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 624 to 812

APPEARANCES

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--- Upon commencing at 9:57 a.m.

THE CHAIRPERSON: Okay. Good morning everyone. Ms. Everard, you can continue with your cross-examination of the MPI panel, at your discretion.

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

MPI PANEL:

DON PALMER, Resumed

MARILYN MCLAREN, Resumed

OTTMAR KRAMER, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: We were speaking yesterday about IFRS and we'll pick up with that discussion. So I'll ask the -- Mr. Kramer, I guess, to turn to AI.20.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Yesterday just before we broke we were looking at page 7, which is the policy for depreciation of property and equipment.

MR. OTTMAR KRAMER: Yes, I'm there.

MS. CANDACE EVERARD: I just had a -- a follow-up question. We were talking about the determination for residual values that would be required at the end of each year.

And would it be fair to say that depending on the result of that analysis, once it's done, there may be an impact on depreciation?

MR. OTTMAR KRAMER: Yes, there will be on a prospective basis, to the extent residual value increases or decreases that, will impact the future depreciation expense.

MS. CANDACE EVERARD: And is there the potential that the residual value for Cityplace could be in a negative?

MR. OTTMAR KRAMER: I -- I -- personally, I don't -- I don't see that, residual value being negative. Then -- then that's not a residual value then. Then that would assume that the -- there would be costs to demolish the building, et cetera, et cetera, that would be over and above the -- the value of that property, including the land value. So I -- I don't -- don't see that being an option at all.

MS. CANDACE EVERARD: So in your view that's not a possibility?

MR. OTTMAR KRAMER: No, not -- not in my

view.

MS. CANDACE EVERARD: Thank you. We'll go to page 10 of the same document, AI.20, Part 1, which is the policy for the depreciation of investment property.

MR. OTTMAR KRAMER: Yes, I have that.

MS. CANDACE EVERARD: Now, I understand that under IFRS, and this is reflected here in the first paragraph, there is a requirement to account separately for the components of Cityplace, given its dual purpose, that is the investment property and administrative purposes.

Is that right?

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

MS. CANDACE EVERARD: Now if we look at 1-63, posed by the Board, which is not in the book...

(BRIEF PAUSE)

MS. CANDACE EVERARD: Are you there? 1-63(a).

MR. OTTMAR KRAMER: Not quite, but getting there.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Okay, I've got it.

MS. CANDACE EVERARD: Okay. We see in the answer to (a) that a precise breakdown of the investment property has not been performed, but based on a high level estimate, the number would be 37.7 million, which includes 15.2 million for the external parkade and parking lots that are already classified as investment property.

Is that right?

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

MS. CANDACE EVERARD: And then it goes on to read that the administrative portion, including the land is estimated at 45.4 million.

Is that right?

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

MS. CANDACE EVERARD: And is there a breakdown available of that 45.4 million between building and land?

MR. OTTMAR KRAMER: I don't currently have that and it's not in the response, but tha -- that can be obtained.

MS. CANDACE EVERARD: If you would take that as an undertaking, we'd appreciate it.

MR. OTTMAR KRAMER: I -- I may be able to get that fairly quickly.

--- UNDERTAKING NO. 6: MPI to provide a breakdown of the 45.4 million between building and land

MR. OTTMAR KRAMER: But just -- just as a discussion point, the -- the land that we allocated based -- based on the purchase, the price -- purchase price between land and building, the entire land is deemed to be a part of the administration or PP&E portion of -- of the building, so no piece of the land is being allocated to investment property.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Can you explain the rationale for that?

MR. OTTMAR KRAMER: The rationale is that we acquired the building for the office, and the -- the other parts of it the investment portion was kind of incidental to the purchase. So the entire portion of the land would be attributed to the office space, and the incidental portion, the -- the investment property does not attribute any of the line cost to it.

MS. CANDACE EVERARD: Now, in the answer to (a) it's provided in the last sentence that the estimate is based on the BMO capital markets report from December of 2008. Of course, BMO stands for Bank of Montreal.

Is there an update to that, at this point?

MR. OTTMAR KRAMER: No, there has been no update.

MS. CANDACE EVERARD: Now, it was on the record at last year's GRA that the purchase price of the Cityplace property was 81.5 million.

Is that right?

MR. OTTMAR KRAMER: Eighty-one point five (81.5), plus expenses.

MS. CANDACE EVERARD: Based on what is being capitalized and the numbers that we've just discussed here at 1-63(a), there's the 37.7 million plus the forty-five point four (45.4), that equals 83.2 million, which is 1.7 million more that -- than was indicated last year.

Is that the expenses that gives rise to that difference that you mentioned?

MR. OTTMAR KRAMER: Yes, that's what increases it from the eighty-one five (81.5), because the eighty-one five (81.5) was the purchase price plus commission, plus legal fees, et cetera, which were capitalized on purchase.

MS. CANDACE EVERARD: And is the depreciation expense of this asset being impacted due to the requirement for the separation of accounting of the assets?

MR. OTTMAR KRAMER: I don't understand that question.

MS. CANDACE EVERARD: I'm referring to the separation of the HVAC system, the escalators, and there were a couple other categories there as well.

MR. OTTMAR KRAMER: Yes, those are depreciated over a different useful life, so that will impact the depreciation under IFRS and amortization under GAAP.

MS. CANDACE EVERARD: Thank you. We'll go back then to AI.20, Part 1, and, in particular, page 12, which is the policy relating to the redesignation of marketable bonds.

Are you with me?

MR. OTTMAR KRAMER: Yes, I have that.

MS. CANDACE EVERARD: Okay. And we see in the second paragraph that the Corporation is in the process of converting its fixed income investments from available for sale to held for trading.

Is that right?

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

MS. CANDACE EVERARD: And what's reflected here is that upon the initial transition to IFRS there's this option for the Corporation to do so. It's also reflected in the policy that -- and -- and I think this was mentioned in passing already on the record -- that the designation of held for trading is being changed to FVTPL because that's clearly more simple, which stands for Fair Value Through Profit or Loss?

MR. OTTMAR KRAMER: Yes, that's correct. We call it the FVTPL.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Next year is going to be fun.

Now, if -- if you can confirm for me, Mr. Kramer, that the changes in fair market value of the assets designated as available for sale do not flow through net income, but rather through comprehensive income?

MR. OTTMAR KRAMER: The unrealized changes flow through AOCI. Any realized bonds that are -- are sold, or written down, those flow through net income.

MS. CANDACE EVERARD: And so by this

redesignation, the change in fair market value of the marketable bonds will flow through net income at each valuation date.

Is that right?

MR. OTTMAR KRAMER: That's correct. With -- the bonds are held for trading under GAAP, or fair value through profit and loss under IFRS. Any realized and unrealized changes flow through the income statement.

MS. CANDACE EVERARD: And as reflected here on page 12, the board of the Corporation has approved the policy change to redesignate the marketable bonds from available for sale to FVTPL?

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

MS. CANDACE EVERARD: And as a result of this election -- and we've got this on the record already -- there is an accounting entry in the Corporation's financial statements that increases retained earnings by about 21.1 million.

MR. OTTMAR KRAMER: From -- from a Basic standpoint, it's an increase of 21.1 million to the RSR, and it would be an offset decrease to AOCI.

MS. CANDACE EVERARD: Thank you. The next policy in AI.20, Part 1, is that at page 13, which relates to the recognition of future actuarial gains and losses in employee benefits reserves. And it's provided here, this is in the first row, that the Corporation currently recognizes immediately all gains and losses in employee benefit reserves to its profit and loss statement.

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct. And I believe we had that discussion yesterday, or the day before, when we were talking about pensions.

MS. CANDACE EVERARD: With respect to this policy then, the Board has approved that pursuant to IFRS, this practice will be continued. There won't be a change to this.

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: Now, it is reflected in the chart that's provided on page 13, far right-hand column, that one (1) of the disadvantages of this current method that'll be continued is that it causes the highest degree of earnings volatility?

MR. OTTMAR KRAMER: In and of itself, yes; however, the offset to that volatility is on the asset side, so to the extent that there is discount rate changes to the pension liability, which would cause volatility to the income statement, the offset is -- are the investment assets are bonds, which would also be increasing or decreasing. And it's very similar to the immunization strategy that Mr. Palmer discussed, with regards to our claim liability, which are ten (10) times the size of the future employee benefits liability.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So the Corporation will group the liabilities together?

MR. OTTMAR KRAMER: Not group together, but they're -- they're -- they -- they operate in a very consistent manner, and they're -- they're not unlike the claims liability.

No, they're not grouped with the claims liabilities, but -- but the -- the characteristics of the discount rate are very similar to the claims liability.

MS. CANDACE EVERARD: And I take it that it's for the reasons that you've described that the Corporation chose to stick with this option rather than change over to one (1) of the others.

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: Thank you. Page 14 of AI.20, Part 1 relates to disclosure of the defined benefit plan, and it's provided that under IFRS more extensive disclosure is required for pension obligations.

That's right?

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

MS. CANDACE EVERARD: And as part of the IFRS transition there is an option that allows the Corporation on initial adoption to disclose only two (2) years of information relating to present value of the defined benefit obligation, and the experience adjustment.

That's right?

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

MS. CANDACE EVERARD: The other option would be to disclose five (5) years of that information, but that would require some fairly significant additional effort, and as well, the Corporation has noted here that there would be no effect on its balance sheet or income statement?

MR. OTTMAR KRAMER: Correct. It's -- it's all about disclosure, and we currently, under GAAP, disclosed the two (2) years, and that's what's we are proposing to do with IFRS. As time goes on, with regards to IFRS, that would be then extended to the five (5) years.

MS. CANDACE EVERARD: And that'll be by way of disclosure of an additional year of information every year until the Corporation's up to five (5)?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: Okay. Page 15, the next policy relates to disclosure of claims development information. It's provided for here in the first paragraph, that:

"As part of the IFRS transition, there's an option that allows on initial adoption, the Corporation to only disclose five (5) years of information relating to claims development."

That's right?

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

MS. CANDACE EVERARD: And if that election is not taken, then the Corporation would be required to disclose ten (10) years?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And so in this instance, the board of the Corporation has approved the election, such that only five (5) years of information will be disclosed?

MR. OTTMAR KRAMER: Yes, that's correct, in the first five (5) years. Similar to the -- the discussion on the previous disclosure on the defined benefit plan, it would be increased by a year every year thereafter until we've reached the ten (10) year disclosure.

MS. CANDACE EVERARD: Thank you. And the Corporation did provide some information on why this particular election was made. That was at 1-66(a) posed by the Board. It's not in the book.

(BRIEF PAUSE)

MS. CANDACE EVERARD: When you get there, PUB/MPI-1-66(a), sets out three (3) reasons that the Corporation had identified for making this election. If you could just discuss those at a high level.

MR. OTTMAR KRAMER: Okay. I'll just read the answer on record:

"The Corporation chose to limit the disclosure of claims development information to five (5) years instead of ten (10) years for the following reasons:
It is common practice amongst other corp -- it is the common practice of other corporations."

The add -- number 2:

"The additional work effort required."

And number 3:

"This is the information currently being disclosed under Canadian GAAP."

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Isn't it the case that the Corporation is already tracking claims history?

MR. OTTMAR KRAMER: Yes, we are.

MS. CANDACE EVERARD: And claims incurred would be the Corporation's most significant expense?

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

MS. CANDACE EVERARD: So can you just give us a little bit more information on how onerous it would be for the Corporation to provide the additional information.

MR. DON PALMER: In -- in terms of this particular election, again, it -- it's within the context of the introduction of IFRS.

There is going to be a significant work effort to implement IFRS. Within the first year of implementation we will have the year ending February 28th, 2011, and almost immediately will have the first quarter of 2012 that has to be completely disclosed under the new rules of the IFRS.

The disclosures under IFRS are way bigger. We're anticipating that the size of the notes are probably two (2) to three (3) times what we currently have as our no -- our notes. The IASB has recognized that in fir -- first time adopters and given a -- a couple of transition free passes, if you will, to decrease the amount of -- of work that is done in that first -- first set of -- of financials. Given the -- the real onerous nature of all of those disclosures, every company that I've talked to is taking advantage of -- of that, just because.

So if it is not much more work, it's still more work, so any advantage that we can gain just because -- in order to that first quarter statements out, we are going to take advantage of it. That doesn't stop us, within old actuarial reports and -- and whatnot, to still disclose to the PUB, for instance. I suspect that when we get to the hear -- hearing that I guess is the 2013 Rate Hearing, that we will be looking at runoff over maybe a longer year period. And -- and once that crush of getting all of the disclosures done in the first quarter, we will have an opportunity to go back and -- and time not being so tight, we'll be happy to disclose those to the PUB.

In terms of just the financial statement, that first quarter, and in the first year, we're taking the opportunities afforded to us by the ISA -- IASB to -- to lessen some of the administrative work that will go into the preparation of that statement.

MS. CANDACE EVERARD: So basically what you're saying is whatever advantage there would be to the reader in having the fuller disclosure is quite outweighed in the Corporation's view by the extra work that it would take to get it there, and the -- the expension (sic) of resources to do that.

MR. DON PALMER: That's absolutely true. And -- and someone who is that interested in reading those notes are likely going to look at the PUB transcripts, and some of the PUB Application materials as well, so -- so that will be there. It'll still be the transparent point.

MS. CANDACE EVERARD: And, as Mr. Kramer said, the Corporation will be transitioning from five (5) to ten (10) years on the same basis as the other policy that we discussed, of adding one (1) year every -- every year.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. I'll ask the panel to turn to 1-68, posed by the Board. It's not in the book of documents. This relates to IFRS-9.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, in this particular IR, the Board set out what Section 4.2 of IFRS-9 provides. Maybe Mr. Palmer or Mr. Kramer, whoever, could read that in.

MR. OTTMAR KRAMER: Which part did you want read in?

MS. CANDACE EVERARD: The Section 4.2 at the top.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Okay, I'll -- I'll read from IFRS-9. 4.2 states:

"A financial asset shall be measured at amortized cost if both of the following conditions are met.

An -- an asset is held within a business model whose objective is to hold assets in accordance to contractual cash flows, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are -- that are solely

payments of principal and interest on
the principal amount outstanding."

And I'll just continue on. And there's a Section 4.5 that wasn't in here but needs to be read in to understand the reference to 4.2. 4.5 says:

"Notwithstanding paragraph 4.1 to 4.4,
[and this is just me. It includes 4.2]
an entity may at initial recognition
designate a financial asset as measured
at fair value through profit loss, if
doing so eliminates or significantly
reduces a measurement or recognition
inconsistency."

MS. CANDACE EVERARD: Okay. The IR 1-68 asks the Corporation to discuss the implications of 4.2. And if we want to treat that as being read together with 4.5, that's fine:

"Upon this Corporation's strategy of
designating fixed income and
instruments as held for trading, and to
provide a position paper relating to
the exposure draft."

And the Corporation replied that:

"The exposure drafts were a preliminary
step in the development of accounting

standards. When the standard was finalized, then the Corporation would prepare a position paper."

That's right?

MR. OTTMAR KRAMER: Yes, that's correct. We do not have a position paper on this. I was just reading from the actual IFRS standard 9.

MS. CANDACE EVERARD: Yes. Now we asked a follow-up question to this in the Second Round, which was 2-33.

(BRIEF PAUSE)

MS. CANDACE EVERARD: It's not in the book of documents. And what the Board asked at 2-33(a) was to discuss the implications of the new standard upon the Corporation's strategy. And the -- the Corporation said at (a):

"On initial review, it is not anticipated that the new IFRS 9 standard will have an impact on the Corporation's strategy of designating fixed income instruments as held for trading."

Is that right?

MR. OTTMAR KRAMER: Yes, that's correct, and that's why I just read the reference to 4.5, which specifically discusses the -- the -- eliminating the measurement or recognition inconsistency and -- and that's why I read that in.

MS. CANDACE EVERARD: So, is it the Corporation's position then that its bond portfolio does not meet the criteria set out in 4.2 and 4.5, or that it does?

MR. OTTMAR KRAMER: It is -- it is the Corporation's position that 4.5 recognizes the fact that there may be measurement inconsistencies if -- if those bonds are held as -- at -- at amortized costs, and by holding them through fair value in profit and loss, which is consistent with the Corporation's immunization strategy, that that -- that -- that the IFRS standards do allow for that. In fact, they do encourage that to -- to eliminate the measurement inconsistency, which is the Corporation's immunization strategy.

MS. CANDACE EVERARD: Okay. Thank you. We'll go then to 1-78, posed by the Board, which is at Tab 33 of the book of documents.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Did I hear 1-78?

MS. CANDACE EVERARD: Yes, it's Tab 33.

(BRIEF PAUSE)

MR. DON PALMER: We have it.

MS. CANDACE EVERARD: This was an IR where the Board took some information out of previous annual reports of the Corporation, with respect to losses arising from its operation of DDL. And the chart that's reflected here at 1-78 reflects what the Board believes are the correct numbers, having been taken from the annual reports.

Does the Corporation disagree with any of these numbers, that they're accurate from the annual reports?

MR. DON PALMER: We haven't double checked those figures at all, given that this really is not germane to the application at hand. We haven't double-checked it. We haven't done anything with that.

MS. CANDACE EVERARD: Well, then I'd ask you to do one (1) of two (2) things. Either take a look at it and tell me whether anything jumps out at you as incorrect, or whether you're prepared to go with it, subject to check, or if you'd be more comfortable actually checking all the numbers, then that would be the other option.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Nothing jumps out at us.

MS. CANDACE EVERARD: Okay. So the table provides --

THE CHAIRPERSON: Ms. Everard, then we're to take it that the table's correct?

MS. MARILYN MCLAREN: Mr. Palmer said we haven't done that work. She asked us just to comment on whether anything jumped out at us here and now as being incorrect. Nothing jumps out as being incorrect, here and now, reviewing it.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: So at a high level review, whatever the extent of that has been, either in the IR process or sitting here today, the Corporation doesn't quarrel with these numbers.

Is that fair to say?

MR. DON PALMER: We wouldn't quarrel because we haven't checked it. There -- there's -- just on the cursory review right now that we're looking at them, it seems reasonable. They're -- they're not obviously incorrect.

MS. CANDACE EVERARD: Let's -- let's deal with it this way then. I'm going to proceed with my cross-examination that I have, and if later on the Corporation does a review and finds something that is inaccurate, then you'll let me know. And if you choose not to do that review, that's your business.

Fair enough?

MR. DON PALMER: That's fair.

MS. CANDACE EVERARD: Okay. So according to the -- the table that's reflected here that was prepared by the Board based on annual reports, we see in the year ending February, 2009 and the year ending February, 2010 a net loss of some 27.6 million per year.

Is that right?

MS. MARILYN MCLAREN: That's what the numbers show in this table.

MS. CANDACE EVERARD: Now, it's our understanding that in the same timeframe, that is the '08/'09 fiscal year and the '09/'10 fiscal year, that there were some accounting reclassifications of business process review costs that exacerbated these losses.

Is that right?

MR. DON PALMER: They're disclosed in the annual report.

MS. CANDACE EVERARD: So that's right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Does the Corporation agree that an arrangement that it or an organization may enter into that provides funding that is less than the cost of operating the op -- the arrangement poses a financial burden, one that should be recognized as a provision under IFRS?

MR. DON PALMER: Not under the Basic AutoPac Program.

MS. MARILYN MCLAREN: In a broader sense, I don't think it's that simple either. We've had the discussions about whether you're talking about a financial burden, owner's contract, however you want to deal with that; it -- it's not that straightforward and simple. And the Corporation has discussed in a number of different venues on the public record about the extent to which the Corporation chose to invest funds for the benefit of Manitoba drivers and vehicle owners who register vehicles and hold driver licences, and so on and so forth, in all kinds of public forums. The standing committee of the Legislature in the annual report we're on the public record as saying that that was the

Corporation chose to do.

So, for a lot of reasons, I don't think that that -- notwithstanding that that is -- is not relevant to the Basic Compulsory AutoPac Program. We're on the public as saying that it was chosen strategy to invest funds to improve the system for Manitobans.

MS. CANDACE EVERARD: And when you say "it was a chosen strategy," you're talking about the merger?

MS. MARILYN MCLAREN: No, I'm talking about what the Corporation decided to do with respect to leveraging the opportunities presented by the merger. The government decided on the merger, the government changed legislation to create the merger, and the Corporation decided on -- on how to leverage the opportunities created by the merger.

There's fair -- fairly substantive discussion about this in -- in the annual reports for the last couple years.

MS. CANDACE EVERARD: When you're talking about leveraging the opportunities presented by the merger, you're talking about everything that flowed through the business review, the idea of synergies and whatnot?

MS. MARILYN MCLAREN: That's right.

MS. CANDACE EVERARD: Okay. We see at AI.20, Part --

THE CHAIRPERSON: Ms. McLaren, if you don't mind, you indicated that the Corporation had put on the public record a lot of commentary related to this particular topic. Would the Corporation mind making an undertaking to provide what is on the public record by the Corporation?

MS. MARILYN MCLAREN: Sure. We can provide links to standing committee; I think, the last couple of years standing committee of the Legislature on Crown corporations, as well as the per -- specific references in our annual report. Those would be the two (2) that immediately come to mind.

THE CHAIRPERSON: That would be helpful. It would just save on the efficiency of the process.

MS. MARILYN MCLAREN: Sure.

--- UNDERTAKING NO. 7: MPI to provide details of what the Corporation has put on the public record regarding its actions to leverage the opportunities created by the merger, including details on the public record about the extent to which the Corporation has chosen to invest funds for the benefit of Manitoba drivers and vehicle owners who register vehicles and hold driver licences

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: So AI.20, Part 2, Tab 14, this is -- oh, pardon me, I've given you the wrong reference. It's actually in the book of documents at Tab 14. It is at AI.20 as well, but probably a little easier to go to Tab 14 in the book of documents. So this is out of AI.20, Part 2, Exhibit 13.

And if I ask you to turn to pages 26 and 27, which appear close to the end of the tab, they're the second last and third last pages a the tab, we see an appendix to this position paper. And I -- my understanding that this document, including pages 26 and 27, were drafted by Deloitte.

Is that right?

MR. OTTMAR KRAMER: Yes, they were drafted by Deloitte.

MS. CANDACE EVERARD: And pages 26 and 27 are entitled, "Appendix A Onerous Contract Analysis."

Is that right?

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

MS. CANDACE EVERARD: So I -- I take it then that this was an issue that was identified to Deloitte as one that required this type of analysis?

MR. OTTMAR KRAMER: It was initially identified when we had an IFRS review com -- performed by KPMG, and I'm working on my memory right now, but probably about two (2) years ago. It was called a Quick Scan Report that was filed at -- at the Public Utilities Board, and it was identified as something that needed additional investigation.

MS. CANDACE EVERARD: And so when Deloitte was getting its work underway, with respect to these IFRS position papers, it was something that was carried through, and they were asked to do an analysis on?

MR. OTTMAR KRAMER: Yes. It was one (1) of the many IFRS issues, or topics, that required investigation.

MS. CANDACE EVERARD: We see on page 26, near the top of the page, there's a paragraph that reads:

"A recent analysis was conducted by MPI

to determine the cost of administering a licensing program. The following was determined."

And then there's a list of financial components and some numbers.

Before we get into the -- the substance of that, can you tell us who prepared this five (5) line little analysis. Was it the Corporation, or was it Deloitte?

MR. OTTMAR KRAMER: That was prepared by Deloitte, and it's a very high-level analysis, as you see. There's a lot of zeros there, so they took some liberties with rounding and estimation.

MS. CANDACE EVERARD: Sure. So these are approximate numbers.

Is that fair to say?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: So we see the first entry on the little table is entitled, "Plan Administration Revenue." That's listed at 21 million. And that would be the funds received by the Corporation from the province.

Is that right?

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

MS. CANDACE EVERARD: That's obviously on a yearly basis, or was on a yearly basis?

MR. OTTMAR KRAMER: Yeah, that's on an annual basis.

MS. CANDACE EVERARD: And then the second line reads:

"Approximate direct costs, 18 million."

So that would be, I guess, exactly what it says, direct costs to administer the program?

MR. OTTMAR KRAMER: Yes. And to be honest with you, I don't know where they have their split between direct and overhead allocation, and whether that's based on old allocation, or proposed allocation policies.

MS. CANDACE EVERARD: Okay. The third line reads:

"Direct margin, 3 million."

So that would be, obviously, subtracting the 18 million from the twenty-one (21)?

MR. OTTMAR KRAMER: Yes, eight (8) -- twenty-one (21) subtract eighteen (18) is three (3).

MS. CANDACE EVERARD: See, you guys can count. Just kidding.

MR. OTTMAR KRAMER: I'm the accountant.

MS. CANDACE EVERARD: Oh, yes, it was Mr. Palmer who said -- who made that remark the other day.

The fourth line reads:

"Overhead allocations."

And the figure there is 11 million. And I take it, again, that would be an approximate?

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

MS. CANDACE EVERARD: And then when that 11 million is subtracted from the 3 million, there's a negative result on the line that reads:

"Net Margin of 8 million."

Is that right?

MR. OTTMAR KRAMER: That's correct.

MS. CANDACE EVERARD: So I gather that this little chart of numbers is intended to illustrate, including the appro -- the approximations that you've mentioned, that there's an annual approximate net loss to the Corporation of 8 million on account of DVL.

Is that fair to say?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, I think the question was: Is that an $8 million net margin loss? And the -- the answer is, yes.

And -- and just looking at the numbers, I believe that is based on work before any expense allocation review was done.

MS. CANDACE EVERARD: Thank you. And if we look back at Tab 33 -- and just keep your finger on page 26 that we were just looking at because we'll go back there. But if we just go back to Tab 33 for a moment. That's the table that the Board prepared based on the annual reports.

We see the losses there for the '09 -- the year ending in '09 was eight point three (8.3). The loss ending in the year 2010 was nine point two (9.2). So those are fairly similar to the -- what we see on page 26.

That's right?

MR. OTTMAR KRAMER: The -- the net result before project costs, yes, is -- is very similar to the 8 million that's shown in IFRS A.20 (sic), page 26.

MS. CANDACE EVERARD: Thank you. Does the Corporation agree that if it had a contract that was considered onerous under IFRS, then its present obligation under the contract should be recognized and measured under IFRS as a provision?

(BRIEF PAUSE)

MR. DON PALMER: If ongoing into

perpetuity, the answer's, yes. We do know, and it's on the record in our annual report, that it has been put on the record, and this in the outlook session -- section of the annual report:

> "Beginning April 1, 2011, the government will increase its payments to MPI to $28 million per year. The Corporation expects that this will fully cover the costs of the DVA administrative operation and also will allow some contribution to the repayment of the startup cost for Manitoba enhanced identification card, Manitoba enhanced driver's licence, and Manitoba identification card."

So, in terms of -- of this particular example, those shortfalls will not go into perpetuity.

MS. CANDACE EVERARD: And I -- I appreciate the reference. I was going to come to that, about the increase in funding, and we will still talk about that in a moment. And I understand the Corporation's position with respect to this contract, but my question was just a more general one, that if there was an onerous contract, there would have to be a provision made under IFRS. T hat's what IFRS provides, right?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now, I know what Deloitte concluded on page 27, and we'll talk about that in a moment. I know what the Corporation's position is with respect to this contract. But my question is: Did either Deloitte or the Corporation determine if this was an onerous contract, what the provision would be?

MR. OTTMAR KRAMER: No, we have not done that. And you've mentioned Deloitte. You meant the Corp -- mentioned the Corporation. I'd like us all to reiterate that KPMG reviewed these papers and KPG was also in agreement with this -- this conclusion.

MS. CANDACE EVERARD: And did KPMG determine what the provision would be if it were to be found an onerous contract?

MR. OTTMAR KRAMER: No, that work has not been done.

MS. CANDACE EVERARD: And the reason for that work not being done would be the conclusions that were drawn by the three (3) parties that you've described, the Corporation, Deloitte, and KPMG?

MR. OTTMAR KRAMER: Yes. And that was just to remind also that the Auditor General had also received this analysis and was also not in disagreement.

MS. CANDACE EVERARD: Now, if we look at page 27 of Deloitte's analysis, we see under the heading "Analysis", Deloitte has said:

"The fact that the province mandated through legislation that MPI administer the licensing program is really not a contract given that one (1) counterparty, MPI did not have an option of whether or not to execute. This supports that this arrangement is not a contract, but merely an addition to operations."

That's what they said?

MR. OTTMAR KRAMER: Yeah -- yes, that's what's written on that page.

MS. CANDACE EVERARD: Now the Corporation did sign a contract though with the government in 2004, when the merger took place, because we've had that filed in past proceedings?

MS. MARILYN MCLAREN: It's an agreement. It's called the Master Agreement, for the administration of the Drivers and Vehicles Act.

MS. CANDACE EVERARD: And it was signed by, I guess your predecessor, Ms. McLaren, Mr. Zacharias, on behalf of the Corporation?

MS. MARILYN MCLAREN: I don't remember exactly when it was signed. It may have been either my predecessor or I that signed it.

MS. CANDACE EVERARD: So can you explain why if Deloitte is right and it wasn't really a contract, why was that document produced and signed by both sides?

MS. MARILYN MCLAREN: Speaking from memory, it -- it talks about how -- it -- it actually served a couple of purposes. It helped to frame the relationship and clarify government's expectations of MPI before the Drivers and Vehicles Act was passed. And it also set out the manner in which we would work with each other.

For example, if the Department of Infrastructure and Transportation wanted to make some changes to a program that we were administering, the Agreement provides that they would have to sort of specify those requests and -- and schedule the requests within our normal business planning cycle. Things like that.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now as Mr. Palmer read in a moment ago, from the annual report, the government has now agreed to increase the funding, on account of DVL, to 28 million. I don't know if you actually read in the dollar amount.

But that's correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And will the Corporation be entering into, or has it entered into an -- some kind of written agreement or contract on that detail?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: We have that commitment from the government and that's where it stands at this point.

MS. CANDACE EVERARD: So no, no other document?

MS. MARILYN MCLAREN: We haven't gone back and modified the Master Agreement or anything like that. We have the commitment from the government and that's where it ends.

MS. CANDACE EVERARD: So nothing beyond that?

MS. MARILYN MCLAREN: Right.

MS. CANDACE EVERARD: Okay. And, Mr.

Palmer, as you read in from the annual report, this increased amount is to be paid on an annual basis to cover off the DVL operating costs and to reimburse the Corporation for startup costs relating to the enhanced identification card, enhanced driver's licence, and Manitoba identification card?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And do we know what prompted the increase in funding from the province?

MS. MARILYN MCLAREN: Well, as we've put on the record many times, consultations with government are confidential. That's not something that we're prepared to discuss here. The commitment stands on its face. That's about all I can say at this point.

MS. CANDACE EVERARD: And the Corporation has put on the record that it does not expect any further losses arising in DVL once the new funding kicks in, and that's coming in April of 2011.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. Just to, I think, complete the cross that I have with respect to IFRS related issues, can the Corporation just summarize for the Board what its next steps are, just at a high level, relating to the IFRS conversion.

(BRIEF PAUSE)

MR. OTTMAR KRAMER: The next step is one of them that we've discussed at length over the last couple of days is -- one (1) of them is to size the sick leave provision that requires this, so the 3 million to firm -- firm that number up. We -- we've done some work on it. We haven't fully completed that work, and nor has it gone through any review by -- by our auditors, or -- or Deloitte. So we -- we need to size that up.

Then it's -- it's -- to start making the journal entries that result from the IFRS conversion, to journalize the -- the 24 million held for trading adjustment, which relates to 21 million on the Basic line of business, journalize that sick leave provision to -- currently estimated at $3 million.

The -- a large part of this is then around disclosure, as -- as Mr. Palmer has already indicated. There -- there isn't that much of an impact on the balance sheet, or retained earnings, that require adjustments from Canadian GAAP, but the disclosure impact is -- is huge. It could be tripling the -- the size of our notes.

So then a lot of the investigation will be around the -- the note disclosure, ensuring that we follow up with -- follow the IFRS requirements.

So there's -- there's a lot of work around -- around that.

MS. CANDACE EVERARD: Okay. Thank you.

THE CHAIRPERSON: Ms. Everard, we're just going to take a five (5) minute break, and we'll come right back. No longer than five (5) minutes.

--- Upon recessing at 10:48 a.m.
--- Upon resuming at 10:55 a.m.

THE CHAIRPERSON: Okay, Ms. Everard.

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: I am going to move into a new area. I just have a couple of follow-up questions on what we were speaking about with respect to the DVL contract, and whatnot.

I appreciate the position of the Corporation, the conclusion reached by Deloitte, and -- and I know the evidence was that KPMG agreed with it. What would the Corporation say in response to this scenario, and I'll give you a bit of background to this.

It's our understanding that in BC, for example, ICBC is required to contribute funds for road improvements. And in a situation -- if the province of Manitoba came to MPI and said, We want 'X' amount of dollars per year for road improvements, 10 million, or whatever the number, is that something that the Corporation would consider an onerous contract under IFRS, because basically the Corporation wouldn't be getting any direct revenue in return?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I think first of all, again, it wouldn't be a contract, but I assume as -- as well if -- if we had notice that something was going to be expected to be added to our cost base going forward, you know, assuming all within everybody's legislated authority to sort of make that requirement, the Corporation would have to build it into our cost base. And it would be part of our -- so that wouldn't -- that wouldn't qualify that way either, right?

I mean, first of all it's not a contract if they tell us that we're going to be spending money on something. And secondly, if we have that kind of notice, we would have to build it into some sort of a funding framework. I -- I don't know that I can say much more than that at that point.

MS. CANDACE EVERARD: Okay. Ms. McLaren, you told me when I asked about whether there was anything in writing from the province about the increase, your answer was, no, that there wasn't, I -- I believe. You said that they've committed to it, but I think your answer at the end of the day was that there was nothing in writing.

Does the Corporation have an assurance that this increased payment will be in perpetuity, or is there a risk, in the Corporation's view, that the province is going to pull that rug out?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I -- I think what I said is that, you know, there -- there's not a -- we haven't updated the -- the agreement or anything like that, right? But, I mean, what we have in writing in terms of a commitment from the Corporation is the note is in our annual report, but the annual report committed from -- committed from the government noted in our annual report that it's the government's annual report as much as it's the Corporation's annual report. I think we made that point in a -- in a response to an IR. I mean, that is the public commitment.

It is -- you know, we have a transmittal letter in the annual report from the Minister to the Legislature to the Lieutenant Governor in Council.

So, I mean, I think in terms of what is in writing, I think the fact that the Minister has taken, for the lack of better language, I guess, taken ownership of that annual report, and it is a public document, it's on the public record, that is the commitment.

MS. CANDACE EVERARD: And what about the piece about it being in perpetuity; does -- does the Corporation consider there are risks that -- that the government's going to make a change at some point in the foreseeable future?

MS. MARILYN MCLAREN: My understanding is that it's in perpetuity.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. As indicated, I'm going to move into a different area, that being driver premiums, which we haven't spoken about a whole lot. We looked at TI.13 earlier this week, and we'll just go back there to refresh our minds. TI.13 is at Tab 8 of the book of documents.

We see under the heading of "Net Premiums Written," that the Corporation is anticipating, for the year of the application, revenue of some $24 million attributable to driver premiums.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And we went through the fact that it's about $10 million than the year before, and that's because of the surcharges being phased out, subject to a small offset.

Is that right?

MR. DON PALMER: Yeah. I'm not sure that I would use the word "phased out." I would say a little more definitive than that; "eliminated" is probably a better word.

MS. CANDACE EVERARD: Sure, fair enough. Because it -- the case is that the DSR program, which took effect March 1st of 2010 does eliminate all accident surcharges.

That's right?

MR. DON PALMER: Und -- under that name, yes, I -- I would agree with that. I would say that the driver's surcharges that are come -- coming in, replace both the conviction surcharges and the accident surcharges, so it's the combination of the two (2) that combine into the surcharge program.

So I don't want to mislead the Board by saying the accident surcharges are completely eliminated, because they're built in and rolled in the -- the entire surcharge premium that includes both accidents and convictions rolled together into one (1) component and one (1) program.

MS. CANDACE EVERARD: Thank you. And I just -- nee you to give me a moment.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Sorry. Mr. Palmer, what I wanted to refresh my mind on was SM.3, page 20, which does have some commentary on these points. So I'll maybe just ask you to go to that just, so we can dovetail that information with the evidence that you just gave.

MR. DON PALMER: And what page, in particular?

MS. CANDACE EVERARD: Page 20. So page 20 starts with speaking about the introduction of DSR. At the first bullet there's reference to the elimination of the accident surcharges, giving rise to a decrease in premiums. But, as you've stated, it -- while the specific surcharges are eliminated, the idea of the surcharge is really rolled into DSR.

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

MS. CANDACE EVERARD: Now, the accident surcharge amounts that are due for past at-fault accidents -- so, accidents that occur prior to a driver's placement on the DSR scale -- will still be collected.

That's right?

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

MS. CANDACE EVERARD: And we had a bit of evidence on this, I think, on the first day, but the -- the Corporation does anticipate applying for future increase -- increases to the DSR scale going forward. And that's, I believe, at Tab 11 of the book of documents, those numbers.

Is that right?

MR. DON PALMER: Inc -- increases to the DSR surcharges, yes.

MS. CANDACE EVERARD: And these are the same ones that the Corporation has originally submitted to the Board at the time of the DSR hearing.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And we see on page 20 of SM.3, there's a five (5) year forecast provided for what the Corporation expects in terms of revenue from driver premiums. So we -- we see the 34 million in the current year, the 24 million in the year of the Application. And then we see that figure rebounding, or expecting to be rebounding up to about a $41 million level by 2014/15.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the drivers behind the increases are on higher levels of driver premiums being collected by virtue of anticipated increases in the scale, but also more drivers.

MR. DON PALMER: They're -- they're both incorporated into that forecast. I would say the -- the increase from 24 to $40 million is about 60 percent increase, so that's not as a result of more drivers. We don't expect a growth in the number of drivers by 60 percent over that time period -- period, so most of that growth would be the incorporation and new scale.

Changing the surcharges no -- currently, surcharges don't kick in until DSR level minus six (6), or six (6) demerits. They will kick in earlier than that as we roll the scale forward. The amounts at the top of the scale get increased substantially as well. So, from that standpoint, more of the increase is because of the -- the increased level of surcharges than the growth in the number of drivers.

MS. CANDACE EVERARD: Okay. But they're both factors?

MR. DON PALMER: One (1) major, one (1) minor; that's my point.

MS. CANDACE EVERARD: Fine. Now, we know that the -- the Corporation is applying for new driver's premiums to be installed at DSR levels 11 through 14, because those are the -- the levels that really haven't been used up until this point.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And, in particular, the Corporation is seeking a twenty dollar ($20) driver's premium at each of those DSR levels?

MR. DON PALMER: Which would be consistent with the DSR -- or at that premium with DSR-10, yes.

MS. CANDACE EVERARD: And the Corporation is also applying to alter the vehicle premium discounts at levels 11 through 15, so that they will range from 26 to 30 percent, each step on the scale being a 1 percent increase in discount.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And I gather that the -- the logic behind increasing the discount as a driver moves up the scale, is that hopefully each step up the DSR scale res -- results in a decrease in the risk associated with that driver, and therefore they should have a greater discount.

Is that fair to say?

MR. DON PALMER: Yes. This is consistent with -- I remember saying it early in the -- even the DSR hearing, that safe drivers pay less, and higher risk drivers pay more, and this is very consistent with that.

MS. CANDACE EVERARD: Thank you. Now, I'd like to review with you the numbers that the Corporation has put on the record, with respect to the number of drivers that it expects at each of the top five (5) or six (6) levels on the DSR scale. And I'm just going to locate the reference, because I have it here in my notes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. It's SM.3, page 11. The Corporation's provided a section dealing with some of the pieces of the Application that we're speaking about. And on page 11 there's a chart that the Corporation has provided that reflects what is it -- it is expecting for the year of the Application, in terms of number of drivers at DSR levels 10 through -- or 11 through 15, I guess.

So if I'm reading this correctly we see in the far left-hand column the level at which the drivers on this chart would have been in 2010, which would be DSR level 10.

Is that right?

(BRIEF PAUSE)

MR. DON PALMER: I'm sorry, Ms. Everard, could you repeat the question.

MS. CANDACE EVERARD: Yeah, for sure. Page 11 on SM.3 has a chart that reflects, I believe, the number of drivers that the Corporation is expecting at DSR levels 11 through 15 in the year of the Application?

MR. DON PALMER: Not quite. The -- those are the number of drivers that are affected by the new placement rules. So what's missing out of this, we have a large number of drivers who, in 2010, are at fifteen (15), will continue to be fifteen (15), and they are not represented in this chart. We are right now pulling that number to tell you what that number is, anticipating that might be your next question.

(BRIEF PAUSE)

MS. CANDACE EVERARD: The second column on the chart -- we'll -- we'll just keep talking about the chart while -- while you're doing that.

The second column in the chart reflects -- it -- it's entitled, "Restated 2010 DSR levels." So if -- if -- I -- I gather that everyone, or the individuals that are intended to be referenced in the -- the far left column are those that were tens on the scale, commencing in the 2010 year.

And -- and what is the difference between that, and what does the Corporation mean by the heading in the second column?

MR. DON PALMER: In -- in terms of -- going back to the original rules that were -- were put in for -- for DSR, and there was placement rules that are set out in regulation, as to how people get into all the various DSR levels, with the change and -- and the addition of DSR level 15, it actually could have added some -- some significant inconsistency with the way that those rules would have been applied from ten (10) to fifteen (15), because we -- we would not have had a DSR level 14.

So what we had to do was formulate new

rules of what would have happened in 2010 if the new classification levels, 11 to 14, were introduced at the outset of the -- the program, and then say, So what would have been is basically what that restated 2010 DSR level is at. And then, when we get into 2011, the year of the Application, they still would have had movement upwards if they were claims and conviction free, and that's represented by the 2011 DSR level with clean driving.

So the restated 2010 DSR levels, no drivers were actually at the eleven (11) to fourteen (14), but we had to sort of make that extra step in order that we had a fair and equitable movement into the populating DSR levels 11 to 14.

MS. CANDACE EVERARD: So if I understand you correctly, some of the people that were at ten (10), originally assigned, are going to end up moving up more than one (1) on the scale?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. And so this chart tells us, of the tens who were -- people that were originally tens, we're going to end up with a hundred and twenty-one thousand (121,000) of them at eleven (11), thirteen thousand (13,000) of them at twelve (12), and so on?

MR. DON PALMER: That's correct.

MS. MARILYN MCLAREN: Through the DSR hearing process, when the PUB wanted the creation of fifteen (15) early, and with the rules for that, and with the government agreeing to modify the regulation to be consistent with that, we then took the position that it was important for us to continue with that intent as we introduced eleven (11), twelve (12), thirteen (13), and fourteen (14).

So the regulation has been modified now to establish DSR 11, 12, 13, 14. You know, we needed to get that done. It's essential that we have those because of the way drivers can move through the scale, and what we will be doing is slotting them into those according to the same intent that was used to modify the DSR rate, to create fifteen (15) last year.

MS. CANDACE EVERARD: And so how is the Corporation able to determine which individuals at ten (10) and up -- as in eleven (11) or twelve (12) or thirteen (13) or fourteen (14) or fifteen (15) -- what are the criteria that are being applied?

MR. DON PALMER: The -- the criteria was essentially claims and conviction-free years, just as that was the criteria for establishing the -- the DSR level of 15.

MS. CANDACE EVERARD: So is it the case,

then, that an individual who becomes a twelve (12) on this table would have to have twelve (12) years of conviction-free and twelve (12) years of claim-free?

MR. DON PALMER: For initial placement, that -- that's true, yes.

MS. CANDACE EVERARD: So what happens to somebody who has, say, ten (10) years of claims-free and twelve (12) years of conviction-free, where do they go?

MS. MARILYN MCLAREN: Then they have ten (10) --

MR. DON PALMER: Ten (10).

MS. MARILYN MCLAREN: -- of conviction and claim-free years.

MS. CANDACE EVERARD: So whatever extra little credit they have is not -- does not come into play?

MS. MARILYN MCLAREN: Right.

MR. DON PALMER: No. And just for your information, the number of drivers that were at fifteen (15) for 2010, and then will continue to be fifteen (15) for 2011, is a hundred and eighty-five thousand four hundred and forty-two (185,442).

MS. CANDACE EVERARD: Okay. So those individuals, with the ones that will become fifteen (15), will end up at almost two hundred thousand (200,000) people?

MR. DON PALMER: Sorry, that one eighty five (185) number is inclusive of the thirteen thousand (13,000), so it's -- so fifteen (15) to fifteen (15) would be about a hundred and seventy-two thousand (172,000).

MS. CANDACE EVERARD: Okay. Thank you. Now, it's reflected here on page 11, underneath the chart in the last paragraph on the page, that the adjustments are expected to have an impact of an additional overall percent decrease to a total estimated 2.1 percent reduction in revenue.

Is that right?

(BRIEF PAUSE)

MR. DON PALMER: That includes the anticipated drift during the year of application. So we had the -- the onetime transition is about 1.64 percent, that's in the previous paragraph, and then an extra half point brings it to the two point one (2.1).

MS. CANDACE EVERARD: Okay. And just so that I'm clear with the -- what we've been discussing with the placement of these various individuals at the levels, has -- has there been a change required to the regulation, and, if so, has that been done?

MS. MARILYN MCLAREN: Yes, and yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: We've heard evidence so far this week about the 4 percent rate reduction that the Corporation is proposing and what is -- that is comprised of, or the split between the indicated required rate and changes arising from the DSR scale. Has the Corporation considered applying the whole of the 4 percent reduction to the DSR scale; in other words, giving higher percentage discounts to the people at the top, or close to the top?

MR. DON PALMER: That wasn't really a consideration, given that there's a large number of classifications that aren't subject to the DSR program: the commercial vehicles, the public vehicles, there's no discounts in trailer rates or -- or -- so, from that standpoint, in order to properly allocate that and fairly to include the -- the non-DSR rated vehicles, the split was -- was determined about half from the -- the regular experience and about half from the -- the DSR.

So, fro -- from that stand point, no, that wasn't really considered.

MS. CANDACE EVERARD: Okay. Now, the Corporation is also applying to the Board to increase some of the driver premiums at the demerit level, at the -- the other end of the scale. And the Corporation had -- or pardon me, not the Corporation. The Board had actually included a reference to that in its last order.

If we just to go SM.5.7, which is on page 6 of the Application, we see the particular reference in the last order, where the Board asked MPI to:

"Undertake and file, on or before the filing of this GRA, an update on its plans with respect to continuing to transition to the higher demerit costs under DSR."

And the Corporation has now come forward with that, and, as indicated, it's the same as that which was proposed before.

That's right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now, in particular, we can see the details of what we're speaking about. We can look at, first of all, the Application, probably the best place to start, which reflects -- and I'm looking at AP.1, the third last page. This reflects in bold the particular driver premiums that the Corporation is seeking to change, and they range from the -- the negative four (4) on the DSR scale, to the negative twenty (20) on the DSR scale.

Is that right?

MR. DON PALMER: That's the total driver premium for those individuals, yes.

MS. CANDACE EVERARD: And this is what the Corporation is applying for.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now, if I can ask you to turn to Tab 35 of the book of documents, which is the response to question 85 posed by the Board in the First Round. We see at 'C', Attachment C, the Corporation was asked to provide a comparative scale showing what had been applied for at the DSR hearing, what the Board approved at the DSR hearing, and then what the Corporation was now proposing.

And if we look at that, the -- and in particular if we look at Attachment C, DSR levels negative 4 to negative 20, I -- we don't see any change across the board.

Is -- is that correct? Or is -- is there -- am I missing something, because I -- I was under the impression that the numbers that we looked at in the Application were new -- new numbers for those levels.

MR. DON PALMER: I guess define "new". They're -- they're new for 2011; they aren't new from the transition plan.

So we probably -- the table that we say "Board Approved" is probably not accurate. That's what we had applied for, and I guess in principle with the -- the DSR program going forward, that was understood that that's what would have happened in 2011, but Board approved probably isn't the exact terminology.

MS. CANDACE EVERARD: That's what I surmised from reading this, that probably the -- the numbers that the Corporation is now applying for may have been the ones originally applied for, but that in the middle there was something different.

Because those individuals who are at those levels now wouldn't be paying the premiums that are listed in the Application in full. They'd be paying some other number. I think -- I think at -- out of minus four (4) you'd be paying forty-five (45) bucks, and at a minus twenty (20), you'd top out at a thousand and forty-four (1,044), or something like that.

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MR. DON PALMER: Just for reference purposes, in Appendix A, of Exhibit 1, of TI.18, we have the full rundown of all of the driver premium, and -- and vehicle premium discount levels starting in '10/'11. So from that standpoint, they have changed from '10/'11, '11/'12.

That particular plan has never changed -- on the driver premium side, has never changed from our original DSR Application. Of course, the vehicle premium discount for the upper levels has changed, but for that particular -- so -- so I think we're just talking in terms of Information Request 185, Part C, kind of semantics there, that this is just comparing the 2011 rates right across the board.

MS. CANDACE EVERARD: Okay. So at the end of the day, and -- and just for the purposes of the record, TI.18, Ex -- Appendix A, Exhibit 1 is at Tab 11 of the Board's book of documents.

So when the Board is considering what the Corporation is requesting for those DSR levels, and -- and comparing what is the current lay of the land versus what the Corporation's asking for, that's what they want to look at, because that's going to who them the spread?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. And while

we're looking at that, let's just have a -- a little gander at what the Corporation is thinking about for future years. And I appreciate that when next year's GRA comes, maybe for some reason these would change, so we're not trying to marry you to them, but we are trying to get a sense of where the Corporation's coming from.

We see, if we start maybe with level zero, the Corporation has that -- it -- it's at a forty-five dollar ($45) level. It has been -- and the Corporation appears to intend, at least for the moment, that that remain, so that someone on -- at a zero pays forty-five dollars ($45).

And then we see on the -- everything from a minus one (1) and down, we see numbers that increase at some intervals over the next number of years.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the planned top-out for the DSR negative 20 level is still twenty-five hundred dollars ($2,500).

And that was the planned top-out that we spoke of at the DSR hearing as well?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: The Corporation still holds the view, I take it, that anything more than that we get into a situation where having a licence may be cost prohibitive, and you have unlicensed or suspended drivers driving around.

MR. DON PALMER: Yes, that's the consideration.

MS. CANDACE EVERARD: I take it from what the Corporation's evidence has been to this point that, at least at this time, the Corporation doesn't anticipate any changes to this for next year. But, as I've said, I -- we understand that that may happen.

MR. DON PALMER: Times and revenue requirements do change over time, but this is the plan as we know it currently.

MS. CANDACE EVERARD: Okay. Thank you. Let's go back to SM.5, and in particular SM.5.8, where we see reference -- this is on page 6 of SM.5 -- we see reference to the previous Board order, where the Board required that the Corporation undertake and -- to:

> "Undertake and file with the Board, on or before the filing of this GRA, forecasts and supporting assumptions for goals and implications for accident frequency and severity, as a result of the implementation of DSR, such goals to be defined in numerical terms and be

for the fiscal years 2011/12 through
2013/14."

Yes?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the Corporation states, in reply to this excerpt, that TI.18, Exhibit -- or Appendix A, Exhibit 1, the document we were just looking at:

"The Corporation provides a forecast of the expected number of drivers at each DSR level over the next five (5) years, forecasted movement as based on research conducted and presented in the DSR application, and assumptions on driver movement will be updated every year as additional DSR information come -- comes available."

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now, in the next paragraph, the Corporation states, under the heading of "At-Fault Claim and Conviction Frequency," that:

"The claims forecast that are used in this application assume that DSR will not result in any changes to at-fault

claim or conviction frequencies in
future years."

It goes on to say that:

"The Corporation is optimistic that the
DSR program will have a positive
impact, but it feels its premature to
make adjustments to the forecast
without any historical experience."

Is that right?

MR. DON PALMER: That's correct, and even now we're -- six (6) or -- six (6) or seven (7) -- seven (7) months into the DSR program, only seven-twelfths (7/12) of the population is even in the DSR program right now, with some of them -- I guess one-seventh (1/7) of those have only been in the DSR program for one month and -- and so on. So there really is very, very limited information.

Even if we went most current information available up until September 30th of -- of 2010, there's really nothing there that we could point to that -- any kind of a trend. I mean, it's -- it's going to take probably a couple or three (3) years even to get a -- even a rudimentary idea of -- of the kind of trend or impact that there could be on -- on crashes and accidents.

MS. CANDACE EVERARD: The Corporation has stated that, as that experience becomes available, it will try to incorporate it into its future forecasts.

MR. DON PALMER: Yes, we will.

MS. CANDACE EVERARD: Now, the Corporation has stated, just in -- at the end of that second last paragraph on the section that we're looking at, that:

> "Based on current forecasts, every 1 percent reduction in crash frequency will result in a .9 percent reduction in total claims costs, and that this translates to annual claims cost reduction of $6 million."

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. Continuing on on page 7 of SM.5, we have another section, section SM.5.9, that deals with the division of premium between drivers and vehicles. And again, we have a -- an excerpt from last year's order, where the Board ordered the corporation to research the issue of the division of premiums between drivers and vehicles, report back to the Board within this GRA.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the Corporation has reflected its response to that order at pages 7 and on to page 8. The Corporation goes through a narrative of some historical considerations and sets out its reasoning, but, at the end of the day -- and I'm looking at page 9, middle of the page -- the Corporation says that it believes that the current split between vehicle and driver premium is both justified and appropriate. And the Corporation goes on to say it doesn't recommend any changes.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Just getting into some of the -- the reasoning that the Corporation has with respect to that position, and this is contained in the same section, the Corporation states that it believes that:

> "The DSR framework will empower Manitobans to determine the ultimate distribution of vehicle and driver premium through their behaviour."

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

MS. CANDACE EVERARD: Then the Corporation lists, at the bottom of page 9, a point that it considers to be of critical importance, and I'll --

I'll paraphrase. One (1) of those points is that any significant movement towards increasing driver premiums in order to reduce vehicle premiums would negatively impact the principle of relatively low rates for new drivers.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: The Corporation also states that to do so would contravene the principle of universality and affordability as a result of excessive and punitive surcharges.

MR. DON PALMER: That's true too, yes.

MS. CANDACE EVERARD: The Corporation also makes reference to surveys or research that it's done and says that the vehicle premium discount system is, quote, "virtually insisted upon," end quote, by the public?

MR. DON PALMER: Yes, that's a very strong indicator of all surveying that we've done.

MS. CANDACE EVERARD: In other words, the Corporation expects that there would be a very strong resistance to a change dealing with the vehicle premium discount?

MR. DON PALMER: Yes, we believe that to be true.

MS. CANDACE EVERARD: The Corporation has also stated, and this is at (c) on page 10, that 30 percent of drivers do not own or register vehicles for various reasons, but they -- these individuals are affected by the DSR scale and so they would pay surcharges and earn demerits just like anyone else.

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: In (d) on page 10 the Corporation states as well, that:

"17 percent of drivers own more than one (1) vehicle."

And the Corporation states:

"This is a personal choice on behalf of these individuals, and there's no basis to the notion that they should be paying less."

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So at the end of the day the way that I read this section, is MPI is saying that in its view, the most favourable split, ultimately, between vehicle premium and driver premium will be the equilibrium that would be achieved through the natural evolution of the DSR system, and the Corporation makes the suggestion that the PUB stay that course.

MR. DON PALMER: That sums up the

Corporation's belief, yes.

MS. CANDACE EVERARD: And I gather, as well, the Corporation would consider it relevant to this discussion that the driver premiums on the demerit side are expected to increase over time, or hopefully will be increasing over time, and that's a -- a factor as well?

MR. DON PALMER: That's a -- a given, as part of the assumptions underlying this particular analysis, yes.

MS. CANDACE EVERARD: Okay. I'm going to ask you to look at Tab 36 of the book of documents. This is the question and answer at 1-87, posed by the Board. And if we look at the answer at (a) -- I'll first just read in the question.

The Board -- or the Corporation was asked by the Board to provide a table summarizing the actual and forecast relative contributions to net premium, arising from vehicle premiums versus driver premiums from '06/'07 through to 2014/15.

And the Corporation has provided that table, that's right?

MR. DON PALMER: Yes, we have.

MS. CANDACE EVERARD: And so if we look at that, we see for the 2005/06 year line that at that time the percentage of driver and vehicle premium was

94.39 percent. Sorry, that -- that's the percentage of the total held by the vehicle component.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And for the same year, the percentage of the total held by the driver licence -- or the driver premium side was 5.61 percent?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And that number is fairly representative of what we see throughout the whole of the table under "driver premium." It -- it dips as low as 3.11 percent, but goes no higher than five point six one (5.61) for this timeframe.

Is that right?

MR. DON PALMER: And -- and, yes, the three point one one (3.11) is reflective of the -- the elimination of the Charge 2 accident surcharges that we talked about previously, so that's kind of a shock to this particular trend. But we're -- with the movement on the -- anticipated movement on the DSR scale and the higher surcharges, that will go back up, we anticipate, to sort of those historical levels within three (3) years.

MS. CANDACE EVERARD: And I'd just like to speak about that a little bit more. We see the projection for 2014/'15 as four point five five (4.55), which is less than every other percentage up until 2010/'11. So I appreciate the -- the Corporation's talking about the natural evolution and -- and we've looked at the numbers, the absolute numbers and the proposed twenty-five hundred dollar ($125) surcharge at the minus twenty (20) level, but is -- is this sort of the extent of the -- the evolution that the Corporation is referring to, or do we expect more beyond?

MR. DON PALMER: There would be some evolution beyond that.

MS. CANDACE EVERARD: But, as discussed, the Corp -- as discussed though, the Corporation doesn't anticipate seeking DSR driver premium at the -- the negative levels any higher than what we looked at?

MR. DON PALMER: No, this particular table do -- does get us to the point where we've completely implemented the scale as we've set out to '14/'15, so -- so we're there, yes.

MS. CANDACE EVERARD: But -- but the relativity is still -- I mean, the -- the overall percentage of the total that's contributed to you by a driver premium is still less than any of the first five (5) years shown on the table.

MR. DON PALMER: That's true, yes. And,

again, subject to many other factors we have seen in that time period from five six (56) to eight nine (89), our Charge 1 premiums, which is for conviction surcharges, went very low. There was a decrease in the number of convictions, traffic convictions, over that time period. That has rebounded somewhat over the last couple years.

So there -- there's more factors than -- weather related factors. Of course, if you have a bad -- bad winter one year, that will mean more accidents, which means higher surcharges the following year. So there -- there's a number of factors that are sort of built in to -- to these particular absolutes. It's -- it's not necessarily just the scale.

MS. CANDACE EVERARD: And just so that I understand your point about the traffic enforcement, the -- if -- if there was less traffic enforcement for the five (5) year period that you talked about, and I know that that's been an issue that's been discussed, wouldn't that give rise to less, not more, in terms of driver premium?

MR. DON PALMER: It could, but there wasn't really any -- any growth in that either for population or anything like that. But, yes -- yes, you make a valid point.

MS. CANDACE EVERARD: Okay. If we

continue to 1-87(c), which we find on page 6 of this particular answer, we see a question that was posed asking for a:

"Ten (10) year history of frequency, severity, and incurred loss history for drivers with no registered vehicle, with accompanying earned driver, unearned driver premium statistics."

And then commentary on the appropriateness of using this data as a basis to separate -- or to test the separation between driver and vehicle licences.

So on page 6 there's a chart with -- with some information. I personally find the graph on the next page to be a little bit more easy to look at.

This reflects frequency of at-fault claims for drivers with vehicle policies who are represented by the -- the diamond and veh -- drivers with no vehicle policy, which are represented by the square.

Is that right?

MR. DON PALMER: That's correct. And this particular graph is really useful in a -- in a couple of ways. First of all, it really demonstrates that as we move along in fact down the DSR levels from -- from merits to less merits, and into the demerits scale, and higher demerits, that there really is a higher risk associated with -- as you move along that scale.

So again, this is a graph that we had at the -- in the DSR hearing, and -- and this was really proof that the DSR schedule works, as a -- as is reflective of risk, so that -- that's the first thing.

The second thing, the -- whether drivers have vehicles or not, there really is a very distinct, relative movement of those two (2) groups of drivers. They stay very close, and -- and pretty much move in sync with each other.

We get a little bit of what we would refer to as noise at the -- at the upper end of the demerit scale, because there -- thankfully there's not many drivers up there, and they -- and the experience is -- accident experience is a little -- a little bit sparse. But still, there's very much -- I can still tell there is an upward trend, despite the -- the bit of fluctuation from year to year.

And the third point I'd like to make with this particular graph is -- is that the drivers with no vehicle policy have a little bit better experience than those with. I think that dispels the rumour that ever -- or the belief that everybody that has an accident who has a vehicle gets -- gets rid of it, and that the no vehicle policy people would be worse. In fact, they're a little better, and -- and that's just reflective of the fact that they don't own a car, and they probably just don't drive as much.

So from -- from that standpoint, I think this -- this particular graph is -- is very interesting, from all three (3) of those perspectives.

MS. CANDACE EVERARD: And -- thank you for providing that commentary.

The Corporation would agree though that the current level of driver premiums that are collected are insufficient to cover off the claims costs incurred by individuals who do not have a vehicle insured?

MR. DON PALMER: Insured in their name. I would say that there's always implied vehicle ownership for all of those vehicles, that full premium is -- is attached to the vehicle regardless of who drives it. So any risk that those drivers bring to bear, from the vehicle perspective, is caught in the vehicle -- vehicle premium. There's no attempt to say that every -- every accident that is incurred by a driver who doesn't own a vehicle would be captured in the -- in the driver premium. That's never -- never the intent.

MS. MARILYN MCLAREN: More specifically, it's definitely not the intent. That's absolutely not the intention of the way the plan is structured.

MS. CANDACE EVERARD: It -- it's not the intention, but it's also not the case? The -- that --

MS. MARILYN MCLAREN: Purposefully, yes.

MS. CANDACE EVERARD: Okay. If we look at 1-87(d), this was a question wherein the Corporation was asked to provide a table comparing the proposed driver premium scale for the year of the Application, with that which would result from a rebalancing if driver premiums were set at 5 percent of total vehicle premiums.

And we find the answer, that table, reflected at page 8. So we have in the left-hand side column the driver premiums that the Corporation's apply for by DSR level, and then we have, in the right-hand column, the -- what those premiums would have to be to be 5 percent of vehicle premiums.

Is that right?

MR. DON PALMER: That's the immediate impact of a -- essentially would be a 60 percent increase in driver premium. We have applied that on a pro rata basis across all DSR levels. Really, I suppose, that there's a number of ways that you -- that we could have done that. A lot of assumptions underlying.

The fact is that the safest drivers at the top of the DSR scale, that's most of the drivers. So in order to get -- to get enough revenue to get up to that 5 percent you -- you do have to have significant increases for the safest drivers.

MS. CANDACE EVERARD: Some of the changes though, aren't that different from what the Corporation is ultimately proposing. Now, I appreciate the Corporation is proposing a gradual shift, but I'm looking, as an example, at minus twenty (20), which we're hoping to end up at twenty-five hundred (2,500), or the Corporation is expecting to end up there at some point, and here it's twenty-four hundred (2,400) and change.

So it's -- I -- I appreciate the -- the graduality versus the -- the sudden, but it -- it does seem that some of these numbers are similar to where we'll probably end up.

MR. DON PALMER: It -- it gets similar at the top end of the scale, and then -- and of course I would -- would again remin -- remind you, Ms. Everard, that there are very few drivers at that minus fifteen (15) to -- to minus twenty (20). So even if you did give these drivers a 60 percent or 80 percent or 100 percent increase in their driver's premium, you still don't get enough accumulated revenue to get anywhere close to the 5 percent PUB target, if I can use that termin -- PUB target for this particular question. Or suggested target may -- maybe.

MS. CANDACE EVERARD: For the purposes of this analysis, yeah. That's -- that's all that it is.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just one (1) more question with resp -- with respect to this response. Underneath the table the Corporation's given some commentary. It says it -- it disagrees with the approach taken in the table, and then it says if the PUB were to mandate something like this, then driver premium rates would have to increase every year to match the growth in vehicle premiums that come from the volume growth.

That's right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And although the Corporation is expecting to apply for increases to at least some of the DSR levels over the next number of years, there'll likely be a point in time where that doesn't occur any further?

MR. DON PALMER: In -- in terms of the analysis of the -- the driver premium, we have, over the last number of years, not looked at that very substantively over -- prior to the -- the application of

-- of DSR. We have held the line on driver premiums for a fairly significant amount of time.

I think now with -- with DSR and the way it's constructed, once we get out to 2014/15, we'll continue to take a look at and do an analysis on appropriate driver -- driver premium. That will be part of our ongoing review. So apart from that, I can't really comment too much more. This is the plan up until '14/15. We haven't itemized the plan any further than that.

We'll likely be status quo. It'll be close to that, but we'll continue reviewing it.

MS. CANDACE EVERARD: And I'm -- wasn't asking for anything specific beyond that. I was mostly thinking about the -- the idea of the difficulty with increasing the surcharges, in the Corporation's view, that it gets to a point where people just can't afford it and then there are other problems that come.

MR. DON PALMER: Yes, absolutely.

MS. CANDACE EVERARD: Okay. If we go back to SM.5, I'd ask you to go to SM.5.11.15. This was a -- deals with a recommendation that the Board made in its last order with respect to new Manitobans, or individuals moving into our province from other places. And in particular, the Board had recommended that:

"No new driver or driver/owner from a different jurisdiction should receive a DSR merit rating higher than five (5). Obviously, the initial transition allows for a maximum of ten (10), given Manitoba's weather and road conditions may be considerable different from those previously experienced by these new registrants, and Manitoba driving experience should be required to reach higher merit levels."

And the Corporation's response to that is that:

"Placement of new drivers and drivers from a different jurisdiction is regulated under the [I think that should be driver safety rating regulation, or maybe it's driver rating system] which has been registered by the Province of Manitoba."

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And is that the end of the matter from the Corporation's perspective, or does it intend to consider or pursue that type of issue further?

MR. DON PALMER: No, that's the end of the matter. These are set in regulation set by government.

MS. MARILYN MCLAREN: It -- it's very clearly a matter of government policy. I can tell you, as administers of the legislation, this is an area that gets a lot of attention when new people come to Manitoba. It's -- it's an issue that in various public ways has been on various governments' radar. It's something that they take complete ownership and responsibility for, and it really is in their hands.

You know, some -- through time, there's been conversations about, you know, some of the more frequent, regularly in and out movement in the province, that's related to military and RCMP, that gets a lot of attention. The HTA used to have a specific provision for a more generous treatment of individuals from those two (2) organizations when they would come into the province.

So clearly it is -- it is in the legislation for a reason. It's something the government takes responsibility for. And this is really just intended to elaborate on Mr. Palmer's shorter response, that this is it from the Corporation's perspective.

MS. CANDACE EVERARD: I -- I appreciate the -- the interplay between the government and the

Corporation, and that the government makes the recu -- regulation, but I'm also fairly confident that if the Corporation had a very different view, that the government would at least hear it. And what you're telling me, I think, is that the Corporation doesn't agree with the recommendation that the Public Utilities Board has made and doesn't intend to take any steps.

MS. MARILYN MCLAREN: No, that's not what I'm saying. I'm saying that any consultations or advice to government wou -- would be confidential. We say that a lot. And at this point the regulation is what it is.

You know, so whether or not we agree with the PUB, disagree with the government, would think the government maybe should do something different, all of that is entirely speculative. And -- and if the Corporation thought it would do something, it -- it knows how to do it and would do it confidentially, and there's nothing else really the Corporation can say at this point.

MS. CANDACE EVERARD: So, at this point, the Corporation isn't prepared to say whether it agrees or disagrees with this recommendation?

MS. MARILYN MCLAREN: True.

MS. CANDACE EVERARD: Mr. Chairman, it's five (5) to 12:00. I have a short section that I can probably cover off in five (5) minutes. Should I keep going?

Okay, we have evidence on the record from the Corporation with respect to its corporate goals, and I want to ask some questions about one (1) of them.

There -- the goals appear in, obviously, a number of different places throughout the record. One (1) of the places that they appear that I happen to have in my notes is in, Ms. McLaren, your pre-filed testimony on page 2. It's the second bullet -- or the second goal that appears on the list, that is that the Corporation have rates that are lower than those charged by private insurance companies for comparable coverage.

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the Board asked a question on this topic at Question 2-1 of the IR process, which is not in the book of documents.

(BRIEF PAUSE)

MS. CANDACE EVERARD: This followed on an earlier IR, which was 1-3, that we don't necessarily need to go to.

The question at 2-1(a) was to indicate if and, if applicable, how the driver and vehicle characteristics used in this jurisdictional comparison were updated from year to year. And so the Corporation has provided a narrative response, and then has provided a chart listing the vehicle's selected over the last four (4) years for this comparative analysis.

We see -- if I direct your attention firstly to the first year reflected on the table, which is 2010, we see that there is a list of eight (8) vehicles that were selected. The newest one is the third one, the 2008 Ford Escape, and that's the only 2008 vehicle on the list, and there's none from any more recent model years, and none from 2007 either.

Is there a particular reason why the Corporation uses the mix of year models that it does, and that there aren't newer ones there?

MS. MARILYN MCLAREN: I'll -- I'll let Mr. Palmer answer, but -- but the -- the concept is that we're really trying to provide typical examples. If I was to say anything about this list, I'd say it's -- it's too heavily weighted to newer vehicles in its entirety. The average vehicle in Manitoba is still about nine (9) years old.

So the typical vehicle is nine (9) years old in Manitoba, so his is very weighted towards new ones.

Why we wouldn't have any newer than '08; because they're simply few of them in the fleet, and we're really trying to do something that's representative.

MR. DON PALMER: I will just add to what Ms. McLaren said regarding the -- the inclusion of -- of older vehicles. In some cases some of the older vehicles, average being nine (9) -- nine (9) years old, it's difficult to get comparative data from other jurisdictions. We have a certain coverage profile that -- that we're using because the Basic Compulsory program in Manitoba has a five hundred dollar ($500) deductible on collision and comprehensive.

In some cases there are, for older vehicles, specific -- anything older -- fifteen (15) years in some cases, that it's difficult to get a quote to -- to compare for a -- an older vehicle from a -- an apples to apples comparison.

So -- so these are sort of typical vehicles. We go through the numbers, the -- the counts of vehicles that we have in our fleet. We -- we look at the common ones, and -- and chose the -- the vehicles on that basis.

MS. CANDACE EVERARD: So the vehicles are chosen. And this is an analysis done by the Corporation;

it's not sourced out to a third party?

MR. DON PALMER: The Corporation choses the vehicles, and then there's a third party that goes and surveys, and -- and gets all the data from other jurisdictions.

MS. CANDACE EVERARD: And I take it when the -- the panel is giving evidence about the oldest vehicle, or the average vehicle being nine (9) years old, that that's some -- the result of an analysis that the Corporation has done?

MR. DON PALMER: We -- we do a count of vehicles by model year, and -- and that's the average. Has been that for -- it's been pretty stable over the last fifteen (15) years, anyway.

MS. CANDACE EVERARD: Do you know if -- when the -- the third party is -- is doing the -- the surveys in the other jurisdictions, are they getting any information about what the cross-section of vehicles is like there relative to our province?

MR. DON PALMER: No. There -- we give them a list of the vehicles, and the profiles, and say, We'd like the comparative rates. That -- that's the instructions that are given.

MS. CANDACE EVERARD: And do we have a sense of whether the -- the typical cross-sections, as you've stated, that are selected here by the Corporation are similar to what a cross-section might be like in another province?

Does the Corporation have that kind of information?

MR. DON PALMER: We -- we don't have that information. We suspect that the age of vehicles in Manitoba is probably on the older end in jurisdictions of -- across Canada. Certainly the population of vehicles that have collision and comprehensive coverage would definitely be on the older end of -- of that scale, but we don't have any specific information in that regard.

MS. MARILYN MCLAREN: Give you one (1) example. There's only one (1) truck on this list in 2010. Manitobans have a far higher preponderance to buy half-tonnes than people in the rest of the country. There was a story a little while ago in the news that sales of half-tonnes in the company -- in the country have really accelerated over the last period of time. Manitobans been way out on the lead on that -- on that particular purchasing practice, so.

I mean, I think it's -- it's largely rural, big spaces, lots of farming, probably not far off Saskatchewan, but some of the other centres would not have as many half-tonnes, particularly, as Manitoba. But generally, because we have tilted this towards newer vehicles, there -- there's no reason to think that this is anything but reasonably representative of the rest of the country.

MS. CANDACE EVERARD: Okay. I'll ask you to go to Tab 43 of the book of documents, which is an IR that was posed by Mr. Williams, on behalf of his client. This 1-120.

And this was a question about a rate comparison study involving ten (10) Canadian cities. And the Corporation has provided a series of charts that compare insurance premiums in Winnipeg with other Canadian cities, and then it tells us, in the far right-hand column, where MPI ranks relative to the other centres.

Is that fair to say?

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

MS. CANDACE EVERARD: Now, as -- Mr. Palmer, you've made reference to -- there are coverage differences across jurisdictions, and I -- I appreciate that those are reflected in AI.2.

How does the Corporation address those nuances in this type of analysis?

MR. DON PALMER: We set, as best we can, close comparison as -- as we can do. So from a deductible perspective -- that's the obvious one -- we make sure that the same deductible is applied for each of these profiles.

What we can't do is necessarily compare mandatory coverage. The personal injury protection plan is different than seven (7) of the other jurisdictions that were -- were doing a comparison, so -- so it's -- it's very difficult to compare that.

There are -- all of the various jurisdictions have different rules, programs. Some have threshold no-fault systems, some have just very rudimentary add-on systems. There's injury caps, there's all kinds of other limitations that have been put on policies in -- in other jurisdictions.

We do the best we can, in terms of the -- the compulsory coverage, plus the additional of -- of all perils with the applicable deductibles, but from that standpoint it -- it -- it is very difficult to make any kind of cross-country comparison.

MS. MARILYN MCLAREN: It's not comparable. When it comes to first party injury coverage, it's not comparable. Certainly it's comparable with Quebec, Saskatchewan. Ontario, until recently their threshold no-fault system benefits were -- were certainly comparable to Manitoba. Even BC, which is a tort jurisdiction, but the first party accident benefits are significantly greater there than they are in some of the other jurisdictions. But there's absolutely no comparison to the no-fault benefits available in the Maritimes, Newfoundland, and in Alberta. They're -- they're not comparable at all.

At one point, we tried to see if there's a way we could even do a price -- a price comparison, a premium comparison, if we bought extra accident benefits in those jurisdictions, to somehow get closer to the comprehensive benefits available here. That -- that wasn't possible. It just wasn't feasible.

So this is definitely comparable for Ontario, Quebec, Saskatchewan, pretty close for BC, but the rest of the country really isn't at all, in terms of the accident-benefit cost component.

MS. CANDACE EVERARD: So how does that tie back to the corporate goal of providing lower premiums for comparable coverage, if there are so many difficulties with the coverage being comparable?

MS. MARILYN MCLAREN: Well, I think it's something that we look at, in terms of -- from a -- from a very broad, conceptual -- conceptual perspective. That was a goal established by the Automobile Insurance Committee before the Corporation was established. We have had no desire to shelve the goal. It's critically important that we continue to pay attention to it, and where there are differences to understand the differences.

So that's really what it comes down to in terms of -- and there -- there is comparable coverage in -- you know, in -- in enough jurisdictions in this country that that gives us a -- a comfort level that we understand what we're doing, that we understand the benchmark, and that we are reasonably priced in relation to the jurisdictions where there is the best comparison.

MS. CANDACE EVERARD: And I take it from the evidence that's been given, that population densities in other centres isn't something that is taken into consideration in the analysis?

MR. DON PALMER: It -- it's just a grouping of ten (10) Canadian cities, with -- with no -- that -- no adjustment for those kind of density calculations.

MS. CANDACE EVERARD: Okay. Thank you.

Mr. Chairman, that completes my subsection that I was examining on, so if we want to take the lunch hour.

THE CHAIRPERSON: Sure. Just one (1) quick question on this, out of pure curiosity perhaps.

The anomaly, when you look across, and just from a number perspective, is Toronto. Is the premium -- the size of the premium reflective of Hamilton or Ottawa or London, Ontario, or other centres? Or is it just -- are these fairly incredible premiums reflective just of Toronto?

MR. DON PALMER: I'm not sure exactly how Toronto is defined. We just -- with our instructions to the third party that does this analysis, Toronto was that -- I don't know how big that metropolitan area is. I don't know the -- the territorial class plans of specific companies and how they might vary amongst the different metropolitan areas.

THE CHAIRPERSON: I just note that there's a tremendous difference between Toronto and Montreal, and they're both huge urban centres. And your very first one off the top has Toronto at three and a half (3 1/2) times that of Montreal. And I realize that the SAAQ plan fits into it.

But, anyway, you don't know the -- the premium comparisons for a different location in Ontario, just to note whether or not Toronto is an anomaly in itself?

MS. MARILYN MCLAREN: I think, to a certain extent, that that's -- that's true, but I -- but I know that the issues that they've had and the price pressures that they've had across the province of Ontario has not been limited to Toronto. So the -- the -- the extreme differences may very well be a Toronto factor, but the fact that it is more costly there -- and, anecdotally, I can tell you people in Kenora occasionally think that maybe the border should move to help them out with auto insurance.

So I think there -- again, you know -- and, on the other side of it, we could probably be comparing Regina to our Territory 2 rates, because it's probably, you know, as close to the size of Brandon as it is to the size of Winnipeg. They have one flat territorial rate for the Province of Saskatchewan. Many, many smaller centres as opposed to Winnipeg's unusual demographic of one really big one.

So, you know, it is just a -- a scan of a particular profile across the country.

THE CHAIRPERSON: Thank you. Okay. We'll be back at 1:15.

--- Upon recessing at 12:10 p.m.

--- Upon resuming at 1:17 p.m.

THE CHAIRPERSON: Okay. Welcome back, everyone. Ms. Everard, whenever you're ready.

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

MS. KATHY KALINOWSKY: Sorry, Ms. Everard, I'd just like to say that you'd asked an undertaking prior to the lunch break, and we do have the response to it, which Mr. Kramer is prepared just to give orally.

THE CHAIRPERSON: Mr. Kramer...?

MR. OTTMAR KRAMER: During the questioning the -- the question was how much of the land is included in the PUB -- the response to PUB-1-63, the $45.4 million. Nine point five (9.5) is related to the Cityplace or -- yeah, Cityplace, the land, and thirty-five point nine (35.9) is building.

THE CHAIRPERSON: Thank you.

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: We -- when we went through the Application on the first day, we talked at a high level about the details of the Corporation's Application and the various issues that it's asking the Board to decide. I just want to speak a little bit about the late payment fee piece. And so we'll -- we'll start maybe with SM.5.10, where the -- the Board had commented on this issue in its last order.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So this was the order that the Board made following on an application to review and vary last year's GRA order. And as is provided at SM.5.10, the Board in Order 19/10 stated:

> "The Corporation is to carefully review its proposed customer based late fee approach from a variety of perspectives and provide their results of its analyses including the pros and cons of options in its 2011 GRA filing."

And the Corporation has replied that information on this topic is found at AI.14.

Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So let's turn then to AI.14.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Which is not in the book, so we'll go to Volume III.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, we see from looking at page 1 of AI.14, that the Corporation has stated after -- or sorry, in its application in the review and vary motion, suggested that the late fee matter should be considered from a number of perspectives.

And tho -- there were four (4) of them listed here. Is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the third one, the Corporation identifies as being still relevant in its view, and that is the item that relates to the Four Pay Plan, which I gather represents policy holders paying their insurance in four (4) installments over the year?

MR. DON PALMER: Quart -- quarterly time payment we also refer it as, yes.

MS. CANDACE EVERARD: Sorry?

MR. DON PALMER: Quarterly time payments, as well.

MS. CANDACE EVERARD: So the Four Pay Plan is something different than quarterly payments?

MR. DON PALMER: It's the same thing.

MS. CANDACE EVERARD: Okay. That's what I thought.

Now, the Corporation has reflected here that certain customers chose the -- the quarterly time payment plan for a variety of options, some of them because they don't want to provide banking information, some because they don't have bank accounts or credit cards.

And the Corporation states in the first full paragraph of page 2 that it also takes the position that what is relevant is the amount that's outstanding.

That's right?

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

MS. CANDACE EVERARD: And the Corporation is applying, and this is in the third full paragraph 2:

"To change the late fee charge to customers who fail to pay their quarterly time payment on time, as of March 1st, of 2012."

That's right?

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

MS. CANDACE EVERARD: And, in particularly, what the Corporation is looking to do is apply a late interest charge of 1.5 percent per month to be compounded daily, and to be charged on late quarterly time payments?

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

MS. CANDACE EVERARD: And that's in addition to the initial quarterly time payment financing charge of prime plus 2 percent?

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

MS. CANDACE EVERARD: And can you confirm what the annualized interest rate would be, relative to the 1.5 percent per month.

(BRIEF PAUSE)

MR. DON PALMER: It's nin -- about 19 1/2 percent.

MS. CANDACE EVERARD: And I understand that if granted, and this is reflected near the bottom of page 2, that this change to the proposed interest rate would result in an annual decrease of service fee revenue of about $1.1 million, and that would, of course, commence in 2012/'13, when this would take effect.

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now, one (1) aspect of this that I -- I want to be clear on is: The application is specific to the quarterly time payments, as we've been discussing?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: But the public also has the option of paying monthly, right, in monthly installments for their premiums?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: So, I gather that the Corporation isn't proposing any change in the late payment fees with respect to monthly installments.

MS. MARILYN MCLAREN: That's right. There really aren't late payments with monthly. It ends up being treated as a NSF, not sufficient funds, because they -- it is -- is withdrawals. This is an administrative process where we send bills, they have to pay by a certain date. Monthly payments are completely different from that; it's an automatic withdrawal process.

MS. CANDACE EVERARD: And what happens if somebody bounces an automatic withdrawal?

MS. MARILYN MCLAREN: There's an -- the first thing that happens is there's a second attempt. And if the second attempt fails, then there's an insufficient funds charge, and then suspension of the registration and insurance is triggered as well.

MS. CANDACE EVERARD: And what happens in -- in what I gather would be a third scenario, if a person's not paying monthly, they're not paying quarterly, that probably means that they're paying their full shot on the renewal date. What if there's a problem with that payment, if there's a bounced cheque or something of that nature?

Is it treated similar to the monthly installment issue that you just described?

MS. MARILYN MCLAREN: Yes, it is.

MS. CANDACE EVERARD: Okay. I'm wondering if the Corporation is aware of orders that the Board has issued in other utilities, specifically water and sewer, prescribing for late payment charges at 1 1/4 percent?

MR. DON PALMER: I'm not familiar with that, no.

MS. MARILYN MCLAREN: There was in IR, I think, asking where we came up with the one point five (1.5), and we compared it to Hydro, and MTS, and other service organizations like them.

MS. CANDACE EVERARD: Okay. Those are the questions with respect to that issue. I'm going to move then to some questions in the actuarial area. And I'll -- I just mention that because I know there may be some seating changes.

I would ask, Mr. Palmer, for you to take a look at PUB/MPI-1-9.

(BRIEF PAUSE)

MR. DON PALMER: Yes, I have it.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Thank you, Mr. Palmer. So 1-9.

I would firstly ask for you to confirm that the undiscounted Basic total net PIPP run-off during the fiscal year 2009/'10 was favourable for each insurance year from '94/'95 to 2008/'09, aggregating to about 87.4 million. And I think that detail will be found at the attachment at 1-9(c).

MR. DON PALMER: Yes, I'll confirm that.

MS. CANDACE EVERARD: Thank you. And can you advise of how this quantity of 87.4 million is affected by the indexation of certain categories of coverage benefits?

MR. DON PALMER: It's really not affected by the indexation. For comparison purposes, we bring prior years up to current benefit levels, so it is a valid apples-to-apples com -- comparison.

MS. CANDACE EVERARD: And what about an affect by coverage benefit changes?

(BRIEF PAUSE)

MR. DON PALMER: We're just going to double check that the -- some of the improvements to benefits are included in these numbers. I believe they are, again, for the valid apples-to-apples comparison, but we're just double checking that.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Maybe I'll just keep going while -- while he's looking for that.

My next question would be with respect to this 87.4 million, whether this level of favourable Basic runoff is consistent with the level of conservatism adopted by the Corporation in its Basic valuation, or whether this goes beyond what might otherwise have been expected.

MR. DON PALMER: This would be beyond what would normally be expected.

MS. CANDACE EVERARD: And is this level of Basic runoff in a fiscal year, that is the 87.4 million, whether favourable or unfavourable, in any way extraordinary or alarming to the Corporation, in the context of the actual variation -- valuation, pardon me, of Basic claims liabilities?

MR. DON PALMER: I think when you get a runoff that's of this magnitude then you all -- always have to take a sober second look at your assumptions underlying that. That's what we've -- we've always done.

Again, these numbers tend to get, as you aggregate a number of -- of loss years, that -- this is spread over I think fifteen (15) loss years -- that compared to the total liability for a 1996 -- that may be on a total incurred of some 2 or $300 million dollars. So an adjustment of -- of 1 percent for any given loss year isn't that significant.

When you aggregate them all together and then appie -- ply them in your operating statement, because they're all -- hit your operating statement at one (1) time, it becomes more significant. But in terms of being necessarily alarmed by one (1) year of positive or negative development, I wouldn't use the word "alarmed" or "alarming".

MS. CANDACE EVERARD: Okay. So you -- if I understand you correctly, you've said that the -- the runoff for each of these insurance years on their own, you know, are fairly, relatively less significant and -- but I -- I think my question was more directed at the total, the eighty-seven point four (87.4) that's applicable to this year's financials.

MR. DON PALMER: And -- and they aggregate together yes, into one (1) larger impact, yes. I will agree with that.

MS. CANDACE EVERARD: And that was the part that you said may give rise to just having another look at assumptions to see if there's anything that could or should be changed?

MR. DON PALMER: Yes.

(BRIEF PAUSE)

MR. DON PALMER: Just -- just in answer to your question on the release, whether they include benefit enh -- enhancements, and the answer is, yes, they -- that adjustment has been put in. The benefit enhan -- enhancements were incorporated into all accident years.

So from -- and they were in the valuation as at February 28th, 2009. They're in there for 2010. So they're included in -- in all of the accident years.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, we know that the Corporation did make a change in its estimate of the effect of those benefit changes, so are those changes incorporated into the eighty-seven point four (87.4)?

MR. DON PALMER: Yes, they are.

MS. CANDACE EVERARD: Okay. Thank you. My next question would be -- and this is with reference back to 1-9(b) -- that the Corporation confirmed that the accumulative, undiscounted Basic total net PIPP runoff during fiscal years 2005/06 to 2009/10 has been favourable for each insurance year and aggregates to about $403.4 million?

MR. DON PALMER: Yes, we've confirmed that in answer to (b), yes.

MS. CANDACE EVERARD: In carrying out successive Basic valuations over the last five (5) fiscal years, what steps has the Corporation and/or Mr. Christie, as the appointed actuary, taken in response to these recurring levels of Basic favourable runoff, and that is beyond simply adding consideration of the latest year's experience in the selection of the valuation assumptions?

MR. DON PALMER: There has been a decrease in the loss development factors in each of those successive valuations.

(BRIEF PAUSE)

MR. DON PALMER: Which -- which also contributes to the -- the negative runoff. So you -- you take a look at where you were at, you adjust your factors to -- to get a new valuation, which in fact exacerbates the positive runoff so to speak, or negative runoff.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So just to clarify, is the approach to the selection of factor is changing or is it just being done in response to the results year-over-year?

MR. DON PALMER: It's done in response to the aggregate of a -- a number of -- of -- of years. It's emerging experience, which -- but the factors are based on past experience, so you get a new data point, and at that point in time you -- you make a judgment as to the effect of that on the loss development factor.

And this has been going on for, as you'll note, four (4) or five (5) years, that we did change significantly our case reserving methodology. That has an impact on your ongoing incurred development and the amount of your incurred on a year-by-year basis.

So the first year it happens and you get an abnormal or -- or a different loss development factor -- let's -- let's use that word -- and you say, Okay, is that really part of a -- a trend, or is that part of an aberration because we changed the -- the case reserving methodology? And then, each year, you add another year of experience, and essentially say, Well, is this the new norm, or do we still take into consideration some of the old development factors as -- as well?

That continues, and finally, after seeing that positive development for, I think, three (3) or -- I think -- I think it was the fourth year that we really took a -- a major look at the loss development factors, brought them down significantly, that was a positive development. I -- I think it was about $150 million in -- in one (1) year, and that was as a result of really taking a -- a hard look after two (2) or three (3) years of continued positive experience, and then you get the one (1) big hit.

And we're -- so we're still seeing some positive devel -- development. We're still looking at it, but we think each successive year will likely be less, because we have taken that really hard look at the development factors, I think, two (2) years ago.

MS. CANDACE EVERARD: Thank you. Continuing to review the answer at 1-9, we looked at the table that's provided as part of the answer to (c), and with reference to that, and as well to the table at (e) with als -- which also deals with this issue, can you discuss for the Board the division of the $87.4 million of runoff into the portions attributable to changes in experience, versus changes in valuation assumptions.

MR. DON PALMER: So -- so just to define what we -- what's meant by -- as I understand your questions, if we didn't change any factors, just said, Okay, we're not going to change any factors going forward, just run through with the -- the new -- the new data, but same loss development factors, what do you get? And that's what we call experience. And that change, as outlined in 1.9(e), is $51 million.

Changing the loss development factors, as I -- I described previously, would be the additional differ -- or the difference between the fifty-one (51) and the eight-seven (87), or about thirty-six (36).

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you. Still with reference to these two tables, 1-9(c) and I-9(e), can you elaborate on the runoff associated with the 2004/05 insurance year in particular, and discuss the basis of selection of the expected loss ratios generally used in the Bornhuetter-Ferguson method.

(BRIEF PAUSE)

MR. DON PALMER: There's -- there's essentially two (2) sources of -- of ways that we can aggregate the data. One (1) is incurred losses that's based on paid development and -- and, also, change in reserves.

On more recent years, we have most -- we haven't paid out a lot of dollars, so there is case reserves -- more case reserves than paids. But they -- there is uncertainty in -- in those cases -- case estimates. So it's better to use paids, but if you don't have all the data or it's more variable, then it's hard to use them as the basis of your valuation.

In the methodology that we currently have, we use incurred development for the last five (5) years and paid development for previous years, and that -- sorry, that's incorporating the Bornhuetter-Ferguson method that you've identified. We do make a flip in that sort of fifth year back, with an assumption on what the -- the incurred loss -- or the loss ratio will be.

In the last few years there has been a real release of reserves when you make that flip from the incurred method to the paid method. So that would indicate that maybe the initial estimate is too high in the loss ration, and, again, that would be reviewed in each subsequent valuation.

MS. CANDACE EVERARD: Can you comment on how the loss ratios are picked or selected?

(BRIEF PAUSE)

MR. DON PALMER: I'm not sure in what kind of detail you'd like me to sub...

MS. CANDACE EVERARD: High level.

MR. DON PALMER: High level detail. It is described, or shown, in page 9 of each appendix, but it essentially takes the loss development approach from previous years, and then takes a -- and then takes an overall average to come to a selection of the loss ratio.

The -- there's some weighting, in terms of less weight is giv -- given to more recent years and more weight is giving to more developed years, but those are sort of details rather than high level.

MS. CANDACE EVERARD: Can you tell us if the selection of the expected loss rations in the Bornhuetter-Ferguson method are sig -- I think I misspoke. Let me start over.

Is the selection of the expected loss ratios for the Bornhuetter-Ferguson method a significant source of the conservatism adopted by the Corporation in its Basic valuation?

(BRIEF PAUSE)

MR. DON PALMER: Ultimately, that ultimate loss -- or selected loss ratio could be part of the -- the conservatism that's in there, but the selection of that is fairly mechanisic -- mechanistic, so we -- we don't look at past -- the past emerging losh -- loss ratios, and then pick something different. I mean, these -- these are actually what has been observed over time. But as you bring down your loss development, that would in turn bring down the historical loss ratios, which in dou -- in turn would bring down your selected loss ratio.

So -- so in -- to somehow imply that there's some conservative judgment in the selection of that initial loss ration of Bornhuetter-Ferguson method, that's not quite true.

It's more the -- the incurred development factors that cause that.

MS. CANDACE EVERARD: Can you tell us, Mr. Palmer, whether the level of valuation conservatism is generally kept consistent from one (1) valuation to the next, and if so, how does the Corporation accomplish that?

(BRIEF PAUSE)

MR. DON PALMER: I -- I don't necessarily think that there is a conscious level of conservatism, as -- as you have portrayed it. That's -- it would be inaccurate to -- to term it that.

I will say that as we have am emerging experience when we had the new reserving calculator, we were careful with the results that were initially coming out of that calc -- that calculator because they were quite different, and saying again is this an aberration, or is it a trend. Now, if that carefulness is -- is conservatism, that would be your judgment, not mine, but I -- I don't think that there is a level of conservatism that's necessarily built into this aspect of -- of the valuation.

As we continued to see favourable years, then -- then at that point in time you say, Okay, yes, we have a new trend here, and pick those loss development factors, more based on the more recent years than -- than more historical years.

MS. CANDACE EVERARD: We'll be coming back to a discussion on conservatism a little later on, but thank you for that.

I'll ask you to go, Mr. Palmer, to Tab 23 of the book of documents. This is where we find the question and answer at 1-41 posed by the Board.

Do you have it?

(BRIEF PAUSE)

MR. DON PALMER: Yes, I do.

MS. CANDACE EVERARD: Thank you. We see in response to 'A', there is a table provided. What I'd ask you to do is explain that table, and discuss any implications for the claims incurred forecast in both the previous GRA, and the current GRA before the Board.

MR. DON PALMER: If I've got your reference correctly, this is with regard to the estimate of the PIPP enhancements?

MS. CANDACE EVERARD: Yes.

MR. DON PALMER: As at February 28th of 2009, that was our first estimate of the PIPP enhancements. Those levels would have been brought to -- to future years, trended to future years. That's the -- essentially the basis of the forecast; for future accident years, which is the basis of our rate making methodology.

As we move forward to April 30th, we had -- that estimate goes up a little bit, and that's not so much because there's any change in assumptions; that's because essentially you've added another third of a year to the -- to the estimate. There was no change in -- in assumptions to get from the ninety point eight (90.8) to the ninety-four point one (94.1); that's just passage of time with more years. And, again -- so those same estimates would have been brought forward into our rate setting years.

As at October 30th, we changed those assumptions. We had the opportunity of -- of looking at a more detailed level on the effect of the PIPP enhancements. That estimate goes to $77 million, and then a further -- as -- as we've looked at emerging experience to the end of the year, that was further changed for all years of $74.6 million, as the ultimate costs of those PIPP enhancements. Those then, in turn, get projected in the future and affect the future years.

So, in fact, when you have a decrease in the estimate from $90 million of -- up to $75 million, it not only affects your results on a past basis, so you have a release of reserves, but it also decrease your forecast for the -- for the future years, and that will bring your forecast for future accident years down.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So for last year's GRA then, was it the February or the April '09 column that was the best reflection of the estimate?

MR. DON PALMER: It would have been the February '09 column.

MS. CANDACE EVERARD: And for the purposes of the pending GRA, it would be the February 2010 column?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And just for the

purposes of the record, I will have some further cross-examination on this IR, but with a different bent to it, so when we come back to it it won't be deja vu.

I'll ask you to go to Tab 40 of the book of documents. This is where we find an IR with respect to runoff posed by the Board. It's Question 2-5. And the Corporation has provided a table as an attachment.

(BRIEF PAUSE)

MR. DON PALMER: Yes, I have it. Go ahead.

MS. CANDACE EVERARD: And if we look on the table, I believe that there are sixteen (16) insurance years reflected?

MR. DON PALMER: That would be correct, yes.

MS. CANDACE EVERARD: And can you confirm for me that the undiscounted Basic total, net PIPP runoff during the first quarter, or maybe more properly, the first two (2) months of the first quarter of fiscal 2010/11, was favourable for eleven (11) of these sixteen (16) insurance years?

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

MS. CANDACE EVERARD: And the aggregate favourable runoff is about 32 1/2 million?

MR. DON PALMER: Yes, that's correct. That's -- as at the end of April that's true, yes.

MS. CANDACE EVERARD: Yes. Can you tell us what types of changes in valuation assumptions are relevant as a source for this 2010/11 first quarter runoff?

MR. DON PALMER: The only change in assumption would be the flip from the incurred method to the paid method in that fifth year. You will see that for the '05/06 year there's a -- a negative -- or favourable development of $16.7 million.

So that's because of that -- that change. We haven't -- other than that methodological change, we haven't changed any factors, we haven't changed any other loss ratios. We've just moved the -- moved the methodology forward one (1) year.

MS. CANDACE EVERARD: Can you tell us if this type of change in valuation assumption has happened fairly routinely in the first quarter valuation?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And do you recall if there was meaningful favourable runoff comparable to this years 32 1/2 million during the first quarter of last fiscal year? So '09/10.

MR. DON PALMER: We don't have that with us, but there likely was.

MS. CANDACE EVERARD: Thank you. Do you recall if a lot of last year's first quarter runoff was attributable to the same type of change in valuation assumption?

MR. DON PALMER: It would have been very similar, yes.

MS. CANDACE EVERARD: And can you tell us, or undertake to tell us, if you prefer, the discounted Basic total net PIPP runoff during the first quarter of fiscal year 2010/'11, the current year, i.e., the runoff, including the effect of a change in the discount rate of interest?

MR. DON PALMER: For -- for the first quarter of -- of 2010/'11 --

MS. CANDACE EVERARD: Yes.

MR. DON PALMER: -- that's what you're asking? We -- we have that fairly handy, but we will have to take that as an undertaking. Probably be able to get to it after the break.

MS. CANDACE EVERARD: Thank you.

--- UNDERTAKING NO. 8: MPI to provide the discounted

Basic total net PIPP runoff during the first quarter of fiscal year 2010/'11, including the effect of a change in the discount rate of interest

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: And to clarify for the record, and I know that there was some evidence on this topic earlier, but just -- just so that we're clear, can you explain how this runoff amount is different from the 71 million in runoff that was referenced in the Corporation's first quarter report.

MR. DON PALMER: Sure, I -- I'd be happy to do that.

This favourable runoff that we've been talking about on the chart for 2-5 is a comparison of our ultimate estimate of -- that we said last year brought -- brought forward compared to what we think those same policy years are at this year, without consideration for any interest rate changes.

The $71 million reflected in our year-over-year operating results, for -- in our quarterly reports, all the comparisons that we make are the actual fiscal incurred: what happened last year, what happened this year.

So las -- last year we did have some favourable undiscounted development, as we've described, but we had very unfavourable interest rate development. The interest rates went -- went down and pretty much offset any favourable undiscounted development.

So, if I recall, we may have even had that interest rate change being greater than the undiscounted favourable development, so the reserve estimates went up. So, in fact, from a prior year adjustment perspective, it was probably positive.

The -- this year, we have that favourable development, and then, also, some interest rate movement, interest rates going up a little bit in the first quarter, so there -- there's -- that's a positive to the bottom line. The -- the -- that positive to the bottom line plus the favourable development, compared to last year's favourable development, but unfavourable interest rate change, the -- those differences are $71 million. And I'm getting a really quizzical look, but we're good.

MS. CANDACE EVERARD: Oh, no, no.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just to clarify, I think you said that the interest rate change was favourable to the bottom line; but wouldn't that be offset by the immunization strategy?

MR. DON PALMER: Not completely. When -- when we get to the full immunized, we're about 80 percent immunized. We're not there yet, so you take 80 percent, but the -- but there's also a factor that we're not fully converted to the held -- held for trading as yet, so there is an additional amount there. So -- so the answer is, no.

MS. CANDACE EVERARD: Okay, thank you. Now, you'll probably want to answer this by way of undertaking, but let me tell you what we're looking for. We're looking for an undiscounted runoff exhibit, comparable to that provided in response to 2-5, but now to cover the first half of the current year, or the first five (5) months, and provide the corresponding total discounted runoff amount.

MR. DON PALMER: Again, I think, from time to time, I am in your head, Ms. Everard. We have actually done that analysis, and we're ready to file that now.

MS. CANDACE EVERARD: You're actually in Mr. Pelly's head, but -- and Mr. Pelly just wants to ensure that you heard that it was the total undiscounted number.

MR. DON PALMER: Total undiscounted, yes.

MS. CANDACE EVERARD: Oh, corresponding total. Okay. This is the total discounted runoff as well as the undiscounted piece?

MR. DON PALMER: This is just the undiscounted piece. We don't have the corresponding handy.

MS. CANDACE EVERARD: Can you get that?

MR. DON PALMER: Yes, we can.

MS. CANDACE EVERARD: Okay.

--- UNDERTAKING NO. 9: MPI to provide the discounted runoff, to cover the first half of the current year, or the first five (5) months

MS. CANDACE EVERARD: So I see Ms. Kalinowsky has an exhibit. Perhaps we can just enter that right now on the record, and then Mr. Pelly I'm sure will review it and see if we have any further questions.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. I think Mr. Gaudreau's just working on the entering of the exhibit.

THE CHAIRPERSON: We're just waiting to get a copy.

MS. CANDACE EVERARD: Oh. That would be good if you had it.

THE CHAIRPERSON: We have it now.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Mr. Gaudreau will get us a -- an exhibit number for this in a moment, but just while we all have the -- the document, Mr. Palmer -- and -- and I thank you for providing this -- we see that, with the effluxion of time from April 30th to July 31st, we now have a change in the total amount of runoff reflected here. It's gone from 32 1/2 to just over 38 million.

Is that right?

MR. DON PALMER: That's correct, over the last five (5) months, yes -- four (4) months. Three (3) months.

MS. CANDACE EVERARD: Yeah. I think it would be three (3) months, right, from the end of April to the end of July?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And would you say that what we've seen now as this new exhibit, yet to be numbered, reflects the latest basic prudent best estimate, with respect to runoff?

MR. DON PALMER: The current best estimate, yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Does the Corporation have at this point in time any reason to expect a reversal of the favourable runoff over the balance of the current fiscal year?

(BRIEF PAUSE)

MR. DON PALMER: We wouldn't expect a reversal of that one large 2005/'06 year. That's approximately half of the -- the total.

In terms of the 2010 year, that really is the most uncertain, so that could -- could move the other way. The further back you go in time, there could be some pluses or minuses.

Would I -- so would I expect this to be completely rev -- reversed because of that large entry of minus $17 million? No. Is it possible that that minus ten (10) could decrease by the end of the year? Absolutely.

So, at this point in time, I think $17 million is kind of the -- the bot -- the bottom, the floor, of -- of what we would think that estimate to be, but it -- I don't think it would go lower than that.

THE CHAIRPERSON: Mr. Palmer, is it the norm for private insurers that stock companies that report on the stock exchange, and market values for the shares, is it normal to have such significant fluctuations in a consistent manner year after year after year? Because we note that, you know, a stock misses its earning per share by a cent, and you read the next day, stock plummets by 20 percent, or stock goes up by 20 percent.

I'm just trying to put this in some form of context.

MR. DON PALMER: And again, you're -- you're looking at undiscounted numbers, so there's -- there's really -- the discounted numbers would be very different from this.

I really can't comment on whether companies of our size would have the same kind of fluctuations in reserves or not. I do know that it's the movement on unpaid claims liabilities, or underestimate (sic), that has been the -- probably the biggest single cause of insolvency.

So there may be some move -- movement the other way from -- from year to year that would be -- could be as large, so I can't confirm your -- your comments. But when you're looking at a large unpaid claims reserve spread out over a sixteen (16) year period, there will be fluctuations from year to year, absolutely.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Mr. Palmer, just coming back for a moment to the last answer that you gave to my last question.

Given that what's reflected here is a best estimate, and I -- I appreciate the evidence that you've given about the '05/'06 year, and -- and that the most current year may change, but does the Corporation have, at this point, a particular reason to expect a reversal of what we see here, which is a bit different than saying, It could change?

MR. DON PALMER: No.

MS. CANDACE EVERARD: And I -- I take it then that your answer would be the same for whether the Corporation has a reason to expect growth in the runoff? We've been talking about a reversal; now I'm shifting to the opposite: growth.

MR. DON PALMER: Yeah, we would -- our expectation would be that the future runoff would be zero, which would indicate that it's the best estimate.

MS. CANDACE EVERARD: Okay. And just for the record, Mr. Gaudreau has assigned an exhibit number to this document provided. It's PUB/MPI-1-12 (sic). This is the July 31st, 2010, runoff estimate of 38 million.

--- EXHIBIT NO. PUB/MPI-12:

July 31, 2010, runoff estimate of 38 million

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. So I'd ask you, Mr. Palmer, to stay at Tab 40, but also we'll have reference again to 1-9, okay, but you probably don't need to look at it.

The question is: Has the full extent of the favourable Basic runoff experienced in fiscal 2009/'10, so the year that just ended, been reflected in the current GRA forecast for claims incurred for the current year and the year of the Application?

MR. DON PALMER: Yes, it has.

MS. CANDACE EVERARD: Now in broad terms, can you discuss how, and to what extent, the GRA forecast for claims incurred for each of the current year and the year of the Application, would have been affected if the current year fiscal first quarter runoff -- okay, second quarter had instead been fully recognized in '09/'10.

(BRIEF PAUSE)

MR. DON PALMER: If the estimate of the pri -- all the prior year's ultimates were -- would have been less by the $38 million in aggregate, then you -- if we had the same trending, our estimate for the current year and the subsequent years would likely have been less as well.

In -- in terms of how much, that's 30 -- $38 million spread over sixteen (16) years; round numbers, that's about $2 million a year. So that could have adjusted the ultimates on a going forward basis probably between 2 and $3 million.

MS. CANDACE EVERARD: And does the GRA forecast of claims incurred give equal weight to all of the sixteen (16) years, or is there more weight on the more recent years?

MR. DON PALMER: There would be more on -- on more recent years.

MS. CANDACE EVERARD: Thank you. I'll ask you to go, Mr. Palmer, to PUB/MPI-1-13, which is not in the book.

(BRIEF PAUSE)

THE CHAIRPERSON: Ms. Everard, would you repeat that. What number was it?

MS. CANDACE EVERARD: Sure. 1-13, Mr. Chairman.

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Mr. Palmer, I'm going to come back to a phrase that I had used a few minutes ago, when I was asking you about the second quarter valuation results and whether they reflected the latest Basic prudent, best estimate. And I think your answer gave back to me the words "best estimate," but not the word "prudent," so we just want to get our head around that. And 1-13 is a line of questions that relates to this language, best -- best estimate; prudently conservative; prudent, best estimate.

So can you confirm for the Board whether the phrase "prudent, best estimate" is descriptive of the Corporation's reserving philosophy.

MR. DON PALMER: I think using the term "best estimate" is probably better. We -- we do have a description of -- of maybe some areas of prudence in Part B of that question.

If you have a real change in trend, as I have indicated, as we had with the change of reserving methodology, you've got a point -- a data point that is different from the others. And the question is whether you give that full weight or if you think something is maybe, I'll use the word "aberrant", with that point when it's some new methodology and you don't really know how things are going -- going to evolve. So, from that, how you treat that data point, with some skepticism, that, I suppose, could be a degree of prudence.

So, I -- I wouldn't put too fine a point on if there's a difference between prudent best estimate or best estimate. Our overall reserving and rate making phi -- philosophy over the years really hasn't changed.

MS. CANDACE EVERARD: Okay. Can you confirm that for the Corporation's valuation purposes the phrase "best estimate" is intended to equate to the mean estimate, or the average point in the aggregate distribution of claims liabilities?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Can you also confirm that the Corporation believes that its aggregate distribution of claims liabilities is skewed, such that the mean estimate is higher than the median estimate, or the 50th percentile within the distribution?

MR. DON PALMER: Yes, that -- that's true. We have a num -- number of -- that would typically be the -- be true if you have a -- a small number of claims that would be significant in incurred dollars. We have a large number of -- well, a number of very large PIPP claims in a given year. They could average 2 or $3 million. That number of -- that we get in a given year could vary by amount of ten (10) from -- from year to year.

Well, all of a sudden you're looking at a difference in $20 million, so -- so that will tend to -- to skew the -- the estimate somewhat, and -- and give very high incurred values for a low number of years.

I guess the other example of that, which we've seen in the past few years, is -- is hail. Our -- have a tendency either to get hit with a lot of hail, or not much; not much in the sort of an average amount. So -- so from an aver -- if you just take all of -- all of the years, divide -- for hail for the last ten (10) years, divided by the total hail costs, you won't have half of the years greater than that number, and half of the years less than that number.

So, that's essentially what's meant by the skewed distribution.

MS. CANDACE EVERARD: Can you give us a sense of at approximately what percentile within this distribution is the mean, or the best estimate?

MR. DON PALMER: I -- I don't want to speculate on what that -- that number is.

MS. CANDACE EVERARD: Okay. I'm going to ask you to turn, Mr. Palmer, to Question 32 posed by the Board in the First Round: 1-32. This is a question that deals with the concept of scotac -- I knew I was going to say it wrong -- stochastic modelling.

Can you confirm that stochastic modelling is not current employed by the Corporation in the Basic claims incurred forecasting process?

MR. DON PALMER: I can confirm that, yes.

MS. CANDACE EVERARD: Can you comment on

benefits that may arise from the use of stochastic modelling in this process?

MR. DON PALMER: What stochastic modelling will give you, sort of a sense of is the -- a likely range of estimates. So whether -- whether we have skewness, or -- or we're very sure of an estimate because it happens every year, we see that on something like collision claims. I mean, our collision estimates are very close year after year, because it's -- that's -- there's some weather related changes. But if you look at our summertime collisions, they're very steady from year to year.

So stochastic modelling would give you some sense of -- of how you might expect that estimate to -- to change from year to year. So the stochastic modelling would -- would bring that and -- and be quite different than in PIPP claims, where you would have a wider band that you expect your claims to fall in.

MS. CANDACE EVERARD: If we go back, for a moment, to the question that I asked just a few minutes ago about whether you could give me the percentile within the -- the distribution that was the mean or the best estimate, and you didn't have that available, would stochastic modelling enable the Corporation to better produce that information?

MR. DON PALMER: Yes, it would give you a better sense of that.

MS. CANDACE EVERARD: Now, I asked you about benefits that might arise from the use of stochastic modelling. Can you tell us if, in the Corporation's view, there are downsides or potential risks in that process?

MR. DON PALMER: I don't know about potential risks. Stochastic modelling tend -- sort of gives you a -- a range of -- and how you might expect to be within that range.

The end of the day, our -- our claims forecast has to be a point estimate. We are setting rates based on a point estimate. So -- so I guess it's not any downside in -- in doing it. I mean, we -- we do include some stochastic modelling in our -- in our dynamic capital adequacy tests to find the 95th percentile as prescribed by the actuarial standards.

So -- so there isn't really a downside from that perspective. It's -- it's essentially the understanding of the users that -- that sometimes may lead to some -- some issues.

At the end of the day, we are here to give a point estimate of our pro formas and a -- and a point estimate of our rate indicator to say -- to come to this

Board and -- and say, you know, our average rate change for 2011/'12, we'd like something between 3 and 4 percent decrease. That's not -- not really something that -- that could be contemplated by the Corporation to -- to do that.

So in answer to your question: downside, not really. It's -- and it -- and we don't use it for other purposes, so.

MS. CANDACE EVERARD: So is the Corporation giving any consideration to introducing stochastic modelling into the claims incurred forecasting process?

MR. DON PALMER: As we become more sophisticated in our claims forecasting approach, and the fact that we do have some models within the Corporation, in DCAT, to have stochastic modelling, there may be some consideration at some point in time, but -- but again, the exact value and how it would be incorporated into the -- this exercise, I can't comment on that.

MS. CANDACE EVERARD: So it's not currently on your list of things to do?

MR. DON PALMER: It's not one of my top 10, no.

MS. CANDACE EVERARD: Okay. Mr. Palmer -- Palmer, I'll ask you to go then to 1-35, posed by the

Board. And we see here an IR in three (3) parts. There is an Attachment A, which relates to (a).

What we'd ask you to do is explain the information that we see here in the page 4, which is Attachment A.

MR. DON PALMER: Sure, I'd be happy to do that. We have essentially three (3) methods of -- of -- or three (3) forecasts that we employ. The financial forecast, which we've talked about at great length, which rely on for our pro forma forecasts of the Corporation, that is done by the Claims Forecast Committee, made up of people from various parts of the Corporation, both from the -- the actuarial pricing and eco -- economics finance perspective, but also from the field perspective, who will give us some -- some view on current trends within the marketplace, whether it be cost of repair or -- or different mechanical components of -- of cars that may be more costly to repair, et cetera.

So that -- that really gives you some real quantitative data, but also some qualitative data, in terms of catching some turning points, changes in trends, and -- and whatnot.

We also have two (2), again, more mechanistic approaches, sort of standard actuarial techniques, of -- of linear trends and exponential trends. A linear trend is -- is that your trend line is -- follows a straight line, which would be tantamount to saying if you've got an amount of claim that it increases by 'X' dollars per year. So if you had a claim that cost a hundred -- hundred dollars this year and you expect it to increase by five dollars ($5) a year, so next year it'd be a hundred and five (105), and the year after it'd be a hundred and ten (110), the year after, a hundred and fifteen (115), and so on, that's a linear trend. So -- so we fit a straight line to our historical data.

An exponential trend is that that would change by an amount, a percentage amount, every year. So from my first example, this year's -- if it's a 5 percent trend this year, a hundred dollars would be a hundred and five dollars ($105), and then a hundred and five (105) plus 5 percent, which is a little over a hundred and ten dollars ($110) and -- and go on through time, so it's a percentage increase.

What the chart at MPI-35 shows is the difference between those three (3) forecasting methodologies on both the frequency, that's the -- the number of claims, count of the number of claims; severity, which is an average size of claim; and the loss cost, which means the total loss costs for each of those coverage types.

The trend in '10/'11 that's shown for again for each coverage type, is the difference between our '10/'11 forecast and that -- the number that was actually observed in '09/'10. So, to that, if '09/'10 was an unusually large year or an unusually small year, you could get some real fluctuation in -- in those numbers from year to year.

The trend on '11/'12 shows the difference between the anticipated '11/'12 frequency, severity, and loss cost over the estimate for '10/'11. So that's sort of a smoother change fro -- year over year.

MS. CANDACE EVERARD: So you would describe that as normal to normal?

MR. DON PALMER: I would describe that as normal to normal, yes.

MS. CANDACE EVERARD: Okay. I'd ask you to direct your attention to the fourth section of this attachment that -- that you've been describing. It's the one entitled, "Accident Benefits Other Indexed."

MR. DON PALMER: Yes?

MS. CANDACE EVERARD: Can you explain why the financial forecast loss costs trend for 2011/12 falls above the corresponding estimates for the linear and exponential approaches? And I'm -- I'm looking at the -- the 2 percent at the far right bottom of the chart, as compared with the point five (.5) and the point 34 (.34).

MR. DON PALMER: Sure, I'd be happy to do that.

We have seen some fluctuation in the -- in the trend in the -- in the PIPP costs over the last number of years. They are subject to a -- a fair degree of fluctuation year-over-year. I know that our last couple of years have been a lot smaller, in terms of serious losses. We think that's random, a random event, but it will still affect your -- your mechanistic trend.

The PIPP costs are subject to inflation. They are -- if you have more vehicles on the road, you expect those people to have accidents, and unfortunately, have injuries, so there should -- all else being equal, a growth in both the severity and frequency of your PIPP claims.

We are saying that we -- that's what we expect. That's what our claims forecast shows. The actual data because of that fluctuation has shown that there has been, in the last few years, a -- a decreasing trend.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I wanted to ask you about a couple of other pieces of the chart, and I'll tell you in turn which ones they are, and then maybe you can just tell us if a similar explanation applies, or if there are other factors.

The second one would be in the -- the next chart down, which is entitled "Accident Benefits Other Non-Indexed," but the same line, the loss costs for, in this case it's 2009/10.

Oh, that must be mislabeled. Yeah, because everything else is '11/12 on there.

So let's assume -- if I'm wrong, tell me, but I assume that that should be '11/'12. And again, it's the loss costs, far right, last row. It's the 2 percent that's shown under "Financial Forecast Approach," compared with three and three-quarters (3 3/4) under "Exponential Trend," and 2.85 percent for linear.

MR. DON PALMER: And the -- the non-indexed costs that are referred to there would be death benefits and impairment benefits. So, again, a little lower frequency, but high severity events. So a -- again, you may get more fluctuation in the historical trend.

Again, we -- we don't see any reason to forecast a growth on those type of claims, different than the indexed claims. The actual experience ha -- has shown, for whatever reason, that there is -- is some growth historically that's shown, so that would be a -- a flip that sometimes the data just has randomness in it, random elements.

MS. CANDACE EVERARD: And the last example would be in the very bottom table of the document entitled "Comprehensive". We see the financial forecast, loss cost trends again being below, at 3.97 percent. The corresponding estimates under "Linear" and "Exponential", with -- which are both over 4 percent.

MR. DON PALMER: Over the last couple of years that frequency would largely be driven by hail. So -- so again, we're anticipating kind of normal hail years from a financial forecast perspective. Actual hail experience would be embedded in these numbers.

THE CHAIRPERSON: Ms. Everard, we're going to take the mid-afternoon break now, if it's all right.

--- Upon recessing at 2:36 p.m.

--- Upon resuming at 3:00 p.m.

THE CHAIRPERSON: Okay. Welcome back everyone.

Ms. Everard...?

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Mr. Palmer, I'd like you to go to 2-61 posed by the Board.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And in particular I'm looking at 2-61(a). This as an IR where the Corporation was asked to document the derivation of TI.15.A, forecasted Basic net claims incurred for a period of five (5) years from the TI.17 summary of forecasted Basic claims incurred, and the Corporation's given us a -- a table there at sub (a).

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

MS. CANDACE EVERARD: Can you go through the table, please, for the Board, and explain the purpose of each of the row entries, which represent the adjustments applied to the decisions of the claims forecasting committee in order to produce the GRA's forecast of claims incurred?

MR. DON PALMER: Sure, I can do that. The claims forecasts are done on the basis of undiscounted total dollars. So -- and these forecasts are also meant to be entries in a pro -- pro forma operating statement. So it's just essentially the conversion of that undiscounted total dollar estimate into more of a pro forma estimate. That's -- essentially that's all of these together.

The effect of discounting, and -- and the provision for adverse deviation, we do discount our claims liabilities. The change in discount, and the change in -- in PFAD each year goes through our operating statement. So that's these amounts that are added to the Basic ultimate claims. So that's the -- the first entry, the effect of discounting in PFAD.

The next row, the BPR-PIPP claims reductions, we are anticipating some claim savings as a result of our PIPP BI3 initiative, and they -- those were estimated separately, so they are taken off the net forecast, where there was no adjustment for -- or the total forecast, there was no adjustment for those process improvements.

The claims paid expenses, those are additional cost, not by file -- file by file basis, but expenses that are on an aggregate basis. Things like towing charges would fall in that claims paid expen -- expenses bucket. The provision that we give to Manitoba

Health is -- is in that number, as well.

In the internal claims adjusting cost, that's in -- in fact, not the -- the cost of internal claims but the reserve for in -- internal claims adjusting costs. So we have a reserve for those costs that changes every year, and that's the annual provision.

And the premium deficiency DPAC write-down, we do post based on actuarial standards, a premium def -- deficiency. We -- we do that at each year end. We essentially replicate what we think that calculation will be at each subsequent year end, but it's not a significant entry.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Can you tell us if the second, or I guess the third line item technically, the one entitled "BPR-PIPP Claims Reductions," that's something that the forecasting committee is likely to start building into their forecast?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Thank you. Let's turn then to 1-31 posed by the Board.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So we have at 1-31 a number of exhibits filed in reply to the questions posed.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So we'll be looking at some of these charts that have similar layout. What I'd ask you to do first is, with respect to chart A, the PUB/MPI-1-31A, if you can just describe in -- in general terms what's shown here, and then we'll get into some specifics.

MR. OTTMAR KRAMER: PUB-1-31A is the claims frequency, and we've got it for approximately ten (10) years, about ten (10) years, showing the -- the actual frequency that had occurred, the -- the original projected amount, and the revised forecast based on filing.

MS. CANDACE EVERARD: The -- the attachment makes reference at the top -- and this is seen throughout this IR -- to insurance year. There's reference to insurance year ended February 28th or 29th. That's the same as the Corporation's fiscal year, is that right?

MR. OTTMAR KRAMER: Yes.

MS. CANDACE EVERARD: And can you confirm that the columns that are entitled "Original Projected" represent sort of a first estimate made at the time of the GRA for that particular year? So for right now, in the 2011 GRA, that would be the numbers for the '11/'12 fiscal year that have been put forward in the filing?

MR. OTTMAR KRAMER: Yeah. Just looking at the '10/'11, the original projected would have been -- at the GRA, the revised forecast is what we currently have, and the actual, we don't have that yet.

MS. CANDACE EVERARD: Right.

MR. DON PALMER: So the original forecast is the original GRA filing; the revised forecast is one (1) year into -- after the -- the filing in the middle of that year; and the actual is the actual.

MS. CANDACE EVERARD: Right. Okay. Yeah. If we look at chart A, which relates to frequencies, can you discuss for us the forecasting accuracy for each of the coverages shown?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: There is a degree of variability, but just looking at it, the -- the -- I'm looking at the totals, the -- some of them are higher than the original projected, some of them are lower, so there is a degree of variability.

MS. CANDACE EVERARD: Would you say that there is any reflection of systemic bias in the forecasting of claims frequencies?

MR. OTTMAR KRAMER: No, I wouldn't say that.

MS. CANDACE EVERARD: If we look then at table D, 1-31 sub D, which relates to claims incurred, it's a chart of a very similar structure. Can you again comment on the forecasting accuracy that's shown?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Again, as my previous comment, just looking at the year's original projected to the actual, I see it going both ways, some where the actual's higher, some where the actual is lower.

MS. CANDACE EVERARD: And if we look in particular at the line entitled "PIPP," which is the second line for each of the charts, would it be fair to say that we see a fairly significant degree of variability on that line?

MR. OTTMAR KRAMER: Yes, I see -- I see some variability. I don't know if I would call it significant, but there is variability.

MS. CANDACE EVERARD: Most recently, we see an overstatement in the original forecast. If we look at the '09/'10 year as well as the '08/'09 year, the original projected to actual is very significant, as well as '07/'08. Do you agree?

MR. DON PALMER: And I'd just like to add, on those original forecast actuals, this -- the actuals reflect two (2) things. They reflect the current year forecast, so how much claims that we've had in -- in the current year. They also include a release from prior years, or a change from prior years.

We have discussed just before the break that we have had releases in the last four (4) or five (5) years, so those are incorporated into these.

At the original projected number, as we've talked about, those IBNR estimates or those ultimate -- past ultimates or best estimate, you wouldn't expect any favourable or unfavourable release. We got some, and that will be the -- the cause of -- of the -- the variance.

So I wouldn't necessarily portray it as a forecasting error, as -- as you had -- as indicated, or forecasting accuracy. It's -- this is the -- the variance, and it's caused by a release from prior years.

MR. OTTMAR KRAMER: And if I -- if I can just add, it also is impacted by discounts rates, and the -- the discount rates and interest rate environment has been on a downward trend in the last three (3) years, and that is also impacting the -- the net claims incurred expense.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Can you tell us how this exhibit is affected by the latest PIPP benefit enhancements? That is the enhancements for catastrophic injury victims.

MR. OTTMAR KRAMER: These -- these attachments include the PIPP enhancements on a go forward basis.

MS. CANDACE EVERARD: And is it the Corporation's view that there's any evidence of systemic bias in the forecasting of claims incurred, as reflected here?

MR. DON PALMER: A stys -- a systemic bias, no. Again, if you have a separa -- consider separately the -- the release from prior years. And there has been some release from prior years. I don't know I would call that a -- a systemic bias, per se.

That has certainly influenced the results that we see here, more than actually the current year claims.

MS. CANDACE EVERARD: But you would agree, as per this table, certainly from '04/05 to the last year completed, which would be '09/10, the original projected figures for PIPP were fairly significantly higher than the actual?

MR. DON PALMER: And that's because of the release from prior years, not because of a systemic bias in forecasting methodology.

MS. CANDACE EVERARD: Can you tell us with respect to the current year, now that we have the second quarter results, whether the gap between original projected and revised forecasts for claims incurred is tending to narrow or to widen?

MR. OTTMAR KRAMER: I believe in the --

MS. CANDACE EVERARD: That's for the current year.

MR. OTTMAR KRAMER: I believe what we handed out earlier in this proceeding -- I'm just looking through it -- showed -- showed the -- the net claims incurred to be at $620.6 million. That's based on Q2. And the initial, what we filed with -- in -- early on in the GRA was 618 million, if my memory serves me correct -- 619.2, so about a 1 1/2 to $2 million change from initial application, this GRA to Q2.

MS. CANDACE EVERARD: Yes, and that is on the record.

MR. OTTMAR KRAMER: Yes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: All right. I'm going to move into a -- a different area then. I'll ask the panel to turn to SM.5.11.6.

(BRIEF PAUSE)

MR. DON PALMER: Yes, I have it.

MS. CANDACE EVERARD: Okay. This is a reflection of a recommendation that the Board put in its last order following on the last GRA with respect to improvements to Basic coverage. And that recommendation was that:

"The Corporation list and consider potential improvements to Basic coverage with comparisons to coverage in other jurisdictions and develop analyses providing the premium and cost implications of options and the potential impact on extension and SRE for discussion at the 2011 GRA. The basic segment of MPI is intended to provide what is deemed to be necessary Basic coverage, and MPI should regularly compare Basic coverage with the expressed general needs of Basic hol -- Basic policy holders as demonstrated by their purchases of extension coverage. This review should be done on a strictly prospective basis."

That's what the Board recommended?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And the Corporation has stated just below that, on page 17, that:

"Expanding Basic AutoPac coverage is within the exclusive purview of the Legislature through amendments to the MPIC Act and it's also advised that a comparison of Basic coverage in other jurisdictions is provided at AI.2."

Yes?

MR. DON PALMER: Yes, that was our response.

MS. CANDACE EVERARD: While we're speaking about benefit changes, I note that the government released a press release in mid-September with respect to some amendments to the MPI regulation to recognize and provide for benefits administered by nurse practitioners, physician assistants and clinical assistants.

So I'm just going to grab that and we'll have some questions about it.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I assume that the Corporation is familiar with the -- the press release and its contents?

MS. MARILYN MCLAREN: Yes, I don't -- we don't have it in front of us right now, but we're certainly familiar with it.

MS. CANDACE EVERARD: I'm -- I'm happy to share my copy if -- if anyone would like to see it. I don't know if -- if that will be needed.

As indicated, the -- the government has put in amendments to the regulation to recognize these three pac -- practitioner groups, being the nurse practitioners, physician assistants and clinical assistants, for the purposes of ad -- administering benefits under PIPP. That's right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: The amendment will further allow for reimbursement for orthoses and prostheses prescribed by occupational therapists. Is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: The press release reflects that these amendments, obviously in the view of the government, will have benefit to individuals, to Manitobans, but it also provides that there will be no financial impact on the Corporation flowing from the amendments.

Can -- is -- is that correct?

MS. MARILYN MCLAREN: Yes. Any -- any financial impact would be really marginal. There may be a small reduction in costs on an individual file basis. If by having a nurse practitioner be able to approve reimbursement of an expense in a remote community that ser -- that saves that claimant from having to travel to a larger community, we would pay the travel expenses. So there may be some very limited savings, but it -- it's really minimal.

MS. CANDACE EVERARD: Okay, thank you.

There was an IR posed by the Board with respect to whether the Corporation knew of any pending or potential benefit enhancements to come and the -- the Corporation had stated at PUB/MPI-2-12(c) -- and go there if you wish, but I don't know that -- that you need to -- but it expected to file a letter with the Board with respect to that issue on a confidential basis.

Is there an indication of when that may be provided?

MS. MARILYN MCLAREN: I would say if not next week, we would certainly come back and let you know. But I -- I would expect there should be no issue with doing that next week.

MS. CANDACE EVERARD: Thank you.

THE CHAIRPERSON: Ms. McLaren, I understand that the basic coverage is set by legislation. I think everybody understands that. The program was implemented by government.

But in your answer to Ms. Everard, are you saying that the Corporation doesn't prepare a list of possible improvements to the Basic program with the implications that are associated with them?

We understand that it's your position that your advice to government is privileged, but with respect to the work that you do yourself, like any normal corporation, are you saying that MPI doesn't explore what the options are from time to time or on a regular annual basis?

MS. MARILYN MCLAREN: No, we don't, really, not on spec, you know. I mean --

THE CHAIRPERSON: So if the government doesn't come up with an idea or an opposition member or, I don't know, a talk show host, MPI would wait until the government approached it with a specific idea even though the Corporation has a mandatory monopoly over Basic insurance and, presumably, would be in a position to understand how its program compared with other jurisdictions?

MS. MARILYN MCLAREN: We work hard to understand where we sit with other auto insurance schemes, for sure. And -- I mean, I -- it's just difficult for me to know how to articulate this.

We -- we don't sit back and wait for talk show hosts to make a suggestion that the government might pick up on and then the government would ask us. It -- it -- it -- in practice, I think it's fair for the people in these proceedings to assume that things like that would go both ways.

But as soon as we start to talk about that, we're -- we're talking about what is privileged and

-- and confidential, those kinds of discussions with the Corporation and with the government.

THE CHAIRPERSON: I wasn't talking about --

MS. MARILYN MCLAREN: Yeah.

THE CHAIRPERSON: -- discussions with the government, just to be clear. The -- I was talking about whether or not the Corporation would analyse its own portfolio benefits and develop a list of potential improvements over time that could or could not occur. Whether you shared it with the government or not is -- I wasn't asking.

MS. MARILYN MCLAREN: I guess the thing I'm struggling with is that's the only basis that such work would have value, right? I mean, we have no control over coverage whatsoever in the Corporation, so the way we think about things, it comes back to, you know, we -- our thinking process always starts with the legislative framework, and we don't spend the resources to sort of blue sky about what we might do differently and -- and how much it might cost and what people might like and what they might not like just for our own interest. So...

THE CHAIRPERSON: At one time, you had a business development department or something like that.

That's -- didn't it do that type of thought process?

MS. MARILYN MCLAREN: We have a -- sure, we have a department that is -- where staff are focussed on the Basic as much as, you know, whatever other lines of business, for sure.

And I -- I guess all I'm trying to say is that any significant -- not even significant -- any real effort we would spend on things like this would be within a context of whether or not it -- it would result in -- you know, likely to result in changes to the legislation.

THE CHAIRPERSON: I didn't mean to make it difficult for you. I was just...

Anyway, Ms. Everard...?

(BRIEF PAUSE)

MS. CANDACE EVERARD: Thank you, Mr. Chairman. Just before I recommence, we have the exhibit numbers for the last bundle that Ms. Kalinowsky provided. And I should also probably say that I -- I misspoke on the record earlier when I said that the last exhibit entered, which was the runoff up to July 31st of 2010, was PUB/MPI Exhibit 1-12. It's, in fact, just Exhibit 12.

What we now have are a series of responses to pre-asked questions. There are four (4) of them, and these are all pre-asked questions posed by the Board to the Corporation, pre-asks 3-7, 3-8, 3-10 and 3-12. And we have exhibit numbers assigned as follows: PUB/MPI-11-7, 11-8, 11-10 and 11-12, respectively.

--- EXHIBIT NO. PUB/MPI-11-7:
Response to Pre-ask 3-7

--- EXHIBIT NO. PUB/MPI-11-8:
Response to Pre-ask 3-8

--- EXHIBIT NO. PUB/MPI-11-10:
Response to Pre-ask 3-10

--- EXHIBIT NO. PUB/MPI-11-12:
Response to Pre-ask 3-12

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Continuing on then, Tab 23 of the book of documents is the question and answer at 1-41 posed by the Board, and we looked at this a little bit earlier, Mr. Palmer, with respect to the -- some actuarial details.

This was the table that the Corporation

was asked to provide with respect to the estimate of cost associated with the benefit enhancements for catastrophic injury victims, the Bill 36 stuff. And we went through in a little bit of detail the variability that the Corporation has shown in that estimate. Originally, it was a $90.8 million estimate, which was revised up a bit to 94 million, and then down to seventy-seven (77), and then ultimately to seventy-four and a half (74 1/2), is that right?

MR. DON PALMER: And, again, I -- I apologize. What was the reference?

MS. CANDACE EVERARD: Oh, sorry. Tab 23, book of documents, 1-41. Probably should have made sure you had it before I started talking.

MR. DON PALMER: Yes, I have it.

MS. CANDACE EVERARD: Okay. So all -- all I had said was we looked at this a little bit before. This is the -- a historical listing of the estimates that the Corporation had for the cost of the benefit enhancements flowing from Bill 36?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And so we see that the -- the numbers shifted somewhat over time, but, at the end of the day, the estimate started out at about 90 million, and ended up around 75 million?

MR. DON PALMER: Close enough, yes.

MS. CANDACE EVERARD: Now we see on page 2 of that IR response the Corporation's explanation in the first paragraph at the top of page 2, that there were some decreases in the ultimate costs for income replacement indemnity, or IRI, as well as permanent impairment, and that those decreases were there because there was an estimated -- or there was a decrease in the estimated number of claimants eligible to receive the benefits. That's what it states?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And then the last sentence of that first paragraph says that:

> "The decreases in the number of eligible claimants stem from the definition of catastrophically injured claimants as passed in Bill 36."

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Now in the second round the Board asked a follow-up question on that IR, which is 2-24.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Do you have 2-24?

MR. DON PALMER: Yes, I do.

MS. CANDACE EVERARD: At that IR, sub (a), the Board asked the Corporation to confirm that the definition of catastrophically injured claimant had changed between the bill as originally drafted and the legislation as passed, as we thought was implied by the response.

And the Corporation has advised and they answered at sub (a) that there were no changes made to the definition between the bill as originally drafted and the legislation as passed. That's right?

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

MS. CANDACE EVERARD: And the Corporation further stated that the original estimate, so I take it that would be the 90 million, was based on an overall estimate of -- of catastrophically injured claimants without completing an exhaustive case by case review. That's right?

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

MS. CANDACE EVERARD: So, I -- I appreciate the -- the comment that it wasn't an -- an exhaustive case by case review that was done at that early stage, but at -- at the end of the day was -- did the number of -- of eligible claimants change because people passed away, or was it just that out in terms of accuracy?

(BRIEF PAUSE)

MR. DON PALMER: I would say neither of those would be true. When we had the -- the definition of catastrophically injured, and we have computer files and some criteria base, but the -- the definition of catastrophically injured is -- is very specific and -- and really does need a -- an extensive file by file review.

We had an estimate based on some basic systemic -- systematic criteria of who would be subject to that -- that ex -- enhanced benefits under PIPP and who -- who would not be. But that was just done by a -- electronic criteria. We -- we did a -- we did a search on -- on our claims files and had -- without going -- have case managers file by file. It was an actuarial exercise to come up with the files that we believed at that time were enhanced benefits.

Once -- and that was done just as part of the 2008/'09 year end valuation. Once we got further in -- into it -- and then it's -- it's time to pass over for -- to the case managers and do the really in-depth file by file review, whether a claimant is eligible or not eligible and that's the final determination of -- of the ones that were eligible.

MS. CANDACE EVERARD: Okay. So the -- the actuarial review that was done in connection with year end gave rise to the $90 million figure, and then the case by case review done by the case managers knocked it down eventually to seventy-five (75)?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And we see in the reply to 2-24(c), some actual numbers in terms of the -- the number of people, and that provides that there are eighty-five (85) individuals in receipt of the enhanced benefits on the IRI side, and a hundred and seventy-nine (179) on permanent impairment?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And do we know what those numbers would have been under the original actuarial review that was done that gave rise to the 90 million?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Most of the change was in terms of the incurred, the dollars. There's very little change in terms of the actual numbers of claimants that we expected to be affected. The initial estimate was about a hundred and thirty (130). And when the legislation was enacted and -- and we had to go through the files and -- the -- the first thing we had to do was issue cheques for the top-up enhanced permanent impairment, and we sent out more than a hundred and twenty (120) cheques.

So in terms of the numbers of people affected, there's very -- very little change.

MS. CANDACE EVERARD: I -- I understand what you're saying, and I -- I guess from our point of view we were going with the answer that was given to 1-41(a) -- or pardon me, sub (b), which said that the dollar reductions reflected decreases in the estimated number of claimants.

So I don't know that a whole lot turns on it other than we're -- I just want to make sure that the Board understands what occurred basically. So I -- I gather that what you're saying, Ms. McLaren, is a little bit different than what's in this IR response?

MS. MARILYN MCLAREN: And that's what we were trying to clarify and straighten up in the response to -- to Round Two. So it was just -- that the -- the answer in Round One was not good. It didn't get caught. If we had done a -- if we had caught it through the review process for the Round One responses, it would have changed at that point.

MS. CANDACE EVERARD: Now we see that the -- the dollar amount, going back to the original $90 million estimate, which was revised down to seventy-five (75), that -- those dollar reductions are driven in the main, certainly by the IRI and the permanent impairment components.

In fact, the personal care and the death benefit components went up between February '09 and February of 2010. Is that right?

MS. MARILYN MCLAREN: The reference for that?

MS. CANDACE EVERARD: Oh, that's 1-41(a). It's the table that shows the breakout of the -- how you get from the 90 million to the seventy-five (75).

(BRIEF PAUSE)

MR. DON PALMER: Yes, the -- the big decrease was in the permanent impairment awards.

MS. CANDACE EVERARD: And the IRI was also a decrease of about 7 million or seven (7) and change, whereas personal care and death benefits actually increased in each -- each of those categories?

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

MS. CANDACE EVERARD: So the bottom line is that at the end of the day the cost of the Bill 36 enhancements to the Corporation is about 74 1/2 million?

MR. DON PALMER: Yeah, the retrospective component, as we estimate it now, yes. On a going-forward basis, I think it was about $7 million a year.

MS. CANDACE EVERARD: Understood.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Now the original estimate of the 90 million appeared in the Corporation's annual report for '08/'09?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Do you recall that?

MR. DON PALMER: Yes, I do.

MS. CANDACE EVERARD: Can you tell us what working papers were provided to the external auditor in support of the journal entry regarding that original number?

MR. DON PALMER: They -- they had the actuarial review for the estimate of that. There was also -- there was also a Board minute that confirmed that the -- that the government had accepted the Bill 36 changes.

(BRIEF PAUSE)

MS. CANDACE EVERARD: The actuarial review that was provided by the Corporation to the external auditor, is that something that's on the record with the Board?

MR. DON PALMER: Yes, it is. It -- it's the -- it's the appointed actuary's report as at February of -- 28th, 2009. It would have been filed as part of the evidence last year.

MS. CANDACE EVERARD: And has the Corporation reviewed the change in estimate from February of '09 to February of this year with its external auditor?

MR. DON PALMER: Yes, that was -- would have been part of the year-end audit, so subject to all of the audit review and including the auditing guideline 43 of review by an actuarial special -- specialist.

MS. CANDACE EVERARD: Can you advise us of what explanation and analysis was given to KPMG when the adjustment was made?

MR. DON PALMER: The actuarial -- appointed actuary's report.

MS. CANDACE EVERARD: And is that something that can be provided to the Board?

MR. DON PALMER: The Board has it, has both the appointed actuary's review as at October 31 of 2009 and February 28th of 2010 as AI.18, I'm guessing, but I think that's it.

MS. CANDACE EVERARD: And can you confirm that this adjustment was treated as a material change adjustment by the Corporation, as a material journal entry?

MR. DON PALMER: It -- it wasn't a -- a separate entry. It was part of the actuarial review. Individual claim files would have been changed as case reserve sometime this year.

MS. CANDACE EVERARD: And did KPMG express any concern with respect to the change from the ninety (90) down to the seventy-five (75)?

MR. DON PALMER: Not specifically, no.

(BRIEF PAUSE)

MR. DON PALMER: Just let -- let me reiterate that they expressed no concern.

MS. CANDACE EVERARD: Okay. Let's go back to Volume I then, and particularly S -- oh, hang on.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I'm -- just before we leave this topic and go to a new one, Mr. Pelly has just pulled up AI.17(b) from last year's filing, which is the external actuary's report, Ernst & Young, from February of 2009. And there's a paragraph there in the covering letter -- this is on page 4 -- that reads:

"In February 2009, the Minister responsible for MPI submitted to Cabinet a proposal which would enhance PIPP benefits for catastrophically injured claimants. The proposed enhancements impact past and future claims and, if enacted, would significantly increase our estimate of policy liabilities. We have relied on MPI actuaries to quantify the proposed PIPP enhancements. We have reviewed their analysis for reasonableness. An MPI report describing the proposed changes and their impacts is provided in Exhibit J."

Does that sound about right?

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

MS. CANDACE EVERARD: It sounds like Mr. Christie didn't do any independent analysis, that he relied on the Corporation. Do you take the same from that paragraph?

MR. DON PALMER: It -- it depends on what you mean by study for reasonableness. It's still -- it does -- or, if that's not the -- quite the exact words, but --

MS. CANDACE EVERARD: He -- he said he reviewed the analysis for reasonableness.

MR. DON PALMER: Yes. He -- it's the same data. It still comprised part of his appointed actuary's report. So in terms of that test of thoroughness, it still was included in his report on liabilities.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Does the Corporation take significance from the phrase "relied" being used by Ernst & Young, where it says, "We have relied on MPI's actuaries to quantify," rather than saying, "We have used information obtained from MPI's actuaries"?

MR. DON PALMER: I -- I don't think there's specific significance in that, no.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. So we have about ten (10) minutes left before four o'clock, Mr. Chairman, and I'm sure that I can cover some more ground.

If we go to SM.2.4.B. No, that's an incorrect reference. My apologies.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Sorry, that is the right reference, SM.2.4.B. I just didn't put my fingers on it. That's page 6 of SM.2. This is a section within the filing that deals with glass claims costs, which I'd like to review.

The Corporation provides here in these couple of short paragraphs that it monitors glass pricing and discount trends in the industry on an ongoing basis, is that right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: The Corporation negotiates discounts for windshields and tempered glass with the trades, and, at present, those are a 10 percent discount for each?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the Corporation saves as much as eight hundred thousand dollars ($800,000) annually by virtue of these negotiated discounts?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Does the Corporation have a belief or a view on whether the rates that it's paying for glass claims costs are competitive as compared with other jurisdictions?

MS. MARILYN MCLAREN: Yes, we believe they are, definitely. Yes, they are, as far as we can tell. We do monitor them.

MS. CANDACE EVERARD: So the Corporation's understanding is that it's not paying more than would be paid in other provinces?

MS. MARILYN MCLAREN: By institutional payers, like in -- insurers, for sure, yeah. I mean, there -- there are changes. There is a national auto glass price database. It's a national association, for lack of a better phrase, that we deal with. It's very --

they're very aggressive. It's very competitive. But as -- as best we can, we monitor it. And we believe that we're getting a good price.

MS. CANDACE EVERARD: And does the Corporation have any other negotiated terms with these service providers?

MS. MARILYN MCLAREN: Specifically related to glass? I mean, the -- the price we pay for glass tends, for the most part -- most body shop, most repair shops also do glass. So, in some fashion, it is part of the overall agreement.

But for the -- it's -- specifically related to glass, this is really the bulk of the negotiation. There may be some other small prices and fees we negotiate about whether it's, you know, sealant or stripping or something like that, but this is really the bulk of it.

MS. CANDACE EVERARD: And is this pursuant to an agreement that has a specific term, number of years?

MS. MARILYN MCLAREN: I believe it does, yes. Definitely, yeah.

MS. CANDACE EVERARD: Do you know what the term is or when it might be?

MS. MARILYN MCLAREN: Not off the top of

my head, no.

MS. CANDACE EVERARD: I'd like to then turn to pre-ask 3-11, which is MPI -- or PUB/MPI Exhibit 11-11.

(BRIEF PAUSE)

MS. CANDACE EVERARD: This was a pre-ask question wherein the Board then asked the Corporation, in what circumstances does an insured incur cost, including for his or her deductible, in a physical damage claim involving a windshield stone chip and no other damage, what is the Corporation's policy in this regard?

And the Corporation has said:

> "If the repair cost does not exceed the insured's Basic deductible, the insured would be responsible for the cost of the repair. If the repair cost exceeds the insured's Basic deductible, the insured would be responsible for payment of the deductible with the Corporation being responsible for the amount of repair costs in excess of the deductible."

That's right?

MS. MARILYN MCLAREN: That's the answer, yes.

MS. CANDACE EVERARD: That's basically the way that most claims work?

MS. MARILYN MCLAREN: Pretty much, yeah.

MS. CANDACE EVERARD: Where there's a situation involving a claim that is less than the deductible as reflected here, the insured would be responsible for the cost of the repair.

So that would be like being self insured as we spoke of earlier?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: Are there situations or claims for windshield chips wherein the Corporation does not levy a deductible on the insured? And -- and I'm not talking about the ones where the person is being self insured. I'm talking about ones where the -- the Corporation would actually be paying something out on the claim.

MR. DON PALMER: Not under the Basic Autopac program, no.

MS. CANDACE EVERARD: Is there something like that available under -- is that like a product that you could buy under Extension?

MS. MARILYN MCLAREN: I actually have to

look that up on the MPI website, if you want to give me a minute. I don't have it off the top of my head whether that's a provision of Extension coverage or not, but it's certainly not -- windshield chip repair would -- would not be applicable to Basic.

I'm -- we probably have something to say about it on the public website.

THE CHAIRPERSON: Well, just from direct experience, when you get a windshield chip and it could be replaced by what they call the Novus, MPI, when the claim comes in, they pay the whole claim. Must be through the Extension, I suppose.

MS. MARILYN MCLAREN: I'll take your word for it. I just don't remember off the top of my head.

MS. CANDACE EVERARD: I -- I think that's okay. You probably don't have to look it up. We -- we could look it up, as well. If we want to ask any more questions, we'll do that or -- or otherwise let you know.

THE CHAIRPERSON: The only thing in following that up then, based on your answer, that would mean in a sense, the alternative to having the chip replaced or fixed -- they put a resin in it, as you know, and they bring it down -- would be for the insured to pay the deductible and get the whole windshield replaced.

And if that was done, presumably, there would be a significant cost to Basic, correct?

So Basic, in a sense, is being bailed out by Extension.

MS. MARILYN MCLAREN: That's probably fair in -- in this instance. And -- and, you know, there's probably people that get chips that don't deal with them and then they have to end up getting the whole windshield repaired.

And I guess, you know, the only reason I was hesitating at all is -- is, you know, in terms of the extent to which the cost is significant.

I know on -- on newer vehicles, windshields can be quite expensive and Basic would pay, you know, a good, good chunk of that. Older vehicles, I think, it's not uncommon for the customer to be getting a windshield for less than the five hundred dollar ($500) deductible.

THE CHAIRPERSON: It's just an interesting interplay because direct experience, we had a windshield chip occur when we were driving on the Perimeter, and they had a little Novus stand in the mall that we just happened to drive by and they faxed off something to MPI and it came back and there was no cost to us whatsoever. But if Basic didn't pay it, that would have meant, presumably, that Extension did because there was no charge to the customer.

But the alternative to that, of course, would be if they hadn't been able to fix the chip, then the whole windshield would have had to have been replaced and that would have been very expensive. So I guess it does show, to some degree, a bit of interplay between the programs -- cross-subsidisation, I suppose. I'm not saying it was intentional; it's the way the program works.

MS. MARILYN MCLAREN: No deductible glass repair would be a feature, you know, the way we're talking about it here, as an Extension product that we would do sort of on a competitive basis.

So no matter where, it's definitely -- whether somebody decides to pay it themselves and avoid their five hundred dollar ($500) deductible, whether we offer it as part of our extension, whether a competitor offers it as part of the extension, anytime somebody gets a chip repaired, Basic wins.

THE CHAIRPERSON: Yes. The -- the interesting part in -- in the interest of information sharing, the experience we had, I remember the repair bill that was paid for -- didn't pay much attention at the time, but I guess it was being paid by Extension --

was about eighty-five dollars ($85) or something like that. And the interesting part was when we were in -- in Calgary, our daughter got a windshield in her car and took it in, and there, the exact same outfit with exact little tent in the mall charged twenty-five bucks ($25). So it just seemed to be dramatically different.

MS. MARILYN MCLAREN: Well, I think, for the most part, that comes down to who's paying. You know, we've had conversations in this forum through time that if people can get their -- you know, their dented fender fixed for much lower than the hourly labour rate that we pay, and I think that's standard across the country, is that insurers tend to pay more than individuals coming in off the street. And -- and I know in Alberta, there's virtually no glass coverage for automobiles whatsoever. It's a hugely expensive add-on to a comprehensive policy/

THE CHAIRPERSON: But just following on --

MS. MARILYN MCLAREN: It's an endorsement.

THE CHAIRPERSON: -- in the discourse, the -- the alternative that exists -- at least my understanding is, you could perhaps correct it, but it helps the panel to understand some of the general background -- when we take our car into the dealer to have it -- you know, a mechanical part repaired, I think the customer generally pays an awful lot more than MPI does. Because you negotiate on a blanket basis with the entire trade association, do you not?

MS. MARILYN MCLAREN: Right, but I believe it's also true that mechanical rates are higher than the body shop rates.

THE CHAIRPERSON: Interesting. Thank you.

MS. CANDACE EVERARD: Thank you, Mr. Chairman. Just one (1) follow-up question on this topic.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Is there any different treatment in these types of claims if they arise within Manitoba or in another jurisdiction, or are they treated the same across the board, regardless?

MS. MARILYN MCLAREN: No. If somebody had a policy and got their chip repaired outside of Manitoba, they could seek reimbursement. I mean, the way it works in Manitoba generally is the -- the policyholder doesn't have to pay up front and get reimbursed. That would be different, but other than that, I mean, it's certainly not exclusive to damage inside Manitoba.

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

(PANEL RETIRES)

THE CHAIRPERSON: All right. Thank you, very much. So we'll resume again on -- I don't believe we sit on Monday.

MS. CANDACE EVERARD: No. We -- we don't sit tomorrow, Monday's Thanksgiving Day, and then we sit Tuesday at 9:00 a.m., which will be the 12th --

THE CHAIRPERSON: Right.

MS. CANDACE EVERARD: -- and that'll be the panel, and then our first outside witness comes on Wednesday.

THE CHAIRPERSON: So on Monday we can go and watch and see if the Bombers finally win a game or not. Anyway, we'll see you all Tuesday at 9:00.

Oh, by the way, if you want to leave your stuff here, it's fine. It'll all be locked up and secure.

--- Upon adjourning at 4:02 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.