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
October 12, 2011
Pages 667 to 847

APPEARANCES

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--- Upon commencing at 9:30 a.m.

THE CHAIRPERSON: Good morning. Do you want to begin?

MS. CANDACE GRAMMOND: Yes. Thank you, Madam Chair.

Just so we have an outline of what's going to happen this morning. I'm going to finish the line of questioning that I was on yesterday and then Ms. Hamilton is going to have some questions on some other topics. And I know Ms. Kalinowsky you have a couple of exhibits to enter.

MS. KATHY KALINOWSKY: Yes. Good morning. I'm very pleased to be able to exhibit -- to enter as ex -- exhibits two (2) items. One (1) is the wildlife collision reduction study, which we'd like to mark as MPI Exhibit number 8. And I believe Mr. Simonsen has copies that he circulated -- is circulating to individuals. So that would be MPI Exhibit number 8.

--- EXHIBIT NO. MPI-8: Wildlife collision reduction study

MS. KATHY KALINOWSKY: The second item that we'd like to mark as MPI Exhibit number 9 is the quarterly financial report for the Corporation and that was as at six (6) months ended August 31st, 2011, and it was tabled yesterday in the legislature. So we're pleased to be able to...

--- EXHIBIT NO. MPI-9: Manitoba Public Insurance's quarterly financial report for period ended August 31, 2011

THE CHAIRPERSON: Thank you very much.

DR. LEN EVANS: Excuse me. Maybe I'm behind the ti -- I thought the legislature was in recess or it's not meeting yet.

MS. KATHY KALINOWSKY: Yes, when they table it, but they do in these instances when the legislature is not in session it's walked around so to speak.

DR. LEN EVANS: Okay.

MS. KATHY KALINOWSKY: So the actual minister takes it to the Lieutenant Governor and council and presents it that way.

DR. LEN EVANS: So it's -- yeah. It's in their offices?

MS. KATHY KALINOWSKY: And -- and walks -

- and walks it to all the different members of the legislature. So that's how it's --

DR. LEN EVANS: Because I don't remember being invited to the opening of the leg. Okay.

THE CHAIRPERSON: In other words, the work never stops. You can make your deadlines. Well, thank you very much for that.

MS. CANDACE GRAMMOND: Thank you, Madam Chair.

MPI PANEL:

MARILYN MCLAREN, Resumed

DONALD PALMER, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So, Mr. Palmer, yesterday afternoon before we adjourned for the day we were talking about Tab 17 of the book of documents. This was an -- an email. This is part of PUB/MPI-1-24, so it's Tab 17 of the book of documents. In particular we were looking at Attachment A. So Tab 17 of the Board's book of documents.

This is PUB/MPI-1-24 and if we look at Attachment A it's comprised of several email messages. We were looking at the one (1) at the top that was from

Mr. Johnston to you, Mr. Palmer, sent on March the 28th, 2011.

MR. DONALD PALMER: Yes, I have it.

MS. CANDACE GRAMMOND: And this was where Mr. Johnston had forwarded to you an email from Mr. Phoa from November 23rd, 2010. And in that email -- that was an email that Mr. Phoa had sent to Jim Christie, copy to Luke Johnston and Matthew King, where Mr. Phoa spoke about the significant actuarial releases exceeding 200 million.

That's right?

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

MS. CANDACE GRAMMOND: So that email was sent November 23rd, 2010. Do you know, Mr. Palmer, roughly when Mr. Phoa would have had a sense of the numbers that are reflected in his email?

MR. DONALD PALMER: Probably immediately before that. Generally this data is as at October 31. It does take a few days to compile the data from our claims files as well as from the finance department because there are some fina -- financial information that's also required in the calculation of liabilities, so likely immediately before this.

MS. CANDACE GRAMMOND: Thank you. Now, you spoke yesterday and we had some evidence from Ms.

McLaren on the first day of the hearing about the Corporation's position with respect to this information and process that it's given evidence about -- that was followed before the magnitude of the releases was made known to the Public Utilities Board.

One (1) of the -- the comment I think that was made by Ms. McLaren on the first day of this hearing was that the Corporation wanted to have discussed the releases with the MPI board of directors and the shareholder. And I think you mentioned, Mr. Palmer, yesterday, the board of directors as well.

There was a board of directors meeting in mid-December, 2010. Is that right?

MR. DONALD PALMER: Yes, there was.

MS. CANDACE GRAMMOND: And I gather that these releases were -- would have been discussed with the Board at that time?

MR. DONALD PALMER: Yes, they were. Again, we didn't have a definitive number. We had a range that was provided to the board of directors.

MS. CANDACE GRAMMOND: And we know that there were some filings made with the Public Utilities Board also in mid-December flowing from the -- the proceedings last year. So I gather that the Corporation made a conscious decision that the magnitude or the potential range of the releases wouldn't be made known to the Public Utilities Board in that December time frame?

MS. MARILYN MCLAREN: That's right. And the key word there is "potential," absolutely. As -- as we've spoken about before, it's critically important from the Corporation's perspective that it communicate information -- publicly share information that's actually actionable, that's solid; this wasn't.

And just another point of clarification just in terms of our terminology so you understand how the Corporation deals with these things and -- and sort of the -- the governance context. Often -- let me step back a sec. In the Manitoba Public Insurance Corporation Act there's language along the lines of the Corpora -- the -- the Corporation is the board, the board is the Corporation.

So when we talk about the Corporation sharing information with the board it's really just management sharing information with the board, right. So -- and management doesn't have the authority to take information outside that the Corporation, being the board, hasn't even seen or dealt with. And when it did see it in December it wasn't in any way, shape, or form final.

MS. CANDACE GRAMMOND: Let's just talk

about that for a minute. I -- I understand what the -- the evidence is, that the information wasn't final. You also said though, Ms. McLaren, a couple of moments ago that the information wasn't solid.

It seems to me that there's a difference between those two (2) things, the information being not final as opposed to being not solid. Do you agree with that?

MS. MARILYN MCLAREN: Within the time frame that we're talking about it clearly would have been possible, as has happened in the past. Mr. Palmer can confirm that, you know, the actuaries will realize partway through that process during that December or even into early January time frame that there are -- you know, they find mathematical errors. I mean, that -- that number could easily have changed by a hundred million dollars or more just by going -- because they had not compluted -- completed their due process.

So, no, I would say it would -- it was not solid the way I think about it. And I'm not an accountant, you know, and I'm not an actuary, but in terms of the way I think about it it was solid when management took the view that it was time to book that, which was into January, and, therefore, it was booked in the December month in terms of the Corporation's financials.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, Ms. McLaren, is your evidence that whatever internal analysis the Corporation was doing with respect to these numbers was completed within December, 2010, or was that analysis ongoing into 2011?

MS. MARILYN MCLAREN: No, absolutely into 2011. The amount was not booked in the December financials until into January.

MS. CANDACE GRAMMOND: Ms. McLaren, I mentioned a minute ago that on the first day you had spoken about this issue having to be discussed with the shareholder. Just for the record, who or what are you referring to when you talk about the Corporation's shareholder?

MS. MARILYN MCLAREN: We tend not to use that language very often. We all -- when we talk about it we mean the Government of Manitoba. The Corporation's created by statute. Legally that is the shareholder. Normally, the -- the language that we use is, you know, the government. But that is clearly who we meant.

And, again, you know, in terms of -- as

we've talked about in these proceedings before, we have an ongoing responsibility to report financial information to them. The Corporation is part of the consolidated financial statements of the province of Manitoba. They have a slightly different reporting year than we did. December was quarter end for them.

So, that's who we were talking about and the fact that we have to regularly share financial information has been discussed here lots of times. It's an absolute, ongoing part of the process. We deal with people from the provincial comptroller's office on financial matters like the Corporation's results.

MS. CANDACE GRAMMOND: Okay. So we've heard evidence that management was not in a position to release the information earlier than it did. I think that's the -- the evidence that has been put -- been put forward.

I take it that management didn't seek out the authority to release the information any earlier than it did?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I believe that any conversations I might have with the board or with the government would be protected under FIPPA and be confidential.

MS. CANDACE GRAMMOND: I won't argue that with you right now, although there may be other views of that.

So was it the Corporation's intention then, in the late 2010 and early 2011 time frame, that the extent of the run off that ultimately occurred would be known, or made known to this Board in conjunction with this GRA filing that we're now hearing?

MS. MARILYN MCLAREN: No. In conjunction with the order of this Board last year, stemming from the 2011 rate application, where the Board required further information about the year-end financial information to nail down, so to speak, the 10 percent conditional rebate that had been ordered.

Certainly before these proceedings, that information was supposed to have been shared by April 15th, and we provided it in, I guess, the beginning of the fourth week of March.

MS. CANDACE GRAMMOND: Yesterday we entered on to the record two (2) exhibits that were from last year's GRA, which we entered I think as PUB Exhibit 11. And, Mr. Palmer, you and I went through those and -- and looked at what they reflected.

Are there any other documents that -- or pieces of evidence that the Corporation relies on when it says that there was evidence given to the Board at last year's hearing about runoff? Or -- tho -- those were the two (2) specific exhibits that the Corporation identified in PUB/MPI-1-24, here. But I just want to be clear about what the -- the Corporation points to when it says that the Board had evidence of the runoff.

MR. DONALD PALMER: That was the specific evidence that was provided last year. We also provided NCAC-1-206, a fairly long chronology of conversations and evidence that we had provided at hearings going back to the 2007 GRA.

MS. CANDACE GRAMMOND: I assume, though, that we can agree that there was nothing presented at last year's GRA that indicated runoff in the magnitude of the $200 million range.

MR. DONALD PALMER: That number was not specifically ment -- mentioned, except for the fact that there had been a swap of reserves from case reserve to IBNR in the 2005/'06 -- in that magnitude of $250 million.

MS. CANDACE GRAMMOND: But just so that I understand you correctly, Mr. Palmer, you're saying that the Board knew about the reserving change, but the Board didn't know the dollar amount at last year's hearing.

MR. DONALD PALMER: They knew about the reserving change and the magnitude of the swap. They did not know that there was going to be a release of $250 million in the '10/'11 fiscal year, and we didn't know that either.

The -- in terms of the number hadn't been sized. Just from the runoff exhibits that we discussed yesterday and the discussions that we had with Mr. Christie after these, we didn't know the magnitude of that. And that was not evident until into mid-November with the emails that you've identified in this question.

MS. CANDACE GRAMMOND: Okay. I'm going to ask you then to go to PUB/MPI-1-36, it's not in the book of documents.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So that's PUB/MPI-1-36.

MR. DONALD PALMER: Yes, I --

MS. CANDACE GRAMMOND: This is a --

MR. DONALD PALMER: -- have it.

MS. CANDACE GRAMMOND: -- two (2) part IR that the Board posed. And if we look at the second page, so page 2, just the end of the answer to (a) the Corporation has provided some information under the heading "Overall Net Losses." Can you discuss for the Board the percentile level within the distribution estimated from the stochastic modelling for the cumulative overall net losses section?

(BRIEF PAUSE)

MR. DONALD PALMER: In terms of the total distribution for the next three (3) years it's between 50 and 60 percent. That's on an overall basis. The -- probably the important part of that is the hail losses that are in the 70 to 75th percentile. Those are in -- included in this. Net of the hail losses we're probably looking very close to the 50th percentile.

MS. CANDACE GRAMMOND: So that -- the hail losses percentile that you were just speaking about between seventy (70) and seventy-five (75), that's what's shown at the top of page 2? The chart that's reflected there?

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

MS. CANDACE GRAMMOND: So what does this evidence suggest with respect to the possibility of significant, either favourable or unfavourable, runoff going forward?

MR. DONALD PALMER: Sorry, could you repeat the first part of that question?

MS. CANDACE GRAMMOND: For sure. The question was: What does this evidence suggest with respect to either favourable or unfavourable runoff going forward?

MR. DONALD PALMER: What this suggests, again net of hail, is that we would see a -- an equal distribution of favourable and unfavourable going forward.

I would also direct your attention to my pre-filed testimony. When we were discussing the testing that we had done with the new claims reserving factors that we did do a backcast of our claims runoff, and that is presented -- it's -- I think it's AI-13, subject to check, at the beginning of the actuarial reports.

And what -- what we did in that case was we recast the 2005/'06 evaluation, the evaluation at February 28th, 2006. Said if we had picked the factors then that we had picked now what would have happened to the runoff, and it was very close. There was some up and there were some down. I think there was a net favourable average over those five (5) years of $2 million, which really is insignificant. So, what that means in terms of your percentile distribution is that we do have about an equal chance of being under or over.

MS. CANDACE GRAMMOND: If I understand you correctly, Mr. Palmer, what you're telling us is that you don't foresee any major swings one (1) way or the other in the foreseeable future?

MR. DONALD PALMER: That's correct, yes.

MS. CANDACE GRAMMOND: Can you tell us, because this answer at 1-36 in particular, the 'B' part also deals with stochastic modelling?

MR. DONALD PALMER: Sorry?

MS. CANDACE GRAMMOND: That's okay. I was just going to go to the -- the 'B' part of this question which deals with stochastic modelling. So we're still at 1-36. Can you tell us whether there are any sources of known conservatism built into the stochastic modelling results that have been provided in the filing?

(BRIEF PAUSE)

MR. DONALD PALMER: No, there are not.

MS. CANDACE GRAMMOND: If we look at the answer to (b) here at 1-36 we see the Corporation has made the statement, so I'm just on page 2 about a third of the way from the bottom.

"The Corporation intends to review the
following aspects of the stochastic
modelling in future rate applications."

And then there are a series of bullet points. Can you give the Board an idea of -- and maybe elaborate a little bit on the -- the bullet points in terms of expected improvement in stochastic modelling going forward?

MR. DONALD PALMER: Sure. In -- in terms of the relationship of collision/severity of injury, we've talked about that a little bit in the past and we'll continue to model that on a going-forward basis and get some sort of distribution on that.

We haven't included -- ran variables in stochastic modelling for volume upgrade inflation. There's a lot of different variables that go into the claims forecast, and we haven't done all of those modelled on a stochastic basis.

Improved modelling of -- of the loss development factors, we talked about loss development factors and -- and selecting given averages to get a range aro -- around those. For instance, when we were back in 2005/'06 it really wasn't the expectation that future development would be one (1), year after year after year.

That we were, quite frankly, that the -- there was no future development of those case reserves that came from the reserving calculator. That would have been at least somewhat captured in the range of possible -- in a stochastic model maybe. Although I -- I suspect it would have been further out in the tail because really I have never seen injury reserves that didn't develop after year 5. So that was a surprise, but it might be something that would have come out in the stochastic model.

Improved modelling of the relationship between DSR and accident frequency, again, we're just starting to get some data on DSR and the possible link, behavioural link between DSR rating and the DSR program and -- and claiming frequency. That's certainly something that we ca -- we will be taking a look at, although, right now, we're -- got some people who haven't even been in the DSR program for a year yet, so it's a little preliminary, but that's certainly something that is open to us on a going-forward basis.

The same can be said for vehicle safety features as that changes over time and -- and as our fleet ages. Our fleet is now about nine (9) years old. Nine (9) years ago there was still not as many vehicles that had the same sort of configuration of airbags and --

and safety monitoring systems, and stability control, and all of those things, so -- so that's something that certainly we can look at.

And then, continue to monitor what happened last year compared to this stochastic model, to see where in the range it was, and if there's any evidence that some of the distribution analyses and distribution assumptions could be adjusted as new experience comes on.

MS. CANDACE GRAMMOND: Thank you, Mr. Palmer. Madam Chair, one (1) moment, if I may.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. Those are the -- the questions then relating to the actuarial matters. I'm going to turn the mic over to my colleague, Ms. Hamilton. She has some questions about operating expenses and some other matters as well.

CROSS-EXAMINATION BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: Thank you. As Ms. Grammond indicated, I want to focus on operating expenses for the next short while. And in that regard, if I can have you turn to TI-7A, which is found at Tab 2 of the book of documents.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: Now this is a summary of basic operating and claims expenses, and just before getting into it I'd just like to confirm that we do not have this information for the Corporation as a whole, is that right?

MR. DONALD PALMER: That's correct.

MS. NICOLE HAMILTON: And just looking at the numbers in this table, I note that Basic operating expenses -- operating and claim expenses in 2009/'10 were 157.4 million, and increased to 170.5 million in 2010/'11? An increase of $13.1 million?

MR. DONALD PALMER: Yes, that's correct. And I'll just direct you to a couple of lines. For instance, there is, starting of amortization of deferred development, that is added for the first time, for the BPR expenses in '10/'11. So that is one (1) of the sources of the -- the increase.

MS. NICOLE HAMILTON: Thank you. I'm going to get into some of the details later, but that was certainly something I was going to confirm with you.

And I take it that that $13.1 million

increase equates to an 8.3 percent increase in overall expenses from '09/'10 to '10/'11?

MR. DONALD PALMER: And that number is shown in the -- sort of -- in the middle of the page with '10/'11 versus '09/'10 expenses.

MS. NICOLE HAMILTON: Yes. Thank you. And for the current year, being 2011/'12, the Corporation is forecasting overall expenses of $186.3 million?

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

MS. NICOLE HAMILTON: Which comes out to an increase of 15.7 million over the previous year, is that right?

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

MS. NICOLE HAMILTON: And then going to that second column, where there's a comparison of the years, that equates to a 9.2 percent increase overall?

MR. DONALD PALMER: Yes. And again I'll point to one (1) significant cause of that, is that merchant fees --

MS. NICOLE HAMILTON: Yes.

MR. DONALD PALMER: -- the merchant fees are not new, but pri -- as a re -- reporting requirement under IFRS, merchant fees -- that's the amounts that are paid to the credit card companies -- formerly were shown as an offset to service fee revenue.

IFRS doesn't allow that -- that par -- particular reporting now. We have to include it as the -- under operating expense. So that's why it is now included in this chart. So rather than -- with that $6.3 million, that $15.8 million is probably more like 9 -- $9 millionish.

MS. NICOLE HAMILTON: Thank you. Now, Mr. Palmer, you've noted a couple of the reasons behind some of these increases but I take it that if the Corporation's forecast bears out the operating and claims expenses will have increased by approximately 17 percent over the last two (2) years?

MR. DONALD PALMER: With that kind of quote I would take out the $6 million merchant's fees for sure because that's not net new expenses. So if you take out that $6 million which is about a third of a percent it would be something -- something less than that.

MS. NICOLE HAMILTON: Okay. But just to confirm, on a go-forward basis the merchant fees will form part of the Basic operating expenses, correct?

MR. DONALD PALMER: Yes, they will and going forward if you look into our projections '12/'13 over '11/'12, and '13/'14 versus '12/'13, we're showing increases less than 1 percent.

MS. NICOLE HAMILTON: Thank you. That

leads me to my next point. Just noticing those minimal increases in the next two (2) years that the Corporation foresees and in that regard it -- it seems that based on this table, as of '11/'12 the -- the operating and claims expenses will be approximately 186.3 million, and that appears to be a new baseline on a go-forward basis.

Would that be fair?

MR. DONALD PALMER: That's fair.

MS. NICOLE HAMILTON: And I think it would also be fair to say that Basic expenses are increasing at a rate in excess of the yearly inflation which is around 2 percent or less.

Is that right?

MR. DONALD PALMER: Yes, that's correct. And again, based on some -- the improvement initiatives that are now there being amortized, that there are savings in other places, for instance, the commission savings. We are -- these expenditures are offset elsewhere on the operating statement.

MS. NICOLE HAMILTON: All right. I'd like to look at 2010/'11 just a little closer and I'm gonna refer to an Information Request that was made, PUB/MPI-1-52. However, I don't know that you need to turn there, I'll -- I'll start the questioning and if we need to go there we can.

And in -- in that Information Request the Board asked about the increases in the Basic expenses in 2010/'11 and 2011/'12, and noted the difference between those increases as compared to the minor increases after that.

And in answer, the Corporation indicated that the increase in Basic expenses in 2010/'11 was due to compensation and amortization of deferred development costs.

Does that sound familiar to you?

MR. DONALD PALMER: Yes, and I have flipped to the Information Request. And yes --

MS. NICOLE HAMILTON: Okay.

MR. DONALD PALMER: -- that's confirmed.

MS. NICOLE HAMILTON: And with respect to compensation, looking at '10/'11 in TI-7(a), I note that the compensation was $101.4 million, which, in fact, was a 12.2 percent increase from the prior year.

MR. DONALD PALMER: Yes, that's correct, coincident with coming on line with many of the projects. So those would have largely been project staff.

MS. NICOLE HAMILTON: And, in fact, that compensation portion of the Basic expenses formed by far the largest component of the total Basic expenses of 170 million.

Is that right?

MR. DONALD PALMER: That has been consistent forever essentially.

MS. NICOLE HAMILTON: And with respect to the amortization of deferred development costs, they were at 5.2 million, and there was no amortization prior to that. And as you mentioned earlier, that is as a result of some of the amortization of costs related to BPR. Is that right?

MR. DONALD PALMER: Just one (1) minor clarification on that. There would have been amortization of deferred development in prior years, just not particularly for '09/'10. All of the previous project costs that we had amortized over time had been fully amortized. But in -- the history of this goes back a few years, the -- you would have seen amortization of defer -- deferred development.

MS. NICOLE HAMILTON: Thank you for that clarification. In other words, the amortization of deferred development costs beginning in '10/'11 here is with respect to new initiatives that are now being amortized?

MR. DONALD PALMER: That's correct.

MS. NICOLE HAMILTON: One (1) other increase that I noted was that the data processing costs were $11.6 million, which was up by 26.2 percent from the prior year. Can you just elaborate on the reason for that?

MR. DONALD PALMER: Again, that would be tied to new projects, new servers coming on that are required to -- essentially, to drive the new project.

MS. NICOLE HAMILTON: Just moving on to looking at the 2011/'12 year and, in particular, the 9.2 percent increase forecasted for this year, in answer to the Information Request that we were talking about before, 1-52(a), the Corporation indicated that the factors driving the increase were merchant fees, as you mentioned before, special services, and amortization of deferred development costs.

And I'd like to look at each of these three (3) categories. So turning first to the special services, which is the third line down in this table at TI-7(a). I note that in '11/'12 they're indicated to comprise $9.2 million of the operating expenses?

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

MS. NICOLE HAMILTON: And that's an 83.2 percent increase from the prior year?

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

MS. NICOLE HAMILTON: Can you just provide the panel with a definition of what special services would encompass?

MR. DONALD PALMER: Generally, special services would be consulting fees for external project costs.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: In answer to one (1) da -- PUB/MPI-1-52(b) the Corporation noted that additional special services expenses were required for improvement initiatives, including the PIPP mediation pilot, the future of service, physical damage, and road safety initiatives.

What is future of service?

MS. MARILYN MCLAREN: It's -- it's best if you read that together, it -- the future, you know, service, road safety, and physical damage re-engineering. We have a process underway right now that's been referenced a number of different places in the application where having completed the business process review and, largely, integrating and enhancing the service, opportunities created by the merger, as was our mandate from the government when they merged the two (2) organizations.

It's time now to take a step back and --

and identify, first of all, are we continuing to meet Manitobans' needs and expectations with respect to service, things -- as simple as I can tell you, probably -- it's probably more than five (5) years ago now, Saskatchewan government insurance has offered its claimants online claims reporting opportunity. We haven't got that.

Manitoba is a province that has been growing over the last several years, people from all over the world coming here. Do we have a responsibility to offer service in more than the two (2) official languages? What about -- and it's been talked about here. What about remote communities and people not sort of in the larger mainstream communities? Are we servicing them adequately or are there things we need to do to enhance the service that we provide?

So those are some of the questions that we're asking in this project underway right now in terms of how can we ensure that over the next decade we will continue to be, you know, at the right place at the right time to meet Manitobans' service needs and expectations.

Physical damaging re-engineering is about the entire -- very similar in some ways to what we've done on the personal injury protection plan and -- and the bodily injury improvement initiative that we've been talking about.

It's time to -- to turn our eye to the vehicle repair process. And we know that both the body shop owners and we believe there are a lot of efficiencies available today through technology that were not ten (10) or twenty (20) years ago when those processes were established.

We have a real obligation to make those repair processes -- the administrative side of those processes, as efficient as we possibly can, because we know the actual repair process itself is going to be more expensive and more complicated and more potentially risky over time with the changing makeup of vehicles. So that's what that is about.

Excuse me. And -- and last year in these proceedings, we also talked about road safety. You know, with respect to the ways we have leveraged the opportunities of the merger on the service side of things, with driver licensing and DSR and those kinds of things. It's time for us to do that as well with road safety.

We have always been very active in terms of road safety at Manitoba Public Insurance, when we were you know, the monopoly insurer. But now we are also the administrator of the drivers and vehicles act. Are there ways we can do a better job? Is there an appetite amongst Manitobans and other road safety stakeholders for us to take a different role, or in some ways potentially a more active role, to really engage with Manitobans to help make our roads safe -- safer?

So those are the questions we are asking through those processes that are still underway, have not wrapped up yet. The answers to the road safety question will be quite a bit more conceptual and directional. The service and the physical damage re-engineering will be a lot more tangible with very specific projects coming out of them that we will want to invest, to either improve service or to make the repair process more cost effective and more efficient.

MS. NICOLE HAMILTON: Thank you. Based on what you just said, I understand that there's lots of discussion and maybe consultation and that going on. Does the Corporation have any clear picture right now of particular projects in the road safety or the physical damage centre area?

MS. MARILYN MCLAREN: No, not -- not at all in terms of projects in terms of the road safety area.

Physical damage -- I'm -- I am pretty sure we're going to have an online claims reporting feature at some point in the -- hopefully -- near future, but that's about as tangible as -- as we really have that at this point.

MS. NICOLE HAMILTON: Thank you. Just moving to the amortization of deferred development costs. In '11/'12, there are noted to be $8.3 million, which is a 58.1 percent increase over the year before. The cor -- the Corporation noted, in answer to PUB/MPI-1-52(b), that the costs included PIPP, EDW, which I understand stands for enterprise data warehouse, the call centre re-engineering, and -- and I'd just like you to elaborate a little bit on a couple of those.

I believe we discussed EDW yesterday, and it was explained that that was an effort to sort of gather and analyze information from all over the Corporation. And you can correct me if I'm -- if I'm misstating that. And is there any expansion that you can make on that?

MR. DONALD PALMER: In terms of an initiative, the -- the re-engineering of the -- the data and the -- the ability for the Corporation to retrieve data from all kinds of disparate systems into one (1) fairly user-friendly module, certainly in -- in the areas that I'm familiar with. The data has been utilized for a long time, certainly as -- as the lifeblood of the actuarial department.

But some of the other data in -- in order to fully manage the PIPP injury claims, for instance, just wasn't there under the old claims system. It now is available under the -- the new BI3 project, under FINEOS. So we need abilities to -- to mine some of that data, to -- to have easier access to determine different injury trends, different benchmarks. All those kind of things that we've talked about yesterday. So that -- so that really is one (1) of the -- will be one (1) of the key uses for the -- the enterprise data warehouse. There are other data mining opportunities probably within physical damage claims that we have not necessarily fully explored that the enterprise data warehouse will give us the ability to do.

MS. NICOLE HAMILTON: And I take it from your comment yesterday that the gathering and -- and putting this enterprise data warehouse together is an ongoing process?

MR. DONALD PALMER: Yes, it is. But in terms of establishing the frame -- the architectural framework of that, that's the work that had to be done first in order to essentially have a -- almost a receptacle that other pieces of data and other systems can be brought in and -- to -- to utilize that architectural framework.

MS. NICOLE HAMILTON: With respect to the contact or call centre re-engineering, can you elaborate on what all that entails?

MS. MARILYN MCLAREN: Maybe not all of it, but a good chunk. Since about 1994/'95 the Corporation has had two (2) primary call centres. The large public call centre and a smaller but still fairly good-sized broker inquiry unit where brokers would call for assistance, serving customers who were there in their offices. The -- none of that technology had really been upgraded since it was installed in 1994/'95, and what we've done as well is we've brought the two (2) call centres together. So we have re-engineered the work flows, we have new technology, we have staff able to handle more different types of calls to enhance efficiency.

We will also be introducing other common call centre features now that really move it from a call centre to a contact centre. They will be able to have live chat. They will be able to email people who choose to email the Corporation. So it really is positioning the call centre to meet the Corporation's needs over the long term.

As it was it was simply not sustainable.

Every time something new would happen we'd have to add a bunch more stuff and we had to find a way to make it more efficient to -- sort of more scalable, and it really is.

The call centre re-engineering initiative is really to make it a modern contact centre as you would find in most organizations that you would deal with today.

MS. NICOLE HAMILTON: Thank you. I take it that now that the BPR projects are completed the increase in '11/'12 reflects the amortization of the deferred development expenditures -- or expenses incurred as a result of those projects?

MR. DONALD PALMER: That's correct.

MS. NICOLE HAMILTON: The last factor that the Corporation noted in the answer to undertaking was the merchant fees. Now you spoke about this before, Mr. Palmer, and just indicated that this was never a Basic -- never recorded as a Basic expense because it was charged against service to be revenues prior to this year, but because of IFRS it is now considered an operating expense.

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

MS. NICOLE HAMILTON: And you spoke of, you know, if -- if you removed the merchant fees there's -- there's an impact that that has on the bottom line number in this chart at TI-7(a). And, in fact, would it be fair to say that by removing the -- removing the merchant fees from the operating expenses the -- the overall increase in expenses is 5.5 percent?

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

(BRIEF PAUSE)

MS. NICOLE HAMILTON: The other increase that I noted just looking at this table was an increase in amortization of capital assets in '11/'12, which amounted to a 16.9 percent increase above the prior year. Can you just briefly discuss the factors behind that increase?

(BRIEF PAUSE)

MR. DONALD PALMER: I would just direct your attention to CAC/MPI-193 -- 1 -- sorry, 1-193.

(BRIEF PAUSE)

MR. DONALD PALMER: And, specifically, in -- there's a chart or a table in (b) in terms of the variances, and that extra amortization of capital assets is an increase of $1.1 million in 2011/'12 due to building and data processing expenditures.

MS. NICOLE HAMILTON: Thank you. Just looking, the last -- the last entry in this table is entitled, "Other," and that has -- you know, it's up by -- minimally in com -- in comparison to some of the other increases. It's $1 million, but it equates to a 22.2 percent increase over the prior year.

Can you elaborate what "other" is comprised of?

MR. DONALD PALMER: And again, I -- I know that there's an Information Request on that. We'll dig it out very quickly.

MS. NICOLE HAMILTON: Thank you.

MR. BYRON WILLIAMS: And, Madam Chair, if I might just ask -- Madam Chair, I'm sorry to interrupt. If I might just ask a favour. When -- when MPI is -- is moving to the IRs, if they could slow down just a second to make sure that -- no criticism intended, Mr. Palmer, just so that -- I'm a little slow in my da -- my old age, so ju -- just so that I can keep up with you.

THE CHAIRPERSON: I found the "other" on the table. But I also notice that it seems not to explain those. It goes to about point 'D'. Anyway, maybe I'm just... Yeah, this is it, yeah.

MR. DONALD PALMER: In (j) of the table in CAC-1-193 it talks about "other" is the increase in 2011/'12 due to expected increase in bad debt expense and credit card fees.

(BRIEF PAUSE)

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: I take it that TI-7(a) is compiled in preparation and is part of the application that is submitted. When is it -- when is it compiled?

MR. DONALD PALMER: Oh, it's compiled in the first quarter of the '11/'12 year.

MS. MARILYN MCLAREN: If I could, while we're talking about timing, I -- I think it would be important to draw your attention back to PUB-1-52 just for a couple of minutes.

When we prepare these forecasts to go into the GRA we are doing so eleven (11) months before the rates would take effect, and probably a good ten (10) months before the Corporation's actual budget is established for the year that we're here talking about right now, and that happens every year. We're really well out there.

Since about 2005/2006, once we had a very clear sense as to what projects were part of the business review and how much we expected them to have cost and how they would run out through time over the last five (5) years, the Corporation's estimate of its expense budgets for the year of the application were always very close to actual.

And we're in a little bit of a different position right now because we have these processes underway. We were -- now -- basically what we're doing with these visioning exercises that I talked about is really sort of setting what would become another business process review, so '11/'12 we were, you know.

We will spend more this year than we said to the Board a year ago. Chances are that we may do that again in '12/'13, and potentially '13/'14, compared to what we're saying to you now. And that is ex -- described here on page 2 of PUB-1-52. It explains that there may be some variances going forward.

The Board should be assured that any time that it initiates projects like this, that it will either have a very tangible business rationale for doing so or an actual financial payback for doing so.

As I talked about, you know, there may be things that we believe we need to do to set a new bar for the way we provide service. That isn't known right now, and it may lead to -- to some -- some additional expenses in the next two (2) years that we don't know about right now. But, clearly, they will be disclosed and explained and the rationale clearly provided as -- as we move forward to do that.

And again, if we establish another program of changes as we did with the business process review, once that's established, you can expect that, once again, our actuals will be very close to what was disclosed during the PUB process.

Last year and this year we're just in a little bit of a different position with more unknowns than we normally have.

MS. NICOLE HAMILTON: Thank you for that, Ms. McLaren. In fact, that was exactly what I was going -- where -- where I was going next.

Just the fact that the Corporation doesn't always know of all the initiatives that are going to be undertaken in the next and future years, when it prepares the -- the application. And that sometimes new initiatives are approved during the budgeting process, which I understand is finalized in January. Is that correct?

MS. MARILYN MCLAREN: Yes. January. Two (2) months before the rates take effect that were approved back in December, prior to that January, and applied for back in June before that.

MS. NICOLE HAMILTON: When do the budgeting discussions begin?

MS. MARILYN MCLAREN: They begin at the management level, the departmental units, August/September. They don't make it to the executive level until November. There is some conversation with the board of directors in November, but the conversations around exactly what will comprise that budget -- those decisions are made by the board of directors in January.

MS. NICOLE HAMILTON: Given that things do come up on, sort of, an ongoing basis that may be different than what the Corporation thought it was sort of embracing in the next year or years to come, are there any -- has anything changed since the filing of the GRA that the Corporation is aware of and can tell the Board about today?

MS. MARILYN MCLAREN: No, nothing -- nothing specific. There have been no decisions made to spend money, for the balance of this year and next year, different than what is in the application. There is -- there is a likelihood that some of that will happen, but at this point, no decisions have been made.

And I -- I also just really wanted to restate -- it -- it's -- in our experience, and our expectations for the future, we don't think things have come up on an ongoing basis, and we don't expect they will in the future come up on an ongoing basis. It will be much more structured than that, other than last year and this year.

MS. NICOLE HAMILTON: You referred to the Corporation's answer to information request PUB/MPI-1-52, and the discussion in that answer about, sort of, new initiatives that could come up and things that could change.

And in fact, in the last paragraph on page 2 of the Corporation's answer, it was indicated that because of some changes it's expected that operating expense budgets for 2012/'13, and 2013/'14, will differ significantly from those presented in this GRA.

MS. MARILYN MCLAREN: "Significantly" may be too strong a word. But, somewhat, and for the reasons that we've talked about. I -- I have no expectation that something completely different will surface, you know, be -- between now and when we're back filing the 2013 rate application.

We've identified the areas that may very well drive changes and there may be some changes -- and some of those, you know, may very well affect the capital budget and the $20 million provision that we have put in the capital budget. There may be less impact on the expenses budget. But we just wanted to flag that there is some uncertainty for those reasons. So I -- I think "significantly" overstates it. The word -- the word "significantly."

And again, I think particularly physical damage re-engineering you can expect that savings will offset significantly any increase in costs, and I do mean significantly in that one. Service/road safety maybe not so much, but -- but certainly I can assure the Board that expenditures in those areas would -- would have -- will certainly have been determined by the Corporation to be prudent and necessary.

MS. NICOLE HAMILTON: Thank you. Just to -- just to finish this discussion off.

Is it fair to say then that because there may be perhaps not significant but differences in what the Corporation has projected for future years, when the Corporation files the GRA next year is it fair to say that the Board sitting here today can really only rely comfortably upon the actual numbers from 2009/'10 and 2010/'11?

MS. MARILYN MCLAREN: No. And the revised '11/'12 is as reliable as the actuals, absolutely. So the revisions that we've made to '11/'12 compared to what we told you a year ago are absolutely reliable. And certainly within the bounds of, you know, some limited variability, '12/'13 is reliable as well.

'13/'14 is really provided as a -- as an outlook, it has no real bearing on the '12/'13 rates that we're applying for. And this time next year those will be as reliable as they have historically been since '05 and probably earlier.

MS. NICOLE HAMILTON: At page --

MR. REGIS GOSSELIN: Can I clarify -- could I just clarify that point? Because I'm looking at -- I'm looking at page 2 and it says at the bottom of that page:

> "It's expected that operating expense budgets for '12/'13 and '13/'14 will diff -- different significantly from those presented in GRA.

And I think I just heard you say that the '12/'13 is moderately reliable, and on '13/'14, it's an outlook. So I guess I'm probing about '12/'13. Could you repeat what you said about whether it's reliable or not? I'm just -- just for my --

MS. MARILYN MCLAREN: I think the language I used with -- within -- you know, within -- within the bounds of -- I don't remember exactly what I said, we'll have to check the transcript. Reasonableness, something like that.

I think you may very well see that we will spend -- end up establishing a budget that is maybe as much as $10 million more than what we have here for '12/'13 but it -- it -- potentially significantly less than that because any of these initiatives are largely capital dollars spent as opposed to affecting the expense budget.

In -- in hindsight I would have chosen not to put the word "significantly" in that last sentence and just said that they will differ from those presented in the GRA. You know if we define "significantly" as, I don't know, 1 percentage point on rates, which is maybe 7 or $8 million, I guess that would be significant, but it -- it -- it's not $20 million or something like that, that's not what we're talking about.

MR. DONALD PALMER: Again, in terms of order of magnitude for affecting the rate requirement the -- most of the rate requirement comes from expected claims costs. So although this -- this difference may be significant in relation to the expense line by itself it's probably not significant to the actual rate requirement.

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: At page 3 of the Corporation's answer to PUB/MPI-1-52(a), the Corporation indicated that it projects minimal increases in 2012/'13 and 2013/'14 due to reduction in special services expenses and safety loss prevention program. What factors are contributing to this anticipated reduction in these categories?

MR. DONALD PALMER: In the special services, again we're -- we're talking about the visioning projects that that special services will -- will be spent. In terms of the safety loss pre -- prevention programs, that specifically talks about the installation of immobilizers under the immobilizer incentive plans.

I think last week I talked briefly about the immobilizer program and the fact that this is -- this program is to fund after-market immobilizers now for vehicles coming into the -- the province or -- or, in some cases, coming from rural areas into the city of Winnipeg.

The factory-installed immobilizers were

required on -- on all vehicles sold for manufacturer -- or manufactured for sale in Canada after September of 2007, which essentially means anything of a 2008 model year or newer has a factor-installed immobilizer and doesn't need to avail itself of the immobilizer incentive plan.

So as we go out in time, there will be less and less cars that would be eligible for an after-market immobilizer under the immobilizer incentive program.

MS. NICOLE HAMILTON: Just looking at a couple of the categories set out in TI-7(a) in a little bit more detail, there's an attachment at PUB/MPI-1-60. If you can turn there, please?

(BRIEF PAUSE)

MS. NICOLE HAMILTON: And this is specifically with respect to compensation. The attachment here sets out the compounded annual growth rates for compensation. And I -- I take it from this what can be taken away is the fact that it just simply indicates that there's an increase in compensation over time because of inflation?

MR. DONALD PALMER: That's certainly one

(1) of the major factors behind increases. And, historically, we've -- from '03/'04 to '10/'11 we have run over that eight (8) year time fra -- frame have run under inflation. For the last three (3) years, as we're gearing up with the various project, so -- and project expenditures, the growth in -- in that area has been more than inflation, so it would be both inflation and operational requirements that would drive that overall cost.

MS. NICOLE HAMILTON: Thank you. With respect to data processing, which is the sev -- se -- second line on TI-7(a), what we see from TI-7(a) is an increase in '10/'11, a smaller increase in '11/'12, a further increase of 12.8 percent in '12/'13, and then an anticipated reduction of 15.3 percent the following year.

And the Corp -- the Board asked about this fluctuation in PUB/MPI-1-55.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: And in response the Corporation indicated that the primary factor behind the first increase in '10/'11 was external labour. Can you just describe that for the panel or elaborate on that?

MR. DONALD PALMER: External labour would be consultants that were retained for some of these project costs.

MS. NICOLE HAMILTON: And the further increase in '12/'13, or the larger increase, the Corporation indicated that that was attributable to human resource management system, or HRMS, and that initiative. Can you ple -- just please briefly describe that initiative, for the Board.

MR. DONALD PALMER: The HRMS system will incorporate, essentially autom -- automating of our human resources systems. That is one (1) place that the Corporation, I would admit, has probably lagged behind as we have engaged in a lot of the other initiatives, the BPR and initiatives over time.

It is with some embarrassment, for instance, that I can tell you that the Corporation still relies on paper timecards. That is one (1) particular example where we need to catch up. There's -- in terms of our performance management systems, we have somewhat antiquated human resources data management now. And we are bringing that up to -- essentially, to -- to standard.

We are employing the -- the Lawson suite of services. We are currently -- use the Lawson for our financial management. We are going to expand the Lawson suite to also include the human -- human resources functionality that's within Lawson, so it fully inte -- integrates with our financial system. The payroll system is included in that as well.

MS. NICOLE HAMILTON: And just with respect to the decrease, or the reduction, expected in '13/'14, the Corporation has indicated that that's as a result of a reduced requirement for data processing costs related to the HRMS initiative.

Is it fair to say then that, sort of, once that initial, larger cost is incurred, the costs on a go-forward basis will be much smaller?

MR. DONALD PALMER: That would be fair.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: Just looking quickly at special services, the third line in TI-7(a), we talked before about the increase in '11/'12 of 83.2 percent, and I note that the following year a reduction of 96.9 percent is forecast with a further -- followed by a further reduction of 34 percent the following year.

The Corporation has indicated that, and this is in answer to PUB/MPI-1-56(a) -- the Corporation indicated that the large increase in '11/'12 was due to improvement initiatives approved during budgeting, after last year's GRA, and then provided a -- a list of those initiatives where the increases were noted. And -- and that list is set out in the attachment to 1-56.

Just looking at that, I think we've talked about some of these already. I note that talent management appears to be one (1) of the factors. Can you briefly describe that for the Corporation? Or for the Board, sorry.

MS. MARILYN MCLAREN: That's really one (1) of those new phrases that develop in management every once in a while through time. It encompasses all the standard HR processes that organizations engage in, in -- including, you know, training and development, recruitment, retention, all of the staffing activities. And now it's labelled as "talent management" as opposed to "HR staffing and development."

MS. NICOLE HAMILTON: The other two (2) that I note are in here, that I don't believe we've discussed, are program management architecture and sharing electronic estimates. Can you just briefly elaborate on each of those?

MS. MARILYN MCLAREN: Sharing electronic estimates and which others?

MS. NICOLE HAMILTON: Program management

architecture.

MS. MARILYN MCLAREN: I'll need some help with program management architecture.

Sharing of estimates is something that is really unlikely to be done this year. It was put in the budget as a potential -- potential fairly easy improvement in terms of the way our staff work with body shops.

Many of the larger body shops use the same estimating and body shop management software, the Mitchell system that we use for our estimating processes ourselves. If there was a way that we could electronically give them access to the estimates that would save a little bit of the administrative process at their end. It -- it -- we've learned that it is not as simple as we thought and -- and we believe now that it makes entirely more sense to focus on the big overarching physical damage re-engineering analysis that we're doing without potentially side-tracking ourselves with -- with what might be quick hits which may not be of that much benefit in the long run.

So that's what it was about. We're not going to do it this year and --

THE CHAIRPERSON: Ms. McLaren, I'm -- I'm wondering, are you ready to move to the other two (2) that you said you'd need some help with? Because I'm thinking, looking at the clock, that I hate to stop this line of questioning but we might take a break and then that would give --

MS. MARILYN MCLAREN: Sure.

THE CHAIRPERSON: -- you a chance to consult with those that would be able to help on the second two (2) points.

MS. MARILYN MCLAREN: Thank you.

THE CHAIRPERSON: Thank you. We'll break till 11:00.

MS. NICOLE HAMILTON: Thank you.

--- Upon recessing at 10:45 a.m.

--- Upon resuming at 11:02 a.m.

THE CHAIRPERSON: All right. We're ready to go back to it.

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: All right. Before the break we had in front of us the attachment to PUB/MPI-1-56(a) and we were talking about the list of initiatives that the Corporation has given for the increases noted in 2011/'12. And I believe, Ms. McLaren, you were talking about -- you had spoken about sharing electronic estimates and were going to look into program management architecture?

MS. MARILYN MCLAREN: Yes. And unfortunately, we will need a bit more time on that. So we'll take it as an official undertaking and either provide it back on the record or -- or file something for you.

MS. NICOLE HAMILTON: The undertaking would be to elaborate on what is program management architecture.

--- UNDERTAKING NO. 8: MPI to elaborate on what is program management architecture

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: The (b) portion of this attachment sets out the differences between '11/'12 and '12/'13 and would be setting out the Corporation's reasons for the expected reduction in '12/'13.

I take it that it's the Corporation's view that the reason for the reduction would be that some of these initiatives will have been completed by then?

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

MS. NICOLE HAMILTON: I do note that there's one (1) new initiative listed called "Broker refresh." Can you briefly describe that is for the panel?

MR. MARILYN MCLAREN: That is the Corporation's costs to support the new computer equipment going into broker offices. We take responsibility for the entire network that brokers use to communicate with Manitoba Public Insurance. They -- it is time to upgrade the operating systems and computer themselves and a number of the hardware pieces, and this is just some of the operating expense associated with that upgrade.

MS. NICOLE HAMILTON: And just looking at the 'C' portion at the bottom of the attachment, I take it that that broker refresh would be anticipated to be a one (1) time fee?

MR. MARILYN MCLAREN: It -- it happens once every three (3) to seven (7) years and is just a one (1) time expense when it happens, yes.

MS. NICOLE HAMILTON: Just moving down the list of operating expenses. In TI-7(a), just going back to Tab 2 of the book of documents. I note that capital assets -- the amortization of capital assets in 2011/'12 is -- has increased by 16.9 percent compared to the previous year and is anticipated to increase another

4 percent the following year.

Can you explain just the reasoning behind those increases?

MR. DONALD PALMER: Sorry, the -- the reference again?

MS. NICOLE HAMILTON: I'm looking at TI-7(a) at Tab 2 of the book of documents and referring to the amortization of capital assets.

MR. DONALD PALMER: And specifically the increase from...?

MS. NICOLE HAMILTON: The anticipa -- well, the increase in '11/'12 of 16.9 percent and the further anticipated increase the following year.

MR. DONALD PALMER: Included in '11/'12 we had one (1) new service centre come online in 2011/'12 that -- Selkirk I think was -- was new in -- in that time, so that would be mainly the reason for the -- the amortization of capital assets in the '11/'12 year.

The three hundred and ten thousand dollars ($310,000) in the '12/'13 year, I don't have a specific reason for that.

MS. NICOLE HAMILTON: Moving along to the amortization of deferred development costs, I note that they have increased by 58.1 percent in '11/'12. And then they're anticipated to reduce slightly in '12/'13 and then increase again by 33 percent in '13/'14.

Can you explain why that fluctuation exists?

MR. DONALD PALMER: There is likely a project that was amortized, that the five (5) year amortization is -- is finished. I'm thinking the driver licence long-term project that was completed in 2006, that was sort of the first phase of the BPR projects, that being completed, and then new projects likely -- likely with regard to IT opt -- optimization coming on starting the amortization in '13/'14.

MS. NICOLE HAMILTON: Thank you. Just looking at a few of the other expenses listed, I note that there are increases between '10/'11 -- well, first of all, let's look at '10/'11. An increase in the public information and advertising of 15 percent that year, and in printing stationery and supplies had -- it had decreased by 19 poi -- percent that year.

Are these types of expenses reviewed internally?

MR. DONALD PALMER: Yes, they are.

MS. NICOLE HAMILTON: And what internal mechanisms are in place that permit these types of expenses to be reviewed and revisited when there is significant fluctuation from what would be budgeted?

MR. DONALD PALMER: There are monthly reports that are reviewed by -- by management that pro -- provide a budget variance or a variance to budget. Anything significant, the -- the managers, directors, and vice-presidents will take a look at in term -- and to determine the origin of those variances.

MS. NICOLE HAMILTON: Looking specifically at a couple of the categories in twe -- 2011/'12. And then I realize that perhaps the dollar amount may not be nearly as significant as some of the other increases, but the percentages are striking. In telephone and communications there's an increase of 23 percent, and in travel and vehicle expense an increase of 27 percent.

What's behind those increases?

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

MS. NICOLE HAMILTON: Thank you.

--- UNDERTAKING NO. 9: MPI to provide an explanation of the 23 percent increase in the telephone and communications category, and the 27 percent increase in the travel and vehicle

expense category in 2011/'12,
as well as an explanation of
the 105 percent increase in
the furniture and equipment
category in 2012/'13

THE CHAIRPERSON: Can I -- I just noticed the 23 percent. That's in printing, isn't it, or -- it's not in telephone, I don't think. But, printing stationery supplies? Twenty-three (23)?

Oh, they're both twenty-three (23)? Oh, you're way down -- where -- where is the telephone?

MS. NICOLE HAMILTON: The telephone is right in the middle, under safety loss prevention.

THE CHAIRPERSON: Oh, right. Okay. Okay. Thanks.

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: Just briefly with respect to furniture and equipment, there's an increase of 105 percent projected in twelve (12) -- 2012/'13. What is behind that expected increase?

MR. DONALD PALMER: We'll just add that to the last undertaking.

MS. NICOLE HAMILTON: Thank you.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: I take it that, for '11/'12, these are the numbers that were -- that existed at the time of -- of filing the application. Has anything changed since that time with respect to any of those numbers?

MR. DONALD PALMER: As at six (6) months, and -- and we will provide the outlook, likely this afternoon, we are under budget for our expense lines.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: And with respect to operating expense levels, I would -- I would understand that it would be management that is in control of those?

MR. DONALD PALMER: Yes, I would agree with that. You know, sometimes there are unusual circumstances that -- that come along that may be out of our control, but by and large, management is responsible for the expenses of the Corporation, yes.

MS. NICOLE HAMILTON: I'd like to turn now to -- actually, I do have one (1) last question before moving on.

We spoke about the enterprise data

warehouse earlier this morning. And -- and -- and what that is. Just to clarify, does the enterprise data warehouse project have any link to the mainframe decommissioning?

MR. DONALD PALMER: Not directly, but the replacement for the mainframe decommissioning and -- and DART, will likely be one (1) of the components that goes into the enterprise data warehouse. So they're not directly linked, but there is an in -- indirect linkage that part of the mainframe decommissioning, part of DART, will be a -- a window into the warehouse.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: So it would be the case then that the data that is currently on the mainframe would be transitioned into or onto the enterprise data warehouse?

MR. DONALD PALMER: I don't know that for certain, but likely it will be.

MS. MARILYN MCLAREN: The data that's on the mainframe will become part of the DART system. The extent to which we don't have access to the mainframe data in the enterprise data warehouse will change when the system is migrated from mainframe to DART. So that's really the only -- you know, the enterprise data warehouse is intended to encompass the entire enterprise, which would include data from DART, where we may not have access to mainframe data right now.

But the -- the mainframe decommissioning project is to shut down the mainframe and use a system that will be known as DART instead.

MS. NICOLE HAMILTON: I'd like to turn now to TI-7(b), which is not in the book of documents.

MR. REGIS GOSSELIN: I don't want to interrupt your train of thought, but I'm, you know, trying to -- trying to relate this -- these -- this discussion of expenses to what it costs the average client. So in other words, a $10 million increase in Basic expenses represents how many points in terms of insurance terms?

MR. DONALD PALMER: It's a little less than a point and a half.

MR. REGIS GOSSELIN: A point and a half.

MR. DONALD PALMER: Generally we're at about $800 million of premium now, so $8 million would be 1 percent.

MR. REGIS GOSSELIN: Okay.

MR. DONALD PALMER: So maybe a point and a quarter is -- is closer.

MR. REGIS GOSSELIN: Okay. Thank you.

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: All right. So turning to TI-7(b), which, as I indicated, is not in the book of documents.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: It's in Volume -- Part 1 of Volume II, one (1) of the smaller binders.

(BRIEF PAUSE)

MR. REGIS GOSSELIN: I'm sorry, which number?

MS. NICOLE HAMILTON: TI-7(b). It's just the back side of TI-7(a).

(BRIEF PAUSE)

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: Now this is a breakdown of the different components of Basic expenses, and I'd like to look at the operating expenses, which is the middle -- middle category in the top row.

Just looking at the -- the totals of these columns in the operating expenses, the totals would indicate steady growth in operating expenses from 2009 forward?

MR. DONALD PALMER: Well, there is an increase from '09/'10 to '10/'11, a flattening from '10/'11, '11/'12, and then another increase going forward to '12/'13.

MS. NICOLE HAMILTON: Sorry. I just want to make sure that I'm understanding what you -- what you indicated. You -- you indicated there was a flattening between '10/'11 and '11/'12?

MR. DONALD PALMER: If I'm looking at the operating expenses, and '10/'11, the total being $50.2 million in '11/'12 being $50.9 million. Sor -- sorry, I apologize. I am looking at the wrong -- in fact, I'm looking at 2011 rate application.

MS. NICOLE HAMILTON: Well, that makes me feel a lot better.

MR. DONALD PALMER: It makes me feel considerably worse.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: Do you have it, Mr. Palmer?

MR. DONALD PALMER: Yes, I have it.

MS. NICOLE HAMILTON: All right. So just going back to my first question, I think the numbers speak for themselves in that the totals from -- of operating expenses from 2009 forward appear to increase on a fairly steady basis?

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

MS. NICOLE HAMILTON: And we discussed earlier today the fact that compensation forms a major component of the operating expenses. And, in fact, just looking at it here, it would -- it would seem to be the case that it's roughly 50 percent of the total overall operating expenses.

Is that right?

MR. DONALD PALMER: That would be correct, yes. And, again, in terms of the steady increase, from '10/'11 to '11/'12, I again would direct your attention to the merchant fees that adds $6 million. So, without that, we'd go from $52 million to $53 million.

MS. NICOLE HAMILTON: Thank you. And so, just looking at the totals, in '10/'11 where it's looking like the Corporation is going to go from $52.5 million in operating expenses to over sixty-four point three (64.3) two (2) years later in 2012/'13.

Is that right?

MR. DONALD PALMER: And again, I would say that a more valid comparison would be to take $6 million out of that number and -- and from an apples-to-apples comparison it would be fifty-two point seven (52.7) to about sixty (60) or fifty-eight (58) -- 57 1/2 million.

MS. NICOLE HAMILTON: So even without the merchant fees included, there would be a healthy increase between those years.

MR. DONALD PALMER: That's correct. Would be about 5 percent a year.

MS. NICOLE HAMILTON: And the total operating expenses forecasted for this year -- 2011/'12 -- are 59.9 million?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: I'd like to turn to an Information Request that is not in the book of documents. It's PUB/MPI-1-48.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: Now there were

three (3) schedules filed by the Corporation in answer to this consisting of a trend analysis over -- over a period of time, and I'd like to look at each of those schedules.

Turning first to Schedule 1 which is at page 1 of the attached schedules. I take it that this schedule reflects total Basic operations?

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

MS. NICOLE HAMILTON: And I'd like to focus on lines 3 and 5 of this Schedule 1. Line 3 sets out an operating expense ratio.

Can you just describe for the panel what that represents?

MR. DONALD PALMER: The operating expense ratio would be the operating expenses divided by the earned premium.

MR. REGIS GOSSELIN: I'm sorry, I missed that -- operating expense...?

MR. DONALD PALMER: Divided by earned premium.

MR. REGIS GOSSELIN: I'm sorry?

MR. DONALD PALMER: Earned premium.

MR. REGIS GOSSELIN: Okay.

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: Looking in particular at years 2010 through 2013, in 2010 the operating expense ratio was six point nine (6.9) which was an increase of 9.52 percent from the prior year?

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

MS. NICOLE HAMILTON: And it increased a further 10.1 percent the next year to seven point six (7.6)?

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

MS. NICOLE HAMILTON: And over the next two (2) years it continued to increase -- or -- and it's expected to continue to increase such that in 2013 it would be nine point one (9.1) which would be an increase of 7 percent over the prior year again.

MR. DONALD PALMER: Yes, and -- and I will -- remember that this is -- the earned premium is a -- is the denominator in this particular calculation. Thi -- this ratio will increase just from a function of premiums decreasing. We are applying for a 6.8 percent premium decrease, so that would be the source of some of this decrease as well, probably most of it in '12 -- 2012 and 2013 time frames.

MS. NICOLE HAMILTON: Thank you. line 5 is an operating expense per policy ratio. And can you just explain what that represents?

MR. DONALD PALMER: That would be the operating expenses divided by the number of policies with a Basic Autopac component to them.

MS. NICOLE HAMILTON: And again, looking at years 2010 through 2013, beginning in 2010, the operating expense per policy was $53.50. Is that right?

MR. DONALD PALMER: That's correct.

MS. NICOLE HAMILTON: And that was a 10.6 percent increase from the prior year followed by an increase to $59.28 the next year, which was another 10 percent increase?

MR. DONALD PALMER: That's correct, yes.

MS. NICOLE HAMILTON: And again, in 2012 the ratio increases to $64.83, which is nine (9) -- 9 percent over the prior year?

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

MS. NICOLE HAMILTON: With a continued increase expected in 2013 to $67.60?

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

MS. NICOLE HAMILTON: Now, there was an Information Request asked about this operating expense per policy ratio, and that was PUB/MPI-2-22(b).

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, I have it.

(BRIEF PAUSE)

THE CHAIRPERSON: Yeah, we need to find it. What was it?

MS. NICOLE HAMILTON: PUB/MPI-2-22.

THE CHAIRPERSON: Okay.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay.

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: And, actually, I think I'm a little bit ahead of myself. That hold -- hold the book there because it refers to Schedule 2. So I'll go on to Schedule 2, and then we'll come back to that. My apologies.

So moving on to Schedule 2, which is in PUB/MPI-1-48. I understand that...

(BRIEF PAUSE)

MS. NICOLE HAMILTON: I understand that

this schedule shows the impact of removing the BPR and immobilizer costs from Schedule 1. Is that right?

MR. DONALD PALMER: That's what was requested in the Information Request and that is what was produced, yes.

MS. NICOLE HAMILTON: And looking at years 2011 through 2013 --

THE CHAIRPERSON: Okay, we need help again to know where you are. Like where are we now? Are we flipping over from the examined table, the one (1) that we were examining?

MS. NICOLE HAMILTON: We're moving on to the next one, which is entitled, "Schedule 2" --

THE CHAIRPERSON: Yes.

MS. NICOLE HAMILTON: -- in PUB/MPI-1-48.

THE CHAIRPERSON: Okay. We have it. Thank you.

(BRIEF PAUSE)

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: Looking again at lines 3 and 5, dealing with the same ratios that we just spoke of, but now with the BPR and immobilizer costs removed, I'd like to look at the years 2011 through 2013.

And just -- by my comparison of the operating expense ratio, even with the BPR and the immobilizer costs removed, it appears that this does continue to increase. Is that right?

MR. DONALD PALMER: Well, again, because the rate is decreasing over that period of time, we specifically re -- remove BPR costs, but for the new projects, business transformation, office, sort of the new BPR, so to speak, would still be included and that would al -- would be included in these expenses going forward.

I -- I think it -- it might be helpful for the Board to take a look at the graph on TI-5.

MS. NICOLE HAMILTON: Thank you.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: TI-5. That's in part 1 of Volume II of the application.

MR. DONALD PALMER: What this particular graph shows is the change in operating expenses on a per policy basis over time for claims expenses, for operating expenses, and then the middle line is the rate of inflation.

You'll see that through the mid to late '90s, the costs of operating expenses really did exceed that of inflation. And the reason for that was that was a time when there was a -- a lot of changes, a lot of system development happening at MPI. That's when Autopac online came online and we were amortizing the expenses for that.

The Y2K expenses would have been included in that, and once you start realizing the benefits of those initiatives, then the year over year increases comes back down to inflation.

What we're seeing now -- this graph goes to actual and is 2011, but we would see the same sort of phenomenon happening on a going-forward basis, as we get the BPR projects are being amortized, which inclu -- increases the costs, that we would expect to see those costs as you initiate in an on -- early years of these project costs, that you will likely see that same sort of bubble within the next two (2) or three (3) years as we saw back in -- in the late 1990s.

And then as we realize the -- the benefits and the savings from those projects, that line will likely come back down to about inflation. And then in another five (5) or six (6) years, when there's another set of initiatives, because MPI won't stop doing in --

initiatives, that I can be assured of, that there will be again, likely, an expenditure bubble coming back to about inflation over time.

As we realize the benefits from various projects and various initiatives, that's -- essentially this is a real good pictorial indication of -- of what happens with those expenditures.

MS. NICOLE HAMILTON: Thank you. And I had taken you before to PUB/MPI-2-22, which actually refers to -- just -- just actually to backtrack, this table that we were talking about at TI-5 then, it's sort of more of a visual indicator of what is set out in Schedule 2 of 1-48. Is that right?

MR. DONALD PALMER: Specifically on a cost-per-vehicle basis rather than a operating ratio. And again, the -- the problem with operating expense ratios is that when you do have changes in -- in your denominator in your premiums, if you decrease premiums or if you increase premiums it sort of masks the effect of what's actually happening with your expenses.

If you look on a per vehicle or a per policy basis, it gives you probably a better indication of what's actually happening on -- for the administrative costs of administering a policy.

MS. NICOLE HAMILTON: Thank you. And

just speaking briefly about the ratio then, the operating -- operating expense per policy ratio set out in Schedule 2 that we were looking at previously, the Corporation was asked in the Information Request 2 da -- 2-22 why the increase between 2010 and 2012 that was well in excess of inflation.

If I'm -- and if I'm understanding the Corporation's response, my understanding is that the Corporation indicated that there were basically two (2) relevant factors, one being that the number of policies was projected to increase by 2.5 percent each year and, secondly, that the expenses for BPR and the business transformation office projects would begin to realize themselves. Is that right?

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

(BRIEF PAUSE)

MS. NICOLE HAMILTON: Now I just want to clarify something because Schedule 2 removed the impact of BPR. Isn't that right?

MR. DONALD PALMER: Yes, that's correct, but wouldn't have removed the other business transformation projects. So the effect of amortization of BPR would be removed. But some of those other initiatives, as we talked about, going forward into '11/'12/'13, which is the time frame we're talking about, would still be there.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: I'd like to ask the Corporation for an undertaking to file a schedule removing the business transformation office initiative expenses as well.

MR. DONALD PALMER: Yes, we can do that. I'll take that as an undertaking.

MS. NICOLE HAMILTON: Thank you.

--- UNDERTAKING NO. 10: MPI to file a schedule removing the business transformation office initiative expenses

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: Moving then to Schedule 3 in Information Request 1-48, and that's the last schedule that forms part of it. I understand that this is a schedule setting out the compounded annual growth for Basic expenses from 2006 through 2013?

(BRIEF PAUSE)

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

MS. NICOLE HAMILTON: Looking at line 11, which sets out the operating expenses, the compounded annual growth rate indicates 7.8 percent over that time.

Is that right?

MR. DONALD PALMER: That's correct.

MS. NICOLE HAMILTON: And just to confirm that this schedule includes the impact of BPR and immobilizers?

MR. DONALD PALMER: Yes, it does, although for operating expense, immobilizers would be classified as a claims expense so would not be included in this particular line item.

MS. NICOLE HAMILTON: Thank you for that clarification.

Would the Corporation undertake to file -- re-file this Schedule 3, but this time excluding BPR and immobilizer expenses?

MR. DONALD PALMER: Yes, and just anticipating the next undertaking, did you also want to exclude BTO expenses?

MS. NICOLE HAMILTON: Yes, please.

MR. DONALD PALMER: We'll take that as an undertaking.

MS. NICOLE HAMILTON: We can take it as one (1) undertaking, but just with some narrative to explain the impact of each.

MR. DONALD PALMER: The impact of immobilizers, BPR and BTO.

MS. NICOLE HAMILTON: That's correct.

MR. DONALD PALMER: We'll -- we'll do that.

--- UNDERTAKING NO. 11: MPI to re-file Schedule 3 excluding immobilizers, BPR, and BTO, and indicating the impact of each

CONTINUED BY MS. NICOLE HAMILTON:

MR. NICOLE HAMILTON: I'd like to turn to the next Information Request, that's PUB/MPI-1-49, and in particular the chart at the very end. PUB/MPI-1-49. There's a Chart 1 at the very end.

MR. DONALD PALMER: Yes, I have it.

MS. NICOLE HAMILTON: Now this chart sets out essentially what's been happening with different categories, but I want to focus on the growth in operating expense and the growth in operating expense per policy since the inception of PIPP.

Isn't that right?

MR. DONALD PALMER: Almost. This would be fiscal -- fiscal years essentially depicted by year ending February 28th of each of the years noted, so the last one being shown as 2011, it would be the 10/'11 fiscal year.

So the first two (2) years -- '92/'93 and '93/'94 would be pre-PIPP years.

MS. NICOLE HAMILTON: Now, just looking at the chart itself, inf -- I understand that inflation is the dark blue line, the operating expense is the purple line, and the operating expense per policy is the light blue line. And what it looks like here is that both the operating expense and the operating expense per policy have continued to increase above the rate of inflation.

Is that right?

MR. DONALD PALMER: The operating expense per policy -- and this is essentially the same graph as I had highlighted before -- it does go up in the late '90s. It really falls -- gets back track -- to track inflation and then in the last year or so it has started to go above inflation again.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: And would the reason that it was tracking above inflation for those periods of time be related to the projects that we spoke of earlier?

MR. DONALD PALMER: Yes, that's correct. The AOL project and Y2K are two (2) that I specifically mentioned.

MS. NICOLE HAMILTON: Just looking at the numbers, or the columns of numbers, above the chart, I take it that inflation in 2011, is 137 percent of what it was in 1993?

MR. DONALD PALMER: No, I -- I wouldn't say that. I would say that inflation has been 37 percent cumulative, since 1992/'93. So the index that's compared to -- the index of '92/'93, being one hundred (100), we're 37 percent above that now.

MS. NICOLE HAMILTON: Fair enough. Then looking at the growth in operating expense per policy, the column over from inflation, it would then be roughly 60 to 61 percent above what it was in '93?

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

MS. NICOLE HAMILTON: And with respect to operating expenses, they would be about 111 percent over what they were in 1993?

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

(BRIEF PAUSE)

MS. NICOLE HAMILTON: The operating expenses themselves have clearly grown at a rate in excess of inflation. What steps is the Corporation taking to reign those in, if at all?

MS. MARILYN MCLAREN: Specifically, the Corporation considers the broader economic climate, rates of inflation, in -- in making its budgeting decisions, but it has no overarching goal to keep its costs within the rate of inflation.

What matters to Manitobans is the rates they pay, the coverage they have, the quality of service. The -- the -- the mandate that the Corporation has from the government is in no way, shape, or form driven to keep costs as low as possible, and I think it's very important -- one (1) of the -- one (1) of the founding objectives was really to ensure that Manitobans are not disadvantaged by their lack of choice in compulsory insurance provider.

And when -- when it comes to claims expense and operating expenses, we believe that we need to meet the needs of Manitobans, make sure that they have high quality service, within which we administer coverage according -- according to the statutes.

I can tell you that, if you look at this graph, I could not be more comfortable with the alignment of operating expense per policy in relation to CPI. I -- I -- I have no compelling need to try to reign that in, in any way, shape, or form. I think we continue to make very careful, prudent decisions about our expenses but -- but in terms of the -- the depiction here in this graph, we're very comfortable with that.

And in terms of claims expense per policy, we think we have some opportunities there. That's what PD -- physical damage re-engineering is about. Ideally, we would see that -- ideally, we would see that more aligned with operating expense per policy in terms of their relationships, and if not we will know more in the future about why not.

But we are not uncomfortable with what we have done on the operating side of the business, and do now have our -- our sights set on the claims expense side of the business.

MS. NICOLE HAMILTON: Just to clarify.

The claims expense that you are referring to is the green line in the graph?

MS. MARILYN MCLAREN: No, the orange one (1). Claims expense per claim.

Costs per claim, costs per policy, are much, much more relevant to us than overall claims expenses and operating expenses.

MS. NICOLE HAMILTON: So overall claims expense is the green line?

MS. MARILYN MCLAREN: That's right, but the one (1) I was referring to was the orange line.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: All right. I'm going to turn to a different line of questioning regarding staffing levels.

And in that re -- in that regard, when we're talking about staffing levels I understand that the Corporation uses FTE, which stands for full time equivalent?

MS. MARILYN MCLAREN: Yes.

MS. NICOLE HAMILTON: And one (1) FTE is equivalent to one (1) -- one thousand eight hundred and eighty-five (1,885) hours per year?

MR. DONALD PALMER: That sounds about right.

MS. NICOLE HAMILTON: That was an answer to an Information Request, that's where I'm getting it from.

MR. DONALD PALMER: Then it's absolutely right.

MS. NICOLE HAMILTON: And just -- for the benefit of the panel then, two (2) people working part-time positions could constitute one (1) FTE.

Is that right?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: And just for reference that was set out in PUB/MPI-1-59(c).

(BRIEF PAUSE)

MS. NICOLE HAMILTON: Sorry. Just a moment while I find my next reference.

(BRIEF PAUSE)

THE CHAIRPERSON: Ms. Grammond, would it be helpful if we took a lunch break now or am I interrupting what appears to be coming to -- I don't want to stop if we're coming to the end of this. But what does it look like in terms of time?

MS. CANDACE GRAMMOND: Ms. Hamilton has some questions about staffing levels which we think will probably take ten (10) to fifteen (15) minutes to go through. So we --

THE CHAIRPERSON: Okay.

MS. CANDACE GRAMMOND: -- could do that now or we could break and do it when we come back. Whatever would be better from the Board's perspective would be fine.

THE CHAIRPERSON: Okay. Well, I don't know where lunch is at but if it doesn't matter we could break and then that would give you a chance to get those ten (10) to fifteen (15) minutes of questions in order after lunch.

MS. CANDACE GRAMMOND: That would be fine --

THE CHAIRPERSON: Okay?

MS. CANDACE GRAMMOND: -- Madam Chair.

THE CHAIRPERSON: All right. Okay. because we're close enough I think to noon and so we'll take a break. That'll give you a chance to get ready for that. Thank you.

MS. CANDACE GRAMMOND: Madam -- Madam

Chair, what time should we reconvene?

THE CHAIRPERSON: This time we need to take probably an hour and a quarter because we have been trying to get up to speed with some briefings during the noon hour and some people like to get out and take a walk, and so I think we'll take the hour and a quarter which would bring us to -- well, if we break now, 1:15. Okay. Thanks.

--- Upon recessing at 11:55 a.m.

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

THE CHAIRPERSON: I think we're ready to begin again, so carry on.

MS. NICOLE HAMILTON: I believe that Ms. Kalinowsky has some exhibits to file before we get started.

THE CHAIRPERSON: Thank you.

MS. KATHY KALINOWSKY: Yes, I have a number of exhibits to file and, with Mr. Simonsen, we've organized and coordinated the numbers. I believe Mr. Simonsen has passed around different bundles to the individuals, and if I could just go through on the record and mark these each as different exhibits.

The first one at the top of the bundle

should be the statement of operations for fiscal year ended February 28th/29th and we'd like to have marked as Manitoba Exhibit -- Man -- or, sorry -- Manitoba Public Insurance Exhibit number 10. And this is a document that we file partway through the proceedings every year, and what this does is in conjunction with the second quarter financial results that we filed this morning, this updates the forecast for those particular results.

--- EXHIBIT NO. MPI-10: Statement of operations for fiscal year ended February 28th/29th

MS. KATHY KALINOWSKY: MPI Exhibit number 11 would be the universal compulsory automobile insurance internal actuary's report as at July 31st, 2011. It's a fairly thick document with tabs up to letter 'I'.

--- EXHIBIT NO. MPI-11: Universal compulsory automobile insurance internal actuary's report as at July 31st, 2011

MS. KATHY KALINOWSKY: We are also filing the 2011 dynamic capital adequacy test report that is prepared internally by the Corporation, and that's in response to questions that were posed by, I believe, at least the Board in the Information Request process. And that should be marked as MPI Exhibit number 12.

--- EXHIBIT NO. MPI-12: 2011 dynamic capital adequacy test report

MS. KATHY KALINOWSKY: We would also like to file MPI Exhibit number 13 which is the minimum capital test, and that's just a one (1) page document indicating the results of the minimum -- minimum capital test as at February 28th, 2011. That's MPI Exhibit number 13.

--- EXHIBIT NO. MPI-13: Minimum capital test as at February 28th, 2011

MS. KATHY KALINOWSKY: MPI Exhibit number 14 is the 2011 Basic Autopac operational and investment risk analysis which has been prepared internally by the actuarial department at Manitoba Public Insurance. It also is in response to questions from the Public Utilities Board that this be prepared.

So, in essence, what I've just filed in a row there are the three (3) tests for determining capital adequacy or the rate stabilization reserve. The -- the DCAT, which is the dynamic capital adequacy test, the minimum capital test, and the operational and investment risk analysis.

So, there'll no doubt be some cross-examination flowing from that.

--- EXHIBIT NO. MPI-14: 2011 Basic Autopac operational and investment risk analysis

MS. KATHY KALINOWSKY: Also taking this opportunity to file two (2) documents. One (1) will be Manitoba Exhibit number -- or, sorry -- Manitoba Public Insurance Exhibit number 15. And that is AI-19, the cost allocation report.

--- EXHIBIT NO. MPI-15: Cost allocation report

MS. KATHY KALINOWSKY: And the next exhibit also in conjunction with that is MPIC Exhibit number 16 which is TI-6, the cost allocation methodology. And I'll have Mr. Palmer speak to that in a few moments, but I'll just continue on with the exhibits at this point.

--- EXHIBIT NO. MPI-16: Cost allocation methodology

MS. KATHY KALINOWSKY: Next exhibit would be Manitoba Public Insurance Exhibit number 17, and that's Undertaking number 3, which is to file the motorcycle risk study from last year as well as whatever national data the Corporation has on motorcycle rates.

So there is the risk study and then bundled to the back of that is two (2) pages is a motorcycle rates comparison 2011.

--- EXHIBIT NO. MPI-17: Response to Undertaking 3

MS. KATHY KALINOWSKY: Also included, maybe not as part of the bundle, but literally just fresh off the press, were the responses to the CAC pre-ask questions, and I'll let Mr. Simonsen and Mr. Williams speak to those numbers whether they want it broken down for each different number or not, as exhibits, but I'll leave that to you.

THE CHAIRPERSON: Thank you very much.

MR. BYRON WILLIAMS: My Learned Friend has caught me without my jacket on and -- for which I apologize. And also without an exhibit number available to you. So I would like them marked separately and I'm going to seek Mr. Simonsen's advice on the numbers that should be assigned to them, and I'll put on my jacket as well.

MR. KURT SIMONSEN: Your starting number then will be 3. So, you want to have it CAC/MPI-3 for the whole package. I leave it up to you as to how you want to move from there.

MR. BYRON WILLIAMS: Actually, what I would suggest is the -- the -- the first two (2) pages being the response to CAC/MPI Pre-ask 1, be marked as CAC-3.

MR. KURT SIMONSEN: Three (3).

--- EXHIBIT NO. CAC-3: Response to CAC/MPI Pre-ask 1

MR. BYRON WILLIAMS: The next two (2) pages, being the response to CAC/MPI Pre-ask 2, be marked as CAC-4.

--- EXHIBIT NO. CAC-4: Response to CAC/MPI Pre-ask 2

MR. BYRON WILLIAMS: And the last three

(3) pages, being the response to CAC/MPI Pre-ask 3, be marked as CAC-5. And -- and my clients thank MPI for their prompt response to this. It's appreciated.

--- EXHIBIT NO. CAC-5: Response to CAC/MPI Pre-ask 3

MR. KURT SIMONSEN: Thank you.

MS. KATHY KALINOWSKY: You're welcome. And if I could now, perhaps, ask Mr. Palmer to speak to MPI Exhibit number 15 and MPI Exhibit number 16, wh -- which both relate to the cost allocation methodology. I'd appreciate that.

Perhaps it's going to be a bit longer discussion, because Mr. Palm -- Palmer will be speaking to all of the exhibits actually at this point. So, I'll hand it over to him at this point.

MR. DONALD PALMER: So we'll start with Manitoba Public Insurance Exhibit number 10, that's the statement of operations for the fiscal years February 28th/29th. What this is is an update to TI-15, so having the projection -- the outlook for the forecast year, '11/'12, and then the outlook period '12/'13 to '15/'16. The second page shows the -- shows the retained earnings statements that come from those operating reports and that is a revised TI-14. The third page is the differences between the twelve (12) -- '11/'12 statement of operations that was included originally in the -- in the GRA, with our updated forecast that incorporates the Q2 results. And the last page is the comparison of claims costs. Again, comparing what we had included in the GRA with the Q2 results.

I think the easiest way to comment on the differences is to go right into that third page in terms of the differences. First difference is ri -- going right to the bottom line. We had projected and included in our net income, after surplus distribution, the -- the bottom -- bottom line. We had expected a net income of $3.3 million. What we're looking at right now is a net loss of almost $13 million. The main source of that that we had alluded to, is claims costs, specifically the added hail costs that we've seen this year, above what was projected, as well as an increase in collision costs.

If you go up to the net claims incurred line, you will notice that that number -- an increase in net claims incurred of $59 million is significantly more than what we had experienced in the hail costs and the collision. So I'll proceed to the next page, where we have a breakdown of -- on a cover-by-cover basis, and what the additional costs by each cover. And you'll see going into the middle section of that table, where it says, "Collision, comprehensive, and property damage," that we had expected collision costs to be 281.9 million or just about $282 million.

We're now projecting that they will come in at $288.2 million. And again, that's taking the results from the first half of the year. Anomalous weather patterns, we are expecting to have average historical weather patterns for the remainder of the year. So we haven't changed the forecast for the last six (6) months. This is just updating with changing for the first six (6) months.

On the comprehensive you'll notice that's a fairly large increase of $11.6 million. And again, that is attributable to the hail -- the extra hail that we've seen this year. That hail was incurred early in the season, in the May/June time frame, unusual for Manitoba hail, but that's when it occurred.

In historical patterns we don't expect that hailstorm to develop with fe -- any more costs. So again, we have not projected any different costs than we had in our original GRA for the last six (6) months.

And the property damage is essentially third-party liability property damage. And that is very tightly tied to the collision costs, so collision went up six point two (6.2) and an associated increase in property damage, an increase in one point one (1.1), again tied to unusual winter conditions.

The biggest difference is an increase in PIPP costs of $41.9 million, which generally one would think is fairly significant. However, in this case, most of that increase is due to a change in interest rates.

We are required to discount claims liabilities utilizing market rates or the -- the rates -- sorry, the -- the yields of our current investment portfolio, the bond portfolio. As the interest rates have decreased over the last two (2) quarters the value of the liabilities has increased and, hence, you have that difference required to flow through the statement of operations.

However, if we flip back to the -- the third page in that exhibit and run down to the investment income line, you'll notice that we have an increase in investment income over what was expected of $28.7 million. We have had some losses on the equity accounts, but we have had very strong increases on the bond portfolio.

So -- so most of that $41.8 million, and I think about $37 million, in fact, offsets, so you have an increase in the value of the fixed-income portfolio that offsets most of that $41.9 million. I think the actual increase for claims, looking at just claims itself, is about $4 million.

Going back to the very first page, the outlook page, and I think I've gone over all the major differences in the current 2011/'12 year, moving forward into the '12/'13 -- or '12/'13 through '15/'16 periods, the bottom lines are very, very close to what was included in TI-15, essentially within a million dollars.

The reason that the claims incurred has changed at all, our net premiums written has -- for 2011/'12 is about $10 million higher than we had expected. That flows through as a year-over-year increase going -- going forward but, of course, as I explained before if you have more premiums written you also have more claims.

Given that we're running about a 90 percent loss ratio you would expect that our bottom line with a $10 million increase in premiums written, 90 percent offset by claims, that you would expect a change in net income of about a million dollars per year and that's exactly what we've seen.

In terms of the impact on the retained earnings the rate stabilization reserve, and that's the second page of that -- that exhibit, we now expect at the end of this fiscal year that our rate stabilization reserve will be $127.5 million and have no money in the -- sort of that excess retained earnings. So the $127.5 million is within the range from the PUB-set target from a few years ago of 10 to 20 percent of premiums written, is about the middle, and less than the MPI-set target.

Going forward with a net loss of six hundred and eleven thousand dollars ($611,000) expected for the '12/'13 year, that RSR level is again about $127 million and then grows over the next three (3) years with our expected increases to -- due to volume and upgrade exceeding what we're expecting from the claims side. So there is net income projected for '13/'14 through '15/'16 and that runs in to the RSR. So with all of these assumptions, once we get to the end of 2015/'16 we expect an RSR of $180 million, which is at the maximum target then of the PUB with an additional $22.9 million in the excess retained.

Of course, when we get there, if these net income levels do pan out in '14/'15 and '15/'16 there could be an expectation that there might be rate in -- rate -- rate decreases applied for way out in that -- that tail. But we'll see how that pans out in terms of the -- three (3) or four (4) years from now.

THE CHAIRPERSON: Thank you.

MR. DONALD PALMER: On to MPI Exhibit 11.

And this is the update to the actuarial report to July 31st of 2011, and these results have been incorporated into the Q2 results that were filed this morning.

Introduction essentially goes a very high -- high level of why we have this update. This is a bit unusual in terms of the process this year but we really wanted to ensure that our assumptions that caused the very large change in unpaid claims reserves as at the end of the last fiscal year -- that continued to hold. So it's really important that we continue to monitor those very closely and I -- and we knew that the Board would be very interested to see what the results were.

In terms of the summary of results that we show in page 3 of that, you'll see that the PIPP accident benefits, we had an expected booked of $192.4 million for PIPP accident benefits and in all coverage combined we had booked of $305 million. We have, as a result of this review, we have selected an IBNR of $307 million. So it's an adjustment of about $2 million, so very -- very minor. That's taking the indications from this report for the PIPP benefits and not changing the other selected IBNR for the other coverages.

Both Collision and Comprehensive have some seasonality in them, at this point in time we didn't change the IBNR results.

We did require an adjustment to our case reserves, and that is outlined in some detail on page 5, reserving issues with the BI3 system. And that was explored somewhat in the Information Requests, and I -- and I'm -- expect Board counsel to have further questions on this.

But this outlines what we found -- what the adjustments were -- required to the claims system, and I can report now that that -- those issues with the BI3 system have now been corrected. So -- so this will be a one (1) time adjustment at the end of Q2.

So, again, I would expect -- but that's sort of a brief overview of -- of that report. And, with that, there are all the associated exhibits with those reports.

MPI Exhibit 12 is the 2011 dynamic capital adequacy testing report or what we refer to as "DCAT." This is the Corporation's preferred methodology of setting the RSR target. We are not proposing that we move to the target in this report this year in this application, but what the indication is, previously the RSR from the DCAT report was $185 million.

This -- in this year with this, we're looking at a required RSR of $210 million. There's a -- a couple of sources of -- that added variability. One is the variability on equities. Compared to the 2010 dynamic capital adequacy report, we have about $100 million more in equities as at the end of the 2010/'11 year.

With that greater level in equities, be -- that is the source of some fluctuation, we have in our -- as our plausible adverse scenario, a 40 percent decrease in -- in equities over a four (4) year period. That is something that we have seen basically 5 percent of the time looking at historical equity returns.

So with that extra $100 million in -- in assets, that is the source of extra fluctuation and really the source of the extra $25 million.

I guess, unfortunately, I can report now that at the end of Q2, that extra $100 million is probably pretty much gone. But, also, which really underlines that this is -- it does impact the -- the markets with extra fluctuation, so that really is underlined.

We also have some extra level of volatility with -- that we've seen on our hail claims, and that also impacts the DCAT report as well.

Going into Exhibit 13, that's the minimum capital test. And this was one (1) of the requests in an Information Re -- Request to file the minimum capital test results as at February 28th, 2011. This is the test that is required from private companies from the office of the Superintendent of Financial Institutions.

We had proposed a few years ago that we would use this minimum capital test and our target level would be 100 percent. That proposal was rejected by this Board, but -- and, essentially, reasoning of the justification for 100 percent. It was a little bit of a -- or the justification, the Board thought at that time, was not sufficient to change the target using the MCT. But it is a useful comparative for the rest of the industry for -- as bench-marking purposes, so the request was that we would continue to -- to file the MCT test.

As at February 28th, 2011, our MCT score -- which is a comparison of minimum capital required versus minimum capital available -- our MCT score was 89.3 percent, virtually unchanged from the prior year of 87.4 percent.

Just for a comparative, the minimum required by OSFI for private companies is 150 percent, so we're -- we're well under the capitalization. 150 percent is the minimum at which point -- point, if some -- if a company goes below 150 percent, then there is some superintendent supervision that steps in.

The -- the next exhibit is the operational investment risk analysis. This was a tool that was presented to the Board a few years ago and I -- and I think has been sort of the preferred tool of the Public Utilities Board, at least four (4) or five (5) years ago.

This was an evolution of a lot of work that was done in the early 2000s. We had -- MPI had an operational risk analysis that was somewhat more extensive than this, although was not particularly intuitive in terms of having a dynamic financial analysis tool. That was proposed as a methodology of setting an RSR.

The Consumer's Association, with their consultant, had suggested that some changes to that risk analysis be done. So, essentially, this -- what's incorporated in this particular report really is a methodology that came from the consultants of the Consumer Association at -- at that time, back in 2002 or so.

It's not a tool that the M -- MPI endorses. We think that there are a lot of issues and this is not particularly well-suited for determining the risk stabiliza -- the rate stabilization reserve of the Corporation. But it has been requested that we would file this on a triennial basis. Because of the large change in unpaid claims reserve, it was requested this year, and we said we'd complete it if we had the opportunity. And -- and certainly the actuarial department has been moving heaven and earth to complete all of these analyses for this -- this hearing.

So we do present this. We don't en -- endorse it, but I will say that the results from this test, the range of 144 to $243 million that comes out of this test, really lines up with the requirement under the dynamic capital ad -- adequacy test.

So there is some convergence of requirements, but -- but really this is not a tool that we would endorse as a Corporation.

On to the cost allocation reports.

MS. MARILYN MCLAREN: If I could, just for a few moments before we move on to cost allocation.

It -- it's important to me that we point out that we are comfortable with the numbers that we've just presented here in the last half hour or so when it comes to the forecast level of the RSR for the next few years. And the -- the DCAT and the Corporation views about the operational risk analysis, the -- those processes themselves I'm sure will make like really terrific reading on a long winter night for you if you choose at some point in the future.

I just wanted to make it clear though that two (2) years ago the Corporation clearly stated publicly, it's in the annual report from a couple years back, that we accept the upper limit of the PUB target of 154 million for RSR purposes. We did that at a time when our own preferred DCAT method indicated a hundred and eighty-five (185) would provide the required financial strength.

In this business, we think $30 million is -- is not an unreasonable gap. We -- we're certainly prepared to live with that. You know, we -- we may bring forward another request to review the whole issue of RSR in future proceedings, but we stand firmly behind the rate application as has been filed.

And we certainly believe that, you know, the -- the issue, I guess, in -- in the Corporation's view, the issue about RSR has really centred around some pretty simple themes, you know, and we really believe that Manitobans value stability and predictability of their Autopac rates pretty much above all else.

We know they want high quality, good coverage and they want predictable Autopac rates. And the question in these proceedings has always been, Okay, well, if you have, you know, a really big rate stabilization reserve you can pretty much guarantee greater stability going forward.

But, for all intents and purposes, you can increase rates. This Board can increase rates as much as they want to in a short period of time if we were in a negative retained earnings perspective. The Corp -- the Basic insurance plan has been in a negative retained earnings perspective at least a couple of times in its existence and can weather it without a lot of difficulty.

But during those times we had to increase rates fairly significantly to get back into a stronger financial position. So the issue has been how much do you keep in the bank so that you have it to provide stability when you need to versus how much do you want to just give back to ratepayers, not have as much in the bank, and have to go back to them to get it if and when you need it.

And it's not really if as much as it's when. This is a difficult business, and chances are we will have unfavourable results as much as we'll have favourable results as we build confidence in some of the forecasting that we've been talking about here.

But we stand firmly behind the application as it's filed. We are not uncomfortable with the forecasts of RSR for the next couple of years. And we continue to believe that this is the right thing to do for Manitobans, notwithstanding the fact that if we continue to have hail like we have had the last two (2) years in a row we'll be doing something different.

But we continue to monitor. We continue to keep -- to -- to tweak our processes. And we're very comfortable with the application and -- and the forecasts as we've presented them here today.

THE CHAIRPERSON: Thank you. Now --

MR. DONALD PALMER: I'm still going on to --

THE CHAIRPERSON: -- I know you have two (2) more, I think, at least. Maybe more, three (3)?

MR. DONALD PALMER: I think there's three (3), yes.

THE CHAIRPERSON: Three (3). Okay.

MR. DONALD PALMER: The cost allocation reports. MPI-15 is the cost allocation report that was filed with this Board two (2) years ago at the 2010 GRA. Cost allocation -- and we talked about this somewhat in the last couple of days. The importance of cost allocation for our -- for our business when you have a regulated line subject to the -- that this Board reviews and approves rates and other competitive lines of business. So cost allocation really is an important issue in -- in order to set those Basic compulsory Autopac rates. The cost allocation methodology that was used up until this year and, in fact, is still being used for rate setting purposes was established back in the late '90s.

We had done a cost allocation study back then, and -- but I think even back then the methodology that was approved really wasn't that much different than -- than what had been established before that. So the allocation methodologies that we have used have been pretty consistent over a large number of years.

The Public Utilities Board in an order of about 2005 or around there had identified cost allocation as an issue and had identified and ordered that a new cost allocation study be -- be completed. About the same time is when Manitoba Public Insurance was just starting the processes of merging all operations with the Department of Vehicle Licensing. And at that point in time until we had the bu -- business process review and had all the operation settled out into how those operations were completed and how all the services were integrated, we -- we thought it was a little premature to do a cost allocation study so we did ask the Public Utilities Board to -- to delay -- or permission to delay that study, and that was granted. And that cost allocation study was completed and filed in the 2010 GRA.

The philosophy of that study was

fundamentally different. And I think we mentioned this before in the last few days, that the allocation before we had set departments who do certain things, and the allocation was done based on who does what and -- and that was the basis of it.

The new basis -- because the operations are so tightly integrated it's very difficult to get an objective measure department by department, so the phi -- philosophy was more who benefits from the services that are provided. And really that was the phi -- philosophical underpinning of the new cost allocation report.

And so that report was done by an external consultant. We had -- Deloitte was selected to do the cost allocation report and presented by Richard Olfert who testified at the 2010 GRA and -- and filed that report.

The Public Utilities Board had a very favourable reaction to the report, thought it was well done, but was -- there was still some outstanding question -- questions and issues that wanted further clarification on, and that was ordered in the GRA order. And an update was presented in 2011.

So MPI Exhibit 15 is the filing that was completed in -- for the 2010 GRA. MPI-16 is the update that was filed in the 2011 GRA last year. And at that point in time after this filing -- and we have talked at some length with Ms. McLaren and myself and Ms. Grammond over the last few days, to talk about the cost allo -- allocation methodology and the fact that it is not currently in use for the rate-setting purposes, but really is the Corporation's preferred cost allocation methodology.

On to MPI Exhibit 17. This was Undertaking number 3. When we were discussing with Mr. Gosselin motorcycle rates, this is the motorcycle risk study that was alluded to that was filed last year. As well, on the last -- the last two (2) pages of this exhibit are a comparison of motorcycle rates across Canada, and I will probably have a discussion of that at a later time.

But these are the comparative rates with four (4) different profiles of drivers, and a comparison as best we could, with Winnipeg versus other major Canadian cities.

And I, again, will ask the Board to consider this with the understanding that a true comparison of -- of like coverage -- coverages really isn't possible because the personal injury protection plan is somewhat unique in terms of Manitoba and

Saskatchewan. And other comparisons with -- with BC or -- which has a -- or Alberta which have tort schemes, Ontario which has a -- a different level of a no-fault environment, or other provinces, is -- is somewhat difficult. But we have the rates there for comparative purposes.

MS. MARILYN MCLAREN: I can also tell you that it was very difficult to get the rates from some of these other competitive jurisdictions.

We asked for and received assistance from contacts -- colleagues that we have in different parts of the country, but they generally keep their motorcycle rating pretty close to their vest, and that's the reason we have not shared the actual insurers' names in -- in those other jurisdictions.

MR. DONALD PALMER: The -- the complete rate comparison that we filed in an Information Request that is used as the rate comparison in the chart in our annual report, the company that does that comparison, CompuQuote, actually doesn't provide that same service for motorcycle rates. So the comparison was done by our own internal staff with available quotes that are online. Kanetix is one (1) company that's used that uses various profiles.

But there are underwriting restrictions in a lot of cases where you just can't get the rates, so we have, as Ms. McLaren said, relied on some contacts that we have in the insurance industry to get those -- those quotes.

THE CHAIRPERSON: Thank you. And that completes everything.

MR. DONALD PALMER: I'm done.

THE CHAIRPERSON: Good. So I guess we can return now to your fifteen (15) minutes or so of -- or maybe more -- of questions that were -- we were working on them prior to noon.

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: Thank you. All right, just before noon we had begun talking about staffing levels, and I'd like to ask you to turn to the very last page of PUB/MPI-1-59. It's got -- it's an attachment, 1-59(f).

MR. DONALD PALMER: Yes, I have it.

MS. NICOLE HAMILTON: And this is a chart showing -- or a table showing staffing levels by category since 1994. And beginning in 2000, it shows a steady increase in those staffing levels right up until 2011.

Isn't that right? Actually, sorry, until 2009.

MR. DONALD PALMER: That's correct. And I will point you to one (1) particular jump in the -- from the 2004 to the 2005 year from thirteen sixty-five (1365) to seventeen hundred (1700), and that is the year that there was a merger with DVA.

So -- so these are corporate staffing levels, but with the merger and the additional three hundred and forty (340) staff, approximately, that added. So -- so the -- so there was a slight increase from 2000 -- 2004, and then a fairly big increase in 2005 when the -- the DVA staff became MPI employees, and then increase gradually from 2005 to 2009.

Again, a fairly large increase in -- for the 2009 year, with the advent of a lot of the BPR projects that we have talked about. And then a decrease to 2010, and then a further decrease to 2011, as those projects have wound up.

MS. NICOLE HAMILTON: Thank you. Now we discussed yesterday that the BPR began in 2005/2006. And I'd like to turn one (1) back to PUB/MPI-1-58. And again, it's (b), the attachments of the last page. And this sets out the staff assigned to BPR, beginning in February, 2007.

Just to confirm, looking at 2009, before we proceed. There are some numbers that were sort of blocked out. I guess the columns weren't wide enough, but I take it that the missing number right at -- for clerical, in the total, would be thirty-seven point four (37.4) and the total for '09 would be ninety-nine point four (99.4)?

MR. DONALD PALMER: I'm not sure of that because both the term numbers and the total are blocked out. We -- we will get those numbers unblocked.

MS. NICOLE HAMILTON: Thank you. Is -- are you able to provide that right now, or is that an undertaking?

MR. DONALD PALMER: It -- it will take a couple of minutes, but it -- if we can go on and we'll get it, I'm sure, within the next five (5) minutes.

MS. NICOLE HAMILTON: Actually, I think it was -- I think a revised table was provided in M -- PUB/MPI-2-24(a), the attachment there. My apologies.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: So just looking at this -- from 2007 to 2009, there was an increase in number of employees assigned -- it's a fairly significant increase, would you agree?

MR. DONALD PALMER: Yes, I would agree.

MS. NICOLE HAMILTON: And it went from twenty-three (23) in 2007, to two twenty-eight point nine (228.9) in 2009?

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

MS. NICOLE HAMILTON: And a subsequent decrease in 2010 to seventy-eight point (78.) -- or seventy-two point eight (72.8)?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: And then a subsequent decrease to that, to thirteen (13).

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

MS. NICOLE HAMILTON: And the Corporation projects that there will be further -- a further decrease to five (5) next year, with it remaining at five (5), is that right?

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

MS. NICOLE HAMILTON: Now just to clarify, the majority of the BPR positions were permanent staff of the Corporation that were assigned to the project, so my understanding is that the Corporation wasn't necessarily losing those employees, they will be returning to their original positions, isn't that right?

MR. DONALD PALMER: That's -- yes, that's correct to the extent that the original positions are still there, but they are still employed with the

Corporation.

MS. NICOLE HAMILTON: Turning one (1) page back, but within PUB/MPI-1-58, to (c). So that's on page 2. The Corporation indicated that it expected staff level savings of sixty point seven (60.7) FTEs relating to the completion of the BPR initiatives?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: And the compilation of that sixty point seven (60.7) is set out right there. With respect to the employees -- or the savings for DART, it was discussed yesterday with Ms. Grammond that that stands dor Driving Ahead in Real Time initiative, which has at the heart of it the mainframe decommissioning.

My understanding, correct me if I'm wrong, is that none of DART is charged to Basic. Is that right?

MR. DONALD PALMER: That's correct.

MS. NICOLE HAMILTON: And so, therefore, the savings related to the DART staff levels won't affect Basic expenses?

MR. DONALD PALMER: That's correct.

MS. MARILYN MCLAREN: Depending on the allocation process, because it -- we talked about this, I think, at some length last year -- the mainframe driver licence system is very important to both, clearly, the dri -- the driver licensing responsibilities, but also the Basic insurance plan. All of the driver record that we use in DSR, all the information about at-fault claims and convictions, all of that very important -- important insurance related driver rating information is on the mainframe. In a normal circumstance, you would expect that, therefore, if you're converting that to a more valuable system, that both lines of business would pay for some of that and attri -- and receive the savings.

When we started the business process review, working in the historic cost allocation mind-set, where costs were allocated according to who did the work, all of that work related to maintaining the driver licence system, and the insurance required driver record information was done by DVL staff. On that basis, we made a commitment years ago now that we would charge the mainframe decommissioning project to the DVL line of business, and we've stuck with that.

However, there will be savings flowing to both lines of business from a concept that the people doing that function are significantly important and value is received from both of those lines of business.

MS. NICOLE HAMILTON: I'd like to turn to TI-9, which is found at Tab 4 of the book of documents.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: Now, this is -- this is a document which sets out staffing levels by department. And turning to the second page in, we have 2009, 2010, and 2011. Just to recap from before then, the decrease from 2009 to 2010 would be -- and -- and then a further decrease in 2011, would be related to the completion of BPR initiatives?

MR. DONALD PALMER: Yes, that's correct. And -- and just to correct the record, Ms. Hamilton, these are by -- of Corporation division, not department. And I -- I know, as we talk about some of the divisions changing, we may talk about one (1) department going from one (1) division to another. So, just for clarification purposes.

MS. NICOLE HAMILTON: Okay. Thank you. Now, after -- after the decrease in 2011, we do see slight increase in 2012 back up to just over nineteen hundred (1,900).

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

MS. NICOLE HAMILTON: Now, I understand that some of the changes in the numbers of FTEs in the different divisions are due to corporate reorganization.

Is that right?

MR. DONALD PALMER: Yes.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: At PUB/MPI-1-59(a), at Attachment A, the Corporation filed the table comparing staffing projections in 2000 -- in the 2011 GRA to those this year. And from that comparison, I understand that the forecast for 2012 has increased by seventy-eight (78) FTEs.

Is that making sense?

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

MS. NICOLE HAMILTON: And just -- and that equates to an additional forty-three point three (43.4) FTEs in strategy and innovation division?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: Can you just briefly explain the reason behind this increase for the panel?

MR. DONALD PALMER: That would be the increase due to the new initiatives under the business transformation office. So, as we gear up for future visioning projects et -- et cetera, those staff positions would be included in the strategy and innovation.

MS. NICOLE HAMILTON: And would the same explanation apply to the increase in number of FTEs in the community and corporate relations division? There's an increase of twenty-six point six (26.6).

MR. DONALD PALMER: Yes, that would largely be knowledge management services, which generally are tied to projects.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: So, the fact is that just -- despite the decrease in number of employees relating to the completion of the BPR initiatives because of the commencement of other initiatives, the Corporation will actually see an increase in the number of FTEs this year?

MR. DONALD PALMER: Yes.

MR. REGIS GOSSELIN: Could I ask a question here, in respect of the increasing complement of management staff. It's pretty -- pretty striking increase of 50 percent over the last five (5) or six (6) years.

Could you outline the ex -- outline the causes of that increase.

MS. MARILYN MCLAREN: There was an Information Request on that and we'll find the reference. But, in general, we have hired some senior technical people on staff, which we've been able to do over the last year or so, which, for a variety of reasons, we couldn't do and we -- we rel -- relied much more heavily on consultants, consultants for a lot of the projects. And then, you know, they would be released two (2) times. But we really believe it's more cost effective and better for the ongoing, you know, maintaining, you know, sort of that institutional knowledge to have these people on staff.

We've also added assistant managers in the larger service centres across the system, because we used to just have a manager and then in-scope unionized staff. But with the larger mandate for the service centres of -- you know, they're doing many more services for customers now, not just handling claims like they used to, we needed to add some assistant managers.

We, also, in terms of some succession planning, have increased in some key areas to -- to provide opportunities for succession planning.

Those are the main reasons that the management have increased.

THE CHAIRPERSON: Ms. McLaren, I guess what I'm hearing is that you were outsourcing for a while there, and now you believe that it's important to have these people right there within the Corporation, when it ref -- you're referring to management.

Can I ask about the legal, it seems to be in general, counsel? I see blanks at a certain point in time. It looks like, they've faded away. Like, where did these people go? Because we've got one (1) right beside you there, but --

MS. MARILYN MCLAREN: And another one right behind her.

THE CHAIRPERSON: Yes. Okay. So, what's the status --

MS. MARILYN MCLAREN: Yeah.

THE CHAIRPERSON: -- of that department?

MS. MARILYN MCLAREN: It -- for reporting purposes, the legal department reports through Ms. Kalinowsky into the corporate and community relations division. It's -- it's just really my view of effective organizational structure. Things do not work as well at Manitoba Pem -- Public Insurance, if you have, you know, a number of large division with, you know, multi-faceted responsibilities, and then one (1) more uni-functional area on its own, not really part of a division. We just found that it was much more difficult for the legal staff to be part of, you know, corporate initiatives, corporate development processes, and it just functions better when they're part of a larger group.

Having said that, the general counsel is clearly a member of the executive team, just as the other executives are. But, for administrative reporting, the group is -- is reporting through the Community and Corporate Relations Division. It's the same size, within a person or two (2), as it always has been.

THE CHAIRPERSON: And so, I guess why it's blank is that you moved them into the other -- yes, okay, I think there was an Information Request on that. I remember it now. Thank you.

MR. DONALD PALMER: In answer to Mr. Gosselin's question, with regard to the increase in management, and just for reference purposes, that is covered in CAC-2-122, and, essentially, the answer is pretty much verbatim what Ms. McLaren said.

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: All right. We spoke about the fact that with the completion of the BPR initiatives, the employees weren't necessarily disappearing; they were going back to their original positions, if their original positions, in fact, still existed.

Is the same going to be the case with employees assigned to the business transformation office initiatives?

MS. MARILYN MCLAREN: To a certain extent. And I -- I think the comment about 'if the position still exists' needs a little bit of context. A number of our permanent employees were on projects -- in -- in project status for two (2), three (3), four (4) years. Their position that they held before they went into the project was -- was sometimes permanently backfilled.

I mean, it -- you know, I mean, there -- there's amazing domino affects in a corporation of this size. If you're always temporarily assigning people, and then someone comes behind them temporarily assigned, it creates a lot of instability.

So, sometimes those project people were not able to retain their home position, so to speak, but they clearly are still permanent employees, and we have found them a comparable or better position when it was time for them to come off of the project.

The -- the Business Transformation Office is now a staffed department of the Corporation, and you'll -- you'll find that is one of the departmental units. So, there's not the same reliance on subject matter experts from the line departments, but there's certainly still some.

So, there will always be some people who leave their line department for a period of time to work on a project, but not nearly to the same extent as there was during the BPR, because we now have built that function into a -- into a department with permanent staff, and that it serves that purpose for us on an ongoing basis.

MS. NICOLE HAMILTON: Has the Corporation undertaken a head-count analysis on the projected savings from BPR?

MS. MARILYN MCLAREN: To the extent that that was included in the post-implementation reviews that you've seen, all of those BPR projects have significantly achieved the objects that they were set out to achieve, and -- and sometimes that -- that involved head-count reductions.

All right. I'm actually going to turn to a new line of questioning now with respect to capital expenditures.

MR. REGIS GOSSELIN: Before -- before you do that, could I ask a few questions? I just wanted to probe a little bit more about a couple of things that you raised as part of your tabling of new exhibits. And, specifically, I'm -- I'm -- I don't want harp about this topic, but I wanted to -- I want to understand this better. You talked about the impact of interest rate decreases and its impact on PIPP costs, and also the fact that you were able to register some gains on the bond side. And I guess what I'm trying to get at in my own head, is understand the sensitivity of -- of the results from interest rate fluctuations.

So, putting it in the simplest terms, a 1 percent change in interest rates has what impact on the PIPP costs and -- generally speaking? And then, what impact does it have on the income -- the income from those investments and -- and equity gains, and so on?

MR. DONALD PALMER: With our -- essentially, an immunization strategy with having a large portfolio with fixed income securities that are interest sensitive, as the liabilities are. So, there is a -- an offset on the operating statement.

In terms of the -- the sensitivity, 1 percent, a hundred basis points on the liabilities, I think, our latest calculation is about 130 million dollars. A 130 million dollars.

On -- we're about 80 percent immunized, so, all else being equal, the increase on the bonds would be about a hundred million dollars. And -- and again, those would be very round numbers, depending on what your starting and finishing interest rates are. It's not exactly a linear relationship, but it's -- it's fairly close to that.

There are other influences on bond prices, besides just interest rates, but overall, we are about 80 percent immunized. The duration of our liabilities is, I think, about nine (9) years, and the duration of our bond portfolio is about seven (7). So, that sort of gives you an idea of the sensitivity of the interest rates.

So, generally, 80 percent is kind of the -- the target. Sometimes, depending on these other factors, it could be a little less, or it could be a little more. In fact, over the last -- I think the last two (2) quarters, the immunization is almost perfect. But, the design is that it would be about 80 percent.

MR. REGIS GOSSELIN: So, looking -- looking ahead, if we -- if the environ -- environment changes such that interest rates increase, which they are expected to do at some point, you would, in effect, be in a net gain position with respect to your situation. In other words, you would have a greater impact from a -- from a decrease in PIPP costs, that than, say, a decline in bond values, right?

MR. DONALD PALMER: All else being equal, I would agree with that. Unfor -- unfortunately, in the economic environment, all else is seldom equal. But, as a general rule of thumb, I would agree with that.

MR. REGIS GOSSELIN: Another question in -- in relation to capital adequacy. You mentioned the fact that OSFI was looking at 150 percent as a -- as a potential target -- target, at least for it's -- it -- client base. How does the capital adequacy test for MPIC compare to say, our neighbours in Saskatchewan?

In other words, what's their situation at the SGI?

MR. DONALD PALMER: SGI actually has adopted the min -- minimum capital test as their standard for setting their rate stabilization reserve, and their target is a hundred percent. Actually, a range -- a hundred to 125 percent is -- they've established that as a range. So, minimum is a hundred.

CONTINUED BY MS. NICOLE HAMILTON:

MS. NICOLE HAMILTON: All right. Turning to the capital expenditures. I understand that last year the Corporation made a change in its accounting policy with respect to expenditures for furniture and equipment, as well as data processing.

Is that right?

MR. DONALD PALMER: That's correct.

MS. NICOLE HAMILTON: And the change resulted in any pieces of furniture or equipment under five thousand dollars ($5,000) in value being expensed, whereas anything over five thousand (5,000) would be recorded as a capital expenditure?

MR. DONALD PALMER: That's correct. And prior to that, the -- the threshold was five hundred dollars ($500), which had been the threshold for probably twenty (20) years.

MS. NICOLE HAMILTON: So, aside from, perhaps, bringing things up to date, what was the rationale behind the change?

MR. DONALD PALMER: To bring things up to date. Just from a piece of furniture, piece of equipment, five hundred dollars ($500), is a very low threshold. And to expense -- or -- or to capitalize virtually every office chair is overkill; might be a word that would come to mind.

So, just to -- because it hadn't been changed for a very long time, we looked at practices from other companies and what their capitalization policies were. We looked at what the inflation had been over the -- the period of time, and that's how we arrived at the five thousand dollars ($5,000).

So, it was a combination of comparison up -- with other ent -- similar entities to us and -- and the effect of inflation.

MS. NICOLE HAMILTON: And what was the anticipated impact of that change on the Corporation's annual revenue requirement in 2012/'13?

MR. DONALD PALMER: In total, the immediate impact was about a million dollars, which would be about .1 or .2 percent. So, it doesn't really change your expenses, it just changes the year of allocation to a certain extent. But I think the immediate impact was to increase expenses in the year of transition by about a million dollars.

MS. NICOLE HAMILTON: All right. I'd like to turn to TI-10, which is at Tab 5 in the book of documents.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: Now, this outlines capital expenditures for the Corporation as a whole. Is that right?

MR. DONALD PALMER: Yes, that's -- that's correct. In terms of capital expenditures, they are done on a corporate basis. And then as they're expensed or amortized they're allocated into the various lines of bil -- business, using the approved allocation methodologies.

MS. NICOLE HAMILTON: Can you elaborate

on the capital budgeting process that's in place.

MR. DONALD PALMER: It mirrors the -- the operating budget process, that every -- they're done hand-in-hand with -- many of the projects and improvement initiatives do have operating budget implications, as well as capital budget implications. So, as we go through our planning exercise with the various projects that are done, they would mirror and be done at the same time as the operating expen -- budget.

So, right now, for instance, Ms. McLaren talked about the budget process starting in August and stretching through till a final Board approval in January, and various steps along the way. The capital budget would be done at the same time, in conjunction with the operating budget.

MS. NICOLE HAMILTON: Now, the date on TI-10 is June 14, 2011. Would that be when it was prepared, or would it have been prepared in advance of that date?

MR. DONALD PALMER: It was prepared in advance, again, sometime during the first quarter, likely before May 31st.

MS. NICOLE HAMILTON: And the application before the Board is based on the numbers in this schedule?

MR. DONALD PALMER: Yes, it is.

MS. NICOLE HAMILTON: Page 2 of TI-10 sets out the different amortization periods that are applicable to various capital expenditures, and I just want to confirm that there's no changes in that -- in that table from last year.

MR. DONALD PALMER: That's confirmed.

MS. NICOLE HAMILTON: And so just to highlight a few of them for the Board, data processing equipment is amortized over three (3) years?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: And deferred development costs over five (5) years?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: And is it the case that the amortization of those costs begins once the projects that they're related to are in service?

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

MS. NICOLE HAMILTON: And I take it that the IT optimization expenditures will be amortized primarily on that same basis?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: I'd like to look at TI-10 in a little bit more detail. I see that the total capital expenditures in 2010/'11 were 26.5 million?

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

MS. NICOLE HAMILTON: And budgeted for 2011/'12 is 55 million?

MR. DONALD PALMER: Yes, that's correct, with the main increases being in the data processing equipment for the business transformation office. And also deferred development costs also business transformation, most of that would be -- would be IT optimization.

MS. NICOLE HAMILTON: Thank you. We're going to get into that in a little bit more detail very shortly.

Just to confirm, the rate reduction requested by the Corporation in -- in this application is based on a budget of the 55 or $54.8 million for capital expenditures in 2011/'12, correct?

MR. DONALD PALMER: Yes. And more succinctly, the amortized costs that come from those expenditures, because those are what runs through the operating statement.

MS. NICOLE HAMILTON: Now at last year's GRA the capital expenditures projected for '11/'12 were $17 million. So according to this there's been an increase of 38 million from what was projected last year.

MR. DONALD PALMER: And, unfortunately,

we did change things up a little bit. We had all -- always put in a placeholder for deferred development in the past. Last year and -- and I think in previous years there was a placeholder. There was also some suggestions of what exactly that placeholder meant and it -- and it was unallocated to specific projects. That always caused some amount of difficulty.

Last year we didn't have specific projects in mind. We probably should have put in the placeholder, we didn't, and that's the difference of the -- between last year and this year.

You will notice that we have gone back to the old style for 2012/'13 and '13/'14 and included placeholder in each of those years of $20 million, not that we have specific projects in mind for that $20 million but just for we know that the -- the Corporation will continue to have improvement initiatives certainly stemming from the visioning exercises that we have talked about and we have put in those placeholders of $20 million on a going forward basis.

MS. NICOLE HAMILTON: And by placeholder you're referring to the provision for future projects noted under the deferred development costs?

MR. DONALD PALMER: That's correct.

MS. NICOLE HAMILTON: Now for buildings,

the Corporation recorded $5.5 million in 2010/'11 and this has increased by 2.2 million in 2011/'12 with a further increase projected in 2012/'13.

My understanding is that increase is attributable to expenditures budgeted to be made on Cityplace. Is that right?

MR. DONALD PALMER: That's included in that, yes.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: In fact, between 2010/'11 and 2011/'12, the Corporation is planning on spending $5.1 million on Cityplace, is that right?

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

MS. NICOLE HAMILTON: And 4.4 million of this is going to be this year in 2011/'12?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: I'm going to refer to an Information Request that was made of the Corporation. I don't know that we need to turn there.

The Board was -- the Board asked for a description of the building capital expenditures noted in TI-10 and, in response, the Corporation indicated that all of the 2010/'11 expense was on a parkade restoration.

Is that right?

MR. DONALD PALMER: Yes. Could you give me the reference, please?

MS. NICOLE HAMILTON: It's at 1-61.

(BRIEF PAUSE)

MS. NICOLE HAMILTON: Sub 'A'.

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

MS. NICOLE HAMILTON: How much of that expense is related to Basic?

(BRIEF PAUSE)

MR. DONALD PALMER: Just -- it would be about 80 percent, but would be -- would show as a investment expense because the parking lots associated with Cityplace are now investment property. So about 80 percent would be charged to Basic, but through the offset to investment income, not through the expense line.

MS. NICOLE HAMILTON: Speaking of the parkade, in 2011/'12 the Corporation has indicated that 1.35 million will be spent on that parkade restoration?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: And five hundred and seventy-five thousand (575,000) on building improvements?

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: Are these all Basic expenditures, or are they related to the Corporation as a whole?

MR. DONALD PALMER: The Corporation as a whole, about 80 percent would be Basic.

MS. NICOLE HAMILTON: The Corporation has also indicated here that $2.5 million of this is for non-Basic building expenditures.

MR. DONALD PALMER: Yes.

MS. NICOLE HAMILTON: Is $2 million of that the expenditure on the leasehold improvements for the daycare?

MR. DONALD PALMER: That was identified earlier in the -- in the Hearing. This $2.5 million would have been the estimate and, again, technically not a leasehold improvement because we own the building, but a capital improvement to the -- that investment property.

MS. NICOLE HAMILTON: So just to be clear then, the 2.5 million was the Corporation's estimate of what will end up being a $2 million expense.

MR. DONALD PALMER: Yes. Non-Basic

expense.

MS. NICOLE HAMILTON: Just with respect to the daycare, how much of the leasable square feet are going to be used up for it?

MS. MARILYN MCLAREN: We'd have to take that back and calculate it, but it's a very small portion of one (1) floor of the parkade. And the overall leasable space in City Place also includes a basement parkade which is -- is not being touched. There is the fourth floor parkade not being touched, the mezzanine not being touched, big majority of the third floor not being touched, and as well, there's office space that leased -- that's leased on the fifth and -- or I guess on the sixth floor, as well as all the retail on the first and second floors. So it would really be a small percentage of the overall leasable space in the building.

MR. DONALD PALMER: I think the number quoted was about thirty-five (35) par -- parking spaces. That's probably a better indicator.

MS. NICOLE HAMILTON: Now according to TI-10, the Corporation isn't projecting any capital building expenses for Citiplace in 2012/'13 or 2013/'14?

MR. DONALD PALMER: That's correct.

MS. NICOLE HAMILTON: However, in -- in this Information Request, or the answer given by the

Corporation, 1-61(a), the Corporation indicated that it did project an additional 1.95 million in 2012/'13 for the parkade -- for the parkade restoration.

MR. DONALD PALMER: In 2012/'13, yes.

MS. NICOLE HAMILTON: So would that be an addition that should be made to TI-10?

(BRIEF PAUSE)

MR. DONALD PALMER: Sorry, I -- I'm just looking at the $1.95 million and that's in Citiplace, line 2012/'13 projected?

MS. MARILYN MCLAREN: Yeah, the '12/'13 projected in the response to 1-61 doesn't line up with TI-10, so we can take that offline.

MS. NICOLE HAMILTON: Thank you. Perhaps --

MS. MARILYN MCLAREN: The -- the total does, but, the allocation doesn't. We'll take that off line.

MS. NICOLE HAMILTON: Perhaps now might be an opportune time for a short break?

THE CHAIRPERSON: Thank you. So, we'll take our fifteen (15) minute break until 3:00, and then reconvene, but I remind you that we're leaving the meeting at 4:00 today, an early departure. Thank you.

--- Upon recessing at 2:44 p.m.
--- Upon resuming at 3:02 p.m.

THE CHAIRPERSON: So we're ready to begin again, and we're back with you, Ms. Grammond?

MS. CANDACE GRAMMOND: Yes, Madam Chair. What we've decided to do because of the discussions we've had among counsel that certain areas of cross should be done with the MPI panel before Tuesday, and I'm mindful of Mr. Williams having some questions tomorrow in those areas, and perhaps Mr. Oakes and the other Intervenors as well.

So, we thought it better to use the last hour today to ask some questions about the IT Optimization Project. And so, Ms. Hamilton will be back at a future time to finish capital expenditures. But for now, we'll just push the pause button on that particular topic.

CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So shifting gears then, the Opti -- or the IT Optimization Project, that's something new that arose with this year's filing. We haven't talked about this before, is that right?

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

MS. CANDACE GRAMMOND: Now we have a -- a fairly lengthy piece of the record at Tab 22 of the Board's book of documents. This includes, I believe, four (4) IR responses, that all deal with this topic. So we'll be spending a significant amount of time at Tab 22.

The first part of Tab 22 is PUB/MPI 1-62, and then followed -- or following after that is PUB/MPI 2-26. So I -- I'm going to start this part of the questioning by discussing the origins of the IT Optimization Project, and I see that at – MP -- PUB/MPI 2-26(c), so that's page 2 of -- PUB/MPI 2-26 -- and it -- it should be in the book at Tab 22. It -- yeah, it -- it should be in the book of documents. We lumped them all together so that they were -- all of the relevant IRs were in one place.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So is the Board at 2-26 page 2? Yeah, okay. So the answer there to (c) reflects some of the history starting in spring of 2010.

So either Ms. McLaren or Mr. Palmer, whoever wants to speak to this, if you can give us a summary of the origins of this issue.

MS. MARILYN MCLAREN: Sure, I can do that.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I believe it was precipitated by a system outage that we had back in the spring of 2010, where IWS, Insurance Workstation System, that all the brokers use, part of Autopac online, went down -- was down for the better part of about a day and a half. And then the performance really suffered for a few more days after that.

And it was just around that time where I believe the IT staff had been asked to do an overall review of the infrastructure at that time, around the same time, anyway. But this certainly escalated the issue, and it precipitated a deeper review, so to speak, and recognized at that point the report to management, senior management at that point, is that it was the foundation on which the business applications were running is -- is complex and aging.

The technology upgrades had not kept pace with the business changes that we've been making since 2004, for the most part. So we simply had to find a way to deal with that.

System outages, you know, we -- we often -- there is no doubt about it that -- that the staff and leadership in Manitoba Public Insurance take our responsibilities very seriously, our responsibilities of Manitobans very seriously.

But it is fair to say this -- you know, we're -- we're not running emergency services. We're not operating hospitals. It's mostly just about car insurance. But there's very little sensitivity in the pub -- within the public for restricted access to those services.

You know, thi -- this was a media issue. It -- it caught -- bad enough that we were very concerned about it. Brokers are struggling to provide serv -- we were really focussed on getting it fixed. It was actually something that was reported in the media because our computers were down for a day or so, unlike the Blackberry issues we've been tal -- hearing in the media over the last day or two (2). It hasn't -- didn't make the National, but it was certainly reported locally. So there's a sensitivity and there is a lot of focus on the Corporation's ability to provide service. And we clearly knew we had to -- we had to look at this more deeply.

We then decided to authorize thi -- the

work done by HP, which is filed somewhere in the PUB-1-62, Attachment A. That was the HP report. Based -- that really -- based on that, we started to put a plan together, and then, with the plan, also sought some external oversight and advice with respect to IT governance and business continuity and -- and our approach to this. That is the contract we have with Gartner.

So we looked at this sort of from the first instance in the spring of 2010. By December, January, 2010/2011, we were prepared to move ahead with a plan, with a budget, and that's what we're really here to talk about as part of this application.

MS. CANDACE GRAMMOND: Thank you. Ms. McLaren, can you tell us in terms of the outage that was experienced in the spring of 2010 that was for a day, day and a half, as you said, was it ever determined what the -- the cause of that was and whether that was something that specifically required a -- a large revamp or was that something that was relatively easily fixed?

MS. MARILYN MCLAREN: The outage was caused by a -- a double failure. There was just a -- a piece of hardware failed and then the back-up system -- the back-up power supply failed to kick in, and that -- that's what caused it.

It was a little more difficult to fix because we really had to scramble for the hardware part that broke. Because it was an aging piece of hardware we had to scramble to find the part. We brought people in to fix it and after that there was some other -- I'm struggling to find the right word. We had to continue to work with the system to improve the performance. So once the brokers were back up and running, where normally it would take, you know, two (2) to three (3) seconds or less for the information to travel back and forth it might take twenty (20) seconds to half (1/2) a minute, something like that. So that had to improve, and that took closer to a week to get that dealt with.

MS. CANDACE GRAMMOND: Those were --

MS. MARILYN MCLAREN: But the -- the immediate hard failure was fixed within a couple of days.

MS. CANDACE GRAMMOND: The other that you described is like a residual effect of the -- the earlier outage?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: Okay. So you told us that -- that through that process the -- an internal review was to be done and then HP, and that's Hewlett Packard, was -- was contracted. And I'll come to their document shortly. If you can just give us a little background about HP. They've worked with the Corporation before in other contexts?

MS. MARILYN MCLAREN: Definitely. In -- as several different organizations, the Corporation first began to work with System House, which was the earliest version of HP that I'm familiar with. Started to work with us in the early '90s for the development of Autopac online.

They've continued to be our IT development partner and, as we talked about just a little bit before the break, where more recently we have ha -- tried to hire senior project analysts and project managers on to staff we always will have a -- a balance of external contract resources and our own staff. And for the most part since the early '90s the primary source -- significantly primary source of the external resources has been System House, which was a number of other companies and is now HP.

MS. CANDACE GRAMMOND: And did HP have involvement in the business process review?

MS. MARILYN MCLAREN: Definitely. Some from a business analysis perspective, some from programming. All the di -- a number of different aspects. Definitely. Some of the change management resources came from HP as well.

MS. CANDACE GRAMMOND: And for the review that HP did in the IT optimization context, is there a contract or a retainer letter between HP and the Corporation?

MS. MARILYN MCLAREN: No, there's -- it would be like a master services agreement. This specific assignment had a statement of work which I believe we filed at some point, but it wouldn't -- it wouldn't warrant a separate contract because it would be under the overarching contract.

MS. CANDACE GRAMMOND: The master services agreement? Okay. So if we go to the -- the statement of work, it is at Tab 22, it is Attachment C to PUB/MPI-2-26. So we were just looking at the response to 'C'. If we go ahead about seven (7) or eight (8) pages we get to a -- a title page or a cover page that says in -- in big letters on it "HP Assessment Services," that's what you're referring to, Ms. McLaren?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: Does the Board have that?

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So it's PUB/MPI-2-26, Attachment C.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. Okay. Excellent. And I'm going to ask you to go to page 4 of the statement of work document. So the page numbers are in the bottom right-hand corner. Page 4 has two (2) sections on it, Introduction and Engagement Description.

MS. MARILYN MCLAREN: I have it.

MS. CANDACE GRAMMOND: Thank you. So, the author of this document obviously is HP.

That's right?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: So this would be the document that HP created in response to a -- a request or a heads-up from the Corporation that it was needing a review of its IT.

Is that fair to say?

MS. MARILYN MCLAREN: This is the -- right, that's right. This is their articulation of what the assignment was, yeah.

MS. CANDACE GRAMMOND: Okay, so we see

under the heading "Engagement Description" there's sort of an introductory paragraph, and at the end of that paragraph, the last sentence reads:

> "The key focus areas include applications, infrastructure, service management, disaster recovery, security, and IT performance management command centre."

Can you give us a -- a description of each of those for the record, so that those that are not so technologically inclined, like me, know exactly what they mean?

MS. MARILYN MCLAREN: Sure. Applications are the various software applications that the Corporation uses to do its work. We've talked about a number of them over these proceedings.

The bodily injury improvement initiative uses the FINEOS software application. We have our own in-house-built Autopac online. We have the CARS system which is claims and reporting system for claims. Human resource management system, Lawson systems, those are all applications that the Corporation uses.

And the focus of this study was to include looking at applications to understand what versions of software were being used and the actual platforms that --

that they were working on as well.

Infrastructure is really, you know, the -- the data storage, the communication lines, the networks, the servers that carry the information back and forth, the actual infrastructure of the IT area.

Service management would relate more to both the support contracts we would have for -- with external organizations for software licencing for supporting the hardware. It would also refer to services provided internally to MPI users of these through a service desk.

Disaster recovery is the extent to which the Corporation is able to recover from outages or -- or more significant events and get back to providing service to Manitobans.

The IT performance management command centre is really a -- a concept of the overarching ability to, on an ongoing basis, assess the extent to which you're meeting your organization's needs in the areas that we just talked about -- the other categories.

MS. CANDACE GRAMMOND: Thank you, and you didn't mention security, but I -- it's probably fairly obvious, that's just the security of the system --

MS. MARILYN MCLAREN: That's right.

MS. CANDACE GRAMMOND: -- not susceptible to hacking or whatever.

MS. MARILYN MCLAREN: Exactly, yes.

MS. CANDACE GRAMMOND: And, so those were the six (6) key areas that HP was to focus on in its review?

MS. MARILYN MCLAREN: Right.

MS. CANDACE GRAMMOND: And if we go down the page a little bit, at the bottom of page 4, the last paragraph reads:

> "While MPI has clearly defined objectives -- or has a clearly defined objective -- [sorry] -- of optimizing its IT delivery model to meet future business needs, the following issues and challenges exist."

So then HP lists a -- a series of bullets, and some of them we've talked about, the fact that the existing system was aging, for example, but there are some other issues listed there.

Could you comment on those?

MS. MARILYN MCLAREN: Sure. First to say some of them use some fairly strong language, and I think we'll get back to it at some point. But when we went through Section C of 2-26 I stopped at sort of the genesis of this entire initiative without talking in more detail about the progress we've made to date, which has been significant. But anyway, back -- back to this.

One (1) of the things that we've done in the Corporation over the last few years, that drove the many organizational changes that you saw when we were going through -- so that staffing and -- and the divisional changes, is really been an effort on my and my colleagues' part to really break down the silos and have a better integration of services and strategy at Manitoba Public Insurance.

There was a time when different areas of the Corporation could initiate system changes and have their needs met, and not really fully understand the impact on other parts of the organization that those changes may drive.

So that's really what this first one (1) is about. You know, that we have -- I -- I don't think it's too strong to say that the Corporation has a pretty unparalleled track record of successfully identifying major business change initiatives that involve IT, scoping them out, successfully implementing them, getting the benefits that we thought we were going to get.

Statistically, and this is may -- something Gartner may speak to when they're here next week, but statistically, there's still a -- something like 40 percent of all major organizational IT initiatives fail. Either from the perspective they're actually shut down before they're -- go live, or they fail to achieve most of the business objectives they were set out to fail (sic).

We -- we've never had that experience at MPI, in the last twenty (20) or more years. We -- we do this well. But we think with the changes that we've made more recently, we have been doing it better, because we've done it more holistically, from a real, strategic, corporate-wide perspective.

The applications have become more complex. Autopac online handles issuing and renewing driver licenses now, as well as vehicle registrations. So that's just one (1) example of the complexity through time. You know, our business continues to get more complex. The world we live in -- all business becomes more and more complex through time.

We've talked about the aging hardware, like the servers, the infrastructure support. I can't tell you off the top of my head what ITIL standards mean. I will get that for you quickly, but it is really a protocol that leading IT organizations are using to make sure that all of their work is done according to a certain standard, in terms of best practices that are in the market today. We had not used those, and we are working to implement ITIL in the organization today.

Security practices varied across the different business systems. That is the one (1) about security. And as we talked about, sort of this overarching oversight as to the extent all of the different components are meeting the users' needs, that actually has not really existed at MPI. That's the IT operations performance management.

And while disaster recovery plans have always been in place, they have not -- again, they have not necessarily kept up with the changes to the organization and changes to some of the business functions.

MS. CANDACE GRAMMOND: Thank you. So I -- I'm going to leave that particular document, which is the -- the scope of work and deals with the engagement of HP, and we're going to go ahead to -- ahead in time, but back in the book, to the HP reports. So we're still within Tab 22, but we're going to go back to 1-62, Attachment A. So we're just about five (5) pages or so into Tab 22.

This is -- and -- and really, when I say HP report, what I'm talking about is actually -- it looks like a copy of a PowerPoint. Because there are -- it's a document with slides. Does the Board have that? Okay.

So this, according to its cover page, was October -- or presented I suppose to the Corporation on October 17th, of 2010, is that right?

MS. MARILYN MCLAREN: Yes, that's right. Some -- somebody in management, I'm not sure exactly who, but ...

MS. CANDACE GRAMMOND: Well, you were probably here, so, it was -- it was probably not you or Mr. Palmer.

So if we turn over -- we'll look firstly at the executive summary. So if we turn the page we have the title page for the executive summary, and then what appears below that. And so HP, there, at the bottom of that page has just repeated what the focus areas are that we spoke about as well as the deliverables. So let's maybe then turn over the page again, where we find a slide called "Key findings," and followed by a second slide called "Recommendation themes."

So, I mean, we can -- you know, the -- we and the Board can read what the findings were. But if you can comment on those and to the extent that anything there was not expected or was new in terms of what the -- the Corporation was expecting to get at that point.

MS. MARILYN MCLAREN: No, I -- I think

remembering that our own internal IT staff had done their initial assessment before asking HP to come in, there was nothing that the IT management was -- was surprised by in -- in this report.

I think, for the most part, the people from HP validated what our own staff thought and brought another level of external expertise to the process.

MS. CANDACE GRAMMOND: And how much did it cost the Corporation for this review by HP?

MS. MARILYN MCLAREN: Do you have the reference in the material? I know it's in there.

MS. CANDACE GRAMMOND: What I have is a reference in a CAC IR. It was CAC/MPI-1-200, and that reflected that the Corporation has paid HP about 13.6 million in '09/'10 and '10/'11. So that obviously isn't just for this. But I -- what I was going to ask was whether whatever was paid for this work was included in that or not.

MS. MARILYN MCLAREN: No, it -- it's actually Part F to PUB-2-26. The question of the Board was: Provide the total cost of fees and disbursements related to the IT optimization final report presentation. The answer was five hundred twenty-four thousand five hundred dollars ($524,500).

MS. CANDACE GRAMMOND: So that -- just

for context, that five hundred and twenty-five thousand (525,000), let's say, if that was expensed in '10/'11 that would have formed part of the 13.6 million paid to HP in those two (2) fiscal years?

MS. MARILYN MCLAREN: If the question in response to that IR, what was the total amount paid to HP in that fiscal year, yes, it would.

MS. CANDACE GRAMMOND: Yeah, that was, as I said, CAC-1-200. So if we continue then with 2-26(c), and that was where we started with the chronology of these events relating to this issue. We talked about -- this is -- I'm now sort of the bottom of page 2 within that IR response.

We spoke about HP's report, and I -- not in a lot of detail. But then the Corporation has gone on to tell us that the early focus of the IT optimization program was on addressing single points of failure, and by the end of the first quarter, 2011, the Corporation had addressed 40 percent of the single points of failure.

So we'll just maybe stop there. What does the Corporation mean when it talks about single points of failure?

MS. MARILYN MCLAREN: Critical parts of the infrastructure where there's no backup. So if you do have an actual hardware or software failure of something that is actually critical to keep running there's no backup there.

MS. CANDACE GRAMMOND: And can you give us an example of something that was addressed say by the -- the end of the first quarter of this year?

MS. MARILYN MCLAREN: That we'll have to take as an undertaking to come up with a specific example, but it just would really be -- just like I talked about back in the spring when we had the problems with Autopac online. The single point of failure would have been the backup power source failing. Ideally, there would be a second backup power source there, so if one (1) failed there would be another one (1). That is an example that may not have been done in a quarter, but it's a very realistic example.

MS. CANDACE GRAMMOND: No, that's fine. And I don't need an undertaking for that. Just if you knew of one (1), that would be fine, but I -- I appreciate that answer.

And then -- so continuing on here at the bottom of page 2. The Corporation says by February, 2012, so year-end 2011/'12, the Corporation expects to have eliminated 70 percent of the single points of failure. So that's an ongoing thing?

MS. MARILYN MCLAREN: Absolutely. And

we're on track to -- to achieve that as well.

MS. CANDACE GRAMMOND: And does the Corp -- can the Corporation advise us of what the costs are anticipated to be incurred with respect to that by the end of the current fiscal year?

MS. MARILYN MCLAREN: No, I think they touch on all the different parts of the organization. Some may be in the security aspect. Some may be in hardware. Some may be in -- in software. So in all the different projects within the IT op -- optimization initiative you will find some single points of failure sprinkled throughout.

But clearly the target for the first quarter and the target for the end of the year and, ultimately, a hundred percent of them all will -- we have high confidence that they will be accomplished within the budget that's been established for the initiative.

MS. CANDACE GRAMMOND: Okay. Thank you.

If we turn over the page to page 3 of 2-26, we see at the top the Corporation has stated that in July of this year, 2011, it contracted with Gartner Inc. to provide an IT oversight risk review and performance measurement program. And I know you mentioned the retainer of -- of Gartner.

Can you tell us about how that decision

was made and -- and the role of Gartner as distinct from the role of HP?

MS. MARILYN MCLAREN: Gartner is an organization that provides advice and oversight, they don't do work. So that makes them really valuable to people heavily reliant on IT to really have that independent global perspective on some of these initiatives. And we have a little bit of a history with Gartner.

We first contracted with them to provide over -- oversight and advice during our Y2K preparations and we did so again during the business process review. Can't really under -- understate how aggressively the Corporation pursued the multiple initiatives under that business process review umbrella. There were often, you know, 3, 4, 5 major 20 to $25 million initiatives underway at the same time. And we used advice and oversight from Gartner to -- to really assure ourselves that the Corporation, the consultants, the -- mostly HP but other consultants as well, really were continuing to have a real handle on these, that we were not tripping over the different projects, that we weren't leaving huge gaps, and so we worked with them in that regard.

And then when it came time to really tackle -- you know, everything we've talked about IT optimization to this point, you know, in the last few minutes has been related to identifying the issues and fixing the issues but it really is important to our ability to move forward into the future. So it is not just fixing some issues but also positioning ourselves well for the future. And we -- we clearly thought that Gartner was the place to go to get some true independent oversight once again.

MS. CANDACE GRAMMOND: And the Corporation has advised that Gartner reviewed the HP report and agreed with the findings?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE GRAMMOND: And Gartner really has only been engaged for the last few months. So obviously there's been sufficient time for it to -- to do that review and indicate its -- its agreement. And what -- on an ongoing basis what work is Gartner doing at this point?

MS. MARILYN MCLAREN: Well, it -- there's a couple of different aspects and I think that that's clear in the Gartner presentation that's in here somewhere as well. Because they're providing quarterly oversight advice to -- to me and -- and as well as to the board of directors in terms of the extent to which the Corporation is on track with the projects that have been identified, but also the extent to which our plans align well with best practices in the industry today. So are we doing the right things? Are we doing them well?

MS. CANDACE GRAMMOND: The Corporation has indicated that it's developing a comprehensive program charter dealing with -- with all of this, which will include analysis and planning, and that that is expected to be completed by the end of the third quarter of the current fiscal year.

That's right?

MS. MARILYN MCLAREN: Yes, that's right. I mean there is some immediately obvious things that -- that need to be done, like the single points of failure, like implementing some process app -- improvements and cost control practices. I'm just looking at some of the things in the list in the middle of page 3 right now. But in terms of determining from a strategic perspective exactly how we plan to build a new data centre, that clearly takes a charter, it takes analysis, it takes very solid documentation and -- and discussion before decisions will be taken.

MS. CANDACE GRAMMOND: And so that I understand, you've -- you've explained the role of -- of Gartner and the -- the advice that will be provided to the executive.

So the actual project management of these projects as they unfold will be done by HP?

MS. MARILYN MCLAREN: No, not necessarily. Some of them certainly could be lead by HP, but not -- one (1) of the reasons I believe the Corporation has been as successful as it has with its IT-related initiatives is it always, always keeps full control over the conceptual goals of any particular initiative.

You know, it's always the Corporation that establishes the charters, the statements of work, signs on off -- on off -- signs off on all of those. HP may very well run one (1) or two (2) or more of the projects, but it will be a project that is defined corporately and that the corporate -- Corporation determines needs to be done.

And it's also -- we're also very careful about making sure that we get independent advice. And a lot of the money that will be spent in terms of this overall IT optimization initiative will be hardware. And, you know, I mean, it's sometimes to find this hardware that's not made by either HP or IBM. So what we do in that situation, we don't ask HP to run a project to decide what we should buy in terms of hardware.

We look again to see if there is somebody who -- and there are, often there are little niche players in -- in these pieces of the IT world whose expertise is helping organizations to determine what their needs are -- whether it is in business continuity or data centres or whatever. We will contract with them to get their advice in a very narrow, specific role, make that decision, and then if it's HP, we will be going to HP. If it's not, we'll go elsewhere.

So we're very careful about making sure we get independent input and advice on these things as well.

MS. CANDACE GRAMMOND: Okay, so let's talk a little bit about the expenses for the -- the IT optimization project. I believe the -- the first in time dollar amount that we have -- and this is also at Tab 22 -- is an excerpt from a board of directors subcommittee, the budgeting and operations committee. So this is still -- and -- and you may not need to ne -- necessarily go there, but it -- it is -- it is included at Tab 22 and it's PUB/MPI-2-26, Attachment A.

And the -- the excerpt provides -- this is Mr. Guimond who is a VP of what again, Ms. McLaren?

Mr. Guimond is the VP of...?

MR. DONALD PALMER: Strategy and Innovation.

MS. CANDACE GRAMMOND: Thank you. So --

MR. DONALD PALMER: And chief information officer.

MS. CANDACE GRAMMOND: -- okay. So Mr. Guimond, in that capacity or those capacities, is speaking with the -- the subcommittee of the board of directors, and the minute that -- that's here reflects that over the next five (5) years the Corporation plans to execute a number of targeted projects in a specific order to reduce the overall IT risk profile while not compromising delivery of strategic initiatives.

And then there's a discussion of some of the components, and then it reflects total expenditures are forecast to be 118 million. And there -- there is additional commentary here, but not with respect to that dollar amount.

So whether this is for Mr. Palmer or -- or you, Ms. McLaren, it would appear then that the -- the price tag, so to speak, for this project was initially thought to be in that $118 million range. I appreciate this is January of 2011, so it's fairly early in the process.

MS. MARILYN MCLAREN: And I believe somewhere in this material we reconciled that. I -- I think the 118 million is the total of the IT optimization initiatives that were going to run over the I -- five (5) years, but also some of the other business transformation office initiatives. We'll see if we can find that reference.

(BRIEF PAUSE)

MR. DONALD PALMER: As we look for the reconciliation of the $118 million, specifically for the IT optimization parts of that, if you go to the next page of the book of documents, there is a approved Board budget of $71 million.

That number reconciles with the response in PUB 1-62, where the Board had asked MPI for a schedule of expenditures by fiscal year. That also reconciles to the $71 million, which -- and again, these are corporate-wide, which also reconciles to the total IT optimization fund Basic of $65 million and an additional $10 million coming from the competitive lines of business into the EDF of $10 million. So that -- approximately the $75 million appropriation of retained earnings, which again, pretty close to the $71 million. So, I think that's likely the number for the IT optimization project.

MS. CANDACE GRAMMOND: And I -- I do have some questions about those so we'll -- we'll go to those now, but I'll wait to hear back about the -- the reconciliation of the one hundred and eighteen (118).

So, Mr. Palmer, you've pointed out a document that's part of Tab 22. It appears just after the minutes -- or the meeting minute excerpts. And this is PUB/MPI-2-26, Attachment B, so it's a chart that reflects -- a table, sorry. I'm going to try to get out of that habit of calling these charts. It's a table that reflects a comparison of the proposed budget from HP and the MPI board of directors approved budget. That's right?

MR. DONALD PALMER: That's correct.

MS. CANDACE GRAMMOND: And so basically there's a couple of changes within the document. The first line item is the -- the one (1) time cost for applications. The number from HP was about 25.2 million, and the MPI board of directors approved an $11 million expenditure. And the note reflects that the remaining 14.2 million was removed from scope, deemed not appropriate to be included under IT optimization project.

Can you tell us about that?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Part of the advice

from HP was that we may want to consider scaling back, where possible, our custom in-house built applications, such as Autopac online and CARS. And what this contemplated was really stripping out the majority of the financial functionality from Autopac online and moving it into the -- the standard purchased financial system software, Lawson, that we use.

That might make some sense at some point, but we did not consider it after, you know, di -- discussions amongst management -- did not consider that as a really appropriately part of the IT optimization study. If -- if it -- it would make sense to do that, that's something that we would need to consider on its own, build a plan, build a business case to do that, and come forward sometime in the future.

MS. CANDACE GRAMMOND: So that revi -- revision to the budget didn't have anything to do with the decommissioning of the mainframe?

MS. MARILYN MCLAREN: No, not -- not at all.

MS. CANDACE GRAMMOND: Okay. And then we see at the -- the next line item for infrastructure and, again, the one (1) time costs, a revision this time upward from about 21.7 million recommended by HP up to 28 million, and the -- the note reflects that this was for additional storage?

MS. MARILYN MCLAREN: That's right. And we -- we just find in our business that you just can't have enough data storage. Clearly there's reason to think that you should be able to scale back the information that you give your staff and -- and other users ready access to and create sort of like an archive.

But it -- there's still a surprising number of times in our business when people need to go back decades in terms of searching vehicle history. If not decades, then at least as many as -- as much as one (1) decade to search old claims information, claims that are old and closed.

So we have not successfully significantly constrained the availability of historic information and, therefore, we do have quite a bit of storage. And we don't expect that to change in the near to -- in the near future.

MS. CANDACE GRAMMOND: Okay. Mr. Palmer, as you had pointed out, the 71 million that re -- that is referenced on that chart dovetails with the 71 million that's referenced in, I believe, 1-62(b), which is the second page at that tab.

So I'd ask you to go there, and the Board as well, Tab 22, second page. We see the answer at 1-

62(b). And this provides a breakdown by component and by year with respect to the $71 million budget?

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

MS. CANDACE GRAMMOND: And I'm -- I'm not going to ask specific questions about the content of that table. But what I do want to ask is, and you -- you alluded to this, Mr. Palmer, a few minutes ago, the -- the application itself refers to the IT optimization fund being 75 million, sixty-five (65) from Basic and 10 million from the other lines.

So for the purposes of -- of this discussion, is the -- is the number actually seventy-one (71) and the -- there's just an extra 4 million that's been appropriated?

MR. DONALD PALMER: That's correct, included as a contingency.

MS. CANDACE GRAMMOND: And so does the -- the seventy-one (71) that we see here change the allocation from retained earnings out of Basic? Is that number actually something less than 65 million?

MS. MARILYN MCLAREN: I -- I think the point is that we may, at the end of the day, have spent less than 65 million, but we have an allocation of seventy-five (75), sixty-five (65) of which is Basic, seventy-one (71) hard numbers, 4 million contingency.

That's the way we're proceeding with the project.

Allocation will follow standard approved allocation policies. And if, at the end of the day, like we often do, we manage to get the projects done without the contingency then there will be money left in the Basic bucket.

MS. CANDACE GRAMMOND: So, notionally, if overall there's a $4 million contingency, the sixty-five (65) coming out of Basic includes a proportionate contingency as does the 10 million from the other lines. Is that fair to say?

MR. DONALD PALMER: That's fair to say, right.

MS. CANDACE GRAMMOND: And how did the Corporation determine the split of 65 million from Basic and ten (10) from the other lines?

MR. DONALD PALMER: The expense allocation and the cost allocation formulas run off expenses, not capital expenditures. So we estimated about the split what the eventual expenditures will be allocated on. It's -- it's not a precise estimate, but it's an approximate split of the -- the sixty-five/seventy-five (65/75). So it's -- it's approximately 80 percent, as most of these type of expenditures are. So it was a round number estimate but based on the cost allocation formula.

MS. CANDACE GRAMMOND: Thank you. We see still within Tab 22 that at 2-26, and we've -- we've looked at that already a little bit but, again, coming back to 2-26(c), that was the narrative answer we looked at that had a chronology of the -- the history of this.

What the Board had actually asked for in 2-26(c) was that the Corporation file a corporation-generated cost benefit analysis, in essence. And so what -- what the Corporation provided was the narrative answer and that included a number of -- of attachments, including the -- the HP report.

Does a written cost benefit analysis exist for this project?

MS. MARILYN MCLAREN: No, it doesn't.

MS. CANDACE GRAMMOND: So there isn't one generated by the Corporation? There isn't one generated by HP or Gartner or anyone else?

MS. MARILYN MCLAREN: No. I mean, essentially the cost benefit analysis is that if you don't spend the $75 million, you don't have the benefit of staying in business because you've got too many single points of failure and you've got too many applications that are running on outdated hardware and you're not positioned for the future.

I mean, we -- we could have gone through such an exercise but it -- it would not have been a legitimate use of time, in my perspective. I did not ask that they prepare that. This is really something that's not discretionary in the Corporation's view and that's really the business case to do it, which is not quite the same as a cost benefit analysis.

And as we've talked about in other situations, the -- the net present value thing is -- is not something that seems appropriate to us and we have not normally done in assessing these kinds of expenditures or investments.

MS. CANDACE GRAMMOND: So has the Corporation quantified any of the benefits that will flow from this as opposed to considering the -- the qualitative benefits?

MS. MARILYN MCLAREN: Not in a very specific structured way.

Some individual initiatives may -- will certainly have that done and will be part of the charters that we talked about earlier. We know that if we can reduce the different numbers of applications and so on, if -- if we can have -- you know, I mean, there's a comment in here I think in the HP report that says your maintenance costs are going to escalate if you don't have more current hardware.

I mean, so I think you'll find that next year we will be in a position to file some of these reports that will be developed and approved between now and then. And some of them on a more specific basis will have tangible savings identified.

I don't expect many of them to have savings that will offset the initial cost but there will certainly be offsetting reductions in cost. And while not in every case there will be some and that is the level of detail that we haven't gone through at this point yet.

MS. CANDACE GRAMMOND: Do we know in terms of the outage that occurred in the spring of -- of 2010 what the cost was of that? Of -- we talked about the one and a half (1 1/2) day outage and then followed by residual issues for the weeks that ensued.

Do we have a number for any piece or all of that?

MS. MARILYN MCLAREN: We can go back and check whether we did pull together a summary like that. We certainly pulled together a post-event synopsis of -- of what happened; how did we fix it; what can we do in the future. I'm not sure out-of-pocket costs were part of that but I'll certainly go back and have a look at it.

But -- but strictly speaking, the -- you know, the -- the brokers would have incurred some aggravation and probably some overtime for their staff. We certainly had some overtime and some additional consulting costs, hardware costs, but it -- it certainly would not have been material in terms of the costs of this initiative that we're talking about today. Like they're not comparable in any way.

MS. CANDACE GRAMMOND: You mean it wasn't anywhere near $75 million?

MS. MARILYN MCLAREN: Probably not near $1 million. Yeah.

MS. CANDACE GRAMMOND: Yeah. I -- I was just going to say, thank you, Madam Clerk. I'll take you up on your offer, Ms. McLaren, of an undertaking for that.

MS. MARILYN MCLAREN: We'll -- we'll go back and see what we have in terms of a post-event analysis on that one.

--- UNDERTAKING NO. 12: MPI to provide a post-event analysis in terms of the outage that occurred in the spring of 2010

THE CHAIRPERSON: Ms. McLaren, when you say there was no need for the cost benefit analysis, I can see your point in that it obviously wasn't discretionary, you had to do something. But, I guess, in most business, you do have the discretion of who you chose to do it with, and I just wonder about that.

I know you had this history with HP, but did the con -- I guess what I'm thinking is did the Corporation think, Well, you know, what's it going to cost us to do this as opposed to -- to do that? Because usually businesses have options and they choose, not always the least-cost option, but they choose on the basis of what they're going to get for what they're going pay.

And I'm -- did the Corporation go into any of that kind of an analysis?

MS. MARILYN MCLAREN: Not with respect to the HP analysis of our staff's initial assessment of the state of our IT. We created the statement of worth because that is our contractual HP -- our -- our contractual IT partner. There is a master services agreement. We've negotiated that agreement. We know we get very, very advantageous, you know, labour rates and things like that through that contract.

So, we were -- you know, the other -- the other big advantage of dealing with a large multinational service provider like HP and IBM is very, very similar. And I guess that's another point to make. You know, the -- the resources that we tend to use on a regular basis from HP are people employed here, living here in Winnipeg. When you do something like this, they're bring people from potentially all over the world -- experts in certain areas.

So, I think it is -- there -- there was no reason to think should we look for someone else to do this piece of work in terms of the five hundred thousand dollars ($500,000) assignment that's here as part of the answer to 1-62.

Everything else that we do as part of this large umbrella initiative will be done exactly like that. And -- and especially because a lot of the expected expenditures are hardware. We virtually always give that to the low-cost bidder, and there's always people who want to -- to bid on that.

You know, so every piece of it, we have to figure out who do we wand to work with. That's almost always done through a request for proposal process. All of the hardware purchases are -- are tendered.

So, within the $75 million, there will probably be, I guess, what -- there's about five (5) or six (6) large key projects, but those are almost programs rather than projects, and within those there'll be a number of initiatives. Every step of the way, we're making decisions about who do we want to work with, how much do we want to spend, where can we be sure we're getting independent advice; every step of the way on each of those discrete small projects within the larger program.

MS. CANDACE GRAMMOND: Thank you. Madam Chair, I know we're a few minutes to four, but I can wrap this up in about five (5) to ten (10) minutes, I think.

So I can keep going?

THE CHAIRPERSON: I think Mr. Evans actually has to do something. He has to present some kind of a -- you know, he has to --

DR. LEN EVANS: The Speaker of the House is retiring, a special...

THE CHAIRPERSON: Yeah, it's just he has to be somewhere at a certain time, so I think we really do have to shut down and come back, because he can't be late for what he's doing. So, with your -- we'll just have to do it tomorrow morning.

MS. CANDACE GRAMMOND: I -- I will finish this topic up tomorrow morning in about, as I say, probably ten (10) minutes, and then I'll turn the mic over to Mr. Williams and he'll woo us.

THE CHAIRPERSON: Right. So, tomorrow morning at 9:30 we'll meet again.

(PANEL RETIRES)

--- Upon adjourning at 3:58 p.m.

Certified correct,

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Cheryl Lavigne, Ms.