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
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APPEARANCES

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TABLE OF CONTENTS

LIST OF EXHIBITS

--- Upon commencing at 1:01 p.m.

THE CHAIRPERSON: Okay. I see we're all back. It's one o'clock and we're ready to start the closing arguments. Ms. Grammond, is there anything else before we begin?

MS. CANDACE GRAMMOND: Just one (1) think, Madam Chair. MPI has a couple more answers to undertakings to provide, which I see Mr. Singh has. So we should probably get exhibit numbers assigned to those and then I'll do my closing comments.

(BRIEF PAUSE)

THE CHAIRPERSON: Ms. Kalinowsky...?

MS. KATHY KALINOWSKY: Good afternoon. I do have two (2) undertakings. And that completes our responses to the undertakings. I have Undertaking number 18, which is providing whether the February, 2001, actuarial review was affected by the reserving issue, should -- should be marked as MPI Exhibit number 49.

--- EXHIBIT NO. MPI-49: Response to Undertaking 18

MS. KATHY KALINOWSKY: And MPI Exhibit

number 50 will be Undertaking number 33, which is a list of references and attachments with respect to the trucking industry and the interprovincial trucking benefits that pi -- that those drivers are allowed to receive with respect to the PIPP program by virtue of their residency.

--- EXHIBIT NO. MPI-50: Response to Undertaking 33

MS. KATHY KALINOWSKY: With that, that completes our undertakings. Thank you.

THE CHAIRPERSON: Thank you very much for that. Now, Ms. Grammond, you're going to begin the closing remarks on behalf of the Board counsel?

CLOSING SUBMISSIONS BY BOARD COUNSEL:

MS. CANDACE GRAMMOND: Yes, Madam Chair. Thank you. So as counsel for the Board, I don't take a position on the merits of what's before you. My role is to summarize some of the evidence that we've heard over the course of the hearing. So I'll go through some of the issues and just highlight some of the evidence that we have on the record.

So, as we know, MPI is seeking approval for a rate reduction of 6.85 percent in this application.

They're also proposing changes to some of the driver premiums on the demerit side of the scale, between the minus two (2) and minus twenty (20) demerit levels. And if their request is agreed with by the Board, the maximum demerit level, at -- at minus twenty (20), would be a two thousand dollar ($2,000) driver premium.

MPI's also asking that fleet rebates be increased to a maximum of 33 percent to align with the DSR vehicle premium discounts. At present, we know the maximum discount is 25 percent, and that's for good claims experience that arises from a fleet loss ratio of 45 percent or better.

Under revised legislation that's been put in place by the province the number of categories has been expanded to provide for fleet loss -- loss ratios from forty-four (44) to -- down to 37 percent. And so what MPI is proposing is that for a loss ratio at the 37 percent level there would be a maximum discount of 33 percent.

MPI is not asking for changes in service and transaction fees, permanent certificate fees, or the discount of forty dollars ($40) for after-market installed -- or sorry, after-market and manufacturer or dealer-installed immobilizers.

The Corporation, in terms of the 6.85

percent rate reduction, isn't seeking that any portion of that be applied through the DSR Program, so they're asking for the decrease to be applied across the board through all of the overall rate classifications.

And so under that proposal the average rate adjustment for each class would be as follows. For the private passenger class of vehicle, the decrease of 6.8 percent. For the commercial class, a decrease of 7.9 percent. For the public vehicle class, a decrease of 5.2 percent. For the motorcycle class, a decrease of 10.3 percent. For trailers, a decrease of 5.1 percent. And for off-road vehicles, a decrease of 17.6 percent.

So when you take all of those adjustments together, you have the overall, across the board rate decrease being applied for of 6.85 percent.

So after taking into account insurance use and territory capping and balancing for experience rate adjustments, the Corporation modelled their results of what it's proposing to assess the impact on the various -- of the various rate and classification changes.

So at present, pursuant to the application, the vehicle population in the province is about nine hundred and ninety thousand (990,000) vehicles. That includes about fifty-six thousand (56,000) off-road vehicles.

And so again, if what MPI is proposing is ordered by the Board, what would happen is about nine hundred and five thousand (905,000) of the nine hundred and ninety thousand (990,000) vehicles, would have a rate decrease, so about ninety-one (91) -- between 91 and 92 percent of the vehicles in the fleet would get a decrease.

Of those decreases, about two hundred thousand (200,000) of them would be between zero and twenty dollars ($20). About two hundred and fifty thousand (250,000) would be between twenty (20) and fifty dollar ($50) decrease. About three hundred and fifty thousand (350,000) would be between a fifty (50) and a hundred dollar decrease. About eighty-six thousand (86,000) would get a decrease of between a hundred and a hundred and fifty dollars ($150). And then about twenty-four thousand (24,000) would have a decrease of a hundred and fifty dollars ($150) or more. So that covers who would get a decrease.

There would be about sixty-nine thousand (69,000) vehicles that would have no change, so that's about 7 percent of the overall fleet, would have no change in rates. And then the remainder -- so about fifteen thousand (15,000) vehicles, which is less than 2 percent of the fleet, would have an increase. So those would be the vehicles that -- that wouldn't actually get a -- a decrease.

Out of those, about twelve thousand (12,000) would have an increase of less than twenty dollars ($20), and a very small number of vehicles -- less than three thousand (3,000) would have an increase of between twenty (20) and fifty dollars ($50). And even fewer vehicles, less than a thousand, would have an increase of more than a hundred dollars.

So, in support of its application, the Corporation has provided to the Board updated financial results, which includes the information for the 2011/'12 year end, that occurred in February, as well as an update in the current year.

So, I'll just speak about the 2011/'12 -- or pardon me, the 2010/'11, year for a moment. The year that -- that finished earlier. We have those financial results at TI-11, in the filing. That's Tab 6 of the Board's book of documents, where MPI has reflected it had a net income for rate setting purposes in that year, of just under 290 million.

That was ultimately offset by a surplus rebate that was paid out for 321 million. So in the end, there's a net loss recorded of just under 32 million, after the payment out of the rebate. And we compare that with what was initially forecasted at the GRA for that fiscal year, so that's two (2) years ago, which was a net income of 13.9 million. So, that's a -- just a -- a reminder of what was before the Board at that time.

So, if we leave aside for a moment, the -- the surplus rebate that was paid out, and we talk about that net income for rate setting of about 290 million, the significant change over what was initially anticipated is attributed to a major decrease in claims incurred, taking into account all covers of about 286 million. That was attributable to an improvement in forecasted claims costs, which reflected lower than forecasted claims costs in all covers, except for comprehensive and collision coverage.

The major reduction in claims liability was due to an actuarial re-evaluation adjustment of about 250 million, that reduced PIPP claims liability. In addition to a reduction in claims costs, total expenses were about $3 million less than forecast, and investment income was about 2.3 million higher from that which was expected at the previous GRA. So that's with respect to 2010/'11.

With respect to the current year, 2011/'12, that we're in. MPI initially provided TI-12, as part of the filing. That's at Tab 7 of the book of documents. And that reflected the Corporation's most recent information as at the time the GRA was filed. And I -- I won't go into the details of that because the -- MPI filed, over the course of the hearing, the second quarter report, which is the more current and updated information with respect to the current year. So the -- the actual second quarter report was filed as MPI Exhibit 9 in this case, and they also filed, together with the -- the actual second quarter report, an updated statement of operations, and that's Exhibit 10 -- MPI Exhibit 10. So that is a -- an update of some of the -- the earlier financial schedules that we had.

So if we consider Exhibit 10 for a minute. MPI is reporting there net income of 34.2 million for the six (6) month period ending August 31st, 2011. And that's compared with 69 million earned in the same period the year before, the 2010/'11 fiscal year.

Exhibit 10 shows a net loss to Basic of 13 million after a surplus distribution. This is what's anticipated for year end, and that's revised from an expected net income of 3.2 million in the GRA filing. So it's -- it's a decrease of about 16.3 million in operating results from what they had forecasted before.

The main source that they cite for the -- the change in costs, and specifically an increase in claims costs, is higher hail and collision claims of about 59 million. They also cite an increase in PIPP costs of about 42 million attributed primarily to changes in interest rates.

Offsetting though those increased costs there's a forecasted decrease in operating costs of about 7.4 million and a higher amount of expected investment income of about 29 million. And that is due to strong returns in the bond portfolio within the -- the overall investment portfolio.

And MPI has said that even in light of these changes that are reflected in Exhibit 10 and the second quarter results they're not seeking any changes to the application before the Board. So they're -- they're still asking for the same -- same thing that they were asking when the GRA was filed.

We also have as part of Exhibit 10 an update to -- through the outlook period. And so what that reflects is from the current year through to 2015/'16, and MPI through those projections has included implementation of the proposed rate decrease. So those numbers show what MPI anticipates at this point if the proposed rate decrease is granted. And, of course, the -- the rate decrease that is proposed represents approximately 50 million in annual revenue.

MPI has also reflected in its projections an upgrade factor -- vehicle upgrade factor of 2 1/4 percent. That's the replacement of older vehicles with newer ones within the fleet and, as well, a volume factor of 2 1/2 percent. So that's the factor that there are just more vehicles on the road every year.

They also reflect in their forecasts increased premiums due to changes in the DSR scale, but they don't include in their projections any anticipated savings in claims costs due to the DSR system having been introduced.

So if we look forward through Exhibit 10 and what they're projecting for the next few years, we see that for the 2013/'14 fiscal year they're projecting net income of 9 million. For 2014/'15, 23.7 million. And for 2015/'16, 43.2 million.

So those are some -- some comments about the statements of operation. I'll just have a few comments with respect to the RSR the -- what's called the rate stabilization reserve. Corporation has confirmed as has been the case in past years that the stated purpose of the RSR is to protect motorists from rate increases made necessary by an -- unexpected events or losses arising from non-recurring events or factors.

The total retained earnings in Basic as of the end of 2010/'11 was about 206 million, and that's after again payment of the rebate last year of 321 million. MPI has also segregated 65 million from Basic retained earnings to establish an IT optimization fund. The Basic insurance RSR is forecasted to be 127.5 million at the end of the current fiscal year and 126.9 million at the end of the year of the application.

The IT optimization fund is forecasted to be 61.7 million at the end of the current fiscal year and 58 1/2 million at the end of the year of the application. So on a combined basis, and even taking into account the further second smaller rebate that just issued, Basic retained earnings is forecasted to be 189.3 million at the end of the current year and is projected to be 185.4 million at the end of the year of the application.

So we know that the existing Board-approved range for the RSR for the year of the application was between seventy-six (76) and 152 million. That's based on the risk analysis or value at risk approach that was done in 2006 and has been indexed by the growth in gross written premium.

For rate setting purposes, MPI has said that they adopt the range established by the Board, but they were asked to and did provide an updated DCAT, or a dynamic capital adequacy test. And pursuant to that new

DCAT -- there is an RSR target point of 210 million identified.

MPI has advised the Board that there has been an increase in its risk profile due to having a higher proportion of equities in its investment portfolio, which is up by about a hundred million, and that, of course, leads to greater variability.

They've also cited increases in their experience with hail claims. But MPI has said despite the difference between this new target point reflected in the DCAT of 210 million and the previously established Board range, they continue to accept the Board's range for rate setting purposes.

In establishing Basic rates the Board in the past has said that it looks to the overall financial wellness of the Corporation. MPI has expressed disagreement with that approach but does state that the Basic program has to stand on its own. It agrees that Basic is the vast majority of the Corporation's operation and is the reason for the Corporation's existence.

We know from the annual reports of the Corporation that the competitive lines of business have about 143 million in retained earnings. And when that's combined with the retained earnings in Basic there's about 336 million in retained earnings in the Corporation at the end of 2010/'11. And the Corporation has declined to file any forecasts of retained earnings relating to the competitive lines.

I had mentioned a couple of minutes ago the IT optimization fund, and that's something that was approved by the Corporation's Board in February of this year, which is a $75 million fund, corporate-wide, sixty-five (65) from Basic, that has been set aside by the Corporation to fund a series of multi-year investment -- or pardon me, information technology projects.

We've re -- been referring to this information technology optimization fund as the ITO fund. MPI has said the -- the reason for the establishment of the fund was to defray a rate impact of the development and amortization of deferred development expenses relating to ITO projects.

The IT -- ITO projects that MPI has referenced that it's expecting to be completing will include application optimization, IT service management, security optimization, infrastructure optimization, and upgrades to its disaster recovery and business continuity programs. The idea being to refurbish the Corporation's information technology infrastructure, to lower the risk of service interruption, and we heard some evidence about that occurring, as well as to enable future service improvements.

Some specifics of what they've put forward include an improved network infrastructure that can support future demands for voice, data, and video, a revised business continuity plan, revised disaster recovery plan, a new green data centre, a more robust infrastructure, and an ability for IT to -- the -- their IT to stay current while they're making changes within the business.

We know that MPI has enlisted the services of the Gartner Group to assist in management and oversight of these projects over the next five (5) years. And the Board heard evidence from Martin Geffen of Gartner with respect to the project and Gartner's role.

We know that Gartner reviewed an assessment that had been done by Hewlett Packard, or HP, and that Gartner had agreed with the conclusions reached by HP, that MPI needed to do an upgrade to its IT infrastructure.

Mr. Geffen assessed the current state of the IT infrastructure as functional but at risk both from a security standpoint and a potential for failure. Mr. Geffen testified that the ITO project was focussed on improving the underlying technology that supports MPI's system applications. In other words, the project is about ensuring that the underlying infrastructure is in place to enable MPI's business to run appropriately.

Detailed project charters for the various aspects of this project have not yet been done, but are in the works, and will include detailed cost estimates and detailed articulation of the benefits from each project. And Gartner has advised that it will be reviewing these project charters when they're completed.

Another issue that we have had some evidence on in this hearing, and the Board has heard about in the past, is MPI's cost allocation methodology. This is necessary, of course, because MPI has a lot of corporate-wide expenses that have to be allocated among the lines of business in a way that doesn't allow for cross-subsidization between the lines of business.

So MPI had engaged Deloitte a couple of years ago to do a study of what the cost allocation methodology should be. That's been reviewed by the Board in the past. And in last year's order, flowing from the GRA, the Board endorsed the methodology but did not approve it for rate setting purposes on the basis of the Corporation's refusal to provide certain financial information.

So MPI has given evidence in this GRA, that it has implemented the cost allocation methodology for financial reporting, but it is utilizing the previous -- the older cost allocation methodology still for rate setting purposes. So, in effect, it's maintaining two (2) sets of books.

And we know from the financial evidence that the m -- the new methodology, if implemented, would improve Basic's financial projections by about three and a half million dollars. And so that translates into about a half of a percent in terms of a -- a rate reduction.

Another area that we've had some evidence on in this hearing are the international financial reporting standards, or IFRS. We know the Corporation has adopted IFRS for the 2011/'12 fiscal year, as required, and that a series of policy decisions and transitional elections had to be made to address that transition.

The adoption of IFRS did not impact the Corporation's net income statement, but had a one (1) time impact on the RSR of about 21 million, that being in the first quarter of this fiscal year. And that arose from a transfer of accumulated other comprehensive income, also known as AOCI, due to the redesignation of bonds from available for sale to fair value through profit and loss, as unrealized gains and losses are included on the income statement under IFRS.

In addition, MPI adopted changes dealing with IFRS that impacted employee benefits. Specifically, under IFRS, MPI is to accrue short-term employee sick leave benefits that are not vesting. That resulted in an accrual of $2.4 million for sick leave entitlement.

So on a net basis, the two (2) accounting election changes increased retained earnings by 18.6 million, so the -- the twenty-one point one (21.1) less the -- the two point four (2.4).

Under IFRS, MPI also had to change how it accounted for its credit card merchant fees. Now they have to be included as an operating expense, whereas before they were netted against service fee revenue. So that's just a -- a reclassification, but doesn't impact net income.

We heard evidence from KPMG, Mr. Kowalchuk and Mr. Parkinson, who testified as the Corporation's external auditors, that they reviewed the policy decisions made in connection with the transition to IFRS and that they were in agreement with what the Corporation did.

We've heard a significant amount of evidence in this hearing about the valuation of claims liabilities within the Corporation, so I'll -- I'll speak about that in -- in some level of detail.

We know that, over the last number of years, there have been a series of releases in claims liabilities. And over -- in fact, over the last seven (7) fiscal years, the cumulative amount has been over $644 million.

And, I'll just read in the reference for the breakdown of that. It's PUB/MPI-1-31(c). So that reflects what the years were and what the difference -- differences were in each year between projected and actual. So PUB/MPI-1-31(c) provides those details and how that 644 million is calculated.

So in large part, this was a -- an over-forecasting on the part of the Corporation and with the result of a series of adjustments made by the Corporation's external appointed actuary, and that's Jim Christie who we heard from, to the Basic claims reserve held by the Corporation for incurred but not reported claims, which we refer to as IBNR.

So, for example, the Corporation confirmed that the cumulative Basic total net PIPP undiscounted claims runoff during the fiscal years 2006/'07 through 2010/'11 has been favourable for each insurance year, aggregating to about 625 million. And the source for that is PUB/MPI-1-23.

So as I said, we heard from Mr. Christie, the Corporation's external appointed actuary and he provided evidence on the process for the valuation of claims liabilities. In particular, the process originates, we heard, with the Corporation's internal actuarial resources where they assemble and provide data and initiate analysis.

They then provide that information to Mr. Christie, he reviews it, does any independent analysis that may be needed and works with the Corporation's internal actuarial personnel to reach final conclusions on the valuation but then Mr. Christie takes full responsibility for what those valuations are.

The data and the final conclusions reached by Mr. Christie are then provided to the actuarial specialist that supports the work of the external auditor. So in this case KPMG, and Edward Lam was the person who did the -- the last report, for his review and comment and that's part of the audit process.

In terms of the significant runoff that occurred in the 2010/'11 fiscal year, Mr. Christie confirmed that his first evidence of that magnitude came to light from the initial analysis of the Corporation's internal actuarial personnel.

But the story behind much of the recent

favourable runoff goes back to 2005 when the Corporation established a new tabular reserving system for certain PIPP coverages which set individual case reserves using annuity-like factors based on the characteristics of the individual claimant. Prior to that time, individual claims reserves had been set by claims examiners individually based on their knowledge of the claim and their experience with similar claims.

So this change in 2005 and the adoption of the tabular reserving system caused case reserves to decline by about 250 million, but because of the untested nature of that system and the limited data available to do testing, Mr. Christie's valuation at that time actually increased the IBNR provision by about the same amount. So basically he did not give at that time any credibility to the new tabular reserving system and otherwise maintained the claims liabilities levels consistent with recent prior years.

Mr. Christie testified that he continued to follow that practice for a couple of years before beginning to give at least partial recognition to the lower IBNR estimates indicated by the experience since the implementation of the tabular reserving system in 2005.

So by the time 2010 rolled around with

five (5) years of accumulated experience since the change was made, Mr. Christie's professional judgment was to respond much more completely to the -- the recent experience, which in turn produced most of the 265 million favourable runoff during 2010/'11, all done in accordance with accepted actuarial practice in Canada.

For each of the valuations -- or pardon me. For each valuation step in the process over the last five (5) years, including the latest valuations, Mr. Christie considered his valuation to have been prepared on a best-estimate basis before consideration of any provision for adverse deviation or Pfad, and in accordance with accepted actuarial practice. And he continues to hold that view today.

He also described the basis for his valuations as being "slightly conservative." That's at transcript page 1,152. And with respect to his latest valuations he said he had no expectation of significant, favourable, or adverse runoff in the future.

With respect to the valuations done in October 2010 and February 2011, those are the -- the two reports at AI-13, and we spent quite a bit of time on those in the hearing. The external auditor's actuarial specialist, Edward Lam, con -- concurred or agreed with Mr. Christie's views, stating in part:

"Mr. Christie's analysis is in accordance with accepted actuarial practice in Canada and conforms to the relevant standards of practice of the CIA."

Mr. Lam also stated:

"Mr. Christie's estimates of claims liabilities are within our range of reasonableness for each line reviewed as well as an aggregate for some of the lines of business reviewed. We consider that Mr. Christie's es -- estimates are slightly conservative while remaining within our range of reasonableness."

We also had evidence from Mr. Parkinson, of KPMG, the external auditor, that the definition of "range or reasonableness" for reserves would typically be about plus or minus 5 percent around a central estimate, and that's at page 1,276 of the transcript.

So those are my comments with respect to the actuarial reserving matters. I'll move then to a few comments about investment income. We know that that's a major component of the Corporation's income and serves to offset the annual underwriting losses.

The evidence shows that the Department of Finance has ultimate authority over MPI's investments, but there is a joint investment committee working group in which MPI participates together with members of the Department of Finance.

We know that MPI's overall investment portfolio corporate-wide is over $2 billion as of the 2010/'11 year end and the funds available for investment are primarily unearned premium reserves and unpaid claims reserves. The investment portfolio supports both the payment of accident claims as well as the pension obligations of the Corporation.

For the year of the application with which you are concerned, MPI is projecting investment income corporate-wide of about 91 million, and 78 million of that, or about 86 percent, is estimated to be Basic's share.

We know that the portfolio has a significant weighting in bonds and, in particular, long-term bonds, so, hence, the returns on the bond portfolio are -- are very susceptible to changes in interest rates. And, in fact, the returns on the portfolio have -- have been negatively impacted due to the payout of the recent very large rebate ordered by the Board as well as the very low interest rate environment that we find ourselves in at present because, of course, new monies that are being invested in the portfolio are being invested at lower interest rates, which has accounted for some lower investment income.

In terms of the size of the portfolio, as I said, as of February it was over -- just over 2 billion. The -- for the year of the application the portfolio is projected to increase to just under 2.3 billion. And in terms of a breakdown, there would be about 62 percent still in long-term bonds, about 22 percent in equities, 3 percent in cash and short-term investments, just under 10 percent in real estate, 1/3 of a percent in venture capital, and just under 3 percent in infrastructure investments. And the Corporation, in terms of the outlook period, is expecting a growth in the overall portfolio to about 2.7 billion by 2014/'15.

We've heard some evidence in this proceeding with respect to DVL, or driver and vehicle licensing, and we know that the Corporation treats that as a fourth line of a business, non-insurance line of business, within its operations after the merger with the government department about fi -- six (6) years ago, I guess, now.

The funding that the Corporation receives for DVL is set out in a master agreement with the province and historically was set at $21 million a year. There has been a shortfall over the years, and that loss has been absorbed in the Extension line of business.

Based on a review of the Corporation's annual reports, losses over the last number of years have totalled 110 million approximately. And the evidence is that that's not expected to be recovered from the province.

We do know that funding -- the annual funding has increased to 28 million as of April of this year, so up from twenty-one (21) to twenty-eight (28). And that payment that the Corporation receives annually from the province is intended to cover off DVL operating costs and to reimburse the Corporation for startup costs relating to the enhanced drivers licence and Manitoba identification card.

Another major DVL project that will be executed is the mainframe decommissioning. That's the de -- decommissioning of the mainframe computer. That's now known as DART, or driving ahead in real time. And in particular, the information on the DVL mainframe will be transferred into the DART system and that will form part of the enterprise data warehouse that we've heard about.

We've had some discussion at this hearing about broker commissions. And we know that the percentage paid to brokers for Basic transactions is slated to decline to 2.5 percent in the year of the application. And that's pursuant to a -- an agreement between the Corporation and the brokers and embodied in regulation.

We've heard evidence about the streamlined renewal process. The idea that every insured renews their policy every five (5) years, and under that system each individual will have a broker of record, which will be the broker with whom they renew in year 1. And that broker -- broker will receive commissions for the balance of that policy up to the five (5) years if there are no changes to the policy.

As reflected in the Corporation's most recent annual report -- the 2010 annual report, total commission expenses in 2010/'11 were 78 1/2 million for the Corporation as a whole. And about 46 million of that was paid from Basic.

Pursuant to the agreement between brokers and the Corporation that I mentioned, broker commissions paid for extension products are 18.5 percent, and as the evidence reflects, MPI has about 96 percent of the extension insurance market in Manitoba.

We've also heard evidence from the Corporation about the business process review, or BPR.

MPI has now completed the majority of the BPR projects, some of which were funded by the extension development fund in extension. And that fund has, to date, had about 92 million allocated for projects.

As of February of this year, MPI had drawn out about 48 1/2 million -- out of that fund, so there's just over 43 million remaining in that fund as of February, 2011. In addition, there were projects funded by Basic, to the extent of about 47 million, so an overall total it would seem of 138 million spent or allocated for BPR projects.

MPI has also incurred over $30 million in project management costs, of which about 9.4 million relates to Basic projects. Of that 9.4 million, about 7.3 million of it was incurred externally, and the remainder of 2 million being internal costs. The internal costs were expensed by MPI when incurred, whereas the external costs were allocated to the specific BPR projects.

The PIPP infrastructure project is one (1) that was funded 100 percent by Basic, and the total costs for that project were about 25.6 million, plus 3 million in project management costs. So an overall total cost of about 28.6 million.

MPI has given evidence that that PIPP

infrastructure project is in place and has been in use since September, 2010. MPI has advised that the new FINEOS, F-I-N-E-O-S, claims system will allow for it to effectively mine the claims data to determine different injury trends and benchmarks.

The driver safety rating was another BPR project funded by Basic. The total costs for that project was 7.5 million, plus project management costs of about 1.7 million.

The streamlined renewal project is one (1) that was funded by Basic to the extent of 80 percent. And the costs for that were 4.1 million plus project management costs of one point seven (1.7), so a total of just under 6 million and the remainder -- or the remaining 20 percent was, of course, funded by the other lines.

I'll just make a few comments about capital expenditures. The Corporation has provided to the Board a corporate-wide capital expenditure forecast. The budget provided for the current year, at last year's GRA hearing, was about 55 million. And -- pardon me, the budget for this year, at this year's hearing was about 55 million. The budget for the same year at last year's hearing was 17 million. So there's been a -- an increase of about 38 million in forecasted spending for the current year.

And the difference in that number -- the -- the reason for that, in the main, is the business transformation office projects that had not been identified and budgeted for last year. And MPI commented on the fact that last year it had not included in the forecast what we've been calling a placeholder for unidentified projects, but that this year they've gone back to putting a placeholder in the budget. And so there is such a placeholder of 20 million for year -- year of application as well as the following year, the 2013/'14 year.

So for the year of the application that we're dealing with, the forecast for capital expenditures is about 53 million, and for the following year, 2013/'14, it's 46.7 million. And that -- or those anticipated expenditures relate primarily to the business transformation office initiatives, which includes the ITO or information technology optimization that I spoke about earlier.

With respect to operating expenses. Total Basic expenses were 170 million in 2010/'11 and are forecast to be 186 million in 2011/'12, so an increase of about 9 percent. A portion of that increase is attributed to the commencement of amorta -- the amortization of BPR deferred development costs and increases in compensation expenses.

A major component of those Basic expenses are operating expenses, which are forecasted to be about 60 million in the current year, and that has been revised slightly downward based on the update that we got to about 53 million. For the year of the application operating expenses are forecasted to grow to 64 million.

Now, as I had mentioned, in connection with IFRS there was that reclassification of merchant fees that was required to be done, so if we eliminate that from the analysis we see an increase in operating expenses from 52 million to 57 million, so an increase of about 5 percent which is still in -- in excess of inflation.

But that increase is partly attributable to higher amortization costs, from improvement initiatives over a five (5) year period. In addition, salaries are a major component, as we know, of the operating expenses of the Corporation. And the compounded annual growth for compensation expenses of the Corporation from 2010/'11 to 2012/'13 is about 6 1/2 percent, which again is above inflation. And MPI has attributed this increase that is over inflation to be due to the needs of the various BPR and business transformation office projects as well as operational requirements.

In terms of staffing levels. The number of staff, that has increased fairly significantly within the Corporation since 2000. Prior to the merger with DVL, MPI had about thirteen hundred and sixty-four (1,364) FTEs or full-time equivalents. And with DVL coming onboard the staffing levels increased to about seventeen hundred (1,700). Staffing levels went up again in 2009 to just under two thousand (2,000), about nine (9) -- nineteen hundred and ninety-one (1,991).

I've never heard that one before. Yeah. Sure. Sure, I can slow down. My apologies for that.

So I was speaking about staffing levels and in the context of the BPR project. And staff, as the evidence reflects, that were assigned to BPR projects increased from twenty-three (23) full-time equivalents in 2007 to about two hundred and twenty-nine (229) full-time equivalents in 2009. That then dropped to about seventy-three (73) full-time equivalents in 2010 and is forecasted to drop to about five (5) full-time equivalents in 2012/'13. So that's just the full-time equivalents assigned to the BPR project.

And MPI has advised that in most cases the staff assigned to BPR projects were permanent MPI staff that would be later reassigned within the organization once the projects had been completed.

So back to, for a moment, overall staffing levels. The -- the almost two thousand (2,000) FTEs that the Corporation had in 2009 dropped to just over nineteen hundred (1,900) in 2010 and to eighteen hundred and fifty (1,850) in 2011.

MPI has indicated that it expects to have some savings relating to the BPR projects totalling about sixty-one (61) full-time equivalents, which includes about seventeen (17) full-time equivalents relating to service centres, twenty-four (24) full-time equivalents relating to the PIPP infrastructure system, and about twenty (20) full-time equivalents relating to the mainframe decommissioning or DART.

We have also had some evidence at this year's hearing with respect to road safety matters. MPI has commenced a wildlife collision pilot project and is continuing with other past efforts in road safety but has declined to establish a road safety fund that was recommended by the Board flowing from last year's GRA hearing.

So, Madam Chair, I've attempted to comment on the main issues that have been before the Board at this year's hearing. I would thank the Board and all of the parties for their cooperation and hard work throughout the hearing. If the Board has any questions for me I'd be happy to answer them. Otherwise, those are my comments.

THE CHAIRPERSON: Thank you very much for that. And now we're going to turn to the Intervenors that are registered. And I understand, Mr. Oakes, that you were willing to go first. Is that true?

MR. RAYMOND OAKES: That's correct, Madam Chairperson.

THE CHAIRPERSON: Okay, you go ahead.

CLOSING SUBMISSIONS BY CMMG:

MR. RAYMOND OAKES: Thank you. Unlike the role of Board counsel, who takes no position, the CMMG instructs me to pull no punches in the critical review of MPI's performance and their evidence on this GRA. As I stated in my opening comments, this is really a watershed year for PUB in its annual MPI general rate application.

To that end, countless hours over the many days and weeks have been committed by the parties in this room to test the application of MPI using each of their own best efforts. As noted by Madam Chair yesterday, there are serious impediments and challenges presented by the delay in the Manitoba Court of Appeal decisions regarding jurisdictional issues, compounded by MPI's refusal to provide evidence as to non-Basic lines and the issue of exempt vehicles.

As well, we had pointed up the Corporation's refusal to answer a number of interrogatories, as well as what some would term cute or evasive answers, some of them blaming the Public Utilities Board for the fact that MPI was able to hide behind a Board approval even though these approvals may have been obtained based upon incomplete evidence produced by MPI. In respect of the failure to openly answer interrogatories, I direct the Board to CMMG-1-3, 1-12, 1-13, 1-14, 1-20, and 2-9.

The suggestion of CMMG in dealing with the aftermath of the massive reserve adjustment, the lack of any court direction, and the failure of MPI to produce necessary evidence is as follows. We suggest the Board conditionally accept the GRA as applied for, the condition be that it be reviewed after the Court of Appeal decision is received with the possibility of a re-hearing depending on the result of those decisions.

We suggest that depending on the direction from the court, that the costs relating to exempt vehicles be disallowed for many Basic line of business.

With respect to the evidence as to the financial health of MPI and the possible manifestation of financial deterioration, my almost two (2) decades of experience in these hearings gives me confidence that MPI is more than prepared for a rainy day.

MPI, in addition to its substantial RSR, over $200 million, maintains reserve upon reserves with provisions for adverse deviation called Pfads for each of them. They have interest Pfads. This was one (1) that was invented in 2008. They have claims development Pfads. They have reinsurance Pfads. They have reserves for doubtful accounts. They have tre -- treasure chest upon treasure chest of resources. Probably a few unknown to us.

I suggest that MPI will always tailor its evidence to maintain substantial reserves in order to not embarrass their political masters and we note Mr. Christie's very unfortunate substantiation of his conservatism in terms of political goodwill.

And I'm sure My Learned Friend Mr. Williams will spend some time in reference to his comments about the effect of a surplus and a rebate in a political arena. It certainly raises the spectre of political interference in MPI's mandate and gives us great concern.

I am astounded that Mr. Christie would watch an aberration in claims development year after year for five (5) years, allowing the surplus to grow to $286 million, without sounding any alarm. He knew the Public Utility Board and Manitobans rely on his work with MPI. It took a back row actuary to tell him that they could no longer defend the undefendable. I'd suggest that this type of conservatism is rampant in the empire building that MPI employs.

At the outset, Ms. McLaren spoke of her passion for public auto insurance. While in some respects, that excess emotionalism might be commendable, and is certainly better than the opposite end of the scale, which would be apathy. But the negative implications include a possessive, territorial, and defensive approach to managing the Corporation and its assets.

That tendency results in over-collection of premium revenue to build war chests. And in an -- rationalization to maintain those surpluses.

I submit the Board can approve the rate reductions proposed without fear of MPI's coffers running dry, no matter what the investment portfolio or the claims experience for the next twelve (12) months. This is especially true if it is conditional approval with the opportunity for a re-hearing.

With respect to a number of other issues raised by Madam Chair yesterday, the CMMG has no position on clear ratings, since it doesn't extend to motorcycles, the MPI investment portfolio, the DSR rating, IT optimization, or DCATS or the level of the RSRs. These are issues canvassed in great deal -- detail by the Board's counsel and advisors, as well as CAC, all of which include a team of actuaries and professional financial advisors.

With respect to the IT optimization, although some of my constituent members might find $67 million put aside for computer optimization to be an incredibly large sum, we do recognize the challenges that any large corporation faces in these very advanced times, and it's certainly to the benefit of Manitobans to have MPI with the software and hardware that it needs to do its job.

The CMMG, of course, is very concerned with road safety expenditures, which have historically focussed on non-motorcycle areas such as seatbelts and immobilizers. And the evidence, of course, is that the Corporation, on the immo -- immobilizer program, has spent some $60 million.

How Mr. Palmer can say with a straight

face that, to look at motorcycle safety expenditures, you add the sixteen dollars ($16) that is spent for private passenger seatbelt and other initiatives to the eighteen dollars ($18) for the motorcycle safety council and motorcycle specific issues, is beyond me.

However, he probably had a lot of practice in keeping a straight face in front of the mirror, saying that an -- an unknown -- previously unknown surplus of $286 million dollars that developed over five (5) years, didn't mean that the previous methodology was wrong.

Manitoba has the highest cost motorcycle insurance in Western Canada. The broken record that we hear in response to that is none of the other provinces have the same benefits. We suggest the Board re-read the comments of the presenters from the first afternoon, because the delivery of these benefits is another story. We might have excellent PIPP benefits, just try and get them.

The sad fact is that we have the highest rates and MPI won't spend any funds or resources to come up with new initiatives to try and reduce motorcycle accidents. They spend a pittance on motorcycle-related road safety.

Their record on the issue of wildlife claims is even more abysmal. We have an annual $30 million but only now do we have a small-scale urban pilot study that primarily involves slowing speeds in a commuter area. The Corporation has had this problem since its inception since 1972. I can't understand the Corporation's reluctance to assist in barrier construction in problem areas much like you would see if you drove the Coquihalla Highway in BC. Do we have to wait another forty (40) years?

Also like to convey our disappointment with the way the Corporation responded to the rebate issue earlier this year, and the argument at that time by CMMG for a rebate that reflected the high percentage of PIPP contribution by motorcyclists in terms of their rate.

At that time, the Corporation knew that the PIPP expenses made up 86 percent of motorcycle claim costs. Almost three (3) times that of the private passenger at 32 percent. They knew that as a result of its change in the methodology the required rate for motorcyclists would change with a 24 percent reduction in the required rate. The rates were sufficient in 2011 where they brought out this tired opposition based on an argument of rate insufficiency from some dozen years ago or more. It is this type of partisan defensiveness that is inappropriate for a Crown corporation that is established for the benefit of all Manitobans.

Participants here today who have attended hearings over the last decade will recall the Corporation's misplaced fervour with which MPI executive fought unsuccessfully against the equitable system of loss transfer in this forum. This type of partisan, biased corruption of the facts does not serve the Corporation or Manitobans. It lessens the public's perception of the integrity of the Corporation.

I suggest that the model of the Crown attorneys in its purest form as a non-partisan minister of justice is a good analogy. A Crown attorney is supposed to disclose all information concerning the crime to the defence lawyers and seek a fair, reasonable, and equitable result, not colouring the pro -- prosecution with his or her own personal views.

This is the type of response we seek from the Corporation: even-handed, transparent, and open. We don't want to be ask -- we don't want to ask questions and be told blame the Board, they approved our rates and policies. We don't want them sitting on information like they did in terms of the rebate issue or defending their own agenda -- or the sitting on the information of the development of reserves like they did until they amounted to some $284 million of our money.

How many motorcyclists could have afforded to stay registered and insured if the rates had have had the 24 percent rate requirement reduction that was due to them?

Madam Chairperson, that concludes my submission. I'm available for further discussion with the Board if they see fit. And of course we'll submit our cost application in due course.

THE CHAIRPERSON: Thank you very much for that, Mr. Oakes. Now, Mr. Williams, are you next?

MR. BYRON WILLIAMS: I am, Madam Chair. And I think the Board might -- what I would suggest is you -- I have a -- an outline of our argument to distribute and it might be --

THE CHAIRPERSON: We could take a break.

MR. BYRON WILLIAMS: -- a break. That would be --

THE CHAIRPERSON: Yeah. We could take a break. We've been at it for an hour so we'll take a short break. What would you suggest, Ms. Grammond? I'm -- I'm thinking about time.

MS. CANDACE GRAMMOND: I -- I would say ten (10) or fifteen (15) minutes and then --

THE CHAIRPERSON: Let's do the fifteen (15) then.

MS. CANDACE GRAMMOND: Yeah, sure.

THE CHAIRPERSON: Yeah. That'll be good. Fifteen (15) minutes. Three (3) -- or 2:15.

--- Upon recessing at 2:00 p.m.

--- Upon resuming at 2:19 p.m.

THE CHAIRPERSON: All right. We're refreshed and ready to go. So, Mr. Williams, I see you've given us a document to follow along.

MR. BYRON WILLIAMS: Yes, and hopefully you don't strain any arm -- arm muscles in terms of lifting it. before I start, just a couple things. Certainly we've already thanked the MPI Panel, and our -- our clients do appreciate the contribution of Board counsel and advisors, the Board secretary, and the court reporter. It's been much appreciated, and the quality of their work, as usual, has been outstanding.

And with this again, behind me I think is Ms. Desorcy, and also one (1) of our articling students is in the first row, Ms. Ma -- Marie Ma -- MacLellan, M-A-C-L-E-L-L-A-N, for the reporter.

Madam Chair, you might want to remind me at the end, my client will hopefully as well, yesterday the Board presented a lengthy list of questions, and the response to many of them are captured in this written document. Some of them we were not able to take instructions on until this morning.

So at the end of our -- our submission in terms of this document we'll have a response to five (5) or six (6) of the -- of the questions that I'll do verbally. And two (2) of them were of sufficient complexity that -- and I'll get to that near the end, Madam Chair, but two (2) of them were of sufficient complexity that my client, given that I just briefed her on the issues this morning, was hoping for the opportunity to prepare a written response for later this week with regard to two (2) of them, and we would ask the Board's indulgence. If -- if they would provide us with that opportunity we would en -- ensure that we filed it prior to MPI's closing argument.

THE CHAIRPERSON: That sounds very reasonable.

CLOSING SUBMISSIONS BY CAC:

MR. BYRON WILLIAMS: Just in terms of the document itself, it is -- most of it is numbered on the bottom of the -- middle of the bottom of the page. So if you turn to the -- the page you will just see notes on citation and number 1.

If the panel is wondering where I am, I will try and let you know which page I'm on. I -- I won't be going word for word and, at times, I'll be speaking extemporaneously. So if you -- if I've lost you, please pull me back.

And I did want to dwell on citations just for one (1) moment. We have -- in terms of this report -- or this report, these submissions, we've -- they -- they've been extensively cited -- or footnoted in terms of -- in terms of references to the record.

And we do, on behalf of our clients, try and be careful that we're representing the comments of -- of other parties in -- in an appropriate context, but we provide the citations so that if people are not satisfied that they are in the appropriate context they can -- they can go back to them.

Just turning to page 2 of the outline, this argument is divided into three (3) parts: Part 1, Part 2, and Part 3. It's going to be a lengthy overview in which we -- we talk about three (3) central questions which our clients believe have arisen in the course of this hearing, provide some preliminary answers to them, and provide just an outline of their recommended findings to the Board.

And from my clients' perspective,

providing recommended findings is not that usual. But over the past year or two (2) we've been at the Court of Appeal a fair bit often with the Public Utilities Board as one (1) of the parties. And -- and we think that to -- to protect the decision making of the Board and other administrative tribunals it's important to have, in terms of certain findings, some -- some findings that really flesh out the decision, and -- and that's why we -- we might spend a bit more time on them than we might usually do.

At page 3 of our outline you'll see a question at the top, "What happened." And it's actually a polite paraphrase of a question my client posed to me. There was a profanity in -- in-between "what" and -- and "happened," and it wasn't meant in a negative way.

But my -- my client was asking me -- commenting on what are truly extraordinary events, and we've set them out in the arrows on this page. One (1) event ta -- coming to the attention of the Board in March of 2011, being a massive decrease in the IBNR, whether it's 284 million, but a very significant amount.

Then there was certainly an unprecedented rate rebate, which went to the -- to the -- to many Manitobans in May of 2011. And then there's this rate increase itself, and I -- I'm not swearing that this is the largest rate decrease presented by Manitoba Public Insurance, I'm not confident of that --

THE CHAIRPERSON: Yeah. You said increase, but you meant decrease.

MR. BYRON WILLIAMS: -- I meant rate -- rate decrease --

THE CHAIRPERSON: Yeah.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: -- and hope it's a rate decrease, Madam Chair, that's -- that's your decision. I certainly -- I misspoke if I did. We'll scratch the -- it's not wishful thinking, I want to assure you.

But certainly, to my client's knowledge and recollection, this is one (1) of the largest decreases that they've seen. And -- and when one (1) looks at these events together, truly an -- an extraordinary question and an extraordinary circumstance. And my client legitimately asks -- we'll -- we'll strike out the profanity, what happened?

And on page 4, we note that the Board really raised a similar question and, in his conversation with the external auditors, Mr. Gus Lam as well asked -- it -- it -- you know, this $250 million that -- it appeared to just burst on to the radar. What happened?

And he also asked, in the second paragraph:

"What could be done differently to avoid that happening in the future?"

And -- and so those are two (2) of the central questions which our clients think are important for the Board as it makes its deliberations, to carefully consider.

What -- what happened? And what can we do to ensure it does not happen again? And those are two (2) important questions from our clients.

On page 5 of our outline, we set out another question. One we think is equally important. One we think is equally puzzling. And that question is, -- this is -- recognizing that we're at a time of global recession, recognizing that there is a -- an economic slow-down in -- in certainly Canada and -- and Manitoba. How has the Corporation been able to so aggressively increase its Basic expenditures over the last few years? How can that happen when one (1) would expect that economic circumstances would dictate a slow-down in expenditures? How did that happen?

And at page 6 of our outline, we quote from our -- our good friend from -- from Swan River, the former Minister of Finance. And I accused myself of waxing poetic in my cross-examination of Mr. Palmer but I -- I was quoting Minister War -- Minister Wowchuk, and she just pointed out the depth of this recession, suggesting that there isn't a corner of the world that has escaped it. And that:

> "While Manitoba has fared better than most, we are still feeling the impact of the worst economic downturn since the second World War."

And I wonder if she might have wanted to restate that, saying prior to the second World War, but we know what she meant. It was a very significant economic downturn, whose impacts are still being felt.

And when we look at Manitoba, at page 7 of the outline, we can see visible effects of that economic slow-down in our labour markets, in our government finances, in the inflation rate in Manitoba.

The -- Manitoba Public Insurance confirmed during cross-examination that average labour compe -- compensation in two -- between 2009 and 2010, rose only 1.4 percent. We see from the budget of 2010 -- I don't have the 2011 figures, but that the projected deficit was over half a billion dollars.

And truly a significant slow-down in

inflationary pressures over the last few years. Inflation in '09/'10, was just a bit above point six (.6) of 1 percent. And in the 2010/'11 year, just at 1 percent. And again, mark -- in our client's view, standing in sharp contrast to the significant expenditures.

And over the next few pages, starting at page 8, our clients try and highlight some of the notable expenditures of the Corporation over the last few years.

And there is one (1) typo on the next page which I'll bring to your attention when I come it.

Annual compensation and -- and speaking exclusively of Basic, between the '08/'09 year, and the 2010/'11 year, increasing some $18 million from 83.45 million in '08/'09, two (2) years later to being in excess of $100 million for Basic compensation. And you can see the percentage increases year over year, quite striking. 8.4 percent from '08/'00 to '09/'10. Another 12.2 percent, from '09/'10 through '10/'11.

Operating expenses. Again -- and I went over this with my friend Mr. Palmer yesterday, but operating expenses between '08 and '09 and '09/'10 rising more than 13 percent, as compared to CPI of less than 1 percent. Between '09/'10 and 2010/'11 rising more than 13.6 percent, as compared to only 1 percent.

And even if you throw away everything, throw away -- well not everything. Even if you exclude immobilizers, the business process re -- review, the business -- the BTO, or business transformation, and merchant fees, in terms of IFRS reclassification, take that out of the picture, operating expenses from 2006 to 213 -- 2013, excuse me, reporter -- experience compound annual growth of 5.4 percent. And that's flowing from MPI undertakings, and I discussed that with Mr. Palmer yesterday.

I'm not quite done and -- and to some degree on page 9 these are truly some of the most extraordinary things. and I do want to -- I noticed when I was typing last night, I transposed a couple of dates wrong. So, just -- Madam Chair and Board members, the -- the third paragraph there says, "Forecast Basic Expenses," and it says, "for the 2010/'11 year," that should say "for the 2011/'12 year."

And the next paragraph down says:

> "Projected Basic expenditures for the 2011/'12 year."

That should say, "for the 2012/'13 year."

And this -- this information is contained in CAC Exhibit 11. It's contained in my cross-examination of Mr. Palmer, but it's also contained in a very informative information response, CAC-1-74. And what that response does is -- is look at here's what MPI told us last year in the general rate application, here's how's things have changed, and here's how things have changed even after we strip out IFS -- IFRS, even if we strip out any allocation issues, here's what -- what happened. Compared to last year's budget forecast, actual Basic expenses for the 2010/'11 fiscal year were 7.43 percent, or almost $12 million more than forecast, just in last year's general rate application.

Forecast Basic expenditures for the 2011/'12 fiscal year, nine point one (9.1) per six (6) -- 9.16 percent, or almost 15 million more than project in last year's general rate application. And that was the test year. Projected Basic expenses for the 2012/'13 fiscal year, 6.22 percent, or more than 11 million more than projected just last year in the general rate application.

So, that's an issue that my clients point to suggesting some very aggressive expenditures strangely at a time of an economic slowdown. And they also want to bring to the Board's attention external consultants. And I'll stay -- ask you to stay on page 9 for a second. Because Ms. McLaren quite properly notified the Board that in the '09/'10 year, the '10/'11 year MPI had been scaling down external consultants. And you can see that at the bottom of page 9, at that sixty-four point nine (64.9), at that snapshot in '09/10; eighteen point nine (18.9) in '10/'11. But it is clear that in these next year -- next few years the Corporation is ramping up external consultants for the -- the next two (2) to three (3) fiscal years.

And if you turn to poi -- page 10 of the outline you can see a clear indication of -- of what is -- what is taking place. And this is from my cross-examination of Ms. McLaren.

And I note that as our conversation proceeded some of the estimates perhaps changed, and every time I got an answer they -- and she -- she quite properly noted it was preliminary, but every time I got an answer the numbers kind of got worse from my clients' perspective, so I thought I'd better quit asking after the third question.

But you can see at page 968 of the transcript Ms. McLaren suggesting:

> "At any point in time during the next couple of fiscal years we could hit a high of a hundred or a hundred and twenty (120). Annualized, it would be probably lower than that."

Looking to year over year comparisons, she said:

"We may very well hit a hundred when we take the snapshot."

That was at page 969. And then the third response is whether it actually hits a hundred and twenty (120), and, again, I'm paraphrasing here, I wouldn't speculate. It'll probably be lower. I'll throw a number of eighty (80) out. But certainly the fact that at some point in time there may be one hundred (100) or two hundred (200) on projects is certainly foreseeable.

So again, our clients draw a contrast to these relatively straightened -- financial times but a clear ramping up of the external consultant team at Manitoba Public Insurance.

I heard My Learned Friend, Ms. -- Ms. Grammond, speak of -- of full-time equivalence. And she -- she referenced in the -- in -- in the context of corporate full-time equivalence, and I -- I understand why she did so. But important information for -- for this Board is what's going on in terms of Basic full-time -- full-time equivalence.

And we would note that the evidence of the Corporation on this point, in -- in our respectful view, was somewhat inconsistent. I put the question to Mr.

Palmer on or about page 1,670 -- 1,673 the -- suggesting to him that between the 2009 year and the 2010 year, the Corporation had calculated an additional one hundred and eight (108) basic pi -- FTEs, and asked him to confirm, and he confirmed that.

And then suggested him, a little whimsically perhaps, Now, does that mean between these two (2) years there's a lot more pe -- persons doing basic work running around the Corporation. And he said, No, that would just be the allocation of the cost backed into the number of FTEs.

But if we turn to page 12, we have Ms. McLaren's response, again, at this time of economic slowdown. And what she says is, and I've bolded the comments of note:

> "But absolutely there were more people running around working on a basic only project. Absolutely, many, many people."

And I think that's an important point to note lest one get the impression from Board counsel's quite complete opening -- opening statement, that the decline in corporate FTEs is also being reflected in a decline in Basic FTEs. And -- and indeed a phenomena that my clients are struggling to get their heads around is -- is what exactly is going on at a time when corporate FTEs are -- appear to be declining, why are basic compensation co -- costs appearing to be rising so rapidly, and why are basic FTEs appearing to be growing at the same time as we are ramping up external consultants?

Again, my clients point to the contrast between an economic slowdown and -- and the -- the aggressive expenditure growth within the Corporation.

Turning to page 13, we -- we go back to the former Minister of Finance. And subject to any typing errors that I made last night or this morning from her speech, or her -- from her press release, these are excerpts that the -- that can be found at page 3 -- 3 of her press release, which is on the record in CAC Exhibit 11.

This is the message being set out by our Finance Minister in March of 2010.

> "Equally important as investment [good Keynesian that she is] is the ability to manage government spending."

She stressed the government will responsibly limit spending to ensure the priorities of Manitobans come first. Measures include, and these are not all of them that were presented by her, limiting annual core government spending growth to an annual average of less than 2 percent over the five (5) plan, reducing the pay of cabinet ministers by 20 percent, and proposing a wage freeze for member of the legislative assembly and senior government staff, and -- and something that certainly left my spouse quite unhappy, negotiating a pause in public sector wage increases.

So, that's the message. And -- and we thought it -- it was an important contextual message to compare against Manitoba Public Insurance.

And at page 14 we -- we put to Manitoba Public Insurance -- we provided the summary of questions we put to Manitoba Public Insurance, similar to the type of questions that we would put to Manitoba Hydro during the last GRA.

What's happening with salaries for senior management? Recognizing that you've got collective bargaining agreements, you can't control those, how about senior management? Not frozen. Were the special travel restrictions? No. Were there freezes on the hiling -- on the hiring of the filling of vacant staff positions? No. Were the directions to business units, to achieve a reduction in overtime costs? No. Any new restrictions? The Corporation was careful, because there are restrictions in terms of their current policy, on overtime -- excuse me, on vacation -- vacation carry over? Any capital rationalization approach? No.

And on page 15, we -- we put -- we've summarized the response from a very important information request, that the CAC put to the Corporation: CAC 1-151. We asked them, expecting to dig up a treasure trove of corporate directives, especially when a -- with a corporation that allegedly manages budget expenditures from the top down:

> "Tell us what's been going on. Provide to us memos or correspondence set by the Chief Executive Officer, the Board, or any executive member of MPI, during these four (4) -- last four (4) fiscal years, outlining any concerns with expenditure."

The response was, No, there were no memos or -- or correspondence. And given our client's, as the Board is aware -- they -- they travel in a number of regulatory forums, this -- given our -- our client's experience in other regulatory forums, they find the absence of any such directives astonishing and telling.

How about budgetary guidelines? We know that the Corporation sets budgetary guidelines in the fall of their fiscal year. Budgets are approved in

January of the -- of -- of the year. So, for this year, guidelines are set in September -- in the Sept -- September/October meeting of 2011. Budgets are set in the January 2012 meeting.

What has been going on with budgetary guidelines? The Corporation has compru -- confirm that the approved budget for corpor -- corporate, normal operations was higher than guidelines, by about 1.1 percent. Well, that's one (1) year. What about 2011/'12? The approved budget for corporate, normal operations was higher than guidelines by about 1.5 percent.

So, again, in -- in a time of economic difficulty for many Manitobans, intriguingly, no evidence of economic difficulty for Manitoba Public Insurance.

On page 17, Madam Chair, we summarize the response from a really intriguing information response, provided by the Gartner Group. And they provided insight into what's happening with IT expenditures through their benchmark service. And I think this is MPI Exhibit 35.

The message is, well, in terms of IT expenditures as a percentage of revenues, they've still not recovered to the 2008 levels, although there was some modest recovery. Current levels of IT spend is a percentage of operating expense are still, based upon the

Gart -- Gartner Group benchmark study, considerably lower than in 2007/2008. And IT capital investments as a percentage of total IT spend, have decreased to the lowest percentage since 2003. And again, our clients draw a contrast to the -- the ambitious -- not to say that they're pronouncing judgment on it, bu the ambitious IT optimization project.

And it's -- there's no reference cited here, Madam -- Madam Chair, or members of the Board, but you may re -- recall when I began my cross-examination of the MPI Panel on IT optimization, I suggested to them that, given the economic downturn in North America, you must be getting some good deals in terms of IT expenditure. And -- and that certainly -- my -- my understanding of the evidence from the Corporation, was -- was that was not the case. Business, as usual.

At page 18, our clients ask -- go back to the question of Ms. Desorcy, framed out another way -- is somehow MPI astoundingly a recession-proof corporation?

You can issue a -- a $336 million rebate in the '11/'12 years, have a six (6) -- propose a six 6.85 percent rate decrease.

And yet if you turn to the next page, you see, notwithsp -- notwithstanding both this loss of retained earnings and this loss of revenue, incredibly, in our clients' respectful submission, aggressive expenditures: spending materially more than forecast at the time of the '11/'12 GRA in terms of Basic expenses; spending more than budgetary guidelines in 2010/'11, 2011/'12; massive -- maybe that's a bit unfair -- extremely significant increases in co -- in compensation -- I'll strike out that word -- during the economic downturn; projecting massive influx of ex -- external consultants; I will not strike out that adjective -- more people running around working on a Basic-only project; and an ambish -- bitious IT optimization project.

So, Madam Chair, and members of the Board, I kind of set out the context for the -- the three (3) questions at the -- at the -- that I posed at the start: What happened? Can we -- can we prevent it from happing again? And how is it that MPI has been able to aggressively expand expenditures at -- at such a difficult economic time for so many others? And in the next few pages we're going to attempt to answer them.

So what happened to lead to a massive decrease in the IBNR, the unprecedented rebate, and an arguably unprecedent -- unprecedented 6.85 percent rate decrease?

Now, my learned friend Ms. Grammond has

given a good summary of some of the experience with the external actuary, but we will revisit a little bit of this at page 21, 'cause we think there's some language used by Mr. Christie that is -- is interesting.

So, what are the routes of the -- the massive IBNR adjustment? In the middle part of the last decade a new reserving -- reserving -- a new reserving process was introduced to MPI that's, on its face, produced $250 million less in claims liabilities. And the presumption of the Corporation and its -- its external actuary, was that the new claims reserving model did not reflect reality.

And I think if you recall from Mr. Christie's evidence, given his extensive practice in the private sector in Ontario, he'd seen things look good for a couple of years and then -- and then turn bad. And you can see a heavy Ontario influence on his assumptions that may have coloured his analysis a few years ago, and in my clients' submission, may be colouring his analysis today.

So in response -- and my clients do not criticize this initial decision. I -- I don't want to leave any impression of that. They -- they may wish that it would have been better articulated at the time but they don't criticize it. In response, an additional $250 million wa -- was put back in -- in as IBNR incurred but not reported.

Interestingly and significantly, the additional 250 million was put back in as IBNR incurred but not recla -- reported claims by selecting -- and I'm using Mr. Christie's words; the reference is there for you to check -- particular conservative factors that essentially produced an estimate 250 million higher than the tabul -- tabular reserving method, but produced numbers that were reasonably close to those that had been produced the year before and the year before that.

Again, my clients take no issue with the initial decision except for with the -- the desire that it would have been better communicated. But the question they ask -- and we'll get to this a little later in our submission -- is whether that legacy of conservatism has endured in a much more muted form, but whether that legacy of consecutive, cumulative conservatism is still making its way through the estimates of claims liabilities; whether Mr. Christie is still coloured by that experience.

And we don't mean that in a pejorative way. We're not saying that he's deceitful or anything like that, but we all bring our unique experiences to our professions and we all bring our particular biases. And we wonder if Mr. Christie's biases continue to endure, albeit in a more muted fashion.

So, how did the -- the regulator deal with this? And this is at page 22. I think it's important to understand the role that the -- this Board, the Public Utilities Board, played in -- over time bringing these atten -- these concerns and these excessive claims liabilities, as they ultimately turned out to be, to the attention of Manitobans.

And by 2008, the 2008/'09 fiscal year, it was clear -- and this is at the top of page 22 -- that something was -- was wrong. There were variances of actual from forecast, in terms of claims incurred, of 15.7 percent. And our clients were trying to address it, focussing more on fo -- on forecasting. I think to their credit, the Board, and also Mr. Oakes, on behalf of CMMG, were aiming at the actuarial information, perhaps aiming a bit off at the Pfad, P-F-A-D, as opposed to the loss development factors. We were all alert to it but struggling to -- to understand what was happening.

And then we get to '09/'10, a variance in terms of claims of incurred of actual from in -- from forecast of seventeen (17) -- negative 17.5 percent. And, of course, skewed somewhat by the extraordinary results in 2010/'11, we have for the last five (5) years results of the financial forecast no -- model in terms of claims incurred differing from actual results by minus 18.7 percent.

Now, My Learned and able Friend, Ms. Grammond, put this history to Mr. Palmer in cross-examination and asked him, at the bottom of page 22:

"Is there any evidence of a systemic bias at forecasting claims incurred for any coverage."

And to his credit, Mr. Palmer answered:

"Yes, there is, in hindsight, an over-forecast in claims over the past five (5) or six (6) years."

So, this brings us to last year's rate application as we try and dissect what happened. And -- and this is where I -- certainly from my client's perspective, significant credit must be given to the Board and its staff because they assertively sought to -- to call the com -- Corporation's external auditor to the hearing in October, 2010.

And to our client's experience, that was an unprecedented step. To their knowledge, that has not occurred before with MPI or with Hydro. I can't speak for Centra Gas. And I'm not aware of whether there was any resistance to that, but certainly we -- we give the Board staff credit for doing so.

And in the course of that hearing, really, what to our clients was an extraordinary document came to their attention, and that is on the record of this proceeding as CAC Exhibit 10. And that was a report from the external auditor's consulting actuary from April, 2010.

And before you get to this conclusion, remember that ultimately they -- they signed off on the actuarial numbers. But some very interesting statements by, I can't pronounce his name properly, Mr. Manktelow, the -- the man who -- who does so many chin-ups or push-ups is, as the Chair will recall. In terms of Mr. Christie -- and Mr. Manktelow was a senior actuary, not as senior as Mr. Christie, but in his forties and a gifted practitioner -- what did he say in April of 2010?

> "Mr. Christie tends to select assumptions that result in estimates that are in aggregate at the upper lend -- upper end of our range of reasonableness. For some lines of business Mr. Christie's selected claims liabilities are above our range of reasonableness."

And I don't know actuaries very well, but based upon our clients' experience in these proceedings, we would say that that's pretty strong language. That's a pretty vociferous disagreement. That would be our submission.

And of course, the lines of business, we later learned in that proceeding, with selected claims liabilities above the consulting actuary's range of reasonableness, were accident benefit, weekly indemnity, accident benefit other.

And the question endures. We've made this massive adjustment, does that legacy of -- of conservatism endure in -- in a more muted form?

So at page 24, we find the famous memo of November the 2nd. Again, an email from MPI to the external actuary.

> "It's been very hard to defend our PIPP forecast as best estimate assumptions, when the prior year's development is consistently coming in 50 to 70 [it says cent] -- 70 -- 50 percent to 70 percent below our forecast."

And that's from the transcript. That's not -- I think the -- the memo was written better than that.

And I -- I asked Mr. -- Mr. Christie at page 1,191 of the transcript:

"It's reported -- did you get this
email? Do you recall the conversation?
Who was it hard to defend the PIPP
forecast from?"

And he candidy -- candidly responded:

"That my recollection of a number of
conversations was that, this was really
with respect to the PUB, and in terms
of their rate applications."

Page 25. Mr. Christie indicates -- and we think this is an interesting statement:

"Now, at some point, you have to start
to recognize reality. Or what you've
seen -- not reality, but empirical
evidence. And so that is part of the
reason we're here today to talk about
the 250 million."

And Mr. Parkinson, from the external auditors, paraphrased his comment in -- in a -- we thought a succinct and insightful way:

"He had so many years of indications
and then finally, got to a point where
he couldn't ignore the data."

And we think the -- the choice of these words, you know -- you -- sometime you have to recognize empirical evidence. You can't ignore the data. And -- and a question our clients will ask in terms of the current IBNR estimates is: Is there still a little bit of that going on? Are they still being a little less respectful of the data, and a little more respectful of their preconceptions, their natural biases in which they entered into upon this exercise? And that's a question our clients will seek to answer.

So, what happened at page 26? There are two (2) plausible conclusions that the Board can draw, based on the evidence. It is open to the Board to conclude that the decision to dramatically re -- reduce the IBNR was simply an acknow -- acknowledgement from the external actuary of the -- the reality of empirical evidence. That conclusion is -- is totally open to the Board.

It is also open to the Board to conclude that the decision to dramatically reduce the IBNR was influenced by other factors. The heightened vigilance of the Board on this matter, the filing in the public -- do -- domain of the fairly damning findings of fact of the consulting actuary to the external auditor, and the November 2nd, 2011, email, of MPI. Both of these are plausible conclusions. In our client's respectful view, the second one (1) is a strongly plausible conclusion.

So, I've answered question 1, to the best of my client's abilities. I'm going to skip over question 2 for a second, and go to question 3; and, again, that being at a time of global recession and a Manitoba economic slow down, how has the Corporation been able to aggressively increase its Basic expenditures?

And in our client's respectful view, based on the evidence of this proceeding, it is open to the Board to conclude that the Corporation's ability to aggressively increase its expenditures in a time of global recession and a Manitoba economic slowdown is a function of excessive revenues compared to costs, that has been bolstered primarily by excessive revenues related to particularly conservative estimates of claims liabilities.

I want to be clear here, Madam Chair, we impute no motives; we're -- we're just -- we don't -- we -- we are just saying that's clearly a factor.

For future -- for this application and for future applications, we believe it is strongly arguable that not only this ability to aggressively spend is continuing to be fuelled by consistent cumulative conservatism -- cont -- conservatism in the estimation of ultimate acts and benefits that wee -- weekly indemnity and other, and to a significantly lesser extent, collision.

And that conservatism, in our clients' respectful view, can primarily be follow -- found in conservatively selected loss development factors that have only -- that have not the relationship to the data that we might like; a conservative tail factor, which gives limited weight to the post-2005 experience; and conservative selections of methodologies that, to our clients' eyes, the Corporation has at times had trouble justifying.

We would be remiss if we didn't notice another factor, and that is just simply the Manitoba advantage, a highly integrated monopoly in Basic, coupled with a dominant market position in extension. There are advantages that flow from that which certainly are, in our clients' view, at play as well.

In terms of this aggressive increase in Basic expenditures, at page 28 our clients would submit and hope to convince you that while Mo -- Manitoba Public Insurance has a laudable and necessary commitment to service improvement aggressive expenditure growth has been fostered at MPI by a corporate structure in leadership that places insufficient weight on cost containment, budgetary controls, and the setting and achievement of reasonable productivity goals.

And I want to stay on this page for just one (1) second, if -- if I might. Our clients are supportive of MPI's efforts to improve service. Extended hours, streamline renewals, those are -- those are things that our clients find laudable. But in some of our conversations with the -- the CEO of this organization, it has almost been presented as you can either have service improvements or you can have hard-nosed efficiency. And from our client's perspective, those two (2) things go hi -- hand in hand.

A commitment to quality of service and a commitment to efficiency can indeed work together and -- and improve the resources for -- for claimants, while preserving ratepayer's scarce resources. And we will get to the Gartner group analysis in -- in -- at some point in time, but we think the insight from that analysis is that MPI is a service-driven organization; has struggled with cost containment. And the insight from Gartner, symbolic of Basic expenditures as a whole, is that there's an opportunity not yet realized for MPI to achieve those service objectives while achieving our clients, and certainly all Manitobans, efficiency and productivity objectives.

At page 29 we've re-stated the second question:

"What can we do ensure it does not
happen again?"

And some of the evidence from the -- the external auditor said, Well, you know, really this was a structural break. It was a change in -- in reserving practises, and unless you have one (1) of those again, you know, you wouldn't anticipate these sort of things.

But that IBNR write-down came as quite a shock to our clients, and it -- and it provoked some sober introspection on our -- on our own part. And I say this for our clients, but, from our client's perspective, we can all take some responsibility for what to us was really a shocking event that -- that brought -- ultimately was a good result for Manitobans, but brought some discredit to the -- to the regulatory process, certainly from -- and -- and we're not trying to criticize, but certainly our clients have looked at -- at ourselves.

And -- and what have our clients learned from this? Actuarial stuff is hard. It's not presented well. And our clients have told me, and I acknowledge that we historically, as Intervenors, have been too deferential to the Corporation's wit -- witnesses in this specialized area.

I think, using this opportunity for

reflection, we have also, in -- in part, thanks to an excellent discussion I had with Mr. Christie, started to better understand the limitations of the external checks and balances. And if only I would have known this when I was ap -- appearing before the Court of Appeal on the stated case.

The limits of the external audit -- and Mr. Christie, we'll get to his Ouija board analysis in a -- in a few moments -- he was really insightful. He made the point that you're signing off on a number, and it -- it might be possible to have two (2) estimates in terms of lines of business, both beyond the range of reasonableness but essentially cancelling each other out, and still have a satisfactory result.

And I've got here recognized limits of reviewing actuary report. And I should strike out in the word in brackets "external" and replace it with the word "reviewing".

And, you know, Mr. Christie again was quite frank, and we'll come to this in greater detail, but you can sign off on a questionable ne -- methodology. Well, you're not even signing off on a questionable methodology; you're signing off on what you consider to be a reasonable number.

So, those are limits in these external

checks and balances that I'm not confident that our clients were fully aware of.

Another recognition that our clients have -- have come to, is to recognize the material influence of judgment in the actuarial process at MPI, but at any other organization as well; both in the evaluation of empirical evidence, but also in choosing to plas -- place less weight on empirical evidence. And certainly our clients' perhaps more experience when -- with econometricians have -- have not -- didn't understand the -- the wel -- the ambit for judgment in the actuarial process. They've also better recognized, and Mr. Christie I think was fabulous in identifying his own biases, that actuaries, like any other experts, bring their own biases to the -- to their analysis.

So, what can we do to ensure it doesn't happen again? Certainly heighten regulatory vigilance. And our clients hope to do their part. Our clients certainly think that there's an opportunity for improved transparency in the reporting of actuarial material. And we'll come to that a bit later in our discussions.

But at the end of the day, no guarantees. But certainly the question posed by Board member Gosselin, we've asked, What can we do? and certainly was an opportunity for some introspection on behalf of our clients.

At page 31 -- I hope to let you know where we're going for the -- the rest of our discussion. Our clients will be recommending the following findings with regard to the MPI application, a finding that the external actuaries estimate of claims incurred with regard to the Basic program is not a best estimate, but a conservative estimate. They're hoping for a finding that the Corporation has been unable to demonstrate the prudence and necessity of its Ba -- projected expenditure for the 2012/'13 year, for Basic expenditures, really focussing on claims, and, in particular, operating.

They're hoping for a determination that any expenditures related to IT optimization, should be funded by general revenues, not by retained earnings. They're seeking a finding that the Board is unable to conclude that the assignment and allocation of costs between Basic and other lines of business, is appropriate, given the information provided in support of the application.

But we have to do something. And, given that the Deloitte model is, certainly, in my client's perspective, is preferable to the historic model, they seek a finding that the proposed Deloitte model for assigning and allocating costs, is preferable to the historic are -- approach, and a determination that it will be adopted as a interim measure, pending the determination of an appropriate model for the allocation of costs, in the next GRA. And, they seek a finding that the rates flowing from the proposed general rate application are not just and reasonable. I'll hold for my -- my big surprise at the end what -- what they're seeking.

But, Madam Chairman, I'm -- I'm moving to a new area. I -- I'm making pretty good time. This next section deals with your favourite issue, which -- actuarial -- so if the Board wanted a five (5) minute refreshment break, I -- I think you -- you would probably thank me twenty-five (25) minutes from now.

THE CHAIRPERSON: Yes, we might as well take a break. We'll just take five (5) minutes, or whatever, so that we can get to the bathroom if we need to. Thank you.

--- Upon recessing at 3:11 p.m.
--- Upon resuming at 3:19 p.m.

THE CHAIRPERSON: Okay, Mr. Williams, we're dying to know what the solution is.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Oh, lawyers don't so solutions, Madam Chair. My client might have some ideas, but I just -- Part 2 of our argument just dissects the issues related to, are the proposed rates just and reasonable, with -- with a bit more clarity, one hopes. Solutions come in Part 3, Madam Chair.

At page 33, we set out provisions with which the Board is well familiar. And -- and we won't repeat them except for -- to remind us all that this is -- we're in a proceeding to set just and reasonable rates, and that the Consumer's Association decision has some excellent guidance to the Board about what it's to consider. It's -- it's really a balancing act; the Corporation's best interests and -- and -- and the best interests of -- of ratepayers, and recognizing that they are the captive customers of a monopoly.

At page 34, you saw this in our opening submission, I've reordered it somewhat, but these are -- certainly, from our client's experience, and based on our review of case law going back to the 1870s, certainly -- at least to the 1920s or 30s in the US, teally, in our client's submission, the key questions the Board may wish to ask itself in trying to determine whether rates are just and reasonable: Are the forecasts of revenues, costs, reasonably reliable? That goes to the issue of the IBNR; are forecast costs prudent and necessarily incurred? Those are words of legal and regulatory art, and they definitely go to our client's concerns about operating and claims expenses; are the revenues and costs properly assigned or allocated between Basic and the other lines of business; and the other issue is, certainly the fifth bullet being -- are -- is each class of ratepayer and each ratepayer within their class, bearing a fair and reasonable share of the cost -- are -- are important ones.

And that's certainly of interest in -- in this hearing. It may reflect on discussions such as uniform rates, which were mentioned by the Board in last year's hearing, pay as you drive; those type of considerations, and that criteria is important in -- in evaluating those concepts.

So, let's start with the forecast of claims incurred, page 35. And I -- you could tell I was really excited this morning, because there's an exclamation mark in response to my question: Do forecasts of claims incurred matter for rate-setting purposes?

Absolutely they do. And Mr. Palmer makes this point eloquently on a number of occasions. He describes forecasts as being inextricably linked with the IBNR -- IBNR review of liabilities. He suggests in the third quote that the liability process and the rate-setting process really are very, very tightly intertwined. And I believe that might have been in -- a response to a question by one of the Board members.

An interesting question asked by my -- at page 36 was asked of My Learned Friend, Ms. Kalinowsky, and -- and our clients were a little surprised by the -- by the answer, but not in disagreement. Ms. Kalinowsky asked Mr. Christie:

> "Perhaps you could explain to this Board what are the consequences of being slightly conservative in the report on unpaid claims liabilities."

And this isn't the full quote, that's set out at page 117, but the first words out of his mouth were:

> "The result is that the balance-sheet liabilities are, in most cases, likely to be overstated when the final results are known. That overstatement will flow through the income statement and appear as a favourable -- or a reduction in claims incurred in the

year that the release happens."

And it's important to keep in mind.

At page 37, Madam Chair, and I spoke of this slightly before, but one (1) of the specific questions asked in your rather lengthy list of questions yesterday was:

"Any comments, in terms of, you know, the role of external -- the external auditor, the external actuary?"

And this is Mr. Christie -- and -- and certainly, in -- in this context, speaking more in -- in the terms of a reviewing actuary as part of an audit, that is our submission, rather than an external actuary. And, really, an interesting statement, in the first quote at the top, kind of line 4:

"We are opining in the audit firm on the overall single number on the balance sheet, not on individual lines of business. And so, if there are two (2) offsetting errors, the aggregate amount might very well be reasonable, even though the two (2) lines of business within fifteen (15) or sixteen (16) individual -- individually were not within our range of reasonableness.

But we are opining on the number on the balance sheet, not on how the number on the balance sheet was calculated."

And certainly that, in our client's view, is an important thing to keep in mind when evaluating the comments of the external reviewers. And my favourite quote of the whole hearing appears at the bottom of this page:

"To be extreme about it [tells us the colourful Mr. Christie], if the company was using a Ouija board but they got an answer that was reasonable, that's what our opinion would be: it was reasonable."

At page 38, and we'll note that in -- in Ms. Grammond's opening statement -- or ex -- closing statement, excuse me -- she commented on Mr. Christie describing his actuarial reports as a best estimate of the liabilities of the Corporation. Interesting, of course. But what's more interesting, perhaps, is Mr. Christie's description of the word "best estimate."

"The -- well, 'best estimate' is a very nebulous term. I would say it is my best estimate of the liabilities of Manitoba Public Insurance, as at

February 2/'11. It doesn't necessarily mean it is a -- the best estimate in a statistical sense, which would be a straight numeric average or analysis. I think it is the best estimate for the purposes of financial reporting for this organization."

And on the farm in Souris the word "nebulous" doesn't come up that -- that often, but certainly our understanding of it is that it -- it is hazy, vague, indistinct, or confused.

And our clients consider that a somewhat surprising statement by Mr. Christie, and certainly given his very prestigious role within the -- the actuarial arts, and it underscores the care that must be given. Best estimate is a very nebulous term, his words. Hardly a statement to inspire confidence.

Our clients also thought his use of the words "for this organization" were candid and insightful and, in our clients' view, they imply an element of subjectivity, implying that the estimate might be different if the risk tolerance of the Corporation was different.

And he spoke of this later on, and I'll bring this quote to your attention. He spoke of trying to put himself in Manitoba Public Insurance's shoes. They're a conservative corporation. He's a naturally conservative person.

And certainly that may be consistent with actuarial standards, but that was insightful to our clients because our clients' understanding of best estimate was something -- something different, without perhaps that element of subjectivity perhaps suggested by Mr. Christie's comments.

At page 40 I highlight another statement from -- from the -- Mr. Christie, saying that his best estimate doesn't necessarily mean it is the best estimate in the statistical sense. And -- and certainly our clients don't disa -- don't disa -- disagree with that necessarily.

But he -- he raised an important point. At times during the course of this hearing when our clients have attempted to bring the disconnect between the MPI and Christie loss selection fa -- factors, the selected factors and the data, to -- to the attention of MPI, the response has been that clearly you're presenting a blindly mathematical approach to the actuarial art of estimation.

I'm not directly quoting anyone here, but that's -- the words "blindly" -- "presenting a blindly mathematical approach" have been repeated back to me. But it's important to understand that the -- the submission of CAC/Manitoba is much more nuanced.

In bringing the disconnect between the data and the selected loss factors to the attention of Manitoba Public Insurance our clients are seeking to express their concern that the selections by MPI and its external actuaries are, to a certain degree, driven by pre-existing expecsa -- expectations, and insufficiently connected, insufficiently tethered to empirical evidence.

And, Madam Chair, you've had the pleasure of -- of seeing the -- the noted econometrician, Wayne Simpson -- Dr. Wayne Simpson, appear before you in other proceedings. And certainly that's our clients' experience in terms of -- in any of the statistical arts judgment is involved. But our clients' expectation is that there will be a tight nexus between the data and -- and the ultimate -- the ultimate judgment.

So where -- where are we in terms of the forecast of claims incurred? Turning to page 41. Our critique of MPI in terms of the categories of accident benefits WI and accident benefits others, this is at page 41, is that -- that the estimates are driven by consistent cumulative conservatism with regard to three (3) factors -- or three (3) areas, excuse me: the methodology chosen, the tail factor, and the selected development factors. And that this conservatism, the impact of it, of itself but incrementally as it accumulates is material.

At page 42, we offer a more limited collision -- excuse me, a more limited criticism of collision IBNR, a smaller ticket item. Our criticism of MPI there is with their selected development factors, and in particular, their failure to recognize negative development in what we think is an appropriate matter. And again, smaller numbers, but certainly our clients would suggest that this conservatism is material.

At page 43, it's just a heading methodology, and certainly, this is an excerpt from CAC Exhibit 3, and what it presents to the Board in terms of accident benefit weekly indemnity -- in -- in the second -- in the second-last column, you'll see the heading "Selected method." And at the bottom, you'll see a total of around $109 million. And that is the estimate from the actuarial report as of October 31st, 2010 -- $109 million.

In the column immediately to its right, is the estimate that would have been achieved if the methods chosen by the actuary last year -- the same actuary, just a year previously, would have been employed. And you see there a difference of seventy-nine (79), almost eighty (80) -- excuse me, not a difference, you see a total of $80 million.

Underscoring the point -- the difference between the two (2) as a result of the method -- methodology employed, close -- close to $30 million. A bit over twenty-nine (29).

And essentially, that difference -- and we'll get into in a -- in a -- in a little bit, was two (2) years ago -- for the last five (5) years the appointed actuary used the incurred BF method for the last five (5) years of experience. And this year, being the October 31st, 2010 report, he chose the greater of the incurred BF method or the paid BF method.

And we will, in a couple of minutes, get into that -- MPI's justification for that selection and we will suggest to the -- the panel respectfully, that -- that MPI's justification of that selection was hardly stellar.

So methodology matters. On the -- as you'll see at page 45, one (1) approach in -- in 2009, versus a different approach in 2010. $29 million in terms of the -- in terms of the estimate.

At page 46, this is focussing not on the accident benefit WI, but on the accident benefit other.

So this is page 46. There should be a table before you. Again, this is from -- I believe it would be CAC Exhibit 4.

But again, you see in the second-last column, the product of the selected methodology as of October 31st, 2010, yielding $64.7 million. Based on last year's selection -- same actuary, different year, twenty-two point seven (22.7), a $42 million difference.

And again, the point is not to say in -- in this particular in -- instance, the actuary is right or wrong. It is to underscore the importance of methodology. And that's repeated at page 47 of the outline, and I've also set out the transcript references where this discussion with Mr. Palmer took place.

At page 48, and I -- I will not bore the Board with this page, although it was actually a pretty good cross by My Friend, Ms. Grammond. And so the Board doesn't -- you know certainly you can read this at your leisure. But Ms. Grammond is making a similar point in terms of methodology as -- as we did in -- in the tables. And I -- I leave that for your reading pleasure. It's certainly fascinating reading. I spent hours on it.

At page 49 I wanted to -- to spend a couple of minutes on this page, though. Because as I indicated in terms of accident benefits weekly indemnity the big difference, the $24 million difference out of the $29 million difference, was the appointed actuary's decision to rather than use the incurred BF methodology for the last five (5) years was to, for the last three (3) years, pick the greater of, the BF incurred versus the BF paid. And as you'll see in the middle of that page, what it resulted in mathematically was in all three (3) years they got obviously the higher number and that was from the BF paid.

And with -- with sincere respect I thought this was a fabulous piece of cross-examination by My Learned Friend Ms. Grammond. She went at it a couple of times. And in her very friendly manner put it to Mr. Palmer: Explain why. And realize -- realize that the Corporation mathematically is -- is choosing BF paid.

And Mr. Palmer, candid as he -- he always is, is talking at page 597, and certainly I -- I suggest you look at the whole quote:

> "So essentially you're unsure which -- that the paid will give you the right answer?"

And then at page 610, and this is part of a longer quote:

> "And that sometimes the more recent years the paid mem -- methods do give

aberrant [I have to look that one up as
well] results."

And certainly in a very fair fashion the Corporation was given an opportunity to defend its selection, and in our clients' respectful submission was not particularly persuasive.

At page 50, again, this is part of the same family of cross-examination, My Friend, Ms. Grammond, put the proposition to Manitoba Public Insurance that picking the greater of incurred BF or incurred paid was an -- an conservative selection.

And the response of the Corporation our clients think is quite interesting because they readily conceded that it was conservative and then were quite quick to attribute responsibility to the external actuary.

And at page 597 it's bolded, Ms. Grammond goes:

"Would it be fair to say, Mr. Palmer,
that by choosing the greater of the two
(2) numbers there's a conservatism
there?
Yes, I would agree with that. And
again and aga -- and -- and again, I'll
also remind the Board that all of the

selections of the methods and the methodologies are that of the appointed actuary."

And you said:

"Are that of the appointed actuary? Yes."

So that's methodology, and methodology is probably the easiest, I -- I'm sad to say, of -- of the three (3). At page 51 you see the heading "The tail factor." And at page 52 we hope to make the point and to submit that the tail factor matters. And Mr. Palmer again was quite candid in saying:

"Any adjustment in the tail that applies to every single one (1) of these years is an -- is an effect on that particular number. So in terms of the sensitivity, yes, 1 percent of 800 million plus or minus is very much a leveraged effect."

So the point our clients hope to make here is that the selection in terms of the tail factor is -- is a selection that keeps on giving, in -- in that it can -- can run through every single one (1) of -- of the years in question. Page 53, again, we're peaking -- peaking -- picking on accident benefit weekly indemnity.

And just to underscore the point that this factor is -- is pretty important -- I misstated. I said MPI is selected. But the external actuary has selected a tail factor of one point zero five four seven (1.0547). We confirmed in cross-examination with Mr. Palmer that 1 percent less of that would be one point zero four four (1.044), et cetera.

We also went on to confirm that if the tail factor is overstated by just 1 percent the IBNR would be overstated by over 5 million. So that little jump from one point zero four four (1.044) to one point zero five four seven (1.0547), mathematically, 5 million. If it's overstated by just 2 percent the IBNR would be overstated by over 10 million, so it matters.

At page 54 our clients make the point -- or seek to make the poi -- point that there is reason to believe that the selected tail factor is conservative. And they note that this figure of one point zero five four seven (1.0547) is primarily drawn from a special analysis. That's the old Appendix E, page 23, from 2005 of one point zero six (1.06), which was showing an upward trend in development.

And on the remainder of the page we present excerpts from a cross-examination of Ms. Grammond again. So, again, this is 2011. We're looking at a tail factor primarily derived, not exclusively, but primarily from a 2005 analysis. Mr. Palmer again notes the 2005 analysis has not been updated but indicates that the Corporation will look at it in the future for sure.

Ms. Pal -- Ms. Grammond, in the middle of this page, is asking Mr. Palmer:

"So you've got five (5) more years experience. What's been happening with that?"

And remember the 2005 analysis showed an upward trend. She asked:

"And what, in general term is -- terms is the observed experience telling the Corporation?"

Mr. Palmer says:

"It's basically been flat. The observed values have been very close to one (1)."

So 2005 inclined. Mr. Palmer's saying the experience since then, relatively flat. Ms. Grammond pushes him a little bit, politely, close to one (1) but predominantly downward. And he pauses, but he concedes:

"point nine nine five five (.9955), so that's less than one (1), but only very, very slightly."

At page 55 we make the point that, in our clients' perspective, there is a sharp disconnect between the 2005 special analysis, which was one point zero six (1.06), upward inclining, and the recent development which shows a -- to use Mr. Palmer's words, a very, very slight but existing downward trend.

Now the Corporation has made a very modest adjustment to -- to the one point zero six (1.06). It's basically knocked off half a percentage point, which brings it down to one point zero five four seven (1.0547) to take into account this expected -- the observed development, the post-2005 development, as compared to expected development.

But again, our -- my -- our clients see this as a factor of conservatism in -- in the estimates of claims liabilities, particularly with regard to weekly indemnity, but also accident benefit other.

And Ms. Grammond, at page 56 set out in -- in our outline, pursues this. And in the middle of the page, I'm not sure it's the best, tightest question she's ever asked, but it -- it did the job. She's going:

"The 2005 analysis reflects an upward trend, an upward development pattern. And if that were not the case and if, pursuant to the new analysis, there

was, for example, a downward trend, or
a flat trend, the factor we are dealing
with would be less -- would be lower?"

And Mr. Palmer agrees with that. And she goes on to say:

"And lower factors give rise to smaller
unpaid claims liabilities."

And Mr. Palmer cautiously points out that if an incurred development method is chosen, yes. So that's the -- the heart of our concern with the tail factor.

At page 57, I -- I do want to -- to address another item of concern. Again, remember that the primary driver of this tail factor is the 2005 special analysis. And, certainly -- and the Board might recall the MPI witnesses gently admonishing me for using -- for using calculations where there were a limited number of observations. I think I was using five (5).

But the Corporation has repeatedly claimed that little weight should be given to calculations where there are two (2) or less observations. And here's Mr. Palmer -- I didn't put in the page number, I apologize for that. But here's what he's saying -- and I've underlined these words:

"Later on into the tail, when you have

one (1) or two (2) observed
observations with a limited number of
claimants, they become less important."

Going on:

"As you have less and less data points,
that would become less an important
consideration."

But what happened with the tail factor in 2005? And just drawing your attention to page 58. How did they do that analysis? And this was not my best underlining job here.

But the first question I asked Mr. Christie -- and this is referring to the special analysis -- the special analysis from which one point zero six (1.06) was derived, what we consider to be the conservative tail factor. Noting that the -- the last development period with more than two (2) years of history -- those observation periods on which to base factor selection, was two twenty-eight (228). And he responded, yes.

And I went on to ask, well -- well, what did you do with two forty (240) to ultimate? Because, you -- you know, you don't have the observations?

"It would be correct to say that this
was based upon judgment."

And he agreed it was, it's set out in a footnote.

"And namely that there would be a further two (2) years of development at one point zero three (1.03), et cetera."

And I put to him that it would be accurate to say that this selected tail factor of one point zero two two two (1.0222), flows from this judgmental selection. And I put to him further that this selection adds 2.2 percent to the ultimate for every accident year in this analysis.

Analytically, my clients see an inconsistency. A few observations. But look at the heavy weight -- and -- and this is certainly a -- the gift that keeps on giving. 2.2 percent. He says, yes.

"For every accident year in this analysis."

So that's our clients' concerns with the tail factor, which was a little less painful than I expected, but there's more pain ahead because at page 59 we turn to loss development factors.

And at page 60, here's where we get into the suggestions that my clients are blindly relying upon empirical data, rather than tempering that with judgment, and our client's counterpoint being that they see an empirical disconnect between the Corp -- the ext -- external add -- actuary's judgment and the data.

And something that's important to remember is that, prior to the pre-ask questions which my -- in which my clients sought to test the use of these selected loss development factors, Mr. Palmer -- he seemed pretty fond of the use of this empirical evidence, of these averages.

And I put in the whole quote just so you -- so you could get a flavour of it, but I've put in bold, bigger, and brighter fonts so my client could read it towards the bottom. He points out the -- the tremendous utility, and how these are really foundational pieces of information, speaking of the averages.

So that's various measure points that you can identify, trends of the data, and you can throw out the high and the low. You're getting rid of some -- there's that word again -- some of those aberrant factors. So, see, these are the -- some of the measurement tools that you can use, and use judgments to select a selected factor based on some of these, really, a position consistent with my clients' position.

So at page 61 of the outline, and I believe this is -- I can't tell you which -- it -- it's in one (1) of the CAC exhibits, and it's also in the -- this is drawn directly -- it's an excerpt from the October 31st report of the external actuary. Our clients presented this information to the Corporation. It's from their own actuary's report, and what's important, in -- in the middle you can see -- you've got five (5) -- five (5) years of information there, the -- the -- what Mr. Palmer and I agreed to call the observed development factors.

The first one's a bit less than nine (9), but we agreed to throw that one out. The next four (4), a bit less than one (1): point nine six (.96), point nine seven seven eight (.9778), then point nine eight one eight (.9818). Then you go down, and let's throw out the -- let's focus on the latest three (3) volume weighted and the simple average middle of the last three (3).

There's the kind of averages that are flowing from these numbers: zero point nine seven four seven (0.9747), zero point nine seven three six (0.9736), in terms of averages, based upon four (4) or five (5) years of data. And then you see what the Corporation has selected: one point zero zero zero (1.000).

And our clients asked MPI's assistance, and -- and they gave it to -- to -- we put to them: Well, what happens, Mr. Palmer, if -- if you're looking at the IBNR, and instead of using the one (1) that you've selected, what is -- what if we use the zero point nine seven four seven (0.9747)? And this discussion is at -- if you turn to page 62 of the notes, it's -- you'll see the transcript reference says it's from page 915 and 916 of the transcript.

And so you'll see at the top that, using the selected factor, the one (1), yielded 71 million. Using the last three (3) volume weighted, the resulting estimate was 54 million, a close to $17 million difference in the estimate. So, hopefully, one can see the relevance of the observed information and averages. And you can appreciate perhaps some of the tension between our clients and MPI in terms of our clients see a one (1) versus a zero point nine seven four seven (0.9747) as a pretty meaningful difference, not -- and -- and a meaningful difference going to the bottom line.

I am not going to drag you through pages 63 and 64 of the notes, except for I'll suggest to you that my friend, Ms. Grammond, not in an adversarial way, but is trying to put this same point to Manitoba Public Insurance. And certainly you can read this at your -- your leisure, but she's suggesting to them that there may be a difference between what they're selecting and what the data is suggesting.

And probably, again, I -- I won't bore the -- the Board with it, but at page 64, that first discussion at the -- at the top of page 64 is a good illustration of that conversation. And if you had to read one (1) piece of this information, I think that would be useful.

So at page 65, our clients note what they consider to be a disconnect between loss development factor selected and the data, observed development. And Mr. Christie had a really interesting direct in cross-examination, but at one (1) point in time, in our clients' respectful vi -- view, got a little bit off track. And it was in the context of conservative loss development factors. He was relating that to the family care issue.

But there's a whole page of transcript which I haven't put before you, but at page 1,157 Ms. Grammond quite properly said to Mr. Christie, You're trying to say you need conservative loss development factors related to this family care issue, but isn't that a more appropriate issue for the tail factor? And he quite properly conceded that. And that's an interesting discussion because I -- I noted the Board was quite interested in that discussion, but I -- I wasn't sure if they'd captured the nuance when Ms. Grammond put him --

put him back on -- on track.

Page 66 I was -- it was early this morning. I was doing a alliteration, the candid concession of Mr. Christie. And just recall, in terms of methodology, MPI readily consi -- conceded that it -- its appointed actuary had adopted a conservative methodology. It was not prepared to concede that in terms of loss development factors or in terms of the tail factor, but that's okay because Mr. Christie did.

And there's a good discussion here. He's talking about being slightly conservative in the first paragraph, slightly conservative in the -- in the second. But there in the third paragraph in terms of loss development factors I've de -- deliberately selected slightly conservative factors throughout the data, the observed data we have. And then, here's the other element of conservatism that he's conceded, continued to add a tail beyond that, based on a 2005 study we did that suggested there was still come upward development.

And again, our clients are noticing the disconnect between the 2005 study and -- and the observed development since then. Loss development factors with regard to collision are set out at page 68. And -- well, actually, that's just the heading. There should be -- the next sheet that should appear should be a pullout sheet.

Don't -- don't tear it out, but a -- this is an excerpt from the MPI application, and it's from Appendix C, pages 3 and 4, and it deals with collision. And my very capable assistants -- assistant, Ms. Knowles, being capable of drawing straight lines, has in the middle of the page drawn a straight line up the forty-four (44) to fifty-six (56) column across at the -- it looks like the '98/'99 year out to the one forty (140) one fifty-two (152).

And I tried to do this in cross-examination and failed miserably, so I thought a graphical ex -- exhibit would be of value to the Board. You've heard discussion of negative development. Well, here it is.

Look within the lines of that -- of those lines and look for a one (1), and you will not find it. Zero nine nine three (0993), zero nine nine nine one (09991), zero nine nine six (0996). Lots of zeros, no ones.

What's interesting, though, these are the observed development factors, the data. And if you want to go along -- down a bit lower, we didn't draw the line there, but you can see a lot of the averages again are zeros until you get out to the one forty (140) fifty-two

(52) range. Again though, no ones. But then look at the selected factors: one (1), one (1), one (1), one (1), one (1), et cetera.

And this is my clients' concern with collision. And I've -- you can skip over page 69, in which I've tried to -- to give meaning to this, and you can turn to -- to seventy (70) -- page 70, if you would, where you see an excerpt from CAC Exhibit number 5.

And in the second column -- this -- so this is page 70, it -- the heading is "Collision IBNR estimates by accident year." In the second column, you see the mathematical result of the -- the factors selected by MPI. At the bottom, a total IBNR of 7.7 million.

If you go to the next columns over, you see the math -- the -- the result if you pay a little -- give a little less weight to judgment, a little more emphasis on data. And average of the last five (5) years, instead of a seven point seven (7.7) IBNR, there's actually a small negative figure. Likewise for the average of the last three (3) years, and even in -- with the average of the last nine (9) volume weighted, it's 1.7 million, still a $6 million difference.

So an impact of between 6 million and 8.5 million, depending on the averages selected. And all flowing from those -- those negative -- those negative numbers.

And not a big ticket item but it's notable that both MPI, in their direct of Mr. Christie and also Mr. Palmer, sought to -- to -- to challenge this point of CAC Manitoba. Neither attacked the conclusion. Their point was -- Mr. Christie's point -- you can see that in -- basically, that this was just not a big ticket item.

The next page, you'll see Mr. Palmer -- and again, he's saying 7 million out of 1.3 billion. Just not -- not -- not -- not a -- not a big number. And I put to him -- so -- that from the Corporation's perspective, 7 million is not significant. He said no, it's still material but it's not important. That's how I would paraphrase that bottom quote. And certainly from our client's perspective, as we turn to page 73, since when did 8 million or 7 million become im -- immaterial?

And at page 74, we make the point that, in their respectful view, this is a symptom of consistent, cumulative conservatism. MPI's probably right. In isolation, even though it's pretty hard to reconcile the selected factors with the data -- 7, 8 million. Okay.

But an unimportant $8 million loss development factor here, an insignificant $17 million loss development factor there, a modest $29 million methodological change here, a modest $42 million methodological change there -- those are the four (4) examples I just went through. They add up. And they translate to the bottom line. And in our clients' submission, they enable, inadvertently, this Corporation in -- in its pre-existing proclivity to spend too much.

At -- at page 75, we note that at times during the -- the discussion, MPI quite properly reflected on Mr. Christie's stellar reputation. And he -- he has achieved a -- a summit in his profession and we certainly applaud him for that. We wish him the best in his -- in his new adventures.

But we have all been in situations, as we turn to page 76, where we don't have our best day, or our best file, or where our professional judgment is not at our best. Or maybe our pre-existing biases impede us in the proper performance of our professional tasks.

And with no disrespect intended for Mr. Christie's outstanding career, it's important to understand that his judgment on this file has already come under some question, indeed by MPI. Think of that memo from November the 2nd and look how Mr. Palmer described it at page 656:

"So I guess the purpose of this particular email was just to alert Jim to the point, not so much that we're having difficulties defending the assumptions, but they -- they just weren't coming in -- coming in and seemed to be providing biased results."

Look what Mr. Man -- Manktelow -- and I'm butchering his name, at page 77, look what he said:

"He tends, Mr. Christie, tends to select assumptions that are at the upper end of our range of reasonableness. And for some lines his selection -- selected claims liabilities are above our range of reasonableness."

And page 79, just a -- a couple points about Mr. Christie. And again, Madam Chair, from the -- the payday lending hearing you may recall that every witness expert that we presented outlined right at their start their bias. Because there is no objective person, we all bring biases to the equation. And the key for crit -- proper critical analysis is to recognize and to understand them.

And we think it's important to understand some of the predispositions that Mr. Christie brings to his analysis. He starts with what he described as a slight conservatism, a predisposition to select loss development factors higher than the statistical result out of an abundance of caution. In and of itself, relatively benign perhaps.

He comes from an Ontario experience. And I don't want to bash Ontario. But you remember how Mr. Christie in his evidence was -- kept referring to the Ontario experience and how things had gone south in Ontario, and how he came -- he comes from a very different environment. And I remember a quote that he -- he gave and I've pulled it out from 1,161. Just coming -- talking about his -- giving insight into where he's coming from.

Talking about MPI:

> "If you guys were a private comp -- company running under a regulated regime in another province."

That's just his experience. Ontario, some public insurers, but other -- other's experience as well.

Look what Mr. Parkinson points out. Perhaps bringing higher critical -- self-critical analysis to the equation. What does he say about that Ontario experience:

> "It's not an easy one. It's still

"private sector insurance. You've got a couple of hundred different property casualty insurers developing a project which is conceptually somewhat similar but not identical in the way that benefits come out."

And so, we love Ontario. We love -- we love Mr. Christie, but our client's submission that -- is that in addition to the slight conservatism is this Ontario bias which may have -- which may have and may continue to be obscuring the Manitoba reality from him.

I've framed the next heading as a public relations predispo -- predisposition, and I think I -- I would strike that quote, or that characterization if I could. But here's Mr. Carry -- Mr. -- Mr. Christie saying -- starting with what MPI's values are, conservatism:

"I do as well myself. I put myself in the position of the Board of Directors, would they be rather giving a $250 million rebate or asking this Board for a rate increase to cover $250 million."

Put in -- and -- and I guess the question our clients ask at the top of page 80: Is that his role? Is it to walk in the shoes of Manitoba Public Insurance, reflecting their biases? Not in a pejorative way, but their -- their living, breathing reality. Or is it give him -- them his cold, hard-nosed, best estimate, not walking in their shoes, but their best estimate?

And -- and wouldn't a better question be -- do you want to give a $250 million rebate or have a $250 million rate increase? Do you want to get bit closer to the right result? Maybe that would be the better question. Maybe that would be the proper question in terms of that nebulous concept, as he describes it, a best estimate.

Page 80 the -- the quote that Mr. Oakes adverted to, Mr. Christie's -- and frankly our clients were a little stunned. We -- we saw no political connotation to it but we were a little surprised that an actuary with that objective function would be making a statement like that.

> "But for a Corporation like MPI there's a decided public relations advantage to pay -- paying out a dividend than asking for a rate increase."

We're not going to disagree with the statement, but again is that the proper role?

Page 81, just a heading:

> "Final comment on transparency with

regard to actuarial reporting."

And on page 82, we start with a bit of a discussion that I had, because I went on an odyssey on behalf of our clients through those old actuarial reports, mind-numbing as they are, looking for 250 million. Looking here, looking there. And I couldn't find it. And so I asked Mr. Christie if he would go back and look, and he provided Undertaking number 19. And I would recommend it to your reading. I -- I've read the undertaking, I'm not -- I don't see the number there of 250 million but I think Mr. Christie's point was that a, I think -- I don't know if he lear -- used the word "learned reader" or "sophisticated reader," I was neither clearly. He said a learned reader or a sophisticated reader wouldn't -- would have been able to see that number. So I think that's important for the Board to -- to go back to that undertaking and -- and see what con -- inferences it would draw from it.

But I think what Mr. Christie was really helpful on was in saying that the standards of disclosure have evolved. And that's the bolded statement in the middle of page 82. Not so much because the standards have changed but because practice have -- have evolved to include more disclosure of what is in there.

And in that kind of self-examination that we went on on behalf of our clients thinking where we could do better, we've also thought about where MPI could do better. And I'm directing your attention to the bottom of the page.

And certainly this Board, this information is so critical to the rate setting process. And I think this Board even though you have an actuary to help you interpret, you have a right to expect better communication from MPI in terms of its reports. I'm not talking about candour, I'm talking about better explanations. You know, label it "lost triangle" at the top, label it "observed development factors." A better communication.

Because that loss triangle where I -- I took the Board Chairman and I fair -- fear I lost her and others, including myself, on my way in there. It doesn't need to be a Bermuda triangle, it's -- we can do better in terms of transparency in the actuarial information that we expect from this Corporation.

And certainly one (1) of the recommendations and I -- we -- we would make to the Board at page 83 is that MPI should be directed as part of its next GRA to make recommendations to im -- improve the accessibility of its actuarial evidence.

And certainly we've employed an actuary

for the -- almost the first time in this hearing and we have some su -- suggestions in terms of better connecting the rate making methodology with the actuarial estimates, better communicating between those -- those cornerstone documents. And we think that would be a helpful discussion for future regulation.

Page 84 in terms of claims incurred. We draw a distinction between what was portrayed to us as the best estimate via the actuarial sciences, which is really wh -- say -- what we would characterize as a soph -- a sophisticated bit of art. Really, an exercise in actuarial judgment. And in our submission, grounded in cumulative conservatism. And we make the point that cumulatively those differences are not insignificant to ratepayers.

Madam Chair, I -- I think I will move fairly quickly through the -- the last bit. You might -- it will -- I still expect another half hour, so if you -- you want to stand down for five (5) minutes that would be -- if -- I could use a break if you -- if you don't mind. Madam Chair, for like even five (5) minutes, that would be --

THE CHAIRPERSON: You would like a break? Just take a break, yeah.

MR. BYRON WILLIAMS: Yeah.

THE CHAIRPERSON: Yeah, but just five (5) minutes.

MR. BYRON WILLIAMS: Yeah.

THE CHAIRPERSON: Okay. Thank you.

--- Upon recessing at 4:17 p.m.

--- Upon resuming at 4:24 p.m.

THE CHAIRPERSON: I didn't realize we were all back, so with no more delays, let's proceed.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes, and thank you, Madam Chair, and I appreciate the courtesy of the brief break.

We're -- we're -- I'm on to -- we have one (1) kind of more lengthy subject which relates to some certain expenditures, and then we'll spend another number of minutes going through a number of questions that the Board asked yesterday.

At page 86 -- just starting with, again, looking at the reasonableness and prudence of projected costs. We're moving out of forecasts into -- have you met that other element of the just and reasonable rate, which has a efficiency element to it. Have you demonstrated that your -- your pro -- projected costs are reasonable and prudent, as that term of regulatory art is employed.

And simply, at page 86, Ms. McLaren and I had this discussion. We've agreed that the expl -- ex -- expectations of this monopoly are high. In service, in -- in rates, but also in terms of seeing Manitoba Public Insurance as a steward of -- of their auto insurance program. And there is an expectation, Ms. McLaren agreed, that it will fulfill its mandate in a manner that is prudent and reasonable.

At page 87, and again, My Learned Friend, Ms. Grammond, went -- went through this in terms of the -- she talked about the 170 million -- roughly -- budget in terms of Basic expenses, primarily operating and claims costs.

And it's noteworthy that, of that 170 million, quite quickly, just with four (4) categories, you can get to almost 75 percent. Compensation, close to 60 percent. Data processing, 6.8 percent. This is at page 87. Building expenses, 5.2 percent, and special services, depending on the year, at about 2.9 percent.

Page 88, and again, Ms. Grammond made this point. A -- a huge driver, compensation costs. Of that over 170 million, almost 60 percent. And of the compensation cost elements, roughly 80 percent of those costs relate to in-scope employees, those subject -- privileged -- or I don't mean that in a pejorative way, those within the MGEU contr -- contract.

And based upon our client's experience in other regulatory forums, we know that the key drivers of compensation costs -- generally there's a couple of them. How many employees you got, and what are they getting in wages and benefits? Those are the -- the key indicators that our clients look for in terms of testing the reasonableness and prudency of expenditures.

And we have a bit of a -- a puzzler, which you may recall my cross-examination of Mr. Palmer on this point. And the -- the puzzle that we had was, while overall corporate full-time equivalence had declined by one hundred and thirty (130) persons based upon that March 1st to March 1st, or February 28th to February 28th comparison, in the last completed fiscal years, the last couple of them, Basic expenses were ris -- had risen sharply. So you see that -- the some -- somewhat counter-intuitive situation whereas corporate FTEs appear to be declining, what's going on with Basic FTEs?

And I've gone through these next couple of pages previously, merely pointing out that a bit of -- some inconsistency in the evidence of the Corporation but, ultimately, we have Ms. McLaren on page 90 saying that there's just a lot more people running around -- excuse me, there were more people running around working on a Basic-only project. Absolutely, many, many people.

And then you might miss it at the bottom of page 90. We also had a discussion on: Where are those FTEs going in terms of Basic, especially given the corporate trend which seems to be downward? And Ms. McLaren's -- a bit to my clients' surprise, suggested that she expected them to trend marginally higher. And that would not have been what they expected, quite frankly.

The other big driver, at page 91 of compensation costs, wages and benefits. And what we set out here is our understanding of how people, through the '09/'10 through '11/'12 year, could move through the system. Employees with scope to progress through their pay range are eligible for annual salary increments at a rate of 3.5 percent for in-scope for the -- the unionized staff, and 4.5 percent for out-of-scope staff, Mr. Palmer noting the caveat that if they are -- if they haven't moved all the way through their progressions.

At page 92 and page 93, our clients identify two (2) significant opportunities for the Corporation in the next two (2) fiscal years. One is that the current collective agreement is set to expire in September 2012. And our clients are suggesting that this brings an opportunity to bring average salary increases in -- back into line with inflation.

And note that the Corporation projects compensation to grow at 2.9 percent for the '12/'13 year, but concedes that this may be somewhat high, given its ex -- inflation expectation. And I asked Mr. Palmer at page 1,733 of the transcript:

"Does that seem a bit high?"

And he said that it may be.

We note as well that, while the Corporation is loathe to give away its bargaining position, it's got this 2.9 percent built into the rate expectation for 2012/'13, but on the actuarial valuations, it's actually made an adjustment, perhaps not as much as my clients would have expected, but 2.75 percent. So there's a bit of uncertainty around that number, and also a material opportunity for the Corporation.

And also coming up for renewal, at page 93, in December of 2013, is the $200 million agreement with the MMDA/ATA. And from -- my clients note that, taken together in these two (2) fiscal years, these are two (2) major agreements with stakeholders coming up for renegotiation with a value of somewhere between 270 million and 300 million.

And, from our clients' perspective -- and they certainly don't want to oppress anyone, but we think that the Corporation should be advised, they would respectfully submit, through the Board order, of the -- the Board's expectations. And the Corporation should be advised that the assessment of the prudence and reasonableness of its expenditures will be judged against its ability to bring in a negotiated settlement in the range of inflation.

And -- and that, we think, would be impor -- an important piece of guidance this Board could give the Boar -- to the Corporation, and really a rare opportunity -- we've often had agreements reached in the middle of rate hearings -- a rare opportunity for the Board to have a say in a pretty significant cost driver.

At page 94, our clients note that -- and the Corporation has been frank about this, that certain -- I've got "anticipate" here, let's call it "potential costs" -- in terms of operating expenses and capital expenditures, will not be before the Board given that the rate-setting process precedes the finalization of the corporate budget.

And Ms. McLaren and I had a discussion.

On the operating side these costs may be between 5 and 10 million, and in the range of 20 million on the capital side. And I want to be cautious here, because that $20 million figure is in as -- as in -- in the estimates is a placeholder budget. But our understanding of that potential 5 to 10 million on the operating side is that it is not.

And so, in the discussion which we capture at page 95 of the outline, we note that additional budget uncertainty appears to exist with regard to further operating expenditures, and raising the possibility that the operating trend analysis for the 2012/'13 year is understated.

And so I put this question to -- to Ms. McLaren -- I think it's at page 17/18:

> "Would it be fair to say that the trend analysis, in terms of operating expenses, may understate the percentage trend for the 2012/'13 year?"

And, again, she said:

> "It's possible. I really can't stress enough that we're in a particular timeframe now where there is more uncertainty than there has been in the past and there will be again in the

future."

And certainly our -- our clients acknowledge that. But in her re-direct yesterday, Ms. McLaren presented this situation is really in the ordinary course of business. And our clients, based upon their wealth of experience in the regulatory process, don't accept that.

It -- in my clients' experience, while it's certainly -- you know, a corporation might come in and say, We've got a $200 million budget, this is what we're going to spend it on. Yu come back a year later, an emergency has arisen or whatever, they've prepriorized (sic).

Our clients get that in the regulatory experience. But they've not been in a situation that they can recall where a corporation has said, Well, here's our budget, but actually it -- it might be -- it might be more. And that is an unusual situation, from our clients' perspective, and we wouldn't want the impression to be left that this is the normal regulatory course of affairs.

And from a process perspective, there's two (2) concerns. One (1) is the Board is not -- does not have an opportunity to assess the prudence and reasonableness of the expenditures, but -- but it really can't be confident that -- that the estimate before it is the best estimate of the -- of the corporation. And that -- that is of some concern to my -- my client, especially in light of the marked departure from forecasts that we discussed earlier in terms of forecasts and actual budgets presented in last year's GRA.

We had a dis -- at page 96 of the outline, we reiterate the Cor -- Corporation's concessions that it's a cee -- exceeded approved budget -- the approved budget exceeded budgetary guidelines for the '10/'11 and '11/'12 fiscal years.

We had an interesting discussion with Ms. McLaren yesterday, and my understanding of her evidence -- this is still on page 96 -- was that she indicated that the Corporation did not have the same platform by which to set efficiency targets and measure performance as it does with regard to service targets.

And I -- I -- in my haste this morning I looked up the statement, and it's -- the discussion was from page 1,812 of the transcript. It's not before you in the material. The statement that I'm referring to is Ms. McLaren saying:

"There are measures in different areas of the Corporation, but again -- but again it's not something -- we don't

have a productivity framework like we
have a customer service standard
framework."

Although, she went on to say that some of these productivity frameworks were imbedded in certain parts of the Corporation. This is an important point from our clients' perspective, and let's give Ms. McLaren credit for -- for some significant changes she's made to the Corporation, in terms of service. And one only has to look to the annual general report of the Corporation to see all the service standards, or the second quarterly report.

I challenge the Board or any other person in this room to find that same level of detail, in terms of productivity standards, in terms of -- and -- and that, to our clients, is the -- the dichotomy that we seek to -- to identify for the Board's attention. Go do good service, it's very important, but do it in an efficient manner. And create that framework that -- that, in sense, efficiency -- efficiency towards a good end.

And I've -- I think I've essentially re-stated the -- the same point on page 97, which brings us to IT expenditures. And for the Board -- for the panel, I have put right into your bound version, excerpts from the Gartner report. They're not numbered the same as the rest of the document; they're numbered on the -- on the right-hand side, you can see.

And we went through this in cross-examination yesterday but -- but in our clients' view this is a really important document, 'cause it underscores our concerns about expenditure control at the Corporation. And certainly as we read Gartner, it says, Good on service, you're good on the service side, you got challenges on the expenditure side.

And we just -- if you wanted -- if you flip through the Gartner pages, a number of pages in there should be page 22. And just to remind you what Gartner was doing, this is the second part of the report, MPI had -- having -- this is page 22, just at the top; hopefully it's circled.

"MPI had engaged in the CIO Scorecard as a means to measure its efficiency and effectiveness versus commercial pure organizations."

And if you'll flip back to page 7, you'll see some of these comparisons with its peers highlighted. This is a good -- good summary of a lot of the conclusions of this report. Bullet at the very top:

"IT spending is a percentage of

operating expense."

That's higher than the peer average.

Furthermore, IT spending per employee, higher than the peer average.

"Compared to its peers, a disproportionate amount of their budget spent on personnel."

That's the second bullet there.

And again, if you go down to the four (4) -- fourth bullet:

"In certain areas higher than the peer average, from a staffing perspective."

And again, I -- I don't want to drag the -- the Board through this, but if -- if you get an opportunity, page 8 there's some important information, in terms of those comparisons. Again, page 9. Page 16 looks at IT spending per employee. And the bottom line -- and actually page 17 has a fabulous comparison of IT employees as a percentage of total employees, which is very telling and raises the question of whether this organization has a disproportionate weight.

And then we go to page 24, which is the Gartner bottom-line. Their conclusion:

"MPI's IT spending, higher than the industry peers, and the overall process maturity of the IT organization was related below the average peer and CIO Scorecard data base. Spending more, process maturity less, not the ideal equation."

And the implication again, on page 24, identifying similar to the CI -- CAC Manitoba, the need to adopt stronger cost containment.

Madam Chair and members of the Board, page 26 is a -- a good page, as well, that makes some of those points.

And page 32, probably the second last page, right at the top, the conclusion of Gartner Group:

"MPI has implemented fewer cost containment strategies than other team player organizations."

To MPI's credit, it retained the Gartner Group and this document has been shared with us, and we applaud them for that, but some -- some concerns which underscore our client's concerns in terms of corporate expenditures.

If you would flip through to page 101 of my -- my -- my document, there's one (1) other important point about Gartner Group. This was done in the '09/'10 year, just as the Corporation was beginning to ramp down some of its IT expenditures.

It would have been a very interesting analysis if it was done in '08/'09, or we look forward to the analysis in 2012/'13, because arguably, the -- the comparables for the Corporation might be -- maybe the performance will be better, but the expenditures we -- we would anticipate would be -- would be significantly higher, as well.

IT optimization, page 103. I won't spend a lot of time on this page. Ms. -- but one (1) of the Board members asked about a chronology. This is a chronology that is of interest to our clients because it -- it places the decision to create the IT optimization fund right in the -- the middle of the debate and the discovery of this huge IBNR, this huge excess in terms of retained earnings. And the decision to create a $65 million draw down from Basic, related to IT optimization is, put most charitably, propitious.

Page 104, we talk about IT optimization and project charters. And we want to relate this back to the efficiency discussion because this is what Ms. McLaren tells us project charters are all about.

It's really the document that's used to obtain management approval to expend -- at -- at the -- page 104, quoting from page 996:

"Management approval to expend effort and resources and money. The key purpose is to get the authorization to get going,"

et cetera.

"Project charters are management's tools to tightly specify, authorize, review, control projects as they move along."

Again, at the bottom of that page.

Recognizing that -- turning to page 105 -- that some preliminary steps have to be taken, we see on this page 105, the reality that none of the charters are completed. They're in process. I think Ms. McLaren's evidence yesterday was that by the end of the fiscal year, they -- they might be in play.

The concern of our clients as set out on page 106, is that it is not clear -- this is at the top of page 106:

"It is not clear that the PUB will have the opportunity, from a rate making perspective, to assess the reasonableness of the project charters, before the Corporation has committed to the projects and made significant expenditures."

And from our client's perspective, this raises the deeper concern that before Board has the opportunity to review these expenditures, the die will be cast. Sure, there will be future proceedings, but the money's already spent. The barn door is open, or closed, I can't remember that analogy anymore. Chickens have come home to roost, I don't -- I'm just flailing away here with poor analogies.

The point is, from a regulatory perspective, that -- that may be an item of concern. And I asked Mr. Geffen, in the middle of page 106 -- I suggested to him it would be imprudent to sign off on a plan until one had an opportunity to review the charter, and a motherhood statement, he of course agreed with me.

And, from our clients' perspective, we didn't spend a lot of time in this hearing on IT optimization in terms of what's inside it, because what's the point? Unless it's put in the context of a charter in the -- I don't mean to disparage the efforts of Board counsel, but unless it's put in the -- in the con -- in the context of a charter, unless we can critically assess the benefits, the strengths, the real expenditures, the real contingencies, it's premature to pronounce judgment upon it.

And certainly, from our clients' perspective, they would recommend that the PUB reserve judgment on IT optimization until those charters are finalized, and that MPI be advised that the Board reserves the right to exclude imprudent IT optimization expenditures from the revenue requirement.

Our clients certainly hope and expect that this will be a good project, these will be a series of good projects, good bang for the buck, but our clients certainly are not prepared to sign off on the project, the concept, until the charters are in play and before the Board.

Page 107, we talk about the funding of IT optimization, and I hope I made our clients' point clear in the Nanny Phyllis from Souris cross-examination. But when we look at retained earnings and the rate stabilization reserve, our clients' understanding of that, that utilization of retained earning -- earnings, was that it was to provide rate stability in the face of unanticipated one (1) time only events, kind of an icy day or snowy day fund.

We set out at page 108 some important contextual factors relating to IT optimization. Important on that page are the fact that three (3) other major corporate initiatives in terms of IT related to

Basic -- AOL, CARS, and PIPP -- all were funded from corporate -- excuse me, from Basic revenues rather than some sort of special fund drawn down from -- from retained earnings.

Page 109, we set out some key facts, and the Board can read that at -- at its leisure. It's -- I don't think they're con -- con -- contentious. But at page 110, our clients set out their concerns with the util -- the funding of IT optimization from retained earnings rather than through a revenue stream. We said already that the timing is suspect. And our clients are concerned, from a precedent perspective, that it opens the door to further draw-downs of retained earnings in anticipation of the potential for fu -- further rate rebates.

Our clients are also concerned that having this project funded out of retained earnings instead of revenues lessens the efficiency signal. If MPI is doing a great job, that's great in terms of revenues. If it's not doing a good job on IT optimization, we think there's an important deterrent effect, efficiency signal, by making it go through the revenue requirement to justify more money for the projects, rather than simply drawing down the fund.

Our clients, through cross, raised Nanny

Phyllis' concerns in terms of inter-generational equity and, frankly, they believe that those who contributed to excess retained earnings should have them returned to them.

MP -- we note at the bottom of this page that one (1) of the justifications of -- of this project in -- out of retained earnings was the claim that MPI had, over the past few years, underfinanced its capital projects. But when we look at the Gartner report and the Gartner's conclusion that it's overspending compared to its peer groups, and underperforming in terms of certain indicators. It is not tenable to suggest that underfinancing of IT has mean -- meaningfully contributed to retained earnings.

And at page 111, I think Ms. McLaren -- originally MPI had made an argument in favour of rate stability. I think she conceded that point candidly during cross.

Road safety, Madam Chair -- and we are nearing the end. In a day where we sometimes -- page 112. In a day where we sometimes say some negative things about the Corporation, certainly our clients are supportive about the process and objective of road safety visioning. And they applaud the Corporation's willingness to consider broader -- potential broader cost effective investment, not typically within its spear of business -- sphere of business. And our clients have raised that issue on a number of years. Not saying that MPI should walk down that path, but seeking an ICB like -- ICBC like openness to the debate.

However, in a rare show of unanimity with MPI, our clients also agree that caution and careful cost benefit assessment must -- must be exercised in this regard because there is the slippery-slope potential.

Our discussion in cross with Ms. McLaren yesterday reinforces our clients' strong belief that more rigour must be bought -- brought to road safety budgeting, both between investment alternatives and even within lines of expenditures. And certainly our clients have raised this in years past, the disproportionate social cost of accidents in rural areas related to impaired driving and lack of occupant restraint, and we discover in the road visioning documents, as well as in First Nation -- among First Nations persons is, from our clients' perspective, an issue of -- that should be a high priority.

Page 113, I'm not sure my -- my clients are going to please Dr. Evans with their comments on Pay As You Drive, but they call them like we see -- they see them. And the Board will be air -- aware that on these policy issues our clients tend to approach them from an evidence based perspective. And we have followed the debate in terms of Pay As You Drive with interest on behalf of our clients for many years.

And my client has authorized me to tell you I -- for once in the Hearing I will provide evidence -- that certainly the Public Interest Law Centre conducted a very extensive literature review in -- in terms of the empirical research and -- and the social science research related to this issue and we shared it with our clients, with CAC, and I'm told by Ms. Desorcy that there was a hot and heavy debate; the -- the wounds still linger.

But based on the literature review at the time, our clients' view was that the jury was still out in terms of whether the improve -- the -- that type of insurance would lead to improvements in statistically driven and actuarially sound -- sound rates, recognizing that along with an -- insur -- environmental purpose clearly there -- there must be an insurance purpose.

And there were questions raised by my -- by our clients in terms of who will pick up the freight for -- for these drivers especially in the event that it doesn't have a demonstrated loss reduction impact. So that's where our clients are.

I'm not sure what the Board intends with a pilot project. And I would never dare tell this Board what its jurisdiction is; it rarely listens to me on those -- those issues. It's not clear to us that that jurisdiction exists.

Uniform rates is another issue set out at page 114. There is a very thoughtful response by the Corporation on that issue. Our clients -- we recognize the social policy drive to uniform rates. But in terms of actuarial principles, in terms of fairness, in -- in terms of getting to statistically sound and actuarially driven rates, our clients are of the perspective that would be a step back. And we recommend the -- that response to the Corpora -- to the -- the Board because it's a very thoughtful response, a very principled response.

In candour to the Board, if you are seeking ammunition on uniform rates, I've noted one (1) -- one (1) reference at page 8 in my little note there that may be of interest to you. It -- it gives some modest support to your -- to -- to that drive, but certainly our clients are not supportive of it.

At page 115, you see a big blank sheet relating to rate decrease, traditional manner, or -- or based on DSR. And my clients would like a day or two (2) to think about that and respond in writing.

In terms of cost allocation, I think our -- our comments here speak for themselves. Our clients, especially with regard to staffing, do not believe that the current mechanism for assigning and allocating costs is the best mechanism in which to assist the regulatory process. Frankly, our clients are not sure what's going on on staffing levels and -- and they're not confident that the results produced through cost allocation will -- will give them that confidence.

And recognize, given their experience in many other juris -- in many other regulatory processes, when you're looking at compensation you got to look at wages and benefits, you got to look at staffing levels. And if you can't have confidence in the numbers being generated out of the Corporation, that's of concern to -- to our clients.

At pages 117 through 118 our clients make the point that for rate setting purposes the Board should re -- reply -- rely on the approved RSR target. We've debated it. The Board's had all these options before it for years. In this particular hearing we've barely touched upon it. And certainly that target was set with a lot of thought.

Our clients are certainly open to

revisiting it next year, but this year it's the best we've got and we think it's good -- or our clients think it's good.

Page 18 -- 119 the Board asked, "What do we do with the DCAT?"

And our clients' conclusion is that little weight can be given to the DCAT analysis in the proceeding. The easy answers -- this is at page 199, Madam Chair. It was filed late, not tested to any degree. The deeper answers though are, from our clients' perspective, this is not a tool that -- that we put at the top of the list in recommending to the Board. It's not stochastic in the true sense of the word in that certain variables the stress tests are fixed.

It's vulnerable as our clients believe they've demonstrated in prior hearings, to influence by unrealistic or, in fact, counterintuitive stress test assumptions. And it is strongly arguable that this Board has moved past that. Certainly on the Hydro side it's moving past a stress test to a much more modern risk analysis based on more sophisticated sto -- stochastic tools.

Our clients agree, at page 120, that it is open to this Board to revis -- revisit the issue of an appropriate target for the RSR. If it does so, our clients' view is that all -- everything should be on the table, including -- this is at page 120 -- whether or not modern rate setting truly requires an RSR. That's actually not my clients' views. That's just me talking. I think that my clients might have a different view. So that might have been the one (1) thing I say without instruction.

But any such discussion should -- should look at what -- what are retained earnings for. There's been pressures put on them, immobilizer funds, perhaps road safety funds, IT optimization funds. Is that the way to go? Because our clients are concerned that the purity of the RSR is -- is being challenged.

A key point our clients would suggest is that we've got these old tools, somewhat dated. Let's look forward. Let's look to more modern risk setting risk analysis tools, and that we should build on what is really a parallel experience with Manitoba Hydro.

And there were some learning opportunities. Our clients are convinced, based upon their participation in both proceedings, that there are some learning opportunities that could be shared between academics, the Board, Hydro, and -- and MPI perhaps in a voluntary technical conference. Goodness knows there's been a bit of stress between the Board and MPI and Hydro over the years. Maybe it's -- it's time we did something that's a little less adversarial, a little -- and that might be a -- a useful exercise.

Any thoughts in terms of investments. You see a blank page there but I have some thoughts, Madam Chair. In terms of investments, going forward for new investments, obviously if the interest rate is lower than today we can expect that investment income earned in future years would be lower, especially given the disproportionate focus on -- of bonds within the MPI portfolio.

The impact on the current portfolio if the investments are not sold, obviously the interest income earned would be based on the interest rates of the incumbent bonds but the bonds would carry a capital appreciation or capital on gains which would flow -- unrealized yes, but flowing through the income sta -- statement as we understand it based on the IFRS classification of bonds.

The third point we would make is that the discount rate used for the unpaid claims reserve would be lower than today to match the new bond rate and thus the unpaid claims reserves on the balance sheet would increase and claims incurred, IBNR would increase. And we've seen that experience already this year. And as --

as Mr. Palmer has acknowledged, the immun -- immunization between the second point and this third point is not perfect, being about 80 percent. So there would be, in our clients' understanding, stress on the balance sheet in a re -- in terms of a reduction in net income on that remaining 20 percent.

THE CHAIRPERSON: Mr. Williams, you're reading something, but you did show us a blank page, right?

MR. BYRON WILLIAMS: Yes, I did, Ms. -- Ms. -- Madam Chair. I'm -- I'm doing this stuff on -- on the fly.

THE CHAIRPERSON: Right. So just my request would be that maybe you would leave a copy of that with the interested parties like Ms. Grammond and MPI because I would like to see it.

MR. BYRON WILLIAMS: And, Madam Chair, I would be happy to provide an edited copy for you. So, I would -- I would go back to the office and we could provide it electronically tomorrow, if that would satisfy?

THE CHAIRPERSON: I'm just saying we need to --

MR. BYRON WILLIAMS: Yeah.

THE CHAIRPERSON: -- see something,

because at this point in time it's after 5:00 and, you know, you're reading something, it's hard to take it --

MR. BYRON WILLIAMS: Yeah.

THE CHAIRPERSON: -- all in.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And we certainly undertake to do that, I just -- I -- I wouldn't feel com -- comfortable sharing the whole -- the whole document.

I'm going to skip through many pages on Part 3. You're -- you're aware of our clients. I'll introduce you to our lovely wit -- experts in the cost application process. At page 127, the Board asked for the pros and cons of different rate alternatives, so this is page 127 at the bottom. And what we tried to do and -- is walk through our clients' reasoning process kind of like porridge. Is the rate application just right? Is the decrease too high or is it too low?

In terms of the argument that the rate decrease should be higher, supporting that we believe would be a finding that it has been unable to de -- demonstrate that the magnitude of its projected expenditures for Basic are prudent and necessary.

Also supporting that would be a finding that the external actuary's estimate is not a best estimate but a conservative estimate. Also supporting the higher rate increase -- excuse me, a higher -- an increased decrease -- that doesn't make any sense -- a bigger decrease would be using the proposed Deloitte model for assigning and allocating costs.

So those are three (3) factors going towards an increased -- excuse me, to -- towards a bigger rate decrease. And we think there are compelling factors there.

Going the other way is one (1) of our own proposals, having -- putting IT optimization into the revenue requirement would knock about a percentage off the rate decrease. And obviously, risks associated with the investment portfolio would be another sobering factor. In terms of -- so this is kind of the debate that our clients have been weighing.

They also note that in terms of the rate stabilization reserve, the finding that any expenditures related to IT optimization should be funded by revenues, not by retained earnings, would suggest that exer -- existing reserves are over target.

That 55 million figure should be struck out. Mr. Cathcart has brought to my attention some revised figures that I -- I didn't catch in the hearing. So when it comes to -- it's clear that the RSR would be materially over target, but I would encourage the Board not to rely on any numbers in my -- my report, but to rely on the Board's own analysis.

In terms of the -- the next page -- in terms of the proposed rate decrease, Madam Chair, our clients are strongly of the opinion that this exact proposal of 6.85 percent should not be accepted. And our clients are strongly of the opinion that accepting this particular rate decrease would send the wrong signal to the Corporation in terms of its cumulative conservative IBNR estimates, in terms of its imprudent expenditures.

And the Board, in its analysis may say, well, we've got factors going this way, factors going that way. Well -- well, in an uncanny way, that reminds our clients of that poor external actuary, reviewing actuary, saying, "I don't agree with this methodology, I don't agree with this methodology, but it all evens out in the wash." We think that would be a strongly counterproductive rate signal.

Our clients have debated the numbers intensively over the last week. We think the factors supporting a stronger or a bigger rate decrease are -- are -- outweigh the factors supporting a smaller rate decrease, and are recommending an 8 percent rate decrease.

But they cannot emphasize enough their sense that approving this rate inc -- increase, in light of the lack of expenditure controls, would be the wrong signal to send.

Again, we put in a -- a high -- too high of a figure for the RSR rebate, but certainly they -- they would see one (1) flowing.

In terms of the recommended order, I think that -- which is at page 129, Madam Chair -- I believe that those -- that's a summary of what I presented to you during the course of the day and the Board can read it at its leisure.

Madam Chair, noting the time, and noting that I have to be teaching at the University of Winnipeg in twenty (20) minutes, I wonder in terms of -- my clients have brief comments on six (6) of these factors and -- and if we could undertake to present those to the Board, they'll -- they'll be quite short, but by Friday, kind of close of business, if that would be satisfactory?

THE CHAIRPERSON: How do you feel about that?

MS. KATHY KALINOWSKY: Friday is fine. However, not close of business. If I could -- today is Wednesday. If I could have them Friday by noon, that would be helpful, so that I'd be able to get directions, so that I could work with them over the weekend.

MR. BYRON WILLIAMS: No worries.

MS. KATHY KALINOWSKY: The other thing -- I would like to comment with respect to Mr. Williams is if he could also put in a precise figure in respect of the existing retained earnings that they're looking at. When he suggests that they're about $55 million over target, but then he says, "Well, I've had a conversation with Mr. Cathcart and I know that that figure is -- is not the correct figure. I don't really know what the right figure is right now," MPI would like to have that also in writing, if possible at that same time, if that's acceptable for you.

MR. BYRON WILLIAMS: Yeah, and I think that --

MS. KATHY KALINOWSKY: Otherwise, it's very difficult for MPI to argue against something that we don't really know what the exact amount is, especially given that it is something very important, of course, like many aspects of this application and the argument.

MR. BYRON WILLIAMS: Ms. Kalinowsky is suggesting that my -- my figures were nebulous. And I accept that. And certainly, that's fine from our -- our -- our perspective. And we'll aim for -- for Friday at noon.

And I do thank the Board. It's been a long afternoon and you've been very patient, and I -- and I appreciate your courtesy. And certainly our clients thank you for the careful listen.

THE CHAIRPERSON: Well, we thank you, Mr. Williams, and you are excused so you can get off to the class.

And looking at the other Intervenors, I -- I know that we've had Ms. Peters waiting there patiently, and you haven't said much, but at this point you would want to make a closing statement, would you, or argument?

CLOSING SUBMISSIONS BY CAA:

MS. LIZ PETERS: Yeah, we'll just make some general statements. Definitely quite brief, we'll try to stick to around ten (10) minutes.

All right. So, thank you very much, Madam Chair and everyone, for the opportunity for CAA to, once again, sit as an Intervenor in this process.

As you know it's our seventeenth year doing this and we definitely think that over the years it's been our intent to advocate just for making the overall operations of MPI more effective and more efficient so that ratepayers in the province are paying fair and reasonable rates, and also so that they receive a level of service that meets their needs regardless of the situation they're in.

Throughout this process -- or throughout the PUB process over the years, CAA has tended to be on the critical sides, sometimes pointing out opportunities and calling for various actions. But we've also supported the Corporation in a lot of different ways.

We supported the need to build up the RSR to get the Corporation back on solid ground. And we also supported the development of Autopac Online to make the entire system more efficient. Just some -- those are just some general comments.

Before we start touching on some of the more technical, financial issues I'll just make a couple of statements in regards to the Corporation's direction on road safety and a couple of other general issues the -- the Board panel asked us to comment on.

The first one that wasn't requested to comment on, but just age-based testing for driver's licencing, it's something, having two hundred thousand (200,000) members in Manitoba, is very near and dear to CAA, to our members, to -- to our staff and our organization and we definitely don't agree with that initiative right at this point. We instead feel that retesting and retraining drivers with tarnished records should continue to the be the focus as it has been for MPI over the past years.

In terms of infrastructure the cor -- as for the Corporation's role in providing financial support to address specific road safety issues, CAA has concerns that ratepayers will perceive this funding as being as they've paid twice for a job that should be done by government.

And so while we commend the -- the thought about going in that direction, we think that careful planning and assessment of how that would be perceived is very important going forward.

In terms of the Corporation's efforts to integrate programming with partners like the Winnipeg Police and others, CAA would like to commend the Corporation's efforts. CAA has, from time to time, been regarded as one (1) of those partners and we're always honoured to work with the Corporation to raise education and awareness. Two (2) strong advocates are always better than one (1).

We, however, caution that working together and providing funding are two (2) very different things. Similar to the comments on funding infrastructure projects, we're concerned that the more the Corporation funds programs like RoadWatch, the more Manitobans could perceive that they're paying twice, once from MPI, and once by government paying for policing. So we're just cognizant of the way that that could be perceived if we continue -- or if MPI continues to ramp up their -- their funding of those initiatives.

And in addition, one posed a question whether more could be done, the Corporation responding, saying they think they're doing all they can to collaborate with partners in this way. In CAA's opinion, we believe that more work can always be done to work more efficiently through partners, CAA being one (1) of them. We're very eager to do that always.

In terms of distracted driving, just for -- for the record last years CAA's almost 6 million members in Canada reported to us that distracted driving, specifically talking and texting on cell phones behind the wheel, for the first surpassed impaired driving in their eyes as the most troubling road safety issue in Canada.

While most provinces have only in the past year or two (2) implemented laws around distracted driving, CAA is hopeful this road safety issue will be very important for the Corporation to address in the years ahead, in addition to maintaining current spending on campaigns for impaired driving, seatbelts, and speeding.

In terms of the Pay You Drive -- Pay As You Drive suggestion that the Corporation consider implementing a program of this sorts it raises many questions for CAA. At this point, without having any specific information we'll -- we'll decline to comment on that one.

Moving into some of the technical questions raised throughout the proceedings let me just start by recalling a statement made yesterday by Ms. McLaren of insurance rates and for the forecasting process. She said:

"There is uncertainty and there always will
be uncertainty."

While this may be true, there are aspects of the rate setting process that don't have to be uncertain and would, in CAA's view, bring the Corporation and the PUB close -- closer to the goal of setting fair and reasonable rates in an open and transparent manner.

In regards to MPI fulfilling its onus during these proceedings to provide information, while it's a fact that the Corporation does answer thousands of questions it's obvious to us that on many occasions specific details were not provided and vague generalities were instead offered. CAA believes in order to properly set fair rates for Manitoba motorists the PUB and its Intervenors need a more full understanding of the Corporation's overall operations.

That leads to my next point which is about the stated case that's still before the courts. For CAA, the intermingling of resources between various lines of business continue to be a concern, especially in the absence of this verdict.

Seventeen (17) years ago, there weren't any questions about an allocation process because the overall health of the Corporation was the main priority. We know that, over -- over the years, benefits from the Basic line of business have flowed to the other lines, and we believe that, regardless of the findings in this case, that fact will still remain.

Despite adamant claims by the Corporation that the other lines of business, like extension, could -- would be able to exist in their current state without the Basic mandatory line of business, this is something that CAA does not agree with in any way, shape, or form. We definitely disagree that that could be the case.

At one (1) point during these hearings, actually, it was suggested that the Corporation holds an area of about 80 percent of the market share of extension insurance. And CAA just wants to point that, over the last several years in these proceedings, we've actually heard a higher number, somewhere in the range of the mid-90s. So we're actually -- we're wondering if it's inching closer and closer to just having a -- a complete 100 percent monopoly in the coming years, and that's something that would, of course, be of concern to the Board as well.

And as we understand that the verdict, or hopefully the verdict in the -- in the stated case is imminent, CAA believes the Board should, similar to last year, issue an interim order contingent upon more information coming to light. If either verdict comes down before the Board order is made, CAA is confident the Board would have just cause to delay their order in order to examine the new information.

The other question posed by the Board for response was about the Corporation's credibility. Just surrounding the historic rebate that happened earlier this spring, it's CAA's view that their credibility was first damaged by withholding the information from the rate setting process, but we believe it was further damaged when Intervenors like CAA and CAC, both member-based organizations, began fielding calls from countless members about the size of their rebate cheque. And, speaking personally, I had dozens of calls a day for several days. Speaking on CAA's behalf, we didn't have any answers to give those people.

In the end, the rebate process was further reviewed and more money was disbursed. CAA believes there is cause to question MPI's credibility on this point because for several weeks the Corporation stood by the legitimacy of the first rebate while, in the end, the Corporation admitted it was anything but legitimate.

CAA raises this instance to illustrate an important point, that being how critical trust is in the regulatory process. The historic rebates this spring, we believe, went far to show Manitobans that the regular -- regulatory process does -- can and does work. And, in the end, ratepayers were happy with the process but for CAA a rebate of this magnitude also raised many red flags about the Corporation's finan -- financial accounting.

Just a couple of comments on lack of benchmarking. The apparent lack of ability to compare MPI on a variety of fronts to other similar organizations is concerning. While the Corporation has stated they're comfortable with the level of comparison, CAA is not.

Clearly, the ability to benchmark with other agen -- with other organizations is available. Saskatchewan, BC are definitely examples. They have similar systems that are either in part or completely controlled by government. The Corporation should endeavour to examine this opportunity prior to next year's GRA.

On forecasting, as stated earlier, for the most part, over the years, CAA has supported MPI's conservative approach to any and all rates and rebates, and encouraged the Corporation to keep a close eye on current economic conditions, whether events, underwriting results, et cetera. But the fact remains today this conservative approach has contributed to a very large surplus that has built up for far too long. That is evidenced in the fact that last year the Corporation's external actuary said retaining earnings were reasonable, and we later learned they were anything but.

Just about the rate reduction process. We believe that if -- if the Board proceeds with a rate reduction, it should be applied fairly and equitabl -- equitably, based on premiums -- premiums paid by each motorist. While there are some -- there is some benefit to warding -- rewarding good drivers, would it provide an incentive for bad drivers to strive to be safer?

We believe that if all drivers are overcharged, then all drivers should see a reduction. CAA believes the unequal division of reduced rates could create a hostile environment among ratepayers towards the Corporation.

A couple of comments on staffing. We're particularly concerned with the analysis laid out during these proceedings. CAA is con -- is confused how, during the economic downturn, when most other organizations, especially those affiliated with government and the civil service, were tightening their belts, they were sharpening the accounting pencil, they were watching the bottom line. Meanwhile, MPI was doing the exact opposite.

Of particular concern were some points highlighted by Mr. Williams this afternoon that the Corporation made no thought of restricting travel, freezing or leaving staff positions unfilled, reducing overtime costs, capping vacation time payouts, freezing salaries based on achievement of results, anything like that. We definitely believe that goes to illustrate how comfortable MPI's economic position really is, and paves the way for this application to go further than proposed.

One (1) more point, just related to staffing. We just wanted to make comment of the recent announcement of the $2 million daycare at Cityplace. While it's undoubtably a good tool for employee satisfaction and retention, CAA questions whether it should be a priority at this time, when other companies are still rebuilding and Manitobans are still questioning whether the rates they're paying are fair.

IT optimization: According to the Gartner scorecard, as highlighted by Mr. Williams, compared to its peers in the same category, the Corporation consistently has spent more on staff and contractors for several years. Evidence presented just yesterday was a clear illustration of how the Corporation seems to be spending money just for the sake of spending money. There seem to be few ground rules in the Corporation's processes. There seemed to be a clear lack of plans, goals, or even reporting mechanisms. CAA believes they're employing too ma -- the Corporation employs too many people and spending far too much money. Overall, the Corporation's explanations for these expenditures have been unsatisfactory, in our view.

Just getting to a couple comments on the -- the RSR and future rate increases. In regards to the rate reduction, CAA believes that the PUB should not only grant 6.85 percent rate decrease, but it should in fact go further to 9 percent.

Further -- further to that, CAA believes that the Board should actually consider rebating this amount. As it's been clearly illustrated throughout these proceedings and over the last few years, that if there is 6.85 percent to reduce on March 1st, ratepayers are almost certainly being overcharged as we speak. A rebate will not only ensure ratepayers get back what should not have been collected in the first place, but it will also protect against any unforeseen rate fluctuations in the coming years.

A rebate would also ensure that the excess RSR -- the excess in the RSR that the Corporation has classified for IT optimization is returned. CAA believes the borrowing from the RSR rather than applying the costs of IT optimization to the Corporation's bottom-line needs to end, and ensure that the RSR is used only for its true purpose. Using it in this way clearly goes against the purpose for which it was created.

All expenses for IT optimization should be funded by revenues and counting as -- counted as an operating cost. And just knowing that there's been five (5) rebates in six (6) years, while it may seem like requesting another rebate is not cost effective, CAA believes that continually overcharging ratepayers is also not a cost effective way to do business.

A couple comments on the rebate methodology. If that is something that the Board chooses to -- to go towards, we believe that if there is a rebate granted, as I detailed, that a cheque should be written, again, to each ratepayer.

While we acknowledge that there's a more than dollar fourteen (14) cost per cheque, and it's an unnecessary cost that it's hard to justify every time an issue -- a rebate is issued, but after the historic rebate that was granted earlier this spring CAA can state for the record, as can other -- as -- as can other Intervenors and the Corporation, Manitobans have questions about the management of the rates that they pay. We believe upfront rebate processes to return unnecessary rates will help increase the credibility of the Corporation.

So, in conclusion, while we touched on a variety of issues, please let me emphasise that the way ratepayers' money is managed and spent is by far most -- most concern to CAA Manitoba. Putting back in their pockets would not -- which should not have been taken in the first place we believe should be your top priority when determining the appropriate Board order.

With that being said, Madam Chair, we wish to thank the Board, its advisors, the MPI panel, and the other Intervenors for their courtesies during the hearings. Thank you.

THE CHAIRPERSON: Well, thank you for

those comments. You've been very patient, and it's always hard to go last, but you've made a very strong point and -- many points, and we appreciate that.

All right. I think we're at the point where we can finally adjourn. And we will be hearing Ms. Kalinowsky on Tuesday at one o'clock. No?

MS. CANDACE GRAMMOND: Nine-thirty a.m., Madam Chair.

THE CHAIRPERSON: Nine-thirty. Oh, sorry about that. So early in the morning. And we'll look forward to that. Thank you.

--- Upon adjourning at 5:27 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.