MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE COMPANY (MPI)
GENERAL RATE APPLICATION
FOR 2011/12 INSURANCE YEAR

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

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 18, 2010
Pages 1542 to 1716

APPEARANCES

Candace Everard	)Board Counsel
Nicole Hamilton	)
Kathy Kalinowsky	)MPI
Raymond Oakes	)CMMG
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Jerry Kruk	)
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UNDERTAKINGS

--- Upon commencing at 12:35 p.m.

THE CHAIRPERSON: Okay. Good afternoon, everyone. We'll recommence.

Ms. Everard...?

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

MPI PANEL 1:

MARILYN MCLAREN, Resumed

DON PALMER, Resumed

OTTMAR KRAMER, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. I have a few questions for the panel about Exhibit 18, MPI Exhibit 18. That's the actuarial specialist's report that was entered into evidence last hearing day through the KPMG witnesses.

In particular, I'd ask you to go to page 3 of that document, under the heading of, "Concerns or Recommendations."

Are you there, Mr. Palmer?

MR. DON PALMER: Yes, I am.

MS. CANDACE EVERARD: And I'll just read

in the paragraph. It reads:

"We have no concerns or recommendations for required change regarding the October, 2009 reports, or the February, 2010 reports. The approach followed by Mr. Christie is a conservative approach that tends to result in favourable developments in most years. In particular, we expect the two (2) major lines in Basic AutoPac, which are accident benefits, weekly benefits, and accident benefits, other benefits indexed, to continue having favourable development similar to the outcomes in the last few years. Mr. Christie's total claims liability estimate is closer to the top-end of our range of reasonableness."

Did I read that into the record correctly, Mr. Palmer?

MR. DON PALMER: Yes, you did.

MS. CANDACE EVERARD: Prying -- or prior to reading this report, I guess last month, September 2010, was the Corporation aware of this viewpoint held by Mr. Manktelow?

MR. DON PALMER: No, we were not.

MS. CANDACE EVERARD: And does the Corporation know if Mr. Christie, the appointed actuary, was aware of this viewpoint at some time during KPMG's audit process?

MR. DON PALMER: I'm not aware.

MS. CANDACE EVERARD: And does the Corporation agree with the statements in the -- in the paragraph that I read in, in the sense that it considers its valuation to conservaty -- conservatively refl -- reflect best estimates?

MR. DON PALMER: I -- I would agree from that standpoint that it's still best estimates. There are -- there is certainly judgment, especially in the most recent development year, that -- with very little data to go on that -- that would be the one (1) point that's probably a conservative best estimate. But I think best estimate is more -- better defines the -- the estimates.

MS. CANDACE EVERARD: So would it be fair to say that the KPMG viewpoint encompasses more than the level of conservatism adopted by the Corporation in its valuation?

MR. DON PALMER: Could you repeat the question, please.

MS. CANDACE EVERARD: Sure. Would it be fair to say that the KPMG viewpoint encompasses more than the level of conservatism adopted by the Corporation in its valuation?

MR. DON PALMER: I'm still not quite sure I completely understand the question, but let -- let me trying and see if we're on the right track. There is a range of estimates that is reasonable, so from that standpoint, we fall into the range of reason -- reasonableness from the KMPG actuarial specialist. I'm not sure exactly where that range of reasonableness is. I would say that in our range of reasonableness we would not necessarily be on the high -- high side. I mean, we have a best estimate.

So -- so from that standpoint, is our range maybe shifted more conservative than his range? That's possible.

I guess you -- you could say that if we're at the top of his range and the middle of ours, then that would stand to reason, but the two (2) definitely intersect, and then -- and that's what we're concerned about.

MS. CANDACE EVERARD: Okay. So just to sum that up, you would agree that the conservatism that we know the Corporation includes in its valuation must represent at least a portion of what KMPG considers to be a conservative approach.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now, does the GRA forecast for claims incurred in the current year and the year of the Application anticipate that Basic will continue to have favourable developments similar to the outcomes in the last few years?

MS. CANDACE EVERARD: No, it does not.

MR. DON PALMER: And how does MPI recommend the PUB should consider the KPMG viewpoint when assessing the reasonableness of the GRA forecast of claims incurred for the current year and the year of the Application?

MR. DON PALMER: I guess from -- from that standpoint I would look at the first sentence when it says, "We have no concerns or recommendations for required jan -- change from the reports," so it's a really reasonable starting place to base the estimates.

MS. CANDACE EVERARD: Thank you. Just a couple more questions dealing with last Thursday.

Does the Corporation have a sense at this point of what the -- the costs were of having KPMG attend?

MR. DON PALMER: No, we don't. In -- in

their letter of engagement it was based on a hourly rate. We did not have an estimate of the hours.

MS. CANDACE EVERARD: We also had an exhibit filed last Thursday, which was the -- the two (2) documents prepared by PricewaterhouseCoopers filed as one (1) exhibit. And I don't seem to have the exhibit number at my fingertips.

Thank you. It's MPI Exhibit 22.

Can you give us an indication of the cost of these opinions, either together or individually. I know there are two (2) separate documents here, but just seem to treat them as one (1).

MR. DON PALMER: I don't have that right here, but we'll take it as an undertaking.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 20: MPI to indicate cost of Exhibit MPI-2, the two (2) documents prepared by PricewaterhouseCoopers

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: And then as a follow-up to that, which you may or not be able to answer offhand, can you tell us to which line or lines of business those costs will be allocated?

MR. DON PALMER: It'S based on the Basic AutoPac hearing related, so it will be Basic.

MS. CANDACE EVERARD: Okay. Now, we know that these documents were filed on the reexamination of the KPMG witnesses, and Mr. Kalinowsky made some reference to entering them in cross.

Was there a particular reason that the PWC documents, now Exhibit 22, weren't filed either as part of the GRA filing or on the direct evidence of the MPI witnesses?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: As we were preparing the filing for this year we anticipated that the matter of the booking in last year's fiscal period would not have been raised again this year, and that's why we didn't file it as part of the proceedings, in an effort not to raise something that may not have been raised. But since it did come up again, we thought it was important to put it on the record.

MS. CANDACE EVERARD: Thank you. Okay. I'm going to move then to some questions on a series of specific areas arising out of SM.5. So I'd ask you to go there, please, in Volume I.

(BRIEF PAUSE)

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: Okay. I'd firstly ask you to go to SM.5.6, which is on page 3 of SM.5. This references family transfers as a topic, and arises from an order made in the last two (2) orders of the Board, 89/09 and 98/09, where the -- the Public Utilities Board asked that the Corporation:

"Undertake and file with the Board, on or before the filing of the pending GRA, research into the possible future variance of the DSR approach to follow the vehicle's past experience with respect to transfers of vehicles involved in accidents which are subsequently transferred to another family member living in the same residence as the prior family owner."

And the Corporation has stated here on page 3, under the heading of, "Analysis Performed", that it:

"Performed an analysis of all vehicle

transfers over the ten (10) year period
from 2000 to 2010 to determine how many
family transfers are actually taking
place, and the cost to the Corporation
of the transfers."

Have I got that right so far?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now the result of that analysis is referenced on page 4 under the heading, "Results of Analysis." And it's reflected that -- in -- in the first sentence:

"On an annual basis there are an
average of..."

We'll -- we'll round up to five thousand (5,000)].

"...intra -- instances [pardon me] of
driver's transferring vehicle ownership
as a gift, where the new owner receives
a higher vehicle discount than the
previous owner."

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And the Corporation states that:

"There can be many reasons for these

transfers, regardless of whether the
recipient would attract a higher
discount, but for the purpose of the
analysis the Corporation assumed that
all of the some five thousand (5,000)
transfers were purposeful to obtain a
more ad -- advantageous discount."

Is that right?

MR. DON PALMER: That was the basis of the analysis, yes.

MS. CANDACE EVERARD: And the Corporation has stated in the latter part of that first paragraph that the premium lost as a result of these transfers is some one point one (1.1) to $1.2 million per year.

Is that right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: The Corporation has also stated that:

"Since on average it takes a driver
five (5) years to regain their full
vehicle discount, this premium loss
carries forward at a decreasing amount
for five (5) years, such that the
maximum premium lost to the Corporation
annually is between 5.3 and 5.4

million."

Is that right?

MR. DON PALMER: Again, that would be the maximum, assuming it does take someone five (5) years. There are a number of reasons under the old program, specifically, that you may regain a discount in -- in one (1) year if you regain a merit. So -- so that's the absolute max. The -- the best estimate would be something between the one (1) and the five (5).

MS. CANDACE EVERARD: And I noted on page 5, the next page, that the Corporation set out a number of reasons under paragraph number 2, that it's -- why it would probably be less than the five thousand (5,000) worst case scenario that you just spoke about.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the Corporation has listed three (3) reasons, which -- which we'll just read in. The first being that:

"Not all transfers involve the original owners going from a full 25 percent discount down to a zero discount, and not all new owners qualify for a full 25 percent discount."

The second reason was that:

"Some transfers are due to a loss in merit points and it would only take two (2) years, not five (5) years to return to a full 25 percent discount."

And then the third reason would be that:

"The $5 million amount included transfers for a reason other than to avoid losing discounts."

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So in conclusion, the Corporation's take on this issue, and this is on page 6, is that there is not a problem -- evidence that's worthy of fixing in -- in the mind of the Corporation?

MR. DON PALMER: That -- that's the conclusion. We -- we recognize that there is some case of -- of transferring ownership. There are many reasons to do that. The problem, of course, comes when -- if you try to fix that problem, you break something else.

So from that -- that standpoint, it's not -- it's not that prevalent a -- a practice, so we're comfortable with -- where it stands.

MS. CANDACE EVERARD: Thank you. I'm going to ask you then to go to SM.5.11.9, which is still at SM.5 but on page 19. This is a section entitled, "Collision with Animals," which immediately precedes the section on the cross-jurisdictional wildlife collision review, which we'll come to.

But dealing with SM.5.11.9 for a moment, we see that in -- in the last order from last year's GRA, the Board recommended that the Corporation:

> "Review the perspective, and/or direction, received from government on the potential loss transfer of claims costs caused by collisions involving animals and vehicles, whereby such claims costs would be allocated across the major vehicle classes, and share that perspective with the Board."

Is that about right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the Corporation has advised that it has nothing to report.

What exactly does that mean?

MR. DON PALMER: As -- as with many of these type of recommendations that came from the Board, the discussions that we have with members of government are confidential; whether we have those discussions are -- are confidential, so from that standpoint there's -- there's nothing here.

MS. CANDACE EVERARD: So the position of the Corporation is with respect to this item, that not only will it not share with the Board the substance of discussion with government, it will not share whether in fact discussion actually took place on this topic?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: The next section, as I indicated, is SM.5.11.10, which relates to the cross-jurisdictional wildlife collision review.

This was a recommendation in last year's order that the Corporation:

> "Undertake research, including a jurisdictional review, with respect to strategies to reduce wildlife related claims for consideration at this GRA."

And of course the Corporation has provided a review at AI.9, so I'll ask you to go there. And actually while you're at it, I'd also like you to go to PUB/MPI-1-100, which is not in the book.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So we'll look at the two (2) of these together, as we explore this issue. We see at 1-100 on page 1 of the attachment, so I'm actually at the fourth page, or fifth page, of the IR reply. But we have a -- a chart provided, or a series of charts provided by the Corporation. If we look at the -- the very first table, the one entitled, "Physical Damage Claims Involving Wildlife," we'll find some data.

Do you have that?

MR. DON PALMER: Yes, I have it.

MS. CANDACE EVERARD: Okay. So this chart -- so I'm looking at the top chart on page 1 of the attachment at 1-100 -- we have claim's numbers, and dollar amounts with averages over a six (6) year period from 2004 to 2009, together with totals.

Is that correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And it looks like, if we review the number of claims per year, we see the number of claims being in and around the ten (10) thou -- or the ten thousand (10,000) mark. We see ninety-five hundred (9,500), ninety-two hundred (9,200), ninety-six (96), and then just over ten thousand (10,000).

Is that right?

MR. DON PALMER: Give or take, yes. For the six (6) -- the six (6) year period, we're just under six (6) -- sixty thousand (60,000), so average of ten thousand (10,000) is pretty close.

MS. CANDACE EVERARD: And we see with respect to the dollar value again ranging from the $20/$21 million range up to 25 million in 2009, but again right in that zone.

Is that fair to say?

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

MS. CANDACE EVERARD: And so the total, as you've pointed out, of claims costs is fifty-eight thousand (58,000) for the six (6) year period. The dollar figure total is some 133 million over the six (6) year period.

MR. DON PALMER: And, again, that's just physical damage claims, so tin and glass claims does not include injury claims.

MS. CANDACE EVERARD: Thank you. Which brings me to the second table, which is the injury claims. We see over the six (6) year period claims of in and around three hundred (300) per year, for a total of just over eighteen hundred (1,800) for the six (6) year period.

Is that fair to say?

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

MS. CANDACE EVERARD: And in terms of the dollar costs we see in the -- between just over 1 million to 2 million, and I think it would be an average of about

1.7 million per year.

Does that sound about right?

MR. DON PALMER: That looks about right, yes.

MS. CANDACE EVERARD: So now that we've spoken about what we're dealing with, in terms of numbers over the last six (6) years -- and I appreciate that there are some further details in -- in 1-11, but we won't go into those in particular detail. We'll go to AI.9, where the Corporation has reflected some further evidence with respect to this issue.

Now, it has stated on page 1 of AI.9, in the third paragraph, that the Corporation is taking efforts to raise awareness with respect to wildlife-type claims through news releases and advertisements and that kind of thing.

Is that correct?

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

MS. CANDACE EVERARD: And then the Corporation states in the next paragraph that it also participates in the Wildlife Collision Prevention Stakeholders Committee, which includes representatives from a number of entities.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And through the committee the Corporation states that it supported a number of projects, including geo-mapping, which is there at the bottom of page 1; on top of page 2, varial -- variable messaging signs; a brochure; and as well GPS tracking of deer carcasses.

Those are the four (4) main projects that are listed there?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Now, in the next paragraph -- I'm still on page 2 -- the Corporation refers to the look that it's had at other jurisdictions as the Board asked, and its listed five (5) bulleted options. The first -- and -- and these are obviously items that have been done in other places. The first is elevated roadways and road tunnels, which the Corporation states has effectiveness of close to a hundred percent but also has the highest cost.

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

MS. CANDACE EVERARD: Okay. Secondly, we see fencing is something that Corporation also states has been shown to be highly effective but also has a relatively high cost.

MS. MARILYN MCLAREN: Agreed.

MS. CANDACE EVERARD: Thirdly, we see animal detection systems, which are a combination of sensors and signage, and the Corporation states, in essence, that the costs are fairly high and there are also some bugs to be worked out with the technology.

MS. MARILYN MCLAREN: Yes, true.

MS. CANDACE EVERARD: Fourthly, the Corporation references population culling, also known as targeted hunting.

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the fifth one, seasonal wildlife warning signs, which the Corporation states has an effectiveness of about 26 percent, although a low cost.

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: The Corporation goes on to state in the next paragraph that other initiatives, like roadside reflectors or deer whistles on vehicles, are shown to not be particular effective.

Is that right?

MS. MARILYN MCLAREN: Well, I think it depends -- the emphasis you put on it. But what -- what this is, there's a lack of data demonstrating effectiveness. I don't know that there's data demonstrating it's not effective, but there's absolutely no proof any of it works.

MS. CANDACE EVERARD: Fair enough. Thank you. So the Corporation continues on page 3 to refer to the most common strategies in use are being piloted, which would be, firstly, enhanced speed enforcement; secondly, active detection warning signs that differ from standard roadside signs, that are actually activated when animals are in the area; seasonal roadside signs; and, lastly, regular or ElectroBraid fencing.

Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the Corporation states in conclusion, and we'll -- we'll go into some of what the -- the Corporation has -- has actually done in the costs, but the Corporation says here at the bottom of page 3, in AI.9, that once it has established strategies that'll be most effective in the Manitoba environment, it'll share with the Board.

Is there anything that the Corporation can report at this point?

MS. MARILYN MCLAREN: I think we mentioned last week, or the week before, that -- that we were working collaboratively with the police. We issued a news release. And, you know, I -- I think the most likely of these items that we will be able to do in the near term is -- is the first bullet that's on page 3, in terms of enhanced speed enforcement during the active wildlife periods.

So we -- we are trying. I don't know whether we will have a real coordinated effort this year, but the extent to which you can really have a presence in -- in some of these parts of the city, it's a little bit more manageable, where we're more likely to see crashes with deers is probably one (1) of the best things we can do in the short-term.

MS. CANDACE EVERARD: Thank you. If we go back to 1-100 for a moment. We looked at the attachment that the Corporation provided, but we see in response to (e), and just for the record, the question at (e) was to:

"Provide the amount expended by the Corporation in the last fiscal year, '09/'10, and forecast for current year and year of application relating to wildlife collision prevention."

So the Corporation has stated in its reply, in 2009/10, the cost was -- I take it that's fifty-one thousand (51,000), almost fifty-two thousand (52,000)?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And then for the current year, 201 -- or 2010/11, the amount is fifty-three thousand (53,000), and that the amount for the year of the application has not yet been determined?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And can you tell us what the focus of this spending has been. Has it mainly been on the variable mobile message signs, or is there anything else that would be significant under that category?

(BRIEF PAUSE)

MR. DONALD PALMER: We'll have to find out for you.

MS. CANDACE EVERARD: Okay. Thank you. We -- we'd appreciate that.

--- UNDERTAKING NO. 21: MPI to indicate what their focus of spending has been on wildlife collision prevention

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: My next question would be -- and we can certainly go back to the table with the financials that we looked at, that's -- that's attached -- can the Corporation point to any reduction in claim's costs, either on the physical damage or the injury side, as a result of the efforts, the prevention efforts, that the Corporation has taken?

MR. DON PALMER: No, as you pointed out, the experience has been -- hasn't shown a downward trend, hasn't probably shown an upward trend either, but it's been pretty stable over the last six (6) years.

MS. CANDACE EVERARD: And I -- I appreciate, Ms. McLaren, the evidence that you gave about the upcoming plans for enhanced speed enforcement. Given, though, the -- the relativity of what's being spent in prevention versus claim's costs, does the Corporation have any other plans or anything else that it intends to do to address these issues?

MS. MARILYN MCLAREN: We haven't adopted any strategies at this point. But as the material that you referenced a few minutes ago, we're -- we're working as part of this Committee, and we're really trying to understand by not only from learning from other jurisdictions, but what is really doable and manageable here in Manitoba and in Winnipeg.

I -- I'd like to point out -- and if you don't have ready access to it, I'm sure we can get some coloured copies and distribute them as -- as one (1) of our exhibits, but the new release that we issued last week, or the week before, also had a -- had a link with that news release to two (2) maps that we've got on our website. One (1) is where are the high density deer crashes in Winnipeg, and one (1) is in the rest of the province. And again -- you know, and the answer is that they're everywhere. They're everywhere.

I mean, I think things like, you know, crossways and -- and tunnels work great when you're talking about the Trans-Canada Highway through Banff National Park. You can't have tunnels and overpasses all over the Province of Manitoba; the deer are everywhere.

So that really makes it cost prohibitive to do the fencing, to do these overpass ideas, to do almost anything that we've listed as some of these legitimate choices.

So this is certainly something the Corporation would be prepared to put some serious money towards dealing with, if we had some sort of a cost benefit approach like we did on the auto theft issue, but this is very different. And I think it -- it -- it's really well depicted in these two (2) maps that I've referenced, so we'll -- we'll get those on the record so you can have a look at them. But, you know, this is not a targeted problem.

MS. CANDACE EVERARD: Yeah, if you could that would be great, because that news release isn't ringing a bell with me, and since it's of -- of import, that would be --

MS. MARILYN MCLAREN: We'll distribute copies of the news release, and the two (2) maps.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 22: MPI to provide copies of news release and the two (2) maps: high density deer crashes in Winnipeg, and in the rest of the province

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I'm -- I'm going to continue on with some questions in SM.5, but just before I go there, and this is sort of related to the wildlife issue, but it's a -- it's a follow-up that the Board would find of assistance.

Would it be possible for the Corporation to file a document that lists the following -- and I'll -- I appreciate that most of this is probably already on the record, but it would be helpful for the Board to have it in one (1) document. This relates to motorcycles.

We'd ask for a document that contains the number of motorcycles, number of motorcycle owners, number of those owners with more than one (1) motorcycle, and then fourthly how many also own a passenger vehicle, and in terms of date, we would just ask that at the most recent date that the Corporation has available. And as I say, I -- I -- this is probably already all on the record, but I don't believe -- or we don't believe that it's all in one (1) document, so if that could be done, it would be of assistance.

MS. MARILYN MCLAREN: We asked that question, and had -- had the numbers, as well. We don't have, I don't think, ready access to the question about how many motorcyclists own another kind of vehicle, but I -- I think the evidence has been here before, that it's almost all of them. But it -- it -- like 99 point something percent of all motorcyclists own one (1) or two (2) motorcycles only, and 93 or 94 percent of them own one (1).

So there -- there's not a lot of multiple motorcycle ownership going on. We -- we have that here. If the numbers are different, we'll come back, but that's, speaking from memory, 93 and 94 percent of motorcyclists own only one (1), and 99 percent own one

(1) or two (2).

And the other one, in terms of whether they own a passenger vehicle, we'll have to rerun that to current, but it's -- it's a very high percentage.

MS. CANDACE EVERARD: But I have the undertaking, even in spite of your --

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: -- testimony?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 23: MPI to provide a document that contains the number of motorcycles, number of motorcycle owners, number of those owners with more than one (1) motorcycle, and how many also own a passenger vehicle, at the most recent date that the Corporation has available

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. So we'll continue then at SM.5.11, going into SM.5.11.11, which relates to subrogation policy, and a recommendation that flowed from last year's order, where the Board asked the Corporation to:

> "Provide a review with respect to subrogation of claims, including the reasons why the Corporation does not pursue the same for consideration at the GRA."

So the Corporation has stated in the narrative here that when it pays a claim it assumes that the customer's right of recovery against the person who caused the loss, subject to the no-fault provisions in cases where the person is not insured by the Corporation, or if they're in breach of their coverage, the Corporation will pursue recovery.

That's right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And claims that trigger the subrogation rights are classified into four (4) categories, one (1) being criminal activity, one (1) being breach of coverage by an MPI insured; the third being at-fault parties, possibly insured by another insurer; and then uninsured motorists.

That's right?

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

MS. CANDACE EVERARD: And I believe that it's reflected a little bit later on in this narrative, just for the completeness of the record, that the third category listed of at-fault parties that are possibly insured by another insurer, that would also include negligent owners of domestic animals. This comes on the next page, page 21.

MR. DON PALMER: It could in physical damage cases. In Manitoba, those subrogations -- all -- any kind of tort recovery is statute barred.

MS. CANDACE EVERARD: Yes. The Corporation has stated that frontline staff are:

> "Trained to identify any type of subrogation claim, and make initial attempts at recovery. In some cases these are successful, and if not, or it's more complex, it's given to the special accounts in subrogation department."

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: The Corporation has sated that last year, '09/'10, it was successful in recovering just over $14 million.

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

MS. CANDACE EVERARD: And the Corporation has stated, this is at the very bottom of page 20, that it does not pursue recovery in cases of collision with wild animals, for obvious reasons; there's nobody to claim against. But it also has regard, like a business case, the cost of recovery versus the cost of enforcement.

MR. DON PALMER: Yes. In terms of anytime there's a possibility of recovery, there has to be a cost benefit analysis. There -- there is a cost to -- to recovering through sub -- subrogation, either through the courts, or legal fees, or -- or what have you, in -- in the case of out-of-province. So, generally, we will -- we will pursue if there's a cost benefit reason to do so.

MS. CANDACE EVERARD: Thank you. Just take a look at some of the numbers. I'll ask you to go to 2-2 posed by the Board. It's not in the book.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Specifically, 2-2(e) where the Corporation was asked to give a schedule indicating the quarterly balance of uncollectable subrogation accounts for the last five (5) years, including increases in recoveries and writeoffs. And the

Corporation has provided that writeoffs are done an annual basis and has given year-end balances in a table.

Are you with me?

MR. DON PALMER: Yes, I have that.

MS. CANDACE EVERARD: And so we see for the fiscal years ending from 2006 to 2010 under the "Uncollectable Accounts" column a range from about 1.4 million in 2006, down to around half a million, and then up to about one point one/one point two (1.1/1.2) in last year ending.

Is that right?

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

MS. CANDACE EVERARD: And I take it that that column of uncollectable accounts represents the amounts written off in a given year.

(BRIEF PAUSE)

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

MS. CANDACE EVERARD: And do we know why it dipped in '07, '08, '09, and then went -- came back up to over a million in the last fiscal year?

(BRIEF PAUSE)

MR. DON PALMER: These are really subject to a fair bit of variability, so I don't think there's any one (1) particular reason for -- for it to dip like that.

MS. CANDACE EVERARD: Okay.

MR. DON PALMER: I -- I think if you went back further than the -- this is what we had readily available, but you probably would see some minor fluctuation. They -- the amounts are small. I mean, we're -- we're talking around a million dollars or less, so.

MS. CANDACE EVERARD: Is it the case then that a particular account is written off in the year in which it becomes apparent that either the cost benefit analysis is going in the wrong direction or, you know, even if efforts were made that it -- that there's a dead end?

MR. DON PALMER: If there really is no chance of recovery, then it'll be abandoned and written off.

MS. CANDACE EVERARD: Okay. Now, what about bad debts that relate or arise from unpaid registration or licence fees that are collected for the province? Are those charged back to the province, if those occur?

MR. OTTMAR KRAMER: Yes, they are.
MS. CANDACE EVERARD: And do you have a sense offhand of what kind of dollar amounts there would be under that category in a given year?
MR. OTTMAR KRAMER: No, I -- I don't have any sense --
MS. CANDACE EVERARD: That --
MR. OTTMAR KRAMER: -- on that issue.

(BRIEF PAUSE)

MR. DON PALMER: In -- in terms of those writeoffs of registration fees, or even of insurance premiums, they're -- they're teeny, so they would be a small percentage of the uncollectable accounts that you see here. We really don't writeoff much in the way of premiums or registration amounts.
If -- essentially, people can't register their vehicles until they pay their debts, so our uncollectable amounts on the premium side or the registration side are -- are minuscule.
MS. CANDACE EVERARD: But, in any event, those amounts are charged back to the province, as Mr. Kramer said.
MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Thank you. If we go back to SM.5, I'll just move to another fairly discreet area, which is SM.5.11.2. This is found at page 12 of SM.5, and deals with the topic of interprovincial truckers. This is a recommendation that the Board made last year in its order that:

"Until and if a legislative amendment eliminates the right of an interprovincial trucker to claim on MPI for a workplace motor vehicle accident, sufficient net income to cover the annual subsidy provided by Basic to truckers should be transferred to Basic out of the net income attributable to the interprovincial trucking policy holder segment of SRE. Basic policy holders should not be providing subsidies to the interprovincial trucking industry. That is a Provincial responsibility if it is deemed necessary by government."

That was the recommendation?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the Corporation has stated at SM.5.11.2, that it:

"Does not support the suggestion that
payment of PIPP benefits to these
interprovincial truckers represents a
subsidy that would warrant a transfer
of funds from SRE to Basic."

That's right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And if we go to the book of documents for a moment, at Tab 43 we'll find 1-98 posed by the Board.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Sorry, I think I've given you the wrong tab number. Yeah, it's at Tab 39, pardon me. It's not Tab 43. It's Tab 39, but it is 1-98. And we see at 'A', the Corporation was asked to:

"Provide a schedule for that last ten
(10) years of the costs incurred to
Basic in respect of claims by extra-
provincial truck drivers."

And the Corporation has given that attachment at page 3, the last page of the IR. Over the last ten (10) years, which reflects an average total incurred over that nine (9) year period, or ten (10) year period, of about 1.7 million.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And can you explain the -- the far right-hand side column entitled, "Trended Incurred."

What does that reflect, or what does that mean?

MR. DON PALMER: That's just brought to current dollars. So based on the cost of living in 2009, you'll see the -- the total incurred is equal to the -- the trended in -- incurred. So that's just for purp -- present value.

MS. CANDACE EVERARD: And that -- doing that calculation brings the average up from about 1.7 to about 1.9 million over the ten (10) year period?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Okay. If we continue at that tab of the book of documents, we see a question posed by the Board in the Second Round at 2-43. This was a -- a question that the Corporation:

"Supplement the information filed with details on frequency and severity of the claims."

And so that has been provided. We see

under the heading of, "Claims Count" or, "Claim Count," the number of claims in 2002 was about twenty-six (26), and we see larger claims counts in the ensuring years, and then it came down to twenty-four (24) claims again in 2009.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And can you articulate whether there are any drivers behind the -- the lower number of claims in the '09 year?

MR. DON PALMER: Like -- likely it's -- some of these might be late reporting. So from that standpoint, there could be a -- like an IBNR claim count within that. I don't have an estimate of what that would be.

MS. CANDACE EVERARD: If we turn back to 1-98(b), we had asked at that time that the Corporation:

> "Provide an average of the ten (10) year deficit in 'A', provide a net present value calculation of the future obligation based on a discount rate representing the current weighted average cost of debt."

And the Corporation has provided a short narrative answer and, as well, a table. Can you explain the -- the table that we see there at the bottom of page 1.

MR. DON PALMER: Essentially, for the purposes of this calculation, the present value of -- of all future interprovincial trucking claims, we had -- had to come up with some assumptions in terms of -- of trending assumptions, and that for -- and, also, what the loss development factor would be.

So this is just on an overall corporate-wide bases to calculate the ultimate losses, and then what factors we would have to apply to the interprovincial losses to get their ultimate value, and, hence, the present value.

MS. CANDACE EVERARD: Okay. Is it correct if we look at the middle column of the table, which reflects 2009/10 ultimate losses, and if we -- if we added together the three (3) dollar amounts there relating to three (3) particular coverages, that we get ultimate losses of 165 million, if we added those three (3) together?

MR. DON PALMER: That's corporate-side. That's not just for interprovincial truckers by any stretch.

It's essentially just to calculate the weighted average of those three (3) benefit types.

MS. CANDACE EVERARD: Thank you. Okay, I'm going to move then to another couple of specific areas. The -- the first one that I'll deal with is relating to a tendering policy. We'd be interested to know whether the Board has a policy -- or pardon me, the Corporation has a policy on hiring external consultants, in the way of a -- of a tendering policy.

MR. DON PALMER: Yes, we do have a corporate directive on that.

MS. CANDACE EVERARD: And is it a directive that kicks in at a particular threshold or -- like in terms of size of -- of project?

(BRIEF PAUSE)

MR. DON PALMER: The -- there's not an obligation to tender consultant contracts. There are authority levels that are required for any contract. I don't know off the top of my head all of the levels, but, for instance, anything over a half a million dollars requires Board approval.

MS. CANDACE EVERARD: So when you say that there are authority levels, you mean pending the value of the work, it has to be approved by a particular level of the authority within the Corporation. So anything from the Board of Directors down to a much lower level of administration.

Is that fair to say?

MR. DON PALMER: Yes. It's probably not that much lower for an untendered contract. It's probably -- I'll -- I'll check, but it's probably director level.

MS. CANDACE EVERARD: So can you tell us a little bit about in what circumstances the Corporation would employ a tender process versus just sole sourcing, if you will.

MS. MARILYN MCLAREN: Sorry, can you just repeat the question. I was trying to answer a question about deer maps.

MS. CANDACE EVERARD: Sure. My question was -- Mr. Palmer had said that there's no obligation to tender, and so my question was: In -- how does the Corporation decide when it goes through a tendering process versus when it just does what -- what we would call a sole source, S-O-L-E source?

MS. MARILYN MCLAREN: Sure. We tender wherever possible. We always believe that that's the best approach when there is a legitimate expectation that a number of vendors may be able to meet your needs. Given that we're talking about consultants and not a particular service provider, sometimes you simply need to sole source because of a -- an individual's, or an individual firm's very relevant expertise.

So that's really the only -- the -- the key driver of when we would not tender, is if we know that there's a very specific expertise that we need from an individual, we would sole source that work. Occasionally we will also sole source work if time constraints, just eliminate the opportunity to go to a full tender process, but that -- that's rare.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So for example, in the business process review I gather most, or if not all of the projects for -- that involved external consultants would have gone to tender?

MS. MARILYN MCLAREN: Right.

MS. CANDACE EVERARD: Whereas something like probably the asset and liability allocation, because it followed on the cost allocation, would not have gone to tender, and just would have gone with Deloitte?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. And generally would it be fair to say, in a tender context, that the contract would ultimately be awarded to the lowest bid? Or if not, why not?

And I -- I appreciate we're speaking in general terms.

MS. MARILYN MCLAREN: And again, because we're talking about consulting contracts, I would say that is the least likely to go to the lowest bidder. You know, we tender a lot of things, hardware, you know, construc -- all kinds of things, and almost -- with very few exceptions, those kinds of contracts absolutely go to the lowest bidder.

But because you're looking at very, very essential areas of expertise, the -- the waiting tends to not -- not be heavily weighted towards price because it matters so much on the bidder's understanding of the requirements, their proven track record of delivering similar requirements, and the experience -- the -- the related relevant experience of the team members that they're putting forward. So there are a number of other factors that tend to outweight (sic) price when it comes to consulting tenders.

MS. CANDACE EVERARD: Thank you. Okay. Another fairly general line of questions that I have relates to surveys conducted by the Corporation.

We know that the Corporation will

commission surveys of Manitobans on their opinions of safe driving, and things like that from time to time.

That's right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And typically what does the Corporation use those results for?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: In the broadest sense, surveys about public attitudes towards things like speeding, and is -- is really used to really inform the programs that -- that we operate. It's used in our consultations with the police.

You know, when we -- in the large arena of road safety, we run some very specific surveys to gauge awareness of specific campaigns we run, or -- or different programs that we've sponsored. But in the broader sense, it really is to really understand Manitobans' beliefs and perceptions about road safety so that we can better work towards reducing risk on the road.

MS. CANDACE EVERARD: Thank you. Now, I'm aware of a media article that was published back in February of this year dealing with a survey that was commissioned by MPI. And I have a copy of it if you're not familiar with it.

The article spoke about a survey that was commissioned of Manitobans for their opinions about safe driving, auto theft, and other MPI related issues. But it was reported there that the survey also had questions about non-insurance things like the province, and whether the province was going in the wrong -- wrong or right direction, and this kind of thing.

Are -- are you familiar with -- with that, or would -- or would you like to have a look at the article?

MS. MARILYN MCLAREN: No, it -- it -- I think I remember that. I -- I think we can discuss it in general terms, certainly.

MS. CANDACE EVERARD: What the article provided was that -- that this was a survey, as I described it, related in the main to insurance things, but then the -- the individuals taking part were asked whether they thought the province was going in the right direction, whether they thought things in the province were getting off on the wrong track.

And so my -- my question would be, why would those types of questions be included in an MPI survey, that seem more government related?

MS. MARILYN MCLAREN: Well, I think it -- it's a fairly large survey. Most of them are. Those are the only one (1) or two (2) questions that would be related to that. And what we've -- for many years, because this is a Crown corporation of the Government of Manitoba, we ask questions about the extent to which MPI is performing according to, you know, the respondent's expectations, and do you think things generally in the Province are going in the right or wrong direction, is really used as a benchmark against the answer for MPI.

Because it's an important -- what we've learned historically is that sometimes the two (2) trend very well together and sometimes they don't. And it's important for us to understand when -- when they don't because then it's something much more relevant to us. So it's really just a simple benchmark that we use to inform the results about us.

MS. CANDACE EVERARD: And are the results that the Corporation obtains on the more general, the sort of government questions, are those reported back to government or are those pieces of data that the Corporation keeps for its own use?

MS. MARILYN MCLAREN: Yeah -- no, it's all for our own use. We don't hand any of it over or report any of it.

MS. CANDACE EVERARD: Thank you. Okay. I'll go back then to SM.5. SM.5.11.5, which we find at page 16 of the filing, SM.5. This is a -- a recommendation that the Board made, asking the Corporation to:

"Seek direction from government concerning the potential use of the rate-setting model to further the government's environmental objectives."

And the Corporation has stated here that it has nothing to report.

That's -- that's correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: I'll ask you to go to 1-111, posed by the Board. It's not in the book of document.

This is an IR relating to sustainable development and usage based insurance. And at (a) the Board put to the Corporation an article from April of 2101, put out by the Casualty Actuarial Society. Or, rather, it was a press release regarding usage based insurance. And we asked for the Corporation's position, and the Corporation provided the press release and has stated that it's position on usage based insurance was provided in the past, and that the position has not changed.

That's right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Has MPI noted, or is MPI aware of any trend or further developments in this area, aside from the particular press release that's provided here?

MR. DON PALMER: I guess the trend -- and -- and there is some -- some talk about it in -- in rate-making or insurance circles. It very much is going after a niche market. I know there was one (1) company, I think it was Australia, but I could be corrected on -- on that, that was developing a -- a product that you'd -- tele -- telematics, and looked at the web -- website, and right on the website in the -- the mission and the goals, talked about that it was a specialist in niche markets.

And so -- so from that standpoint we are -- we continue to monitor pay-as-you-drive programs. Still, we first heard of them probably four (4) or five (5) years ago. There haven't -- there still are not that many out there.

It's -- it's certainly a intriguing idea for actuaries, mainly because the ones that have telematic devices, as are described in this particular news release, provide all kinds of data, not just usage based, but also some of the type of driving that is done, whether it be high speed acceleration, speeding, those kinds of things, so there are many variables that could be factored in -- into this just besides distance based driving.

That said, there aren't many programs out there. Some of the big, well publicized programs in fact have shut down, because they -- they weren't providing the -- the type of return that other insurers were expecting.

So -- so it's still -- I would classify as an interesting or intriguing idea, but worldwide it hasn't gone much past that.

MS. CANDACE EVERARD: I have -- and you may or may not be familiar with it -- an article that was published in the Toronto Star, the beginning of September. It relates to pay-as-you-drive and a particular technology called Skymeter, which is a GPS technology.

Are you familiar with that at all?

MR. DON PALMER: I am not.

MS. CANDACE EVERARD: And I -- I don't that -- you're welcome to look at the article if you wish, but the article reflects that this Skymeter technology is -- and I quote:

"Is taking some of its first steps in
the real market in a Winnipeg pilot,
where it is being tested in about
twenty-five (25) cars to charge for
parking."

End quote. And this is, according to the article, a GPS technology that tracks where the -- you know, every inch that a vehicle travels, how long the trip takes, and where it is on the road.

Are you familiar at all with this pilot in Winnipeg?

MR. DON PALMER: I am not.

MS. MARILYN MCLAREN: Neither am I.

MS. CANDACE EVERARD: You're welcome to have this -- a copy of this if you wish, but I'll -- I'll provide it to you later at the break.

Okay. While we're on this topic, another area that is of interest that we'd like to know the Corporation's view on is whether or not age is a factor that the Corporation has considered in rate-setting. And what -- what I'm getting at specifically is the notion of what we commonly refer to in -- in society as a senior's discount, the thinking being seniors tend to drive less in non-peak hours and they probably have older vehicles.

Is that something that the Corporation has considered at all?

MS. MARILYN MCLAREN: Only as far to reaffirm our belief that we ought not to use age in any particular sector of the population. You know, the DSR and the Merit Discount Program before it are of great interest to seniors and many of them do qualify for the best rates, but we believe that's the appropriate way to rate in Manitoba, is to reflect individual driving records and not rely on age.

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And just before we leave the area of sustainable development, or environmental issues, I'd just like to go through the answer that the Corporation gave at 3-12. This was Pre-ask number 12. It's been entered as PUB/MPI Exhibit 11-12.

So the Cor -- the Board asked whether the Corporation was willing to file further information on its discussions with government, and we spoke about that in the recommendation from last year. The Corporation said, No, it wasn't. But then it went on to say that there was a recent initiative that -- that came out just this month and that, in particular, the Corporation will be ceasing its practice of designating as repairable pre-1995 vehicles that are written off through the regular claims process unless they are purchased by owner.

That's right?

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

MS. CANDACE EVERARD: So, in other words, any vehicle older than 1995 that's written off can be bought back by the owner but not by anyone else.

MS. MARILYN MCLAREN: That's right. It -- it can be bought for parts but they cannot be put back on the road except by the owner.

MS. CANDACE EVERARD: And the thinking behind that being that vehicles that are 1995 or newer are generally greener and less emissions, whatnot?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Thank you. Okay. Let's go then to the question and answer at 3-10. This was Pre-ask number 10, posed by the Board.

And this related to zero cost claims. The question was asking the Corporation:

"To advise of how many zero cost claims, meaning claims wherein the cost of the Corporation was zero, are reported within the Corporation's claims counts from '05/'06 through to '09/'10."

And the Corporation provided a table of the number of those claims as an attachment.

Are you with me?

MR. DON PALMER: Yes, I have it.

MS. CANDACE EVERARD: And this is, of course, Exhibit PUB/MPI-11-10. So this provides for claims of between twenty (20) and twenty-five thousand (25,000) seemingly increasing over that five (5) year period from '06 to te -- to 2010.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And can you give us an idea of circumstances -- typical circumstances in which a zero cost claim would arise?

MR. DON PALMER: Sure. There -- there are many claims that are reported to us that just never get fixed. We see that in circumstances of hail. Hail there's -- and that's probably a reason why there could be a -- a little bit of a bump in some of tho -- those years, where people bring it in, they get estimated, and then for whatever reason, their car is drivable, and they just don't bother getting it fixed. It's a time and effort to be without your car, and in those cases, they just don't get it fixed.

There may be cases where people file a claim, and then will cancel it because of impact it might have on a -- on the driver's safety rating, for instance, and it's -- so it's withdrawn, although the claim number is still there, so it's still counted as -- as a claim.

There could be many instances where an accident is reported. There's a separate file for an injury claim. They make an injury, or have an acc -- have an accident. They're asked if they're hurt. They say, Yes, I haven't had any treatment yet. We open an injury claim for them, and they never have any injury costs. So that becomes a -- a zero claim.

So there are many -- well, probably twenty-two thousand (22,000) different stories of -- of why these would have no cost associated with them.

MS. CANDACE EVERARD: And in general terms, when we're looking at other documents in the filings relating to number of claims, just in a global sense, these would be included.? Like these were broken out for the purposes of this exhibit because it was requested, but when we're talking, you know, Basic-wide, or corporate-wide claims counts, these would be included in there?

MR. DON PALMER: Generally they would be.

There are many purposes that we would take out the zero dollar claims, and we would generally identify the table as being claims with an incurred of greater than zero.

MS. CANDACE EVERARD: Thank you. We'll go then to SM.2.3.B in Volume I.

(BRIEF PAUSE)

MS. CANDACE EVERARD: This is at page 5 of SM.2, and it's entitled, "Negotiated Fee Arrangements." This is part of what the Corporation typically provides.

So the Corporation has stated here that:

> "New three (3) year agreements were rechen -- recently negotiated with the Manitoba branch of the physiotherapists, and the athletic therapists, effective January 1st of 2010. These compliment similar three (3) year agreements in place with the chiropractors [which that one (1) will expire at the end of 2010]."

And as well, the Corporation says it has a negotiated fee structure in place for medical reports prepared by Manitoba physicians, or members of the

Manitoba Medical Association. That one also expires at the end of 2010.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: For the -- I guess for all of those four (4), the physiotherapists, the athletic therapists -- maybe we'll deal with those two (2) first since those are the new contracts.

When the Corporation entered into the new agreements, effective January, 1st of this year, was it in a position where it was agreeing to increased rates in either case?

MS. MARILYN MCLAREN: Marginally. Nothing beyond CPI.

MS. CANDACE EVERARD: And in the case of the chiropractors and the physicians, which will be upcoming, does the Corporation anticipate being asked for more in -- in -- under those agreements than has been paid?

MS. MARILYN MCLAREN: We do not expect to settle those on any other basis, other than limited inflationary increases.

MS. CANDACE EVERARD: And does the Corporation have a sense of how the rates that it pays, with respect to any of these groups compares with that paid by other insurers?

MS. MARILYN MCLAREN: Other insurers in Manitoba? We have a good handle on WCB. Probably not some of the others anywhere near to the same extent. But -- but we do understand, and if we pay something different than WCB, we -- we'd always understand why, and make it a point of -- of using that as a real benchmark.

MS. CANDACE EVERARD: Now, I believe it's been on the record in past GRAs, that the Corporation also has a contract with Manitoba Health for the provision of services.

Is that right?

MS. MARILYN MCLAREN: It's not really a contract. It was -- it was decided back with the implementation of PIPP that -- because up until that point the Health Care System had a right of recovery against our insureds who caused accidents, for health care costs, that it was important for the government to make sure that PIPP somehow didn't reduce the recovery available to Manitoba Health.

So with the move to PIPP, the Corporation and Manitoba Health found a way to basically replace that -- replace the concept of recovery. So it was really a -- a payment based on, you know, inflationary increases through time. But it was -- the intention was to make sure that they did not lose revenue because MPI moved to PIPP.

MS. CANDACE EVERARD: So that arrangement continues in place today on --

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: -- the same basis that you've --

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: -- described?

MS. MARILYN MCLAREN: Yeah.

MS. CANDACE EVERARD: And does the Corporation anticipate any changes to that arrangement in the foreseeable future?

MS. MARILYN MCLAREN: No, but it -- it did change within the last year, just sort of the basis of the calculation. This -- every insurer that -- that does automobile injury -- automobile insurance in the country, pays the government something for health care costs. And every once in a while each of the jurisdictions sort of res -- resets the bar, so to speak.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I'm just looking for the reference, but it's in the materials somewhere.

But it was really just sort of resetting the bar, bringing it up to current, and bringing it -- I think it's reasonably in line with what happens elsewhere in the country.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: CAC-2-26.

MS. CANDACE EVERARD: Thank you for that. If we move along in SM.2, we will come on the next page, page 6, or sorry, rather page 7, to SM.2.4.C. This is the section wherein the Corporation's provided information on labour and material costs, and states that it's been proactive in negotiating fee structure arrangements.

It states in the second paragraph it's currently negotiating with the Manitoba Motor Dealer's Association and Automotive Trades Association on a new fee arrangement which covers labour, paint, and material, and glass in norther and southern Manitoba based on recommendations contained in the Collision Repair Industry Study, jointly commissioned by the Corporation and the trade.

That's right?

MS. MARILYN MCLAREN: Yes, that was right at time of writing.

MS. CANDACE EVERARD: And I sense a change.

MS. MARILYN MCLAREN: We have a deal.

MS. CANDACE EVERARD: Excellent. And when does that take effect and for how long?

MS. MARILYN MCLAREN: It's a four (4) year agreement, which is historic in itself. We've never had that long of an agreement. And it did go back to the 1st of January of this year, so it will run through all of 2010, '11, '12 and '13.

MS. CANDACE EVERARD: And were there increases worked into that agreement?

MS. MARILYN MCLAREN: Yes. The first year was, I think some -- about 6 or 6 1/2 percent increase this year, which really just brought the labour rate to what was recommended in the Collision Repair Industry Study. And after that it is CPI with a little bit more than CPI, largely because the cost of living calculation was really split between the average industrial wage and the actual consumer price index, because a large part of the shop's costs are labour, and so it was split, and that drove it up a little bit.

And other than that, it -- it really is just intended to -- it -- it is an area where the -- the cost are increasing faster than inflation. I think it's something about -- it's 2 or 2 1/2 percent per year for the next few years. Or if inflation was to outstrip that, we would pay the higher amount, but it is still relatively marginal increases after the first year.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is there a particular reason that the agreement was retroactive to January 1? Was that when a previous agreement expired, or...?

MS. MARILYN MCLAREN: That is when the last -- I'm trying to think. I mean, the last formal agreement was older than that, and we had a couple of interim increases that we provided while the negotiations were going on. And I think it was some time in '09 that they had had their last increase.

So it was really the -- the four (4) year window that we were -- we were trying very hard to get a four (4) or a five (5) year agreement. They were less interested in doing that because it was longer than -- than we had done before, and it was really -- always the negotiations which started the collision in -- repair industry study contemplated starting on the first of

January. It just took that long to get the deal put to bed.

MS. CANDACE EVERARD: Okay. Does the Corporation have a sense of how the rates that it pays, and will be paying under that agreement, compares with other insurers?

MS. MARILYN MCLAREN: It's a lot lower than in Saskatchewan, and generally it -- there are lower rates sometimes in other places, but for the most part our -- our rates do tend to be lower.

I think part of the advantage for -- for shops doing business here in Manitoba is that they have as much business as they can handle, so there's very little downtime in the shops. And sometimes when you're calculating the costs of a business like this to -- you know, to -- you have to consider adding to -- adding a component of your base rate because of downtime, and there's very little down time in the shops here.

But in compare -- the ones we pay most attention to are Saskatchewan and British Columbia, and our rates are significant lower than most of them -- than both of them. The cost of living, cost of doing business, is significantly lower here in Manitoba as part of a Manitoba advantage.

And I think that that's something that we were really very glad to be able to rely on the study, because it really -- that was the basis of the comparison that they did, was primarily on the other two (2) public sector jurisdictions. So I think we're -- we're not at all uncomfortable with the way this worked out, and I think it really gives us a basis for some significant work that we're going to have to do with the trade going forward.

You know, I think there's -- as we talked a little bit about some number of days ago, the construction and repair of vehicles is changing significantly, and we really have to have a very strong working relationship with the trade to make sure that we can continue to assure ourselves that we're paying for really high quality safe repairs.

MS. CANDACE EVERARD: And does the agreement with the MMDA and ATA cover the whole of the field on repairs, or are there any other agreements with other organizations that the Corporation has?

MS. MARILYN MCLAREN: I think we have a separate agreement with many of those same shops, but some other ones, for glass -- for glass repair, but that -- that pretty much covers it.

MS. CANDACE EVERARD: Thank you. Okay. We'll go back to SM.5 for a moment. There are just a couple of recommendations that are outstanding, or that haven't been addressed yet on the record in this proceeding that came in the last order. One (1) of the -- there are two (2). One (1) of the ones we haven't yet talked about is SM.5.11.7, Claim Buybacks. This is at page 17 of SM.5.

This was a recommendation that the Board made last year that the Corporation:

> "Not permit further buyback of accident costs with respect to private passenger vehicles from the date of implementation of DSR, except for situations where there's an accident for which no injuries or fatality occurred, and for which the total claims cost did not exceed a thousand dollars. With respect to commercial fleets, no buyback should be permitted excepting in cases that involve neither an injury or fatality."

And the Corporation has stated it will not be making any changes to the buyback program.

I've got that correct?

MS. MARILYN MCLAREN: Yes. We understand the Board's interest in this area. It's something that we took a quick look at over the last period of time since the order was published, and -- and then we'll do in the future, but at this time -- we're not moving forward on this at this point, yeah.

MS. CANDACE EVERARD: And can you give me a brief explanation or the Corporation's rationale for taking that position at this point?

MS. MARILYN MCLAREN: It's been a long-standing part of how the Corporation does business. No insurer operates within a framework of insisting that its client's file claims. So if someone starts a claim process and then chooses to back out of it, at this point, we continue to think that that's a -- a reasonable process for customers to have -- to have as an option.

MS. CANDACE EVERARD: Okay. The other recommendation that we haven't yet spoken about is SM.5.11.14, which relates to quarterly financial statements. And we'll just touch on this very briefly. This was a recommendation that the Board made that:

> "A -- a note be included in the future quarterly financial statements as to the possibility of an actuarially driven adjustment to unpaid claims liabilities as of fiscal year end."

And the Corporation has provided that:

"The following note had been added to
the fourth quarter and would be
included going forward."

And it's a descriptive note on that point. Is that fair to say?

MR. DON PALMER: Yes, that's correct. Now wit -- this is very similar to the note that is included in the annual report. And in the -- all the quarterly reports it identifies that the note -- the notes in the annual report still apply.

So technically this didn't -- didn't add much, but just for disclosure purposes, and because the Board was interested in -- in seeing it in the quarterly statements, we -- we made that addition.

MS. CANDACE EVERARD: Thank you. I'm going to go then to AI.19, which is the filing that the Corporation provided, dealing with asset and liability allocation.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now we obviously had a lot of evidence on this from Mr. Olfert when he was here last week, and rest assured, I'll just be referring the panel to a few pieces of the -- of the Corporation's part, as opposed to the Deloitte filing.

So I'd ask you to go to page 2 of AI.19. This is where the Corporation has discussed the proposed differences to the allocation methodology and then in the first regular paragraph, or non-bulleted paragraph on page 2, the Corporation states that:

"Proposed changes in the balance sheet allocations will produce an increase in the investment portfolio allocation to Basic, which would revise the investment income allocation, and the change in investment income allocation would be 1.04 percent, which would result in a $1 million increase to Basic in investment income for '09/10."

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the Corporation continues to say that:

"The proposed change in the allocation of customer time payments, accounts receivable, would also impact the allocation of revenue related to time payments, which would be a reduction of 1.8 million, based on the '09/10 results in Basic other revenue."

Yes?

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

MS. CANDACE EVERARD: So in other words, when we offset the one (1) against the other, the net impact of the proposed methodology, based on '09/'10 is a reduction of about eight hundred thousand dollars ($800,000) in basic net income?

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

MS. CANDACE EVERARD: Now at page 4 of AI.19, the Corporation has provided a balance sheet pro forma, I guess, that incorporates the effective proposed changes, and there are a series of notes, 1 though 5, that the Corporation has provided.

If we start with -- under the heading of, "Assets", third line item which is the accounts receivable, we see a decrease, and this -- this reflects the difference between the actual figures and what they would have been under the new methodology.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: We see a decrease in accounts receivable of about 31 million?

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

MS. CANDACE EVERARD: And we see a

decrease in property and equipment of about 15.2 million?

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

MS. CANDACE EVERARD: And under liabilities we see decreases under liabilities due to other insurance companies, as well as accounts payable and accrued liabilities, of some 1.1 and 7.5 million, respectively?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And then under, "Provision for Employee Future Benefits," we have a decrease of about 13 million, and that relates to note 4?

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

MS. CANDACE EVERARD: And the -- the increase reflected on the balance sheet was the very top entry under, "Cash and Investments," of some 23 million.

Is that right?

MR. DON PALMER: And that's basically an offset to some of the other decreases. A -- a balance sheet has to balance, so from -- from that standpoint there's a decrease in the non-investable assets, which means there has to be an increase -- increase in the investable assets, and that's what causes the increase in investment income.

MS. CANDACE EVERARD: And at the end of the day, the Corporation seeks to adopt the recommendations of Deloitte with respect to asset and liability allocation?

MR. DON PALMER: Yes, we do.

MS. CANDACE EVERARD: Okay. I have a few follow-up questions on investment issues, just flowing from one (1) of the undertakings, and just a couple of general follow-up questions.

Can you tell us about -- we -- we spoke, in earlier cross-examination about the anticipated returns that the Corporation would have under its real estate and infrastructure investments. We talked about the benchmarks, and the dollar amounts, et cetera. Can you tell us about the sources of those expected returns.

MR. DON PALMER: There is an investment income ind -- index that has an acronym that's about ten (10) letters long, and I don't recall exactly what it is at -- right now.

MS. CANDACE EVERARD: I don't want to know.

MR. DON PALMER: But -- so there is an index. We are also looking at that in some of the -- what the historical net income has -- has been based on that ind -- index, and its about CPI plus four (4). I think that was the particular benchmark that we used in the investment policy statement.

MS. CANDACE EVERARD: Okay. Again, just with respect to real estate and infrastructure investments, when it comes to -- and -- and we talked about what the Corporation's plans are, and the increases in particularly the real estate area.

When it comes though to the specific investments that the Corporation ultimately invest in, are those options that have been sought out and selected more by the Corporation, or more by the Department of Finance?

MR. DON PALMER: All the investments are -- are based in consult -- or with the Department of Finance, so there's two (2) very -- two (2) different categories, if I -- if I may, on that. The biggest commitment that we've made so far out of the $220 million total allowed under the investment policy statement for real estate, we've got about $135 million in a investment pool.

So that -- through the ICWG, we looked at various pools, did -- did a market search on a couple of the investment pools, and the investment committee working group made the recommendation that a certain pool be selected, and so the Department of Finance entered into a contract with that particular investment manager.

So -- so from that standpoint it doesn't work a lot differently than any other selecting another investment manager, for instance. On -- so that's about $135 million. We also have the Cityplace investment, which now includes the parking lots, under IFRS, will include also the non-occupied -- non-MPI occupied real estate will be -- have to be allocated as an investment income.

That was a little different. We had the opportunity to purchase Cityplace. There was the parking lots that are attached to it; we had the discussion with the Department of Finance if -- if those would be and could be allowable investments for the investment portfolio, so that's how that particular investment was -- came. It was more as a result of the -- us purchasing Cityplace because of the property plant and equipment than looking for an investment itself. So -- so those are the two (2) major points.

We also have at this stage about $75 million of unallocated in the 10 percent commitment that we have. So in terms of what we'll do with that, it's both the Department of Finance and ourselves that would be not actively exploring possibilities, but -- but could be if some things come along, maybe some joint ventures with some other investment funds, et cetera, that may come up. And then we will pass that through the

Investment Committee Working Group. And -- and then, ultimately, the Department of Finance will decide if -- if that's a allowable investment for us or not.

MS. CANDACE EVERARD: So it sounds like, certainly with respect to Cityplace and the other prospect that you just mentioned, that it's the sourcing part or the idea of a particular investment as -- came from the Corporation in those cases.

MR. DON PALMER: For Cityplace, yes. Not for the pooled fund.

MS. CANDACE EVERARD: Right, which was the first one that you described. Okay. And so -- so would it be fair to say that on a case-by-case or investment-by-investment bases it -- it could come from either side, or would you say that the Cityplace being suggested by MPI was more of an unusual development?

MR. DON PALMER: I would say it's more unusual. I can give you another example of something that might have happened, and that was our property at 1075 Portage that is being decommissioned for -- as office space. We had it up for sale. If we were unable to get a reasonable price for that, then we may have done some development ourselves on that property.

But, as it turned out, it sold. It sold for basically the -- the assessed market price. So, from that standpoint, it's more of a it could have happened, it didn't, but that's another example of some of the things that could happen.

MS. CANDACE EVERARD: With respect to the sale of 1075 Portage can you tell us a little bit about the accounting for the sale proceeds, how they're being treated for accounting purposes.

MR. OTTMAR KRAMER: What specifically do you want to know?

(BRIEF PAUSE)

MS. CANDACE EVERARD: Firstly, is it being recorded as a gain, and, secondly, does it impact the balance sheet or operating statement of Basic?

MR. OTTMAR KRAMER: It will be a gain because our -- our cost base on that property is -- is significantly lower than what we're selling it for, and that gain will be recorded on the income statement. However, it will not impact Basic because the -- DVL occupied that property, and, henceforth, the allocation of that gain will go to DVL -- or DVA.

MS. CANDACE EVERARD: Thank you. Mr. Palmer, a moment ago we were speaking about the Investment Committee Working Group, or ICWG. And I know we had evidence on this before that it's comprised of nine (9) individuals; I believe, four (4) or five (5) are from the Corporation and four (4) or five (5) were from the Department of Finance.

Did I have that remembered correctly?

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

MS. CANDACE EVERARD: And so there's no one on the committee that's an outside investment professional, aside from the people from the Department of Finance, and people from the Corporation?

MR. DON PALMER: There -- there's no independent third parties. We -- from an overall perspective, of course, we do have investment managers that are independent on the various equity pools.

MS. CANDACE EVERARD: Thank you. Now the Corporation has filed, as Exhibit MPI-21, on an answer to Undertaking 5, which was to provide the minutes of the meeting of the Investment Committee Working Group. And the Corporation has done that from September of '09 through to August of this year, 2010.

The first question that I have with respect to this exhibit is, I note, and this was said when it was put into evidence, that the documents are redacted. Can you just explain the reason for the redaction?

MR. DON PALMER: Sure. If I recall, when we took this undertaking, we did take it under advisement. This is a joint committee of ourselves and the Department of Finance, so we, of course, had to consult with them as well.

There's basically three (3) categories that we redacted. One (1), it has been our policy not to disclose the names of the investment managers, so they are sprinkled through the documents, various rates of return, when they were going to make presentations to the Investment Committee, or the Investment Committee Working Group, that kind of thing. So any reference to specific managers has been redacted.

The second category is regarding discussions with government. We have always, not only in this case, but all the way through these proceedings, those discussions with government are confidential, so those have been redacted.

The third category was referring to submissions to our Board of Dir -- Directors, or the Investment Committee. Again, the -- the submissions to the -- to the Board, or -- or committees of the Board are -- are confidential, and so we don't disclose them on that basis.

There are references to -- to what was, or would be in upcoming submissions from the ICWG to the Investment Committee, and those were also redacted.

MS. CANDACE EVERARD: And just before we continue on with this document, who sits on the Investment Committee, as opposed to the Investment Committee Working Group?

MR. DON PALMER: The Investment Committee is a committee of the Board of Directors.

MS. CANDACE EVERARD: And how many individuals sit on that committee?

MR. DON PALMER: It's four (4) or five (5).

MS. CANDACE EVERARD: Of -- of --

MR. DON PALMER: Or six (6) maybe.

MS. CANDACE EVERARD: -- director -- from -- and they're all directors of the Board?

MR. DON PALMER: Yes, they are.

MS. CANDACE EVERARD: Okay. Now, I mentioned a moment ago that we had in evidence the membership of the working group, and we now have the -- the -- I'll look at the minutes from August the 17th of 2010. Obviously, we recognize some of the names on the list. We know Mr. Bunston is with MPI, and then obviously Ms. McLaren, Mr. Kramer, Mr. Palmer are MPI representatives. Can you just tell us through the balance of the names, which ones are MPI people and which ones are Department of Finance people?

MR. DON PALMER: Sure. Gary Gibson is Department of Finance. He's Assistant Deputy Minister. Lynne Peloq -- Peloquin is with the Department of Finance. Wes Sprenger is an employee of the Corporation. He works in our investment department. Diane Hopkins is with the Corporation. She's manager of financial services. Gary Steski is with the Department of Finance, and Scott Wiebe is with the Department of Finance.

MS. CANDACE EVERARD: Thank you. Now, in speaking about the investment decisions that are ultimately made with respect to the Corporation, can you give us a sense, and -- and I know that we've had evidence about how those decisions are made, and that they're made jointly, and ultimately the Corporation has set -- stated that it's the Department of Finance that has the final say. But can you tell us about, in that process of deciding on a particular investment, whose needs are put first? And what I mean by that is, is it the needs of the Department of Finance, the needs of MUSH funds, for example, or the needs of the Corporation's policy holders?

MS. MARILYN MCLAREN: Without exception, the -- the needs of the fund, of the insurance fund, the needs of policy holders.

There's never been a conversation that I've been party to that's been contrary to that in any way, shape, or form.

The only thing that might occur if -- and this is highly speculative. It has not happened, but to -- to serve as an example, if there was a clear sense amongst the members of that committee that what the AutoPac rate payers, the -- the insurance fund, needed was access to emerging markets, had to have that because there was just, you know, the security and expectation of returns that was essential to the fund.

It's still possible that the government, not the Department of Finance members of that committee, but the elected government may say, given that we have the authority and the responsibility under the Act, we're not comfortable with authorizing an investment in emerging markets at this point, we're not going to go there.

So that's -- that's a situation that at some point may occur, but there's no conversation amongst that working group about, you know, MPI better take more MUSH bonds even though it's not a good idea for the fund because government needs to place it. It doesn't happen.

MS. CANDACE EVERARD: Okay. Can you tell us about how the -- the Manitoba investments, namely the MUSH, are priced?

(BRIEF PAUSE)

MR. DON PALMER: They are priced, and -- and I -- maybe you can help me. What do you mean by "priced"?

MS. CANDACE EVERARD: Things like the coupon rate.

MR. DON PALMER: They would be essentially standard-issue bonds that would go at a standard market bond issuing rate.

THE CHAIRPERSON: Is there a specific spread from provincials, or Feds?

(BRIEF PAUSE)

MR. DON PALMER: They've historically been between a hundred and a hundred and fifty (150) basis points above Ten Year Canada's.

DR. LEN EVANS: I wonder if I could ask a question. If there is some urgent need, or demand, by a municipality or two (2) for funding, does the Corporation respond positively, because this seems to me, as I recall, one (1) of the advantages, and maybe one (1) of the requirements, in setting up MPI as a public corporation, that we could use funds to help our municipalities, local hospitals, or whatever.

MR. DON PALMER: We -- we do have an annual allocation of -- that goes through the investment committee of the Board of Directors for an app -- essentially a budget of MUSH purchases each year.

That number has been around $60 million per year, so not -- not a blank cheque for -- for purchasing all -- all available funds.

It's -- it's about $60 million a year that we've seen over the last four (4) or five (5) years.

DR. LEN EVANS: So it's fairly steady. It's a fairly steady amount that's required.

MR. DON PALMER: It's -- it's been steady over the last four (4) or five (5) years. That -- that's as far as my memory of -- of these particular assets go.

DR. LEN EVANS: But there's no -- assuming it's -- you know, everything is sound and it's a worthwhile investment, there's no -- there -- it wouldn't be rejected. I mean, if you're talking to a municipal government that has a legitimate need for 'X' millions of dollars for whatever municipal structure, they come to you and they would normally be accepted -- or you'd normally assist them, assuming, you know, all the figures looked correct. I mean, you wouldn't turn them down because, hey, we want to use that money for the purchase of bonds elsewhere. We might get a better return.

MS. MARILYN MCLAREN: No, it's actually the contrary. But I -- I want to be clear that the Corporation doesn't -- doesn't have the authority and does not approve individual decisions to take on these investments.

So it -- it funnels through to the Department. I -- I expect the government has some sort of vetting and approval process itself, but we -- we do not make decisions about approving or rejecting individual municipal bond requests, not at all.

But one (1) of the reasons that over the last many years that we have invested in both provincial bonds but -- but outside of Manitoba in a number of ways is because there weren't enou -- we had more money to invest than there were municipal and -- and hospital and school projects to fund.

MR. DON PALMER: Just, if I may add to that. The Department of Finance also is our bo -- our bond manager. We don't have another bond manager. So just as we not instruct one (1) of our equity managers to buy specific stocks, we wouldn't instruct our bond manager to buy specific bonds.

DR. LEN EVANS: Okay, thanks.

THE CHAIRPERSON: Do you buy a specific percentage of new provincial bond issues?

MR. DON PALMER: No.

THE CHAIRPERSON: I think, if you don't mind, we've been at it for about two (2) hours, I'm sure you could probably use a glass of water too, so we'll just take a short break.

MS. CANDACE EVERARD: Okay.

--- Upon recessing at 2:20 p.m.

--- Upon resuming at 2:45 p.m.

THE CHAIRPERSON: Okay, Ms. Everard.

MS. KATHY KALINOWSKY: Good afternoon, Mr. Chairman. I have a couple of different things. I do have the much anticipated deer map that Ms. McLaren referred to earlier on, so that could be filed. I'm not quite sure what the number would be for that, unfortunately.

MS. CANDACE EVERARD: It'll be twenty-three (23). MPI Exhibit 23

THE CHAIRPERSON: Okay.

--- EXHIBIT NO: MPI-23: Deer map

MS. KATHY KALINOWSKY: Sounds about right. And I also know that Mr. -- Mr. Palmer can answer one (1) of the undertakings, number 13, orally, so he'll do that now.

THE CHAIRPERSON: Very good. Mr. Palmer...?

MR. DON PALMER: Ms. Ever and I -- Everard and I were having a discussion on reinsurance premiums, and -- and reinsurance claims. And there was a -- a question about a -- a schedule at 2-42. I don't know if it's a PUB question. It's not in the transcript, but I'll assume it's PUB 2-42, that had reinsurance premiums and claims. And I said, and I'll quote. This is lines 8 to 10 of the transcript at page 835:

> "Yes, and it has just come to my attention that these recoveries and premium written are corporate, not just Basic."

I was, in fact, misinformed. The schedule that was provided was exclusively Basic. So that Undertaking essentially goes away.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you for that, Mr. Palmer.

MS. NAOMI LOEWITH: If I could, Ms. Everard, while we're at it, quite a while ago we had some discussion about the staffing for the WATSS program, and I can tell you that there is one (1) area director, four (4) probation officers, four (4) auto theft support workers, which are known by the acronym S-U-P, SUP workers. You don't -- I didn't -- yeah, I agree. And five (5) intensive supervision and support workers which are ISSP's, which makes a whole lot more sense than the SUP does, but those are the fourteen (14) positions.

MS. CANDACE EVERARD: Perfect. Thank you.

THE CHAIRPERSON: Mr. -- Mr. Palmer, just a quick question with -- or, Ms. McLaren, with this deer mapping. And I -- actually I -- I -- I recall it as -- when it was a news release, but to what degree does the accident investigation seek to determine the speed of the vehicle that was involved?

MS. MARILYN MCLAREN: Well to -- to the extent our standard process is just to say, Were you exceeding the speed limit, and almost everyone says, No. So in terms of --

THE CHAIRPERSON: You can't -- you can't tell from the -- you can't tell from the -- the damage then?

MS. MARILYN MCLAREN: No. At this point we -- we do not spend the -- the -- the -- the funds or the resources to really investigate these on an individual basis. They're clearly a covered claim. The coverage is there, you know, so we proceed on that basis. To -- to really expend the resources, more from a prevention aspect, it's certainly something that -- bears some consideration, but it would have to -- I think the fair way to do that would be to take that out of the claim's investigation process and -- and deal with it more from a road safety and a preventative aspect.

But I think clearly there's a sense that, you know, look at the City of Winnipeg, look at where -- where a number of the high collision areas are. They are in -- in roads that have often more than the 60 kilometre per hour speed limit to start with. And -- and we know that people tend to drive over the posted limit.

So I think it's fair to say that if people significantly slowed down when -- when it was dusk in October and November, our -- our claim's crashes -- or our wildlife claims would probably be cut in half just by that one (1) thing.

THE CHAIRPERSON: I think I could second that from personal experience on the Highway 3 from Carman to Morden. I remember one (1) time just around dusk, we were -- we were headed in that direction. And this car -- we were going at a hundred, and this car passed us at least one hundred and thirty (130), and it wasn't 2 kilometres later the car was found in the -- in the ditch, basically destroyed after hitting a deer.

MS. MARILYN MCLAREN: It's -- it's -- it's just a common part of driving at this time of year in this province. It's -- it's everywhere. And on -- on the way out to the lake on the Thanksgiving weekend my son spotted eight (8) deer standing on the side of the road. They stayed on the side of the road and he didn't hit them, but it -- it's something that we're really going to have to figure out how we change behaviour, because I -- there -- there's simply no possible way we could build fences and overpasses to solve this problem.

THE CHAIRPERSON: Thank you.

DR. LEN EVANS: Just -- while we're on our anecdotes, Grand Marais, which is beside Grand Beach, I was walking and it was down on Main Street, and the traffic wouldn't be too fast, but I saw eight (8) deer myself within a matter of five (5) or six (6) minutes. It's amazing how many there are. Thanks.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman. I'm going to continue with Exhibit 21 in a moment. I just had a few more questions about that. But just before we go back to that, I just want to follow up on a -- a brief discussion, Ms. McLaren, that you and I had about the arrangement with Manitoba Health that you described.

I guess the first question is there was a reference given, Mr. Palmer, with respect to, I believe it was a CAC/MSOS IR on that issue, and I don't -- we're not sure that that reference was the right one (1). Can you -- can you double check that, or can someone double check that?

MR. DON PALMER: CAC/MSOS-2-26?

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. So it would be 2-26(c) of CAC/MSOS, where the -- a copy of the Agreement was requested? That would be the reference?

MR. DON PALMER: Yes, that would be it.

MS. CANDACE EVERARD: Okay.

THE CHAIRPERSON: I found it.

MS. CANDACE EVERARD: Okay. Perfect.

THE CHAIRPERSON: Personally I heard the number wrong. I thought you said, 2-66.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. That was what we -- we were wanting to clarify, so we appreciate it. Now with respect to that arrangement, Ms. McLaren, I believe you had said that the compensation formula has been reset. Can you just give us a little bit further detail on how it's been reset, and what the financial implications are of that?

MS. MARILYN MCLAREN: Sure. If you look at page 4 of that CAC-2-26, it was nineteen dollars fifty-nine cents ($19.59) per private passenger vehicle. It's now twenty-eight dollars and fifty-three cents ($28.53).

MS. CANDACE EVERARD: Did you say page 4?

MS. MARILYN MCLAREN: Of 2-26.

THE CHAIRPERSON: It's the second page of the exhibit.

MS. CANDACE EVERARD: Oh, I'm sorry.

MS. MARILYN MCLAREN: I'm sorry, the second --

MS. CANDACE EVERARD: Oh, okay.

MS. MARILYN MCLAREN: -- the second page of the exhibit.

MS. CANDACE EVERARD: I just had, yeah, a different number on mine.

MS. MARILYN MCLAREN: Yeah.

MS. CANDACE EVERARD: Okay. Yes, thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. So you're referring to Attachment B?

MS. MARILYN MCLAREN: Yes, attachment B. And the different provinces and the different amounts that they pay are all shown there.

THE CHAIRPERSON: Is this basically -- does this suggest it's basically a 50 percent increase?

MS. MARILYN MCLAREN: Sorry?

THE CHAIRPERSON: Am I reading this right? Is it a -- a 50 percent increase?

MS. MARILYN MCLAREN: That's -- sure, that's approximate. I -- I think that's probably fair on an approximate basis.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Does that increase derive from a different way of calculating the -- the amounts, or was it an increase in and of itself?

MS. MARILYN MCLAREN: No, it was really intended as an increase that would -- as I said, if you look at the scale, you can see that the -- you know, that there's a -- a range of amounts that -- that organ -- different auto insurers pay to provincial governments for health cost recovery.

Our understanding is that the -- towards the bottom of the scale you can see some of the higher amounts, and those are newer charges that have been established. And this is basically Manitoba catching up to be part of the more recently re-set fees. That's really about all there is to it.

MS. CANDACE EVERARD: Thank you. We'll go back then to Exhibit 21, which is the answer to Undertaking 5 that we were looking at prior to the break. And, Mr. Palmer, you explained why the -- the document was redacted, and you explained that there were three (3) reasons for that. One (1) of the reasons was the names of the investment managers. Just following up on that, can you explain why those names are redacted, because don't -- haven't we had those names on the public record in the past?

MR. DON PALMER: I don't believe they have ever been on the public record. There is certainly commercial confidentiality involved in that.

MS. CANDACE EVERARD: So is it the case that under the terms on which the investment managers work for the Corporation there's a clause to that effect, or...?

MS. MARILYN MCLAREN: We can check that. The contracts are with the province. But we've had conversations here probably not for three (3) years or so, but the -- the general belief in this field is that companies do not readily disclose who their investment managers are. Conversations back and forth with -- through cross-examination and comments even of other Intervenors, there was -- it was really, has been up until this point anyway, been accepted.

There's been no re -- requests or -- or pressure to the Corporation to disclose those names. We really believe it's in the best interests of -- of the fund to leave that confidential. And we certainly disclose comparisons amongst managers without their names shown.

MR. DON PALMER: And just in addition to that, I -- I know we have filed some investment portfolio results and we have changed the names to Manager A, Manager B, Manager C, and so on.

THE CHAIRPERSON: Just returning for a moment, if you don't mind, to this hospital business. Was the scale changed after the Application was filed or before?

MS. MARILYN MCLAREN: No. No, this -- the information as it was filed, I think, was what precipitated the questions from CAC. I think there was -- we showed them an increase in this particular account. And they asked a question about what were the significant changes, and we gave this information as part of that answer.

THE CHAIRPERSON: What does it equate to in dollars, like in millions per year?

MR. DON PALMER: It's about 6 1/2 million increase.

THE CHAIRPERSON: So that's like from 8 to 15 million, or something like that?

MR. DON PALMER: If we go -- there's a chart of expenses on -- in that same 2-26. Just let me... Claims paid expenses is the name of the chart. It's Attachment A of 2-26(b).

THE CHAIRPERSON: Yes, looking at it.

MR. DON PALMER: About two-thirds (2/3)

of the way down the chart is a line that says, "MHSC". And if you go across --

THE CHAIRPERSON: Oh, I see it.

MR. DON PALMER: -- from '09/'10 was $14.8 million, and the forecast for '10/'11 was 22.8 million.

THE CHAIRPERSON: Is it indexed going into the future, or is it subject to revaluation at any time?

MR. DON PALMER: There is an indexation. In the original agreement there are three (3) sources of -- of indexation. One (1) is a healthcare MHSC index. They're also increased based on the number of -- of vehicles in the province, and it's also indexed, or in the last couple years, de-indexed based on injury frequency rates.

THE CHAIRPERSON: Was this negotiated or was it basically derived from the Department of Health?

MS. MARILYN MCLAREN: It -- it wouldn't be fair to say it was negotiated.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. We were speaking about the -- the reasons for the redactions in

Exhibit 21. And we spoke a moment ago about the names of the investment managers, and I -- I probably just remembered that incorrectly from past years. The third reason, Mr. Palmer, that you had identified was for redactions. Were submissions to the Board of Directors or to the Investment Committee by the working group?

And can you just explain to us the rationale for the redactions of those references?

MR. DON PALMER: Submissions to the Boards of -- Board of Directors of committees of the Board of Directors have been kept in confidence by the Corporation on a number of issues.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: As -- as we've seen from the Corporation's filings, a number of times, minutes are certainly disclosed, but the submissions themselves have -- have not ever been.

MS. CANDACE EVERARD: Does the Corporation rely on a particular authority or principle of law with respect to that issue, other than past practice, I guess is what I'm getting at?

MS. MARILYN MCLAREN: It's -- they are excluded from disclosure under FIPPA. You know, submissions to a government or a governmental body, or advice to a Minister, advice to the governmental body, which would be the Board. You know, the Board is the Corporation, is -- is excluded under FIPPA for those reasons.

MS. CANDACE EVERARD: On the basis that it's a Board of a Crown core?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: That -- that helps us understand where you're coming from. Okay. One (1) more question on Exhibit 21. If you go to page 3, and this is page 3 of the August 17th, 2010 minutes, we see under the heading of number 8, "Fixed Income Sensitivity Report."

The following is reflected:

> "Using the fixed income holdings as of July 31st, 2010, if there was a parallel shift upwards in the yield curve by ten (10) and fifty (50) basis points, and it -- it is projected that the value of the fixed income portfolio would decline by approximately 11.9 million and 58 million respectively. The modified duration of the marketable bond portfolio on August 6th was seven

point eight seven (7.87) years."

Can we take it from that, by extrapolating the potential shifts in the yield curve and the corresponding effect on the portfolio, that if interest rates rose by 2 percent, the value of the Corporation's investment portfolio would be expected to fall by more than 200 million?

MR. DON PALMER: No, it's not a straight line relationship.

MS. CANDACE EVERARD: Can you give us a sense, if there was a rise in interest rates of about 2 percent of -- of what the effect would be on the portfolio, if that num -- the number that I gave you isn't the right one (1), or the right range, anyways?

(BRIEF PAUSE)

MR. DON PALMER: We don't really have a -- a sense of what that number would be. Certainly much less than $200 million. As I say, it's not a flat line relationship, but -- at all. It could be -- and -- and we generally don't calculate based on those large of shifts. So we could get it, but it would -- it would -- would take some time to calculate that.

MS. CANDACE EVERARD: If --

MR. DON PALMER: In -- in terms of -- if it helps the Board, from -- and that's a decrease in value of only the assets. Remember our immunization strategy. So there would be a -- depending on the duration, mismatch, but there's -- would be almost an offsetting decrease in the value of the liabilities.

So in terms of -- of saying if there was a 2 percent jump, and say it was -- and I'll -- and I'll guess it's about $100 million, but you'd get about an $80 million offset on the other side. So that magnitude of shift in interest rates doesn't have as significant a impact on either a -- a operating state or the balance sheet, because of the immunization strategy.

THE CHAIRPERSON: If you assume the same bond duration that your portfolio now has, you could come up with an estimate, couldn't you?

MR. DON PALMER: For both assets and liabilities?

THE CHAIRPERSON: Well, starting with the -- the question that Ms. Everard asked at the -- at the beginning, if the -- if the interest rates say 10-year Canada bond was -- instead of 2 1/2 percent it was 4 1/2 percent, and presumably the distribution and other types of bonds was similar, what would be the sort of forecast impact on the -- on the portfolio value?

MR. DON PALMER: It -- it would take some time to -- to calculate that. I'm not sure if it's necessarily possible by the end of the hearings, but it's prob -- probably in the 100 to $150 million range.

And we generally see an offset -- actually the movement on the liabilities is bigger. The -- the assets is about 80 percent of the liabilities. So if you saw the two hundred (200) basis point shift, you'd actually have a -- an increase in the asset, or in the retained earnings of the Corporation, probably in the 20 -- 20 percent of $150 million, in the $30 million range.

THE CHAIRPERSON: And if inflation arose correspondingly?

(BRIEF PAUSE)

MR. DON PALMER: We generally -- all our liabilities are discounted on a real return basis, so -- so it probably wouldn't make that much difference.

THE CHAIRPERSON: Thank you. We'll take it under advisement.

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. I think that takes us away from investments for the moment. I just have a couple of quick follow-up questions on the auto theft issues.

And this relates to a -- an article that Maclean's came out with just very, very recently reflecting that auto theft, and I -- I don't know if the panel's familiar with this, but you -- you may be. The article reflected that auto theft in Manitoba was 109 percent of the national rate in '09, which still put us at the eighth-highest in Canada.

Does the Corporation have any comment on that, or whether there's any comment on our statistics versus those in other centres?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: The information that we've looked at more recently is that in terms of varying cities, Winnipeg is dropping, but on a province-wide basis we are still up in the top three (3).

But -- and it's -- it's something that is just so different in terms of the demographic of, you know, how and why vehicles are being stolen in the western part of the country compared to the eastern.

So that's why, overall, Winnipeg -- Manitoba would still be much higher than the national average, because outside of the west -- this is just not the same issue as it is in the west. Alberta has a big issue. Saskatchewan and BC still do as well.

But I think, for comparison purposes, we need to remember that we were probably somewhere around six (6) to 800 percent above the national average, so we are well within the norm now. We're still up for the west.

Still, you know, generally higher than we would like to be, but with all of the things that we've accomplished, we have become more like the rest of the western part of the country, which is -- you know, the -- the incidence is higher.

A different kind of theft in the east; much -- much more permanent. The vehicles are not recovered. They're gone. But in terms of what's happening here, it is more like what is happening in the rest of the west -- western part of the country, which is still significantly improved from where it was in Manitoba a few years ago.

MS. CANDACE EVERARD: And the Corporation is, of course, continuing with the WATSS program, as we spoke about last week, and there will be -- continue to be immobilizers installed in new vehicles coming into the province.

MS. MARILYN MCLAREN: That -- that's right. All of that is still in play, for sure.

THE CHAIRPERSON: And WATSS is expected to persist into the future, then?

MS. MARILYN MCLAREN: Well, in -- into the early part of 2012, anyway.

THE CHAIRPERSON: The Maclean's article, actually, I'm looking at it right now, and I don't see any harm in copying it and providing it. But it says Winnipeg's at 108.85 percent of the national average for 2009. And, as you point out, the cities that are above us are, with one (1) exception, that being Joliette, Quebec, are all western. But putting a different spin on it, it provides presumably an opportunity for further improvement over time, I would expect.

MS. MARILYN MCLAREN: I think --

THE CHAIRPERSON: Like, for example, they have Calgary listed at only 33 percent over the national average and Coquitlam, BC at only 8 percent over the national average. So it's -- I was just asking whether or not the fact that if these numbers are correct and we're still at a high, there's still big dollars involved in incurred claims related to theft and anti-theft -- or attempted theft.

Therefore, presumably, in the long haul, with the immobilizer continuing in the WATSS, there's opportunities for claims incurred reductions, is there not?

MS. MARILYN MCLAREN: Certainly. It's not something that we're going to take our eye off of. And I think if we -- if we end up concluding that there are some key differences that would drive some of those differences, we -- we at least would be prepared to talk about them, but it's -- it's not something that we've just sort of taken and put on the back burner and are leaving alone, for sure.

THE CHAIRPERSON: Is the cost of theft and attempted theft -- different numbers are being pitched around. What would it be now? Is it in the range of the wildlife claims, or...?

MS. MARILYN MCLAREN: Less. It's less. I think it's less, absolutely, yeah.

THE CHAIRPERSON: Well, that's quite an improvement.

MS. MARILYN MCLAREN: Yeah. And the -- the numbers that we use internally is that this year alone we're spending 30 million less than we would have if we had not undertaken the WATSS and Immobilizer

Program.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Great. Thank you. Okay, I'm going to turn then to some questions with respect to variety of the pre-ask answers that have been filed by the Corporation. The first one that I'd like to go to is 3-2, so it's PUB/MPI Exhibit 11-2.

This was where the Corporation was asked to update and accumulated other comprehensive income schedule to incorporate second quarter results, and, as well, to include any proposed IFRS adjustments. So we'll just look at the result here very quickly.

At Schedule 1 of the Exhibit we see a shift in the AOCI, or accumulated other comprehensive income, from the end of the first quarter, in May, to the end of the second, in August, and it's an increase of about 6.1 million, is that right?

MR. OTTMAR KRAMER: Could you repeat those facts?

MS. CANDACE EVERARD: Sure. I'm just comparing the overall AOCI total from May 31st, first quarter, to second quarter, August 31st. And I note that it's increased by about 6.1 million.

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

MS. CANDACE EVERARD: And that's comprised of unrealized gains of about ten point eight (10.8), offset by realized losses of about four point seven (4.7), is that right?

MR. OTTMAR KRAMER: Tho -- those are -- it's ten point eight (10.8) of gains offset by gains that have been transferred to net income though. That four point seven (4.7) are gains that have been transferred to the income statement.

MS. CANDACE EVERARD: Okay. Thank you for clarifying that. And if we look at Schedule 2, which is the next schedule at that exhibit, we see this is -- and this is, of course, the numbers that take into account the IFRS transition. We see that with that the AOCI balance as at August 31st, 2010 is some 13.6 million, is that right?

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

MS. CANDACE EVERARD: Thank you. We'll go then to Pre-ask 3-3, which is PUB/MPI Exhibit 11-3. And we -- we had some evidence on this from Mr. Olfert, but we haven't completed the cross of the panel with respect to this. This was a pre-ask wherein the Corporation was asked to provide a schedule detailing all of the expenses that underlie allocations to Basic from other lines of business, including a five (5) year historical analysis, and three (3) year projection, and to provide commentary on the changes.

And so the Corporation's provided, at Schedule 1, a calculation of the expense distribution ratio for the years of '05/'06 through '09/'10. Those calculations are provided net of the $21 million recovery from the province.

And then for current year through to 2012/13, it's calculated not net of the $21 million recovery. Is that right?

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

MS. CANDACE EVERARD: And Mr. Olfert testified that this change was a suggestion of Deloitte to the Corporation.

That's right?

MR. DON PALMER: I'm just going to step back for a second on that particular point. It's not quite correct.

When we did the asset liability report, and I'm going back -- I don't think I'm telling any tales out of school that we were somewhat reluctant to produce that report. And the reason was because it -- we knew that it really wouldn't make much of a difference at the end of the day. It's a lot of time and a lot of expense to go to -- for that particular allocation report for, at the end of the day, turned out to be an eight hundred thousand dollar ($800,000) difference in the -- the operating statement.

So in retrospect, it did provide us an opportunity to really look at our underlying allocations, some of which had been in place and not really analysed for a number of years.

When DVL and MPI, at the merger in 2004, at that time, when we were looking at the allocation, and the expense distribution ratio, the decision was made at that time to net off the $21 million recovery from -- from the expenses.

And neith -- neither myself, nor Mr. Kramer, were actually aware of -- of that at this point in time when we were looking into historical allocations. It's certainly not a netting that either one of us would have done at that particular point in time.

So to say it was a suggestion of Deloitte not to net, I would say is incorrect. We were netting it as we moved forward, and we continue to use the expense distribution ratio. If we use that for allocations, we likely would have changed it in any event.

I -- I think historically that was used in the EDR, or expense distribution ratio. But to look at this kind of exhibit, or to project in the future, I think, is a large -- would largely be misleading.

I mean, we did some allocations. There were specific liabilities, and -- and asset accounts that were allocated on this basis. But in terms of the net income and the net effect, there's really not that much, and we likely would have changed it anyway.

MS. CANDACE EVERARD: Okay. So if -- if I understand your -- your evidence correctly, you're saying that the -- the advice was given by Deloitte as Mr. Olfert testified, but the Corporation likely would have got -- made that change in any event, or independently of.

MR. DON PALMER: No. One (1) -- one (1) of the liability accounts is the liability for employee benefits, and we had the allocations that we used. And -- and the suggestion by Deloitte was that we use not expense distribution ratio, but use payroll ratio instead, which made sense from a -- from a -- a symmetry perspective as -- as well.

When we were anal -- analysing the differences, and that was a fairly significant difference in the asset allocation, and it puzzled us to a certain extent because most of the expenses that are used in the expense distribution ratio are payroll and compensation. And we didn't know why there would be such a big difference.

It was that point in time that we looked at it and analysed it and said, well, it's because we had that netting effect of that $21 million. So it's something we uncovered in the space of the -- of the process, but not really from the -- at the suggestion of Deloitte, because they didn't use the expense distribution ratio for that particular asset allocation anyway -- allocator anyway.

MS. CANDACE EVERARD: And you -- you said a moment ago that this was uncovered. And I think at the early part of your answer, with respect to this document, you said that neither yourself nor Mr. Kramer were aware of the netting.

How -- how did it go on for that period of time without either of you knowing about it? If -- if I've understood your evidence correctly.

MR. DON PALMER: For -- well, for the -- th three (3) years, we don't -- I personally don't calculate the allocations. They've been done and been done the same way for a number of years. And it was -- unfortunately, one (1) of those because-we've-always-done-it-this-way kind of -- kind of things.

And -- and again, it's one (1) of those processes and one (1) of those procedures that when you do a review, that you uncover. And I think that's the value in doing this kind of exercise.

MS. CANDACE EVERARD: I provided at the break, Mr. Palmer, to you, and Ms. Kalinowsky, and I believe we'll give a -- a stack to Board secretary, a document that we've prepared. And the intention of this document is to restate the final three (3) years listed on Exhibit 11-3, to put the netting back in as it were. And so you'll see at the document -- and I'll -- I'll maybe just wait until it's been distributed.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. So we will provide as many copies as -- as are needed, but, Mr. Palmer, you've got a copy of this, right? Okay.

MR. DON PALMER: Yes, I have it.

MS. CANDACE EVERARD: Okay. What -- oh. I believe it'll be Board Exhibit 24, Mr. Chairman. We'll have it entered when the Board representative is back. So this exhibit reflects, in the left-hand set of numerical columns, a restatement of what we see for the three (3) years listed. That is, current year through '12/'13 on 11-3.

And then we have in the numerical columns entitled, "Revised", the numbers from 11-3 with the twenty-one (21) removed, or net of the twenty-one (21).

Is that fair to say?

MR. DON PALMER: It is fair -- fair to say. That's what this shows. Again, I would really caution the -- the Board from taking any stock in this particular exhibit at all, because it's something that wouldn't -- whether we adopted a new allocation procedure or not, wouldn't hav -- wouldn't occur. It's -- it's not relevant.

We have shown in AI.19 on that balance sheet that we talked about before, the -- the main difference in the asset and liability account. This one (1) really does impact the employee future benefits a -- amount to a -- to a significant ag -- degree.

That -- that's the reason it changed. But to say that it would have been this in the future, I -- I think is just a moot point. I'm not sure what purpose it -- it serves.

MS. CANDACE EVERARD: I don't know that that's the -- the suggestion. It's just the -- the new document that -- that the Board has provided is -- is intended to reflect those three (3) years just on a consistent basis with the first five (5) years shown in Schedule 1.

MR. DON PALMER: And it does that -- I just -- it really is misleading if you were going to use that for any purpose, that's all.

MS. CANDACE EVERARD: Now, I understand that the expense distribution ratio, or EDR, will also be used for allocating some other assets and liabilities besides employee future benefits. I -- we know from the material that there are a couple of accounts wherein Deloitte recommended that this ratio be used as opposed to a different one that was used previously by the Corporation, and that's at 2-58, PUB/MPI-2-58, is -- is that right?

MR. OTTMAR KRAMER: Yes, I believe that's correct. But back to what Mr. Palmer's point was. Deloitte is not recommending to use it on the provision for employee future benefit. That's why he was indicating it's a moot point. The Deloitte recommendation is to use the payroll ratio, so it won't even be used on that large liability of $226 million, so that -- that's to his point be -- that it's moot because it's not going to be used on that -- that group of expenses anymore.

MS. CANDACE EVERARD: So with respect to that account, that is provision for em -- employee future benefits, the recommendation was a shift away from the

EDR to the payroll ratio, whereas for the corporate deposit bank account under cash and investments and the -- one (1) of the accounts under "accounts payable and accrued liability," the recommendation was to move to the expense distribution ratio.

MR. OTTMAR KRAMER: I believe that's correct. I don't have that document in front of me. But the magnitude of it, I'm sure, is less than the employee future benefits at 226 million.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So just to confirm then, the -- the pro forma balance sheet that we looked at at AI.19, Mr. Palmer, includes -- or Mr. Kramer, whoever wants to answer, includes the new recommendations for use of the expense distribution ratio as suggested by Deloitte.

MR. DON PALMER: Let's say in -- includes, and I hesitate to use this word, but -- well, let's say re -- restated, which would have been restated, in any event.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So if I understand your evidence correctly, irrespective of Deloitte's recommendations, this change in calculation of the expense distribution ratio from the Corporation's perspective would have been made, in any event.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And presumably would have been brought before the Board for review.

MR. DON PALMER: Indirectly. The -- the effect on these particular accounts is very small. So -- so, yes, there would have been a slight change in allocation, probably imperceptible.

(BRIEF PAUSE)

MS. CANDACE EVERARD: When the Corporation made the decision to change the nature of the expense distribution ratio by removing the netting of the 21 million did it calculate what the impact would be, across the board?

MR. DON PALMER: We have not done that, no.

(BRIEF PAUSE)

MR. DON PALMER: It's -- it's something that could, I suppose, be calcula -- calculated. It would take a lot of time, and the impact is negligible.

MS. CANDACE EVERARD: Thank you. This is for the last exhibit? Okay.

Mr. Chairman, we just have a correction with respect to this last exhibit in terms of the number, and at some point in the process Ms. Hamilton or I will have some comments.

There's been some -- a little strangeness in some of the exhibit numbers that have been assigned over the course of the hearing so far that are going to have to be clarified and corrected.

This is actually Board Exhibit 17, not Board Exhibit 24, so that should set things straight for this particular document, and as I said, we -- we're going to have to, at some point, clarify some other oddities in the numbering.

--- EXHIBIT NO. PUB-17: Previously marked Exhibit PUB-24

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. I'm going to ask the panel then to go to Exhibit 11-4, which is the answer to pre-ask 3-4. This relates to the allocations for the three (3) former DVL departments.

Mr. -- I -- I assume this will be for Mr. Palmer, so I'll just wait for you to find that.

(BRIEF PAUSE)

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: Thank you. Now, we see in the narrative of the answer there's a slight clarification, if you will, with respect to the identity verification and data integrity department.

We had previously been speaking, I think, in general terms about a 50/50 allocation for that department between Basic and DVL, and the Corporation has advised here that for that department it's actually a 50 percent allocation to insurance as opposed to non-insurance, and then 82.4 percent of that is allocated to Basic, which overall is a 41.2 percent allocation.

That's right?

MR. DON PALMER: Yes. It -- essentially it's a, I think, Level C allocator, which is insurance, non-insurance, and then there's further allocated. Yes, that's correct.

MS. CANDACE EVERARD: Thank you. And we

see if we look at the attachment to this document we have the numbers going back to '06/'07 through to current year.

And we see with respect to that department, that is identity verification and data integrity, an increase in the compensation expenses over the five (5) year period. In fact, it increases from about four hundred and sixty-five thousand (465,000) to about 2.3 million.

Just for the purposes of the record, can you give us the background to that?

MR. DON PALMER: Sure. You -- you'll notice that that's not a gradual increase. It's a -- it's a one (1) time stepped increase in -- in '08/'09, and that's due to, essentially, the nature of the -- the business went into more documentation in terms of facial recognition in with the new licence release -- releases that are sort of in conjunction with that.

So there was a significant increase in the amount of work that we were doing in terms of identity verification at that point in time.

MS. CANDACE EVERARD: And that's expected to continue going forward?

MR. DON PALMER: Yes, it is.

MS. CANDACE EVERARD: And do you have a

sense of how many staff are in that department?

(BRIEF PAUSE)

MR. DON PALMER: It's about forty (40) staff.

MS. CANDACE EVERARD: And we see for the next department, that is the second chart on the sheet, for vehicle registration the changes in compensation have been very incremental, and not particularly drastic over the five (5) year period.

Do you have a sense of how many staff are in that department?

MR. DON PALMER: About fifteen (15).

MS. CANDACE EVERARD: Fifteen (15)?

MR. DON PALMER: One (1) five (5), yes.

MS. CANDACE EVERARD: Thank you. And we see about half of the expenses in that department are for -- incurred for printing stationery and supplies.

That refers to, I take it, the actual vehicle registration documents, and related, or is that for something else?

MR. DON PALMER: It would be -- it would be forms, generally.

MS. MARILYN MCLAREN: It may also be

plates, which are -- you know, the proof of registration and insurance as both components.

MS. CANDACE EVERARD: Thank you. And then, thirdly, in the Driver Records Department, which is the last one, we see the two (2) most significant expenses are compensation and data processing, that's right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And roughly how many staff are in that department?

MR. DON PALMER: About twenty-six (26).

MS. CANDACE EVERARD: And the Corporation's evidence is that the allocations reflected are in accordance with the updated methodology being recommended by Deloitte.

MR. DON PALMER: Yes, these particular allocation percentages based on work effort is what was -- what was included in the new methodology.

MS. CANDACE EVERARD: And I believe the Corporation has stated to the Board that it has provided full detail of the expenses that underlie expense allocations, is that correct?

MR. DON PALMER: Cou -- could you repeat that, please?

MS. CANDACE EVERARD: I said I believe

the Corporation has stated on the record that it has filed with the Board full details of the expenses that underlie the expense allocations.

MR. DON PALMER: Ye -- yes, either directly or in -- as in this case, these were the total expenses of these particular three (3) departments, so there's been full disclosure, full amounts.

On other departments with the -- the cost allocation, we have generally filed the -- the details of Basic, but because they're -- you have the ath -- the allocator and the allocated methodology, it's just simp -- simply a matter of working backwards to the total.

So there's -- there's nothing else hidden on those particular -- it's a straight pro rata adjustment on the expenses in -- in certain departments. The ones that -- that we haven't disclosed are not allocating expenses, but direct expenses.

So we have some departments, like special risk Extension, where those particular expenses are not -- are not disclosed because they're a hundred percent allocated to special risk Extension, and, really, there's no impact at all on that particular operation on Basic. So those particular ones we have not disclosed. For all the other that are actually allocated, they're either directly disclosed or can be inferred.

MS. CANDACE EVERARD: And when you say that they can be inferred, or you also used the phrase earlier "worked back from," you -- I -- I gather your evidence is that although the information isn't squarely before the Board, it can figure it out, so to speak.

MR. DON PALMER: Yes, that's correct. So there -- there's no hidden -- hidden expenses or -- or padded expenses or anything like that. They're -- they're all fully disclosed, yes.

MS. CANDACE EVERARD: And, as you stated a minute ago, the Corporation has not filed with the Board all corporate expenditure information for the whole of the Corporation.

MR. DON PALMER: No. The -- the directly assigned expenses to -- there are -- have no impact on Basic at all.

MS. CANDACE EVERARD: Now, you would agree with me that --

MS. MARILYN MCLAREN: Ms. Everard, if -- if I can jump in here and maybe go out on a bit of a limb, I don't know. But I'm really glad you asked this question because, quite frankly, the Corporation really holds the view that all parties to these proceedings here are working very hard to do a good job, to be fully understood.

And we really truly believe that we have disclosed certainly everything that the Board has asked for in terms of disclosure of underlying costs of which some portion or the whole have been allocated to Basic. We believe we should and we believe we have.

And -- and I'm making such a strong point of that because it's -- it's confusing, and, therefore, disconcerting to the Corporation's panel when we hear some of the questions that you had when -- when cross-examining Deloitte and KPMG, asking -- and I'm paraphrasing, and maybe I'm getting it wrong, but, you know, it is fair -- is it appropriate or is it fair for the Board to rule on a -- on a allocation when it hasn't seen the underlying costs.

Based on what we believe we have shared and based on a reasonable expectation of the applicant, the Corporation, we believe we have. So, we don't even understand the basis of the question, and that's what makes it confusing and disconcerting.

If there has been too much left that is -- that would require the Board to work back or -- or infer, please let us know. You know, and we have been completely open, as much as we possibly can to fully answer questions about these three (3) new departments, as an example. You know, the -- the cost of management committee have not been asked in the same way. They probably haven't been provided, therefore, in the same way.

But the basis of allocation and the costs clearly have been provided. And if there's other -- any underlying costs for which Basic pays the full or a portion that you believe have not been disclosed, we believe it may be just because you haven't asked, because we have no issues with that.

We understand that it's a legitimate expectation. You know, and the example -- just one (1) more point, sorry, that Mr. Palmer gave is, you know, the SRE underwriting department has absolutely no cost sharing with anybody. So it doesn't make any sense to us to disclose that. It's a direct assignment. It's not allocated. But anything for which Basic pays the whole or a share, if you want more detail, ask.

MS. CANDACE EVERARD: So you would agree then that because significant income expense, asset amounts for Basic are determined by allocation, any pattern in the allocations may be caused by movement in the amount being allocated, or in the amount being used as the basis for the allocation?

MS. MARILYN MCLAREN: If there's a significant cost component of the Basic Plan, that is an allocated expense. And if the basis changes, then it could very well result in a significant change to what's assigned to Basic. I think I'm following that.

MS. CANDACE EVERARD: Like, in other words -- and -- and we -- we may well be saying the same thing, without the disclosure of the whole, the Board's not in a position to decipher which is which so to speak?

MS. MARILYN MCLAREN: That I don't follow.

MS. CANDACE EVERARD: You have a quizzical look on your face?

MS. MARILYN MCLAREN: Yeah. That I didn't follow. Maybe try another --

MS. CANDACE EVERARD: I -- I -- I think your earlier evidence was that the Corporation for matters -- or pieces that are allocated is prepared to share everything with the Board, in order that the Board can analyse the -- not only the methodology of the allocation, but the actual allocation amounts?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the -- the next part of that was for the Board to be in a position to look at any patterns in allocations, whether it's the allocated and end -- sorry.

For the Board to be able to look at any

patterns in allocations, and to determine whether patterns are being driven by the amount being allocated, or the amount used as the basis for the allocation, in other words, the larger amount, it needs to see both sides?

MS. MARILYN MCLAREN: I -- I believe I agree. And I think that's what we've always done. You know, I think -- part of the conversation here about, you know, the new expense allocation, the cost allocation, is that even though we had an old one, it was still modified to a certain extent every year. And -- and any changes were shared with the Board.

So -- and clearly the costs -- the costs are always shared. The basis of allocation has been and will continue to be shared. I think that's the whole picture. I don't think I'm missing any -- you know, but if we -- the basis of the costs -- and if you say that the communications department costs $2 million a year, and 66 percent -- $2 million is Basic's share, and it's a 66 percent share, you can figure out what the department cost overall, right?

So -- and if there's a -- if there's some sense as what is assigned, and what is allocated, you know, those -- those are fair questions.

(BRIEF PAUSE)

MS. CANDACE EVERARD: TI.7(a) and (b) are examples of documents where we've been provided with a significant level of detail in Basic, but we haven't been given the same overall.

And I -- I appreciate the comment about if you have the total, and then the Basic you can figure out the other, but, it's -- I don't believe we have, for TI.7.A or B the level of detail that would enable us to do that.

Is that something that the Corporation can provide? So TI.7.A and B, filed for, I guess, corporate overall, but in the level of detail that we see at TI.7.

MR. DON PALMER: Because that would be inclusive of directly assigned departments. So, no, that wouldn't -- wouldn't be something that we would necessarily share, but we will share all the pieces that get allocated that comprise the schedule.

MS. MARILYN MCLAREN: But I -- I think this really bears further discussion and understanding, because you know, in part in trying to resolve this, I -- I think back to one (1) of the comments that Mr. Olfert made in terms of -- you know, like to what extent you really need to delve into the detail.

Well, you can get right into the detail, or you can rely on audited statements, or I -- I think there was a third one (1) that he mentioned, but -- you know, I mean if -- if -- how does this Board choose to use its time.

And -- and that's, I think, one (1) of the things that we really need to discuss through this because if we gave you all the corporate and, you know, there would be things in there that would be directly assigned to SRE, as an example, not -- you know, very little in terms of the way the Corporation operates is -- is shared with SRE the way it would be with DVA administration, or Extension potentially.

So you know, we can put it all on the record, and the Board can delve into it, and spend time with its advisors going through, and coming up with questions to ask, and we can answer a bunch of questions.

Well, you know, this much of that was directly allocated to not -- you know, something other than Basic. I'm -- I'm not sure that that's what the Board would want to do with all of our time, and the cost of this process, but that's something the Board needs to decide.

Because when you have the basis of the allocations, and you have the actual dollars that are being allocated, you -- you have to believe -- first of all, you have to be prepared to intellectually accept the fact that directly assigned costs have absolutely no bearing on Basic at all. If they're directly assigned somewhere else, they have absolutely no bearing on Basic.

So if we decided to, you know, cut the SR underwriting department in half, or quadruple it, would have absolutely no affect on Basic. So if there was some department that doubled its expenditure in one (1) year, and when you delved into that found that it was because we decided to do a whole bunch more advertising for Extension, and we decided to share the costs, first of all, that would probably be contrary to the allocation policies that the Board would have approved.

But, that is where the -- you know, the -- the testing would come in when it is because it's allocated. It's not direct. So we absolutely have to understand each other when it comes to this area.

We have to be very clear on what our intention is, and I think -- you know, I -- I may -- I'm not prepared to say yes, absolutely we'll give you all the -- the corporate stuff, and you know, have at it.

I don't know. I mean, maybe there's a way to find out more specifically what it is that the Board will really need to see, or understand, to have a comfort level with it.

But in terms of having the policies, having the costs assigned to Basic that are driven by those policies, and then having all of this audited, particularly in the first couple of years to a significant level of detail, I th -- I believe is what the Board needs, but clearly, you know, we're -- we're open to understanding what the Board believes it needs.

MS. CANDACE EVERARD: Okay. I -- I think, and I -- I appreciate that evidence, Ms. McLaren. I think I'm going to pursue one (1) other small area that I had, and then we'll probably take a short break, Mr. Chairman, and then we'll come back, and close off the cross, because I want to have an opportunity to consider the evidence that you just gave.

So just let's -- let's go off of that topic for a few minutes. We'll go to pre-ask 7 through 9, so 3-7 through 3-9. These relate to the Corporation's Betterment Policy. These have been entered as Exhibits 11 through 9. PUB/MPI Exhibits 11 through 9. 3-7, the -- in 3 -- yeah, in -- in pre-ask, 3-7, the Corporation was asked:

"To advise of its current policy regarding betterment in the context of a claim where an insured vehicle is

repaired using new parts and
replacement of partially used or worn
parts."

And the Corporation provided a narrative answer explaining, in general terms, its -- its policy with respect to this issue, and we learned in 3-8, Exhibit 11-8, that the Corporation made some changes to this -- to their guidelines within the last eighteen (18) months.

Is that right?

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

MS. CANDACE EVERARD: Can you tell us what prompted the changes with respect to the Betterment Policy?

MR. DON PALMER: The passage of time is pretty much the -- the right answer. In -- in -- and again, as all Corporate policy is subject to -- to review, and -- and updates, in this particular one (1) we -- we did understand that one (1) source of frustration for our customers was betterment where there was very small amounts that were applied.

So that was the major change wa -- is elimination of depreciation where the amounts was less than fifty dollars ($50). And it made very little difference overall to the Corporation and really was a significant upgrade for customer service.

MS. CANDACE EVERARD: Thank you. And the Corporation at pre-ask 3-8 has said that in addition to changing the percentages, or sorry, related to the changes in percentages for the betterment pending the -- or relative to the different vehicle components was a consideration to the fact that vehicles today are built to higher tolerances, and the corresponding life expectancy of the parts has changed?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now the third pre-ask with respect to betterment was pre-ask 3-9. And the Corporation there has provided a -- a chart over the last four (4) years indicating its cost -- or total recoveries or claim's cost reduction arising from betterment recaptured. And that number is right in and around 1.3 million over that four (4) year period. Is that right?

MR. DON PALMER: That's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now in 3-7, the Corporation has stated -- just to -- to go back to the narrative of 3-7 for a moment, the Corporation has stated that it has:

"A contractual responsibility to return an insured to the same position they were in before the loss occurred."

And that's sort of where this all comes from. Would that be fair to say?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And it's in situations where there's obviously new parts required, like for tires, that trigger the -- the application of the Betterment Policy?

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

MS. CANDACE EVERARD: Can you tell us what effort the Corporation makes to simply return an insured party to the same position, maybe if new parts are not necessary in an instant, and what its policies are in -- in those regards?

(BRIEF PAUSE)

MR. DON PALMER: We use a significant volume of recycled parts so. And we have talked at some length at this Hearing and in past hearings about using recycled parts and there's certain conditions that -- when they're available.

So on a best-efforts basis, that would be

-- on most -- most repairs, that would be probably first choice. They're not always available, so -- so in terms of -- of returning to the exact same condition, sometimes is just impossible, or not -- not practical.

MS. CANDACE EVERARD: And does the insured have any say or input into whether new or used parts are used, or incorporate into their vehicle?

MS. MARILYN MCLAREN: No, we guarantee -- we warranty the used parts just like it was a new part. I guess if someone really had some sort of personal or philosophical objection to having a used part on a vehicle, they could pay the difference between the cost of the used part and the new part, but it -- it's really a cost containment effort on the part of the Corporation. We do warranty the parts and we have very little -- very little pushback from people on this.

MS. CANDACE EVERARD: Thank you. Mr. Chairman, what I'd like to do is just take a short break, and then I'll have just a few closing questions, or I -- I think that's what I'll have when we come back.

THE CHAIRPERSON: Okay, very good.

--- Upon recessing at 3:57 p.m.

--- Upon resuming at 4:15 p.m.

THE CHAIRPERSON: Ms. Everard...?

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. Ms. McLaren, following on the dialogue that we had a moment ago with respect to filings and what has or has not been provided and what the Corporation may be willing to provide, I asked about TI.7, and we -- we have that on the record, that the Corporation's not prepared to file corporate-wide TI.7.

What about TI.8? Would the Corporation file a corporate-wide TI.8?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: The Corporation will consider filing both of those on a corporate basis, but consider. And then assuming you have a little bit further to go, that may help us understand the context here a little bit more. So I guess that's all I would say for now, is that we will consider. And please go ahead.

--- UNDERTAKING NO. 24: MPI to file a corporate-wide TI-8 (UNDER ADVISEMENT)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. So we have that under advisement.

TI.9 doesn't indicate on its face whether it's corporate-wide or just for Basic, but I -- I actually think it is corporate wide. Am -- am I right about that? This -- this is the staffing numbers.

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

MS. CANDACE EVERARD: Okay. So that's fine for TI.9. The other piece of information that we ask for, and I know we've asked for this before and it hasn't been provided, but we'll -- but we'll ask for it now, is forecasts of the revenue and expenses for all lines of business through the outlook period, which is basically what used to be provided at -- years ago. If you want to take that under advisement, please do so, or if you want to answer now, that's up to you.

MS. MARILYN MCLAREN: No, I think that one we can answer. I mean, it's the concept of publically disclosing our projections of -- of revenue and income for the competitive lines that we're not prepared to do.

MS. CANDACE EVERARD: Okay. I'll go then to a few questions for you, Mr. Palmer, and these follow on the direct evidence that you gave on the first day of the hearing, that first morning.

You -- and obviously the -- your evidence is what it is, it's on the record, but you -- you detailed a number of factors that, in the view of the Corporation, affect Basic rate making.

Is that fair?

MR. DON PALMER: Yes, that's fair.

MS. CANDACE EVERARD: And obviously there were a number of factors that affected Basic rate making in -- in your evidence?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Would it be fair to say that any factor that affects money in or out of Basic can affect Basic rates?

Is that a fair comment?

MR. DON PALMER: That -- that's fair. The rate making is the expected cost of all costs associated with the risk transfer, so if there's money in or out on a perspective basis then, yes, I would agree with that.

MS. CANDACE EVERARD: Thank you. Now, just turning a little bit to a bit of a different point, we have some evidence on the record with respect to the portion of the Extension market held by the Corporation.

We have a document on that, and I'm -- I'm not going back to that, but as distinct from that, can you tell us what is the current percentage approximately of Basic customers that also buy Extension products?

It's a bit of a different question.

MR. DON PALMER: I'm -- I'm guessing, but by any Basic -- that buy any Extension product, it's probably 90 percent.

MS. CANDACE EVERARD: And am I correct that every Extension purchase overlies a Basic policy?

MR. DON PALMER: No, that would not be correct.

MS. CANDACE EVERARD: Can you tell us what kinds of Extension purchases don't overlie a Basic policy?

MR. DON PALMER: Vacation or driver's policy, for instance. So rent -- rental car lay-up policies wouldn't have to have an underlying Basic component.

MS. CANDACE EVERARD: Can you give us a sense of the relativity between those Extension purchasers that do overlie a Basic policy, and those that do not like the ones you've just described, lay-up and car rental?

MR. DON PALMER: The -- the vast majority would underlie a Basic pol -- policy, whether it's 90 percent or 95, that's a guess, but it would be a large proportion.

MS. CANDACE EVERARD: So you're satisfied that it would be in that range, ninety (90) to ninety-five (95).

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: That's fine. Now, we had evidence on the streamline renewal process, and the new structure that's come into effect, that a commission is paid every year for five (5) years to the broker of record, and we spoke about that people may -- may or may not renew by actually going into the office, and et cetera.

That's right?

MR. DON PALMER: Yes. I recall that.

MS. CANDACE EVERARD: And we have evidence from Ms. McLaren, I believe it was, that in the case of Extension premiums the commission paid to the broker is about 18.5 percent.

That's right?

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

MS. CANDACE EVERARD: So let me make sure that I have this right: In a situation wherein there are no changes to coverage, and the broker of record gets a commission for five (5) years on a particular policy on the Extension side, at the end of the five (5) years they would have accumulatively a 92.5 percent commission on one (1) year?

MR. DON PALMER: It -- it's on five (5) years of policy, and they pay a premium that's paid every one (1) of those years, but you add them all up and they get 92 percent over the five (5) years, yes.

MS. CANDACE EVERARD: Of one (1) year's premium, basically.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: That's what I was -- that's what I was getting at.

And does the Corporation have a view of that arrangement in terms of its prudence, or any other aspect that it can share with the Board?

MR. DON PALMER: It's in the regulations, so I have nothing more to say than that.

MS. CANDACE EVERARD: Now, we know that one (1) of the corporate goals of MPI is to return 85 percent of premiums to ratepayers, or something like that. And we can go to the Corporate goals if you wish, but I'm -- I'm sure that you're familiar with them. That's going to be my question.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I mean, these things are always contextual, right. It's -- it's a goal that was established when the Corporation was established, which was established to administer the compulsory program more so than anything else, and we -- we think about that within the Basic Compulsory Insurance Program. That's -- that's where the significant financial advantage is compared to private sector models. That's what we compare it to. It's always based on the Basic Compulsory Program.

MR. DON PALMER: And if I can -- I just pulled out my annual report, page 25 of the annual report. Goal 2 states:

> "The Basic plan will return at least 85 percent of premium re -- revenue to Manitobans in the form of claims benefits."

MS. CANDACE EVERARD: So that particular goal as drafted is specific to Basic and not applicable to the whole of the Corporation?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Mr. Palmer, just one (1) more question with respect to the -- your answer about the commission rate being in the -- in the regulation.

Was there not negotiation with respect to that prior to its enactment in regulation, as would have been the case on the Basic side?

MS. MARILYN MCLAREN: The Corporation worked with the brokers to find mutually acceptable commission levels on everything, and it was really a joint recommendation to government that ended up being in a regulation.

MS. CANDACE EVERARD: So it flowed from discussions between the Corporation and the brokers?

MS. MARILYN MCLAREN: Yes, it did.

MS. CANDACE EVERARD: Thank you. Okay. Can you tell us -- now, coming back to the -- the root of the Rate Application, the -- the request for a 4 percent rate reduction.

Can you tell us, if that is granted, what the risk would be that there would need to be a full or partial offset by increases in the foreseeable future?

MR. DON PALMER: The -- the rate as

established is the expected value of the transfer of risk for a one (1) year period. So from that standpoint, I supposed there's a possibility that there could be something happen in '11/'12 that would case a re -- a massive reduction in RSR that would be out of the expected value that would be rebuilt on a retrospective basis.

But in terms -- if that doesn't happen in a very unlikely event that you'd get that major kind of event, we would never retroactively recoup gain/losses from the '11/'12 year. If -- if the rate is -- so the -- the rate will be the rate. We -- we wouldn't restate.

Would it be possible in '12/'13 in -- in our Rate Application that we would need a small increase because of inflation, for instance, in -- inflationary effects, then that's quite possible. Given that our upgrade is at or better than inflation, that's probably unlikely too.

So I don't si -- think that we're looking at this 4 percent rate decrease as -- as being a whipsaw. It's -- it's what we set the '11/'12, '12/'13 rates -- or '11/'12 rates to be. And when we're back here next year to talk about '12/'13 and -- rates and we have our new projections, then, at that point, we'll -- we'll discuss that, but we won't -- we won't have to restate the

'11/'12 rates.

MS. MARILYN MCLAREN: Ms. Everard, that -- that was a somewhat academic response from Mr. Palmer.

MR. DON PALMER: It's who I am.

MS. MARILYN MCLAREN: Yes, rates are for a one (1) year period. But I think one (1) of -- to answer that question, I think one (1) of the things that the Board should look to itself are the -- the financials during the outlook period a year ago and the same financials during the outlook period now today, and they're very similar except we have pulled down the net income in those future years only because of the 4 percent decrease we're applying for this year.

So this is not a situation where our view of the future has had any marginal or significant change from twelve (12) months ago. And the -- the projections into the outlook period have been quite stable for the last few years. We have absolutely no expectation that that will change. The Corporation plans no changes to its -- you know, no fundamental changes to its -- its reinsurance program.

We've talked here about conservatism in our -- in our claims forecasting, that -- that some may or may not see. So the likelihood, based on the processes that the people in this forum have relied on for the years, being as solid as it is this year compared to last year, I think is a really good indicator that if the Board should approve this 4 percent rate decrease, it will not have to be retracted in the next year, or -- or foreseeable future based on the stab -- stability of the outlook forecasts that we've had up until now.

MS. CANDACE EVERARD: Thank you. My next question is -- is similar. And if -- if there's nothing specific that you want to add, then you can just say so, but my next question was going to be with respect to the rebate that's being sought, whether the Corporation had a view of what the risk may be, that that may need to be fully or partially offset in the future, if granted.

And so you've both given me, I think, a fairly comprehensive answer. If there's anything -- any nuances or additions that you'd like to make, then please go ahead with respect to the rebate.

MR. DON PALMER: And -- and I'll try my academic response first. The rebate is based on the RSR plus IFRS adjustment as at February 28th of 2010. It's in the bank. It's there. It exceeds the PUB target level, and that's what we're -- we're rebating. So it's very much -- unlike the rate, with the 4 percent rate decrease, that's prospective in nature, and we are going out on our projections and our methodologies are sound, but it's still the future and you don't know what necessarily is going to happen.

With the rebate it is very much a retrospective measurement, somewhat mechanistic. And we're re -- rebating the excess of the PUB target. So from that standpoint, if -- if the risk of changing the rate outlook is minimal, the change to the rebate would be zero.

MS. MARILYN MCLAREN: Having said that, the Board really ought to rely though, in my view, on the same financial strength demonstrated in that outlook period. Because, quite frankly, I wouldn't be supporting a rebate even if we were this much in excess of the PUB established target if the future years looked like we may very well need rate increases, or we're -- very marginally break even.

That that's not what we expect in the future at this point, and I think in terms of the strength of the application for the rebate, the -- the financial strength depicted in those outlook financials should be relied on for that as well.

MS. CANDACE EVERARD: Thank you. Mr. Palmer, when you were giving the answer to the question about the rate reduction, you used the phrase, "whipsaw".

Can you just elaborate on what that means, for the record?

MR. DON PALMER: "Whipsaw", I just meant up and down. So a 4 percent rate decrease next year, followed by a 4 percent rate increase the next year, followed by a 4 percent rate decrease the following year. Just up and down.

MS. CANDACE EVERARD: Thank you. Just one (1) last question. I think that it is the last.

Can you tell us, if the Corporation wrote off its deferred costs, would it still be seeking a 4 percent rate reduction and a $92 million rebate?

MR. DON PALMER: Just so I'm clear, are you talking about the deferred development costs on Basic?

MS. CANDACE EVERARD: Yes.

MR. DON PALMER: That's the type of hypothetical question that really, I'm -- I'm very uncomfortable to answer. The reason that we have a deferred development cost is there is an economic value in the future; that's the criteria of section 3064. So to speculate on what we would or would not do if we didn't follow the CICA Handbook I think is an academic question, and I -- I'm not sure I'm prepared to answer that.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Palmer, I can honestly say I didn't expect that question, but I'm a little bit curious about your answer, in a sense, because deferred development costs by nature are -- they're gone. I mean, if you -- whether you write them off or not, they're not a future cash expense.

MR. DON PALMER: No, but they're an expense that go -- that form part of your expenses for the -- again, the -- the amortiza -- amortization is included in your expense base going forward.

I guess the other way of looking at that, and -- and I don't know what the exact numbers would be, but if you wrote off some of those deferred development costs, your expenses going forward would be less, so your rate decrease could be bigger, but your RSR would also be less, so your rebate would be less.

So there's -- you'd -- you'd almost get a direct swap between rebate and rate.

THE CHAIRPERSON: It was an interesting question. Are you finished, Ms. Everard?

MS. CANDACE EVERARD: I believe so, Mr. Chairman. I know that there are a couple of outstanding undertakings that we may have some questions on once they're answered, but other than that, I -- I'm quite confident that we've com -- completed the cross on behalf of the Board.

THE CHAIRPERSON: I see Mr. Williams looks extremely eager. And I apologize for this, but I just cannot resist asking.

Why would MPI agree to an 18 1/2 percent commission when you have 95 percent of the Extension business?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I'm just trying to think back in my mind to the process and the discussions. You know, I mean, I think -- I -- I think it's fair to say that streamlined renewals had a potential to hurt our Extension business, and we want to make sure that didn't happen.

We want to work with brokers. We want to continue to make sure the Manitobans choose MPI even when they don't have to. So we -- we don't believe that we're paying more than we should. We don't believe we're paying an inordinate amount. We think it is appropriate given the -- the way the -- the business is done in the future.

It is -- as much as we talk in these proceedings, you know, I mean, the first day of these hearings we were -- sorry, excuse me, that's not true. Some of the conversation at standing committee of the legislature about competition the Corporation faces for its competitive lines, and, you know, that very same week CTV was running a story about competitive auto Extension opportunities for people in Manitoba. It -- it's out there. It's real.

We don't want it to be any bigger. We are very pleased with the extent that Manitobans choose us when they don't have to, and we -- we think that that was one (1) of the things that we could do to -- to help make it stay that way.

THE CHAIRPERSON: Thank you for answering that. Mr. Williams -- thank you, Ms. Everard.

Mr. Williams, do you want to start now? We might as well get underway.

MR. BYRON WILLIAMS: I'll -- I'll rework some things, Mr. Chairman. I had a rather lengthy section at the start, but I think we'll move to a shorter area.

THE CHAIRPERSON: Thank you.

MR. BYRON WILLIAMS: And I did want to

note that Ms. DeSorcy has returned. She got very excited when I told her that there was a bambi map, or a deer map, out from a -- from an undertaking, and she had to see it at --

THE CHAIRPERSON: But you didn't tell her why the map was there.

MR. BYRON WILLIAMS: I confess that, Mr. Chairman.

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. McLaren, I had planned to start with you, but I'm -- I'm going to move to Mr. Palmer instead.

Mr. Palmer, I want to talk about driver safety rating for a -- a few moments, and not that I ever expect to get there, but could you remind me what I would need to achieve as a driver to reach DSR Level number 10?

(BRIEF PAUSE)

MR. DON PALMER: Are you talking about if you started new as a driver today, or if you were transitioned from the old program, because it's very different.

MR. BYRON WILLIAMS: What I'm looking

for, Mr. Palmer, and -- and if my question's -- what are the characteristics of drivers who've reached DSR Level 10 effective 2011/'12?

What's -- what is the characteristic in the group in terms of claims free driving experience, and also conviction free?

MR. DON PALMER: Essentially the short answer is ten (10) years of claims and conviction-free driving. It doesn't work out quite that way but, for argument, long-term driving could be -- there could be cases where there might have been the odd infraction in -- in recent years, but by and large it's long-term safe driving.

MR. BYRON WILLIAMS: So as a rule of thumb, for DSR Level 10, I can use ten (10) years claims and conviction free.

You'll accept that?

MR. DON PALMER: And in fact, that's exactly what it would be if you were to start as a clean driver, or as a new driver today, and drove ten (10) years claims free, then you would be at DSR Level 10.

MR. BYRON WILLIAMS: I could only hope that I was starting as a driver with ten (10) years claims and convictions free, Mr. Palmer.

For DSR Level 15, would I be correct in

suggesting then, again recognizing that there may be a few exceptions, that we can -- a fifteen (15) years claims free, conviction free experience would do the trick?

MR. DON PALMER: And in fact, for the transition in '10/'11, that's exactly the -- the criteria.

MR. BYRON WILLIAMS: And it would be fair to say that within that group of DSR leven -- Level 15, there might indeed be people with twenty (20) years claims and conviction free, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Twenty-five (25) years claims and conviction free?

MR. DON PALMER: Or thirty (30), yes.

MR. BYRON WILLIAMS: You can turn, if you would, we're not going to come right to it, but for convenience sake, at the PUB book of documents, which is PUB Exhibit number 10, if I'm -- I've got the numbering system corrected, anyways, Tab 36. And that's a response to PUB-1-87, page 7, sir.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: So Mr. Palmer, just

if you're still looking, it's Tab 36 of the PUB book of documents, the response to PUB-1-87(c), page 7.

MR. DON PALMER: I have it.

MR. BYRON WILLIAMS: And I'll come to that graph in just one (1) second. But you'll confirm for me that the original research that underlay the 2009 DSR Application indicated that drivers with ten (10) or more merits were expected to have much lower claims costs than premiums paid.

Is that correct?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I think, if you're looking for an authority, Mr. Palmer, I'm quoting right from your SM -- SMs, but...

MR. DON PALMER: Yes, that would be correct.

MR. BYRON WILLIAMS: Your evidence, as well, in the original research leading up to the 2009 DSR Application indicated that driver risk continues to de -- decrease for drivers with up to fifteen (15) years of clean driving experience, correct?

MR. DON PALMER: Yes, I recall that.

MR. BYRON WILLIAMS: And by that you mean that drivers with fifteen (15) merits are expected to have a lower at-fault claims frequency than drivers with eleven (11) to fourteen (14) merits.

Would that be fair?

MR. DON PALMER: That's fair.

MR. BYRON WILLIAMS: Just referring to this graph on page 7 of your response to PUB-1-87(c), I think you indicated in your conversation with My Friend, Ms. Everard, that -- that it was a favourite graph of yours, Mr. Palmer.

Right a bell?

MR. DON PALMER: Rings a bell.

MR. BYRON WILLIAMS: And really -- and if you'll disagree with me, you'll correct me, but what this graph suggests is that if we looked at the -- between 2004 and 2 -- 2006, at fault claims frequency for drivers at DSR level 15, their experience was lower than other DSR levels, correct?

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

MR. BYRON WILLIAMS: Significantly lower?

MR. DON PALMER: Certainly "significantly" is -- is a relative term. The frequency looks like it's about half, maybe 60 percent of those at DSR levels 11 to 14.

MR. BYRON WILLIAMS: "Significantly" is

more than just a relative term, is it not? It is not a term of statistical art, sir?

MR. DON PALMER: Sure, I can agree with that.

MR. BYRON WILLIAMS: And using it in that vernacular, in that way, the at fault claims frequency for those at DSR level 15 was suggested their at fault claims frequency was significantly lower than for the other DSR levels, sir?

MR. DON PALMER: Yes, I'll agree with that.

MR. BYRON WILLIAMS: And certainly if your Application for -- for 2011/'12 is -- is approved, drivers who achieve the heights of which I can only imagine, DSR level 15, we'll see that their behaviour rewarded in terms of a vehicle premium discount of 30 percent, is that right, sir?

MR. DON PALMER: That's correct.

MR. BYRON WILLIAMS: And the theory underlying that reward is that a demonstrably lower risk should re -- result in a demonstrably lower vehicle premium; fair enough?

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

MR. BYRON WILLIAMS: And that is indeed a matter of fairness, that low risk drivers should play --

pay relatively less than high risk drivers, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And as DSR works, or at least I'll suggest to you that as it works it's -- this system is also a mechanism to incent or encourage good driving behaviour in that drivers like me, higher risk drivers, who amend their behaviour can see substantial rewards.

MR. DON PALMER: Yes, it's certainly the hope of the Corporation that we do see reduced claims frequency in the long-term.

MR. BYRON WILLIAMS: Now, I believe in your discussion with My Learned Friend Ms. Everard last week, or it might have been the week before, I can't recall anymore, within the past month, you suggested that for the 2011/'12 year, those drivers at the DSR level 15, you would estimate that there would be about one hundred and eighty-five thousand (185,000) driver approximately, sir.

MR. DON PALMER: That sounds about right. I know that there's a reference on that, but I'll take your word for it for now.

MR. BYRON WILLIAMS: And we've discussed already that within this group at DSR level 15 there are drivers with fifteen (15) years claims free experience, as well as those with twenty (20) or twenty-five (25).

That would be fair, sir?

MR. DON PALMER: That's fair.

MR. BYRON WILLIAMS: Now, this is my recollection from the 2009 DSR ap -- Rate Applica -- or DSR Application, but you'll correct me if I'm wrong.

It was my understanding from that Application that the Corporation did not undertake a further analysis of DSR level 15 to consider, for example, where there -- there were statistically significant differences in at fault claims frequency between persons who had fifteen (15) years clean driving experience versus those who has fif -- fifteen (15).

Is that your recollection, sir?

MR. DON PALMER: That is essentially my recol -- recollection. I -- I think we went to the fifteen (15) years. There's -- as you move up the scale there is a -- less and less data to work with. Other factors may come into effect, but I would -- I would recall that we didn't go beyond fifteen (15).

MR. BYRON WILLIAMS: So at -- at this point in time it would be fair to say that the Corporation is not in a position to say whether those with fifteen (15) years claims free experience bring higher risk to the sess -- system in the statistical sense, than those with twenty (20) years claims free experience.

Would that be fair?

MR. DON PALMER: Yeah, I don't know the answer to that question. Yeah, in terms of -- of data availability, fifteen (15) was the limit to where we could go.

MR. BYRON WILLIAMS: Well, Mr. Palmer, and again, you'll correct me if I'm wrong, but my -- my understanding from the 2009 DSR Application was that at that point in time the Corporation was open to the -- the examination in future times of -- of whether there are statistically significant differences between those groups.

Would that be fair?

(BRIEF PAUSE)

MR. DON PALMER: As we go forward, that's true, yes.

MR. BYRON WILLIAMS: Because it is, of course, quite conceivable that those with more years of claims free experience have a lower claims frequency than those with fewer years of claims free experience, even at the twenty (20) -- fifteen (15) and twenty (20) level, sir?

MR. DON PALMER: As we look at the graph on page 7, there really is a flattening out of that graph, sort of from it looks like eight (8) or nine (9) back and then a -- a little dip at fifteen (15).

The reason for that dip is basically that's a -- a very large group of people that -- that may have fifteen (15) years or may have thirty (30) years. We -- we just don't know.

So, there is a flattening. Where exactly that flattens, I don't know the answer to that.

MR. BYRON WILLIAMS: There's a flattening, but there's a dip between fourteen (14) and fifteen (15), suggesting that there may be further dips as we -- as we move out into higher years of claims free, sir.

Would that be fair?

MR. DON PALMER: There could be, yes.

MR. BYRON WILLIAMS: And again, I -- and I appreciate the Corporation being open to examining this in future years, but given the lack of research, and I don't mean that as a criticism at this point in time, that does leave open the possibility that those at twenty (20) years claims free are -- their premium discount may overstate the risk that they bring to the system. Fair enough?

MR. DON PALMER: I think that's -- that's a fair statement.

MR. BYRON WILLIAMS: Mr. Chairman, I -- I have an exhibit that I -- I wish to discuss, but it'll probably take me fifteen (15) or twenty (20) minutes to go through it. It -- it's related, but this -- I -- I'm at the Board's -- Mr. Kruk may murder me, but...

THE CHAIRPERSON: Okay, Mr. Williams. Yes.

MR. BYRON WILLIAMS: And I'll just -- I had shared -- I can indicate to the Board that I had shared this exhibit with MPI last week. And my understanding is that we'll go through that, but I think I can ask the Board secretary to distribute it, CAC/MSOS-8.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Palmer, you -- you probably don't need to -- to turn there, but you'll see that the data source for this table is -- the Corporation's response to CAC/MSOS-1-136, correct?

MR. DON PALMER: Yes, and we did verify

that.

MR. BYRON WILLIAMS: Okay. And -- and you've also been generous enough to verify the calculations on this table?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And do you consider the calculations to be accurate, sir?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Thank you for your courtesy in doing that. Just to assist the -- the reader of this very wide table, Mr. Palmer, if I could get you first of all to -- to go down to the very last line, you'll see the heading, "Total Number All DSR Levels."

Do you see that, sir?

MR. DON PALMER: Yes, I do.

MR. BYRON WILLIAMS: And if I turn to the first number in that line under the col -- column 2010 to '11, we'll see that the Corporation estimates they'll be seven hundred and seventy-one thousand five hundred and forty-five (771,545) earned driver units for the 2010/'11 year.

Would that be accurate, sir?

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

MR. BYRON WILLIAMS: And staying on this line but working out to the 2014/2015 year, you'll agree with me that the Corporation's estimate of earned driving units is expected to grow to about eight hundred and nineteen thousand (819,000) in 2014/'15; correct?

MR. DON PALMER: That's our projection, yes.

MR. BYRON WILLIAMS: Just to move one (1) line up, again for the purposes of explaining the table, sir, there's a -- the next line up there's a heading, "Total," and it would be your understanding that -- that this -- this represents the Corporation's estimate of earned driving units in each particular year at DSR Levels 10 through 15.

Is that right, sir?

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

MR. BYRON WILLIAMS: So we see, for example, in 2010/'11 that there's about three hundred and seventy-nine thousand (379,000) earned driver units between DSR Levels 10 and 15.

Correct, sir?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: That's about forty (40) -- 49 percent of the -- of the population, correct?

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

MR. BYRON WILLIAMS: Okay. And if we move out again to the 2014/2015 year, we'll see that in terms of the Corporation's estimate for drivers at DSR Levels 10 through 15, it estimates that population to grow to about four hundred and seventy-one thousand (471,000) earned driver units, sir, correct?

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

MR. BYRON WILLIAMS: And its percentage of the total population would be somewhere between 57 and 58 percent of the -- of the total.

Would that be correct?

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

MR. BYRON WILLIAMS: And so that would leave about 42 or 43 percent of the population in the group with DSR ratings of nine (9) or less.

Would that be right?

MR. DON PALMER: Yes, that would be correct.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And just moving up that column, stay in the 2014/2015 year, if we look at those at DSR at Level 15, they -- they would amount to over two (2) -- they're estimated in terms of earned driving units to exceed two hundred thousand (200,000).

Would that be right for --

MR. DON PALMER: Yes, that's --

MR. BYRON WILLIAMS: -- for that year?

MR. DON PALMER: -- yes, that's correct.

MR. BYRON WILLIAMS: So about a quarter (1/4) of the total population, sir, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: And if one combined them with Level 14, that would be just a bit less than three hundred thousand (300,000) estimated earned units, correct?

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

MR. BYRON WILLIAMS: So in total, that would be about 36 percent of the total earned unit -- estimated earned unit population in DSR Levels 14 and 15, correct?

MR. DON PALMER: Yes.

MR. BYRON WILLIAMS: Okay.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Just moving to the top part of the -- the graph now, DS -- DSR Levels -- and

I want to focus exclusively on DSR Levels 10 through 15.

You'll agree, and we'll -- we'll perhaps move to the year 2012/'13, you'll agree that of the -- speaking exclusively of the population between DSR 10 and 15, there's about four hundred and thirty-one thousand (431,000) with earned units with -- estimated in that population for 2012/'13; would that be right, sir?

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

MR. BYRON WILLIAMS: And of that population, it would be fair to say that about 48 percent of that population would either be in DSR level 14 or DSR level 15.

Would that be right?

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

MR. BYRON WILLIAMS: If I move out to 2014/'15, of the total population between DSR levels 10 and 15 of four hundred and seventy-one thousand (471,000) approximately, you'll agree that over 63 percent of that population would be in DSR levels 14 or 15.

Would that be fair?

MR. DON PALMER: Yes, that's correct. And it sort of is a natural progression as -- as people move up the scale, that we see in '10/'11 two (2) bubbles, one (1) at DSR 15, one (1) at DSR 10. I can tell you that there's another bubble at DSR level 7, and that's people that have a 25 percent discount and less -- and not necessarily all their merits.

So as we progress through the chart, as you get from -- onto fourteen (14), fifteen (15), that large number, the ninety-five thousand (95,000) is basically the hundred and ninety-nine thousand (199,000) that moves up the chart.

The other little bubble that you see, the fifty thousand (50,000) at DSR 11, is those people that were at DSR 7 at the beginning of this timeframe that bubbled up the chart.

MR. BYRON WILLIAMS: Now, in terms of the DSR level 7, how big is the bubble right now, sir, roughly?

MR. DON PALMER: It's about fifty-seven thousand (57,000) people. It's not as big as the other two (2).

MR. BYRON WILLIAMS: So we've got a little bubble at DSR level 7 currently.

You'll agree with me that the bubble in 2014/'15 for DSR levels 14 and 15 is a pretty big one, sir?

MR. DON PALMER: Yes, it is.

MR. BYRON WILLIAMS: This -- this moves to -- I'm moving off this area, but I have just a couple of questions that -- that would be -- they may better go to Ms. McLaren than -- than yourself, or they may not. I'll just...

In -- in terms of the allocation of the RSR rebate, did the Corporation consider allocating it in any other manner than basically a pro rata basis?

MS. MARILYN MCLAREN: Yes, but only briefly. There's certainly other ways to do it, but we really concluded in fairly short order that the best approach would be to propose exactly what we had done previously.

MR. BYRON WILLIAMS: And I'm not suggesting my clients are going to take issue with that, Ms. McLaren, but presumably one (1) other vehicle that you could rebate, the RSR, and is some sort of good drivers rebate, something like that.

MS. MARILYN MCLAREN: Absolutely. I mean, you could propose that only people with merits receive the rebate.

You could propose to do the rebate on the -- the full un-discounted premium for everyone, which would significantly weight more dollars towards the best drivers as a percentage of what they actually paid. They would get a much larger percentage than people who did not qualify for the discount.

So there's certainly ways where it could be weighted towards good drivers.

MR. BYRON WILLIAMS: And, again, I'm not trying to suggest any position on my clients, but, philosophically could -- could you talk from at a high level again on the pros and cons of using some sort of mechanism, such as a good driver's rebate?

MS. MARILYN MCLAREN: Well, I think, you know, pros, most people are good drivers, so most people would like that system better. It would probably be on some level more well received. But by the same token, it would also likely receive a fair bit of criticism for the same -- from the same perspective from on the other side of the coin, so to speak.

If you think about this as a rebate, because the Corporation has more in the RSR than it expected to have, there's no opportunity for people to have planned to do anything different, to earn a better percentage of that rebate. It's an after the fact. It's -- it's retrospective. And I think people would feel somewhat burned if we were to change the rules when there was really no, you know, forward thinking discussion of it.

It's also the concept that we simply have more in the RSR than we need to provide for the stability for the program. And on that basis, it should be rebated as a direct percentage of what was paid. So I think those are the cons.

MR. BYRON WILLIAMS: And technologically, if -- if a -- a regulator was to look at a good driver's rebate as -- as -- as compared to kind of the current proposal of the Corporation, are -- are there technological barriers in doing it in the short-term?

MS. MARILYN MCLAREN: Well, it would certainly take a lot more planning on the Corporation's part. Significantly more testing. There was -- I believe the first year, the rebate was ordered that was not a deduction from the amount to be paid at renewal. There was some back and forth after the order was received. I think we should anticipate that that might be required.

I think we would need a lon -- a longer window. I think if the Corporation thought that there was any possibility that the Board would change the rules as to how a rebate should be prorated amongst the customer base, it would be very important to know about that much sooner than the standard December 1 order issue date. And we would need to know that we would have time to build in any required back and forth, and the appropriate documentation of what the business rules are, and give ourselves a lot more time to test.

As it is now, right now we basically use the same program that would be used for, I think, the third or fourth -- fourth or fifth time, exactly as it's been used before. This potentially could be significantly more labour intensive, and therefore higher risk of error if we didn't have the time to do it right.

MR. BYRON WILLIAMS: Apart from a good driver rebate, were there any -- any other mechanisms contemplated by the Corporation in terms of different mechanisms of R -- an RSR rebate?

MS. MARILYN MCLAREN: Only very briefly. Discussion about whether rating groups that were underpaying premiums should actually receive a rebate. You know, if there are -- are groups where the rate has not yet -- is not sufficient, has not become sufficient, perhaps those -- those vehicle categories should not qualify for the rebate. But again, from the same principle that it is because we have more money than necessary, it should be a flat pro rata amount that people actually paid, is where we came down.

MR. BYRON WILLIAMS: And that's reflective of the fact that the premium rebate is paid on a retrospective basis, that's a key part of this?

MS. MARILYN MCLAREN: Yes. Yeah.

MR. BYRON WILLIAMS: Okay. Thank you very much, Mr. Chairman. That -- that will close my questions for today. Thank you.

THE CHAIRPERSON: Thank you, Mr. Williams. Thank you to the panel. Thank you to Ms. Everard. So we'll see you back tomorrow at 9:00 a.m.

MS. KATHY KALINOWSKY: Mr. Chair, if I could just thank the Board for their indulgence, along with everybody else for agreeing to start a bit earlier today, so quite a number -- later today, sorry, so a number of us could attend a funeral. That's very, very considerate, and thank you very much to everybody.

THE CHAIRPERSON: I'm sure everyone understood. And sometimes real life comes even into these quarters.

(PANEL RETIRES)

--- Upon adjourning at 5:08 p.m.

Certified Correct

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Cheryl Lavigne, Ms.