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2
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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 20, 2011
Pages 1534 to 1741

1
2
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APPEARANCES

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TABLE OF CONTENTS

1		
2		Page No.
3	List of Exhibits	1537
4	List of Undertakings	1538
5		
6	MPI PANEL 1, Resumed:	
7	MARILYN MCLAREN, Resumed	
8	DONALD PALMER, Resumed	
9	Continued Cross-examination by Ms. Candace Grammond	1541
10	Continued Cross-examination by Mr. Byron Williams	1634
11		
12	Certificate of Transcript	1741
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1	LIST OF EXHIBITS		
2	NO.	DESCRIPTION	PAGE NO.
3	CAC-11	Supporting material for October 20,	
4		2011 cross-examination of the MPI panel	
5		by CAC Manitoba	1633
6	MPI-33	Response to Undertaking 26	1633
7	MPI-34	Response to Undertaking 21	1702
8	MPI-35	Response to Undertakings 24 and 31	1703
9	MPI-36	Response to Undertaking 25	1703
10	MPI-37	Response to Undertaking 28	1703
11	MPI-38	Response to Undertaking 29	1704
12	MPI-39	Response to Undertaking 30	1704
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

	LIST OF UNDERTAKINGS		
1			
2	NO.	DESCRIPTION	PAGE NO.
3	33	MPI to provide the reference to indicate	
4		why the premium didn't work in the	
5		trucking business	1573
6	34	MPI to split the results of Undertaking	
7		4 into three (3) categories: Manitoba,	
8		the rest of Canada, and the US	1576
9	35	MPI to provide a breakdown of the	
10		expenditure for Regulatory/Appeal,	
11		dividing it between AICAC, the Public	
12		Utilities Board, the Claimant Advisors	
13		Office, and any other significant line	1661
14	36	MPI to provide, re. IR TI.7.A, of the \$101	
15		million for Compensation, in both absolute	
16		and percentage terms, how much is pursuant	
17		to the collective agreement and how much	
18		is to those employees out of scope of the	
19		collective agreement	1663
20	37	MPI to advise if there has been a revision	
21		downwards in assumptions of economic	
22		increases in the setting of the pension	
23		liabilities (answered on page 1,728)	1736
24			
25			

1	LIST OF UNDERTAKINGS (Con't)		
2	NO.	DESCRIPTION	PAGE NO.
3	38	MPI to set out a schedule of agreements	
4		with the MGEU, Automotive Trade Association,	
5		Manitoba Motor Dealers Association, and	
6		Insurance Brokers Association of Manitoba,	
7		setting out the expiry date and also	
8		setting out the actual costs for the most	
9		recent year, being the 2010/'11 year	1738
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1 --- Upon commencing at 9:33 a.m.

2

3 THE CHAIRPERSON: Good morning. I think
4 we'll hear from you first with some undertakings. I see
5 them in your hand, or maybe not.

6 MS. KATHY KALINOWSKY: Actually, it's a
7 clarification of the record that Mr. Palmer wanted to
8 address. It deals with page 1,498 of the transcript. I
9 don't know if people have to actually go there or not,
10 but I'll hand it over to Mr. Palmer just to make a
11 clarification, correction of some evidence that he gave
12 yesterday.

13 And with respect to undertakings, there ha
14 -- there's quite a list that was generated yesterday and
15 we're busy working on those. Thank you. Mr. Palmer...?

16

17 MPI PANEL 1:

18 DONALD PALMER, Resumed

19 MARILYN MCLAREN, Resumed

20

21 MR. DONALD PALMER: Yes. In my
22 discussion with Ms. Hamilton yesterday we were talking
23 about the business transformation office and,
24 specifically, she asked me -- I'll -- directly -- her
25 question was, And how does the additional expenditure in

1 the way of the business transformation office initiatives
2 impact on the rates for 2012/'13.

3 And my response was, Depending on when the
4 projects are finished, they would go into the operating
5 statements of those five years for '12/'13 or '13/'14.
6 So whatever amount was amortized in the '12/'13 or
7 '13/'14 years would be included in the calculation of the
8 rate requirement as at the 1st of March, 2012.

9 Now, that is true for the business
10 transformation expenses other than those in the IT
11 optimization because the IT optimization expenses are not
12 included in the rate requirement because they are in fact
13 funded in the application by the IT optimization reserve.

14 So even though they will go through the
15 operating statement, for rate setting purposes those
16 expenses are in fact backed out. So, specifically, the
17 expenses for the IT optimization, whether they're
18 amortized in '12/'13 or '13/'14, how that is spread has
19 no impact whatsoever on the rates because all those
20 expenses have been backed out.

21 THE CHAIRPERSON: So do you want to carry
22 on? I interrupted you yesterday to get away, but you
23 were in the midst of road safety at that point.

24

25 CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

1 MS. CANDACE GRAMMOND: Yes. Thank you,
2 Madam Chair. I have one (1) more issue that's related to
3 road safety. And then I'll have a few other smaller
4 issues. And then I'll be able to -- to close my cross.

5 So the last issue that -- that's tied in
6 with road safety is -- flows from a recommendation that
7 the Board made last year, and that was a recommendation
8 that the Corporation develop an option for government
9 wherein convictions for driving while using a handheld
10 device, driving while texting or -- or the like, would
11 give rise to demerits.

12 And the Corporation had given a response
13 to the Board in -- in reply this year to that
14 recommendation that it has no statistics with respect to
15 that. And, Ms. McLaren, I -- I take it this will be you.

16 You recall that recommendation being made?

17 MS. MARILYN MCLAREN: Yes, I do.

18 MS. CANDACE GRAMMOND: For the purposes
19 of the record, and I'm not specifically asking that
20 anybody turn there, but just so that the -- the
21 transcript is complete, the recommendation and the
22 Corporation's commentary in response to the
23 recommendation are found at SM-5.12.6 of the application.

24 The Corporation had also stated in
25 response to that recommendation that should the

1 Corporation decide to undertake an analysis, the results
2 would be shared with government and then the government
3 would determine whether any changes should be made with
4 respect to the existing regime, that's right?

5 MS. MARILYN MCLAREN: Yes.

6 MS. CANDACE GRAMMOND: And the Board had
7 asked an IR of the -- the Corporation with respect to
8 this issue. Again, if you -- if you wish to go there,
9 that's fine; if you don't, that's okay too. It was
10 PUB/MPI-1-89. I'll just get my copy in front of me.

11 This was, as I said, an IR that flowed
12 from that particular recommendation. So it's -- if the
13 Board is going there it's PUB/MPI-1-89.

14 So this was a -- a three (3) part
15 question.

16 MS. MARILYN MCLAREN: Yes, I have it.

17 MS. CANDACE GRAMMOND: Thank you. And
18 so, similar to the -- the issue of the red-light cameras
19 that we spoke about yesterday, this is something -- and I
20 -- you know, keeping in mind the -- the Corporation's
21 position with respect to its role, the Corporation does
22 acknowledge that this is something that is tied to road
23 safety.

24 It is a road safety issue?

25 MS. MARILYN MCLAREN: Yes.

1 MS. CANDACE GRAMMOND: And that's
2 reflected at Part A of 1-89.

3 And then the Board had asked that (b) of
4 -- to be advised of attempts that the Corporation has
5 made to get statistics regarding accidents that were
6 related specifically to the use of hand-held devices.
7 So, you know, what -- what are the stats on people
8 texting while driving and that leading to -- to
9 accidents.

10 The Corporation advised in response that
11 neither its claim reporting protocols nor the traffic
12 accident report form directly asked the driver about the
13 use of these types of devices.

14 Is -- is that something that -- that can
15 be changed going forward?

16 And if we -- we break it down and speak
17 firstly just about the Corporation's claim reporting
18 protocols, is that something within the Corporation's
19 control that it could, as part of claim reporting, start
20 to ask that question of claimants?

21 MS. MARILYN MCLAREN: It could. That is
22 something that is within the Corporation's control.

23 MS. CANDACE GRAMMOND: And can you tell
24 us whether there's any inclination on the part of the
25 Corporation to think about making that part of the

1 reporting process?

2 MS. MARILYN MCLAREN: We have. I guess
3 there's two (2) sides of it. You know, I think there are
4 some questions that are -- I mean, if you're talking
5 about talking to the person who caused the crash -- many
6 vehicles are single vehicle, there's not -- no other
7 party involved, self-reported information of this nature
8 is pretty much non-existent.

9 We already ask questions, you know, Were
10 there any drugs and alcohol involved. We never have
11 people say, Yeah, I probably had one (1) too many, you
12 know. It never happens. So -- but I can tell you, if we
13 get reports from the other party that, you know, I could
14 tell the person was talking on their cellphone, we
15 absolutely follow up on that, we deal with that and it
16 would have an influence on determining liability.

17 But when we looked at this IR, my mind
18 said anyway was, you know, the -- the self-reported basis
19 and it really is of limited value because it just doesn't
20 happen. And every time we ask more questions in the
21 claims reporting process it takes longer, which means we
22 need more staff to do it, so there's always that
23 consideration.

24 So we certainly always need to know that
25 we have really effective protocols for when someone else

1 reports that someone caused a crash because of that sort
2 of behaviour, but the self-reported stuff is -- is pretty
3 non-existent.

4 MS. CANDACE GRAMMOND: What about in the
5 case of a -- of a crash where law enforcement becomes
6 involved and -- and perhaps tickets are issued, not
7 necessarily with respect to this, but -- to this issue,
8 but just with respect to whatever aspect of -- of the
9 driving.

10 Are there situations where the -- the law
11 enforcement may find, you know, a loose cellphone on the
12 floor of the car, or something like that, that can be
13 communicated to MPI?

14 MS. MARILYN MCLAREN: And that's the
15 answer in Part B and C, where the traffic accident
16 reporting protocols don't require that kind of
17 codification of the accident reports. That is -- has
18 always been a possibility for the police to write a
19 narrative section of a report. But these new standards
20 that are -- are expecting to be introduced at some point,
21 do require that -- provide for that further codification.

22 MS. CANDACE GRAMMOND: So the -- the
23 protocol that the law enforcement follows with respect to
24 what details they include, obviously would not be within
25 MPI's control?

1 MS. MARILYN MCLAREN: Right.

2 MS. CANDACE GRAMMOND: And -- And I was
3 going to ask about the -- the standards that you just
4 referenced and that's at ©), whether there was any new
5 information. What the Corporation was able to tell us in
6 response to this IR was that these reporting standards
7 were calling for it, but that it hadn't yet been
8 implemented.

9 Is there anything in terms of timeline
10 that you can tell us now?

11 MS. MARILYN MCLAREN: No. I -- I can
12 tell you that these recently updated standards are
13 significantly more robust. Would -- would have a much,
14 much longer reporting time frame, and so I think that is
15 one (1) of the reasons that jurisdictions are -- are
16 looking at it, trying to figure out when can they match
17 resources available to start collecting more and more
18 information.

19 MS. CANDACE GRAMMOND: I think we can
20 agree, given that this is considered a -- a road safety
21 issue, that the use of some kind of hand-held device
22 while driving would be an indication of poor driving
23 behaviour?

24

25 (BRIEF PAUSE)

1 MS. MARILYN MCLAREN: I think that ties
2 back to 'A', you know, in terms of, is it a road safety
3 issue? Many governments and -- and police services have
4 said that restricting the use is intended to improve road
5 safety. I think that's fair.

6 MS. CANDACE GRAMMOND: And we know that
7 the province implemented a -- a specific offense relating
8 to the use of -- of hand-held devices while driving,
9 probably about fifteen (15) months ago, or -- or
10 something like that.

11 Does the Corporation have any information
12 about the number of tickets being issued, or the number
13 of convictions for that type of offense?

14 MS. MARILYN MCLAREN: No. Every once in
15 a while the police have issued news releases and
16 different communiques like that talking about it, but
17 I've -- I have not seen anything like that for quite a
18 long time now.

19 MS. CANDACE GRAMMOND: Does the
20 Corporation have a view on whether -- that -- that it's
21 willing to express to the Board, on whether there's a
22 need for greater deterrents with respect to this issue of
23 using these devices or holding these devices while
24 driving?

25 MS. MARILYN MCLAREN: No.

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: There was a -- an
4 article, speaking of media articles, I -- I actually have
5 a -- a copy of one (1) that was published in July of this
6 year. And it's a -- a Winnipeg Sun article centred
7 around the -- sort of the one (1) year anniversary of the
8 -- the rule being implemented. And there -- there were
9 some statistics reflected there. You know, a survey was
10 done of the public and -- and whatnot.

11 Has the Corporation noticed any link
12 between the implementation of this rule and accident
13 counts? Like, is there any difference or change that the
14 Corporation can articulate between those two (2) at this
15 point?

16 MS. MARILYN MCLAREN: No. We wouldn't be
17 able to tie anything back to that at all at this point.

18 MS. CANDACE GRAMMOND: Okay. Those are
19 my questions with respect to that particular issue. I'm
20 going to move then to another area. We spoke about it
21 very briefly early on in the hearing, and this relates to
22 the part of the Corporation's application seeking changes
23 to fleet rebate discounts.

24 We just sort of touched on the fact that
25 that was being requested, so we should discuss a bit more

1 detail about that. Mr. Palmer, I'm assuming this will be
2 for you. I believe, as reflected in the application and
3 as confirmed by the Corporation, the Corporation is
4 seeking changes to the discounts, but no changes to the
5 surcharges.

6 Is that right?

7 MR. DONALD PALMER: That's correct. The
8 discounts to match the maximum available under the driver
9 safety rating plan.

10 MS. CANDACE GRAMMOND: And let's just
11 talk a little bit about the -- the fleet program. I
12 understand that fleet customers are those that have ten
13 (10) or more vehicles registered to them?

14 MR. DONALD PALMER: Yes, in -- in certain
15 classes. But rule of thumb, that's correct.

16 MS. CANDACE GRAMMOND: So which are the
17 classes that would be eligible for fleet?

18 MR. DONALD PALMER: It's probably easier
19 to describe fleets by what's not in the fleets.
20 Motorcycles are not included in fleets. Excuse me.
21 Trailers are not included in fleets. That's -- off-road
22 vehicles are not included in fleets.

23 MS. CANDACE GRAMMOND: And pursuant to
24 the information that the Corporation has filed, the --
25 historically, the rebates and surcharges in the fleet

1 program are determined by the loss experience of the
2 fleet itself.

3 Is that right?

4 MR. DONALD PALMER: That's correct.

5 MS. CANDACE GRAMMOND: So can you just
6 explain a little bit to the Board about how that -- how
7 that has worked in the past?

8 MR. DONALD PALMER: Each year on the
9 policy anniversary of -- of fleet that has been
10 determined to have more than ten (10) vehicles a loss
11 ratio is determined, including comprehensive experience,
12 collision experience, and PIPP claims, and a loss ratio
13 is determined.

14 Depending on what that loss ratio is...

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE GRAMMOND: Mr. Palmer, if
19 you're looking for a reference, I think it's at TI-18,
20 Section 7. There's a discussion about the fleet program.
21 I don't know if that's what you're looking for, but...

22 MR. DONALD PALMER: I was going actually
23 into a more complete description in AI-5. That's
24 probably a useful place for the Board to -- to look.

25 MS. CANDACE GRAMMOND: So AI-5 is in

1 Volume III, so it'll be the thin binder of Volume III,
2 and it's under the heading of "Vehicle classification
3 system." Mr. Palmer, is that what you were thinking of?
4 Yeah. And if you go to page 11, "Fleet rebates and
5 surcharges."

6 MR. DONALD PALMER: Yes, that's correct.
7 And, also, at the beginning of that, again, to just -- a
8 little more clarification to your previous question, is
9 what vehicles are in. And I had described some of them
10 that are not in, but there's a complete list on page 11
11 of -- of AI-5.

12 So in terms of...

13

14 (BRIEF PAUSE)

15

16 MR. DONALD PALMER: In terms of the loss
17 ratios, tho -- the complete loss ratio list is shown on
18 page 13, and any fleet that has a loss ratio of less than
19 70 percent, in fact, between 70 and 79 percent, gets no
20 discount nor surcharge.

21 And then for each percentage better than
22 70 percent, that would have got a 1 percent discount on -
23 - on the rates that are charged up to a maximum discount
24 of, for the 2011 program, of 25 percent, which
25 corresponds to a 45 percent loss ratio. So any -- any

1 fleet that had a loss ratio of less than 45 percent would
2 get a 25 percent rebate.

3 On the surcharge side there's an increase
4 of 1 percent surcharge on any loss ratios exceeding 79
5 percent up to a maximum loss ratio of a hundred and
6 twenty-nine (129) or more that would receive a surcharge
7 of 50 percent.

8 The proposal that actually has been
9 accepted, this is in legislation, so -- so the
10 legislation has increased the -- the number of categories
11 to include down to 37 percent. The application for --
12 before the Board is to extend the loss ratio by 1 percent
13 for those loss ratios of 44 percent down to 37 percent.
14 So the maximum fleet rebate under this application is 33
15 percent.

16 MS. CANDACE GRAMMOND: While we're
17 looking at the chart on page 13, it's what is in bold
18 that the Corporation is seeking to revise?

19 MR. DONALD PALMER: That's correct.

20 MR. REGIS GOSSELIN: Can I ask a question
21 of clarification? I see an awful lot of cars with dealer
22 plates on the road and I'm just wondering do they fall
23 into the fleet classification?

24 MR. DONALD PALMER: Yes, they do.

25 MR. REGIS GOSSELIN: So I'm trying to

1 think this one through. How would you -- given that
2 there's -- the -- there might be quite a number of
3 vehicles on the road at one time driven by multiple
4 different drivers.

5 How do you figure out how many -- how many
6 days a week that they are -- get covered. I mean...

7 MR. DONALD PALMER: That -- that would be
8 -- the dealer plate is one (1) of three (3) categories of
9 -- of plates, actually, that is not tied to a specific
10 vehicle. They are allowed to be moved from vehicle to
11 vehicle, so the experience actually attaches to the
12 plate.

13 THE CHAIRPERSON: What are the other two
14 (2) categories, just out of curiosity?

15 MR. DONALD PALMER: Repairer and
16 driveaways. Driveaways are very close to dealer plates
17 except they're -- a dealer plate by definition has to be
18 held by a -- a dealer. A driveaway would be a
19 manufacturer. Bus manufacturers that are in Manitoba,
20 for instance, when they deliver a bus they need a plate.
21 That bus has to be del -- plated and that would be on a
22 driveaway plate.

23

24

(BRIEF PAUSE)

25

1 MS. CANDACE GRAMMOND: Those are the
2 questions that I have --

3 THE CHAIRPERSON: Yes.

4 MS. CANDACE GRAMMOND: -- with respect to
5 that issue.

6 THE CHAIRPERSON: Okay. All right.

7

8 CONTINUED BY MS. CANDACE GRAMMOND:

9 MS. CANDACE GRAMMOND: So I would move
10 then to -- to another fairly narrow issue. And this is
11 the -- the issue that the Board has raised in past years
12 which is referred to as the family transfer issue. This
13 is where the -- the Board has, in the past, ordered the
14 Corporation to undertake and file research into the
15 possible future variance of the DSR approach to follow a
16 vehicle's experience with respect to the transfer of
17 vehicles within the same residence.

18 And last year the Corporation had
19 performed an analysis to determine how many family
20 transfers are taking place and -- and the cost. The
21 point being the transfer of vehicles within a household
22 from one (1) individual to another, the former having a
23 poor DSR rating relative to the -- the recipient of the
24 vehicle.

25 And last year the results that the

1 Corporation had provided showed that on average there
2 were approximately five thousand (5,000) of these types
3 of instances of vehicle transfership within a -- within a
4 household that resulted in the new owner receiving a
5 higher vehicle discount than the previous owner.

6 Does -- does that ring a bell?

7 MS. MARILYN MCLAREN: Yes, it rings a
8 bell. I -- I don't have extensive details at top of mind
9 anymore, but it certainly rings a bell.

10 MS. CANDACE GRAMMOND: And there was
11 discussion last year about the reasons for the types --
12 reasons for transfers within a household. And for the
13 purposes of the analysis and the -- the count that the
14 Corporation did it was assumed that all of the transfers
15 were motivated to -- to get a better discount. And the
16 five thousand (5,000) -- or, approximately five thousand
17 (5,000) transactions resulted in about 1.2 million less
18 in premium to the Corporation per year.

19 Does -- does that ring a bell as well?

20 MS. MARILYN MCLAREN: It -- it rings a
21 bell, but the amount of revenue at issue here is -- is
22 really minor in the big picture, it is really not
23 material. And I -- I don't know that -- I -- I think the
24 language the Corporation used was more along the lines
25 of, you know, if -- if you assume that all of these

1 transfers of vehicle ownership are for this one (1) sole
2 purpose, then this would be the economic impact, about a
3 million dollars.

4 We -- just a little bit of background on
5 this issue for the Board members, is that the -- the
6 concern of the Board had been, I believe, that the
7 overall insurance pool was potentially losing some
8 revenue if someone had an at-fault accident and then they
9 -- the family decided to put that vehicle in the other
10 partner's name, so that that person could still get the
11 discount.

12 That really -- it was important to us to
13 do the research and show that it has minimal financial
14 impact, even if that was to be true.

15 I'm sure there are some cases in the
16 province where that might be true. But the vast majority
17 of time, families make decisions about who is going to
18 own and register a vehicle. Parents give vehicles to
19 kids. Grandparents give -- there's all kinds of reasons
20 for ownership to change.

21 So, the reality is that, if there is some
22 potential lost revenue on vehicle premiums, we're okay
23 with that. Because you can't insert yourself into a
24 family and start trying to figure out the intention of
25 why they took certain actions.

1 The beauty of the Manitoba system, is that
2 we have premium on drivers as well as on vehicles. So,
3 if someone loses their discount and doesn't register a
4 vehicle any more, they are still, if they are in that --
5 that surcharge range, they're paying significant driver
6 premiums.

7 We're okay with that. We think that's a
8 really legitimate, appropriate system to have both
9 opportunities for revenue and this issue is not -- it is
10 not a concern to Manitobans. It's not a concern to the
11 Corporation, particularly given that we believe the
12 financial impact is some tiny portion of a million
13 dollars.

14 THE CHAIRPERSON: So -- so on that note,
15 I'm thinking of the scenario of when -- if I'm a
16 grandmother someday and I -- I lose my license, right? I
17 mean, I may not be able to drive, but I may still have a
18 car.

19 I would, obviously, say to my grandchild,
20 why don't you drive me around? You know, take me where I
21 need to go and then, in turn, you can drive my car, to
22 whatever you want to do.

23 And, then that would be a transfer in a
24 sense, wouldn't it? But, well, it wouldn't be a transfer
25 because Granny still owns the car. And rightly so. It's

1 her property.

2 Maybe she -- I -- I guess she couldn't
3 licence it if she couldn't drive. But maybe she couldn't
4 drive for some other reason. You know, I -- I don't
5 know. Maybe she just felt she wanted to still have her
6 licence, still have her car, but she felt unsure and she
7 would want this grandson or granddaughter driving her
8 around.

9 That would be an example within a family,
10 wouldn't it? Sort of like what you're describing?

11 MS. MARILYN MCLAREN: Not specifically --

12 THE CHAIRPERSON: Not quite.

13 MS. MARILYN MCLAREN: -- if Granny
14 continued to own the vehicle.

15 So let me talk about that a little bit.
16 If -- if Granny continued to have a driver licence and
17 maybe she was a DSR-15. The rules say she can continue
18 to register and insure that vehicle, and get the benefit
19 of her fifteen (15) DSR points, even if she never, ever
20 gets behind the wheel. But she's paying the premiums.
21 The premium is based on her driving record.

22 Or she gives up her licence and continues
23 to own it, and then she would be rated at -- at the zero,
24 no -- no DSR points, or no demerits. She'd be at zero
25 and that would be her rate that she'd pay because she

1 doesn't have a driving record.

2 And again, she can let anybody she chooses
3 to, as long as she's comfortable, they are a licensed
4 driver, can -- can operate that vehicle. And then if the
5 granddaughter or grandson has a couple of at-fault
6 accidents or something, they're paying a whole lot of
7 money on their driver licence and it doesn't affect
8 Granny's premiums.

9 So in man -- in most jurisdictions,
10 privately operated insurance systems, owners of vehicles
11 have to tell the insurance company who is going to
12 operate that vehicle. And they rate the car, based on
13 all the drivers. And anytime someone starts driving the
14 vehicle and they forget to tell the insurer, their
15 coverage is at risk and they may very well not have any
16 coverage.

17 Or if they're constantly going back and
18 forth and telling, you know, who the different drivers
19 are or adjusting the premiums, and that is something
20 we've never done for forty (40) years in Manitoba and we
21 don't believe it's in anybody's best interest to start
22 having to do that again.

23 As long as you're assured that the person,
24 no matter where they are, if they have a valid driver
25 licence, it's recognized in Manitoba, you can let them

1 use their car. You don't have to report it to anybody,
2 you don't have to worry about it, because that's the
3 rules of the game as part of this overarching monopoly
4 system.

5 THE CHAIRPERSON: Well, that's very
6 helpful. Thank you.

7 MR. REGIS GOSSELIN: I'm -- I'm
8 struggling with the 1.2 million, I realize that's
9 probably not a figure that we can point to anywhere. But
10 it seems to me that when -- when -- if I were to have an
11 accident and I'm responsible for the accident, and then I
12 turn around and flip the car to my wife, it seems to me
13 that there's a tail of that.

14 In other words, I'm -- I would be paying -
15 - normally be paying more for my -- for my coverage in
16 future years, two (2), three (3), four (4) years out, so
17 there's tail on that li -- tail on that accident, from --
18 from my perspective. So 1.2 million across all of the po
19 -- all of the policyholders that you insure seems to be
20 quite low.

21 Am I...

22 MS. MARILYN MCLAREN: It -- it is quite
23 low. I think it's quite low, particularly when you
24 consider that for -- for entirely different reasons you
25 may have chosen to put, you know, all the assets -- that

1 one (1) particular asset into your spouse's name. There
2 could be any number of reasons you would have done that.
3 That's not pi -- that's part of the million too.

4 So there's not a lot of gaming. There's
5 not a lot of playing that way going on. We're -- we're
6 comfortable that the system has integrity, and we don't
7 think it needs to be changed, not -- notwithstanding the
8 fact that the -- the rules of, you know, transferring
9 vehicle ownership and who can own vehicles and stuff like
10 that is -- is, you know, largely founded in the HTA, not
11 the MPIC Act anyway.

12

13 CONTINUED BY MS. CANDACE GRAMMOND:

14 MS. CANDACE GRAMMOND: Just to -- to
15 clarify that point though, if -- if an individual has an
16 accident for which they're at fault and that has a
17 resultant effect on their DSR rating it's going to take
18 them some time to get out of that hole, as it were. I
19 mean, they -- they only get one (1) merit per year,
20 right. So if you -- if you take what -- an at-fault
21 accident is what, two (2) -- two (2) --

22 MS. MARILYN MCLAREN: An at-fault -- an
23 at-fault accident is five (5), you lose five (5) merits,
24 or -- or you -- five (5) steps down on the scale wherever
25 you happen to be. So if you had ten (10) merits you

1 would have five (5) after the at-fault accident, and you
2 only do earn back one (1) per year, yes.

3 MS. CANDACE GRAMMOND: So if you kept the
4 vehicle in your name after taking that five (5) merit hit
5 it would take you five (5) years of paying at a -- paying
6 more, all other things being equal. I mean, your -- your
7 di -- let's assume with the example that you gave you go
8 from ten (10) merits to five (5). You discount is now
9 reduced so you're paying more to the Corporation, and if
10 you don't have any other issues you're going to continue
11 to pay more for each of those five (5) years until you're
12 back at ten (10)?

13 MS. MARILYN MCLAREN: Yes, in that
14 example, and I -- I think it probably is about a
15 percentage per year. But at the top end of the scale
16 there's less impact because it's -- it's softened at the
17 top as another way to recognize long-term good driving.
18 It's -- also there's no impact if you're down at zero.

19 So if you happen to have zero merits or
20 one (1) demerit and you have an at-fault accident it
21 doesn't affect your vehicle premium at all but you pay
22 more on your driver's licence. Everybody would pay more
23 on their driver's licence.

24 MS. CANDACE GRAMMOND: I think just the
25 point is, at least from my perspective, is that whatever

1 the consequence is it's going to take a matter of years
2 for that person to get back up to the level that they
3 were at before that accident?

4 MS. MARILYN MCLAREN: Yeah, it'll
5 definitely take five (5) years to get back up the scale.
6 The financial impact on your vehicle premium differs
7 depending on where you are on the scale.

8 MR. DONALD PALMER: Ju -- just as a
9 matter of some detail, this was described in last year's
10 rate application at SM-5.6. in some detail. The -- the
11 mil -- the calculation of that million dollars is
12 outlined in that particular reference, so the Board may
13 find it helpful to look at last year's application in SM-
14 5.6.

15 MS. CANDACE GRAMMOND: Okay. Thank you.
16 Okay, those are the questions that I had with respect to
17 that issue. I would move then to another issue that
18 relates to interprovincial trucking costs. Last year the
19 Board made an order with respect to PIPP costs for the
20 injury claims of interprovincial truckers.

21 We know the Corporation filed a review and
22 vary with respect to that, and -- and which was denied.
23 The Corporation then filed an application for leave to
24 appeal in the Court of Appeal, which is pending. And I'm
25 not going to get into the -- the details of the -- the

1 merits of all of that.

2 But what I do want to confirm is that the
3 GRA -- this year's GRA was filed by the Corporation on
4 the basis of the -- the lay of the land, if you will,
5 before that Board order was made. So in other words, the
6 GRA that's before this Board was not filed with the --
7 the costs allocated to lines other than Basic.

8 Do I have that right?

9 MR. DONALD PALMER: That's correct.

10 MS. CANDACE GRAMMOND: And the Board did
11 ask an IR with respect to that and there were revised
12 schedules filed in response to that IR that showed the --
13 the difference in some of the -- the TI schedules.

14

15 (BRIEF PAUSE)

16

17 MS. MARILYN MCLAREN: I believe it was
18 written communication from Board counsel to MPI counsel,
19 it wasn't a specific IR, but they are on the record, yes.

20 MS. CANDACE GRAMMOND: Okay. I thought
21 it was 2-1, but I appreciate the -- the clarity for the
22 purposes of the record in terms of the reference.

23 And the -- the Corporation did provide
24 some discussion with respect to this issue in SM-5.7 of
25 the application. So that's at Volume I, if -- if anyone

1 wishes to go there. Just -- I'm going to go through some
2 of the details with respect -- or, to this pool. So I'm
3 in Volume I of the application, SM-5.7, page 3.

4 So the -- the Corporation has reiterated
5 here on page 3 some requests that the Board made in last
6 year's order with respect to certain pieces of evidence
7 being filed. And the Corporation has indicated the --
8 the answers to those inquires at subparagraph 2, roman
9 numeral II, the Board had asked:

10 "How many vehicles are plated in
11 Manitoba but not insured under the
12 Basic program?"

13 And the Corporation has advised that, in
14 essence, it's about ninety-three hundred (9,300) and I --
15 I'm rounding, but that's at the bottom of page 3, is that
16 right?

17 MR. DONALD PALMER: That's correct.

18 MS. CANDACE GRAMMOND: And these are
19 vehicles that are not insured for physical damage or
20 third-party liability under Basic, but the drivers and
21 passengers of the vehicles are insured for PIPP pursuant
22 to the legislation depending on residency and location of
23 the crash.

24 Is that right?

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

1 MS. CANDACE GRAMMOND: And at question 4,
2 so roman numeral IV, the Board had asked:

3 "How many of the drivers are/or were
4 associated with interprovincial trucks
5 plated in Manitoba?"

6 And the Corporation has answered on page
7 4, with respect to drivers that are/or were associated
8 with interprovincial trucks plated in Manitoba there were
9 four hundred and nine (409) PIPP claims from 1994 to 2010
10 for an average of twenty-four (24) claims per year.

11 MR. DONALD PALMER: Yes.

12 MS. CANDACE GRAMMOND: The Board asked an
13 IR with respect to this -- these numbers in the First
14 Round, which was number 100, so PUB/MPI-1-100. And if --
15 if the Board wishes to go there you certainly can, you
16 don't necessarily need to, I'm just going to highlight
17 some of the information that's there.

18 The -- the Corporation provided some
19 information in terms of the costs that have been incurred
20 over the -- the years. And in particular at (a), this is
21 -- so at Attachment 1, the Corporation provided a chart
22 of the costs incurred for these types of PIPP claims over
23 a ten (10) year period.

24 Is that right?

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

1 MS. CANDACE GRAMMOND: And the average
2 over the ten (10) year period is about 1.8 million, is
3 that right?

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

5 MS. CANDACE GRAMMOND: Mr. Palmer, if you
6 could -- and -- and, sorry. That's under the heading of
7 "Total Incurred," the -- the \$1.8 million average.
8 There's another column on the -- the chart that is
9 entitled "Trended Incurred," and that has a different
10 average number of 2.3 million.

11 Can you explain what that means?

12 MR. DONALD PALMER: Sure. Trended
13 incurred would be bringing up those claims to current
14 dollar benefit levels. So, for instance, the \$2.7
15 million that was paid in 2001, some or all of that would
16 have been paid at 2001 benefit levels. Of course the
17 benefits are indexed, so ones that carried over into the
18 next year would be indexed. What we are doing from the
19 trending perspective is trending them all to the current
20 benefit levels.

21 MS. CANDACE GRAMMOND: Thank you. And if
22 we look at the Corporation's answer to sub-question (b),
23 the Board had asked:

24 "Based on the -- the average of prior
25 years deficit with respect to these

1 claims to provide a net present value
2 calculation of the future obligation
3 for Basic, based on a discount rate
4 representing the current weighted
5 average cost of debt."

6 And the Corporation advised that the --
7 the present value was about 154 million, is that right?

8 MR. DONALD PALMER: Yes. And that's just
9 taking the values into perpetuity and taking the present
10 values of all future payments that could be paid under --
11 under this.

12 Without -- and from a calculation
13 perspective, this is accurate. Although that amount is
14 built into the rate requirement each and every year. So,
15 to somehow suggest that we would have to fund this or
16 post a reserve of \$154 million, would not be accurate.

17 MS. CANDACE GRAMMOND: Now in terms of
18 the -- the rate requirement, we know the Corporation is
19 seeking a rate decrease of 6.8 percent and this was
20 PUB/MPI-2-1. The Corporation has -- has put on the
21 record that the impact of removing the -- these PIPP
22 costs charged to Basic, would impact that request by
23 actually increasing the -- the rate decrease sought by
24 the Corporation to about 7.1 percent. So it's about a --
25 a third of a percent?

1 MR. DONALD PALMER: That -- that's
2 correct.

3 MS. CANDACE GRAMMOND: And we've -- we've
4 had evidence on the record in this proceeding, with
5 respect to other matters, that Basic -- the Basic line of
6 business should not subsidize the Corporation's other
7 lines of business.

8 MR. DONALD PALMER: That's correct.

9 MS. CANDACE GRAMMOND: Does the
10 Corporation acknowledge, for the purposes of this
11 proceeding, that the -- the current lay of the land as
12 provided in the legislation, is a -- a subsidy by Basic?

13 MR. DONALD PALMER: No, I would not
14 acknowledge that. The legislation covers all Manitobans
15 for -- based on residency. And this really is a part of
16 that requirement. So these are -- are Manitoba residents
17 who are not in vehicles that are -- that are required to
18 -- to pay for or carry PIPP. I mean, this requirement is
19 much the same as that afforded to pedestrians or
20 cyclists.

21 MS. MARILYN MCLAREN: These people have
22 driver licences as well, though. These people are
23 Manitoba residents. They're clearly licenced drivers.
24 They're driving long haul trucks. They have driver
25 licences. Their driver licence premium will affl --

1 reflect their driving behaviour. They contribute. They
2 contribute.

3 And if it's important to the Board to find
4 -- for us to provide the reference where this issue was
5 first discussed with this Board, and where we explained
6 the challenges inherent in this, sort of,
7 national/international business where trucks are plated a
8 number of places and residents work in a number of
9 places, we can provide that reference for you.

10 The -- the heart of the issue is that,
11 given the nature of the trucking business, it is
12 impossible to properly align PIPP premium payments on
13 trucks with the potential beneficiaries of those
14 payments, being the drivers or other occupants. It just
15 doesn't align.

16 In the old days, before this premium was
17 removed by the government, Manitoba trucking companies
18 were paying premiums with absolutely no expectation that
19 they would ever have drivers who would be eligible to
20 claim. And other non-Manitoba companies, who had
21 Manitoba drivers, had every opportunity for those drivers
22 to claim and they -- we had no opportunity to charge
23 premiums to them.

24 So it's really about the nature of the
25 business, the multi-jurisdictional nature of the business

1 that truckers operate in these days. And the premium
2 simply didn't work. It was a -- a very clear
3 disadvantage to Manitoba truckers because they have non-
4 Manitobans operating their trucks outside Manitoba and
5 there's an opportunity for them to claim, with the
6 opposite being true on the other side.

7 So we can find that reference, provide it
8 -- the explanation for you. It is really just a
9 reflection of the nature of the business. And
10 particularly, to kind of close back on Mr. -- Mr.
11 Palmer's comment, is that there -- in some ways, it's
12 much like pedestrians or cyclists. Except that, clearly,
13 they are licensed drivers and they are paying premiums
14 into the fund through their driver licence.

15 THE CHAIRPERSON: Ms. McLaren, I think
16 that we'd like to see that reference, so maybe we could
17 take that as an undertaking.

18 But Mr. Evans has been talking about
19 something since this hearing started, and we haven't had
20 a chance to bring it up. So maybe he'll bring it up now
21 because he's been very interested in the coverage that
22 Manitobans receive when they're not maybe in Manitoba,
23 which is what you're telling us about these truckers,
24 right?

25 So I'll let him ask this question.

1 --- UNDERTAKING NO. 33: MPI to provide the reference
2 to indicate why the premium
3 didn't work in the trucking
4 business

5
6 DR. LEN EVANS: Sorry, it's the
7 attachment to Undertaking number 4 which was filed
8 yesterday perhaps, October 18th, and it's paid and
9 incurred PIPP losses and showing those incurred and those
10 paid by years from 2001 to 2010, and I really find this
11 interesting.

12 So I'm assuming from these last comments
13 that this -- the payments to truckers, et cetera, would
14 be included in this, but I'm not sure.

15 MS. MARILYN MCLAREN: They -- they would
16 be included in there, yes.

17 DR. LEN EVANS: My -- my -- what I was
18 going to go on to ask was a breakdown of the data of
19 claims inside of Manitoba versus claims in the rest of
20 Canada and claims in the United States, you know,
21 Manitoba, the rest of Canada, US.

22 MS. MARILYN MCLAREN: For this same group
23 of Manito --

24 DR. LEN EVANS: Yeah, Undertaking number
25 4. Simply a breakdown.

1 MS. MARILYN MCLAREN: Okay. So break
2 that down into the three (3) jurisdictions?

3 DR. LEN EVANS: Yeah. I would imagine --

4 MS. MARILYN MCLAREN: And --

5 DR. LEN EVANS: -- most of it's in
6 Manitoba, but there will be --

7 MS. MARILYN MCLAREN: Absolute --
8 absolutely.

9 DR. LEN EVANS: It's interesting to see --

10 MS. MARILYN MCLAREN: Mo -- most of this
11 would probably be pedestrians and cyclists.

12 DR. LEN EVANS: Yeah.

13 MS. MARILYN MCLAREN: But -- but even --
14 sorry. We will take that undertaking.

15 DR. LEN EVANS: Yeah.

16 MS. MARILYN MCLAREN: I'm not sure how
17 long it will take to complete it, and the -- the hearings
18 may have closed, but -- but we will break it down. I'm
19 not sure that we have it in an easily retrievable from,
20 but we can certainly do it.

21 And I think some of this ties back to the
22 conversation around, you know, vehicle ownership and --
23 and who owns the vehicle.

24 I -- I'm very confident, just based on my
25 own knowledge of the business, that a high percentage of

1 these people here would probably feel that they do so own
2 a vehicle and pay premiums. It just happens to be
3 registered in someone else's names. I mean, for the most
4 part, you're talking about families.

5 You know, you're talking about every time
6 there's a couple with an asset that's a vehicle one (1)
7 of them's going to register it, but absolutely they both
8 own it and they both, with their family income,
9 contribute to those premiums. So just the fact that
10 they're not named on a vehicle policy doesn't mean in
11 their mind that they're not contributing to vehicle
12 insurance premiums. They have an asset, they pay, you
13 know, through the family contribution.

14 There are some people who don't have a
15 driver licence, you know, don't ha -- live alone, don't
16 have family members, and they're absolutely still
17 covered, which is the important feature of the coverage
18 that I think you're referring to. But in the big picture
19 those are minor, and it's an absolute strong feature of
20 this plan that -- that they.

21 And we talked earlier, you know, about a
22 little 4-year-old in Montana is one (1) of the biggest
23 claims we've had. There's like minimal, minimal coverage
24 from the at-fault driver in Montana. It was, I don't
25 know, like fifteen thousand dollars (\$15,000) liability

1 coverage or something like that, so. She's a Manitoba
2 resident and -- and she's our claimant, absolutely.

3 But we -- we will break that down. I'm
4 not sure how long it'll take.

5 There's one (1) undertaking to split the
6 results of Undertaking 4 into three (3) categories:
7 Manitoba, Canada, and US.

8
9 --- UNDERTAKING NO. 34: MPI to split the results of
10 Undertaking 4 into three (3)
11 categories: Manitoba, the
12 rest of Canada, and the US

13
14 THE CHAIRPERSON: And the other thing Mr.
15 Evans keeps telling me is that not enough Manitobans seem
16 to know about this, or he thinks it's something that MPI
17 should be talking about more. I don't know. I mean,
18 that's just an aside.

19 DR. LEN EVANS: Yeah, I think it's to the
20 credit of MPI. You know, I think people should
21 appreciate that this is another benefit of the monopoly
22 situation we have here.

23 MS. MARILYN MCLAREN: It is one (1) of
24 the benefits of the monopoly situation -- we can't take
25 credit for that. It's to the credit of the legislation

1 and the legislature, but it's certainly one (1) of the
2 benefits.

3 DR. LEN EVANS: It exists.

4 MR. REGIS GOSSELIN: Could you clarify
5 something for me? I'm looking at Undertaking number 4,
6 the results that you -- the pages you gave us with
7 respect to paid and incurred PIPP losses. Now, based on
8 your conversation, I'm coming to the conclusion that that
9 encompasses everybody, or is that -- in other words, I'm
10 driving my wife's car, I get in an accident, I have a
11 claim. Am I in here?

12 MR. DONALD PALMER: These specific claims
13 that are outlined in Undertaking 4 are claims that really
14 are -- are not attached to a Manitoba-registered vehicle.
15 So there's a couple of instances of that, uni --
16 unidentified vehicle, for instance, a hit and run would
17 be included in this, or we just can't identify a plate.
18 A -- a collision with a Manitoba vehicle and a
19 pedestrian, a child, would not be included in this
20 because they still get attached to the Manitoba-
21 registered vehicle.

22 This -- this is a group of vehicles that
23 we call, essentially, a universal policy where there is
24 not a Manitoba vehicle -- registered vehicle that's
25 involved in -- in the accident. So it could be -- it

1 could be a pedestrian in the States that was hit by an
2 unregistered vehicle. That would be in -- in here. The
3 trucker that did not -- if it was not a Manitoba-
4 registered vehicle would -- would be in here.

5 So there are several cases, but just the -
6 - the collision between a -- a Manitoba-registered
7 vehicle and a pedestrian or a cyclist would not be
8 included in these numbers.

9 MR. REGIS GOSSELIN: But in the case of a
10 trucker driving a non-plated vehicle not plated in
11 Manitoba who claimed under PIPP, you would go back
12 against his insurer or her insurer? You wouldn't, okay.

13 MS. MARILYN MCLAREN: There are a number
14 of options in a situation like that. Depending on the
15 company that that person was working for, claiming
16 against a WCB, a workers' compensation policy in another
17 jurisdiction might be an option. Claiming PIPP benefits
18 is an option. Claiming injury benefits under a trad --
19 traditional trucking insurance policy purchased in
20 another jurisdiction, that -- that would be a possibility
21 as well.

22 The reality is is that for the most part
23 Manitoba PIPP benefits would be enhanced over some other
24 WCB and most other private injury benefit plans.

25 MR. REGIS GOSSELIN: Brings new meaning

1 to the words "Friendly Manitoba."

2 MS. MARILYN MCLAREN: Well, remembering
3 they're Manitoba residents.

4 THE CHAIRPERSON: All right. Proceed.

5

6 CONTINUED BY MS CANDACE GRAMMOND:

7 MS. CANDACE GRAMMOND: Thank you. Those
8 are my questions with respect to the -- the trucking
9 issue.

10 I would move then to a different topic
11 which is that of sen -- sustainable development and
12 environmental issues. I appreciate that the Corporation
13 has filed, as Undertaking 17, Exhibit 28, its annual
14 sustainability report which reflects its -- its efforts
15 in a variety of areas in terms of sustainable
16 development. Just in -- in brief, the -- the sections
17 within that document are environmental testing, recycling
18 and use of recycled goods, fleet vehicle performance
19 facilities management, and other -- other activities.

20 Would it be fair to say that what's
21 reflected here in terms of what's ongoing with the
22 Corporation relates in large part to internal operations
23 as opposed to the use of the rate making model for
24 environmental objectives?

25 MS. MARILYN MCLAREN: Yes, that would be

1 very true.

2 MS. CANDACE GRAMMOND: And the Board had
3 last year and has in -- in a number of past years made
4 recommendations to the Corporation with respect to
5 environmental issues. In particular, last year it was
6 SM-5.12.17, where the Board had made a recommendation
7 that the Corporation seek direction from government for
8 the potential use of the rate making model to further
9 government objectives and said that it didn't seem the
10 Corporation had done much about that.

11 The Corporation replied that use of the
12 rate making model for environmental objectives was an
13 issue of social policy, discussions with government were
14 confidential and the responsibility for that issue would
15 rest with the government.

16 Is there -- does the Corporation have
17 anything further at this point in time that it can share
18 with the Board with respect to these issues?

19 MS. MARILYN MCLAREN: Only so much as a
20 little bit of background from the fact that there's no
21 evidence from any insurer that I'm aware of that, for
22 example, giving discounts for high-efficiency vehicles or
23 electric vehicles or hybrid vehicles has any actuarial
24 basis whatsoever.

25 Some governments have done that sort of

1 thing in different ways, but it -- but it's not something
2 the Corporation would have any basis to act on.

3 I can tell the Board that a few years ago
4 in Saskatchewan, the government of the day made a
5 decision to provide discounts on both the compulsory auto
6 insurance and the registration fees for hybrid vehicles,
7 I believe it was.

8 And the government provided the additional
9 funding back to SGI for the insurance portion of that
10 because it wasn't something that they saw would be
11 appropriate to come out of the insurance fund if they had
12 a government policy objective to, you know, financially
13 reward purchases of hybrids.

14 A few years ago this Manitoba Public
15 Insurance sustainability report would have given
16 reference to the fact, on behalf of the government, we
17 administered the hybrid rebate program that the
18 government had for a few years. But that was just
19 because we have the registration information. It was
20 easy for us to -- to help them in that way. But it was a
21 total government policy and so we would be expecting to
22 see some sort of very clear direction from them before we
23 would move on something like this.

24 MR. REGIS GOSSELIN: But I would imagine
25 that if the government came to you and said we want you

1 to be part of a collaborative effort to address the use
2 of more efficient vehicles on a province-wide basis,
3 you'd be a player there, right? I mean...

4 MS. MARILYN MCLAREN: Sure. We -- we
5 play the role that -- that government asks us to. A few
6 years ago they struck a -- a committee to look into sort
7 of the, you know, the standards for -- the actual title
8 is escaping me now. But it was a panel that was struck
9 to look into the standards for, you know, fuel efficiency
10 and sort of registering licensing vehicles. I -- they
11 asked me to be on that panel. I -- I was.

12 I can tell you that Manitoba Public
13 Insurance bought as many hybrids as probably any other
14 organization in the province under the rebate program.
15 So we benefited from that. So we absolutely do our best
16 as a Crown corporation to operate consistently with
17 government policy. And if there was something specific
18 they asked us to do further, we would certainly do our
19 best to do it.

20 THE CHAIRPERSON: On the other side of
21 that picture is the -- wasn't it a government directive
22 to try and get road -- cars off the road that were made
23 before 1995? Or was it '4'? 1995.

24 MS. MARILYN MCLAREN: Pre -- pre-'95.

25 THE CHAIRPERSON: Yes. And how did that

1 work? And -- and was -- did you play any role in that?

2 MS. MARILYN MCLAREN: We -- we did, with
3 respect to not -- when -- when those vehicles are written
4 off, we now send them to the scrapper. We don't resell
5 them to someone who can fix it and put it back on the
6 road. So that was the role that we played in helping to
7 reduce the numbers of pre-'95 vehicles.

8 THE CHAIRPERSON: Thank you.

9 MR. REGIS GOSSELIN: Since you raised
10 that issue in respect of older vehicles, is there an
11 insurance angle there in the sense that, if you have a --
12 a population of older vehicles -- quite old vehicles,
13 does that have an impact on -- on the -- your insurance
14 liability? If you take them off the road, do your costs
15 decrease?

16 MS. MARILYN MCLAREN: You know, we
17 believe that we have an incredibly robust and accurate
18 relationship between the rates we charge and the risk
19 that the different vehicles present.

20 We talked a little bit earlier, just sort
21 of at the very highest level, about the vehicle
22 information centre in Canada rate grouping and how we,
23 you know, change rate groups through time.

24 We have worked very hard over the last
25 decade or maybe a bit more, to really have a very solid

1 rate line. Which means the rate that we charge per rate
2 group really aligns well with -- with the risk. So we
3 think we're getting the right rate for every vehicle
4 that's out there.

5 Overall, if every single vehicle had
6 electronic stability control and sixteen (16) air bags
7 our -- our costs would probably go down on the injury
8 side for sure, but, you know, as we talked earlier, they
9 -- probably they're more expense to fix too.

10

11 CONTINUED BY MS. CANDACE GRAMMOND:

12 MS. CANDACE GRAMMOND: Just one (1)
13 additional question with respect to en -- environmental
14 issues. We've had evidence in the past at these hearings
15 with respect to usage-based insurance, or the pay as you
16 drive, what we call PAYD. And the Corporation had filed
17 a study a number of years ago with respect to that.

18 Is there anything new that the Corporation
19 can report to the Board with respect to that issue and
20 the possibility of it being pursued in Manitoba?

21 MS. MARILYN MCLAREN: No. Again,
22 something significant like that changing the basis of the
23 classification system from we have today, which is where
24 is the vehicle used, how is it used, the driving record
25 of the -- of the owner, and the rate group of the

1 vehicle. If that was to change and say it's all going to
2 be based on how far you go, that -- that would be a
3 significant matter of government policy as well.

4 I -- I can tell you that Manitobans
5 believe that as long as -- you know, if two (2) people
6 have exactly the same car, exactly the same insurance
7 use, exactly the same driving records, they -- they think
8 they should pay the same insurance rates even if one (1)
9 drives a couple thousand kilometres a month and one (1)
10 drives less. You know, they really believe those are
11 legitimate factors.

12 So if there was a significant change in
13 that direction in this province there would be huge
14 considerations about, you know, rural versus urban and
15 things like that, so that would definitely be a matter of
16 public policy on -- on the part of the government.

17 THE CHAIRPERSON: I was just going to say
18 that would be difficult in a province like this, where
19 the demographics, the heavy concentration in Mani -- in
20 Winnipeg, and then the minority basically that live out
21 who can't go anywhere without getting in a car, you know,
22 and that would be a disadvantage to them.

23 And for some who travel, you know, a fair
24 number of kilometres to get to the grocery store but they
25 only do it once a week, they would be disadvantaged

1 compared to this person in the city getting into the car
2 and going a mile every day to pick up the kids at school,
3 probably driving less but doing it more often.

4 And the risk -- risk would be higher for
5 those people picking up the kids at school every day in
6 these urban centres than the person on a isolated country
7 road going thirty (30) miles to the grocery store. It
8 just, to me, doesn't make sense but, anyway, because I'm
9 a rural person.

10 DR. LEN EVANS: Yeah. Excuse me.

11 THE CHAIRPERSON: This is like a little
12 mini debate up here.

13 DR. LEN EVANS: Yeah. Yeah. My wife is
14 very pro-rural, and I say she's a rural mouse, I'm a city
15 mouse having been born and raised in Winnipeg.

16 Just to follow up on that, we did -- you
17 did prepare a very good report a couple a years ago on
18 PAYD. And I'm just wondering, the first question, have
19 you elaborated on that? Have you -- did anyone update
20 that or did you take another look at it for different
21 data -- or new data rather?

22 MS. MARILYN MCLAREN: We haven't, other
23 than to pay attention to what other insurers in Canada
24 have or have not been doing in this area. And it -- it
25 really -- my most recent information, it is really kind

1 of stalled. You know, there -- there's just not a lot of
2 interest in it.

3 A different angle on -- on the whole issue
4 was tried in British Columbia, particularly with a
5 demographic they have real concerns about is wi -- with
6 young males. They -- they thought they might be able to
7 do something with them. There was absolute lack of
8 interest.

9 And insurers in Ontario have -- have tried
10 to get this up and running more substantially, but it
11 really has proven to be something that is of interest to
12 a real niche market, and it is something that some
13 insurers use sort of to really go after very small niche
14 markets, but it -- it really has not taken off in any,
15 way, shape, or form.

16 DR. LEN EVANS: Yes. Excuse me. I first
17 learned of it a couple a years ago on my computer, and it
18 was under an environmental topic. And this is what I
19 thought. It was environmental groups in the United
20 States really pushing PAYD for their objectives, you
21 know, reduce -- reduce the emissions, reduce, you know,
22 use of vehicles.

23 And they did give indications of parts of
24 the US that were interested in it and so on. And I --
25 maybe at one (1) point they did mention BC, but this was

1 a couple of years ago. Excuse me.

2 It seemed to me too that there were some
3 countries that had got into this. I think is -- Israel
4 was into it, I don't know exactly how, but it was a form
5 of PAYD. And I believe Holland, I may be wrong. And I
6 thought there was a company in the UK, a private
7 insurance company that was offering this type of
8 insurance.

9 So there is some action some places in the
10 world. How successful they are there I don't know. In
11 terms of, you know, trying to reduce the -- it's -- the
12 idea is to try to reduce the amount of traffic.

13 MS. MARILYN MCLAREN: But that -- in
14 terms of -- you're absolutely right about the juris --
15 jurisdictions you've mentioned. And I think, you know,
16 the UK as -- I mean, if ever there was a place that had
17 legitimate options to private transportation it's
18 probably the UK. I don't think you really need to own a
19 car, you know to go about your daily activities no matter
20 where you live, pretty much, in the UK.

21 But I think that's the heart of it and I
22 think that's what makes it a real problem, a more
23 challenging issue for North America, you know, because
24 this -- this culture, this society has really been built
25 on the concept of travelling long distances in private

1 issue too in terms of trying to constrain the use of
2 private automobiles. But Canada has been built on a
3 really different premise than that up to this point.

4 DR. LEN EVANS: Sorry. Yeah, as our --
5 as our Chairperson was sort of alluding to it would
6 seemingly discriminate against people who live in rural
7 Manitoba for sure, in addition to some of those that you
8 mentioned.

9 But, on the other hand, there are certain
10 groups that could benefit, and I'm thinking of seniors.
11 You know, because I would think on average they drive --
12 I don't have the data, but I would think on average they
13 would drive their vehicles less.

14 And I'm wondering is it possible -- maybe
15 this doesn't make sense, to have PAYD affect one (1)
16 category of drivers. I mean, and I'm thinking of -- of
17 seniors as a category.

18 MS. MARILYN MCLAREN: You know, I think
19 that would be really tough. I think that would be really
20 tough. And I think while older seniors probably do drive
21 less, younger seniors that I know probably drive the most
22 of anybody I know because they've got time and --

23 DR. LEN EVANS: I guess it depends on
24 your definition of what is senior.

25 MS. MARILYN MCLAREN: Well, you know, but

1 then -- or, so -- so now it's -- it's -- now we're
2 introducing age-based plus distance-based. You know, I -
3 - I don't need to tell you that age has not been a rating
4 factor for forty (40) years in Manitoba. So it -- it's
5 not a simple issue, but it really is a matter of public
6 policy, not something that MPI really would take a step
7 out in front on.

8 DR. LEN EVANS: Yeah, I -- I appreciate
9 that, but it's -- it's an interesting question. As I
10 said, my interest was stimulated -- was originated in the
11 environmental concerns. And -- and there is -- if you
12 want to go online -- a lot of items you can list -- you
13 can see thousands of articles and items of information on
14 -- on that subject. Okay. Well, thank you.

15 THE CHAIRPERSON: Now, Ms. McLaren, in
16 terms of the seniors, I presume they would go from a work
17 licence to a pleasure licence, right? So they're getting
18 a bit of a break --

19 MS. MARILYN MCLAREN: Yes, definitely.

20 THE CHAIRPERSON: -- when they leave the
21 workforce and they are driving in a different way.

22 But the other thought that occurred to me
23 is -- I mean, we're lucky in Manitoba in that we have
24 these rate groups. And Rate Group 2 is people in the
25 rural area and commuting, I take it?

1 MS. MARILYN MCLAREN: Two (2) --

2 THE CHAIRPERSON: Or, no, you've got
3 that separate commuting thing going on. But I'm thinking
4 maybe if you were to want to do something about the
5 Winnipeg group, you know, the people that are in an urban
6 centre, where they have a taxi, bus, other options, maybe
7 they could walk or bike more if, you know, you were to
8 sort of do a pay as you go experiment.

9 Now, I know you don't experiment without a
10 lot of thought, so I'm not suggesting you plunge into
11 this, but you know, if you think of Winnipeg as the same
12 as Holland, you know. Huge density, small area. It --
13 it might be something that, you know, could be
14 experimented with, or could it? If you wanted to sort of
15 test the waters.

16 MS. MARILYN MCLAREN: Any -- anything
17 that you do in that regard, would have to have some sort
18 of a potential rating impact for that group.

19 So, theoretically, if they're going to
20 drive less than the norm, you would think that they
21 should pay less than the norm. Which means, the norm has
22 to pay more to compensate for them.

23 That gets complicated. It -- you have to
24 decide who is going to subsidize this particular
25 category. And I -- you know -- and I -- I think it's

1 also fair to say, I think you -- you cannot use the
2 Winnipeg transit system to get your kids to hockey in the
3 evening in this city. So, you certainly can get to work
4 and back, and school, that -- that's reasonable. But,
5 you know, I mean I think even within that, it is --
6 there's -- there's not the kind of density when it comes
7 to things like public transportation, for the way a lot
8 of people use their vehicles.

9 THE CHAIRPERSON: Okay. That's very
10 helpful. Thank you.

11 MR. REGIS GOSSELIN: Since we're talking
12 about seniors, I -- I guess one (1) of the -- one (1) of
13 the topics of conversation I have with my friends who are
14 of the same age, is often about an uncle or a parent who
15 is driving and shouldn't be driving.

16 And I'm wondering, do you -- do you see
17 evidence that we should be worried about that, or is that
18 -- in -- in other words, is there a link between age and
19 insurance costs that is evident?

20 MS. MARILYN MCLAREN: I think it -- it --
21 we -- we certainly worry about it. It's a really
22 difficult area for families, but also for, you know, for
23 regulation.

24 I think seniors, as a group, tend to be
25 pretty good at managing their own -- their own behaviour

1 based on their own perception of their abilities. And
2 then you have the exceptions, right? And it's -- we --
3 we, on the regulatory side of MPI, we -- we need to do
4 more to work with doctors, and to provide information for
5 families that will help them have that conversation with
6 the parent or the uncle or -- we have to make it easier
7 for doctors and family members to get the exceptions who
8 are not managing their own situation well into the system
9 so that they can be assessed.

10 That's something that the government has
11 announced its intention to really improve the timeliness
12 of some of those assessments. We have a responsibility
13 to sort of expand access. We're even thinking about
14 things like, are there simple cognitive tests that we
15 could even have available on our website so that, you
16 know, someone could say, hey dad -- you know, come on,
17 sit down, have -- have a look at this with me, to -- to
18 sort of foster the conversations.

19 But -- but as a group I think they're
20 pretty good at deciding themselves it's time to only
21 drive in the day time, or it's only to drive close to
22 home. So we don't see any significant area of -- of real
23 insurance-related risk. But -- but other studies have
24 shown that, you know, as a group seniors have a low risk
25 because they hol -- they do hold their licences and then

1 drive less.

2 But, if you look at it in terms of
3 distance driven, they do have a much higher accident rate
4 because they drive less. So as -- as a factor of the
5 distance they drive, they are a higher risk.

6 But it -- it is, it's a difficult area,
7 it's a sensitive area, and I think there's more we can do
8 to sort of foster the conversations.

9 THE CHAIRPERSON: I'm looking at the
10 clock and thinking we should take a break, but this has
11 been so interesting I didn't want to stop it. I know you
12 might have a few more questions, but...

13 MS. CANDACE GRAMMOND: Yeah. I have a --
14 a few more areas to cover, but it -- it won't take me
15 long. So we can take the break. I'll finish quickly and
16 then Mr. Williams can take over.

17 THE CHAIRPERSON: Okay. Well, we'll come
18 back at, say five (5) after and reconvene.

19

20 --- Upon recessing at 10:47 a.m.

21 --- Upon resuming at 11:09 a.m.

22

23 THE CHAIRPERSON: I'm thinking Hollis --
24 oh, there he is. Good. I thought he might still be on
25 the phone. All right. We are ready to go.

1 MS. CANDACE GRAMMOND: Before I go, Madam
2 Chair, Ms. Kalinowsky has some undertakings to be
3 answered.

4 MS. KATHY KALINOWSKY: Okay. Yes, these
5 responses will be provided by Ms. McLaren orally on the
6 record. They are in response to Undertaking 22 and
7 Undertaking number 23.

8 MS. MARILYN MCLAREN: Thank you. And
9 just before I do that I do want to inform the Board that
10 Mr. Palmer has announced his pending retirement. Yes.
11 He will be leaving towards the end of November. And just
12 for the record, I wanted to take this opportunity to --
13 to let you know so that -- that you are aware, but also
14 to say that, generally, from the perspective of Manitoba
15 Public Insurance, Mr. Palmer invented actuarial science
16 for us and we've come a long, long way with -- with his
17 help and support.

18 And we have a strong organization. We
19 will find a way to replace him and move forward, but I do
20 want to take this opportunity on this very public record
21 to -- to thank him for his many contributions and to let
22 the Board know.

23 THE CHAIRPERSON: Oh, it's very exciting
24 because now you'll be driving even more, according to --
25 you won't be sitting at a desk. You'll be out and about.

1 It's exciting. Congratulations.

2 DR. LEN EVANS: May we ask, are you
3 retiring entirely or are you going to look at a different
4 occupation or a different job or different -- different
5 challenge?

6 MR. DONALD PALMER: At this stage, I'm
7 weighing my options.

8 DR. LEN EVANS: Well, we really
9 appreciate your services. I can speak for one (1) member
10 of the Board. And good luck.

11 MR. DONALD PALMER: Thank you.

12 MS. MARILYN MCLAREN: With respect to
13 Undertaking number 22, asking for the depiction of the
14 target corporate architecture, that -- that is not
15 something we can provide at this time. Mr. Geffen saw
16 some early potential depictions of that.

17 We cannot nail down the high level
18 architecture until we determine where are we going with
19 respect to service delivery, physical damage, re-
20 engineering, issues like creating opportunities for
21 online claims reporting as one (1) small example. But we
22 really need to establish our future business direction
23 before we can nail down the architecture. So that is not
24 available at this point. I expect it will be when we're
25 back here a year from now.

1 And with respect to number 23, that is the
2 question about where did that particular PowerPoint slide
3 come from, what it a Gartner creation or an HP creation,
4 the answer is both. The spider piece of it that is on
5 the left of that slide was created from a survey that our
6 CIO, our chief information officer, completed back in
7 February of 10 -- 2011 when he was at a Gartner
8 conference.

9 And the other -- the scale and the -- the
10 arrows and that grid came from HP, and that -- that piece
11 of it I believe is in the HP presentation as well. So it
12 -- they were a little uncertain because it came from both
13 places.

14

15 CONTINUED BY MS. CANDACE GRAMMOND:

16 MS. CANDACE GRAMMOND: Okay. Thank you.
17 We had a little bit of discussion before the break about
18 the -- the territories, so I did have a couple of
19 questions about that, so I think I'll deal with those.
20 And this flows from the discussion at SM-5.8. This is in
21 Volume I of the -- the GRA filing SM-5.8.

22 And what's reflected there is that in last
23 year's order the Public Utilities Board asked MPI to file
24 in this GRA an analysis of the effects and implications
25 of employing one (1) territory as opposed to five (5),

1 together with the pros and cons of that approach. And so
2 the Corporation has indicated that, in essence, one (1)
3 territory is not actuarially sound or statistically
4 driven.

5 Mr. Palmer, can you maybe comment on that
6 a little bit more in terms of the Corporation's view of
7 that issue?

8 MR. DONALD PALMER: Sure. We did go into
9 some detail in one (1) of the Information Requests. But
10 the bottom line of it is that there really is an
11 identifiable difference between the territories. And to
12 ignore that identifiable difference would mean that it --
13 it does increase cross-subsidization and it -- and it
14 does remove some of the information that we know about
15 claims.

16 So to have one (1) territory does mean
17 that there is inherent cross-subsidization existing and
18 the existing territories do have that identifiable
19 difference.

20 MS. CANDACE GRAMMOND: If we look at page
21 6 of SM-5.8 where the -- there's discussion about this
22 issue, we see a chart that the Corporation has put
23 forward that reflects what the implications in terms of
24 rates would be if one (1) territory was employed. And in
25 essence it reflects that Territory 2, which is the

1 southern Manitoba territory, would have a rate increase,
2 while the rest of the territories would have a rate
3 decrease.

4 Is that right?

5 MR. DONALD PALMER: Yes, that's correct.
6 And the magnitude really -- part of that is just the
7 number of vehicles that are in each of those territories.
8 So Territory 1, Winnipeg, would have rate decreases about
9 5 percent which are all subsidized essentially from
10 Territory 2, which also has to subsidize the -- the
11 northern territories and also the commuters.

12 The commuters is -- is really a special
13 territory because it's living outside of Winnipeg and
14 commuting into Winnipeg. Again, to eliminate that as a
15 territorial rating is ignoring some of the risk that we
16 know is inherent in that activity.

17 MS. CANDACE GRAMMOND: Thank you. Okay.
18 The next topic that I want to get into --

19 MR. DONALD PALMER: Excuse me, Ms.
20 Grammond.

21 MS. CANDACE GRAMMOND: Yeah.

22 MR. DONALD PALMER: That Information
23 Request, just for the record, that I was referring to is
24 CAC/MPI-1-286.

25 MS. CANDACE GRAMMOND: Thank you for

1 reading that in. The -- the next issue I'm going to go
2 to is dealt with at one (1) of the Information Requests
3 proposed by the Board, it's PUB/MPI-1-72. And it deals
4 with DVL and the -- the funding extended to the
5 Corporation by the province with respect to DVL. So it's
6 PUB/MPI-1-72.

7

8

(BRIEF PAUSE)

9

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

12

13 CONTINUED BY MS. CANDACE GRAMMOND:

14 MS. CANDACE GRAMMOND: 1-72. PUB/MPI-1-
15 72. Okay. So everyone being there, we -- what we see
16 here is a chart that was prepared at -- at our end in
17 connection with asking the question that reflects figures
18 taken from the Corporation's annual reports over a -- a
19 period of years.

20 Mr. Palmer or -- or Ms. McLaren, whichever
21 one of you, I assume you're familiar with the content of
22 the corporate annual report that -- that deals with this
23 issue?

24

MR. DONALD PALMER: Yes, we are.

25

MS. CANDACE GRAMMOND: And according to

1 our observations from those reports and the -- the
2 numbers that we've reflected there have been losses over
3 -- over the period of years, and that's shown year after
4 year from 2000 -- well, 2005 actually wasn't a loss, but
5 that was just after the merger. So from 2006 to 2011 the
6 corporate annual report reflects losses to the
7 Corporation totalling over that period about 111 million.

8 Is that right?

9 MR. DONALD PALMER: We didn't verify the
10 -- this chart.

11 MS. CANDACE GRAMMOND: Subject to check
12 does it -- does it look out to you?

13 MR. DONALD PALMER: It -- it looks
14 reasonable.

15 MS. CANDACE GRAMMOND: And we know that -
16 - because it was talked about last year at this hearing
17 and it's also reflected in this year's -- or the -- the
18 most recent annual report that as of 2011 the
19 contribution extended by the government to the
20 Corporation is going to increase from 21 million to 28
21 million, that's right?

22 MR. DONALD PALMER: That's contained in
23 the annual report, yes.

24 MS. CANDACE GRAMMOND: And that payment
25 is extended and I -- I'm paraphrasing what's -- what's in

1 the annual report, is paid to cover the cost of DVL
2 operations and to reimburse the Corporation for start-up
3 expenses related to the Manitoba enhanced identification
4 card, the enhanced driver's licence, and the Manitoba
5 identification card. Is that -- it's page 40, Mr.
6 Palmer, if you're -- if you're looking.

7 MS. MARILYN MCLAREN: That's a reasonable
8 paraphrase.

9 MS. CANDACE GRAMMOND: Now have there
10 been any talks or is there any information you can share
11 with this Board about the potential for recovery of the
12 cumulative losses that occurred over the years that we've
13 just discussed?

14 MS. MARILYN MCLAREN: First, I would just
15 like to draw the panel members' attention to our
16 responses to these questions at 1-72. Clearly,
17 information in the annual report is public information.
18 We're -- we're not opposed to talking about that.

19 Getting into the detail of it is really up
20 to you. We believe it's entirely not germane to the
21 Basic rate application. And I can tell you, previous
22 annual reports have stated the government's mandate that
23 was given to the Corporation through the merger, which
24 was to improve service, lower costs, find, you know, a --
25 a better way to provide the services. The Corporation's

1 board of directors chose to do that by aggressively --
2 with the use of funds -- excess retained earnings from
3 competitive lines of business, chose to achieve that
4 mandate by aggressively improving and -- and integrating
5 services and have -- has done that in a number of ways
6 again that are described in the annual report.

7 So the board of directors made a very
8 tangible decision to meet that mandate using some excess
9 retained earnings from competitive lines. Have -- have
10 done that. Significant consensus that it's been done
11 well, that service has been improved, and no impact on
12 Basic ratepayers.

13 MS. CANDACE GRAMMOND: So the losses are
14 not anticipated to be recovered in any way?

15 MS. MARILYN MCLAREN: That's a summary of
16 part of what I said, yes.

17 DR. LEN EVANS: Yeah, excuse me. We're --
18 - we so often -- we're always talking about costs, of
19 course, that's very basic. But also there are benefits.
20 And as you alle -- as you refer to, I mean, I think there
21 have been enormous benefits with -- with MPI handling
22 DVL. And especially now with the -- involving the
23 brokers.

24 The service has increased enormously over
25 what it used to be prior to the -- that decision being

1 made to bring it over to MPI. So I think there -- and I
2 think the average citizen appreciates that, I think they
3 do, that the service is much better than it used to be
4 some years ago.

5 And I remember as a kid, this goes way
6 back, on Portage Avenue. Mind, this is before -- long
7 before MPI and that, where there was line ups two (2),
8 three (3), four (4) blocks, when -- near the deadline for
9 your licence, you know. And it was just -- they had to
10 have police around to organize the traffic. But those
11 were the good old days.

12 So I think -- I really think there have
13 been a lot of benefits from this.

14 MS. MARILYN MCLAREN: Thanks. The -- the
15 board of directors really wanted to do as much as -- as
16 we could with that mandate. And the public, from what we
17 can tell, shares your view. Thank you.

18 MR. REGIS GOSSELIN: Since we're talking
19 about DVL, one (1) of the questions I had is in respect
20 of new Canadians. People moving to Canada from other
21 jurisdictions.

22 And I'm wondering whether or not they can
23 port their licence into Cana -- into Manitoba, without
24 any further testing?

25 MS. MARILYN MCLAREN: Depends. The --

1 that -- that list of recip -- the -- the phrase that the
2 registrar uses is -- is reciprocal jurisdictions. Those
3 are -- if you move from a reciprocal jurisdiction, has
4 already been -- the driving standards have been reviewed
5 and determined to be similar enough to Manitoba that they
6 will take it and issue a new licence without retesting
7 and -- and so on and so forth.

8 Where there is no evidence that they are
9 similar or to as -- a relatively equal standard, they --
10 they will not do that.

11 The list of reciprocal jurisdiction
12 continues to grow. If another Canadian jurisdiction
13 offers reciprocity, we tend to follow fairly easily. But
14 as a process it really involves the government and --
15 and, you know, the protocol officers from the different
16 jurisdictions are involved and then the registrar
17 basically is the last step in that.

18 But the list of countries where the
19 reciprocity is available has -- has grown I would say in
20 the last five (5) years by maybe six (6) or seven (7)
21 countries, or -- or states of specific countries. I
22 mean, some -- some of this is done at a national level in
23 other countries, some of it is at a province or state
24 level.

25 MR. REGIS GOSSELIN: So -- so

1 irrespective of the jurisdiction, I guess what my concern
2 is -- I've been -- I've travelled extensively throughout
3 the world and I know that in some jurisdictions you get
4 your licence by paying the right person.

5 And I guess -- I -- I guess my question
6 is, if the -- if that -- if that particular country
7 appears on the -- the list, then that -- that we would
8 simply accept the licence at face value.

9 Is that fundamentally it?

10 MS. MARILYN MCLAREN: Yes, but -- but not
11 without due diligence first. And that is, you know, some
12 jurisdiction in -- in Canada tends to be, you know, the
13 jurisdiction that has a higher percentage of -- of
14 immigrants from that country coming to that province
15 versus others, and they -- they will get involved. They
16 will determine what the standards are.

17 There's many, many countries. I mean,
18 Canada and the US there's basically full reciprocity.
19 There's many, many other countries were there is not and
20 won't be. One (1) of the more recent additions is
21 France, which, you know, you might have thought could
22 have been there a bit earlier, but it was a fairly recent
23 addition. And then there's many, many countries that are
24 not and -- and won't have the reciprocity.

25 MR. REGIS GOSSELIN: So looking at

1 truckers, for example, that are hired by trucking
2 companies in Manitoba to -- to drive a big rig, you know,
3 we know that they are bringing them in from different
4 countries across the world, they would be entitled -- as
5 long as they have been licenced in their particular
6 country, they would be entitled to import that into
7 Manitoba?

8 MS. MARILYN MCLAREN: I don't believe
9 that's true. I believe that when it comes to the
10 different class, there are different standards. The --
11 where we're talking about reciprocity is the regular
12 driver licence that I have, which is known as a class 5.
13 I really believe class 1s may have reciprocity within
14 Canada, but I don't believe it would international
15 reciprocity, but we -- we can follow up on that and --
16 and let you know offline. But, no, I don't think because
17 someone drove a big truck in Poland means they can in
18 Manitoba.

19 THE CHAIRPERSON: Go ahead.

20

21 CONTINUED BY MS. CANDACE GRAMMOND:

22 MS. CANDACE GRAMMOND: Thank you. So
23 just speaking about the -- the losses that the
24 Corporation has incurred, and we've -- we've read the
25 answer and heard your evidence, Ms. McLaren, of the

1 Corporation's view of the -- the relevance to this
2 proceeding, I take it that the -- the basis for that view
3 is that those losses are funded by Extension, or, in any
4 event, not funded by Basic?

5 MS. MARILYN MCLAREN: That's right,
6 they're not.

7 MS. CANDACE GRAMMOND: We've talked about
8 a little bit, and it's on the record in the proceeding,
9 that in Basic the Corporation has a goal of returning 85
10 percent of premiums to claimants or to -- to motorists.

11 Is it the case that there is no comparable
12 objective for the other lines of business? Is that -- is
13 that an only-Basic thing?

14 MS. MARILYN MCLAREN: The information
15 that's published in our annual report that you're
16 referring to is -- is clearly a Basic requirement -- or
17 Basic benchmark, yes.

18 MS. CANDACE GRAMMOND: And does the
19 Corporation have a sense of the -- what that percentage
20 would be in the other lines, in Extension, for example,
21 what percentage is paid out in claims?

22 MS. MARILYN MCLAREN: Again, would have
23 to say clearly not germane to these proceedings of the
24 application and, off the top of my head, I don't know.

25 MS. CANDACE GRAMMOND: Would it be fair

1 to say that whatever that number is, it's fallen since
2 the merger with DVL, meaning that the --

3 MS. MARILYN MCLAREN: No, no, I don't
4 think so.

5 MS. CANDACE GRAMMOND: So the -- the
6 shortfall in funding that we've been discussing hasn't
7 affected Extension rates?

8 MS. MARILYN MCLAREN: Hasn't affected
9 Extension rates at all because what we talked about is
10 funding the initiatives to improve service through the
11 merger was funded from excess retained earnings.

12 MS. CANDACE GRAMMOND: I want to just
13 talk very briefly about a piece of evidence that was
14 given earlier in this proceeding, and I -- because I -- I
15 think it was not correct. And I just want to talk about
16 that, and tell -- tell me if it -- if it was or wasn't.

17 Ms. McLaren, it was a conversation that
18 you and I were having when we were speaking about
19 information in terms of cost allocation that the Board
20 had cited that had not been provided, and that was the --
21 the reason why the Board in past orders was not
22 implementing the cost allocation methodology.

23 So one (1) of the items on the list was
24 the corporate-wide schedule reflecting operating expenses
25 that we refer to as TI-7(b) and your answer was:

1 "In last year's GRA we did provide that
2 information. It's answer to
3 Undertaking 24, which was filed late in
4 last year's proceeding."

5 And so I -- I looked back at Undertaking
6 24 from last year and certainly the Corporation filed
7 corporate-wide information in TI-7(a) and TI-8, but then
8 went on to say TI-7(b) was not provided on a corporate-
9 wide basis because that information provides information
10 about competitive lines that's commercially confidential.

11
12 So I -- I don't think that TI-7(b) was in
13 fact filed last year on a corporate-wide basis.

14
15 (BRIEF PAUSE)

16
17 MS. MARILYN MCLAREN: No, you're right,
18 it wasn't. And a little further explanation on that is
19 that while we did on a corporate basis -- when you get to
20 TI-7(b) it really is at a level of detail that we believe
21 is commercially confidential. When you start breaking
22 down what we would be spending on initiatives like road
23 safety and competitive lines of business we -- we just --
24 we're not prepared to go there. So it was -- the
25 information was shared at a corporate level and not by

1 specific line of business because it provides too
2 discreet a level of detail in our view.

3 Through the Deloitte process that we
4 talked about, I guess, two (2) years ago, we did provide
5 that information, it is in the Deloitte report because we
6 believed at that time on that basis it was important for
7 the Board to see how it played through.

8 And the -- the line in the sand, I guess,
9 that we're drawing is -- is when it came proposing a new
10 methodology and showing at -- at the most discreet level
11 we can how that methodology would play out through the
12 system, we believed we had a responsibility to do that.
13 On a going-forward basis, once we had done that publicly
14 provide -- continuing to provide that level of detail on
15 competitive lines was -- was not appropriate, not
16 required, and -- and was commercially disadvantageous.

17

18 (BRIEF PAUSE)

19

20 MS. MARILYN MCLAREN: If -- if I can,
21 further to this issue, in the review and vary application
22 that the Corporation filed with the Board, because of the
23 concerns about TI-7(b) -- let me just read a couple of
24 paragraphs from that review and vary application for --
25 to help explain this. We did say:

1 "The Corporation provided the corporate
2 information corresponding to TI-7(a),
3 but did not supply the information
4 corresponding to TI-7(b). The
5 Corporation explained that it was
6 concerned that such a further breakdown
7 of the information would disclose
8 confidential commercial information.
9 The Corporation does not understand how
10 the Board is not able to approve the
11 cost allocation methodology without
12 having the aggregate fifteen (15)
13 expense categories for non-Basic
14 further sub-divided into expenses for
15 DVL, SRE, and Extension.
16 For example, the Board was advised that
17 in 2010/2011 the forecast for non-Basic
18 public information and advertising is
19 five hundred and ninety-three thousand
20 dollars (\$593,000). How does a further
21 subdivision of this total show -- to
22 show how much of that sum is spent on
23 DVL, SRE, and Extension, breaking down
24 the five hundred and ninety-three
25 thousand dollars (\$593,000), how does

1 that assist the Board to carry out its
2 function of approving Basic rates. Or
3 perhaps more importantly, how does not
4 having this information prevent the
5 Board from carrying out its function?
6 The Corporation explained its
7 understanding of why the information,
8 as requested, would not provide any
9 additional assistance to the Board.
10 See pages 1,671 to 1,674 attached as
11 Appendix 3 to this review and vary
12 application. The Corporation invited
13 the Board to correct its understanding
14 so that if necessary information for
15 the Board was required to achieve its
16 assessment that this information could
17 be provided."

18 MS. CANDACE GRAMMOND: Okay. So that's
19 the why of where the Corporation is coming from, but I --
20 and I appreciate that evidence. I just wanted to clarify
21 though that it wasn't -- TI-7(b) was not provided
22 corporate-wide.

23 MS. MARILYN MCLAREN: You're absolutely
24 right.

25 MS. CANDACE GRAMMOND: Okay. That's

1 fine. I just have a couple of concluding questions,
2 Madam Chair.

3 So the -- the first is: The Corporation
4 has -- has come to the Board this year and is seeking a
5 6.8 percent rate reduction. Can you comment on, in a --
6 in a summary way, or -- or give us as -- as much detail
7 as you wish, what risk there is, if that rate decrease is
8 granted as requested, that it would need to be fully or
9 partially offset by premium increases in the foreseeable
10 future?

11 MR. DONALD PALMER: That is our best
12 estimate of the cost of the transfer of risk for policies
13 that are written in the 2012/'13 policy year.

14 As any -- any insurance product, there is
15 some risk, but it's not different this year. That is the
16 best estimate. As costs do rise from inflation, there
17 are always pressures. Those are largely met by the
18 upgrades that we've talked about.

19 Our longer-term outlooks, that has been
20 provided in TI-15, actually indicate that the escalation
21 -- the natural escalation in premium is actually greater
22 than what the ex -- expectation is in cost. So if those
23 outlooks hold, we'll likely be looking at another rate
24 decrease in the 2014/'15 kind of time frame.

25 There are always inherent risks. But I

1 think we've met -- met them. We've -- we do have risk
2 mitigation strategies, and from that point of view, I --
3 we continue to stand by the 6.8 percent rate decrease as
4 our best estimate.

5 MS. MARILYN MCLAREN: Maybe just a little
6 bit further to that. It -- it's -- it's very important
7 to the Corporation that we have outlook year forecasts
8 that show, basically, excess revenue and potential rate
9 decreases further into the future.

10 If we had, you know 2014/2015 projections
11 at this point that were showing \$20 million shortfalls,
12 we would be more concerned. There -- there is
13 uncertainty. Rate making is uncertainty. We've seen,
14 you know, a -- a couple of years ago, based on expressed
15 concerns of this Board, the Corporation came forward with
16 rate applications for more rate than the actuarial
17 indicators would -- would suggest.

18 We came forward that way, the Board
19 approved it that way. That was in, at least small part,
20 part of the issue with having, you know, a big rebate
21 fairly recently.

22 If -- if, you know, in the next couple of
23 years we decide that the kind of hail experience we had
24 this year is a new norm, we'll probably need a little bit
25 of money back. But by the same token, if the percentage

1 of -- the -- the likelihood of being injured as a
2 percentage of vehicle crashes continues to drop, like it
3 has been here and elsewhere, then the numbers out in the
4 future might look even better than they are.

5 So, there's always uncertainty. There are
6 -- you know, the -- the areas of uncertainty is probably
7 more than anything hail. What is that likely to look
8 like? And injury -- injury costs, with the changes that
9 were made in -- from the actuarial perspective and the
10 ratio of injuries per vehicle crashes. Those are two
11 (2), but they're offsetting to a certain extent.

12 So might rates need to go up in the
13 future? Probably in my lifetime. In the short term,
14 because we were too aggressive this year? I don't
15 believe that that is a risk for the Corporation or for
16 the Board.

17 MS. CANDACE GRAMMOND: And so in terms of
18 events or -- or factors that could result in the risk of
19 increases -- between the two (2) of you, if I've -- if
20 I've heard you correctly, you've mentioned hail,
21 inflation, and injury costs. Is there anything else that
22 the Board should be mindful of as a -- as a potential
23 risk factor within the next period?

24

25

(BRIEF PAUSE)

1 MS. MARILYN MCLAREN: We -- we would
2 certainly concur with the findings of the DCAT, which
3 pointed to, you know, investment returns, equities in
4 particular. Lots of volatility there. But -- but
5 remembering we still are primarily invested in bonds,
6 which are tightly linked with our liabilities, which
7 helps a lot.

8 I -- I think, in terms of claim patterns,
9 I think it really is continuing. You know, we will want
10 to continue to assure ourselves that the changes that we
11 made on the injury front were appropriate and
12 sustainable. Every indication is that they are and will
13 continue to be.

14 Hail is a question mark, but I think we
15 have some time to really sort that out.

16 MS. CANDACE GRAMMOND: Okay. Madam
17 Chair, those are the questions that I have.

18 THE CHAIRPERSON: Well, thank you. Go
19 ahead.

20 MR. REGIS GOSSELIN: I just had a few
21 questions in respect of the -- we discussed yesterday the
22 difference between road safety versus loss prevention,
23 the nuance there. And I guess what I want to know is, in
24 the -- in your plans have you got specific things that
25 you would like to do in the loss prevention area already.

1 Or do you -- are you waiting for that report to -- to be
2 completed before you address the loss prevention area?

3 MS. MARILYN MCLAREN: There -- there's a
4 section in the small Volume I binder where we talk about
5 the cost-containment initiatives that the Corporation has
6 had underway for many years. Some of them are on the
7 injury side. Some of them are on the physical damage
8 side.

9 We -- we continue to be focussed on those
10 and trying to leverage them as much as we can in terms of
11 brand new SM-2 program costs. SM-2.3 there are some
12 bodily injury cost-saving initiatives. That's on page 4
13 of SM-2. And then on page 5, a discussion of some of our
14 all-perils claims cost saving initiatives at SM-2.4. So
15 those are the ones that we have had underway and continue
16 to work hard on.

17 Other specific ones, nothing really at
18 this point, no. You know, ti -- time will tell what we
19 learn about the wildlife pilot that we have on right now.
20 I -- I suspect we may not be able to prove that we
21 covered the cost to rent the signs in those two (2)
22 little areas through this pilot, but -- but we'll see
23 where that goes.

24 But in terms of very specific cost
25 containment, nothing new that has not surfaced here, no.

1 MR. REGIS GOSSELIN: In the past, the
2 Board has been making recommendations about road safety,
3 you know, the -- the need for investment in road safety.
4 And I guess my -- what I'm wondering is whether or not
5 instead of -- of focussing on that we should be talking
6 about initiatives related to loss prevention?

7 MS. MARILYN MCLAREN: Yeah, it -- it's
8 really challenging to identify really tangible loss
9 prevention initiatives that are in the road-safety
10 sphere, but -- but clearly we -- we need to talk about
11 both, you know. And we're very focussed on the cost
12 containment, the loss prevention, when it comes to things
13 like the use of after-market parts and recycled parts and
14 things like that. That saves us a lot of money.

15 Costs, actually cost more on a claims
16 expense side to -- to administer those programs. It'd be
17 much easier and administratively less burdensome to
18 simply just put OEM parts on every single repair invoice
19 that came in. And that's -- you know, when we talk about
20 claims expenses, a percent of incurred, a program like
21 tho -- programs like those two (2) reduce our claims
22 incurred, add claims expenses significantly to the
23 advantage of ratepayers, significantly. But -- but, you
24 know, they -- they offset each other to a certain extent.

25 So it's not a simple straightforward

1 issue, but I think we would absolutely. I mean, I think
2 the theft strategies that -- that the Corporation funded
3 and -- and many parties in this province came to the
4 table and worked on together is just an amazing story of
5 loss prevention, of road safety improvement, some social
6 advantages, but clear loss prevention for the Corporation
7 and its ratepayers.

8 Not a lot of those come available
9 frequently, but certainly that is a really super example
10 of one (1) that worked and worked really well that had a
11 true, true measurable payback. There -- there may be
12 some things in some of those other areas that we haven't
13 talked about, about enforcement and infrastructure, but
14 those are -- those are big public policy issues.

15 MR. REGIS GOSSELIN: I'm thinking very
16 specifically of an article that I read in the Free Press
17 that talked about the -- the intersections in Winnipeg
18 that had the major losses over the last ten (10) years.
19 Put a speed bump there. I mean, I -- it seems a logical
20 thing to do to prevent people from going too fast through
21 that intersection.

22 So I guess that's what I'm getting at.

23 MS. MARILYN MCLAREN: I think we -- we
24 may have some room to move on that, you know. But I
25 think if somebody announced tomorrow that MPI was going

1 to pay to put a speed bump people would be concerned
2 about that. You know, I think there's a real -- the --
3 there's a high awareness of who should pay for what in
4 the public sector world these days. And I think we -- we
5 enter new areas carefully with consultation and -- and
6 knowing that you have support.

7 If we do that, you know, I can -- I can --
8 there's been, you know, letters to the editor and
9 different things and I've been asked questions on open-
10 air radio and things like that. Why doesn't MPI pay for
11 more sanding trucks? That would -- I can tell you there
12 would be a payback for that, but that's not our job, you
13 know.

14 And it's a very slippery slope and it's a
15 challenging issue. But -- but certainly there -- there
16 may be opportunities that we haven't looked at. But it
17 really does need to be with a lot of careful thought, a
18 lot of consultation, and knowing that there's a general
19 consensus that it -- people would think that it's
20 appropriate for us to be doing it.

21 MR. REGIS GOSSELIN: Now with respect to
22 the SRE and the Extension coverage and I --I acknowledge
23 that -- I understand your position regarding our
24 jurisdiction there. But I -- I would like to know that --
25 -- you -- you've established a target level of reserves

1 for both of those, and it's pretty clear to me that --
2 that some of those reserves are being used for
3 initiatives such as DVL and so on, that's pretty clear.

4 What I'm wondering is that, in cases where
5 you do hit your target, has there been any history where
6 you -- those excess reserves have -- have been ported
7 over into Basic?

8 MS. MARILYN MCLAREN: Definitely. For a
9 period of time in the early 2000s, I'm thinking, and that
10 was -- and -- and during that time, you know, because we
11 were telling this Board that they could expect some
12 transfers of excess retained earnings from those lines
13 into the basic RSR.

14 It was never done to support Basic rates,
15 but it was done to build the RSR to what the Corporation
16 believed was a required level, which was significantly
17 higher than the PUB-established target. And during that
18 time we gave them forecast information so that they could
19 know that we would expect that.

20 At the end of the day there was still no
21 consensus that this higher amount was required. We
22 transferred money that ended up getting rebated to Basic
23 ratepayers. The Corporation -- you know, if -- if the
24 Corporation stopped those transfers because there was no
25 need to rebuild an RSR because the PUB had clearly said

1 the RSR is -- is full and doesn't need to be at a higher
2 level.

3 But there was that time -- many years ago
4 there was less rigour with respect to some of the
5 transfers and -- and some of the cost allocation and
6 things like that. But there was a point in time in the
7 early 2000s where that was done by a board of directors'
8 decision for the purpose of rebuilding an RSR to a higher
9 level that didn't -- didn't happen.

10 MR. REGIS GOSSELIN: The natural follow-
11 up question to that would be -- conceivably you could
12 have an occurrence in the future where you didn't have
13 enough RSR to cover off loss experience, you could
14 potentially take some of that -- some of those reserves
15 and -- from the -- from the SRE and the Extension in --
16 back into the RSR to address that.

17 I mean, is -- is that a conceivable
18 possibility?

19 MS. MARILYN MCLAREN: You know, the --
20 the Board or the Corporation could make any decision in
21 the future that's within its, you know, legislated
22 authority that -- that was possible back then, nothing
23 has changed in the law to say that it wouldn't be
24 possible for them in the future.

25 Separate from that though, I can say that

1 there have been times in the Corporation's history in the
2 Basic compulsory plan when it had negative retained
3 earnings and was able to recover, you know, because it is
4 an ongoing entity and -- and does have the ability to
5 change rates or have the PUB approve rates to kind of
6 replenish the rate stabilization reserve.

7 Back in the beginning, I guess, in 1996 we
8 had a special 2 percent addition on everybody's rate,
9 specifically to start to rebuild the rate stabilization
10 reserve, that moved to 4 percent, then it removed --
11 moved to 5 percent. But that is an option for -- for
12 this Board and for the Corporation as well with respect
13 to the Basic plan.

14 But in terms of your specific question
15 about, might something like that, that happened in the
16 early 2000s, happen again? Nothing has changed in the
17 legislation that would prevent the board from doing
18 something like that -- the Corporation's board.

19 MR. REGIS GOSSELIN: Just want to ask you
20 a question with relation to a promise that was made by
21 the now-elected premier during the election, in relation
22 to a -- a commitment that the government would make to
23 the effect that if Manitoba rates for public utilities --
24 I'm -- I'm -- I'm paraphrasing, here, Manitoba rates for
25 public utilities were not the lowest in Canada, that he -

1 - he would make it such that the ratepayer, or the
2 client, would receive a refund back from the Utility.

3 Now, I guess my question is, has there
4 been any discussion between the government and Manitoba
5 Public Insurance about that specific promise?

6 MS. MARILYN MCLAREN: Again, any -- any
7 discussions like that would be confidential. They're
8 specifically protected under, you know, FIPPA
9 legislation.

10 But, you know -- I mean -- I think it's
11 also fair to say that that was an election time. The
12 government was actually just sort of being, you know,
13 actively opening the legislature today and -- and
14 personally I know nothing about that, other than what I
15 heard during election, as did you.

16 THE CHAIRPERSON: Well, I think we
17 actually are ready to move to you, Mr. Williams. But
18 I'll leave it up to you. Do you want to carry on till
19 12:00, or do you want to head for lunch now? We have
20 some options. What's your wish?

21 MR. BYRON WILLIAMS: Madam Chair, I -- I
22 have a compromise. I think efficiency-wise, it's just as
23 well for us to start after lunch. But with your
24 indulgence, just given Mr. -- the announcement of Mr.
25 Palmer's pending resi -- resi -- retirement, excuse me.

1 Our client has asked me if I would say a
2 few words, and with your permission, we could cover up a
3 minute or so with that, if that's...

4 THE CHAIRPERSON: That would be -- yeah,
5 go ahead.

6 MR. BYRON WILLIAMS: And certainly, Ms.
7 Desorcy, is here, as she has been here through -- through
8 much of the hearing.

9 And our -- our clients -- in terms of Mr.
10 Palmer -- from time to time obviously, they take
11 positions that are -- are contrary to -- to the positions
12 he might wish. And from time to time they test his
13 evidence in -- in -- in cross-examination, and hopefully
14 in an assertive but respectful manner. But they want to
15 emphasize, on behalf of CAC Manitoba, the enormous
16 contribution that -- that Mr. Palmer, in particular, and
17 the actuarial component and the pricing and economics
18 component has made to the rate setting process in
19 Manitoba.

20 And our clients certainly think of Mr.
21 Palmer as a child of the Kopstein report. And -- and,
22 with -- with some trepidation I look around this room and
23 I -- I know that Mr. Kruk has been here long -- longer
24 than me. I'm not sure if Mr. Singh has been here longer
25 than me. I don't think so. I'm not even sure Ms.

1 McLaren has been here -- she's been with MPI longer, I'm
2 not sure if she's been in the -- the hearings longer,
3 but...

4 For the -- for people who are newer to the
5 process, about when Mr. Palmer came on -- on board, there
6 were enormous issues in terms of whether the rates sought
7 by Manitoba Public Insurance were statistically
8 indicated, actuarially sound. And -- and those -- those
9 words come -- come from Kopstein. And I think if memory
10 serves me right, there was not a actuary with the
11 Corporation un -- until the late 1980s where -- when Mr.
12 Palmer joined them.

13 There were tremendous anomalies in the
14 rate setting process. Farm trucks, commuters, are -- are
15 two (2) that -- that come to my increasingly advanced and
16 aged brain, but there -- there -- there were others.

17 And -- and certainly on behalf of our
18 clients, I want to identify just a few of the dramatic
19 changes that Mr. Palmer, but others in pricing and
20 economics, Dr. Hickson, others, have -- have been
21 involved with.

22 Today, we talk in a rather commonplace way
23 about rate groups and rate line indicators. When I was a
24 baby, appearing before this Board, we were just being
25 introduced to VICC, as it was then known. I think we now

1 call it -- the -- the acronym for the report is V-I-C-C.
2 We now call it CLEAR, C-L-E-A-R.

3 And there was a tremendous disconnect
4 between what the VICC or CLEAR actuarially-indicated
5 rates for specific types of vehicles were, and what MPI
6 was actually challenge -- charging. And there painful
7 years and years of enormous disruption in the mid-1990s
8 as the utili -- or as the -- the Crown monopoly and the
9 regulator and hopefully Intervenors worked together to --
10 to bring some rationality to -- to the -- or additional
11 rationality to the rates consumers paid.

12 And the actuarial team at MPI, as well as
13 the others in pricing and economics, our clients want to
14 acknowledge that contribution. There was something
15 pretty important we've heard Dr. Evans speak of, from
16 time to time in this hearing, called no-fault or -- or
17 PIPP, which was brought in in the early 1990s and posed
18 enormous challenges to -- to the Corporation, some we're
19 still experiencing in the context of -- of this hearing.

20 And really, there was very few examples
21 for -- for the Corporation to draw upon. I think they
22 drew heavily upon the Quebec experience. But Mr.
23 Palmer's team, there were some ups and downs, and
24 certainly we still have ups and downs with it, but an
25 enormous achievement that my clients would -- would like

1 acknowledge as well.

2 We've heard about tabular reserving and
3 the challenges associated with that structural break.
4 One (1) others that my clients -- one (1) other that my
5 clients wish to acknowledge, and we've -- we've said this
6 on the record. In terms of drivers' safety rating,
7 there's been certainly on -- on behalf of the Corporation
8 as a whole, but Mr. Palmer had a important contribution
9 in that as well.

10 So those are only three (3) or four (4) of
11 the achievements that we could think of on five (5)
12 minutes notice, but they're important ones that our
13 clients applaud and -- and celebrate Mr. Palmer's re --
14 retirement with him.

15 They would be -- they have to note that --
16 that Mr. Palmer has brought a quirky sense of Alberta
17 humour to the regulatory proceeding. And from time to
18 time, it has -- it has been a much appreciated leavening
19 of the -- of the tension that my clients -- that my
20 clients appreciate as well.

21 And we all know that Mr. Palmer's a
22 jogger, a runner. I don't know if he's a marathoner
23 still, but I think from time to time he's -- he's done
24 one (1) or two (2). He looks disgustingly healthy for --
25 for a gentleman of -- of his advanced years.

1 And my clients certainly wish him many
2 happy hours of running, if that is possible, as he -- as
3 he runs into -- into retirement. Thank you very much,
4 Mr. Palmer, for your contribution.

5 MR. DONALD PALMER: Thank you, Mr.
6 Williams. Those are very kind words. Thank you.

7 THE CHAIRPERSON: I'm going to turn to
8 Mr. Kruk because I'm sure he would also like to wish you
9 well and say a few words.

10 MR. JERRY KRUK: Thank you, Madam Chair.
11 I -- I'm reminded from time to time, as I sit here when I
12 can't see My Learned Friend over here, but others that
13 are in the legal -- legal business can, that -- that some
14 of us have been around for a while. And certainly --
15 certainly I -- I think on behalf of CAA we -- we would
16 absolutely, totally and completely want to echo exactly
17 what -- what has been said by -- by Byron.

18 And -- and from our point of view, we have
19 not always agreed with some of the things that have come
20 out of Don Palmer, but the one (1) thing we always
21 recognize is that it was always done in the proper
22 intent. And -- and certainly, from our point of view, at
23 the end of the day, it was done for the benefit of -- of
24 Manitobans. And so, on -- on our behalf as well, I don't
25 know if you're going to be running, but -- but so be it.

1 And -- and whatever you choose to do, the
2 best of luck. And -- and, from our point of view, good
3 running. Thank you.

4 MR. DONALD PALMER: Again, thank you, Mr.
5 Kruk, for those kind words. Thanks.

6 THE CHAIRPERSON: Okay. Well, that
7 brought us right to noon, so how appropriate. We'll take
8 an hour and a quarter and come back at 1:15.

9
10 --- Upon recessing at 11:59 a.m.

11 --- Upon resuming at 1:22 p.m.

12

13 THE CHAIRPERSON: Now, Mr. Williams, you
14 were going to proceed?

15 MR. BYRON WILLIAMS: Yes. And, Madam
16 Chair, depending on the timing today, I'll -- I'll
17 certainly have one (1) exhibit for this afternoon, I may
18 have two (2). And I'd ask the Board secretary to
19 distribute what we've tentatively marked as CAC-11. I've
20 shared it with MPI and with Intervenors, its Board staff,
21 and the Board itself. And my understanding is that MPI
22 does not object to the admission of this material.

23 MS. CANDACE GRAMMOND: As well, Madam
24 Chair, I understand that MPI is in a position to answer
25 another undertaking. So maybe we'll just get that

1 entered on the record before Mr. Williams starts, if
2 that's okay?

3 MR. BYRON WILLIAMS: Yes. And -- and,
4 Madam Chair, just in terms of this document, and then
5 I'll shush up for a second, if it could be marked -- I'd
6 suggest it be marked as CAC Exhibit 11, please.

7

8 --- EXHIBIT NO. CAC-11: Supporting material for
9 October 20, 2011
10 cross-examination of the MPI
11 panel by CAC Manitoba

12

13 THE CHAIRPERSON: All right, Ms.
14 Kalinowsky, do you want to go ahead with those exhibits,
15 please?

16 MS. KATHY KALINOWSKY: Yes, good
17 afternoon. I have one (1) exhibit that is ready file.
18 It's an ander -- Undertaking 26 response, which required
19 MPI to indicate the impact on the trend analysis related
20 to the reclassification of merchant fees from service
21 fees to operating expenses. And I believe that should be
22 marked as MPI Exhibit number 33.

23 THE CHAIRPERSON: Thanks for that.

24

25 --- EXHIBIT NO. MPI-33: Response to Undertaking 26

1 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Yes, and good
3 afternoon, Madam Chair and Board member Evans and Board
4 member Gosselin. Just by way of pre -- preamble, the --
5 the material that's set out in CAC Exhibit 11 is
6 primarily derived from the record, and it's -- it's hoped
7 that we'll be able to minimize a bit of the document
8 shuffling.

9 I have -- or actually my assistant has
10 been kind enough to mark in the top right-hand corner of
11 every page after the first page, a page number. So I'll
12 be trying to refer you to those numbers, taking Ms.
13 Grammond's suggestion. The only time we might get into
14 trouble is one (1) particular response was double-sided,
15 but I'll -- I'll try and steer you through that as -- as
16 well.

17 And I would -- I would note that the
18 material that's presented in this exhibit, as I said, is
19 primarily derived from the -- from the table -- from the
20 record. There are -- we've shared this with MPI and
21 they've kindly agreed to -- to allow its admission.

22 There are some calculations, which I won't
23 -- I just want to draw to your attention that are -- that
24 are not from the record that will be gone through at a
25 high level in -- in our conversation today.

1 again, auto theft and a program -- and I'll -- I'll use
2 the acronym, W-A-T-S-S, I think that's the proper acr --
3 acronym.

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

5 MR. BYRON WILLIAMS: And that program
6 involves a supervision of high risk ex -- enhanced
7 supervision of certain high-risk offenders, is that
8 correct?

9 MS. MARILYN MCLAREN: Yes.

10 MR. BYRON WILLIAMS: And would it
11 accurate to say that historically the Basic program of
12 Manitoba Public Insurance has made a contribution to that
13 as well?

14 MS. MARILYN MCLAREN: Yes. I'm trying to
15 remember now when we started, maybe about 2007, 2008, so
16 not a long, long time, but for the last few years, yes.

17 MR. BYRON WILLIAMS: I think we might
18 even go a year back farther in time, but I'll -- I'll --
19 that's good enough for me.

20 And it continues to do so in this current
21 year?

22 MS. MARILYN MCLAREN: Yes.

23 MR. BYRON WILLIAMS: And in terms of some
24 initiatives under the Road Watch banner, would it be
25 accurate to suggest that MPI provides some contribution

1 to the City of Winnipeg and to the RCMP and perhaps the
2 Brandon Police in terms of enhanced traffic en --
3 enforcement, particularly at the holiday season?

4 MS. MARILYN MCLAREN: Vacation season
5 primarily, summer season. The Christmas holiday season
6 has always been a period where the police forces have
7 provided enhanced initiative on their own. But the
8 enhanced enforcement that we fund through the Road Watch
9 program is primarily spring through fall.

10 MR. BYRON WILLIAMS: And, Ms. McLaren,
11 your memory is far superior to mine. Are there any other
12 initiatives like that which might traditionally be
13 thought of as public -- as taxpayer-funded initiatives
14 where the Basic program of MPI makes some contribution?

15 MS. MARILYN MCLAREN: Additional Winnipeg
16 Police Service officers to investigate and -- and charge
17 people with theft. Again, another theft-related
18 initiative.

19 MR. BYRON WILLIAMS: Okay. Thank you for
20 that

21 Ms. McLaren, would it be accurate to say
22 that when MPI does cross that -- that boundary between
23 what has traditionally been thought of as taxpayer versus
24 traditionally more insurance company's role, would it be
25 accurate to say that it -- it requires a well-founded

1 business case to do so?

2 MS. MARILYN MCLAREN: I think in the
3 examples that we've been talking about it was all
4 predicated on the reduction in auto theft. So a business
5 case -- and to align with some of the conversation and
6 language used in discussions with Mr. Gosselin and myself
7 also, in terms of the focus of loss prevention.

8 MR. BYRON WILLIAMS: And one (1) further
9 -- and I'll -- I'll go so far as to suggest to you that
10 in terms of the WATSS program, when it first began MPI
11 not only considered a business case, but it also would
12 have looked at the results of an analogous program in --
13 in the City of Regina. Would that be fair?

14 MS. MARILYN MCLAREN: That's right. It
15 was really founded on a very similar program in Regina.
16 There was an expectation, I think, of about six (6)
17 dollar to one (1) payback at that time. But it's also
18 important to say that it was done in conjunction with the
19 immobilizer strategy as well. It was not embarked on as
20 a stand-alone initiative.

21 MR. BYRON WILLIAMS: Thank you for that.

22 Ms. McLaren, I'm going to -- this is
23 probably, again, directed to you. And it's a follow-up
24 both to some of the conversation you had with Board
25 member Evans this morning, as well as -- I may be testing

1 your memory -- some other conversation you had with Board
2 counsel, Ms. Hamilton, last -- last Wednesday.

3 But, let's -- I believe you -- let's start
4 with the big picture of MPI. And -- and I believe you
5 used language this morning such as the "overarching
6 monopolies."

7 Do you recall using words to that effect?

8 MS. MARILYN MCLAREN: Yes.

9 MR. BYRON WILLIAMS: And this is
10 certainly not contentious, but I think it's important
11 just as a -- as a set-up. When -- I'm going to suggest
12 to you that when we look at the big picture of the Basic
13 auto insurance program, we have to -- have to start by
14 recognizing -- and you'll agree with me, that's it a --
15 there is a legislated monopoly in terms of compulsory
16 Basic auto insurance, correct?

17 MS. MARILYN MCLAREN: Yes, there is.

18 MR. BYRON WILLIAMS: And since the onset
19 of that legislative monopoly, it's been integrated to --
20 to a significant degree, with -- with licensing and --
21 and vehicle registration, correct?

22 MS. MARILYN MCLAREN: Absolutely. That
23 was one (1) of the -- the founding approaches/principles
24 right back in 1971.

25 MR. BYRON WILLIAMS: And I always get

1 nervous when I mention the word "extension" in your
2 presence, Ms. McLaren. But there's no dispute that,
3 whether it's 90 percent, or 95 percent, or 96 percent,
4 that currently in the -- in the Extension market in
5 Manitoba, along with the monopoly on Basic, MPI has a
6 dominant mark -- market position, correct?

7 MS. MARILYN MCLAREN: No dispute.

8 MR. BYRON WILLIAMS: That was easy. And
9 within the context of the program administered by
10 Manitoba Public Insurance, another important reality, and
11 again Board member Evans discussed it with you this
12 morning, is that in terms of the personal injuries, we're
13 operating under a -- a no-fault system, with the -- under
14 the acronym of PIPP.

15 MS. MARILYN MCLAREN: Yes.

16 MR. BYRON WILLIAMS: And, Ms. McLaren,
17 Board member Evans, quite properly noted this morning
18 that we often talk about the negatives. So I -- for a
19 couple of moments I am going to ask you to -- to talk
20 about some of the advantages of that system if you'll --
21 you'll bear with me. I don't think you'll mind that
22 conversation too much.

23 But you make this report -- you make this
24 point in your -- your annual report and you do not need
25 to turn there. But a significant advantage, I'll suggest

1 to you, and ask you to agree, for all Manitobans, flowing
2 from the legislative monopoly on Basic and the
3 integration with driver and vehicle licensing, is -- is
4 that it significantly reduces the likelihood of uninsured
5 drivers on the roadway, by insuring that all licensed
6 drivers are insured drivers and all registered vehicles
7 are insured vehicles.

8 MS. MARILYN MCLAREN: Yes, I can agree
9 with those words.

10 MR. BYRON WILLIAMS: They sound familiar?

11 And I'll suggest to you as well that
12 certainly -- arguably -- it's arguable that there is an
13 advantage to customers from the integration between Basic
14 and Extension and driver and vehicle licensing, in terms
15 of customer convenience. Essentially, there's a one (1)
16 stop shop for registration, compulsory insurance and, if
17 they choose, Extension, correct?

18 MS. MARILYN MCLAREN: That's true. But,
19 you know, I do want to point out in terms of the narrow
20 use of the phrase "one (1) stop shop." One (1) of the
21 requirements of being an -- an appointed Autopac agent is
22 that you offer multiple lines of insurance. So the one
23 (1) stop shop is true for Extension regardless where
24 someone buys the Extension.

25 It's closer to being one (1) process when

1 it's MPI, but it's still one (1) stop shopping no matter
2 where they buy the Extension.

3 MR. BYRON WILLIAMS: So if I amended my
4 statement to a one (1) stop process you'd agree with that
5 wholeheartedly?

6 MS. MARILYN MCLAREN: I would agree with
7 that.

8 MR. BYRON WILLIAMS: And I believe it's
9 something adverted to by Mr. Palmer earlier in the
10 hearing. Arguably, there's also an advantage, and
11 perhaps by yourself as well, for all Manitobans in terms
12 of -- that they have a relatively high quality of
13 compulsory insurance and a protection flowing from that
14 as compared to some other jurisdictions?

15 MS. MARILYN MCLAREN: Did the -- yeah,
16 the legislated compulsory insurance is broadly based and
17 very high quality for sure.

18 MR. BYRON WILLIAMS: And without naming
19 names or jurisdiction, we -- we can justifiably say that,
20 as compared to some other jurisdictions, it's in Mani --
21 in Canada, it's of a higher quality in terms of
22 compulsory auto insurance?

23 MS. MARILYN MCLAREN: Yes, I think
24 particularly we would point to the injury coverage as
25 being higher quality. When it comes to the issue of

1 physical damage coverage, that is much more
2 straightforward. Ours is broader. More things are
3 compulsory here than they are in other places, but the
4 legislated goal of making it compulsory is also to
5 guarantee access so people have guaranteed access to
6 coverage for their vehicles which they do not have in
7 other jurisdictions.

8 MR. BYRON WILLIAMS: I thank you for
9 that. Just -- just a couple -- a couple more. I'll
10 suggest to you and ask you to -- to agree that there is
11 certainly an advantage for MPI and potentially for its
12 customers in terms of the efficiencies, I'm going to use
13 a term -- some terms of economics, the -- i.e., the
14 economies of scale and scope that flow from the monopoly
15 and its dominant market po -- position?

16 MS. MARILYN MCLAREN: I'm going to take
17 issue a little bit with the concept of advantageous to
18 MPI. You know, I mean, we administer programs as
19 specified in legislation. We -- we don't have an
20 inherent advantage. The advantage absolutely flows to
21 and -- and the one that has to be achieved is that to
22 customers, to ratepayers.

23 MR. BYRON WILLIAMS: You mentioned this
24 this morning. I -- I'm going to suggest that this one is
25 an advantage to MPI as compared to private sector

1 companies in other jurisdictions, is that in the event of
2 adverse events which can put upward pressure on prices,
3 the advantage of the MPI monopoly for the Corporation is
4 that there is no private sector compa -- competitor for
5 customers of the Basic insurance monopoly to flee to?

6 MS. MARILYN MCLAREN: If I can maybe
7 paraphrase that back to you to be sure that I understand
8 what you're saying. You're suggesting that it's an
9 advantage to the Corporation that the Basic line is a
10 monopoly?

11 MR. BYRON WILLIAMS: Let me try it again
12 and -- and let's -- let's see if this works better. In
13 the context of risk, in the context of stability, an
14 advantage to this Corporation is that if it has a
15 material adverse event, such as the negative retained
16 earnings situation of which you -- you spoke of in the
17 1990s, it has time to recover, and in -- in recovering it
18 doesn't ha -- run the risk that as it raises its prices
19 consumers can go to alternative vendors of the...

20 MS. MARILYN MCLAREN: That's true.

21 MR. BYRON WILLIAMS: And I think you may
22 have mentioned this already in our discussion, and
23 certainly Board member Evens did, has done so on a couple
24 of occasions in this hearing, arguably, there's an ad --
25 advantage for Manitobans flowing from the no-fault system

1 in that they're eligible for a significant level of
2 personal injury benefits regardless of faults and there -
3 - there's less legal wrangling.

4 MS. MARILYN MCLAREN: No, that's fair.

5 MR. BYRON WILLIAMS: And we'll move off
6 this topic soon, Ms. McLaren, and to my -- towards my
7 point.

8 In terms of conceptually what might be
9 seen as disadvantages of -- of the -- the monopoly,
10 you'll agree that one (1) -- one (1) conceptual
11 disadvantage is the loss of choice for consumers in terms
12 of that basic monopoly?

13 MS. MARILYN MCLAREN: Yes.

14 MR. BYRON WILLIAMS: And conceptually
15 you'll agree with me as well that a disadvantage in terms
16 of the no-fault program might be seen as the loss of a --
17 of the right to sue?

18 MS. MARILYN MCLAREN: Yes.

19 MR. BYRON WILLIAMS: Ms. McLaren, I -- I
20 don't think you'll disagree with me, I -- I'm going to
21 suggest you'll agree with me, that given the many
22 potential advantages associated with the public insurance
23 monopoly and its synergies, whether with Extension or
24 with driver and vehicle licensing, expectations of it
25 from Manitobans are quite high?

1 MS. MARILYN MCLAREN: I'll agree with the
2 fact that Manitobans do have very high expectations of it
3 -- of the Corporation. I think for the most part that
4 stems from our public ownership status. They expect a
5 lot from government entities, they expect a lot when they
6 are in a -- you know, as we've used this language and we
7 talk about who is the shareholder and all of that, but --
8 but Manitobans have a high sense of ownership in Manitoba
9 Public Insurance, they expect responsiveness, they expect
10 good service.

11 So I don't know that it's so much that
12 they think about it in terms of, Oh, MPI has an advantage
13 because they have a monopoly. They believe that MPI is
14 there to serve them and they have an expectation that we
15 do it.

16 MR. BYRON WILLIAMS: And we're agreed
17 it's a high expectation, whatever the source?

18 MS. MARILYN MCLAREN: Yes.

19 MR. BYRON WILLIAMS: And I believe you
20 reminded us in a conversation with Board counsel last
21 week that one (1) of the founding objectives of MPI was
22 to ensure that Manitobans are not disadvantaged by their
23 lack of choice in compulsory auto insurance.

24 MS. MARILYN MCLAREN: Yes.

25 MR. BYRON WILLIAMS: Ms. McLaren, I -- I

1 gave your Board counsel this reference earlier today. I
2 -- I'm sure you don't need to turn to it or the Board,
3 but you'll recall a conversation with Board counsel last
4 week in which you discussed some of the -- what matters
5 to Manitobans in terms of the -- the auto insurance that
6 they receive from MPI?

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

8 MR. BYRON WILLIAMS: And you suggested to
9 Board counsel that what matters to Manitobans is the
10 rates they pay, the coverage they have, and the quality
11 of their service.

12 Do you recall that statement, Ms. McLaren?

13 MS. MARILYN MCLAREN: Yes.

14 MR. BYRON WILLIAMS: Would you also agree
15 with me, Ms. McLaren, that Manitobans see Manitoba Public
16 Insurance as a steward of their auto insurance rates?

17 MS. MARILYN MCLAREN: As a steward of
18 their auto insurance program, I think, more broadly.

19 MR. BYRON WILLIAMS: You'll agree with me
20 that they -- they look to it to fill those broad
21 objectives of which we've just discussed, but they also
22 expect it to do so in a manner that is prudent and
23 reasonable?

24 MS. MARILYN MCLAREN: Yes, definitely.

25 MR. BYRON WILLIAMS: I want to turn to

1 the RSR. I -- I'll -- we'll come back to some of those
2 scenes that I've discussed in a few minutes.

3 But I want to come back -- discuss the
4 RSR. And again, this can go to either Mr. Palmer or Ms.
5 McLaren. It -- and Madam Chair, there will be a slight
6 duplication in terms of prior cross, but it's -- you
7 know, I -- I strive to minimize it, but there will be
8 some natural duplication.

9 Ms. McLaren, in terms of the use of RSR
10 targets for rate setting, it's accurate to say that,
11 while the Public Utilities Board and MPI have differed on
12 the method of determining the maximum required RSR, in
13 this application and in -- in the one the year previous,
14 the Corporation, for the purposes of rate setting, will
15 continue to base its Public Utilities Board rate
16 applications on the maximum of the Public Utility Board
17 RSR target.

18 Is that right?

19 MR. DONALD PALMER: That would be
20 correct, yes.

21 MR. BYRON WILLIAMS: Thank you, Mr.
22 Palmer. And -- and, Mr. Palmer, given that position, our
23 clients won't spend a lot of time talking about the RSR
24 in this hearing, but in your opening evidence to the
25 Board, you recall providing a bit of a history of the

1 dialogue between the Public Utilities Board and Manitoba
2 Public Insurance with regard to both the methodology for
3 setting the RSR and the -- the ultimate target for rate
4 setting purposes?

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

6 MR. BYRON WILLIAMS: And just to briefly
7 recap, Mr. -- Mr. Palmer, it would be accurate to say
8 that, over time, Manitoba Public Insurance has presented
9 a variety of approaches or mechanisms by which it would
10 sugg -- it has suggested the Board might assess the
11 adequacy of the RSR, correct?

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

13 MR. BYRON WILLIAMS: Back when I was not
14 the oldest person in the room, Manitoba Public Insurance
15 presented its own version of a risk analysis, coupled
16 with a value at risk approach to the Public Utilities
17 Board, correct?

18 MR. DONALD PALMER: Yes, that early
19 analysis was a dynamic financial analysis that was done
20 about 2001, something like that.

21 MR. BYRON WILLIAMS: And towards the
22 middle part of the last decade, for a time, Manitoba
23 Public Insurance advocated using the MCT or minimum
24 capital test, or some variant of it, for the purposes of
25 assessing the adequacy of the RSR?

1 MR. DONALD PALMER: It was not a variant
2 of the minimum capital test. It was the actual minimum
3 capital test that is prescribed by the Office of the
4 Superintendent of Financial Institutions.

5 The difference was the -- the passing
6 value of that test. A minimum capital test is a
7 comparison between available capital and required
8 capital. In the OSSFI context, the passing score is 150
9 percent. We were looking towards a target of 100
10 percent, and that would have made us somewhat consistent
11 with the other Crown corporations, specifically SGI and
12 ICVC.

13 MR. BYRON WILLIAMS: And you're looking
14 in -- in those days at a target -- excuse me, of a -- of
15 a percentage less than the OSSFI-mandated percentage in
16 recognition of the differences that exist between private
17 insurers in a competitive mar -- marketplace and a Crown
18 corpo -- corporation like Manitoba Public Insurance in a
19 -- with a legislated monopoly.

20 MR. DONALD PALMER: Yes, I would agree
21 with that.

22 MR. BYRON WILLIAMS: And again the
23 Corporation currently employs the DCAT as a mechanism to
24 assess the adequacy of its rate stabilization reserve,
25 correct?

1 MR. DONALD PALMER: Close to that. I
2 would say use the dynamic capital adequacy test to
3 determine the -- the required level in which -- the level
4 at which the Basic Autopac program would have a sat --
5 satisfactory financial condition.

6 MR. BYRON WILLIAMS: And dating at least
7 back to 2001, you'll agree that the Public Utilities
8 Board has had the opportunity to hear evidence from the
9 Corporation in support of the various methodologies that
10 it's presented for assessing the RSR target, correct?

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

12 MR. BYRON WILLIAMS: And it's heard
13 evidence from Intervenor witnesses as well, without going
14 into details, in -- in terms of examining alternative
15 ways to set the RSR, correct?

16 MR. DONALD PALMER: Yes, I would agree
17 with that.

18 MR. BYRON WILLIAMS: And both from MPI
19 and from Intervenors it has heard evidence in terms of
20 what they respectively consider to be an appropriate
21 target for rate setting purposes for the past ten (10)
22 years or so, correct?

23 MR. DONALD PALMER: It probably dates
24 back even further than ten (10) years but, sure, I will
25 take that.

1 MR. BYRON WILLIAMS: I'm thinking twelve
2 (12), Mr. Palmer, but ten (10), twelve (12), so right.
3 And obviously the Public Utility Board has reached its
4 own conclusions in -- in terms of what it considers to be
5 an appropriate approach, correct?

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

7 MR. BYRON WILLIAMS: Notwithstanding our
8 ten (10) minute discussion now, Mr. Palmer, it would be
9 fair to say that the -- this hearing has not had nearly
10 the extensive discussion of the RSR or the risk analysis
11 or the DCAT as in other proceedings, some of which you're
12 familiar with?

13 MR. DONALD PALMER: It has been a lot
14 less under discussion, probably the same this year as
15 last year. We had much more extensive discussions two
16 (2) years ago and three (3) years ago.

17 MR. BYRON WILLIAMS: And the Corporation
18 has made it quite clear that its purpose in this
19 proceeding is not to challenge the PUB target for rate
20 setting, correct?

21 MR. DONALD PALMER: That's correct.

22 MR. BYRON WILLIAMS: Mr. Palmer, I don't
23 think you need to turn here, and I -- I'm confident the
24 Board does not need to turn here, but I will provide the
25 reference just if -- if -- for the purposes of the

1 record. It's PUB-1-75(a).

2 And, Mr. Palmer, I -- I honestly don't
3 think you -- you need to turn there, but I -- I'm just
4 looking for some reminders. Would it be accurate to say
5 that the Public Utilities Board target for the RSR for
6 the 2011/'12 year would be between 77 million and 155
7 million?

8 Would that be fair?

9 MR. DONALD PALMER: Yes, that would be
10 fair.

11 MR. BYRON WILLIAMS: And my understanding
12 of the MPI target is that it would be in the range of 186
13 million, 185/186, sir?

14 MR. DONALD PALMER: Up until about two
15 (2) weeks ago that would be accurate. With the
16 publishing of the new dynamic capital adequacy test, that
17 level is now \$210 million.

18 MR. BYRON WILLIAMS: Are -- are you
19 telling us, Mr. Palmer, that the -- the Board of MPI has
20 officially revised its RSR target?

21

22 (BRIEF PAUSE)

23

24 MR. DONALD PALMER: Yes, that's correct,
25 at the Board meeting of October the 7th. And that would

1 be the results of the latest DCAT, which has been filed
2 with this Board.

3 MR. BYRON WILLIAMS: In terms of the
4 forecast total Basic retained earnings, including the IT
5 optimization fund, projected for the -- forecast for
6 2011/'12, would I be correct in suggesting to you, Mr.
7 Palmer, that it's about 209 million? PUB-1-75, Mr.
8 Palmer, would assist you, (a).

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: Yes, I would -- I
13 would agree with that. I was just looking for the
14 revised schedules incorporating the -- the Q2 earnings
15 which might be slightly different than this.

16 MR. BYRON WILLIAMS: Materially
17 different, Mr. Palmer? Mr. Palmer, why don't we do this
18 just for efficiency purposes. At the break, if you --
19 and we'll -- we'll frame it, if I might, as an
20 undertaking. It'll be a -- it'll -- It'll just move more
21 quickly. If you will undertake to just provide to me the
22 -- the revised target, or is it already on the record and
23 I -- I just don't have it in front of me?

24 MR. DONALD PALMER: It's -- it's not a
25 revised target. It's a revised projection, and it is --

1 it is on the record, yes.

2 MR. BYRON WILLIAMS: I'll -- I will check
3 it on my -- I ow -- my own. Then we'll cancel that. Mr.
4 Palmer, just in terms of the 2011/'12 year then, it would
5 be accurate to say that the total Basic retained earnings
6 are materially higher than the PUB target of 77 million
7 to 155 million?

8 Would that be correct, sir?

9 MR. DONALD PALMER: With the inclusion of
10 the IT optimization fund, that would be correct.

11 MR. BYRON WILLIAMS: And likewise, sir,
12 in terms of the two (2) -- the Corporation's projections
13 for the 2012/2013 year, it would be accurate to say that
14 looking at total Basic retained earnings, including the
15 IT optimization fund, they are significantly above the
16 existing PUB target of 77 million to 155 million,
17 correct?

18 MR. DONALD PALMER: I think that's what I
19 just agreed to, so, yes.

20 MR. BYRON WILLIAMS: I changed the year
21 to 2012/'13, sir.

22 MR. DONALD PALMER: Yes. I apologize for
23 that. Yes, I would agree.

24 MR. BYRON WILLIAMS: Mr. Palmer, if you
25 might, I'd ask you to turn to CAC Exhibit 11 and to page

1 1 on the top right-hand corner. Do you -- do you have
2 that, Mr. Palmer?

3 MR. DONALD PALMER: Yes, I do.

4 MR. BYRON WILLIAMS: Mr. Palmer, have you
5 -- before we get to the table itself, have you had a
6 chance or your -- your nimble staff had a chance to
7 review the calculations in terms of percent of total on -
8 - on the right-hand side, sir?

9 MR. DONALD PALMER: I did a sampling of -
10 - I didn't check every figure, but I checked a few, and
11 they are accurate, yes.

12 MR. BYRON WILLIAMS: So you -- you don't
13 take any issue with the accuracy of the percent of total
14 on the right-hand side, sir?

15 MR. DONALD PALMER: No, I do not.

16 MR. BYRON WILLIAMS: And, sir, I'll
17 suggest to you that -- that what this table sets out is,
18 flowing from TI-7(a) of the application, a number of the
19 central elements of Basic's expenses totalling \$170.6
20 million.

21 Would that be fair, sir?

22 MR. DONALD PALMER: This would be under
23 the categories of operating expenses and claims expenses,
24 yes.

25 MR. BYRON WILLIAMS: And in terms of the

1 category of operate and claims expenses, clearly the --
2 the number 1 category, sir -- sir, at over a hundred
3 million dollars is compensation, correct?

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

5 MR. BYRON WILLIAMS: It accounts for, in
6 the -- and -- the 2010/'11 year, almost 60 percent of the
7 total of be -- of operating and claims expenses as they
8 relate to Basic, sir?

9 MR. DONALD PALMER: Yes.

10 MR. BYRON WILLIAMS: Number 2, and a
11 distant second on that list, sir, is data processing at a
12 bit over 11.5 million in the 2010/'11 year, correct?

13 MR. DONALD PALMER: Yes, at just under 7
14 percent.

15 MR. BYRON WILLIAMS: Number 3, I'll
16 suggest to you, sir, going down a couple of lines, is
17 building expenses at about 8.8 million in the 2010/'11
18 year, correct?

19 MR. DONALD PALMER: Yes.

20 MR. BYRON WILLIAMS: And probably number
21 5 on -- on the list, if we go down below "Building
22 expenses" to "Amortization - capital assets," we see
23 those amounted to in the 2010/'11 year roughly \$6.5
24 million, correct?

25 And I'm speaking of "Amortization -

1 capital assets," sir.

2 MR. DONALD PALMER: Yes, that I think is
3 fifth on the list.

4 MR. BYRON WILLIAMS: And that's about 3.8
5 percent of the total, correct?

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

7 MR. BYRON WILLIAMS: And, Mr. Palmer,
8 I'll -- I'll ask you to confirm if -- if -- and I'm --
9 I'm going to take four (4) categories: compensation, at
10 -- at roughly 59.5 percent; data processing, at roughly
11 6.8 percent; building expenses, at about 5.2 percent; and
12 special services, at about 2.9 percent.

13 Would I be correct in suggesting to you,
14 that those four (4) categories alone account for around
15 74 percent of -- of operating and claims expenses in the
16 fiscal year, 2010/'11?

17 MR. DONALD PALMER: Subject to check, I
18 would accept that, yes.

19 MR. BYRON WILLIAMS: Mr. Palmer, still
20 looking at this -- this table, towards -- two-thirds
21 (2/3) of the way towards the bottom, do you see the
22 heading "Regulatory and appeals," sir?

23 MR. DONALD PALMER: Yes, I do.

24 MR. BYRON WILLIAMS: And, that amounts to
25 roughly 4.1 million, or amounted to roughly 4.1 million

1 in the 2010/'11 year, correct?

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

3 MR. BYRON WILLIAMS: And under the
4 heading of "Regulatory and appeal," would I be correct in
5 suggesting to you that it would include the Autopac inj -
6 - the 'A' -- let me try that again -- expenses related to
7 the AICAC. Would those be captured there?

8 MR. DONALD PALMER: Yes, they would be.

9 MR. BYRON WILLIAMS: And would expenses
10 related to the Public Utilities Board be captured there
11 as well, sir?

12 MR. DONALD PALMER: Yes.

13 MR. BYRON WILLIAMS: And -- and the Crown
14 corporation counsel, are they captured there or not, sir?

15 MR. DONALD PALMER: We believe that Crown
16 corporation counsel levies are included in this, as well
17 as the claimant advisory offices in this as well.

18 MR. BYRON WILLIAMS: And, sir, just for
19 this small --

20 MR. DONALD PALMER: There -- there's some
21 question whether Crown corporation counsel is in that
22 line or not, so we'll double-check that for you.

23 MR. BYRON WILLIAMS: Thank you, I'll
24 accept that answer, subject to check then, Mr. Palmer.

25 I wonder if the Corporation could provide

1 a further breakdown of this particular expenditure,
2 dividing it between the AICAC, the Public Utilities
3 Board, the claimant advisors office and any other
4 significant line. Would you be prepared to undertake to
5 do so?

6 MR. DONALD PALMER: Yes, we can do that.

7
8 --- UNDERTAKING NO. 35: MPI to provide a breakdown of
9 the expenditure for
10 Regulatory/Appeal, dividing
11 it between AICAC, the Public
12 Utilities Board, the Claimant
13 Advisors Office, and any
14 other significant line
15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: Mr. Palmer, going up
18 to the -- the big number under compensation, which is at
19 the top of this table -- and we're at the -- for the
20 2010/'11 year, a bit over 101 million. Presumably the
21 largest part of compensation costs would be associated
22 with compensation costs flowing from the coll --
23 collective agreements.

24 Would that be fair, sir?

25 MR. DONALD PALMER: Yes, that's -- that's

1 fair.

2 MR. BYRON WILLIAMS: In -- in absolute
3 terms, can you indicate how much of that 101 million is
4 paid out to -- through the mechanism -- the collective
5 agreement?

6 MR. DONALD PALMER: I'll have to take an
7 Undertaking to do that. But it -- we'll probably read
8 that into the record.

9 MR. BYRON WILLIAMS: Just -- and I'm
10 going to probably try and turn this into one (1)
11 Undertaking, Mr. -- Mr. Palmer.

12 If -- of the 101 million, in both absolute
13 and percentage terms, how much is pursuant to the
14 collective agreement, and also both in absolute and
15 percentage terms, how much is to those employees out of
16 scope of the collective agreement.

17 Would you accept that undertaking, sir?

18 MR. DONALD PALMER: Yes -- just -- and
19 with one (1) clarification. That's salary and benefits.

20 MR. BYRON WILLIAMS: Yes, whatever the --
21 the package is of 101 million.

22 MR. DONALD PALMER: Thank you.

23 MR. BYRON WILLIAMS: And we'll make that
24 one (1) undertaking, sir?

25 MR. DONALD PALMER: Yes, that's fine.

1 --- UNDERTAKING NO. 36: MPI to provide, re. IR
2 TI.7.A, of the \$101 million
3 for Compensation, in both
4 absolute and percentage
5 terms, how much is pursuant
6 to the collective agreement
7 and how much is to those
8 employees out of scope of the
9 collective agreement

10

11 CONTINUED BY MR. BYRON WILLIAMS:

12 MR. BYRON WILLIAMS: If I look at that
13 compensation bundle, apart from payments to unionized
14 employees and -- and non-unionized employees, salaries
15 and benefits, would there be anything else in there, Mr.
16 Palmer?

17 MR. DONALD PALMER: No.

18 MR. BYRON WILLIAMS: Mr. Palmer, I'll ask
19 you to turn to the next page of the supporting materials
20 and -- for cross-examination, of CAC-11, and it should be
21 labelled "Basic expenses by category, last three (3)
22 Basic compensation actuals."

23 Do you see that, Mr. Palmer?

24 MR. DONALD PALMER: Yes, I do.

25 MR. BYRON WILLIAMS: And before we get

1 too far along, Mr. Palmer, there's some percentage
2 calculations on the column on the right-hand side.

3 Does the Corporation take any issue with
4 their accuracy?

5 MR. DONALD PALMER: No, we do not.

6 MR. BYRON WILLIAMS: And, Mr. Palmer,
7 going to the actual columns, I'll direct your attention
8 first of all to the figure eighty-three million four
9 hundred and fifty thousand (83,450,000) and I will
10 suggest to you that Basic compensation in the '08/'09
11 year was -- was that amount, being 83.5 million, roughly.

12

13 Is that correct, sir?

14 MR. DONALD PALMER: Again, subject to
15 check. You have the sources written down there. I
16 haven't double-checked the sources, but I would accept
17 that number.

18 MR. BYRON WILLIAMS: And certainly, Mr.
19 Palmer, it's open to you if there is anything in -- in --
20 incorrectly presented, you'll come back to us, correct?

21 MR. DONALD PALMER: Yes, I will.

22 MR. BYRON WILLIAMS: Thank you for that.

23 And if we go to the '09/'10 fiscal year
24 for Basic compensation, you'll agree with me, subject to
25 check, that it rose from 83.5 million to 90.5 million,

1 approximately.

2 Would that be right, sir?

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

4 And -- and again, subject to check of those sources.

5 MR. BYRON WILLIAMS: And the year over
6 year change between '08/'09 and '09/'10, would be in the
7 range of 8.4 percent, correct?

8 MR. DONALD PALMER: Yes.

9 MR. BYRON WILLIAMS: And if we look, Mr.
10 Palmer, to the 2010/'11 year, Basic actuals for that
11 year, I'll suggest to you, were around \$101.5 million,
12 correct?

13 MR. DONALD PALMER: Yes, and I will say
14 that there is a slight discrepancy between that exhibit
15 and the previous page, where one (1) is a hundred and one
16 million four hundred and ninety-nine thousand
17 (101,499,000) and the other one is a hundred and one
18 million four hundred and forty-nine thousand
19 (101,449,000). I'm not sure which one is correct, but
20 they're -- I -- I would just say that it is likely just a
21 typographical error on one (1) of those.

22 MR. BYRON WILLIAMS: Yeah, and my
23 suspicion, Mr. Palmer, is it's probably the page we're
24 currently on. Because I believe Mr. Williams was doing
25 some of the typing on -- on that page.

1 And perhaps at the break we'll -- we'll
2 check on that. And, Mr. Palmer, my client would chastise
3 me roundly if I tried to diminish the importance of -- of
4 fifty thousand doll -- dollars (\$50,000). Is it fifty
5 (50)? But, that's not a material difference for the
6 purposes of -- of our discussion, is it, sir?

7 MR. DONALD PALMER: No, I can accept
8 that.

9 MR. BYRON WILLIAMS: Yeah, and I
10 appreciate your accuracy.

11 When we look at that change from '09/'10
12 to '10/'11, I'll suggest to you that the change was in
13 the range of 12.2 percent, in terms of the level of Basic
14 compensation paid, sir?

15 MR. DONALD PALMER: Yes.

16

17 (BRIEF PAUSE)

18

19 MR. DONALD PALMER: Yes.

20 MR. BYRON WILLIAMS: Mr. Palmer, just
21 moving along to line -- page 3 of CAC/MSOS Exhibit 11,
22 I've presented to you full-time equivalence, FTEs for the
23 Corporation, as a whole.

24 Do you see that on that page, sir?

25 MR. DONALD PALMER: Yes, I do.

1 MR. BYRON WILLIAMS: And we'll get to
2 Basic FTEs in -- in just one (1) second, sir. But for
3 the Corporation as a whole, su -- and, Mr. Palmer, I'll
4 let you get to your reference.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: For the Corporation
9 as a whole, Mr. Palmer, would I be accurate in suggesting
10 to you if we -- that if we took a snapshot of FTEs, being
11 full-time equivalents, for the Corporation at March 1st,
12 2010, as compared to March 1st, 2009, we would see that
13 for the Corporation as a whole they had reduced by
14 approximately eighty-five (85) FTEs.

15 Would that be right, sir?

16 MR. DONALD PALMER: Yes, that would be
17 correct. And -- and that's, again, a snapshot at a point
18 in time.

19 MR. BYRON WILLIAMS: And, sir, if -- if
20 we looked to the -- again, taking that snapshot in time
21 and looking at corporate FTEs at March 1st, 2011, as
22 opposed to March 1st, 2010, would I be again right in
23 suggesting to you that they had decreased by about fifty-
24 five (55) additional persons, sir -- excuse me, fifty-
25 five (55) additional FTEs, sir?

1 MR. DONALD PALMER: Yes.

2 MR. BYRON WILLIAMS: So on a Corporate
3 basis, would I be correct in -- in interpreting this to
4 suggest that based on those snapshots in time, on a
5 corporate basis, FTEs have declined by over a hundred and
6 thirty (130) persons over that two (2) year period, sir?

7 MR. DONALD PALMER: Yes, that -- most of
8 the additional staff would be -- have been project staff
9 that -- working on the BPR projects and -- specifically.
10 Many of those would have been exclusively for non-Basic
11 lines of business.

12 MR. REGIS GOSSELIN: I'm sorry, I missed
13 which project it was.

14 MR. DONALD PALMER: Just the BPR
15 projects, some of which would be non-Basic lines of
16 business.

17

18 CONTINUED BY MR. BYRON WILLIAMS:

19 MR. BYRON WILLIAMS: Now, Mr. Palmer, I
20 didn't put it before you, and -- and we'll come to it in
21 just one (1) second, but if one looks at the growth in
22 expenses on page 2 in terms of compensation versus
23 corporate FTEs, at first glance that seems
24 counterintuitive in that while the -- the Corporation is
25 shedding a number of FTEs, Basic compensation

1 expenditures are -- are rising quite significantly?

2 MR. DONALD PALMER: Yes, I -- I would
3 agree that it's somewhat counterintuitive until you look
4 at the split and -- and see that that she -- shedding is
5 project staff, many of which are exclusively non-Basic
6 lines of business.

7 MR. BYRON WILLIAMS: Now, sir, if we were
8 looking for the cor -- Corporation's calculations of
9 Basic FTEs for the -- at March 1st, 2009, March 1st,
10 2010, and March 1st, 2011, I haven't put it before you,
11 but would I be correct in suggesting I might find it in
12 the Corporation's response to PUB-1-49, Schedule 1?

13 MR. DONALD PALMER: Yes, I know we filed
14 it somewhere, and -- and I'll take your word for that.
15 And again, just a note about the Basic FTEs. That would
16 be an allocated number. We -- we do not have Basic
17 employees labelled as -- as such. So again, using
18 essentially the -- the cost allocation formulas on
19 compensation and working them backwards into the FTEs is
20 how we came with the Basic FTE figure. So it -- it's not
21 counting Basic employees because that essentially don't
22 exist at MPI.

23 MR. BYRON WILLIAMS: And, Mr. Palmer,
24 I'll suggest to you this, of course, is one (1) of the
25 challenges of cost allocation with -- with this

1 Corporation in that staff members in this highly
2 integrated corporation perform a variety of roles for
3 different parts of the Corporation, some regulated, some
4 not, correct?

5 MR. DONALD PALMER: And -- and I wouldn't
6 call that a difficulty in terms of the allocation of
7 costs. And, after all, it's -- it's dollars that
8 essentially get rolled up into financial statements and
9 to rates. It -- it becomes less intuitive when you talk
10 about allocating FTEs.

11 So that's not really the purpose of the
12 cost allocation exercise to allocate FTEs. It is the
13 purpose of -- purposes of cost allocation exercise to
14 allocate costs. So if sometimes those allocations don't
15 seem that clear, that's why, because the purpose of those
16 cost allocation formulas is for cost purposes, not FTEs.

17 MS. MARILYN MCLAREN: And if I can just
18 take a minute to elaborate further. The first principle
19 of cost allocation is that wherever you can directly
20 assign costs, you do that first.

21 There are entire departments where --
22 where many people at MPI serve more than one (1) line of
23 business. There are departments that clearly only serve
24 one (1), and those are always directly assigned first.
25 All of our PIPP case managers are directly assigned as a

1 Basic cost. There's no formula, calculation of
2 allocation on that basis.

3 So the first thing we do is assign costs
4 based on direct assignment wherever we can. And I think
5 it's important to note that it's not so much that many
6 staff perform -- spend their time on different lines of
7 business. The integration of many of MPI's functions and
8 services is more about the fact that one (1) function
9 itself serves many lines of business.

10 The fact that customers have to report
11 address changes and staff have to process address
12 changes, that one (1) transaction, the one (1) employee,
13 at the very same time they click the computer mouse is
14 serving the minimum of three (3) lines of business
15 usually. So that's why allocation is required and that's
16 why formulaic allocation is required.

17 People could track their time, but that's
18 not what this is about. It is largely about the fact
19 that -- the functions themselves. And what that means
20 for a program like Basic is the fact that we are also
21 administering licensing services and administering
22 competitive lines of business.

23 Everything that we do and every cost that
24 is allocated to Basic would otherwise be paid a hundred
25 percent by Basic if it wasn't for the other functions.

1 MR. BYRON WILLIAMS: Thank you for that
2 thoughtful answer. Mr. Palmer, if you're looking for a
3 reference, it's PUB-1-49, Schedule 1. But I'll ask you
4 to accept otherwise subject to check that the Basic FTEs
5 set out in -- in that calculation for the 2009 year would
6 be one thousand two hundred and sixty-eight (1,268).

7 Would you accept that, sir, subject to
8 check?

9 MR. DONALD PALMER: Yes, I would accept
10 that.

11 MR. BYRON WILLIAMS: And -- and if Board
12 members are looking, it's on Schedule 1. Near the bottom
13 there's a -- there's a row, "Number of employees yearly
14 change." And, Mr. Palmer, are you there -- you there
15 yet, sir? It's going to be hard for both your and my
16 eyes to read this small print.

17 In terms of the 2010 year, I'll suggest to
18 you that the number is one thousand three hundred and
19 thirty-four (1,334).

20 Will you accept that, sir.

21 MR. DONALD PALMER: Yes, I'll accept
22 that.

23 MR. BYRON WILLIAMS: And for the 2011
24 year, I'll suggest to you that the figure is one thousand
25 three hundred and twenty-five (1,325).

1 Will you accept that, sir?

2 MR. DONALD PALMER: Yes, I'll accept
3 that.

4 MR. BYRON WILLIAMS: So from -- in terms
5 of this backed out number, and in terms of Basic FTEs,
6 recognizing artificiality of it, between March 1st, 2010,
7 and March -- let me try that again. Between the 2010
8 year and the 2009 year, the cor -- Corporation has
9 calculated an additional one hundred and eight (108)
10 Basic FTEs.

11 Is that right?

12 MR. DONALD PALMER: Yes.

13 MR. BYRON WILLIAMS: Now does -- does
14 that mean that between '09 -- the '08/'09 year and the
15 '09/'10 year, there were a lot more persons doing Basic
16 work running around the Corporation, Mr. Palmer?

17 MR. DONALD PALMER: No. Again, that
18 would be the -- the allocation of the costs backed into
19 the number of FTEs.

20 MR. BYRON WILLIAMS: So here's the
21 challenge my -- my clients are having, Mr. Palmer. We're
22 looking at significantly increased compensation costs for
23 the Basic line of business. We're looking at a decline
24 in the overall corporate FTEs of some one hundred and
25 thirty (130) persons. And it's difficult to make sense

1 of why compensation costs are increasing so significantly
2 when employees on a corporate-wide basis are declining.

3

4 (BRIEF PAUSE)

5

6 MR. DONALD PALMER: There -- there are a
7 couple of things going on. I did mention that -- a
8 decrease in the number of project staff. Many of -- of
9 those projects would have been exclusively the non-Basic
10 lines of business.

11 There also is some projects that there are
12 project staff that -- that move from project to project.
13 For instance, as one (1) project ramps down, like the --
14 the BPR projects that are exclusively DVL and part of
15 that BPR non-Basic lines of business ramping up into
16 something like FINEOS, which is 100 percent Basic, and
17 project staff being -- being that. So you've got one (1)
18 going down offset by the Basic staff going up. So there
19 are -- there may be other examples of -- of that as well.

20

21 (BRIEF PAUSE)

22

23 MR. BYRON WILLIAMS: And -- and I don't
24 make -- mean to make light of your words, Mr. Palmer, but
25 are you now telling me that there were a lot more people

1 running around in Basic between the '08/'09 year and the
2 '09/'10? My clients are trying to understand and I
3 recognize the artificiality of the cost allocation
4 process, but help my clients work their way through this,
5 Mr. Palmer.

6 MR. DONALD PALMER: I guess there --
7 there are ebbs and flows within Basic and non-Basic as
8 projects move in and out.

9 We have -- we have seen a decrease in --
10 in staff in total as -- as now the FINEOS BI3 project is
11 completed. That will show a -- a decrease going forward
12 as well.

13 So there are some -- some ins and outs.
14 And as you -- you see the decreases in one (1) being acc
15 -- accentuated by the increases in other, I think that's
16 just a function of the projects that are going on at any
17 given time.

18 MS. MARILYN MCLAREN: I think a couple of
19 specific exam -- one (1) of them that -- that Mr. Palmer
20 talked about -- but absolutely there were more people
21 running around working on a Basic-only project --
22 absolutely many, many people, which was the PIPP project,
23 the BI3, PIPP Infrastructure pro -- we've called it a
24 number of different names, but the significant corporate
25 initiative that spent -- that cost 20-some-odd million

1 dollars that was implemented a year ago September geared
2 up in that time frame. As did the DSR team. As did the
3 streamlined renewal team, over 80 percent of which was
4 paid for by Basic.

5 What was gearing down at the same time was
6 the was the service centre project -- was solely funded
7 by the Extension development fund and the enhanced ID
8 cards and moving into the enhanced driver licences. All
9 of those were basically done and being wound down at the
10 same time projects that were either solely funded by
11 Basic or 80 percent funded by Basic were significantly
12 gearing up in that time frame.

13 MR. BYRON WILLIAMS: As a corporation,
14 when -- when one sees the compensation costs associated
15 with one (1) line of business rising 8.4 percent in one
16 (1) year, and then 12.2 percent in the subsequent year.

17 Is that a cause of some discomfort?

18 MS. MARILYN MCLAREN: I -- I think I
19 would go back to the conversation I had with Ms.
20 Hamilton. Absolutely we pay attention to things like
21 that, but when you see that over the long term our
22 operating expenses exceed the rate of inflation but then
23 come back down into a more normal range compared to the
24 rate of inflation, and given the responsibilities we have
25 to our customers in terms of operating expenses, we're

1 very comfortable with that.

2 We are about to set our sights on claims
3 handling in a way that we have not for probably a couple
4 of decades at Manitoba Public Insurance.

5 So I think those charts that were in TI-5
6 really need to tell the story and we need to look at the
7 story that those charts tell. We've talked about them
8 here before with Ms. Hamilton.

9 You know, there are many things that
10 organizations have to do today that they didn't have to
11 do years ago. So if we were continually seeing 8
12 percent, 12 percent increases with no expectation of
13 decreases, with no real understanding of why those costs
14 were going up or what we might do about them, absolutely
15 we'd have a problem. But -- but that's not true, that's
16 not the context. We see the increases, we know why, and
17 we are comfortable with, over the long term, where --
18 where they're going.

19 MR. BYRON WILLIAMS: If -- if we're going
20 to be looking at Basic FTEs three (3) years from now, Mr.
21 Palmer and Ms. McLaren -- I guess Mr. Palmer won't be
22 here.

23 Where -- where do we expect them to be,
24 Ms. McLaren, directionally? I'm not looking for a
25 number, I'm looking for direction.

1 MS. MARILYN MCLAREN: Directionally,
2 marginally higher. You know, I mean, I -- I -- just off
3 the top of my head I -- I think about over the last
4 several years in our Human Resources department, you
5 know, we have a diversity coordinator that we never use
6 to have, we have a wellness coordinator we never used to
7 have, we have a health and -- health and safety
8 coordinator.

9 The -- you know, there are expectations on
10 business and sometimes particularly public sector
11 business, but businesses that are attempting to -- to
12 keep pace and -- and do a good job. There is just
13 expectations of entire functions that never seem to
14 disappear and through time tend to increase.

15 So I think we are very committed to
16 finding ways to enhance efficiencies. I think we --
17 we've demonstrated that, but I think the other pieces of
18 that with respect to quality of service, access to
19 service -- you know, we -- we used to do business between
20 9:00 and 5:00. We have extended hours of service now.
21 That costs money, takes more people. So I can think of
22 any number of examples like that that change the
23 baseline.

24 But -- but generally, in terms of trend, I
25 would say probably marginally higher than they are today.

1 But again, three (3) years from ni -- from now we may
2 have a significant physical damage re-engineering
3 initiative underway, and maybe it'll be way higher. But
4 that wouldn't expect to be the norm going forward, from
5 what I can tell today.

6 MR. BYRON WILLIAMS: I'll reflect on
7 that. Perhaps we can turn to page 4 of CAC Exhibit
8 number 11. And the title to that should be, "Operating
9 expensers -- expenses per PUB/MPI-1-49, Schedule 1."

10 Do you see that, Mr. Palmer?

11 MR. DONALD PALMER: Yes.

12 MR. BYRON WILLIAMS: Let's -- let's
13 describe the table for a second with your assistance.
14 I'll -- I'll lead you through it, Mr. Palmer. And then
15 we can -- we can get to the calculations.

16 So on the left-hand side, Mr. Palmer, al -
17 - obviously you'll agree, we have the -- just the setting
18 out of the fiscal year, correct?

19 MR. DONALD PALMER: Yes.

20 MR. BYRON WILLIAMS: In the second
21 column, which is labelled, "(a)," under the heading,
22 you'll agree with me we have operating expenses. And
23 I'll suggest to you -- to you that those were taken
24 directly from the Corporation's response to PUB/MPI-1-49.

25 Will you agree with that, sir?

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(BRIEF PAUSE)

MR. DONALD PALMER: Yes, I would agree with that.

MR. BYRON WILLIAMS: And we -- we would be -- we should draw to the Board's attention that they, for the purposes of -- of that response include regulatory and appeal ex -- expenses, correct?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Moving to the -- the next column over, which is (b), or also labelled, "Increase (decrease) year over year in percentage."

I'll suggest to you, Mr. Palmer, this is an attempt to calculate the change year by year in terms of operating expenses on a percentage basis?

MR. DONALD PALMER: Yes.

MR. BYRON WILLIAMS: Now, the Corporation didn't do those calculations. Those are presented by CAC/Manitoba.

Does the Corporation take issue with them, sir?

MR. DONALD PALMER: No, we do not.

MR. BYRON WILLIAMS: Still staying on a general description of the -- the table, and any blame

1 for the formatting should be attributed to Mr. Williams,
2 the third column -- or -- or the fourth column in
3 under...

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: I think we will take a
8 five (5) minute break, if you don't mind.

9 MR. BYRON WILLIAMS: I'm killing you,
10 hey, Madam Chair?

11 THE CHAIRPERSON: It's 2:30. Okay. All
12 right.

13

14 --- Upon recessing at 2:34 p.m.

15 --- Upon resuming at 2:39 p.m.

16

17 THE CHAIRPERSON: Well, I want to thank
18 everyone for giving us that little break. We'll try and
19 get another longer one fit in before closing time. But
20 go ahead, Mr. Byron. Sorry if I interrupted your -- or
21 Mr. Williams. I needed the break. Mr. Williams, sorry
22 if I interrupted you in mid-sentence, which I might have
23 done.

24

25 MR. BYRON WILLIAMS: Thank you, Madam
Chair. I'm always happy to oblige.

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: In terms of -- we
3 were at page 4 of the cross-examination materials, and we
4 were -- we were moving to the column, "Manitoba CPI
5 percentage," and then in -- with a 'C' under it. And,
6 Mr. Palmer, I'll suggest to you that what this column
7 represents is the change in the Manitoba consumer price
8 index popularly used as a reference for inflation on a
9 year by year basis.

10 Is that correct, sir?

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

12 MR. BYRON WILLIAMS: And these are drawn
13 from Manitoba Public Insurance's own figures in TI-5,
14 you'll accept subject to check?

15 MR. DONALD PALMER: Yes, and also
16 included in PUB/MPI-1-49.

17 MR. BYRON WILLIAMS: Now, Mr. Palmer,
18 again we're just describing the table for -- for right
19 now. If we go to the fifth column over, labelled
20 operating expenses and then with a little 'D' under it.
21 Is it your understanding that -- that what has been done
22 in -- with this column, is take the 2005 -- excuse me,
23 take the 2004/'05 operating expenses of the Corporation
24 as a base, and then escalate them by Manitoba CPI -- the
25 Manitoba CPI increases per year, resulting in the

1 increases -- resulting in the operating expenses shown in
2 this column?

3 Is that your understanding of what was
4 done, sir?

5 MR. DONALD PALMER: I can accept that,
6 yes.

7 MR. BYRON WILLIAMS: And what the last
8 column attempts to do is take the difference between the
9 operating expenses, as reported by Manitoba Public
10 Insurance in its response to PUB/MPI-1-49, Schedule 1,
11 and compare them to the operating expenses, had they
12 risen at the rate of inflation, over that time period
13 from 2004/'05 through 2010/'11.

14 Is that your understanding, sir?

15 MR. DONALD PALMER: With taking that, as
16 sort of the artificial constraint, I would accept that
17 without consideration for -- given what's going on in the
18 Corporation, growth in number of policies, number of
19 vehicles, which rises at about 2 ½ percent a year,
20 something like that.

21 That -- just growing and CPI would not
22 take into account those additional factors that would
23 mean growths in -- in operating expenses. But, sure, I
24 can accept what you did.

25 MR. BYRON WILLIAMS: And, Mr. Palmer,

1 we'll follow up on that question in just one (1) second.

2 Has Corporation -- let me back up. The B
3 Column, the D Column, and the E Column, I'll suggest to
4 you are -- are calculations presented to Manitoba Public
5 Insurance by CAC Manitoba.

6 Has the Corporation had an opportunity to
7 check them, sir?

8 MR. DONALD PALMER: We've -- we've done a
9 scan of them. They're reasonable, so subject to check I
10 will accept them.

11 MR. BYRON WILLIAMS: Thank you for that.
12 And -- and certainly feel free to let us know if there
13 are any changes to them.

14 Now, sir, I want to focus for just a
15 second at Manitoba CPI, which is the column in the middle
16 under 'C'. If -- if we look directionally at the changes
17 in CPI, would I be correct in suggesting to you that from
18 2005/'06 through 2008/'09 there was a range in terms of
19 inflation increases, ranging from a bit below two (2) to
20 a bit above two point two point five (2.2.5).

21 Would that be fair, sir?

22 MR. DONALD PALMER: Yes, that's -- that
23 was the range of CPI, yes.

24 MR. BYRON WILLIAMS: If we look at
25 Manitoba CPI in the '09/'10 year, it's significantly

1 lower at less than -- well, just a bit more than 0.6
2 percent, sir, correct?

3 MR. DONALD PALMER: Yes, the CPI was
4 depressed in that year, yeah.

5 MR. BYRON WILLIAMS: And even in the
6 2010/'11 year, it was feeling rather depressed as well at
7 -- at 1 percent.

8 Fair enough?

9 MR. DONALD PALMER: Yes.

10 MR. BYRON WILLIAMS: And, Mr. Palmer,
11 you're probably anticipating my -- my request, but how is
12 CPI feeling emotionally this year? Am I correct in
13 suggesting to you that it is -- it's still somewhat
14 depressed and -- and below 2 percent?

15 MR. DONALD PALMER: On an annual basis,
16 probably, I know there was a couple of months that spiked
17 up to something around three (3), but on an annual basis
18 I would accept that.

19 MR. BYRON WILLIAMS: And you'll get back
20 to me if -- if you find otherwise. Now, Mr. Palmer, I
21 want to direct your attention to the operating expenses,
22 the change in the '09/'10 year and in the 2010/'11 year.
23 You'll note that the increase year over year for the
24 '09/'10 year as compared to '08/'09 was in excess of 13
25 percent, sir?

1 Is that correct?

2 MR. DONALD PALMER: Yes.

3 MR. BYRON WILLIAMS: Likewise, between
4 2010/'11 and '09/'10 the increase was over 13 percent as
5 well, sir?

6

7 (BRIEF PAUSE)

8

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

10 MR. BYRON WILLIAMS: And -- and just so
11 we -- we don't cloud the issues, Mr. Palmer, the
12 reclassification of merchant fees to operating expenses
13 from other revenues did not take place until the fiscal
14 year 2011/'12, correct?

15 MR. DONALD PALMER: That's correct. That
16 was a result of the conversion to international financial
17 reporting standards, so, no, tha -- that change was in
18 '11/'12.

19 MR. BYRON WILLIAMS: So the changes in --
20 at or above 13 percent in operating expenses for the
21 '09/'10 -- '10 year or 2010/'11 year would in no way,
22 shape, or form be affected by the reclassification of
23 merchant fees to operating expenses as a result of IFRS
24 conversion, correct?

25 MR. DONALD PALMER: That's correct.

1

2

(BRIEF PAUSE)

3

4

MR. BYRON WILLIAMS: This question probably can go to either Mr. Palmer or Ms. McLaren. And, Madam Chair, I should have probably taken more advantage of my break. I'll -- I was -- I would propose to kind of work through this -- this section. And I'm guessing it might take me fifteen (15) to twenty (20) minutes. And then I might appreciate a break.

10

11

THE CHAIRPERSON: Well, we could take a break at that point. Just let us know.

13

14

CONTINUED BY MR. BYRON WILLIAMS:

15

MR. BYRON WILLIAMS: Mr. Palmer, I'll start with you. Ms. -- Ms. McLaren, feel free to chime in at any time. There's no dispute that the world, Canada, Manitoba experienced a significant economic slowdown in the '08/'09 time frame, sir, correct?

19

20

MR. DONALD PALMER: I would say globally that's absolutely true. Manitoba probably experienced less of a slowdown than other places.

22

23

MR. BYRON WILLIAMS: Well, I'm going to -- to -- we -- we've got an economist in the room with us, sir, so I'm going to choose my words more carefully. I'm

24

25

1 going to suggest to you that while the world experienced
2 a recession, certainly in Manitoba there was an economic
3 slowdown?

4 MR. DONALD PALMER: I could accept that,
5 yes.

6 MR. BYRON WILLIAMS: And it would be fair
7 to say that there wasn't a corner of the world that has
8 escaped the impact of that recession or slowdown that is
9 -- has -- over the past year or two (2).

10 Would that be fair, sir?

11 MR. DONALD PALMER: I can't necessarily
12 comment on all of the corners of the world, but I would
13 say most of the world did have either a slowdown or a
14 recession, yes.

15 MR. BYRON WILLIAMS: I apologize for the
16 hyperbole, Mr. -- Mr. Palmer, but I am quoting from
17 Minister Wowchuk in -- in her press release, so it's page
18 18 if you want to follow -- follow along.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: And I appreciate
23 your caution. That was a broad sweeping statement that -
24 - that normally accom -- accompanies government press
25 releases.

1 you as well that a Manitoba-felt impact has been, in
2 terms of government revenues and expenditures, such that
3 in the 2010 budget, the projected deficit was over half a
4 billion dollars.

5 Will you accept that, subject to check?

6 MR. DONALD PALMER: Yes.

7 MR. BYRON WILLIAMS: And, Mr. Palmer,
8 we've already gone through, on page 4 of our materials
9 here, but we can certainly review it, that there also has
10 been a slowdown in inflationary pressures, with inflation
11 in '09/'10 being at just a bit over six (6) point -- let
12 me try that again, inflation '09/'10 being just a bit
13 above point six (.6) of 1 percent, and in -- in the
14 2010/'11 year, being at just 1 percent.

15 Would you accept that, sir?

16 MR. DONALD PALMER: Yes, I would accept
17 that.

18 MR. BYRON WILLIAMS: I apologize to the
19 court reporter. Mr. Palmer, in the supporting materials,
20 I -- I'd ask you to turn to pages -- in-between pages 11
21 and 12 in the -- in the top right-hand corner.

22 And I want to look at changes in -- in
23 management salaries and -- and benefits between '09/'10
24 through 2012/'13. And, specifically, Mr. Palmer, just
25 for -- and for the Board as well, oh I think -- we

1 actually have the -- the numbering. There's page 10 in
2 the top right-hand corner. The next page over there is
3 page 12. And I'm directing you to the page in-between
4 which would be page 11, Mr. Palmer.

5 And specifically to the -- the minute 09-
6 019. Do you see that, sir?

7 MR. DONALD PALMER: Yes, I see it.

8 MR. BYRON WILLIAMS: And Mr.-- Mr.
9 Palmer, would it be correct to say that for the fiscal
10 year '09/'10, in terms of the -- the salary and salary
11 range increases for executive, management, and out of
12 scope employees, the increase was 2.9 percent in terms of
13 salaries and salary ranges, and a .11 percent increase to
14 benefits, effective April 1st, 2009?

15 MR. DONALD PALMER: Yes and these
16 increases would have matched that that was negotiated
17 under the collective agree -- bargaining agreement.

18 MR. BYRON WILLIAMS: And I appreciate
19 that, sir, and I understand that as well.

20 For the 2010/'11 year, would it be
21 accurate to say that the increase to salaries and salary
22 ranges was 2.9 percent with a .14 percent increase to
23 benefits as well, sir?

24 MR. DONALD PALMER: Yes.

25 MR. BYRON WILLIAMS: And for the 2011/'12

1 year, would it be accurate to say that it was a 2.9 in --
2 percent increase to salaries and salary ranges and a .15
3 percent increase to benefits?

4 MR. DONALD PALMER: Yes.

5 MR. BYRON WILLIAMS: And for the 2012/'13
6 year would it be accurate to say a 2.9 percent increase
7 to salaries and salary ranges?

8 Would that be correct, sir?

9 MR. DONALD PALMER: That's what was moved
10 in this minute and has not happened yet, yes.

11 MR. BYRON WILLIAMS: Okay. Yeah. Thank
12 you for that. In terms of the ones that have already
13 happened, i.e., the '09/'10 year, the 2010/'11 year, and
14 the 2011/'12 year, have there been any changes to those
15 figures, sir?

16 MR. DONALD PALMER: No.

17 MR. BYRON WILLIAMS: And the 2012/'13
18 year has -- is still to come?

19 MR. DONALD PALMER: Yes.

20 MR. BYRON WILLIAMS: Now, Mr. Palmer,
21 again, I don't think you need to turn here, but if you're
22 looking for a reference, it's CAC-2-59. And I -- I
23 really don't think the Board needs to turn there either.
24 2-59, Mr. Palmer, if you're looking.

25 Mi -- Mr. Palmer, would it be accurate to

1 say that generally Manitoba Public In -- Insurance
2 employees progress through their pay range and receive
3 pay increases on an increment-based system rather than a
4 merit-based system?

5 MR. DONALD PALMER: Yes, that's fair to
6 say.

7 MR. BYRON WILLIAMS: And if I were
8 looking at the '09/'10 year, would it be accurate to say
9 that employees who have scope to progress through their
10 pay range are eligible for annual salary in -- increments
11 at a rate of 3.5 percent for in-scope staff and 4.5
12 percent for out-of-scope staff, sir?

13 MR. DONALD PALMER: Yes.

14 MR. BYRON WILLIAMS: And could you
15 explain what is meant by in-scope staff as compared to
16 out-of-scope staff?

17 MR. DONALD PALMER: In-scope is in the
18 scope of the collective bargaining agreement, and out-of-
19 scope would be staff that is not included in the
20 collective bargaining -- bargaining agreement.

21 MR. BYRON WILLIAMS: Thank you for that.
22 With regard to the 2010/'11 year, would it similarly be
23 accurate to say employees who have scope to progress
24 through their pay range are eligible for annual salary
25 increments at a rate of 3.5 percent for inco -- in-scope

1 staff and 4.5 percent for out-of-scope staff?

2 MR. DONALD PALMER: Yes.

3 MR. BYRON WILLIAMS: And could the same
4 statement be made with regard to the 2011/'12 year, sir?

5 MR. DONALD PALMER: Yes.

6 MR. BYRON WILLIAMS: With regard to -- to
7 the 2012/'13 year, in terms of in-scope staff, given that
8 the collective bargaining agreement is scheduled to
9 expire in September of 2012, we cannot yet make that
10 statement for in-scope staff, correct, sir?

11 MR. DONALD PALMER: No, we cannot.

12 MR. BYRON WILLIAMS: In terms of out-of-
13 scope staff for the 2012/'13 year based at least upon
14 that Board minute, would it be accurate to say that
15 unless something changes employees with scope to progress
16 through their pay range are eligible for annual salary
17 increments of 4.5 percent for out-of-scope staff?

18 MR. DONALD PALMER: For those who still
19 have room to progress through their increments, that's
20 true.

21 MR. BYRON WILLIAMS: And just for the
22 Board's information, there are a number of IR requests
23 I've -- I've re -- I will refer to, I didn't feel
24 necessary to -- to put before you. I've killed enough
25 trees in the -- in the course of this hearing already.

1 This question might -- can -- may more
2 properly go to Ms. McLaren, but whoever wishes to -- to
3 answer it is welcome to. In First Round Information
4 Request CAC-1-151 -- 1-151, Mr. Palmer.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: Mr. Palmer, this
9 question was posed in the context of a -- the broader
10 economic slowdown and/or recession. And in (b) of that
11 question, we -- we asked the Corporation to:

12 "Please provide any memos and/or
13 correspondence sent by the CEO, Board,
14 or any executive member of MPI during
15 the '08/'09, '09/'10, '10/'11 or
16 '11/'12 years, outlining any concerns
17 with exp -- expenditures starting
18 2008/'09 to date."

19 And would it be accurate to -- to say that
20 the Corporation's response to that, Mr. Palmer, was that
21 no such records exist?

22 MR. DONALD PALMER: Yes.

23 MR. BYRON WILLIAMS: In response to the
24 broader economic difficulties, did Manitoba Public
25 Insurance take any actions, Mr. Palmer, such as placing

1 restrictions on non-essential travel, including in-
2 province travel?

3 MR. DONALD PALMER: Not any special
4 restrictions, no.

5 MR. BYRON WILLIAMS: And --

6 MR. DONALD PALMER: And, just to put that
7 into context, all travel is authorized by various levels
8 of the Corporation, with different signing authorities.
9 So there was no special restrictions in those years.
10 There have always been those restrictions that each --
11 each manager or director or executive would have certain
12 authorization levels and budget guidelines to restrict
13 those -- out of province travel.

14 MR. BYRON WILLIAMS: In response to the
15 broader economic challenges faced, Mr. Palmer, did the
16 Corporation, during any of those fiscal years, place a
17 freeze on the filling of vacant staff positions?

18 MR. DONALD PALMER: No.

19 MR. BYRON WILLIAMS: Did it look at
20 directing each -- any business units to achieve a
21 reduction in overtime costs?

22 MR. DONALD PALMER: No.

23 MR. BYRON WILLIAMS: Did you place any
24 maximum capability on banked vacation, vacation
25 carryover, and vacation cashout?

1 MR. DONALD PALMER: Again, not any new
2 restrictions. There have always been restrictions on
3 vacation carryover, vacation buyout, but no additional
4 new restrictions.

5 MR. BYRON WILLIAMS: Did you advise or
6 warn staff of any -- of a potential freeze on executive
7 and management salaries in the event cost efficiencies
8 were not achieved?

9 MR. DONALD PALMER: No.

10 MR. BYRON WILLIAMS: Did you direct any
11 capital rapi -- rap -- any capital rationalization
12 approach?

13 MR. DONALD PALMER: Not specifically in
14 those years, no.

15 MR. BYRON WILLIAMS: Ms. McLaren, to you.
16 Did you consult with your colleague, Mr. Brennan, from
17 Manitoba Hydro on whether or not he was undertaking any
18 such type of activities?

19 MS. MARILYN MCLAREN: No, I didn't.

20 MR. BYRON WILLIAMS: So you're not aware
21 whether or not your counterpart at Manitoba Hydro, Mr.
22 Brennan, undertook any such type act -- activities to
23 respond to the recession?

24 MS. MARILYN MCLAREN: I'm aware as much
25 as there's been some general public discussion about some

1 of these matters.

2 MR. BYRON WILLIAMS: Any more details
3 than that, Ms. McLaren, you can share?

4 MS. MARILYN MCLAREN: No.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: Mr. Palmer, just the
9 reference for you -- I'll let you -- and again, I don't
10 think the Board needs to turn there, I'll -- I'll go
11 through it, but it's CAC-1-189, sir.

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: 1-189. And we'll
16 just give everyone who's wanting to turn there a moment,
17 Mr. Palmer.

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: And, Mr. Palmer,
22 while you're at it, you may want to turn in the
23 supporting -- in the cross-examination materials to page
24 -- page 18.

25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Mr. Palmer, in -- in
4 one (1) part of the Information Request CAC-1-189, the --
5 the question was posed to the Corporation that:

6 "If it was ordered by government to
7 reduce operating expense increases, to
8 not increase beyond CPI. Please
9 explain in detail the steps management
10 would take to comply with this order."

11 And I will ask you to confirm that the
12 Corporation's response to this question was:

13 "The Corporation has no answer to this
14 speculative question."

15 MR. DONALD PALMER: Yes.

16 MR. BYRON WILLIAMS: And -- and it
17 probably was a properly framed response, Mr. Palmer. I'm
18 not criticizing you for that. So I want reframe the
19 question to you. And I -- I do want to direct your
20 attention to -- in the suppor -- in the cross-examination
21 materials the government press release dated March 23rd,
22 2010, which is at pages 18 to 20 of the -- of the cross-
23 examination material.

24 Do you have that, Mr. Palmer?

25 MR. DONALD PALMER: Yes.

1 MR. BYRON WILLIAMS: And, Mr. Palmer, in
2 particular, I'd ask you to direct your attention to page
3 20 marked in the top right-hand corner. And I'll ask you
4 to agree that in the context of this, the 2010 budget and
5 -- and this specific press release, Minister Wowchuk
6 stressed the importance of limiting government spending.
7 And I'll give you three (3) examples: by limiting overall
8 core spending growth to an annual average of less than 2
9 percent over the five (5) year pla -- pa -- plan,
10 reducing the pay of cabinet ministers by 20 percent and
11 proposing a wage freeze for members of the legislature
12 and senior government staff, and negotiating a pause in
13 public sector wage increases.

14 Do you agree, sir?

15 MR. DONALD PALMER: That's what the news
16 release says, yes.

17 MR. BYRON WILLIAMS: Mr. Palmer, and I
18 understand the collective bargaining agreement with your
19 -- with the MGU does not expire until September, 2012,
20 but focussing on senior -- senior management, would I be
21 correct in -- in assuming salaries were not frozen in the
22 2010/'11 year or the 2011/'12 year?

23 Would that be right, sir?

24 MR. DONALD PALMER: They were not.

25 MR. BYRON WILLIAMS: Would I be accurate

1 in suggesting that the Corporation has not received a
2 directive from government telling it to increase
3 operating expenditures to an -- in excess of inflation in
4 the 2010/'11 or 2011/'12 or 2011 -- or 2012/'13 year,
5 sir?

6 There's been no such directive to increase
7 in excess of inflation?

8

9 (BRIEF PAUSE)

10

11 MS. MARILYN MCLAREN: Sure, that's fair.

12 MR. BYRON WILLIAMS: You may -- you may
13 not concede so easily on the next question, Ms. McLaren.
14 Would it be fair to say that while certain Manitobans
15 have had to cut back and while certain public servants
16 have had to accept wage freezes, Manitoba Public
17 Insurance has been aggressively expanding its day-to-day
18 expenditures over the last two (2) fiscal years?

19

20 (BRIEF PAUSE)

21

22 MS. MARILYN MCLAREN: Everything we've
23 done has been with the objective of improving
24 efficiencies, enhancing service, implementing
25 legislation. So I think the context is really

1 misconstrued.

2 MR. BYRON WILLIAMS: Madam Chair, that
3 would be an appropriate time for a break.

4 THE CHAIRPERSON: Thank you. We'll take
5 a fifteen (15) minute break, get back at about twenty-
6 five (25) after and we'll be leaving at 4:30 today.
7 Okay? Thank you.

8

9 --- Upon recessing at 3:11 p.m.

10 --- Upon resuming at 3:35 p.m.

11

12 MS. KATHY KALINOWSKY: If I could proceed
13 and have these entered into the record now as exhibits.
14 Undertaking number 21 I would suggest be filed as MPI
15 Exhibit number 34, and that's to file the benchmark study
16 that looked at spending on IT operations.

17

18 --- EXHIBIT NO. MPI-34: Response to Undertaking 21

19

20 MS. KATHY KALINOWSKY: Undertaking number
21 24, which is to provide the spreadsheets to the Board
22 regarding HP's budget for the project. And also
23 Undertaking number 31, is combined on that same sheet and
24 attachment of paper, which is MPI to file a schedule of
25 known IT costs. I would suggest that be filed as MPI

1 Exhibit number 35.

2

3 --- EXHIBIT NO. MPI-35: Response to Undertakings 24
4 and 31

5

6 MS. KATHY KALINOWSKY: Undertaking number
7 25, which is how much IT would represent as a reasonable
8 percentage of total expenditures by an entity of similar
9 nature, would be MPI Exhibit number 36.

10

11 --- EXHIBIT NO. MPI-36: Response to Undertaking 25

12

13 MS. KATHY KALINOWSKY: Undertaking number
14 28 is MPI to reconcile the difference between the figures
15 for data processing equipment and deferred development
16 costs, would be MPI Exhibit number 37.

17

18 --- EXHIBIT NO. MPI-37: Response to Undertaking 28

19

20 MS. KATHY KALINOWSKY: MPI Exhibit number
21 38 should be Undertaking number 29, which is the
22 Corporation budgeting \$6.1 million for IT optimization,
23 disaster recovery, asking for rec -- reconciliation of
24 that with TI-10. So that Undertaking 29 should be MPI
25 Exhibit number 38.

1 --- EXHIBIT NO. MPI-38: Response to Undertaking 29

2

3 MS. KATHY KALINOWSKY: And finally, just
4 fresh off the press, which Mr. Singh is also distributing
5 right now, is Undertaking number 30, indicate what the
6 Corporation has spent year to date on BTO initiatives,
7 and that should be MPI Exhibit number 39.

8

9 --- EXHIBIT NO. MPI-39: Response to Undertaking 30

10

11 MS. KATHY KALINOWSKY: I'd just like to
12 have those distributed before we -- we break, because we
13 don't convene again until Tuesday morning. So gives some
14 individuals a chance to review them over the four (4) day
15 break there. Thank you very much.

16 THE CHAIRPERSON: Thank you for that.

17 Now, we are back with Mr. Williams.

18

19 CONTINUED BY MR. BYRON WILLIAMS:

20 MR. BYRON WILLIAMS: And -- and just -- I
21 can indicate that the Intervenors, I don't think have
22 received those documents so -- I won't require them for
23 this -- this afternoon, but if -- if -- if we could --
24 could get those for those on this side of the room.

25

And, Madam Chair, just in terms of

1 schedule, I had planned to start a little earlier today
2 and -- and hoped to have finished. I will not finish
3 today but I expect we'll be through the -- the -- the
4 bulk of it and we'll be able to finish at some point of
5 the morning when we -- when we reconvene.

6 Mr. Palmer, I wonder in terms of the
7 Exhibit CAC-11, supporting materials for the cross-
8 examination of the MPI panel, I could get you to turn to
9 page 22, please? That's page 22 of the supporting
10 materials.

11

12 (BRIEF PAUSE)

13

14 MR. DONALD PALMER: Yes, I have it.

15 MR. BYRON WILLIAMS: And, Mr. Palmer,
16 just to make sure we're all on the same page, the title
17 on the top of this page should be, "Variance of projected
18 versus actual total Basic expenses," correct?

19 MR. DONALD PALMER: Yes.

20 MR. BYRON WILLIAMS: And you'll agree
21 with me, Mr. Palmer, that, subject to any typographical
22 errors that Mr. Williams might have made, that this is
23 simply pulled from the Corporation's response to CAC-1-
24 74(a), correct, sir?

25 MR. DONALD PALMER: Yes.

1 MR. BYRON WILLIAMS: And when we see the
2 heading, "Total Basic expenses," that would refer both to
3 claims expenses and operating expenses, sir.

4 Would that be fair?

5 MR. DONALD PALMER: Yes. And I double-
6 check. It may also include regulatory, but it doesn't
7 really matter for the -- the purposes.

8 MR. BYRON WILLIAMS: Yeah. And thank you
9 for that, Mr. Palmer. The -- in terms of what we see in
10 the -- the first row labelled on the left-hand side,
11 "2011/2012 GRA," are the -- I'll ask you to agree, are
12 the forecasts that were presented at that general rate
13 application for the '10/'11 year as well as the
14 projections for the '11/'12 year and the '12/'13 year.

15 Would that be fair, sir?

16 MR. DONALD PALMER: Yes.

17 MR. BYRON WILLIAMS: And just to place
18 this in context, this would be the hearing in which
19 Manitoba Public Insurance was seeking rates for the
20 2011/'12 year, correct?

21 MR. DONALD PALMER: Yes.

22 MR. BYRON WILLIAMS: And in the course of
23 that hearing, as it does in every hearing, it projects a
24 forecast for the fiscal year that it's currently in as
25 well as projections for the test year or the rate

1 application year, as well as the year which follows,
2 correct?

3 MR. DONALD PALMER: Yes.

4 MR. BYRON WILLIAMS: And the second line
5 presents the Corporation's -- let me back up. The second
6 line is from this current proceeding, being the 2012/2013
7 GRA. And what it does is, in terms of the 2010/'11
8 fiscal year, presents the actual figures for that -- that
9 year, correct?

10 MR. DONALD PALMER: Yes.

11 MR. BYRON WILLIAMS: And if we're
12 following along, that's the 170.6 million figure roughly
13 under '10/'11 on the second line, correct, sir?

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

15 MR. BYRON WILLIAMS: What it also does is
16 provide the updated Corporation forecast for total Basic
17 expenses for the 2011/'12 fiscal year as well as the
18 2012/'13 year, correct?

19 MR. DONALD PALMER: Yes.

20 MR. BYRON WILLIAMS: Now, Mr. Palmer,
21 we're going to get to the adjustments in just one (1)
22 second. But if I -- if I look at the test year from the
23 2011/'12 GRA you'll see that when it was seeking the rate
24 approval for the 2011/'12 year Manitoba Public Insurance
25 projected Basic expenses for that year of one hundred and

1 sixty-one million six hundred and seventy-six thousand
2 (161,676,000), correct, sir?

3 MR. DONALD PALMER: Yes.

4 MR. BYRON WILLIAMS: But when we look at
5 what the Corporation is now forecasting for the year,
6 we're in the middle of it now, we see the -- the actual
7 forecast for Basic expenses is one hundred and eighty-six
8 million three hundred and fifty-four thousand
9 (186,354,000), correct?

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

11 MR. BYRON WILLIAMS: And that's about a
12 \$24 million difference.

13 Would that be right, sir?

14 MR. DONALD PALMER: Yes.

15 MR. BYRON WILLIAMS: And likewise, if we
16 just move one (1) line back to the left, and again, this
17 is before adjustments, we see that last year for the
18 2010/'11 year the Corporation was forecasting Basic
19 expenses of one hundred and fifty-eight million seven
20 hundred and eighty-seven thousand (158,787,000), whereas
21 the actuals came in at one hundred and seventy million
22 five hundred and eighty-seven thousand (170,587,000),
23 correct?

24 MR. DONALD PALMER: Yes.

25 MR. BYRON WILLIAMS: And so in that year

1 actuals as compared to forecast were 7.43 percent higher,
2 correct?

3 MR. DONALD PALMER: That's correct.

4 MR. BYRON WILLIAMS: And if one is
5 looking for that figure, it's the -- under 2010/'11, the
6 very last row, "Percentage increase 2011/'12 GRA versus
7 2010/'11 GRA for the same year."

8 Do you see that, Mr. Palmer?

9 MR. DONALD PALMER: Yes.

10 MR. BYRON WILLIAMS: Now let's focus on
11 the 2011/'12 year for a moment, sir. I'll suggest to you
12 that the -- and I'm drawing your attention to the middle
13 of the table, the "Adjust 2012 for."

14 And I'll suggest to you that -- that the
15 position of the Corporation is that it's not fair for the
16 '11/'12 year to simply look at the -- at the -- what was
17 projected last year versus what's forecast this year
18 without making adjustments for two (2) factors, one (1)
19 being the IFRS treatment of merchant fees, and the other
20 being allocation adjustments related to the -- the
21 allocation formula the Board is currently using for rate
22 setting.

23 Would that be fair?

24 MR. DONALD PALMER: Yes, that's -- that's
25 correct. And for the latter point that you made, we did

1 make application based on the Deloitte cost allocation
2 last year. We've discussed that that allocation
3 methodology was not approved by the Board. We've redur -
4 - reverted to the old methodology and that accounts for
5 about \$3 ½ million difference.

6 MR. BYRON WILLIAMS: And -- and thank you
7 for that. So what the Corporation does with the '11/'12
8 year is, in terms of -- and ag -- again, under the row of
9 merchant fees, it -- it -- from the forecast amount for
10 2012/'13 of one hundred and eighty-six million three
11 hundred and fifty-four thousand (186,354,000), it, first
12 of all, subtracts merchant fees of six million three
13 hundred and fifty -- six million three hundred and fifty-
14 nine thousand (6,359,000), correct?

15 MR. DONALD PALMER: Yes.

16 MR. BYRON WILLIAMS: And then,
17 recognizing the difference in opinion on allocation, it
18 subtracts an additional 3 million -- or 3.5 million,
19 which you just alluded to, correct?

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

21 MR. BYRON WILLIAMS: So when you -- we --
22 we make a restated look at what the Corporation is now
23 forecasting for the 2011/'12 year, we see a figure in
24 terms of total Basic expenses forecast to be one hundred
25 and seventy six thousand four hundred and ninety

1 (176,490) -- excuse me, let me try that again, one
2 hundred and seventy-six million four hundred and ninety-
3 three thousand (176,493,000), correct?

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

5 MR. BYRON WILLIAMS: Now, Mr. Palmer,
6 staying with the '11/'12 year, when the PUB granted rate
7 approval for that year, again, it was looking at prede --
8 projected total basic expenses of, as we see at the top
9 line, 161.7 million roughly, correct?

10 MR. DONALD PALMER: Yes.

11 MR. BYRON WILLIAMS: We're now roughly a
12 year and a bit later, and we're now looking at forecast
13 expenditures, which I'll suggest to you are more than \$14
14 million higher, even after adjustments?

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

16 MR. BYRON WILLIAMS: And the percentage
17 increase, even after adjustments between what was
18 projected for the purposes of rate setting last year, and
19 what is forecast in the context of this hearing, is in
20 excess of 9 percent, correct?

21 MR. DONALD PALMER: Nine percent on
22 expenses, probably about 2 percent on rate.

23 MR. BYRON WILLIAMS: And let's -- in
24 terms of expenses -- total Basic expenses, based --
25 compared to what the Board was told Basic expenses were

1 going to be in the context of the rate application,
2 they're about 9 percent higher, correct?

3 MR. DONALD PALMER: Yes.

4 MR. BYRON WILLIAMS: And if one -- and,
5 Mr. Palmer, you do not -- I do not think need to go
6 there, but if one was trying to -- to -- to figure out
7 what -- what happened, you had a bit of this discussion
8 with Ms. Hamilton. But it would be fair to say that if
9 we were looking for the difference between what the Board
10 was told in the context of the rate application and then
11 what it's being told in the context of this year, there
12 were -- it would be fair to say that there were
13 initiatives approved during the Corporation's budgeting
14 process that were unknown at the time the 2011/'12 rate
15 application was produced, correct?

16 MR. DONALD PALMER: Yes, and -- and we
17 had a fair bit of discussion with Ms. Hamilton on this
18 point.

19 The budgeting exercise and also the
20 strategic planning exercise, happens in the later fall of
21 each year. At that point in time, we go through all of
22 the various corporate initiatives to determine what we --
23 what we can do and what we can accomplish over the
24 following year.

25 Last year, I -- I would say that we did

1 make what, in retrospect, is -- is probably a -- a bit of
2 a strategic error in not including a big placeholder for
3 deferred development projects, or for other projects. We
4 have that amount in \$20 million.

5 We didn't put that in last year. I think
6 in retrospect we should have. And that really accounts
7 for most of the difference between these two (2) numbers.

8 MR. BYRON WILLIAMS: And thank you for
9 that, Mr. Palmer. And I'm -- I'm not trying to re-go
10 over ground, I'm -- I'm heading to an -- a different
11 point. But the answer is quite helpful.

12 In terms of 2011/'12, the projects that
13 were approved subsequent to the -- the rate application
14 would -- would include the HRMS implementation and IT
15 optimization projects, correct?

16 MR. DONALD PALMER: Those are the two (2)
17 major ones, yes.

18 MR. BYRON WILLIAMS: And subject to
19 check, Mr. Palmer, would it be accurate to suggest that,
20 for the 2011/'12 year, expenses for special services are
21 forecast to increase by 83.2 percent? And I'll refer you
22 to -- when you do your checking to PUB-1-56(a).

23 MR. DONALD PALMER: That number is
24 vaguely familiar to me, so subject to check, I will
25 accept that. And again, special services, largely

1 consulting fees, so generally with the special
2 initiatives like IT optimization or HRMS, there are
3 additional consulting fees that are incurred in -- as we
4 complete those projects.

5 MR. BYRON WILLIAMS: Thank you for that
6 answer. And it would be accurate to say that, in the
7 context of last year's ge -- general rate application for
8 the 2011/'12 year, an increase of the magnitude of -- in
9 excess of 80 percent in terms of special services, would
10 not have been presented to the Board in the context of
11 that rate application.

12 MR. DONALD PALMER: It was not presented
13 in the context for the reasons that I've outlined
14 previously, yes.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: Now, the... These
19 questions again can go to Ms. McLaren or Mis -- Mr.
20 Palmer, and they do relate to a bit of a conversation
21 that you did have with Ms. Hamilton last week. I don't
22 have the citation, but I -- I have, I hope, pretty good
23 notes.

24 And another reference for you would be
25 PUB-1-52. I'm sure you've memorized that one by now.

1 But, Ms. McLaren, in your conversation with Board counsel
2 both on Wednesday, October 19th, and Wednesday, October
3 12th, you were quite candid, at least as I understood
4 you, regarding the fact that the operating expense budget
5 presented in this GRA might be expected to differ
6 significantly from what the Corporation actually expects
7 to spend in the 2012/'13 year.

8 Do you recall a conversation to that
9 effect?

10 MS. MARILYN MCLAREN: Yes, with the
11 qualification that I -- it -- it will be different. I --
12 in the answer to the -- the IR that we were specifically
13 talking about, I suggested that I would not have used the
14 word "significantly" if I had a chance to do it over
15 again. But -- but because of the position we're in and
16 sort of be -- between major initiatives, it will likely
17 change.

18 MR. BYRON WILLIAMS: And just to follow
19 this through, it will likely change, and wou -- and we
20 would expect it likely to increase.

21 Would that be fair?

22 MS. MARILYN MCLAREN: Marginally with
23 respect specifically to operating expenses for some of
24 the reasons that were explained in another one (1) of the
25 IRs. If we embark next fiscal year on some of the major

1 initiatives that -- that may be approved coming out of
2 these physical damage re-engineering and -- and service
3 visioning processes, they're unlikely to have as much of
4 an impact on expenses next year because a lot of that
5 will be capitalized and amortized over a number of years.

6 So I think -- and in the broadest sense,
7 anything that is not clearly articulated and contemplated
8 at this point would -- would likely be accommodated
9 within the \$20 million capital provision, for the most
10 part. There -- there may be some other smaller
11 initiatives that are identified, but they will not be
12 significant.

13 MR. BYRON WILLIAMS: Okay. And -- and so
14 I've heard words such as "not significant" and
15 "marginally." In your discussion with Ms. Hamilton of
16 the -- of the 12th, I believe I heard you use figures
17 such as 7 to 10 million.

18 Do you recall those figures?

19 MS. MARILYN MCLAREN: I would really want
20 to review the transcript more specifically for the exact
21 context. I remember the figures. I don't remember the
22 precise context.

23 MR. BYRON WILLIAMS: And that's fair
24 enough, Mr. McLaren, but I want to be clear. In terms of
25 operating expenses, is it conceivable that we might see

1 operating expenses increase somewhere between 5 and \$10
2 million?

3 MS. MARILYN MCLAREN: It's conceivable.
4 It's conceivable. The information available when the
5 twelve (12) -- 2012/'13 forecast for this rate
6 application was struck was done without complete
7 information.

8 MR. BYRON WILLIAMS: And in terms of the
9 type of projects which might impact operating expenses,
10 Ms. McLaren, am I correct in suggesting to you that they
11 may relate to road safety, physical damage, and customer
12 service visioning?

13 Would -- would those be three (3) of the
14 type of projects?

15 MS. MARILYN MCLAREN: And, as I said, I -
16 - I think the -- the bulk of the impact from those three
17 (3) specifically would likely be more strategic
18 initiatives with longer-term development that would
19 likely mostly be accommodated in the \$20 million capital
20 provision. So there may be some other smaller
21 initiatives outside of those three (3) that may affect
22 operating budget.

23

24

(BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: I apologize for the
2 delay, Ms. McLaren. I just want to make sure I have your
3 -- your point here.

4 There are expenses that are -- that --
5 related to road safety, physical damage, and customer
6 service which are not yet -- potential expen -- let me
7 try that again.

8 Madam Chair, I just want to ask the
9 question a little more carefully.

10 There are potential expenses related to
11 road safety, physical damage, and customer service
12 visioning that will not be determined until the operating
13 budget for 2012/'13 is finalized in January of 2012. And
14 in your current view, those are likely to be capital
15 expenses and captured under the -- the \$20 million
16 capital placeholder.

17 Is that correct?

18 MS. MARILYN MCLAREN: Yes.

19 MR. BYRON WILLIAMS: It is conceivable
20 that there are a number of other, smaller initiatives
21 that may result in an impact on operating expenses in the
22 range of \$5 to \$10 million? Correct?

23 MS. MARILYN MCLAREN: Yes, I would
24 suggest at the outside.

25 MR. BYRON WILLIAMS: Recognizing that

1 that's at the outside and we're only talking conceivable,
2 when we look at the -- the variance of projected -- let
3 me back up.

4 Recognizing that it's possible that there
5 may be additional expenditures affecting the operating
6 expense, would it be fair to say that the trend analysis,
7 in terms of operating expenses, may understate the
8 percentage trend for the 2012/'13 year?

9

10 (BRIEF PAUSE)

11

12 MS. MARILYN MCLAREN: Based on this
13 conversation of the last few minutes, it's possible. I -
14 - I really can't stress enough that we're in a particular
15 time frame right now where there is more uncertainty than
16 there has been in the past and there will be again in the
17 future.

18 MR. BYRON WILLIAMS: And -- and my
19 clients are grappling with that as well, Ms. McLaren.
20 And if I recall your evidence with Ms. Hamilton, you said
21 that this could be a -- it was a factor in 2011/'12, a
22 factor in 2012/'13, and may well be a factor in 2013/'14
23 as well. Correct?

24 MS. MARILYN MCLAREN: I don't remember
25 that and, thinking about it now, I don't anticipate that

1 it will extend into '13, no.

2 MR. BYRON WILLIAMS: Whether we're
3 looking at the expenditures which you suggest may be
4 amortized under -- under capital projects, or
5 expenditures which may have additional impacts on the
6 operating expenditures, would it be fair to say that, in
7 the context of this hearing, given these special
8 circumstances, the Public Utilities Board does not have
9 an opportunity to test the reasonableness and prudence of
10 those particular expenditures?

11

12 (BRIEF PAUSE)

13

14 MS. MARILYN MCLAREN: In -- in this
15 particular context, at this particular time, when what we
16 have is a potential \$20 million provision in the capital
17 budget, I understand that.

18 But as I said, you know, when -- when --
19 when the application is filed and we are here a year from
20 now, we will be in the earliest stages of these
21 initiatives that would -- would flow through that
22 process.

23 MR. BYRON WILLIAMS: And I certainly
24 don't mean to be argumentative, Ms. McLaren, but to a
25 certain extent, the die will be cast. Will -- you'll

1 already be committed to those projects and money will be
2 flowing towards those projects.

3 MS. MARILYN MCLAREN: No, that -- that's
4 fair. I mean, I -- we've never -- I would say that over
5 the last however -- you know, couple of decades and the
6 discussions and the rate approvals that this Board has
7 provided to the Corporation in terms of Basic rates it
8 has not come to the level of approving specific
9 operational expen -- expenditures or initiatives.

10 You know, we were here in terms of getting
11 approval for the rating framework of the driver safety
12 rating, not -- not the project itself, not the concept
13 that we were doing that. Streamlined renewals was
14 another one. The PIPP infrastructure study, you know,
15 got very little discussion over the last five (5) years
16 in these proceedings.

17 So the fact that we are clearly
18 communicating what our intentions are, where we believe
19 the areas of opportunity to either improve service or --
20 or contain costs, and sometimes both -- we're being very
21 transparent about that. We're talking as best we can
22 about the impact.

23 I would argue that that is the extent to
24 which we have done that on most other major categories of
25 initiatives through time.

1 MR. BYRON WILLIAMS: Ms. McLaren, just
2 going back to those tables on page 20 -- 22 of the
3 supporting material, and even allowing for the
4 adjustments, you can -- you can perhaps imagine, I'll
5 suggest to you, the discomfort that an Intervenor or a
6 regulator might face when -- when seeing adjustments in
7 terms of Basic expenditures of that magnitude?

8 MS. MARILYN MCLAREN: In terms of the
9 difference between what we said last year and where we
10 are now, I understand that. I understood that that would
11 be -- provide some level of discomfort. But I really
12 would encourage Intervenors and all participa --
13 participants to -- to think about sort of the long-term
14 framework of these proceedings.

15 Everyone comes to these proceedings trying
16 to do the very best job they can. We all know and have
17 had discussions over many years about the long time
18 frames that we're dealing with in terms of when we start
19 to put together a rate application and when those rates
20 actually begin to be charged and when those rates
21 actually run out, so, you know, it -- it's a long time
22 frame that we're dealing with.

23 And certainly if there was a historic
24 pattern of those kinds of changes that were actually, you
25 know, through time going to drive changes in the rate

1 requirement, I think that would be certainly a matter of
2 concern. That -- that's not what we have here. That is
3 not a historic practice. You have our commitment that it
4 will not be a going-forward practice to have those kinds
5 of variances.

6 And I think, you know, we will all be here
7 again giving it our best shot again next year. This is
8 always an iterative process. And it's never just a one
9 (1) shot deal when it comes to looking at the things that
10 MPI is doing, and for this Board, does approve rates on
11 an annual basis, absolutely, but nothing we do really has
12 a narrow twelve (12) month impact.

13 MR. BYRON WILLIAMS: But you'll agree
14 that the legacy of the decisions you make live on for
15 years, the financial legacy lives on for years?

16 MS. MARILYN MCLAREN: Sure, which is part
17 and parcel to what I said about nothing is just a one (1)
18 shot, twelve (12) month window.

19 MR. BYRON WILLIAMS: Now going -- and you
20 can help refresh my memory perhaps. Is it your
21 recollection, Ms. McLaren, that the Public Utility Board
22 rate order last year was a conditional order in that it
23 was conditional upon the provision of certain additional
24 information?

25 Is that your recollection as well?

1 MS. MARILYN MCLAREN: Only the aspect
2 with respect to the rebate. The rates were -- were
3 certainly not -- not conditional. We needed final
4 approval of those rates in early December. We started
5 issuing renewal notices with those rates in early
6 January.

7 MR. BYRON WILLIAMS: So from the
8 Corporation's perspective, a rate order conditional upon
9 provision of the approved 2012/'13 budget, you're
10 suggesting to our clients, would have some practical
11 challenges?

12 MS. MARILYN MCLAREN: Significant
13 practical challenges. By the time the budget is
14 approved, the rates are out in the field. They're being
15 used. So, you know, recasting -- going through another
16 review process with this Board, getting a different set
17 of rates, having to recast rates, having to recalculate
18 policies where, by that point would be in the field and
19 likely in force, would cost far more than any potential
20 benefit of any sort of conditional rate order.

21 MR. BYRON WILLIAMS: Mis...

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: Ms. McLaren, thank

1 you for that. My clients will reflect upon that. Could,
2 no doubt, see that Ms. -- Ms. Desorcy was listening very
3 carefully for that discussion.

4 MS. MARILYN MCLAREN: And maybe if we
5 could spend just a minute or two (2) for the new panel
6 members, explaining a little bit about that.

7 As we've talked about before, the
8 Corporation begins right at its fiscal year end, starting
9 to think about what does this mean for the next year's
10 set of rates. And early in April, we're formulating the
11 rate application for approval by the Corporation's board
12 of directors. Comes to you in June, we spend the summer
13 answering several thousand questions. But then when we
14 get an order from the Board for rates, the -- the latest
15 we can operationally wait is -- is early December.

16 After that, by statute, we have to go to
17 cabinet for approval. Cabinet is -- is bound to only
18 approve a rate for the compulsory program that this Board
19 has approved, but we still do have to go to cabinet to
20 get approval for those rates.

21 And, by legislation, we're -- we're
22 obligated to give people forty (40), forty-five (45) days
23 notice for their renewals, which begin March 1, so you
24 back that up, we're -- we're early into January.

25 So anything that would change after that

1 would be truly an operational, expensive nightmare that
2 would cause all kinds of confusion for Manitobans and
3 cost to the system. If -- I don't know if that helped a
4 little bit.

5 THE CHAIRPERSON: Yes. And, you know,
6 we're cognizant of the need to fit this schedule and to
7 have something to you at the appropriate time. And I was
8 interested, when I read through the material prior to the
9 hearing's start, that the whole time schedule is
10 problematic. The way that it has been, sort of being
11 done in the last few years.

12 But you -- we're optimistic during the
13 hearing, I think it was last week that that will change
14 in the near future. That you will be able to ease some
15 of these pressures. And I wasn't sure just exactly what
16 you meant by that. But it sounded encouraging.

17 So I was sort of interested in that,
18 because you alluded to the fact that there would be some
19 change that would cause this whole thing to be more --
20 would -- that would facilitate it for your Utility.

21 MS. MARILYN MCLAREN: And I -- I think
22 specifically what I was talking about was this issue of
23 the operating expenses and the variance that we've had
24 last year and this year.

25 Because we will, in the next few months,

1 establish another probably four (4) to five (5) year plan
2 for significant business change, along the lines of what
3 we did years ago for the business process review and more
4 recently with IT optimization. We have a, you know, four
5 (4) year, five (5) year plan to spend funds for specific
6 things. And once that's structured we have no corporate
7 capacity to add much more. So it stays pretty much set
8 once we have that plan.

9 So that's one (1) thing that will help
10 this become more consistently predictable like it has in
11 the past. We believe it will be again.

12 And the other thing, in terms of this
13 conditional order that this Board made last year, I --
14 the -- the Corporation doesn't take issue with the
15 concept of a conditional order for a rebate. You know,
16 makes sense really, to say we have to lock the rates
17 down. And if it turns out later we didn't get them that
18 right, we'll take another crack at it next year.

19 But when it comes to rebate, waiting for
20 fiscal year-end information to say, Well that's what we
21 thought would happen, do we have it to rebate, or is
22 there more? But that's not unreasonable in our view.
23 But it really needs to be limited to the rebate piece of
24 it because we need rates that we can run with.

25 THE CHAIRPERSON: We appreciate that.

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: I -- I won't dwell
3 on this issue, Ms. McLaren, it -- I guess the easiest way
4 to resolve my clients' dilemma, would be if the
5 Corporation decides to add an extra 4 or 5 million in
6 operating expenses, it could certainly reduce in -- in
7 other areas in terms of operating expenses, right?

8 MS. MARILYN MCLAREN: Sure. And -- and
9 as we've had conversations here before, you know,
10 sometimes if we were to cut back on claims expenses to
11 the tune of 4 or 5 million dollars, we could probably
12 just add 15 or 20 million more to claims incurred.
13 Nobody wants to do that, either.

14 MR. BYRON WILLIAMS: Now in terms of the
15 Corporation's annual budgeting po -- process, when --
16 when are the budget guidelines set?

17

18 (BRIEF PAUSE)

19

20 MR. DONALD PALMER: The budget guidelines
21 were given to the Board of Directors at the last Board of
22 Directors meeting, so it was actually the -- the
23 September Board meeting that was actually held in
24 October.

25 MR. BYRON WILLIAMS: So for budgeting

1 purposes, as the Corporation moves into its -- ramping up
2 its budgeting process, it's fair to say that the budget
3 guidelines are handed down in the September/October time
4 frame?

5 Is that fair?

6 MR. DONALD PALMER: Yes. And, in -- in
7 fact, the -- the budget guideline was this rate
8 application.

9 MR. BYRON WILLIAMS: And -- and are those
10 guidelines provided by the Board of Directors, Mr. -- Mr.
11 Palmer?

12 MR. DONALD PALMER: No, they're approved
13 by management and -- and provided to the Board of
14 Directors for information.

15 MR. BYRON WILLIAMS: And if you're
16 looking for a reference for my next two (2) questions, it
17 would be CAC-1-75(d) and seventy-five (75) -- 1 dash --
18 excuse me 1-175(d) and 1-175(g). The Board does not need
19 to turn there. I do not wish to make them despair.

20 Mr. Palmer, would it be accurate to say
21 that the approved budget for corporate normal operations
22 in 2010/'11 was higher than guideline by about 1.1
23 percent?

24 MR. DONALD PALMER: Yes, that would be
25 correct.

1 MR. BYRON WILLIAMS: And would it be
2 accurate to say that the approved budget for corporate
3 normal operations for 2011/'12 was higher than guideline
4 by about 1.5 percent?

5 MR. DONALD PALMER: Yes, that would be
6 correct.

7 MR. BYRON WILLIAMS: Mr. Palmer, I want
8 to turn for a few moments to the existing collective
9 agreement with the MGEU. And I understand it runs from
10 September 28, 2008, through to September 22nd, 2012.

11 Is that accurate, sir?

12 MR. DONALD PALMER: Yes.

13 MR. BYRON WILLIAMS: And in terms --
14 speaking solely of average annual wage increases, it
15 would be accurate to say that the agreement provided for
16 average annual wage increases of 2.9 percent annually,
17 correct?

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

19 MR. BYRON WILLIAMS: In terms of CPI
20 being consumer -- inflation projections for the 2012/'13
21 year, Mr. Palmer, would I be accurate in suggesting the
22 Corporation is currently projecting that to be 2 percent?

23 MR. DONALD PALMER: That's CPI, yes. I
24 note that although historically the in -- industrial
25 average wage has been pretty close to the CPI over the

1 last two (2) or three (3) years, that industrial average
2 wage has, in fact, been greater than CPI. For exa -- for
3 example, that '09/'10 year that you had highlighted as
4 being a CPI of .6 percent, the industrial average wage
5 increase was 2.4 percent.

6 So I think certainly CPI is -- is kind of
7 the accepted inflation index, but there are other
8 considerations that may have to be considered in the
9 context of a collective agreement.

10 MR. BYRON WILLIAMS: I thank you for
11 that, Mr. Palmer. And just while we're going through
12 that figure, would it be accurate to say for the 2010/'11
13 year average wage increases in Manitoba were only 1.4
14 percent?

15 MR. DONALD PALMER: The -- and --

16 MR. BYRON WILLIAMS: I think we've
17 confirmed that already, sir.

18 MR. DONALD PALMER: Yes, that's -- that's
19 confirmed.

20 MR. BYRON WILLIAMS: In terms of
21 compensation costs for the 2012/2013 year, am I correct
22 in suggesting that the Corporation has built into the
23 budget a 2.9 percent increase, sir?

24 MR. DONALD PALMER: In the '11/'12
25 budget, yes. The '12/'13 budget has not been struck.

1 For the '12/'13 projections for rate setting purposes, we
2 have used the 2.9 percent to September and 2 percent
3 thereafter, as the inflation figure.

4 MR. BYRON WILLIAMS: That's what I was --
5 that's what I was looking to get at, Mr. Palmer. And I'm
6 going to -- we -- we may have to revisit this issue on --
7 next week when we -- when we resume, because -- and I
8 don't want to get into it right now, but my reading of
9 TI-9, I thought you were looking at 2.9 percent for the
10 2012/'13 year, as well. And you're suggesting that, that
11 belief is mistaken.

12 MR. DONALD PALMER: And -- and I will
13 revisit that too, but it would be for the first six (6)
14 months -- actually seven (7) months, would be the 2.9
15 percent because that's what's required under the
16 collective agreement.

17 MR. BYRON WILLIAMS: Mr. Palmer, I may
18 have misspoke. It -- it might be TI-8 I'm referring you
19 to, and perhaps we should go there. When I look at the
20 heading for economic increases, I see 2.9 percent. Would
21 you accept that, subject to check, sir?

22 MR. DONALD PALMER: Yes, I -- I stand
23 corrected.

24

25

(BRIEF PAUSE)

1 MR. BYRON WILLIAMS: So if the collective
2 agreement is expiring in September of 2012, I'll suggest
3 to you there's about five (5) months of that fiscal year
4 remaining that is not covered by the -- currently covered
5 by a collective agreement, sir?

6 MR. DONALD PALMER: That's correct.

7 MR. BYRON WILLIAMS: And as we look at
8 the Corporation's compensation projections for the
9 2012/'13 year, we're agreed that it, notwithstanding the
10 fact that the collective agreement has ended in September
11 of 2012, it's projecting a 2.9 percent increase for the
12 duration of that year?

13 MR. DONALD PALMER: Yes, that was the
14 assumption for purposes of these expenses, yes.

15 MR. BYRON WILLIAMS: Does that seem a bit
16 high, Mr. Palmer?

17

18 (BRIEF PAUSE)

19

20 MR. DONALD PALMER: I would agree that,
21 under the context of CPI being 2 percent as our
22 projection, that this 2.9 percent may be a bit high. I
23 will also remind that -- that over the last couple of
24 months we have seen inflation figures on a monthly basis
25 edging around three (3). So this is a projection, just

1 exist -- based on the existing collective agreement. So
2 it wasn't meant to usurp any negotiations, but you do
3 need a projection and the existing economic increase is
4 what was selected.

5 MR. BYRON WILLIAMS: And certainly, you
6 realize the Board relies on these projections for the
7 purposes of rate setting, sir?

8 MR. DONALD PALMER: Yes, I do.

9 MR. BYRON WILLIAMS: Mr. Palmer --

10 MS. MARILYN MCLAREN: Mr. Williams,
11 there's -- there's been a num -- a number of situations
12 where we have provided this Board with only the most
13 general sense of what negotiated increases might be going
14 forward. The Corporation's in an awkward position
15 clearly in terms of negotiating at that point in time.

16 Many years we have known that we would be
17 entering some very challenging negotiations with, you
18 know, the repair trade and have put something in there
19 for a very general reason, just -- just nothing more
20 substantive than what Mr. Palmer just explained in terms
21 of we just ran out the existing agreement for another
22 year.

23 We -- we can't be in a position to truly
24 publically communicate exactly what we're thinking about
25 some of these things and what we might expect the -- the

1 settlements to be.

2 MR. BYRON WILLIAMS: Has -- would it be
3 accurate to say that in terms of its assumptions of
4 economic increases for the purposes of pensions, that the
5 Corporation has adjusted its assumptions in terms of
6 economic increases downwards?

7 MR. DONALD PALMER: No, the discount rate
8 was -- was decreased. That in -- that actually increased
9 the amount for -- for pension. There is a assumption
10 with regard to expected wage increase, and I don't think
11 that changed in the past year.

12 MR. BYRON WILLIAMS: Would you undertake
13 to check on that, Mr. Palmer? I'm going to suggest to
14 you that it was revised downward from 2.9 percent to 2.75
15 percent, but will you undertake to review that, sir?

16 MR. DONALD PALMER: I -- I can check on
17 that, yes.

18 MR. BYRON WILLIAMS: Okay.

19 MR. DONALD PALMER: And again, in the
20 context of rates, the -- the difference between those
21 amounts from an expenditure perspective would be not
22 material from a rate setting perspective.

23 MR. BYRON WILLIAMS: Yeah. And what I'm
24 -- what I'm asking Mr. Palmer to do is to review whether
25 in the setting of the estimate of the pension liabilities

1 of the Corporation there has been a revision downwards in
2 assumptions of economic increase -- increases?

3 MR. DONALD PALMER: And we may be able to
4 fulfill that undertaking before the end of the day. I --
5 I know that we have filed the actuarial report of pension
6 liabilities. We're just tracking it down right now.

7 MR. BYRON WILLIAMS: Thank you, Mr.
8 Palmer.

9

10 --- UNDERTAKING NO. 37: MPI to advise if there has
11 been a revision downwards in
12 assumptions of economic
13 increases in the setting of
14 the pension liabilities
15 (answered on page 1,728)

16

17 CONTINUED BY MR. BYRON WILLIAMS

18 MR. BYRON WILLIAMS: And, Mis -- Madam
19 Chair, just to finish off to -- today, apart from the --
20 the major agreement with the MGEU, which is set to expire
21 in September of 2012, would it be fair to say that the
22 Corporation's looking at another significant agreement in
23 terms of labour and material costs in December of 2013?

24 Is -- is that the -- the -- in terms of
25 the Automotive Trades Association?

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

2 MR. BYRON WILLIAMS: And in terms of --
3 Ms. McLaren, this can go to either you or Mr. Palmer. In
4 terms of other significant agreements the -- the
5 Corporation has, would some of the other ones be the
6 Canadian Physio -- Physiotherapy Association, Manitoba
7 Chiropractors Association, Manitoba Motor Dealers
8 Association, and the Insurance Brokers Association of
9 Manitoba?

10 MS. MARILYN MCLAREN: We have important
11 agreements with physiotherapists and chiropractors, but
12 they involve a small, small fraction of the dollars in --
13 that are at stake in the -- compared to brokers and both
14 the Automotive Trades Association and the Motor --
15 Manitoba Motor Dealers Association.

16 So the MMDA and the ATA agreement with
17 respect to vehicle repairs and brokers are -- are much
18 larger dollars than the chiropractors and
19 physiotherapists.

20 MR. BYRON WILLIAMS: I wonder if the
21 Corporation by way of undertaking could set out, and I
22 thank you for that answer, Ms. McLaren, a schedule in --
23 in terms of their agreements with the MGEU, Automotive
24 Trade Association, MMDA, or Manitoba Motor Dealers
25 Association, and Insurance Brokers Association of

1 Manitoba setting out the expiry date for those
2 agreements, and also the current annual costs for the two
3 (2) -- and you can pick a year. I don't care that much.
4 If it's 2012/'13 would work.

5 MS. MARILYN MCLAREN: My preference would
6 be go -- to go to the last full year that's complete and
7 is -- is actual and historic, rather than projected.

8 MR. BYRON WILLIAMS: And that's fully
9 satisfactory. And so for the purpose of -- of the
10 reporter, I'll ask the Corporation to undertake to set
11 out a schedule of agreements with the MGEU, Automotive
12 Trade Association, Manitoba Motor Dealers Association,
13 and Insurance Brokers Association of Manitoba, setting
14 out the expiry date and also sent -- setting out the
15 actual historic -- actual costs for the most recent year,
16 being the 2010/'11 year, if that's satisfactory to the
17 Corporation?

18 MS. MARILYN MCLAREN: Yes, we'll do that.

19

20 --- UNDERTAKING NO. 38: MPI to set out a schedule of
21 agreements with the MGEU,
22 Automotive Trade Association,
23 Manitoba Motor Dealers
24 Association, and Insurance
25 Brokers Association of

1 Manitoba, setting out the
2 expiry date and also setting
3 out the actual costs for the
4 most recent year, being the
5 2010/'11 year
6

7 MR. BYRON WILLIAMS: Madam Chair, I -- I
8 thank the MPI Panel.

9 MR. DONALD PALMER: If -- if I may
10 discharge that last undertaking. Yes, the -- for the
11 actuarial review of pension liabilities, the assumption
12 was 2.9 percent for one point seven five (1.75) years,
13 which would -- would take it to the end of September of
14 2012, and two point seven five (2.75) thereafter.

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: And -- and one (1)
18 last question, just to finish off the slate in this
19 specific area. As part of the MPI/MMDA agreement, I
20 believe, there was a discussion of having an automation
21 of estimating supplement payment process completed for
22 January 1st, 2012. Is my understanding correct?

23 A reference would be CAC-1-254.

24 MS. MARILYN MCLAREN: You're saying that
25 is a provision in the agreement?

1 MR. BYRON WILLIAMS: That was my
2 understanding.

3 MS. MARILYN MCLAREN: That's possible. I
4 don't remember that off the top of my head at this point.
5 We are not -- I think we had some conversation about this
6 with Ms. Hamilton. We're not proceeding with that, sort
7 of one-off change to the way we work with body shops
8 before we completely finish this overall re-engineering.
9 So that's not -- I can tell you now that that's not
10 something we expect to do by January 2012.

11 And just one (1) further point, that we
12 have one (1) agreement that is with both the Manitoba
13 Motor Dealers and the ATA.

14 MR. BYRON WILLIAMS: Thank you for that
15 clarification.

16 Mr. Palmer looks eager to get one last
17 word in, so go ahead, Mr. Palmer.

18 MR. DONALD PALMER: Just for ease of
19 reference for the Board, that pension evaluation that I
20 quoted is contained at CA -- CAC/MPI-1-188.

21 MR. BYRON WILLIAMS: Madam Chair, I -- I
22 thank the Board for its patience, and we will be a while
23 on next Tuesday, but not that long.

24 THE CHAIRPERSON: Okay. So that means
25 that we're done and heading into the final week and we

1 will be hearing from Mr. Williams again on Tuesday
2 morning at 9:30, and then heading into some -- Ms.
3 Grammond?

4 MS. CANDACE GRAMMOND: Yeah. After that,
5 we'll hear from Mr. Oakes.

6 THE CHAIRPERSON: Yes.

7 MS. CANDACE GRAMMOND: Because he'll have
8 some cross-examination.

9 THE CHAIRPERSON: Yes.

10 MS. CANDACE GRAMMOND: CAA may or may
11 not, and -- so once all of the Intervenors have done
12 their cross-examination then we'll head into closing
13 comments.

14 THE CHAIRPERSON: Okay. So we'll see you
15 next week. Have a good weekend.

16

17 (PANEL RETIRES)

18

19 --- Upon adjourning at 4:31 p.m.

20

21 Certified correct,

22

23

24 _____
Cheryl Lavigne, Ms.

25