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

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Pages 2510 to 2583

APPEARANCES

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Kathy Kalinowsky	)MPI
Raymond Oakes (np)	)CMMG
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--- Upon commencing at 10:00 a.m.

THE CHAIRPERSON: Okay. Good morning, everyone. Before we begin, there is nothing more other than Ms. Kalinowsky's statements on behalf of MPI, correct?

MS. CANDACE EVERARD: I don't believe so, Mr. Chairman. I think it's just the closing for MPI today.

THE CHAIRPERSON: Okay. The field is yours, Ms. Kalinowsky.

CLOSING SUBMISSIONS BY MPI:

MS. KATHY KALINOWSKY: Good morning, and I'd like to first off congratulate Mr. Evans on the election of a great new mayor in Brandon. As you are aware, Ms. Decter Hirst was the chair of MPI, and she has lots of great ideas, lots of enthusiasm, so congratulations on that.

Turning to a more serious note, of course, we're here for the closing argument of Manitoba Public Insurance for its 2011/'12 rates. I'm going to talk first off about the rate decrease.

The Corporation, of course, is here seeking an overall 4 percent decrease in its premium revenue, as specified in both the application and in throughout the hearing. This is comprised of a 2.1 percent decrease as a result of increased vehicle discounts, and a 1.9 precent decrease which is a result of experienced adjustments.

Broken down more specifically, the rate reduction is the result of the following factors. One (1), a 2.4 percent rate decrease that was indicated last year, and the PUB did not approve that due to the Board's uncertainty in a number of areas, including PIPP enhancements, RSR levels, investment returns, unpaid claims reserves, DVL losses, IFRS, and cost allocation.

Each of those items has been dealt with at length, and addressed in Mr. Palmer's pre-filed testimony at pages 2 to 5, and they've been canvassed at length in this hearing.

The Corporation is confident that none of those factors now should prevent the Board from approving rates upon the actuarial indicator.

The second reason for the rate redul -- reduction is a 1 percent reduction in average commissions payable to brokers in 2011, as per regulation 93/2009.

The third factor is a 0.2 percent reduction in operating expenses due to the adoption of the new Deloitte cost allocation methodology that was reviewed at last year's General Rate Application at length.

Fourth is a 0.4 percent reduction in the provision for internal claims adjusting expenses. This 4 percent rate ti -- decrease follows a history of rate decreases or holding rates at the same level for the past six (6) years. So for this year, 2011 rates, it's minus 4 percent is sought for a rate decrease; 2010, zero percent; 2009, minus 1 percent; 2008, zero percent; 2007, minus 2.6 percent; 2006, zero percent.

Very few, if any, other insurers or insurance products have a history of that kind of pricing. As executives, as managers at MPI, we feel incredibly proud of this achievement, especially while administering some of the most generous benefits in North America and having a very, very high level of standard of service to all Manitobans.

When questioned by Board counsel if the 4 percent rate decrease were granted, what the risk would be that there would need to be either a full or a partial offset by increases in the foreseeable future, Mr. Palmer and Ms. McLaren answered that. They advised that the financials for the outlook period are very strong and have been consistent for the past year, too, which should be reassuring for the PUB.

The projections and the outlooks have been quite stable and strong for the past few years and there is no expectation that this will change. A major focus of this Hearing was the conservatism within the Corporation's forecasts. The questions asked were are the forecast too conservative. The questions were never asked about are the forecasts too aggressive, are the forecasts too risk prone. There were no probing questions about undue risk. The Corporation acknowledged the conservatism in its forecast on numerous occasions.

So how does this relate to rate setting? For rate setting purposes, in the application of a 4 percent rate decrease and a twe -- $92 million rebate it would be counterintuitive for the PUB to acknowledge the conservatism in the forecast of policy liabilities yet then refuse to grant a 4 percent rebate and a $92 million rebate on the basis that this was too risky.

I'm just going to repeat that sentence again because it's a absolutely crucial sentence for the argument in this Hearing. For rate setting purposes, in the application of a 4 percent rate decrease and a $92 million rebate it, would be counterintuitive for the PUB to acknowledge the conservatism in the forecast of policy liabilities yet then refuse to grant a 4 percent rebate and a $92 rebate on the basis that it was too risky.

At no time did the PUB or others request a statement of operations be run with scenarios of let's say 5 or 6 percent rate decrease even with this conservatism. The PUB must ask itself, if it believes that there is conservatism in the forecast, then how will it affect its decision on the rate decrease and the rebate.

The answer can only be that the 4 percent rate decrease must be granted as must the rebate, and neither of those should be altered in the amount. Keeping in mind the conservatism in the claims forecast and based on the rate making processes that have been developed to date, along with the stability exhibited over quite a number of years, the PUB should approve this 4 percent rate decrease, the Corporation submits.

I'm going to talk now about the rebate. The Corporation is also applying for a rebate of $92 million, or 12.9 percent on 2009/'10 premium vehicles, to be paid in the Corporation's fiscal year 2011/'12. This is yet another meaningful benefit of the public insurance model that we have in Manitoba.

The history of rebates is one which MPI is particularly proud of. 2011 Application, we're here today seeking a $92 million rebate, which is 12.9 percent. Just three (3) years ago, 2008, $63 million for

10 percent; 2007, $60 million, again at 10 percent; 2006, $58 million at 10 percent; and 2001, $80 million, 16.6 percent. So that's $353 million in rebates.

When questioned by Board counsel as to whether there was a risk in the PUB granting the rebate as applied for, and whether the rebate may need to offset -- be offset with rate increases in the future, witnesses for the Corp -- Corporation responded, at transcript pages 6 to 89, that the rebate is retrospective in nature, and it's actually somewhat mechanistic in nature. The rebate is based upon monies in the bank, so to speak, since it's already contained in the RSR as of February 28th, 2010.

The rebate does have one element of $21 million in it that is not in the bank, so to speak, in the RSR on February 28th, 2010, but is booked as an IFRS adjustment as at March 1st, 2010, the next day. That's an event that has already occurred and will not be changed.

The $92 million, of course, is derived as the amount that exceeds the PUB target of $154 million, and that target was not the subject of contention at this hearing.

The Board really ought to try to rely upon the positive financial strength demonstrated in the outlook period that's been provided.

The witnesses for the Corporation advised that the Corporation would not be here supporting a rebate, even if the RSR were so much in excess of the PUB established target, if the future years looked like MPI may very well need rate increases, or would even very marginally break even.

Specifically, take a look at the newly revised TI.14, which has been marked as MPI Exhibit Number 9, and that's a statement of operation that's -- that incorporates the second quarter information from the 2010/'11, and it indicates that even with the $92 million rebate, the Basic retained earnings are forecast to be $182 million in 2010/'11; $180 million in 2011/'12; $187 million, 2012/'13; and $220 million in 2013/'14.

As indicated in the hearing, this projection is without any future rate decreases, and therefore indicates an RSR level higher than the PUB established level in the future.

Looking at the net income for those respective years, again in MPI Exhibit Number 9, which is the most recent financials, as they incorporate the second quarter numbers, the net income is $29 million, 2010/'11; minus $3 million, 2011/'12; $7 million, 2012/'13; $33 million in 2013/'14.

Now, the years with the minus $3 million and the $7 million are basically break-even, followed by a very healthy year of $33 million in net income. But, of course, you will recall, for rate-setting purposes, the net income is in essence spread over two (2) years due to the staggered renewal program, and then it's divided by two (2). So what we're looking at is indeed positive financial future for those upcoming two (2) years. If the projected and the outlook years were not break-even, or very healthy, MPI would not be here seeking such a rebate today, only half -- only to have to face customers in the following year with an increase that was known, or anticipated, today.

In questioning from counsel for CAC/MSOS as to whether the rebate could be provided to -- to good drivers as an incentive, Ms. McLaren noted that, yes, this could be done, and since most drivers are good drivers it would be well received, in all likelihood. However, she also cautioned that as a retrospective rebate then some drivers would have had no opportunity to have planned to do anything different to earn a better percentage of the rebate. Furthermore, and more importantly, the amount in the RSR exceeds what is required for stability, and therefore it should be rebated as direct percentage of what was paid by everybody to achieve that stability.

The rebate has been paid over the past three (3) rebates as a straight percentage of premiums earned. The computer program has been proven and it's ready for use. The same is true of the public information materials, staff training, business rules, and so on.

To make a change at this late date will increase the work effort and risk of error, and will most certainly increase the questions and required explanations for ratepayers. The position of the Corporation is clear, that the rebate ought to be granted in the amount requested, of 12.9 percent, or $92 million dollars, and it ought to be granted on the basis of each individual ratepayer's earned premium, regardless of their driving record, which is, in fact, already built into their premium through DSR.

With respect to the matter of mailing cheques versus discounts off the renewal period, the Corporation acknowledges this could be less costly, more in line with environmental objectives, and would put the funds in customer's hands directly when the next payment is due. However, the applicant does note that on this issue as well ratepayers have come to expect a certain approach that was used for the last three (3) rebates.

In his pre-closing comments, the Chair questioned parties on, and quote:

> "Accepting there are excess dollars available, should some of this excess be committed to other purposes?"

Close quote. The position of MPI is: No. The proposed rebate amounts are what turned out to be excess dollars paid by all ratepayers, and should be returned to all ratepayers on a pro rata basis.

In his pre-hearing -- or sorry, in his pre-closing comments, the Chair of the PUB also sought the position on the Corporation, and others, in regards to the Application for a rate decrease, and a rebate, during an election year. This came as a surprise to the Corporation, and was without context to the actual evidence provided and sought throughout the hearing process.

But let's take a look at the historical evidence starting with the Application filed in the first election after the PUB was granted its mandate to approve Basic rates.

In 1990, a 4.3 percent rate increase was applied for, and a 4.3 percent rate increase was approved; 1995, zero percent sought, zero percent approved; 1999, zero percent sought, minus 1 percent approved; 2003, zero percent applied for, minus 1 percent approved; 2007, last election, minus 2.6 percent sou -- applied for, and minus 2.6 percent approved. As the Board can see, there is no power -- sorry -- there is no pattern, there is no correlation between the Applications, and the election years, historically. This lack of pattern, this lack of correlation, continues this year, and for this Application.

The Corporation would indicate, for the record, that this Application would stand as is, election or no election. The Corporation states that throughout twenty-three (23) years of these proceedings it has established rate making and rate setting on a consistent basis of what is actuarially sound and statistically based.

The Corporation, along with the PUB, along with the Intervenors, have strived for those twenty-three (23) years to ensure that rates are actuarially sound and statistically based. An actuarially sound rate is derived from the actuarial standards of practice, statement of principles regarding property and casualty insurance rate making, which bears a review once again, but the Board, of course, is familiar with this from many previous proceedings.

But in that principles mentions that the rate making is prospective because the property and casualty insurance rate must be developed prior to the transfer of risk. Principle number 1, a rate is an estimate of the expected value of future costs. Principle number 2, a rate provides for all costs associated with the transfer of risk. Principle number 3, a rate provides for the costs associated with an individual risk transfer.

Continuing with the standards in that particular principles, rate making produces cost estimates that are actuarially sound if the estimation is based on principles 1, 2, and 3. Such rates comply with four (4) criteria used by actuaries, reasonable, not excessive, not inadequate, and not unfairly discriminatory.

That leads to principle number 4, which is a rate is reasonable and not excessive, inadequate or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer. And that's the end of the fourth principle.

MPI's rate making is done on this basis as set out in these principles. MPI's rates are and have been predicated on what is actuarially sound and statistically based. The Corporation would urge the bir

-- the Board to not deviate from this basis after twenty-three (23) years of effort to achieve rates that adhere to the actuarial standard and are reasonable, not excessive, or unfairly discriminatory.

The Corporation submits that using rate setting in the compulsory insurance scheme as an instrument of pubic policy or to advance social policy or to advance social justice is inappropriate regardless just how worthy those concepts are.

The Board has recognized this, of course, when it has provided directives in the past to the Corporation to discuss policy matters or advanced social policy with the government.

I'm going to talk about rates in general now. The Corporation has indicated for years that the benefits derived from the rate hearing process are enormous. These benefits include enhanced transparency, not only in rate setting, but in all aspects of the operations of Basic. It's led to improvements in forecasting. It's led to rate setting methodology that's in TI.17 and it's led to improvements in allocation, amongst other things.

Throughout the twenty-three (23) years of applications and hearings, the rate making has reached a level of maturity that is fulsome and satisfactory to

Manitobans. This we believe is particularly well reflected in the fact that out of the twenty-three (23) rate applications the PUB has approved seventeen (17) overall rate levels that have been sought.

In a further five (5) applications the amount approved has been less than 1 percent from that sought by MPI. In the one (1) remaining Rate Application the PUB granted a higher rate than that was -- which was applied for by MPI, and that's found in PUB-1-1.

This is an incredibly strong record, and something that the Board, the Intervenors, and the Corporation are proud of. It shows that all parties have achieved a certain level of consensus in rate setting, and that the Applications brought before the Board have satisfied the criteria of fairness, they are actuarially sound, and statistically based.

Ms. McLaren said in her pre-filed testimony that the Corporation was concerned with comments of the Board in the last order that on the surface seemed somewhat contrary to the commitment to this well-established rate setting process, and I'll refer you back to Order number 161/09, in which the PUB stated, and I quote:

> "The Board is also not comfortable increasing rates given the lack of

information before it, as set out herein. As such, in all of the circumstances, and in particular with respect to the limits on the Board's jurisdiction, the Board is of the view that it has no real option but to accept the rates as filed in the Application."

Close quote. In response to this, I took the unusual step of commencing the hearing with the direct examination of both Ms. McLaren and Mr. Palmer. Their evidence demonstrates that through the public hearing process a robust, transparent, and actuarially sound rate making methodology has been developed by the Corporation, and has been confirmed by the PUB, and Intervenors.

The evidence demonstrated that the forecasting process is far more reliable, far more integrated, and far more structured than it was so long ago. Their evidence demonstrated that the Board has all the information required to rule upon the Application for Basic rates before it.

Their evidence demonstrated that the Board has, up to that date, been very consistent in finding that MPI's rate setting methodology is well established, thoroughly tested at the annual rate hearings, and is actuarially sound, and statistically driven. That's in Board Order 157/08, and variations of that are found through any one (1) of a number of Board orders through the past decade, or two (2).

I really urge the Board to review this direct examination that's found in transcript pages 233 to 248 when considering what information is required. This should also assist The Chair, who indicated in his opening comments at the hearing, at transcript page 197, that the Board may be in a quandary if it does not have adequate information on the record to make a decision.

In response to that, the Corporation has provided massive amounts of information on Basic, and on other lines of business, and is confident the Board has the information to approve Basic rates, and that no such quandary does indeed exist.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I'm going to talk now about forecasting, a key area of concern, as per the question asked by both the Board counsel, the Board, and CAC/MSOS, was forecasting.

A lot of questions have been raised at

this year's hearing about the Corporation's ability to forecast claims. In particular, as shown at SM.2, page 3, the actual results over the past five (5) years have been, on average, 10 percent lower than the Corporation's initial forecasts.

More concerning is that the deviations have been increasing over the past five (5) years. So it's gone from minus 3 percent deviation to minus 3.8 percent, to minus 9.8 percent, to minus 15.7 percent, to minus 17.5 percent, as set out in the table on SM.2 at page 3.

The source of this variance has been the release of prior year's PIPP claims reserves emanating from the change in the reserve methodology, both in mortality changes, and in the release of the case reserve calculator. While relatively small when looked at on an individual accident year, the fact is that the change to all accident years affects one (1) year's fiscal results. This multiplier effect results in large annual variances. Both the CFO, who of course is an actuary, and the actuarial specialist at KPMG stated that the review of policy liabilities 2009 -- sorry, in 2009/'10 have indeed been prepared on a conservative basis. This has led to multiple releases based on more favourable claims experience than expected.

The Corporation acknowledges these ongoing releases, and has amended loss development factors significantly over the past two (2) annual claims reserve evaluations. The Corporation will continue to review the loss development, and while reserve releases may continue in the next few years, we expect those amounts to diminish over time.

On the other hand, the Corporation also points to the long-term accuracy of physical damage claims forecasts that make up approximately 50 percent of claims costs. For example, as shown in CAC Exhibit Number 3, the variance in collision claims, which is by far the largest coverage type, actual to forecast over sixteen (16) years, has been an under-forecast of approximately 0.2 percent.

Board counsel questioned as to how the PUB should consider the actuarial specialist report from KPMG that states that the Corporation's reviews of policy evaluations are conservative when the Board is assessing the reasonableness of the GRA application forecast of claims incurred for the current year and year of the Application.

Mr. Palmer answered that the PUB should bear in mind the final conclusion of the KPMG actuarial specialist, that we have no concerns or recommendations for required change regarding the October 2009 reports or the February 2010 reports, and that's at transcript page 50 and 51. In other words, they're conservative, but they shouldn't be changed.

In response to Mr. Williams' argument in which he noted that it was most telling that the MPI CFO declined to provide essential information to an assessment of the reasonableness of the best estimate on the basis that he declined to speculate. However, Mr. Williams did not note, or perhaps he did not realize, due to the highly technical nature of the response, that the response was indeed provided in an eight (8) page undertaking, and that is marked as MPI Exhibit Number 35.

Mr. Palmer declined to speculate, but in response to Board counsel, as an undertaking, he crunched the numbers and provided those details.

The result of the forecast is still that the Corporation requires a point estimate -- so that's one (1) point estimate -- to determine rates for 2011/'12 year. The tools that Mr. Williams was suggesting, some of which have already been employed and have been filed with the Board as MPI Exhibit Number 35, may be useful in determining a range of reasonableness. However, those tools would not provide extra insight into the selection of a one (1) point estimate required for rates. MPI does continue to investigate new methods always, including stochastic for forecasting.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I'm going to talk now about allocations between lines of business. That's going to be a fairly substantial area of my closing comments, just like it was a fairly substantial area of cross-examination throughout the days of the hearing.

PUB Order 150/07 ordered MPI to undertake a cost allocation review and file the results of the review at the next GRA. In response to this order, MPI retained Deloitte to conduct a study to review the current allocation approach and to provide recommendations to update the methodology. The report was filed at last year's GRA and MPI produced Mr. Richard Olfert to testify.

Mr. Olfert, of course, testified in a manner that was credible, thoughtful, forthright, perceptive, and he demonstrated a remarkable thorough knowledge of MPI's business, accounting methods, and cost allocation in general. Mr. Olfert, of course, testified again this year on the asset and liability allocation and did so in the same manner.

The Corporation submits the cost allocation report is a very strong, robust, principled document that can adequately and appropriately allocate the operating expenses between Basic and other lines of business to the satisfaction of the Board to ensure that Basic rates are fair and equitable and do not contain costs that are incurred for the purposes of Extension, SRE, or driver licensing and vehicle registration. PUB accepted that and directed further alterations and further directions for research for its Application.

In compliance with Order 161/09 the Corporation also retained Deloitte to prepare an asset and liability allocation methodology. It was undertak -- undertaken in a manner that is consistent with the expense allocation methodology.

In preparing both of the reports, Deloitte was guided by a set of guiding principles that the Corporation submits are appropriate for the PUB in determining the effectiveness and appropriateness of both allocation methodologies. These guiding principles are fair and reasonable, practical and efficient, flexible and adaptable, acceptable in a regulatory context, consistent with industry standards, and symmetric. And the symmetric, of course, was introduced this year in the asset and liability allocation.

Symmetry is to be extended to the development of allocators for an expense in relased -- in related assets or liabilities. For example, when a specific expense item creates a specific liability, an appropriate allocator for the liability should be consistent with the allocator for the related expense item. Board counsel questioned whether one (1) allocation methodolody (sic) could utilize the pro rata approach, and the other allocation methodology used -- used the incremental approach.

Mr. Olfert testified that based upon the principle of symmetry, these differing treatments would not be appropriate in any way. That's at transcript eleven twenty (1,120).

The financial impact of the changes ordered in Order 161/09 was to shift to -- to allocate -- the allocation at Level D changes from 86.9 percent to Basic to 82.4 percent based on the PUB's directive, so that is approximately $6 million taken out of Basic, 4.8 million, which is put into Extension, and 1.2 million, which is put into SRE. Mr. Olfert testified that in his view the methodology in its application is in compliance with Order 161/09.

The asset and liability allocation methodology analyzes the two hundred and sixty (260) general ledger accounts, reviewing these for purification purposes, though, in the end, no purification of accounts was required. All accounts were dealt with on an account-by-account basis as opposed to the expense allocation which used cost categories. Then the accounts were analyzed to determine which ones could be directly assigned to that line of business.

Eighty-five percent of the liabilities can be assigned directly at that stage, according to Mr. Olfert. General ledger accounts that cannot be assigned go into a Stage 2 assessment, which is to determine the correct allocator based upon what gives rise to the balance in the account. Although there are several allocators, four (4) allocators are used to allocate 96 percent of the dollars.

Mr. Olfert testified about MPI Exhibit number 14, which was a multicoloured exhibit that you might recall, and that's the application of the asset and liability allocation to the financial statements as at February 28th, 2010.

The result for Basic insurance is at assets 111 million are assigned directly, and 2.232 billion are allocated. For liabilities, 1.834 billion are assigned directly, and 249 million allocated. For equity, 225 million is assigned directly, and $35 million are allocated.

The financial impact of adopting the new methodology is found in AI.19, and that is:

1. Shift some accounts receivable out of the Basic line of business, that's $31 million.

Number 2. Shift some property and assets out of Basic on account of the service centre allocations, and that's 15 million.

Number 3. Shift some accounts payable from Basic, 7.5 million.

Number 4. Shift employee benefits to be allocated by a Basic payroll away -- sorry -- to be allocated by a payroll ratio from Basic, that's $13 million.

Number 5. Shift some cash and investment into Basic, which is $23 million. And that's found at transcript page 1,080.

Mr. Olfert further testified as to the attributes incorporated in this methodology to ensure that it does not become overly complex, and thus can assist the Board in its understanding of the assets and liabilities, that they are indeed being appropriately allocated. These attributes are described in further detail on page 1,076 of the transcript.

Finally, Mr. Olfert testified that, and

I'll quote:

"The asset and liability allocation that MPI is currently using is sound, and it's based upon the same principles that we, Deloitte, are advocating in our report. The Deloitte methodology which is proposed, incorporates much of the existing methodology, and many of the existing allocators. And for those accounts which required allocation, there was a readily identifiable allocation, which could reasonably allocate the account balance across the lines of business. For certain accounts there was, in our view, a requirement for an adjustment to the allocator, and we've made those recommendations."

And that's at transcript page 1,082.

For many years, MPI has filed audited financial statements for Basic. This year, evidence was provided by KPMG, the auditors, on those Basic statements at the request of the Board.

Mr. Kowalchuk noted that the main difference in the audit procedures performed on the Basic financial statements is that the review of allocations that are inherent within the financial statements. That review includes ensuring that MPI is following the policies, and following the methodology, for those applica -- for those allocations, and applying them correctly.

A reliance on the reasonableness of the allocations is necessary for KPMG to render its opinion on the Basic financial statements. That's at transcript 1324.

In presenting an opinion that the Basic financial statements present fairly in all material respects, the financial position results of operations in clash fo -- cash flows of the entity are in accordance with GAAP, the allocations must be adequate. And that's from transcript page 1327.

For the auditors, what goes into the audited Basic financial statements. Mr. Parkinson noted that the auditors look at both the allocation methodology, and its application. That's at transcript 1337.

Mr. Kowalchuk of KPMG described how the auditors used the methodologies, and I'll quote:

"Each year management does perform its own internal review of the allocation methodologies, and KPMG has been satisfied that, in the course of our financial statement audits, that the allocations were fair and reasonable. As I mentioned previously, we do perform audit procedures on the allocations. They do make up a significant portion of the basic financial statements.

We review any changes to those methodologies year over year and perform our audit procedures accordingly. It -- we also involve our information risk management specialists in terms of ensuring that the allocations are properly, from a systems point of view, being allocated. We also assess the overall reasonableness of the methodology by looking at the basic financial statements in comparison to the Corporate financial statements, and looking for any anomalies in the area."

And that's transcript page 1,331.

Furthermore, the Corporation had KPMG

undertake a review of both allocation methodologies. The KPMG review, from its national office, dated October 4th, 2010, was filed as an MPI exhibit. It states, quote -- and I've got a number of bullet points here that I wish to read from here, so quote:

> "KPMG finds that the proposed allocation methods -- methodologies are reasonable and result in a fair allocation of costs and assets and liabilities among the relevant categories of business and lines of business at MPI."

Another quote:

> "The criteria that Deloitte used in developing its methodology are reasonable and reflect cri -- criteria that have been used in other cost allocation studies in various jurisdictions in Canada. Further, we note that the establishment of criteria ensures that a framework is used to make individual cost allocation decisions in the development of the methodology. This helps to promote consistency in the choices made for

different parts of the process."

Another quotation:

"Further, we did not observe any bias in the application of the cost allocation methodology. This means we found no evidence that the allocation of costs is skewed to achieving a particular result or outcome. This is an important element of our assessment of reasonableness."

Starting another quote:

"We found that both of the above elements, purification and the use of cost categories, were useful tools for streamlining the cost allocation process for making it easier to follow for external parties, and thus improving the transparency of the cost allocation approach.

Furthermore, these steps improve the accuracy of the cost allocation approach by putting costs into categories that better match a particular allocation factor."

Another quote:

"With respect to the allocation of assets and liabilities, in the course of this process, Deloitte changed the allocation factors for certain accounts. In general, we found that the changes provided for a more appropriate allocation based on likely cost causality."

The final quote is, quotation:

"In conclusion, we find that the methodology proposed by MPI for the 2011/'12 year, based on calculations provided for the 2010/'11 year, provides a reasonable basis for the allocation of expenses and of assets and liabilities amongst the various lines of business operated by MPI."

And I included those quotes in -- in their directness because I thought that was very important to have another party, which is the auditors, provide that kind of assessment.

Allocation methodologies are a fact of life. They're unavoidable for any but the most simplest of Corporations. Mr. Parkinson provided examples of when allocation is used by others, and of course Mr. Parkinson has a -- a very high level of expertise with auditing insurance corporations. Those examples, when allocation is used by others, is for multiple lines of business, for different products, to determine adequate pricing, for different jurisdictions, for different locations within a jurisdiction even. Taxation officials utilize it to ensure that profits are not dumped into low tax jurisdictions. It's used by corporations to asset performance of markets, products, et cetera.

All regulators use allocation, as there seem to be very few, if any, regulated entities that are monolines. For instance, the CRTC relies upon allocation methodology to ensure that MTS includes in its telephone rates for local service only items that are for the use of local service, not for cellular, not for cable TV, not for interle -- internet, not for its alarm service. However, the CRC does not -- the CRTC does not review the financial information, nor the operations of those other lines of business.

As part of its rate filing for local service rates, MTS does not file with the CRTC its finances or its operational plans for cable TV, so that's Shaw Cable or Brell -- Bell Expressvu Satellite can review those. Rather, the CRTC relies upon allocation methodologies.

Similarly, the Ontario Energy Board and the National Energy Board, for instance, rely on allocation methodologies in their application to ensure the pricing of these rates accurately reflects the costs incurred for that regulated line of business or product of service.

CAC/MSOS argued for considering methods other than or in addition to allocation methodologies, such as the use of a code of conduct for affiliate transactions as a mechanism to ensure costs are appropriate for each of the lines of business. Unfortunately, this suggestion of CAC/MSOS seems to ignore what has occurred over the last several years.

The Board in Order 150/07, as I mentioned earlier, request a new cost allocation study for expenses and for assets and liabilities. The Corporation had Deloitte provide a cost allocation study in the last GRA which was received favourably by the Board after considerable review.

In Order 161/09 the PUB requested again an asset and liability oli -- allocation study. MPI had Deloitte again prepare a study that has now received significant review at this General Rate Application. We're well down the path to have the allocations methodologies in place for 2011/'12, and it simply is not right to ask MPI and the PUB to turn back the clock at this point.

CAC/MSOS has questioned why the standalone option was never examined for Extension. However, all lines of business received benefits from the pro rata allocation approach due to the integrated operations at MPI. Any insurer that sells more than one (1) product or operates more than one (1) line of business has an integrated operation at least to some degree.

The Corporation is emphatic in its rejection of the standalone approach to allocation. As an example, an insurer with revenue equal to Extension would never invest in all of the claim service centres and facilities that we have in Manitoba, but Extension helps pay for those. Also, Extension pays for all customer mailings -- I'm sorry, pays a share for all customer mailings. Sorry. If standalone, it would have to mail documents to three hundred (300) brokers and pay significantly less.

Basic ratepayers win with an integrated service delivery model in a pro rata cost allocation approach, as Mr. Palmer stated in the transcript. So in terms of a competitor being a standalone and have to start from scratch, I would reject that as a possibility.

Even with the request to ex -- for further exploration of methods of all -- CAC/MSOS was able to recommend to the Board that the Deloitte expense and asset and liability allocations be approved for the 2011/'12 rates, albeit on an interim basis and with future review, approximately every four (4) years, I believe.

The PUB asked for and received copies of Corporate TI.7 and TI.8, minus TI.7B. In Undertaking Number 24, which is marked as MPI Exhibit Number 48, the Corporation provided a very carefully worded response and explanation with the filing, and I'm going to go over that response.

In an effort to provide context to the information and to the Corporation's perspective on the discussion of reasonable expenses in the context of the proposed allocation policy, we began by reviewing the transcript beginning at pages 1,666 and again at 1,729. So please refer to Board counsel's question, bottom of page 1669, in which she asked for the Board to be able to look at any patterns in allocation; it needs to see both sides.

The Corporation could answer yes. That would be one way to do it, but with the explanation that the Corporation would always, each year, fulfil its obligation to provide the basis of all allocations and draw to the Board's attention any changes to basis of allocation.

So, on that basis, the Corporation believes the corporate expense information is not required, because any changes in amounts being allocated will clearly be due to changes in the overall amounts, and not due to changes in the basis of allocation, unless specifically identified.

This, then, begs the question as to what the Board is trying to learn for its purpose of approving basic rates. Is the Board trying to determine whether the Corporation complied with approved allocation policy? Well, that would require an effort comparable to the external audit work effort on the Basic insurance program, and the Corporation would argue that for the Board to duplicate that work would be unnecessary and inappropriate.

The auditors spent eight hundred (800) hours on the MPI audit. The auditors also confirmed that to audit the financial statements of the Basic insurance program, they have to test that the allocations were adhered to, and they confirmed that they will spend additional time on the proposed policies when approved for use by this Board.

Is the Board trying to determine, retrospectively, whether the Corporation spent approximately what it forecast in the last fiscal period? This is not specifically related to allocation, and of course is regularly tested throughout these proceedings.

Is the Board trying to determine if the forecast or if the outlook costs are reasonable? Please refer to page 1,729 of the transcript for a discussion on the matter of testing the reasonableness of costs. This requires disclosure of the allocation policy and disclosure of the costs in question, along with the evidence as to reasonableness.

The Corporation does not see how the corporate total cost of the particular category is relevant. As discussed with Mr. Williams, beginning at page 1729, the question as to reasonableness of a particular amount allocated to Basic is exactly the same question regarding the reasonableness of the corporate total amount. This would not be true if a particular cost is assigned rather than allocated, but, by definition, allocated costs cannot be disaggregated or separated, and therefore, because more than one (1) line of business benefits from the cost, it must be allocated by formula.

Every organization that operates more than one (1) line of business, makes more than one (1) product, has more than one (1) location, or operates in more than one (1) jurisdiction necessarily uses allocation policy to properly divide its costs, its assets, and so on.

In particular, rate-setting regulators everywhere, in all industries, rely on allocation policy to ensure that costs charged to the lines of business, subject to regulatory oversight, are indeed appropriate. Virtually every provider of auto insurance in Canada is subject to regu -- to a regulator rate review and approval for automobile insurance, but not for other types of property and casualty insurance.

Each one of those rate regulators relies upon an allocation methodology to ensure that other property and casualty costs are not included in the auto insurance costs and not insured -- not included in the auto insurance rates.

Similarly, rate regulators such as the CRTC rely upon allocation methodologies to ensure that cellular or cable TV costs are not included in telephone local service costs when the CRTC approves those rates.

The October 4th, 2010 letter from KPMG at the top of page 3 notes that the criteria that Deloitte used reflect criteria that have been used in other cost allocation studies in various jurisdictions in Canada. KPMG also notes that the use of allocation factors based on reasonable cost drivers is common in the utilities sector across North America. Models similar to that developed by Deloitte have been approved by regulators in many jurisdictions.

The Corporation has been working on these new allocation policies for almost two (2) years now. Its expert witnesses from Deloitte has appeared at these proceedings twice, and the external auditor, KPMG, finds these new policies reasonable, and is committed to audit the Corporation's application of the new policies, should PUB approve their use. Two (2) large national accounting firms support the use of these methodologies and the methodologies themselves.

The new policies are must -- much less subjective. They're much more definitive or arithmetic in their definition and their use. Furthermore, these new policies result in marginal differences in costs to be charged to Basic compared to the previous policies. The differences that do exist are in Basic's favour. These new policies should give confidence, should give stability, and should give a heightened understanding amongst all parties here of the overall basis of expenses charged to Basic.

The October 4th, 2010 letter from KPMG, at the bottom of page 3, clearly makes the point that the proposed policies improve transparency and accuracy. Under an integrated service model and a proposed pro rata allocation approach, all lines of business receive the benefits of lower operating expenses than would otherwise be possible. In short, all lines of business win, and therefore also do Manitoba drivers and vehicle owners.

The Corporation looks forward to the Board's approval of the proposed allocation policies for use beginning in March 2011.

With that, looking at the time and where I am, I'd possibly suggest a break, if that would be appropriate, or I could also continue.

THE CHAIRPERSON: I think it'd be more than fair, Ms. Kalinowsky. How long would you like? Ten (10) minutes?

MS. KATHY KALINOWSKY: That's fine.

THE CHAIRPERSON: Very good. Thank you.

--- Upon recessing at 11:01 a.m.

--- Upon resuming at 11:14 a.m.

THE CHAIRPERSON: All set?

CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: Yes. I'm moving into the exciting world of IFRS.

In moving towards the transition to IFRS, MPI has implemented best practices and has made excellent progress, especially when benchmarked against other companies. It has hired Deloitte as its IFRL -- S consultants, and has prepared position papers on the new standards. You can look at transcript pages 1086 forward for the scope of the work as outlined by Deloitte.

The audit committee of the Board of Directors of the Corporation has been kept apprised of the impact of the IFRS transition and has made the required policy decisions at the appropriate times. You heard evidence that present at all audit committee meetings in which IFRS was discussed, present were Deloitte as the IFRS consultants, KPMG as the auditors, and the Office of the Attorney -- of the Auditor General.

You also heard evidence that neither national accounting firm nor the office of the auditor general has expressed any concerns regarding MPI's transition to IFRS. You also heard evidence that the financial implications of IFRS for MPI for the year ending February 28th, 2011 are actually quite minimally, both from Mr. Olfert and from Mr. Parkinson.

The Corporation provided extensive information about IFRS and answered extensive Information Requests on IFRS too. We were, however, surprised to discern through cross-examination by Board counsel that the central item about IFRS that the Board has focussed on is onerous contracts.

We have one (1) thing to say about onerous contracts. There are no onerous contracts in Basic or in any line of business, and, therefore, the concept of onerous contracts have no effect on Basic rates, period. Both national accounting firms, KPMG and Deloitte, have not found in -- any in existence at MPI.

With respect to the questions on whether an onerous contract exists on the government funding for DVA the Corporation has two (2) comments. It's not a contract. It is prescribed by legislation in the Drivers and Vehicles Act. Second, it's not in Basic so it has no impact on Basic rates whatsoever.

And with respect to the questions from the Board on whether an onerous contract exists with respect to the payment of benefits to interprovincial truckers, MPI will comment that as long as these individuals have the legislated right to collect PIPP benefits, ratepayers must pay for those benefits.

Those costs are in the rate base, so

clearly there is no unfunded future costs. If these workers, namely, interprovincial truckers, did not have the right of election between PIPP and WCB these claims costs would not be incurred; however, the entitlement to PIPP is legislated. And I'll be talking later on about interprovincial truckers' benefits later on.

One (1) small paragraph within the impairment of assets position paper caused much consternation for the Board as it's seen, based on the many questions that focussed on that paragraph. Recognizing the apparent misunderstanding of the Board, Mr. Olfert provided a revised paragraph at his own initiative, it's -- actually, it's two (2) paragraphs now, and addressed this at length, which can be reviewed at transcript pages 1,103 and 1,226.

One (1) final item on IFRS, and that is in response to questions from the Board, on the possibility of a deferral of IS -- IFRS implementation for a ra -- rate regulated entity, evidence was provided that the deferral would be only for one (1) year now.

Furthermore, Mr. Olfert testified that the criteria would not be met for this deferral, in any event. So as an option, it would be inapplicable and unavailable for MPI, and that's at transcript pages 1,101.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I'll move now to operating expenses and capital expenditures. The Corporation continues to manage and be vigilant on all operating and maintenance and capital expenditures. MPI believes that, as shown in the evidence, both written and oral, that it makes these expenditures with the appropriate degree of fiscal prudence whether it is staffing numbers, compensation amounts, benefits, data processing, or postage.

The Corporation underwent cross-examination on the PIPP infrastructure program, now known as BI3, and its very, very recent implementation. The Corporation is very excited about this initiative and last for -- last year at the GRA put forward a business case outlining the forecast savings, whether attributable to improved paperless case management, automation, or through leakage.

This is a very significant project with a cost of just under $24 million. Again, the Corporation believes it has exercised impeccable fiscal prudence in making such expenditures.

MPI strongly believes in BI3, and would have proceeded regardless of whether savings would result. This is one (1) of those really ideal projects whereby MPI creates opportunities to improve service, and reduce costs through re-engineered processes. MPI will report to the PUB next year on this benefit realization, and achievement of project goals and deliverables.

A history of reviewing operating expense on a per unit basis, and that's located on page 23 of exhibits in TI.19 and filed in every GRA, shows that even with the new projects and initiatives, and a higher standard of customer service, the operating expense on a per unit basis is steady.

CAC/MSOS has recommended a move towards more key indicators for performance efficiency. In the Corporation's desire to be completely transparent on Basic, it notes there are already a number of key performance indicators already in the filing, such as the dashboards published in the annual and quarterly reports in TI.5.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Moving now into investments. The investment pool continues to grow, and is now at $2.3 billion. The Corporation always forecast for an underwriting loss, and then relies on investment income to break even on net income.

For the year ending February 28th, 2010, Basic investment income was forecast to be 84.152 million, and the actual was an astonishingly close 84.145 million; in fact, a seven thousand dollar ($7,000) difference. Talk about accurate forecasting. The revised forecast for 2010/'11 is $85.7 million, and for the year of the Application $92.6 million.

In your pre-closing comments, the Chair stated, and I quote:

> "On the matter of the investment portfolio, the Board would appreciate indications from the Intervenors as to their comfort level with the approach taken by MPI."

Close quotation marks. Perhaps this was a slip of the tongue, but the Corporation submits that it should read:

> "...the approach taken by the Department of Finance for the government."

And that's located at transcript page 2349. As all are aware, the Department of Finance has responsibility for the investments of the Corporation under the Act.

The minutes of the investment committee working group were pro -- were provided this year, demonstrating the control exerted over both the investment decisions, and the investment approaches, by the Department of Finance.

As already referred to, MPI has made progress in moving towards a new allocation methodology that incorporates the investment pools.

The Corporation is satisfied with the current rate of return of its investment portfolio, noting on page 7 of Mr. Palmer's pre-filed testimony, that the return on investments has exceeded the median values of the returns on the large investment portfolios over the page ten (10) years.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Moving now into wildlife collision claims. Approximately ten thousand (10,000) wildlife related collisions occur annually at a cost of $24 million.

Half of the wildlife collisions involved motorcycles, and they have an injury claim, with an average incurred of just over thirty thousand dollars ($30,000) per claim. The average annual cost of motorcycle wildlife claims over that six (6) year period was just over six hundred thousand dollars ($600,000), and that's in AI.9.

The Corporation's witnesses acknowledge this is a very serious issue, not just in terms of the financial implications, of course, but also the injuries received by those involved in such wildlife collisions.

Two-thirds (2/3) of all wildlife collisions involve deer. The introduction of MPI Exhibit Number 23 was a map to identify high area risks, or high-risk areas, and became known as the Bambi map. Most of the southern Manitoba was indeed highlighted as a high-risk area, thereby exposing the impracticality of some of the more successful prevention strategies utilized elsewhere, other than of course for individuals to reduce speed and exercise additional caution in certain areas at certain times.

The CMMG retained Mr. Beaudoin of Dion Durrell to present evidence and appear before the PUB at this hearing. At the end of the day, his evidence is before the PUB, though whether it is a report, work, letter, or an opinion, I'm still unclear of.

Finally, in response to questioning from Board counsel, Mr. Beaudoin noted that this was not an actuarial decision, but rather it was a public policy decision to be entered into by -- by the Board, and he categorized his evidence as rectifying an omission of the PUB in its Order 90 -- 97/05. Mr. Beaudoin also agreed with Mr. Williams that indeed he was not an expert in public policy, and that's at transcript 2016.

Mr. Oakes, in his closing argument, objected to a line of my questioning on the actuarial standards of practice. He seemed to imply that these standards were not important. On the contrary, any work conducted by an actuary must live up to the general standards, these standards of practice. That is indeed where the expertise of the actuary resides.

If one examines closely the evidence of Dion Durrell, the main reason for seeking such a change in the transfer rules is that, under no-fault, motorcyclist rates have increased, while automobile rates have decreased. And the principal reason for recommending this change in loss attribution rules, when asked at transcript 1,976, was to revert to the much-cited quote from his written evidence that, quote:

> "In our view, single-vehicle accidents involving pedestrians or cyclists are fundamentally the same in nature as single-vehicle accidents involving wildlife or livestock. The claims cost

attribution rules should be applied objectively to similar types of accidents to allocate costs to various categories of vehicles for rate-setting purposes."

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Let's take a look at just how different wildlife collision claims are as compared to pedestrian/cyclist claims. First, pedestrians and cyclists belong to an insured pool, which is the overall pool. Deer don't.

Second, pedestrians and cyclists collect PIPP benefits. Deer and rabbits don't.

Three (3), and those pedestrians and cyclists collect a lot of PIPP benefits. Many of the major brain injury claims, which are the most expensive of claims, along with injuries of paraplegia and quadraplegia, are pedestrians.

Fourth, many wildlife collisions have no bodily injuries incurred, while almost all pedestrian collisions have bodily injuries incurred.

Fifth, many wildlife collisions have only physical damage claims to the vehicle, while many pedestrian collisions have no physical damage to the vehicle.

Furthermore, is this restricted to live bodies, whether persons or animals, and is not extended to single-vehicle accidents with inanimate objects such as trees, rocks, or hydro poles. But why? To the Corporation, it's difficult to distinguish between the single-vehicle accident between wildlife versus single-vehicle accidents with inanimate objects. Why should loss costs from hitting a live deer be different than loss costs from road kill left on the road, which in this case is an inanimate object, loss costs from hitting a tree, loss costs from hitting a rock, loss costs from hitting a piece of dropped furniture from an unidentified truck, be subject to different loss attribution rules?

CMMG is advocating such different treatment. MPI, on the other hand, is advocating the same treatment of all those loss costs, loss costs that are very, very different from the loss costs from vehicles hitting pedestrians. Made more glaring is the lack of insight into the difference between wildlife and pedestrian claims is the language that was used at times by Mr. Beaudoin. He stated that, quote:

"Looking at it from the perspective of the drider -- driver or the rider of the motorcycle, if there's something jumping in front of him that's a live body, we see this as being a similar accident for both pedestrians, cyclists, or wildlife."

Close quotes, and that's from transcript page 1994. Mr. Oakes also used the language of darting out in front of the driver. Other than the occasional child that may dart out into traffic, or jump out in front of a driver, pedestrian collisions are not of that nature in MPI claims experience.

Most pedestrian accidents occur at cross-walks, they occur while crossing street corners, or they occur walking along streets where there is no sidewalk. There is very little similarity in the precipitating event of a deer running across the road, and an adult walking across a marked street corner, and there is very, very little similarity in the loss costs.

After reviewing the various examples of loss costs, such as the ninety-two thousand dollar ($92,000) bodily injury for a motorcycle collision with a bird, and twelve thousand dollars ($12,000) for a motorcycle collision with a rabbit, Mr. Beaudoin agreed that these loss costs underscore the inherent riskiness of motorcycles and, more particularly, the uniqueness of their loss costs, and that's at transcript 1981.

Furthermore, Mr. Beaudoin agreed that his recommendation was not loss transfer in the actuarial sense, but rather an offloading of costs from one (1) pool to all other motorists, which he indicated was a matter of public policy - transcript page 1991.

For the purpose of motorcyclists, this would lead to more loss costs transferring out of their pool of wildlife costs than pedestrian loss costs transferring into the motorcycle pool.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: The Corporation respectfully submits that the Board not alter the loss attribution rules as set out in Order 97/05. There are no principled reasons for doing so, and to do so would merely be an offloading of costs from the class that incurred the loss to a pool of all other vehicles. This is contrary to the fundamental precept of insurance that each class bear the similar risks posed by that class.

In the alternative, if the Board were to decide that there was an issue in Order 90 -- 97/05, then the Corporation would suggest ceasing the sharing of pedestrian and cyclist claims costs.

If one is to accept the CMMG's position that pedestrian loss costs should not be shared by the motorcycle pool, MPI would recommend that the pooling of all pedestrian and cyclists be discontinued, and assigned directly to the class that incurred the loss.

Ceasing to pool provides a better reflection of the specific risks of that class. Specifically, as an alternative, the Corporation recommends direct loss costs for the motorist, whether a passenger car or a motorcyclist, be assigned to their own class when they hit wildlife, or cyclists, or pedestrians, and direct costs for the pedestrian or the cyclist, whether they were hit by a passenger car, or a miter -- motorcyclist be assigned to the class involved in that accident.

Under this alternative, motorcyclists would benefit by not having any pooled pedestrian cyclists loss costs assigned to them, which is important because motorcyclists-pedestrian/cyclist accidents have a very, very low frequency.

If the decision taken in Order 97/05 is modified any way, the Corporation would not be in a position to amend the methodology until the 2012/'13 rates, given the significant recalculation of rates.

So we're asking that if, indeed, this is going to be modified, then make it for rate effective March 1st, 2012 because there's not enough time to do the recalculation in a few weeks after receipt of the Board order and before the notices have to start going out in the beginning of January.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: MPI prepared a motorcycle risk study which was filed at AI.12. It's noteworthy that CMMG asked almost no questions on this study and didn't hardly even refer to it. Let's just summarize the findings of it.

Number 1. Overall motorcycle frequency has been gradually declining from a high of sixty-nine point eight nine (69.89) claims per thousand units in 2002 to a low of forty-nine point seven one (49.71) claims per thousand units in 2009.

The number of motorcycles continues to grow faster than the number of passenger vehicles, and that's contrary to what some of the presenters in CMMG might have believed that had us believe that the insurance rates are indeed killing the industry.

Number 3. The decline in overall motorcycle frequency is a result of a decline in the number of sport bikes and the claims frequency of those sport bikes.

Number 4. Motorcycle injury claim severity is about four (4) times higher than passenger vehicle injury severity.

Number 5. Over 85 percent of motorcycle losses are for injuries compared to 35 percent for passenger vehicles.

Number 6. About 50 percent of motorcycle accidents involve injuries, compared to 10 percent of motor -- of passenger vehicles.

Number 7. 45 percent of motorcycle claims are single vehicle accidents compared to 20 percent for passenger cars.

The Corporation and the Board have worked hard to make rates that are actuarially sound and statistically based. MPI would urge the Board to approve the rates as applied for rather than changing rates for public policy reasons.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Towards the end of the Hearing, questions were raised by the Chair on the system of territorial rating, and that's my next area that I'll be discussing. If we could infer anything from the questions it was that the Board may be considering eliminating territories from the classification system and perhaps introducing a postage stamp or a uniform rate.

Territories have always been with the classification system of MPI. It was established by government in the earliest regulations in 1971 and it's still within the classification system established by regulation and government today.

So can the PUB eliminate the territorial classification? The analogy can be made to hydro rates. When the province of Manitoba decided to further public policy and establish uniform rates for hydro rates throughout the province and abolish the territorial rating within Manitoba, it did so by legislation in 2001 in amendments to the Manitoba Hydro Act.

And that's section 39(2.1):

> "Rates change -- [sorry] the rates charged for power supply to a class of grid customers within the province shall be the same throughout the province."

MPI respectfully submits this is a public policy decision to be exercised by the legislature and not the PUB. The classification system is set by the Government of Manitoba, meaning cabinet through the regulations establishes the classification system. It's not within the jurisdiction of the PUB to alter that classification system.

Just like it became apparent in the DSR hearing, that there are multiple actors involved with various different responsibilities. Cabinet sets the classification system in the regulations, the PUB approves the rates for that classification system, and MPI then charges those rates for those classifications as it administers the insurance system.

Mr. Palmer provided evidence that providing flat rates would not be actuarially sound, and would in fact result in cross-subsidization of ratepayers in the north and Winnipeg by ratepayers in rural southern Manitoba.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I'm going to move into the area of intra-family transfers at this point. The Corporation followed up on the Board's order to research -- in 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.

The Corporation performed an analysis of all vehicle transfers under that criteria over a ten (10) year period, from 2000 to 2010, to determine how many of these family transfers are actually taking place, and the cost to the Corporation of those transfers.

In SM.5, it concluded that the maximum impact to Basic revenue is $5 million per annum, or 0.71 percent. While it is impossible to determine the actual impact, there are a number of reasons to indicate that it was less than $5 million. A further conclusion is -- is that the financial advantages of changing vehicle ownership are reduced under DSR.

There are numerous reasons for intra-family transfers beyond what can be determined as possibly gaming the system, and those are listed in SM.5, and indeed are quite frequent, no doubt.

The Corporation notes nothing contrary to these findings was introduced, nor were the findings challenged by either Board counsel or Intervenors in the cross-examination. Furthermore, it was very interesting to hear CAC/MSOS be most candid in its argument that this item was debated at length amongst themselves, and ultimately, CAC/MSOS was unable to recommend any change to the system.

Late payment fees: MPI has provided compelling evidence in its rate filing regarding this, and submits the requested late payment fee approach be approved for March 1st, 2012.

With regards to the driver premium split, the Corporation provided compelling evidence in its filing and on the record in response to questions on the difficulties in shifting this balance. The Corporation submits that the current balance should be retained.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: The perceptions of CAC/MSOS on the new prioritization of road safety by MPI were absolutely spot on. A new road safety vision is one (1) of the big three (3) priorities that the Corporation will be undertaking over the next year. The Corporation looks forward to reporting to the Board and CAC/MSOS and others next year, though it may not actually be complete at that time, since it is a very large review and deals with many different issues and has many different participants involved in it. The Corporation would like to thank Mr. Williams for his comments, on behalf of his clients, on MPI's efforts over the last several years in regards to road safety.

Moving on now to DSR. In this Application, MPI has requested rates for levels 11 to 14. The Lieutenant Governor in Council has passed a regulation for those four (4) new rate levels and the transition and movement rules are in place so that on March 1st, 2011, customers will begin flowing into those new rate levels 11 to 14.

The Corporation needs to charge rates to DSR Levels 11 to 14 customers, and that of course, is where the PUB's role comes in. The PUB has to approve rates for DSR Levels 11 to 14 for MPI to charge.

There has been no controversy for the rates proposed of twenty-six (26), twenty-seven (27), twenty-eight (28), twenty-nine (29), and 30 percent for each respective Level 11 to 15.

Of course, a lack of attention to an item in the hearing does not equate to acceptance of that item in the Application, and ultimately in the order.

The original DSR proposal, if you remember, was to cap out at 25 percent discount with an eventual target of 30 percent discount. We're now pleased to be able to accelerate this by offering a higher discount to our safer drivers now at this point.

CAC/MSOS has recommended further research into DSR, since DSR Level 15 is very largely populated and heterogenous. The Corporation recognizes this, but also notes that most accidents actually occur by drivers that are highly rated, and have more than a decade of claims free driving.

In answer, the Corporation will continue to monitor claims experience under this new program. However, DSR has only actually been in operation for eight (8) months to date, and the entire population hasn't even transitioned yet to D -- to this new system of DSR. The Corporation submits that it's premature -- premature to conduct research when there's only a minimal experience. In this case, eight (8) months.

Furthermore, the system only does have fifteen (15) years of data in it, so trying to expand level fif -- 15 to include, let's say, twenty-five (25) years of claims free driving just simply isn't possible, because the data isn't there. We don't have that record.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Moving into another area of interprovincial trucking. Again, the --

the issue of interprovincial trucking surfaced, this time at the very end of the evidentiary part of the hearing from the closing comments made by Board counsel.

In our invitation to correct the record in so far as possible, there was obviously a bit of a misunderstanding, and I can't given evidence right now because this is not the evidentiary part of the hearing.

But what I'll do is, I'll state that the legislation is very clear on this matter. Automobile insurance coverage regulation 290/88, which is under the MPIC Act, section 79, provides that no third party liability coverage shall be payable to commercial trucks hauling goods that are over 5,499 kilograms which operate over 161 kilometres outside of the Manitoba bar -- border, public service vehicles hauling goods of others for compensation operating over 161 kilometres outside the Manitoba border.

Consequently, most large trucks registered in Manitoba, but operating extra-provincially, have no Basic third-party liability coverage. Only light commercial trucks operating extra-provincially will have Basic third-party liability.

Also under that same regulation, 290/88, section 52 provides that no all-perils coverage shall be payable for trucks over 16,330 kilograms, with some exceptions such as farm and fishing trucks, or commercial trucks over 5,499 kilograms which operate over 161 kilometres outside the Manitoba border, or public service vehicles operating 161 kilometres outside the Manitoba border.

Consequently, most trucks registered in Manitoba, but operating extra-provincially, have no all-perils coverage through Basic. Light commercial trucks operating extra-provincially, of course, will have all-perils coverage in Basic.

The MPIC Act comes into place here, and Section 74(1), which is in the accident benefits component, provides that Manitoba residents may collect PIPP benefits if the accident incurs in Canada or the US, period.

Section 195(1) of the MPIC Act provides Manitobans with the option of choosing compensation if they are involved in a motor vehicle accident, and they can choose that compensation under a worker -- Workers Compensation Act or the PIPP benefits.

The other piece of legislation that comes into play here, and I know Ms. Everard's going to be looking at some of this in -- in detail, of course, is that the Drivers and Vehicles Act, section 37, does not require a truck registered in another province and operated under a reciprocal agree -- agreement to be registered and insured in Manitoba. Consequently, trucking operations with multiple bases of operation across the country may choose to register in another province and yet may operate in Manitoba under the International Reciprocity Plan.

Extra-provincial trucking companies operating under this IRP, the International Reciprocity Plan, with a base in Manitoba, and also in other provinces, may choose which province they may wish to register their vehicles in. The DVA does not require them to register in Manitoba.

Trucks registered in Manitoba and operated outside of Manitoba for more than 161 kilometres and large trucks are precluded from Basic insurance by this legislation. The truck operators, however, who are Manitoba residents are able to choose between Workers Compensation or PIPP when they are injured in a work-related automobile accident. There's no opting in or -- or out provisions, there's merely the choice between WCB or PIPP.

These PIPP benefits are not coming from any other insurers, whether SRE or any other insurer. Many, if not most, of these interprovincial truckers collecting these PIPP benefits work for trucking firms that are not SRE customers. They might be infer -- insured by State Farm. They might be insured by Aviva or Markel, but the workers choose to receive PIPP benefits for whatever reason.

There is no transfer from any other insurance pool to fund these PIPP benefits. These PIPP benefits are funded by all Basic ratepayers. There are benefits but there's no premiums, and this situation is embedded in the legislation.

According to statutory interprete -- interpretation, the legislature is deemed to have known and considered the results when they passed such legislation. This is a legislative entitlement.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Moving towards the final portions of my argument here, I'm starting to feel like Fidel Castro because I'm just talking on and on and on and on. But let's talk about the Manitoba Bar Association and their intervention this year. The Manitoba Bar Association has stated that it has two (2) general concerns that it brings forward to these rate Hearings.

The first is whether or not a victim

receives all of the benefits to which he or she is entitled by law. And, 2, what the Bar Association characterized as problems that many people have in navigating the claims system and advancing their position as clearly and forcefully and as fully as possible.

Unfortunately, there is no evidence of this on the record and the appropriate forum is the other tribunal of the Automobile Injury Compensation Appeals Commission. Manitoba Public Insurance agrees completely that victims of automobile accidents must receive all of the benefits they are entitled to by law.

Ms. McLaren was adamant in responding to Mr. Dawson's cross-examination that MPI's job is to explain to people what they are entitled to, to help them figure out which of the many benefits under PIPP they are specifically entitled to, and help them to prove that entitlement. In fact, MPI gets the documentation at most times.

MPI takes this responsibility very seriously, and is constantly working to improve its processes and training to ensure victims receive the full benefits under PIPP to which they are entitled to.

With regards to the Bar Association's assertion that claimants are having difficulty navigating the claims system, it is important to put the entire claims process in context to understand the scope of the situation.

As Ms. McLaren stated, MPI receives in excess of fourteen thousand (14,000) personal injury claims a year, with each claim potentially having dozens of decisions. Each decision letter advises the claimants of their right to have the decision reviewed at internal review. In her testimony, Ms. McLaren stated that less than a thousand (1,000) requests for internal review are received every year. Claimants only sought a review of less than 1 percent of all decisions made in 2009.

The fact that claimants only seek review of 1 percent of the decisions made by MPI is indicative of the fact that MPI explains its processes, its entitlements to benefits, and its decisions in a manner that helps claimants navigate the claims system.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Mr. Dawson, in his cross-examination and his submissions, made much about BI3 and the flowchart provided at MBA IR Number 1-34. what Mr. Dawson failed to understand is that the flowchart was designed to assist computer programmers and systems analysts understand the flow of information in the internal review process so that a computer system could be developed to accommodate that flow. The flowchart does not indicate nor explain how internal review officers make their decisions.

Mr. Dawson might object in dismissive statements to what he characterized BI3 as:

> "shiny new computers, intricate flow charts converted into software, the workflows, and the retaining of people who carry out the commands that technology spits out."

Unfortunately, this isn't what BI3 is, and the Board knows better.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: With regards to CA -- CAA, I have to say that the surprise submission of this entire hearing in the minds of MPI was that of the CAA recommending that the rebate be increased by $50 million to $142 million. The only comment of the Corporation is that this is not in keeping with the Board's target for the RSR or the purpose of the RSR, and should be rejected.

I come now to my concluding comments, but in your pre-closing hear -- comments, Mr. Chair, you invited all parties to comment on what decisions of this panel would represent both the setting of just and reasonable rates and also be in the public interest.

We will comment that MPI ensures all rates are actuarially sound and they're statistically based prior to filing the rate application, and that is tested thoroughly in this proceeding, as every proceeding, as actuarially sound. The rates adhere to the principles that I mentioned, principle number 4 of the General Standards of Practice for the actuaries, quote:

> "A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound transfer -- [or, sorry] sound estimate of the expected value of the future costs associated with an individual risk transfer."

MPI submits that this is appropriate criteria for rate setting, and it is in the public interest to continue setting rates on this basis.

In closing, MPI submits that it has satisfied the onus put forth and that its rates are indeed appropriate, and requests that the PUB approve them. The Corporation has, as outlined in the direct examination of the witnesses at the commencement of the hearing, and that I alluded to earlier on in my closing comments, and that's been reinforced by providing enormous amounts of information on the record, as requested. The Corporation has placed sufficient evidence on the record for the PUB to approve the rates and the rebate, as applied for. As usual, the Corporation requires an Order on or about December 1st, 2010, just a little over a -- one (1) month away.

With that, I'd like to thank all of you for your considerations during the Hearing process. Thanks to the Intervenors. Thanks to Board counsel, and advisors. Thanks to the Board staff, and to the Board members. Thank you very much.

THE CHAIRPERSON: Thank you, Ms. Kalinowsky, particularly for a cogent and wide-ranging closing statement. The panel will do its best to meet MPI's expectation for an Order as early in December as possible.

And we will keep in mind your comments about the particular difficulties that potentially would be associated with any potential change in methodology.

We, too, want to express our thanks to all parties to this proceeding, and in particular to Board counsel for guiding the process through these several --

or I guess you would almost say many months.

So with that, we stand adjourned. Thank you.

--- Upon adjourning at 12:01 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.