MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE COMPANY (MPI)
GENERAL RATE APPLICATION
FOR 2012/13 INSURANCE YEAR

Before Board Panel:

Susan Proven - Board Chairman
Len Evans - Board Member
Regis Gosselin - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 2089 to 2150

APPEARANCES

Candace Grammond	)Board Counsel
Nicole Hamilton (np)	)
Kathy Kalinowsky	)MPI
Michael Triggs	)
Raymond Oakes (np)	)CMMG
Byron Williams (np)	)CAC/MSOS (MPI) Manitoba
Nick Roberts (np)	)MUCDA
Liz Peters	)CAA Manitoba
Jerry Kruk	)
Dave Schioler (np)	)IBAM

TABLE OF CONTENTS

	Page No.
Closing Submissions by MPI	2092
Certificate of Transcript	2150

--- Upon commencing at 9:34 a.m.

THE CHAIRPERSON: Welcome back on this final day. So I think we're ready to begin, Ms. Kalinowsky?

CLOSING SUBMISSIONS BY MPI:

MS. KATHY KALINOWSKY: Yes, good morning. I've circulated my closing argument comments to all members that are here today. But before going through the closing argument I did want to say that today is a very, very important day for Manitoba Public Insurance, not just because it's closing argument, but today marks the 40th anniversary of MPI being open for service.

And so I just pulled a few things up from our archives that I thought I would share fro -- with you today on this aspect. But the minister responsible for MPI was Howard Pawley, who also was the Chair of the Board of Manitoba Public Insurance. And it's interesting that until the late '80s the minister responsible for MPI was the Chair of the MPI Board.

So November 1st, 1971, was the first day that MPI was open for service. The first claim occurred at 7:40 a.m. at the St. Mary's Road Claims Centre. At that time, there were a hundred and eight (108) employees on the first day and customer service consisted of taking your car which was damaged in a motor vehicle accident, lining up at a service centre with it. The -- the line would snake around several blocks but busy times and so on and people just had to sit in their cars and inch forward in their damaged vehicles.

With respect to claims costs, that year, claims costs were $31 million, a large difference from today. $51 million were the premiums written that year, and operating expenses were $6.4 million. And, of course, the IBNR was $1 million. So a lot of -- a lot of difference from today, of course.

But having said that, we are very, very proud to be a part of this organization and just want to spend a moment commemorating the forty (40) years, and also the vision of those who made their -- the dream of public auto insurance in Manitoba a reality.

So with that, I'll move towards the closing arguments. And I'm going to first talk about the rate decrease. And I provided copies of this because I figured that it's a lot easier for you to follow along rather than copiously trying to take notes, and this way you can just sit back and read this or lis -- and listen at the same time and take any notes or anything that you might want to take in addition to this. But I have provided this.

So I'll start first and talk about the rate decrease. The Corporation is seeking an overall 6.85 percent decrease in premium revenue for rates effective March 1st, 2012. The 6.8 percent rate decrease has been termin -- been determined by long-standing, PUB approved, rate making methodology as encompassed in the rate filing.

The goal accepted by the parties, including the PUB, is for Basic to break even financially. Break even financially means, averaging out two (2) years of net income for 2012/'13 and 2013/'14, recognizing the effect of the staggered renewals, and forecasting a net income of plus or minus $10 million, out of a revenue requirement for the upcoming year of $782 million.

The Board has heard forthright evidence of the potential variability of that forecast, whether it's due to hail, investments, expenses and/or claims costs. The PUB has heard no evidence as to why any other rate change would be more actuarially sound and statistically based. And therefore, the PUB ought to approve the rate decrease as applied for.

How was the 6.8 percent rate decrease in rates determined? The costs of the Corporation, which are claims and expenses, offset by the revenue offsets that are used to determine the overall net revenue that is to be collected from customers determines the overall rate level. The difference between required and what would be received without a rate change, determines the indicated rate change. This year, the actuarially indicated rate change is a decrease of 6.8 percent.

The proposed 6.8 percent rate decrease is significant and is primarily the result of the changes of the assumptions about the future costs of PIPP claims. On the other hand, hail costs continue to increase and now comprise 7 percent of the overnall -- overall revenue requirement, up from 4 percent not too long ago.

As mentioned several times by Mr. Palmer, the Corporation will continue to closely monitor hails claims costs to determine if the increased cost is a new norm in an age of climate change.

Board counsel questioned if the 6.8 percent rate decrease were granted, what the risk would be that -- that there would need to be a full or a partial offset by increases in the foreseeable future.

Mr. Palmer and Ms. McLaren advised that the financials for the outlook period are very strong, and have been consistent for the past year too, which should be reassuring for the PUB. The projections and outlooks have been quite stable and strong for the past few years, and there is no expectation that this will change.

The newly revised TI-14, which is marked as MPI Exhibit number 10, that incorporates the second quarter information from 2011/'12, indicates that the Basic retained earnings are forecast to be 128 million in 2011/'12, 127 million in 2012/'13, 136 million in 2013/'14, and 160 million in 2014/'15.

As indicated in the hearing, this projection is without future rate decreases, and therefore indicates an RSR level within the PUB established level within this outlook period.

In looking at the net income for those respective years - and that's at MPI Exhibit number 9 - which incorporates the second quarter numbers, is $1.3 million net income in 2011/'12, a $1 million loss in 2012/'13, $9 million net income in 2013/'14, and $24 million net income in 2014/'15.

The years with the -- it should be -- yeah, with the one (1) point -- with the 1.3 million and $9 million net income are basically break-even followed by a healthy year of 24 million projected net income. For rate setting purposes the net income is, in essence, spread over two (2) years due to the staggered renewals and then divided by the two (2). So we're looking at a small positive net income for the two (2) years 2012/'13 and 2013/'14 affected by the 2012 rates.

Based upon the rate making processes that have been long established, along with the stability of the outlook which has been exhibited over quite a number of years, it is submitted that the PUB should approve this 6.8 percent rate decrease.

The CAC argued for a rate decrease of 8 percent on the basis of concerns of expenditure control amongst other things. However, CAC was not able to pinpoint any specific expenditures that should be controlled. For instance, should service centre hours be reduced. Should the customer call centre not respond to calls as quickly. Should there be a lengthier queue for having vehicles estimated.

It's very easy to make statements that increasing expenditures should be halted, but it's very difficult to pinpoint those actual services which are to be targeted. In that matter, CAC has failed. CAC merely argues that the rate decrease be furthered by an additional 1.15 percent yet can provide absolutely no basis for how that amount was derived. It merely seems to be a judgment call from CAC rather than being based on a forecasting estimate of costs and expenses.

In her evidence, Ms. McLaren advised that MPI has a comprehensive system of customer service standards that sets goals for the many important aspects of service that the Corporation knows Manitobans care about. We know that because we consulted in the development of this service standards framework.

If CAC and CAA want to suggest alterations in the level of service then MPI would encourage them to consult with us outside of the rate hearing process as their comments could be of value.

CAA took much of the same approach only more aggressive, a 9 percent rate decrease. How was that derived? Surely not with any actuarial science or accounting or finance precision. And with respect to CAA's comments about benchmarking, if they have evidence that their -- two thous --- two hundred thousand (200,000) members would be comfortable with longer wait times and restricted hours of service MPI would welcome a chance to see such information outside of the hearing process.

I'm going to talk now about rates in general. The Corporation has indicated for years that it values the PUB process for rate setting and has consistently noted that the benefits derive from the rate hearing process. These benefits include enhanced transparency, not only in rate setting but in all aspects of the operations of Basic. There's improvements in forecasting, the rate-setting methodology in TI-18, and there's improvements in the allocation process methodology.

Through the twenty-four (24) years of applications and hearings the rate making has reached a level of maturity that is fulsome and satisfactory to Manitobans. This is particularly reflected in the fact that out of twenty-four (24) rate applications the PUB has approved overall rate levels sought in eighteen (18). In a further five (5) applications the amount approved has been less than 1 percent from that sought by MPI. In the one (1) remaining rate application the PUB granted a rate higher than that which was applied for by MPI, and that's located in PUB-1-1.

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

Let me address some comments about forecasting in general. I want to take a moment and address certain issues on forecasting and the implications for rate setting to assist the PUB in making its decision on 2012/'13 rates. Ms. McLaren addressed this in the re-direct examination at the end of the evidentiary component of the hearing.

Ms. McLaren noted that expenses will vary. There is the potential for new initiatives, upcoming contract negotiations with key partners, like MMDA, ATA, or commissions with the brokers. 2) The primary source of uncertainty, however, is that there will continue to be important unknowns in the ultimate cost of the long-term injury claims for the next forty-five (45) years. 3) That's because it's been widely discussed in these proceedings that it will take about sixty (60) years to reach a steady state of PIPP claims.

4) It is possible there will be changes in the next few weeks as a new external appointed actuary completes the as at October 31st review and MPI gathers another year of data. 5) It's important that the Board understand that and be comfortable with that because whatever changes between now and the next application will be dealt with in the next application for twenty (20) -- for -- for 2013/'14 rates. Autopac Basic compulsory rates and the role of the PUB are here for the long term. MPI will never be in a position to give the

Board complete, final, unchangeable information with which to approve rates for the upcoming year. There is nothing any of us can do to change that fact.

6) MPI has rigorous forecasting and rate making processes that have been improved through this PUB process over many years. Ms. McLaren noted that she could defend the integrity and quality of these processes against any other auto insurer in the country.

7) There is uncertainty, but it's uncertainty within a robust, high quality processes established at least in part through this annual rate making process. The rate setting process is prospective. A significant amount of information has been provided to the PUB and Mr. Palmer spent much of his direct examination explaining how the filing provides this necessary information for the PUB to make its decision on the 2012/'13 rates. I would urge the two (2) new Board members to review that part of the transcript again at pages 55 to 66.

A major focus of the hearing was the Corporation's claims forecasts, particularly injury claims. The questions asked were: Are these too conservative? The Corporation acknowledged there is some conservatism in the forecast on numerous occasions. Is some conservatism appropriate? Yes, particularly due to the uncertainty in forecasting long-term injury claims costs. Is there too much conservatism in the forecast? At this point, no one can say, and that in itself is the point. Uncertainty demands a somewhat conservative approach to estimating future costs.

If there is too much conservatism in the forecast then how much conservatism is too much? The Board heard no evidence of how many conservatism was too much. It only heard allegations from CAC and CAA in closing argument. Does the PUB have any basis to do anything other than approve the rate application with its somewhat conservative forecast of future injury claims costs? No.

And here's a summary of the evidence that the PUB did hear with regard to the unpaid claims liabilities.

Next topic is the actuarial reviews of unpaid claims liabilities. As expected, the actuarial reviews attracted significant attention at this GRA. Mr. Christie has fully described the background of the release in his report contained at AI-13 and in oral evidence.

To test the effect of the new actuarial factors, the Corporation has done a backcast of results as if the factors adopted beginning with the October

31st, 2010, report had been adopted in the 2005/'06 year.

These results show a considerable improvement in the long-term accuracy of the forecast, and that's in AI-13. The Corporation was able to provide evidence that, as at July 31st, 2011, that actual experience is falling very close to expected experience. This is located in the actuarial review as at July 31st, 2011, that the Corporation undertook, for the first time, to investigate whether the experience was developing as expected. And that, of course, is the very large exhibit that's filed at MPI Exhibit number 11.

One (1) further test of the forecasting, is the study of variability over time. In accordance with Board Order 122/10, the Corporation has incorporated stochastic modelling into the claims forecasting process this year. The complete description can be found in TI-17, the claims forecast book. The modelling exercise estimates that the variance to forecast will be within $17 million about 50 percent of the time, and within 32 million about 80 percent of the time.

Mr. Christie testified that the basic premise of establishing claims liabilities is that the future will resemble the past, possibly with modifications for what is known to be different now than what had happened in the past. In other words, the assumption is that what has happened in the past is likely to be replicated. It's at transcript 1,083.

Mr. Christie explained how PIPP challenged, and continues to challenge this basic premise of establishing claims liabilities. As a youthful program of some sixteen (16) years, PIPP has no data on claims that may have a tail, or a life of forty (40), fifty (50), or sixty (60) years.

Surrogates to PIPP are also difficult to locate. Saskatchewan and Ontario are of the same vintage, from the 1990s. The US is more litigious and does not have full no-fault systems. Workers' compensation systems are not exclusively trauma based from auto accidents, and do not insure children. Disability insurers can select its policyholders, which are from a select age, socioeconomic, health demographics, while insuring both trauma and disease. This discussion is located at transcript pages 1,083 to 1,088.

Furthermore, the skewed distribution of claims, as demonstrated by Exhibit 20, which was the hand-drawn curve of Mr. Christie's, demonstrates that while most injury claims are small, there are a few very large claims that are outliers.

Numerically, this was shown as the

difference between the median, at fifty (50), and the mean is at sixty (60). Mr. Christie noted, and I'll quote:

> "And so people are going to suggest to you, that you have put some conservatism into your results, when in fact, all you're doing is reflecting the true value of the distribution. Now, the problem we have in a system like MPI's is, that we don't have the whole distribution, yet. We only have sixteen (16) years of data. So when I am trying to establish claims liabilities for an organization like this, with unproven future experience, I try to be slightly conservative. Recognizing, based on observations I've got, I'm slightly conservative because there is probably a large observation that hasn't yet been seen."

That's at transcript 1,092.

This becomes further complicated when confronted by the difficulties of the lack of robustness, or not having enough observations, for a full statistical basis for an actuarial analysis. With only sixteen (16) observations, i.e., years of experience, adding one (1) point has the ability to change the average significantly as per Mr. Christie's evidence at transcript 1,093.

For the actuarial review of policy liabilities as at October 31st, 2010, Mr. Christie stated that he still has picked factors that are slightly conservative because he is not convinced there may be adverse development in the future. Transcript page 1,103.

One (1) example he provided was of aged parents or spouses that provide personal care assistance for catastrophically injured family members at either no cost or minimal cost, who, at some point, will not be able to provide such care. Replacing that care with professional care will increase claims costs significantly. And that's from transcript page 1,104.

Much was made in the cross-examination by Board counsel on the conservatism that remains in the review of unpaid claims liabilities as at October 31st, 2011. The KPMG actuary concluded that:

> "Mr. Christie's estimates are slightly conservative while remaining in our range of reasonableness."

And that's PUB-1-28(d).

> "Mr. Christie himself stated that he

expected such an opinion of his work."

Transcript page 1,113. This should not have come to a surprise and certainly does not warrant the CAC mocking title of "the candid concessions of Mr. Christie."

With respect to future directions, Mr. Christie provided some useful comments to the Corporation and to the PUB. He was unaware of any large-scale actuarial releases in the future. He anticipated slight releases every year. He did not anticipate a more significant Basic runoff of prior year's claims. He did not anticipate significant adverse development in the future given the nature of his selections being slightly conservative. And that's from transcript pages 1,114 to 15.

Mr. Parkinson of KPMG provided some excellent context for conservatism in the review of unpaid claims liabilities. Mr. Parkinson stated that slightly conservative is not an infrequent conclusion for any type of insurer, whether a public sector organization, presumably a Crown Corporation auto insurer or worker's compensation system, or a mutual fund or a stock company. He provided the example of corporations being punished by the financial analysts who observed adverse development emerging from the claims liabilities.

He also indicated that many organizations don't like "unhappy surprises" so they are reluctant to be on the aggressive side of reviews of unpaid claims liabilities. Transcript pages 1,256 to 57.

The PUB must consider the rigour the actuary review has been subjected to to be incorporated into the MPI's financial statements. The internal actuaries of MPI have provided data and have reviewed it. Mr. Christie and his actuarial staff prepared the review, a peer reviewer at Ernst & Young reviewed it prior to finalization, and upon completion it was sent to KPMG where yet another actuary reviewed it. All have commented that it is conservative and within the range of reasonableness.

Although another actuary may yield a different result using different methodologies the result is within the range of reasonableness. That I submit is what the PUB should be satisfied with for rate setting purposes for the 2012/'13 rates:

> "Slightly conservative within the range of reasonableness."

We're going to be addressing CAC's argument on actuarial issues. CAC urged the PUB to make a finding that the external actuary's estimate of Basic claims incurred is not a best estimate, but rather a conservative estimate. But based on what? There is no evidence that a slightly conservative estimate is not the best estimate. In fact, Mr. Christie made a strong case that they are one and the same for MPI.

CAC has no evidence to suggest that the October and February actuies re -- actuary's reports are not a best estimate. Their main argument is that the tail factor is conservative, but, like MPI, CAC does not have any evidence to prove this to be true. Until such evidence exists, making such claims is merely putting forth untested hypothesis.

The actuarial standards of practice, 1,110, provides the following definition.

> "Best estimate means without bias, neither conservative nor unconservative."

There are definitely other considerations to make when selecting a best estimate, example, credibility of the data. But in the end, the best estimate should not be conservative nor unconservative.

In his closing argument Mr. Williams skipped over the skewedness and the robustness explanations that Mr. Christie provided. Mr. Williams criticizes Mr. Christie for making selections that:

> "...are, to a certain degree, driven by

pre-existing expectations and insufficiently connected to empirical evidence."

Mr. Christie explained that empirical evidence is not enough and that there may be outlying expensive claims which may alter the claims incurred, which is the skewedness of the distribution, and this is the judgmental factor that the actuary brings to bear in the analysis of unpaid claims liabilities.

Mr. Williams spent more than twenty (20) pages of his argument discussing the actuarial process, assumptions, and methodologies used in the October, 2010, review. With respect, we would note that while Board counsel, with its ready access to its long serving actuarial advisor, Mr. Pelly, drew out the purposeful conservatism in the actuarial review. There was no suggestion that the work itself resulted in anything other than a best estimate.

The Corporation suggests that Mr. Williams' criticisms are lacking in context. The actuarial standards are intended to avoid conservatism biases. They are not intended to preclude considerations of inadequate observations such as the number of years of experience in PIPP.

CAC also fails to recognize the

significant validating analysis that confirms the actuarial re -- work as is and produces a best estimate that ought to be relied on until such time as more or different evidence indicates otherwise. Of course, I am referencing the backcasting, the stochastic modelling, and the as at July 31st review.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: You might want to, at some point, refer to page 61 of the CAC argument which contains a table. You might recall that. CAC has cherry picked certain factors that do not fairly represent the evidence as shown in the response to CAC-1-8, which shows that the average of all factors from sixty (60) months and after, which is the period after which almost all open claims are reserved for lifetime and the reserving calculator is used, has averaged zero point nine nine eight four (0.9984) based on the latest observations. The review shows a selection of one point zero zero zero zero (1.0000).

All selections of factors have to be made in concert and that highlighting one (1) loss development factor, as was done on page 61 of the CAC argument, is inappropriate.

CAC has made comments on the lack of transparency on the actuarial reviews. For many years MPI has filed the two (2) large actuarial reports outlining all the assumptions, the data, the methods, the results, et cetera, in great detail. There's no black box here. Everything actuarial is contained in these reports.

Is the material easily accessible to a layperson? No. But, presumably, that is why the PUB retains an actuarial advisor, to assist the Board in its understanding of the actuarial evidence before it. MPI, every year, has paid substantial costs for the Board's actuary to review the actuarial evidence, of which the appointed actuary's reports form the major component.

Quite simply, best estimate means without bias, neither conservative nor unconservative, and that estimate is within a range of reasonableness. Every actuary, from MPI, from Ernst and Young, and KPMG, on this record has indicated that the actuary review meets this standard. There is no evidence for the PUB to find anything but that this actuarial review is reasonable and forms the basis for just and reasonable rates.

I'd like to discuss rate making principles. The Corporation states that through twenty-four (24) years of these proceedings, it has established rate making and rate setting on the consistent basis of what is actuarially sound and statistically based. The Corporation, along with the PUB and the Intervenors, have strived for twenty-four (24) continuous years to insure that the rates are actuarially sound and statistically based.

An actuarially sound rate is derived from the actuarially -- actuarial standards of practice, the statements of principles regarding property and casualty insurance rate making, which bears a review. And they're located at CAC-1-286.

And number 2 is principles. Rate making is prospective because the property and casualty insurance rate must be developed prior to the transfer of risk.

Principle 1. A rate is an estimate of the expected value of future costs.

Principle 2. A rate provides for all costs associated with the transfer of risk.

Principle 3. A rate provides for the cost associated with an individual risk transfer.

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

Principle 4. A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.

Rate making is done on this basis as set out in the principles. Rates are, and have been, predicated on what is actuarially sound and statistically based.

The Corporation would urge this Board to not deviate from this basis, after twenty-four (24) years of hard effort to achieve rates that adhere to this actuarial standard, and are reasonable, not excessive, or unfairly discriminatory.

The Corporation submits that for the PUB, or the Corporation itself, to use rate setting in the compulsory insurance scheme as an instrument of public policy, or to advance social policy or social justice, is inappropriate. The Board recognizes this, of course, when it provides directives to the Corporation to discuss policy matters with government.

I'd like to discuss the DCAT, or the dynamic capital adequacy test. While not the subject of this application, the Corporation's Board of Directors recently adopted an RSR target of 210 million, based on the latest DCAT prepared and filed as MPI Exhibit number 12.

Some recommendations of the internal actuary, that's Mr. Johnston, in the DCAT are:

1) Set the minimum RSR target at $210 million for Basic. This minimum level of the RSR as at February 28th, 2011, would have resulted in a satisfactory financial condition for Basic.

Number 2. Consider whether the Corporation should ask the PUB to review its RSR target to better align with the capital requirement identified in the DCAT.

Number 3. If the upper RSR target is not changed management should advise the Minister of Finance that the Corporation's current exposure to equity assets is significantly greater than the amount of protection provided tha -- by the PUB's upper RSR target.

The Corporation prepares the DCAT for its own internal purposes of establishing an appropriate and adequate target of minimum retained earnings to ensure a satisfactory financial condition. The DCAT was presented to the PUB as an RSR-setting model but was rejected by the PUB. Order 161/09 ordered:

"The RSR range for Basic insurance for rate setting purposes be and is hereby reset at 77 million to 154 million for the 2009/'10 and 2010/'11 fiscal years. The rate reflective of 10 to 20 percent of written premiums. And MPI is to on no less than a triannual [(sic) because that actually should be 'triennial'] -- so every - every three (3) years] basis prepare a DCAT, MCT, and RA/VaR [that's risk analysis val -- value at risk] for consideration at the GRA to test against the RSR as established herein."

And that's contained at page 78 of that Order.

On the basis of this Board order, next year would be the first year that the PUB would once again review these three (3) other risk analyses. However, the PUB requested that the DCAT and the risk analysis and VaR be prepared for the -- for review at this GRA. And that's in PUB-1-73 and 1-74.

At enormous effort and many overtime hours Mr. Johnston was able to prepare both and filed these three (3) risk analyses in this GR -- GRA, along with the MCT. To have this filing criticized by CAC as being too late to test and consider is absolutely inappropriate and unwarranted.

Let me just take this opportunity to set the record straight on the new DCAT and the rate application. Ms. McLaren stated the Corporation -- and I'll quote:

> "The Corporation continues to be firmly behind the rate application as filed, not so much that the DCAT came up with a higher number this year but remembering that the Corporation has taken the position that will accept the PUB's upper target -- upper -- the upper range of the PUB target for rate setting purposes, that has not changed. I will not say that the Corporation completely rejects the notion of at some point revisiting the PUB -- with the PUB the matter of the RSR target and what it ought to be but not this year."

And that's at transcript 1,062 to 63.

The annual report indicated that:

> "An RSR level lower than 185 million would result in a 'not satisfactory'

opinion because there were plausible
adverse scenarios where liabilities
exceed assets."

And that's at page 66 of the annual report. As per the forecasted level of the RSR and the nee -- new DCAT prepared by Mr. Johnston the annual report for 2011/'12 will likely contain the same notation.

Let's move in to cost allocation methodology now. Every organization that operates more than one (1) line, makes more than one (1) product, or has more than one (1) location necessarily uses allocation policy to properly divide its costs, its assets, and so on. In particular, rate setting regulators everywhere in all industries rely on allocation policy to ensure the cost charged to the line of business subject to the regulatory oversight are appropriate. The auditors from KPMG provided testimony on how they undertook separate financial audits for the Basic and for the overall corporate financial statements.

In particular, this entails using the cost allocation methodology to ensure the costs are appropriately allocated into the correct line of business, transcript pages 1,227 and 1,228. The auditors are very well versed in allocating costs between lines of business for insurers, as Mr. Parkinson testified. In fact, he stated that very few insurers do not engage in some form of cost allocation, whether for purposes of different lines of business, products, or jurisdictions.

Finally, the auditors testified that there is no material cross-subsidization between Basic and the other lines of business, nor was there anything in the financial statements that indicates that Extension, SRE, or DVA have any material financial impact upon the Basic line of business, and that's transcript page 1,231.

The Corporation made the decision to use the Deloitte cost allocation methodology to allocate the costs between its different line of business, and this is reflected in the annual report and the financial statements of the Corporation.

The Corporation made that decision because the Deloitte methodology is much superior to the pre-existing methodology. It offers a more robust way to examine costs, and it uses the beneficiary of the services to determine allocation.

The PUB endorsed it as a methodology yet declined to implement it. So the Corporation has resorted to preparing the rate filing on the basis of the less desirable PUB-approved methodology while the financial statements are prepared on the MPI Board-approved Deloitte methodology.

This Board did not have an opportunity to delve deeply into this matter at this GRA. However, it has heard evidence that MPI, Deloitte, KPMG, and CAC prefer the Deloitte methodology. Last year's Board Order 122/10 endorsed the Deloitte methodology yet did not implement it.

The Corporation provided documents from previous hearings for information and background for this Board. The evidence this year demonstrates Basic rates would be approximately 1 percent -- 1 -- sorry 1/2 percent lower if the Deloitte methodology was adopted by this Board for rate making purposes. This translates into an approximate $3.5 million saving for Basic ratepayers.

MPI can assure the Board that if it was to order that 2012 rates be based on a Deloitte methodology not only would the Corporation fully welcome such direction, it could implement that direction quickly and effectively in time for the March 1st, 2012, rates.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I'd like to now talk about operating expenses and capital expenditures.

The Corporation continues to manage all operating and maintenance and capital expenditures. MPI believes it has shown in the evidence, both written and oral, that it makes these expenditures with the appropriate degree of fiscal prudence whether it is staffing numbers, compensation amounts, benefits, data processing, or postage.

CAC has made much of the argument that at the time of a global economic recession and Manitoba economic slowdown MPI has increased its operating expenses. CAC vi -- even asked indeed if MPI were recession proof. That's an interesting question. Let's take a quick look at whether the global economic slowdown has affected MPI ratepayers and their driving because that is what the auto insurer, MPI, is concerned with.

Well, vehicle upgrades are 1.8 percent, as per TI-18, page 10. This is the replacement of older with newer and more expensive vehicles. Volume upgrades of 2.4 percent, TI-18, page 5. More vehicles are registered and insured in Manitoba, not fewer. In fact, 2.4 percent increase in one (1) year would argue -- one -- one would argue, demonstrates financial strength, not contraction.

More off-road vehicles are registered. These are discretionary vehicles for recreational purposes. The number of ORVs have increased by 6.2 percent. That's at TI-19, page 136. The ORVs include snowmobiles, ATVs, dirt bikes, minibikes, dune buggies, et cetera.

More trailers. Trailers are both camping trailers and trailers for towing, usually for towing snowmobiles, boats, ORVs. These increased by 6.2 percent and that's located at TI-19, page 135.

More motorcycles, which can also be seen as discretionary, in that it is usually a second mor -- motor vehicle for an individual who drives a car on rainy days and in winter. Motorcycles increased by 1 percent, and that's at TI-19, page 134.

Commercial vehicles are relatively flat at 0.6 percent, so that too indicates no contraction. That's at TI-19, page 128.

New drivers becoming customers of MPI, whether by reaching the driving age of sixteen (16), or immigration to Manitoba. And you can note that most of these people make choices to purchase automobiles or drive existing automobiles, thereby giving these automobiles more usage.

All these increases are for the 2010/'11 year, over 2009/'10, and all increased in 2009 over 2008.

Also, one (1) can look at the GDP of Manitoba, as contained in the claims forecast book at TI-18. The 2010 GDP was 2.4 percent, which is in excess of the zero point eight (0.8) inflation rate. Again, not reflective of an economic slowdown in Manitoba.

So Mr. Williams argued that there are visible effects of the economic slowdown in Manitoba, with which MPI has to agree, there are some. Labour compensation increases 1.4 percent. One (1) billion dollars provincial deficit, inflation at 1 percent. Other places, it's 0.8 percent.

However, these indicia are not translating into a slowdown in the driving patterns and consumptions of Manitobans as demonstrated by the above statistics on motor vehicles.

It's important to remember that MPI is a Crown corporation and all that that entails, especially in regards to direction. The government did not direct MPI to increase expenses, but neither did it direct MPI to constrain or contract expenses. The government has been well aware of these initiatives underway at MPI and has supported their continuation. These initiatives cost money.

The Corporation has completed the business process review initiatives and is now determining what other strategic initiatives are required. So last year, and this year, are interim years with less certains -- certainty in the expense forecast. However, forecasts of expenses in a particular fiscal period will not change significantly in future years, like they did this year, and could do again next year.

The Corporation has been open about its commitment to enhance benchmarking activity for operating expenses in future years. As Ms. McLaren stated during the hearings:

> "Benchmarks and productivity measures must be appropriate. There is risk of incenting (sic) unhelpful behaviour if the wrong measures are selected. Furthermore, for an insurer that consistently has lowered rates, when most have been raising them, traditional expense ratios are simply not going to be helpful."

I'm going to move towards IT optimization. In early 2010, the MPI executive became aware that its IT infrastructure might be at risk. The IT department was directed to prepare an assessment of the IT environment.

In May, 2010, while the report was being prepared, MPI experienced a major system failure. This two (2) day outage of the insurance workstation system used by MPI brokers, was a very public system -- symptom of the state of the IT environment. This emphasized the need for MPI to take action and assess the state of its IT environment and to develop a plan for addressing deficiencies.

After receiving the internal analysis that identified major concerns, MPI sought Hewlett-Packard to conduct a second review of the IT environment and make recommendations for solving identified problems. HP's report confirmed the internal analysis and recommended six (6) areas for action. And that's located at PUB 1-62, Attachment A.

HP estimated the cost of its recommendations to be 77.4 million. MPI concluded that 14.2 million of the projects identified for the application optimization component of the plan were not necessary at this time, but that an additional 6.2 million should be added for purchasing additional storage under the infrastructure component of the plan.

The overall result of HP's assessment of -- sorry, of MPI's assessment of the HP recommendations was a $6 million reduction in planned costs. To ensure the HP proposed IT optimization plan and its own assessment of the plan was reasonable and was prudent, MPI called upon Gartner Consulting, the world's leading independent arm's length IT consultant to assess the plan.

Mr. Martin Geffen, vice-president at Gartner Consulting, testified that they had reviewed the IT optimization plan. Gartner concluded:

> "MPI has put in place an effective plan to leverage emerging technologies to drive real business value in its implementing and enhanced capability to perform oversight over the IT risk and value."

Mr. Geffen in his testimony reviewed the six (6) components of the IT optimization plan. He explained to the Board what each component was and why it was important that the component be addressed. A brief suffer -- summary of Mr. Geffen's testimony explaining at a high level what each component is, and also synthesizing the various reports on the IT optimization follows:

1) The infrastructure optimization is focussing on the servers, the disk drives, and the networks connectivity. And that's paraphrasing from page 1,326 of the transcript.

The infrastructure optimization plan will focus on network improvements that will support redundancy, flexibility, and scalability, thus enabling growth while providing secure delivery of MPI services. It will modernize the current storage environment to ensure it meets MPI's current and future needs and address the unsupported aging storage equipment. It will also provide redundancy of the business critical systems. The budget for this is $28 million over three (3) years and all budget numbers are from PUB-1-62.

Number 2. The application optimization is underlying operating software that drives the hardware and runs the actual business programs like AOL and CARS. And that's from transcript pages 1,326 to 7. The IT optimization plan will upgrade unsupported technologies that support MPI enterprise applications to reduce the risk of outages. The budget for this is $11 million over four (4) years.

Number 3. IT service management or ITSM, is a set of disciplines, processes, rules, guidelines, tools, for delivering IT within the organization. IT service management disciplines include incident management, pro -- problem management, and change management.

And that's from transcript pages 1,327 to 28.

The IT optimization plan will implement best practice processes and supporting tools to ensure consistent quality of services that meets future customer demands for availability and responsiveness of services. Continual service improvement, automations and service improvement will reinforce a culture that will self-regulate and improve as time progresses. The budget for this is $5 million over two (2) years.

4) Centralized monitoring is a set of tools and a set of capabilities and processes that allow an organization to monitor the technology that is running. It is control centre which describes network traffic, server optimization, unsuccessful attempts to get on the network, et cetera. it allows MPI to be proactive so that MPI can actually start to see where issues might be occurring and address those issues before the system or the infrastructure might go down.

And that's from transcript pages 1,328 to 29.

The IT optimization plan will implement a centralized monitoring system to improve monitoring and control of infrastructure leading to a more efficient operation in approving the availa -- the ability to avoid outages by proactively identifying faults. The budget for this is 1 million in the third year of the plan.

Number 5) Security essentially involves buyer's protection, authentication and authorization.

And that's from transcript pages 1,329 to 30.

The IT optimization plan will define specific, clear and concise security policy statements, standards, and controls. The goal is to provide a consistent approach to security solutions and controls across the organization. The budget for this is $5 million over five (5) years.

Number 6. Disaster recovery and business continuity are two (2) very closely related concepts. Disaster recovery is the concept that should MPI have some kind of disaster, IT infrastructure, MPI is able to recover in an expeditious manner to a place that makes sense for MPI. Disaster recovery is putting the proper kind of technology in place to recover and be up and running the systems in a time frame that is appropriate for the business.

Business continuity is a broader perspective of disaster recovery. Business continuity is being the ability to continue to do business regardless of an occurrence of a disaster. Although technology is often a big part of a solution, it's not all about a technical solution. And that's from transcript pages

1,330 to 1,331.

The IT optimization plan will implement a comprehensive class 3, which is recovery time objective of forty-eight (48) hours or less for critical business functions, business continuity, and disaster recovery solution that will reduce the risk of outages. This will include a new data centre. The budget for this is $21 million over three (3) years.

The IT environment at MPI is highly functioning but it is at risk. Mr. Geffen described it in two (2) analogies. The IT environment is like a car that's not had regular maintenance and manufacturer recalls that have been ignored. It's working, but it's at risk of things going wrong.

The IT environment is like the old house that has had many renovations and additions over the years. Each addition or renovation was done to the building code and standards that existed at the time, but many of these codes and standards have evolved, so past renovations are no longer up to today's code. The house has been modified through time on a somewhat ad hoc bases rather than with the overall architecture vision or standard.

In summary, MPI's IT environment has become very complex. This growth was graphically visible in MPI Exhibit 30, which was that expanded cloud chart that showed the difference in the IT infrastructure as it existed in 1995 as compared to how it existed in 2010.

Paraphrasing what Mr. Geffen stated at pages 1,334 to 5:

> "In 1995, MPI was in a very simple environment with a small number of servers, small number of application, and one (1) point connection to the solutions. By 2010, the systems have grown. A large number of applications, servers, and infrastructure have been added to the environment. It's a really complex interaction and integration between the various systems. It has grown up over time and not in an architected way. All of these systems are really at risk."

MPI is at the initial stages of this major project. Gartner has reviewed it and has concluded, and I'll quote:

> "The cost over envelope for the entire program is reasonable and appropriate."

And that's from transcript page 1,356. Furthermore, Mr. Geffen, in direct examination, stated it doesn't include anything that is not required and has not missed anything that is required.

All the evidence provides a compelling case that this initiative is essential, well planned, reasonably estimated, it's underway and is making significant progress today.

An important consideration is MPI's ability to implement a major IT project. MPI has a hundred percent success rate in implementing its major IT projects. This is because MPI has a strong executive support for the projects, has the available resessors -- resources, a strong project management discipline, strong change management and governance and, finally, strong measurement and monitoring. These will continue on with IT optimization plan, $71 million, the estimated cost for IT optimization.

The Public Utilities Board-approved cost allocation methodology will be used to determine the costs applicable to Basic and the costs applicable to Basic's other line of business.

The current estimate is that $65 million of the $75 million budget will be allocated to Basic. If it comes in under the budget, any excess amounts transferred from the Basic retained earnings will be transferred back to this fund.

It's necessary to undertake IT optimization. The costs are reasonable and prudent, as was set out in the evidence of Mr. Geffen, and he described them as:

> "A good, solid, conservative estimates, containing the appropriate contingencies."

That's at transcript pages 1,355 to 56.

The Corporation is confident, based on its experience, that the IT optimization plan will be completed on time, within budget, and will meet the expected goals of the plan. The Corporation is confident because it employs the highest caliber of project management disciplines that have provided excellent results in the past.

Project charters and project plans will con -- outline the objectives, the assumptions, and constraints, and are the blueprint for the project. Gartner consulting will also play an important oversight role in monitoring the various components of the IT optimization plan.

Gartner's quarterly reporting will allow the various project managers, IT executives, and MPI executives, to have unbiased, timely reporting to assess how the project is proceeding and the need for any corrective actions to be taken.

MPI provided the IT budget scorecard and the CIO scorecard as prepared by Gartner -- and that's at MPI Exhibit No. 34 -- provided the spreadsheets and schedule of all IT optimization costs through the 2014/'15, and that's about a forty (40) page document, which contains the estimated costs by year for each project. And that's at MPI Exhibit number 35. And it also provides the Gartner executive summary of IT key metrics data, and that's at MPI Exhibit number 36.

This is in addition to the up to date materials provided in the information request process, through the summer. Information is to be provided in future GRAs, includes progress against the maturity scale -- that's that HP red-coloured model -- future IT budget and CIO scorecards, charters and project plans for the key projects within the IT framework, updated costs of each project, and the overall IT optimization costs.

MPI has been very transparent and will continue to be so and will be accountable for this major IT initiative.

MPI has no hesitation in providing these various documents to the Board. The Corporation believes that the information provided to the PUB at this hearing has greatly assisted in their understanding of the IT challenges faced by the Corporation.

The consequences of not proceeding have been explained. Future monitoring and scorecards are available for the Board, so that the Board can see what MPI sees in the implementation of this important initiative.

I'd like to discuss payment for the IT optimization. The final issue is how the Basic line of business is paying for its share of the project.

The MPI Board of Directors were statutorily mandated to:

"Direct the management of the business and affairs of the Corporation."

And that's from Section 13.1(b) of the Crown corporation's pubic review and accountability act -- reviewed this issue with MPI executives and its external auditors. The Board of Directors decided to follow the acceptable accounting treatment of transferring funds from retained earnings. The auditors from KPMG have testified they approved this accounting treatment and they analogized it to monies for a major capital expenditure on a plant or equipment being appropriated from retained earnings.

The alternative, proposed by some Intervenors, is for IT optimization to be funded by general revenues and not by retained earnings. Monies appropriated from retained earnings to fund IT optimization should be rebated to ratepayers according to these Intervenors.

The Corporation acknowledges there are two (2) ways to fund the initiatives. Both are completely legitimate, and the Corporation has picked appropriation of retained earnings.

I'd like to move into discussing the suggested rebate by the Intervenors. It should be helpful to place before the Board the financial implication of the rebate proposed by the Intervenors.

If the Corporation had not chosen to appropriate retained earnings for IT optimization, the rate application would have been for a 5.8 percent decrease, and the RSR could have been expected to be fully funded at year end with approximately $33 million in excess retained earnings beyond the PUB target of 189 million.

The projected RSR for 2011/'12 would be 189 million if the IT optimization monies are not appropriated from the RSR. This leaves a potential rebate of $33 million. This would translate into a potential rebate of 4 percent, or slightly less than forty dollars ($40) per vehicle.

Well, let's look at what's happened in the past. The smallest percentage rebate has been 10 percent in each of 2006, 2007, and 2008. Other rebates have been for 16.6 percent and 45 percent. In deciding whether the PUB should order a 4 percent rebate, the PUB may wish to consider issues such as the cost of the rebate, the relationship with a rate decrease this year, and possible rate increases or surcharges in the future.

The Corporation is unsure as to whether a rebate is appropriate given that it is less than half the size of all previous rebates and there has been legitimate discussion about the administrative costs of issuing rebates. In the 2008 GRA in which the Corporation applied for a multi-year rate application, the Corporation proposed a minimum 5 percent excess retained earnings as the trigger for rebates. And that's in the 2008 GRA at SM-9.

At 5 percent the average premium would have been fif -- fifty dollars ($50). In that application MPI indicated that it would comply with the PUB's decision in that regard and did not take a firm position. The same applies now.

I'm going to talk briefly about investments. As all are aware the Department of Finance has responsibility for the investments of the

Corporation. The Corporation is satisfied with the current rate of return of its investment portfolio and has forecast investment income of $78 million for 2012/'13. At this point there's no evidence in the markets that would cause MPI to revise this forecast.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: I'd like to address fleets and discounts. Fleet rebates and surcharges are determined by the loss experience of the fleet. Loss experience is the ratio between all losses paid by MPI and the fleet premiums paid to MPI. Fleet rebates and surcharges vary depending upon the loss ratio. The current fleet rebate scale ranges from a 1 percent rebate, which is a 69 percent loss ratio, to a maximum 25 percent rebate, 45 percent or lower loss ratio. For 2012/'13 the government has expanded the fleet rebate scale from the current 45 percent or lower ratio to 37 percent or lower loss ratio.

MPI is proposing and has applied to the PUB to expand the fleet rebate discounts to align with the new scale. The maximum fleet rebate would then match the maximum rebate received by individual customers on the DSR scale. For a visual representation of this applied-for discount, I would encourage the Board members to examine once again AI-5 of the application at page 13.

Board counsel pursued very few questions on this issue and the PUB has heard no evidence that would cause it to not approve the Corporation's application in this regard. In PUB-1-40 the PUB seemed to suggest that increa -- that requested increased discounts was somehow too generous. The Corporation strongly argued it was not and provided evidence that while underrating differences existed between fleet customers and individual customers who used the DSR scale, the loss ratio for fleet customers is approximately 80 percent, which is reasonably close to the Basic target.

The factors considered for the fleet program are more comprehensive than for Basic customers and the burden put on fleet customers to mitigate losses is onerous. Many would argue more onerous than the DSR program. The Corporation strongly urges the PUB to approve the changes to the fleet rebates as applied for and stresses that it has made a case for the Board to do so.

I would also remind the Board that the government has already passed the regulation amendment to establish new loss ratios for further discounts and the task of the PUB in this regard is to now establish fleet rebate amounts for those new lease -- loss ratios.

Withholding information on the actuarial release. The Chair of this hearing asked:

> "What are the views of the parties with respect to the timing with which MPI released this information to the Board and what are the views of the parties as to the degree of credibility this Board should ascribe to MPI's evidence given past experience?"

And that's at transcript page 1,919. MPI is perplexed why the Chair would even ask the first question. What does this have to do with the 2012/'13 rates? The PUB issued Order 42 on March 31st and rebated the monies. Simply, the matter is not relevant to the 2012/'13 rates. As counsel, I would suggest the Chair discuss with Board counsel the legal pitfalls in using past experience to make decisions on current matters before the Board.

I note CAC has also cautioned the PUB in this matter too. In that regard, we agree with the final four (4) paragraphs of CAC's closing co -- comments under the heading of "Credibility."

Implementation of clear data. The Chair

asked:

"Whether MPI's implementation of clear data gives rise to older vehicles being charged more than they should be."

And that's at transcript page 1,920. If the Chair or the Board have questions on how clear rating affects particular vehicle rates the Corporation would welcome a request to provide further information in future GRAs. However, there is simply no basis whatsoever to the stated concern.

MPI rates are explicitly based on Manitoba auto insurance claims costs. There is no possibility of older vehicles being charged too much. The modified balance of collision and of comprehensive claims costs ought to be supported as statistically driven and as appropriate.

I'd like to address overall rate reductions versus good driving discounts. The Chair asked:

"Whether any rate increase should be applied across the Board as proposed by MPI or whether good driving behaviour should be further rewarded by changes to the DSR scale."

This simply wasn't canvassed during the

hearings. It would be best not to consider any further deep discounting without research and a solid understanding of the potential impact it has submitted.

I wanted to just very briefly touch on the matter of jurisdiction of the PUB. I'll only enter a few words on the record on this matter of jurisdiction. The Corporation functions in a legislative and a regulatory environment in which the responsibility for providing aspects of compulsory automobile insurance in Manitoba is shared between the Government of Manitoba, the Manitoba Public Insurance Corporation, and the Public Utilities Board.

In MPI's view, the legislative scheme involves a careful balancing of the authority and responsibility of all three (3) participants in the interest of all Manitobans. In practice, this requires a recognition and acceptance of the fact that all of us have a very important role to play in serving the public interest. The government is responsible for all aspects of automobile insurance in Manitoba, and the Corporation administers the plan on behalf of the Government of Manitoba and Manitobans, and the PUB approves changes in Basic rates.

Historically, the parties have worked well together to achieve this result. In recent years, however, it's become increasingly clear that the PUB no longer shares MPI's perspective on the appropriate division of authority and responsibility. The difference in view is what lies at the issues that are before the Court of Appeal. MPI, of course, looks forward to the decisions from the court for its guidance.

I'd like to talk about MPI compliance with requests for information. The Chair noted that:

> "MPI has not complied with many important requests for information sought by the Board"

And whether MPI had indeed met its onus.

That's at transcript page 1,919. I can say that MPI was flabbergasted at this situation. First, procedurally, the Chair made a finding at this stage which is not appropriate.

Secondly and more importantly, the topics on which MPI declined to provide information are precisely those subject areas at issue in the stated case before the Court of Appeal.

Third, the Corporation provided substantive evidence that this information is not required to establish rates for Basic insurance.

Fourth and finally, MPI responded to one thousand two hundred and forty-three (1,243) information requests, and tens and thou -- of thousands of questions over nine (9) days of hearings.

I'd like to address the issue of the interim order. MPI is emphatic that the order be final. Let me just explain to the Board members the logistics of implementing the order for the rates to be effective March 1st, 2012. It's an incredibly complicated process and I'll just run through it to assist you.

Receipt of the order is required on or around December 1st, and not too much later, please. MPI prepares a rate filing for the PUB to approve, based upon that order. The PUB must approve the actual rates by mid-December.

MPI then prepares the Autopac online update to reflect the approved rates. Under the legislative scheme, MPI can only charge a Basic rate that has been approved by Cabinet and passed into regulation. Cabinet can only appa -- approve a rate that has been approved by the PUB.

Once the PUB and Cabinet approval is received for that rates, the automobile insurance certificates and rates regulation is then drafted and updated by the legislative council, working in conjunction and in tandem with MPI staff.

This is an enormous regulation. It's over eight hundred (800) page, which also requires translation into French by legislative council. Upon completion of the automobile insurance certificates and rates regulation in English and French, that regulation and the order in council, both English and French, are submitted to Cabinet for approval in advance of the February 28th, for rates effective March 1st.

The automobile certificates and rates regulation is then registered in the Manitoba Gazette, which means that MPI can then charge rates from March 1st, 2012.

What I have described is an incredibly tight chronology involving many participants, including the -- the PUB, the -- MPI, legislative council, and of course Lieutenant Governor and council Cabinet.

There is simply no time for reconvening the hearing to gather more evidence. The rates approved by the PUB are for rates effective March 1st, 2012, to February 28th, 2013. MPI has this staggered renewal system through the three hundred sixty-five (365) days of the year, meaning that customers are charged throughout the year as based on their birthday.

If the PUB approved a 6 percent rate decrease, let's say, on an interim basis, and then later made it an 8 percent rate decrease, MPI would have to retroactively credit all previously issued policies with the 2 percent difference and then implement a new rate file for the rest of the rating year.

MPI would discourage any consideration of an interim order, given the cost, the effort and the risk of changing rates once they are being used. The annual PUB rate release has been streamlined and automated processes have been introduced over the years. However, this annual business initiative still requires a significant effort from many MPI operating departments to successfully implement year over year.

The pricing and economics department within MPI has operational responsibility for rate modelling and rate setting. A PUB order to increase or decrease rates from those applied for in the GRA will result in a new rate model and revenue forecast model to be created and validated and a new series of Autopac online rate files to be produced. This effort equates to approximately several days of effort from many staff in the pricing and economics department.

The new Autopac online rate files will then be utilized by IT department for uploading of the rates into the Autopac online system, for quality control and metrics for Autopac online system quality assurance testing, predicted results, legislation management for regulation charge tables updates, and knowledge management services for updating the online licensing and insurance knowledge centre for Autopac agents and MPI customer service staff.

This equates to approximately five hundred (500) hours over three (3) weeks of overall effort required for all staff involved.

Lastly, any GRA rate change is also validated at a macro rating territory level, by executing an automated process which rates each Basic Autopac policy with last year's insurance rate, and the new GRA rates to confirm that the projected rate increase or decrease, by rating territory will indeed be realized. This process is very complex and requires one (1) week in duration to complete and validate.

The project delivery challenge is that all of these associated tasks and milestones I have just described in the previous few paragraphs must be successfully completed by the first week of January each year in order to implement the Autopac Online software release by January 15th timeframe for policy renewal generation of March 1st anniversary dates and to ensure that customer service interruption is not experienced.

Remember, that renewal notices are mailed forty-five (45) days in advance of the commencement of the customer's renewal of their insurance policy.

This entire work effort would have to be replicated to create a second set of rates mid-year. This does not include additional effort to create a program to determine the difference at a customer level between the first rate and the second rate, and a program to exclude such a change that has never, ever been done before.

MPI just as strongly discourages any consideration of approving a new rate file part-way through the year. This is not acceptable because it would involve charging different rates to people arbitrarily depending on their assigned renewal dates, i.e., the birthday.

Two (2) Manitobans with the same driving record, the same vehicle, and the same rating territory, and the same rating use would pay different premiums with such an approach merely based on their birthday.

Finally, the second matter is before the Court of Appeal is, at this stage, merely a leave application. And if leave is granted, then the appeal will continue; they'll be another full hea -- they'll be a full hearing at the Court of Appeal in the following year with perhaps a final decision not even received in advance of the 2013 GRA hearing next October.

I'd like to thank you very much for me -- for asking about the concept of interim rates and letting us put on the record some of the impediments that could exist about that. We very much appreciate that opportunity.

Let me just move towards my conclusion now. First, the Corporation submits the rate decrease could be increased to 7.35 percent if the Deloitte methodology is improved for rate-making.

Next, the Corporation submits that the rate decrease ought to be reduced to 6.35 percent if the Deloitte methodology is approved, but the appropriation of retained earnings for IT optimization is rejected. Furthermore, if the appropriation of retained earnings is rejected, the excess retained earnings will total $33 million or approximately 4 percent of premiums.

Fourth, there is no evidence that the Intervenors suggested further rate decreases are appropriate, actuarially sound or sustainable or based on anything tangible.

In closing, MPI submits that it has satisfied the onus that its rates, as applied for, are just and reasonable and requests that the PUB approve them. The Corporation has, as outlined in the -- outlined in the direct examination of the witnesses at the commencement of the hearing, placed sufficient evidence on the record for the PUB to approve the rates as applied for. As usual, the Board require -- the Corporation requires an Order from the Board on December 1st or 2nd, 2011, sorry, one (1) month away.

With that, I'd like to thank you for the considerations during the hearing process. Thanks to the Intervenors, Board counsel and advisor, and to the Board staff and to the Board members. Thank you very much.

THE CHAIRPERSON: Thank you very much, too. Yes. I think we are ready to adjourn and thank you again.

--- Upon adjourning at 11:00 a.m.

Certified Correct,

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Cheryl Lavigne, Ms.