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MANITOBA PUBLIC UTILITIES BOARD

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

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 4, 2011
Pages 1 to 212

APPEARANCES

1
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3
4 Kathy Kalinowsky) MPI
5
6 Raymond Oakes) CMMG
7
8 Byron Williams) CAC/MSOS (MPI) Manitoba
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10 Nick Roberts (np)) MUCDA
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12 Liz Peters) CAA Manitoba
13 Jerry Kruk)
14
15 Dave Schioler) IBAM
16
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1 --- Upon commencing at 9:30 a.m.

2

3 THE CHAIRPERSON: Yeah, thank you. Good
4 morning, everyone. I'm Susan Proven, and I'm going to be
5 acting as the Chair for this hearing. So I now call the
6 2012 Manitoba Public Insurance Corporation General Rate
7 Application hearing to order. MPI has applied to the
8 Public Utilities Board for approval of its premiums to
9 take effect on March 1st, 2012.

10 This hearing will be conducted in
11 accordance with the provisions of the Crown Corporation's
12 Public Review and Accountability Act, and the Public
13 Utilities Board Act, and the Board's Rules of Practice
14 and Procedure. These rules are available on the Board's
15 website for review.

16 In its application, MPI is seeking
17 approval of rates charged for compulsory vehicle
18 insurance and driver premiums for the 2012/'13 insurance
19 year based on an overall 6.85 percent rate decrease.

20 This panel will be interested in hearing
21 from MIP regarding the effect, if any, of market
22 turbulence upon the application of MPI's forecast. In
23 particular, I'm referring to the falling interest rates
24 on government bonds to well below the rate of inflation,
25 as well as falling TSX equity levels.

1 I'm joined by two (2) other Board members
2 at this hearing: Mr. Len Evans to my right, and Mr. Regis
3 Gosselin to my left. Also with us today is Hollis Singh.
4 I don't see him here right now, but he is the executive
5 director and secretary to the Board. Oh, there he is
6 over there. Sorry. I'm looking at the right here. And
7 Kurt Simonsen will also be here from time to time, so
8 he's the one that I'm not seeing, as an associate and
9 acting secretary to the Board. Board counsel are Candace
10 Grammond, and Nicole Hamilton of Pitblado, LLP.

11 And the Board has also retained the
12 services of two (2) other advisors. They are Mr. Roger
13 Cathcart sitting down to my right, a chartered accountant
14 of Cathcart Advisors Incorporated, who is in attendance,
15 and Mr. Brian Pelly of the actuarial firm Eckler Partners
16 will be joining us next week. This panel has, in
17 addition to these advisors, the wealth of background
18 knowledge and policy history, that resides with this
19 Board.

20 Transcripts of this hearing will be
21 recorded by Digi-Tran and made available on our website.

22 We will beginning -- the hearing on each
23 day at 9:30 and we'll adjourn at approximately 4:00 p.m.
24 Each day will include a mid-morning and lunch and mid-
25 afternoon break.

1 Following closing arguments, the panel
2 will sequester itself and deliberate to meet our final
3 determination on the matters before us. In the end, we
4 may accept, we may deny, or vary MPI's application.

5 In reaching our decision, we'll be -- we
6 will be guided by the evidence, both written and oral.
7 And, our determination, of course, of what is in the best
8 public interest. The Board takes its obligation and
9 mandate of protecting the public interest very seriously.
10 We are concerned not only with the short-term economic
11 impact of MPI's operations on both ratepayers and MPI
12 itself, but also the fairness of that impact on MPI's
13 long term fiscal and operational well-being.

14 In addition, the Board views this process
15 as one which should insure transparency in terms of the
16 corporation's operations and financial position.

17 There are two significant matters with
18 respect to the Board's jurisdiction pending before the
19 Manitoba Court of Appeal. A decision or decisions ahead
20 of the conclusion of this rate application may affect the
21 process and the timetable of the hearing.

22 We trust that the participants at this
23 hearing will be mindful of cost effectiveness and will
24 employ a cooperative approach. The common goal being to
25 bring forward the useful information and evidence to

1 assist the panel in reaching a sound decision on the
2 matters before it.

3 So, I now -- oh, we have of course, a
4 significant and complex hearing before us. There are
5 many issues and I'm confident that we will all approach
6 the process with a view to benefiting the public's
7 interest.

8 So, now I'll call upon Ms. Grammond for
9 introductions, followed by the introductions that MPI
10 will make, and then the Intervenors will introduce
11 themselves. At that point, Ms. Grammond, I think is
12 going to call upon a presenter and then after she does
13 that, we will have, of course, some swearing in.

14 She will make her introductory remarks and
15 then we'll call upon the Intervenors to make their
16 introductory remarks, and MPI, of course, will provide
17 theirs. We'll proceed with the swearing in of the MPI
18 witnesses, and commence the evidentiary portion of the
19 hearing. Thank you.

20 MS. CANDACE GRAMMOND: Thank you, Madam
21 Chair. As you indicated I am Candace Grammond for those
22 of you that don't know me. And I still answer to Everard
23 or Everard-Grammond, as the case may be. I recently had
24 a name change, so whatever works for people is fine.

25 Nicole Hamilton, my colleague, will be

1 joining us at times over the course of the hearing.
2 She's not here right now. Mr. Cathcart, as you
3 indicated, Madam Chair, is here, so for the time being,
4 that sets out the introductions on our side and I'll ask
5 Ms. Kalinowsky to do the same.

6 MS. KATHY KALINOWSKY: Good morning.
7 First like to welcome the new members of the -- to the
8 panel at MPI, in this 2012 General Rate Application.

9 I'd also like to introduce myself. My
10 name is Kathy Kalinowsky. I'm the general counsel and
11 corporate Secretary to Manitoba Public Insurance. To my
12 right, is Ms. Marilyn McLaren, she's the President and
13 Chief Executive Officer at MPI. To her right is Mr. Don
14 Palmer, the Vice President Fin -- in Finance and Chief
15 Financial Officer at MPI.

16 We have a back row of support for
17 hearings, and that will change, depending to a large
18 extent on the nature of the cross-examinations that will
19 be led. But, throughout the -- most of the hearing,
20 we'll have Mr. Mike Triggs, the Director of Legal
21 Services in attendance, and he's directly behind me.
22 Also, we'll have Darlene Porter, the Manager of
23 Regulatory Affairs. She will be attending throughout the
24 hearing. And also present today is Mr. Steve Perlmutter,
25 the Manager of Financial Reporting, and he will appear at

1 some times throughout the hearing.

2 Also, to be present will be Jeannine
3 Savard, the Manager of Budgeting and Accounting Services,
4 and also Glenn Bunston, the Manager of Investments, and
5 Luke Johnston, the Manager, Actuarial Services. They
6 will appear depending on the nature of the cross-
7 examination and the -- the areas of relevance for them.

8 We will also be joined later by four (4)
9 other witnesses, and that -- that will be composed of Mr.
10 Jim Christi, the external actuary formally of Ernst &
11 Young, and now retired. Als -- also be -- another
12 witness will be Mr. Neil Parkinson, the audit partner at
13 KPMG. And he's also the Director of the National
14 Insurance Practice at KPMG. He will also be joined,
15 excuse me, by Mr. Robert Kowalchuk, of KPMG, and he's an
16 audit partner.

17 And we have another individual who will
18 also be testifying, as requested in response to the offer
19 that MPI gave to the Board, and was requested yesterday,
20 and that is Mr. Martin Geffen, it's 'G' -- G-E-F-F-E-N,
21 who's a vice-president at the Gartner Group from the
22 Toronto office, and he will come and testify on IT
23 optimization and other IT matters that are of interest to
24 this general rate application.

25 Mr. Kristy will be testifying the morning

1 of October 18th, and Messrs. Parkinson and Kowalchuk will
2 testify jointly. And that should be on the afternoon of
3 October 18th also.

4 Mr. Geffen is available to testify on a
5 number of days, and I'll just be working with Board
6 council hopefully over today and tomorrow just to settle
7 that exact date that he will be coming in. It should be
8 towards the late -- latter part of the hearing, of -- of
9 course.

10 Mr. Geffen is an external consultant on IT
11 matters and he provides to the Corporation independent
12 advice to both senior management, and also to the Board
13 of Directors on IT matters.

14 I have a number of exhibits to be filed --
15 or we can walk through the exhibit list now. I don't
16 know if you intend to, Ms. Grammond, or -- or later.

17 MS. CANDACE GRAMMOND: I was going to
18 enter some exhibits for the Board, but I wasn't going to
19 go through your -- the -- the exhibit list for MPI. So
20 if you want to do that now or if you want to do that at
21 the beginning of your opening comments it's totally up to
22 you.

23 MS. KATHY KALINOWSKY: Well, I'll just
24 continue then now and do it at this -- at this stage
25 right now. The Public Utilities Board has provided a

1 list of exhibits already, and I've conferred more with
2 Mr. Singh since this was done, and say that MPI Exhibit
3 number 1, which is on page 8 of the exhibit list prepared
4 by the PUB, is the affidavit of Darlene Porter sworn
5 October 3rd, 2011, with attached exhibits stating that
6 all interested parties were served with a notice of
7 public hearing and rate application.

8

9 --- EXHIBIT NO. MPI-1: Affidavit of Darlene Porter,
10 sworn October 3rd, 2011, with
11 attached exhibits stating
12 that all interested parties
13 were served Notice of Public
14 Hearing and rate application

15

16 MS. KATHY KALINOWSKY: MPI Exhibit number
17 2 is that affidata -- affidavit of Zdenka Melnyk, that's
18 spelt Z-D-E-N-K-A, M-E-L-N-Y-K, sworn September 9th,
19 2011, with attached exhibits of notice of public hearing
20 and pre-hearing conference published in the required
21 newspapers.

22

23 --- EXHIBIT NO. MPI-2: Affidavit of Zdenka Melnyk,
24 sworn September 9th, 2011,
25 with attached exhibits of

1 Notice of Public Hearing and
2 Pre-Hearing Conference
3 published in the required
4 newspapers

5
6 MS. KATHY KALINOWSKY: MPI Exhibit number
7 3 is the affidavit of Zdenka Melnyk, sworn September 9th,
8 2011, with attached exhibits of reminder notice of public
9 hearing which were published in required newspapers.

10

11 --- EXHIBIT NO. MPI-3: Affidavit of Zdenka Melnyk,
12 sworn September 9th, 2011,
13 with attached exhibits of
14 Reminder Notice of Public
15 Hearing and Pre-Hearing
16 Conference published in the
17 required newspapers

18

19 MS. KATHY KALINOWSKY: MPI Exhibit number
20 4 is the MPI 2012 rate application, Volume 1, filed June
21 14th, 2011.

22

23 --- EXHIBIT NO. MPI-4: MPI 2012 Rate Application -
24 Volume I, filed June 14, 2011

25

1 MS. KATHY KALINOWSKY: MPI Exhibit number
2 5 is the MPI 2012 rate application, Volume 2, part --
3 Parts 1 and 2, filed June 14th, 2011.

4

5 --- EXHIBIT NO. MPI-5: MPI 2012 Rate Application
6 Volume II, Part 1 and 2,
7 filed June 14, 2011

8

9 MS. KATHY KALINOWSKY: MPI Exhibit number
10 6 is the MPI 2012 rate application, Volume 3, Parts 1 and
11 2, filed June 14th, 2011.

12

13 --- EXHIBIT NO. MPI-6: MPI 2012 Rate Application -
14 Volume III, Part 1 and 2,
15 filed June 14, 2011

16

17 MS. KATHY KALINOWSKY: And also in
18 consultation with Mr. Singh I'd also like to enter in MPI
19 Exhibit number 7. It's correspondence from Kathy
20 Kalinowsky to Candace Grammond dated, July 7th, 2011,
21 containing amended schedules to the 2012 GRA with
22 interprovincial trucking PIPP costs removed. And those
23 were circulated and provided on that date to all
24 intervenors and, of course, to the Board.

25

1 --- EXHIBIT NO. MPI-7: Correspondence from Kathy
2 Kalinowsky to Candace
3 Grammond dated, July 7th,
4 2011, containing amended
5 schedules to the 2012 GRA
6 with interprovincial trucking
7 PIPP costs removed
8

9 MS. KATHY KALINOWSKY: I can also at this
10 stage advise that there will be a few filings coming in
11 over the course of the hearing. The quarterly fina --
12 the second quarter financial statements as at August
13 31st, 2011, will be filed upon tabling in the legis -- in
14 the Legislature. It should be, hopefully, next week, but
15 we'll see how things go.

16 But as always, as Mr. Evans is very
17 familiar with, these are always tabled in the Legislature
18 around this time period, and it would be nice to have it
19 done for the first day of the Hearing, but it's not
20 always within our control, of course. So as soon as they
21 are tabled in the Legislature we bring those second
22 quarter financial statements in.

23 Along with that we also prepare revised
24 forecasts incorporating the year-to-date results. This
25 is the usual and this is also done, say, after the

1 tabling of the second quarter results, so those will be
2 filed at the same time. We have also to be filed is the
3 Dynamic Capital Adequacy Test, which is currently before
4 our board of directors, which is meeting later on this
5 week. And we'd -- also indicated that we will be
6 preparing an update for -- with respect to the IBNR as of
7 July 30th, 2011, which is still in the stages of
8 completion and that's one (1) of the reasons why Mr.
9 Johnson is working on a few other things also in that
10 regard.

11 I can mention with respect to the new
12 panel members, there's an awful lot of technical
13 information that you'll be exposed to. What we will be
14 looking towards is Board counsel direction and also to
15 yourselves as to when it would be helpful to provide
16 greater history and greater context to some of the
17 responses. The witnesses from MPI will attempt to answer
18 as they always have answered, but they also want to be
19 helpful, of course, to the Board members and assist in
20 their comprehension, of course, of this large amount of
21 information. So we'll be looking for -- for guidance
22 from both counsel and the Board in these matters.

23 I do have some -- or Ms. McLaren has some
24 opening statements, and Mr. Palmer has some direct-
25 examination, but we can wait until they're both sworn,

1 and follow the procedural outline as was circulated by
2 Board counsel earlier today. Thank you very much.

3 THE CHAIRPERSON: Thank you. All right.
4 Ms. Grammond...?

5 MS. CANDACE GRAMMOND: So perhaps then
6 the introductions from the Intervenors?

7 THE CHAIRPERSON: Yes.

8 MS. CANDACE GRAMMOND: Yeah.

9 MR. BYRON WILLIAMS: Yes, good morning.
10 Good morning, Madam Chair, Mr. Evans, and Mr. Gosselin;
11 and you'll correct me on my pronunciation if I butcher it
12 too badly.

13 Byron Williams. I'm appearing on behalf
14 of the Consumer's Association of Canada, the Manitoba
15 branch. To my left is my colleague, our articling
16 student-at-law, Ms. Zilla Jones, Z-I-L-L-A. And back
17 watching -- scrutinizing me carefully, of course, is Ms.
18 Gloria Desorcy, from the Consumer's Association of
19 Canada, the Manitoba branch, and she's back in the water
20 cooler section in the -- in the back row.

21 We do have opening remarks but we'll
22 reserve that till introductions are completed. Thank
23 you.

24 THE CHAIRPERSON: Thank you, Mr.
25 Williams. Now I'm just going to go by the order that I

1 have. Next I have Mr. Oakes.

2 MR. RAYMOND OAKES: Good morning, Madam
3 Chair. Raymond Oakes of the law firm Booth Dennehy,
4 representing the CMMG, and we were awaiting our
5 President; I don't see her at this time, but we stand
6 ready to make our comments as well.

7 THE CHAIRPERSON: Thank you. And the
8 Manitoba Used Car Dealers, Mr. Roberts.

9 MS. CANDACE GRAMMOND: He's not here,
10 Madam --

11 THE CHAIRPERSON: Okay.

12 MS. CANDACE GRAMMOND: -- Chair, but I
13 suspect he'll attend at some point.

14 THE CHAIRPERSON: Okay.

15 MS. CANDACE GRAMMOND: So we'll just --
16 we'll just keep going.

17 THE CHAIRPERSON: I have Mr. -- I presume
18 Mr. Peters -- or Ms. Peters.

19 MS. LIZ PETERS: That's Ms.

20 THE CHAIRPERSON: Sorry. Okay. Canadian
21 Automobile Association.

22 MS. LIZ PETERS: Yeah. Good morning,
23 Madam Chair, and members of the Board. My name is Liz
24 Peters. I represent CAA Manitoba, and I'm -- in
25 attendance as well is Mr. Jerry Kruk, from CAA as well.

1 THE CHAIRPERSON: Okay. And then next,
2 the Insurance Broker's Association of Manitoba. And
3 you're there, Mr. Schioler?

4 MR. DAVID SCHIOLER: Yes, Dave Schioler,
5 Chief Executive Officer of the Insurance Broker's
6 Association of Manitoba. Thank you, Madam Chair. I
7 don't intend to make any opening rem -- remarks. I'm
8 really here to learn more about how the Public Utilities
9 Board operates and how effectively it operates. Thank
10 you.

11 THE CHAIRPERSON: Okay. Thank you very
12 much. Now, I think that at this point we would normally
13 turn to the applicant, but we do have a presenter. Is
14 that right?

15 MS. CANDACE GRAMMOND: Yes, we do have a
16 presenter, and there will be some other individuals this
17 afternoon --

18 THE CHAIRPERSON: M-hm.

19 MS. CANDACE GRAMMOND: -- but I think
20 maybe for next steps, let's hear from the presenter
21 that's here, and then I'll have some opening comments,
22 and then we'll have opening comments all -- all around,
23 after that.

24 THE CHAIRPERSON: Right.

25 MS. CANDACE GRAMMOND: But yeah, I

1 believe the gentleman that's here is Bruce Zeemel, and I
2 may or may not be saying that right. But, Mr. Zeemel,
3 you're -- you're here, and you're ready to make your
4 presentation?

5

6 PRESENTATION BY MR. BRUCE ZEEMEL:

7 MR. BRUCE ZEEMEL: Yes. I'm Bruce
8 Zeemel. I'm a senior citizen in the city of Winnipeg,
9 living in Manitoba all my life, basically. I've
10 travelled a great deal around Canada from coast to coast,
11 and the North Pole, and Labrador, and all through the
12 arctic.

13 Basically I'm here as a -- good morning to
14 the --

15 THE CHAIRPERSON: Yes.

16 MR. BRUCE ZEEMEL: -- members of the
17 Board -- ask why are driver's licences so expensive? A
18 person has the right to drive and get a driver's licence
19 at a reasonable price to cover expenses, administration,
20 costs to the government, Department of Motor Vehicle
21 branch; now, I guess MPIC is looking after it.

22 It is a privilege to drive, and should not
23 be an excuse to overcharge for that privilege. Actual
24 costs for administration only. For the actual costs, I
25 have a fee schedule here from IBC. There -- have a five

1 (5) year driver's licence for seventy-five dollars (\$75)
2 for all personnel. Senior citizens sixty-five (65) plus,
3 it's seventeen dollars (\$17) for a five (5) year driver's
4 licence. Alberta, the driver's licence is seventy-five
5 dollars (\$75) for a five (5) year term, plus a nine
6 dollar (\$9) agency fee when you go get your driver's
7 licence. Vehicle registration in Alberta is also
8 seventy-five dollars (\$75), plus a nine dollar (\$9)
9 registration fee. And my registration this year for my
10 vehicle is a hundred and seventy-two dollars (\$172),
11 which doesn't meet cir -- circumstances.

12 In discussion with administration and
13 sales agents of driver's licence, that only a portion of
14 our cost of administration with the remainder going to
15 general revenue. In other words, that secret tax grab
16 accepting -- taking monies from people in Manitoba is
17 under false pretence, is the way I look at it and the
18 people that I have talked to. They say, Why is it so
19 expensive?

20 Along with this knowledge, how much of the
21 vehicle registration fees is going to administration and
22 how much is going into general revenue, I'd like that
23 question -- if possible, to get an answer.

24 If the administration costs are being
25 done, over cost of 6.85 percent being ret -- refunded to

1 us on a new schedule, is that 6.85 percent of the portion
2 they are getting from our driver's licence? As a girl a
3 couple years ago at the motor vehicle branch stated to
4 me, as we talked about other things, it came up that out
5 of the forty dollar (\$40) driver's licence that we paid,
6 they got twenty (20) and general revenue got twenty (20).
7 So is her reduction on the twenty dollars (\$20) they got,
8 or is it on the forty dollars (\$40) that we -- went into
9 general revenue also? I don't know.

10 This is -- all these questions are being
11 asked, and I'm -- I like to get up and ask questions, so
12 I'm here.

13 Is this of the dollars the administration
14 receives, or is the total cost a Manitoban pays? That's
15 basically that.

16 I feel the Public Utility Board should
17 give us a clear view written to where all dollars spent
18 by Manitobans for vehicle registration, driver's policy
19 insurance, and driver's licence has been spent. In other
20 words, if a person pays the sixty-five dollars (\$65),
21 where does our doll -- can you break -- give me a
22 schedule, or a tree, where all those dollars go. Specify
23 over-payments for the past ten (10) years refunded
24 Manitoba's -- or their estates of spouses. My wife
25 passed away two and a half (2 1/2) years ago, and it's

1 difficult making ends meet.

2 Similar to this case, hydro being sold.
3 Without administration costs, or administration costs
4 being paid for by the citizens of Manitoba, which is
5 happening, they're selling hydro for the same price as
6 we're getting it, at six (6) cents.

7 A bad driver who pays extra for a driver's
8 licence, where do all those dollars go? Have they become
9 a profit for the administration? Maybe dividends should
10 be paid out to the citizens. And some people are paying
11 up to a thousand dollars for a driver's licence. Where
12 does that go, into? General revenue, their driver's
13 licence, the motor vehicle branch? There has to be
14 accounting for that. Maybe our licences should be going
15 down.

16 I believe licence registration, driver's
17 policies should be sold at true cost to a citizen of this
18 province. In taking dollars from fees going to general
19 revenue must cause a terrible set of bookkeeping problems
20 and costs to the citizens, especially trying to keep
21 track of every penny. It's just -- you know, when you
22 start doing creative bookkeeping there's room for
23 thievery, and I don't -- and this is what people say,
24 Where -- where is it going, how is it going, how come?

25 At this other level, I have a piece of

1 paper here where -- Winnipeg Sun, a couple weeks ago,
2 we're the highest west of -- for income tax purposes,
3 we're the highest province taxed, west of Quebec.

4 Now, if we add these extra taxes for our
5 driver's licences and everything else, like from seventy-
6 five dollars (\$75) to a hundred dollars, and all these
7 other costs added, we're above the Quebec cost for
8 taxation. And I think generally, I get a thirty dollar
9 (\$30) increase in my pension every year -- for this year,
10 old age security, and CPP. With all the two-bits and
11 dimes and nickels adding up, it's a hundred dollars plus.
12 Ten (10) years from now, I'm gonna be on welfare.

13 Something has to be done, in that respect.
14 And it's -- there's articles on this from Colin Craig in
15 the Sun. There was a time to end our secret tax hikes,
16 somewheres along the line.

17 I'm sure glad -- one (1) thing, I -- I
18 have to admit the public util -- PUB, public rela --
19 Public Utility Board, did turn down the last hydro
20 increase from Manitoba Hydro. And I agree with that 100
21 percent, because they have to get their books in order.

22 The other -- one (1) last thing.
23 Administration of the division -- this is extra writing I
24 have at the end of my program. Administration division
25 of government runs office. Did the CO -- CEO of this is

1 proceeding -- if the CEO of this operation asked for
2 higher rates, or did the government leaders tell him to
3 raise rates, with extra dollars going into general
4 revenue?

5 I think that should be clarified as to
6 who's in charge, because as I told Mr. Brennan, the day
7 before he resigned, that if you're getting all this money
8 and the Manitoba government's coming in and saying we
9 want that money and we're taking it out, you're the CEO
10 and you have a board of governors, you're supposed to be
11 able to say "no" and they can't touch that money unless
12 they make a law that says we can touch it. That money
13 belongs to the citizens of Manitoba, not to the
14 government -- is the government -- citizen of Manitoba,
15 but in respect, that money belongs to Hydro for their
16 operations, and if there's a dividend, there should be
17 dividends paid. In Ont -- Alberta, you get dividends for
18 oil. The people there, they get dividends. We have
19 never have got dividends from Manitoba Hydro.

20 As Gary Doer stated, I think it was about
21 four (4) or five (5) years ago, he says, If it was a
22 private company we would be taking tax dollars. Well,
23 it's not a private company, it's owned by the citizens,
24 so therefore, they've getting their tax money with a PST
25 on it, but that's there -- that's what they decided and

1 the City of Winnipeg gets a 2 1/2 percent tax. That was
2 a -- be sufficient, and the rest of the money should be
3 for low hydro costs for us Manitobans.

4 Now, the other things are here, is the
5 land transfer tax -- tax creep. You know, all these
6 little things in the claw back on a pension starts around
7 thirty thousand dollars (\$30,000), and I don't get no old
8 age security. So all these problems add up that I can't
9 live in ten (10) years from now, and I think that these
10 have to be started.

11 I'm sorry I'm here today, but this is the
12 first time I've seen a hearing with discussions. Even
13 when I registered my car, the people there, we start
14 talking, and they says, yeah the registration's a hundred
15 and seventy-two (172). Other provinces is this. Why?
16 They got no answers and they work.

17 THE CHAIRPERSON: Okay, Mr. Zeemel, thank
18 you very much for your presentation. Now, you've asked a
19 lot of questions. Unfortunately, this Hearing is about
20 only MPI, so we can't deal with some of your bigger
21 questions, but we certainly can get answers to the
22 questions you've posed, I'm sure.

23 I -- perhaps we'll ask MPI what they would
24 like to do. Do you want to respond to a few of the
25 questions, or would you like to reply in a written form?

1 I think you're going to need to do that anyway, to Mr.
2 Zeemel, to give him a written copy of the information
3 that you feel that he needs as a result of the questions
4 he's posed.

5 MS. KATHY KALINOWSKY: Yes, the usual
6 practice is that we always provide a written response to
7 the presenters, and we copy that response to the Public
8 Utility's Board.

9 THE CHAIRPERSON: Okay. Mr. Zeemel,
10 thank you once again for raising those questions and many
11 of them were questions that will be dealt with in the ten
12 (10) days plus that we're going to examine this
13 application. So, thank you once again.

14

15 OPENING COMMENTS BY MS. CANDACE GRAMMOND:

16 MS. CANDACE GRAMMOND: Thank you, Madam
17 Chair. So, I do have a few opening remarks before we
18 turn to some of the other parties for opening remarks.
19 So what I'm gonna do is just give an overview of some of
20 the components of the application that's before the
21 Board.

22 So, as we know, this is the application
23 for compulsory premiums for the 2012/2013 fiscal year.
24 So these rates would take effect March 1st of next year.
25 And what is being proposed by MPI, is an overall 6.85

1 percent rate decrease. And the -- that is broken down by
2 major class, as follows. And this is obviously in -- in
3 the material, but for private passenger vehicles it would
4 -- would be an overall 6.8 percent decrease; for
5 commercial vehicles, an overall 7.9 percent decrease; for
6 public service vehicles, an overall 5.2 percent decrease;
7 for motorcycles, an overall 10.3 percent decrease; for
8 trailers, an overall 5.1 percent decrease, and for off-
9 road vehicles, an overall 17.6 percent decrease.

10 And, of course, under the rate-making
11 system, actual vehicle premiums will vary depending on a
12 person's claim experience, driving record, insurance use,
13 their territory, and their vehicle rate group.

14 MPI is also looking to adjust some of the
15 driver licence premiums on the demerit side of the scale,
16 and that -- those are at DSR levels 2 through 20. So
17 they're looking for the maximum driver premium to be
18 increased to two thousand dollars (\$2,000). They're not
19 seeking any changes in vehicle premium discounts, but
20 they are applying for a change to fleet rebates, to
21 provide for rebates of up to 33 percent. They're not
22 seeking changes on fleet surcharges, service and
23 transaction fees, or permit and certificate fees.

24 With respect to the exhibits that the
25 Board has put on the record in this matter, there were

1 three (3) that were put on at the pretrial -- or pardon
2 me, pre-hearing conference, which was June 29th of this
3 year. So if we look at the exhibit list we see the first
4 three (3), which were the notice of public hearing, the
5 rules of practice of the Board, and the proposed
6 timetable. Those are Exhibits 1 through 3 that are on
7 the record.

8 Exhibit 4, which I'll seek to enter now,
9 are the transcript of the pre-hearing conference from
10 June 29th.

11

12 --- EXHIBIT NO. PUB-4: Transcript of Pre-Hearing
13 Conference, held June 29,
14 2011

15

16 MS. CANDACE GRAMMOND: As Exhibit 5, the
17 procedural order that flowed from the pre-hearing
18 conference.

19

20 --- EXHIBIT NO. PUB-5: The Public Utilities Board
21 Procedural Order No. 91/11,
22 dated July 12, 2011

23

24 MR. CANDACE GRAMMOND: And number 6 is
25 the reminder notice of public hearing, which is dated

1 August 16th, 2011.

2

3 --- EXHIBIT NO. PUB-6: Reminder Notice of Public
4 Hearing, dated August 16,
5 2011

6

7 MS. CANDACE GRAMMOND: And then, from
8 there, Exhibits 7-1 through 7-101 are the Board's First
9 Round Information Requests posed to MPI and their
10 replies.

11

12 --- EXHIBIT NO. PUB/MPI-7-1 TO 7-101:

13 The Public Utilities Board's
14 Information Requests and
15 Manitoba Public Insurance's
16 Responses - first Round

17

18 MS. CANDACE GRAMMOND: And then Exhibits
19 8-1 through 8-43 are the Second Round Information
20 Requests posed by the Board and MPI's responses.

21

22 --- EXHIBIT NO. PUB/MPI-8-1 TO 8-43:

23 The Public Utilities Board's
24 Information Requests and
25 Manitoba Public Insurance's

Responses - 2nd Round

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MS. CANDACE GRAMMOND: And then as Exhibit 9, I'm asking to enter our book of documents -- this is -- that everyone should have. I think Mr. Oakes doesn't have one yet, but I'll make sure he gets one. This is just a compilation of some of the more key documents that the Board will be cross-examining on -- that I'll be cross-examining on. So it's just a quicker reference tool, that's all that that is. So that would be Exhibit 9.

--- EXHIBIT NO. PUB/MPI-9: Book of documents

MS. CANDACE GRAMMOND: And with respect to the cross-examination, that I will be doing together with Ms. Hamilton, there are a few issues that we'll be addressing with the MPI panel: obviously the background to the rate reduction that's being applied for; the revenue requirement with reference to net income, including comparison of actual results to forecasts; base premiums and rate methodology relating to the proposed rate decrease. I will have some questions about the rate stabilization reserve, MPI's investment allocations and investment income, actuarial factors relevant to claims

1 reserves. We'll have some follow-up questions on some
2 previous directives and recommendations of the Board:
3 road safety, efficiency benchmarks, the IT optimization
4 fund that's being proposed.

5 We also know that this year MPI had to
6 convert from GAAP to the International Financial
7 Reporting Standards, or IFRS, so we'll have some
8 questions about that. We'll have some questions on
9 claims incurred, claims expenses, operating expenses,
10 capital expenditures. And perhaps some other topics that
11 will come up, but those will be the ones in the main.

12 And so I also circulated this morning,
13 everyone should have one, the two (2) page procedural
14 outline which we're not looking to enter as an exhibit,
15 but it's just a guideline that sets out who the
16 Intervenors are and what the order of proceedings is
17 going to be. So there's -- there's that for reference.
18 And that document also makes reference to the third party
19 witnesses that Ms. Kalinowsky spoke about in her opening.

20 And the only two (2) other points, Madam
21 Chair, one (1) is we heard from one (1) presenter
22 obviously just now. We do have, I believe, three (3)
23 other individuals that will be coming this afternoon at
24 1:15. So after we come back from the lunchbreak, the
25 first thing will be to hear from those three (3)

1 individuals. And then I think those are all of the
2 presenters for this year.

3 And the other thing, I just wanted to
4 reiterate what the hearing dates are, because there were
5 some changes from the dates originally proposed. So
6 we're here today and tomorrow, so it's just the two (2)
7 days this week. And then for the next three (3) weeks
8 we're here Tuesday through Thursday, so that's October
9 11th to 13th, October 18th to 20th, and October 25th to
10 27th. So that's eleven (11) days set aside, we assume
11 will complete everything that's needed within those
12 dates, subject to what you mentioned, Madam Chair, with a
13 decision possibly coming in from the Court of Appeal.
14 That could change some things, but as it stands now
15 that's the plan.

16 So subject to any questions those are my
17 opening comments. And, Ms. Kalinowsky, do you have
18 additional opening comments, or were you going to turn it
19 over to the witnesses?

20 MS. KATHY KALINOWSKY: I was going to
21 turn it over to the witnesses.

22 MS. CANDACE GRAMMOND: So perhaps, Madam
23 Chair, we'll hear from the opening comments of the MPI
24 witnesses and then we'll go to Mr. Williams, and so on
25 and so forth on the other side.

1 THE CHAIRPERSON: Okay. Thank you very
2 much. We'll go ahead with MPI.

3

4 (BRIEF PAUSE)

5

6 MPI PANEL:

7

MARILYN MCLAREN, Sworn

8

DONALD PALMER, Sworn

9

10 THE CHAIRPERSON: Go ahead.

11 MS. KATHY KALINOWSKY: Sure, I'll just
12 ask Ms. McLaren to provide her opening comments to the
13 Public Utilities Board.

14

15 OPENING COMMENTS BY MPI:

16 MS. MARILYN MCLAREN: Thank you, Ms.
17 Kalinowsky. Good morning, Ms. Chairperson, Dr. Evans,
18 Mr. Gosselin, and all other participants to these
19 proceedings. We welcome this opportunity to provide a
20 brief overview of Manitoba Public Insurance for the new
21 panel members, discuss briefly its plans for the future,
22 and to introduce the Corporation's General Rate
23 Application.

24 You will quickly learn that I'm passionate
25 about public auto insurance. I couldn't be more proud of

1 working at Manitoba Public Insurance. So I struggled a
2 little bit with how to constrain, which if left to my own
3 devices could very well take up a good portion of our
4 eleven (11) days together. So as we move through towards
5 the end of my opening comments, I will ask you to refer,
6 if you like at this time, or perhaps later, to AI-7 in
7 the Corporation's filing, which has the Corporation's
8 annual report, the audited financial statements of the
9 Basic plan, and the Corporation's strategic plan, and I
10 will just simply briefly reference what I -- what I see
11 as some of the more key pieces of information in -- in
12 those documents.

13 But first, this year as has already been
14 stated, we are applying for an overall decrease in Basic
15 rates of 6.8 percent. This marks the thirteenth time in
16 fourteen (14) years that we have applied to the Public
17 Utilities Board to either reduce or hold the line on
18 compulsory auto insurance rates in Manitoba. We believe
19 that's an unparalleled track record of stable, low-cost
20 auto insurance rates for Manitobans.

21 For all the reasons articulated in our
22 Application and in responses to Information Requests,
23 this Application is based on sound forecasts and best
24 estimates of the ultimate cost to deliver the coverage
25 that makes up the basic compulsory Autopac program.

1 Our processes and techniques continue to
2 improve through time, in no small part to the rigour of
3 the public and transparent rate review process. Public
4 Utilities Board review and approval of Basic rates have
5 made for a stronger, more robust, and more transparent
6 rate-making process. Manitobans value stable and
7 predictable Autopac rates, and we believe that once again
8 we will provide this, at least in part, through this rate
9 review process.

10 Pressures on auto-insurers are not
11 insignificant these days. Increasing vehicle complexity,
12 which has a significant effect on the repairers of
13 damaged vehicles, rapidly changing new vehicle production
14 line, which has a significant effect on the cost of
15 replacement parts, uncertainty with respect to injury
16 claims costs, expectations to keep your operating
17 expenses low, and expectations to meet or exceed customer
18 expectations. These are all important matters.

19 In Manitoba, the legislated monopoly and
20 pro-active management can really be relied on to mitigate
21 the impact of these issues. Corporation functions in a
22 legislative and regulatory environment in which
23 responsibility for providing compulsory automobile
24 insurance in Manitoba is shared between the Government of
25 Manitoba, the Manitoba Public Insurance Corporation, and

1 the Public Utilities Board.

2 In MPI's view, the legislative scheme
3 involves a careful balancing of the authority and
4 responsibility of all three (3) participants in the
5 interest of all Manitobans. In practice, this requires a
6 recognition and acceptance of the fact that all of us
7 have a very important role to play in serving the broader
8 public interest.

9 In my opinion, we've been successful.
10 While I would be the first to agree that there's always
11 room for improvement, I believe Autopac is among the most
12 successful automobile insurance plans in Canada or
13 abroad.

14 Moreover, the government which is
15 responsible for all aspects of automobile insurance in
16 Manitoba, the Corporation which administers the plan on
17 behalf of the government and Manitobans, and this Board
18 which approves changes in rates, have historically worked
19 together to achieve this result.

20 In recent years, however, it's become
21 increasingly clear that this Board no longer shares MPI's
22 perspective on the appropriate division of authority and
23 responsibility. The difference in view is what lies at
24 the heart of the issues that are before the Manitoba
25 Court of Appeal, and we do anticipate the Corpora -- the

1 court will issue its decision shortly. We look forward
2 to its guidance as we move forward.

3 Before concluding these introductory
4 remarks, I'd like to briefly address three (3) issues
5 which the Board comment -- raised at the pre-hearing
6 conference, namely matters of the Board's comment on the
7 credibility of the Corporation's financial forecasts, its
8 decision not to provide an update on the anticipated
9 favourable runoff before the 25th of March, and the
10 Board's comments on enhanced benefits for injured
11 claimants under PIPP.

12 As we explained in our responses to the
13 Board's and CAC's Information Requests, the Corporation
14 and the Board knew that it was possible, if not likely,
15 that there would be a favourable runoff during last
16 year's General Rate Application. The Chairman commented
17 at length the extent to which PIPP costs have come in
18 under forecast. The evidence from last October showed
19 that while the actual PIPP payments had been very close
20 to forecast, the predicted development on existing
21 reserves just had not been happening.

22 The parties to these proceedings
23 understood that that generally means a likely IBNR
24 adjustment. The likely magnitude of this was not
25 confirmed by the Corporation's independent appointed

1 actuary before the Board issued its decision on the
2 proposed rates for 2011 on December 15th. Indeed, the
3 Corporation's external actuary did not provide a detailed
4 report to the Corporation on this issue until early
5 February 2011.

6 Following the Corporation's fiscal year
7 end at February 28th, 2011, the Corporation completed its
8 financial statements, and provided the statements and
9 information on the favourable runoff to the Board of
10 Directors at its monthly meeting on March 24th, 2011,
11 when the information it had was final and conclusive.
12 Immediately thereafter, the Corporation reported the
13 favourable runoff to this Board and provided its final
14 quarterly report for the fiscal year end to this Board,
15 as well.

16 Like MPI, the PUB has had much of the
17 actuarial evidence supporting the likelihood of a
18 favourable runoff for a number of years. MPI was not in
19 a position to confirm the size of the excess reserves
20 until after the end of its fiscal year in February 2011.

21 In the Corporation's view, it was not
22 appropriate, would not have -- it would have been
23 irresponsible for the Corporation to disclose information
24 about its financial situation before it was final,
25 verifiable, and had been discussed with the Corporation's

1 Board of Directors and the shareholder.

2 During this period, I was in regular
3 communication with the Chair of the Board, as well as the
4 minister responsible for MPI concerning this and other
5 issues relating to the conduct of MPI's business. In my
6 view, the government and the Corporation's board of
7 directors had all the relevant information they needed to
8 discharge the responsibilities in the best interest of
9 the Corporation and the public.

10 At the same time, we provided this
11 information to the Board when it was appropriate. The
12 Corporation acted properly, and I reject any suggestion
13 that the Public Utilities Board should have been informed
14 at an earlier date, or that the financial information
15 that is generated by the Corporation is provided to the
16 legislature, the public, and this Board is somehow not
17 reliable.

18 I can tell you that until March 30th of
19 this year it seemed clear to the Corporation that this
20 Board shared its view with respect to when MPI management
21 would be in a position to share information. In Order
22 122/10, the Board detailed the further information it
23 required before finalizing the 2011 rebate. The Board
24 was looking for year-end information that had been
25 reviewed by the external auditor. Management had no

1 authority to release anything any earlier than it did.

2 With respect to the enhancements of PIPP
3 benefits, the government is responsible for these
4 decisions. The government announced its decision in mid
5 March. The Corporation cannot and - and would not do
6 anything to usurp government authority. That's what the
7 legislative scheme contemplates, indeed requires, of the
8 Corporation.

9 At this point, I would like to refer to
10 the documents that I mentioned earlier. Starting with
11 the strategic plan, I'm sorry, starting with the
12 Corporation's annual report. And as it becomes clear
13 from reviewing this report, the Corporation operates four
14 (4) different lines of business. This is at AI-7 in the
15 smaller, first book of Volume 3 in the application.

16 Four lines of business. Really, the
17 Corporation has always existed to deliver the Basic
18 compulsory automobile insurance program. But, by the
19 same token, has always operated optional, competitive
20 lines of business as well.

21 Two (2) of those, the Autopac extension
22 book of business and a special risk extension book of
23 business. And as of 2004, became responsible for
24 administering the Drivers and Vehicle Act with respect to
25 driver licensing and vehicle registration as well. Our

1 business is highly integrated, has been right since 1971,
2 because the government believed that's the best way to
3 provide value and ready access to Manitobans.

4 And on page 22 of the annual report, the
5 section entitled The Corporation Service Delivery Model,
6 is an important synopsis of - of how that integration
7 really takes place. The fact that, in Manitoba, every
8 vehicle registration transaction includes compulsory
9 insurance is one (1) of the significant ways that - that
10 we believe Manitoba suffers from far fewer than --
11 unlicensed, uninsured vehicles on the road than - than in
12 some jurisdictions.

13 Every Manitoba driver pays a compulsory
14 premium on their driver's licence. Doesn't really happen
15 anywhere else that we're aware of anymore. It used to in
16 some other parts of Canada but no longer, that every
17 single driver contributes to the insurance fund.
18 Important principles.

19 So from the beginning of time, 1971 in
20 Manitoba Public Insurance, the registration and the
21 insurance were inextricably linked. And now, what we've
22 done since the integration of the driver and vehicle
23 licensing in 2004, we've even put the licensing and the
24 vehicle process together as well, as an enhancement to
25 service and to provide what, for most Manitobans, is a

1 tran -- transparent enhancement to service.

2 So, when you think about the role of the
3 Public Utilities Board to review and approve Basic
4 compulsory automobile insurance rates, it's not that
5 straightforward when you understand the integrated
6 service delivery model that the Corporation has always
7 used and has enhanced since 2004. Which takes us back to
8 the first filing in AI-7, which are the audited financial
9 statements of the basic insurance program.

10 Many, many years ago, the CFO of MPI at
11 the time, decided it was an appropriate thing to do to
12 ask the external auditors to take on this additional work
13 to sign-off on statements for the Basic compulsory
14 program, as an additional resource to this Board, so that
15 it could be assured that all the accounting for the PUB's
16 authority in terms of reviewing and approving rates, they
17 understood exactly what the financial condition of the
18 Basic plan was.

19 And they are also assured that when you
20 have an integrated system, of course, you have to have a
21 method of allocating costs between the different lines of
22 business. The audited financial statements provide
23 assurance that the approved allocation formulas were used
24 in creating those audited financial statements for Basic.

25 At the very beginning of the Corporation's

1 annual report, on page 3, there are a number of metrics
2 and measures identified that give you a little bit of a
3 sense of the scope of the Corporation's activities in
4 this province, \$415 million paid last year on physical
5 damage claims, most of - most of those payments to auto
6 body repair shops, of which there are probably somewhat
7 over four hundred (400) in the province.

8 We work very closely with them to make
9 sure that we and they work effectively together to keep
10 the cost of repairs low, that that is an area of growing
11 importance to the Corporation because their work is
12 becoming much, much more challenging with the different
13 components that are in vehicles today and the challenges
14 with repairing some of these newer kinds of vehicles
15 safely.

16 That is why Manitoba Public Insurance
17 controls all -- the entire repair process to the extent
18 we can, because we're not just trying to do it at a low
19 cost. We have to make sure that these repair shops are
20 repairing these vehicles to a very, very high quality
21 standard of safety more than anything else.

22 The vast, vast majority of Autopac and
23 driver licensing transactions are done through
24 independent brokers. You can see from this that overall
25 corporate commissions paid to brokers was a little more

1 than \$80 million last year. The Corporation pays premium
2 taxes, close to \$30 million last year. As a Crown
3 Corporation, we do not pay taxes to municipalities, but
4 under the MPIC Act we do provide grants in lieu of taxes.
5 That's identified here as well.

6 A little bit down in the section where it
7 says, "By the numbers," one (1) of the very most
8 important measures of how effective is an automobile
9 insurer on behalf of its customers is this sense of every
10 Basic premium dollar returned to Manitobans in the form
11 of claims benefits. We believe that's the single best
12 measure of effectiveness of an auto insurer.

13 There has been some coverage in the last
14 day or so again from the Fraser Institute talking about
15 auto insurance rates. We pay a lot of attention to, as
16 best we can, comparing the cost of insurance in Manitoba
17 elsewhere. But, at the end of the day, we really believe
18 that the single most best measure is how much did we
19 collect in premiums and how much did we pay back in
20 claims payments.

21 Historically, MPI Basic Insurance Program
22 has always been around a dollar for dollar. So one (1)
23 of the founding -- founding objectives of this program
24 from the legislature back in 1970 was that it should be
25 returning at least eighty-five (85) cents on the dollar,

1 and we are generally much in excess of that.

2 Because it's a not-for-profit it's
3 supposed to break even. And investment income, which is
4 sometimes for -- for private competitive insurers the
5 source of their profit and return to shareholders, really
6 is just part of the overall cycle of revenue and expense
7 for Manitoba Public Insurance. So we can pretty much pay
8 out a dollar for dollar of premiums paid. Operating
9 expenses and other costs are paid ge -- generally with
10 investment income.

11 If you look over to page 24 you'll see the
12 corporate goals. And I'm not going to speak to you this
13 morning about the strategic plan, but it's a direct link
14 from these goals to the Corporation's strategic plan and
15 how we expect to continue to meet these goals.

16 In my pre-filed testimony for this
17 proceedings I have listed the founding principles that
18 the legislature established for the Manitoba Public
19 Insurance Corporation. You'll note that they bear a
20 striking resemblance to the Corporation's goals. I
21 really believe that's one (1) of the reasons that we have
22 been able to be as successful as we have over the years,
23 is that we've never ever lost sight of the founding
24 principles. They are still very relevant to us and we
25 keep them front and centre. We are expected to deliver

1 automobile at an -- insurance at a lower cost than other
2 systems can do.

3 It -- it in -- to a significant extent, it
4 should be inherent in the model if well-managed. We are
5 supposed to return at least eighty-five (85) cents on the
6 dollar. We are supposed to ensure that there is no
7 disadvantage to claimants through the mo -- monopoly
8 program and so on. We really work hard to keep these
9 things important and forefront.

10 Clearly rates are approved by this Board.
11 The government establishes the coverage that makes up --
12 every government in this country determines what is the
13 minimum legislated requirement -- required auto insurance
14 that someone must have to legally operate a vehicle on
15 the road. Governments establish the mini -- minimum
16 compulsory coverages that are required.

17 Where Manitoba Public Insurance has a
18 little bit more primary responsibility is with respect to
19 service and how it chooses to provide access to service.
20 So just another indication of the -- the fact that there
21 are, you know, players -- many players in this important
22 job of providing auto insurance to Manitobans, much of
23 this annual report really talks about the service aspect
24 because that is something tha -- that is -- is our number
25 job 1 and that we really have to focus very carefully on

1 and make a very, very high priority for the people of
2 Manitoba.

3 So with that I will close my comments.
4 Mr. Palmer was going to take a few minutes to walk you
5 through how all those pieces of all those big binders
6 behind you sort of hang together to prove the
7 Corporation's application for the rates that we're
8 applying for. Thank you.

9 THE CHAIRPERSON: Thank you, Ms. McLaren.
10 Mr. Palmer...?

11 MS. KATHY KALINOWSKY: Thank you.
12 Actually, we'll do this in the form of direct examination
13 and a little bit -- break it up into little segments,
14 since it's fairly technical compared to the opening
15 comments of Ms. McLaren.

16 Mr. Palmer, I would like you to comment on
17 the history of the rate applications before the Public
18 Utilities Board.

19 MR. DONALD PALMER: The history of the
20 applications has been provided to the Board in PUB-MPI-
21 1.1. In twenty-four (24) rate applications the Public
22 Utilities Board have approved the rates as applied for,
23 eighteen (18) times. On five (5) occasions the approved
24 rates were 1 percent lower than applied for, and once the
25 Board approved rates that were 1.2 percent higher than

1 applied for. We think that's a strong record indeed.

2 MS. KATHY KALINOWSKY: And, Mr. Palmer,
3 just to start off at real basics here, but what is meant
4 by 'rate making'?

5 MR. DONALD PALMER: Rate making is the
6 process of establishing rates used in insurance.

7 MS. KATHY KALINOWSKY: Which then leads
8 to the question, what is a rate?

9 MR. DONALD PALMER: A rate is an estimate
10 of the expected value of future cost associated with the
11 transfer of risk. Those costs are outlined in SM-2 of
12 the application, and they are claims incurred, claims
13 expenses, operating expenses, commissions, road safety
14 and loss prevention costs, premium taxes, and regulatory
15 and appeal costs.

16 The costs used for rate making purpose are
17 the average of the expected incurred costs for the
18 2012/'13 and 2013/'14 fiscal periods. The total expense
19 from all of those costs for rate making purposes are
20 \$864.8 million.

21 MS. KATHY KALINOWSKY: And other than
22 that list mentioned in SM-2, is there anywhere else in
23 the Ap -- application and the subsequent Information
24 Requests that describe those costs and the process of
25 estimating those costs, and the expected value of those

1 costs?

2 MR. DONALD PALMER: Yes. All of those
3 costs are described. First, the largest and most
4 important of those costs are the expected claims
5 incurred. Claims costs are expected to be \$621.9
6 million, or about 72 percent of the total expenses.

7 Of course, before you can estimate the
8 cost you have to know what the coverage is. While not
9 under the jurisdiction of the Public Utilities Board, or
10 the Corporation, the coverage is prescribed in
11 legislation under the Manitoba Public Insurance
12 Corporation Act and Regulations.

13 A description of all of these coverages is
14 shown in Volume 3 AI-1 of the application. The
15 projections of the claims costs and the assumptions
16 outlining those costs are shown in TI-17 with the final
17 claims costs shown in TI-4.

18 TI-17 also known as the Claims Forecast
19 Book, is divided into seven (7) sections. The first
20 section provides a brief overview of economic assumptions
21 related to the claims cost forecast. The second section
22 contains the model, descriptions, and methodology
23 underlying these forecasts. And the subsequent sections
24 outline the forecast for each category of coverage,
25 namely PIPP and all perils.

1 the corporation nearly \$40 million annually. Since
2 claims incurred in the most important component of the
3 rate, claims costs and claims costs forecasts were the
4 subject of a large number of information requests.

5 Now, on to claims and operating expense,
6 which total about \$170.8 million annually. These are
7 described in SM-2.5 and then outlined in much greater
8 detail in TI-7, which is a summary of the basic expenses
9 by category; TI-8 compensation, because compensation is
10 the largest component of operating and claims expenses;
11 TI-9, staffing levels; and TI-10, capital expenditures.

12 The important added facet of these
13 expenses is the allocation methodologies that are used by
14 the Corporation to allocate amongst the various lines of
15 business. Any business requires some allocation of
16 expenses in order to fully determine the cost of
17 producing products and services.

18 But, this is especially important when
19 determining the split for regulated and non-regulated
20 lines of business. Many industries have regulated and
21 non-regulated components, and these methodologies are
22 required to inform the regulators that the allocation is
23 fair and reasonable.

24 An extensive study was undertaken by
25 Deloitte two years ago, to review MPI's allocation

1 methodologies. And that was given a lot of time and
2 energy at the 2010 general rate application. An update -
3 an application of those methodologies, was provided to
4 the Board last year. Ultimately, the Public Utilities
5 Board endorsed the methodology, but refused its use.
6 This year's application is based on the old methodology
7 in accordance with the Board order. However, the
8 Corporation continues to prefer the Deloitte methodology,
9 which would reduce the basic rate requirement by
10 approximately one half of 1 percent.

11 As with claims costs, the expenses and
12 allocation of those expenses have been fully addressed in
13 numerous Information Requests from the Board and
14 Intervenors.

15 Next, the commission and premium tax rates
16 are prescribed in law. Commissions are the amounts
17 payable to brokers for the sale of the Basic Autopac pro
18 -- product, and premium taxes are payable to the Province
19 of Manitoba. The rates are disclosed in SM-2.5 and TI-
20 19. In total, commission and premium taxes are 6.2
21 percent of total premium.

22 Road safety expen -- expenditures are
23 shown in TI-7, and amount to \$13.6 million dollars.
24 There's extensive evidence provided on road safety
25 programming in numerous Information Requests. The

1 regulatory expenses are shown in TI-7. Combined road
2 safety and regulatory expenses are about 2 percent of the
3 premium, or about \$17.3 million dollars.

4 MS. KATHY KALINOWSKY: And, Mr. Palmer,
5 there's also offsets to those premium charges, aren't
6 there?

7 MR. DONALD PALMER: Yes, there are.
8 Investment income and service fees such as income from
9 financing plans for quarterly and monthly time payments,
10 late payment flee -- fees, et cetera.

11 MS. KATHY KALINOWSKY: And are those
12 disclosed anywhere in the application?

13 MR. DONALD PALMER: Yes, they are.
14 Service fees are described in SM-3.3, TI-18 Section 6,
15 and in TI-19. Investment income is mentioned in SM-3.4,
16 but more fully outlined in Section 5 of TI-18. That
17 would be our revenue forecast book. That section fully
18 describes the forecast for interest rates, equity
19 returns, and the expected returns for our new asset
20 classes.

21 Investment income is forecast to be \$80.5
22 million for the policy year period compared to \$80.9
23 million that we received in investment income last year.
24 The Basic insurance program had cash, equities, fixed
25 income securities, and real estate totalling \$2.09

1 billion as at February 28, 2011.

2 The MPIC Act prescribes that the Minister
3 of Finance is responsible for the investments of the
4 Corporation. This means that the investment decisions
5 are undertaken by the Department of Finance on behalf of
6 the Minister.

7 The funds available for investment are
8 primarily unearned premium reserves and unpaid claims
9 reserves. It is also important to note that since
10 investment income is derived from the assets, to the
11 extent that the assets are allocated, investment income
12 is allocated in the same manner.

13 MS. KATHY KALINOWSKY: Before we leave
14 the topic of overall costs for the Basic Autopac program,
15 are there other considerations that the Board should
16 consider, and that have been disclosed to the Board in
17 the application?

18 MR. DONALD PALMER: Yes, there are.
19 Firstly, the basis of the claims forecast are the
20 ultimate costs of prior accident years. These ultimate
21 costs are determined in the appointed actuary's reserve -
22 - review from Jim Christie of Ernst & Young. These
23 reports are shown in AI-13. These reports are filed by
24 the external actuary and are prepared in accordance with
25 accepted actuarial practice.

1 There are a number of items that fall into
2 the category of risk management that should also be of
3 interest to the Board. The topic of the rate
4 stabilization reserve, or RSR level, has largely been
5 under the scrutiny of the Public Utilities Board.

6 The Corporation has accepted the Board's
7 range -- target range of \$77 million to \$154 million, or
8 about twenty (20) -- 10 to 20 percent of premiums for
9 rate setting purposes. In addition, the Corporation
10 purchases re-insurance to mitigate risks. The details
11 and costs of these programs are outlined in Section 8 of
12 TI-18.

13 MS. KATHY KALINOWSKY: So from an overall
14 rate level perspective, is it your opinion, Mr. Palmer,
15 that the Board has enough information on the record to
16 approve the applied-for 6.8 percent average overall rate
17 decrease for Basic Compulsory Insurance?

18 MR. DONALD PALMER: Absolutely. The
19 costs that I have described, offset by the revenue
20 offsets that are used to determine the overall net
21 revenue that we need to collect from our customers, this
22 determines the required overall rate level. The
23 difference between what we need, and we -- what we would
24 receive without any rate changes determines the indicated
25 rate change. This year, that rate change is a decrease

1 of 6.8 percent.

2 MS. KATHY KALINOWSKY: Now, rate making
3 is also concerned with the splitting of that overall
4 revenue requirement to customers based on the relative
5 risks of those customers, isn't it?

6 MR. DONALD PALMER: Yes. It is standard
7 industry practice to use a classification plan to assign
8 risk categories to different insurance risks.

9 The classifications are prescribed in
10 regulation under the Manitoba Public Insurance
11 Corporation Act. The classification plans for drivers
12 and vehicles are found in AI-4 and 5, respectively, of
13 the application.

14 In effect, the classification plan
15 determines a set of buckets that vehicles and drivers are
16 placed in based on what they drive, where they drive, the
17 purpose they drive, and the risk that the driver pro --
18 brings based on their own individual bro -- driving
19 experience. The rate making methodology to assign costs
20 to these buckets is fully di -- disclosed in TI-19, the
21 2012/'13 Basic program rate making methodology.

22 Essentially, the process is to evaluate
23 the relative costs of all the classification variables.
24 That is, compare the cost of private passenger vehicles
25 to motorcycles, pleasure rates to all-purpose rates,

1 Winnipeg rates to rural rates, and so on. Then we adjust
2 the rates based on those comparisons in order that the
3 rates truly reflect the risk for each classification
4 bucket. There have also been numerous Information
5 Requests regarding that methodology.

6 MS. KATHY KALINOWSKY: So, in your
7 opinion, is there adequate information on the record to
8 determine the rates for each customer based on the
9 classification categories as prescribed in the
10 regulations of the government?

11 MR. DONALD PALMER: Yes, there are. We
12 have filed nearly eight thousand six hundred (8,600)
13 pages of evidence, including answers to six hundred and
14 sixty-seven (667) Information Requests that were further
15 divided into one thousand two hundred and forty-three
16 (1,243) sub-questions to bri -- provide information in
17 support of our application.

18 We are very proud of our rate setting
19 methodologies, both in the determination of the overall
20 rate requirement and the methodologies used to distribute
21 the rate to individual ratepayers. And, historically,
22 the Public Utilities Board has endorsed these
23 methodologies. For example, Board Order 157/08 states,
24 and I quote:

25 "MPI's rate setting methodology is

1 well-established, thoroughly tested at
2 the annual rate hearings, and
3 actuarially sound and statistically
4 driven."

5 The Board has found that it's had the
6 information to rule on the basic Autopac rates for the
7 last twenty-four (24) years, and the information filed
8 this year is consistent if not even more extensive than
9 it had in previous applications.

10 MS. KATHY KALINOWSKY: Thank you very
11 much, Mr. Palmer. That concludes my direct examination
12 of Mr. Palmer.

13 Mr. Palmer just gave a lot of fairly
14 technical information and it would likely be of
15 assistance to the two (2) new Board members to perhaps
16 review this in the transcript later on when it comes out
17 at the end of the day, or, if not, tomorrow morning when
18 you get it, because it really is an overview of the heart
19 of rate making, which is what we're here for right now.

20 With that, we're ready to have the
21 witnesses ready for cross-examination from Board counsel.

22

23 QUESTIONS BY THE BOARD:

24 THE CHAIRPERSON: I think before we do
25 that I have some questions from my fellow Board members.

1 So, Mr. Evans?

2 DR. LEN EVANS: At least -- how do you
3 get this on? Is it on? Yeah, at least one (1) question.
4 Thanks very much. It is very interesting, very detailed.
5 Maybe I'm a little naive or whatever, but I -- did I hear
6 you say that whether as a bearing on costs that weather
7 conditions, changes of weather, you know, storms et
8 cetera, obviously have a ma -- a bearing on the costs?

9 MR. DONALD PALMER: Yes, they do.

10 DR. LEN EVANS: Yeah, so -- go ahead.

11 MR. DONALD PALMER: For instance, this
12 year our claims costs have been a little above forecast
13 because of hailstorms. We've had also -- earlier in the
14 year, March was a difficult month for winter driving
15 conditions, which was a little different than historical
16 levels, so claims costs do rise under that situation as
17 well.

18 DR. LEN EVANS: Yeah. So when you are
19 projecting costs for the next year in establishing your
20 rates, I just assume it's just impossible to factor in
21 some change in weather conditions. We just -- I guess
22 you just -- it -- it becomes neutral, or can you -- or do
23 you have some magic formula to figure out what the
24 weather's going to be like in the following year, storms,
25 floods, whatever?

1 MR. DONALD PALMER: We do forecast based
2 on historical average patterns. So a forecast is based
3 on those average trends. Now, we have seen cost trends
4 on hail increase over the last number of years. That has
5 been reflected in our forecast over sort of a trend line.

6 I think an illustration of that is our own
7 claims with our re-insurance coverage. We have re-
8 insurance that provides coverage for large hail storms.
9 For our first twenty-five (25) years of existence,
10 Manitoba Public Insurance never had a catastrophic claim
11 on our re-insurance. In the last sixteen (16) years
12 we've had four (4) claims. So there are some changing
13 patterns. We have reflected them in the increasing
14 projections over time.

15 In terms of the winter driving conditions,
16 they follow reasonable trends, follows very closely a
17 trend line and we have followed that trend line. Some
18 years you're going to be a little above, some years
19 you're going to be a little below, but that's essentially
20 the nature of forecasting.

21 THE CHAIRPERSON: Mr. Gosselin, no
22 questions? Okay. We can proceed.

23 MS. CANDACE GRAMMOND: Yes, and I -- I
24 think before we go to cross-examination of the panel we
25 should have the opening comments from the Intervenors, so

1 maybe let's go to Mr. Williams.

2 MR. BYRON WILLIAMS: Yes, and certainly
3 we're ready to proceed. I'm always mindful of testing
4 the patience of the Board, so if -- I'm not sure when the
5 panel is looking for a -- a break this morning. I'm
6 certainly prepared to go ahead right now, or if you'd
7 prefer I go after the break.

8 THE CHAIRPERSON: That's timely, I think,
9 because we have been at it now for an hour and a quarter,
10 so we'll take a break and reconvene at 11:00. Thank you.

11 MR. BYRON WILLIAMS: Thank you, Madam
12 Chair.

13

14 (PANEL RETIRES)

15

16 --- Upon recessing at 10:44 a.m.

17 --- Upon resuming at 11:03 a.m.

18

19 THE CHAIRPERSON: I just want to mention
20 before we begin that in my opening remarks I mentioned a
21 -- a closure of 4:00. And actually, normally I think we
22 will try to go until 4:30. And -- of course, if we need
23 to break at a certain time because we're entering into a
24 long session that won't get done by 4:30, we can
25 certainly call it a day. But on that note I think we're

1 ready now to go to Mr. Williams.

2 MR. BYRON WILLIAMS: Yes, thank you,
3 Madam Chair. And hopefully Mr. Singh has -- has handed
4 out a brief outline of our -- well, maybe it's not that
5 brief, but, Mr. Singh, has that been handed out?

6 MR. HOLLIS SINGH: Yes.

7

8 OPENING COMMENTS BY CAC MANITOBA:

9 MR. BYRON WILLIAMS: There should be a --
10 a two (2) page document outline of the opening
11 submissions of CAC Manitoba. And to save a bit of -- one
12 (1) or two (2) trees, we on -- we -- it is double-sided.
13 I should note, especially for -- for Mr. Gosselin, who's
14 -- who's new to the panel, CAC Manitoba are long-time
15 intervenors before this -- before the Public Utilities
16 Board. And -- and not only on matters relating to
17 Manitoba Public Insurance, but to Manitoba Hydro, to
18 Centra Gas, Payday Lendings, Ms. -- Madam Chair will
19 remember they appeared as well.

20 And so they bring the experience of
21 consumers, but also a cross-pollination of insight from
22 those different regulatory proceedings relating to
23 different monopolies, or in the case of Payday Lenders,
24 oligopolies.

25 And CAC Manitoba also operates from eight

1 (8) core rights, or basic consumer rights, which I -- I
2 won't go through all eight (8) of them for you today, but
3 I think three (3) are important.

4 Generally CAC Manitoba certainly believes
5 in a right to choice in the marketplace. They totally
6 recognize the public policy reasons behind the Basic
7 public insurance monopoly in Manitoba. And so in lieu of
8 that choice in the marketplace in this particular
9 proceeding and this context, certainly they -- they seek
10 as a basic right, fair and reasonable rates in lieu of
11 that choice in the marketplace.

12 Safety -- product safety is an important
13 issue for CAC Manitoba, hence their historic long-term
14 int -- interest, as Dr. Evans will be aware of, in terms
15 of road safety issues with regard to Manitoba Public
16 Insurance as well.

17 And again, transparency, which Madam Chair
18 spoke of today. CAC sees as a basic consumer right, the
19 rice -- the -- the right to a voice in government
20 decision making as it reflects the marketplace. And they
21 certainly see that principle, that right applicable to
22 this proceeding as well.

23 Now, I -- I noted with interest Ms.
24 McLaren this morning describing herself as very
25 passionate about Manitoba Public Insurance. And -- and

1 certainly the issues relating to Manitoba Public
2 Insurance are tremendous - of tremendous importance to
3 Manitobans - Manitoba motorists and Manitobans in
4 general.

5 But I rarely have heard the word "passion"
6 used to describe rate regulation before the Public
7 Utilities Board. Rarely have we thought of rate
8 regulation as exciting. But if one looks to the first
9 bullet on the pa - the inside page of our - of our
10 outline, a surprisingly challenging nine (9) months, one
11 has to admit that the rate - rate regulation as it
12 relates to Manitoba Public Insurance has been a little
13 bit exciting over the -- the last nine (9) months.

14 And certainly Ms. McLaren spoke of it and
15 we won't go into details. But, there's been a - a lot of
16 controversy. Controversy over the jurisdiction of the
17 Board. There's been a lot of controversy in terms of
18 \$250 million, a quarter of a billion dollars in excess of
19 reserves. There's been a lot of interest in the \$320
20 million rebate and in - concerns with the handling of the
21 rebate which led to a subsequent \$16 million review and
22 vary.

23 So that's been a - a surprisingly
24 challenging past nine (9) months. And certainly our
25 clients, like Manitoba Public Insurance, thinks that it -

1 think - they view this as reflective of the tremendous
2 importance that Manitobans attach to this monopoly and
3 the imp - impact it has on their lives. And certainly
4 our clients are aware of - they built the high
5 expectations in terms of Manitoba Public Insurance, and
6 also the heavy burdens placed upon it.

7 We've often spoken of a Manitoba
8 advantage, whether in affordable rates, or high quality
9 service. And certainly that, going back to the history
10 of Manitoba Public Insurance, appears to be one (1) of
11 the primary justifications of the legislative changes in
12 the early 1970s.

13 But with that monopoly, with that - that
14 trust placed in Manitoba Public Insurance, are also
15 significantly high expectations. Manitobans look for an
16 accountable, transparent process. They look to Manitoba
17 Public Insurance to be a good steward of their money, of
18 their ratepayer dollars. And certainly, Manitobans and
19 my clients are well aware of this from their twenty (20)
20 -- at least twenty (20) years of experience with the
21 Public Utilities Board as Intervenors.

22 In terms of achieving that Manitoba
23 advantage, in terms of meeting those high expectations,
24 in terms of making sure that - that Man - Manitoba Public
25 Insurance fulfills its legislative mandated role, our

1 clients look to a significant degree to this Board, to
2 the Public Utilities Board. And under the heading, The
3 Central Role of the PUB in Meeting these Expectations,
4 our clients have set out some - some relevant sections,
5 both of the Crown Corporation Public Review and
6 Accountability Act, and the PUB Act.

7 And I certainly don't mean to run through
8 them in burdensome detail. Frankly, my clients and
9 myself use them as kind of cheat sheets during the course
10 of the hearing to remind us from where the Board gets
11 this jurisdiction. This -- the broad sco -- scope of
12 inquiry that it has, and if you turn -- still, it should
13 be on the right-hand side of the -- the page in front of
14 you, and you see the Public Utilities Board Act, the
15 reference at the bottom of that page -- it reminds us of
16 the ultimate role of the Public Utilities Board Act, --
17 the Public Utilities Board under Section 77, of that Act,
18 which is to set just and reasonable rates. That's what
19 it's all about.

20 On the back page of the -- of the outline,
21 the very last page -- you'll see a reference to the
22 public interest and the role of the PUB. And these are
23 all citations from a -- a case from 2005, Consumers
24 Association versus Manitoba Hydro-electric Board. I have
25 to tell you that I -- on behalf of my clients, I lost

1 this case.

2 But I think this case says something
3 particularly important about the role of the Public -
4 Public Utilities Board in setting just and reasonable
5 rates. And again, I won't drag you through all the
6 quotations, but the first one, citing paragraph 63,
7 speaks of the intent -- is to approve fair rates, taking
8 into account such considerations as cost and policy or
9 otherwise, as the PUB deems appropriate. It involves
10 balancing the interests of multiple consumer groups with
11 those of the Utility.

12 And if you go down two (2) more quotes,
13 the -- the third one in that series, it goes to the heart
14 of the public interest. The court says the PUB has two
15 (2) concerns with -- when dealing with the rate
16 application: the interests of the Utility's ratepayers
17 and the financial health of the Utility. Taken together,
18 and in the broadest interpretation, these represent the
19 broadest public interest.

20 And certainly, Madam Chair, you spoke of
21 that public interest, as did MPI, and the balancing act
22 involved in that. And those are important considerations
23 for the Board.

24 Now, our clients certainly appreciated the
25 -- the lengthy introduction from Mr. Palmer, and his

1 insight into the rate making process from the perspective
2 of Manitoba Public Insurance, but from our clients'
3 perspective the Board's role, and the key questions that
4 it may ask, flow from those -- from the Public Utilities
5 Board Act, the setting of just and reasonable rates.

6 And there's over, you know, close to a
7 century of case law about what -- what are the crit --
8 critical questions the Board must ask itself in setting
9 just and reasonable rates. And again, for the purposes
10 of my cheat sheet and perhaps your own, we've set out
11 what we think are the five (5) key threshold questions
12 that the Board, in determining whether this rate increase
13 should be approved as presented, should be revised to a
14 lower rate in -- rate decrease or a higher rate decrease,
15 these are the questions our clients would respectfully
16 suggest this Board may wish to ask itself.

17 Again, starting with the first bullet.
18 Are the revenues and costs of the Corporation properly
19 assigned or allocated between the Basic insurance
20 monopoly and other lines of business. And Ms. McLar --
21 Ms. McLaren spoke at length this morning on the highly
22 integrated nature of this Corporation, and it was telling
23 that she was flipping back and forth between the two (2)
24 annual reports, which speaks to the complexity of this
25 task, and I'll elaborate on it in -- in a couple of

1 of costs between the Basic insurance monopoly and other
2 lines of business, our clients will be asking a simple
3 and short question: Should the Deloitte cost allocation
4 formula be employed in the current GRA rather than the
5 older -- older cost allocation approach?

6 They will also be asking a deeper, and my
7 clients would suggest a more profound question, and --
8 and perhaps our friends from CAA will be speaking to it,
9 as well. The deeper question is: Does the proposed
10 assignment of revenues and costs between Basic and other
11 lines of business fairly reflect -- fairly reflect the
12 reality that Basic is the core business unit and that the
13 revenues and costs of those other lines of business would
14 be materially different if not for the existence of the
15 Basic monopoly? That's a question our clients are not
16 satisfied that Deloitte asked themselves, and that's a
17 question our clients wish to pursue in this proceeding.

18 Going to the second bullet. Are the
19 forecasts of revenues and costs reasonably reliable? And
20 there certainly can be no dispute that in terms of claims
21 costs, that Manitoba Public Insurance has material,
22 perhaps huge, credibility issues given the material for -
23 - variance between the forecast used for rate setting and
24 the actual results over the past five (5) years.

25 And my clients have urged me to be careful

1 in -- in making clear what they mean by "credibility".
2 By "credibility" they don't mean in the sense of whether
3 or not Manitoba Public Insurance is being truthful,
4 whether or not they're trying to hide something. That's
5 not what my clients mean by "credibility." What they
6 mean is can these forecasts of claims incurred be
7 reasonably relied upon.

8 And our clients will aggressively test
9 these forecasts of claims incurred in the course of this
10 hearing. In particular, they will ask whether MPI has
11 built conservatism upon conservatism in the appointed
12 actuary's report and the claims forecast data book.

13 With regard to weekly indemnity, sometimes
14 WI, and accident benefits-others, they will examine
15 closely the methodologies chosen for the individual
16 accident years when selecting the IBNR, or incurred but
17 not -- incurred but not reported. They will also
18 consider the loss development factor selected, including
19 the tail factor and the ignoring in certain cases of
20 negative development.

21 With regard to collision, our clients will
22 examine whether or not negative development should have
23 been considered with regard to the loss development
24 factors. And our clients will present a series of pre-
25 ask questions to Manitoba Public Insurance tomorrow

1 seeking further information on these questions.

2 Two (2) other issues relating to the
3 reliability of forecasts our clients will ask. One (1)
4 relates to the -- the utility of stochastic modelling in
5 the rate setting process, especially as it relates for --
6 for future years. And as some in this room will be
7 aware, there's been a considerable discussion of that
8 topic with our -- with our other Crown, Manitoba Hydro,
9 and both for reserves and also for rate setting. And we
10 think there are important parallels between -- between
11 the two (2) issues.

12 And the third central concern of our
13 clients under forecasting relates to a concern
14 articulated by the Board this morning is, in the current
15 economic client -- climate, excuse me, in the current
16 economic client -- climate can we reasonably rely upon
17 the projected investment returns of Manitoba Public
18 Insurance.

19 The second bullet in terms of our five (5)
20 que -- key questions is: Are the forecasts of revenues
21 and costs reasonably reliable? And, again, this is an
22 area of grave concern for our clients. They will examine
23 issues such as the business case for IT optimization, the
24 higher than inflation growth in operating expenses,
25 recent and pending agreements with service providers, and

1 staff and staffing levels.

2 Our clients note with concern the dramatic
3 increase in certain expenditures between projections and
4 forecasts for the two (2) -- for the 2011/'12 and
5 2012/'13 year. And this, to our clients, is a response
6 which is particularly puzzling given the ongoing economic
7 challenges being faced globally and in North America.

8 Our clients will be seeking evidence that
9 the Corporation has -- has responded to these external
10 challenges by seeking all available internal
11 efficiencies. And they will seek confirmation that just
12 as hard-pressed Manitobans facing price escalation and --
13 and salary increases less than they would have liked,
14 have to watch their own budget carefully, that Manitoba
15 Public Insurance is bringing the same diligence to its
16 own expenditures.

17 Still un -- under this sub-heading or this
18 question but on a positive note, our clients note with
19 great approval the statement by MPI that the Corporation
20 strongly believes that the number of accidents should be
21 reduced. And our clients applaud that statement, and
22 they think it -- it is an important step forward in the
23 dialogue that -- that is before this Board.

24 And our clients certainly intend to
25 explore the role the Corporation sees for itself in

1 addressing the tragic social and economic cost of motor
2 vehicle accidents. And, in particular, our clients will
3 be interested in the Corporation's proposed approach to
4 evidence filed in this proceeding suggesting a
5 disproportionate representation of impaired driving tests
6 -- excuse me, impaired driving deaths, as well as deaths
7 related to the lack of occupant res -- restraint taking
8 place in rural Manitoba.

9 This is an issue where there's clearly an
10 urban/rural divide and our clients look to assertive
11 action by MPI in this regard.

12 Just in conclusion, our clients, like
13 other Manitobans, expect a great deal from Manitoba
14 Public Insurance in terms of rates, service,
15 accountability, and good stewardship. And they recognize
16 the central role that this Board plays in -- in ensuring
17 that these high expectations are achieved.

18 Madam Chair, just in terms of exhibits, we
19 had a few technical problems in our office this morning,
20 so I've yet to review the exhibit list. We'll -- as an
21 interim measure we would propose that it -- it be entered
22 as it currently appears in the -- this -- the PUB book of
23 exhibits. I will review those exhibits over lunch and if
24 I have any amendments I will seek the Board's leave to --
25 to make those amendments at an appropriate time. Subject

1 to any questions, those are our client's opening
2 comments.

3 THE CHAIRPERSON: Thank you very much,
4 Mr. Williams. Now we'll go to Mr. Oats -- Oakes for your
5 opening statement, please.

6

7 OPENING COMMENTS BY CMMG:

8 MR. RAYMOND OAKES: Thank you, Madam
9 Chair. My name is Raymond Oakes, I'm the lawyer for the
10 CMMG, the Coalition of Manitoba Motorcycle Groups, which
11 has been a registered Intervenor in these proceedings
12 since 1992. Over the course of those number of years
13 there have been some great advances and changes to the
14 MPI Program of insurance based on the changes that we
15 have fought for. And I say "fought for," because often
16 MPI mounted a very passionate defence of the status quo.

17 And this Board ordered changes in areas
18 such as the issue of lost transfer, which became the
19 fault attribution system of allocating costs to that
20 class of vehicle that causes the accident. As well as in
21 last year's hearing the Board ordered, in the issue of
22 wildlife losses, that there be an allocation across the
23 classes of vehicles, a pooling representing the no-fault
24 nature of those accidents.

25 Madam Chair, if you didn't know before,

1 you have some very large shoes to fill in this present
2 application. We look forward to working with you and the
3 Board on this application.

4 I was intrigued by the President of MPIC
5 this morning referring to Graham Lane, Chairman as he
6 then was, his comments in the June 29th pre-conference
7 hearing, because one (1) of my first recommendations to
8 all Manitobans with an interest in vehicle insurance,
9 that they read those forty-seven (47) pages, because I
10 think that sets the environment for this current hearing,
11 which I believe is one (1) of the most important Public
12 Utility Board hearings in MPI Insurance since the Board
13 began.

14 In his comments at that pre-conference
15 hearing he indicated the clarion call of this Board with
16 respect to -- and this process with respect to
17 transparency, good faith, and openness. And of course
18 that openness is limited by MPI's refusal to open the
19 extension and SRE books, but that's an issue for another
20 forum, at least until that ruling.

21 Mr. Lane referred to the massive
22 adjustment in unpaid claims and I don't think that
23 Manitobans really have a good grasp of the magnitude of
24 that massive adjustment, and certainly that's going to be
25 a focus of this hearing.

1 Chairman Lane said that the primary issue
2 on this hearing to be tested has to be the credibility of
3 MPI. And he was saying that, asking whether this Board
4 can now, after that massive adjustment in unpaid claims
5 and all of the factors that went into the disclosure of
6 that, can this Board rely on MPI's forecast statements,
7 testimony, and its external actuaries' forecasts and
8 comments. And in saying that the Chairman went further
9 and said MPI has had a lengthy history of providing, in
10 hindsight, inaccurate forecasts.

11 Now I summarize those comments and point
12 those up not just because the Chairman also said that
13 CMMG was the voice in the wilderness, because we were
14 pointing out all through those years that MPI was padding
15 the reserves. We had the expert -- expert resource
16 ability of Dr. Hickson, who talked about the fact that
17 the Pfads were being padded. He talked about the
18 inaccurate forecast. He talked about reserves in IBNRs
19 and all types of reserves were being padded, and of
20 course that was because the Board was the watchdog of the
21 RSR.

22 And so, MPI, I would suggest and submit,
23 was padding all of these other reserves to build this war
24 chest that now we find out, amounted to some 330 million,
25 which is half of a year's claims costs or more, according

1 to the number that Mr. Palmer gave this morning of 620 mi
2 -- million dollars in claims costs annually.

3 Is the -- are huge sums that Manitobans
4 yet have not reacted to, and if they've reacted they've
5 reacted with the typical apathy that -- that the public
6 has. But, the Board has to recognize that this is a
7 watershed year in terms of this Public Utility Board
8 hearing.

9 With respect to the situation of the
10 disclosure of the -- of the favourable development of
11 claims. I'm sure that Ms. McLaren's comments this
12 morning are best left to some very critical cross-
13 examination on the disclosure of those sums, when it was
14 known, when it was known that there was likely to be a
15 readjustment, and the like.

16 But I would refer to Ms. McLaren's
17 comments that she thought it was irresponsible to
18 disclose before they had a final confirmation of that
19 trend and before they'd reported to the shareholder.
20 Well, Madam Chairman, we're gonna be asking, who's the
21 shareholder? Because it's not the government of the day,
22 it's the people of Manitoba that paid those monies.

23 So, we'll look forward to cross-
24 examination all -- of all of the comments made by Ms.
25 McLaren this morning. And I trust the Board counsel will

1 critically examine the -- those comments as well.

2 Are we having a hearing proceed with an
3 applicant that is exhibiting transparency, good faith and
4 openness? Well, we'll see, but we're certainly not
5 encouraged by the responses to interrogatories that CMMG
6 has had. In a number of the interrogatories, the
7 questions were avoided, or MPI blamed the Public Utility
8 Board for approving the rates in those instances, which
9 seems to me to be doubly disingenuous in the event that
10 the Board didn't have the proper information before them,
11 due to the fact that MPI didn't put that information
12 before them.

13 There's a number of evasion of -- of
14 questions and the kind of cute answers that don't serve
15 well to convince the public that MPI is transparent and
16 operating in good faith and openness.

17 With respect to the other issues, the --
18 the CMMG will be critically examining. The rebate
19 process. It's the CMMG's view that we've had a
20 tremendous waste of the monies that MPI is shepherding
21 associated with administration of rebates. In this
22 calendar year alone, we understand that some eight
23 hundred and sixty thousand (860,000) dollars was spent on
24 administration costs to issue these rebates and I note to
25 the Board that we've had rebates in 2001, 2006, 2007,

1 2008, and of course, two rebates in 2011.

2 We will also be examining on the fact that
3 MPI, even though they knew that motorcyclists contribute
4 to PIPP costs in a -- a much greater amount than other
5 vehicle classes such as private passenger. And even
6 though they could calculate at the time that they are
7 doing it, that motorcyclists contributed far more and
8 presumably should get more of that money back when the
9 loss development is recalculated, they took a standpoint,
10 saying no there will be a flat rebate. And so certainly
11 that'll be an area of examination.

12 With respect to exempt vehicles, the same
13 issue arises. We have the greater subsidization by
14 motorcyclists, given again that over-contribution in PIPP
15 ex -- claims expenses.

16 And we'd ask the Board to disallow costs
17 associated with exempt vehicles. And the same treatment
18 with respect to the losses in DVL. We don't see that
19 they have a place in being subsidized by the same people
20 who are paying Basic insurance.

21 I referred to the wildlife claim issue.
22 There were -- the Board, in its wisdom, saw fit to
23 recognize the inequality and the inequity in having
24 motorcyclists in their small pool of insured, burdened
25 with the cost of wildlife claims; certainly nothing

1 within their control, but whose control is it? We look
2 at MPI. We finally now got some numbers and some kind of
3 a trial program that they tell us that they're
4 implementing with respect to prevention of wildlife
5 claims.

6 Well, MPIs been around since 1971, deer
7 have been around a lot longer, how is it that only now
8 we're starting to have trial programs? How is it now
9 that they're finally giving some cost estimates on some
10 remedial programs?

11 And I'll suggest to you the reason is
12 because for three (3) or four (4) years the CMMG has been
13 beating hammer and tong to try and have something put in
14 place to save Manitobans \$30 million a year in claims
15 costs.

16 The issue of road safety: Despite the
17 efforts of the CMMG since 1992, we have a situation where
18 we have some serious losses in motorcycle claims
19 development, and yet the amount spent for motorcyclists
20 on road safety on their unique programs seems to be about
21 the same that they spend on private passenger vehicles.
22 And I suggest that there should be a massive investment
23 with respect to motorcycle road safety.

24 So in summary, Madam Chairperson, we look
25 forward to this hearing. It's going to be very

1 interesting. I'm hoping that the public is becoming more
2 involved, and to that end I understand there are a number
3 of presenters you'll hear from this afternoon who will
4 make some of the same comments I've made this morning,
5 and we look forward to a examination by all parties in
6 the room of those issues.

7 With respect to the exhibits, if you would
8 like to have those marked and entered on behalf of the
9 CMMG, then that would be fine at this time.

10 THE CHAIRPERSON: Do you want to go ahead
11 with that? Your exhibits?

12 MR. RAYMOND OAKES: I would just ask them
13 to be entered and marked as contained in the book
14 presently.

15 THE CHAIRPERSON: Okay.

16

17 --- EXHIBIT NO. CMMG/MPI-1-1 TO CMMG/MPI-1-20:

18 Coalition of Manitoba
19 Motorcycle Groups'
20 Information Requests and
21 Manitoba Public Insurance's
22 Responses - 1st Round

23

24 --- EXHIBIT NO. CMMG/MPI-2-2 TO CMMG/MPI-2-10

25 Coalition of Manitoba

1 Motorcycle Groups'
2 Information Requests and
3 Manitoba Public Insurance's
4 Responses - 2nd Round
5

6 THE CHAIRPERSON: Thank you very much,
7 Mr. Oakes. We'll move now to MUCDA, or the Manitoba Used
8 Car Dealers, represented by Ms. Roberts -- Roberts.

9 MS. CANDACE GRAMMOND: Yeah, mad -- Madam
10 Chair, it's Mr. Roberts, and he's --

11 THE CHAIRPERSON: Oh, Mr. Roberts, Sorry.

12 MS. CANDACE GRAMMOND: -- yeah, he --
13 he's not present --

14 THE CHAIRPERSON: Oh, right.

15 MS. CANDACE GRAMMOND: -- so what I --
16 and that's -- that's not unusual. Mr. Roberts will, I'm
17 sure, be here at some point --

18 THE CHAIRPERSON: Okay.

19 MS. CANDACE GRAMMOND: -- over the course
20 of the proceedings, but we'll -- perhaps when we first
21 see him, I don't know when that will be, we can ask if he
22 has any comments. But for now, we can go to --

23 THE CHAIRPERSON: Ms. --

24 MS. CANDACE GRAMMOND: -- the next --

25 THE CHAIRPERSON: Yes, Liz --

1 MS. CANDACE GRAMMOND: -- yeah, Ms.
2 Peters.

3 THE CHAIRPERSON: -- Liz Peters, who is
4 representing the Canadian Automobile Association, CAA.
5 Thanks.

6 MS. LIZ PETERS: Yes, thank you, Madam
7 Chair. CAA has -- similar to some of the other
8 intervenors, this is close to our twentieth year sitting
9 as -- as an intervenor in the process. And as we always
10 do we -- we just do a watching brief. We don't typically
11 ask any questions, and we -- it's more for informational
12 purposes.

13 We have twenty (20) -- two hundred
14 thousand (200,000) members in Manitoba, that's more than
15 25 percent of the motoring public in our province, and we
16 get many, many questions, not only about this process,
17 but about some of the intricacies of -- of the Crown
18 Corporation. And we feel that it's our -- our duty and
19 obligation representing those members to be able to
20 provide information, and to -- to be here with that
21 watching brief, and to be able to just -- just take part
22 in a -- in a meaningful way.

23 So if we have questions along the way I
24 will let you know, but for the most part we will just be
25 in attendance every day and just listening to the

1 proceedings.

2 THE CHAIRPERSON: Thank you, very much.

3 MS. LIZ PETERS: Thank you.

4 THE CHAIRPERSON: And now Mr. Dave Schio

5 -- Schioler -- Schioler --

6 MR. DAVID SCHIOLER: That's easy for you
7 to say.

8 THE CHAIRPERSON: I'm having a hard time.

9 MR. DAVID SCHIOLER: Yeah, Schioler.
10 Yeah.

11 THE CHAIRPERSON: Yes, Schioler. And
12 that is the Insurance Brokers Association, or IBAM.

13 MR. DAVID SCHIOLER: That's right.

14 THE CHAIRPERSON: Am I saying that right?

15 MR. DAVID SCHIOLER: That's right.

16 THE CHAIRPERSON: Okay.

17 MR. DAVID SCHIOLER: Thank you, Madam
18 Chair. No remarks or submission at this time.

19 THE CHAIRPERSON: Okay. All right. I
20 think I'll turn back now to Ms. Grammond.

21 MS. CANDACE GRAMMOND: Yes, thank you,
22 Madam Chair. I will commence then with cross-examination
23 of the MPI panel.

24

25 MPI PANEL:

1 MARILYN MCLAREN, Resumed

2 DONALD PALMER, Resumed

3

4 CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

5 MS. CANDACE GRAMMOND: So probably, Ms.
6 McLaren, we'll -- we'll start with you. And these
7 questions won't come as a surprise because these are
8 things that we speak about typically at every hearing.

9 I'd firstly ask you to confirm that the
10 Corporation accept that it bears the onus of proof in
11 this proceeding; in other words, that it has to
12 substantiate the GRA that's before the Board?

13 MS. MARILYN MCLAREN: Confirmed.

14 MS. CANDACE GRAMMOND: And, in
15 particular, the Corporation bears the onus of
16 establishing that the proposed rates and fees are just
17 and reasonable?

18 MS. MARILYN MCLAREN: Confirmed.

19 MS. CANDACE GRAMMOND: Now, we know that
20 in this case the Corporation is seeking an overall 6.8
21 percent rate reduction, and you've made some comments in
22 your pre-filed testimony with respect to that. And I'll
23 just pull that out, and -- and you can turn to it if you
24 wish or not, but for the others in the room, they may
25 wish to go to page 5 of Ms. McLaren's pre-filed

1 testimony.

2

3

(BRIEF PAUSE)

4

5 MS. CANDACE GRAMMOND: So, Ms. McLaren,
6 you've commented on page 5 in the last paragraph that
7 begins near the bottom of the page, that the rate
8 decrease, a) is significant, and b), is primarily the
9 result of changes to the assumptions about the future
10 cost of PIPP claims.

11 That's right?

12 MS. MARILYN MCLAREN: Yes, there are a
13 number of factors, but that is the primary one, yes.

14 MS. CANDACE GRAMMOND: Do you wish to
15 comment then on what the other factors are?

16 MR. DONALD PALMER: I can take that.
17 It's a reduction in the PIPP claims. There are also, not
18 only stemming from the historical development, but we
19 have seen a decreasing trend in the number of injury
20 comple -- claims, as compared to collision claims, over
21 the last number of years.

22 We have seen some increase in hail claims
23 that offsets the -- those decreases. We have seen, as
24 has been alluded to a couple of times this morning, a
25 decrease in investment income that also serves to offset

1 some of those rate decreases.

2 We have included increases in expenses
3 that we have been experiencing over the last number of
4 years that true -- too is offset by some of the
5 advantages that we're seeing from the BPR projects that
6 we've seen over that years. That would include, for
7 example, a reduction in commission costs, and that is
8 reflected in these as well.

9 MS. MARILYN MCLAREN: The primary reason
10 for the decrease in investment income going forward is
11 the reduction in funds available for investment because
12 of the \$320 million rebate.

13 MS. CANDACE GRAMMOND: Yeah, I'll have
14 lots of questions on investment income a little bit
15 later, but thank you for clarifying that. And so this is
16 for either of you. I'm just a little bit farther down,
17 Ms. McLaren, in your pre-filed testimony. There's a
18 little bit more commentary on the decrease in PIPP costs,
19 which, Mr. Palmer, you had mentioned. And -- and just to
20 put some more specifics on it, PIPP now represents, you
21 use the word "barely", 35 percent of overall claims
22 costs, and PIPP costs were decreased by approximately 25
23 percent.

24 Those would be the numbers that go with
25 the comment that you made?

1 MR. DONALD PALMER: That's correct.

2 MS. CANDACE GRAMMOND: Okay. Typically
3 it would be fair to say that stability in rates is
4 something that's important to the Corporation?

5 MS. MARILYN MCLAREN: Yes, stability and
6 predictability, absolutely.

7 MS. CANDACE GRAMMOND: In other words,
8 the Corporation has historically tried to avoid large
9 swings in rates, year over year?

10 MS. MARILYN MCLAREN: That's fair. You
11 know, the -- the -- there's always more concern about
12 rate increases than there are about rate decreases, but
13 when we bring forward an application for decreases we
14 clearly need to be confident that they're sustainable.

15 MS. CANDACE GRAMMOND: I'm just going to
16 ask you to go to Question 1-1 which was posed by the
17 Board. And, Mr. Palmer, I think you referred to this
18 listing earlier, but just, if we can take a look at it --
19 so this is PUB-MPI-1-1.

20 MR. DONALD PALMER: Yes, I have it.

21 MS. CANDACE GRAMMOND: We see that the
22 last time that a rate change was applied for of greater
23 than -- equal to or greater than 6.8 percent, which is
24 now before the Board, would have been 1993 when it was a
25 nine point seven (9.7) increase applied for?

1 MR. DONALD PALMER: Yes, that's correct.
2 In -- in absolute values, yes, that's correct.

3 MS. CANDACE GRAMMOND: I'll ask you then
4 to go to the Application, AP-1. So this is in Volume I,
5 the -- the skinny binder right under the tab entitled,
6 "Application".

7 And this, I think it's fair to say, is the
8 -- the most bare bones summary of what it is that the
9 Corporation's asking the Board to decide?

10 MR. DONALD PALMER: This is a very high
11 level summary of the Application, yes.

12 MS. CANDACE GRAMMOND: What we see from
13 this document under the heading "Vehicle Premiums," is
14 that the Corporation is again applying for experience-
15 based rate adjustments, range -- largely ranging from
16 minus 15 percent to plus 15 percent, and that's based on
17 the adjustment rules that have been used in the past.

18 That's right?

19 MR. DONALD PALMER: That's correct.

20 MS. CANDACE GRAMMOND: And, again, the
21 Corporation seeks, as it has done before, combinat -- or
22 combined classification offset adjustments for all
23 vehicles except off-road vehicles, to achieve revenue
24 neutrality in implementing rate group, rate line, and
25 classification changes?

1 MR. DONALD PALMER: That's correct. And
2 with regard to off road vehicles, they are flat-rated, so
3 there is no classification differentials for off road
4 vehicles. So that's why there's no classification off-
5 set.

6 MS. CANDACE GRAMMOND: But these
7 parameters are the same as what's been applied for in the
8 past, this isn't new?

9 MR. DONALD PALMER: That's correct.

10 MS. CANDACE GRAMMOND: And we know that
11 the Corporation is not seeking any changes in the vehicle
12 premium discounts that were established in the past?

13 MR. DONALD PALMER: We're not seeking any
14 changes from that that was ordered in last year's Rate
15 Application, that's correct.

16 MS. CANDACE GRAMMOND: The Corpor -- oh.

17 MR. DONALD PALMER: With the -- for
18 individual drivers that's true. We are applying for a
19 change in the fleet rebate percentage, so from that
20 perspective there is a difference.

21 MS. CANDACE GRAMMOND: Yeah, and thank
22 you for clarifying that. I was going to -- going to come
23 to the fleet rebate. You are seeking an expansion of
24 their fleet rebate discounts, but you're not seeking a
25 change to fleet surcharges.

1 That's right?

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE GRAMMOND: And the reason for
4 the request on the fleet rebate discounts is to seek to
5 align with the scale that's recently been implemented by
6 the province?

7 MR. DONALD PALMER: That's one (1) of the
8 reasons, yes, and the other is to reflect the experience
9 of fleets.

10 MS. CANDACE GRAMMOND: And I will have
11 some more specific questions about that later on in the
12 process.

13 So that deals with vehicle premium
14 discounts. In terms of driver premiums, the Corporation
15 isn't asking to change any driver premiums on the
16 positive side of the DR -- DSR scale, but it is seeking
17 to change some of the premiums on the negative, or the
18 demerit side of the scale?

19 MR. DONALD PALMER: That's correct.

20 MS. CANDACE GRAMMOND: And --

21 MR. DONALD PALMER: And that is also
22 changes that have been discussed in the past years. This
23 is not anything new in this Application. It is the first
24 Application that has -- basically carries out our plan
25 that was originally set out before this Board in the

1 Driver Safety Rating Hearing, so it's not new. It
2 shouldn't be unexpected, but it -- it is a new
3 Application for this year.

4 MS. CANDACE GRAMMOND: Right. In -- in
5 2009 when the DSR Hearing took place, the -- there were
6 certainly demerit -- or each demerit level had a certain
7 premium that went along with it, and the Corporation had
8 explained to the Board at that time that, once the system
9 was implemented, it would be seeking to increase those
10 numbers as time went on. And this is one (1) of the
11 steps in that process.

12 MR. DONALD PALMER: That's correct.

13 MS. CANDACE GRAMMOND: And, yeah, again
14 I'll -- I'll have some more specific questions on that, a
15 little later on.

16 But, for now, the -- just so that everyone
17 knows what we're speaking about, at AP-1, behind the tab
18 numbered 1, there is reflected the -- the table that
19 lists the -- the numbers that the Corporation is applying
20 for. And that's near the end of AP-1.

21 MR. DONALD PALMER: That's correct.

22 MS. CANDACE GRAMMOND: Now we know the
23 Corporation is not seeking changes to service and
24 transaction fees this year, or changes to permit and
25 certificate fees.

1 MR. DONALD PALMER: That's correct.

2 MS. CANDACE GRAMMOND: And, just for the
3 record, permanent certificate fees are fees paid for
4 interim or a -- temporary registration permits?

5 MR. DONALD PALMER: That's correct.

6 MS. CANDACE GRAMMOND: Okay, and then
7 lastly, so I'm -- I'm still following the listing at AP-
8 1, under the heading of "Miscellaneous", the Corporation
9 confirms it's not seeking a change in the forty dollar
10 (\$40) discount that's provided to customers with after-
11 market immobilizers.

12 MR. DONALD PALMER: That's correct.

13 MS. CANDACE GRAMMOND: Madam Chair, I --
14 that's sort of the overview, just to confirm the
15 parameters. I'm going to get into questions about rating
16 factor changes, so I -- I can continue till 12:00 if the
17 panel wishes. I note that the presenters are going to be
18 here at 1:15, so if we go past 12:00 then that -- the
19 lunch hour's really just gonna be an hour.

20 Is that agreeable? Do you want me to
21 continue, or...?

22 THE CHAIRPERSON: Well, it's just ten
23 (10) minutes, so do you want to continue? Or would you
24 rather just break at this point, because you're getting a
25 new area, right?

1 MS. CANDACE GRAMMOND: I think so, yes.

2 THE CHAIRPERSON: Yeah. So rather than
3 stop you in your tracks, I think we will adjourn at this
4 point for the noon hour, and then come back and we'll
5 begin with the presenters. But we may also have some
6 exhibits, Mr. Williams, from you at that time, right,
7 that you said you might have some over the noon hour?
8 I'm not meaning to put pressure on you, but just to
9 remind you that you said maybe after lunch you would
10 enter your exhibits. Is that --

11 MR. BYRON WILLIAMS: Yes. Sorry to
12 interrupt, Madam Chair. My intent had been to enter them
13 this morning, subject to any edits that I would make --

14 THE CHAIRPERSON: Yeah. Right.

15 MR. BYRON WILLIAMS: -- this afternoon.
16 We will review the exhibits over the -- over the lunch
17 hour. Okay.

18 THE CHAIRPERSON: Sure. Thanks. Okay.
19 We stand adjourned for lunch.

20

21 (PANEL RETIRES)

22

23 --- Upon recessing at 11:49 a.m.

24 --- Upon resuming at 1:15 p.m.

25

1 THE CHAIRPERSON: Well, I can see that
2 we're back. It's a quarter after 1:00, and we have quite
3 a few people looking to be presenters. Perhaps I'll just
4 go according to the list that I've been given.

5 Ms. Jill Ruth, are you here? Okay. I'm
6 wondering if you would like to move up a little bit. You
7 know, come up a little closer to us. You're with the
8 Headingley Sport Shop, I see, and -- yeah, come a little
9 closer.

10 Thank you very much for coming, and we are
11 very interested in hearing what you have to say.

12

13 PRESENTATION BY MS. JILL RUTH:

14 MS. JILL RUTH: Great. Thank you very
15 much. Yes, I am with Headingley Sport Shop, but I am
16 also with -- I'm the Chairperson of the Powersports
17 Committee, which is part of the Mid-Canada Marine and
18 Powersports Theatre Association, and I did present last
19 year.

20 Our committee was formed to address
21 several issues related to the specific in -- powersports
22 industry issues, and our association currently has
23 approximately eighty (80) dealers and associate members.
24 Today I would like to speak specifically about motorcycle
25 insurance, and how it relates to our customer base and

1 our respective businesses.

2 First I'd like to address the -- the
3 MPIC's mandate to offer affordable insurance for all. In
4 Ms. McLaren's prefiled testimony she states that:

5 "One (1) of MPIC's mandates is to
6 provide universally available mandatory
7 insurance protection against the cost
8 of automobile accidents, rates lower
9 than those charged by private insurance
10 companies for comparable coverage,
11 affordable insurance for all at a rate
12 that is better or comparable."

13 We argue that MPI has not upheld this
14 mandate, and in fact is not charging rates lower than
15 those offered by private insurance companies for
16 comparable coverage. Further, the rates for motorcycles
17 are neither affordable, better, or comparable. Please
18 find -- I listed below the rates that I found online
19 easily by using a Canadian address with relative ease
20 through Google.

21 These particular ones are from Primum
22 Insurance Company (phonetic), and I used Kawasaki
23 products in a -- in a different range of engine sizes and
24 types. All of these examples use the scenario of \$1
25 million third-party liability, five hundred (500)

1 deductible, taking the maximum 33 percent discount level
2 that auto -- that MPI offers, and pleasure use. So I've
3 used the absolute lowest possible rate you could have,
4 and then compared it to a similar company, like I said,
5 easily available. And I have attached those to my
6 report.

7 The second item is that in -- that MPIC
8 being a monopoly, they really have no competition. And
9 we know that we're not going to change how MPI is
10 structured, but the point needs to be made that this
11 entity has the ability to force an industry out of
12 business.

13 And a motorcycle dealer not only has to
14 contend with fierce competition in the marketplace, the
15 effects of declining world economies, making their name
16 known, providing exemplary service, staffing, taxes, and
17 all the usual challenges of a business in these times,
18 only to find that their perspective customer choses to
19 not purchase their goods because of the monopoly of MPI.
20 They have left the motorcyclist with no other choice than
21 to pay hundreds of dollars more to insure their products
22 in Manitoba.

23 What is it about Manitoba that makes it so
24 much more expensive than other areas in Canada? We very
25 likely have the shortest season. Mr. -- so -- so

1 therefore the risk is a short -- is shorter.

2 Mr. Palmer states that the claims
3 experienced for motorcycle class is volatile due to the
4 relatively small number of vehicles in this major class.
5 Mr. Palmer, we'd like to suggest that your numbers could
6 be more predictable if you would lower the rate, and
7 allow more motorcyclists to -- the opportunity to share
8 in the costs, therefore reducing the volatility in this
9 class.

10 The other item we had was driver safety
11 rating. Why is it that a motorcyclist is not offered a
12 discount rating up to fifteen (15) like the automotive
13 client? These drivers are, in fact, very likely the same
14 people, and differentiating them because of what they're
15 driving, we feel is prejudicial.

16 A fourth item would be exception to
17 experience adjustment rules for motorcycles. We
18 understand that MPI is making application for an average
19 10.3 percent decrease in motorcycle premiums. With the -
20 - an exception to the experience adjustment rules for
21 mopeds and motorcycles 500 CCs or less.

22 We object to this exception as we feel
23 that mopeds are their own classification and that
24 motorcycles 500 CCs or less, should not have to have
25 their rates raised by default because MPI wants to raise

1 the moped rates. Each class should be protected against
2 this type of arbitrary adjustment and stand on their own
3 merit.

4 The single-user discount. We would like
5 to ask why a single-user discount structure is not in
6 place for motorcycles. Most insurers offer this type of
7 discount. If a ratepayer owns more than one (1) vehicle,
8 including a motorcycle, he or she cannot operate more
9 than one (1) vehicle at one (1) time. Yet, we are
10 charged individually for each vehicle. In essence, both
11 products are being insured -- the life that of that
12 driver is being insured twice.

13 As the premium is related to risk, and if
14 the ratepayer signed a single-user agreement, we would
15 suggest that he or she would then qualify for a multiple-
16 vehicle rate decrease.

17 Number 6 would be efficient use and
18 sustainable transportation. If the MPIC is truly
19 interested in the promotion of efficient vehicle use and
20 sustainable transportation, why then do they not better
21 support the success of our industry? Motorcycles are
22 well known to offer excellent fuel efficiencies and many
23 other agencies in other countries embrace this type of
24 transportation.

25 The seventh item would be service for

1 motorcycle client claims. Last year, we reported that
2 there is a disparity between the service we receive from
3 MPI when dealing with client claims, compared to the high
4 rates our clients are paying. We also reported that we
5 felt MPI had made no effort to understand our industry or
6 to adjust hourly allowances to be in line with our
7 industry hours -- hourly rate.

8 Recently, the MMPDA has met with Minister
9 Swan, and soon after with Ted Hlynsky, the vice-president
10 of Claims Control and Safety Operations, to discuss some
11 initiatives and syn -- synergies that could potentially
12 improve the turn around times and potentially review
13 accreditation and compensation of motorcycle repair
14 facilities.

15 We are hopeful that we can develop some
16 good strategies to not only be able to give our customers
17 better service, but to reduce the frustration and
18 inefficiencies of the current system.

19 The motorcycle industry and its
20 contribution to the Manitoba economy is our -- my eighth
21 item. I would like to point out that the motorcycle
22 industry has much to offer the economy of Manitoba though
23 employment and tax revenues. According to the 2009
24 Annual Canadian Dealer Survey Report, the average dealer
25 in this industry employs appro -- approximately 17.3

1 people on a year-round basis, spends approximately
2 seventy-nine thousand (79,000) annually on advertising,
3 generates approximately 4.9 million in retail or four
4 hundred (400) and -- three hundred and forty-three
5 thousand (343,000) in provincial taxes each year.

6 The success or lack of success will
7 directly affect the amount of funds that our industry is
8 able to put back into the economy. As dealers, we must
9 be vilgi -- vigilant in making the Public Utilities Board
10 aware that other companies are able to offer much less
11 lower rates. We feel that Manitoba motorcycle rates are
12 not supported by the rest of the insurance industry
13 across Canada and request that they be brought in line
14 with comparables in other provinces.

15 I'd like to thank the Board for hearing
16 our concerns and hope that both MPI and the Public
17 Utility Board appreciate that the motorcycle industry is
18 comprised of residents and taxpayers who are working to
19 make a living for themselves and our staff, and are
20 struggling to maintain our business under the burden of
21 what we feel are unnecessarily high premiums.

22 Respectfully submitted. Thank you.

23 THE CHAIRPERSON: Well, thank you very
24 much and I presume that some of the people sitting back
25 there are with you. But, I'm just going to check and see

1 if we do have the other presenters at this time.

2 There's on our list a Mr. Robyn Gray. Oh,
3 Mr. Robyn Gray is here. Good. So, perhaps we'll have
4 you come up next, but thank you very much for both the
5 verbal and written presentation that you've given us.
6 And we have asked the Corporation to respond to your
7 questions and your concerns in writing and to copy the
8 Board.

9 MS. KATHY KALINOWSKY: Yes, that's
10 correct.

11 THE CHAIRPERSON: Now, Mr. Gray, I'm not
12 sure if you represent just yourself or whether you are
13 representing other users, but -- of a certain type of
14 vehicle, so perhaps you could tell us a little bit more
15 through your presentation. Thanks.

16 MR. ROBYN GRAY: Yes, it's in my
17 presentation.

18 THE CHAIRPERSON: Okay.

19 MR. ROBYN GRAY: But I'm representing the
20 Manitoba Motorcycles for Fairness, MMFF --

21 THE CHAIRPERSON: Okay.

22 MR. ROBYN GRAY: -- which I recently
23 started.

24 THE CHAIRPERSON: Well, go ahead.

25

1 PRESENTATION BY MR. ROBYN GRAY:

2 MR. ROBYN GRAY: Okay. Good morning,
3 ladies and gentlemen. I'm Robyn Gray. What a beautiful
4 day. Great motorcycle riding season. Motorcycles have
5 more than -- more than likely doubled since last
6 Saturday, October 1st. All the riders who can't afford
7 the three (3) to five hundred dollars (\$500) per month
8 MPI charges for the five (5) month riding season are on
9 the road.

10 Come November they take their bike and get
11 into the wind for an enjoyable bike ride. MPA (sic)
12 charges a year's motorcycle insurance in the five (5)
13 months of riding season. My friends pay around five
14 hundred dollars (\$500) per month for bike insurance
15 during the summer. That is usually more than their
16 monthly bike payment. There are more uninsured
17 motorcycles sitting in garages than on the road during
18 the summer.

19 Come November the monthly payment is as
20 cheap as seven dollars and fifty (\$7.50) cents. The
21 month of September was about five hundred dollars (\$500)
22 per month, and then drops to fifteen dollars (\$15) for
23 September -- I mean, for October. Is this some kind of
24 tacky carnival trick MPI's dreamed up to rip us
25 motorcycles off further and get around the 15 percent

1 rate shock rule?

2 MPI states that their motorcycle rates are
3 the same as Saskatchewan's. Not true as riders in Sassa
4 -- Saskatchewan can get a seven (7) month refund at the
5 end of September, which is almost half of their yearly
6 premium. Manitoba riders pay for a full year's insurance
7 in the five (5) months riding season making Saska --
8 Saskatchewan's insurance half of Manitoba's. MPI is
9 doing their best to keep motorcycles off the road with
10 outrageous insurance rates.

11 I am here to bring the Board's attention
12 to some disturbing issues with MPI. I retired from the
13 motorcycle business after forty-one (41) years. I own
14 three (3) motorcycle shops, including Harley-Davidson of
15 Winnipeg, for twenty-six (26) years.

16 In the -- 1970 I was asked by the Manitoba
17 government to test modified motorcycles and made
18 recommenda -- recommendations to the allowable
19 modifications to motorcycles for the Highway Traffic Act.
20 These recommendations be -- became part of the Highway
21 Traffic Act that still stands today.

22 Also, Dave Johnson, better of actually
23 known as Lumpy (phonetic), and myself started the Beat of
24 Manitoba (phonetic), a California motorcyclist rights
25 group that is all over North America.

1 I founded the Coalition of Manitoba
2 Motorcycle Groups and the -- and I was the CMMG's early
3 president. The CM -- CMMG was started to bring
4 affordable insurance to Manitoba motorcyclists who paid
5 considerably more than motorcyclists in other
6 jurisdictions. That was the mandate, affordable
7 insurance. We pro -- we promoted motorcycle safety and
8 we had the month of May declared as Manitoba safety
9 awareness month. Initially I paid for rate of
10 commercials, reminding all motorists to share the road
11 with a two (2) wheeled friend.

12 We also had an MLA -- MLA Ride for Safety
13 in May at the legislature and took MLAs for a motorcycle
14 ride. Following speeches, we would all ride to a
15 location where we had food and enjoyed the evening
16 socializing with our fellow motorcyclists. It was great
17 times.

18 We put on socials, poker derbies, and held
19 numerous raffles to raise money to hire Ray Oakes to
20 represent us. Ray is here today I think. The CMMG
21 presently doesn't put on any of these events save for a
22 couple.

23 As I feel the CMMG present mandate was --
24 has nothing to do with the mandate we started with. We
25 have formed the motor -- Manitoba Motorcyclists for

1 Fairness, MMFF, and will be applying for Intervenor
2 status at these hearings next year.

3 The following will be the most important
4 information you will hear at these proceedings. Our
5 democratic rights are being eroded daily by all levels of
6 government by their lack of accountability, transparency,
7 fair play, and above all, the lack of respect for those
8 whom they serve.

9 Why does it take a to -- a court ca -- why
10 does it take court cases to obtain information or data
11 from government agencies that should be available to a
12 free and democratic society? Their excuses aren't
13 acceptable.

14 Why are Manitoba taxpayers paying hundreds
15 of thousands of dollars for a court case where PUB is
16 requesting MPI to show PUB the financials of their other
17 division that is not mandated by legislation? First off,
18 why is MPI allowed to op -- operate this other division?
19 As far as I know, MPI's mandate by legislation, as I
20 understand it, is to provide Manitoba motorists with
21 motor vehicle insurance at their cost, fairly, with full
22 accountability, complete transparency, and above all,
23 respect for those with whom they insure.

24 Unfortunately, MPI has failed to deliver
25 any of those to Manitoba motorists. MPI has become so

1 arrogant, big and powerful, that they have to be com --
2 they have com -- completely forgotten how to treat people
3 fairly and honestly.

4 This is bureaucracy out of control. MPI's
5 other non-mandated di -- divisions sells other insurance
6 products, such as fire and theft extension insurance, and
7 insurance for large transport trucks.

8 MPI claims this would give their
9 competition other insuran -- their -- the other -- their
10 competition other insurance companies an unfair advantage
11 in pricing their -- their insurance products. As far as
12 I know, the other insurance companies are traded on the
13 stock exchange, meaning their latest financial filings
14 are available on the Internet to anyone.

15 Insiders tell me that MPI makes a fortune
16 on the truckers because MPI has so much money behind them
17 they squeeze the competition out. And, as a result, get
18 the lion's share of that business.

19 Where do all those profits go? No wonder
20 they don't want anyone to see the books. These profits
21 should go to offset the premiums man -- motorists pay for
22 insurance. Or better yet, how about fixing our dog-patch
23 roads? Where they spend tens of thousands of dollars by
24 bringing in big gun lawyers, read big money, from Toronto
25 to represent their case in court. They must have

1 something really big to hide.

2 Excuse me one second. When I started
3 organizing the Autopac MPI investigation rally to the
4 legislature, I received emails from several catastrophic
5 accident victims, usually paraplegic or quadriplegics.
6 These individuals are really treated unfairly and with
7 absolutely no empathy from MPI.

8 Imagine being in a horrific vehicle
9 accident and end up a paraple -- paraplegic or a
10 quadriplegic. The pain and the trauma from the accident,
11 coupled with loss of income, the fear of the future for
12 you and your family, and then you have to fight tooth and
13 nail for the money and therapy that is rightfully yours?

14 Andy Katz, who is in attendance today, was
15 severely injured before no-fault was introduced. MPI
16 recently allocated more funding for catastrophic accident
17 victims. Unfortunately, this funding is not available to
18 individuals who had accidents prior to no-fault.
19 Unacceptable. This is -- this funding has to be made
20 available to all catastrophic accident victims.

21 Dawn Houston, whose father is also in
22 attendance, was wal -- involved in a car truck accident
23 in February of 2000. The -- 2009. The driver of the
24 truck was intoxicated and was at fault. As a result of
25 the accident, Dawn is a quadriplegic and was told -- was

1 told by the so-called MPI experts that she would be a
2 quadriplegic all her life with no chances of recovery.

3 Her therapy was a mere one and a half (1
4 1/2) hours twice a day and -- and she was not allowed to
5 get out of her wheelchair. She was supposed to receive
6 two (2) hours a day as all the men there were receiving.
7 When asked why, the staff just shrugged their shoulders
8 and told her that's the way it was.

9 Her parents were sick and tired of these
10 so -- so-called -- so-called experts and sent Dawn at
11 their expense to San Diego, for proper therapy. Dawn
12 started to show improvement to the point that she can
13 move her arms and she can operate a hand-controlled
14 wheelchair that Dawn -- and Dawn is asking MPI to pay
15 for.

16 MPI refuses to buy her one, as they do not
17 believe she is capable of operating one. Despite MPI
18 viewing a video from San Diego showing she is capable of
19 operating it. Can it get any worse?

20 MPI pays her wages based on the job she --
21 she had prior to the accident. Dawn is young, when the
22 accident happened and her wages were moderate. That's
23 all they will ever pay her. No provision to take into
24 account she would have been earning more money as time
25 progressed if the accident wouldn't have happened.

1 Unacceptable.

2 The biggest problem -- the biggest problem
3 is that Winnipeg does not have the proper facilities for
4 rehabilitation of casta -- catastrophic accident victims.
5 If they do, why is she not allowed to use them? Why did
6 she have to go to San Diego? Why do her parents have to
7 send her to San Diego? All accidents -- all accident
8 casualties should be sent to cities where the proper
9 rehabilitation is available and they can get the help
10 that they need.

11 The bigger problem is MPI's attitude in
12 telling people that they will not get better. Dawn
13 proved MPI wrong. MPI promised to pay for her van that
14 was converted for her special needs. MPI paid for the
15 conversion but after refused to pay for her van.

16 And to add insult to injury, if this would
17 have -- have happened two (2) months later, it -- MPI
18 would have paid for the van because the policy had
19 changed. They could make allowances for her to -- to pay
20 for it. There's no for -- there's no fair play.
21 Absolutely no trace of empathy. You know, it's -- shame
22 on you, MPI.

23 Farren Paradis is also in attendance with
24 his wife, Sharon. Farren was in an accident while
25 walking his dog in 2008, and his legs were rendered

1 useless. He is in constant pain and MPI tells him he
2 shouldn't have any pain anymore. They cut him off any
3 therapy. They have not provided the special needs
4 equipment that are required to make living in his house
5 more comfortable.

6 Sharon is paid to do the chores around the
7 house in addition to her regular job. MPI tells her, Why
8 does it take you so long to do the laundry? Do you sit
9 there and watch the washing machine go around? This
10 clown should have been fired immediately.

11 All you get out of MPI is disrespect.
12 This whole system has to be completely changed. These
13 people are human beings, and should be accorded a decent
14 standard of living, and all the therapy they require to
15 improve their life, whatever it takes.

16 Think about what I just said, MPI
17 executives, when you go to bed tonight. I do not know
18 how you sleep at all knowing the misery you are forcing
19 these people and their families to endure, all to save a
20 few bucks.

21 And isn't it ironic that the 330 million
22 that MPI all of a sudden found swept under the carpet
23 came from MPI miscalculating the case reserve over a
24 period of time. The case reserve is the funds that MPI
25 puts aside to cover the future expenses of the

1 catastrophic accident victims. This is money that was
2 rightfully to go to all caster -- catastrophic accident
3 victims. I guess profits come before looking after those
4 -- these accident victims. How do you sleep at night?

5 And where did the 330 million really come
6 from, and where was it really supposed to go? The truth
7 will come out in time. Either the new government will
8 force MPI to show their books as they can, or the courts
9 will force them to as the court case is apparently still
10 going on, or the last resort, public opinion will force
11 the inevitable, and they will have to show their books.

12 If the Internet can oust a dictator in the
13 Middle East, what can it do for out of control government
14 bureaucracy called MPI?

15

16 (BRIEF PAUSE)

17

18 MR. ROBYN GRAY: Why are all the auto
19 body shops, car dealerships, motorcycle shops, and any
20 other business that work for MPI greatly underpaid for
21 the work that they do for MPI?

22 I did motorcycle repair work for Autopac
23 MPI for years out of two (2) of my shops. I quit
24 accepting MPI work for the last two (2) years before I
25 retired. I was barely breaking even, or in some

1 instances losing money on MPI work.

2 Let's do the math. At the time, MPI was
3 paying me fifty-four dollars (\$54) an hour when my shop
4 rate was eighty-five dollars (\$85) an hour. I paid my
5 mechanics twenty-seven dollars (\$27) an hour for a decent
6 standard of living, which included benefits.

7 Add in my shop overhead, and there was --
8 and at the end of the day there was very little profit,
9 if I was lucky. Not included was paying my staff to
10 spend time on the phone trying to get a hold of the
11 claims adjuster. And when you did you were told the
12 adjust -- the adjuster is on vacation, he's in training,
13 or on sick leave, or he doesn't work there anymore, and
14 the claim has been transferred to another adjuster, who
15 you have to educate on how to -- motorcycles are
16 repaired.

17 MPI presently pays three (3) -- sixty-
18 three dollars (\$63) per hour for body work while the
19 average dealership rate in Manitoba is a hundred and ten
20 dollars (\$110) an hour. The national average is a
21 hundred and thirty dollars (\$130) an hour. MPI pays
22 almost less than half of the hundred and ten dollars
23 (\$110) per hour. Why? Because there is no negotiating
24 with MPI at any level. They dicto -- dictate to everyone
25 what they will pay. If they had competition, they would

1 have to pay the going rate, otherwise nobody would do
2 their wor -- would deal with them, and would work for the
3 competition.

4 This is what's wrong with MPI having a
5 monopoly. Because they have a monopoly, there has to be
6 provisions for shops to negotiate the labour rate they
7 are paid. And supposedly this is the automotru --
8 Automobile Trades Association's responsibility, who
9 apparently have such a good relationship with MPI, and
10 this is why they are -- they are not here as a -- as an
11 Intervenor as they have in the past.

12 Winnipeg's average shop rate is a hundred
13 and ten dollars (\$110) per hour, and MPI presently pays
14 six (6) -- sixty-four dollars (\$64) an hour. When
15 negotiating with MPI, every -- everyone listens to what
16 MPI will pay.

17

18 (BRIEF PAUSE)

19

20 MR. ROBYN GRAY: I'm asking PUB to please
21 review this process. How can a body shop making only
22 sixty-four dollars (\$64) an hour pay its employees a
23 decent wage to afford them with a decent standard of
24 living, especially if they have a family? MPI has
25 destroyed the mean -- the vehicle repair business.

1 MPI has Mitchell Corporation from San
2 Francisco that writes the computer program labour rates
3 for the motor vehicle repair industry. They wrote a
4 program specifically for MPI that gives less time to do
5 certain tasks -- that the regular program that the rest
6 of the industry uses. MPI is paying a substandard labour
7 rate to do the work in less time than the national
8 average. Why is this allowed? Because MPI answers to no
9 one.

10 There has been a fair -- there has to be a
11 fair method of determining labour rates. One (1) thing I
12 did learn from my rally was the control MPI has over the
13 media. The media will not report anything detrimental to
14 MPI, because MPI spends tonnes of money with the media.
15 MPI has a monopoly, so why should they spend money on
16 non-necessary advertising? Granted, road safety and
17 driver awareness, or driver programs are needed for ad --
18 to advertise, but they are spending way too much, which
19 is -- on the media. They are spending our money to keep
20 information from us. Figure that out. Think about it.

21 A full review is needed on this issue, and
22 the MMFFF (sic) will be investigating this issue through
23 the Freedom of Information Act, and putting on our -- our
24 virtual magazine on the Internet.

25 And to go back to the -- the thing about

1 the -- okay. Not only are Manitoba motorists paying for
2 high dollar lawyers, Manitoba taxpayers are also paying
3 for PUB's lawyers, and its -- all associated court costs
4 just to get information that should be readily available
5 to all Manitobans as we own MPI, and we are stakeholders.
6 The NDP government have forced -- could have forced MPI
7 to release this information at any time, saving us
8 taxpayer -- taxpayers hundreds of thousands of dollars.
9 Why didn't they? It makes me wonder.

10 I can't under -- I -- I can understand
11 government agencies need -- need to keep certain things
12 secret, such as national security, but a government run
13 insurance company? You know, what have they got to hide?
14 National security, all right. Boy, that insurance
15 industry is one -- is some real cloak and dagger stuff.
16 Give me a break. We are not stupid.

17 And then I find out about another court
18 case involving MPI and PUB from someone in -- in the know
19 at PUB, and not -- and not from an acquaintance who I
20 felt should have told me about this court case, as he
21 knew I was pursuing a review of MPI. A perfect example
22 of what length MPI will go to prevent the public from
23 knowing any of their business. Again, what do you have -
24 - what do they have to hide?

25 This court case is a -- very alarming to

1 me, as MPI is taking the -- the revenue from the big
2 truck division, which is the non-mandated one -- yes, the
3 same division involving in the other court case where
4 Auto -- Autopac is refusing to show the -- show PUB the
5 books. Yes, MPI takes all the revenue, but when funds
6 are needed to -- for PIPP damage, when these big trucks
7 have an accident, the PIPP fund come out of the auto and
8 motorcycle division. That's unbelievable. PUB has to go
9 to court to fight this? And where do all those profits
10 go? Makes a guy wonder. This is unacceptable.

11 Because MPI has a monopoly on vehicle
12 insurance in this province -- province, there has to be a
13 yearly review of how well they are providing insurance to
14 Manitoba motorists in a fair way, with full transparency,
15 accountability, and above all, a re -- above all to treat
16 Manitoba motorists with respect. The present system with
17 no annual review is unacceptable to a free and democratic
18 society, and this is the main reason that MPI has -- has
19 gotten so out of control over the years. They answer to
20 no one, and consider themselves untouchable. This is why
21 I'm here, and I have put -- and I put on the September
22 5th Autopac MPI investigation rally at the Manitoba
23 Legislature.

24 I would just like PUB to -- I was supposed
25 to bring a copy of it, but I had a problem with my

1 printer at home, but I can supply, if requested, a copy
2 of what I just said. It will be published on the
3 Internet, also.

4 I would -- it's -- it's a very, very
5 serious thing. It -- they're out of control. They
6 really are. They answer to no one. We live in a
7 democracy, don't we, you know? There's no
8 accountability. There's no transparency. Why -- why
9 does it take a court case to get information that should
10 be duly -- that we should be able to see?

11 And that's -- that's it. And I'd like to
12 thank everybody for -- I'd like to thank -- thank you for
13 affording me the -- the opportunity to present my ideas.

14 THE CHAIRPERSON: We'd also like to thank
15 you for coming and taking time to give us that oral
16 presentation. And if you can give us a written copy that
17 would be great --

18 MR. ROBYN GRAY: I could email -- I could
19 email it to you.

20 THE CHAIRPERSON: -- or if it's -- you
21 could email, yes, that would work.

22 MR. ROBYN GRAY: Thank you kindly.

23 THE CHAIRPERSON: Okay, thank you. Now,
24 there is someone else on my list, and that is Ms. Donna
25 Adam. I'm not sure, is Ms. Donna Adam in the room?

1 Okay. And we had another person that
2 obviously already presented.

3 So I think that completes the presenters,
4 Ms. Grammond. And, as I said, we'll expect perhaps MPI
5 to respond to those concerns in some form, a written form
6 that you will distribute to the rest of the Intervenors
7 and the Board. Thank you.

8 MS. CANDACE GRAMMOND: Thank you, Madam
9 Chair.

10

11 MPI PANEL:

12 MARILYN MCLAREN, Resumed

13 DONALD PALMER, Resumed

14

15 CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

16 MS. CANDACE GRAMMOND: I'm going to get
17 into some questions with respect to vehicle rating factor
18 changes. So just for the purposes of the record, this is
19 at SM.3.1.A. And, firstly, we'll discuss passenger
20 vehicles and light trucks.

21 And before we get into the change that the
22 Corporation is discussing with respect to that --
23 probably this will be for you, Mr. Palmer -- can you
24 define CLEAR, what -- what that term stands for, as used
25 in the material?

1 MR. DONALD PALMER: CLEAR is the Canadian
2 Loss Experience Automobile Rating. That's the acronym.
3 What it is is a system that was originally set out by the
4 Insurance Bureau of Canada to provide vehicle
5 classification information on -- based on experience
6 right across Canada. So we submit our claims experience
7 to the Insurance Bureau of Canada, as do most insurers
8 across Canada, and they are -- that data is combined to
9 provide relative rankings of various makes and models of
10 cars and light trucks.

11 MS. CANDACE GRAMMOND: So when CLEAR data
12 is provided by the Insurance Bureau of Canada, as you
13 indicated, it's not specific to Manitoba but it's
14 representative of national data.

15 Is that right?

16 MR. DONALD PALMER: That's correct.

17 MS. CANDACE GRAMMOND: Okay. And then we
18 know that MPI goes through a process with respect to that
19 information as received, and there's some discussion
20 about that in the material. In particular, for passenger
21 vehicles and light trucks, rate groups are assigned by
22 MPI by weighting the CLEAR information, or the CLEAR rate
23 group recommendations for collision, comprehensive and
24 personal injury.

25 Is that right?

1 MR. DONALD PALMER: Yes, the CLEAR tables
2 are published on three (3) coverages, the collision
3 coverage, comprehensive coverage, and accident benefits
4 coverage. And they're provided that way to the insurance
5 industry because most of the insurance industry sells
6 those coverages separately. With Manitoba Public
7 Insurance and the Basic Autopac -- pac Program those
8 coverages are combined into one (1) product, the Basic
9 Autopac pro -- product, so we have to combine those three
10 (3) rate groups into one (1) rate group.

11 And I might direct you to PUB/MPI-1-41,
12 which will outline --

13 MS. CANDACE GRAMMOND: We're getting
14 there.

15 MR. DONALD PALMER: -- a little bit of
16 how that combination happens. The -- the rate groups are
17 weighted based on the Manitoba experience. So for
18 physical damage costs, 80 percent of our physical damage
19 costs are for collision claims, 20 percent are for
20 comprehensive claims.

21 So we take the collision rate group and
22 the comprehensive rate group and combine them, 80 percent
23 of the collision rate group plus 20 percent of the
24 comprehensive rate group, to come up with an MPI weighted
25 average. We then take that ranking and adjust it based

1 on the...

2

3

(BRIEF PAUSE)

4

5

MS. CANDACE GRAMMOND: Perhaps, Madam
6 Chair, you can just identify for the record what's been
7 received.

8

THE CHAIRPERSON: Well, I'm -- I'm
9 wondering if perhaps I jumped the gun on cutting off the
10 Intervenors, because we do have someone by name of Farren
11 Paradis, and I'm wondering if he would like to -- do you
12 want to voice this yourself? Do you want to read it to
13 us? Because I, perhaps, cutoff our presentations a bit
14 fast. I'm sorry about that, but he had -- I should have
15 said, you know, is there someone else that wants to --
16 and it says, "short".

17

MR. FARREN PARADIS: Thank you very much.

18

THE CHAIRPERSON: Yes, I think -- if --
19 if I have that privilege of doing that.

20

MS. CANDACE GRAMMOND: Of course, Madam
21 Chair, it's -- it's not to worry. I just -- I stopped
22 with the questions --

23

THE CHAIRPERSON: Yeah.

24

MS. CANDACE GRAMMOND: -- because I just
25 wasn't sure what --

1 THE CHAIRPERSON: Right.

2 MS. CANDACE GRAMMOND: -- was going on.

3

4 (PANEL RETIRES)

5

6 THE CHAIRPERSON: Yeah. Okay. Thank you
7 very much, Mr. Paradis. Do you want to begin.

8 MR. FARREN PARADIS: Okay. Thank you for
9 letting me tell the story. I'm just a little nervous.

10 THE CHAIRPERSON: That's okay, we're all
11 nervous. We're all nerv -- not all of us, but yeah, this
12 is a new job for me, so I could be nervous too. All
13 right, proceed.

14

15 PRESENTATION BY MR. FARREN PARADIS:

16 MR. FARREN PARADIS: Okay. I -- I have a
17 little story here, I was walking my dogs. I live close
18 to St. Adolphe off of St. Mary's Road, and I was walking
19 my dogs in 2008 and I stopped on the side of the road and
20 I'll tell you this story, like I got hit by a pickup
21 truck pulling like a Bobcat trailer or something.

22 Okay. I'll tell you my story. My name is
23 Farren Paradis, and in 2008 I was walking my dog down our
24 country road when I was hit by another person who lives
25 on the same road as me. I was standing on the side of

1 the road holding my dog, the dog leashes, with my back
2 turned to the oncoming vehicle because of the dust and
3 stuff.

4 The next thing I knew, I woke up in the
5 hospital. I was later told that on my way to the
6 hospital my heart stopped twice. When my wife -- when my
7 wife arrived at the hospital they told her I would be
8 lucky to survive the night.

9 When I came to in the hospital, the
10 doctors told me that they would have to remove my leg.
11 Can you imagine walking your dogs and the next thing you
12 wake up with a doctor telling you you're going to lose
13 your leg?

14 I asked the doctors to save my leg. I
15 begged them to save my leg, and thankfully the head
16 surgeon was able to do so. Even though I still have a
17 leg it is useless to me. I'm in pain every day. I was
18 forced to stop working around the yard and doing all the
19 stuff that I used to do.

20 For my pain and suffering I received not a
21 single penny. And Manitoba with a no-fault insurance,
22 you are not allowed to be compensated for pain and
23 suffering as they would cost people more money in their
24 premiums.

25 I received twenty-one thousand dollars

1 (\$21,000) for the scarring that I have over -- way over a
2 metre of scarring on my leg and my foot also. There --
3 okay, where am I?

4 I received twenty-one thousand dollars
5 (\$21,000) for that scarring and then for the rest of my
6 life I'm crippled and -- and they gave me forty-nine
7 thousand dollars (\$49,000). That's all the payment they
8 gave me, and that's to be crippled for the rest of my
9 life.

10 My day-to-day life has changed
11 dramatically. I can no longer do chores around the house
12 or the yard, and I love gardening, and this has fallen in
13 -- onto my wife. MPI paid for my wife's yard maintenance
14 and paid my wife for personal care assistance for one (1)
15 year. After a year my adjuster called to tell her -- or
16 to tell us we were cut off the PCIA (sic) because I'm
17 able to make toast, and then hung up on her. And that's
18 the truth. He told her I could make toast and that was
19 it, no more.

20 We have been treated like criminals by
21 MPI. If I had a choice I would never deal with MPI
22 again. Because of Manitoba law I'm forced to receive
23 that amount, and -- I just -- just don't know -- excuse
24 me -- I'm forced to still use them knowing that I have
25 inadequate insurance coverage.

1 This government insurance is like a
2 dictatorship, it really is. They say they're there to
3 help us, but it's all BS, pardon that. For the sake of
4 our children we have to get rid of this monopoly.

5 I barely leave my home now. I have to sit
6 out -- looking out the window and watching that same
7 person drive by, and he's still speeding. He hit me at
8 90 kilometres an hour, he had told the RCMP. And
9 everybody says I'm lucky to be alive. And, I have a
10 cadaver bone -- they put a cadaver bone in my leg,
11 because -- and I -- I thank the surgeon very, very much
12 for doing that -- and I can't bend my knee ninety (90),
13 and in the future, he said that it'll be like a peg leg;
14 they're gonna have to fuse it straight.

15 And my foot is -- is -- I got steel plates
16 everywhere and everybody that looks at it -- every doctor
17 that looks at it said, like, wow. They couldn't believe
18 that there was that much damage in there.

19 My femur bone was splintered all the way
20 up to my hip and they took out like 5 inches of it. My
21 knees is just -- look like gravel in the X-rays.

22 And they treat me terribly. Terrible. I
23 don't know what -- like this is my government, Manitoba
24 government, treating me like that. This is my
25 government. They're supposed to help us and they don't.

1 And I have -- with a group of -- of people and they all
2 have the same story and it's all about the same stuff.
3 They don't treat us properly.

4 Thank you, very much. Thank you, very,
5 very much for -- for letting me read my story.

6 THE CHAIRPERSON: Yes, well, I'm glad
7 that you were able to get up here and to do that. And
8 I'm sorry that we didn't ask, and perhaps there is
9 someone else that would like to speak. I don't know.

10 When we ask for presentations, we usually
11 ask that you register first. And, there is someone, Mr.
12 Williams, that wanted to --

13 MR. ADRIAN HALPERT: Yeah, I apologize,
14 Your Honour. I don't have anything written out, but I
15 would like to maybe --

16 THE CHAIRPERSON: Yeah.

17 MR. FARREN PARADIS: Hey, again, I thank
18 you very, very much.

19 THE CHAIRPERSON: Okay. Thank you.

20

21 (BRIEF PAUSE)

22

23 PRESENTATION BY MR. ADRIAN HALPERT:

24 MR. ADRIAN HALPERT: As I said, I
25 apologize. I have written letters in the past and I did

1 not know there would be that much time for a public
2 forum, so I do have a small presentation. I mean, there
3 are probably many issues I could talk about.

4 My name is Adrian Halpert, and I represent
5 the Motor Vehicle Accident Support Group, founded by
6 myself and Wayne Franklin. It's a group that Farren is a
7 part of, as long with other people who are here today and
8 who are here today. And sadly, it was a group that was
9 founded and started as a result of not only people
10 dealing with motor vehicle accidents, but people who were
11 dealing with MPI and their lack of empathy, lack of
12 compassion, denial of claims, basically, everything you
13 could not want to deal with at a time of hardship.

14 And, as I said, I -- while I could talk to
15 a lot of different issues today, I think today I would
16 like to talk about a cheque that I received in the mail
17 last Thursday, and just everything that that represents.

18 I'm twenty-six (26) year old -- twenty-six
19 (26) years old. For most people receiving a cheque in
20 the mail for eight nine hundred (8,900) dollars, they'd
21 probably be happy and would probably not be before you
22 today. As a twenty-six (26) year old, I'm not in the
23 last bit happy to be receiving a cheque for eighty nine
24 hundred (8,900) dollars, which is actually prorated
25 seventy-eight hundred dollars (7,800) from MPI, plus

1 interest.

2 And the reason I'm not happy is number 1,
3 it is not free money, it is money that is a result of my
4 accident; and number 2, is not a -- any money that MPI
5 helped me get, or willingly gave me. It is money that
6 I've had to fight for, for a year since my permanent
7 disability compensation.

8 I was in a motor vehicle accident on
9 October 12th, 2008, during which I was hit by a drunk
10 driver. I had numerous fractures, collapsed lung --
11 basically I'm -- I'm lucky to be alive, but I'm not lucky
12 to have been in the accident.

13 When they finally did my permanent
14 disability compensation in the August/September time
15 frame of 2010, I went in and I read their legislation. I
16 read what they were paying me for, and there were several
17 things that I noticed missing. Three (3) of those
18 things, which were what this check eventually resulted
19 in, it was the fact that my left leg was 2 centimetres
20 longer as a result of the accident, as a result of my
21 femur being longer when it healed. There were three (3)
22 missed scarring, one (1) on my finger, one (1) behind my
23 ear, and one (1) on my scalp, which MPI did not measure
24 or compensate me for as part of my other scarring. And
25 there was an orthotics entitlement, which is a point five

1 (.5) percent entitlement that you receive basically for
2 life for having to wear orthotics the rest of your life.

3 During this twelve (12) month period,
4 basically, MPI has tried to stump me at every step of the
5 road to make sure that I would not receive this money.
6 They have gone so far as in the initial one, when I asked
7 them to tell me that there was no proof to say that there
8 was a 2 centimetre difference in leg, despite the fact
9 that there were reports from the orthotics specialist I
10 saw that said there was a centi -- the difference. But
11 they said there was nothing measurable.

12 They have gone, when I sent them the X-
13 rays, to say that my difference in leg length is only a -
14 - a centimetre and a half, and that they only pay for 2
15 centimetres. When I corrected that by seeing the actual
16 surgeon in which he told me it was 2 centimetres, and all
17 their other concerns were unfounded because it gave them
18 all the proof they needed, they have gone so far as to
19 say that not -- no longer the fact that it is 2
20 centimetre -- or 1 centimetre .5 rather than 2
21 centimetres that is stopping me from getting paid for it,
22 but it's now it's the fact they don't actually pay for a
23 femur lengthening; they only pay for a tibia lengthening,
24 or shortening. So they told me it was not in their
25 legislation.

1 When I told them there was a part in their
2 legislation, me doing the research for them, that says
3 that if there's something that isn't on their legislation
4 they are to compare it to another part -- and I believe
5 that is Section 136 or 126; I may be wrong in quoting it
6 -- that they are to take that number, and take it
7 comparatively, and give me that entitlement 2 percent for
8 my femur comparable to 2 percent tibia, they have gone --
9 they basically told me that that's not how easy it is,
10 and that they would basically let me know.

11 As far as the orthotics' entitlement, they
12 told me there is nothing in their legislation for an
13 orthotics' entitlement, something that was told to me by
14 my previous case manager before it changed that I would
15 be getting. When I told them where it was in their own
16 legislation, they told me the orthotics entitlement was
17 pro -- for problems with the feet, leading to an
18 orthotics entitlement, not a problem with the hip leading
19 to an orthotics entitlement, which was the case in mine.

20 I quoted the same part of their
21 legislation, telling them that if there is something that
22 is not in there they should look at something that is in
23 there. And that was the same phone call where they said
24 they would look into it but it's not quite that easy.

25 In reference to my scarring, they have

1 tied -- tried to basically tell me that there was nothing
2 there to measure the scarring, despite the fact they paid
3 me for the initial ones, by saying that the piece of
4 paper that was filled out at the hospital with me was not
5 actually -- it was signed but there was no name of -- on
6 it to say who the case manager there it was; that they
7 assumed they knew who it was, but there was nothing to
8 say for sure, but that they would look into it.
9 Basically trying to stall, delay, and scare me that I
10 would not be getting the money yet again.

11 They asked me if I knew who the case
12 manager was, expecting me to know, a 23-year-old at the
13 time who was so high on morphine I didn't even know when
14 my own parents visited me at the hospital, to tell them
15 who their case manager that came to see me was.

16 Eventually all of these issues, they have,
17 after completely trying to block me, not doing any of the
18 research for me, making me do the research myself,
19 represent myself, and hoping that I would give up along
20 the way, they eventually, approximately, I believe it was
21 six (6) months ago after I appeared on CTV News when the
22 story came out about car thieves, and they also showed
23 the rest of us as part of the group who did not feel we
24 were adequately compensated when we were victims by no
25 fault of our own, when I appeared on CTV News to

1 basically talk about my problems, the next phone call I
2 had with MPI two (2) weeks later they finally said they
3 would pay me for everything, and acted as if it was their
4 decision, that they were the ones who found that part in
5 their legislation saying, We can compare it to what is in
6 our legislation and pay you.

7 Along the way, from the time they said
8 they would pay me, it took a total of, I believe, as I
9 said I unfortunately don't have anything written down,
10 six (6) months to finally receive the money.

11 I probably called two (2) months later to
12 tell them -- ask them if the paperwork had gone anywhere
13 further. They told me, We're hoping it will take three
14 (3) months at this point, but that's being hopeful,
15 telling me that there was more serious cases, people who
16 had just been in accidents, and mine was just settling
17 the rest of my funds, which I told them I understood. I
18 called them every month thereafter, to only hear that my
19 claim had not gone anywhere further until it finally came
20 six (6) months later, after calling every single month on
21 my behalf, to basically get a cheque in the mail, and be
22 told that everything had been processed.

23 So, basically sum -- summing up everything
24 I've said, the reason as a 26 year old I'm not happy to
25 be receiving eighty-nine hundred dollars (\$8,900) in the

1 mail, is that it doesn't represent a win for me. It
2 represents bad faith on behalf of MPI. It represents
3 eighty-nine hundred dollars (\$8,900) kept in MPI's pocket
4 for every single person that is an immigrant, an
5 uneducated person, somebody who will not go twelve (12)
6 months to fight on their behalf just to get this eighty-
7 nine hundred dollars (\$8,900). People that are on
8 welfare. People that are mortgaging their house to hire
9 a lawyer just to fight for this eighty-nine hundred
10 dollars (\$8,900), just to get what they deserve. And
11 that's all I have to say.

12 THE CHAIRPERSON: Thank you very much for
13 that.

14 Okay. I presume that you will look into
15 this case, and the other person's case, and get back to
16 us with some information, both to the people who are
17 immediately concerned, and other Intervenors, and the
18 Board.

19 MS. KATHY KALINOWSKY: We --

20 THE CHAIRPERSON: Okay.

21 MS. KATHY KALINOWSKY: -- we respond
22 directly to the individuals, and copy the Board --

23 THE CHAIRPERSON: Great.

24 MS. KATHY KALINOWSKY: -- on the
25 correspondence.

1 THE CHAIRPERSON: That will be very
2 appreciated, I'm sure. Thank you.

3 MS. CANDACE GRAMMOND: Thank you, Madam
4 Chair.

5

6 MPI PANEL:

7 MARILYN MCLAREN, Resumed

8 DONALD PALMER, Resumed

9

10 CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

11 MS. CANDACE GRAMMOND: Okay. So, Mr.
12 Palmer, we were speaking about CLEAR, and the combination
13 of the three (3) CLEAR categories into one (1) category,
14 and you were telling me about the weighting of 80 percent
15 for collision and 20 percent for comprehensive. And that
16 is something, I understand, that has changed this year.

17 That -- that was a different weighting
18 before?

19 MR. DONALD PALMER: That's correct. Over
20 the last number of years there has been a shift in the
21 comprehensive claims because of auto -- auto theft, and
22 the auto theft has dropped, and, therefore, the weighting
23 for comprehensive claims has dropped as well. So pre --
24 before, the weighting was 72:28; it is now 80:20.

25 MS. CANDACE GRAMMOND: Thank you. And

1 you had mentioned in your earlier testimony, PUB/MPI-1-41
2 -- so I'm going to ask you to turn to that. It is in the
3 book of documents. It's at Tab 20 for those that may
4 want to take a look at that.

5 So this was a question, Tab 20 book of
6 documents. It's 1-41. This was posed by the Board to
7 the Corporation with reference to this issue and the
8 commentary at SM.3.1.A.1. And so the question in 141(a)
9 was to explain why the relative weights that we've been
10 speaking about were not automatically updated annually,
11 and to reflect the -- the latest relative significance of
12 the coverages.

13 So if you could comment on the answer to
14 that question, I'd appreciate it.

15 MR. DONALD PALMER: Historically, that
16 72:28 ratio has been fairly stable. Over the last couple
17 of years it has changed. There's not too much effect on
18 -- on that weighting because of the low numbers of rate
19 groups, so there may not be a significant difference,
20 especially if you went to -- from 72:28, to 75:25, to
21 74:26 in gradual steps.

22 This was significant enough to make the
23 change. And we have reviewed it in the past, and this
24 was significant enough to change, so we will continue to
25 rev -- review it on an annual basis in the future and

1 adjust if it -- if required.

2 MS. CANDACE GRAMMOND: And I'll -- I'll
3 come back to that in one (1) moment, but you -- you
4 mentioned that this has been reviewed in the past. Do
5 you recall when the last time was that there was a change
6 made prior to this change?

7 MR. DONALD PALMER: It has been a long
8 time, but I don't know exactly the year.

9 MS. CANDACE GRAMMOND: Can you give me a
10 ballpark? When you say "long time," does that mean more
11 than ten (10) years to you?

12 MR. DONALD PALMER: I -- I would -- I
13 would say more than ten (10) years.

14 MS. CANDACE GRAMMOND: Okay. That's
15 fine. Now, you said that this -- and this is reflected
16 in the answer as well, that going forward, the
17 Corporation intends to annually update the weightings.
18 And -- and the answer -- or includes the phrase, "if
19 necessary;" and I think you just said, "if required."

20 So what is the -- the process that would
21 be used to -- to make that decision?

22 MR. DONALD PALMER: We would do the
23 historical weighting to see what that weighting was to
24 determine the effect. And if there was a significant
25 change, then we will make that change.

1 MS. CANDACE GRAMMOND: And how will the
2 Corporation decide if it's significant in a given case?
3 Is there a specific relativity test for that, or is it
4 just a judgment piece?

5 MR. DONALD PALMER: Not specifically.
6 It's mainly a judgment piece. And, again, the
7 weightings, if they change a percent or two (2), doesn't
8 significantly change the rate groups.

9 MS. CANDACE GRAMMOND: Thank you. Now,
10 we know that changes to the rate group assignments under
11 CLEAR result in revenue changes?

12 MR. DONALD PALMER: That's correct.

13 MS. CANDACE GRAMMOND: And offset
14 adjustments are applied to ensure revenue neutrality for
15 the passenger vehicle and light truck categories?

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

17 MS. CANDACE GRAMMOND: Now pursuant to
18 the -- the changes, and, again, this is discussed at
19 SM.3.1.A, after the offset adjustments, 26 percent of
20 passenger vehicles and light trucks are going to have
21 lower rates?

22 MR. DONALD PALMER: Just because of the
23 rate group assignment, yes.

24 MS. CANDACE GRAMMOND: And, again,
25 because of the rate group assignment, 67 percent will

1 have higher rates and about 7 percent will have no
2 change?

3 MR. DONALD PALMER: That's correct.

4 MS. CANDACE GRAMMOND: And of the 67
5 percent that will have higher rates as a result of this
6 adjustment, those increases in three-quarters (3/4s) of
7 the cases will be less than twenty dollars (\$20)?

8 MR. DONALD PALMER: Yes. In -- in terms
9 of rate group changes we have adopted a rule that
10 vehicles would not go up more than one (1) rate group.
11 So it would -- we have a capping for rate group changes.
12 And essentially the rule is one (1) group up, all the way
13 down. Is -- so if there's vehicles that go down more
14 than one (1), they're allowed to go down the full amount,
15 but they are capped at a one (1) rate group change out.

16 MS. CANDACE GRAMMOND: So it's because of
17 that that three-quarters (3/4s) of the -- the people, or
18 motorists, getting higher rates will only have increases
19 of less than twenty dollars (\$20)?

20 MR. DONALD PALMER: That's correct.

21 MS. CANDACE GRAMMOND: And the remaining
22 quarter, roughly 24 percent, will have increases between
23 twenty (20) and fifty dollars (\$50)?

24 MR. DONALD PALMER: Yes.

25 MS. CANDACE GRAMMOND: Okay. Sticking

1 with 1-41, I'm now going to ask you to look at the answer
2 to (b) of that. This is still at Tab 20 of the book of
3 documents. This was a question that the Board asked and
4 it relates to a comparison between three (3) types of
5 vehicles over a ten (10) year period, in terms of looking
6 at the -- the CLEAR rate groups assi -- assignments over
7 that time frame.

8

9

(BRIEF PAUSE)

10

11

MS. CANDACE GRAMMOND: Okay, we'll --

12

13

MR. DONALD PALMER: Could you repeat the
question?

14

15

16

17

18

19

MS. CANDACE GRAMMOND: Sure. I just want
to make sure you're at 141- -- or 1-41(b), and just
confirming that this is a -- a question that the Board
asked, that three (3) vehicles be compared over a ten
(10) year period in terms of the clear and MPI rate
groups?

20

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

21

22

23

24

25

MS. CANDACE GRAMMOND: Okay. So if we
take a look at that, we see that the top part of the
table relates to the -- the lower-end vehicle, which in
here is a Toyota Echo, a -- a mid-range vehicle, which is
a Chevrolet Impala, and a high-range vehicle with is an

1 Infiniti.

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

3 MS. CANDACE GRAMMOND: And if we look at
4 the right-hand side of the page under the 2001 column and
5 then move across to the left in each table, that gives
6 us, over time, how the premium changes. And if we look
7 at the -- the fifth row where it's entitled, "All
8 Purpose," that tells us for all purpose coverage how the
9 premiums would have changed for a particular vehicle.

10 Is that right?

11 MR. DONALD PALMER: That's correct.

12 MS. CANDACE GRAMMOND: And certainly, if
13 we look at each vehicle, the premium in 2012 is less than
14 it was in 2001?

15 MR. DONALD PALMER: That's correct.

16 MS. CANDACE GRAMMOND: But it's not a
17 consistent, in all cases, decrease year-over-year. So
18 over the time period there were instances where the
19 premium went down and then maybe went up again and down
20 again.

21 Is that right?

22 MR. DONALD PALMER: That's correct.

23 MS. CANDACE GRAMMOND: And just so that
24 we have a -- a specific example of what I'm speaking
25 about, if we look at the -- the first chart relating to

1 the Toyota Echo, we see that from 2001 the premium was
2 fifteen hundred and four dollars (\$1,504). It actually
3 went up a little bit in 2002, then went down for a number
4 of years through 2007, but -- and 2008, and then went up
5 again in 2009, not by a -- a huge amount, but it went up
6 for a few years again.

7 MR. DONALD PALMER: That's correct. And
8 -- and again, it's probably worthwhile to outline again
9 the CLEAR factors, and -- and that's based on the cost of
10 repairing these vehicles. So you'll notice that --
11 specifically in the Echo, there's a fairly significant
12 decrease over the first five (5) years, and then it
13 really flattens out. In that case the -- the
14 depreciation is -- is less, but the dam -- damageability,
15 it still costs the same to repair those vehicles. It
16 doesn't matter if it's a three (3) year old vehicle or a
17 five (5) year old vehicle, repairing a fender is still
18 repairing the fender and there's not necessarily a
19 difference in the cost of -- of repair.

20 So from that standpoint that's why there's
21 not necessarily continuous downgrading.

22 MS. CANDACE GRAMMOND: Thank you. And I
23 was going to ask you to look at the next answer at that
24 tab. After 1-41 in the First Round we had asked a
25 followup of 2-19 in the Second Round, which is found at

1 the same tab, just for convenience.

2 And if there's anything else in that
3 answer that you want to make reference to, to supplement
4 that explanation, that's fine. And if not, then the
5 answer certainly speaks for itself.

6 MR. DONALD PALMER: Yes, it does.

7 MS. CANDACE GRAMMOND: Okay, so the next
8 area -- so we'll -- we'll leave Tab 20 for the time
9 being. The next area relates to rate line adjustments.

10 This is also found at SM.3.1.A.2. So
11 that's where the -- the filing reflects information with
12 respect to rate line adjustments. But basically, if I
13 understand it correctly, in addition to rate group
14 adjustments, the Corporation applies rate line
15 adjustments to passenger vehicles, light trucks, heavy
16 trucks, motorcycles, motorhomes, and trailers that have
17 declared values of between twenty-five hundred (2,500)
18 and fifty thousand dollars (\$50,000), is that right?

19 MR. DONALD PALMER: That's correct. Now
20 the rate line adjustments, differing from the rate group
21 adjustments, is once we've grouped all the vehicles into
22 like categories through the rate group, then we use
23 Manitoba Public Insurance data to actually set the
24 relationship of rates from run -- one (1) rate group to
25 another.

1 That's studied on an annual basis, with --
2 and that relationship of all those rate groups is the
3 rate line. And so as that changes, the rate will change
4 slightly as the rate line shifts.

5 MS. CANDACE GRAMMOND: Okay. And so,
6 pursuant to the rate line adjustments that are proposed
7 by the Corporation in this application, and this is
8 referenced at the same place in the filing, SM.3.1.A.2,
9 on page four (4) there will be -- for the largest class
10 of vehicles, which of course is private passenger
11 vehicles and light trucks -- 51 percent receiving a rate
12 increase and 42 or 43 percent receiving a decrease. Is
13 that right?

14 MR. DONALD PALMER: That's correct.

15 MS. CANDACE GRAMMOND: And -- and of
16 course, the remaining 6 or so percent just will not have
17 a change in rate arising from the rate line adjustment.

18 MR. DONALD PALMER: Arising from that
19 particular adjustment, that's correct.

20 MS. CANDACE GRAMMOND: Yeah, we're -- as
21 -- as I'm sure this is why the information is provided.
22 We just want the Board to have a sense of how each of
23 these pieces affects the numbers.

24 And with respect to the 51 percent that
25 would be having a rate increase, almost all of them, 97

1 percent, will have an increase of less than twenty
2 dollars (\$20).

3 MR. DONALD PALMER: That's correct.

4 MS. CANDACE GRAMMOND: Okay. And then
5 similar adjustments to the rate line are done to the
6 other classes that I listed a few minutes ago and I won't
7 go through all of that detail at this point.

8 MR. DONALD PALMER: The rate line
9 adjustments are done to virtually every vehicle type,
10 yes.

11 MS. CANDACE GRAMMOND: Okay. So then we
12 move to experience adjustments and these are also
13 described in SM-3.1, particularly SM.3.1.D, which is at
14 page 9. And pursuant to the financial forecast method,
15 the overall indicated rate change as put forward in this
16 application is a decrease of 6.8 percent, which is what
17 the Corporation is applying for.

18 MR. DONALD PALMER: That is correct.

19 MS. CANDACE GRAMMOND: And if we look at
20 page 10 of SM-3, at the bottom of the page, we see the
21 chart that reflects the rate requirement indicators for
22 each major class under the financial method.

23 MR. DONALD PALMER: Yes.

24 MS. CANDACE GRAMMOND: And these
25 calculations are subject to experience base adjustment

1 rules. Is that right?

2 MR. DONALD PALMER: The experience rate
3 adjustment rules are applied for use/territory
4 combinations, within each of these major classes. So the
5 rate group and rate line adjustments that we talked about
6 before are -- are done on a revenue neutral basis.

7 With the experience adjustments, they're
8 done for each use/territory combination, and sum up to
9 the overall requirements that come from the -- and will
10 eventually add up to the 6.8 percent rate decrease.
11 That's what we're balancing to.

12 MS. CANDACE GRAMMOND: Okay, thank you.
13 And there has not been a change in these rules since last
14 year, that's right?

15 MR. DONALD PALMER: There hasn't been a
16 change to the capping rules, that's correct. The
17 indicators would have changed from last year.

18 MS. CANDACE GRAMMOND: Sure, un --
19 understood. And the capping rules include the 15 percent
20 cap, positive or negative?

21 MR. DONALD PALMER: That's correct.

22 MS. CANDACE GRAMMOND: Now there are four
23 (4) exceptions that the Corporation sets out to the --
24 the rules, which are set out at SM-3 page 11, and -- and
25 continuing onto page 12.

1 In essence these adjustment rules don't
2 apply to antique vehicles, drive-aways, dealer mopeds,
3 and U-drive mopeds. Is that right?

4 MR. DONALD PALMER: That's correct.

5 MS. CANDACE GRAMMOND: And there are also
6 exceptions for certain vehicles within the motorcycle
7 major class, including mopeds and motor scooters.

8 MR. DONALD PALMER: That's correct.

9 MS. CANDACE GRAMMOND: And mopeds and
10 motor scooters are subject to rate increase caps of 25
11 percent, and that's pursuant to an order issued by the
12 Board in 2006.

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

14 MS. CANDACE GRAMMOND: And then one (1)
15 other capping rule is the overriding 20 percent cap rule,
16 which was pursuant to an order of the Board in 2004.

17 MR. DONALD PALMER: And again, that's
18 after you take all of the adjustments that we've talked
19 about, the CLEAR adjustments, the -- the rate group, the
20 rate line adjustments, all the experience, all the caps.
21 Then there's one (1) overriding rule of the 20 percent.

22 MS. CANDACE GRAMMOND: And that's the
23 last adjustment that's done?

24 MR. DONALD PALMER: Yes. Not -- not
25 quite. Just going on into the next section, 3.1.E, there

1 are some special cases which the -- after going through
2 all of the adjustments the final statistic -- statistical
3 answer, that one (1) that just comes from the formulaic
4 approach, doesn't necessarily make intuitive sense.

5 So for instance, a more restrictive rate
6 classification may have a lower rate, or a higher rate.
7 So we balance those out so that never, for instance,
8 could a pleasure rate pay more than an all purpose rate.
9 Again, you have a less restrictive category.

10 If all those rules happen to come together
11 to give the pleasure rate a higher rate then -- then we
12 would adjust that so it wouldn't be more than the all
13 purpose rate.

14 MS. CANDACE GRAMMOND: Thank you. And
15 those adjustments, the special rate adjustments for the
16 year of the Application, affect five hundred and eighty-
17 four (584) vehicles. So it's a really small amount of
18 the overall fleet.

19 MR. DONALD PALMER: It -- it is -- it
20 only affects a very small number of vehicles in very
21 specialized categories where there aren't -- aren't many
22 vehicles that the normal experience rate -- there's not
23 enough credibility in those statistics to -- to use that
24 formulaic approach.

25 MS. CANDACE GRAMMOND: Thank you. And if

1 we continue in SM-3, the next section relates to revenue
2 adjustment overall impact. This is on page 14.

3 The Corporation's provided a chart that
4 sets out by major class the difference between current
5 average rate, and current proposed -- pardon me, proposed
6 average rate together with the percentage decreases for
7 each class, and then the same by territory?

8 MR. DONALD PALMER: That's correct.

9 MS. CANDACE GRAMMOND: So in essence, the
10 top table tells us by major class the -- how the -- the
11 6.85 percent purposed decrease is comprised or
12 calculated?

13 MR. DONALD PALMER: Yes, separated into
14 the six (6) major classes. That's correct.

15 MS. CANDACE GRAMMOND: Thank you. I'm
16 going to ask you to go, because I -- I want to get into
17 some particulars about how this would be applied across
18 the fleet, so I'm going to ask you to go to TI.3, which
19 will be in Volume II.

20

21 (BRIEF PAUSE)

22

23 MS. CANDACE GRAMMOND: And in particular,
24 page 2 of TI.3. This is the dollar distribution chart
25 that reflects all classification and rate adjustments.

1 (BRIEF PAUSE)

2

3 MR. DONALD PALMER: Yes, I have it.

4 MS. CANDACE GRAMMOND: Thank you. And
5 before we get into some of the content I just had a
6 question about the left-hand column and the titles. It -
7 - I think where it reflects under the heading of,
8 "Increasing," some subheadings that relate to decreases,
9 are those mislabeled or am I misunderstanding the
10 document?

11 MR. DONALD PALMER: That's specifically
12 on TI.3 part 2?

13 MS. CANDACE GRAMMOND: Yes. What I'm
14 getting at is the -- the top half of the table appears to
15 relate to situations in which the rate would decrease,
16 right, and it has the various dollar ranges and how many
17 vehicles fall into each range. And then there's the --
18 the statistics on no change.

19 And then we get into increasing I -- I
20 think that -- that the word "decrease" should be
21 "increase" or

22 MR. DONALD PALMER: No, the labelling is
23 correct. This is a cu -- a cumulative table, so it
24 probably should say a decrease or an increase less than
25 fifty dollars (\$50), a decrease or an increase less than

1 a hundred dollars (\$100). I would say we just ran out of
2 space there.

3 So -- so they're not mislabeled, per se,
4 but you'll notice that the numbers in those totals keep
5 going up until the final reaches the total number of
6 vehicles in the fleet, so they're not mislabeled.

7 MS. CANDACE GRAMMOND: Okay. Certainly
8 the -- the document references the -- and under the
9 heading of "Grand Total," the total number of vehicles
10 that are registered with MPI, which would be nine hundred
11 and ninety thousand four hundred and fifty-six (990,456)?

12 MR. DONALD PALMER: That's registered at
13 a point in time, that's correct.

14 MS. CANDACE GRAMMOND: Sure, as of the
15 date of the document, not necessarily as of today's date?

16 MR. DONALD PALMER: Yes.

17 MS. CANDACE GRAMMOND: Okay. And so
18 according to this document, if -- if we focus on, first
19 of all, the top section under the heading of
20 "Decreasing," we have some nine hundred and five thousand
21 (905,000) vehicles receiving a decrease or 91 1/2 percent
22 under the -- the Corporation's proposal?

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE GRAMMOND: And then in -- on
25 the band in the middle about sixty nine thousand

1 (69,000) vehicles, or 7 percent, receiving no change?

2 MR. DONALD PALMER: Yes.

3 MS. CANDACE GRAMMOND: And then fifteen
4 thousand six hundred and sixty (15,660), or some 1.6
5 percent, receiving a rate increase?

6 MR. DONALD PALMER: Yes.

7 MS. CANDACE GRAMMOND: But of those, the
8 vast majority as is reflected in the various dollar bands
9 would be less than twenty dollars (\$20). At least about
10 twelve thousand (12,000) of those fifteen thousand
11 (15,000) would -- would have an increase of less than
12 twenty dollars (\$20)?

13 MR. DONALD PALMER: That's correct.

14 MS. CANDACE GRAMMOND: Okay. Thank you.
15 We'll leave TI.3 and we'll go to TI.11, which is in the
16 book of documents at Tab 6.

17

18 (BRIEF PAUSE)

19

20 MS. CANDACE GRAMMOND: So this is the
21 statement of operations for Basic relating to the fiscal
22 year that ended in February 2011, or the 2010/11 fiscal
23 year?

24 MR. DONALD PALMER: That's correct.

25 MS. CANDACE GRAMMOND: And in particular,

1 this is a comparison of the actual numbers, which are on
2 the -- the right-hand side, and what was forecasted at
3 the 2010 GRA, which would have been filed in 2009.

4 That's right?

5 MR. DONALD PALMER: That's correct.

6 MS. CANDACE GRAMMOND: Okay. So we just
7 will go through some of these differences from forecast
8 to actual. The first one I'll act -- ask you to look at
9 is the total earned revenue. We see that the total
10 earned revenue at the end of the fiscal year was about
11 6.8 million less than what had been forecasted initially.
12 Is that right?

13 MR. DONALD PALMER: That's correct, for a
14 variety of reasons in terms of slightly lower motor
15 vehicle premiums, slightly lower driver's premiums, and
16 that would -- would have been due to changes then
17 expected in the implementation of the Driver Safety
18 Rating.

19 Our re-insurance seated was actually a
20 little more than we had expected because of some
21 reinstatement premiums. The decrease in service fees
22 would have been because of lower than expected interest
23 rates. Those include finan -- fin -- financing charges.
24 And if you have a lower interest rate you will have a
25 lower financing charge.

1 MS. CANDACE GRAMMOND: Thank you for that
2 detail. If we go to the next section which is -- relates
3 to claims incurred claims costs, we see that the net
4 claims incurred were \$286.1 million less than forecast,
5 and that was due primarily of the favourable claims
6 runoff, and we'll speak about that a little later. Is
7 that right?

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

9 MS. CANDACE GRAMMOND: Okay. We also see
10 under expenses, the heading of "expenses," the total
11 expenses were about two hundred (200) -- pardon me, \$2.8
12 million less than forecasted?

13

14 (BRIEF PAUSE)

15

16 MR. DONALD PALMER: Total expenses, yes.

17 MS. CANDACE GRAMMOND: And with respect
18 to investment income, actually 2.3 million more was
19 received than initially forecasted?

20 MR. DONALD PALMER: That's correct.

21 MS. CANDACE GRAMMOND: So at the end of
22 the day, taking all of this into account, and after the -
23 - well, first of all, before the -- the rebate that was
24 issued earlier this year, Basic had a net income of
25 almost 290 million, and then after the rebate there was a

1 net loss of about 32 million. Is that right?

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE GRAMMOND: And that was
4 compared with -- both of those numbers are compared with
5 a -- an initial forecast of a net income of about 13.9
6 million?

7 MR. DONALD PALMER: Yes.

8 MS. CANDACE GRAMMOND: Thank you. We'll
9 leave the 2010/'11 fiscal year and we'll go to TI-12,
10 which is at Tab 7 of the book of documents. TI-12 --
11 sorry, Mr. Palmer.

12

13 (BRIEF PAUSE)

14

15 MR. DONALD PALMER: I have it.

16 MS. CANDACE GRAMMOND: Thanks. So TI-12
17 found at Tab 7 of the book of documents is statement of
18 operations for Basic that compares for the current year,
19 the 2011/'12 fiscal year, the forecast from last year's
20 GRA compared with basically an updated revised forecast
21 for the current year as of this GRA. That's right?

22 MR. DONALD PALMER: That's correct.

23 MS. CANDACE GRAMMOND: So if we start at
24 the bottom, last year for the current year the
25 Corporation was forecasting a net loss of 2.5 million.

1 That's been revised to net income of 3.3 million. That's
2 right?

3 MR. DONALD PALMER: That's after sur --
4 surplus distribution, yes.

5 MS. CANDACE GRAMMOND: Yep, definitely
6 after the surplus distribution of 16 million. And -- and
7 again, we'll get into more detail about that a little
8 later on. And so if we now go closer to the top of the
9 document we see for total earned revenues there was
10 actually 6.4 million less in turtle -- total earned
11 revenues revised, that's the 771 million compared to the
12 seven hundred and seventy-eight (778)?

13 MR. DONALD PALMER: Yes.

14 MS. CANDACE GRAMMOND: We've also seen an
15 adjustment in claims costs, the original forecast for
16 claims cost was 755 million and that's revised downward
17 to seven-o-eight point two (708.2) for a difference of
18 46.7 million?

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

20 MS. CANDACE GRAMMOND: Total expenses are
21 about 10 million higher than originally forecasted, and I
22 appreciate there's a number of components to that.

23 MR. DONALD PALMER: Yes.

24 MS. CANDACE GRAMMOND: The main one being
25 operating expenses, which is nine (9) of the 10 million?

1 MR. DONALD PALMER: Yes.

2 MS. CANDACE GRAMMOND: And there's a
3 notation in -- on page 3 of this document that explains
4 that there is 6 million dollars in credit card fees,
5 formerly included with service fees, and that revenue is
6 now being reported under operating expenses. And then as
7 well, there was a higher compensation costs that are
8 reflected there.

9 MR. DONALD PALMER: Yes, that change in
10 the credit card merchant fees is a result of a -- a
11 change of classification due to a -- a IFRS. So, you'll
12 notice that the operating expenses did go up by that 9
13 million dollars, but if you go up to the . . .

14

15 (BRIEF PAUSE)

16

17 MR. DONALD PALMER: There is a offset in
18 service fees which not -- is not readily apparent in
19 this, so we're going to double-check on that one.

20 MS. CANDACE GRAMMOND: Thank you. That's
21 appreciated.

22 And we'll certainly talk -- is that a --
23 is that as an undertaking, Mr. -- Mr. Palmer? Or is it
24 something you'll speak to on the record?

25 MR. DONALD PALMER: No, I'll speak to it

1 on the record. Probably immediately after the break.

2 MS. CANDACE GRAMMOND: That's fine.

3 Thank you. Thank you, Madam Clerk, for asking.

4 Okay, so if we continue to look at TI-12,
5 page 1, we see with respect to investment income, that --

6 MR. DONALD PALMER: Actually, Ms.

7 Everard, if -- if I may. I will speak to it on the
8 record now.

9 On page 2, of that supporting schedule,
10 and the service fees, there's about five point seven
11 (5.7) million dollars that's less because of lower
12 interest rates. And about 6 million dollars more because
13 of the credit card fees. So there is an offset to the de
14 -- the increase in operating expense.

15 THE CHAIRPERSON: And where are you
16 looking? It's page 2?

17 MR. DONALD PALMER: Yes, page 2 of TI-12,
18 about -- just a little over halfway down the page, under
19 the heading "Service Fees and Other Revenue."

20 THE CHAIRPERSON: Okay. Yes, I see it
21 now. Thank you.

22 MS. CANDACE GRAMMOND: Thank you. Okay,
23 so if we go back to TI-12, page 1, and we look at the
24 revised forecast for investment income, we see that, at
25 last year's GRA, the Corporation was forecasting

1 investment income for the current fiscal year of 92.6
2 million and that's been revised down to 80.8? Is that
3 right?

4 MR. DONALD PALMER: That's correct. And
5 again, there's a note on page 3, the last note, and
6 that's primarily due to a decrease in the size of the
7 investment portfolio because of the rebate of the 320
8 million dollars.

9 MS. CANDACE GRAMMOND: Understood. And
10 we've already spoken about the end result here in TI-12.

11 Now we -- we do have, for the current
12 year, the Corporation's first quarter report, and I
13 appreciate that Ms. Kalinowsky spoke about the second
14 quarter report, that it'll hopefully be here next week.
15 But I would like to enter the first quarter report as an
16 exhibit.

17 This was circulated and filed with the
18 Board sometime ago. Let me just ask Mr. Singh.

19 Madam Chair, I'm just going to suggest,
20 because I do want to make sure that everyone has this in
21 front of them, and --

22 THE CHAIRPERSON: I think we do.

23 MS. CANDACE GRAMMOND: -- why don't we
24 take our afternoon -- oh, you do have it in front of you?
25 Okay.

1 THE CHAIRPERSON: But -- but, you know
2 what, it may take a break to dig it out.

3 MS. CANDACE GRAMMOND: Okay.

4 THE CHAIRPERSON: So, do you want to
5 break now? Are you --

6 MS. CANDACE GRAMMOND: I'm -- okay...

7

8 (BRIEF PAUSE)

9

10 MS. KATHY KALINOWSKY: I apologize. I
11 actually misspoke. I saw these on top of a pile of
12 another stack of documents, but we only have two (2)
13 copies of the quarterly financial report for May 31st,
14 2001, right in there -- in our back room at this point,
15 so sorry.

16 MS. CANDACE GRAMMOND: I only actually
17 have a couple of questions about it, so if you have two
18 (2) copies -- I mean, I'm -- I'm -- Mr. Palmer's probably
19 very familiar with what's in there anyways, and as long
20 as the -- the panel has -- then I think we can -- we can
21 ask all -- a couple of questions, and that'll be fine.

22 MR. DONALD PALMER: For -- for those who
23 are looking electronically, it is included as AI-8 in the
24 materials.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Okay. So if I've
4 got my numbers right, this will be PUB/MPI Exhibit 10,
5 because I believe the book of documents was Exhibit 9.

6

7 --- EXHIBIT NO. PUB/MPI-10: Quarterly financial
8 report for May 31st,
9 2001

10

11 CONTINUED BY MS. CANDACE GRAMMOND:

12 MS. CANDACE GRAMMOND: So if we look at
13 page 5 of the first quarter report under the heading of
14 "Outlook," we see in the last paragraph that:

15 "Pursuant to current projections..."

16 And again this is as of May 31st of this
17 year:

18 "...the Corporation is expecting to
19 real -- realize net income from annual
20 operations of approximately 16.9
21 million in the current year."

22 MR. DONALD PALMER: Yes, that's a
23 corporate number for all lines of business.

24 MS. CANDACE GRAMMOND: And it -- it in --
25 indicates that the -- this number has increased from what

1 was originally expected at the beginning of the fiscal
2 year.

3 MR. DONALD PALMER: Yes.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: And can you give
8 us the -- the piece of that new net income projection
9 that relates specifically to Basic?

10 MR. DONALD PALMER: That I will have to
11 take as an undertaking.

12 MS. CANDACE GRAMMOND: Thank you. We'd
13 appreciate it.

14

15 --- UNDERTAKING NO. 1: MPI to provide the piece of
16 the new net income projection
17 that relates specifically to
18 Basic

19

20 CONTINUED BY MS. CANDACE GRAMMOND:

21 MS. CANDACE GRAMMOND: Just one (1) more
22 question about page 5. The Corporation says in the very
23 last sentence:

24 "Net income after surplus distribution
25 is projected to be 4.1 million."

1 That would be the second surplus distribution that was
2 ordered pursuant to the review and vary?

3 MR. DONALD PALMER: Yes, that's correct.
4 There's a small adjustment to last year's surplus
5 distribution. We had originally estimated it at \$321
6 million before the final numbers were -- were in.

7 It came in about \$318 million, so the
8 combination of the second surplus distribution pursuant
9 to the review and vary order, and that \$3 million
10 adjustment makes up the difference.

11 MS. CANDACE GRAMMOND: Thank you. And
12 the -- the second distribution is the 16 million?

13 MR. DONALD PALMER: Yes.

14 MS. CANDACE GRAMMOND: Okay. Okay, so
15 that -- that -- those are my questions on the first
16 quarter report, subject to the undertaking, Mr. Palmer,
17 that you gave.

18 I'd like then to turn to TI-13. So we'll
19 continue to move forward in the chronology, TI-13,
20 dealing with the statement of operations for Basic and
21 comparing the current forecast for the current year to
22 the projections for the year of the application, being
23 2012/'13.

24 MR. DONALD PALMER: Yes.

25 MS. CANDACE GRAMMOND: And we see that

1 total net premiums written are projected for the year of
2 the application to decrease by about 7.3 million?

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

4 MS. CANDACE GRAMMOND: And, actually, I -
5 - I did want to ask a specific question about this
6 because the -- the comparison is, under the left-hand
7 column, the -- the revised forecast for current year,
8 which is 758.9 million, compared with the projection for
9 the year of the application, being seven forty-six point
10 six (746.6).

11 Is that right?

12 MR. DONALD PALMER: That's correct.

13 MS. CANDACE GRAMMOND: But the difference
14 between those two (2) numbers is twelve point two (12.2),
15 not seven point three (7.3). So again, maybe I'm
16 misreading it, but can you confirm whether that seven
17 point three (7.3) is actually right?

18

19 (BRIEF PAUSE)

20

21 MR. DONALD PALMER: I would say that
22 that's incorrect.

23 MS. CANDACE GRAMMOND: And, as I say,
24 just with -- with my little calculator I think it's
25 twelve point two (12.2).

1 MR. DONALD PALMER: That looks correct.

2 MS. CANDACE GRAMMOND: Okay. So I'm --
3 I'm just going to scratch that out and put twelve point
4 two (12.2) just -- just for accuracy sake. So, okay. So
5 with respect to the net premiums written, if we go to
6 page 2 we see the -- the note that relates to that line
7 item, and in particular we see that the -- how the -- the
8 seven twenty-six (726) -- 726.2 million is calculated at
9 least with respect to the vehicle premium piece.

10 So there's reference there to the 2.5
11 percent volume factor increase and 2 1/4 percent upgrade
12 factor increase?

13 MR. DONALD PALMER: That's correct.

14 MS. CANDACE GRAMMOND: And -- and again,
15 I'll have some more specific questions about volume
16 factor and upgrade factor. But those increases are -- in
17 the main offset or actually more than offset by the
18 proposed rate reduction that the Corporation is
19 advancing?

20 MR. DONALD PALMER: That's correct.

21

22 (BRIEF PAUSE)

23

24 MS. CANDACE GRAMMOND: And then on the
25 driver's premium side, which again contributes to the

1 overall premiums written number, the Corporation is
2 forecasting a \$5.6 million decrease -- or pardon me,
3 increase from twenty-three point eight (23.8) to twenty-
4 nine point four (29.4), and that relates to the
5 implementation of the DSR -- continued implementation of
6 the DSR Program?

7 MR. DONALD PALMER: Yes. Most of that
8 would be change of vehicle surcharges due to the old
9 Bonus-Malus Program.

10 MS. CANDACE GRAMMOND: And that would
11 include the increases that the Corporation is proposing
12 as part of this application?

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

14 MS. CANDACE GRAMMOND: Okay. And if we
15 turn back to the first page of TI-13, the numerical
16 chart, we see under -- I'm now under the heading, "Net
17 earned premiums," the second section, that there is a
18 projected increase in service fees and other revenue of
19 about 2 million, and that's due to the higher transaction
20 fees as provided in the note?

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

22 MS. CANDACE GRAMMOND: And the increase
23 in higher transaction fees is driven by increased volume
24 as well as higher interest rates?

25 MR. DONALD PALMER: The projection for

1 higher interest rates, yes.

2 MS. CANDACE GRAMMOND: Okay. So if we
3 continue looking at TI-13, page 1, the next section is
4 entitled, "Claims Incurred." And we see that the
5 Corporation is forecasting an increase in claims incurred
6 from -- again from current year to year of application of
7 just under 25 million, or 4 percent.

8 That's right?

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

10 MS. CANDACE GRAMMOND: And if we want to
11 look at the -- the details of what comprises that
12 increase, we can go to Schedule 1 of TI-13, which is
13 called the Claims Variance Analysis and that's just a
14 couple pages in -- into that tab.

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

16 MS. CANDACE GRAMMOND: And at Schedule 1
17 the Claims Variance Analysis we see on the right-hand
18 side the second last column entitled, "Claims Incurred,"
19 a breakdown of the components relating to PIPP,
20 collision, comprehensive, property damage, and bodily
21 injury that comprise that expected increase of 24.9
22 million.

23 Is that right?

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

25 MS. CANDACE GRAMMOND: So in the main

1 it's an expected increase in collision being about a
2 little more than half of the -- of the total followed by
3 PIPP at about 6.1 million. Is that right?

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

5 MS. CANDACE GRAMMOND: Okay. Thank you.
6 Going back then to the first page of TI-13 that has the
7 numbers comparing the two (2) years, we see under the
8 heading of, "Claims Expenses" -- so this is, again, just
9 under the line entitled, "Claims Incurred," second item
10 there is "Claims Expenses." And there's really not
11 expected to be a huge change in claims expenses. It's a
12 decrease of about half a percent that's being projected.
13 Is that right?

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

15 MS. CANDACE GRAMMOND: And claims
16 expenses, I gather, are the costs of processing claims.
17 Is that fair?

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

19 MS. CANDACE GRAMMOND: And again, we see
20 as -- as I've indicated, that there's a half a percent
21 change being forecasted. And if we go to page 3 to look
22 at the corresponding note to that we see under the
23 heading, this is now page 3, "Claims Expenses." There's
24 reference to a 2 percent general price increase which
25 would actually drive the claims expenses up, but that's

1 being offset by a decrease in expenses relating to
2 improvement initiatives.

3 Is that right?

4 MR. DONALD PALMER: That's correct.

5 MS. CANDACE GRAMMOND: And can you give
6 us a description of what those improvement initiatives
7 are, if they're PIPP infrastructure, something else from
8 the BPR or whatever?

9 MR. DONALD PALMER: The -- the primary
10 one would be the PIPP infrastructure, that there are some
11 decreases in claims expenses realized as part of that
12 project, yes.

13 MS. CANDACE GRAMMOND: Thank you. And
14 while we're looking at page 3, if we -- we don't probably
15 need to go back to TI-13 page 1, we just go to the next
16 section which is road safety. The Corporation is
17 expecting about a \$2.9 million decrease in its road
18 safety loss prevention expenses for the year of the
19 application. And the note reflects that that's due
20 mostly to a decline in the Immobilizer Incentive Program
21 costs?

22 MR. DONALD PALMER: That's correct. The
23 immobilizer incentive program applies to older vehicles.
24 The vehicles of model years 2008 and newer are required
25 under industry standard -- Canada standards to have a

1 factory-installed immobilizer. So as there's less older
2 cars coming on that require after-market immobilizer, our
3 costs will go down accordingly.

4 MS. CANDACE GRAMMOND: Okay. And -- and
5 a little bit lower down on page 3 we see a section
6 entitled, "Commissions," and this is a reflection that in
7 the year of the application the Corporation is expecting
8 to spend 8.2 million less than it is in the current year
9 on broker commissions. And that is due to the streamline
10 renewal initiative and the corresponding commission rate
11 decrease?

12 MR. DONALD PALMER: As we discussed in
13 last year's GRA and -- and the year before, as the
14 streamlined renewal is effective there was a step down in
15 the broker commission, and this just reflects that step
16 down.

17 MS. CANDACE GRAMMOND: And just for the
18 purposes of the record, the streamline renewal is the
19 process under which motorists renew their policy of
20 insurance once every five (5) years, and in-between -- in
21 the intervening years they don't need to see a broker?

22 MR. DONALD PALMER: That's correct.

23 MS. CANDACE GRAMMOND: Okay. So if we
24 now go back to TI-13, page 1, the -- the financial -- the
25 numbers page, we see after taking into account the

1 revenue and expenses, and looking at the line entitled,
2 "Underwriting Income or (loss)," and in this case it's a
3 loss. The projection for an underwriting loss for the
4 year of the application is just under 83 million, and
5 that would be compared with just under 65 million for
6 current year.

7 Is that right?

8 MR. DONALD PALMER: That's correct.

9 MS. CANDACE GRAMMOND: And, as is the
10 case, investment income is expected to mostly offset that
11 underwriting loss. For current year, the -- the
12 projection is 80.8 million in investment income and for
13 year of application it's 78 million.

14 Is that right?

15 MR. DONALD PALMER: That's correct.

16 MS. CANDACE GRAMMOND: So when that is
17 offset, the Corporation is projecting a net loss for the
18 year of the application of about 4.8 million.

19 Is that right?

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

21 MS. CANDACE GRAMMOND: And I gather, as
22 we discussed before, that the Corporation's rates are not
23 designed to recover all of the claims costs. Typically
24 there is an underwriting loss that's budgeted for and
25 reliance is placed on the investment income to offset

1 that loss.

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

3 MS. CANDACE GRAMMOND: Now, we see in --
4 for the year of the application, that the -- the 4.8
5 million dollar net loss after application of investment
6 income, is to be further adjusted by a transfer from the
7 IT optimization fund. So, what the Corporation is
8 advancing for rating purposes as reflected here, is a net
9 loss of about 1.5 million.

10 Is that right?

11 MR. DONALD PALMER: Yes, that's correct.
12 For rate making purposes.

13 MS. CANDACE GRAMMOND: And we'll have a
14 whole line of questions on the IT optimization fund,
15 which I won't get into right now. But just, within the
16 context of this document, I take it that the transfer in
17 from the IT optimization fund is intended to offset the
18 costs to be incurred in the year of the application for
19 the IT optimization program.

20 Is that right?

21 MR. DONALD PALMER: That's correct, for
22 which there is a -- a pre-funded IT optimization fund
23 that has been set up to pay for those costs.

24 MS. CANDACE GRAMMOND: And -- now it's my
25 understanding, and this is dealing with the applicable

1 accounting rules, that under GAAP the -- the net loss of
2 four point eight (4.8) -- or the net loss would be the
3 four point eight (4.8) because you would not be able to
4 incorporate a reserve from retained earnings into net
5 income during the year.

6 Is that right?

7 MR. DONALD PALMER: One (1) correction
8 under IFRS. We are now reporting under IFRS for
9 2012/'13, not GAAP. But, yes, other than that, that's
10 correct. But given this is for rate making purposes,
11 there is that adjustment that's -- that's done.

12 MS. CANDACE GRAMMOND: The question that
13 I was trying to ask, and I probably didn't word it well,
14 so I apologize for that. But that, under GAAP, this
15 would not be permitted but under IFRS it is, that's one
16 (1) of the changes -- okay, no, that's -- that's wrong.

17 MR. DONALD PALMER: That would be
18 incorrect. For financial reporting purposes, if this was
19 a financial statement that was reported as part of a
20 year-end annual statement or a -- a quarterly statement
21 for instance, you wouldn't see that transfer from IT
22 optimization fund.

23 However, this is a special purpose
24 statement for rate making purposes. That IT optimization
25 fund has already been pre-funded. So we don't have to

1 get rate for that again because we've already got the
2 money.

3 And that would be true under bo -- either
4 GAAP or IFRS.

5 MS. CANDACE GRAMMOND: Thank you. That -
6 - that clarifies it.

7 Okay, I'll ask you to go then to TI-15A,
8 which is part of the filing. And it's also in the book
9 of documents. It will be at the -- the next tab, Tab 10
10 of the book of documents. We'll find TI-15 followed by
11 TI-15A, so I am going to refer to TI-15A.

12 This is a -- a statement of operations
13 that includes multi-year outlook period from current year
14 to year of application and then three (3) subsequent
15 years.

16 That's right?

17 MR. DONALD PALMER: And that's correct.

18 MS. CANDACE GRAMMOND: And this reflects,
19 I gather, the effect in future years if the rate
20 application currently presented by the Corporation is
21 accepted as filed. So this -- this is what the world
22 will look like if there's a 6.8 percent rate decrease
23 this year.

24 MR. DONALD PALMER: And no further rate
25 changes going out into the future. So just to clarify on

1 that, for instance, we look at 2014/'15 and 2015/'16
2 where we see net income in the \$22 million range for
3 '14/'15 and \$42 million for '15/'16.

4 We wouldn't expect to get there because
5 had we -- if -- at the time we were coming for -- forth
6 with our general rate application, we would show rate
7 reductions that would bring that to a break even. So if
8 there was no rate changes beyond what is applied for this
9 year, this is the best estimate.

10 MS. CANDACE GRAMMOND: Thank you. So we
11 see, if we look ahead, past the year of the application
12 and into the three (3) ensuing years, that total earned
13 revenues are projected to increase year over year.

14 What are the -- the factors that are
15 behind the projected premium revenue increase -- or
16 pardon me, the -- the increases in premium revenue for
17 each of those years?

18 MR. DONALD PALMER: The two (2) sources
19 of -- of increasing revenue are increase in volume, more
20 cars on the road, and also vehicle upgrade. So as people
21 get rid of old cars and replace them with newer cars that
22 generally have a higher rate group, and higher rates,
23 there is a natural increase to the rate even though there
24 may not -- or an increase to the premium even though
25 there may not be any overall rate changes.

1 There is, of course, offsetting increase
2 in claims costs that comes from that, as well. Increase
3 volume or increase in upgrade will mean an increase in
4 claims cost.

5 MS. CANDACE GRAMMOND: And that -- that
6 certainly is reflected here. We see total claims costs
7 projected to increase year over year up to about 809
8 million in 2015/'16.

9 MR. DONALD PALMER: That's correct.

10

11 (BRIEF PAUSE)

12

13 MS. CANDACE GRAMMOND: We've spoken about
14 the increases in -- in revenue dealing with or
15 attributable to volume factor and upgrade factor. Are
16 there any other factors that it is expected would
17 contribute to that? For example, continuing increases in
18 driver premiums on the demerit side of the scale, broker
19 commissions decreasing, that kind of thing.

20 MR. DONALD PALMER: There are a number of
21 factors that influence that. As you noticed, the
22 driver's premium line that goes up from \$29.5 million in
23 2012/'13 to \$37 million to \$41 million. That's the --
24 the in -- effect of greater driver surcharges going
25 forward. So that's an influence there.

1 On total net claims incurred, we do have
2 an effect of lower claims incurred due to improvement
3 initiatives under the PIPP infrastructure program that
4 was a de -- decrease of about \$5 million a year.

5 So there are other changes beyond just
6 volume and upgrade that are incorporated into these --
7 this table.

8 MS. CANDACE GRAMMOND: It's my
9 understanding with respect to the DSR, and we've -- we've
10 spoken about the -- the driver premiums, that these
11 forecasts do not include any expected reduction in claims
12 cost as a result of the introduction of DSR and the
13 evolution of DSR over the years.

14 MR. DONALD PALMER: That is correct.

15 MS. CANDACE GRAMMOND: And do these
16 forecasts include any anticipated savings related to the
17 business process review initiatives?

18 MR. DONALD PALMER: Just the one (1) I
19 described under the PIPP initiatives.

20 MS. MARILYN MCLAREN: And -- and the
21 commission reduction that's shown in the expense line.
22 So the business process review initiatives the
23 Corporation really began as a result of the opportunities
24 presented by the merger with DVL. The ones that
25 immediately had a -- had a significant impact on Basic is

1 driver safety rating, streamlined renewals.

2 And at the same time, we had this other
3 initiative. It was not directly related to the merger,
4 but it was putting in place a strong and robust support
5 system for our case managers to better handle injury
6 claims. That is the PIPP initiative that we've been
7 talking about.

8 So all of -- all three (3) of those are
9 within this business process review umbrella that we've
10 talked about. And savings related to streamline renewals
11 and PIPP are -- are certainly embedded in this outlook.
12 And the potential in -- continuing increase in surcharges
13 rela -- related to driver safety rating are included as
14 well.

15 MS. CANDACE GRAMMOND: Thank you. Madam
16 Chair, yeah, I'm -- I'm going to go into a little bit
17 more detail on some other things, so we can break if that
18 would please the Board.

19 THE CHAIRPERSON: I was going to suggest
20 we take a break because we still have another hour before
21 we're going to stop. And the reason we'll stop at 4:00
22 today, as I said in my opening remarks, is we realized it
23 was election day, and we probably presume that some of
24 you need to go and vote. So we will take an earlier brea
25 -- you know, closure today. Thank you.

1 --- Upon recessing at 3:06 p.m.

2 --- Upon resuming at 3:24 p.m.

3

4 THE CHAIRPERSON: Are we -- Mr. Williams
5 is back, so we're ready to begin. Go ahead.

6 MS. CANDACE GRAMMOND: Thank you, Madam
7 Chair.

8

9 CONTINUED BY MS. CANDACE GRAMMOND:

10 MS. CANDACE GRAMMOND: Mr. Palmer, before
11 we leave TI-15A I just wanted to -- to clarify a couple
12 of things. You -- you testified that the numbers going
13 forward through the outlook period include the now
14 proposed 6.8 percent rate reduction but no other future
15 rate changes.

16 That's right?

17 MR. DONALD PALMER: That's correct.

18 MS. CANDACE GRAMMOND: Can you give us an
19 idea of the annualized impact of the proposed -- now
20 proposed rate reduction on future years, like how much?

21 MR. DONALD PALMER: Round numbers, 7
22 percent of about \$700 million is \$49 million. Yeah, or -
23 - yeah, or between -- our written premium for 2012/'13 is
24 seven twenty-three (723) growing to seven fifty (750),
25 so, very round numbers, \$50 million a year.

1 MS. CANDACE GRAMMOND: Okay. Thank you
2 for -- for working that out. And has the Corporation
3 calculated a net present value impact of the proposed
4 rate reduction?

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

6 MS. CANDACE GRAMMOND: And I -- I gather
7 that's not something the Corporation would typically do?

8 MR. DONALD PALMER: No. The annual
9 revenue is -- comes in on an annual ba -- basis. We
10 don't have the cash ahead of time. It's not something
11 that I would normally do, no.

12 MS. CANDACE GRAMMOND: Okay. We had a
13 little bit of evidence earlier today about the volume
14 factor. And so I just want to get into some questions
15 about the volume factor and what the Corporation is
16 proposing for that going forward.

17 First of all, can you explain for the
18 record what the volume factor is?

19 MR. DONALD PALMER: The volume factor is
20 quite simply an increase in the number of vehicles over
21 time. So as population increases, there's more vehicles
22 on the road. That's the volume increase.

23 MS. CANDACE GRAMMOND: So a positive
24 volume factor contributes to the overall revenue to the
25 Corporation?

1 MR. DONALD PALMER: Yes. Unfortunately,
2 also to the number of claims. As those vehicles come on
3 the road they also have claims. So the volume factor
4 also affects the claims volumes.

5 MS. CANDACE GRAMMOND: Thank you. I'll
6 ask you to go to Tab 13 of the book of documents. This
7 is PUB-MPI-1-7, Tab 13.

8

9 (BRIEF PAUSE)

10

11 MR. DONALD PALMER: Yes, I have it.

12 MS. CANDACE GRAMMOND: This is at least
13 an 'A' and 'B'. It's essentially a sensitivity analysis
14 that -- that the Board asked the Corporation to do. And
15 1-7(a) relates to volume factor which is what we're
16 speaking about right now, and we'll -- we'll talk about
17 the upgrade factor in a couple of minutes.

18 If we go to the -- to the last page of 1-
19 7, which is the attachment at 1-7(d), this is a question
20 that the Board asked the Corporation to provide a
21 schedule for the last ten (10) years showing volume
22 factor as applied for in general rate application, the
23 revised forecast, and then the actual. And the same for
24 upgrade factor, they're both shown on the same table,
25 yes?

1 MR. DONALD PALMER: Yes, I have it.

2 MS. CANDACE GRAMMOND: So last year for
3 2010/'11, the volume factor, so looking at the -- the
4 column entitled, "Volume," was applied for at 2.25
5 percent, or two and a quarter (2 1/4), the revised
6 forecast was the same. The actual volume factor was 2.43
7 percent, so it was somewhat more closer to 2 1/2 percent
8 than the 2 1/4.

9 Is that right?

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

11 MS. CANDACE GRAMMOND: And I gather
12 flowing from that that the Corporation this year has
13 applied for a -- a 2.5 percent, or has included in its
14 application a 2.5 percent volume factor increase?

15 MR. DONALD PALMER: Yes.

16 MS. CANDACE GRAMMOND: And that's the
17 same volume factor that the Corporation is projecting
18 going forward, that's not shown on this table, but it's -
19 - it is reflected in the filing that that's the number
20 that the Corporation is using for the next few years?

21 MR. DONALD PALMER: Yes, that would be
22 found in TI-18.

23 MS. CANDACE GRAMMOND: And what are the -
24 - the factors behind the increase in volume factor, can
25 you comment on that, other than just simply that there's

1 more vehicles on the road? Is it due to more people
2 moving to the Province, or Manitobans acquiring more
3 vehicles, or do you -- does the Corporation not know?

4 MR. DONALD PALMER: We don't break it
5 down that way. We look at the historical increases. We
6 do incorporate economic factors and have an economic
7 outlook in our revenue forecast. So it's growth of
8 population, there's growth of economy, there's a number
9 of factors that are included in that and outlined in TI-
10 18.

11 MS. CANDACE GRAMMOND: Thank you. If we
12 turn back within the same tab, at the book of documents,
13 still at 1-7, a question posed by the Board, I -- I had
14 mentioned that 1-7(a) was a sensitivity analysis to
15 reflect how the numbers would change if there was a
16 different volume factor used rather than the two point
17 five (2.5).

18 So I'll ask you to go to page 3. This is
19 an -- an analysis that shows -- this is -- well, it's a
20 revised TI-15A, but it shows what -- how TI-15A would
21 change if a 2 3/4 percent volume factor increase was used
22 over the next number of years, instead of the two point
23 five (2.5). And we've already spent some time with TI-
24 15A. Is it fair to say that the -- there's not a -- a
25 huge change in total earned revenues as a result of this

1 adjustment?

2 MR. DONALD PALMER: And, again, as I
3 alluded to before, a higher volume factor on the number
4 of vehicle side, also means that there will be a higher
5 number of claims because those vehicles that are coming
6 on do have claims. So you will notice that there's an
7 increase -- I'm just looking at the TI-15 side by side
8 with the attachment in TI -- or PUB-17A. You'll notice
9 that the premium increase goes from seven twenty-six
10 (726) in the original application to seven thirty (730)
11 for 2012/'13. In '13 fort -- '14, it goes from seven
12 sixty-one (761) to seven sixty-seven (767).

13 If you go down to the claims incurred
14 side, you'll see that there's also increases in the
15 claims incurred, going from six ten (610) to six twelve
16 (612), from six thirty-three (633) to six thirty-seven
17 (637), and so on. So there is a -- an accompanying
18 increase in the claims cost in these schedules as well.

19 MS. CANDACE GRAMMOND: If you look at the
20 comparison of net results, there -- the net income is
21 slightly more under the increased volume factor scenario,
22 but not by a whole lot.

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE GRAMMOND: Okay. So let's
25 speak then for a few minutes about the upgrade factor.

1 And so, you've told us what the volume factor is and you
2 -- you'd commented earlier today about what the upgrade
3 factor is, but can you just state for the record what the
4 -- the vehicle upgrade factor is?

5 MR. DONALD PALMER: The upgrade factor
6 essentially is a change in -- in the average rate, or the
7 average premium, for reasons other than an explicit rate
8 change.

9 So, specifically, the one (1) we talk
10 about most is people sell old cars and replace them with
11 new cars. Meaning, the new car comes on, has a higher
12 rate, so there's an increase in revenue.

13 Other more subtle upgrade could be, if
14 there was a -- an influx of -- of people moving from a
15 rural location into a city location. That would mean a
16 change in revenue as well. If there was an economic
17 upturn and there was more people going from pleasure use
18 to all-purpose use, that would mean an upgrade as well.
19 But by and large, most of the upgrade that we're talking
20 about is replacement of vehicles.

21 MS. CANDACE GRAMMOND: And as the upgrade
22 factor is positive and -- and -- is a positive number,
23 that will contribute to an increase in premium revenue to
24 the Corporation.

25 MR. DONALD PALMER: And again, if there's

1 higher upgrade, more expensive cars going on, those more
2 expensive cars have more expensive claims. And again,
3 there's an offset on the claim side.

4 MS. CANDACE GRAMMOND: Let's look back at
5 1-7(d), that's the last page at Tab 13 of the book of
6 documents. So we -- we looked at this chart a minute ago
7 dealing with volume factor. Now we'll look at upgrade
8 factor.

9 We see that, for last year for the
10 2010/'11 fiscal year, the Corporation had proposed an
11 upgrade factor of 2 1/5 percent. That was maintained in
12 the revised forecast. And the actual upgrade factor for
13 the year was one point nine six (1.96), so it was over
14 half a percent less than -- than was thought it was gonna
15 be.

16 And, for the current year, the upgrade
17 factor, or pardon me, not the current year but for the
18 year of the application, the -- the upgrade factor is
19 being proposed at 2 1/4 percent.

20 Is that right?

21 MR. DONALD PALMER: For this year and
22 going forward, yes.

23 MS. CANDACE GRAMMOND: And there's
24 reference in the material, not at this IR, but in
25 response to 1-24, that if the upgrade factor was not

1 revised, that the overall rate change would -- being
2 applied for would be 7 and .4 percent, rather than the
3 six point eight (6.8) that is actually being applied for.

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

6 MS. CANDACE GRAMMOND: The reference for
7 that, for the purposes of the record, is PUB/MPI-1-24,
8 page 4.

9 So keeping with the upgrade factor and 1-
10 7(d), we see that over the years, and since 2001/2002, if
11 we look at the -- the actual column, there has been a
12 fairly significant decrease over the period of years with
13 respect to upgrade factor.

14 We see in '01/'02 it was at five and a
15 half (5 1/2), and it's gone down and then sort of hovered
16 between two (2) and three (3) for -- for a number of
17 years.

18 Is that right?

19 MR. DONALD PALMER: Yes, that's correct.
20 Part of -- part of that is just with our rate line
21 adjustments that we talked about earlier, that there's
22 less of a difference between older vehicles and newer
23 vehicles. Part of that is because injury cost being a
24 large component of the rate. There's not that much
25 difference between injury costs of old -- old vehicles

1 and new vehicles.

2 As we bring the -- the costs of injury
3 claims down, our estimates are -- have decreased a little
4 bit this year. That actually serves to -- we expect a
5 little bit of uptake in the volume factor, or in the
6 upgrade factor again. So that's one (1) of the reasons
7 that we've -- expecting to -- to bottom out at that 1.96
8 percent and go back up a little bit.

9 MS. CANDACE GRAMMOND: For the purposes
10 of the record, I think there's some commentary on the
11 issues that you've just described, TI-18, page 10, the
12 idea that there was some flattening of the rate line, I
13 think is the way the Corporation describes it, but that
14 with the downward adjustment to PIPP costs that is
15 expected to either be stopped or reversed for the year of
16 the application.

17 Is that fair to say?

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

19 MS. CANDACE GRAMMOND: And as with the
20 volume factor, the Board asked in 1-7 for some
21 sensitivity testing for different upgrade factors than
22 are -- than are being proposed.

23 And if we look at page 6 of 1-7, so that's
24 1-7(b), Attachment C, this is a revised TI-15A that
25 reflects 3 percent per year in terms of an upgrade factor

1 for current year, year of application, and 2013/'14, I
2 believe we see a similar comparison to the original TI-
3 15A in terms of an impact.

4 Is that fair to say?

5 MR. DONALD PALMER: Yes, that's -- that's
6 correct. There's not much of a difference in the bottom
7 lines going forward.

8 MS. CANDACE GRAMMOND: Because of the
9 fact that while revenue is increased, similarly claims
10 costs are also increased.

11 MR. DONALD PALMER: That's exactly
12 correct, yes.

13 MS. CANDACE GRAMMOND: And I gather that
14 with respect to the volume factor, and with respect to
15 the upgrade factor, there have been no changes in
16 methodology used by the Corporation this year compared
17 with previous years.

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

19 MS. CANDACE GRAMMOND: Okay. When we
20 were going through some of the TI schedules, we had a
21 little bit of discussion about driver premiums and what's
22 anticipated for this year.

23 I want to talk about driver premiums in a
24 little bit more detail, so I'm going to ask you to go
25 back to TI-13. That's at Tab 8 of the book of documents.

1 We -- we talked about the projection that for the year of
2 the application driver premiums are going to come in at
3 about \$5.6 million higher than the current year.

4 That's right?

5 MR. DONALD PALMER: That's correct.

6 MS. CANDACE GRAMMOND: If we go to
7 Schedule 2 of TI-13, we see a bit more detail with
8 respect to the driver premium revenue. So this is page 5
9 of TI-13 found at Tab 8 of the Board's book of documents.
10 This chart reflects two (2) line items: Basic driver
11 premium and additional driver premium. Can you explain
12 for the Board the -- the difference between those two
13 (2)?

14 MR. DONALD PALMER: The Basic driver
15 premium is before any DSR surcharges. So the -- and the
16 DSR surcharges in excess of the forty-five dollars (\$45)
17 on the negative -- on the demerit side would show up as
18 additional driver's premium. Anything on the positive
19 side from the fifteen dollar (\$15) charge up to the
20 forty-five dollar (\$45) charge would be included as Basic
21 driver's premium.

22 MS. CANDACE GRAMMOND: So for the year of
23 the application the Corporation is projecting just under
24 21 million Basic driver premium and about eight point
25 seven (8.7) in additional driver premium?

1 MR. DONALD PALMER: For the year of the
2 application, that's correct, yes.

3 MS. CANDACE GRAMMOND: I think that's
4 what I said. If I misspoke, that -- that is what I
5 meant, the year of the application. And, Mr. Palmer, as
6 you told us earlier, the -- pursuant to the plan that the
7 Corporation presented to the Board in 2009, there is a
8 plan to seek further increases to the DSR premiums on the
9 demerit side going forward, at least for next year for
10 sure?

11

12 (BRIEF PAUSE)

13

14 MR. DONALD PALMER: That's correct. The
15 schedule going forward is included in TI.18.

16 MS. CANDACE GRAMMOND: Now the filing
17 reflects that -- and, yes, actually I believe that's
18 TI.18, appendix A, Exhibit 1, and that is at the book of
19 documents at Tab 11. I appreciate there's more to TI.18
20 than that, but there is that document in the -- in the
21 book of documents for -- for reference, which I will come
22 to in a couple of minutes.

23 But before I go there, the filing reflects
24 that prior to the implementation of DSR in 2010 the
25 driver premium revenue to the Corporation was about \$35

1 million per year?

2 MR. DONALD PALMER: Yes, there was two
3 (2) components of -- of that. There was a accident
4 surcharge and a -- which we call charge 2s, and there was
5 also a surcharge for convictions, which we called charge
6 1s. So the -- so the combination of those two (2) would
7 have been that additional driver's premium would combine
8 into that \$35 million figure.

9 MS. CANDACE GRAMMOND: And with the
10 restructuring of the program there is no longer a charge
11 1 or a charge 2. It's simply driver premium per the DSR
12 schedule?

13 MR. DONALD PALMER: That's correct.

14 MS. CANDACE GRAMMOND: And the
15 Corporation has filed, in essence, three (3). Its
16 expectation that by 2013/'14 the revenue levels from
17 driver premiums will come back to -- are expected to come
18 back to that \$35 million per year range?

19 MR. DONALD PALMER: That's correct. And
20 that is really evident if I can direct your attention
21 back to TI.15 that has actual pro formas for 2007/'08
22 going forward to 2012/'13. And then on TI.15.A going
23 forward you'll see that the driver's premium earned is at
24 -- was at \$34.8 million in '07/'08, went up a little bit,
25 came down to \$31 million in '10/'11, and then dropped to

1 \$22.3 million. That was the beginning of the DSR scale.
2 And then it's working its way back up to \$26 million next
3 year, and then increasing going forward, thirty-three
4 (33) the year after and so on.

5

6

(BRIEF PAUSE)

7

8 MS. CANDACE GRAMMOND: Now a couple of
9 years ago in the orders that the Board issued in 2009 the
10 Board had asked that MPI provide to the Board as a filing
11 forecast and assumptions relating to goals and
12 implications for accident frequency and severity arising
13 from the due -- the new DSR system. And the Corporation
14 provided a -- a forecast of information and it had stated
15 at the time that its forecasts for the 2011 GRA for last
16 year assumed that the DSR system wouldn't make any
17 changes to conviction rates or at fault claims numbers in
18 -- in future years and advised the Board that it would
19 make adjustments once historical data became available as
20 the DSR was implemented and -- and continued.

21

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And so, at this stage -- and I -- I
appreciate that the Corporation has now had DSR in for
about a year and a half, I guess. Is the Corporation in
a position to provide any information to the Board about
that at this time?

1 MR. DONALD PALMER: Not yet. As the data
2 comes in, you've outlined that it has been in effect for
3 a year and a half. But, in fact, it took until March 1st
4 of 2011 to get everybody on the system. So, in fact, the
5 population -- the entire population has not yet been on
6 the DSR system for a year yet.

7 So it's still very early in the program.
8 There's still a lot that we will be learning about the
9 program going forward to see if -- how it does affect
10 driving behaviour. We're not there yet.

11 MS. CANDACE GRAMMOND: Okay. But the
12 Corporation does intend to -- to look for trends and --
13 as time unfolds?

14 MR. DONALD PALMER: Yes, we do.

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE GRAMMOND: Okay. We
19 confirmed earlier in the -- the cross-examination, I
20 think actually in the -- the overview that we did this
21 morning, that Corporation, while it is applying for some
22 changes to driver premiums on a demerit side, is not
23 applying for changes other than in the fleet context, to
24 vehicle premium discounts.

25 MR. DONALD PALMER: That's correct. And

1 again, to put that into context, there was an increase to
2 the maximum vehicle discount under DSR, effective March
3 1st of -- of this past year, based on the last Board
4 order.

5 The entire population isn't even on that
6 new scale as yet, so until we get some experience going
7 forward, and to do some analysis regarding those
8 discounts, it's probably premature to increase those
9 discounts at this time.

10 MS. MARILYN MCLAREN: Ms. Grammond, if I
11 could provide a little bit more context on that for a
12 minute or two (2) for the new panel members.

13 Since about the early 1990s, the maximum
14 vehicle discount available in the basic Autopac program
15 was about 25 percent, until just very recently, when it
16 went as much as 33 percent.

17 And we really believe that it's important
18 to let this truly work its way through the system, both
19 in terms of understanding whether or not, you know, there
20 may actually be some behaviour differences amongst
21 drivers, but also the public's reaction to the scale and
22 to the impact of actually having a crash.

23 One of the things that we know the vast,
24 vast majority of Manitobans believe very, very strongly
25 is that people who don't have at fault accidents should

1 pay less than those who do.

2 They also believe that people who don't
3 have an at fault accident for many, many years, and then
4 have one, should have almost no impact on their rate from
5 that first at fault accident in a long time.

6 The reality is that, almost all the people
7 having accidents out there are long term good drivers who
8 mess up once every ten (10) to twenty (20) years. So
9 from that perspective, it's very hard to balance public
10 expectations and a scale.

11 You know, you -- you can't do both right?
12 There are some contradictory beliefs and attitudes of the
13 public along those lines.

14 You know, they want to pay less, but as
15 soon as they have an at fault accident they don't want it
16 to change their rate. It -- it's very difficult. So
17 having a 33 percent differential off the standard rate is
18 something that we really need to take some time to -- to
19 understand and to see how it really flows through the
20 system.

21 If, you know, next year and the year
22 after, these -- these outlook numbers of -- of large net
23 incomes are -- are holding, we may very well feel
24 comfortable at that point to come forward with a proposal
25 to sort of blend another rate reduction with maybe some

1 higher discounts and some across the board reductions.
2 But we really strongly believe that at this point in time
3 the 6.8 percent ought to be experience based changes and
4 not any increases to the actual DSR discount levels.

5 MS. CANDACE GRAMMOND: Thank you. That's
6 actually the topic that I was going to, so you just
7 answered some more questions.

8 Just for context, I'd just like to refer
9 everyone to PUB/MPI-1-77. This is at tab 25 of the book
10 of documents. This is a short IR, as far as IRs go,
11 where the Board asks the Corporation: What, if any,
12 consideration had been given to further changes to the
13 vehicle premium discounts? And the -- the Corporation
14 had given an answer, Ms. McLaren, very similar to what
15 you've just stated, that that had not been done to date,
16 but that in the future perhaps the Corporation would ask
17 for an increased discount, or increase discounts in
18 conjunction with a rate, or in lieu of a rate decrease or
19 whatever the case may be.

20 And so, I was going to ask you why that
21 had not been done this year and you've explained that, so
22 thank you.

23 Now getting into a little bit more detail
24 in the DSR demerit, the new DSR demerit levels that have
25 been applied for, let's go to Tab 27 of the book of

1 documents. This was a -- a question posed by Mr.
2 Williams, on behalf of CAC and, of course, the filing in
3 -- in the application that was referred to earlier today,
4 contains a listing of the -- the DSR levels and the --
5 the demerit premiums that are being applied for.

6 But this IR and the attachment reflects a
7 comparison of the current numbers, so it shows here all
8 in one (1) table what the -- the change would be. So in
9 essence, the first demerit level that -- that there's a
10 change being applied for on is demerit level two (2),
11 which would go from forty-five dollars (\$45) to seventy-
12 five dollars (\$75) and then all the way through to
13 demerit level twenty (20), where the Corporation is
14 seeking two thousand (2,000) over fifteen hundred (1,500)
15 that is in place at present.

16 Have I got all that right?

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

18 MS. CANDACE GRAMMOND: And so can you --
19 and I -- and I appreciate that this -- these changes date
20 back some time, but was there any particular way that
21 these increments were determined by the Corporation as
22 the right ones for -- for this year?

23 MR. DONALD PALMER: The thought process
24 underlying these increases essentially was -- was one (1)
25 of the increases that are indicated by experience with

1 that of public acceptability.

2 We know that, in the modelling that we had
3 done with the implementation of driver safety rating,
4 that even one (1) conviction is an indicator of increased
5 likelihood of accident frequency. We -- we know that.
6 We modelled it. We proved that to be true.

7 And yet to go to the public, from a public
8 acceptability perspective, and say, if you're going to
9 have one (1) minor speeding ticket you're going to lose
10 your vehicle discount, is not really something that,
11 according to the surveying that we had done, was publicly
12 acceptable.

13 So we did want to reflect those increased
14 surcharges as a means of encouraging safer driving
15 behaviour, and started increasing those demerit levels or
16 those demerit surcharges at lower levels. So you'll see
17 that, when we started there was no driver sur --
18 surcharges for up to six (6) demerits.

19 Last year, we incorporated surcharges for
20 four (4) demerits. This year, one (1) of the things
21 we're doing is incorporating driver surcharges for two
22 (2) demerits.

23 So that's part of that gradual stepping in
24 of the increased surcharges which we know are -- are
25 justified from a actuarial predictive risk perspective,

1 but also at a level that we phased in to be acceptable to
2 the public.

3 Again on the top end, we have done
4 surveying and -- and the question is: How high can you
5 go? What's -- what's the amount that will be payable
6 that will still be paid, and not so high as people will
7 just give up and drive anyway because they can't afford a
8 premium that we see in some of the private sector of ten
9 thousand dollars (\$10,000) or fifteen thousand dollars
10 (\$15,000) a year?

11 So -- so again, through our surveying that
12 we did, what kind of level is tolerable at that very high
13 level, and the number that we came up eventually was the
14 twenty-five hundred dollars (\$2,500) that will be
15 instituted next year.

16 So it's the -- the balance of -- of that
17 actuarial predictive, that it is justified with the
18 public acceptability.

19 MS. CANDACE GRAMMOND: Thank you. I'm
20 going to ask about a smaller issue in -- in relative
21 terms, and it -- it's referenced in 2-5 posed by the
22 Board. It's not in the book of documents, because I'm
23 just not going to spend a lot of time on it, but it's 2-5
24 as I had indicated, and I just need to put my hands on
25 it.

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: This was actually
4 a question that the Board had posed about audit committee
5 meeting minutes and -- and the like, so it's not where
6 you might think you would find something relating to DSR.

7 But the Board had noted that in one (1) of
8 the audit finding reports, or in one (1) of the meeting
9 minutes there was reference to an issue with placement of
10 some people on the DSR scale.

11 And so the Corporation advised us in --
12 this is 2-5(h) -- in the narrative of the answer that, in
13 2010, there were about fifty-nine hundred (5,900) people
14 that were put in the wrong place on the scale, and that
15 they were identified as having at least a merit when they
16 really actually had demerits.

17 So can you just explain that a little bit,
18 what happened there?

19 MR. DONALD PALMER: There was
20 transmission of data that, going from the driver's
21 licencing system to the DSR system, that didn't get
22 transmitted.

23 And on that basis, when they should have
24 been put at a higher demerit level and been charged a
25 higher demerit premium, weren't. So that was discovered

1 by our -- our staff, but subsequently reported, and
2 reported on, by the external auditor.

3 That error after discovered was fixed. At
4 the next renewal those drivers will be put in their right
5 place from a D -- DSR rating perspective. We did not go
6 back and -- and claw back the extra premium. It was our
7 -- our error.

8 So on that basis, it was about -- I have
9 the number here. I think about four hundred thousand
10 dollars (\$400,000) was the -- was the number of
11 undercharging.

12 MS. CANDACE GRAMMOND: Yeah. I think
13 it's four hundred and eighty-two thousand (482,000), and
14 that's not reflected in this answer, but that's I think
15 reflected in the -- the minutes of the meeting.

16 MR. DONALD PALMER: It's in -- and it's
17 in the question.

18 MS. CANDACE GRAMMOND: Oh, in the
19 question. Okay. And -- and I -- I hear what you're
20 saying, that it was the corp -- it was an error made on
21 the Corporation's part. It wasn't because of the -- the
22 individuals.

23 But why was the decision made to just
24 correct on the next renewal date rather than adjust
25 immediately, and try to -- to recover some of those

1 funds?

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(BRIEF PAUSE)

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MS. MARILYN MCLAREN: That is the way the Corporation historically and almost always handles things like that. The amount is clearly immaterial to the Basic Insurance Program. It's immaterial to all ratepayers as a whole.

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It may very well have been material to the people that it affected, and once they -- they come in, they do the transaction that they're asked to do, they make the payment that they're asked to make, it just seems not reasonable for us to go back later and say, By the way, we made a mistake, you owe us another couple of hundred dollars. We -- we really believe that people, wherever possible, have -- we have the responsibility that they can believe they can rely on what we say and what we charge them without going back.

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We wrote to them, so -- so next year will not be a surprise. We wrote to them and said: We did make the mistake. We're not going to claw it back, but be ready for next year.

24

25

And we think that that -- you know, when -- when everything is considered that is the most fair and

1 -- and the most appropriate thing for us to do.

2 MS. CANDACE GRAMMOND: And if I
3 understand it correctly, the -- the -- they were put in
4 at -- the -- the answer says at least a plus one (1).
5 Were some of them put higher, or were they put in as --
6 as having one (1) merit?

7 MR. DONALD PALMER: They were put in as
8 having one (1) merit.

9 MS. CANDACE GRAMMOND: And do -- do you
10 have a knowledge of how many demerits they were supposed
11 to have? Like are we talking about some minus 20s here,
12 or are we talking about some minus 2s?

13 MS. MARILYN MCLAREN: Well, if -- if you
14 remember, I'm sure it's somewhere in the Application,
15 where we tell you how many drivers are at each level of
16 that demerit scale, and I think province-wide there's
17 about two (2) dozen at the minus twenty (20) level, so
18 maybe one (1) of them was -- was in that lucky, I guess,
19 a position. But the vast majority have one (1) demerit,
20 two (2) demerits, so -- so it would not have been -- it -
21 - it's highly unlikely that any number of really
22 significant high-risk drivers would have received this
23 accidental break -- break in their rate.

24 THE CHAIRPERSON: Do you think we should
25 stop now? Are you finished with that particular line of

1 questioning?

2 MS. CANDACE GRAMMOND: I'm finished with
3 that issue. And I'm -- I'm still going to talk about
4 some driver premium things tomorrow, but I'm moving into
5 sort of a different aspect of it, so this would be a fine
6 time to break if it --

7 THE CHAIRPERSON: Okay.

8 MS. CANDACE GRAMMOND: -- would please
9 the Board.

10 THE CHAIRPERSON: Well, okay. Then I
11 think we will take -- we will adjourn now and meet again
12 tomorrow at 9:30.

13

14 (PANEL RETIRES)

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16 --- Upon adjourning at 4:05 p.m.

17

18 Certified Correct

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22

23 Cheryl Lavigne, Ms.

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