiums written, they are to
15 increase by some \$25.6 billion, amounting to an overall
16 increase of some 3.34 percent.

17 Is that correct?

18 MR. DONALD PALMER: That's the written
19 premium increase, yes.

20 MR. WALTER SARANCHUK: And on the two (2)
21 pages or so following, there are some assumptions, and
22 one (1) of them is the -- an upgrade factor of 2.5
23 percent resulting in an increase in premiums written of
24 some 18.3. percent. This is shown as part of the
25 explanation for the increase in premiums written for the

1 motor vehicles.

2 Could you, sir, please, at a high level,
3 just explain what is given there as the information
4 relative to the upgrade factor.

5 MR. DONALD PALMER: Every year the fleet
6 is refreshed. People get rid of old vehicles and buy
7 newer vehicles. Those newer vehicles attract higher
8 premiums, so there will be a drift into a -- even if you
9 change no rates, there will be more people paying higher
10 premiums, so there's a natural drift into higher rate
11 groups and hence higher premiums.

12 MR. WALTER SARANCHUK: And what about the
13 \$14.6 million increase, relative to the 2 percent volume
14 increase?

15 MR. DONALD PALMER: There are also more
16 vehicles that are being purchased every year, population
17 growth, and just people expanding their own -- own
18 fleets. We have seen historically that to be in the 2
19 percent range, so that's having more vehicles in -- in
20 the fleet.

21 MR. WALTER SARANCHUK: And on an overall
22 basis, the earned revenue is forecasted to increase by
23 some \$27.1 million, or 3.59 percent.

24 Is that correct?

25 MR. DONALD PALMER: That's correct.

1 MR. WALTER SARANCHUK: And service fees
2 and other revenues are forecasted to increase by eight
3 hundred and forty-nine thousand dollars (\$849,000), or
4 6.4 percent?

5 MR. DONALD PALMER: Yes.

6 MR. WALTER SARANCHUK: And is that due to
7 higher transaction fees from increased volumes?

8

9 (BRIEF PAUSE)

10

11 MR. DONALD PALMER: It's increased
12 volumes. It's also unexpected increase in interest
13 rates.

14 MR. WALTER SARANCHUK: What is the
15 interest rate changes you've projected for 2010/2011?

16

17 (BRIEF PAUSE)

18

19 MR. WALTER SARANCHUK: If that's not
20 right at your fingertips, then perhaps you can give that
21 to us shortly.

22 MR. DONALD PALMER: We'll give that to
23 you right away.

24 MR. WALTER SARANCHUK: Thank you. Just
25 moving on for the moment, there's a claims expense

1 increase by some \$6.7 million, with the explanation on
2 page 3. Could you just elaborate on that explanation,
3 please, sir?

4 MR. OTTMAR KRAMER: On the claims
5 expense, that \$6.7 million increase is related to two (2)
6 factors, as indicated on page 3, just to generally -- a
7 general inflation increase of 2 percent, and an increase
8 in the amortization expenses related to higher building
9 amortization and amortization of improvement initiatives.

10 MR. WALTER SARANCHUK: Yes, and we'll be
11 dealing with the latter, of course, in some detail later.
12 Looking at the road safety expenses, I see where there's
13 to be a reduction of some \$7.1 million. And that is due,
14 as I understand it, to the expected completion of the
15 Auto Theft Suppression Strategy, and the decline in the
16 Immobilizer Programs.

17 Is that correct?

18 MR. OTTMAR KRAMER: Yes, that is correct.

19 MR. WALTER SARANCHUK: Does this reflect
20 a discontinuation of WATSS in 2009/'10?

21 MR. OTTMAR KRAMER: Yes, at the time the
22 budget was drafted, there -- the -- the WATSS Program had
23 ended in the '9/'10 year.

24 MR. WALTER SARANCHUK: And I wonder, for
25 the record, if you'd just explain what the acronym WATSS

1 represents, W-A-T-T-S?

2 MS. MARILYN MCLAREN: The Winnipeg Auto
3 Theft Suppression Strategy.

4 MR. WALTER SARANCHUK: Thank you.

5 MS. MARILYN MCLAREN: And I guess more
6 specifically to the point it contemplated the
7 Corporation's funding within, not necessarily the
8 program, when the budget was prepared.

9 MR. WALTER SARANCHUK: Thank you, Ms.
10 McLaren. I said W-A-T-T-S. That's wrong. It's W-A-T-S-
11 S. Thank you.

12 MR. DONALD PALMER: Just while we've got
13 a -- a lull in the action, we have the answer to the
14 interest rates. Those are actually contained in TI.18,
15 on page 47. Our average financing interest rate, which
16 is prime plus 2 percent, for '9/'10, is projected to be
17 4.2 percent, in '10/'11 it's expected to increase to
18 point -- 4.47 percent, and further into '11/'12 is
19 expected to incre -- increase to 6.13 percent.

20 MR. WALTER SARANCHUK: Thank you, sir.

21

22 (BRIEF PAUSE)

23

24 MR. WALTER SARANCHUK: Just in terms of
25 the outlook period, in the forecast for the future, does

1 that include funding for the WATSS Program?

2 MS. MARILYN MCLAREN: Sorry, can you
3 repeat the question?

4 MR. WALTER SARANCHUK: In terms of the
5 forecast for the outlook period and the information
6 provided, with regard to the future, does that include
7 funding for the WATSS Program?

8 MS. MARILYN MCLAREN: No, it did not.

9 MR. WALTER SARANCHUK: Now, we've noted
10 in TI.13, in Tab 7 of the book of documents, that the
11 claims incurred are to increase by some \$31.6 million,
12 and that is elaborated upon in Schedule 1 on page 4. I
13 wonder, Mr. Palmer, if you would be good enough to
14 explain that information in Schedule 1 on page 4.

15 MR. DONALD PALMER: Yes, this is the
16 difference between the -- what we had projected last --
17 in our 2010 Rate Application, as opposed to what we have
18 as our revised forecast for the '09/'10 year, again,
19 within this 2010 Rate Application.

20 MR. WALTER SARANCHUK: I'm looking at
21 PIPP and Collision, so if you could just deal with those
22 two (2), please, Sir.

23 MR. DONALD PALMER: Yes, the -- from
24 2009/10 to 2010/11 we're expecting the claims incurred to
25 increase from \$236.2 million to 250...

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: The elevator notice
4 said it was a test but it would happen after business
5 hours. Mr. Gaudreau has gone to check. Well, I guess we
6 all have to depart.

7

8 --- Upon recessing at 11:30 a.m.

9 --- Upon resuming at 11:33 a.m.

10

11 THE CHAIRPERSON: Okay, Mr. Saranchuk.

12

13 CONTINUED BY WALTER SARANCHUK:

14 MR. WALTER SARANCHUK: Thank you, Sir.
15 Mr. Palmer, you were going to explain the increases in
16 the forecast for PIPP and collision.

17 MR. DONALD PALMER: Primarily two (2)
18 reasons for increase. One (1) is the volume increases
19 that I talked about, when there are more vehicles, there
20 are more claims, so that naturally flows through the
21 forecast.

22 Both collision and PIPP are also subject
23 to inflationary increases, so that also flows through in
24 the forecast.

25 MR. WALTER SARANCHUK: And that's -- to

1 that extent, is some 16.6 million and 12.7 for PIPP and
2 collision, respectively?

3 MR. DONALD PALMER: On an overall basis
4 we're looking at a 5.3 percent increase. If you take the
5 volume increase of 2 percent, and then inflation expected
6 to be 2 percent, we have also seen collision claims have
7 traditionally gone up by a little more than inflation, so
8 all those factors together come up to that 5.3 percent,
9 so that -- that's about normal in the increase.

10 MR. WALTER SARANCHUK: And just before we
11 leave that schedule, we see there's an increase in
12 comprehensive claims by some six hundred and fifty-two
13 thousand dollars (\$652,000), making the revised forecast
14 equalled to about \$55 million for comprehensive.

15 What do those claims entail?

16 MR. DONALD PALMER: Comprehensive are
17 theft, fire, hail. Those are probably the three (3)
18 biggies.

19 MR. WALTER SARANCHUK: Thank you.

20 MR. DONALD PALMER: Glass -- sorry, glass
21 claims are a big component of that as well.

22 MR. WALTER SARANCHUK: Thank you. And I
23 note that investment income of some \$88.3 million is off
24 -- actually offsets the \$79.8 million underwriting loss
25 to yield a net income forecast at \$8.5 million.

1 Is that correct?

2 MR. DONALD PALMER: Yes.

3 MR. WALTER SARANCHUK: And just very
4 generally, is it the standard practice for MPI generally
5 to budget for an underwriting loss?

6 MR. DONALD PALMER: Yes.

7 MR. WALTER SARANCHUK: And the rationale
8 behind that, very briefly?

9 MR. DONALD PALMER: Because we do attract
10 significant investment income with a portfolio for Basic,
11 a little under \$2 billion, so there is investment income
12 that's relied upon to offset the underwriting loss.

13 MR. WALTER SARANCHUK: So that's in --
14 investment income is usually greater than the
15 underwriting loss. Usually what results is a net income
16 as a result as opposed to a loss, is that correct?

17 MR. DONALD PALMER: Yes.

18

19 (BRIEF PAUSE)

20

21 MR. WALTER SARANCHUK: And just looking
22 at the underwriting income line on TI.13, comparing the
23 revised forecast to the 2010/'11 projection, there's an
24 increase of some \$5.2 million, is that correct? I'm
25 sorry, a decrease of some \$5.2 million.

1 Let me get this straight. An increase in
2 the underwriting loss.

3 MR. DONALD PALMER: That's correct.

4 MR. WALTER SARANCHUK: Thank you. Is
5 there a particular reason for that?

6 MR. DONALD PALMER: No particular reason,
7 other than the fact that our expenses are going up
8 slightly -- projected expenses are going up slightly more
9 than the projected revenues.

10 MR. WALTER SARANCHUK: Thank you, sir.
11 Now, reviewing TI.15 and 15A, this is not in the book of
12 documents. This is in Volume II, Part 1 of the Rate
13 Application. And in looking at TI.15A, that's the
14 overleaf from IT.15, for the years 2010 through to --
15 2010/'11 through to 2013/'14, can you confirm that this
16 schedule reflects no rate increases in those years?

17 MR. DONALD PALMER: I can confirm that.
18 No rate increases nor rate decreases.

19 MR. WALTER SARANCHUK: Thank you. Now,
20 what factors then are behind the increases in the premium
21 revenue for each of those years? Is that the volume and
22 upgrade factors that you referred to?

23 MR. DONALD PALMER: Yes. That -- that's
24 the increases in the written and earned premiums are
25 volume and upgrade only.

1 MR. WALTER SARANCHUK: And just looking
2 at TI.15, again which is page 2 of this enclosure, there
3 is a change in total claims' costs with an increase from
4 702 million in 2009/'10 to 816 million for 2013 and '14.

5 Can you comment on that trend, sir?

6 MR. DONALD PALMER: That would be normal
7 expected increases due again to inflation, both actual
8 CPI inflation and some social inflation in terms of
9 repair and -- and parts, prices going up a little more
10 than actual inflation, as well as the volume increase.

11 MR. WALTER SARANCHUK: And can you
12 confirm --

13 MR. DONALD PALMER: The annual increase
14 over those years is 4 percent.

15 MR. WALTER SARANCHUK: Thank you, sir.
16 Can you confirm that the rates for this period are not
17 designed to recover claims' costs and that consideration
18 of investment income is taken into account?

19 MR. DONALD PALMER: Consideration of
20 investment income is taken into the -- account for rate
21 setting purposes, yes.

22 MR. WALTER SARANCHUK: And it appears
23 that the forecasted premium growth is sufficient to
24 offset the growth and claims costs for the outlook period
25 given the level of expenditures in the outlook period,

1 why is still a positive net income forecast when there's
2 no rate increases included in those years, and I think
3 you said that was because of the volume and upgrade
4 factors?

5 MR. DONALD PALMER: That's correct.
6 Again, the revenue is expected to increase more than the
7 expenses.

8 MR. WALTER SARANCHUK: And can you
9 confirm that for the year 2010/'11/'12 and for the year
10 2012/'13 and for the year 2013/'14 there is net income
11 projected or forecasted in the order of \$18.5 million,
12 \$40.4 million, and \$60 million, respectively?

13 MR. DONALD PALMER: That's the projection
14 with no rate changes, yes. And I'll just remind the
15 Board that we are not applying for rates in -- for
16 2011/'12 and going forward, so once we get to that point,
17 very unlikely that we would show bottom lines of -- of
18 this magnitude.

19 So for the purposes of these projections,
20 they're what would happen if we did not have rate
21 changes.

22 MR. WALTER SARANCHUK: And for the period
23 from 2010/'11 through to 2013/'14 in terms of factors
24 behind the operating profits anticipated for those years,
25 do the question -- do the factors of theft claims

1 reductions offset by reduction and driver's licence
2 premiums due the DSR enter into the picture?

3 MR. DONALD PALMER: Those are included in
4 our projections. Yes.

5 MR. WALTER SARANCHUK: And to what
6 extent, generally, does this forecast that you've
7 provided here reflect any reduction in claims' costs as a
8 result of the introduction of DSR?

9 MR. DONALD PALMER: We have not included
10 any reduction in claims' costs because of DSR.

11 MR. WALTER SARANCHUK: And is there a
12 particular reason?

13 MR. DONALD PALMER: Right now we're
14 unsure of what the effect of DSR will be on claims'
15 costs. We are -- it is our fervent hope that there will
16 be a change of behaviour because of DSR, with any
17 behaviour change that will evolve over time. We don't
18 know what that number is, and we have not included it in
19 our forecast.

20 MR. WALTER SARANCHUK: Thank you, sir.
21 To what extent does the forecast saving, related to the
22 business process review, reflect -- reflected in the
23 outlook period?

24 Is there a productivity factor?

25 MR. DONALD PALMER: I don't know that I -

1 - we have specifically called it a productivity factor.
2 There are change -- savings that are projected both in
3 expenses, and in claims incurred, because of business
4 process review.

5 MR. WALTER SARANCHUK: And if the profits
6 materialize as forecasted, what strategy would the
7 corporation consider if we're dealing with the excess net
8 income?

9 MR. DONALD PALMER: We would not expect
10 that excess net income, because we wouldn't be applying
11 for rates that would generate that excess net income. If
12 it did materialize, it would depend on our RSR position,
13 and whether that would generate rebates or not. It
14 certainly would be a consideration. But we would not
15 apply for rates with this kind of bottom line projection.

16 MR. WALTER SARANCHUK: Yes --

17 MR. DONALD PALMER: In those years.

18 MR. WALTER SARANCHUK: Rate -- rebates
19 are rate reductions?

20 MR. DONALD PALMER: We would -- going out
21 to the '12/'13 year, and I'll just go to TI.14 for a
22 second.

23 MR. WALTER SARANCHUK: Which is at docu
24 -- Tab 8 in the Book of Documents.

25 MR. DONALD PALMER: Which unfortunately

1 goes only to 2011/'12. With our current application
2 looking for an RSR level of \$185 million dollars, we
3 would likely continue to build that until we got to the
4 hundred and eighty-five (185), which would be -- probably
5 in the '12/'13 year. So likely we would be looking at
6 rate reductions in '12/'13 or '13/'14 of some
7 description.

8 MR. WALTER SARANCHUK: Thank you, sir.
9 There's reference to the upgrade factor, and the volume
10 factor in the assumptions to TI.15A on page 3. That's
11 with reference to the years and the outlook period of
12 2011/'12 through to 2013 and '14.

13 Can you confirm, sir, that there have
14 been no changes in the methodology used to determine the
15 volume factor from the previous application?

16 MR. DONALD PALMER: I'll confirm that.

17 MR. WALTER SARANCHUK: And can you
18 confirm that a positive volume factor contributes to the
19 overall premium revenue regardless of whether the
20 Application seeks a rate increase/decrease, or that the
21 status quo be maintained?

22 MR. DONALD PALMER: Revenue increase and
23 expense increase. Generally an increase in volume by
24 itself doesn't generate net income, because the -- that
25 extra revenue through volume, those cars that you don't

1 expect to come in also have claims that you wouldn't
2 expect to have. So -- so the two (2) are essentially
3 offsetting.

4 MR. WALTER SARANCHUK: Now can you confirm
5 with reference, and this is eluded to in PUB/MPI1-3 -- 1-
6 3C in the Information Requests of the Public Utilities
7 Board. Can you confirm that the volume factor
8 assumptions made in this General Rate Application use
9 2.25 percent per annum for 2009/'10, and 2.25 percent for
10 2010/'11, and 2 percent for the outlook period.

11 MR. DONALD PALMER: Sorry, could you
12 repeat those numbers?

13 MR. WALTER SARANCHUK: 2.25 percent per
14 year for 2009/'10, 2.25 percent for 2010/'11, and 2
15 percent for the outlook period.

16 MR. DONALD PALMER: That's correct.

17 MR. WALTER SARANCHUK: Now, very briefly,
18 looking at the Corporation's response to the
19 Interrogatory PUB/MPI-1-3A, I wonder if you -- that was
20 with reference to utilizing a 2.75 percent upgrade
21 factor.

22 I wonder if you could just review very
23 briefly, sir, what the impact is utilizing that increased
24 upgrade factor with reference to 1-3A.

25 MR. OTTMAR KRAMER: By -- by utilizing

1 the increased volume upgrade factor to 2.75 and 2.5 for
2 the -- the future years, there -- there is a slight
3 increase in -- in net income.

4 MR. WALTER SARANCHUK: Yes, thank you.
5 And in light of the past experience, is it your view that
6 2.25 percent for 2010/'11 is appropriate?

7

8 (BRIEF PAUSE)

9

10 MR. OTTMAR KRAMER: Yes, base -- based on
11 our -- our forecast process.

12 MR. WALTER SARANCHUK: With reference to
13 the upgrade factor, and this is dealt with in 1.3 as
14 well, Interrogatory 1.3 of the Public Utilities Board,
15 can you confirm that there have been no changes in the
16 methodology used to determine the vehicle upgrade factor
17 from the previous year?

18 MR. DONALD PALMER: I'll confirm that.

19 MR. WALTER SARANCHUK: And while no rate
20 increase is projected over the outlook period, there is
21 reference to inclusion of an upgrade factor and volume
22 factor in the premiums written.

23 Is that correct?

24 MR. DONALD PALMER: Yes.

25 MR. WALTER SARANCHUK: Can you confirm

1 that the positive vehicle upgrade factor contributes to
2 the overall premium revenue regardless of whether or not
3 there's a rate increase sought?

4 MR. DONALD PALMER: Again, it would
5 affect the premiums. It would also affect the expenses.

6 MR. WALTER SARANCHUK: And last year you
7 indicated that an upgrade factor for 2009/'10 would be
8 2.75 percent, and, as I understand it, the forecast has
9 now been adjusted to 2.5 percent.

10 What is behind the change?

11 MR. DONALD PALMER: The observed upgrade
12 with the economic slowdown is expected to be a little
13 less. As well, we've seen that number come down a little
14 bit partially because of our rate line. There is a
15 flattening of the top end, so there isn't -- when you go
16 into the higher rate groups, there's not the same
17 increase in -- in premium as -- as there was certainly
18 going back into '03/'04 -- '02/'03, '03/'04, when we were
19 looking at upgrade in a 4 1/2 to 5 percent range.

20 MR. WALTER SARANCHUK: And when reviewing
21 the information provided at PUB/MPI-1-3B in this
22 Interrogatory, would you agree that the alternative of
23 utilizing a 2.7 percent upgrade factor versus the 2.5
24 percent included in the Application does result in some
25 change but not significantly insofar as the net income is

1 concerned?

2 MR. DONALD PALMER: That would be correct
3 again because that upgrade is reflected in higher claims'
4 costs.

5 MR. WALTER SARANCHUK: And just turning
6 to the last page of PUB/MPI-1-3, this is with reference
7 to the C part, the historical trend shows a marginal
8 decline in the upgrade factor from '06/'07 from 3 percent
9 there, to now forecasting some 2.5 percent for the test
10 year.

11 Can you comment on that trend.

12 MR. DONALD PALMER: If we look at the
13 actuals and -- and these actuals aren't -- there's
14 various methods of -- of measuring the actuals in terms
15 of the rate model -- actually all the methods there is a
16 downward trend, although it -- it moves up and down a
17 little bit, but overall, over those years, there is a
18 downward trend in the actual upgrade that we've
19 experienced.

20 MR. WALTER SARANCHUK: And what can you
21 comment -- or what is your comment relative to the volume
22 factor?

23 MR. DONALD PALMER: The volume has
24 increased a little more in recent years. That would be
25 on an overall basis. That's mainly due to increased

1 numbers of off-road vehicles and trailers.

2 MR. WALTER SARANCHUK: Thank you, sir.
3 Mr. Chairman, I have in mind to move onto a completely
4 different area, and I'm just wondering whether this might
5 not be an opportune time to adjourn for the noon hour.

6 THE CHAIRPERSON: Okay. Let's come back
7 at -- when are the presenters coming? 1:15.

8

9 (WITNESSES RETIRE)

10

11 --- Upon recessing at 11:54 a.m.

12 --- Upon resuming at 1:18 p.m.

13

14 THE CHAIRPERSON: Okay. Welcome back,
15 everyone. This afternoon we are going to have three (3)
16 presenters present for the Board. I understand all three
17 (3) are here, so we will just follow them in alphabetical
18 order.

19 Presentations do not form evidence, but
20 the Board and the applicant listen intently to the
21 comments that are made, and we appreciate your presence
22 in coming before us.

23 We would appreciate it if you could hold
24 your comments down to within fifteen (15) minutes. And,
25 other than that, I welcome you all here. Mr. David

1 Gurvey, are you there, sir?

2 If you would like to come and take one (1)
3 of these microphones up here. Each time after you finish
4 speaking, just hit the button and it goes off, otherwise,
5 we get feedback.

6

7 PRESENTATION BY MR. DAVID GURVEY:

8 MR. DAVID GURVEY: Thank you very much
9 for allowing me to speak today. My name is David Gurvey.
10 I'm a certified management accountant who is involved in
11 real estate development in Winnipeg.

12 I took an interest in MPI and -- and its
13 operations after being a victim of a cyc -- in -- as a
14 cyclist getting hit by a motor vehicle. I'm fortunate in
15 two (2) areas as -- as it relates to that accident:

- 16 1. My injuries are largely healed, and;
17 2. I am strong enough financially to have
18 --have coped with the loss of income that I did
19 experience along my path to be here today.

20 However, in my journey, in going through
21 the process, I managed to come across many other
22 individuals who perhaps are not as fortunate as I in
23 being able to cope with some of the challenges of income
24 loss.

25 I have a couple of comments in general, in

1 general management of financial management of the
2 Corporation. MPI's an insurance company, nothing more,
3 nothing less, and, therefore, it's driven by an actua --
4 by actuarial principles.

5 Not long ago, the CEO of Manitoba Public
6 Insurance Corporation was quoted in the Winnipeg Free
7 Press expounding on the virtues of no-fault by stating,
8 and this is a rough quote:

9 "Under the old system it was uncommon
10 to see settlements over \$1 million.
11 Now it is not uncommon to see millions
12 of dollars paid over the life of a
13 claim."

14 I find this statement bizarre from a
15 senior person at an insurance corporation. A beginning
16 commerce student or actuarial student knows that a lump
17 sum payment has a future value far greater than the
18 payment, and a stream of payments over time has a net
19 present value of much less than that.

20 So coming from the head of an insurance
21 company, I -- I'm absolutely flabbergasted that that kind
22 of statement would be made. However, as a real estate
23 developer, it's a good -- this is a good segue into my
24 next point, that perhaps this lack of financial acumen
25 led to the purchase of Eaton Centre by the Corporation.

1 From the time that its former owner,
2 Huntington Real Estate Investment Trust, purchased this
3 asset, to the time the Corporation purchased this asset,
4 it had to be the only transaction of substance in the
5 country that sold for more during that time frame.

6 Further, and I know somewhat about these
7 matters, being involved in the industry, the tenancy of
8 MPI was what gave that property value in its first place,
9 seeing as how Winnipeg does not have a plethora of
10 tenants occupying hundred of thousands -- need for
11 hundreds of thousands of feet in any one (1) building.

12 I also point out that the Corporation
13 could've taken control in what an excellent insurance
14 asset as real estate's held by many of the great
15 insurance companies around the world for probably half
16 the cost of the -- of the building, controlled the
17 assets, signed their own lease, and had a great
18 investment for -- for its future needs.

19 I certainly don't know the facts or
20 details, but something is very wrong with this deal, and
21 I urge the PUB to find out how and why this transaction
22 was thought to be good. But from the outside it reeks of
23 incompetence.

24 Now, more importantly, let me turn your
25 attention to the important part of why I'm here, where

1 ordinary Manitobans dutifully pay their insurance
2 premiums expecting to be looked after and made whole when
3 an unfortunate incident occurs. Does the system work
4 often, I'm sure it does. But not often enough, as I
5 found out in my journey, and I will do my best to speak
6 in general terms and not be too specific about my case.

7 Where after not being satisfied with a
8 decision, I found out that there cou -- would be two (2)
9 year wait until the advocacy department could even begin
10 to deal with me. Two (2) years. I'm just fortunate that
11 my injury was short enough and I have the resources to
12 cope. But let's start at the beg -- at the beginning of
13 process.

14 It's basically, anything you say will be
15 held against you. The case officers do not, through
16 ignorance or intent, full inform you of your rights under
17 the Act. And I hope that you'll forgive my hearsay
18 evidence of this passing onto you from many other people
19 who I've spoken to have found this very similar thing.

20 They bully and bluster when you question
21 them. And while they tell you they are your advocate,
22 they certainly are not. If a min -- minor detail isn't
23 mentioned benefits seemed to be denied time and time
24 again. If they misunderstand you, benefits will be
25 denied time and time again.

1 The line is always the same, if you
2 disagree, you may appeal. The first appeal is rather
3 somewhat of a joke. I was most surprised to have in --
4 on my personal journey disagreeing on a matter, meeting
5 someone in a room, taking two (2) minutes of my time,
6 going away, and then come back within a couple of days
7 and say, well, there's no change to the decision. In
8 addition, there's no advocate.

9 The Act and regulations are long and
10 complex. Probably too complex for most people to
11 understand without legal counsel. Even at the advocate's
12 office the nice young lady I met, young being the
13 operative word, was not formally trained with -- with --
14 in -- in the legal profession, but someone who basically
15 had some experience working at the office, however, if
16 you want an advocate you need to go to that office if you
17 can't afford to hire legal counsel.

18 But two (2) years away from someone in
19 grave circumstances is a very, very long time. I'll fast
20 forward to the commission hearing. The commission
21 hearing is flawed in many respects. It is stacked
22 against the Appellant from the -- from the initial
23 statements.

24 Anything that MPI says at that hearing is
25 taken as fact. If I can use a personal example, which I

1 actually found to be a flagrant, just a flagrant
2 statement of -- of not caring, was act -- it was test --
3 testimony given by MPI, was they didn't use parts of the
4 Act because it was too cumbersome when dealing with
5 income replacement.

6 Now, how does this affect matters
7 involving rates and rates charged? If the PUB is to
8 properly adjudicate any rate increases or decreases
9 requested by MPI, I think it firthly -- firstly needs to
10 ascertain whether or not the mandate of MPI, the process
11 of MPI, are being followed in terms of administration of
12 the Act.

13 If payments due under the Act are being
14 paid out because if they are not this certainly would
15 reduce the need for a rate increase. The other thing
16 that I would strongly urge that the PUB should
17 investigate is the bureaucracy which seems to work
18 against some injured victims who have problems.

19 These two (2) factors may cancel each
20 other out. But I would hazard a guess that if the Act
21 was followed and victims of motor vehicle accidents were
22 paid out in accordance with the Act, rate increases by
23 the -- requested by -- to the PUB by MPI may be greater.

24 So in conclusion, if I can just recommend
25 a couple -- some changes that the PUB in its

1 investigation of rate application -- of rate application
2 increases or decreases by the Corporation should have a
3 process to audit the internal processes of MPI in their
4 dealings with their clients.

5 Thank you very much.

6 THE CHAIRPERSON: Thank you, Mr. Gurvey.
7 Thank you very much for coming and spending some time
8 with us. Thank you.

9 The next presenter is a Mr. Eduard
10 Hiebert. Mr. Hiebert, are you here? Welcome.

11 All you have to do is push that button,
12 and then you can provide your comments.

13

14 PRESENTATION BY MR. EDUARD HIEBERT:

15 MR. EDUARD HIEBERT: Thank you. I'd like
16 to bring forward three (3) items with two (2) words of
17 introduction. Actually, four (4) items with three (3)
18 wor -- two (2) words of introduction.

19 The first is, on the larger scale -- maybe
20 I should take a step back. I think the previous
21 presentation was just simply excellent and I am -- it's
22 an honour to be following that one.

23 The -- the aspect of the Public Utility
24 Board as a process within a democracy is, I think, one of
25 the highest institutions in the land. I think it is

1 underrated and needs to do -- needs to -- needs to be
2 evaluated much more.

3 In our civil world there are two (2)
4 sources of power. There's the democratic power, one (1)
5 person, one (1) vote -- or one (1) voice. And then
6 there's the one dollar (\$1), one (1) -- one (1) vote.
7 And it is this institution that is actually helping
8 regulate the one dollar (\$1) -- pardon me, the one (1)
9 person, one (1) vote in the process so that the one
10 dollar (\$1), one (1) vote doesn't run roughshod, as was
11 just earlier brought to our attention.

12 The second aspect is, this year, a dear
13 friend of mine, he's a farmer, a journalist, I don't know
14 how he did all the things he did, but before he died I
15 already had the conclusion in my own mind -- or phrase,
16 what I didn't apply to him, but if an accident waiting to
17 happen happens, is that an accident?

18 He under -- he -- unfortunately, someone
19 in -- in June die -- ended up dying due to a farm
20 accident. I'm not going to hear -- give you the details,
21 I don't think it's necessary, but I never thought it
22 would happen to him. I thought there was other
23 circumstances beyond that as which was le -- which would
24 lead for others. He wasn't a dangerous kind of a person.

25

1 But the point I want to make is that the
2 very function of this function that the PUB here is, and
3 also the organization, every time you abuse your
4 authority, every time you do that, one (1) of us at the
5 lower levels has to work harder for less money and it
6 creates an accident waiting to happen. You may not think
7 you're responsible for it, but you are. No court of law
8 is going to assign you responsibility, but I think, at
9 the end of the day, when you face a mirror, you are
10 responsible and have a part and a share in my friend's
11 death.

12 Now to the three (3) points that I want to
13 bring forward that deal with this. The first point, I've
14 already bring -- brought this forward to this
15 organization many years ago, there's been complete
16 inaction on it. By way of strength, the PUB has
17 required, and MPIC, in its wisdom, brought forward the
18 aspect that, when people register more than two (2) --
19 more than one (1) car, a pleasure car and an all-purpose
20 car, the reasonable point was made, at some point in
21 time, that if the most expensive vehicle or the highest
22 rated vehicle is insured at the all-purpose, they can
23 take whichever car they want to work or to other uses, et
24 cetera, so there's flexibility of whatever their changes.

25 I think that's a humanistic positive

1 change. It was positive.

2 Another similar one in the advancement of
3 that kind of stuff is, for example, at some point, a
4 number of years ago, it was decided that some of our
5 insurance should be on our driver's licence, so that if
6 we happen to step into someone's car in good faith,
7 believe it's insured and it's not, we at least have some
8 basic insurance. It goes with the driver.

9 These are -- both of these plans are
10 excellent ways which advance what I would think a
11 civilized society. Then, on the other hand, I'm a
12 farmer. I register more than one (1) vehicle. We're
13 dealing with a minor item as far as my global expenses,
14 but it's -- it's a point of principle that I want to
15 bring forward, and that is, if I register each of the
16 vehicles, I have to go ahead and pay for a third-party
17 liability on each one (1) of them. That's in incremental
18 amount that I have to pay for each unit, even though I
19 can only physically drive one (1) unit at a time, yet I'm
20 paying a multiplicity of insurance. That's unfair.

21 Under the basis of what MPIC is doing and
22 through the regulation of the PUB, I ask you to look at
23 that. Part of your regulations is that -- and -- and as
24 PUB people, what I find, even though that you are here at
25 the pleasure of the Government, I have always found over

1 the years the inst -- institution is actually better than
2 the people who appoint, you because one (1) of the
3 fundamental reasons is you do have checks and balances,
4 which the people who appoint you do not have. And that
5 is one (1) of the things you have to provide reasons more
6 often for your decisions than not.

7 I would encourage you under the strongest
8 terms possible that I have a reasonable cogent answer why
9 MPIC is not directed to, enforcing them to make a change
10 so that we have -- if we register one (1) vehicle we can
11 -- that -- that should be sufficient for the third-party
12 liability. There's no need to have a multiplicity of
13 them. Any time someone comes in and helps me on the
14 farm, they come with a vehicle they've already
15 registered. Again, another car -- a -- a vehicle is
16 parked, so this -- the aspect of -- of the third-party
17 liability is only a small thing in this larger teapot of
18 what you're durk -- working with.

19 But for those of us who are pressed with
20 the economics that we are, it means an incremental
21 amount, and so I cut corners. I don't go ahead an insure
22 myself fully. It's not appropriate. I think it's an
23 accident waiting to happen that you can address before it
24 happens.

25 The second item goes more closely in the

1 detail of one of the aspects I think that the earlier
2 presenter was talking about. I drive a car. I'm not
3 going to identify what it is. You can always check --
4 find it out to get the details. It's an '86 vehicle.
5 I've had no problems with it for many years, then roughly
6 five (5) years ago I get a letter from MPIC saying
7 there's something wrong with the registration. Fine. I
8 check my stuff, I bring it in, everything seems fine.
9 Repeat the second year.

10 The third year again, repeat. The third
11 year I ask the Autopac agent, you know, look, this is
12 happening would you at least look into it and get it
13 corrected? Next year, same thing again. And of course
14 my registration has -- I mean, it's an extra hassle.

15 So I -- I finally try and take steps to
16 try and get MPIC to look at it directly themselves. The
17 amount of time I had to spend on that was horrendous. A
18 simple thing like that could not be dealt with by MPIC in
19 an efficient manner. It took months. I was getting to
20 my deadline when I had to register, I still didn't have
21 it corrected. I had to make an extra trip to finally get
22 my insurance on the deadline because they couldn't get
23 their act together in time to have that resolved.

24 I was told all kinds of song and dances as
25 to how difficult it was, et cetera. I think it was a

1 straightforward issue that they should've dealt with, and
2 -- and for whatever reason do not within their ivory
3 tower deal with these manners in an expeditious manner,
4 especially when someone such as lowly as I come and
5 address them. And that's why this function of the PUB is
6 important, because I think the aspect of power between
7 the two (2) is something that this institution has not
8 every right, but every duty to ensure that we are
9 accorded a better, more humane, and -- and civilized
10 service.

11 And that brings me to the third point.
12 Way back when, when I was here before the Board, and I --
13 I was here even as an Intervenor several times, I believe
14 you were there as one (1) of the people in the
15 background, and I don't think we've ever spoken before,
16 but I also wanted to say in line I think with the
17 previous presenter, I'm really -- han -- hang on -- when
18 you were appointed, even though we've never had any
19 personal contact with each other, et cetera, I was happy
20 that you, as a woman, ended up being able to get the
21 position. I -- I'm sure it represents all kinds of
22 things. And yet my experience with a number of calls
23 that I tried to call to your office, personally trying to
24 make touch with you, having your -- trying to get your
25 office to have you call me, et cetera, nothing but a

1 layer of bureaucracy, a -- a moat that is impossible to
2 breach.

3 You have had fair warning that I was going
4 to be here. I think it's absolutely irresponsible of
5 this entire institution for me to have to come here to
6 bring forward a basic address that the Corporation didn't
7 have the common courtesy to give me that return call.

8 And in the notices for this proceeding, it
9 is indicated that if we have a concern with MPIC we can
10 call them, we can even call them collect. I tried
11 calling the President's office collect, it was refused.
12 I go ahead and call the President's office on my own
13 nickle, telling them that I would like a call back, et
14 cetera, even those kind of calls were wasted, and -- and
15 I only did this when I was getting close to my deadline
16 for my insurance, because I was getting desperate.

17 I strongly encourage you to look very
18 closely at what the earlier presenter did in the global
19 terms as to what was going on, and I'm giving you on a
20 microcosm I think at the lower level, that here is a
21 Corporation that unfortunately is taking far too much of
22 a position of -- position of power, an -- an ivory tower
23 or a frontier centre of -- of a fortress mentality that
24 is really impossible for people to get in, in a common
25 decent civilized manner with one another.

1 And that brings down to the -- the next
2 part in this. This institution does have the right, the
3 obligation, not the obligation necessarily except within
4 your jurisdiction, that when Intervenors come before here
5 you can pay them. A reasonable thing, and I think it's a
6 -- a common -- in other words, if Intervenors come here
7 and do something for the betterment of the entire
8 organization, I think it's only right and fitting that
9 they get a reasonable compensense (sic) for -- for what
10 they're doing. Because it's to the benefit and advantage
11 of the entire organization, that if positive suggestions
12 come forward that they get paid for them, instead of
13 making it a kind of a -- a system where we penalize the
14 very people who come forward, and everyone else around
15 this table seems to get their fair share from the trough,
16 but the very ones who are paying for it.

17 You have the discretion. I encourage you
18 that I be given some kind of a reasonable recompense for
19 having to come here, because I think this -- this coming
20 here forward as far as bringing each one (1) of the
21 points that I brought forward, these -- they're not old -
22 - pardon me, they're not new, they should have been dealt
23 with. It's a -- it's a complete unnecessary hardship for
24 me to leave my farming activities in order to come here.

25 The fourth and final point I want to make,

1 and in my rush I ended up forgetting to bring it along
2 with me, but it's a quote from a book called, "Invisible
3 Loyalties," co-authored by two (2) people, Nagy and bor -
4 - I can't -- B-O-X, something. If anyone wants the
5 quote, I'd be more than happy to email it to you, and
6 that'll -- I'll -- I'll show you how you can get in touch
7 with me.

8 But the -- the quote deals with -- and I
9 apply it to whether it's racism, bigotry, or bias, and it
10 has to do with the indication that the book end -- or the
11 quote ends up saying that we all suffer from that to a
12 varying degree. And the definition goes something like
13 this, that the in-group is always less condemnable for
14 exercising a harshness to the out-group compared to the
15 in-group, and on the converse side, will be more lenient
16 to the in-group than the out-group.

17 I believe it's an excellent -- I'm -- the
18 English is failing me -- a pendulum, the -- what's the
19 word for it when you have a measure for making something
20 straight? I think it's an excellent measuring stick for
21 each one of us to look within ourselves that when we are
22 subject to exercising a bias, et cetera, how to
23 positively hold ourselves in check as a check and
24 balance. And I provide that to you as a -- as a -- as a
25 helpful way -- because I believe, as I stated in my

1 opening part, I think this institution is at the pinnacle
2 of what a good democracy is about, and I would give you
3 every of my own encouragement to exercise that
4 jurisdiction to its fullest.

5 And I will conclude then with a last
6 point, and I did run in the last Federal election as a
7 candidate. I'm not plugging for that, however, I am
8 going to make a plug within that.

9 I think there's a tremendous hole in our
10 democracy. And the hole in our democracy is one where we
11 believe we are in a democracy where it's majority rule.
12 Your decisions are going to be ma -- made by majority
13 rule. Many decisions are made by majority rule.
14 However, our decisions in -- in our civic life are not
15 made by majority rule. That when the majority of people
16 vote, and let's just assume that there is nine (9) people
17 who can vote, and the majority of them -- I think we can
18 be agreed, that the majority of them is five (5), in this
19 institution and many others, that majority gets to make a
20 decision and it -- it binding for the group.

21 However, when we as people vote, the
22 majority of us, that five (5), far often than not ends up
23 splitting their vote between two (2) similar candidates,
24 so that 'A' gets two (2), 'B' get's three (3) and the
25 peop -- the five (5) people who voted for these two (2)

1 candidates, do not want candidate 'C', but candidate 'C'
2 gets four (4) votes. In our system 'C' gets elected.

3 I would simply point out that 64 percent
4 of all the Federal MP's who got elected, that's a hundred
5 -- two hundred and ninety-four (294) of them -- pardon
6 me, a hundred and ninety-four (194) of them, are
7 candidate 'C's'.

8 I'm not talking polit -- political
9 partisanship as to which parties win over the other. I'm
10 talking about 64 percent of them were elected in a
11 constituency where majority did not vote for the one (1)
12 who was elected. In other words, 64 percent of the
13 people are out in the cold. It's part of the reason that
14 these kind of things are allowed to happen, because
15 there's so much vote splitting going on.

16 My point is if you want to meet in touch
17 with me, if you want to get the quote, I'd encourage you
18 to go to votel23p.ca. It's written up as -- as -- as how
19 to -- how we can go ahead and avoid that kind of vote
20 splitting. And my own sense isn't -- and the reason I
21 bring that forward, each one (1) of here are cit --
22 citizens. Each one of us here has a right to bring
23 forward a more humane way of coming forward. And I think
24 this is the one (1) way in which each one of us can be
25 empowered to change the system so that we actually have a

1 more civilized democracy, the very point as to why I came
2 here in the first place.

3 Godspeed as you make your decisions. I
4 look very -- I look forward to the -- the deliberative
5 decision as to why MPIC cannot give us just simply one
6 (1) rate for one (1) vehicle on a third-party liability
7 and we have to pay no further for the other ones that we
8 insured. Thank you very much.

9 THE CHAIRPERSON: Thank you, Mr. Hiebert.
10 Our third presenter today is Mr. Doug
11 Houghton. Do you want to come up to the mic, Sir? I
12 will mention before, by the way, the normal practice is
13 that MPI writes each one of the presenters with comments
14 and copies the Board.

15 Mr. Houghton...?

16

17 PRESENTATION BY MR. DOUG HOUGHTON:

18 MR. DOUG HOUGHTON: Okay, good afternoon,
19 Mr. Chairman and Board members, MPI staff, legal counsel,
20 and other presenters.

21 I'd like to thank you once again for this
22 opportunity to speak. I'll try to keep my presentation
23 brief, and I'll slow it down a little bit because I've
24 already been warned not to speak too fast.

25 I'm currently the president of the

1 Coalition of Manitoba Motorcycle Groups, but today I'm
2 speaking on my own behalf. As you know, the CMMG
3 solicitor, Ray Oakes, will be representing the CMMG.

4 A little bit of personal background, and
5 some of this you've already heard, I started ro -- riding
6 motorcycles about forty-six (46) years ago and bought my
7 forty (40) -- my first motorcycle forty (40) years ago
8 actually this past summer.

9 In fact, I -- it was the first thing I'd
10 bought upon starting my job with the Manitoba Government.
11 I'm a motorcyclist. That's what I am. I enjoy
12 motorcycling immensely. It's what I do.

13 I know -- it's how I spend most of my
14 spare time, my vacation, and my weekends with my friends
15 and my adult children. It's also how I often travel to
16 visit my grandchildren.

17 I ride about 25,000 kilometres a year.
18 And I'd like to ride more if I could afford it. I'm 62
19 years old now and I still enjoy motorcycling as much as I
20 enjoy sex, and I hope to continue both for the next
21 twenty (20) years. Thank goodness only vehicle insurance
22 is mandatory.

23 Now all joking aside, as a pensioner,
24 motorcycle premiums have become an extreme financial
25 burden with each yearly increase. The cost of insurance

1 for my truck and motorcycle now exceeds that of each of
2 my annual mortgage payments, heating, hydro bill, or
3 property taxes. My premium on a two -- twenty thousand
4 dollar (\$20,000) motorcycle is nearly twice as much as my
5 insurance premium on a two hundred thousand dollar
6 (\$200,000) home.

7 Other than food, vehicle insurance is now
8 probably my greatest single household cost. And
9 according to MPI projections, I may continue to face
10 substantial increases over the next few years.

11 Even though motorcycle numbers have
12 increased over the past few years, there are many former
13 motorcyclists out there who have quit riding, not because
14 they've lost their love for the sport, but solely for the
15 fact that they have modest incomes and can no longer
16 justify paying up to two thousand dollars (\$2,000) or
17 more for five (5) months of riding.

18 Where a husband and wife both ride, the
19 costs can be very prohibited, even for affluent families.
20 For example, if a husband and wife owns sport bikes,
21 their combined cost for the season would be now about
22 five thousand dollars (\$5,000), and may be approaching
23 six thousand (6,000) the next few years. It's not a
24 cheap activity. Even though the gas may be cheaper,
25 overall, it's not.

1 Once again, if we're dealing with 2010
2 premium increases, once again I note that the average
3 rate increase of 5.7 percent for motorcycles, as shown on
4 the public notice, is misleading, as rates vary
5 substantially by territory rate group or classification.

6 And where increases do occur, they are
7 often much higher than 5.7 percent, up to 25 percent for
8 scooters and mopeds, and more than 16 percent for other
9 territories and classifications.

10 I realize that a public notice cannot
11 contain a detailed breakdown. I know the -- I know the
12 MPI website features the full application, which I
13 certainly appreciate, but it is really too large and
14 cumbersome a document for the average person to negotiate
15 and find relative and meaningful data.

16 Perhaps MPI could include on its website
17 summary reports and charts similar to those provided in
18 response to CMMG's First Round interrogatories. It would
19 also be advantageous to include corresponding claims data
20 with similar breakdowns -- sorry, sorry, similar
21 breakdowns expressed in easily understood terminology.

22 Even -- even though motorcycle -- I got
23 "thought" there. A spelling mistake. Even though
24 motorcycle premiums in territory 1 are still unreasonably
25 high, it is somewhat reassuring to see that they've

1 stabilized, with most classifications either experiencing
2 less than 2 percent increases, and others with small
3 decreases.

4 By contrast, mopeds and scooters will
5 experience 25 percent increases in most territories,
6 including territory 1. As well, increases for touring,
7 other and sport classifications in territory --
8 territory 2 range from plus 9.5 percent to greater than
9 16 percent.

10 For these same classifications territories
11 3 and 4 will experience varied changes which in -- with
12 increases of nearly 10 percent to decreases of more than
13 7.6 percent, and this is shown in CMMG/MPI-1-4, Table
14 1-4.

15 I am pleased to see that MPI is seeing fit
16 to remove nine (9) older model motorcycles from a sport
17 classification, resulting in reduced premiums for owners
18 of these vintage machines. I hope, as well, that future
19 claims data will positively affect premiums for the newly
20 created sport touring category. It is my opinion that
21 this type of motorcycle attracts the rider who is -- who
22 appreciate sport bike handling characteristics but uses
23 it for long distance touring rather than local cruises.

24 Sport bikes continue to experience high
25 claims costs. Some motorcyclists and motorcycle dealers

1 have suggested that a -- that minimum deductibles be
2 increased to a thousand (\$1,000) or two thousand dollar
3 (\$2,000) so as to discourage improper riding practices
4 that can contribute to high rates. Whether or not
5 increasing deductibles will positively modify riding
6 behaviour is unknown, but it -- it is something MPI may
7 wish to study.

8 There's still some differences among
9 motorcycle classes. Without considering mopeds, there
10 are still extreme premium differentials among motorcycles
11 with a scooter-body style, and those of an other or a
12 sport body style with the same displacement. For
13 example, the fully discount -- the proposed fully
14 discounted all-purpose premium in territory 1 for a 250cc
15 scooter, valued at three thousand dollars (\$3,000) is
16 only three hundred and thirty-nine dollars (\$339),
17 whereas a 250 "other" motorcycle of the same value pays
18 twelve hundred and fifty dollars (\$1250), more than three
19 and a half times the rate.

20 The premium for a 250cc sport motorcycle
21 is seventeen hundred and seventy eight (1778), nearly
22 five and a quarter (5 1/4) times more. How is it that
23 these very small displacement motorcycles would differ so
24 much in their risk to justify these differences when all
25 have similar power and are ridden under the same riding

1 conditions?

2 Future Premiums: As a motorcyclist I'm
3 concerned where future premiums are headed. In this
4 respect I thank MPI for providing the table entitled
5 "Hypothetic or Projected Break Even Motorcycle Premium by
6 Territory and Rate Group." This is table 1-5 of
7 CMMG/MPI-1-5. I would assume with all other factors
8 unchanged that these figures would provide a good
9 indication of future motorcycle premiums beyond the two
10 hundred -- 2010/2011 insurance year.

11 This table indicates that motorcycles
12 classified as "other" and "touring" in territory 1 will
13 experience future premium decreases for rate groups 1
14 through 9, ranging from minus 3.7 percent to minus 16
15 percent, and from minus 8.2 percent to minus 17.9 percent
16 respectively.

17 According to this table, territories 3 and
18 4 and commuter would also expect future reductions. By
19 contrast, these same classifications and rate groups will
20 experience future increases, ranging from 40.8 percent to
21 3.4 percent, and 38.4 percent to 4.9 percent respectively
22 in territory 2. And this is the territory most of
23 southern Manitoba outside of the suburb -- Winnipeg and
24 the suburbs.

25 Projected premiums for territory 2 may

1 actually exceed territory 1. Although I appreciate the
2 hypothetical nature of this table, I do have concerns and
3 questions relative to its continuity with the current
4 Rate Application. If territory 1 premiums are projected
5 to decrease while territory 2 escalates, does this then
6 mean that territory 1 rates have been held artificially
7 high to compensate for lower territory 2 rates? I
8 thought the shortfalls were spread throughout the entire
9 vehicle population.

10 Secondly, what is happening in territory 2
11 to cause such projected increases? In layperson's terms,
12 what accident data is available, for example, type and
13 nature of accidents, causation, et cetera, to explain
14 this increase and not just the dollar amount of claims?

15 Why would projected premiums for
16 motorcycles registered fort territory 2 be substantially
17 greater than those for commuter motorcycles travelling
18 from territory 2 into territory 1 on a daily basis? For
19 example, the average touring motorcycle in territory 2
20 Rate Group 7 could face a future premium of fourteen
21 hundred and sixty-eight dollars (\$1,468), yet projected
22 premiums for the same motorcycle commuting from territory
23 2 into territory 1 would expect to pay on twelve hundred
24 and seven dollars (\$1207), some two hundred and sixty-one
25 dollars (\$261) less.

1 Commuting vehicles are generally
2 understood to be more of a risk. Could the -- could MPI
3 explain this discrepancy? Table 1-4 of CMMG/MPI-1-4
4 indicates that sport motorcycles 501ccs and greater will
5 experience a minus 1.7 percent decrease in overall
6 average premiums for 2010. But it also depicts rejected
7 decreases for territories 3 and 4.

8 By contrast, territory 2 may experience a
9 projected increase of plus 14.58 percent. Why would 2010
10 sport bike premiums in territory 1 show an average
11 decrease when the projected premiums increase for sport
12 bikes in territory 2 in rate groups 1 to 7 show increases
13 ranging from 58.7 percent to plus 39.4 percent. It's not
14 that I like to see any increases at all, but there
15 appears to be a general inconsistency between the
16 requested 2010 premiums and projected premiums.

17 Just as an aside, all of the premiums that
18 I'm quoting here are less extension insurance, fire,
19 theft, and vandalism, which usually amounts to another
20 three (3) to five hundred dollar (\$500) on top for a
21 motorcycle to be covered with the -- with full coverage.

22 Personal Injury Protection Plan:
23 Escalating PIPP benefits to motorcyclists have long been
24 identified as the major contributing factor to increase
25 motorcycle premiums. There may be methodologies to

1 mitigate this impact.

2 We've talked about senior's discounts
3 before, but I'm personally opposed to a premium --
4 premium differentials based only on age, but rather on
5 driving record alone. The only exception would be in the
6 case of PIPP premiums. Persons who rely solely on
7 pension income without other employment income cannot
8 receive income or replacement and should not be paying
9 for benefits they can never receive.

10 Since income replacement comprises a
11 considerable portion of PIPP benefits, perhaps there can
12 be a discount to reflect that portion of the PIPP premium
13 normally associated with that cost. This would benefit a
14 small group of motorcycles and the cost would have --
15 have to be picked up elsewhere.

16 Collisions with wildlife and livestock:
17 According to figures provided by MPI at last year's Rate
18 Application, total motorcycle claims involving wildlife
19 increased from a low of -- I think it was nineteen
20 thousand (19,000) -- almost twenty thousand (20,000) in
21 1999 to nearly 4 1/2 million in 2007.

22 I don't know why these collisions are
23 increasing at such alarming rates, but I assume that most
24 of these claims relate to collisions with deer. In such
25 cases, the motorcyclist is likely to sustain bodily

1 injury greater than the driver of a car or light truck.

2 Even though there is no real fault
3 associated with these accidents, they are considered to
4 be single vehicle accidents with the associated PIPP
5 costs allocated to motorcycle premiums. Wildlife falls
6 under provincial jurisdiction, so perhaps there's a
7 fairness case for allocating wildlife PIPP cost across
8 all vehicle rating categories in the same manner as we do
9 for hit and run accidents. I hope that MPI will revisit
10 this issue and consider such a change to its methodology.

11 In recent years I've been in serious
12 accidents, both motorcycles and automobiles, involving
13 collisions with livestock, and many of these livestock
14 owners have liability insurance.

15 It's requested that the Board and MPI
16 recommend that the Government of Manitoba amend
17 legislation to prevent MPI to recover PIPP costs from
18 other insurance even if insurers -- even if the insurer
19 is a resident of Manitoba. By not recovering these costs
20 we negatively affect vehicle premiums and indirectly
21 subsidize private insurance companies.

22 Equal costs for PIPP: If we look at PIPP
23 coverage from a broader public policy perspective,
24 perhaps there is also a case for spreading all PIPP costs
25 over the entire vehicle population. Except for

1 differences related to driving record, the PIPP portion
2 of a vehicle premium should be the same for all vehicles.

3 All Manitobans are eligible to receive
4 PIPP benefits, as well as non-vehicle owners such as
5 pedestrians, bicyclists, and passengers who do not pay
6 any premium for this benefit. As well, Manitoba
7 interprovincial trucks do not have to pay. Why then
8 should certain vehicle groups pay more?

9 Since much of PIPP involves bodily injury,
10 personal care and rehabilitation, it is analogous
11 somewhat to healthcare which is free to all Manitobans
12 and shouldered by all Manitoba taxpayers. We do not
13 charge higher taxes or additional health premiums for
14 those who are chronically ill requiring more healthcare.
15 Why then should PIPP costs not be treated in a similar
16 manner as our healthcare benefits and spread equally
17 across all vehicle groups?

18 Our current methodologies seem to allocate
19 PIPP -- PIPP premiums on the basis of propensity for
20 injury. Although motorcyclists are more likely to
21 sustain more serious bodily injuries in accidents,
22 they're also less likely to inflict serious injury on
23 pedestrians, cyclists or the occupants of automobiles and
24 trucks. Perhaps too, PIPP methodology consider a larger
25 vehicle's potential to inflict serious injury to the

1 occupants or riders of smaller vehicles and bear a larger
2 share of the PIPP costs.

3 Out of fault -- or out of province at-
4 fault drivers: Although, I understand that MPI seeks to
5 recover costs from -- from at-fault out of province
6 motorists, I feel it could be more diligent and
7 aggressive in this regard.

8 Protective clothing: Motorcyclists much
9 purchase a lower collision deductible to be reimbursed
10 for protective clothing such as leather jackets, chaps,
11 and riding boots, et cetera. Since PIPP costs account
12 for 80 percent of motorcycle claims, perhaps MPI could
13 review the cost benefit of including reimbursement for
14 protective riding gear as part of its basic coverage. It
15 may encourage riders to purchase and wear better
16 protective gear and the -- and, in the end, reduce minor
17 injuries and claims costs that positively affect PIPP
18 outcomes -- and positively affect PIPP outcomes. Excuse
19 me.

20 There's still some inequities between
21 motorcycle and passenger vehicle coverage. At previous
22 hearings I've outlined some of the insurance products
23 available to passenger vehicle owners but not enjoyed by
24 motorcycles. I'll not repeat them again this year as
25 most fall under the extension insurance umbrella and may

1 be best dealt with on a one (1) to one (1) basis with
2 appropriate MPI staff.

3 Thanks again for giving me this
4 opportunity to speak, and for your attention to this
5 matter.

6 THE CHAIRPERSON: Thank you again, Mr.
7 Houghton. I appreciate your brief, and the briefs of the
8 other two (2) presenters. And now we'll return to Mr.
9 Saranchuk.

10

11 MPI PANEL RESUMED:

12 MARILYN MCLAREN, Resumed

13 DONALD PALMER, Resumed

14 OTTMAR KRAMER, Resumed

15

16 CONTINUED CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

17 MR. WALTER SARANCHUK: I will now proceed
18 with questions dealing with the Rate Stabilization
19 Reserve, or the RSR, and in particular, the RSR target
20 level.

21 First of all, let's begin by having the
22 stated purpose of the Rate Stabilization Reserve
23 confirmed and, Mr. Palmer, perhaps you can do that for
24 us. I'm looking at page 52 of the MPI Annual Report, for
25 example. If you wouldn't mind just having that quoted

1 for the record.

2 MR. DONALD PALMER: I've got it in other
3 notes:

4 "And the RSR purpose is to protect
5 motorists from rate increases made
6 necessary by unexpected events, and
7 losses arising from non-recurring
8 events or factors."

9 MR. WALTER SARANCHUK: Thank you, sir.
10 And can you confirm that there's been no change in the
11 stated purpose from the previous year?

12 MR. DONALD PALMER: I'll confirm that.

13 MR. WALTER SARANCHUK: And have there been
14 any changes -- significant changes in the Corporation's
15 risk profile for basic insurance since the last general
16 rate application?

17 MR. DONALD PALMER: Significant changes,
18 no.

19 MR. WALTER SARANCHUK: And given that
20 answer, what elements or characteristics does the
21 Corporation consider to conclude its basic risk profile
22 has not changed?

23 MR. DONALD PALMER: Our coverage is the
24 same, has not changed. Our investment asset mix has not
25 substantively changed. We have investment in real estate

1 now, but it's probably not significant enough to change
2 the overall risk profile.

3 We certainly have risk and operating
4 statements -- or operating expenses. They haven't
5 changed significantly. Those are the ones that come
6 immediately into mind.

7 MR. WALTER SARANCHUK: What about auto
8 theft claims reductions forecast, changes with the DSR,
9 and the new investment portfolio mix, don't those go to a
10 question of a change in the Risk Profile?

11

12 (BRIEF PAUSE)

13

14 MR. DONALD PALMER: I'll take those one
15 (1) by one (1). The DSR, Driver Safety Rating, there may
16 be some change, slight change. We had a methodology to
17 charge good drivers less, and -- and higher risk drivers
18 more before. We are changing that. There -- whenever
19 you have a new program introduced, there is some risk of
20 misestimation, just because things don't always -- the
21 behavioural changes don't always happen as you expect
22 them to. But is that a major risk to the Corporation? I
23 don't believe so.

24 On the auto theft, yes, we're in the happy
25 circumstances of having less auto theft than -- than we

1 used to have, very good news, but in terms of the overall
2 claims that the Corporation has, we have probably \$500
3 million of -- of claims per year. Auto theft at the
4 highest was probably \$40 million, so less than 10 percent
5 of -- at the very worst of the claims costs.

6 So, yes, a significant reduction in theft
7 is a good thing. But does it substantively change the
8 risk profile of the Corporation? Not -- not hugely.
9 There is some incremental impact, I'll grant you that.

10 As far as the new investment mix, we're
11 not there yet. We do have, as I mentioned, an -- an
12 investment in real estate. We are looking at the other
13 assets, which, in fact, may increase the -- the risk of
14 the total Corporation. We talked in great detail last
15 year about the risk and -- the tradeoff between risk and
16 reward, so some of the new asset -- assets that we're
17 planning on may have increased the total risk profile,
18 with the tradeoff being possible higher investment
19 returns.

20 So will that have an impact? It could
21 over the next few years. We are looking for an
22 incremental change over the next while as we investigate
23 -- us and the Department of Finance investigate new
24 investment opportunities, but we're not quite there yet.

25 MR. WALTER SARANCHUK: Have there been

1 any changes in the Corporation's overall risk profile on
2 the Basic side cumulatively over the last five (5) years?
3

4 (BRIEF PAUSE)

5
6 MR. DONALD PALMER: I guess the biggest
7 change over the last few years is just the sheer size of
8 the investment portfolio. When we went to the Personal
9 Injury Protection Plan, much longer duration of claims,
10 and the -- assets have -- have grown year after year
11 after year.

12 I remember being quite proud maybe in the
13 late '90s when I realized that the Corporation was a
14 billion-dollar company. It is now \$2.2 billion. So that
15 certainly increases the -- the risk on a -- the -- the
16 amount of -- of losses on any given -- given year.

17 MR. WALTER SARANCHUK: Thank you, Sir.
18 Now I'd like to draw your attention to the information
19 provided in response to interrogatory PUB/MPI-1-2, so
20 that's Interrogatory Number 2 in the First Round, and
21 this is not in the book of documents.

22 And looking at the attachment for part B
23 of the response, what can you tell us about the forecast
24 that RSR balanced through to the end of the outlook
25 period?

1 MR. DONALD PALMER: The RSR balance,
2 which at the end of 2008/'09 or at the end of our last
3 fiscal year was \$134.9 million, with still having some
4 money in the Immobilizer Incentive Fund of 2 million. So
5 the total retained at that point was \$136.9 million.

6 With no changes in overall premium, we
7 expect that to go to \$146.5 million at the end of this
8 fiscal year, 154 -- or \$155 million at the end of
9 '10/'11, \$173.6 million '11/'12, 214 million at the end
10 of '12/'13, and 274 million at '13/'14.

11 MR. WALTER SARANCHUK: And can you
12 confirm then, sir, that the position of the RSR balance
13 is well above the current basis for the PUB target range?

14 MR. DONALD PALMER: It is currently
15 higher than the PUB target range and it -- if there are
16 no rate changes, will continue to be higher than the
17 target range.

18 MR. WALTER SARANCHUK: And can you
19 confirm that the PUB target range is indexed on a change
20 in net premiums written?

21 MR. DONALD PALMER: I'll confirm that.

22 MR. WALTER SARANCHUK: And, of course,
23 when we look at the net income line, we can see that
24 essentially it is that income which is driving the growth
25 in the RSR balance; would you agree with that?

1 MR. DONALD PALMER: Absolutely.

2 MR. WALTER SARANCHUK: And is it this
3 kind of growth and net income really a best estimate
4 expectation?

5 MR. DONALD PALMER: I would say no. We -
6 - the assumption that we build these projections on is
7 that there is no rate change over the outlook period. We
8 know that not to be true. It's -- it's a what if
9 scenario if there was no rate change. We're not
10 speculating what the rate change may be.

11 MR. WALTER SARANCHUK: But in all other
12 respects is it a best estimate to the forecast?

13 MR. DONALD PALMER: Yes, it is.

14 MR. WALTER SARANCHUK: Thank you. And I
15 want to draw your attention to the second line from the
16 bottom on the first part of the table shown there, and
17 under Basic, where there's a line entitled, "Prior Period
18 Adjustment," showing some \$23 million in the actual
19 results for '07/'08. It reduced the RSR by some \$23
20 million. What was that all about?

21

22 (BRIEF PAUSE)

23

24 MR. DONALD PALMER: When we went to CICA
25 standard 3855, there was a retroactive adjustment to the

1 actuarial liabilities and that reflects that adjustment.

2 MR. WALTER SARANCHUK: And just for the
3 record, CICA is the acronym for what?

4 MR. DONALD PALMER: Canadian Institute of
5 Chartered Accountants.

6 MR. WALTER SARANCHUK: Thank you. So is
7 it correct to say that the prior period adjustment
8 related to a change in fair value accounting?

9

10 (BRIEF PAUSE)

11

12 MR. OTTMAR KRAMER: That's one (1) way to
13 summarize it. Thirty-eight fifty-five (3855) yeah, was -
14 - was the fair value of the financial instruments and it
15 impacted the -- some of the opening balances, and so,
16 yeah, you could categorize it as that, but it is a -- a
17 summary, yeah.

18 MR. WALTER SARANCHUK: And can you just
19 explain that in high level, sir, what that means?

20 MR. OTTMAR KRAMER: The CICA Handbook,
21 when we went to -- adopted section 3855 of fair value
22 accounting, one (1) of the pieces of that handbook
23 section had a consequential impact of changing to fair
24 value of our -- the consequential impact of changing fair
25 value of our investments also had an impact on the

1 valuation of the liabilities. And that would have to be
2 applied retroactively, or to the opening balances, and
3 that's what that \$22.7 million represents, basic share.

4 MR. WALTER SARANCHUK: Thank you, sir.
5 And with reference to this attachment for PUB/MPI-1-2B,
6 there is, of course, a recording of the premium rebate
7 for each of 2006/'07, and 2007/'08. Those, of course,
8 were the rebates ordered by the Public Utilities Board in
9 each of those two (2) years, is that correct?

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

11 MR. WALTER SARANCHUK: Thank you. And
12 there is reference to a small adjustment of some \$54
13 million, if I can use the word "small," for a premium --
14 sorry, fifty-four thousand dollars (\$54,000), and I can
15 use the word "small," for the premium rebate line.

16 What was that all about?

17 MR. OTTMAR KRAMER: The -- the previous
18 year, in '07/'08, the \$62.7 million premium rebate is an
19 estimate. We do the estimate the best we can, but when
20 the actual payouts are done, we -- it's an adjustment to
21 the actual rebates that are paid out, so that's the
22 fifty-four thousand dollars (\$54,000).

23 MR. WALTER SARANCHUK: So, essentially,
24 is that uncashed cheques?

25 MR. OTTMAR KRAMER: No, that's not

1 uncashed cheques. It's -- it's act -- it's the -- there
2 is a calculation done at year end to estimate what the
3 rebate will be, and to the extent when -- when the actual
4 cheques are calculated and produced, there was a slight
5 adjustment.

6 MR. WALTER SARANCHUK: Thank you, sir. I
7 wonder if you would explain the references to the
8 transfers to the basis RSR shown in that line, in the
9 category of the Immobilizer Incentive Fund, and note
10 there's a little bit of a history there with the
11 exhaustion, if you will, of transfers expected in the
12 current year.

13 Would you just explain those at a high
14 level, sir, please?

15 MR. OTTMAR KRAMER: Those transfers, what
16 the lines called transfer from Immobilizer Incentive Fund
17 is the Immobilizer Incentive Fund basically reimbursing
18 the Basic RSR for expenditures under that fund.

19 So, for example, in 2008/09 there was
20 \$15.9 million of Immobilizer payments made out of the --
21 through -- or through the Basic net income. The RSR is
22 reimbursed for those expenditures.

23 And if you look just below there, where we
24 have the Immobilizer Incentive Fund on that -- on that
25 page, the -- the fund was set up in, I believe, '05/'06,

1 and with an additional coming in '06/'07, and any of
2 those reimbursements that are given to the RSR come out
3 of that fund.

4 MR. WALTER SARANCHUK: Can you give us an
5 indication with reference to the current year, 2009/2010,
6 as to how much of the \$2 million has been paid out?

7 MR. OTTMAR KRAMER: By the end of Q1,
8 that's May 31st, that entire \$2 million had been paid
9 out.

10 MR. WALTER SARANCHUK: Can you give us an
11 idea of how much has been spent on immobilizers in the
12 current year then, as it appears that the \$2 million
13 didn't cover it all?

14 MR. DONALD PALMER: We'll have to take
15 that as an undertaking.

16 MR. WALTER SARANCHUK: Thank you, sir.

17

18 --- UNDERTAKING NO. 1: MPI to advise how much has
19 been spent on immobilizers in
20 the current year

21

22 CONTINUED BY MR. WALTER SARANCHUK:

23 MR. WALTER SARANCHUK: Now with reference
24 to the statement of extension and special risk extension,
25 retained earnings, the doc -- the table would appear to

1 show that there is a bottom line showing that the total
2 retained earnings range from \$110 million in 2006/'07 to
3 \$152 million in 2008/'09, is that correct?

4 MR. DONALD PALMER: That's what the table
5 shows, yes.

6 MR. WALTER SARANCHUK: And could you
7 confirm that there's been no forecast for extension and
8 SRE retained earnings that has been provided to the Board
9 for the purposes of this Application?

10 MR. DONALD PALMER: I will confirm that.

11 MR. WALTER SARANCHUK: Now I draw your
12 attention to what appears to be a couple of transfers in
13 and out of the extension retained earnings under the
14 heading of the extension development fund, and this is
15 with regard to the years '07/'08 and '08/'09. Can you
16 explain those, please?

17 Well, first of all, let me ask you, what
18 is the extension development fund? Then I'd ask you to
19 elaborate on what are those transfers?

20

21 (BRIEF PAUSE)

22

23 MS. MARILYN MCLAREN: Mr. Saranchuk, just
24 while Mr. Palmer is looking up the reference to the
25 extension development fund in the Corporation's annual

1 report, you know, we certainly wouldn't propose to refuse
2 to talk about things that clearly are on the public
3 record but this is not relevant to Basic, it is by
4 definition related to the competitive lines of business.

5 MR. DONALD PALMER: I'm reading from our
6 annual report from the management discussion and
7 analysis, page 28, top of that page:

8 "Since its inception in 2007, \$70.7
9 million has been appropriated from
10 extension retained earnings and special
11 risk extension retained earnings to
12 fund the EDF projects undertaken to
13 maximize the opportunities presented by
14 the 2004 merger of the Corporation and
15 the division of the driver and vehicle
16 licencing. Activity to February 28th,
17 2009 has reduced the EDF to \$59.4
18 million. Additional information is
19 provided in the notes to the financial
20 statements, Note 22."

21 MR. WALTER SARANCHUK: All right. So
22 that we have an idea of what the Extension Development
23 Fund is, and I'm asking you now that given what is
24 provided in the recorded history of the Extension
25 Development Fund, all I want to know from you is what is

1 the reason for the apparent inconsistency that's recorded
2 there when you talk about these transfers in and out? Is
3 there some basic reason for that?

4 MR. DONALD PALMER: Could you just
5 explain a little further what you mean by the apparent
6 inconsistency?

7 MR. WALTER SARANCHUK: Well, I'm look at,
8 for example, the appropriation from the extension
9 retained earnings in -- in the positive side for '07/'08
10 for 38 million and 31 or 32 million for '08/'09, and then
11 transfers to extension retained earnings back in, it
12 would appear, for 3.5 million and 7.7 million, that's
13 all.

14 MR. DONALD PALMER: Okay, I can help you
15 with that. The -- an amount is -- is put into the -- the
16 excess over the target, retained earnings is put into the
17 Extension Development Fund at the beginning of each year,
18 and those are those large transfers that are indicated.

19 We also have expenditures to maximize
20 those opportunities that I talked about in -- from the
21 quote from the annual report. So as those expenditures
22 are made, they transfer -- flow out of the EDF to fund
23 those expenditures.

24

25

(BRIEF PAUSE)

1 MR. WALTER SARANCHUK: So to our
2 understanding, the Extension Development Fund is funding
3 the business process review, is that correct,
4 essentially?

5 MR. DONALD PALMER: The non-Basic aspects
6 of that, yes. And just, if I may go back just about two
7 (2) minutes, the amount that has been spent on
8 immobilizers up until the end of September has been about
9 \$9 million, so about \$7 million above the 2 million that
10 we talked about.

11 MR. WALTER SARANCHUK: Thank you, sir.
12 Is the amount set aside sufficient to cover expanded BPR
13 initiatives or are further transfers from competitive
14 lines contemplated?

15

16 (BRIEF PAUSE)

17

18 MR. DONALD PALMER: I don't expect that
19 those transfers are finished, no.

20 MR. WALTER SARANCHUK: Thank you, sir.
21 Now with reference to the attachment for 1-2A, PUB/MPI-1-
22 2A, which is on the page opposite with the one that we've
23 been talking about so far, in the MPI target line under
24 the rate under the PUB RSR target range there is
25 reference to the acronym TBD, which I believe would mean

1 "to be determined" for the outlook period of 2011/'12
2 through to 2013 and '14. Can you just explain that?

3 MR. DONALD PALMER: Now, that the dynamic
4 capital adequacy test has become part of our risk
5 management protocols we will be continuing to run that
6 and use that as our basis for our RSR target. So we're -
7 - we're not -- we haven't run those next year's yet, so
8 that's what we meant by to be determined.

9 With our risk profile being fairly
10 constant, you know, there's some changes year to year but
11 -- but not huge changes, we don't expect that number to
12 be hugely volatile. We'll likely increase by inflation
13 or by an increase to the size of -- size of the
14 investment portfolio, something like that. So there will
15 be modest increases, but we don't expect it to jump
16 around all over the place.

17 MR. WALTER SARANCHUK: Thank you, sir.
18 With reference to the table back on 1-2B, is it correct
19 that the total basic retained earnings for 2008/'09 shown
20 at \$136.9 million and that the extension and SRE retained
21 earnings is \$152.3 million?

22 MR. DONALD PALMER: Those numbers are
23 correct, yes.

24 MR. WALTER SARANCHUK: And taking into
25 account the extension development fund, would you agree

1 that combined those amounts are at 200 -- total \$287.2
2 million?

3

4 (BRIEF PAUSE)

5

6 MR. DONALD PALMER: Could you -- could
7 you give me that number again?

8 MR. WALTER SARANCHUK: I've got \$287.2
9 million.

10 MR. DONALD PALMER: If you exclude the
11 IIF that would be the right number.

12 MR. WALTER SARANCHUK: Yes. Thank you.
13 I thought I would be taking into account -- oh, yes, I'm
14 sorry. And that excluding the \$59.4 million for the
15 extension development fund, retained earnings would be
16 \$227.8 million?

17

18 (BRIEF PAUSE)

19

20 MR. DONALD PALMER: Two twenty-seven
21 point eight (227.8), yes.

22 MR. WALTER SARANCHUK: Thank you. Now,
23 with reference to the Interrogatory PUB/MPI Number 2 on
24 the Second Round, the question was asked, if through the
25 hearing process an agreement is reached on an RSR target,

1 will the Corporation resume routine transfers of excess
2 retained earnings from extension and SRE to Basic?

3 Could you please read in the first
4 paragraph in response to that Interrogatory?

5 MS. MARILYN MCLAREN: The first paragraph
6 response, Mr. Saranchuk, is:

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

15 MR. WALTER SARANCHUK: Yes, thank you,
16 Ms. McLaren. Previously, when there were such transfers,
17 they were in amounts in excess of the target allocated to
18 Basic, and that that was discontinued some three (3)
19 years ago.

20 Is that correct?

21 MS. MARILYN MCLAREN: Yes. We can check
22 more specifically if necessary, but off the top of my
23 head, what I remember is, many years ago, there was one
24 (1) transfer when the RSR was in somewhat dry -- dire
25 straights back in the '90s, and I believe there were two

1 (2) transfers -- two (2) years of transfers that ended
2 three (3) years ago, as you indicated.

3 MR. WALTER SARANCHUK: I'm looking at the
4 annual report on page 22, Ms. McLaren, and there are some
5 measures or dials, if you will, that are shown with
6 reference to Goal number 5, which is stated to be, quote:

7 "Retained earnings and rate
8 stabilization reserve will be
9 maintained within established target
10 levels." End of quote.

11 Could you please explain the information
12 shown in the three (3) dials, page 22 of the annual
13 report, which is at AI.6 --

14 MS. MARILYN MCLAREN: Yeah.

15 MR. WALTER SARANCHUK: -- in Volume III,
16 part 1?

17 MS. MARILYN MCLAREN: Yes, I have that
18 reference. Generally, what the dials are showing is both
19 the target and where the Corporation's retained earnings
20 sit in relation to those targets for the three (3)
21 different lines of business.

22 MR. WALTER SARANCHUK: So, just for the
23 record, would you indicate what the percentages are?

24 MS. MARILYN MCLAREN: The two (2)
25 competitive lines are somewhat in excess of the target,

1 SRE more so than extension. The Basic rate stabilization
2 reserve is at the low end, very low end of the
3 Corporation's target and somewhat in excess of the PUB
4 imposed target.

5 MR. WALTER SARANCHUK: So, for the
6 record, for the Basic RSR it's shown at 63 percent of
7 target, for the Extension retained earnings, it's shown
8 as 117 percent of target, and for the SRE retained
9 earnings, it's shown as 140 percent of target?

10 MS. MARILYN MCLAREN: Yes, I would agree.

11

12 (BRIEF PAUSE)

13

14 MR. WALTER SARANCHUK: Now, it appears
15 that the Corporation has adopted or is indicating a
16 target range in a higher value, namely, \$185 million,
17 that being, of course, in excess of what the Public
18 Utilities Board has established.

19 Is that correct?

20 MR. DONALD PALMER: That's correct.

21 MR. WALTER SARANCHUK: Now, the response
22 by the Corporation to the Interrogatory Number 2 of the
23 Public Utilities Board in the Second Round, the one (1)
24 that I alluded to, has its number of perspectives that
25 are indicated there as being Corporation's perspectives

1 in the matter of the transfers to Basic from Extension.

2 And if the Board were to adopt your higher
3 target in light of your first perspective shown there, is
4 it the Corporation's view that a transfer from
5 competitive lines would be in order? And of course the
6 first perspective says, quote:

7 "Should the Basic RSR require
8 significant replenishment and should
9 the competitive lines have excess
10 retained earnings, transfers to Basic
11 for the specified -- [sorry] for the
12 specific purpose of replenishment may
13 be appropriate?" End of quote.

14 My question was: If the Board were to
15 adopt the higher value at \$185 million is it the
16 Corporation's view in light of that perspective that
17 transfers from the competitive lines would be in order?

18 MS. MARILYN MCLAREN: First, just let me
19 say that the Corporation has no policy, in this regard,
20 at this point. In drafting this response to PUB 2-2, we,
21 you know, the -- the word "prospectus" was used purposely
22 to indicate that. The intention of the first point with
23 respect to the Basic RSR requiring significant
24 replenishment was really referencing back to the one (1)
25 time back fifteen (15) years or so ago when -- when the

1 Basic RSR was in some pretty dire straights. That was
2 really the -- the thought behind the comment, the
3 Perspective number 1 in this response. The extent to
4 which a transfer from, what might be excess retained
5 earnings in the competitive lines, to more quickly reach
6 a new higher RSR target of a hundred and eighty-five
7 dollars (\$185) (sic) is -- is not something that the
8 Corporation has contemplated.

9 So it's possible, perhaps. Though I would
10 like to say in the broader sense the concept behind
11 Number 1 was really in a much -- I -- I would not define
12 RSR requiring significant replenishment as a situation
13 that is showing in the forecast before this Board right
14 now, where the Corporation's Basic insurance program
15 would get to the proposed higher target of \$185 million
16 within the next couple of years.

17 So I think it's very important that we
18 keep in mind that the Corporation is -- is recommending
19 this new higher target as many people early in the
20 Proceedings have pointed out that the -- the Corporation
21 is in a strong financial position, the Basic Compulsory
22 Program is in a strong financial position with respect to
23 the forecast and the outlook periods. We think that we
24 have put a good argument together for that higher target.

25 I'm not saying that we would certainly

1 preclude such a possibility but I'm saying the intention
2 of this point number 1 was really in a situation where
3 the Basic RSR was really in much more dire straights and
4 not likely to get to the proposed higher target within
5 the next two (2) to three (3) years on its own.

6 MR. WALTER SARANCHUK: And what was
7 behind the other transfers from extension in SRE to
8 Basic? The ones that were in excess of \$33 million
9 target for SRE, I think it was, and thirty-seven (37) or
10 thirty-five (35) for extension in the recent past?

11 MS. MARILYN MCLAREN: Yeah. I believe
12 what we're talking about, rather than routine transfers,
13 I believe there were two (2) years of transfers, maybe
14 there was three (3), I think there was only two (2) that
15 ended three (3) years ago, and it's really encapsulated
16 in the first paragraph. The Corporation did not have
17 another higher priority use of those excess retained
18 earnings in the competitive lines, was committed to a
19 higher RSR target, and wa -- used that as a way to get to
20 that higher target.

21 MR. WALTER SARANCHUK: Yes, I would
22 suggest you don't get too hung up on the word "routine,"
23 although it was used. The fact is, though, that there is
24 this history and that's what I think is being alluded to.
25 So I take it you are appreciative of that.

1 MS. MARILYN MCLAREN: That -- that's
2 fair, Mr. Saranchuk, and -- and I understand as well that
3 there could certainly be -- seem to be some alignment
4 between the use of those excess retained earnings when
5 the Corporation established its MCT base target and what
6 you're suggesting, what you did ask about a few minutes
7 ago with respect to, if the PUB was to accept a
8 recommendation of a higher target of 185 million. I
9 understand that.

10 MR. WALTER SARANCHUK: And could you then
11 explain, for the record, just what is meant by Goal
12 number 5, which is I alluded to earlier states, quote:

13 "Retained earnings and rate
14 stabilization reserve will be
15 maintained within established target
16 levels." End of quote.

17 It's on page 22 of the Annual Report.

18 MS. MARILYN MCLAREN: I'm not sure what
19 else there is to say. The Corporation works hard to
20 establish what it believes to be appropriate targets, and
21 an important -- not only measure of the different lines
22 of business, financial, strength or condition is the
23 extent to which we are at those targets.

24 And we would work very hard to achieve and
25 keep the three (3) different lines of business at their

1 different targets.

2 MR. WALTER SARANCHUK: It would appear
3 from the Information filed that there is some \$80 million
4 on the extension SRE side combined in excess of the
5 targets combined for those two (2) lines of business.

6 Would you agree with that?

7 MR. DONALD PALMER: That would be true as
8 at February 28th of 2009. Remember that on March 1st of
9 2009 the excess would've been transferred out to the
10 Extension Development Fund.

11

12 MR. WALTER SARANCHUK: So \$80 million was
13 transferred to the EDF?

14 MR. DONALD PALMER: In total, not -- not
15 March 1st. In -- in your calculation you have included
16 the -- the EDF amount.

17 MR. WALTER SARANCHUK: At the present time
18 is there a need to replenish the Basic RSR, in the
19 Corporation's view?

20 MR. DONALD PALMER: Yes. That's why we
21 did not apply for a rate decrease in this Application.

22 MS. MARILYN MCLAREN: Just a little bit
23 more context on that, Mr. Saranchuk. It's -- you know,
24 we're in kind of never never land right now, right. I
25 mean, the Corporation's had a target that the PUB hasn't

1 agreed with, we are in excess of the PUB target, we are
2 proposing a new target.

3 So -- and -- and again, as I will promise
4 to not to put too fine a point on "routine", don't put
5 too fine a point on the word "replenishment". It -- it's
6 difficult to talk about replenishment when you don't know
7 for sure what the target is.

8 Does the Corporation require more money in
9 the RSR to hit what the Corporation believes is the
10 appropriate target? Yes.

11 MR. WALTER SARANCHUK: Why is the
12 emphasis on the target and not than for the Basic target
13 and meeting that as opposed to making sure that the
14 extension in SRE are at target? Is -- is that part of
15 the overall goal? It's not just Basic.

16 It's SRE and Extension, so if you've got a
17 goal to keep Basic at target, shouldn't you have a goal
18 or don't you have a goal to keep Extension and SRE at
19 target? And if they've got too much dough, then what are
20 you going to do with it?

21 MS. MARILYN MCLAREN: I'm sorry, Mr.
22 Saranchuk. I'm -- I'm really not following. Are you
23 suggesting that we're not focussed on the targets for
24 Extension and SRE because the charts on page 22 show that
25 they are in excess of the targets?

1 MR. WALTER SARANCHUK: Well, that seems
2 to be a reasonable conclusion. You're at 140 percent of
3 one (1) and a hundred and fourteen (114) of another, so
4 and you want -- your goal is to keep them at target. If
5 you're in excess what are you going to do with the money?

6 MS. MARILYN MCLAREN: Well, we've already
7 done it, and that was the point Mr. Palmer mentioned a
8 few minutes ago. This was the status of the returning --
9 retained earnings for the noncompulsory competitive lines
10 of business as depicted in the Annual Report at the end
11 of the fiscal year for which this Annual Report covers.

12 Basically, the next day, those excess
13 retained earnings were removed from those lines of
14 business and transferred into the Extension Development
15 Fund, so they're not there anymore.

16 The -- the dollar equivalent of 17 percent
17 of the Extension target, and 40 percent of the SRE target
18 were transferred out.

19 MR. WALTER SARANCHUK: So what was the
20 dollar equivalent, in round figures?

21 MR. OTTMAR KRAMER: Approximately \$21
22 million, 6 million from Extension and 15 million from
23 SRE.

24 MR. WALTER SARANCHUK: Thank you.

25 THE CHAIRPERSON: Let's take a short

1 break now, Mr. Saranchuk.

2

3 --- Upon recessing at 2:42 p.m.

4 --- Upon resuming at 3:07 p.m.

5

6 THE CHAIRPERSON: Okay, sorry for the
7 delay. We had a concurrent matter we had to attend to.

8 Mr. Saranchuk...?

9

10 CONTINUED BY MR. WALTER SARANCHUK:

11 MR. WALTER SARANCHUK: Thank you, Mr.
12 Chairman. Ms. McLaren, in -- in lieu of a 2.4 percent
13 rate decrease, the -- rather than 2.4 percent rate
14 decrease, the Corporation has chosen to, as I understand
15 it, seek a zero rate change for the purpose of allowing
16 another \$50 million or so to get into the RSR, is that
17 correct?

18 I've tried to paraphrase what you said in
19 your pre-filed testimony.

20 MS. MARILYN MCLAREN: The 2.4 percent
21 calculation would be more like about 13 to 15 million,
22 not 50.

23 MR. WALTER SARANCHUK: Okay, one (1)
24 moment.

25

1 (BRIEF PAUSE)

2

3 MR. WALTER SARANCHUK: Sorry, the \$50
4 million was a difference between the current target of
5 the Board and the one hundred and eighty-five (185), so,
6 yes, but the idea was to try to bridge that gap a little
7 and contribute \$15 million or so towards that,

8 Is that correct?

9 MS. MARILYN MCLAREN: Yes, that's true.

10 MR. WALTER SARANCHUK: And so given your
11 testimony thus far in terms of a treatment of the excess
12 amounts in Extension and SRE, what about the idea of
13 transferring the excess there to Basic and giving the
14 Basic ratepayers the 2.4 percent rate decrease?

15

16 (BRIEF PAUSE)

17

18 MS. MARILYN MCLAREN: Well, off the top
19 of my head, no, I -- I don't think so. I think, as
20 referenced in .3, you know, like all else being equal,
21 excesses should be directed to the Insurance Fund, the --
22 the line of business that -- that generated them, if in
23 fact there are, you know, un -- undirected excesses.

24 I don't think ever in the Corporation's
25 history would it have suggested decreasing rates in a

1 line of business at the same time as -- as subsidizing
2 from a different line of business.

3 You know, I think when we talked about the
4 first time, I think back in the early to mid '90s, when a
5 transfer was made, the RSR was probably in a deficit and
6 we had an RSR rebuilding surcharge on Basic ratepayers as
7 well.

8 So, you know, I mean I think, all else
9 being equal, Basic does need to stand on its own. So, I
10 think this first point certainly talks about
11 consideration being given if Basic was in a need of
12 replenishment, but it seems counterintuitive on the face
13 of it to suggest that Basic is in need of replenishment,
14 but to reduce rates.

15 MR. WALTER SARANCHUK: And of course
16 we've had this discussion many times before. We are
17 talking about the same customer base though essentially,
18 aren't we, when we talk about Extension and Basic?

19 MS. MARILYN MCLAREN: Largely. Not as
20 much when it comes to SRE. You know, there -- there are
21 products that we sell, and Extension line of business
22 that are not really extension, they're -- they're primary
23 coverages.

24 MR. WALTER SARANCHUK: Do you got an idea
25 the most recent percentage of Basic customers who

1 purchase Extension insurance? Last year it seems to me
2 you were close to 91 percent, or whatever it is. Where
3 are we now, do you know?

4 MS. MARILYN MCLAREN: It wouldn't have
5 changed much.

6

7 (BRIEF PAUSE)

8

9 MR. WALTER SARANCHUK: Just one (1) final
10 question before we move on. Does the Corporation know
11 how much is needed to fund Extension BPR initiatives?
12 The all in cost for the BPF -- BPR?

13 MS. MARILYN MCLAREN: No, not -- not here
14 with us today. If the question is related more to the
15 EDF, we would have to, you know, strip out anything that
16 was related to Basic that was expected to, or has been
17 charged to Basic. There are some projects like the
18 mainframe decommission that are -- that are not --
19 tightly estimated at this point yet, but...

20 MR. WALTER SARANCHUK: With reference to
21 the attachment to 1-2A, this is PUB Interrogatory Number
22 2 on the First Round, and the Attachment A. The
23 indication is that the Corporation's current adopted RSR
24 target range for rate setting purposes is a \$107 to \$214
25 million on the Basic side based on the MCT, or Minimum

1 Capital Test ratios of 50 percent to 100 percent.

2 Is that correct?

3 MR. DONALD PALMER: That's correct.

4 MR. WALTER SARANCHUK: Now is this
5 adopted range for -- well the range for -- yes, the same
6 range for '08/'09, or is it for 2009/'10?

7 MR. DONALD PALMER: It's '08/'09 just
8 carried forward.

9 MR. WALTER SARANCHUK: And can you
10 confirm, sir, that the corresponding current target
11 levels of retained earnings for Extension are as an SRE,
12 are based on MCT levels?

13 MR. DONALD PALMER: Very close to that.
14 We did set them a few years ago based on 200 percent of
15 MCT, and then just didn't change it -- didn't change the
16 quantum of that. They wouldn't have changed much.

17 MR. WALTER SARANCHUK: And what does the
18 range, or what are the ranges that are utilized for those
19 purposes? You talked about 50 to 100 percent of the
20 Basic side for MCT. Is there a range there, or
21 percentage too?

22 MR. DONALD PALMER: No.

23 MR. WALTER SARANCHUK: Okay. Thank you.
24 And can you confirm that by Order of 157/08, last year,
25 the Public Utilities Board directed that the RSR target

1 range for rate setting purposes for the current year was
2 set at 76 million to \$115 million dollars? I'm quoting
3 from the Order.

4 MR. DONALD PALMER: Subject to check, I
5 would take your word for it, yes.

6 MR. WALTER SARANCHUK: And I'm just
7 raising that because there seems to be a slightly
8 different figure shown for the current year in the table
9 at 1-2A, in that it shows 75 million to a 114 million?

10

11 (BRIEF PAUSE)

12

13 MR. WALTER SARANCHUK: Indexing
14 calculation?

15 MR. DONALD PALMER: I think it's more
16 like fat fingers on a keyboard, but --

17 MR. WALTER SARANCHUK: I see.

18 MR. DONALD PALMER: -- it's certainly
19 close enough. It wouldn't have been indexed, per se.

20 MR. WALTER SARANCHUK: Can you confirm
21 that the current PUB approved RSR target range has its
22 origin in prior risk analysis or value at risk, that's
23 the RA/VAR Study?

24 MR. DONALD PALMER: Yes. I would agree
25 with that.

1 MR. WALTER SARANCHUK: And can you
2 confirm that the PUB approved version of that study has
3 its origins and methodology designed by MPI?

4 MR. DONALD PALMER: Only very, very
5 loosely. There was a risk analysis that was developed
6 back, oh, very early 2000s that was something a little
7 more complex in -- in terms of having very many
8 variables. The interrelationship between those variables
9 was largely indeterminable.

10 There was a simplified version of that
11 risk analysis that was recommended by the consultant to
12 one (1) of the Intervenors. That was the method that was
13 adopted by the Public Utilities Board, so really, in my
14 recollection, it really wasn't a -- made a MPI solution,
15 the risk analysis as it -- as it now has been adopted.

16 MR. WALTER SARANCHUK: Thank you, sir.
17 Can you confirm that last year the Board invited the
18 Corporation to bring forward again -- and I'm quoting
19 from them here a this point:

20 "The idea of expressing the RSR target
21 levels in terms of MCT ratios, but
22 separating this from a specification of
23 those target MCT ratios to attempt to
24 bring about a consensus on an RSR range
25 that can be accepted by all parties.

1 asking questions relative to the information in AI.18.1
2 and AI.18.3 I'll be referring to the documentation, being
3 the revisions, at the back of AI.18 as contained in PUB-
4 1-64 in Tab 29.

5 And when I refer to AI.18.2 and .4, I'll
6 be essentially referring to the -- to those sections as
7 they appear in AI.18 in Volume III, Part 3. So, sorry,
8 if there's some confusion there, but that's the way we
9 have to proceed, as I understand it. So --

10 MR. DONALD PALMER: It'll keep us both
11 honest, Mr. Saranchuk.

12 MR. WALTER SARANCHUK: Well, there's no
13 doubt at this end, sir. Now, confirm the Corporation is
14 now proposing, if you will, a single point value RSR
15 target of \$185 million for 2010/11 based on an analysis
16 like DCAT.

17 Is that correct?

18 MR. DONALD PALMER: That's correct.

19 MR. WALTER SARANCHUK: And this one
20 figure is almost \$70 million greater than the top end of
21 the Board established range?

22 MR. DONALD PALMER: About sixty-five
23 (65), yes.

24 MR. WALTER SARANCHUK: And with reference
25 to AI.18.1 and page 6 -- sorry, page 16 --

1 MR. DONALD PALMER: I have it.

2 MR. WALTER SARANCHUK: Could you confirm
3 what the Corporation's position is as to the significance
4 of proposing a single point value rather than a range?
5 Just to help you, that's the second paragraph of your
6 conclusion on page 16.

7 MR. DONALD PALMER: Would you like me
8 just to read in the second paragraph?

9 MR. WALTER SARANCHUK: No, I'd just like
10 for you, at a high level, to explain what is said there.

11 MR. DONALD PALMER: What we were getting
12 at in this particular paragraph was the -- rather --
13 rather than having a range that is an automatic trigger,
14 it sort of depends how you got there.

15 If there is some underlying trend that has
16 chan -- changed and will be ongoing, that would be maybe
17 a different remedial action than if you had a one (1) --
18 really, a one-time occurrence, like a major hail storm,
19 but, otherwise, your rates may have a built-in RSR
20 surcharge.

21 Right now, for instance, with that 2.4
22 percent excess, we have that built in, we know that we
23 will have a -- on an going forward basis, if we don't
24 change rates, we've got some excess -- excesses built in.
25 We've seen that in our pro forma statements that we

1 talked about this morning.

2 So it's really situational, rather than
3 being automatically triggered when you hit a certain
4 level.

5 MR. WALTER SARANCHUK: So I'm taking -- I
6 understand from that the Corporation's position is that
7 essentially this is an advantage, an improvement,
8 somehow, over what it was proposing last year.

9 MR. DONALD PALMER: We would consider it
10 an improvement. It's certainly more flexible -- a more
11 flexible approach, and we would consider that to be
12 advantageous.

13

14 (BRIEF PAUSE)

15

16 MR. WALTER SARANCHUK: Previously, sir,
17 when you had a range, my understanding is that the
18 Corporation took a certain position as to what would be
19 done if the range were exceeded or if there was something
20 still required to meet the bottom end of the range, for
21 example.

22 How does that compare with what the
23 Corporation's strategy would be using the single figure
24 level?

25 MS. MARILYN MCLAREN: Mr. Saranchuk, I

1 think our answer to that would -- would sort of maybe
2 just be an elaboration. I'll come back to the point Mr.
3 Palmer made a minute ago about it really being a move
4 towards a more situational decision making approach,
5 contextual, as opposed to rules based.

6 I think a lot of it is also -- some of the
7 context that's important to the Corporation, to these
8 Proceedings, the Basic Compulsory Plan is the significant
9 track record of rate stability that that plan has had
10 over the last number of years, one (1) and -- one (1)
11 rate increase since 1998.

12 You know, given -- given that and given
13 the Corporation's belief that it really has come forward
14 with something in the DCAT that is significantly more
15 advantageous than the MCT snapshot approach to sort of
16 quantifying a dollar value of risk.

17 You know, if -- if we had -- for example,
18 if this Board were to adopt the conceptual argument and
19 if for example rather than 185 million chose a target of
20 165 million to 205 million, it -- it may not be
21 appropriate in all cases to immediately introduce RSR
22 rebuilding surcharge the minute you fall below 165
23 million.

24 If -- particularly given, as Mr. Palmer
25 said, what -- what got you there? You know? I mean, was

1 it a one (1) time event like hail which -- that's hard to
2 say. I mean, these days it starts to look like big hail
3 storms might be annual events, sometimes, but the concept
4 being it is contextual, it is situational, and we think
5 this is -- is more appropriate, from that perspective.

6 I think we would all be hard pressed in
7 certain financial forecast and outlook situations to
8 think that because we had a rule that said you introduce
9 surcharges at the bottom end of the range, we may not, as
10 a group, believe that to be appropriate in many
11 circumstances.

12 MR. WALTER SARANCHUK: Thank you, Ms.
13 McLaren. On page 7 of AI.18, this is in the book of
14 documents and Tab 29, page 7, the Corporation lists a
15 number of reasons, seven (7) in total, as to why the DCAT
16 should be utilized to set the RSR target.

17 And they're there to be read of course,
18 but for the record and to assist in the understanding of
19 these reasons, at a high level could you just address
20 each one (1), Mr. Palmer, and explain what the
21 Corporation is getting at there.

22 MR. DONALD PALMER: I'd be happy to, and
23 -- and just before we go there I want to just go back to
24 the purpose of the RSR 'cause it really is built from --
25 from that. And again, that -- to protect motorists from

1 rate increases made necessary by unexpected events and
2 losses arising from nonrecurring events or factors.

3 So, what we were doing with the DCAT is
4 really focussing in those unexpected events and losses
5 arising from nonrecurring events. Those are those
6 adverse scenarios that we have talked about at -- at some
7 length in -- in the DCAT Report. So going to point --

8 Point Number 1: Assists all parties in
9 the identification, measurement, and mitigation of key
10 risks.

11 So through those adverse scenarios we can
12 really tie those into the risk profile of the
13 Corporation. The -- the construction of those adverse
14 scenarios wasn't done purely as a actuarial exercise as -
15 - as it had been in the past.

16 We did have a -- a committee struck, not
17 really unlike our Claim's Forecast Committee or our
18 Revenue Forecast Committee, to really go through the --
19 the identified risks of the Corporation to try to
20 quantify those risks at -- at some level and -- and
21 determine if those, in fact, were included in our adverse
22 scenarios or not.

23 So -- so really to link the quantification
24 of those risks that we've iden -- identified and measure
25 -- measuring those risks, I think that's really the --

1 the absolute key of the DCAT as we've constructed. So
2 really that number -- Number 1 I -- I think is the
3 absolutely vital component.

4 We are a changing Corporation, number --
5 point number 2 addresses that. The Corporation does look
6 different now than it did five (5) years ago or ten (10)
7 years ago and different than it will look next year or
8 five (5) years hence. So as we adjust on an ongoing
9 basis, based on our business plan, that really helps us
10 look forward rather than having some measurement just
11 based on history, because history may not be completely
12 indicative of what's going to happen in the future.

13 Taking a look at what management action or
14 -- or PUB action may be when an adverse scenario hits, we
15 can adjust our -- our business case and -- and our
16 adverse scenarios to -- to simulate what may happen if an
17 adverse scenario occurs, so that becomes part of your
18 modelling exercise as well, that's number 3.

19

20 (BRIEF PAUSE)

21

22 MR. DONALD PALMER: Number 4, one (1) of
23 the outputs of a -- a DCAT is -- is a -- an expression by
24 the actuary of satisfactory financial condition,
25 certainly depending on whatever target is set by the PUB,

1 we can measure whether our base case or our -- our
2 adverse scenarios would still meet those targets set by
3 the PUB, that's number 4.

4 Number 5 is sort of what I talked about in
5 number 1 as well, that clear link between the required
6 RSR and the risk that's faced by the Corporation. And
7 again that's absolutely a key point.

8 Recognized by the Canadian Institute of
9 Actuaries and -- and OSSFI and -- and we did have a
10 statement to that effect in our annual report that we
11 think it's important to -- to use methodologies that are
12 -- that are accepted by the rest of the world, so to
13 speak. I think it really gives us a -- a benchmark,
14 we've talked a lot about benchmarking many things, but
15 certainly this is a benchmark that we can -- can use a
16 process that is tested by other corporations in -- in
17 their specific circumstances.

18 The flexibility of the DCAT, point Number
19 7, that we have constructed adverse scenarios, that we
20 have taken a lot of time and -- and effort by that
21 committee and by management and, in fact, by the Board to
22 construct those adverse scenarios, but there are others
23 that certainly where we can test. We did test through
24 the Information Request process. So again that really
25 gives us a -- a very powerful tool in -- in doing a what-

1 if analysis for the Corporation. So I think that's
2 certainly a -- a -- an advantage as well.

3 MR. WALTER SARANCHUK: Thank you, sir.
4 Is the Corporation considering a change from using MCT
5 and switching to DCAT to determine the target levels for
6 the retained earnings on the Extension and SRE side?

7 MR. DONALD PALMER: That hasn't been
8 adopted as yet. We've been pretty busy doing our -- our
9 generation of our DCATs for the Basic. But certainly we
10 recognize that it's a very valuable tool for Extension
11 and SRE. So, yes, I would expect that we would use those
12 for the targets for those two (2) lines of business as
13 well. But currently they have not been adopted.

14 MR. WALTER SARANCHUK: The last two (2)
15 pages of the response, which is included in Tab 29, is
16 actually a response to the Interrogatory the Public -- of
17 the Public Utilities Board and to question number -- in
18 question number 28 in the Second Round and essentially
19 the question requested that the Corporation provide a
20 table, which discusses each of the risk analysis and the
21 variance at risk and the minimum capital test and the
22 dynamic capital adequacy testing approaches based on
23 certain attributes, and those are set forth there.

24 I wonder, sir, for sake of clarification,
25 and -- and also to ensure that the record has accurate

1 indication of what the Corporation's position is, with
2 respect to each of those attributes could you please
3 review what the comparisons are as shown, and then I'll
4 have some questions of you in respect of each.

5 So for number 1, shown the first attribute
6 as being subjectivity, and I don't know if you have to
7 read necessarily everything in there, but if you wish to
8 do so, and it assists you, then please do that, but
9 otherwise we're looking at some indication of what the
10 Corporation's response is relative to the attribute to
11 subjectivity in the case of each of the three methods.

12

13 (BRIEF PAUSE)

14

15 Mr. DONALD PALMER: For the -- the first
16 category, subjectivity, risk analysis and -- of our
17 approach, the calculation as it's been determined is not
18 subjective. The selection of the appropriate confidence
19 intervals is very subjective. I guess even the -- some
20 of the assumptions -- there's an assumption that the
21 distribution of results is normally distributed --
22 distributed. That's certainly subjective.

23 So the calculation itself, once you've set
24 those rules, is not subjective, but the setting of the
25 rules very much is. MCT, not subjective at -- at all in

1 terms of the calculation. There is a -- a determined
2 formula that's been established by the Office of the
3 Superintendent of Financial Institutions. Depending on
4 what the proper level of that is, that -- that target
5 level, we said 50 to 100 percent, that certainly is very
6 subjective. So again, the test is not, but the result
7 is.

8 And the DCAT method is very subjective in
9 essentially all aspects. Standards of practice does
10 certainly give you guidelines. There's an educational
11 note from the Canadian Institute of Actuaries, giving
12 guidelines, but the test itself is subjective, and -- and
13 certainly that's the reason that we did strike our -- our
14 committee of many experts in the -- in the Corporation on
15 -- on risk, and on claims forecast, and revenue forecast,
16 to make sure that the highest level of -- of management
17 judgment is brought to bare with DCAT.

18 MR. WALTER SARANCHUK: So would you agree
19 then, sir, that from what you've indicated, the DCAT is
20 the most subjective of the three (3)?

21 MR. DONALD PALMER: I would agree with
22 that. Again, the connotation of subjectivity maybe is
23 not completely positive. I would turn that around and
24 say that it is positive, just because it really uses the
25 specific circumstances of the corporation, and -- and the

1 knowledge and experience of the management to -- to most
2 properly measure the risk of the Corporation.

3 MR. WALTER SARANCHUK: The individuals
4 involved in developing the DCAT, are they the same
5 individuals who constitute membership of the claims
6 committee, claims forecasting committee?

7 MR. DONALD PALMER: Some are. The DCAT
8 committee, I can -- I know your next question is who are
9 they, so I may as well tell you.

10 The Chair is Mr. Luke Johnston, who is
11 behind me, our manager of Actuarial Services. He is also
12 the chairman of the Revenue Forecast Committee. I'm on
13 the committee as the executive sponsor.

14 Mr. Kramer, beside me, is on that
15 committee, corporate controller, certainly has to be
16 knowledgeable with the risk of the Corporation.

17 Joe Riel, our manager of Internal Audit,
18 who is responsible really for maintaining the risk
19 profile or the -- the risk -- risks of the Corporation in
20 terms of reporting to the Audit Committee, is on that.

21 Steve Perlmutter, who is our manager of
22 Financial Reporting, as financial reporting the pro
23 formas that come out of that, certainly his knowledge on
24 that, as well as he's the longest MPI serving member on -
25 - on that committee. So certainly he can give us a bit

1 of a historical perspective as well.

2 Jeannine Savard, manager of Budgeting and
3 Planning, who is essentially the corporate owner of the
4 financial model, also the chair of the claims forecasting
5 committee.

6 And Glen Bunston, who is the manager of
7 Investments, who is the most knowledgeable in the
8 Corporation with regards to investment risk.

9 So that's -- that's what the committee was
10 constituted of.

11 MR. WALTER SARANCHUK: And so Ms. Savard
12 as the - excuse me - chair of the claims forecasting
13 committee serves on this DCAT Committee, if you will?

14 MR. DONALD PALMER: Yes.

15 MR. WALTER SARANCHUK: Now moving on to
16 the second attribute, objectivity, I wonder if again,
17 sir, you would review the response at a -- in summarized
18 form?

19

20 (BRIEF PAUSE)

21

22 MR. DONALD PALMER: To the extent that
23 the methodology is not changed or the risk margins from
24 the risk analysis doesn't change from year to year, then
25 the measurement coming from the risk analysis is -- is

1 very objective, given that -- and this year, for
2 instance, when we used the -- the methodology that had
3 been prescribed by the Board, putting in the financial
4 market circumstances that we were faced with over the
5 last year, produced a much different result than this
6 historically had. But -- so the conclusions aren't
7 necessarily influenced by the levels that this Board had
8 set before. So from that, it's -- it's very objective.

9 MCT, again, it's kind of the opposite of
10 the subjectivity. The method is very objective. The
11 appropriate percentage that we're going for is not
12 necessarily objective.

13 The DCAT produced in accordance with the
14 Canadian Institute of Standards of Practice, which are
15 very objective, but the estimates of the confidence
16 intervals, there is some -- they -- some subjectivity in
17 that. So the measurements themselves are objec --
18 objective but how you get there, there's a bit of a
19 judgment call in that.

20 MR. WALTER SARANCHUK: Thank you, sir.

21 Moving on to the third attribute on the
22 overleaf, the potential for estimation error, could you
23 deal with that one, please?

24 MR. DONALD PALMER: The risk analysis we
25 feel has the greatest potential for large estimation

1 errors as we're basically looking at recent history, so
2 not necessarily measuring what could happen, what the
3 risks to the Corporation are as we now know them, but
4 what did happen. MCT believed to be a -- an improvement
5 over that because the factors have a -- a broader
6 selection of risks, but again there's some potential for
7 estimation...

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(BRIEF PAUSE)

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THE CHAIRPERSON: We'd shut it down
except for the fact that Mr. Palmer wasn't completed with
his comments.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay. Well, we will
adjourn for the rest of the day and pick up where we left
off. If Mr. Palmer could remember exactly what point he
was at, we'll start again tomorrow at 9:00.

Sorry about this. Such is life.

(MPI PANEL WITNESSES RETIRE)

--- Upon adjourning at 3:49 p.m.

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Certified correct,

Cheryl Lavigne, Ms.