

MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)
GENERAL RATE APPLICATION
2014/15

Before Board Panel:

Karen Botting - Chair
Regis Gosselin - Board Chair
The Hon. Anita Neville - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 2, 2013
Pages 844 to 1050



“When You Talk - We Listen!”



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APPEARANCES

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TABLE OF CONTENTS	
	Page No.
1	
2	
3 List of Exhibits	647
4 List of Undertakings	648
5	
6 MPI PANEL, RESUMED:	
7 MARILYN MCLAREN, Resumed	
8 HEATHER REICHERT, Resumed	
9 LUKE JOHNSTON, Resumed	
10	
11 Continued Cross-examination	
12 by Ms. Candace Grammond	849
13 Continued Cross-examination by Mr. Byron Williams	900
14	
15	
16	
17 Certificate of Transcript	1050
18	
19	
20	
21	
22	
23	
24	
25	

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	MPI-26	Response to Undertaking 9	889
4	CAC-7	MPI GRA book of documents,	
5		October 2nd, 2013	900
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
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25			

1	LIST OF UNDERTAKINGS	
2	NO.	PAGE NO.
3	26	MPI to quantify the dollar value
4		of the one (1) in twenty (20) to
5		one (1) in one hundred (100)
6		referenced in the Application, and
7		also provide some situational
8		potential actions based on solely
9		a number 893
10	27	MPI to correct the response to
11		PUB/MPI-1-74A 963
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1 --- Upon commencing at 9:31 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone, and welcome back to our public hearings in
5 regard to MPI. And I'd like to call upon Ms. Grammond
6 to carry on with her cross-exam.

7 MS. CANDACE GRAMMOND: Thank you,
8 madam chair.

9

10 MPI PANEL:

11 MARILYN MCLAREN, Resumed

12 HEATHER REICHERT, Resumed

13 LUKE JOHNSTON, Resumed

14

15 CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

16 MS. CANDACE GRAMMOND: So I'm going to
17 have a few questions about the RSR and the DCAT. So
18 first of all, I would ask that the Corporation confirm
19 that the stated purpose of the RSR has remained
20 unchanged from previous years, and that is that the
21 RSR relates to Basic universal compulsory automobile
22 insurance and is intended to protect motorists from
23 rate increases made necessary by unexpected events and
24 losses arising from non-recurring events or factors.

25 MR. LUKE JOHNSTON: Confirmed.

1 MS. CANDACE GRAMMOND: And for the
2 last year, the 2012/'13 year, the Public Utilities
3 Board had established a range for the RSR of between
4 seventy-seven (77) and a hundred and -- sorry,
5 seventy-seven point nine (77.9) and 155.7 million.

6 Is that right? And that's -- you can
7 find that easily at Tab 8 of the book of documents, if
8 you want to check it.

9 MR. LUKE JOHNSTON: Confirmed.

10 MS. CANDACE GRAMMOND: And the actual
11 retained earnings with Basic for the same year, the
12 2012/'13 year, was just over 141 million. So
13 definitely within the range set by the Board.

14 MR. LUKE JOHNSTON: Correct.

15 MS. CANDACE GRAMMOND: For the current
16 year, the Board's range is a little different. It's
17 82.6 million to 164.9 million; and the Corporation as
18 per the filing was forecasting a retained earning
19 balance of 146.9 million.

20 MR. LUKE JOHNSTON: That's correct,
21 and the -- the projected PUB RSR range is simply using
22 the -- the current methodology and just running that
23 forward based on our -- our forecasted premiums.

24 MR. REGIS GOSSELIN: Sorry, could you
25 give us a citation, or the --

1

2 CONTINUED BY MS. CANDACE GRAMMOND:

3

MS. CANDACE GRAMMOND: Of course.

4

It's Tab 8 of the book of documents. It's PF-3, which

5

is the Pro Forma 3 that was filed by the Corporation.

6

So I was looking at the columns entitled "2013-A" and

7

"2014-P," which were for the last fiscal year and the

8

current fiscal year that we're in.

9

And so, Mr. Johnston, when we look at

10

the current year number, so when we -- we say that the

11

-- the Corporation was forecasting 146.9 million by

12

the end of the current fiscal year, that is before

13

consideration of the approximately 39 million of

14

benefit to Basic retained earnings from the upward

15

shift in interest rates so far this fiscal year that

16

we talked about yesterday, which of course may change

17

by the end of the year.

18

MR. LUKE JOHNSTON: The -- to make

19

sure I'm understanding what you said correctly, it --

20

it does not consider the -- any changes that have

21

occurred in this fiscal year in the first two (2)

22

quarters, correct.

23

MS. CANDACE GRAMMOND: Right. And

24

yesterday we talked about the number of 39 million.

25

That was when we did those sort of on-the-fly

1 revisions to Table 1.1 in the investment section.

2 MR. LUKE JOHNSTON: Yes. My
3 understanding, the 39 million was some calculations we
4 did trying to approximate what interest rate impacts
5 would be worth to the Corporation.

6 MS. CANDACE GRAMMOND: Thank you. Ms.
7 Reichert, you look like you want to say something.

8 MS. HEATHER REICHERT: If I could just
9 clarify, and maybe I'm just mishearing what -- what
10 Mr. Johnston is saying.

11 The 146.9 million that is forecasted
12 for retained earnings at 2012/'13 does incorporate
13 whatever we were forecasting to be increasing interest
14 rates throughout -- or, sorry -- sorry, for 2013 --
15 sorry, for 2013/'14, the one forty-six point nine
16 (146.9), it does include everything that we've put
17 forward in our investment section on what we're
18 assuming to be interest rates throughout '13/'14 and
19 then going forward for '14/'15, et cetera.

20 So, yes, I agree it doesn't include if
21 those interest rates come in higher than what we
22 forecasted, but they definitely do consider the
23 impacts of increasing interest rates on both our
24 investments and our claims.

25 MS. CANDACE GRAMMOND: These numbers

1 though were prepared on the basis of the analysis that
2 the Corporation did at the time the GRA was prepared
3 in anticipation of the June filing.

4 MS. HEATHER REICHERT: That's right.
5 They're based on the April GRA interest rate forecast.

6 MS. CANDACE GRAMMOND: So it doesn't
7 include anything that's gone on in the current fiscal
8 year.

9 MS. HEATHER REICHERT: No. It just
10 includes what we anticipated would happen in the
11 current fiscal -- sorry --

12 MS. CANDACE GRAMMOND: We're saying
13 the same thing.

14 MS. HEATHER REICHERT: Okay.

15 MS. CANDACE GRAMMOND: Yeah.

16 MS. HEATHER REICHERT: Good.

17 MS. CANDACE GRAMMOND: Okay. So a
18 couple of questions then with respect to the DCAT, or
19 dynamic capital adequacy testing. The Corporation has
20 indicated -- and I can provide the reference if you
21 need it but you -- you may or may not -- that it will
22 provide a balance sheet forecast in future GRAs likely
23 commencing with the next GRA, the 2015 GRA.

24 Is that right?

25 MR. LUKE JOHNSTON: Yes, that is the -

1 - the plan at this time.

2 MS. CANDACE GRAMMOND: And you would
3 agree that the DCAT technical conference that started
4 earlier this year was paused or adjourned, pending
5 further development of the Corporation's DCAT
6 modelling tools, including the modelling of the
7 balance sheet?

8

9 (BRIEF PAUSE)

10

11 MS. MARILYN MCLAREN: Do you have a
12 reference for that, Ms. Grammond? Clearly, we had a
13 lot of discussion over the two (2) days, and we
14 committed to do certain things including a balance
15 sheet. I don't remember the specific language of
16 'pausing' the technical conference.

17 MS. CANDACE GRAMMOND: I -- I don't
18 have the reference. I can certainly look it up in the
19 transcripts but that was -- our understanding, was
20 that we had initially talked about a split in the
21 technical conference. We were going to do two (2)
22 days, and then we were going to do two (2) days a
23 couple of weeks later.

24 And once we got into the discussion of
25 the balance sheet, it was our understanding that there

1 -- it would likely reconvene at a future time once the
2 Corporation had included the balance sheet.

3 MS. MARILYN MCLAREN: Okay. The -- in
4 the context, that -- that's fair. It just seemed a
5 little more formal the way you were talking about, in
6 terms of pausing it, and -- but I expect when we have
7 a balance sheet we'll probably want to renew the
8 conversation.

9 MS. CANDACE GRAMMOND: Yeah, I think -
10 - I think again we're -- we're saying the same thing.

11 MR. LUKE JOHNSTON: Yeah, I -- I can
12 add to that. So we were -- we were discussing some of
13 the new DCAT methodology that we wanted to use. We
14 also notified at the time that we were working on a
15 completely new financial model. One (1) of those
16 pieces would eventually be the balance sheet.

17 But I think the bigger issue was that,
18 yes, there is this brand new financial model coming.
19 No one had seen it yet. We couldn't provide it at the
20 time of the conference. And that's understandably --
21 was a little bit of an issue with moving forward at --
22 at that time.

23 MS. CANDACE GRAMMOND: And, Mr.
24 Johnston, do you have an update on when the modelling
25 of the balance sheet will be included in the DCAT?

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: So, yeah, we are
4 definitely currently working on that piece of the
5 model, and the expectation again is that it will be
6 included in -- in next year's DCAT, and in time for --
7 to be included in next years GRA.

8 MS. CANDACE GRAMMOND: So when you
9 say, In time for next year's GRA, that would be the
10 spring, the June 2014 time frame.

11 Is there any expectation that we'd be
12 able to look at resuming the -- the DCAT conversation
13 in advance of that?

14 MS. MARILYN MCLAREN: I think it's
15 fair to say we understand that that would be
16 advantageous, but we're not in a position to make that
17 commitment right now. We would really need to
18 understand -- I mean, to maybe broaden the
19 conversation a little bit, you know, there's been a
20 lot of discussion around the DCAT and -- and different
21 models that could be run.

22 Mr. Pelly, through you, was asking
23 about this other way of, you know, creating a whole
24 rate-making methodology. We're going to have to make
25 some decisions, and it would be helpful for the

1 Corporation if the Board could maybe provide some
2 guidance in its order, because with the possible extra
3 pieces of work that are in some -- I think it's fair
4 to say that the potential extra pieces of work for Mr.
5 Johnston in his area that are on the table at this
6 point, we would definitely have to add resources.

7 Is that something -- and I'm -- it's
8 not clear to me whether the Board believes some of
9 these things that have been asked about would be nice
10 to have if they have time, if it's things that the
11 Board feels very strongly about and would like to see
12 us add an actuary or two (2). So that would be
13 helpful.

14 It's really a matter of trying to
15 manage a very heavy workload and provide the support
16 that the Corporation needs from that area, and really
17 trying to figure out what -- what we should do in the
18 future with respect to resourcing.

19

20 (BRIEF PAUSE)

21

22 MS. CANDACE GRAMMOND: Thank you. So
23 with respect to the DCAT that was provided with this
24 GRA that the Board has before it, can you tell us
25 whether Mr. Cheng, the Corporation's external

1 appointed actuary, will be undertaking an independent
2 peer review?

3

4 (BRIEF PAUSE)

5

6 MR. LUKE JOHNSTON: Yes. The -- Mr.
7 Cheng has -- has completed his peer review on the
8 DCAT, the version that still has to go to the board
9 for approval. So that's on October 4th. In my -- in
10 my direct, I -- I talked about the -- how I met with
11 the board in -- in June of this year, went through all
12 the results of the DCAT.

13 None of those results have changed
14 since -- since that meeting, but there was a lot of
15 extra information that was requested in the DCAT, and
16 at that time the report wasn't prepared. So Mr. Cheng
17 got the report without the board signature. He's peer
18 reviewed that report. Both the report and Mr. Cheng's
19 peer review are going into the October 4th board
20 meeting.

21 MS. CANDACE GRAMMOND: So did Mr.
22 Cheng have any involvement in the preparation of the
23 DCAT?

24 MR. LUKE JOHNSTON: Well, in -- in
25 terms of back and forth commu -- communication about,

1 definitely, some of the things that he's listed, or
2 had listed, in -- in the -- in his peer review, for
3 sure we've discussed those. Also, some of the -- the
4 changes to some of the scenarios that -- that were put
5 forward in this year's DCAT we discussed.

6 In terms of the actual preparation of
7 the report, no. He -- he -- he's not working together
8 preparing it with me, but -- and of course there's the
9 discussion after, once he -- once he gets the report
10 and he's actually reviewing it.

11 MS. CANDACE GRAMMOND: And I assume
12 that a copy of the peer review will be filed with the
13 Board once it's gone through the MPI board of
14 directors on October 4th?

15 MR. LUKE JOHNSTON: Yes.

16 MS. CANDACE GRAMMOND: Thank you.
17 Now, the DCAT report that's been provided recommends a
18 single value for the RSR of 172 million, and that's
19 rather than a range, for the Basic RSR.

20 Can you summarize for us how the
21 Corporation would propose to use a single-value target
22 when making decisions for the future in terms of
23 proposing either an RSR rebate or an RSR rebuilding
24 strategy?

25

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: So there -- there
4 were definitely a few Information Requests on this --
5 on this question. The -- what the -- what the new
6 DCAT does fairly well is there -- there is multiple
7 scenarios, multiple risk tolerance levels for each
8 scenario, and it gives the Board a chance to look at
9 results at some of these different thresholds.

10 As you know, in the -- in -- in the
11 report I used a one (1) in forty (40) year threshold
12 to select the scenarios. And based on that threshold
13 the result was a -- a recommendation of a minimum \$172
14 million rate stabilization reserve. So it's important
15 to note that that -- that is a minimum. So even if
16 the Board isn't in agreement with the one (1) in forty
17 (40) tolerance, let's -- let's for now say that --
18 that you are, just for example.

19 One (1) in forty (40) years, \$172
20 million, is the minimum amount you need in RSR to
21 protect you from one (1) in forty (40) year events.
22 Not -- if you pick out an amount lower, you no longer
23 have that level of protection that -- that you -- you
24 selected the tolerance for.

25 So the -- so I don't see it as being a

1 lot different -- like right now we have a range with a
2 maximum. If we were significantly over the -- the one
3 hundred and seventy-two (172), the Board may wish to
4 issue a rebate. And, similarly, if we were
5 significantly less, the -- the Board may wish to order
6 a -- a surcharge.

7 In -- in the report, I had to select a
8 -- a tolerance level where I thought -- you know,
9 where I had to assume the Board would issue a
10 surcharge. That was an a -- an assumption. But --
11 but, in a similar manner, where -- when that, you
12 know, on that threshold is passed, whether it's 125
13 million or something else, we would expect that the
14 Board would want to rebuild to their target risk
15 tolerance level.

16 MS. MARILYN MCLAREN: As well, what we
17 discussed last year is it really is situation
18 specific. And there's a lot of context that we and
19 the Board would need to consider. It -- specifically,
20 the -- the trends that -- that would be indicated in
21 our outlook years. You know, if we are below the
22 target even, you know, a hundred and twenty-five
23 (125), if the target was a hundred and seventy-five
24 (175), depending on what the forecast and the outlook
25 years are saying.

1 If it -- also, if this event that
2 caused the loss that drew the RSR down that much also
3 had a significant effect on ongoing costs, we've
4 already had a rate increase, you would likely need to
5 move more quickly. You would likely need to have a
6 surcharge in a way that you may not. If you have
7 deteriorating results going forward and you have
8 excess money in the RSR, you're -- you might not want
9 to be -- we would not want to be applying for a
10 rebate.

11 So that's why -- there -- there's
12 something --in my way of thinking, there's something
13 that -- that adds some measure of rigidity by having a
14 range that you don't have when you have a number. You
15 know, because we're -- it -- it's almost like
16 regardless of circumstance, if you're in or outside a
17 range, there's an expectation that you act. I don't
18 think that that is appropriate in any way, shape, or
19 form in many, many circumstances. It really depends
20 on where are the trends going in the future.

21 MS. CANDACE GRAMMOND: So if -- if I
22 can paraphrase that a little bit just to make sure
23 that -- that we understand, what you're saying, Ms.
24 McLaren, is that going forward the Corporation isn't
25 in a position now to say at what threshold it may ask

1 for a surcharge, for example?

2 MS. MARILYN MCLAREN: Right. In the
3 DCAT scenario, you know, there's an expectation that
4 management regulatory action is considered. That's
5 what Mr. Johnston did in the DCAT. But, again, that
6 was a scenario where it was significantly compromised
7 and was not going to naturally return to higher
8 levels.

9 So it -- it's that kind of context that
10 it's important. It's not important that it was just
11 below a hundred and twenty-five (125). It's also
12 important that what, you know, what directionally
13 where are we going into the next few years, according
14 to our best estimate at the day.

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE GRAMMOND: I just want to
19 -- just further to this point, I just want to be clear
20 about what the Corporation is asking for. So I'd ask
21 you to go to Tab 1 of the Board's book of documents.
22 This is the revised Application. So Tab 1 of the
23 Board's book of documents. The part that I'm going to
24 be asking about isn't the revised part. The revisions
25 were just dealing with the collector use but --

1 MR. LUKE JOHNSTON: Yes.

2 MS. CANDACE GRAMMOND: -- so we -- we
3 see here at the third bullet of the Application:

4 "The Corporation is asking that the
5 Board approve the use of the DCAT
6 methodology to determine the Basic
7 AutoPac RSR target based on the
8 chief actuary's final DCAT report,
9 which will be submitted in June."

10 That's, of course, the 172 -- 172
11 million?

12 MR. LUKE JOHNSTON: Yes.

13 MS. CANDACE GRAMMOND: And then the
14 next bullet is:

15 "The Corporation is asking for a
16 range around the recommended RSR
17 target, if a range is deemed
18 necessary, based on the actuarial
19 guidelines of a one (1) in twenty
20 (20) to a one (1) in one hundred
21 (100) probable event."

22 And I just want to confirm, is -- is --
23 and -- and this maybe is from my background as a
24 lawyer, but would it be fair to say what's being asked
25 for at the fourth bullet is like an alternative

1 request? So you want the third bullet, which is the
2 target point, but if -- and in the alternative, if the
3 Board wants to set a range, then it should do so? I -
4 - I just want to be clear on how we're reading those
5 bullets together.

6 MS. MARILYN MCLAREN: Well, my
7 understanding is that the -- the fourth bullet is
8 still dependent on the use of the DCAT and the number
9 that is driven by Mr. Johnston's work. And if the
10 Board deems necessary, here's how we might suggest
11 that you think about a range.

12 We would still take the position that a
13 range is not optimal. We would still take the
14 position that we would prefer a number driven by the
15 DCAT.

16 MS. CANDACE GRAMMOND: So the
17 Corporation's best-case scenario would be that the
18 Board grant the third bullet and not do anything with
19 respect to what's at the fourth bullet, but if the
20 Board is inclined to grant a range, then those would
21 be the parameters that the Corporation would seek.

22 MS. MARILYN MCLAREN: Exactly.

23 MS. CANDACE GRAMMOND: Okay. Thank
24 you. Now, with respect to these requests and in -- in
25 light of the technical conference that we had and --

1 and the understanding, on our part anyways, that we --
2 we hope to reconvene the technical conference at a
3 future time once the balance sheet is available, can
4 you talk a little bit about why the Corporation is
5 asking for this level of specificity when the -- the
6 technical conference hasn't really run its course?

7 MS. MARILYN MCLAREN: There's an RSR
8 to this effect in terms of, Why are you are suggested
9 -- an IR to this effect, Why are you suggesting a
10 target in the absence of a balance sheet? And someone
11 can find that reference.

12 But we really believe that there was
13 support -- if not strong formal consensus there was
14 certainly support during those proceedings for a DCAT-
15 based target. We do not believe that the balance
16 sheet leaves so much lacking that we cannot move in
17 that direction.

18 You know, structuring formal action or
19 something like that, I -- I understand, will evolve
20 through time. But in terms of taking that step, which
21 would really, you know, confirm the appropriateness of
22 the next couple of days that we would spend once we
23 have a balance sheet because if the Board is really
24 not prepared to do that, I think we need to know
25 sooner rather than later what else are we doing to do.

1 So I -- I think it's a reasonable
2 request. I think it is certainly defensible based on
3 the discussion and support or consensus, however you
4 want to phrase it, at -- those two (2) days. And if
5 the Board isn't prepared to, we would really need to
6 understand why, and then what are they prepared.

7

8 (BRIEF PAUSE)

9

10 MS. MARILYN MCLAREN: I can refer
11 everyone to pages 156 and 157 of the transcript, this
12 year's transcript, where Ms. Kalinowsky asked Mr.
13 Johnston about this issue specifically:

14 "Even without the balance sheet, can
15 the PUB, in your opinion, still use
16 the DCAT to determine the RSR
17 target?"

18 And there's some -- a number of very
19 specific reasons as to why our position is 'yes'.

20

21 (BRIEF PAUSE)

22

23 MS. MARILYN MCLAREN: Once the members
24 have that reference, maybe we'll ask Mr. Johnston to
25 revisit it. Best he do it in his own words, rather

1 than me.

2 MR. REGIS GOSSELIN: Was that 156?

3 MS. MARILYN MCLAREN: Yes.

4 MR. REGIS GOSSELIN: Okay.

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: Okay. So on page
9 156, I started this discussion by stating that I agree
10 that there are definitely some -- some reasons why you
11 would want a balance sheet. And the first one was
12 that it -- it would provide more transparency for the
13 -- for the DCAT.

14 Second, it would -- it would allow
15 projection of some other comparative ratios like the
16 minimum capital tests which are used by other public
17 insurers like SGI and private insurers as well.

18 And the third reason being that it is
19 common that all -- all other actuaries would use a
20 balance sheet in their DCAT. We've talked about that
21 in previous hearings, that our purpose here is a
22 little bit different. It's not actually required by
23 the regulator to do an MCT test, for example.

24 The -- in terms of the reasons why the
25 -- the DCAT is -- that -- that we believe the DCAT is

1 still -- the Board can use it to set the RSR at this
2 time is -- the first reason was that the Corporation
3 does actually project claims incurred balances at the
4 end of each year, inclusive of interest rate impacts.
5 And that's in the claims incurred section. A lot of
6 what we're talking about right -- right now is that
7 exact point: You know, what is the impact to claims
8 liabilities at the end of a given year?

9 Similarly, the second point I made on -
10 - this is on 1 -- page 157, a similar process happens
11 on the assets side. We're again projecting the year-
12 end market values of the assets. The investment
13 models have been significantly enhanced to do this, so
14 we're well on our way to -- to creating the balance
15 sheet. We just need to complete the -- the last
16 piece.

17 Third was that the -- the DCAT report,
18 in collaboration with -- with the PUB and the CAC,
19 does provide, in my opinion, very detailed
20 descriptions of the scenarios, and as far as I can
21 tell, I don't -- I don't see how the bal -- the
22 inclusion of the balance sheet would specifically or
23 significantly change the assumptions made in these
24 scenarios and the -- the impact from those scenarios.

25 So the -- and finally, the -- the last

1 reason was that it -- it would -- although it would be
2 nice to have the MCT scores for comparative purposes,
3 that again this isn't something that the Board uses to
4 determine the RSR target. So my opinion there was
5 that it's not -- it's not vital for the Board to have
6 this to assess the DCAT results.

7 MS. CANDACE GRAMMOND: Thank you. I
8 have a couple of questions on a -- a different area,
9 and that relates to the DSR scale. So it's reflected
10 in the filing, and I have the reference if you need
11 it, that by 2015, the Corporation will have five (5)
12 years of DSR experience available for analysis.

13 Does that sound right?

14

15 (BRIEF PAUSE)

16

17 MR. LUKE JOHNSTON: Yes. Sorry, I had
18 to count my fingers there to make sure I had the --
19 obviously the policy, the -- the earning of the -- of
20 the driver premiums, right, with staggered renewals
21 and all that. But, yes, by the end of 2015 -- '14/'15
22 you'll have -- sorry, pardon me, '15/'16 you'll have
23 five (5) years of data.

24 MS. CANDACE GRAMMOND: So at that
25 time, and I appreciate that's a couple years down the

1 road, would the Corporation expect to file some kind
2 of an analysis of the DSR experience based on the five
3 (5) years?

4 MR. LUKE JOHNSTON: Yeah. So we're --
5 we -- we do file DSR information now. And -- and I
6 admit it's -- it's essentially for for -- forecasting
7 purposes based on the scale that we have in place
8 today. So we're -- we're collecting information on
9 DSR. We're fairly pleased with the results of DSR, so
10 the -- the risk per -- you know, the -- the
11 predictability of -- of risk on each level on the
12 scale is performing very close to our original
13 expectations.

14 Where we struggled a little bit is
15 movement of drivers. We -- we knew that behaviour
16 might change a little bit with DSR. We knew that it
17 was going to take a few years for the model to
18 stabilize to get to kind of the steady state DSR
19 distribution. A good example would be, I think we
20 only had maybe 2 percent or a little more of drivers
21 in demerits when DSR started.

22 It's expected a -- a more steady state
23 would be around the 8 percent range, but we've already
24 seen some change in behaviour at the bottom of the
25 scale, different -- different from what we've

1 expected. So the -- we'll definitely include a more
2 detailed DSR analysis as we collect more data. We
3 have the data already.

4 The caution that we were giving is --
5 is that for any kind of rate-making we're using five
6 (5) to ten (10) years of data. So we want to make
7 sure we have a sufficient amount of data. We're also
8 dealing with some experience that's possibly not
9 predictive of the future right now. We still need to
10 get to the steady state and understand what it looks
11 like once it's got to that -- to that point.

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE GRAMMOND: Thank you, Mr.
16 Johnston. So once the Corporation has the five (5)
17 years of data and -- and does the analysis that we've
18 been talking about, do you think the Corporation would
19 -- would go forward with testing, in terms of
20 comparing the existing DSR premiums, or driver
21 premiums, with the experience-driven indicated values,
22 like a fairness in rating analysis?

23

24 (BRIEF PAUSE)

25

1 MR. LUKE JOHNSTON: Well, there's --
2 yeah, there's no doubt that the -- this -- the
3 analysis can be done. There's a -- even in the -- the
4 DSR research that we did, what we did at -- in that --
5 in that research was we basically put in a -- a DSR
6 program -- pretended to put in a DSR program in 2001
7 and then ran that experience out, assuming that that
8 system had been in place.

9 And at the DSR -- our initial DSR
10 research showed what we might expect for indicated
11 costs and premiums collected by DSR level. So we have
12 -- we -- we have provided some -- some expectations on
13 that. In the future when we have enough -- when we
14 think there's a credible amount of data to do so, we
15 can definitely provide that information.

16 I think Ms. McLaren can talk about
17 whether the rates -- how we'd want to move the rates
18 to -- to -- you know, to actuarial principles, or
19 relative to what we have right now.

20 MS. MARILYN MCLAREN: Yeah, we really
21 need to -- to continue to strike an appropriate
22 balance, because it's a public policy decision every
23 bit as much as it's a rating decision. With a program
24 like this, where people have acc -- guaranteed access
25 -- that's a principle, guaranteed access to auto

1 insurance -- you don't want to be pricing people out
2 of the market at the lower level.

3 One (1) of the things we did with some,
4 you know, surveying sensitivity testing in terms of
5 what do you think the maximum premium should be. So
6 we always need to be really cognizant of that. And we
7 need to find ways to make sure that this is highly
8 consistent with actuarial principles. But when it
9 comes to this factor, there is some policy discussion
10 and -- and decision that needs to be made.

11 And that's true at the top end as well.
12 You know, you can have extremely low rates for
13 somebody who hasn't caused a crash in twenty (20)
14 years. But when you know what those people believe is
15 that once they cause a crash, after many years of not
16 causing a crash, they don't want it to affect their
17 premium. What they care about more than anything is -
18 - is rate stability.

19 We know they're prepared to give up a
20 little bit of annual discounts to have a little bit
21 more of a cushion when, in fact, they do mess up.
22 Because we know that's where the vast, vast majority
23 of crashes are caused, by good drivers who make a
24 mistake once every ten (10) or twenty (20) years.

25 So that rate stability principle has to

1 be considered at the top, and access and some -- some
2 consideration of -- I know it's very subjective, but
3 affordability, needs to be considered at the bottom.

4 MS. CANDACE GRAMMOND: Thank you. I'm
5 going to move then to a few questions about one (1) of
6 the Corporation's goals, and I'll ask --

7 MR. REGIS GOSSELIN: I just -- I
8 wonder, Ms. Grammond, if I could ask a -- a question,
9 just a general question.

10 In terms of the research that you have
11 done or proposed to do, do -- do you have some sense
12 that the DSR approach has changed behaviours? Any
13 data that you could point to that would indicate that
14 be -- beyond the psychological impact, has it actually
15 changed behaviours?

16 MS. MARILYN MCLAREN: We -- we
17 actually referenced that in the management discussion
18 analysis in our annual report. And maybe someone can
19 help me find that reference. But it was, you know,
20 through our forecasting process, revisiting what's
21 happened, we see that overall claims frequency has not
22 gone down. In fact, it's returning to, you know, more
23 stable, higher levels as opposed to the last couple of
24 years.

25 But that's not true of the drivers at

1 the worst, lowest end of the scale. We're not getting
2 as much money from them as we thought we would. And
3 that's nothing but good news, if it means they're just
4 driving better.

5 So it's on page 37 of the annual
6 report, the one with the blurry cars on the front.
7 And what it says is, talking about the outlook -- this
8 is the outlook section, "Basic AutoPac Net Income."
9 And we said that:

10 "Early indications suggest a
11 continuation of the trends that led
12 to the loss in '12/'13. After two
13 (2) of the last four (4) years
14 showed improved collision frequency,
15 the rate that Manitobans are causing
16 vehicle crashes seems to be
17 returning to higher, longer term
18 trends. At the same time higher-
19 risk drivers, those with negative
20 driver safety ratings, seem to be
21 improving their driving. While this
22 results in lower premium revenue, it
23 may suggest a very positive change
24 in behaviour."

25 And then it -- we go on to talk about

1 economic recovery and interest and investment income
2 and so on. But that is absolutely where some of our
3 missed budget for revenue came from, was from the
4 people at -- at the -- the lower end, because they are
5 -- they're not -- they're moving up more than they --
6 and they're not continuing to move down. So we're not
7 getting as much money from them, but the rest of us
8 are still crashing into each other at higher rates.

9 MR. REGIS GOSSELIN: And a follow-up
10 question would be: Have you got any ev -- any do --
11 any data that shows that, to use your expression,
12 'driving people out of the market', at the low -- at -
13 - at the high-risk driver --

14 MS. MARILYN MCLAREN: Sorry, can you
15 repeat that?

16 MR. REGIS GOSSELIN: I guess I'm
17 wondering if, you know, given that you're -- if you're
18 a really poor driver paying twenty-five hundred
19 dollars (\$2,500) a year, have -- have you seen any --
20 any evidence people are just dropping their licences
21 and continuing to drive?

22 MS. MARILYN MCLAREN: The numbers are
23 holding, so if we were seeing significant less revenue
24 because the numbers had fallen off, that -- that would
25 be less encouraging. That's -- that's not what we've

1 seen.

2 MR. LUKE JOHNSTON: If -- if you're
3 looking for the statistics on -- on what Ms. McLaren
4 just talked about, in -- in the revenue section, page
5 20, Volume II, there -- I'll let you get there.

6

7 (BRIEF PAUSE)

8

9 MR. LUKE JOHNSTON: Are you there?
10 Yeah? So on the -- on the bottom of page 20, there's
11 a table called "Probability of Upward Movement on the
12 DSR Scale." And all that means is what's -- what per
13 -- basically, what percentage of those drivers had a
14 clean year and moved up the scale.

15 And on the left side, it shows the DSR
16 levels: what they did this year; what they did the
17 year before. And you'll see the drivers at the top:
18 95 percent moved up this year and 95 percent moved up
19 last year.

20 At the very bottom of the scale, 62
21 percent moved up this year; only 57 percent moved up
22 the year before. And that trend is -- happens for --
23 for the one (1) to ten (10) demerit level as well.

24 The -- the caution we put here on the
25 bottom, though, is that that's great and -- and we

1 definitely hope that that is related to the DSR
2 program, but we also are moving to a new kind of
3 steady-state DSR distribution, so we don't want to
4 overstate, you know, this apparent improvement, right?
5 It could be from other factors as well.

6 MS. MARILYN MCLAREN: Yeah. We want
7 to be cautious and try and understand what it means.
8 We don't want to make the same mistake we did in terms
9 of reading too much into two (2) years of reduced
10 collision frequency 'cause that didn't hold.

11

12 (BRIEF PAUSE)

13

14 CONTINUED BY MS. CANDACE GRAMMOND:

15 MS. CANDACE GRAMMOND: Thank you. So
16 I have a couple of questions about one (1) of the
17 corporate goals. It's found in Volume III in the
18 annual report; so the same coloured document that Ms.
19 McLaren just referred you to. So Volume III; it's AI-
20 6, and it's page 25.

21

22 (BRIEF PAUSE)

23

24 MS. CANDACE GRAMMOND: So page 25 of
25 the annual report, we see there at the top, "Goal 2,"

1 which is that the Basic plan will return at least 85
2 percent of premium revenue to Manitobans in the form
3 of claims benefits. Yes?

4 MS. MARILYN MCLAREN: Yes.

5 MS. CANDACE GRAMMOND: Now, we asked a
6 couple of IRs about that goal and I want to have a bit
7 of a discussion about what the Corporation considers
8 to be included under the phrase 'claims benefits' when
9 we're talking about that being returned to Manitobans.

10 And we learned, for example, that --
11 and this is at Tab 28 of the Board's book of
12 documents, if you wish to go there, that, under the
13 Corporation's calculation, road safety expenses are
14 included in claims benefits as that term is used in
15 Goal 2.

16 MS. MARILYN MCLAREN: Sure, to the
17 extent that they're included as a subset of claims
18 expenses.

19 MS. CANDACE GRAMMOND: So I think what
20 you're saying is, for accounting purposes, road safety
21 expenses are included under the broad heading of
22 claims expenses and, hence, translate into the heading
23 of claims benefits for the purposes of this goal?

24 MS. MARILYN MCLAREN: Yes.

25 MS. CANDACE GRAMMOND: Is there

1 anything more that the Corporation points to to
2 suggest that road safety expenses are claims benefits?

3 MS. MARILYN MCLAREN: I mean,
4 theoretically, you're spending money on road safety to
5 reduce your exposure. We can have the discussion that
6 we've had before about the difference between road
7 safety and loss prevention. If you look at that
8 budget line over the last -- getting close to ten (10)
9 years but certainly since 2006, the -- the -- by far
10 the biggest piece of that road safety budget has been
11 the theft loss prevention.

12 So I -- I would argue that that's very
13 appropriate to have those theft loss prevention costs
14 in there when it has such a significant, measurable
15 impact on the reduction of your actual claims costs.

16 So whether you want to say, Well, okay,
17 but maybe you should put loss prevention in there but
18 put road safety out, I mean, since 1971 this has been
19 a goal for the Basic insurance plan. And it's a
20 standard kind of loss ratio calculation that insurers
21 use. It's your claims payments out the door plus your
22 cost of administering those claims.

23 In our case, many years ago, now, we
24 did move road safety costs from operating expenses
25 into the claims expense side of the business for the

1 reasons that -- that I've talked about. There was no
2 real push back here and, so -- I mean, it was just
3 something else that we included in that calculation.
4 It's no more complicated than that.

5

6 (BRIEF PAUSE)

7

8 MS. MARILYN MCLAREN: You know, I
9 mean, further to that discussion, I guess, our
10 response to P -- the IRs that you were talking about,
11 the response to PUB-2-19; last part of that first page
12 there, you know. I mean it's -- it's not going to
13 make the difference of making the goal or not making
14 the goal whether we include road safety or don't
15 include road safety, right. It's a very tiny
16 percentage of our overall costs.

17 MS. CANDACE GRAMMOND: I was also
18 going to ask you about claims expenses, and I know you
19 -- you mentioned that on the accounting side, that
20 claims expenses are -- are included there and -- and
21 translate over to the goal.

22 But I -- I guess where we're coming
23 from with this is that this is a goal that's reported
24 in the annual report. It is worded as Basic plan
25 returning at least 85 percent of premium revenue to

1 Manitobans in the form of claims benefits.

2 And, so when -- when that is read it
3 seems to imply one thing, but when we get into the
4 details we see that road safety expenses are included,
5 claims expenses are included, even deferred policy
6 acquisition costs are included. So is it maybe just a
7 matter of the semantics and could this goal be worded
8 maybe a little bit better, given the context?

9 MS. MARILYN MCLAREN: I -- I think
10 this is part of -- it's just an indication of one of
11 those things that sometimes happens in organizations.
12 That particular goal has been wordsmithed by the
13 communications people through time and that's what we
14 have.

15 Years ago we did talk about it more
16 specifically in terms of, you know, the money that
17 Manitobans pay. How much of that -- for every premium
18 dollar, how much of that is returned in direct claims
19 payments and to cover our costs of making those claims
20 payments?

21 So that's the way we talked about it,
22 which, you know, I mean, I can argue DCAT one way or
23 the other, but it could be refined to be more
24 technically accurate as a loss ratio calculation
25 that's comparable across the country. That's what's

1 important to us because you can go to any listing that
2 -- that any reporting agency or anybody does of all
3 the insurers doing auto insurance in the country. You
4 can -- you can go, you can look at their premiums.
5 You can find their claims in claims expense. You can
6 calculate their loss ratio.

7 The report itself probably does that
8 and it makes us very comparable. So that's really
9 what's important to us. And if we tweaked the wording
10 to be more technically consistent that certainly
11 wouldn't hurt us.

12

13 (BRIEF PAUSE)

14

15

16 MS. CANDACE GRAMMOND: Thank you. I
17 just have a couple more questions before I turn the
18 mic over to Mr. Williams. The first question relates
19 to a new area, a new thing that I don't think we've
20 ever talked about in these proceedings before. I'll
21 just have a couple of questions on it. I'll just have
22 a couple of questions on it and it's with respect to
23 the topic of Telematics. And that is what we
24 understand to be a rapidly growing technology for auto
25 insurers in North America.

1 This is the idea of there being a -- a
2 device within the vehicle that tracks driving
3 behaviour and -- and so forth, with the potential of
4 providing insights into the sources of risk, improving
5 fairness and rating, and improving driver behaviour.

6 Can you comment on whether the
7 Corporation has given any consideration to this type
8 of technology and what -- what that consideration
9 resulted in?

10 MS. MARILYN MCLAREN: Well, we
11 certainly agree it's -- it's taking off like wildfire
12 in this country. It's sort of the new technologically
13 advanced version of pay as you drive, right, where
14 some insurers were offering people the opportunity to
15 vary their rate based on how far they drove.

16 This is much more sophisticated. It
17 considers acceleration, braking power, what time of
18 day you drive, where you drive, are you in the
19 congested area, are you not. And more and more
20 insurers are coming forward with voluntary options for
21 their customer base.

22 It -- it's -- for the most part, it is
23 -- I really believe it continues to be a marketing
24 tool. It is a way that some insurers are trying to
25 either retain or extend their access to really

1 desirable customers. This -- it's -- it's -- I think
2 in this forum before, I've used a phrase like it --
3 it's really somewhat niche marketing.

4 I think it's expanding faster than
5 that. I'm not sure it would still qualify as niche,
6 but it's certainly not the business we're in. You
7 know, we have to be accessible and do things that make
8 sense to the entire province.

9 So we're certainly paying a lot of
10 attention to it. I don't know that there is much
11 evidence that it really, truly drives changing
12 behaviour. So is it just a rating -- new way to rate?
13 I don't know and I think it's something we do have to
14 pay attention to. We need to think about what, if
15 anything, might be appropriate for Manitoba 'cause
16 it's a very, very different mind set.

17 I like what Saskatchewan has announced
18 that they're doing, SGI. They are considering a
19 Telematics pilot for motorcyclists because they have a
20 particular issue, like we had had for a very long
21 time. They don't have sufficient rates. They're
22 trying to help improve safety of motorcycles. They're
23 going to run a pilot with a Telematics kind of
24 solution.

25 So that, kind of, may be very specific,

1 with an emphasis on problem solving as sort of a very
2 broad brush, might work for us through time. We're
3 paying attention. We don't have any strategies up our
4 sleeves.

5 MS. CANDACE GRAMMOND: Thank you. So
6 just one (1) last question for the moment. And, Mr.
7 Johnston, this arises from an exchange that you and I
8 had, and I just want to clarify the question and
9 answer to make sure that we've -- we've got the right
10 understanding.

11 So at page 235 of the transcript -- you
12 can go there if you want, and I'll just -- I'll just
13 read you the question and answer. This was in the
14 context of the new collector insurance use and, so, I
15 had asked you whether the major class, proposed rates
16 were altered in any way by the instruction of this
17 use:

18 "So, for example, are motorcycles
19 still at an indicated rate change of
20 a 6 percent decrease?"

21 Your answer was:

22 "Yeah. There's no changes to the
23 proposed rates by major class."

24 So the followup question is: is the
25 rate change that's being proposed by the Corporation

1 still the same in light of the collector insurance use
2 being put forward? So rate change as opposed to
3 proposed rates and that's at the major class level.

4 MR. LUKE JOHNSTON: Yes.

5 MS. CANDACE GRAMMOND: Thank you. We
6 just wanted to have that clarified.

7 So, Madam Chair, I'm -- I'm finished
8 with that portion of my cross. I'm not closing my
9 cross 'cause I still will have questions likely on the
10 IFRS report that was filed. There may be followup
11 questions on pre-asks or undertakings that are still
12 rolling in, or maybe just a few areas of cleanup. So
13 I'm probably not done, but I'm done for the moment.

14 Well, and, yeah, and of course there'll
15 be the outside witnesses coming in as well, but in
16 terms of the MPI panel, I just probably have a little
17 bit that I'll complete on another day. So I'm happy
18 to turn the mic over to Mr. Williams.

19 THE CHAIRPERSON: Before Mr. Williams
20 starts, maybe we'll take our fifteen (15) minute break
21 right now, and then we'll start fresh with Mr.
22 Williams when we come back. Thank you.

23

24 --- Upon recessing at 10:25 a.m.

25 --- Upon resuming at 10:43 a.m.

1 THE CHAIRPERSON: We're ready to begin
2 the proc -- proceedings again. But just prior to Mr.
3 Williams speaking, we have a question -- well, first I
4 think, Ms. Kalinowsky, you have a -- an undertaking to
5 register?

6 MS. KATHY KALINOWSKY: Yes, there are
7 a number of people working back at the office
8 preparing undertakings very quickly. And Undertaking
9 number 9 should be filed and marked as MPI Exhibit
10 number 26, please.

11

12 --- EXHIBIT NO. MPI-26: Response to Undertaking 9

13

14 THE CHAIRPERSON: Thank you. And now,
15 Mr. Gosselin had a -- a follow-up question he had for
16 MPI.

17 MR. REGIS GOSSELIN: I wanted to
18 quantify, in my own mind, if the -- if the -- the
19 Board -- the Board was to accept the -- the formula
20 and we arrived at a 172 million, in terms of the range
21 around that 172, what are we talking about in terms of
22 numbers, using 172 as the base?

23 MR. LUKE JOHNSTON: So do you mean,
24 like, how much variability would you expect in future
25 DCATs? Or -- or how -- or a range?

1 MR. REGIS GOSSELIN: That -- that's
2 the -- my next question. Although we could address it
3 right now, if you'd like. I'd like -- I'd like to
4 know how -- I -- I do want to know how table that 172
5 is, you know, going forward. Is it -- are we looking
6 at significant year-to-year variability in -- in the -
7 - in the amount, or -- and -- and also understand what
8 would cause the variability? What -- what...

9 MR. LUKE JOHNSTON: Well...

10

11 (BRIEF PAUSE)

12

13 MR. LUKE JOHNSTON: I'll start -- I'll
14 start with -- maybe with the -- just the variability
15 question. I definitely understand the -- the concern
16 about variability in the DCAT, particularly in the
17 past where it was myself or Jim Christie who used to
18 do the DCAT. You have a report where an actuary makes
19 assumptions, comes up with an opinion, here's the
20 number, and the actuary stands by that amount. What -
21 - what involvement does the, you know, the Board have
22 to keep that number stable and, you know, and then
23 from changing all -- you know, up and down?

24 So one (1) -- the biggest thing we've
25 done in that regard is the collaborative exercise that

1 we're -- we went through last year. And -- and I -- I
2 hope and expect to continue to do that. So even --
3 even just in the -- in the last year you've seen much
4 more agreement on the assumptions and methods used in
5 the model. So that should add a -- a significant
6 amount of stability.

7 For -- for risk factors where you're
8 using long-term data like equity returns, would be a
9 good example. In general, the -- adding an extra year
10 of equity data should not change your -- your expected
11 distribution that you're modelling on too much, unless
12 there's some kind of really fundamental change that we
13 need to talk about here.

14 Similarly, with -- with claims data, we
15 pro -- provide the models, you know, hundreds of
16 thousands of claims. We wouldn't expect very, you
17 know, quick fundamental changes where the model's just
18 all of a sudden going to start putting out numbers,
19 you know, significantly higher than -- than the
20 current DCAT.

21 The -- definitely an important
22 consideration that -- that I talked about is -- is
23 something I had to use judgment in -- in this DCAT was
24 the management and regulatory action. So there --
25 there's judgments in there that -- that myself and --

1 we're -- we're working with a -- our CEO and CFO made.
2 But clearly if -- to the extent that those are
3 modified, you can -- you can definitely change the --
4 the target. But those are in our control, right?
5 They're -- they're not, you know, these adverse
6 events.

7 The other -- the other thing that,
8 again, would aid us in somewhat of our control is the
9 -- the Corporation's risk profile in general when it
10 comes to re-insurance. If -- if we're considering
11 making a change to our re-insurance policies that
12 would be something important to talk about, and that
13 would definitely have an immediate impact on the DCAT.

14 For example, if you decided to accept
15 more -- have more retention on hail storms, right,
16 that would be -- that would flow right into the DCAT
17 results. And just if I -- one second to answer your -
18 - your remaining question.

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: And in -- in terms
23 of the range, I'll ask another clarification. Do you
24 -- is your question, What -- what is the actual range
25 in terms of a one (1) in twenty (20) to a one (1) in

1 forty (40) or a one (1) in a hundred (100), or -- or
2 are you asking, What would MPI recommend as having a
3 range around this 172 million?

4 MR. REGIS GOSSELIN: No. Your
5 recommendation, or at least the -- the Application
6 suggests that a range around the RSR target of one (1)
7 in twenty (20) and a one (1) in a hundred (100)
8 probable event.

9 So in relation to the one seventy-two
10 (172), what are we talking about in terms of dollars?

11 MR. LUKE JOHNSTON: I'll -- I'll take
12 that as an undertaking and -- and get it to you. The
13 -- one -- one thing I noted in the report is that
14 there's literally hundreds of scenarios, and they're
15 all estimated and then only the ones we want we put
16 through a financial model, which takes a lot more
17 work.

18 So I just want to see what those
19 numbers are, and maybe even run them through the model
20 for you to get that number, yeah.

21 MR. REGIS GOSSELIN: Yeah.

22

23 --- UNDERTAKING NO. 26: MPI to quantify the dollar
24 value of the one (1) in
25 twenty (20) to one (1) in

1 one hundred (100)
2 referenced in the
3 Application, and also
4 provide some situational
5 potential actions based on
6 solely a number
7

8 MR. REGIS GOSSELIN: I -- I think one
9 of the difficulties I'm having with the one seventy-
10 two (172) is at what point do you get into the zone
11 where you either trigger rebate? I know I -- so if --
12 if you say one seventy-two (172) and we're going to --
13 you know, we're at one eighty-eight (188) or one
14 ninety-two (192), where is the -- where is the point
15 at which the panel would be able to say, Okay, well
16 now we've got too much, you know?

17 So -- so that's one -- one issue, but
18 the -- the opposite is also true. In other words,
19 we're at one sixty (160) and, you know, at what point
20 you would trigger -- do we trigger an increase to
21 address the one seventy-two (172), or at least the --
22 the notional target of one seventy-two (172)?

23 We had the same dilemma, I suppose, in
24 -- in respect of the range that was established
25 before, but I just want to have some comfort around

1 what those numbers would look like because one
2 seventy-two (172) is -- is a hard figure. And are we
3 going to trigger a rate increase when it's one sixty-
4 nine (169)? Or, you know -- so I just want to have a
5 better understanding of what we're getting ourselves
6 into.

7 MS. MARILYN MCLAREN: Would it also be
8 helpful if, when we provide the answer to that
9 undertaking, that we also try to suggest some
10 scenarios that if the Board decides to go just with
11 the number, as -- as we're suggesting, what might be
12 some of the sort of contextual considerations that we
13 would think about before we would come forward for
14 either a rebate or a surcharge, if we were working
15 with just the number?

16 You know, and it would be things like -
17 - I -- I don't believe we've ever applied for or the
18 Board has ordered a rebate of less than fifty (50)
19 something million dollars, you know. So I would say
20 189 million wouldn't trigger anything with a target of
21 a hundred and seventy-two (172).

22 So things -- if it -- if we really
23 believe that a number is better than a range, then
24 that might be one way to give you some understanding
25 as how we would think about working with the number

1 while Mr. Johnston also gives -- quantifies the range
2 for you. Would that be fair?

3 MR. REGIS GOSSELIN: Very good.

4 MS. MARILYN MCLAREN: That -- that
5 we'll quantify the dollar value of the one (1) in
6 twenty (20) to one (1) in one hundred (100) referenced
7 in the Application, and also provide some situational
8 potential actions based on solely a number.

9 MR. REGIS GOSSELIN: Just another
10 question. I'll now turn to Tab 8 of the book of
11 documents. Looking at -- what I was looking for here
12 specifically are the retained earnings. And I'm -- I
13 note that in -- at the end of 2010 the retained
14 earnings were eight-seven thousand, seven hundred and
15 seventy-three (87,773), so there was a significant
16 level of retained earnings at that point.

17

18 (BRIEF PAUSE)

19

20 MS. HEATHER REICHERT: Sorry, for the
21 2010 actual year end?

22 MR. REGIS GOSSELIN: Yes, that's
23 right.

24 MS. HEATHER REICHERT: So the second
25 column. The total Basic retained earnings for that

1 year is the very last number on the column, two
2 hundred and twenty-four million, seven hundred and
3 nine (224,709,000).

4 MR. REGIS GOSSELIN: No, I was looking
5 -- I'm sorry, I'll be more specific, retained earnings
6 prior to transfers of 87 million.

7 MS. HEATHER REICHERT: So that -- that
8 would be the next income, or in -- it was net income
9 in this particular year from annual operations was
10 eighty-seven million, seven hundred and seventy-three
11 (87,773,000).

12 MR. REGIS GOSSELIN: I'm simply trying
13 to understand. So surplus is beyond the once every
14 two (2) --

15 MS. HEATHER REICHERT: Oh, oh, oh, oh.
16 Oh, I'm sorry. I'm -- I'm sorry. I see -- I see the
17 next line that you're referring to. I'm sorry. So
18 that's retained earnings prior to transfers. Is that
19 -- that was the line that you were looking at. So --
20 yeah, so -- so any -- I apologize for the complexity
21 of this particular schedule, but what it is trying to
22 do is we set aside -- in the rate stabilization
23 reserve at the top of this schedule we -- we transfer
24 amounts of net income in any given year to the RSR
25 until it reaches the maximum RSR target set by the

1 Public Utility Board.

2 So we began the year -- if you look at
3 the very top of that column, we began the year with a
4 hundred and thirty-four million, nine fifteen
5 (134,915,000) in the RSR. The target was 154 million
6 maximum as per the Public Utility Board 10 to 20
7 percent of premiums. So we transferred from net
8 income in that year into the RSR nineteen million and
9 eighty-five (19,085,000).

10 So we -- we say, Here's the RSR maximum
11 as per the Public Utility Board target. Any retained
12 earnings we have in excess of that is treated as
13 excess retained earnings. So there was excess
14 retained earnings, the balance, if you will, in -- in
15 the fund -- in that year of seventy million, seven
16 hundred and nine (70,709,000). And it did not, in
17 that year, trigger any -- it did not -- it in and of
18 itself did not trigger a rebate.

19 There was other combinations of things
20 that had occurred that triggered that rebate in 2011,
21 the -- the very large release that occurred, that --
22 is -- is that helpful? Is that --

23 MR. REGIS GOSSELIN: Well, just that,
24 you know, it -- it becomes rather obvious to me that
25 we're using headers that -- as we go further down the

1 pipe into '17 and '18 we're losing the value of having
2 second -- separate categories or retained earnings,
3 one (1) dealing with the rate stabilization reserve
4 and retained earnings. Because monies, you know,
5 whatever you generate at the end of the year as far as
6 retained earnings -- I'm sorry, as far as net income
7 or loss shows up in the retained earnings and then
8 it's floated back into the rate stabilization reserve.

9 So -- so I'm not sure we're getting
10 much value of having separate categories for the rate
11 stabilization reserve and the retained earnings. I
12 mean, those are -- those are rather notional amounts,
13 but in reality what we are talking about is having a
14 suf -- sufficient retained earnings to address what
15 could potentially be a -- a rate shock.

16 So I guess what I'm say -- suggesting
17 is that this is rather a legacy document in terms of
18 how we manage the retained earnings of MPIC, both at
19 the Board level and MPIC level. It's not for today's
20 discussion, but simply making the point that -- that
21 really what we're talking about is -- is establishing
22 a re -- a level of retained earnings that protects
23 from the vagaries of operating an MPIC day to day, but
24 also it protects us against a rate shock that might
25 occur as a result of an untoward event, though.

1 MS. HEATHER REICHERT: Agreed.

2

3 (BRIEF PAUSE)

4

5 THE CHAIRPERSON: Okay. Thank you
6 very much. Now I would like to call upon Mr. Williams
7 to begin his cross-exam.

8 MR. BYRON WILLIAMS: Yes. Thank you
9 and good morning. This morning, I'm hoping that the
10 Board secretary distributed an additional book of
11 documents. It should be titled, "MPI GRA Book of
12 Documents, October 2nd, 2013."

13 And with the advice of the Board
14 secretary, I'd recommend that it be marked as CAC
15 Exhibit 7. It's comprised almost exclusively of
16 documents on the record. I -- I believe there's an
17 MPI press release in there as well as a little blurb
18 from a rate-making textbook.

19

20 --- EXHIBIT NO. CAC-7: MPI GRA book of documents,
21 October 2nd, 2013

22

23 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: Just -- I'm
25 probably going to start with you, Ms. Reichert, a

1 couple of questions about drivers' premium, and the --
2 it may spill over to Ms. McLaren just for a couple on
3 the same theme. I'll leave that up to the two (2) of
4 you.

5 But if you turn to, marked in the top
6 right-hand corner, page 1 of CAC Exhibit 7, Ms.
7 Reichert, you -- you'll -- you'll agree with me that
8 what we have here is an excerpt from the Corporation's
9 Application presenting the -- the projected -- or a
10 multi-year statement for the Corporation.

11 Agreed?

12 MS. HEATHER REICHERT: Agreed.

13 MR. BYRON WILLIAMS: And in terms of
14 focussing on the 20 -- the 2014/'15 projection year,
15 am I correct in suggesting to you that, in terms of
16 net premiums earned, the Corporation is looking at
17 drivers' premiums in the range of 44.8 million?

18 Correct?

19 MS. HEATHER REICHERT: Correct.

20 MR. BYRON WILLIAMS: And if we
21 compared that to the total net premiums earned of --
22 projected of 814.2 million, can we agree, subject to
23 check, that, in that particular year, they would
24 account for roughly 5 percent of total net premiums
25 earned?

1 MS. HEATHER REICHERT: Actually, 5.5
2 percent, yes.

3 MR. BYRON WILLIAMS: Yes. I was
4 trying to be conservative, but thank you for that.
5 And would it be fair to say that, if MPI was not in a
6 position to draw -- charge drivers premiums, it was --
7 would most likely have to make up that shortfall
8 through an increase in motor vehicle premiums?

9 MS. HEATHER REICHERT: Sorry. Yes, in
10 order to maintain a break even overall position.

11 MR. BYRON WILLIAMS: And, Ms.
12 Reichert, just moving across Canada for a second,
13 would I be correct in assuming that other public
14 insurers such as ICBC may receive a contribution from
15 drivers' premiums? If you're not aware, Ms. Reichert,
16 that's fine.

17 MS. HEATHER REICHERT: I am,
18 personally, not aware.

19 MR. BYRON WILLIAMS: Would I be
20 correct in suggesting that the Corporation is not
21 aware of any private insurers collecting drivers'
22 premiums?

23 MS. HEATHER REICHERT: I --
24 definitely, that would be the case.

25 MR. BYRON WILLIAMS: And it would be

1 fair to say that, for private insurers, drivers' prem
2 -- driver premiums are -- are not really an option.

3 Agreed?

4 MS. HEATHER REICHERT: Agreed.

5 MR. BYRON WILLIAMS: And just going,
6 now, to the cross-Canada comparison of -- of rates
7 between MPI and other insurers across Canada, how, if
8 at all, does MPI make provision for the fact that its
9 motor vehicle premiums are lower than they would
10 otherwise be due to drivers' premiums?

11

12 (BRIEF PAUSE)

13

14 MS. MARILYN MCLAREN: Subject to
15 check, I believe that we include the driver premium
16 based on the driving record of the person in the
17 scenario. I'm confident of that because I remember
18 many discussions making sure that we have gone to the
19 effort of including that same premium in Quebec where
20 they also do it.

21 MR. BYRON WILLIAMS: So in your view,
22 then, the -- any kind of competitive adv -- advantage
23 from the comparison is -- is averted by including that
24 into the analysis?

25 MS. MARILYN MCLAREN: Exactly.

1 MR. BYRON WILLIAMS: Thank you. I'm
2 going to jump a question for Ms. Reichert and then
3 over to Mr. Johnston for just a couple.

4 In terms of forecasting the --
5 developing the MPI forecast for inflation rate, Ms.
6 Reichert, would I be correct in suggesting to you that
7 the projected Manitoba inflation rate is based on
8 median forecasts from the major banks and Global
9 Insight? I think a reference for that might be C1.1,
10 page 4.

11

12 (BRIEF PAUSE)

13

14 MS. HEATHER REICHERT: Yes, it is the
15 median rate.

16 MR. BYRON WILLIAMS: Okay. And -- and
17 that median rate is derived from forecasts from major
18 banks and Global Insight?

19 MS. HEATHER REICHERT: Yes, that is
20 correct.

21 MR. BYRON WILLIAMS: Now, Mr.
22 Johnston, My Friend Ms. Grammond put you through the
23 wringer yesterday, so I'm not sure if you can recall
24 the entire conversation.

25 But you do recall -- well, I'll -- I'll

1 ask you, do you recall a conversation with her about
2 the Corporation's record in terms of forecasting
3 claims incurred?

4 MR. LUKE JOHNSTON: Yes, I do.

5 MR. BYRON WILLIAMS: And in the course
6 of that conversation you identified particular
7 challenges flowing from the introduction of the
8 reserving cal -- calculator, as it may have affected
9 the Corporation's estimate of IBNR for lines such as
10 accident benefit, weekly indemnity?

11 MR. LUKE JOHNSTON: Yes, I believe my
12 reference was to the 2010 and prior years.

13 MR. BYRON WILLIAMS: And indeed, you
14 noted that while there may have been systemic
15 overestimas -- estimation, 2010 or prior, it was your
16 view that any systemic bias that may have existed had
17 been addressed, correct?

18 MR. LUKE JOHNSTON: Correct.

19 MR. BYRON WILLIAMS: And, Mr.
20 Johnston, would you agree with me that you're probably
21 not the first analyst who has had to make revisions to
22 their forecast as new information comes in and new
23 insight is gained?

24 MR. LUKE JOHNSTON: Definitely.
25 Definitely not the first.

1 MR. BYRON WILLIAMS: Indeed, the --
2 you'll agree with me that the forecasting process is a
3 evolutionary process?

4 MR. LUKE JOHNSTON: If by
5 'evolutionary' you mean that we're constantly getting
6 new information and new data and -- and deciding what
7 -- how to use that, yes.

8 MR. BYRON WILLIAMS: And, indeed, we
9 expect that there will be deviations from the
10 forecast, but as professionals you strive to learn
11 from experience and minimize future deviations.

12 Agreed?

13 MR. LUKE JOHNSTON: Agreed. There --
14 there are certain forecast variables or categories
15 where you're going to expect a lot of deviation just
16 from normal patterns of how those risk factors play
17 themselves out. And others would expect less, but, of
18 course, you would want to improve your models
19 continuously.

20 MR. BYRON WILLIAMS: Ms. Reichert, you
21 had a busy day yesterday as well, particularly
22 discussing with My Learned Friend, Ms. Grammond,
23 interest rates. Agreed?

24 MS. HEATHER REICHERT: Yes, I answered
25 questions on interest rates yesterday.

1 MR. BYRON WILLIAMS: And without
2 wanting to step too far over the discussion that -- or
3 too much into the discussion that you had with Ms.
4 Grammond, we can agree that given the current dura --
5 matching of -- of durations of liabilities and -- and
6 investments, where interest rates are increasing, the
7 benefits to the claims liabilities exceeds the
8 negative impact to the bond values, agreed?

9 MS. HEATHER REICHERT: Agreed.

10 MR. BYRON WILLIAMS: And in that happy
11 circumstance, we have a net positive impact upon
12 income, agreed, all other things being equal?

13 MS. HEATHER REICHERT: All other
14 things being equal, agreed.

15 MR. BYRON WILLIAMS: Now, one of the
16 concerns the Corporation has flagged for this
17 regulator in this hearing is that over the past
18 several years where -- when interest rates were
19 declining, the Corporation's net income was negatively
20 impacted, correct?

21 MS. HEATHER REICHERT: Correct.

22 MR. BYRON WILLIAMS: And the concern
23 expressed by the Corporation is that not only did --
24 did rates decline over this period, but they declined
25 while the Corporation had been relying upon forecasts

1 suggesting that they -- they would actually do the
2 opposite and significantly increase.

3 MS. HEATHER REICHERT: Correct.

4 MR. BYRON WILLIAMS: Now, generally we
5 can agree that it's the Corporation's expectation that
6 interest rates are expected to rise from current
7 levels over the next few years, correct?

8 MS. HEATHER REICHERT: Can -- can you
9 say that one more time, please?

10 MR. BYRON WILLIAMS: Yes, and I -- and
11 I think I'm quoting directly from your submissions.
12 But it's -- it's the corporate -- Corporation's view
13 that interest rates were expected to rise from current
14 levels over the next few years, correct?

15 MS. HEATHER REICHERT: Correct.

16 MR. BYRON WILLIAMS: The challenge is,
17 of course, accurately predicting how fast or when they
18 will rise, agreed?

19 MS. HEATHER REICHERT: Agreed.

20 MR. BYRON WILLIAMS: And when you come
21 before the Public Utilities Board bringing a revised
22 approach to interest rate forecasting, the issue you
23 wish to remedy is a concern with what appears to be
24 systemic bias in the forecasts that you have
25 historically relied upon.

1 MS. HEATHER REICHERT: What the
2 Corporation is trying to remedy, or trying to address,
3 we're trying to mitigate the risk to the Corporation
4 of continuing to forecast quickly increasing interest
5 rates when the history has demonstrated that that has
6 not occurred.

7 So what we are trying to do is to
8 mitigate the risk of assuming too high of an interest
9 rate increase that doesn't actually come to fruition
10 and thereby negatively impacts the Corporation's
11 results and, therefore, our rate stability.

12 MR. BYRON WILLIAMS: To be blunt
13 though, Ms. Reichert, you've not been satisfied with
14 the information you've got from your current
15 forecasters so you're looking to amend your forecast
16 methodology, agreed?

17 MS. HEATHER REICHERT: I want -- we
18 have not been comfortable with assuming in the -- we
19 have not been comfortable with the fact that in the
20 past forecasters have consistently forecasted high
21 interest rates that have not come to fruition.

22 So that -- we have been uncomfortable
23 with that occurrence and felt that it's prudent for
24 the organization to deal with that in our forecasts
25 moving forward.

1 MR. BYRON WILLIAMS: And the remedy
2 you have chosen is a revised forecast methodology,
3 agreed?

4 MS. HEATHER REICHERT: Agreed.

5 MR. BYRON WILLIAMS: Now, I wonder if
6 you could turn to page 2 of CAC Exhibit 7. And, Ms.
7 Reichert, you'll agree with me that what this is, is
8 an excerpt from -- from your Application relating to
9 investment income, agreed?

10 MS. HEATHER REICHERT: Agreed.

11 MR. BYRON WILLIAMS: And what it's
12 presenting in the top half of the table is an analysis
13 of the -- the Corporation's assets numerically in any
14 particular year, running from 2008/'09 through
15 2017/'18 projections.

16 Agreed?

17 MS. HEATHER REICHERT: That's correct.
18 It's -- it's showing the total amount of our
19 investment portfolio in those years actual and
20 projected going forward.

21 MR. BYRON WILLIAMS: Thank you for
22 that. And I want to focus on the total assets, which
23 are about halfway down -- down the first column and
24 head over to the -- to the 2014/'15 year.

25 Do you see that, Ms. Reichert, under

1 total -- or across from total assets, you'll see
2 figure, two point four-three-eight (2.438)?

3 MS. HEATHER REICHERT: Yes.

4 MR. BYRON WILLIAMS: Two (2) -- yes.

5 MS. HEATHER REICHERT: Yes, I see
6 that.

7 MR. BYRON WILLIAMS: Okay. And the
8 Corporation, I'll suggest to you, is forecasting that
9 for the 2015/'16 year, the -- its total assets will
10 grow to about 2.545 billion dollars.

11 Agreed?

12 MS. HEATHER REICHERT: Agreed.

13 MR. BYRON WILLIAMS: And is
14 forecasting for the 2016/'17 year that its total
15 assets will grow to about 2.6 -- 2.6 or 2.7 billion
16 dollars, correct?

17 MS. HEATHER REICHERT: Correct.

18 MR. BYRON WILLIAMS: And projecting
19 out to 2017/'18 it is forecasting that the base -- the
20 total assets will -- will be in the range of \$2.8
21 billion, correct?

22 MS. HEATHER REICHERT: Correct.

23 MR. BYRON WILLIAMS: Now, if you can
24 turn to the next page, page 3 on the -- in the top
25 right-hand corner, you will -- I'll suggest to you

1 that what you see is an -- again an excerpt from the
2 Corporation's Rate Application seeking to summarize
3 investment income, correct?

4 MS. HEATHER REICHERT: That is
5 correct.

6 MR. BYRON WILLIAMS: And if we head
7 right down in the first column to the bottom line
8 there, we'll see the Corporation's information in
9 terms of the investment income that was allocated to
10 the Basic program.

11 Agreed?

12 MS. HEATHER REICHERT: Agreed.

13 MR. BYRON WILLIAMS: And on the -- the
14 first year, the '08/'09 year is a -- a figure of -- of
15 less than -- less than \$4 million.

16 And that would be related to the stock
17 market crash in that particular period, correct?

18 MS. HEATHER REICHERT: I believe so,
19 yes.

20 MR. BYRON WILLIAMS: And just if we --
21 just drawing your attention to the '09/'10 through
22 2013/'14 years, can we agree that between '09/'10 and
23 2013/'14, the low investment allocation to Basic was
24 the figure of about 68 million in 2012/'13, correct?

25 MS. HEATHER REICHERT: That is

1 correct.

2 MR. BYRON WILLIAMS: And the high is
3 the projection of 114.5 million for the current or
4 2013/'14 year.

5 Agreed?

6 MS. HEATHER REICHERT: Agreed.

7 MR. BYRON WILLIAMS: Moving to the
8 right from the current year, we see the Corporation is
9 projecting an allocation to Basic of about 63 million
10 in the rest year, or 2014/'15.

11 Agreed?

12 MS. HEATHER REICHERT: Agreed.

13 MR. BYRON WILLIAMS: And then we see
14 the forecast declining to 2015/'16 to the range of
15 forty-five point eight (45.8) -- or forty-five
16 thousand (45,000) -- excuse me, forty-five point eight
17 (45.8) thousand?

18 MS. HEATHER REICHERT: That would be
19 45.8 million.

20 MR. BYRON WILLIAMS: Point eight (8)
21 million. Thank you, Ms. Reichert. And we see a
22 further decline out to -- in 2016, 37.7 million.

23 Agreed?

24 MS. HEATHER REICHERT: Agreed.

25 MR. BYRON WILLIAMS: And a further

1 decline in 2017/'18 projected down to 36.4 million.

2 Agreed?

3 MS. HEATHER REICHERT: Agreed.

4 MR. BYRON WILLIAMS: And in -- in
5 essence, I'll suggest to you, Ms. Reichert, when we
6 look at those farther out years -- the '15/'16, the
7 '16/'17, and the '17/'18 -- we have the phenomena
8 where the Corporation is expecting interest rates will
9 rise. We have the phenomena where the asset base is
10 growing.

11 Yet we have the result where the
12 projected allocation to Basic in terms of investment
13 income is declining.

14 MS. HEATHER REICHERT: Which is as a
15 result of forecasting that interest rates, in fact,
16 will increase, which negatively impacts the value of
17 our bond portfolio.

18 MR. BYRON WILLIAMS: Thank you for
19 that. Now, if one were to rely upon the Corporation's
20 forecast of investment income for 2014/'15, would it
21 be fair to say that we -- we would be expecting that
22 investment income in that particular year would be
23 less than sixty dollars (\$60) per policy, agreed?

24 If you flip to the next page, there's a
25 reference. Sorry. Page 4 in the top right-hand

1 corner.

2 MS. HEATHER REICHERT: '14/'15, yes.
3 Less than sixty dollars (\$60) per policy.

4 MR. BYRON WILLIAMS: And that would
5 compare to about -- in the 2011/'12 year, of over a
6 hundred dollars (\$100) in investment income per
7 policy, correct?

8 MS. HEATHER REICHERT: That's correct.

9 MR. BYRON WILLIAMS: And even in
10 2012/'13, sixty-six dollars (\$66) in investment
11 income, agreed?

12 MS. HEATHER REICHERT: Agreed.

13 MR. BYRON WILLIAMS: Mr. Johnston,
14 this probably goes to you. Would I be correct in
15 suggesting to you that -- that one (1) innovation in
16 the most recent DCAT, or DCAT, prepared by the
17 Corporation was the modelling of the risk associated
18 for the Corporation in terms of low interest rate?

19 MR. LUKE JOHNSTON: Yes, and I -- I'll
20 just expand on that really briefly. As we talked
21 about earlier in the hearings, it's -- the -- the
22 financial model was not able to forecast these impacts
23 before. So the -- the fact that we are forecasting
24 benefits, it now becomes a -- a issue in the DCAT that
25 you -- you wouldn't get the projected benefits from

1 interest rates.

2 MR. BYRON WILLIAMS: And if we turn to
3 page 5 in the CAC Exhibit 7, we can see that the
4 Corporation is recommending a minimum retained
5 earnings of \$80 million in terms of an RSR to
6 withstand a sustained low interest rate risk, agreed?

7 Mr. Johnston, it's at page 5 of the
8 exhibit as well, CAC Exhibit 7.

9 MR. LUKE JOHNSTON: Yes. There's a --
10 I -- I do agree with you, this is a -- clearly a --
11 directly from our Rate Application. I just wanted to
12 note what -- that this was with assumed management and
13 regulatory action. So I'll just very quickly, I'm
14 almost there, get the number.

15 MR. BYRON WILLIAMS: Fair enough, Mr.
16 Johnston.

17 MR. LUKE JOHNSTON: Yeah, it's... On
18 -- I don't know if it's necessary to turn there, but
19 we ran a DCAT scenario assuming completely flat or
20 stable interest rates. And the result of that
21 scenario was a reduction of \$165 million from the base
22 forecast over the Corporation's five (5) year forecast
23 period.

24 And then what -- what's on page 5 of
25 the CAC exhibit is just a few pages later in the DCAT,

1 where we put in the management action. And then as
2 you can see on the exhibit it shows the rate changes
3 that you'd -- that we assumed in there and the
4 surcharges. But confirmed that 80 million is the
5 impact after management action.

6 MR. BYRON WILLIAMS: Thank you, Mr.
7 Johnston. Ms. Reichert, back to you. In developing
8 the Corporation's modified interest rate approach,
9 did the Corporation consult with its sister
10 organizations, such as the Workers' Compensation or
11 Manitoba Hydro, in terms of how they were responding
12 to challenges and forecasting interest rates?

13 MS. HEATHER REICHERT: Yes, we did.

14 MR. BYRON WILLIAMS: And are you aware
15 the approach that -- that either of those
16 organizations has taken?

17 MS. HEATHER REICHERT: Not in the same
18 level of detail that I understand our forecast. The -
19 - the risk and the interest rate risks that those
20 corporations face as compared to what MPI faces, I
21 view as -- as being different. So don't -- I don't
22 expect that they would -- or that we would follow the
23 same forecasting methodology necessary that they --
24 that they follow.

25 MR. BYRON WILLIAMS: Wouldn't one

1 expect you to all follow a best-estimate forecasting
2 methodology?

3 MS. HEATHER REICHERT: We all would
4 want to follow a best-estimate forecasting methodology
5 for the situation that we each individually face. So
6 again, I'll reiterate that our interest rate forecast
7 was made based on mitigating for the Corporation the
8 risk of forecasting too high or the result of
9 forecasting too low.

10 So we looked at what -- what the risks
11 of the Corporation was in those scenarios and chose an
12 interest rate forecast that mitigated and balanced
13 that risk on behalf of MPI and our ratepayers.

14 MR. BYRON WILLIAMS: And so would it
15 be fair to say that recognizing you had a greater
16 downside risk, you skewed your forecasts down?

17 MS. HEATHER REICHERT: Recognizing
18 that we have a downside risk and that interest rates
19 in the past have been very volatile, we chose a
20 forecasted -- a forecast for our interest rates that
21 acknowledged that volatility and mitigated the
22 downside risk for MPI.

23 MR. BYRON WILLIAMS: Now, Ms.
24 Reichert, you'll -- you'll remember a conversation
25 with Board Chairperson Gosselin last week in -- in

1 which he referenced you to a recent decision of the
2 Public Utilities Board relating to the -- to the
3 General Rate Application of Centra Gas?

4 MS. HEATHER REICHERT: Yes, I do.

5 MR. BYRON WILLIAMS: You no doubt went
6 right out and memorized that decision.

7 MS. HEATHER REICHERT: I didn't
8 memorize it, but I did read it.

9 MR. BYRON WILLIAMS: And we'll come to
10 that decision in -- in just a moment but you -- are
11 you -- you would be aware, as well, that both the --
12 the PUB and my client, CAC (Manitoba), have been
13 raising issues relating to interest rate forecast
14 error over the past few years in terms of the rate
15 applications of Manitoba Hydro and Centra Gas?

16 MS. HEATHER REICHERT: I am now aware
17 that you've been raising those issues, yes.

18 MR. BYRON WILLIAMS: Now, if you could
19 turn to -- in CAC Exhibit 7 to the top of page 8 in
20 the -- in the top-right corner, and I'll direct you on
21 that page to Board findings under Section 5.25. And I
22 apologize for the print quality, and we have to blame
23 me for that.

24 Now, Ms. Reichert, marked on the second
25 line with a -- with a number 1 under Board findings

1 you'll see a determination by the Public Utilities
2 Board that:

3 "The forecasts of interest rates in
4 this changing environment has been a
5 challenge."

6 You see that statement, Ms. Reichert?

7 MS. HEATHER REICHERT: Yes, I do.

8 MR. BYRON WILLIAMS: And that's
9 certainly something you would agree with?

10 MS. HEATHER REICHERT: Yes, I agree
11 that in the changing environment it is a challenge to
12 forecast interest rates.

13 MR. BYRON WILLIAMS: You see, as well,
14 a general belief from -- by the Corporation that a
15 consensus-based approach in using forecasters is
16 appropriate?

17 MS. HEATHER REICHERT: I see that
18 line, yes.

19 MR. BYRON WILLIAMS: And, as well, you
20 see the belief by the -- from the Board on the next
21 line that the most current information should be
22 utilized, agreed?

23 MS. HEATHER REICHERT: Yes, I see that
24 line.

25 MR. BYRON WILLIAMS: And moving down

1 to the next paragraph, your -- you'll see on the thir
2 -- third line, a determination by the Board that it is
3 reasonable to correct, in the Centra context, an
4 upward bias by removing the highest forecaster for
5 both long and short-term rates, agreed?

6 MS. HEATHER REICHERT: I see that
7 line.

8 MR. BYRON WILLIAMS: And that approach
9 is -- you had some discussion of that with My Friend
10 Ms. Grammond yesterday, correct?

11 MS. HEATHER REICHERT: I can't
12 remember all the discussions, but I'll take your word
13 for it.

14 MR. BYRON WILLIAMS: Well, that's a
15 dangerous thing. But I -- I wouldn't say it was an
16 exsens -- extensive discussion, but you at least
17 looked at some of the outcomes from that approach.
18 And what -- what -- we may come back to these -- this
19 language in a -- in a couple of moments, Ms. Reichert.

20 But if you could turn to page 10 of CAC
21 Exhibit 7. And, again, I'm -- I'm anxious not to
22 duplicate too much of what My Friend Ms. Reichert --
23 or My Friend Ms. Grammond has done with your able
24 assistance, Ms. Reichert. But I -- I do -- I do want
25 to set a bit of a -- a basis for our discussion.

1 And if we look at page 10, we'll see
2 again that this is an excerpt from the Corporation's
3 Rate Application portraying the -- the four (4)
4 scenario interest rate -- rates that the Corporation
5 presents in its analysis, agreed?

6 MS. HEATHER REICHERT: Agreed.

7 MR. BYRON WILLIAMS: And we will go
8 through them one (1) by one (1), but the first is the
9 standard interest rate forecast, the second is the
10 lower interest rate growth forecast, the third is the
11 CBOC interest rate forecast, and finally there is the
12 GRA interest rate forecast selected by the
13 Corporation, correct?

14 MS. HEATHER REICHERT: Correct.

15 MR. BYRON WILLIAMS: Now, staying on
16 this page for a second, in terms of the standard
17 interest rate forecast, the Corporation describes it
18 as a -- for -- using for the forecasted years 2013/'14
19 through 2015/'16 the median of five (5) major banks
20 and Global Insight, agreed?

21 MS. HEATHER REICHERT: Agreed.

22 MR. BYRON WILLIAMS: The Corporation,
23 in terms of the forecasted years of 2016/'17, and
24 '17/'18, again describes it as the median of the five
25 (5) major banks and Global Insight, correct?

1 MS. HEATHER REICHERT: That is
2 correct.

3 MR. BYRON WILLIAMS: Now, if you turn
4 to page 13 of CAC Exhibit 7, Ms. Reichert, you'll see
5 again, and you'll agree with me that, again, that this
6 is an excerpt from a -- the Corporation's application
7 relating to in -- inter -- investment income?

8 MS. HEATHER REICHERT: Yes, it is.

9 MR. BYRON WILLIAMS: And you'll agree
10 with me that Table 13.2.2 presents the information
11 available to the Corporation for the purposes of the
12 standard rate approach in its estimate of Government
13 of Canada ten (10) year bond rates, agreed?

14 MS. HEATHER REICHERT: Correct. And I
15 believe that was as at the April forecast for those
16 entities.

17 MR. BYRON WILLIAMS: Thank you for
18 that. Now, I want to focus on the 2013 and 2014 years
19 for just one (1) -- one (1) moment. And, first of
20 all, you'll agree with me that both twenty (20) --
21 well, both of these years are divided into four (4)
22 quarters, agreed?

23 MS. HEATHER REICHERT: Agreed.

24 MR. BYRON WILLIAMS: And for each
25 quarter the Corporation has the benefit of six (6)

1 different estimates, correct?

2 MS. HEATHER REICHERT: Correct.

3 MR. BYRON WILLIAMS: Twenty-four (24)

4 estimates for the year?

5 MS. HEATHER REICHERT: Correct.

6 MR. BYRON WILLIAMS: Now, while the
7 Corporation -- let -- let's move to 2015 and out to
8 2017. While the Corporation describes the standard
9 forecast projections for year 3 as the median of the
10 big five (5) and Global Insight, it would be more
11 accurate to say that you place your entire reliance in
12 the standard forecast on Global Insight for these last
13 three (3) years. Agreed?

14 MS. HEATHER REICHERT: Agreed. The
15 banks don't have confidence, I don't believe, in
16 forecasting past two (2) years.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: Are -- and just
21 so I'm clear, are you saying that none of the banks
22 produce those forecasts or are you suggesting that the
23 Corporation hasn't obtained them?

24

25 (BRIEF PAUSE)

1 MS. HEATHER REICHERT: The -- I
2 understand that the forecasts beyond two (2) years
3 from any of the major banks are not publicly
4 available.

5 MR. BYRON WILLIAMS: And just so I'm
6 clear, you're not suggesting that you couldn't
7 purchase a proprietary fore -- forecast from CIBC or
8 BMO Nesbitt Burns, are you?

9 MS. HEATHER REICHERT: No, I'm not
10 suggesting that.

11 MR. BYRON WILLIAMS: So the banks, at
12 least -- just to be clear, the -- some of the banks
13 do, do forecasts out beyond two (2) years, but the --
14 your evidence is that they're not publicly available.

15 MS. HEATHER REICHERT: Correct.

16 MR. BYRON WILLIAMS: So when we look
17 at the -- the standard approach, basically, you're
18 switching from the median -- to back up, when you move
19 into, in this case, your 2015, you're switching from
20 the median of six (6) forecasters to total reliance on
21 one (1) forecaster.

22 Correct?

23 MS. HEATHER REICHERT: Correct.

24 MR. BYRON WILLIAMS: And you're, no
25 doubt, alive to the risk of a logical break in moving

1 from the median of six (6) to total reliance on one
2 (1).

3 Agreed?

4 MS. HEATHER REICHERT: Agreed.

5 MR. BYRON WILLIAMS: And, of course,
6 it's possible that, in jumping from six (6) to one
7 (1), you might inadvertently pick up a sharp distance
8 -- difference in perspective.

9 MS. HEATHER REICHERT: I would say
10 that anything is -- is possible.

11 MR. BYRON WILLIAMS: Generally, if we
12 were looking at six (6) forecasts or more than one (1)
13 forecast, could we expect the views of the six (6) to
14 temper the views of a potential outlier?

15 MS. HEATHER REICHERT: Yes, that is a
16 possibility.

17 MR. BYRON WILLIAMS: And it certainly
18 would be possible for the Corporation to get
19 information from other forecasters beyond the first
20 eight (8) quarters. Agreed?

21 MS. HEATHER REICHERT: Yes, I agree,
22 as we understand now that we could purchase forecasts
23 from other -- or beyond the two (2) years.

24 MR. BYRON WILLIAMS: In -- in light of
25 the con -- the concerns of the Corpor -- of MPI, with

1 the recent reliability of the forecasts of the major
2 banks or Insight, can you advise me in terms of what,
3 if any, conversations MPI has had with these
4 organizations in terms of amendments they may have
5 made to their algorithms to adjust or evolve in the
6 face of changing evidence and changing circumstances?

7 MS. HEATHER REICHERT: We have not had
8 those conversations.

9 MR. BYRON WILLIAMS: Madam Chair,
10 might I be excused for water just for one (1) second.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: I think we both -
15 - we both had our drink of water, Ms. Reichert. Thank
16 you for your courtesy. Turning to what the
17 Corporation describes as its lower interest rate
18 growth forecast, probably at the risk of grossly
19 simplifying, in essence, what the Corporation has done
20 is present a scenario where the increase predicted by
21 the standard interest rate forecast is -- instead of
22 occurring over the next five (5) years is assumed to,
23 instead, occur over a ten (10) year period.

24 Agreed?

25 MS. HEATHER REICHERT: Agreed.

1 MR. BYRON WILLIAMS: Now, while you
2 describe this as a low inter -- low interest forecast,
3 would it be more accurate to replace the word
4 'forecast' with low-growth scenario?

5 MS. HEATHER REICHERT: I don't think
6 so. I think it is a low interest rate growth forecast
7 that the Corporation has forecasted.

8 MR. BYRON WILLIAMS: Well, you cannot
9 point me to any specific professional interest rate
10 forecaster who has endorsed this scenario, can you?

11 MS. HEATHER REICHERT: No, I can't,
12 but MPI in -- MPI is -- we do forecasts for everything
13 with respect to the GRA that we are submitting. So we
14 forecast claims. We forecast expenses. And, so, in
15 this particular instance MPI is forecasting interest
16 rates on a low interest rate growth basis.

17 MR. BYRON WILLIAMS: Okay. Just so I
18 understand, you're not claiming that the low scenario
19 is the median of the views of any aggregation of
20 professional interest rate forecasters, are you?

21 MS. HEATHER REICHERT: I think we
22 stated in this particular thing that -- what -- what
23 we did was take the median of the five (5) major banks
24 based on this -- on the standard interest rate
25 forecast and we, MPI, took that and forecasted it to

1 occur over a ten (10) year period instead of a five
2 (5) year period.

3 MR. BYRON WILLIAMS: So just so I'm
4 clear, you're not suggesting that the five (5) major
5 banks or Insights would endorse this as a reasonable
6 representation of their views?

7 MS. HEATHER REICHERT: I don't believe
8 that we have put that forward in any of our
9 documentation, no.

10 MR. BYRON WILLIAMS: Now, Ms.
11 Reichert, normally in terms of a forecast for interest
12 rate, one would expect that forecast to be based upon
13 certain key assumptions: growth in the economy,
14 government debt, and an examination of the
15 relationship between those variables. Agreed?

16 MS. HEATHER REICHERT: I will not
17 pretend to understand fully how interest rate
18 forecasters come about their interest rate forecast,
19 but I'll -- I'll take what you've said if -- if that's
20 how they -- how they approach it.

21 MR. BYRON WILLIAMS: So what I'm
22 trying to get at, Ms. Reichert, is, is the output from
23 the low interest rate growth analysis an output of an
24 analysis of certain assumptions about the growth in
25 the economy and government debt and translated into an

1 interest rate forecast, or is it just a modelling of -
2 - of a scenario assuming that the returns predicted by
3 the major banks would incur over a ten (10) year
4 period instead of a five (5) year period?

5 MS. HEATHER REICHERT: I -- I think I
6 have stated previously and -- and I will again, the
7 interest rate forecast contained within our GRA
8 Application was an interest rate forecast done by the
9 Corporation looking at what had occurred in the most
10 recent past with interest rate forecasts and actual
11 interest rate experience; and we selected an interest
12 rate forecast that would mitigate for the Corporation
13 the downside risk of forecasting too high of an
14 interest rate or the up -- upside risk, upside
15 benefit, of forecasting too low of a -- of a interest
16 rate.

17 Pure -- pure and simple, that's what it
18 -- that's what it was. And I don't think we put it
19 out to be anything more than -- than that.

20 MR. BYRON WILLIAMS: Okay. Now, in
21 terms of the conference Board estimates, number 3 on
22 your item, for the three (3) forecast years 2013/'14
23 through to 2015/'16, would I be correct in assuming
24 that you would be relying in each of those three (3)
25 years on one (1) quarterly forecast?

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: Sorry, can you
4 repeat your question, please?

5 MR. BYRON WILLIAMS: When we look at
6 those first forecast years, '13/'14 through '15/'16,
7 the sole input into the CBOC interest rate forecast
8 would be the one (1) quar -- you know, the four (4)
9 quarters a year by that one (1) forecaster. Agreed?

10 MS. HEATHER REICHERT: Agreed.

11 MR. BYRON WILLIAMS: So that one (1)
12 forecast per quarter would stand in contrast with the
13 six (6) forecasts per quarter under the standard
14 forecast.

15 Agreed?

16 MS. HEATHER REICHERT: Agreed for
17 those -- the first two (2) years of the standard rate
18 forecast and, then, I guess it would stand in
19 comparison to the Global Insight forecast for the last
20 three (3) years.

21 So it would be one (1) forecaster
22 versus one (1) forecaster in the last three (3) years.

23 MR. BYRON WILLIAMS: Thank you. Now,
24 I believe you advised My Friend Ms. Grammond,
25 yesterday, that you did not retrospectively test the

1 accuracy of the Conference Board of Canada estimates
2 for their success in a declining interest rate
3 environment.

4 Did I -- do I have that correct?

5

6 (BRIEF PAUSE)

7

8 MS. HEATHER REICHERT: We didn't back
9 test them. We did look at what their interest rate
10 forecasts had been in the past, and just on a -- on a
11 high level gross basis compared that to what the
12 actual interest rates have been.

13 MR. BYRON WILLIAMS: You didn't back
14 plot them on a -- a graph such as you did with Global
15 Insight and the -- the five (5) major banks?

16 MS. HEATHER REICHERT: We did not plot
17 it on the graph that is in our submission, true, but
18 we did look at what their forecasts had been relative
19 to what the actuals were in those past years.

20 MR. BYRON WILLIAMS: And given that
21 you expect to be entering an increasing interest rate
22 environment, have you evaluated how the Conference
23 Board of Canada has performed historically in an
24 increasing interest rate environment?

25 MS. HEATHER REICHERT: As I said, we

1 looked at their interest rate forecast compared to
2 what had actually occurred in the last five (5) years,
3 which, of course, was a declining interest rate
4 environment. So, no, we did not -- we did not look
5 back further than that to a time when it may have been
6 an increasing interest rate environment.

7 MR. BYRON WILLIAMS: Now, as a
8 corporation, does MPI purport to have any special
9 expertise in forecasting interest rates?

10 MS. HEATHER REICHERT: No.

11 MR. BYRON WILLIAMS: You do not
12 purport to have developed specialized models for
13 forecasting interest rates?

14 MS. HEATHER REICHERT: No, I have not
15 purported that.

16 MR. BYRON WILLIAMS: And you do not
17 purport to have specialized knowledge of macroeconomic
18 factors that may influence interest rates?

19 MS. HEATHER REICHERT: No.

20 MR. BYRON WILLIAMS: And you do not
21 purport to have specialized knowledge of financial
22 matters that may influence incre -- interest rates.
23 Agreed?

24 MS. HEATHER REICHERT: Not to the
25 detailed level that professional interest rate

1 forecasters would have. I agree.

2 MR. BYRON WILLIAMS: If we go to your
3 GA ra -- GRA interest rate forecast, again, focussing
4 on the 2014/'15 and 2015/'16 years, am I correct in
5 suggesting you that, as compared to the standard
6 process, you have gone from six (6) professional
7 forecasters for the test and subsequent years to zero?

8 MS. HEATHER REICHERT: I guess from
9 the perspective of how we arrived at the interest rate
10 forecast within our GRA, in that we did not base it
11 precisely on a professional interest rate forecaster
12 that forecasted those interest rates to occur over a
13 ten (10) year period. I guess, from that perspective,
14 we would say that, yeah, it -- that our interest rate
15 forecast is based on -- I think you said zero.

16 However, we looked at all of the
17 information that was available to us at the time that
18 we were doing the forecast, which included the five
19 (5) major banks out two (2) years, Global out five (5)
20 years, CBOCK, the -- forecasts for the next five (5)
21 years. We looked at all of that information.

22 And we looked at what the impact would
23 be to Manitoba rate payers and to our rate stability
24 if we assumed that the five (5) major banks for the
25 next two (2) years, with Global Insight, had a -- a

1 accurate forecast, or if we assumed the CBOCK for the
2 next five (5) years had a -- had the most accurate
3 interest rate forecast.

4 We looked at all of that information
5 and, as I've stated, chose to forecast interest rates
6 at the level that we did in order to mitigate the
7 downside risk to the Corporation and/or mitigate
8 potential forecasting too much of a benefit from
9 interest rates; or too much of a -- of a decrease from
10 interest -- interest rates, so that we could put
11 forward what we believed was fair, reasonable rate for
12 rate payers that would not cause us to have to come
13 back should interest rates not reach the levels that
14 were being forecasted by all of these forecasters and
15 not have to come back and ask for an even more
16 significant rate increase. So that's essentially what
17 we -- what we did, and what I -- I think I have
18 explained.

19 MR. BYRON WILLIAMS: When we look at
20 the forecast years 2016 and '17, and 2017 and '18, in
21 terms of the GRA interest rate fore -- forecast,
22 you've chosen to rely upon a forecaster that you've
23 never used before. Agreed?

24 MS. HEATHER REICHERT: Again, from the
25 standpoint of: we chose an interest rate forecast

1 essentially that was in the middle of the high
2 interest rate, increasing interest rate forecast and
3 one that was predicting lower increasing interest
4 rates and, again, mitigated the risk of being too high
5 or too low by going in -- in between those sets of
6 forecasts.

7

8 (BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: Ms. Reichert,
11 you'll agree that the test of a robust forecasting
12 methodology is -- is one (1) that we can have some
13 confidence in over the short-term and the long-term?

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: And if I can put
18 my -- my...

19

20 (BRIEF PAUSE)

21

22 MS. HEATHER REICHERT: Sorry, can you
23 repeat your question?

24

25 (BRIEF PAUSE)

1 MR. BYRON WILLIAMS: Any -- let me
2 rephrase it. Any interest rate forecasting
3 methodology that the Corporation puts forward, one
4 would want to have confidence that it's one (1) that,
5 with a tweak here and a tweak there, could stand the
6 test of time.

7 Agreed?

8 MS. HEATHER REICHERT: Sure, with
9 transparent documented, tweaks, some tweaks being
10 larger than others.

11 MR. BYRON WILLIAMS: Ms. McLaren, I
12 may -- may come back to that after lunch. If I turn
13 to page 12 of CAC Exhibit 7, and direct your attention
14 to Table 13.2.1, would I be correct in suggesting to
15 you that -- that in terms of the information presented
16 by the Corporation, in terms of the five (5) banks and
17 the -- and Global Insight, the -- the forecast
18 presented date to March and April of 2013?

19 MS. HEATHER REICHERT: That is
20 correct, yes.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: I want to turn --
25 stay -- stay on investments just for another second

1 and turn to Slide -- or page 17 of CAC Exhibit 7. And
2 I apologize for the -- the small print. And, Ms.
3 Reichert, I assume it's you, you'll -- you'll agree
4 that this is an excerpt from the Corporation's
5 assessment of its investment market value and
6 performance which was attached as a response to
7 PUB/MPI-1-18B?

8 MS. HEATHER REICHERT: Yes, it
9 definitely looks like an excerpt from that.

10 MR. BYRON WILLIAMS: I just want to
11 focus your attention on the real estate market value
12 and performance as at February 28th, 2013. Would I be
13 correct in suggesting to you that in terms of the
14 category of 'direct', the three (3) month performance
15 was 1.5 percent as compared to the benchmark of 4.7
16 percent, correct?

17

18 (BRIEF PAUSE)

19

20 MS. HEATHER REICHERT: Yes, I agree
21 that the three (3) month performance for direct shows
22 1.5 percent. But I do just want to make clear for --
23 for the Board, the direct is the -- MPI's investment
24 in the CityPlace building. And I think we had talked
25 about that earlier in these proceedings, that there is

1 not an appraisal done every single year and every
2 single month for that particular asset, so this only
3 reflects what would be income generated from renting
4 out aspects of CityPlace. So it's not a full
5 comparison of -- it's not a fair comparison to a
6 benchmark that includes capital appreciation.

7 MR. BYRON WILLIAMS: And that's fair
8 enough, Ms. Reichert, and thank you for that reminder.
9 In terms of Manager F, his -- am I correct in
10 suggesting to you that his three (3) month performance
11 as compared to the -- was one point seven (1.7) as
12 compared to the benchmark of four point seven (4.7)?

13 MS. HEATHER REICHERT: Yes, but there
14 again, the appraisal done by -- or appraisals on the
15 real estate done by Manager F would occur at the end
16 of the year and not every month, as in the
17 benchmarks...

18

19 (BRIEF PAUSE)

20

21 MS. HEATHER REICHERT: Sorry. So
22 again, because of the different timing of when Manager
23 F might do appraisals versus when the benchmarks
24 assumed appraisals, it really is more appropriate to
25 look at a twelve (12) month performance for Manager F

1 and --

2 MR. BYRON WILLIAMS: I was just going
3 there, Ms. Reichert.

4 MS. HEATHER REICHERT: Good. Good

5 MR. BYRON WILLIAMS: In terms of
6 Manager F, at the more appropriate twelve (12) month
7 performance, we're looking at 12.3 percent as compared
8 to the bench -- benchmark of 14.2, are we?

9 MS. HEATHER REICHERT: Correct.

10 MR. BYRON WILLIAMS: Madam Chair, I
11 may review my notes on this particular area but,
12 subject to that, I'd -- I'd suggest this is a -- not a
13 bad time for a break.

14 THE CHAIRPERSON: Okay. Thank you
15 very much. We'll break now for lunch, and we'll
16 return at one o'clock.

17

18 --- Upon recessing at 12:00 p.m.

19 --- Upon resuming at 1:05 p.m.

20

21 THE CHAIRPERSON: Good afternoon, and
22 welcome back. I'm going to ask Ms. Grammond to just
23 comment about tomorrow's hearings, please.

24 MS. CANDACE GRAMMOND: Yes. Thank
25 you, Madam Chair. We had expected previously that

1 we'd be hearing from Mr. Gary Gibson tomorrow from the
2 Department of Finance with respect to investment-
3 related issues. I've had some discussions with Ms.
4 Kalinowsky, Mr. Williams, the advisors, and due to Mr.
5 Gibson not feeling particularly well today, the
6 request was made that perhaps we ask him to come on
7 the 9th of October instead of tomorrow.

8 So I think everyone is agreeable to
9 that, so we'll defer Mr. Gibson's evidence until
10 October 9th. And I have just sent an email to Mr.
11 Oakes, giving him the head's up that pending Mr.
12 Williams timing we may -- he may finish tomorrow, and
13 then we'll be looking to Mr. Oakes to cross-examine
14 tomorrow, October 3rd.

15 So hopefully that will be in the works,
16 as well.

17 THE CHAIRPERSON: Okay. Thank you,
18 Ms. Grammond. Okay. We'll continue again now with
19 Mr. Williams and his cross-examination.

20 MR. BYRON WILLIAMS: Yes, thank you.
21 And -- and just for the timing of Mr. Oakes and
22 others, I'm not confident I'll be finished this
23 afternoon, but I am quite confident I would be
24 finished sometime tomorrow morning, if -- if we do not
25 finish today, so...

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Turning to page
3 18, Ms. Reichert, of CAC Exhibit number 7...

4

5 (BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: Excuse me.
8 You'll agree with me that presented there is a
9 response -- Table 4 from the response to CAC/MPI-1-
10 21A, agreed?

11 MS. HEATHER REICHERT: Agreed.

12 MR. BYRON WILLIAMS: And we'll go --
13 we'll explain this table in -- in just a moment, Ms.
14 Reichert. But at a -- at a high level, what this
15 analysis is attempting to do is compare operating
16 expenses if -- if they were growing at the rate of --
17 of change in the consumer price index as opposed to
18 the actual MPI reported operating expenses for the
19 Basic -- Basic.

20 Agreed?

21 MS. HEATHER REICHERT: Agreed.

22 MR. BYRON WILLIAMS: And so, of
23 course, in column number 1 we see the -- the year.
24 And moving over to the second column, you'll agree
25 with me, that presented there is the Corporation's

1 calculation of changes in the Manitoba consumer price
2 index on a year-over-year basis.

3 Correct?

4 MS. HEATHER REICHERT: Correct.

5 MR. BYRON WILLIAMS: And what is
6 presented in the average operating expense per unit,
7 column number 3, is a numerical depiction of what the
8 average operating expense per unit would be if it grew
9 at the same rate as the change in the consumer price
10 index, correct?

11 MS. HEATHER REICHERT: Correct.

12 MR. BYRON WILLIAMS: And one takes
13 that average operating expense per unit based upon CPI
14 change in column 3, times it by the number in column 4
15 to create the output in column 5, CPI operating
16 expense, agreed?

17 MS. HEATHER REICHERT: Agreed.

18 MR. BYRON WILLIAMS: Column 6
19 presented the MPI operating expense for each of the
20 respective years, correct?

21 MS. HEATHER REICHERT: Correct.

22 MR. BYRON WILLIAMS: And column 7
23 pronounces upon the difference between the CPI
24 operating expense and the MPI operating expense,
25 agreed?

1 MS. HEATHER REICHERT: Agreed.

2 MR. BYRON WILLIAMS: So let's just
3 look, if you would, to the 2012/'13 year, and go over
4 to column 5 under 'CPI Operating Expense' and you'll
5 see that the -- the estimate presented by this
6 calculation would be operating expense of about \$52.3
7 million, correct?

8 MS. HEATHER REICHERT: Yes, that's
9 correct.

10 MR. BYRON WILLIAMS: As compared to
11 the actual MPI operating expense of \$65.4 million.
12 We're on -- in agreement on that?

13 MS. HEATHER REICHERT: Yes, we are.

14 MR. BYRON WILLIAMS: And the
15 difference is presented in column 7, being some
16 roughly \$13 million?

17 MS. HEATHER REICHERT: That's correct.
18 And it's at this point that I would like to remind the
19 -- the Board that there are a lot of assumptions
20 contained within this particular table. It is assumed
21 in this table that it's -- that in comparing a CPI
22 operating expense is a fair comparison to MPI
23 operating expense. And I would maintain that that's
24 not a fair comparison.

25 The CPI index -- and I'm -- I'm just

1 trying to get confirmation -- will be based on a
2 bundle of goods that is not representative of the
3 bundle of good that MPI as an organization, as an auto
4 insurer, is in the habit of purchasing. So that this
5 -- the CPI for -- for the general Manitobans is not
6 something that is applicable to specifically an auto -
7 - and auto insurer corporation like MPI.

8 And as an example, within our operating
9 expense are the IT expenditures that have been
10 incurred by the Corporation over several years. And
11 we have testified previously about how it was
12 important that we increase the expenditures in our IT
13 area quite substantially in order to ensure that our
14 technology was -- was sustainable, was reliable,
15 accessible.

16 So that -- those particular costs, as
17 an example, I can assure you, did not increase year
18 over year at the rate of CPI because of the nature of
19 that particular type of expenditure. And there are
20 other examples where -- where it's not reasonable to
21 expect that CPI's expenses would increase at the same
22 rate as the CPI.

23 MR. BYRON WILLIAMS: Ms. Reichert, we
24 can agree that as compared to claims expenses and
25 claims incurred, the Corporation exercises more

1 discretion and more ability to control its operating
2 expenses, correct?

3 MS. HEATHER REICHERT: Sorry, I need
4 you to repeat that.

5 MR. BYRON WILLIAMS: As compared to
6 other aspects of the MPI business, such as claims
7 expenses, we can agree that the Corporation has more
8 control in terms of its ability to control operating
9 expenses?

10 MS. HEATHER REICHERT: Generally
11 speaking, but keeping in mind that claims expenses,
12 operating expenses, are -- are allocations from the
13 overall corporate expenses. So I -- I look at our
14 corporate expenses as a whole.

15 And we -- we do take steps to ensure
16 that we are not -- that we contain those as -- as much
17 as -- as we can. And they do get impacted by things
18 such as information technology enhancements that
19 aren't enhancements from the standpoint of luxuries;
20 they're requirements in order to be able to continue
21 to operate and function in a -- in an appropriate way
22 for Manitobans.

23 MR. BYRON WILLIAMS: But we can agree
24 that in terms of operating expe -- well, let's back
25 up. In terms of claims expenses, if it's a bad

1 winter, it's a bad winter. The Corporation has to
2 react and respond accordingly with increased service,
3 correct?

4 MS. HEATHER REICHERT: So with respect
5 to claims incurred, yes, I agree.

6 MR. BYRON WILLIAMS: Okay. With
7 operating expen -- expenses, there are many choices
8 for the Corporation in terms of the timing of its
9 information technology choices. There are many
10 choices that are -- are more discretionary than there
11 would be with claims expenses, correct?

12 MS. HEATHER REICHERT: I agree that
13 there are choices. Whether that's more or less than
14 in claims expenses, that I -- I'm not necessarily
15 agreeing.

16 MR. BYRON WILLIAMS: And would it be
17 fair to expect that roughly 60 percent of the cost
18 associated with operating expenses would be
19 compensation?

20 MS. HEATHER REICHERT: That's a -- a
21 fairly safe -- safe estimate, yes.

22 MR. BYRON WILLIAMS: And the
23 Corporation certainly, subject -- it's subject to
24 collective bargaining agreements, but it is free to
25 negotiate contracts and to seek to control expenses in

1 terms of compensation, correct?

2 MS. HEATHER REICHERT: Within the
3 mandate provided to us by the Province of Manitoba.

4 MR. BYRON WILLIAMS: And it's also
5 free to make choices in terms of staffing level when -
6 - when it comes to operating expenses.

7 MS. HEATHER REICHERT: Yes, that's
8 correct.

9 MS. MARILYN MCLAREN: If I could, just
10 to clarify and not really fully understanding your
11 questions about discretion of operating expenses
12 versus claims expenses, the single biggest expense
13 under the claims expense category would also be
14 compensation, staffing.

15 MR. BYRON WILLIAMS: Fair enough. Ms.
16 -- Ms. Reichert... Ms. Reichert, to -- if we look at
17 the change from the actual basic operating expenses of
18 the Corporation, if we look at the year 2008 -- if we
19 look at the year 2008/'09, we see a figure of 41.26
20 million.

21 Agreed?

22 MS. HEATHER REICHERT: Agreed.

23 MR. BYRON WILLIAMS: Five (5) years
24 later, the Corporation is projecting for 2013/'14 some
25 66.7 million.

1 Agreed?

2 MS. HEATHER REICHERT: Agreed.

3 MR. BYRON WILLIAMS: That would be
4 about \$25.5 million increase over those five (5)
5 years, subject to check?

6 MS. HEATHER REICHERT: I agree.

7 MR. BYRON WILLIAMS: I see Ms. -- my
8 friend Mr. Johnston has a calculator. Rough a 61.8
9 percent increase?

10 MS. HEATHER REICHERT: I'm told that's
11 close enough.

12 MR. BYRON WILLIAMS: You caught me on
13 the point five (.5) earlier on, Ms. Reichert, so I
14 wanted to be more precise.

15 Now, does the Manitoba Public Insurance
16 -- in terms of claims expenses, has it developed an
17 industry-adjusted CPI to explore how claims expenses,
18 particularly associated with the auto rope -- auto
19 repair business, track against inflation?

20

21 (BRIEF PAUSE)

22

23 MS. HEATHER REICHERT: Sorry, your
24 question was to -- whether or not we have a -- an MPI
25 claims cost index?

1 MR. BYRON WILLIAMS: Yes, and -- and
2 just -- Ms. Reichert, by way of background, if we look
3 at utilities such as Manitoba Hydro for large capital
4 programs, they -- they have an industry-adjusted
5 index.

6

7 (BRIEF PAUSE)

8

9 MS. MARILYN MCLAREN: We -- we do have
10 tables that we produce as part of these hearings that
11 do take the -- the claims expenses incurred by MPI --
12 I don't believe that this is what you're looking for -
13 - but where we show what the -- what the increasing --
14 what the increases in those expenses are relative to a
15 base year. But that really is just doing essentially
16 what you've been trying to do on this particular
17 table.

18 MR. BYRON WILLIAMS: And I guess my
19 question to you, Ms. Reichert, as we start to explore
20 benchmarks for the Corporation -- and -- and I'm not
21 saying that we accept your premise in terms of claims
22 that there are unique costs, but let's assume for a
23 moment that we did.

24 Would it make some sense to -- to track
25 how claims exte -- expenses tracked against costs

1 unique to the auto repair business?

2 MS. HEATHER REICHERT: So we do have -
3 - and we have talked about it at these proceedings,
4 the Ward Group comparison of MPI ratios compared to
5 Canadian ratios for P & C insurers. And that shows,
6 as I -- as I recall, that, in total, our expenses as a
7 percentage of our premiums -- I believe that is the
8 ratio. If someone can pull that Ward report --

9 MR. BYRON WILLIAMS: We'll come to
10 that in a little bit --

11 MS. HEATHER REICHERT: Yeah.

12 MR. BYRON WILLIAMS: -- anyways,
13 but...

14 MS. HEATHER REICHERT: Yeah, but it --
15 it shows, and I think that's a -- a worthwhile
16 comparison. It shows that our expenses -- our expense
17 ratio relative to the Canadian nat -- like, Canadian
18 trade, are lower. Like, that ratio of our expenses is
19 -- is lower. So I think that that's a good benchmark
20 and a good measure.

21 MR. BYRON WILLIAMS: Ms. Reichert,
22 though, what I'm inquiring about is if the Corporation
23 does not accept, for -- for claims at least, CPI as a
24 good proxy for how its costs should -- should change,
25 has it considered developing a CPI-like proxy focussed

1 on costs unique to the auto repair industry?

2

3

(BRIEF PAUSE)

4

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MS. MARILYN MCLAREN: Off the top of
6 my head I can't identify any specific claims expenses
7 that would have a specifically different CPI.

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So on the incurred side we do it in
very specific, discrete ways. Might we sometime, if
we had resources with nothing higher priority to do,
to somehow turn that into an MPI industry-specific CPI
forecast? We could do that, but it's not something
we've done to date and we've always been able to pull
out those specific factors in the incurred, which is,
you know, 80 something percent of our budget.

MR. BYRON WILLIAMS: And in terms of
claims expenses, you're not able to identify anything

1 unique about them as compared to CP -- CPI?

2 MS. HEATHER REICHERT: Within claims
3 expenses we did state 60 percent of claims expenses
4 would be compensation. As you mentioned, we do
5 negotiate with our unions on -- on the collective
6 agreement. To the extent -- and that's within
7 mandates provided to us by the -- the provincial
8 government. So there had been four (4) years, before
9 the -- the current contract where it was negotiated
10 for 2.9 percent increases. Those were negotiated
11 increases within the mandate provided to us by the
12 provincial government.

13 Those -- that particular negotiated
14 increase far exceeded what the CPI would have been in
15 those particular years. Maybe not for 2011/'12, but
16 if you look at the CPIs that you've indicated
17 throughout 2007/'08, to 2017/'18, only once did it --
18 it go above the 2.9 percent. So that is a significant
19 cost to the Corporation that is outside of the CPI
20 index bundle, if you will. It's unique to MPI on what
21 we are incurring there.

22 MR. BYRON WILLIAMS: Wage settlements
23 are unique as compared to CPI?

24 MS. HEATHER REICHERT: That particular
25 element of our cost component of claims expenses,

1 being compensation and being negotiated within a
2 provincial mandate is something that was above what
3 CPI was in the years of the contract. So that would
4 contribute very much to us being, on this particular
5 schedule that we were referring to, having higher
6 expenses both in claims and operating compared to a
7 Basic CPI.

8 MR. BYRON WILLIAMS: Now, if we turn -
9 - I just want to turn to page 20 and 21 of CAC Exhibit
10 number 7. And, Ms. Reichert, we see the announcement
11 of an agreement with the ATA, the MMDA, and MPI in
12 terms of an agreement with the automotive trades to
13 amend the current labour rate agreement, correct?

14 MS. HEATHER REICHERT: Correct.

15 MR. BYRON WILLIAMS: Now, just first
16 of all, would the costs associated with this agreement
17 already be built into the -- the forecast for the
18 '13/'14 and '14/'15 years?

19

20 (BRIEF PAUSE)

21

22 MS. HEATHER REICHERT: While Mr.
23 Johnston is looking that up I can just confirm that
24 there was an estimate in our forecast, and we're just
25 looking to see what -- what the estimate was.

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: Okay. So
4 within our -- within our forecast we did assume that
5 labour expenses surrounding auto body repairs of
6 vehicles would grow by 2.25 percent. So that was
7 within the forecast submitted.

8 MS. MARILYN MCLAREN: And we would not
9 have -- have built in the increase for the balance of
10 the '13 year. So the increase that took effect of
11 August would be incremental to what we had planned to
12 spend during the '13 fiscal year.

13 MR. BYRON WILLIAMS: Just so I
14 understand, for the '13/'14 year the increase would be
15 incremental to what you -- your expectations were?
16 And then we'll get to '14/'15.

17 MS. MARILYN MCLAREN: That's right.

18 MR. BYRON WILLIAMS: And for the
19 '14/'15 year, you had built in an expectation of
20 settlement in the range of 2.25 percent, agreed?

21 MS. HEATHER REICHERT: Correct.

22 MR. BYRON WILLIAMS: And would I --
23 would I be right if I turned to the rates on page 21
24 that the settlements for body technician labour and
25 glass labour come in at or slightly below that 2.25

1 percent?

2 MS. HEATHER REICHERT: Yes.

3 MR. BYRON WILLIAMS: And would the
4 fifteen dollar (\$15) administration fee referenced on
5 page 20 have been built into the estimates as well?

6 MS. MARILYN MCLAREN: No, they
7 wouldn't have.

8 MR. BYRON WILLIAMS: And magnitude-
9 wise, Ms. McLaren, any sense of what that -- what the
10 dollar bill associated with that is?

11 MS. MARILYN MCLAREN: No, we would
12 have to figure that out. But the overall -- given
13 that we are somewhat under the 2.25 percent, given
14 that the actual number of claims have been well
15 accounted for, we're very comfortable that this
16 agreement is -- has absolutely no impact on the Rate
17 Application or the forecast for next year.

18 MR. BYRON WILLIAMS: And given the
19 number of undertakings I asked you last week I'm not
20 planning to ask you one (1) on that one. The rec --
21 let the record show I got a 'thank you' and a nod from
22 Ms. McLaren.

23 MS. MARILYN MCLAREN: Thank you.

24

25 (BRIEF PAUSE)

1 MR. BYRON WILLIAMS: Ms. Reichert,
2 we've already had a bit of this con -- conversation
3 but we've agreed that compensation accounts for
4 roughly 60 percent or more of the overall corporate
5 expense, agreed?

6 MS. HEATHER REICHERT: Agreed.

7 MR. BYRON WILLIAMS: And the
8 Corporation's position is that the key driver of cost
9 increase -- creases over time is the negotiated
10 economic increases within the collective agreements,
11 correct?

12 MS. HEATHER REICHERT: It is one of
13 the key drivers of increasing compensation in the
14 former contract I was referencing where there was 2.9
15 percent increases in each of the four (4) years, yes.

16 MR. BYRON WILLIAMS: And staffing
17 levels are certain another important driver of
18 compensation costs.

19 MS. HEATHER REICHERT: Staffing
20 levels, of course, are another component of the
21 compensation, yes.

22 MR. BYRON WILLIAMS: Now, Ms.
23 Reichert, if you can turn to page 22 of CAC Exhibit 7.

24 And if you check the date, you'll agree
25 with me that this is an excerpt from last year's

1 general rate application from section TI8 discussing
2 compensation increases, the Basic share, correct?

3 MS. HEATHER REICHERT: That is
4 correct, yes.

5 MR. BYRON WILLIAMS: And I'm just
6 trying to understand what happened between '13 -- the
7 '13/'14 GRA and the '14/'15 GR -- general rate
8 application.

9 If we look at the top line for this
10 compensation increase, it's Basic share. We see in
11 the first year, the 2008/'09 through 2009/'10, an
12 economic increase of 2.9 percent, agreed?

13 MS. HEATHER REICHERT: Yes.

14 MR. BYRON WILLIAMS: And the next
15 three (3) years are the -- are the four (4) successive
16 two-point-nines (2.9) that you referred to earlier in
17 our conversation.

18 MS. HEATHER REICHERT: That's correct.

19 MR. BYRON WILLIAMS: And then the
20 Corporation, for the next two (2) years, being the
21 '12/'13 through '13/'14, and the -- and the subsequent
22 year, was looking at zero percent for each of those
23 years, correct?

24 MS. HEATHER REICHERT: Correct.

25 MR. BYRON WILLIAMS: Now, if we can --

1 can go to the next page, page 23. You'll agree with
2 me, Ms. Reichert, that we have the -- again, a
3 portrayal in -- for this year's General Rate
4 Application of compensation increases, Basic share,
5 agreed?

6 MS. HEATHER REICHERT: Agreed.

7 MR. BYRON WILLIAMS: And the
8 Corporation had forecast a zero percent for that
9 '13/'14 -- from the '12/'13 to '13/'14 year. And --
10 and that, indeed, has materialized, correct?

11 MS. HEATHER REICHERT: That's correct.

12 MR. BYRON WILLIAMS: And then we see
13 that for the -- from '13/'14 to '14/'15, that
14 transition, we see instead of the zero percent from
15 last year a 1.4 percent, which is reflective of the
16 collective bargaining agreement signed in September of
17 this year.

18 MS. HEATHER REICHERT: Yes, that is
19 correct. So it's for half -- half the year, as it
20 comes into effect in September of 2013.

21 MR. BYRON WILLIAMS: And just -- just
22 for my clarification, if we were looking last year we
23 were -- the Corporation was forecasting a -- a two (2)
24 year wage freeze for its employees, agreed?

25 MS. HEATHER REICHERT: Yes.

1 MR. BYRON WILLIAMS: Am I right in
2 interpreting this for the -- from the twenty (20) --
3 from the current forecast, that what in effect
4 happened was that there was a year and a half wage
5 freeze?

6 MS. HEATHER REICHERT: No, the start
7 of this contract that was just negotiated was
8 September of twenty (20) -- I've got to get my dates
9 right, 2012. September of 2012 was the effective date
10 of the contract just negotiated. So there was zero
11 percent September 2012, and zero percent September
12 2013. If I got my years right, then that is what I
13 understand, the years of the contract.

14 MR. BYRON WILLIAMS: And you are quite
15 right with the contract. I think you're -- you meant
16 to say that it went from September 23rd, 2012 to
17 September 17th, 2016.

18 MS. HEATHER REICHERT: Yes. Thank
19 you.

20 MR. BYRON WILLIAMS: Ms. Reichert, and
21 -- and what I'm trying to understand is, given the two
22 (2) year wage freeze, why isn't there a -- two (2)
23 zeros in -- two (2) successive years of zeros for
24 economic increase? And if you compare last year's
25 you'll see the -- those two (2) ye -- two (2) zeros.

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: You have
4 highlighted for me the -- a mistake, an error if you
5 will. We try not to make too many, but I think we
6 have made one (1) in the -- in this particular
7 schedule.

8 So the -- the column that shows the
9 difference between 2012/'13 to 2011/'12, that should -
10 - that's overstated. So that should only show the --
11 I -- I think it should show the zero percent that was
12 negotiated as at September 2012 that goes -- that
13 crosses the September 2012/'13 year end.

14 MR. BYRON WILLIAMS: Or perhaps half
15 of -- half a year's weighted -- rate -- compensation
16 increase, given that the contract was signed in
17 September of 2012.

18 MS. HEATHER REICHERT: That -- that's
19 correct. So from March to August of the fiscal year,
20 '12/'13, they would have continued to be under the old
21 contract that had an effective increase of 2.9 percent
22 in September of 2011.

23 So September of 2011 there was a 2.9
24 percent wage increase that impacts, if you -- looking
25 -- that's an annual increase effective in September

1 that crosses over half of the 2011/'12 fiscal year end
2 and half of the 2012/'13 year end.

3 MR. BYRON WILLIAMS: Ms. Reichert, I'm
4 not asking this of Ms. McLaren; I just want it noted.
5 But would you undertake to -- to correct the -- the
6 table just so -- so that it's clear?

7 So I'm asking you to undertake to
8 correct the PUB -- the response to PUB/MPI-1-74A --

9 MS. HEATHER REICHERT: I would be
10 happy to.

11 MR. REGIS GOSSELIN: Is -- is it a
12 correction, or is it -- you used 2.9 percent as your
13 economic increase for budgeting purposes for the
14 entire year?

15 MS. HEATHER REICHERT: In -- in this
16 particular schedule, because we're comparing 2012/'13,
17 which would be actual to that point in time, to
18 2011/'12 you -- you may have noticed that this part of
19 a -- of a IR request this year that we didn't provide
20 it in our Rate Application, and I can take -- I can
21 take accountability for that.

22 This particular schedule is -- it's
23 really -- just let's say it -- it, I don't believe, is
24 the best display of what is impacting on our
25 compensation. It's -- the -- the way that this was

1 presented as being just the changes between the two
2 (2) years, I find to be rather difficult.

3 But we will correct the schedule for
4 the record and -- and make it make more sense for
5 everyone here.

6

7 --- UNDERTAKING NO. 27: MPI to correct the
8 response to PUB/MPI-1-74A

9

10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: Thank you, Ms.
12 Reichert. In...

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: In -- I'm
17 interested in the definition of 'normal operations'.
18 Would it be fair to say that normal operation expenses
19 are calculated through the compilation of expenses
20 associated with the various day-to-day operational
21 departments within the Corporation?

22 MS. HEATHER REICHERT: Are you
23 referring to a specific reference within the
24 Application, or is this just your understanding?

25 MR. BYRON WILLIAMS: Well, for

1 example, I probably did pull that from a specific
2 reference but I'm -- the -- the Corporation certainly
3 looks at its Basic expenses and one (1) category that
4 it looks at is normal operations, agreed?

5 MS. HEATHER REICHERT: Correct. We do
6 differentiate between what we consider to be normal
7 operating expenses and improvement initiative
8 expenses. So really the -- the definition of 'normal
9 operations' is everything that is not considered an
10 improvement initiative. So the...

11 MR. BYRON WILLIAMS: You defined it by
12 excluding all implement -- implementation and ongoing
13 costs that are related to improvement initiatives that
14 are currently being undertaken by the Corporation in
15 the forecast period, correct?

16 MS. HEATHER REICHERT: That is
17 correct.

18 MR. BYRON WILLIAMS: In essence, they
19 are calculated through the compilation of expenses
20 associated to the various day-to-day operational
21 departments; they're excluding the improvement
22 initiatives.

23 MS. HEATHER REICHERT: Correct.

24 MR. BYRON WILLIAMS: If you can turn
25 to page 24 of CAC Exhibit 7, what you'll see, I'll

1 suggest to you, Ms. Reichert, is a comparison in terms
2 of Basic expenses for normal operations comparing the
3 2013 GRA in the middle -- the middle table with the
4 2014 GRA at the top table.

5 Agreed?

6 MS. HEATHER REICHERT: I agree.

7 MR. BYRON WILLIAMS: And focussing on
8 the 2013 GRA and staying on compensation, I would be
9 correct in suggesting to you that your forecast of
10 compensation expenses for the '12/'13 years was just a
11 touch over \$105 million for normal operations.

12 Correct?

13 MS. HEATHER REICHERT: That is
14 correct.

15 MR. BYRON WILLIAMS: And your actuals
16 for that year were close to 8 million higher.

17 Agreed?

18 MS. HEATHER REICHERT: Yes, I agree.

19 And that is due to the fact that, as has been
20 documented, we do not, in our forecast, forecast for
21 actuarial gains or losses on the valuation of the
22 pension plan because of -- of the -- the complexity of
23 trying to do that, again impacted by discount rates in
24 the future.

25 So the reason that you see actual

1 expenses reflected in 2014 for '12/'13 compensation as
2 8 million higher than what we forecast in the 2013 GRA
3 is almost solely as a result of a -- of an increase in
4 the -- the pension plan valuation.

5 MR. BYRON WILLIAMS: That's helpful,
6 Ms. Reichert, and thank you for reminding me of that.
7 Sticking with normal operations -- and if you need a
8 reference, I think it's E2.12, page 8. Or you could
9 accept it, subject to check.

10

11 (BRIEF PAUSE)

12

13 MR. BYRON WILLIAMS: I don't have it
14 right in front of me, Ms. Reichert, but if we look at
15 the equivalent full-times associated with normal
16 operations, would I be correct in suggesting to you,
17 in 2009/'10, they were about one thousand, seven
18 hundred and fifty-two point nine (1,752.9)?

19 MS. HEATHER REICHERT: On a corporate
20 basis, not just the -- on a corporate basis, not just
21 the Basic insurance program, the actual FTEs, yes, in
22 2009/'10 were one thousand, seven hundred and fifty-
23 two point nine (1,752.9).

24 MR. BYRON WILLIAMS: And, Ms.
25 Reichert, if memory serves me right, you don't really

1 produce these on a Basic basis?

2 MS. HEATHER REICHERT: That is
3 correct.

4 MR. BYRON WILLIAMS: So we've got that
5 seventeen fifty-two point nine (1,752.9) in '09/'10.
6 Can -- can we agree that the FTEs associated with
7 normal operations in the 2012/'13 year were one
8 thousand, eight hundred and ninety-four point seven
9 (1,894.7)?

10 MS. HEATHER REICHERT: Yes.

11 MR. BYRON WILLIAMS: A difference of
12 one hundred and forty-one point eight (141.8)?

13 MS. HEATHER REICHERT: Correct.

14 MR. BYRON WILLIAMS: Always seems
15 strange to think of a point eight (.8) of an EFT.

16 Now, I may come back to that, but is it
17 -- in terms of -- we asked a question actually which
18 appears at page 25 of CAC Exhibit. And we asked
19 whether the -- the government had seconded any MPI
20 staff for whom MPI pays their salaries and benefits.
21 And I'll suggest to you that -- that the Corporation's
22 answer is that there is one (1) staff person on
23 secondment to the Department of Finance.

24 Is that right?

25 MS. HEATHER REICHERT: Yes, that is

1 correct.

2 MR. BYRON WILLIAMS: And I wonder if
3 you can explain the -- the role of this individual in
4 the Department of Finance.

5

6 (BRIEF PAUSE)

7

8 MS. HEATHER REICHERT: This individual
9 has been seconded to the Department of Finance to
10 assist the Department of Finance in the management of
11 our investment portfolio, as well as other duties that
12 the -- that the Assistant Deputy Minister for the
13 Department of Finance would ask of that staff person
14 to do.

15 MR. BYRON WILLIAMS: And his entire
16 salary is -- is paid by MPI?

17 MS. HEATHER REICHERT: That is
18 correct.

19 MR. BYRON WILLIAMS: And how was the
20 determination made that MPI should be paying his
21 salary instead of the province?

22 MS. HEATHER REICHERT: From MPI's
23 perspective, having this individual seconded to the
24 Department of Finance is an opportunity to broaden
25 their experience, to provide them with education

1 within the Department of Finance area on the direct
2 purchasing and selling of bonds in other debt
3 management or treasury functions.

4 So from our perspective, it is of
5 benefit to us to have that individual broaden their
6 education and experience in this way.

7 MR. BYRON WILLIAMS: So just so I
8 understand, it's -- is it job training or is it a
9 service that he's providing to the Department of
10 Finance, or perhaps both?

11 MS. HEATHER REICHERT: I would say
12 it's both.

13 MR. BYRON WILLIAMS: I'm not sure who
14 the IT person is. Is that you again, Ms. Reichert?

15 MS. HEATHER REICHERT: That depends on
16 the question, but... I once did have a letter mis --
17 misnamed and -- and called me the chief information
18 officer, but I quickly rectified that.

19 MR. BYRON WILLIAMS: It would be very
20 rare for a lawyer to be referred to as a chief
21 information officer, I have to tell you, Ms. Reichert.
22 And before we get along too far, we may end up
23 torturing this analogy.

24 You don't need to turn to it, but
25 you'll recall in the Gartner Report, Gartner Group

1 spoke of MPI spending close to twenty (20) -- 20
2 million in 2012/'13 modernizing the IT footprint to
3 fix its twenty (20) year roof problem.

4 Do you recall a statement to that
5 effect?

6 MS. HEATHER REICHERT: I do recall
7 that statement.

8 MR. BYRON WILLIAMS: And Gartner as
9 well noting for that particular year, being 2012/'13,
10 the Corporation, in addition to fixing its roof
11 problem, was spending an additional \$18 million on a
12 project that added to its space.

13 Fair enough?

14 MS. HEATHER REICHERT: Fair enough.

15 MR. BYRON WILLIAMS: And an example of
16 projects that added to its space cited by the Gartner
17 Group was the HRMS project.

18 Agreed?

19 MS. HEATHER REICHERT: Agreed.

20

21 (BRIEF PAUSE)

22

23 MR. BYRON WILLIAMS: Now, if you turn
24 to page 16 in the CAC Exhibit number 7, you'll see,
25 Ms. Reichert, the respo -- Corporation's response to

1 PUB/MPI-2-33, correct?

2 MS. HEATHER REICHERT: Correct.

3 MR. BYRON WILLIAMS: And again, on a
4 corporate basis, what this does is track the change in
5 information technology costs. That's page 26. Just
6 one (1) second.

7 It tracks the change in information
8 technology costs from the '05/'06 year through
9 2017/'18. Agreed?

10 MS. HEATHER REICHERT: Agreed.

11 MR. BYRON WILLIAMS: And if we go down
12 to the bottom line, "Total IT Expenses," we'll see the
13 expenses reported in '05/'06 for the Corporation were
14 about \$24.8 million, correct?

15 MS. HEATHER REICHERT: Correct.

16 MR. BYRON WILLIAMS: And if we go out
17 some twelve (12) years to the 2017/2018 projection,
18 we'll see a projection of somewhere between 74 and \$75
19 million.

20 Agreed?

21 MS. HEATHER REICHERT: Agreed. And
22 that is a -- a considerably larger number than twelve
23 (12) years previous, but one (1) of the more
24 significant components of that number is the
25 amortization of deferred development costs, and that

1 is the amortization of those very IT projects that are
2 considered to be improvement initiatives and then move
3 into quote, "normal operations," and are amortized.

4 So what you have is a combination of --
5 of several IT projects that are still being amortized.
6 So new projects in '17/'18 that would be just starting
7 to be amortized, plus ones that were continuing to be
8 amortized from before, which makes that number grow
9 and appear to be quite a large component of the
10 overall cost.

11 MR. BYRON WILLIAMS: Yes, and indeed
12 we see over a decade of fairly significant compound
13 annual growth, agreed?

14 MS. HEATHER REICHERT: Yes. And,
15 again, the amortization of those many projects that
16 were done in previous years.

17 MR. BYRON WILLIAMS: If we look to the
18 extreme right under the compound -- compound annual
19 growth rate we'll see that the rate from '05/'06 to --
20 to 2012/'13 as calculated by the Corp -- Corporation
21 was over 10 percent?

22 MS. HEATHER REICHERT: Yes.

23 MR. BYRON WILLIAMS: If we again look
24 to the -- from '12/'13 to '17/'18, we see a -- a rate
25 in the range of 8 percent in terms of compound annual

1 growth, agreed?

2 MS. HEATHER REICHERT: Again, I --
3 agreed. Again, the most significant component of that
4 being the amortization of those initiatives.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: Ms. Reichert, in
9 the Gartner Group report presented to the MPI -- to
10 MPI in, I -- I believe, June of 2013, they suggest
11 that for the 2012/'13 year close to one (1) out of
12 five (5) MPI staffed worked for IT.

13 Do you recall that statement?

14 MS. HEATHER REICHERT: I recall that
15 statement. Did you want to have the reference in the
16 record?

17 MR. BYRON WILLIAMS: It's page 4 of --
18 4 of 15.

19 MS. HEATHER REICHERT: Okay. Yes.

20 MR. BYRON WILLIAMS: And would the
21 Corporation generally agree that whether it's 20
22 percent or 18 percent, that that -- that statement is
23 relatively accurate?

24 MS. HEATHER REICHERT: Yes.

25 MR. BYRON WILLIAMS: At page 4 of the

1 Gartner report, Gartner also reports that for the
2 2012/'13 year the Corporation used more contractor
3 resources than the insurance industry average.

4 Do you recall that statement, Ms. McL -
5 - Ms. Reichert?

6 MS. HEATHER REICHERT: Yes, I -- I
7 recall that statement and I also recall Ms. McLaren,
8 in the first week of these proceedings, talking about
9 how despite the fact that we might have higher IT
10 expenses as a ratio, our overall expenses compared to
11 the Canadian industry are less. So it is, again, a
12 reflection of the fact that MPI has invested more and
13 has -- has advanced more in the use of technology in
14 serving our customers than some of our counterparts in
15 the -- in the industry.

16 MR. BYRON WILLIAMS: Just so I'm
17 clear, are you suggesting that the Gartner Group is
18 concluding that you have lower staff levels than the
19 industry? I might have misheard you.

20 MS. HEATHER REICHERT: No, I don't
21 believe that's what I said. I acknowledged that our
22 percentage of IT staff or -- and, therefore, IT costs
23 compared to the Canadian industry will -- will be
24 higher. But our overall expenses, including IT
25 expenditures, compared to our Canadian -- compared to

1 the Canadian industry is lower, which indicates that
2 we, at MPI, have put more of an emphasis on technology
3 and the support of that technology compared to other
4 Canadian counterparts.

5 MR. BYRON WILLIAMS: Just so I'm
6 clear, Ms. Reichert, if we go to page 41 of the CAC
7 Exhibit 7, you'll see an excerpt from the Gartner
8 report, being page 11 of -- page 11 of 15.

9 MS. HEATHER REICHERT: Yes, I'm there.

10 MR. BYRON WILLIAMS: And if I go to
11 the right-hand corner there, am I correct in -- okay,
12 am I correct in suggesting that the total cost for MPI
13 as compared to its peer is somewhat higher?

14 MS. HEATHER REICHERT: The total IT
15 cost compared to our peer is somewhat higher, yes.

16 MR. BYRON WILLIAMS: Okay. Now, just
17 to -- I want to go back to page 29 of CAC-7.

18 And we did agree previously that for
19 2012/'13 the Gartner Group was noting that MPI was
20 using more contract resources than the insurance
21 industry average, agreed?

22 MS. HEATHER REICHERT: Agreed.

23 MR. BYRON WILLIAMS: And on page 29
24 you'll see the response to CAC/MPI-1-14, and would you
25 agree that if we look at the consulting -- let me back

1 up.

2 You'll see that for the 2012/'13 year,
3 the Corporation had actual consulting fees of \$18.3
4 million, correct?

5 MS. HEATHER REICHERT: Yes.

6 MR. BYRON WILLIAMS: And we can agree
7 that the Corporation is budgeting to increase those
8 consulting fees in 2013/'14 to \$28 million, agreed?

9 MS. HEATHER REICHERT: Yes.

10 MR. BYRON WILLIAMS: Roughly a \$9.8
11 million increase?

12 MS. HEATHER REICHERT: Yes.

13 MR. BYRON WILLIAMS: 53 percent,
14 subject to Mr. Johnston's check?

15 MS. HEATHER REICHERT: I don't even
16 think I need Mr. Johnston to check this one. That
17 sounds about right.

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: Ms. McLaren had a
22 bit of a discussion with my -- my friend Ms. Grammond
23 last week on the HRMS system, so I won't belabour it,
24 but I'm correct in suggesting to you that the budget
25 for implementing the HRMS system increased from \$10

1 million to \$16 million, agreed?

2 MS. HEATHER REICHERT: Yes.

3 MR. BYRON WILLIAMS: And going back to
4 that analogy of the Gartner Group talking about you
5 both fixing the roof and adding a new base in the
6 2012/'13 year, would it be accurate to say that while
7 you were fixing the roof the costs for the base, i.e.,
8 the HRMS program, got away from you?

9 MS. HEATHER REICHERT: I'm not sure I
10 accept the term 'got away from us.' We continued to
11 manage that project with all of the difficulties that
12 Ms. McLaren had cited last week, so we -- we did -- we
13 did manage that project with all of the difficulties
14 that we faced.

15 MR. BYRON WILLIAMS: Now, Ms. -- Ms.
16 Reichert, just remind me: When was HRMS completed?
17 Just roughly.

18 MS. HEATHER REICHERT: Phase 2 was
19 completed at the end of June -- well, with a post-
20 implementation phase, so July of this year.

21 MR. BYRON WILLIAMS: So would the
22 budget figures from Phase 2 have been available to the
23 Gartner Group when they did their analysis for the
24 2012/'13 year?

25 MS. HEATHER REICHERT: To be honest,

1 I'm not exactly sure of the timing of the Gartner's
2 report. I believe that they would have had some
3 information with respect to the HRMS project and --
4 and the costs being incurred.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: The report's
9 dated June 28, 2013. And so you may not be aware of
10 this and I'll -- just -- but just so I'm clear, are
11 you aware whether they would have had the information
12 relating to the magnitude of the HRMS budget overrun
13 available to them when this report was issued?

14 MS. MARILYN MCLAREN: I -- I can tell
15 you the individual that we work with from Gartner
16 absolutely had that information. I'd meet with him on
17 a regular basis and discuss all the IT initiatives
18 that are going on. This is a structured CIO scorecard
19 process that Gartner has. I can't tell you the extent
20 to which that information was embedded in this report,
21 but they absolutely had it available.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: Ms. Reichert, I'm

1 not sure I can give you the actual page reference
2 right now, although I'll -- I'll do my best to big --
3 dig it up at the break.

4 But would it be accurate to say that
5 Gartner suggested that the Corporation spend, in terms
6 of IT per company employee for the 2012/'13 year, was
7 roughly forty-three thousand dollars (\$43,000) per
8 employee?

9

10 (BRIEF PAUSE)

11

12 MS. HEATHER REICHERT: On your -- on
13 your page 41 of your exhibit there is a -- a table --
14 I'm -- I'm not sure if this is what you're referring
15 to -- that talks about the cost per FTE of MPI. That
16 table shows the cost per FTE of MPI of the IT FTEs as
17 -- as being eighty-five thousand (85,000). Is that
18 what you're...

19 MR. BYRON WILLIAMS: Ms. Reichert, the
20 page -- and I apologize for my imprecision. If one
21 turns to page 43 in the top right-hand corner and then
22 goes to the box at the bottom of the page, you'll see
23 an IT spend per company employee of forty-three
24 thousand, two hundred and forty-three dollars
25 (\$43,243)?

1 MS. HEATHER REICHERT: Oh, I'm -- I'm
2 sorry. So, yes, this -- this is IT spend per company
3 employee. And what I was just looking at was the cost
4 of an IT employee. Okay. I appreciate the
5 difference.

6 MR. BYRON WILLIAMS: Yeah, the -- the
7 question was poorly asked and I apologize. So let me
8 -- let me rephrase it.

9 Gartner has reported for the 2012/'13
10 year that the IT spend per company employee was
11 roughly forty-three thousand dollars (\$43,000),
12 agreed?

13 MS. HEATHER REICHERT: Yes.

14 MR. BYRON WILLIAMS: And if we focus
15 back on the Human Resources Management System, or
16 HRMS, would it be safe -- fair to say that with the
17 cost overruns, MPI will have spent over eight thousand
18 dollars (\$8,000) per employee for the HRMS?

19 I can give you that calculation, Ms.
20 Reichert, if you'd like it.

21 MS. HEATHER REICHERT: I would love
22 it. Thank you.

23 MR. BYRON WILLIAMS: We can agree that
24 the cost for HRMS was about \$16 million?

25 MS. HEATHER REICHERT: That's the

1 budget for the HRMS system, is \$16 million, correct.

2 MR. BYRON WILLIAMS: And --

3 MR. REGIS GOSSELIN: I'm sorry,

4 sixteen (16) or sixty (60)?

5 MR. BYRON WILLIAMS: If I was unclear,
6 I meant to say one-six (1-6).

7 MR. REGIS GOSSELIN: Okay.

8

9 CONTINUED BY MR. BYRON WILLIAMS:

10 MR. BYRON WILLIAMS: And I --

11 apologize if I left a mistaken impression.

12 And can -- from E7, Appendix 1, I'll

13 suggest that the staffing budget for 2012/'13 was

14 roughly one thousand, nine hundred and thirty-six

15 point seven (1,936.7) FTEs?

16 MS. HEATHER REICHERT: Yes.

17 MR. BYRON WILLIAMS: And so if one

18 took the budget of 16 million, divided by the nineteen

19 hundred, thirty-six point seven (1,936.7) FTEs, we get

20 something in the range of eight thousand two hundred

21 and sixty-one dollars (\$8,261) per employee?

22 MS. HEATHER REICHERT: I -- I agree

23 subject to check. I understand it is correct.

24 MR. BYRON WILLIAMS: Fastest

25 calculator in the west, Mr. Johnston. And -- and just

1 to remind us, the HRMS was a payroll human resource
2 system?

3 MS. HEATHER REICHERT: Yes.

4

5 (BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: Ms. Reichert,
8 thank you for bearing with me on going through this
9 scorecard. If you can turn to page 42 in the top
10 right-hand corner, still on the Gartner report, and on
11 the right-hand side of that presentation, Ms.
12 Reichert, you'll see a box which purports to evaluate
13 MPI versus a team player versus the insurance industry
14 versus MPI 2012.

15 Agreed?

16 MS. HEATHER REICHERT: Yes.

17 MR. BYRON WILLIAMS: And if we went
18 down the evaluation component -- let's go to,
19 'Effectiveness innovation enterprise viewpoint' -- MPI
20 appear -- performs pretty well compared to either the
21 team player or insurance.

22 Agreed?

23 MS. HEATHER REICHERT: Yes.

24 MR. BYRON WILLIAMS: If we move up to
25 'Business process management', would it be fair to say

1 that -- that there -- the Gartner Group at this point
2 in time has identified a need for improvement for MPI
3 as compared to the team player or insurance?

4 MS. HEATHER REICHERT: I agree that
5 the rating that they've given MPI is lower than the
6 team player or the insurance industry as a whole. I
7 don't know to what extent that -- that rating
8 difference indicates significant improvement required.

9 MR. BYRON WILLIAMS: Excuse me. We'll
10 come to that in a second. And when we move up a
11 little bit higher to 'Cost containment', would it be
12 accurate to state that again MPI rates lower than the
13 team player or insurance? Agreed?

14 MS. HEATHER REICHERT: Yes, based on
15 these numbers.

16 MR. BYRON WILLIAMS: And --

17 MS. MARILYN MCLAREN: Mr. Williams, I
18 want to interject here for a minute, just to maybe
19 elaborate a little bit on what Ms. Reichert said.

20 The question you just asked, Is it true
21 that the score in cost containment is lower than team
22 player insurance, that's a pretty straightforward
23 answer. It's not the same as asking: Has Gartner
24 identified opportunities for improvement in business
25 process management?

1 These are all -- it -- it's a balance.
2 You look at this holistically. There's a cost asso --
3 associated with every change that you make in this
4 world. And if you look, we are, you know,
5 significantly moved ahead at the overall score level.
6 We're ahead of where we were last year. We are ahead
7 of insurance. We're basically on with the team
8 player.

9 So how do we want to move forward
10 within the different components of the score is really
11 the question. We don't have all the answers to that
12 here today, but that (sic) are the questions that we
13 ask ourselves, those are the questions that we asked
14 Gartner for advise on, and we make decisions, Where
15 can we get the best bang for the buck.

16 Where do we really believe we need to
17 move ahead, because we're -- we're not trying to
18 exceed team player and insurance on all score,
19 necessarily.

20 MR. BYRON WILLIAMS: But certainly,
21 Ms. McLaren, the Gartner Group has identified cost
22 containment and business process management as areas
23 where there is room for improvement.

24 MS. MARILYN MCLAREN: They have --

25 MR. BYRON WILLIAMS: And it said so

1 expressly.

2 MS. MARILYN MCLAREN: -- they have
3 scored us lower than team player and insurance in that
4 category.

5 MR. BYRON WILLIAMS: And indeed it
6 says in terms of impli -- implications that MPI can
7 still improve in areas such as cost containment and
8 business process management, agreed?

9 MS. MARILYN MCLAREN: Absolutely,
10 sure.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: I want to talk
15 about benchmarking for a little bit. And, Ms.
16 Reichert, is that -- that you again?

17 MS. HEATHER REICHERT: You can start
18 and we'll see where it goes.

19 MR. BYRON WILLIAMS: Excuse me. If
20 you turn to page 45, Ms. Reichert, you'll see an
21 excerpt from PUB Order 157/'12.

22 Do you see that?

23 MS. HEATHER REICHERT: I do.

24 MR. BYRON WILLIAMS: And we'll get
25 into the outcome of -- of this recommendation in a --

1 in a moment. But for now can we agree that there was
2 guidance or indeed an order from the Board to Manitoba
3 Public Insurance inviting it to develop productivity
4 factors to assess -- enable the assessment of cost
5 containment measures as they related to operating and
6 claims expenses.

7 Agreed?

8 MS. HEATHER REICHERT: Yes.

9 MR. BYRON WILLIAMS: And, again, we'll
10 -- we'll get to those in -- in a moment. If we flip
11 to the next page, page 46 of CAC Exhibit 7, just above
12 "Cost Saving Initiatives - All Perils," you'll see a
13 discussion related to the business and injury
14 improvement initiative.

15 Do you see that Ms. McL -- Ms.
16 Reichert?

17 MS. HEATHER REICHERT: Yes, I do.

18 MR. BYRON WILLIAMS: And in discussing
19 the business improvement -- business and injury appro
20 -- improvement initiative, you'll see the -- the
21 Public Utilities Board commenting on use of the
22 software:

23 "Will allow the Corporation to
24 accurately benchmark its outcomes
25 with other similar national and

1 international organization through
2 the use of coding stan --
3 standards."

4 Do you see that, Ms. Reichert?

5 MS. HEATHER REICHERT: Yes, I do.

6 MR. BYRON WILLIAMS: And there's the -
7 - the suggestion that:

8 "The Corporation can mine its data
9 sources for insight and ultimately
10 reduce disability durations to
11 optimize claimants recovery time and
12 achieve program cost savings.

13 Do you see that?

14 MS. HEATHER REICHERT: Yes.

15 MR. BYRON WILLIAMS: Now, Ms.

16 Reichert, I don't think you need to turn here, but
17 certainly in the Corporation's strategic plan, I
18 believe pages 3 and 4, I saw reference to the bodily
19 injury improvement initiative BI3. And also a
20 notation of benchmarks or measures for accessibility
21 and timeliness of pay -- of payments.

22 Does that sound familiar to you?

23 MS. HEATHER REICHERT: Yes, it does.

24 MR. BYRON WILLIAMS: Ms. Reichert,
25 what I haven't observed in this application, and I

1 simply may have missed it, in terms of bodily injury -
2 - the bodily injury improvement initiative, is a
3 report on how the Corporation is doing in terms of
4 disability duration as compared to -- to benchmarks.
5 And is -- is that somewhere in the report and I've
6 simply missed it?

7 MS. HEATHER REICHERT: No.

8 MR. BYRON WILLIAMS: It would be fair
9 to say that going into the business and injury
10 improvement initiative, the Corporation would have set
11 a baseline in terms of the status quo or existing
12 standards in terms of disability durations?

13 MS. MARILYN MCLAREN: No.

14 MR. BYRON WILLIAMS: Would the
15 Corporation have established expectations in terms of
16 improved outcomes in terms of reduced disability
17 durations?

18 MS. MARILYN MCLAREN: Expectations
19 that we were introducing a framework where that would
20 happen going forward. And you and I, I'm sure, have
21 had some discussions. You have asked other members of
22 the MPI panel. I've had conversations with other
23 participants through the last many years that that was
24 a severe shortcoming of the, in many ways, inadequate
25 IT and infrastructure support system we had for our

1 case managers since we moved to no-fault in 1994.

2 We can't tell you what our typical
3 claim duration was. So we're not going to -- we --
4 we're not in a position to be able to implement a new
5 system and expect to see reductions from that, because
6 we had no real strong ability to understand what we
7 were dealing with through the old system.

8 So we're trying to get to a position,
9 after we clear up issues like the transition and the
10 severe loss of productivity that staff faced as they
11 were learning a new system, and putting in place rehab
12 plans for all claimants and things like that. We will
13 start to be able to track those kinds of durations and
14 then we will be in a position to make decisions about
15 the extent to which we have opportunities to reduce
16 those durations.

17 That's absolutely part of the plan.
18 It's not something that was ever expected to be there
19 at the beginning of -- and I -- we are still at the
20 beginning of the transition to this new bodily injury
21 case management method. We have introduced protocols,
22 the Presley Reed guidelines in terms of different
23 kinds of injury duration or recovery durations. We --
24 we pay a lot of attention to that. Our staff are
25 learning to work with those. But, no, we did not

1 implement this new system with clear benchmarks as to
2 how we were going to reduce disability durations from
3 what they had been previously.

4 MR. BYRON WILLIAMS: And just so I --
5 I recall, the -- the system would have gone live,
6 what, in about September of 2010?

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

9 MR. BYRON WILLIAMS: And you
10 experience some material productivity challenges for
11 roughly the first eighteen (18) months or so?

12 MS. MARILYN MCLAREN: Yes.

13 MR. BYRON WILLIAMS: And as I
14 understand it, you are -- you've indicated that you're
15 monitoring durations closely?

16 MS. MARILYN MCLAREN: I believe we are
17 starting to learn to work within this new construct,
18 yes. So I'm not monitoring durations. This is not
19 something that is at the point of being reported to
20 the executive of the Company as a performance
21 indicator yet. But the people in injury case
22 management are adopting what they -- modifying what
23 they have done from 1994 until 2010 to start
24 considering and working with these kinds of new
25 indicators.

1 MR. BYRON WILLIAMS: So when -- when
2 does the Corporation expect that reports in terms of
3 recovery duration will be generated for the executive
4 level?

5 MS. MARILYN MCLAREN: I would expect
6 that we would clearly know where we're standing on our
7 ability to do that with -- within the next two (2)
8 years.

9 MR. BYRON WILLIAMS: And, Ms. McLaren,
10 recognizing the importance of being humane and
11 respectful to injured victims, but also recognizing
12 the importance of returning persons to -- as full a
13 recovery as possible, both for themselves and for the
14 Corporation's bottom line, does the Corporation
15 anticipate it will need external expertise in terms of
16 working to reduce injury durations?

17 MS. MARILYN MCLAREN: No, I don't
18 think so. I think we have -- we have some of the best
19 doctors in this province available to us as -- on a
20 contract, temporary basis as part of our healthcare
21 services team.

22 Part of what we -- we do expect from
23 this system is not so much that people are actually
24 going to recover faster, but I think one (1) of the
25 significant barriers in the old system, or -- or

1 almost virtual lack of system, it was almost entirely
2 a paper-based system -- is that people were recovered
3 and we continued to pay personal care assistants
4 longer than we needed to.

5 So not that they weren't recovering
6 quickly. I think we always had -- not always, but for
7 -- for a significant period of time, had very good
8 collaborative, cooperative team approaches to helping
9 people recover. But getting the paperwork done was
10 not always one (1) of the first priorities for our
11 staff.

12 And I -- and I -- you know, if they're
13 having to make choices between working with claimants
14 and doing that, I understand that. But part of the --
15 what the expectation was is that we would save some
16 money on personal care assistants by having more
17 appropriate file management, not that they would
18 necessarily recover quicker but the payments would
19 better reflect their needs more promptly, as an
20 example.

21 MR. BYRON WILLIAMS: And just so I'm
22 clear, I understand that one (1) outcome you expect to
23 achieve from this is once persons are fully recovered,
24 to more promptly cease the payments which -- which
25 they're -- which are no longer necessary.

1 MS. MARILYN MCLAREN: Or -- or
2 adjusting them downward more frequently and more
3 promptly.

4 MR. BYRON WILLIAMS: And would I have
5 been in error if I assumed that one element of the
6 business and injury improvement initiative was -- was
7 actually to optimize claim -- claimant recovery times?

8 MS. MARILYN MCLAREN: No, not
9 necessarily. I think whenever you have better
10 information and more prompt information there are
11 always opportunities to do a better job of that.

12 MR. BYRON WILLIAMS: And you would
13 expect --

14 MS. MARILYN MCLAREN: Bodily injury
15 improvement initiative as opposed to business injury
16 improvement initiative.

17 MR. BYRON WILLIAMS: There's too many
18 programs, Ms. McLaren. Part of the reporting that
19 will flow through the executive and presumably to --
20 to the Board as a benchmark will -- will be these
21 improved or optimized claimant recovery times.

22 Agreed?

23 MS. MARILYN MCLAREN: Yes.

24

25 (BRIEF PAUSE)

1 MR. BYRON WILLIAMS: This is probably
2 back to you, Ms. Reichert, at page 47 of CAC Exhibit
3 7, or maybe it's Ms. McLaren, one of you.

4 You'll see -- before we get to the
5 response you'll see a preamble suggesting that the
6 response to CAC/MPI-1-3 indicates the -- that:

7 "MPI has not formalized the key
8 performance indicator framework nor
9 has set productivity targets for
10 future years for injury claims
11 management, contact centre, physical
12 damage, and other divisions within
13 MPI."

14 So, Ms. Reichert, just as a starting
15 point, would it be accurate to say that the key
16 performance indicator framework has not been
17 formalized yet?

18 MS. HEATHER REICHERT: Yes, I believe
19 that is what it says.

20 MR. BYRON WILLIAMS: And that's your
21 understanding?

22 MS. HEATHER REICHERT: Are you asking
23 if that's my understanding of what it says?

24 MR. BYRON WILLIAMS: The -- Ms.
25 Reichert, I -- I -- we -- we've put a proposition to

1 you indicating our understanding that it hasn't
2 formalized the key performance indicator framework.

3 My question to you is: Is that assertion accurate?

4 Has the key performance indicator
5 framework been finalized?

6 MS. HEATHER REICHERT: No, it has not.

7 MR. BYRON WILLIAMS: And can we agree
8 that there are productivity targets still to be set in
9 terms of injury claims management, the contact centre,
10 physical damage?

11 MS. HEATHER REICHERT: Yes.

12 MR. BYRON WILLIAMS: Now, if you go to
13 the response to CAC/MPI-2-20, Ms. Reichert, you -- the
14 Corporation responds, and I'll ask you to confirm:

15 "The development of key performance
16 indicator framework is underway.
17 The framework is evolving, its
18 historical data is collected, and
19 analytics are conducted. The
20 Corporation will continue to develop
21 these indicators, benchmarks, and
22 targets in the upcoming year."

23 Did I present that fairly, Ms.
24 Reichert?

25 MS. HEATHER REICHERT: Yes, you did.

1 MR. BYRON WILLIAMS: And I -- I have
2 to tell you, Ms. Reichert, when I saw that statement,
3 it -- the answer kind of sounded like the answer I
4 give to my boss when he asks me why my performance
5 evaluations are -- are four (4) months late.

6 And -- and I guess the -- my question
7 to you is: Are you confident that the Corporation
8 will be preparing a draft productivity benchmark fram
9 -- benchmark framework for the next GRA?

10 MS. HEATHER REICHERT: I think that
11 this answer is consistent with what Ms. McLaren just
12 responded in a -- in a similar question, if I'm not
13 mistaken. Ms. McLaren...?

14 MS. MARILYN MCLAREN: That's fair. I
15 think id -- ideally, I am -- I'm hopeful that we will
16 actually come up with the framework, some of it
17 populated, some of it not. That may not be how this
18 best evolves. We may not come with the framework, we
19 may come with more indicators and talk to you more
20 next year about how we see this trending into the
21 future. But the -- the commitment that we -- that I
22 made last week that we are prepared to make, is that
23 there will be progress.

24

25

(BRIEF PAUSE)

1 MR. BYRON WILLIAMS: Turning to the
2 Ward Group information, which app -- appears at --
3 starting at page 50 through 52 of CAC Exhibit 7.

4 Was this three (3) page report the
5 entirety of the information provided by the Ward Group
6 or was there additional information provided to the
7 Corporation?

8 MS. MARILYN MCLAREN: That -- that
9 sounds extremely similar to an undertaking that I
10 believe we still have outstanding. It'll be filed
11 very soon. Contrary to what I believe I said on the
12 record at the time, this doesn't fall into the
13 category of 'I remember when', apparently. This is
14 part of a larger effort.

15 This is the synthesis of the
16 information that the Ward Group is prepared to make
17 public. We have a services agreement and a statement
18 of work with the Ward Group, 95 percent of which is
19 them telling us what we cannot release publicly. So
20 they have created this for us specifically for filing
21 in this public forum. There was no additional cost
22 associated with preparing this, and the contract and
23 comment to that effect is what will be in the
24 undertaking.

25 MR. BYRON WILLIAMS: In pre --

1 presenting this information, Ms. McLaren, and I'm not
2 asking for what they tell you, but will you be
3 provided with background information about the size of
4 the respective comparators and their business model?

5 MS. MARILYN MCLAREN: Not from Ward.

6 I mean, they're -- that kind of information is
7 available publicly and we would have access to it.
8 Some of it I know personally, in terms of which are
9 some of the bigger ones and which are not. So, no,
10 Ward did not give us information about the comparative
11 size of the different organizations that comprise this
12 Canadian auto benchmark.

13 MR. BYRON WILLIAMS: And do they
14 provide an explanation of why these are the key
15 factors for their analysis?

16 MS. MARILYN MCLAREN: My understanding
17 of what they are is they are, I guess, to a certain
18 extent rolled up. And this is not -- this basically
19 covers the landscape of what the costs are, what the -
20 - what the costs are. But -- but they are not
21 provided at the level of detail that you might see in
22 the actual confidential report. So there may very
23 well be a number of measures under finance, under
24 adjusting and appraising, those kinds of things, which
25 they -- that is what they're not prepared to make

1 public.

2 MR. BYRON WILLIAMS: And will they
3 provide some sort of analysis of why MPI's results
4 might be superior in some cases and inferior in other,
5 to the other companies being analyzed?

6 MS. MARILYN MCLAREN: I don't know
7 that for sure, but I think we've provided some of that
8 the first time when we went through this with Ms.
9 Grammond. And I think we are in a reasonable position
10 to explain some of those differences ourselves.

11 MR. BYRON WILLIAMS: It's a very
12 different exercise than what you're getting from the
13 Gartner Group, obviously.

14 MS. MARILYN MCLAREN: Sure, that's
15 fair. Yeah, I mean, you know, and -- and they're --
16 the companies are different, their processes are
17 different. Gartner won't even tell us who is in the
18 benchmark, right? All we know is they're Gartner
19 clients.

20 MR. BYRON WILLIAMS: Madam Chair,
21 noting the time, I'm going to suggest a -- a brief
22 break, if that's appropriate?

23 THE CHAIRPERSON: I think that would
24 be a good idea, and we'll come back at a quarter to
25 3:00.

1 --- Upon recessing at 2:30 p.m.

2 --- Upon resuming at 2:45 p.m.

3

4 THE CHAIRPERSON: Okay. It looks like
5 we're all here again. Mr. Williams, are you going to
6 be continuing with your cross-exam?

7 MR. BYRON WILLIAMS: I thought I'd
8 better. Just in terms of I think the schedule, I will
9 not be finished today. I've discussed with My Friend
10 Mr. Oakes, I'll get done as -- I don't expect to be
11 that long tomorrow, but I will take a bit of time.
12 When I'm done today we're proposing that I would stand
13 down and Mr. -- Mr. Oakes would have at it for the
14 better part of the morning, and then I would step back
15 in subject to the guidance of the panel.

16 MS. CANDACE GRAMMOND: I'll just add
17 to that that I'll likely have some additional cross
18 for tomorrow based on the Deloitte report and so forth
19 that we're just working on. So after Mr. Williams is
20 done tomorrow, then I can probably fill the rest of
21 the day or so.

22 THE CHAIRPERSON: Okay. Thank you
23 very much. That will work then. Mr. Oakes, you'll
24 begin tomorrow morning and -- at 9:30?

25 MR. RAYMOND OAKES: That's correct,

1 Madam --

2 THE CHAIRPERSON: Okay.

3 MR. RAYMOND OAKES: -- Chairperson.

4 THE CHAIRPERSON: Thank you.

5

6 CONTINUED BY MR. BYRON WILLIAMS:

7 MR. BYRON WILLIAMS: Mr. Johnston,
8 without getting into too many details, it would be
9 fair to say that you found the DCAT technical
10 conference to be a useful exercise?

11 MR. LUKE JOHNSTON: Yes, I did.

12 MR. BYRON WILLIAMS: Almost fun?

13

14 (BRIEF PAUSE)

15

16 MR. LUKE JOHNSTON: Maybe not on a
17 weekend, but during the week, yeah.

18 MR. BYRON WILLIAMS: And you would
19 agree that ongoing dialogue regarding the DCAT in
20 previous general rate applications also has had some
21 value for the Corporation's development of its 'Made
22 in Manitoba' DCAT?

23 MR. LUKE JOHNSTON: Absolutely.

24 MR. BYRON WILLIAMS: And without
25 asking you to elaborate just quite yet, it would be

1 fair to say that despite the progress made in the
2 technical conference, there are still some steps to be
3 taken in terms of refining the product.

4 Agreed?

5 MR. LUKE JOHNSTON: Yes, without
6 elaborating, that is true.

7 MR. BYRON WILLIAMS: And I'm not going
8 to use the word 'pause', because I'm not sure Ms.
9 McLaren likes that word, but it would be fair to say
10 that the DCAT technical conference was adjourned with
11 the agenda being incomplete.

12 We can agree on that?

13 MS. MARILYN MCLAREN: Yes.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: And just in terms
18 of more work yet to be done, Mr. Johnston, coming out
19 of the DCAT technical conference it was agreed that
20 the -- it was agreed that MPI would be prepared to run
21 some adverse scenarios and risk tolerance levels as
22 requested by the PUB and Intervenors subject to the
23 request being limited in numbers, recognizing the
24 extensive work required.

25 Agreed?

1 MR. LUKE JOHNSTON: Agreed, and I
2 won't elaborate too much on this. I've talked about
3 this already. But we did kind of in advance try to
4 include some additional scenarios. I'm trying to
5 recall if there were additional scenarios requested.
6 I don't know if there were, but if -- if there --
7 there, were we would have run them.

8 Part of what made that much easier is
9 the new financial model.

10 MR. BYRON WILLIAMS: There might have
11 been one (1) in CAC-2-16, which we might come to, Mr.
12 Johnston. But -- and if I'm unclear or inaccurate,
13 you'll correct me.

14 But in terms of the -- the agenda items
15 to be resumed, part of that was a discussion of some
16 standard scenarios that -- that might be sought by the
17 PUB or -- or other Intervenors for inclusion?

18

19 (BRIEF PAUSE)

20

21 MR. LUKE JOHNSTON: I don't recall
22 that -- I don't recall that being on -- on, for
23 example, the areas of agreement that -- that we had,
24 but I don't see that request being un -- unreasonable,
25 if that's your question.

1 MR. BYRON WILLIAMS: Well -- well, let
2 me put it another way. When and if the technical
3 conference resumes, we would expect that one (1) item
4 on the agenda would be some -- a discussion of whether
5 there are additional scenarios the PUB wishes to have
6 run by the Corporation, or Intervenors might request
7 that the Corporation run.

8 Agreed?

9 MR. LUKE JOHNSTON: Agreed. I -- I
10 think you're refreshing my memory a little bit there.
11 The discussion we had at the technical conference was
12 absolutely the Corporation can run alternate
13 scenarios. The -- the only issue from my perspective
14 in terms of the DCAT is that those scenarios falls
15 within actuarial standards of practice.

16 And -- and it -- it's not that we can't
17 run them, but to be included and considered in the
18 DCAT, we'd want them to fall in that one (1) in -- one
19 (1) in twenty (20) to one (1) in a hundred (100) year
20 probability level.

21 MR. BYRON WILLIAMS: And you've had a
22 -- a discussion of a -- of -- probably ad nauseam with
23 My Friend Ms. Grammond, in terms of the -- the balance
24 sheet forecast. But we've agreed that balance sheet
25 forecast is still to come in terms of the DCAT?

1 MR. LUKE JOHNSTON: Yes, we have. By
2 next year's GRA DCAT.

3 MR. BYRON WILLIAMS: And you would
4 anticipate that perhaps the PUB or Intervenors might
5 wish to assess the model and/or validate it. Agreed?

6 I'm not saying you -- you're -- you're
7 agreeing to that. I'm suggesting that it would be
8 your expectation that -- that the PUB and Intervenors
9 will want to validate that model.

10 MR. LUKE JOHNSTON: I would agree that
11 it is definitely reasonable that the Intervenors and
12 PUB would want to evaluate the models that -- that
13 we're using in the DCAT to come up with -- with the --
14 the result. I just -- I'm -- I'm a little bit
15 hesitant because I'm not sure if you're talking about
16 handing over entire models and -- and that type but --
17 but absolutely, I would expect everyone to review the
18 models and -- and the assumptions.

19 MR. BYRON WILLIAMS: And that indeed
20 may be the subject for future debate at a technical
21 conference, whether or not the Corporation would --
22 would be prepared to hand over its models, although I
23 suspect I know the answer to that one.

24 MR. LUKE JOHNSTON: I do -- I can
25 suspect that that'll be a topic of conversation. I

1 think that was your question.

2 MR. BYRON WILLIAMS: This one may go
3 to you, Mr. Johnston or Ms. Reichert. I don't think a
4 lot turns on it, but if you're looking for reference,
5 it's page 53 of PUB -- CAC Exhibit 7. I'll start with
6 you, Mr. Johnston. It's fair to describe the
7 investment financial model as still a work in
8 progress.

9 Agreed?

10 MS. HEATHER REICHERT: Actually, I'll
11 take this one. The -- the investment model component
12 of our financial model we don't view as a work in
13 progress. That comment is with respect to the fact
14 that we are still intending and working on including a
15 balance sheet as part of our overall financial model.

16 MR. BYRON WILLIAMS: Fair enough, Ms.
17 Reichert. You sat through a fairly lengthy
18 questioning yesterday on the investment model, and
19 would it be fair to say that there is still
20 significant ongoing debate in terms of some of its key
21 assumptions?

22 MS. HEATHER REICHERT: The assumptions
23 that we are making with respect to interest rates or
24 any other inputs into the -- into the model don't have
25 any impact on the model itself or the -- the

1 composition of the model. So I'm not sure I'm -- I'm
2 clear on what you're asking.

3

4 (BRIEF PAUSE)

5

6

7 MR. BYRON WILLIAMS: Ms. Reichert,
8 just -- we'll break it into two (2) parts. In terms
9 of the investment, the output of the investment model,
10 there is still significant debate in terms of whether
11 the assumptions presented by the Corporation are
12 valid, agreed?

13 MS. HEATHER REICHERT: Agreed that
14 there is still discussion about whether or not the
15 Board accepts the assumptions that the Corporation is
16 making within the investment model.

17 MR. BYRON WILLIAMS: There's a
18 question in terms of whether the Canadian equity
19 return should be set at the 5th percentile, twenty
20 (20) -- twenty (20) year annualized return, or the 1st
21 percentile annualized return, agreed?

22 MS. HEATHER REICHERT: I'm not sure if
23 there is still a question in the Board's mind with
24 respect to that particular assumption. I know that
25 there were questions asked around how we arrived at

1 and what assumption we were using in the model around
2 what you've just quoted.

3 MR. BYRON WILLIAMS: And the Board has
4 not yet ruled in terms of the appropriateness or
5 reasonableness of employing the Corporation's
6 investment scenario, the GRA scenario, as a best
7 estimate of future interest rates, agreed?

8 MS. HEATHER REICHERT: Agreed. The
9 Board has not yet ordered on -- in that respect.

10 MR. BYRON WILLIAMS: And in terms of
11 the nuts and bolts of the model, there is no formal
12 documentation of testing that can be provided at this
13 time.

14 MS. HEATHER REICHERT: That's correct.
15 I think I spoke to that at a -- at a previous question
16 last week, or maybe it was even yesterday, that when
17 we complete the entire model, including the balance
18 sheet, we will have the documentation that -- that has
19 been -- been requested.

20

21 (BRIEF PAUSE)

22

23 MR. BYRON WILLIAMS: Mr. Johnston, I -
24 - I think this is more to you. It would be fair to
25 say that one of the interrupted agenda items from the

1 technical conference related to the issue of
2 appropriate risk tolerance, agreed?

3 MR. LUKE JOHNSTON: I agree that that
4 was a key point of discussion, and I don't know if I
5 would use 'interrupted' but definitely different
6 opinions on what's appropriate for a public insurance
7 company.

8 MR. BYRON WILLIAMS: Okay. Would you
9 accept 'incomplete'?

10 MR. LUKE JOHNSTON: Yes, I had to -- I
11 did have to make a judgment in that regard in the
12 DCAT. And I chose one (1) in forty (40) risk
13 tolerance. And I -- I did acknowledge in the report
14 or in an IR, I can't recall, that that change was in
15 consideration of the discussions that we had at the
16 DCAT technical conference and -- and the hearings with
17 the intent to bring the tolerance more in line with a
18 public -- public insurer.

19 MR. BYRON WILLIAMS: But it would not
20 surprise you when we resume the DCAT technical
21 conference that an issue near the top of agen -- of
22 the agenda may indeed be risk tolerance?

23 MR. LUKE JOHNSTON: It would be
24 reasonable that that would be on the agenda, agreed.

25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Mr. Johnston, I'm
4 quite sir -- sure you don't need a citation for this.
5 But in terms of the -- the Corporation's
6 recommendation of a \$172 million minimum target for
7 the RSR, that flowed from a scenario, a one (1) in
8 forty (40) year probability, related to the
9 Corporation's combined scenario of interest rates,
10 equity, and loss ratio adverse events, agreed?

11 MR. LUKE JOHNSTON: With management
12 and regulatory action, agreed.

13 MR. BYRON WILLIAMS: And I'll make
14 sure I include that scenario in my next question. Mr.
15 Johnston, if you turn to page 55 of the CAC Exhibit 7,
16 I'll ask you to agree that what is presented here is
17 an excerpt, a -- a partial page from the Corporation's
18 response to CAC/MPI-2-16.

19 Agreed?

20 MR. LUKE JOHNSTON: Agreed.

21 MR. BYRON WILLIAMS: And in this
22 Information Request, CAC (Manitoba) asked you to take
23 that same interest rate equities loss ratio scenario
24 at a one (1) in twenty (20) four (4) year scenario, as
25 compared to the one (1) in forty (40) four (4) year

1 scenario, agreed?

2 MR. LUKE JOHNSTON: Agreed.

3 MR. BYRON WILLIAMS: And, Mr.

4 Johnston, just to ensure that I'm reading your table
5 correctly, if I went under -- recognizing management
6 action has been undertaken, if I went under 'retained
7 earnings' in the -- in the second table appearing on
8 that page and to the 2016/'17 year, would I be correct
9 in assuming that the recommended target, if the PUB
10 was adopt a one (1) in twenty (20) four (4) year
11 scenario, would be 125 million?

12 MR. LUKE JOHNSTON: You would have to
13 move over one (1) -- one (1) year to the one hundred
14 and forty (140). Yeah, it's -- so we're looking at
15 the maximum reduction in retained earnings with
16 management action over the forecast period. It's a --
17 it doesn't necessarily always happen in the final
18 year. It -- it could happen earlier and then you
19 react, and it's getting better. And that -- that's
20 the idea.

21 MR. BYRON WILLIAMS: And, again, the -
22 - the -- what I'm understanding from you, sir, is --
23 is your -- your most ad -- adverse scenario, looking
24 at a one (1) in twenty (20) and a one (1) in forty
25 (40) probability, the range that would flow from that

1 type of analysis would be a range between 140 million
2 and 172 million, recognizing that management action
3 has already been undertaken in that scenario, correct?

4 MR. LUKE JOHNSTON: I do have an
5 undertaking on this particular question, mainly just
6 so that I can go back and make sure that there is no
7 other scenarios at a one (1) in twenty (20) level that
8 are -- that are worse than this one. For this
9 particular scenario only, if that -- if that was the
10 case, the one (1) in twenty (20) would be 140 million
11 and 172 million at the one (1) and forty (40) level,
12 correct.

13 MR. BYRON WILLIAMS: And, Ms. Johnston
14 -- Mr. Johnston, I'll move off -- off that issue. And
15 just if we could move to page 56 of CAC Exhibit 7.

16 And, Mr. Johnston, here you'll see a --
17 a pre-ask from CAC to MPI trying to -- ask -- seeking
18 the formula for the derivation of a figure that
19 occurred in the claims incurred forecast, agreed?

20 MR. LUKE JOHNSTON: Agreed.

21 MR. BYRON WILLIAMS: And I -- I
22 certainly won't want to curl anyone's hair by going
23 through the formula, but on page 1 of this response
24 the Corporation provides the formula that it employed.
25 And then if I can flip you to the back of this

1 response, the Corporation provided the breakdown by
2 claim cover group.

3 Agreed?

4 MR. LUKE JOHNSTON: Agreed.

5 MR. BYRON WILLIAMS: Now -- now, Mr.
6 Johnston, this information that appears on page 2 of
7 CAC pre-ask 1, would I be correct in suggesting to you
8 that it cannot be found in the Rate Application?

9 MR. LUKE JOHNSTON: That's right.
10 There's four (4) -- if you go -- if -- in the claims
11 incurred section for weekly indemnity, we do our
12 forecasting on an ultimate basis.

13 We also -- internally also do a -- an
14 at -- what's called an at twelve (12) month forecast.
15 The iss -- the -- the big issue with the at twelve
16 (12) month forecast is that there's not a lot known
17 about weekly indemnity losses. When I say, "at twelve
18 (12) months," I basically mean in the first twelve
19 (12) months of the year. And that forecast is not
20 seen as very reliable of -- in terms of the ultimate
21 level of -- of claims to expect.

22 So I agree, this -- this information is
23 not in the -- the Rate App. I do recognize in -- in
24 responding to this answer that it would be helpful in
25 the future to include some of the details. It does

1 not at all affect the ultimate forecast that we're
2 projecting though.

3 MR. BYRON WILLIAMS: And, Mr.
4 Johnston, I'm not being critical of your forecast, at
5 -- at least not now.

6 But if -- if we flip over to the
7 question on CAC Pre-ask 1, would it be fair to say
8 that a -- even as astute an actuary as Mr. Pelly, if
9 they were trying to determine the derivation of that
10 figure, would -- would not be able to do so based upon
11 the information on the -- on the record -- the
12 Application?

13 MR. LUKE JOHNSTON: Yes, that's --
14 that's correct. And that's -- that's essentially the
15 -- the shortcoming that I admitted to, that more
16 details on that particular number would have been --
17 would have been helpful. Again, the fact that it
18 doesn't impact the forecast is -- is true. But in
19 terms of interpreting all the -- the full range of --
20 of development of this partic -- this particular
21 coverage, it would be good to include that in the
22 future.

23 MR. BYRON WILLIAMS: Mr. Johnston,
24 just turning to page 58 of CAC Exhibit 7, you'll see
25 the Corporation's response to Information Request

1 CAC/MPI-1-103.

2 Agreed?

3

4 (BRIEF PAUSE)

5

6 MR. BYRON WILLIAMS: Did you want to
7 borrow my notes, Mr. Johnston?

8 MR. LUKE JOHNSTON: I'm -- I'm good.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: In the
13 Information Request you'll agree with me that CAC was
14 asking you to reconcile a -- a figure from the
15 ultimate incurred as compared to the ul -- ultimates
16 given in the claims incurred forecast.

17 Would that be fair?

18 MR. LUKE JOHNSTON: Yes.

19 MR. BYRON WILLIAMS: And the -- the
20 Corporation's response was that the -- the ultimate
21 incurred for the two (2) sections were not comparable,
22 because one (1) is on an accident year basis and the
23 other on a fiscal year basis.

24 Agreed?

25 MR. LUKE JOHNSTON: Agreed.

1 MR. BYRON WILLIAMS: And if we flipped
2 over one (1) page to CAC -- or page 59, we'll see a
3 similar response to the CAC Information Request 1-104,
4 correct?

5 MR. LUKE JOHNSTON: Correct.

6 MR. BYRON WILLIAMS: And the point
7 you're making in both responses is the -- the ultimate
8 incurred claims from the two (2) sections are not
9 comparable, because one (1) was on an accident year
10 basis and the other on a fiscal year basis.

11 Agreed?

12 MR. LUKE JOHNSTON: Agreed.

13 MR. BYRON WILLIAMS: Mr. Johnston, I'm
14 -- I'm seeking some assistance in understanding the
15 terms 'accident year' and 'fiscal year'.

16 And I take it that you might be
17 somewhat familiar with the -- the text Basic rate-
18 making?

19 MR. LUKE JOHNSTON: Yes.

20 MR. BYRON WILLIAMS: And, Mr.
21 Johnston, after I answer -- ask the question, feel
22 free to translate it into English if I'm unsuccessful
23 in my question.

24 But if we turn to page 61 of CAC
25 Exhibit 7, you'll see a subheading 'Data Aggregation'.

1 Do you see that, Mr. Johnston?

2 MR. LUKE JOHNSTON: Yes, I do.

3 MR. BYRON WILLIAMS: And you'll agree
4 with me that one (1) method of data aggregation
5 described here is a calendar year aggregation which
6 considers all premium and loss transactions that occur
7 during the twelve (12) month calendar year without
8 regard to the data policy issuance, the accident date,
9 or the report date of the claim.

10 Agreed?

11 MR. LUKE JOHNSTON: Agreed.

12 MR. BYRON WILLIAMS: And would it be
13 fair to say, just going down a little bit in this
14 paragraph, Mr. Johnston, that an important element of
15 the calendar year aggregation is that at the end of
16 the calendar year all premiums and exposures are
17 fixed?

18 MR. LUKE JOHNSTON: That's right, and
19 this -- this would be similar to our fiscal year
20 reported basis that -- that you see on the statement
21 of operations. So those -- those clearly don't change
22 after the accounting year is over.

23 MR. BYRON WILLIAMS: So at the end of
24 the calendar year, all reported losses are fixed,
25 correct?

1 MR. LUKE JOHNSTON: That's right.
2 You're -- you're looking at the reported losses in
3 that particular year, and any change in your
4 provisions after which the year ends, that -- that
5 number is fixed.

6 MR. BYRON WILLIAMS: And if there's
7 subsequent development, that would be recorded in a
8 subsequent year, Mr. Johnston?

9 MR. LUKE JOHNSTON: That's right. The
10 -- a good example would be when we do policy liability
11 evaluations and there's a change in the -- the
12 estimate. Let's say it's \$30 million plus or minus.
13 It'll flow through into the accounting year regardless
14 of whether or not those changes reflect policies
15 issued ten (10) years ago or -- or last year.

16 MR. BYRON WILLIAMS: Now -- and thank
17 you. And your -- your point was that that's analogous,
18 or a synonym for your use of the word 'fiscal',
19 agreed?

20 MR. LUKE JOHNSTON: Correct.

21 MR. BYRON WILLIAMS: If we go onto
22 page 63 of CAC Exhibit 7 marked with a 'B', you'll see
23 a term 'accident year aggregation' partway down the
24 page.

25 You see that, Mr. Johnston?

1 MR. LUKE JOHNSTON: Yes, I do

2 MR. BYRON WILLIAMS: And accident year
3 aggregations of losses consider losses for accidents
4 that have occurred during a twelve (12) month period
5 regardless of when the policy was issued or the claim
6 was reported. Agreed?

7 MR. LUKE JOHNSTON: Agreed.

8 MR. BYRON WILLIAMS: Unlike the
9 calendar year aggregation, at the end of the accident
10 year reported losses can and often do change as
11 accident claims are reported, claims are paid, or
12 reserves are changed, agreed?

13 MR. LUKE JOHNSTON: Agreed, and this
14 is -- this is the view that you'll see in the
15 actuarial report. We're focussed on the accident year
16 as just described and the development of the claims
17 that occurred in that accident year from the -- you
18 know, from the time of occurrence until their -- until
19 their ultimate value.

20 We then take that accident year view,
21 and we convert it to the fiscal year view we just
22 discussed for financial reporting purposes.

23 MR. BYRON WILLIAMS: Now, it seems so
24 long ago, Mr. Johnston, but I believe it was last week
25 in your discussion with Ms. Grammond, I believe

1 another term was used, 'underwriting year'. Does that
2 ring a bell, sir?

3 MR. LUKE JOHNSTON: Yes.

4 MR. BYRON WILLIAMS: And if we go down
5 to 'C' marked on page 63, we see a definition:

6 "Policy year aggregation which is
7 sometimes referred to as
8 underwriting year, considers all
9 premiums and loss transactions on
10 policies that were written during a
11 twelve (12) month period, regardless
12 of when the claim occ -- occurred,
13 or when it was reported, reserved,
14 or paid."

15 Agreed?

16 MR. LUKE JOHNSTON: Agreed.

17 MR. BYRON WILLIAMS: And at the end of
18 the policy year again losses can and often do change
19 as additional claims occur, claims are paid, or
20 reserves are changed.

21 Agreed?

22 MR. LUKE JOHNSTON: Agreed.

23 MR. BYRON WILLIAMS: Now, is -- now,
24 when Mr. Pelly used that term 'underwriting', did you
25 understand him to be meaning this same definition

1 here, sir?

2 MR. LUKE JOHNSTON: I'd have to check
3 the record. I -- I hope I did. The policy year is --
4 again is -- is different than -- than the previous two
5 (2) we just discussed. It's not used regularly by MPI
6 for either the reporting purposes or for the actuarial
7 evaluation purposes. This would be literally tracking
8 everything that happens with a particular -- it's
9 associated with a particular group of policies, and we
10 don't -- we don't do our rate making, our liability
11 reviews, on that basis.

12 MR. BYRON WILLIAMS: And it would
13 often be used in -- with other insurers in the
14 aggregation of data relating to premiums.

15 Would that be fair, sir?

16 MR. LUKE JOHNSTON: That's fair. And
17 that's -- again, not -- not seeing the transcript, but
18 that's likely where I was discussing with Ms. Grammond
19 in terms of the policy year rating, bringing back all
20 the -- the costs and expenses associated with a
21 particular group of policies, and that's likely where
22 we were discussing them.

23 MR. BYRON WILLIAMS: So just in the
24 response to -- just -- you don't have to turn there,
25 but in the response to CAC-103, when you used the term

1 'fiscal year', that, as you've confirmed, is
2 synonymous -- synonymous with calendar year.

3 MR. LUKE JOHNSTON: As described in --
4 in this document, basically, the financial reporting
5 period, being a fiscal or a calendar year, it's a
6 fiscal March 1st, Feb 28/29 for us.

7 MR. BYRON WILLIAMS: Now, my life
8 would be easier, Mr. Johnston, if you actuaries always
9 used the same words. I want to turn you to page 66 of
10 CAC Exhibit 7, and you'll agree with me -- that's page
11 66 of CAC-7, and you'll agree with me that this is an
12 excerpt from Mr. Cheng's actuarial report of October
13 2012?

14 MR. LUKE JOHNSTON: Agreed.

15 MR. BYRON WILLIAMS: And down towards
16 the bottom of this page, sir, you'll see the statement
17 -- at the very bottom actually, you'll see the
18 statement by Mr. Cheng and Associ -- and Partners
19 that:

20 "Insurance years (policy years) are
21 used in lieu of accident years. For
22 MPI, the fiscal insurance year ends
23 February 28th."

24 Mr. Johnston, am I correct in
25 suggesting to you that when Mr. Cheng is using

1 'insurance years', he's referring to the fiscal year?

2

3

(BRIEF PAUSE)

4

5 MR. LUKE JOHNSTON: Yes, noted the --
6 this should refer to the insurance year being the
7 fiscal accident year of MPI.

8

9 MR. BYRON WILLIAMS: So it would be
10 akin to your use of the word 'fiscal' in your response
11 to CAC-103, sir? Or am I wrong?

11

12 MR. LUKE JOHNSTON: Sorry. It's on an
13 accident year basis in our fiscal -- fiscal year. I -
14 - I note the confusion, and I -- I agree that this --
15 this particular sentence needs to be revised. Thank
16 you.

16

17 MR. BYRON WILLIAMS: So -- so let's --
18 let's remove that particular phrase from -- from my --
19 my mind and let's just see if I've got the difference
20 between fiscal year and accident year down pat. And I
21 want you to assume -- you could use a pen if you need
22 it, Mr. Johnston, I don't think it's real hard but if
23 you want it feel free -- that Mr. Pelly owns an
24 insurance company. We'll call it the Toronto Maple
25 Leaf Fan Club Insurance Company. You don't need to
26 rem -- memorize the name, sir.

1 Are -- are you refusing to answer the
2 question based upon that premise?

3 MR. LUKE JOHNSTON: I -- I'm not sure
4 what you're insuring against but you better get lots
5 of coverage for that particular...

6 MR. BYRON WILLIAMS: And -- and let's
7 assume that Mr. Pelly's insurance company, for them
8 the 2014/'15 fiscal year and accident year run from
9 March 1st, 2014, through February 28th, 2015, okay?

10 MR. LUKE JOHNSTON: Okay.

11 MR. BYRON WILLIAMS: On May 1st, 2014,
12 Ms. Ratepayer is involved in an accident with very
13 severe consequences, initially reserved at \$1.5
14 million, okay?

15 MR. LUKE JOHNSTON: Okay.

16 MR. BYRON WILLIAMS: And I would be
17 correct in suggesting to you that that initial
18 incurred of 1.5 million would be attributed to the
19 2014/'15 accident year, and fiscal year, agreed?

20 MR. LUKE JOHNSTON: If you're saying
21 that the case reserve was put up for 1.5 million,
22 correct.

23 MR. BYRON WILLIAMS: Let's go one (1)
24 year later, now, Mr. Johnston, to May of 2015. And
25 let us assume that the case reserve went up by an

1 additional \$1 million, okay? In terms of the accident
2 year 2014, the incurred would now be 2.5 million, I'll
3 suggest to you.

4 MR. LUKE JOHNSTON: Correct. Correct.

5 MR. BYRON WILLIAMS: In terms of the
6 fiscal year 2014/'15, incurred would remain at 1.5
7 million, agreed? We'll get to the adjustment for the
8 next year in a minute.

9 MR. LUKE JOHNSTON: A -- a little -- a
10 little bit of a note on this, okay? So there's -- in
11 the accident year we'll have done a policy liability
12 review -- I un -- I understand your example. There's
13 -- in terms of the reported amounts in the accident
14 year, absolutely. The -- the dollar -- additional
15 dollars are going to follow, basically, the -- the
16 year of the loss. It's going to increase to 2 1/2
17 million.

18 The reported dollars are -- are going
19 to show up as reported incurred in the following
20 fiscal year. The piece that -- the other piece that
21 is always going to show up in every year is any
22 changes we've made to our ultimate liability
23 estimates. So if -- if we did a actuarial review in
24 the following year, made an adjustment, that would
25 flow through and that reflects any claims, including

1 this one, from the previous year. That's a little bit
2 more complicated than you wanted to get into, maybe,
3 but -- but that's also part of it. It's not just the
4 reported dollars, but also the change in the actuarial
5 provisions.

6 MR. BYRON WILLIAMS: Well, let's do
7 the simple part first, and then let's go -- go to the
8 -- the complicated part. Because I think it's
9 important, Mr. Johnston, for my client's understanding
10 of the issue. So we've figured out what to do with
11 accident year. We're all happy.

12 That 2.5 million will be reflected in
13 the 2014/'15 accident year, correct?

14 MR. LUKE JOHNSTON: Correct.

15 MR. BYRON WILLIAMS: And was I
16 mistaken in suggesting to you that the fiscal year
17 2014/'15 incurred would remain at 1.5 million?

18 MR. LUKE JOHNSTON: In -- in terms of
19 just the reported dollars in that year, they would
20 stay the same.

21 MR. BYRON WILLIAMS: And we'll --
22 we'll come to the parts 2 and 3 in a second.

23 Would I be correct in suggesting to you
24 that the fiscal year 2015/'16 incurred would go up --
25 would go up by 1 million, given this fact scenario?

1 MR. LUKE JOHNSTON: Fiscal year
2 incurred, yes.

3 MR. BYRON WILLIAMS: Now, Mr.
4 Johnston, in the -- you wanted quite legitimately to
5 add some complexity to my simplistic scenario. And I
6 understood you to say, but I'm happy to have you
7 correct me, the other factor you wanted to identify
8 would be that the -- the consequences of that \$1
9 million adjustment in 2015 would be reflected in the
10 projection of ultimate incurred.

11 Is that what you were saying, sir?

12 MR. LUKE JOHNSTON: The -- basically
13 the -- the actuarial review -- whenever it's done,
14 October or February, we'll just say February -- has to
15 contemplate the acci -- on an accident year basis,
16 Here's, you know, the amounts that have come in, the
17 claims that have come in, what is the ultimate final
18 liability for all those accidents that -- from those -
19 - from those particular years.

20 And -- and that of course has to be
21 included on -- in -- in the fiscal year incurred. So
22 if everything is identical to expectations, the
23 adjustment would be zero in that particular year. If
24 there is favourable or unfavourable growth in the
25 reported incurreds and paid amounts from previous

1 years, you'll see an actuarial adjustment that flows
2 through fiscal year incurred.

3 MR. BYRON WILLIAMS: Now, just going
4 back to what MPI does in terms of its rate-making
5 exercise, the Corporation currently takes the accident
6 year ultimates from the February 28th actuarial report
7 and forwards this to the rating year being examined,
8 with appropriate trends, and...

9 MR. LUKE JOHNSTON: The -- so again
10 the actuarial report is looking at a accident year
11 basis. Definitely the historical ultimate accident
12 year estimates are a consideration in forecasting.
13 For -- for personal injury protection they're a very
14 important consideration because we know almost nothing
15 about the -- you know, the new claims yet.

16 So they're -- that's -- that is what we
17 do for those coverages. We look at the history and we
18 project forward based on trends and, you know,
19 historical averages.

20 Collisions would be -- is a little bit
21 different. Collision is more, you know, what happened
22 in the last year or two (2), the costs of those claims
23 is -- isn't quite just a projection of ultimates.
24 It's -- it's more detailed than that because we know -
25 - we know mostly what -- what happened with our

1 collision losses.

2 But in the general sense I -- I agree
3 with that statement, yeah.

4 MR. BYRON WILLIAMS: And what you were
5 pointing out to me, Mr. Johnston, is the statement I
6 was presenting to you was really description of the
7 process with the -- the PIPP benefits.

8 MR. LUKE JOHNSTON: That's right. And
9 so maybe -- maybe I'll finish my thought there. So we
10 -- we do project forward on an accident year basis,
11 but then that -- to be -- to be put into accounting --
12 fiscal year accounting basis, all those numbers have
13 to be converted in terms of what is being reported in
14 each fiscal year and the expected change in our
15 provisions in -- in those years. So that's -- that's
16 the con -- the conversion that we -- we talked about.

17 MR. BYRON WILLIAMS: So -- and if one
18 went to the claims incurred forecast, one would see a
19 series of exhibits in which these accident year
20 ultimates are con -- then converted to calendar year
21 ultimates.

22 MR. LUKE JOHNSTON: Fiscal year, yeah.

23 MR. BYRON WILLIAMS: Fiscal year,
24 excuse me.

25 MR. LUKE JOHNSTON: Fiscal year claims

1 incurred, yes.

2 MR. BYRON WILLIAMS: And would it be
3 fair to say that MPI is rating to ensure a breakeven
4 position on the income statement?

5 MR. LUKE JOHNSTON: Yes.

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Now, Mr.
10 Johnston, you're going to clarify me if I become
11 confused. It's generally accepted that accident year
12 aggregation represents a better match of premiums and
13 losses than -- than fiscal year aggregation.

14 Would that be fair?

15 MR. LUKE JOHNSTON: That's fair.

16 Perhaps I can assist the Board and maybe -- and
17 perhaps you, Mr. Williams.

18 MR. BYRON WILLIAMS: I could certainly
19 use it.

20 MR. LUKE JOHNSTON: Page -- claims
21 incurred, page 11 and page 12, if you -- that's Volume
22 II of the CI, claims incurred, section.

23 MR. BYRON WILLIAMS: What page, Mr.
24 Johnston?

25 MR. LUKE JOHNSTON: Page 11 and then

1 page 12 eventually.

2 MR. BYRON WILLIAMS: Which volume?

3 MR. LUKE JOHNSTON: Sorry. Volume II,
4 claims incurred, page 11.

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: Okay. So maybe
9 some -- putting some numbers or -- and a table -- and
10 tables around this will make it -- it easier to talk -
11 - talk about.

12 Page 11 is this accident year basis
13 that -- that we've been discussing, and these are the
14 accidents that actually occur in those particular --
15 not to get this confused with fiscal year, so -- and
16 ultimate is the ultimate final value projected for all
17 accidents that occurred in those years.

18 So the top table, you're seeing weekly
19 indemnity, and fairly -- you know, running in the \$50
20 to \$60 million a year range over the long term. So
21 that's some stability in those numbers, for sure.

22 If you then turn the page, there's a
23 table under a section called 'Fiscal Year Claims
24 Incurred Forecast', and there's also a history
25 provided there. Now, when -- when we were talking

1 about fiscal year accounting basis, 'reported' means
2 newly reported losses from any year, any -- any one
3 (1) of these past accident years where we've had
4 either development on the incurred or -- or declines
5 sometimes.

6 There's also changes in our IBNR
7 provision which come largely from the -- from the
8 actuarial report. We also forecast changes in IBNR,
9 but -- but you'll notice the really big one that
10 stands out in 2011, 197 million negative IBNR change.
11 And that was the big actuarial review where we
12 released a very significant amount of money.

13 So -- and then the total of the -- the
14 dollars reported plus the change in the provisions is
15 the fiscal year claims incurred in that particular
16 year and, at least historically, you can see that's
17 been quite -- quite volatile, much more volatile than
18 the accident year losses. And -- and that's -- that's
19 essentially the difference between the two (2).

20 If you look on the forecast going
21 forward, you'll note that we also have -- the interest
22 rate impacts are something that -- that flows through
23 fiscal year, claims incurred. That's noted there.
24 But -- but hopefully that -- that helps everyone's
25 understanding.

1 MR. BYRON WILLIAMS: Mr. Johnston,
2 this is -- this is helpful. And just to return to
3 page 11 for a second, these are the -- on the second
4 column, that would be the accident year ultimates
5 brought forward from the actuarial report?

6 MR. LUKE JOHNSTON: That's correct.

7 MR. BYRON WILLIAMS: And you've got
8 some fairly stable development, whether one looks at
9 the five (5) year trend, the ten (10) year trend, or
10 the all year trend?

11 MR. LUKE JOHNSTON: Yes. PIPP -- PIPP
12 has had relatively flat stable claims counts in -- in
13 recent years. And -- and, yes, the ultimate losses
14 are -- I -- I would describe this as relatively
15 stable.

16 MR. BYRON WILLIAMS: And then if we go
17 back to page 12, we see the conversion from accident
18 year to fiscal year presented in this -- this table.

19 Is that right, sir?

20 MR. LUKE JOHNSTON: That's right. So
21 if -- if we -- so if we -- if we did an actuarial
22 review on the numbers you just saw on the other table,
23 and just let's leave out interest rates for now, we
24 reassessed and brought down the ultimate estimates,
25 you would see some favourable flowthrough into this

1 fiscal year claims incurred in the -- in the change in
2 IBNR provision.

3 MR. BYRON WILLIAMS: And the -- the
4 distinction is that if there's favourable development
5 in, let's say, the year 2006/'07 from the -- the
6 fiscal perspective, you can't go back into that year
7 and -- and open it up because the -- the book is fixed
8 at the end of the year?

9 MR. LUKE JOHNSTON: That's correct.
10 And that's -- going back to page 11 you'll see that's
11 why we can actually have a this year's forecast and a
12 last year's forecast, because the historical accident
13 figures are constantly changing. Collision will
14 eventually close and it should not change after a few
15 years. But for long -- long-term PIPP coverages, they
16 -- they're constantly changing, hopefully by not much.

17 MR. BYRON WILLIAMS: And so staying
18 with the fiscal claims incurred on page 12, we've got
19 a much more volatile report than we -- than we would
20 if we looked at the -- the accident year ultimates on
21 the previous page.

22 Agreed?

23 MR. LUKE JOHNSTON: Agreed. And I --
24 I will note that when Ms. Grammond and I discussed the
25 volatility of -- of PIPP in general, that's -- that's

1 going to reflect itself on this table. That's
2 essentially what was being looked at in those -- in
3 the -- in those spreadsheets, how -- how the fiscal
4 year claims incurred came in relative to expectations.
5 And -- and as we discussed, there was -- it has been
6 quite volatile in -- in the past. And we hope that
7 we've made adjustments to -- to reduce that volatility
8 in the future.

9 MR. BYRON WILLIAMS: Mr. Johnston,
10 this pres -- this conversion from accident year to
11 fiscal year, is it, in your view, consistent with
12 actuarial best practices, or is it a historical
13 artifact?

14 MR. LUKE JOHNSTON: This is -- this is
15 really the discussion I was having with Ms. Grammond
16 in regards to rate setting per actuarial standards of
17 practice. The Corporation, as you know, sets rates on
18 a -- a breakeven basis in the -- based on the fiscal
19 year net income from the average of the two (2) rating
20 years. In order to create that forecast, the claims
21 have to be converted to the fiscal year accounting
22 basis, and that's what we use -- since we're breaking
23 even to -- to those numbers, that's what we use for
24 rate-setting purposes.

25 Where I noted in -- in the PUB's

1 Information Requests in regards to actuarial rate
2 setting was that we can look at the policy year basis
3 and recalculate rates on that basis, just against all
4 costs and expenses associated with a particular group
5 of policies. That would produce a different rate
6 indication than -- than this -- this does. And we'd
7 have to decide how to adjust it from that point.

8 MR. BYRON WILLIAMS: Mr. Johnston, you
9 just used a -- a new word, or I think it's a new word.
10 We've been talking accident year and fiscal year. And
11 did I just hear you say, "policy year basis"?

12 MR. LUKE JOHNSTON: So the -- the --
13 setting rates so you have breakeven net income in the
14 fiscal year -- as we've talked about the fiscal year
15 claims incurred is not just the experience of that
16 particular group of policies that you're rating for.
17 There's -- specifically, talked about investment
18 income, right? There's -- we have a very substantial
19 amount of investment income flowing from -- from our
20 asset portfolio.

21 So to revise rates based on actuarial
22 standards of practice we'd want to pull out the -- all
23 the costs and, again, all the costs, expenses, et
24 cetera, and investment income associated with the
25 particular group of policies that we're issuing in the

1 '14/'15 year, and calculate rates, essentially, based
2 on the present value of all of those costs on that
3 basis, which is di -- which is different than what --
4 what we do today. Our rate -- our rate-setting
5 methodology was a -- designed to -- to, basically,
6 force us to break even in the -- in the rating period.

7 MR. BYRON WILLIAMS: And you don't
8 know what the outcome of a policy year basis
9 evaluation would be, but you know that the indications
10 would be different?

11 MR. LUKE JOHNSTON: Correct, I -- I
12 don't. And -- and it's not something that -- that we
13 could do easily but we've -- we've committed to -- to
14 doing it. My expectation would be that it would
15 indicate a rate increase initially and then you'd --
16 you'd have the issue of deciding what to do. You
17 know, you have additional investment income and -- and
18 we -- I talked about that with Ms. Grammond. There's
19 -- there's ways you could adjust to break even,
20 balance rates, et cetera.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: And just so I
25 understand, Mr. Johnston, you've expressed some

1 openness to at least looking at this policy year
2 approach. A move to accident year rating is -- am I
3 correct in saying that that's not something you would
4 consider?

5 MR. LUKE JOHNSTON: It's -- it's
6 something -- I -- I think for now it's best that the
7 Corporation say that we're committed to looking into
8 it, producing the output from that. We do -- we would
9 need to have a discussion in terms of what -- what we
10 want to do with -- with that output. The specific --
11 also specifically to -- if -- if there's interest in
12 myself or -- providing an actuarial opinion on those
13 rates, you know, what -- what -- where do we go from
14 there. But I'm not really pre -- prepared to comment
15 any further on it at that -- at this point.

16 MR. BYRON WILLIAMS: Not a -- not a
17 problem, Mr. Johnston. And thank you for assisting me
18 with that.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Mr. Johnston, you
23 can probably turn to page 67 of -- of PUB -- or CAC
24 Exhibit number 7.

25 MR. LUKE JOHNSTON: I'm there.

1 MR. BYRON WILLIAMS: And I'm not --
2 I'm not going to start walking into that pre-ask just
3 yet, but I am -- we'll be turning to it in just a
4 second.

5 In terms of the methodology for
6 selecting the provision for IBNR for accident benefits
7 weekly indemnity and accident benefits others, for the
8 purpose of the most recent actuarial report the IBNR
9 was based on the higher of the incurred BF method and
10 paid BF method for the most recent five (5) years
11 instead of the most recent three (3) years, agreed?

12 MR. LUKE JOHNSTON: Agreed.

13 MR. BYRON WILLIAMS: And this had an
14 impact in terms of your IBNR in the -- that was fairly
15 significant, agreed?

16 MR. LUKE JOHNSTON: Yes, on
17 approximate terms, around a \$30 million increase.

18 MR. BYRON WILLIAMS: And, in essence,
19 what -- what the Corporation -- the -- the consequence
20 of the change in method -- methodology would be that
21 for the most recent five (5) years the IBNR would be
22 based on the paid BF method, agreed?

23 MR. LUKE JOHNSTON: Agreed.

24 MR. BYRON WILLIAMS: And perhaps I
25 should be clear. When -- when I use the word

1 'incurred' am I correct in -- in suggesting to you
2 that incurred would -- would mean the combination of
3 what's been paid plus how much has been set aside in
4 terms of case reserves?

5 Would that be fair, sir?

6 MR. LUKE JOHNSTON: That's right.

7 MR. BYRON WILLIAMS: So the incurred
8 BF method is what's been paid as well as what's been
9 set aside in case reserves, as contrasted to the paid
10 BF method which is what has been paid?

11 MR. LUKE JOHNSTON: Yes. I -- I
12 talked about this a little bit in direct so I -- I
13 don't want to go through it all again but -- but
14 essentially what we're talking about is a method that
15 is looking at paid losses as a -- as a basis for
16 estimating the ultimate liability, and then another
17 method that's looking at incurred as -- as the basis
18 for making that estimate.

19 MR. BYRON WILLIAMS: And the
20 Corporation was motivated with -- the actuaries were
21 motivated to make this recommendation given challenges
22 in terms of the incurred BF information that was
23 coming forward?

24 MR. LUKE JOHNSTON: I can describe it
25 a little -- a little more detailed than that. The

1 challenge is that we -- as I discussed, we have this
2 methodology in place because again we don't know a lot
3 about serious losses and the development of those --
4 of those claims in the early years of the -- after the
5 accident.

6 So you have paid information and you
7 have incurred information. You can make estimates on
8 -- on those -- on those two (2) items.

9 MR. BYRON WILLIAMS: And -- and in --
10 in essence the challenges with the incurred BF method
11 related to challenges in setting case reserves within
12 the Corporation, agreed?

13 MR. LUKE JOHNSTON: Yes. I -- the --
14 the -- maybe 'dilemma' isn't the right word, for me,
15 but for the actuary, I -- I -- what I saw was that
16 paid seemed to be at similar, or -- or higher in some
17 cases, levels than normal, while case reserves seem to
18 be much lower than normal. And the -- you would hope
19 on average that your paid and your incurred estimates
20 would converge. They're going to be more variable in
21 the early years but that was an issue that we -- what
22 -- that we highlighted in the October review.

23 And the decision there for going to the
24 higher of five (5) was to -- because of the concern
25 over case reserves, placed more reliance on -- on the

1 paid data.

2 MR. BYRON WILLIAMS: And -- and the
3 Corporation went back and investigated the case
4 reserves and they identified a -- a problem with a --
5 a failure to comply with policy.

6 Is that correct, sir?

7 MR. LUKE JOHNSTON: Yes, I can maybe
8 just read in Response E to CAC Pre-ask 4, which is
9 page 69 of -- I believe it's Exhibit 7. Is that
10 correct? Yeah, Exhibit 7. And part E says, quote:

11 "The problem was a failure to comply
12 with policy precipitated by an
13 increase in workload and decrease in
14 productivity in the first eighteen
15 (18) months of the new system
16 implementation."

17 End quote. That new system being the
18 BI3 system.

19 MR. BYRON WILLIAMS: And because I've
20 got it wrong once before this afternoon, BI3 refers to
21 Bodily Injury Improvement Initiative.

22 Agreed?

23 MR. LUKE JOHNSTON: Agreed.

24 MR. REGIS GOSSELIN: Could you give us
25 the reference again, please, where that statement is

1 found?

2 MR. BYRON WILLIAMS: Mr. Chair, if you
3 turn to page 69 of CAC Exhibit number 7 you'll see (e)
4 where that statement was read in.

5

6 CONTINUED BY MR. BYRON WILLIAMS:

7 MR. BYRON WILLIAMS: I'll ask Mr.
8 Johnston to confirm that.

9 MR. LUKE JOHNSTON: Yes, and
10 confirmed. I apologize for not letting you find that
11 reference.

12 MR. BYRON WILLIAMS: And probably the
13 -- the Chair was struggling with my messy printing.
14 Page 69 in the top right corner. Now, Mr. Johnston,
15 I'll -- we'll just wait one (1) second. Mr. Johnston,
16 turning back to page 67, which is the actual Pre-ask
17 number 4, you'll see in question (c) my client was
18 asking the Corporation to please give the amount that
19 the case reserves were underestimated by accident
20 benefits WI and accident benefit other, separately by
21 accident year. And you see a similar request in -- in
22 question (d) as well, correct?

23 MR. LUKE JOHNSTON: Correct.

24 MR. BYRON WILLIAMS: And in the corp -
25 - if you flip to the next page under (c), the

1 Corporation's response was to indicate that it is
2 unable to quantify the insufficiency in the reserve
3 levels by accident year due to the difference in the
4 composition of claimants by accident year, as well as
5 the difference in the recovery potential of each
6 claimant.

7 Agreed?

8 MR. LUKE JOHNSTON: Agreed.

9 MR. BYRON WILLIAMS: And, Mr.
10 Johnston, we're struggling -- or my client's
11 struggling to understand how you're unable to quantify
12 the insufficiency. And I wonder if I could get you to
13 elaborate further, please?

14 MR. LUKE JOHNSTON: The difficulty is
15 that there is normal loss development on accident year
16 experience for -- for various reasons. There's -- as
17 you know, we have loss development patterns where we
18 assume that there's -- there's growth in these claims
19 costs through time. The difficulty is sorting out
20 what was the normal increases that would have occurred
21 based on our expectations versus changes that happened
22 because of the -- of the issue with the workload and
23 productivity problems.

24 So what -- what we thought was the best
25 way to -- to provide that information was to show what

1 we budgeted and the budget would reflect what we would
2 consider to be normal development of reported loss
3 experience, and then -- then to show you what the
4 actual would be. And it's not exactly what we ask --
5 what was asked for, for the reasons cited, but we
6 thought I gave a -- a pretty good idea of how
7 significant the issue was.

8 MR. BYRON WILLIAMS: Mr. Johnston,
9 were the years -- were the problematic years the 2008
10 and 2009 years, or which years in particular were
11 they?

12 MR. LUKE JOHNSTON: The -- the -- so
13 we made an adjustment to the higher-of methods that --
14 that we just talked about. And to the extent that we
15 increased the IBNR on those years, or to the extent
16 that we already had -- were using the, the paid
17 methodology on those years, we were budgeting for
18 higher IBNR, more incurred losses to be reported.

19 And in those years, not doing the math
20 here necessarily, but there's not -- we're not very
21 significant from budget on a total basis. So if you
22 go weekly indemnity 2008, the actual was four nine
23 zero nine (4,909) higher, and then eight twenty-two
24 (822), four twenty-two (422), and then a couple of
25 negatives there.

1 Not doing the -- the math, but that --
2 I would say that's probably fairly close to zero in
3 terms of net relative to budget.

4 Where the -- some of the larger
5 unexpected discrepancies happened were in some of the
6 older years where we weren't really anticipating to
7 have additional case reserves being added. And you
8 can see that the budget is quite insufficient in those
9 cases. So that was -- that was definitely unexpected.
10 If -- so if not for those particular years, this
11 number would be quite a bit closer to zero.

12 MR. BYRON WILLIAMS: Mr. Johnston,
13 what -- the older years, are you referring to 1999
14 through 2003?

15 MR. LUKE JOHNSTON: I'm -- I'm sorry.
16 The 2006, for example --

17 MR. BYRON WILLIAMS: Okay.

18 MR. LUKE JOHNSTON: -- 2007. It's --
19 again, I don't want to put too much in -- of an
20 emphasis on some of the changes you see in -- in 1999
21 or -- or things li -- because those still happen. And
22 -- and, you know, there could be a mediation or a
23 decision or some sort of change that happened to
24 particular file that -- that generated a -- a
25 substantial increase in reserves.

1 So there is some -- there is some
2 pluses and minuses for sure in the history. The main
3 issue there is really with the 2006, '07, '08 being
4 over budget.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: In essence, the --

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: I'm sorry. Mr.
13 Johnston, the -- the implication of the methodological
14 change is that, basically, for these coverages for the
15 -- the most recent five (5) years, you're placing
16 almost total -- well, you are placing total reliance
17 on the paid BF method.

18 Would that be fair, de facto?

19 MR. LUKE JOHNSTON: Yeah. As a result
20 of the methodology right now it is -- it is reliance
21 on -- on the paid method.

22 MR. BYRON WILLIAMS: And does that
23 raise a risk that the -- the reserves are too high,
24 sir?

25 MR. LUKE JOHNSTON: Well, the -- this

1 -- the higher-of method, I -- I talked about this a
2 little bit, but anything -- anytime you say 'higher-
3 of' it sounds like you're being conservative. It --
4 you're picking the highest one. Why not -- you know,
5 why isn't it the best one or the -- in -- the reason
6 for this particular methodology is that you could have
7 -- if -- if you have higher paid than -- than normal,
8 you -- you -- and -- but low reserves, that should
9 signal, you know, that the -- the paid are telling
10 you that -- that it's a -- it's a worse than normal
11 year. And so we would say, Well, we should rely on
12 that -- that's -- that information in the -- in the
13 first three (3) years.

14 On the other hand, say the paid -- the
15 paid losses came in similar to recent years, but for
16 whatever reason the incurred dollars were really high.
17 That might tell us, oh, well, there's -- we haven't
18 paid much differently than other years, but for
19 whatever reason case managers are putting in more
20 reserves, possibly there's more serious claims, that -
21 - that type of thing and -- and we should consider
22 that. We should rely on that.

23 After three (3) years, the -- the --
24 that -- you can't really make that case any more. The
25 case managers should have a handle on it. You know,

1 the paid -- the amounts you've paid to date kind of
2 reflect claims you should have already closed already.
3 You should be dealing with these remaining kind of
4 serious, longer -- longer term claims.

5 In this particular case with the five
6 (5) years, there is noticeably issues with case
7 reserves on -- compared to history. And the -- until
8 we could get this rectified, we -- we absolutely
9 thought, Yes, you know what, we should be relying on
10 the paid data because typically it's more stable, but
11 it just doesn't always reflect the -- the serious --
12 the serious losses ri -- correctly.

13 But in light of the lower case reserve
14 we thought it appropriate to extend it a couple more
15 years, get the issue dealt with, and then revisit it
16 again in the next review. What caught us a bit off
17 guard with these numbers is that we weren't expecting
18 reserves to be added in some of the years beyond five
19 (5) -- five (5) years.

20 MR. BYRON WILLIAMS: Madam Chair,
21 would this be an appropriate time to break?

22 THE CHAIRPERSON: Yes, I think it's
23 four o'clock, or slight -- slightly after 4:00. I
24 think this would be a -- a good time to end the
25 session for today. We will return tomorrow at 9:30,

1 and we'll be opening with Mr. Oakes. Thank you.

2

3

(PANEL RETIRES)

4

5 --- Upon adjourning at 4:03 p.m.

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8 Certified Correct,

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Cheryl Lavigne

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\$	980:18	942:23	898:6	972:24
\$1 1025:1	\$8,261	956:20	921:20	12:00 940:18
1027:8	981:21	961:6	922:1	125
\$1.5 1024:13	\$80 916:5	964:3	923:13	861:12,23
\$10 976:25	\$9.8 976:10	967:22	927:23	863:11
\$100 915:6		971:6,23	929:1	1011:11
\$105 965:11		973:11	930:3	13 923:4
\$13 944:16	0	981:12	934:13	955:10,12
\$15 956:4	05/'06	991:24	972:21	958:6
\$16 977:1	971:8,13	992:10,22	1018:15	13.2.1
980:24	972:19	1003:11	1033:9	937:14
981:1	07 1047:3	1004:3,18,	10:25 888:24	13.2.2
\$165 916:21	08 1047:3	19 1009:12	100 848:5	923:10
\$172	08/'09	1010:7,24,	864:21	13/'14
860:13,19	912:14	25	893:1,7	852:18
1010:6	09/'10	1011:10,13	894:1	931:6
\$18 970:11	912:21,22	,24	896:6	954:18
\$18.3 976:3	967:5	1012:7,10,	1004:19	955:14
\$2,500	1	11,23	1050 844:23	958:7,21
877:19	1 848:4,5	1013:7	846:17	959:9,13
\$2.8 911:20	855:15	1014:7	11 975:8	134,915,000
\$24.8 971:14	860:11,16,	1015:22	1030:21,25	898:5
\$25.5 949:4	19,21	1016:2,9	1031:4,12	14.2 940:8
\$28 976:8	863:21,22	1017:4	1033:3	14/'15
\$30 1018:12	864:19,20	1024:23	1034:10	852:19
1039:17	869:10	1026:25	1-104 1016:3	870:21
\$4 912:15	874:3	1032:3	114.5 913:3	915:2
\$43,000	875:5	1043:15	12 937:13	954:18
979:7	878:23	1,752.9	939:25	955:16,19
980:11	879:16	966:18,23	940:6	958:7
\$43,243	887:6	967:5	971:17,23	959:13
979:25	890:24	1,894.7	1013:14,16	1037:1
\$50 1031:19	892:25	967:9	,18,19	140 1011:14
\$52.3 944:6	893:1,6,7,	1,936.7	1017:7	1012:1,10
\$60 914:23	24,25	981:15,19	1019:4	141 850:12
915:3	896:5,6	1.1 852:1	1020:11	141.8 967:12
1031:20	899:3	1.4 959:15	1030:21	146.9 850:19
\$65.4 944:11	901:6	1.5	1031:1	851:11
\$66 915:10	915:15	938:15,22	1033:17	852:11,16
\$75 971:18	919:25	1024:18,21	1034:18	15 888:20
\$8,000	922:8	1025:6	12.3 940:7	973:18
	923:19	1026:17	12/'13	975:8
	925:21	1.7 939:11	876:12	15/'16
	926:2,7,12	1/2 1025:16	958:21	870:22
	927:10	1:05 940:19	959:9	914:6
	930:25	10 872:6	961:20	931:6
	931:8,9,11	874:24	965:10	
	,21,22	878:23	966:1	
	936:12	881:8		
	937:4			

154 898:5	197 1032:10	2.5 1025:2	948:19	959:20
155.7 850:5	1971 881:18	1026:12	958:11	960:12
156 867:11	1994 989:1	2.545 911:10	2009 1045:10	965:3,8
868:2,9	990:23	2.6 911:15	2009/'10	966:2
157 867:11	1999	2.7 911:15	958:11	973:10
869:10	1046:13,20	2.9	966:17,22	978:9
157/'12	1st 1007:20	953:10,18	2010	2013/'14
985:21	1022:6	957:14	896:13,21	852:15
16 970:24	1024:9,11	958:12,16	905:12,15	912:22,23
981:4,18		961:21,23	990:6,23	913:4
1-6 981:6	<u>2</u>	962:12	2011 898:20	922:18
16/'17 914:7	2 844:22	2:30 1000:1	961:22,23	930:22
160 894:19	851:21	2:45 1000:2	1032:10	948:24
164.9 850:17	854:13,21,	20 848:4	2011/'12	976:8
169 895:4	22 857:12	864:20	915:5	2013-A 851:6
17 899:1	867:4	874:13,24	953:15	2014 856:10
935:20	871:20	878:5,10	961:9	923:18
938:1	876:13	892:25	962:1,18	965:4
17/'18 914:7	879:9,25	893:7,25	2012	966:1
922:24	880:15	896:6	960:9,11,1	1024:9,11
972:6,24	897:14	898:6	6	1025:2
172 859:18	901:3	901:14	961:12,17	2014/15
861:3	910:6	923:20	982:14	844:9
864:10	911:4	954:9	1022:13	2014/'15
889:20,21,	924:16	956:5	2012/'13	901:14
22 890:4	925:2,13	960:2,8	850:2,12	910:24
893:3,10	926:23	970:1,3	852:12	913:10
894:10,12,	931:17	973:21	912:24	914:20
21,22	934:19,25	1004:19	915:10	934:4
895:2,21	958:20	1007:20	944:3	1024:8,19
1012:2,11	959:23	1010:24	961:9,13	1025:6
175 861:24	960:22,23,	1011:10,24	962:2,16	1026:13,17
17th 960:17	25 963:2	1012:7,10	967:7	2014-P 851:7
18 899:1	977:18,22	2001 873:6	970:2,9	2015 853:23
935:20	991:7	2003 1046:14	972:20	870:11,21
942:3	1007:8	2006 881:9	973:11	924:7
973:22	1013:6	1046:16	974:2	925:19
990:11	1015:21	1047:3	975:19	1024:9,24
1042:15	1016:8	2006/'07	976:2	1027:9
188 894:13	1021:5	1034:5	977:6,24	2015/'16
189 895:20	1025:16	2007 1046:18	979:6	911:9
19,085,000	1026:22	2007/'08	980:9	913:14
898:9	1028:22	953:17	981:13	922:19
192 894:14	1032:19	2008 948:18	2013 844:22	930:23
	1035:19	1045:9,22	847:5	934:4
	1041:8	2008/'09	852:14	1026:24
	2.25	910:14	900:12,21	2016 913:22
	955:6,20,2		923:18	935:20
	5 956:13		937:18	960:17
	2.438 911:2		938:12	

2016/'17 911:14 922:23 1011:8	3 851:5 911:24 924:9,13 930:21,22, 24 931:20,22 938:14,21 939:10 943:7,14 958:15 987:18 997:4 1026:22 1039:11 1048:13,23	4:00 1049:23 4:03 1050:5 40 860:11,17, 19,21 893:1 1009:12 1010:8,25 1011:25 1012:11	943:15 944:4 948:23 949:4,13 973:12 1033:9 1039:10,21 1041:24 1047:15 1049:6,19	66 1022:9,11 66.7 948:25 67 1038:23 1043:16 68 912:24 69 1042:9 1043:3,14
2017 924:8 935:20				
2017/'18 910:15 911:19 914:1 953:17 971:9		400 844:20	5.25 919:21	<hr/> 7 <hr/>
2017/2018 971:17		41 975:6 979:13	5.5 902:1	7 900:15 901:6 910:6 916:3,8 919:19 921:21 923:4 937:13 938:1 942:3 943:22 944:15 954:10 957:23 964:25 970:24 975:7 986:11 994:3
21 954:9 955:23	3:00 999:25	41.26 948:19	52 997:3	997:3
21A 942:10	330 844:20	42 982:9	53 976:13 1006:5	1006:5
22 957:23	36.4 914:1	422 1045:24	55 1010:15	1010:15
224,709,000 897:3	37 876:5	43 979:21	56 1012:15	1012:15
23 959:1	37.7 913:22	44.8 901:17	57 878:21	1014:24
235 887:11	39 851:13,24 852:3	45 985:20	58 1014:24	1016:25
23rd 960:16	3rd 941:14	45,000 913:16	59 1016:2	1018:22
24 924:3 964:25	<hr/> 4 <hr/>	45.8 913:15,17, 19	5th 1007:19	1022:10
25 879:20,24 967:18	4 876:13 904:10 914:25 922:3 923:21 931:8 942:9 943:14 953:8 957:15 958:15 973:17,18, 25 987:18 996:5 1010:24,25 1011:10 1013:10 1042:8 1043:17	46 986:11	<hr/> 6 <hr/>	1038:24
26 848:3 889:10 893:23 971:5		47 994:2	6 879:20 887:20 923:25 925:20 926:1,6,12 ,13 931:13 934:6 943:18	1042:9,10 1043:3
27 848:10 963:7		4th 858:9,19 859:14	<hr/> 6 <hr/>	70,709,000 898:16
28 880:11 978:9		<hr/> 5 <hr/>	60 947:17 953:3 957:4 981:4	74 971:18
28/29 1022:6		5 870:11,23 871:3 872:6,16 901:24 916:3,7,22 ,24 922:19,25 924:10 927:22 928:23 929:2,4 930:4 932:15 933:2 934:19,20, 24 935:2 937:16	61 1016:24	77.9 850:5
28th 938:12 1022:23 1024:9 1028:6			61.8 949:8	<hr/> 8 <hr/>
29 975:17,23	4,909 1045:23		62 878:20	8 850:7 851:4 871:23
2nd 847:5 900:12,21	4.7 938:15 939:12		63 913:9 1018:22 1020:5	
<hr/> 3 <hr/>			647 846:3	
			648 846:4	

896:10	946:1,8	945:15	accounting	1012:2
913:20	989:6	acci 1027:15	880:20	actions
919:19	991:7	accident	882:19	848:8
926:20	able 856:12	905:10	1017:22	894:5
965:16	894:15	1015:22	1018:13	896:8
966:2,8	915:22	1016:9,15	1029:11,12	actual
967:15	921:23	1017:8	1032:1	850:10
972:25	946:20	1018:23	1035:21	859:6
80 917:4	952:21,25	1019:2,9,1	accounts	881:15
952:23	989:4,13	1,15,17,20	957:3	892:24
814.2 901:22	1014:10	1022:21	accuracy	896:21
82.6 850:17	absence	1023:7,12,	932:1	910:19
822 1045:24	866:10	19	accurate	930:10
844 844:23	absolutely	1024:8,12,	883:24	932:12
849 846:12	877:2	19	924:11	942:18
85 880:1	956:16	1025:1,11,	928:3	944:11
882:25	978:16,21	13	935:1,2	948:17
85,000	985:9	1026:11,13	973:23	956:14
979:17	989:17	1027:15	977:6	962:17
87 897:6	1001:23	1028:5,10,	979:4	965:25
87,773	1004:12	11	983:12	966:21
896:15	1005:17	1029:10,19	994:15	976:3
87,773,000	1025:14	1030:11	995:3	979:1
897:11	1049:8	1031:12	accurately	998:22
889 847:3	acc 873:24	1032:3,18	908:17	1043:16
893 848:9	acceleration	1033:4,17	986:24	1045:4,22
<hr/>	885:17	1034:12,20	achieve	actually
9	accept	1035:10	987:12	859:10
9 847:3	889:19	1036:10	992:23	868:22
889:9,12	892:14	1038:2	acknowledge	869:3
9:30 1000:24	950:21	1039:6,7	1009:13	875:14,17
1049:25	951:23	1041:5	acknowledged	902:1
9:31 849:1	966:9	1043:19,20	918:21	908:1
900 846:13	977:10	,21	974:21	909:9
847:5	1009:9	1044:3,4,1	acquisition	933:2
95 878:18	accepted	5	883:6	967:17
997:18	1030:11	accidents	across	991:23
963 848:11	accepts	1019:3	883:25	993:7
9th 941:7,10	1007:15	1027:18	902:12	996:16
<hr/>	access	1031:14,17	903:7	1006:10
A	873:24,25	according	911:1	1022:17
a.m 849:1	875:1	863:13	act 862:17	1031:14
888:24,25	885:25	accordingly	911:1	1034:11
ability	998:7	947:2	action 863:4	actuals
	accessibilit	account	866:18	932:19
	y 987:20	901:24	891:24	965:15
	accessible	accountabili	916:13	actuarial
	886:7	ty 962:21	917:1,5	864:18
		accounted	1010:12	873:18
		956:15	1011:6,16	874:8
				965:21
				1004:15

1019:15	1037:17	advanced	1016:25	948:21,22
1021:6	1046:7	885:13	1017:4,5,1	949:1,2
1022:12	address	974:13	5 1018:23	955:20
1025:23	890:2	advantage	1019:9	957:3,5,6
1026:4	894:21	903:22	1020:6	958:12
1027:13	899:14	advantageous	1021:14	959:5,6,24
1028:1,6,1	909:2	856:16	1030:12,13	964:4
0	addressed	adverse	aggregations	965:5,17
1032:8,11	905:17	892:5	1019:3	970:18,19
1033:5,21	adds 862:13	1002:21	ago 881:23	971:9,10,2
1035:12,16	adequacy	1010:10	883:15	0,21
1036:1,21	853:19	1011:23	1018:15	972:13
1038:12	adjourned	advice	1019:24	973:1,3
1039:8	854:4	900:13	agreeable	975:21,22
actuaries	1002:10	advise 927:2	941:8	976:8
868:19	adjourning	984:14	agreed 900:1	977:1
1022:8	1050:5	advised	901:11,12	980:12
1040:20	adjust 927:5	931:24	903:3,4	982:15,22
actuary	1036:7	advisors	906:12,13,	983:13
857:12	1037:19	941:4	23	985:8
858:1	adjusting	affect	907:8,9,12	986:7
890:18,20	993:2	874:16	,14	993:22
1014:8	998:24	1014:1	908:18,19	1002:4,19,
1041:15	adjustment	affected	909:16	20,25
actuary's	1025:7,24	905:8	910:3,4,9,	1003:1
864:8	1027:9,23	affordabilit	10,16	1004:8,9,2
ad 1004:22	1028:1	y 875:3	911:11,12	4 1005:5
1011:23	1045:13	afternoon	912:11,12	1006:9
add 855:12	adjustments	940:21	913:5,6,11	1007:12,13
857:6,12	1035:7	941:23	,12,23,24	,21
891:5	administerin	1042:20	914:2,3,23	1008:7,8
1000:16	g 881:22	against	915:11,12	1009:2,24
1027:5	administrati	899:24	916:6	1010:10,12
added	on 956:4	949:19	920:22	,19,20
970:12,16	admit 871:6	950:25	921:5	1011:1,2
1046:7	admitted	1024:4	922:5,6,20	1012:19,20
1049:18	1014:15	1036:3	,21	1013:3,4
adding 891:9	adopt	agen 1009:21	923:13,22,	1015:2,24,
977:5	1011:10	agency 884:2	23	25
addition	adopting	agenda	924:13,14	1016:11,12
970:10	990:22	1002:11	926:3,4,20	1017:10,11
additional	adv 903:22	1003:14	927:24,25	1018:19
900:10	advance	1004:4	929:15	1019:6,7,1
970:11	856:13	1008:25	931:9,10,1	2,13
997:6,21	1003:3	1009:22,24	5,16	1020:15,16
1000:17	aggregation	928:19	933:23	,21,22
1003:4,5			935:23	1022:14
1004:5			937:7	1024:19
1020:19			942:10,11,	1025:7
1025:1,14			20,21	1034:22,23
			943:16,17,	1039:11,12
			25 944:1	,15,22,23
				1041:12
				1042:22,23

1044:7,8	887:16	analogous	1 892:17	979:20
agreeing	alternate	1018:17	895:8	980:7
947:15	1004:12	analogy	967:22	981:11
1005:7	alternative	969:23	983:23	1043:10
agreement	864:25	977:4	996:3,11	app 997:2
860:16	865:2	analysis	1005:23	1013:23
891:4	am 901:15	853:1	1013:24	apparent
944:12	902:17	870:12	1016:21	879:4
953:6	919:16	871:2	1024:1	apparently
954:11,12,	934:4	872:2,17,2	answered	997:13
13,16	939:9	2 873:3	906:24	appear 972:9
956:16	941:23	875:18	answers	982:20
959:16	960:1	903:24	984:11	APPEARANCES
997:17	975:11,12	910:12	anticipate	845:1
1003:23	996:15	922:5	991:15	appearing
agreements	1022:24	929:23,24	1005:4	1011:7
947:24	1023:10	942:15	anticipated	appears
957:10	1038:2	977:23	853:10	908:23
ahead	1039:3	998:15	anticipating	967:18
984:5,6,17	1040:1	999:3	1046:6	997:2
AI 879:19	amend 909:15	1012:1	anticipation	1013:6
aid 892:8	954:13	analyst	853:3	Appendix
akin 1023:9	amendments	905:21	anxious	981:12
algorithms	927:4	analytics	921:21	applicable
927:5	America	995:19	anybody	945:6
alive 925:25	884:25	analyzed	884:2	application
allocated	amortization	999:5	anyone's	844:8
912:9	971:25	and/or 935:7	1012:22	848:6
allocation	972:1,15	1005:5	anything	863:22
912:23	973:4	Anita 844:16	853:7	864:3
913:9	amortized	announced	865:18	893:5
914:12	972:3,5,7,	886:17	874:17	894:3
allocations	8	announcement	881:1	896:7
946:12	amount	954:10	886:15	901:9
allow 868:14	860:20,22	annual	895:20	910:8
986:23	872:7	874:20	926:10	912:2
already	873:14	875:18	930:19	916:11
862:4	890:7,20	876:5	952:25	919:3
871:23	891:6	879:18,25	1048:2	922:3
872:3	910:18	882:24	anytime	923:6
954:17	1032:12	897:9	1048:2	930:8
957:2	1036:19	961:25	anyways	956:17
1003:3	1043:18	972:13,18,	866:1	958:1,8
1012:3	amounts	25	951:12	959:4
1045:16	897:24	annualized	apologize	962:20
1049:2	899:12	1007:20,21	897:20	963:24
altered	1025:13	answer	919:22	987:25
	1027:16,25	887:9,13,2	938:2	1013:8
	1049:1			1014:12

applications 919:15 1001:20	appropriateness 866:21 1008:4	assertion 995:3	950:22 955:4 1023:20 1024:7,25 1044:18	938:11 989:24
applied 895:17	approval 858:9	assess 870:6 1005:5		attributed 1024:18
applying 862:9	approve 864:5	assessment 938:5 986:4	assumed 916:12 917:3 927:22 934:24 935:1 939:24 944:20 993:5	August 955:11 961:19
appointed 858:1	approximate 852:4 1039:17	asset 914:9 939:2 1036:20		auto 873:25 884:3,24 945:3,6,7 949:18 951:1 952:1 955:5 998:12
appraisal 939:1,14	approximate ly 851:13	assets 869:11,12 910:13,22 911:1,9,15 ,20	assuming 852:18 873:7 902:13 909:8,18 916:19 930:2,23 1011:9	automobile 849:21
appraisals 939:14,23, 24	April 853:5 923:15 937:18	assist 968:10 1030:16		automotive 954:12
appraising 998:24	area 857:5,16 870:8 884:19 885:19 940:11 945:13 969:1	assistance 921:24 1016:14	assumption 861:10 1007:24 1008:1	AutoPac 864:7 876:8
appreciate 870:25 980:4		Assistant 968:12		available 866:3 870:12 923:11 925:4,14 934:17 977:22 978:13,21 991:19 998:7
appreciation 939:6		assistants 992:3,16	assumptions 869:23 890:19 891:4 929:13,24 944:19 1005:18 1006:21,22 1007:11,15	Avenue 844:20
appro 986:19	areas 888:12 984:22 985:7 1003:23	assisting 1038:17	assure 945:17	average 943:6,8,13 974:3 975:21 1035:19 1041:19
approach 875:12 908:22 917:8,15 920:15 921:8,17 923:12 925:17 929:20 1038:2	aren't 946:19	asso 984:2	astute 1014:8	averages 1028:19
approaches 992:8	argue 881:12 883:22	Associ 1022:18	ATA 954:11	averted 903:23
appropriate 862:18 873:21 881:13 886:15 920:16 939:24 940:6 946:21 992:17 999:22 1009:2,6 1028:8 1049:14,21	arises 887:7	associated 915:17 947:18 949:18 954:16 956:10 963:20 964:20 966:15 967:6 984:3 997:22 1021:9,20 1036:4,24	attached 938:6	aware 902:15,18, 21 917:14 919:11,16
	arising 849:24		attempting 942:15	
	arrived 889:20 934:9 1007:25		attention 886:10,14 887:3 912:21 937:13	
	artifact 1035:13	assume 859:11 861:9 938:3		
	aside 897:22 1040:3,9			
	aspects 939:4 946:6			
	ass 986:4			

978:9,11	937:16	880:1	1040:15,17	990:16
away	bargaining	881:19	1045:21	994:18
977:8,10	947:24	882:24	bearing	997:10,11
	959:16	896:25	982:8	1019:24,25
<hr/>		912:10,23	become	1042:9
B	barriers	913:9	1030:10	believed
background	991:25	914:12	becomes	935:11
864:23	base 885:21	942:19	898:24	believes
950:2	889:22	948:17	915:24	857:8
998:3	911:19	954:7	begin 889:1	bell 1020:2
bad 940:13	914:9	958:2,10	900:7	bench 940:8
946:25	916:21	959:4	1000:24	benchmark
947:1	934:10	964:3	beginning	938:15
bal 869:21	950:15	965:2	989:19,20	939:6,12
balance	977:5,7	966:21	behalf	940:8
850:19	based 848:8	967:1	918:13	951:19
853:22	850:23	1016:17	behaviour	986:24
854:7,14,2	853:5	basically	871:15,24	993:20
5	860:12	873:5	876:24	996:8,9
855:2,7,16	864:7,18	878:13	885:3,5	998:12
,25	866:15	925:17	886:12	999:18
866:3,10,1	867:2	984:7	behaviours	
5,23	871:2,7	998:18	875:12,15	benchmarking
867:14	885:15	1013:18		985:15
868:11,20	894:5	1022:4	belabour	benchmarks
869:14,22	896:8	1025:15	976:23	939:17,23
873:22	903:16	1027:12	belief	950:20
898:14	904:7	1037:5	920:14,20	987:20
955:9	918:7	1047:14	believe	988:4
984:1	928:24	basis 853:1	866:12,15	990:1
1004:23,24	929:12	921:25	868:25	995:21
1006:15	934:15	928:16	874:14	benefit
1008:17	943:13	932:11	885:23	851:14
1037:20	945:1	943:2	895:17,23	905:10
balanced	983:14	966:20	900:16	923:25
918:12	1000:18	967:1	903:15	930:15
balances	1014:10	971:4	905:11	935:8
869:3	1024:2	978:17	912:18	969:5
bang 984:15	1028:18	991:20	923:15	1043:20
banks	1035:18	1013:12	924:15	benefits
904:8,18	1036:21	1015:22,23	929:7	880:3,8,14
922:19,25	1037:1	1016:10	931:24	,23 881:2
924:15,21	1039:9,22	1017:20	950:12	883:1
925:3,11,1	1044:21	1021:11	951:7	907:7
2 927:2	baseline	1023:12	962:23	915:24,25
928:23	988:11	1027:15	973:10	967:20
929:5	basic 849:21	1028:11	974:21	1029:7
930:3	850:11	1029:10,12	978:2	1039:6,7
932:15	851:14	1031:12	984:16	1043:20
934:19,24	859:19	1032:1	987:18	best 863:14
	864:6	1035:18,22		
	876:8	1036:2,3,1		
		1 1037:3,8		

867:25	bill 956:10	864:5	896:10	872:13,24
962:24	billion	865:3,10,1	900:10,11,	878:7
979:2	911:10,15,	8,20	20 1034:7	879:12,22
984:15	21	866:23	borrow	882:6
991:18	bit 855:21	867:5	1015:7	884:13
996:18	856:19	869:1	boss 996:4	890:11
1008:6	862:22	870:3,5	Botting	892:20
1035:12	866:4	889:19	844:14	896:18
1038:6	868:22	890:21	bottom	900:3
1044:24	871:14,16	895:10,18	871:24	903:12
1048:5	873:23	898:1,6,11	875:3	904:12
best-case	874:20	899:19	878:10,20,	924:18,25
865:17	880:6	900:10,13	25 912:7	927:12
best-	883:8	908:21	971:12	931:1
estimate	888:17	918:25	979:22	932:6
918:1,4	921:25	919:2,21,2	991:14	936:8,15,2
better 876:4	951:10	5 920:2,20	1022:16,17	0,25
883:8	957:2	921:2	box 979:22	937:22
895:5,23	976:22	930:21	982:12	938:18
992:19	983:11,19	932:1,23	braking	939:19
993:9,11	985:15	938:23	885:17	942:5
1000:8,14	1000:11	944:19	brand 855:18	949:21
1011:19	1004:10	986:2,21	break 888:20	950:7
1024:4	1005:14	993:20	902:10	952:3
1030:12	1007:13	1007:15	925:25	954:20
beyond	1025:10	1008:3,9	940:13,15	955:1
875:14	1026:1	1030:16	979:3	956:25
897:13	1028:20	Board's	999:22	961:1
925:2,13	1040:12	850:16	1007:8	963:14
926:19,23	1046:11	863:21,23	1037:6,19	966:11
1049:18	1048:2	880:11	1049:21	968:6
BF	1049:16	1007:23	breakdown	970:21
1039:9,10,	blame 919:22	bodily	1013:1	973:6
22	blunt 909:12	987:18	breakeven	976:19
1040:8,10,	blurb 900:17	988:1,2	1030:3	978:6,23
22 1041:10	blurry 876:6	989:20	1035:18	979:10
1047:17	BMO 925:8	993:14	1036:13	982:5
BI3 987:19	board	1042:21	breaking	985:12
1042:18,20	844:1,13,1	body	1035:22	993:25
bias 905:16	5,16,19	955:5,24	brief 854:9	996:25
908:24	845:2	bolts	856:1	999:21
921:4	850:3,13	1008:11	857:20	1001:14
bigger	857:1,8,11	bond 907:8	858:4	1002:15
855:17	,24	914:17	860:1	1003:19
998:9	858:8,11,1	923:13	863:16	1007:4
biggest	7,19	bonds 969:2	867:8,21	1008:21
881:10	859:13	book 847:4	868:6	1010:1
890:24	860:8,16	850:7	870:15	1015:4,10
948:12	861:3,5,9,	851:4		1023:3
	14,19	863:21,23		1030:7
		880:11		1031:6
				1037:22
				1038:20

1047:6,10	865:5	916:2,15	,22	994:1,20,2
briefly	bundle	917:6,14,2	958:5,14,1	4 995:7,12
915:20	945:2,3	5	9,25	996:1
bring	953:20	918:14,23	959:7,12,2	997:1,25
1009:17	Burns 925:8	919:5,9,18	1	998:13
bringing	business	920:8,13,1	960:1,14,2	999:2,11,2
908:21	881:25	9,25	0 961:14	0 1000:7
1021:19	886:6	921:8,14	962:3	1001:6,7,1
broad 880:21	946:6	922:7,15,2	963:10,11,	2,18,24
887:2	949:19	2	16,25	1002:7,17
broaden	951:1	923:3,9,17	964:11,18,	1003:10
856:18	982:25	,24	24	1004:1,21
968:24	983:24	924:3,6,20	965:7,15	1005:3,19
969:5	984:22	925:5,11,1	966:5,13,2	1006:2,16
brought	985:8	6,24	4	1007:7,17
1033:5,24	986:13,19	926:5,11,1	967:4,11,1	1008:3,10,
brush 887:2	988:9	7,24	4	23
buck 984:15	993:6,15	927:9,14	968:2,15,1	1009:8,19
budget 877:3	998:4	928:1,8,17	9	1010:3,13,
881:8,10	business-	929:3,10,2	969:7,13,1	21
952:23	specific	1 930:20	9	1011:3,21
976:24	952:10	931:5,11,2	970:8,15,2	1012:13,21
977:22	busy 906:21	3	3	1013:5
978:12	Byron 845:6	932:13,20	971:3,11,1	1014:3,23
981:1,13,1	846:13	933:7,11,1	6	1015:6,12,
8	900:8,23,2	6,20 934:2	972:11,17,	19
1045:1,21	4	935:19	23	1016:1,6,1
1046:3,8	901:13,20	936:10,17	973:8,17,2	3,20
1047:4	902:3,11,1	937:1,11,2	0,25	1017:3,12,
budgeted	9,25	4 938:10	974:16	23
1045:1	903:5,21	939:7	975:5,10,1	1018:6,16,
budgeting	904:1,16,2	940:2,5,10	6,23	21
962:13	1	941:20	976:6,10,1	1019:2,8,2
976:7	905:5,13,1	942:1,2,7,	3,21	3
1045:17	9	12,22	977:3,15,2	1020:4,17,
build 952:13	906:1,8,20	943:5,12,1	1 978:8,25	23
building	907:1,10,1	8,22	979:19	1021:12,23
938:24	5,22	944:2,10,1	980:6,14,2	1022:7,15
built 954:17	908:4,10,1	4 945:23	3	1023:8,16
955:9,19	6,20	946:5,23	981:2,5,9,	1024:6,11,
956:5	909:12	947:6,16,2	10,17,24	16,23
bullet	910:1,5,11	2	982:7,17,2	1025:5
864:3,14,2	,21	948:4,15,2	4 983:9,16	1026:6,15,
5	911:4,7,13	3	984:20,25	21 1027:3
865:1,7,18	,18,23	949:3,7,12	985:5,14,1	1028:3
,19	912:6,13,2	950:1,18	9,24	1029:4,17,
bullets	0	951:9,12,2	986:9,18	23
	913:2,7,13	1 952:24	987:6,15,2	1030:2,9,1
	,20,25	953:22	4 988:8,14	8,23
	914:4,18	954:8,15	990:4,9,13	1031:2
	,19	955:13,18,	991:1,9	1033:1,7,1
	915:4,9,13	22	992:21	6
		956:3,8,18	993:4,12,1	1034:3,17
		957:1,7,16	7	1035:9

1036:8	CAC/MPI-1	1019:9	care 874:17	878:24
1037:7,24	942:9	1022:2,5	992:3,16	cautious
1038:16,22	CAC/	1029:20	carry 849:6	879:7
1039:1,13, 18,24	MPI-1-103	Canada	cars 876:6	CBOC 922:11
1040:7,19	1015:1	902:12	case 881:23	931:7
1041:9	CAC/MPI-1-14	903:7	902:24	CBOCK 934:20
1042:2,19	975:24	923:13	925:19	935:1
1043:2,6,7 ,12,24	CAC/MPI-1-3	932:1,23	989:1,21	cease 992:24
1044:9	994:6	Canadian	990:21	Centra
1045:8	CAC/MPI-2-16	951:5,17	1012:10	919:3,15
1046:12,17	1010:18	974:11,23, 25 975:1,4	1024:21,25	921:3
1047:8,12, 22 1049:20	CAC/MPI-2-20	998:12	1040:4,9	centre
	995:13	1007:18	1041:11,17 ,25 1042:3	994:11
	CAC-103	Candace	1043:19	995:9
<hr/> C <hr/>	1021:25	845:2	1046:7	CEO 892:1
C1.1 904:9	1023:10	846:12	1048:19,24 ,25	certain
CAA 845:10	CAC-2-16	849:7,15,1 6	1049:5,6,1 3	854:14,18
CAC 845:6	1003:11	850:1,10,1 5	cases 999:4	906:14
869:18	CAC-7 847:4	851:2,3,23	1041:17	929:13,24
900:14	900:20	852:6,25	1046:9	957:17
901:6	975:17	853:6,12,1 5,17	categories	998:17
910:6	1022:11	854:2,17	899:2,10	certainly
916:3,8,25	cal 905:8	855:9,23	906:14	866:14
919:12,19	calculate	856:8	category	867:2
921:20	884:6	857:22	938:14	881:9
923:4	1037:1	858:21	948:13	884:10
937:13	calculated	859:11,16	964:3	885:11
938:1	963:19	862:21	985:4	886:6,9
942:3	964:19	863:18	997:13	920:9
954:9	972:20	864:2,13	caught	926:17
957:23	calculation	865:16,23	949:12	947:23
964:25	880:13	870:7,24	1049:16	952:8
967:18	881:20	872:15	cause 874:15	964:2
970:24	882:3	875:4	879:10	984:20
975:6	883:24	879:14,15, 24	886:15	987:17
986:11	943:1	880:5,19,2 5 882:17	888:9	1012:22
994:2	944:6	884:16	890:8	1030:18
997:3	980:19	887:5	935:12	Certificate
1006:5	calculations	888:5	caused 862:2	846:17
1010:15,22	852:3	890:8	874:13,23	Certified
1012:15,17	calculator	940:24	causing	1050:8
1013:7	905:8	1000:16	874:16	cetera
1014:7,24	949:8	capital	876:15	852:19
1015:13	981:25	853:19	caution	1036:24
1016:2,3,2	calendar	868:16	872:4	1037:20
4 1018:22	1017:5,7,1 5,16,24	939:6	CFO 892:1	chair
1022:10		950:3	844:14,15	
1038:23				
1042:8				
1043:3				

849:8	1032:10,14	969:17,20	928:18	1049:2,4
888:7	1034:1,14	choices	claims	clarificatio
927:9	1039:20	947:7,9,10	852:24	n 892:23
940:10,25	1046:23	,13 948:5	869:3,5,7	959:22
999:20	1047:14	992:13	875:21	clarified
1043:2,13	changed	chose	880:3,8,14	888:6
1049:20	858:13	918:11,19	,17,22,23	clarify
Chairperson	875:12,15	935:5,25	881:2,15,2	852:9
849:3	1019:12	1009:12	1,22,25	887:8
888:19	1020:20	chosen 910:2	882:18,20	948:10
889:1,14	changes	935:22	883:1,5,18	1030:10
900:5	851:20	Christie	,19 884:5	class
918:25	859:4	890:17	891:14,16	887:15,23
940:14,21	887:22	CI 1030:22	905:3	888:3
941:17	891:17	CIBC 925:7	907:7	clean 878:14
999:23	917:2	CIO 978:18	928:14	cleanup
1000:4,22	943:1	circumstance	945:24,25	888:12
1001:2,3,4	963:1	862:16	946:6,11,2	clear 857:8
1049:22	1018:14	907:11	5	863:19
challenge	1025:22	circumstance	947:5,11,1	865:4
908:16	1032:6,8	s 862:19	4	924:21
920:5,11	1044:21	927:6	948:12,13	925:6,12
1041:1	1046:20	citation	949:16,17,	929:4
challenges	changing	850:25	25	938:22
905:7	886:11	1010:4	950:11,21,	962:6
917:12	890:23	cited 970:16	25 951:23	974:17
990:10	920:4,11	977:12	952:6,25	975:6
1040:21	927:6	1045:5	953:2,3,25	978:10
1041:10,11	1034:13,16	CityPlace	954:6	989:9
chance 860:8	charge 902:6	938:24	956:14	990:1
change	check 850:8	939:4	986:6	992:22
851:16	901:23	claim 989:3	994:10	1007:2
869:23	903:15	993:7	995:9	1039:25
871:16,24	909:5	1013:2	1012:19	clearly
876:23	949:5	1017:9	1013:10,21	854:12
887:19,25	957:24	1019:5	1015:16	892:2
888:2	966:9	1020:12	1016:8	916:10
891:10,12	976:14,16	claimant	1019:11,16	991:6
892:3,11	981:23	993:7,21	1020:19	1017:21
942:17	1021:2	1044:6	1025:25	client
943:9,14	Cheng 857:25	claimants	1027:17	919:12
948:17	858:7,16,2	987:11	1028:15,22	1043:17
951:24	2	989:12	1029:18,25	clients
971:4,7	1022:18,25	992:13	1030:20,22	999:19
984:3	Cheng's	1044:4	1031:4,23	client's
1009:14	858:18	claiming	1032:15,23	1026:9
1017:21	1022:12		1033:12	1044:10
1018:3,11	Cheryl		1034:1,18	close 871:12
1019:10	1050:13		1035:4,20	
1020:18	chief 864:8		1036:15	
1026:4			1041:4	
1029:14			1044:18	
			1048:20	

881:8	1034:13	885:6	917:20	964:19
949:11	Collisions	940:23	932:11	complete
965:16	1028:20	997:23	933:1	869:15
970:1	coloured	1006:13	934:5	888:17
973:11	879:18	1038:14	938:15	1008:17
1034:14	column	commenting	939:11,12	completed
1046:2	896:25	986:21	940:7	858:7
closed	897:1	commitment	944:10	977:16,19
1049:2	898:3	856:17	945:24	completely
closely	910:23	996:21	946:5	855:15
990:15	912:7	committed	951:4	916:19
closer	942:23,24	854:14	953:1,23	complexity
1046:11	943:7,14,1	1037:13	954:6	897:20
closing	5,18,22	1038:7	974:10,23,	965:22
888:8	944:4,15	common	25	1027:5
Club 1023:24	961:8	868:19	975:3,13,1	complicated
CMMG 845:8	1033:4	commu 858:25	5 982:20	882:4
coding 987:2	columns	communicatio	983:3	1026:2,8
cognizant	851:6	n 858:25	988:4	comply
874:6	combination	communicatio	1010:25	1042:5,11
collaboratio	972:4	ns 883:13	1015:15	component
n 869:18	1040:2	companies	1049:7	872:20
collaborativ	combinations	999:5,16	comparing	944:21
e 890:25	898:19	company	962:16	965:2
992:8	combined	979:6,23	965:2	comparison
collect	1010:9	980:2,10	comparison	903:6,23
872:2	comes 874:9	990:20	931:19	939:5
collected	890:19	1009:7	944:22,24	951:4,16
873:11	892:10	1023:23,24	965:1	composition
995:18	905:22	1024:7	compensation	1007:1
collecting	948:6	comparable	917:10	1044:4
871:8	959:20	883:25	947:19	compound
902:21	comfort	884:8	948:1,14	972:12,18,
collective	894:25	1015:21	953:4	25
947:24	comfortable	1016:9	954:1	comprise
953:5	909:18,19	comparative	957:3,13,1	998:11
957:10	956:15	868:15	8,21	comprised
959:16	coming	870:2	958:2,10	900:15
collector	855:18	998:10	959:4	compromised
863:25	882:22	comparators	961:15	863:6
887:14	885:20	998:4	962:25	compulsory
888:1	888:15	compare	965:8,10	849:21
collision	1002:18	915:5	966:1	con 926:25
876:14	1040:23	942:15	competitive	957:2
879:10	commencing	960:24	903:22	1029:16,20
1028:21	849:1	compared	compilation	
1029:1	853:23	901:21	963:19	
	comment			

concern 890:15 907:22 908:23 1041:24	1022:1 1043:10	972:2 1004:17	846:1	997:22
concerns 907:16 926:25	confused 1030:11 1031:15	considering 886:18 892:10 990:24	context 855:4 861:18 863:9 883:8 887:14 921:3	contractor 974:2
concluding 974:18	confusion 1023:13	considers 880:7 885:17 1017:6 1020:8	contextual 895:12	contracts 947:25
conducted 995:19	congested 885:19	consistent 874:8 884:10 996:11 1035:11	continuation 876:11	Contrary 997:11
conference 854:3,16,2 1 855:20 865:25 866:2,6 930:21 932:1,22 1001:10 1002:2,10, 19 1004:3,11 1005:21 1009:1,16, 21	consensus 866:13 867:3	consistently 909:20	continue 873:21 891:2 941:18 946:20 995:20	contrast 931:12
confidence 924:15 936:13 937:4	consensus- based 920:15	constantly 906:5 1034:13,16	continued 846:11,13 849:15 851:2 879:14 900:23 942:1 961:20 963:10 977:10 981:9 992:3 1001:6 1043:6	contrasted 1040:9
confident 903:17 941:22,23 996:7	consequence 1039:19	construct 990:17	control 892:4,8 946:1,8 947:25	contribute 954:4
confidential 998:22	consequences 1024:13 1027:8	consult 917:9	converge 1041:20	contribution 902:14
confirm 849:18 864:22 866:21 954:23 995:14 1043:8	consider 851:20 852:22 861:19 964:6 1019:3 1038:4 1045:2 1048:21	consulting 975:25 976:3,8	conversation 855:8 856:12,19 904:24 905:1,6 918:24 957:2 958:17 1005:25	conversations 927:3,8 988:22
confirmation 945:1	considerably 971:22	consumer 942:17 943:1,9	conversion 1029:16 1033:17 1035:10	convert 1019:21
confirmed 849:25 850:9 917:4	consideratio n 851:13 875:2 885:7,8 891:22 1009:15 1028:12,14	contact 994:11 995:9	continues 885:23	converted 1029:13,20 1035:21
	consideratio ns 895:12	contain 946:16 930:7 944:20	continuing 877:6,21 909:4 972:7 1000:6	cooperative 992:8
	considered 863:4 875:1,3 951:25 964:9	containment 983:11,21 984:22 985:7 986:5	continuously 906:19	copy 859:12
		contemplate 1027:15	contract 953:9 954:3 957:14 960:7,10,1 3,15 961:16,21 975:20 991:20	corner 901:6
		CONTENTS		

911:25	920:14	s 854:5	925:15,22,	1042:6,10
915:1	922:4,13,1	857:25	23 930:23	1043:22,23
919:20	7,22	865:17	932:4	1050:8
975:11	923:11,25	875:6	934:4	correction
979:21	924:7,8,23	880:13	937:14,20	962:12
982:10	926:18	892:9	938:13,16	correctly
1043:14	927:17,19	901:8	939:9	851:19
corp 972:20	928:7	905:2,9	940:9	1011:5
1043:24	930:9,12	907:19	943:3,4,10	1049:12
Corpor	933:8	908:5,12	,11,20,21	cost 881:22
926:25	935:7	909:10	944:7,9,17	947:17
corporate	937:3,16	910:13	946:2	949:25
879:17	945:7,10,2	912:2,8	947:3,11	953:19,25
908:12	5 946:7	914:19	948:1,8	957:8
946:13,14	947:1,8,23	916:22	954:13,14	972:10
957:4	948:18,24	917:8	955:21	975:12,15
966:19,20	950:20	922:2	957:11	979:15,16
971:4	951:22	923:6	958:2,4,18	980:3,17,2
corporation	953:19	938:4	,23,24	4
844:7	958:20	942:25	959:10,11,	983:11,21
849:18	959:8,23	957:8	19 961:19	984:2,21
850:17	963:21	967:21	962:5,8	985:7
851:5,11	964:2,14	970:25	963:3,7	986:4,12
852:5	970:10	987:17	964:5,15,1	987:12
853:2,19	971:13	991:14	7,23	997:21
855:2	972:20	1001:21	965:9,12,1	costs 862:3
857:1,16	973:21	1008:5	4 966:16	873:11
859:21	974:2	1010:5,9,1	967:3,13	881:13,15,
862:24	976:3,7	7 1014:25	968:1,18	24 882:16
863:20	979:5	1015:20	971:1,2,14	883:6,19
864:4,15	986:23	1044:1	,15	945:16
865:21	987:8	correct	975:11,12	950:22,25
866:4	988:3,10,1	848:10	976:4,24	951:24
869:2	5 991:2,14	850:14,20	981:1,23	952:1,11
870:11	995:14,20	851:22	1000:25	954:16
871:1	996:7	901:15,18,	1003:13	957:18
872:16,18	997:7	19	1008:14	964:13
880:7	1004:6,7,1	902:13,20	1011:8	971:5,8,25
881:1	2 1005:21	904:6,20	1012:3,12	974:22
885:7	1007:11,15	905:17,18	1013:7	977:7
887:25	1012:24	907:20,21	1014:14	978:4
901:10,16	1013:1	908:3,7,14	1016:4,5	998:19,20
902:20	1028:5	,15 910:17	1017:25	1021:20
907:16,23,	1035:17	911:16,17,	1018:20	1028:22
25 909:2,3	1038:7	21,22	1022:24	1036:4,23
911:8	1039:19	912:3,5,17	1024:17,22	1037:2
913:8	1040:20	,24 913:1	1025:4	1044:19
914:8	1041:12	915:7,8,14	1026:13,14	Counsel
915:17,18	1042:3	921:3,10	,23 1027:7	845:2
916:4	1043:18	922:13,14,	1033:6	count 870:18
917:9	corporations	25	1034:9	counterparts
918:7,11	917:20	923:2,14	1037:11	
	Corporation'	924:1,2,5	1038:3	
			1040:1	

974:14	CP 953:1	962:1	872:2,3,6, 7,17	25 869:17
975:4	CPI	cross-exam	873:14	870:6
country	943:13,15,	849:6	875:13	883:22
883:25	23	900:7	877:11	890:16,18
884:3	944:4,21,2	1000:6	891:8,10,1	891:20,23
885:12	5	cross-	4 906:6	892:13,16
counts	945:5,18,2	examinatio	987:8	915:16,24
1033:12	2 949:17	n	995:18	916:19,25
couple	951:23	846:11,13	1016:25	1001:9,19, 22
853:18	952:7,10,1	849:15	1017:4,8	1002:10,19
854:23	2,19	900:23	1021:14	1004:14,18
866:22	953:1,14,1	941:19	1042:1	,25
870:8,25	9,23	cross-	1049:10	1005:2,13
875:23	954:3,7	examine	date 937:18	1009:12,16 ,20
879:16	CPI-like	941:13	952:21	DCATs 889:25
880:6	951:25	curl 1012:22	957:24	de 1047:18
884:17,21, 22 901:1,2	CPIs 953:16	current	960:9	deal 909:24
904:3	CPI's 945:21	850:15,22	1017:8,9	dealing
921:19	crash	851:8,10,1	1049:1	863:25
1045:24	874:13,15,	2 853:7,11	dated 978:9	872:8
1049:14	16 912:17	891:20	dates 960:8	899:3
course	crashes	907:4	day 863:14	989:7
851:3,16	874:23	908:6,13	885:18	1049:3
859:8	876:16	909:14	888:17	dealt
864:10	crashing	913:3,8	899:23	1049:15
866:6	877:8	920:21	906:21	debate
888:14	creases	953:9	1000:21	1005:20
905:5	957:9	954:13	days	1006:20
906:18	create	960:3	854:13,22	1007:10
908:17	943:15	currently	866:22	debt
926:5	1035:20	856:4	867:4	929:14,25
933:3	created	964:14	day-to-day	969:2
942:23	997:20	1028:5	963:20	decade
957:20	creating	cushion	964:20	972:12
1027:20	856:23	874:21	DCAT 849:17	decide
courtesy	869:14	customer	853:18	1036:7
927:16	credible	885:21	854:3,5	decided
cover 883:19	873:14	customers	855:13,25	892:14
1013:2	critical	886:1	856:6,12,2	decides
coverage	1014:4	974:14	0 857:23	895:10
1014:21	cross	<hr/>	858:8,12,1	deciding
1024:5	888:8,9	D	5,23	906:6
coverages	1000:17	damage	859:5,17	1037:16
1028:17	cross-Canada	994:12	860:6	decision
1034:15	903:6	995:10	863:3,5	873:22,23
1047:14	crosses	dangerous	864:5,8	874:10
covers	961:13	921:15	865:8,15	
998:19		data 870:23	866:14	
			867:16	
			868:13,20,	

919:1,6,10	890:15	describe	867:16	999:10
1041:23	891:21	928:2	870:4	different
1046:23	892:3,13	1006:6	1014:9	850:16
decisions	902:24	1033:14	develop	856:20
856:25	905:24,25	1040:24	986:3	860:9
859:22	938:9	described	995:20	861:1
984:14	1005:11	1017:5	developed	868:22
989:14	1009:5	1019:16	933:12	870:8
decline	1028:11	1022:3	949:16	871:25
907:24	1046:9	describes	developing	886:16
913:22	definition	922:17,24	904:5	917:21
914:1	963:17	924:8	917:7	924:1
declined	964:8	927:17	951:25	939:22
907:24	1020:5,25	description	development	952:7
declines	Deloitte	847:2	854:5	984:10
1032:4	1000:18	848:2	971:25	989:22
declining	demerit	1029:6	995:15	998:11
907:19	878:23	descriptions	1001:21	999:12,16,
913:14	demerits	869:20	1014:20	17 1009:5
914:13	871:21	designed	1018:7	1021:4
932:2	demonstrated	1037:5	1019:16	1028:21
933:3	909:5	desirable	1032:4	1036:5
decrease	Department	886:1	1033:8	1037:3,10
887:20	941:2	despite	1034:4	differentiat
935:9	967:23	974:9	1041:3	e 964:6
1042:13	968:4,9,10	1002:1	1044:15,17	differently
deemed	,13,24	detail	1045:2	1048:18
864:17	969:1,9	917:18	deviation	difficult
deems 865:10	departments	998:21	906:15	963:2
defendable	963:21	detailed	deviations	difficulties
867:2	964:21	869:19	906:9,11	894:9
defer 941:9	dependent	872:2	device 885:2	977:11,13
deferred	865:8	933:25	di 1037:3	difficulty
883:5	depending	1028:24	dialogue	1044:14,19
971:25	861:24	1040:25	1001:19	dig 979:3
defined	depends	details	difference	dilemma
964:11	862:19	883:4	881:6	894:23
definitely	969:15	1001:8	882:13	1041:14
850:13	depiction	1013:25	926:8	direct
852:22	943:7	1014:16	943:23	858:10
856:4	Deputy	deterioratin	944:15	883:18
857:6	968:12	g 862:7	961:9	919:20
859:1	derivation	determinatio	967:11	937:13
860:4	1012:18	n 920:1	980:5	938:14,21,
868:10	1014:9	921:2	983:8	23 969:1
872:1	derived	968:20	1023:18	1040:12
873:15	904:17	determine	1032:19	direction
879:1		864:6	1044:3,5	866:17
			differences	directionall

y 863:12	875:17	documented	919:5	871:2,5,9,
directly	880:7	937:9	925:25	16,18,21
908:11	881:5	965:20	downside	872:2,20
916:11	882:9	documents	918:16,18,	873:4,5,6,
directors	899:20	847:4	22 930:13	9,11
859:14	907:2,3	850:7	935:7	875:12
disability	921:9,16,2	851:4	downward	878:12,15
987:10	5 976:22	863:21,23	993:2	879:1,3
988:4,12,1	986:13	880:12	draft 996:8	due 903:10
6 990:2	1003:15	896:11	draw 902:6	941:4
discount	1004:4,11,	900:11,12,	drawing	965:19
965:23	22 1007:14	16,20	912:21	1044:3
discounts	1009:4	dollar 848:3	drew 862:2	duplicate
874:20	1019:25	883:18	drink 927:15	921:22
discrepancies	1035:15	893:23	drive 877:21	dura 907:4
1046:5	1038:9	896:5	885:13,18	duration
discrete	discussions	956:4,10	driven	988:4
952:17	903:18	1025:14	865:9,14	989:3,23
discretion	921:12	dollars	driver	991:3
946:1	941:3	877:19	870:20	durations
948:11	988:21	893:10	872:20	907:5
discretionary	1009:15	895:19	876:20	987:10
947:10	display	911:10,16	877:13,18	988:12,17
discuss	962:24	914:23	885:5	989:13,16,
978:17	distance	915:3,6,10	903:2,15	23
discussed	926:7	979:7,24	957:8,17	990:2,15,1
859:3,5	distinction	980:11,18	drivers	8 991:16
861:17	1034:4	981:21	871:15,20	during
1000:9	distributed	1025:15,18	874:23	866:14
1019:22	900:10	1026:4,19	875:25	955:12
1021:5	distribution	1032:14	876:19	1001:17
1034:24	871:19	1048:16	878:13,17	1017:7
1035:5	879:3	done 873:3	901:1,17	1019:4
1041:1	891:11	875:11	902:6,15,2	1020:10
discussing	divided	888:13	1 903:1,10	duties
855:12	923:21	890:25	957:13	968:11
906:22	981:18	921:23	drives	dynamic
958:1	divisions	927:19	886:11	853:19
986:18	994:12	930:8	driving	<hr/>
1021:18,22	doctors	939:1,14,1	876:4,21	E
1031:13	991:19	5 952:21	877:12	E2.12 966:8
discussion	document	972:16	885:2	E7 981:12
854:13,24	879:18	990:23	903:16	earlier
856:20	899:17	992:9	dropping	854:4
859:9	1022:4	1000:10,12	877:20	915:21
867:3	documentatio	,20	drove 885:15	938:25
868:9	n 929:9	1002:18	DSR 870:9,12	949:13
874:9	1008:12,18	1025:11		958:16
		1027:13		
		door 881:21		
		doubt 873:2		

1011:18	Effectiveness	email 941:10	entirely	estate
early 876:10	s 982:19	embedded	992:1	938:11
1041:4,21	effort	978:20	entirety	939:15
earned	903:19	emphasis	997:5	estimate
901:16,21,	997:14	887:1	entities	863:14
25	EFT 967:15	975:2	923:16	905:9
earning	eight	1046:20	entitled	923:12
850:18	913:15,16,	employed	851:6	944:5
870:19	20 926:20	1012:24	environment	947:21
earnings	967:8,12,1	employee	920:4,11	954:24,25
850:11	5 980:17	979:6,8,23	932:3,22,2	1008:7
851:14	981:20	980:3,4,10	4 933:4,6	1018:12
852:12	1045:23	,18 981:21	equal	1040:18
896:12,14,	eighteen	employees	907:12,14	estimated
16,25	990:11	959:24	equities	893:15
897:5,18	1042:14	employing	1010:23	estimates
898:12,13,	eight-seven	1008:5	equity	924:1,4
14	896:14	enable 986:4	891:8,10	930:21
899:2,4,6,	eighty-eight	encouraging	1007:18	932:1
7,11,14,18	894:13	877:25	1010:10	956:5
,22 916:5	eighty-five	endorse	equivalent	1025:23
1011:7,15	898:9	929:5	966:15	1028:12
easier	979:17	endorsed	error 919:14	1033:24
1003:8	eighty-seven	928:10	961:4	1041:7,19
1022:8	897:10	English	993:5	estimating
1031:10	either	1016:22	essence	1040:16
easily 850:7	859:23	enhanced	914:5	estimation
1037:13	885:25	869:13	927:19	905:15
economic	894:11	enhancements	964:18	et 852:19
877:1	895:14	946:18,19	1039:18	1036:23
957:10	917:15	ensure	1041:10	1037:20
958:12	982:20	945:13	1047:8	ev 877:10
960:24	1021:6	946:15	essentially	evaluate
962:13	1032:4	1011:4	871:6	982:12
economy	elaborate	1030:3	935:16	1005:12
929:13,25	983:19	entering	936:1	evaluated
education	1001:25	932:21	950:15	932:22
968:25	1003:2	enterprise	1014:14	evaluation
969:6	1044:13	982:19	1032:19	982:18
effect 862:3	elaborating	entire 886:8	1035:2	1021:7
866:8,9	1002:6	904:24	1037:1	1037:9
955:10	element	924:11	1040:14	evaluations
959:20	953:25	962:14	established	996:5
960:3	993:5	968:15	850:3	1018:11
970:5	1017:14	1005:16	894:24	event 862:1
997:23	else 861:13	1008:17	988:15	864:21
effective	866:25	establishing	899:21	893:8
960:9	882:3			899:25
961:21,25				

events	example	985:19	847:1	1044:21
849:23,24	860:18	1029:24	1029:19	expected
860:21	863:1	excused	existed	871:22
892:6	868:23	927:10	905:16	872:1
1010:10	871:19	executive	existing	891:10
eventually	880:10	990:20	872:20	908:6,13
855:16	887:18	991:3	988:11	940:25
1031:1	891:9	993:19	expand	989:18
1034:14	892:14	exercise	915:20	1029:14
everyone	945:8,17	890:25	expanding	expecting
849:4	964:1	999:12	886:4	914:8,21
867:11	970:15	1001:10	expe 946:24	1049:17
941:8	992:20	1028:5	expect 855:6	expen 947:7
963:5	1003:23	exercises	861:13	expenditure
1005:17	1018:10	945:25	871:1	945:19
everyone's	1025:12	exhibit	873:10	expenditures
1032:24	1046:16	847:2	889:24	945:9,12
everything	examples	889:9,12	891:2,16	974:25
852:16	945:20	900:15,20	906:9,15,1	expense
928:12	exceed	901:6	7 917:22	881:25
964:9	984:18	910:6	918:1	884:5
1021:8	exceeded	916:3,8,25	926:13	943:6,8,13
1027:22	953:14	917:2	929:12	,16,19,24
evidence	exceeds	919:19	932:21	944:4,6,11
877:20	907:7	921:21	945:21	,22,23
886:11	excerpt	923:4	947:17	945:9
925:14	901:8	937:13	989:5	948:12,13
927:6	910:8	938:1	991:2,5,22	951:16
941:9	912:1	942:3	992:22	957:5
evolutionary	922:2	954:9	993:13	expenses
906:3,5	923:6	957:23	1000:10	880:13,18,
evolve	938:4,9	964:25	1004:3	21,22
866:19	957:25	967:18	1005:17	881:2,24
927:5	975:7	970:24	1013:21	882:18,20
evolves	985:21	975:7	expectation	883:4,5
996:18	1010:17	979:13	856:5,11	928:14
evolving	1022:12	986:11	862:17	942:16,18
995:17	excess 862:8	994:2	863:3	945:21,24
exact 869:7	898:12,13	997:3	908:5	946:2,7,9,
exactly	exchange	1006:5	955:19	11,12,13,1
865:22	887:7	1010:15	992:15	4,25
903:25	excluding	1012:15	1005:8	947:7,11,1
978:1	964:12,21	1014:24	1037:14	4,18,25
1045:4	exclusively	1016:25	expectations	948:6,11,1
examination	900:15	1018:22	871:13	2,17
929:14	excuse	1022:10	873:12	949:16,17
examined	913:16	1038:24	955:15	950:11,14,
1028:7	942:7	1042:9,10	988:15,18	25
	943:9	1043:3	1027:22	951:6,16,1
	983:9	exhibits	1035:4	8 952:6,25
		846:3		953:3,25

954:6	expression	915:23	1030:3,14,	1023:22
955:5	877:11	952:11,14	15 1040:5	feeling
963:18,19	expressly	965:19	1047:18	941:5
964:3,7,8,	985:1	974:9,12	fairly 860:6	feels 857:11
19	exsens	1006:13	871:9	fees 976:3,8
965:2,10	921:16	1014:17	947:21	felt 909:23
966:1	exte 950:25	1026:25	972:12	fifteen
971:12,13	extend	facto	995:23	888:20
974:10,24	885:25	1047:18	1006:17	898:4
986:6	1049:14	factor 874:9	1031:19	956:4
1021:20	extensive	1027:7	1033:8	fifty 895:18
1036:4,23	921:16	factors	1039:14	896:22
experience	1002:24	849:24	1046:2	fifty-two
870:12	extent	879:5	fairness	966:18
871:2	880:17	891:7	872:22	967:5
872:8	892:2	906:16	885:5	figure
873:7	893:6	933:18	fall 997:12	857:17
906:11	978:19	952:22	1004:18	895:2
930:11	983:7	986:4	fallen	911:2
968:25	989:15	998:15	877:24	912:14,24
969:6	998:18	failure	falls	948:19
990:10	1045:14,15	1042:5,11	1004:14	956:12
1036:15	external	fair 855:4	familiar	1012:18
1044:16	857:25	856:15	987:22	1014:10
1045:3	991:15	857:3	1016:17	1015:14
experience-	extra	864:24	Fan 1023:24	figured
driven	857:2,4	896:2	farther	1026:10
872:21	858:15	902:5	914:6	figures
expertise	891:9	903:1	fast 908:17	977:22
933:9	extreme	914:21	faster 886:4	1034:13
991:15	972:18	916:15	952:12	file 871:1,5
explain	extremely	918:15	991:24	992:17
942:13	874:12	935:11	Fastest	1046:24
968:3	997:9	939:5,7	981:24	filed 851:5
999:10	<hr/>	944:22,24	favourable	859:12
explained	<hr/>	947:17	1027:24	888:10
935:18	F	948:15	1033:25	889:9
explanation	face 917:20	963:18	1034:4	997:10
998:14	918:5	970:13,14	Feb 1022:6	filing
explore	927:6	980:16	February	850:18
949:17	faced 977:14	982:25	938:12	853:3
950:19	989:10	988:8	1022:23	870:10
exposure	faces 917:20	996:14	1024:9	997:20
881:5	fact 874:21	999:15	1027:14	fill 1000:20
exposures	875:22	1001:9	1028:6	final 864:8
1017:16	903:8	1002:1,9	fee 956:4	1011:17
expressed	909:19	1006:6,16,	feel 1016:21	1027:17
907:23	914:15	19 1008:24		
1037:25		1014:7		
		1015:17		
		1017:13		
		1021:15,16		

1031:16	958:11	933:2	1033:25	930:1,7,8,
finalized	974:8	934:18,19,	focus 910:22	12,22,25
995:5	990:11	20,24	923:18	931:6,7,12
finally	992:10	935:2	938:11	,14,18,19
869:25	999:8	937:16	980:14	933:1
922:11	1013:18	948:23	focussed	934:3,10,1
finance	1026:7	949:4,13	951:25	5,18
941:2	1042:14	973:12	1019:15	935:1,3,5,
967:23	1048:13	1033:9	focussing	20,21,25
968:4,9,10	fiscal	1039:10,21	901:14	936:2
,13,24	851:7,8,12	1041:24	934:3	937:17
969:1,10	,15,21	1047:15	965:7	952:13,15,
998:23	853:7,11	1049:5,18,	followup	20
financial	955:12	19	887:24	954:17,24
855:15,18	961:19	fix 970:3	888:10	955:4,7
893:16	962:1	fixed	follow-up	956:17
915:22	1015:23	1017:17,24	877:9	959:8
933:21	1016:10,15	1018:5	889:15	960:3
1003:9	1017:19	1034:7	footprint	964:15
1006:7,12,	1018:18	fixing	970:2	965:9,20
15 1019:22	1019:21	970:10	force 1037:6	966:2
1022:4	1022:1,5,6	977:5,7	935:21	1004:24,25
findings	,22	flagged	fore 925:7	1011:16
919:21,25	1023:1,7,9	907:16	935:21	1012:19
fine 902:16	,12,19	flat 916:19	forecast	1013:14,16
fingers	1024:8,19	1033:12	853:5,22	,19
870:18	1025:6,20	flip 914:24	861:24	1014:1,4,1
finish	1026:16,24	986:10	904:5	8 1015:16
941:12,25	1027:1,21	1012:25	905:22	1029:18
1029:9	1028:2	1014:6	906:10,14	1031:24
finished	1029:12,14	1043:25	909:4,15	1032:8,20
888:7	,22,23,25	flipped	910:2	1034:11,12
941:22,24	1030:13	1016:1	913:14	1035:20
1000:9	1031:15,23	floated	914:20	forecasted
first 849:18	1032:1,15,	899:8	915:22	850:23
851:21	23 1033:18	flow 892:16	916:22	852:11,22
868:11	1034:1,6,1	993:19	917:18	909:20
869:2	8	1011:25	918:6,12,2	918:20
882:11	1035:3,11,	1018:13	0 919:13	922:18,23
884:18	18,21	1025:25	920:12	928:7,25
889:3	1036:10,14	flowed	922:9,10,1	934:12
905:21,25	five	1010:7	1,12,17	935:14
910:23	870:11,23	flowing	923:15	forecaster
912:7,14	871:2	905:7	924:9,12	921:4
922:8	872:5,16	1036:19	925:7	925:21
923:19	916:22	flows 1028:1	926:13	928:10
926:19	922:19,24	1032:22	927:18,21	931:9,21,2
931:6,17	924:10	flowthrough	928:2,4,6,	2 934:11
954:15	927:22		14,25	935:22
	928:23		929:11,12,	forecasters
	929:1,4		18	909:15,20
	930:4			920:15
	932:15			

925:20	Forma 851:5	929:8	1000:9	
926:19	formal 855:5	935:11	1004:23	<hr/> G <hr/>
928:20	866:13,18	937:3	front 876:6	GA 934:3
929:18	1008:11	984:9	966:14	gained
934:1,7	formalized	988:20	fruition	905:23
935:14	994:7,17	1028:18	909:9,21	gains 965:21
forecasting	995:2	1032:21	FTE	Gartner
850:18	former	1033:5	979:15,16	969:25
851:11	957:14	1040:23	FTEs 966:21	970:8,16
852:13	formula	forwards	967:6	973:9
871:6	889:19	1028:7	979:16	974:1,17
875:20	1012:18,23	fourth	981:15,19	975:7,19
904:4	,24	864:25	full 939:4	977:4,23
905:2	forth 858:25	865:7,19	991:12	978:15,19
906:2	885:3	four-three-	1014:19	979:5
908:22	1000:18	eight	full-times	980:9
911:8,14,1	forty	911:2	966:15	982:10
9 914:15	860:11,16,	fram 996:8	fully 929:17	983:1,23
915:23	19,21	frame 856:10	948:10	984:14,21
917:12,23	893:1	framework	992:23	999:13,17,
918:1,4,8,	1009:12	988:19	fun 1001:12	18
9 924:16	1010:8,25	994:8,16	function	Gartner's
928:15	1011:14,24	995:2,5,16	946:21	978:1
930:13,15	1012:11	,17	functions	Gary 941:1
933:9,13	forty-five	996:9,16,1	969:3	Gas 919:3,15
935:8	913:15,16	8	fund 898:15	general
936:11	forty-one	free 947:24	891:12,17	844:8
937:2	967:12	948:5	fundamental	875:9
952:9	forty-six	1016:22	891:12,17	891:9
959:23	852:15	1023:22	future	892:9
1013:12	forty-three	freeze	853:22	919:3
1028:12	979:7,23,2	959:24	855:1	920:14
forecasts	4 980:11	960:5,22	857:18	945:5
904:8,17	forum 886:2	frequency	859:22	958:1,7
907:25	997:21	875:21	862:20	959:3
908:24	forward	876:14	866:3	1001:20
909:24	850:23	879:10	872:9	1029:2
918:16	852:17,19	frequently	873:13	1034:25
920:3	855:21	993:2	889:24	generally
924:22	859:5	fresh 888:21	906:11	908:4
925:2,13	862:7,24	friend	965:24	926:11
926:12,22	872:19	904:22	994:10	946:10
927:1	885:20	906:22	996:21	973:21
928:12	888:2	921:9,22,2	1005:20	1030:11
930:10	890:5	3 931:24	1008:7	generate
931:13	895:13	949:8	1013:25	899:5
932:10,18	909:25	976:22	1014:22	generated
934:20	910:20		1035:8	939:3
936:6				991:3
form 862:19				
880:2				
883:1				

1046:24	883:7,12	845:2	greater	950:18
gets 859:9	goals 875:6	846:12	918:15	996:6
getting	879:17	849:5,7,15	grew 943:8	998:17
876:1	gone 853:7	,16	gross 932:11	guidance
877:7	859:13	850:1,10,1	grossly	857:2
881:8	875:22	5	927:18	986:2
895:5	903:18	851:2,3,23	group 951:4	1000:15
899:9	934:6	852:6,25	969:25	guidelines
906:5	990:5	853:6,12,1	970:17	864:19
992:9	goods 945:2	5,17	973:9	989:22
999:12	Gosselin	854:2,12,1	974:17	
1001:8	844:15	7 855:9,23	975:19	<hr/> H <hr/>
1011:19	850:24	856:8	977:4,23	habit 945:4
Gibson	868:2,4	857:22	983:1	hail 892:15
941:1,5	875:7	858:21	984:21	hair 1012:22
Gibson's	877:9,16	859:11,16	997:2,5,16	half 910:12
941:9	889:15,17	862:21	,18 999:13	959:19
given 869:8	890:1	863:18	1013:2	960:4
877:17	893:4,21	864:2,13	1021:9,21	961:14,15
883:8	894:8	865:16,23	1036:4,16,	962:1,2
885:7	896:3,9,22	870:7,24	25	halfway
897:24	897:4,12	872:15	grow	910:23
907:4	898:23	875:4,8	911:10,15	hand 1005:22
932:20	918:25	879:14,15,	952:12	1048:14
956:12,13,	962:11	24	955:6	handing
18 960:21	981:3,7	5 882:17	972:8	1005:16
961:16	1042:24	884:16	growing	handle
983:5	government	887:5	884:24	1048:25
1015:16	923:12	888:5	914:10	happen
1026:25	929:14,25	904:22	942:16	853:10
1040:21	953:8,12	906:22	growth	988:20
gives 860:8	967:19	907:4	922:10	1011:17,18
896:1	GR 958:7	921:10,23	927:18	1046:21
giving 872:4	GRA 847:4	931:24	928:6,16	happened
941:11	853:2,5,23	940:22,24	929:13,23,	875:21
glass 955:25	856:7,9	941:18	24	958:6
Global	857:24	976:22	972:13,19	960:4
904:8,18	900:11,20	999:9	973:1	1028:21,25
922:20,25	922:12	1000:16	1027:24	1044:21
924:10,12	928:13	1004:23	1044:18	1046:5,23
931:19	930:7	1019:25	guaranteed	happens
932:14	933:7	1021:18	873:24,25	869:10
934:19,25	934:3,10	1034:24	guard	878:22
937:17	935:21	1035:15	1049:17	883:11
goal 879:25	958:7	1037:18	guess 877:16	1021:8
880:6,15,2	965:3,4,8	grant	882:9,22	happy 888:17
3 881:19	966:2	865:18,20	899:16	907:10
882:13,14,	996:9	graph	931:18	
21,23	1005:2	932:14,17	934:8,13	
	1008:6	GRAs 853:22		
	Grammond	great 878:25		

962:10	900:1	943:4,11,1	986:8,17	higher
1026:11	901:12,19	7,21	987:5,14,2	852:21
1027:6	902:1,9,17	944:1,8,13	3 988:7	863:7
hard 895:2	,23 903:4	,17	994:18,22	875:23
1023:21	904:14,19	946:3,10	995:6,11,2	876:17,18
haven't	906:24	947:4,12,2	5 996:10	877:8
987:25	907:9,13,2	0	1006:10,22	891:19
1048:17	1	948:2,7,22	1007:13,22	952:18
having	908:3,8,15	949:2,6,10	1008:8,14	954:5
862:13	,19	,23	heavy 857:15	965:16
893:2	909:1,17	951:2,11,1	HELD 844:18	966:2
894:9	910:4,10,1	4 953:2,24	help 875:19	974:9,24
899:1,10,1	7	954:14,22	886:22	975:13,15
3 954:5	911:3,5,12	955:3,21	helpful	983:11
968:23	,17,22	956:2	856:25	1039:9
992:13,16	912:4,12,1	957:6,12,1	857:13	1041:16,24
1035:15	8,25	9	895:8	1045:18,23
head 910:24	913:6,12,1	958:3,13,1	988:22	1048:2,7
912:6	8,24	8,24	966:5	higher-of
952:6	914:3,14	959:6,11,1	1013:24	1045:13
headers	915:2,8,12	8,25	1014:17	1048:1
898:25	917:13,17	960:6,18	1033:2	highest
heading	918:3,17	961:3,18	helping	921:4
880:21,22	919:4,7,16	962:9,15	992:8	1048:4
head's	920:7,10,1	963:22	helps	highlighted
941:11	7,23	964:5,16,2	1032:24	961:4
healthcare	921:6,11	3	hence 880:22	1041:22
952:11	922:6,14,2	965:6,13,1	here's	highly 874:7
991:20	1	8 966:19	865:10	high-risk
hear 1036:11	923:1,8,14	967:2,10,1	890:19	877:13
hearing	,23	3,25	898:10	historical
907:17	924:2,5,14	968:8,17,2	1027:16	995:18
941:1	925:1,9,15	2	he's 858:17	1028:11,19
hearings	,23	969:11,15	859:1,7,10	1034:12
849:4	926:4,9,15	970:6,14,1	969:9	1035:12
868:21	,21	9	1023:1	historically
915:21	927:7,25	971:2,10,1	hesitant	908:25
940:23	928:5,11,2	5,21	1005:15	932:23
950:10	1 929:7,16	972:14,22	high	1032:16
1009:16	930:5	973:2,14,1	909:8,20	history
HEATHER	931:3,10,1	9,24	913:2	909:5
846:8	6	974:6,20	918:8	1028:17
849:12	932:8,16,2	975:9,14,2	930:13	1031:24
852:8	5	2	932:11	1047:2
853:4,9,14	933:10,14,	976:5,9,12	936:1,4	1049:7
,16	19,24	,15	942:14	hold 879:10
896:20,24	934:8	977:2,9,18	1047:23	holding
897:7,15	935:24	,25 979:12	1048:16	877:23
	936:22	980:1,13,2		holistically
	937:8,19	1,25		
	938:8,20	981:16,22		
	939:13,21	982:3,16,2		
	940:4,9	3 983:4,14		
	942:11,21	985:17,23		

894:2	891:15	I'll 875:6	916:13	869:7,24
Hon 844:16	893:14	878:5	921:21	875:14
honest	hurt 884:11	884:20,21	924:21	881:15
977:25	Hydro 917:11	887:12	925:5,9	892:13
hope 866:2	919:15	888:17	929:3,21	907:8,11
879:1	950:3	890:13	940:22	917:5
891:2		892:23	941:22	934:22
1021:3	<hr/>	893:11	944:25	956:16
1035:6	I	896:10	947:14	1006:25
1041:18	i.e 977:7	897:5	949:10	1014:18
hopeful	IBNR 905:9	901:3	950:20	1039:14
996:15	1032:6,8,1	904:25	951:22	impacted
hopefully	0 1034:2	911:8,25	956:19	907:20
941:15	1039:6,8,1	914:5	958:5	946:17
1032:24	4,21	915:19	960:21	965:23
1034:16	1045:15,18	916:13	962:3,7	impacting
hoping 900:9	ICBC 902:14	918:6	963:16	962:24
HRMS 970:17	id 996:15	919:20	964:2	impacts
976:23,25	I'd 849:5	921:12	969:13	852:4,23
977:8,16	863:20	929:19	974:16	869:4
978:3,12	890:3	941:22	975:5,9	909:10
980:16,18,	900:14	964:25	976:24	914:16
24 981:1	940:12	967:21	977:9	915:22
982:1	978:16	978:10	978:1,10,2	961:24
human 980:15	1000:7	979:2	5 979:14	1032:22
982:1	1021:2	981:12	980:1	implement
humane	idea 885:1	995:14	981:3	964:12
991:10	999:24	1000:10,16	988:20	989:4
hundred	1011:20	,17	990:18	990:1
848:5	1045:6	1006:5,10	992:21	implementati
850:4	ideally	1010:13,16	996:12,15	on 964:12
861:3,22,2	996:15	1012:14	998:1	977:20
3 863:11	identical	1025:2	999:21	1042:16
864:20	1027:22	1029:9	1000:12	implementing
877:18	identified	1043:7,15	1002:7,8	976:25
893:1,7	905:6	I'm 849:16	1003:4,12	impli 985:6
894:1	983:2,24	851:19	1005:6,7,1	implication
895:21	984:21	852:9	4,15	1047:13
896:6,14	1042:4	857:7	1007:1,22	implications
897:2,10	identify	863:23	1010:3	985:6
898:4,16	952:6,25	875:4	1011:4,22	imply 883:3
915:6	1027:7	877:16	1014:4	importance
966:18,22	IFRS 888:10	886:5	1015:8	991:10,12
967:8,12	II 878:5	888:7,8,13	1016:13,14	important
979:24	1030:22	,17 894:9	,22 1024:3	860:14
981:14,19,	1031:3	896:12	1027:6	863:10,12
20 1004:19	III	897:5,12,1	1038:14,25	884:1,9
1011:13		6,17	1039:1,2	891:21
hundreds	879:17,19	899:6,9,16	1046:15	
		900:9,24	1047:12	
		903:17	immediate	
		904:1,23	892:13	
		908:11	impact	

892:12	1010:14	852:12	955:11,15	1031:19
945:12	1013:25	incre 933:22	incur 930:3	1039:7
957:17	1014:21	increase	incurred	1045:22
1017:14	included	862:4	869:3,5	independent
1026:9	855:2,25	894:20	905:3	858:1
1028:14	856:6,7	895:3	945:10,25	index 942:17
imprecision	880:8,14,1	902:8	947:5	943:2,10
979:20	7,21	908:2	950:11	944:25
impression	882:3,20	909:9	952:8,16,2	949:25
981:11	883:4,5,6	914:16	2 978:4	950:5
improve	934:18	927:20	1012:19	953:20
886:22	1004:17	935:16	1013:11	indicate
906:18	1027:21	945:12,17,	1015:15,16	875:13
985:7	includes	21 949:4,9	,21 1016:8	1037:15
improved	853:10	953:14	1024:18	1044:1
876:14	939:6	955:9,10,1	1025:2,6,1	indicated
988:16	including	4 957:9	9	853:20
993:21	854:6,14	958:10,12	1026:17,24	861:20
improvement	903:19,23	960:24	1027:2,10,	872:21
879:4	974:24	961:16,21,	21 1028:2	873:10
964:7,10,1	1006:14	24,25	1029:18	887:19
3,21 972:2	1008:17	962:13	1030:1,21,	953:16
983:2,8,24	1025:25	966:3	22	990:14
984:23	inclusion	976:7,11	1031:4,24	indicates
986:14,19,	869:22	1025:16	1032:4,15,	975:1
20 987:19	1003:17	1037:15	23	983:8
988:2,10	inclusive	1039:17	1034:1,18	994:6
993:6,15,1	869:4	1042:13	1035:4	indicating
6 1042:21	income 876:8	1046:25	1036:15	995:1
improving	877:1	increased	1039:9	indication
876:21	877:1	947:2	1040:1,2,7	883:10
885:4,5	897:8,24	976:25	,17,22	952:10
inaccurate	898:8	1045:15	1041:7,10,	1036:6
1003:12	899:6	increases	19 1045:18	indications
inadequate	907:12,19	849:23	1048:16	876:10
988:24	910:9	950:14	incurred	1037:9
inadvertentl	912:3,9	953:10,11	1027:25	indicator
y 926:7	914:13,20,	957:10,15	incurring	990:21
Inc 845:6	22	958:2	953:21	994:8,16
inclined	915:6,11	959:4	indeed	995:2,4,16
865:20	923:7	1044:20	905:13	indicators
include	939:3	increasing	906:1,8	990:25
852:16,20	1030:4	852:13,23	959:10	995:21
853:7	1035:19	907:6	972:11	996:19
872:1	1036:13,18	909:4	985:5	individual
882:14,15	,19,24	932:21,24	986:2	968:3,8,23
903:15	1037:17	933:6	1005:19	969:5
1003:4	incomplete	936:2,3	1009:22	978:15
	1002:11	950:13	indemnity	
	1009:9	957:13	905:10	
	incorporate	incremental	1013:11,17	

individually 918:5	1014:11,25 1015:13 1016:3 1036:1 1040:22 1041:6,7 1044:25 1048:12	1006:24 inquiring 951:22 insight 904:9,18 905:23 922:20,25 924:10,12 927:2 931:19 932:15 934:25 937:17 987:9 insights 885:4 929:5 instance 928:15 instead 927:21,23 929:1 930:4 941:7 959:14 968:21 1039:11 instruction 887:16 insufficienc y 1044:2,12 insufficient 1046:8 insurance 844:7 849:22 874:1 881:19 884:3 887:14 888:1 949:15 952:10 966:21 974:3 975:20 982:13,21 983:3,6,13 ,22	984:7,18 985:3 986:3 1009:6 1022:20,22 1023:1,6,2 3,24 1024:7 insurer 945:4,7 1009:18 insurers 868:17 881:20 884:3,25 885:14,20, 24 902:14,21 903:1,7 951:5 1021:13 insuring 1024:4 intended 849:22 intending 1006:14 intent 1009:17 inter 923:7 928:2 interest 851:15 852:4,13,1 8,21,23 853:5 869:4 877:1 906:23,25 907:6,18 908:6,13,2 2 909:4,8,21 914:8,15 915:18 916:1,6,20 917:8,12,1 9 918:6,12,1 8,20	919:13 920:3,12 922:4,9,10 ,11,12,17 927:17,21 928:2,6,9, 15,16,20,2 4 929:11,17, 18,23 930:1,7,8, 10,11,14,1 5 931:7 932:2,9,12 ,21,24 933:1,3,6, 9,13,18,22 ,25 934:3,9,11 ,12,14 935:3,5,9, 10,13,21,2 5 936:2,3 937:2 1006:23 1008:7 1010:9,23 1032:21 1033:23 1038:11 interested 963:17 interject 983:18 internally 1013:13 internationa l 987:1 interpreting 960:2 1014:19 interrupted 1008:25 1009:5 Intervenors 1002:22 1003:17 1004:6 1005:4,8,1 1
------------------------------	--	--	---	--

introduced 989:21	863:24 867:5 870:3	851:4 856:14 857:3,7,10	994:3 999:11 1004:16	864:1,12 867:13,24 868:8
introducing 988:19	960:22 1028:23	,14 859:13 860:14	1006:5,6 1011:14,16	870:17 871:4
introduction 905:7	1041:14 1048:5	861:12 862:15	,19 1018:12	872:16 873:1
invested 974:12	iss 1013:15	863:9,10,1 1 867:1	1021:5,8 1022:5	878:2,9 887:7
investigated 1042:3	issuance 1017:8	868:22 870:5,9	1023:11,21 1025:16	888:4 889:23
investment 852:1,17 869:12 877:1 910:9,19 912:3,9,23 914:12,20, 22 915:6,10 923:7 938:5,23 941:2 968:11 1006:7,11, 18 1007:9,16 1008:6 1036:17,19 ,24 1037:17	issue 855:17,21 861:4,9 867:13 886:20 894:17 908:22 915:24 1004:13 1009:1,21 1012:14 1013:15 1026:10 1037:16 1041:21 1044:22 1045:7 1047:3 1049:15	871:6,22 872:11 873:22,23 875:2,22 876:5 879:17,19, 20 881:19,21 882:4,12,1 5 883:10 884:22 885:11,12, 22 886:1,3,4, 6,13,16 895:3 899:8,19 900:15 908:5,12 909:23 910:11,18 915:21 916:7,17,1 8 926:6	1026:3,8 1027:13 1028:24 1030:11 1036:9 1037:12 1038:5,6 1042:9 1045:4 1046:18 1048:10 1049:10,22	890:9,13 892:22 893:11 896:1 904:3,22 905:4,11,1 8,20,24 906:4,13 915:13,19 916:7,9,16 ,17 917:7 949:8 954:23 976:16 981:25 1001:7,11, 16,23 1002:5,18 1003:1,12, 21 1004:9 1005:1,10, 24 1006:3,6 1008:23 1009:3,10, 23 1010:3,11, 15,20 1011:2,4,1 2
investments 852:24 907:6 937:25	issued 978:13 1018:15 1019:5	937:4 938:3 939:4,5 944:18,21 945:20 946:25 947:1,23 948:4 952:20 953:20 958:10 959:19 962:6,22,2 5 966:8 969:8,12 973:17,21 983:23 984:1 989:18	I've 882:1 886:2 935:5 941:3 960:8 988:5,22 1000:9 1003:2 1023:18 1042:19	1006:3,6 1008:23 1009:3,10, 23 1010:3,11, 15,20 1011:2,4,1 2 1012:4,13, 14,16,20 1013:4,6,9 1014:4,13, 23 1015:7,8,1 8,25 1016:5,12, 13,19,21 1017:1,2,1 1,14,18 1018:1,8,9 ,20,25
inviting 986:3	issues 919:13,17 941:3 989:9 1049:6		<hr/> Jim 890:17	
involved 1024:12	issuing 1036:25		job 969:8 993:11	
involvement 858:22 890:21	item 930:22 1004:3		Johnston 846:9 849:13,25 850:9,14,2 0 851:9,18 852:2,10 853:25 855:11,24 856:3 857:5 858:6,24 859:15 860:3 863:5	
IR 866:9 962:19 1009:14	items 1003:14 1008:25 1041:8			
IRs 880:6 882:10	It'll 997:10 1018:13			
isn't 860:16 862:24	it's 850:16			

1019:1,7,1 3,24 1020:3,16, 22 1021:2,16 1022:3,8,1 4,24 1023:5,11, 21 1024:3,10, 15,20,24 1025:4,9 1026:9,14, 18 1027:1,4,1 2 1028:9 1029:5,8,2 2,25 1030:5,10, 15,20,24,2 5 1031:3,8 1033:1,6,1 1,20 1034:9,23 1035:9,14 1036:8,12 1037:11,25 1038:5,17, 22,25 1039:12,16 ,23 1040:6,11, 24 1041:13 1042:7,23 1043:8,9,1 4,15,23 1044:8,10, 14 1045:8,12 1046:12,15 ,18 1047:13,19 ,25 Johnston's 865:9 976:14 judgment 891:23 1009:11 judgments 891:25 July 977:20	jump 904:2 jumping 926:6 June 853:3 856:10 858:11 864:9 973:10 977:19 978:9 <hr/> K <hr/> Kalinowsky 845:4 867:12 889:4,6 941:4 Karen 844:14 Kathy 845:4 889:6 key 929:13 957:8,13 994:7,15 995:2,4,15 998:14 1006:20 1009:4 kinds 989:13,23 990:24 998:24 knew 871:15,16 knowledge 933:17,21 known 1013:16 <hr/> L <hr/> labour 954:13 955:5,24,2 5 lack 992:1 lacking 866:16 landscape	998:19 language 854:15 921:19 large 898:21 950:3 972:9 largely 1032:7 larger 937:10 971:22 997:14 1046:4 last 850:2 851:7 861:17 869:15,25 875:23 876:13 878:19 881:8 882:11 887:6 891:1,3 897:1 918:25 924:12 931:19,22 933:2 956:19 957:25 959:15,22 960:24 976:23 977:12 984:6 988:23 996:22 1008:16 1018:15 1019:24 1028:22 1034:12 late 996:5 later 854:23 866:25 916:25 948:24 1024:24	Lavigne 1050:13 lawyer 864:24 969:20 Leaf 1023:24 learn 906:10 990:17 learned 880:10 906:22 learning 989:11,25 least 880:1 882:25 893:5 894:21 921:16 925:12 951:23 1014:5 1032:16 1038:1 leave 901:3 1033:23 leaves 866:16 led 876:11 legacy 899:17 legitimately 1027:4 lengthy 1006:17 less 861:5 877:23,25 895:18 906:17 912:15 914:23 915:3 947:13 974:11 let's 860:17 924:7 944:2 946:24 950:22	962:23 982:18 1018:12 1023:16,17 ,18 1024:6,23 1026:6,7 1033:23 1034:5 letter 969:16 letting 1043:10 level 860:23 861:8,15 866:5 871:11 873:11 874:2 878:23 888:3 896:16 899:19,22 917:18 932:11 933:25 935:6 942:14 948:5 984:5 991:4 998:21 1004:20 1012:7,11 1013:21 levels 860:7 863:8 875:23 878:16 908:7,14 935:13 957:17,20 974:18 1002:21 1041:17 1044:3 li 1046:21 liabilities 869:8 907:5,7 liability
---	---	--	--	--

1018:10	862:22	1020:9	903:9	1013:4,9
1021:10	866:4	1025:16	922:10	1014:13
1025:11,22	868:22	1044:15,17	927:17	1015:8,18,
1027:18	871:14,16,	1045:2	936:3	25
1040:16	20 874:20	losses	951:18,19	1016:5,12,
licences	883:8	849:24	974:18	19
877:20	888:16	965:21	975:1	1017:2,11,
lieu 1022:21	900:17	1013:17	983:5,12,2	18
life 1022:7	951:10	1017:24	1 985:3	1018:1,9,2
light 865:25	983:11,19	1018:2	1041:18	0
888:1	985:15	1019:3,10	1049:13	1019:1,7,1
926:24	1004:10	1020:18	lowest 876:1	3
1049:13	1005:14	1029:1	low-growth	1020:3,16,
likely	1017:13	1030:13	928:4	22
853:22	1025:9,10	1032:2,18	LUKE 846:9	1021:2,16
855:1	1026:1	1033:13	849:13,25	1022:3,14
862:4,5	1028:20	1040:15	850:9,14,2	1023:5,11
888:9	1040:12,25	1041:3	0 851:18	1024:3,10,
902:7	1048:2	1045:18	852:2	15,20
1000:17	live 990:5	1048:15	853:25	1025:4,9
1021:18,21	Liz 845:10	1049:12	855:11	1026:14,18
limited	logical	lot 854:13	856:3	1027:1,12
1002:23	925:25	856:20	858:6,24	1028:9
line 881:8	long 886:20	858:14	859:15	1029:8,22,
897:17,19	921:5	861:1,18	860:3	25
912:7	1000:11	869:5	864:1,12	1030:5,15,
919:25	1019:24	886:9	868:8	20,25
920:18,21,	1031:20	893:16	870:17	1031:3,8
24 921:2,7	1034:15	906:15	871:4	1033:6,11,
958:9	longer	944:19	873:1	20
971:12	860:22	989:24	878:2,9	1034:9,23
991:14	876:17	1006:4	888:4	1035:14
1009:17	952:12	1013:16	889:23	1036:12
lines 905:9	992:4,25	1041:2	890:9,13	1037:11
List 846:3,4	1049:4	lots 1024:4	892:22	1038:5,25
847:1	long-term	love 980:21	893:11	1039:12,16
848:1	891:8	low 874:12	905:4,11,1	,23
listed	936:13	877:12	8,24	1040:6,11,
859:1,2	1034:15	912:23	906:4,13	24 1041:13
listing	losing 899:1	915:18	915:19	1042:7,23
884:1	loss 862:2	916:6	916:9,17	1043:9,23
literally	876:12	918:9	1001:11,16	1044:8,14
893:14	881:7,11,1	928:2,6,16	,23 1002:5	1045:12
1021:7	3,17,20	,18 929:23	1003:1,21	1046:15,18
little	883:24	930:15	1004:9	1047:19,25
850:16	884:6	936:5	1005:1,10,	lunch 937:12
855:5,21	884:6	1048:8	24	940:15
856:19	899:7	lower 860:22	1009:3,10,	luxuries
	989:10	874:2	23	946:19
	1010:10,23	876:22	1010:11,20	<hr/>
	1017:6	877:4	1011:2,12	M
			1012:4,20	<hr/>
				macroeconomi

c 933:17	992:17	846:7	938:5,11	1006:2
madam 849:8	994:11	849:11	marketing	1009:22
888:7	995:9	854:11	885:23	1024:11,24
927:9	1010:11	855:3	886:3	maybe 852:9
940:10,25	1011:5,16	856:14	match	856:18
999:20	1012:2	861:16	1030:12	857:1
1001:1	Manager	863:2	matching	864:23
1049:20	939:9,15,2	865:6,22	907:5	867:24
magnitude	2,25 940:6	866:7	material	871:20
956:8	managers	867:10,23	990:10	875:18
978:12	989:1	868:3	materialized	881:17
main 1047:2	1048:19,25	873:20	959:10	883:6,8
mainly	mandate	875:16	math 1045:19	888:12,20
1012:5	948:3	877:14,22	1046:1	890:14
maintain	953:11	879:6	matter	893:19
902:10	954:2	880:4,16,2	857:14	953:15
944:23	mandates	4 881:3	883:7	983:18
major	953:7	882:8	matters	994:3
887:15,23	Manitoba	883:9	933:22	1001:16
888:3	844:1,7,21	885:10	maximum	1008:16
904:8,17	845:6	895:7	861:2	1026:2
922:19,25	886:15	896:4	874:5	1029:9
925:3	904:7	903:14,25	897:25	1030:16
927:1	917:11	948:9	898:6,10	1031:8
928:23	919:12,15	950:9	1011:15	1041:14
929:4	934:23	952:5	may 851:16	1042:7
930:3	943:1	955:8,17	853:21	McL 974:4
932:15	948:3	956:6,11,2	861:3,5	986:15
934:19,24	949:15	3 978:14	862:6,25	McLaren
majority	950:3	983:17	876:23	846:7
874:22	952:9	984:24	886:25	849:11
manage	958:2	985:2,9	888:10	854:11
857:15	1001:22	988:13,18	901:2	855:3
899:18	1010:22	990:7,12,1	902:14	856:14
977:11,13	Manitobans	6 991:5,17	905:8,14,1	861:16
management	876:15	993:1,8,14	6 921:18	862:24
863:4	880:2,9	,23 996:14	927:4	863:2
875:17	883:1,17	997:8	933:5,18,2	865:6,22
891:24	945:5	998:5,16	2 937:12	866:7
916:12	946:22	999:6,14	940:11	867:10,23
917:1,5	manner	1002:13	941:12	868:3
968:10	861:11	marked 889:9	962:18	873:16,20
969:3	Maple	900:14	967:16	875:16
980:15	1023:23	901:5	969:22	877:14,22
982:25	March 937:18	919:24	978:9	878:3
983:25	961:19	1018:22	988:1	879:6,19
984:22	1022:6	1020:5	996:17,18,	880:4,16,2
985:8	1024:9	market	19 998:22	4 881:3
989:21	MARILYN	869:12	1005:20	882:8
990:22		874:2		883:9
		877:12		885:10
		912:17		895:7

896:4	measurable	1040:8,10,	914:1	983:18
901:2	881:14	14,17	916:5,21	1025:8
903:14,25	measure	1041:10	917:4	mis 969:16
937:11	862:13	1047:17,21	944:7,11,1	misheard
948:9	951:20	1048:1	6	974:19
950:9	measures	methodologic	948:20,25	mishearing
952:5	986:5	al 1047:13	949:4	852:9
955:8,17	987:20	methodology	965:11,16	misnamed
956:6,9,11	998:23	850:22	966:2	969:17
,22,23	median	855:13	970:2,11	missed 877:3
962:4	904:8,15,1	856:24	971:14,19	988:1,6
974:7	7	864:6	976:4,8,11	mistake
976:21	922:19,24	909:16	977:1	874:24
977:12	924:9	910:2	980:24	879:8
978:14	925:18,20	917:23	981:1,18	961:4
983:17	926:1	918:2,4	1010:6	mistaken
984:21,24	928:19,23	936:12	1011:11	981:11
985:2,9	mediation	937:3	1012:1,2,1	996:13
988:13,18	1046:22	1037:5	0,11	1026:16
990:7,12,1	meet 978:16	1039:5,20	1018:12	mitigate
6	meeting	1041:2	1024:14,18	909:3,8
991:5,9,17	858:14,20	1045:17	,21	930:12
993:1,8,14	Member	1047:20	1025:1,2,7	935:6,7
,18,23	844:16	1048:6	,17	mitigated
994:3	members	methods	1026:12,17	918:12,21
996:11,13,	867:23	891:4	,25 1027:9	936:4
14 997:8	988:21	1045:13	1031:20	mitigating
998:1,5,16	memorize	mic 884:18	1032:10	918:7
999:6,14	919:8	888:18	1039:17	MMDA 954:11
1002:9,13	1023:25	middle 936:1	mind 886:16	model
MCT 868:23	memorized	965:3	889:18	855:15,18
870:2	919:6	million	946:11	856:5
mean 856:18	memory	850:5,12,1	1007:23	871:17
881:3,18	966:25	7,19	1023:18	891:5
882:2,9,12	1004:10	851:11,13,	mine 987:8	893:16,19
883:22	mentioned	24	minimize	915:22
889:23	882:19	852:3,11	906:11	998:4
899:12	953:4	859:18	minimum	1003:9
906:5	mess 874:21	860:14,20	860:13,15,	1005:5,9
998:6	messy	861:13	20 868:16	1006:7,11,
999:15	1043:13	864:11	916:4	12,15,18,2
1013:18	met 858:10	889:20	1010:6	4,25
1040:2	method	893:3	Minister	1007:1,9,1
meaning	989:21	895:19,20	968:12	6
1020:25	1017:4	897:2,6,10	minus	1008:1,11,
means 876:3	1039:9,10,	898:4,5,8,	1018:12	17
878:12	20,22	15	minuses	modelling
879:7		901:17,22	1047:2	854:6
1032:1		912:15,24	minute	
meant 960:15		913:3,9,19	888:20	
981:6		,21,22		

855:24	months	902:12	1002:20	negative
891:11	990:11	909:25	1012:17	876:19
915:17	996:5	913:7	1021:5	907:8
930:1	1013:18,19	920:25	1022:22	1032:10
models	1042:15	925:25	1023:7	negatively
856:21	morning	942:24	1028:4	907:19
869:13	849:3	MPI 844:7	1030:3	909:10
891:15	900:9	845:4	MPI-26 847:3	914:16
906:18	941:24	846:6	889:12	negatives
933:12	1000:14,24	847:4	MPIC	1045:25
1005:12,16	mostly	848:3,10	899:18,19,	negotiate
,18,22	1028:25	849:5,10	23	947:25
model's	motivated	859:13	MPI's 938:23	953:5
891:17	1040:20,21	888:16	968:22	negotiated
modernizing	motor 902:8	889:9,16	999:3	953:9,10,1
970:2	903:9	893:2,23	multiple	3 954:1
modified	motorcycles	900:11,17,	860:6,7	957:9
892:3	886:22	20 902:5	multi-year	960:7,10
917:8	887:18	903:7,8	901:10	961:12
modifying	motorcyclist	904:5	myself	Nesbitt
990:22	s 886:19	917:20	890:17	925:8
moment 887:6	motorists	918:13,22	891:25	net 876:8
888:13	849:22	926:25	1038:12	897:8,24
919:10	move 862:5	927:3		898:7
923:19	866:16	928:12,15,	<hr/>	899:6
942:13	873:17	25 933:8	N	901:16,21,
950:23	875:5	942:18	nat 951:17	24
986:1,10	877:6	943:19,24	national	907:11,19
moments	881:24	944:11,22	986:25	1035:19
921:19	924:7	945:3,7	naturally	1036:13
money 862:8	925:18	946:6	863:7	1046:3
876:2	972:2	949:24	nature	Neville
877:7	982:24	950:11	945:18	844:16
881:4	983:10	951:4	nauseam	newly 1032:2
883:16	984:9,17	952:19	1004:22	news 876:3
992:16	1011:13	953:20	necessarily	nice 857:9
1032:12	1012:14,15	954:11	947:14	870:2
monies 899:4	1038:2	963:7	984:19	niche
monitoring	moved	967:19,20	992:18	886:3,5
990:15,18	878:14,18,	968:16,20	993:9	nine 850:5
month	21 984:5	970:1	1011:17	852:15
938:14,21	989:1	973:9,10,1	1045:20	895:4
939:2,10,1	movement	2 974:12	necessary	897:3
6,25 940:6	871:15	975:2,12,1	849:23	898:4,16
1013:14,16	878:11	9 9	864:18	966:18,23
1017:7	moving	979:15,16	865:10	967:5
1019:4	855:21	980:17	916:18	981:14
1020:11	877:5	982:13,14,	917:23	1045:22,23
	879:2	19	992:25	
		983:2,5,12		
		985:6		
		988:22		
		994:7,13		

nineteen 898:8 981:18	1015:7	939:15 1017:6 1020:19 1031:14	904:16 911:7 928:17 930:20 940:14 941:17,18 947:6 955:3 973:19 975:11,16 980:4 981:7 1000:4,22 1001:2 1009:8 1024:9,10, 14,15 1025:1,10 1031:8 1046:17	942:15,18 943:6,8,13 ,15,19,24 944:4,6,11 ,22,23 945:8 946:1,8,12 ,24 947:7,18 948:6,11,1 7 954:6 964:7 986:5
ninety-four 967:8	nothing 876:3 952:18 1028:14	occurred 851:21 898:20,21 909:6 930:9 933:2 1012:19 1019:4,17 1020:12 1031:17 1044:20	old 961:20 989:7 991:25	operation 963:18
ninety-two 894:14	notice 1032:9	occurrence 909:23 1019:18	older 1046:6,13	operational 963:20 964:20
nod 956:21	noticeably 1049:6	occurring 927:22	ones 893:15 972:7 998:9	operations 897:9 963:17 964:4,9 965:2,11 966:7,16 967:7 972:3 1017:21
no-fault 989:1	noticed 962:18	o'clock 940:16 1049:23	one-six 981:6	opinion 867:15 869:19 870:4 890:19 1038:12
none 858:13 924:21	notified 855:14	October 844:22 847:5 858:9,19 859:14 900:12,21 941:7,10,1 4 1022:12 1027:14 1041:22	ongoing 862:3 964:12 1001:19 1006:20	opinions 1009:6
non- recurring 849:24	noting 970:9 975:19 999:21	offering 885:14	on-the-fly 851:25	opportunities 983:24 989:15 993:11
nor 994:8	notional 894:22 899:12	office 889:7	onto 1018:21	opportunity 885:14 968:24
normal 906:16 963:17,18 964:4,6,8 965:2,11 966:7,15 967:7 972:3 1041:17,18 1044:15,20 1045:2 1048:7,10	np 845:10	officer 969:18,21	open 1034:7	opposed 875:23 888:2 942:17 993:15
normally 929:11	numerical 943:7	oh 897:15,16 980:1 1048:17	opening 1050:1	opposite 894:18
North 884:25	numerically 910:13	okay 853:14,17 855:3 865:23 868:4,8 881:16 894:15 900:5	openess 1038:1	
notation 987:20	nuts 1008:11		operate 946:21	
note 860:15 896:13 916:12 1023:13 1025:10 1032:21 1034:24	<hr/> O Oakes 845:8 941:11,13, 21 1000:10,13 ,23,25 1001:3 1050:1		operating 881:24 899:23	
noted 893:13 905:14 962:4 1023:5 1032:23 1035:25	obtained 924:23			
notes 940:11	obvious 898:24			
	obviously 870:19 999:13			
	occ 1020:12			
	occur 899:25 927:23 929:1 934:12			

908:2	1037:8	1000:1,2	1020:5	paraphrase
optimal	outcomes	1050:5	1022:9,10, 16	862:22
865:13	921:17	page 846:2	1030:20,21 ,23,25	pardon
optimize	986:24	847:2	1031:1,4,1 2,22	870:22
987:11	988:16	848:2	1033:3,17	partial
993:7	outlier	868:8	1034:10,18 ,21	1010:17
optimized	926:14	869:10	1038:23	partic
993:21	outlook	876:5	1042:9	1014:20
option 903:2	861:21,24	878:4,10	1043:3,14, 16,25	participants
options	876:7,8	879:20,24	pages 844:23	988:23
885:20	output	882:11	867:11	particular
order 857:2	929:22,23	887:11	916:25	883:12
861:5	943:15	901:6	987:18	886:20
902:10	1007:9	904:10	paid 968:16	897:9,21
935:6	1038:8,10	910:6	1019:11	901:23
945:13	outside	911:24	1020:14,19	905:6
946:20	862:16	914:24,25	1027:25	910:14
985:21	888:15	916:3,7,24	1039:10,22	912:17
986:2	953:19	919:19,21	1040:3,8,9 ,10,15	914:22
1035:20	outstanding	921:20	1041:6,16, 19 1042:1	928:15,22
ordered	997:10	922:1,16	1045:16	939:2
895:18	overall	923:4	1047:17,21	940:11
1008:9	875:21	937:13	1048:7,14, 15,18	944:20
organization	882:16	938:1	1049:1,10	945:16,19
909:24	902:10	942:2	paid 1048:9	950:16
945:3	946:13	954:9	panel 844:13	953:13,15, 24 954:4
987:1	956:12	955:23	846:6	961:6
organization	957:4	956:5	849:10	962:16,22
s 883:11	972:10	957:23	888:16	970:9
917:10,16	974:10,24	959:1	894:15	1007:24
927:4	984:5	964:25	988:22	1012:5,9
998:11	1006:15	966:8	1000:15	1014:16,20
original	overestimas	967:18	10050:3	1018:3
871:12	905:15	970:24	paper-based	1021:8,9,2 1
others	overrun	971:5	992:2	1023:14,17
906:17	978:12	973:17,25	paperwork	1024:5
937:10	overruns	975:6,8,17 ,23	992:9	1027:19,23
941:22	980:17	979:1,13,2 0,21,22	paragraph	1031:14
1039:7	overstate	982:9	921:1	1032:15
otherwise	879:4	985:20	1017:14	1036:4,16, 25 1045:10
903:10	overstated	986:11	parameters	1046:10,24
ourselves	961:10	994:2	865:21	1048:6
895:5	owns 1023:22	997:3,4		1049:5
984:13		1006:5		particularly
999:10		1010:15,17		890:16
outcome		1011:8		906:21
985:25		1012:15,23		941:5
992:22		1013:6		949:18
		1014:24		
		1016:2,24		
		1018:22,24		
	p.m			
	940:18,19			

Partners 1022:18	950:7 952:3 954:20	883:19,20 987:21 992:18,24	878:18,21 880:2 882:25	1005:4 1030:16,17 1039:24
partway 1018:23	955:1 956:25	payroll 982:1	887:20 898:7 901:24	Perils 986:12
passed 861:12	963:14 966:11	pays 967:20	902:2 938:15,16, 22 940:7	period 907:24 912:17
past 890:17 907:17 909:20 918:19 919:14 924:16 930:10 932:10,19 1032:3 1035:6	968:6 970:21 973:6 976:19 978:6,23 979:10 982:5 985:12 993:25 996:25 1001:14 1002:8,15 1003:19 1007:4 1008:21 1010:1 1015:4,10 1023:3 1030:7 1031:6 1037:22 1038:20 1047:6,10	peer 858:2,7,17 ,19 859:2,12 975:13,15 Pelly 856:22 1014:8 1020:24 1023:22	947:17 949:9 952:23 953:3,10,1 8 955:6,20 956:1,13 957:4,15 958:12,22 959:8,14,1 5 960:11 961:11,21, 24 962:12 972:21,25 973:22 976:13 997:18	916:23 927:23 929:1,2 930:4 934:13 964:15 992:7 1011:16 1019:4 1020:11 1022:5 1037:6
pat 1023:19	1044:17	Pelly's 1024:7	962:12 972:21,25 973:22 976:13 997:18	person 903:16 967:22 968:13 969:14
patterns 906:16 1044:17	paused 854:4	pen 1023:20	percentage 878:13 882:16 951:7 974:22	personal 992:3,16 1028:13
pause 854:9 856:1 857:20 858:4 860:1 863:16 867:8,21 868:6 870:15 872:13,24 878:7 879:12,22 882:6 884:13 890:11 892:20 896:18 900:3 903:12 904:12 924:18,25 927:12 931:1 932:6 936:8,15,2 0,25 937:22 938:18 939:19 942:5 949:21	pausing 854:16 855:6	pending 854:4 941:11	992:2,9 992:20 994:8,16 995:2,4,15 996:4	personally 902:18 998:8
	pay 883:17 885:13 886:14 987:21 989:24 992:3	pension 965:22 966:4	percentile 1007:19,21	persons 991:12 992:23
	payers 934:23 935:12	people 873:24 874:1,14 877:4,12,2 0 883:13 885:14 889:7 990:21 991:23 992:2,9	performance 938:6,12,1 4,21 939:10,25 940:7 990:20 994:8,16 995:2,4,15 996:4	perspective 926:8 934:9,13 968:23 969:4 1004:13 1034:6
	paying 877:18 886:9 887:3 968:20	per 850:18 871:10 878:12 898:6,11 914:23 915:3,6 931:12,13 943:6,8,13 979:6,7,15 ,16,23 980:2,10,1 8 981:21 1035:16	performed 932:23	performing 871:12
	payments 881:21	percent 871:20,23	performs 982:20	perhaps 941:6 961:14 969:10
				PF-3 851:4 phase 977:18,20, 22 phenomena 914:7,9

phrase 867:4 880:8 886:2 1023:17	984:8,18 985:3	pointing 1029:5	865:12,14 867:19	1043:16
physical 994:11 995:10	please 889:10 908:9 931:4 940:23 1042:25 1043:18 1044:13	points 881:1	902:6,10 957:8 989:4,8,14 999:9 1030:4	pre-asks 888:11
pick 860:22 926:7		policies 892:11 1018:14 1020:10 1021:9,21 1036:5,16, 25	positive 876:23 907:11	precipitated 1042:12
picking 1048:4	pleased 871:9	policy 870:19 873:22 874:9 883:5 914:23 915:3,7 1017:8 1018:10 1019:5 1020:6,18 1021:3,19 1022:20 1025:11 1036:2,11 1037:8 1038:1 1042:5,12	possibility 926:16	precise 949:14
piece 856:4 869:16 881:10 1025:20	plot 932:14,16		possible 857:2 926:6,10,1 8 991:13	precisely 934:11
pieces 855:16 857:3,4	plus 881:21 972:7 1018:12 1032:14 1040:3		possibly 872:8 1048:20	predictabili ty 871:11
pilot 886:19,23	pluses 1047:2	poor 877:18	post 977:19	predicting 908:17 936:3
pipe 899:1	point 850:5 852:15 857:6 863:19 865:2 869:7,9 872:11 875:13 894:10,14, 19 896:16 899:20 911:2 913:15,16, 20 928:9 939:11,12 944:18 949:13 962:17 966:18,23 967:5,8,12 ,15 981:15,19 983:1 990:19 994:15 1009:4 1016:6 1018:17 1036:7 1038:15	poorly 980:7	potential 848:8 857:4 885:3 894:5 896:8 926:14 935:8 1044:5	predictive 872:9
PIPP 952:13 1029:7 1033:11 1034:15,25		populated 996:17	potentially 899:15	prefer 865:14
placed 1041:25		Portage 844:20	power 885:17	prem 903:1
placing 1047:15,16		portfolio 910:19 914:17 968:11 1036:20	practice 1004:15 1035:17 1036:22	premise 950:21 1024:2
plan 854:1 880:1 881:19 882:24 965:22 966:4 987:17 989:17		portion 888:8	practices 1035:12	premium 874:5,17 876:22 880:2 882:25 883:17 901:1 903:15,19 1017:6
planned 955:11		portrayal 959:3	pre 997:25 1038:14	premiums 850:23 870:20 872:20,21 873:11 884:4 898:7 901:16,17, 21,24 902:6,8,15 ,22 903:2,9,10 951:7 1017:16
planning 956:20		portraying 922:3	preamble 994:5	
plans 989:12		position 856:16 862:25	pre-ask 1012:17 1013:7 1014:7 1039:2 1042:8	
play 906:16				
player 982:13,21 983:3,6,13 ,22				

1020:9	Presley	printing	proceedings	912:10
1021:14	989:22	1043:13	866:14	966:21
1030:12	press 900:17	prior 889:2	884:20	977:8
preparation	presumably	897:6,18	889:2	987:12
858:22	993:19	905:12,15	938:25	programs
859:6	pretend	priorities	951:3	950:4
prepared	929:17	992:10	974:8	993:18
853:1,2	pretended	priority	process	progress
858:16	873:6	952:18	869:10	996:23
866:24	pretty	private	875:20	1002:1
867:5,6	982:20	868:17	906:2,3	1006:8,13
874:19	983:22	902:21	934:6	project
915:16	1045:6	903:1	978:19	869:3
996:22	prevention	pro 851:5	982:25	970:12,17
997:16	881:7,11,1	891:15	983:25	977:11,13
998:25	3,17	probability	984:22	978:3
1002:20	previous	878:11	985:8	1028:18
1005:22	849:20	1004:20	1029:7	1029:10
1038:14	868:21	1010:8	processes	projected
preparing	971:23	1011:25	999:16	850:21
859:8	972:16	probable	produce	901:9,22
889:8	1001:20	864:21	924:22	904:7
996:8	1008:15	893:8	950:10	910:20
997:22	1021:4	probably	967:1	914:1,12
pres 1035:10	1026:1	855:7	1036:5	915:25
present	1027:25	884:7	producing	1031:16
927:20	1034:21	888:13,16	1038:8	projecting
995:23	previously	900:25	product	869:11
1037:2	930:6	905:20	1002:3	911:18
presentation	940:25	915:14	productivity	913:9
982:11	945:11	927:18	986:3	948:24
presented	975:18	964:1	989:10	1014:2
937:15,18	990:3	994:1	990:10	projection
942:8,25	price 942:17	1000:20	994:9	868:15
943:6,19	943:1,9	1004:22	995:8	901:14
944:5,15	prices	1038:23	996:8	913:3
963:1	952:14	1043:12	1042:14	971:17,18
973:9	pricing	1046:2	1044:23	1027:10
1007:11	874:1	problem	professional	1028:23
1010:16	principle	887:1	928:9,20	projections
1033:18	873:25	970:3,11	933:25	910:15
presenting	874:25	1038:17	934:6,11	924:9
901:9	principles	1042:4,11	professional	projects
910:12	873:18	problematic	s 906:10	970:16
998:1	874:8	1045:9	profile	972:1,5,6,
1029:6	print 919:22	problems	892:9	15
presents	938:2	1044:23	program	prompt
922:5		proc 889:2	873:6,23	993:10
923:10			879:2	promptly

992:19,24 993:3 pronounces 943:23 propose 859:21 proposed 875:11 887:15,23, 25 888:3 proposing 859:23 1000:12 proposition 994:25 proprietary 925:7 protect 849:22 860:21 protection 860:23 1028:13 protects 899:22,24 protocols 989:21 provide 848:7 853:20,22 855:19 857:1,15 868:12 869:19 873:15 891:15 894:4 895:8 896:7 962:19 968:25 998:14 999:3 1044:25 provided 857:23 859:17 873:12	948:3 953:7,11 997:5,6 998:3,21 999:7 1008:12 1013:1 1031:25 provides 1012:24 providing 885:4 969:9 1038:12 province 886:8 948:3 968:21 991:19 provincial 953:7,12 954:2 provision 903:8 1032:7 1034:2 1039:6 provisions 1018:4 1026:5 1029:15 1032:14 proxy 951:24,25 prudent 909:23 psychologica 1 875:14 PUB 850:21 867:15 869:18 919:12 962:8 985:21 1002:22 1003:17 1004:5 1005:4,8,1 2 1006:5	1011:9 1038:23 PUB/ MPI-1-18B 938:7 PUB/ MPI-1-74A 848:11 962:8 963:8 PUB/MPI-2-33 971:1 PUB-2-19 882:11 public 844:1,7,19 849:4 850:2 868:16 873:22 898:1,6,11 902:13 908:21 919:2 920:1 949:15 952:10 986:3,21 997:17,21 999:1 1009:6,18 publicly 925:3,14 997:19 998:7 PUB's 1035:25 pull 951:8 952:21 964:1 1036:22 purchase 925:7 926:22 purchasing 945:4 969:2 pure 930:17	purport 933:8,12,1 7,21 purported 933:15 purports 982:12 purpose 849:19 868:21 1039:8 purposes 870:2 871:7 880:20,23 923:11 962:13 1019:22 1021:6,7 1035:24 push 882:2 puts 937:3 putting 891:18 989:11 1031:9 1048:19 <hr/> Q <hr/> qualify 886:5 quality 919:22 quantifies 896:1 quantify 848:3 889:18 893:23 896:5 1044:2,11 quar 931:8 quarter 923:25 931:12,13 999:24 quarterly	930:25 quarters 851:22 923:22 926:20 931:9 Quebec 903:19 question 860:5 875:8,9 877:10 884:18 887:6,8,13 ,24 889:3,15 890:2,15 892:18,24 896:10 904:2 931:4 936:23 949:24 950:19 967:17 969:16 980:7 983:20 984:11 995:3 996:6,12 1003:25 1006:1 1007:18,23 1008:15 1010:14 1012:5 1014:7 1016:21,23 1024:2 1043:17,22 questioning 1006:18 questions 849:17 853:18 870:8 875:5 879:16 884:17,21, 22 888:9,11
--	---	--	--	--

901:1	864:16,17	7 923:12	874:12	983:5,7
906:25	865:3,11,1	927:17,21	877:8	1021:19
948:11	3,20	928:6,9,16	886:21	1028:7
984:12,13	871:23	,20,24	887:15,23	1030:3
1007:25	889:20,25	929:12,17,	888:3	1035:19
quick 891:17	892:23,24	18,23	903:6	1036:16
quicker	893:3,6	930:1,7,8,	906:23,25	1037:6
992:18	894:24	10,11,12,1	907:6,18,2	1038:2
quickly	895:23	4,16	4 908:6,13	ratings
862:5	896:1	931:7,17	909:5,21	876:20
889:8	901:17	932:2,9,21	914:8,15	ratio 881:20
909:4	911:20	,24	916:1,20	883:24
916:13	913:14	933:1,3,6,	917:12	884:6
969:18	955:20	25	918:18,20	951:8,17,1
992:6	972:25	934:3,9,11	920:3,12	8 974:10
quite 941:23	981:20	,14,23	921:5	1010:10,23
945:13	1011:25	935:3,11,1	922:4	ratios
960:14	1012:1	2,16,21,25	923:13	868:15
972:9	1014:19	936:2	928:16	951:4,5
1001:25	1031:20	937:2	932:12	Raymond
1010:4	rapidly	942:16	933:9,13,1	845:8
1027:4	884:24	943:9	8,22	1000:25
1028:23	rare 969:20	945:18,22	934:12	1001:3
1032:17	rate 844:8	954:13	935:5,9,10	re 844:7
1035:6	849:23	956:16	,13 936:4	899:22
1046:8,11	852:4	958:1,7	955:23	reach 935:13
quo 988:11	853:5	959:3	965:23	reaches
quote 972:3	860:14	961:15	983:12	897:25
1042:10,17	862:4	962:20	1006:23	react 947:2
quoted	869:4	972:19,24	1008:7	1011:19
1008:2	874:18,25	1001:20	1010:9	reading
quoting	876:15	1010:23	1033:23	865:4
908:11	877:15	1013:8,23	1035:17	879:9
<hr/>	885:15	1016:17	1036:3,13,	1011:4
<hr/>	886:12	1021:10	21	rate-setting
R	887:19,25	1032:22	1037:1,20	1035:24
ra 934:3	888:2	1035:16	1038:13	1037:4
raise	895:3	1036:1,5	rate-setting	rather
1047:23	897:22	1037:4,15	1035:24	859:19
raising	899:3,8,10	rate-making	1037:4	866:25
919:13,17	,15,24	856:24	rather	867:25
ran 873:7	904:5,7,15	872:5	859:19	898:24
916:19	,17 908:22	900:18	866:25	899:12,17
range	909:9,11	1028:4	867:25	963:2
850:3,13,1	912:2	Ratepayer	898:24	rating
6,21	915:18	1024:12	899:12,17	872:22
859:19	916:6,11	ratepayers	963:2	873:23
861:1	917:2,8,19	918:13	rating	885:5
862:14,17	918:6,12	rates 851:15	872:22	886:12
	919:3,13,1	852:14,18,	873:23	
	4	21,23	885:5	
	922:3,4,9,	873:17	886:12	
	10,11,12,1			

1,23 867:5	1033:24	1012:2	rectified	referred
873:20	rebate	recommend	969:18	879:19
874:6	859:23	893:2	1049:8	958:16
877:18	861:4	900:14	reduce 881:5	969:20
884:8	862:10	recommendati	987:10	1020:7
885:23,25	894:11	on 860:13	989:15	referring
886:3,11	895:14,18	893:5	990:2	897:17
891:12	898:18,20	985:25	991:16	954:5
895:22	rebuild	1010:6	1035:7	963:23
899:21	861:14	1040:21	reduced	979:14
903:2	rebuilding	recommended	879:9	1023:1
915:20	859:23	864:16	988:16	1046:13
939:24	rec 956:20	1011:9	reduction	refers
948:10	recalculate	recommending	881:15	1042:20
950:15	1036:3	916:4	916:21	refined
962:23	recall	recommends	1011:15	883:23
964:8	904:23,25	859:17	reductions	refining
966:25	905:1	reconcile	989:5	1002:3
984:10,16	951:6	1015:14	Reed 989:22	reflect
1029:6	969:25	reconvene	refer 867:10	992:19
1032:9	970:4,6	855:1	1023:6	1018:14
1035:15	973:13,14	866:2	reference	1035:1
1038:14	974:4,7	record	853:20	1045:1
1046:6	990:5	900:16	854:12,18	1049:2,11
1047:3	1003:5,21,	903:16	866:11	reflected
1048:16,24	22 1009:14	905:2	867:24	870:9
reason	receive	956:21	870:10	966:1
868:18	902:14	963:4	875:19	1026:12
869:2	recent	973:16	904:9	1027:9
870:1	915:16	997:12	905:12	reflection
875:25	919:1	1014:11	914:25	974:12
1048:5,16,	927:1	1021:3	963:23	reflective
19	930:10	recorded	964:2	959:15
reasonable	1033:13	1018:7	966:8	reflects
867:1	1039:8,10,	recover	973:15	939:3
921:3	11,21	991:24	979:1	1025:25
929:5	1047:15	992:9,18	987:18	refreshing
935:11	1048:15	recovered	1006:4	1004:10
945:20	recessing	992:2,23	1042:25	refusing
999:9	888:24	recovering	1043:11	1024:1
1005:11	940:18	992:5	referenced	regard 849:5
1009:24	1000:1	recovery	848:6	890:25
reasonablene	recognize	877:1	875:17	1009:11
ss 1008:5	1013:23	987:11	894:2	1017:8
reasons	recognizing	989:23	919:1	regarding
867:19	918:15,17	991:3,13	956:4	1001:19
868:10,24	991:10,11	993:7,21	referencing	regardless
882:1	1002:23	1044:5	957:14	862:16
1044:16	1011:5			
1045:5				
reassessed				

1018:13	904:2,6,14	938:3,8,20	974:5,6,20	919:2,13
1019:5	,19	939:8,13,2	975:6,9,14	923:7
1020:11	906:20,24	1	,22	978:12
regards	907:9,13,2	940:3,4,9	976:5,9,12	1021:14
1035:16	1	942:3,11,1	,15	relation
1036:1	908:3,8,15	4,21	977:2,9,16	893:9
Regis 844:15	,19	943:4,11,1	,18,25	relationship
850:24	909:1,13,1	7,21	978:25	929:15
868:2,4	7	944:1,8,13	979:12,19	relative
875:7	910:4,7,10	,17 945:23	980:1,13,2	873:19
877:9,16	,17,25	946:3,10	0,21,25	932:18
889:17	911:3,5,12	947:4,12,2	981:16,22	950:14
890:1	,17,22	0	982:3,7,12	951:17
893:4,21	912:4,12,1	948:2,7,16	,16,23	1035:4
894:8	8,25	,22	983:4,14,1	1046:3
896:3,9,22	913:6,12,1	949:2,6,10	9	relatively
897:4,12	8,21,24	,13,23	985:16,17,	973:23
898:23	914:3,5,14	950:2,19	20,23	1033:12,14
962:11	915:2,8,12	951:2,11,1	986:8,16,1	release
981:3,7	917:7,13,1	4,21	7	898:21
1042:24	7	953:2,24	987:4,5,14	900:17
register	918:3,17,2	954:10,14,	,16,23,24	997:19
889:5	4	22	988:7	released
regular	919:4,7,16	955:3,21	994:2,14,1	1032:12
978:17	,24	956:2	8,22,25	reliability
regularly	920:6,7,10	957:1,6,12	995:6,11,1	927:1
1021:5	,17,23	,19,23	3,24,25	reliable
regulator	921:6,11,1	958:3,13,1	996:2,10	945:14
868:23	9,22,24	8,24	1006:3,10,	1013:20
907:17	922:6,14,2	959:2,6,11	17,22	reliance
regulatory	1	,18,25	1007:7,13,	924:11
863:4	923:1,4,8,	960:6,18,2	22	925:20
891:24	14,23	0 961:3,18	1008:8,14	926:1
916:13	924:2,5,14	962:3,9,15	re-insurance	1041:25
1010:12	925:1,9,15	963:12,22	892:10,11	1047:16,20
rehab 989:11	,23	964:5,16,2	reiterate	relied
Reichert	926:4,9,15	3	918:6	908:25
846:8	,21	965:1,6,13	related	rely 914:19
849:12	927:7,15,2	,18	879:1	935:22
852:7,8	5	966:6,14,1	912:16	1048:11,22
853:4,9,14	928:5,11,2	9,25	941:3	relying
,16	1	967:2,10,1	964:13	907:25
896:20,24	929:7,11,1	3,25	986:5,13	930:24
897:7,15	6,22 930:5	968:8,17,2	1009:1	1049:9
900:1,25	931:3,10,1	2	1010:8	rem 1023:25
901:7,12,1	6	969:11,14,	1041:11	remain
9	932:8,16,2	15,21	relates	1025:6
902:1,9,12	5	970:6,14,1	849:21	
,15,17,23	933:10,14,	9,25	870:9	
903:4	19,24	971:2,10,1	884:18	
	934:8	5,21	relating	
	935:24	972:14,22	910:8	
	936:10,22	973:2,8,14		
	937:8,19	,19,24		

1026:17	980:8	1027:25	946:20	1008:9
remained	replace	1029:13	research	respectful
849:19	928:3	1032:1,2,14	873:4,5,10	991:11
remaining	report	1045:2,18	875:10	respective
892:18	858:16,17,18	reporting	reserve	943:20
1049:3	859:7,9,17	884:2	860:14	998:4
remedy	860:11	993:18	897:23	respo 970:25
908:23	861:7	1019:22	899:3,8,11	respond
909:2	864:8	1021:6	1024:21,25	947:2
910:1	869:17	1022:4	1044:2	responded
remember	875:18	reports	1049:13	996:12
854:15	876:6	974:1	reserved	responding
903:17	879:18,25	991:2	1020:13	917:11
918:24	882:24	report's	1024:13	1013:24
921:12	884:7	978:8	reserves	responds
997:13	888:10	representati	1019:12	995:14
remind	890:18	on 929:6	1020:20	response
944:18	893:13	representati	1040:4,9	847:3
977:16	951:8	ve 945:2	1041:11,17	848:10
982:1	969:25	represents	,25 1042:4	882:10,11
reminder	973:9	1030:12	1043:19	889:12
939:8	974:1	request	1046:7,25	938:6
reminding	975:8	865:1	1047:23	942:9
966:6	978:2,13,20	867:2	1048:8,20	962:8
remove	0 982:10	941:6	1049:7,18	963:8
1023:17	988:3,5	962:19	reserving	970:25
removing	997:4	1002:23	905:8	975:24
921:4	998:22	1003:24	resource	994:5,6
renew 855:7	1000:18	1004:6	982:1	995:13
renewals	1009:13	1010:22	resources	1010:18
870:20	1017:9	1014:25	857:6	1012:23
renting	1019:15	1015:13	952:18	1013:1
939:3	1022:12	1016:3	974:3	1014:25
repair	1028:6,10	1043:21	975:20	1015:20
949:19	1032:8	requested	980:15	1016:3
951:1	1033:5	858:15	resourcing	1021:24,25
952:1	1034:19	1002:22	857:18	1023:9
repairs	1039:8	1003:5	respect	1042:8
955:5	reported	1008:19	853:18	1044:1
repeat	882:23	requests	857:18,23	responses
877:15	942:18	860:4	865:19,24	1016:7
931:4	971:13	865:24	884:22	rest 877:7
936:23	980:9	1036:1	894:24	913:10
946:4	990:19	required	928:13	1000:20
rephrase	1017:20,24	868:22	941:2	result
937:2	1018:2	983:8	947:4	860:13
	1019:6,10,11	1002:24	978:3	899:25
	1020:13	requirements	1006:13,23	914:11,15
	1025:13,18		1007:24	916:20
	1026:4,19			

918:8	retrospectiv	1023:14	880:13,20	run 856:21
966:3	ely 931:25	revisions	881:2,4,6,	866:6
1005:14	return 863:7	852:1	10,18,24	886:23
1047:19	880:1	863:24	882:14,15	893:19
resulted	940:16	905:21	883:4	1002:20
885:9	1007:19,20	revisit	robust	1003:7
results	,21 1033:2	867:25	936:11	1004:6,7,1
858:12,13	1049:25	1049:15	role 968:3	2,17
860:9	returned	revisiting	roll 952:9	1024:8
862:7	880:9	875:20	rolled	running
870:6	883:18	ri 1049:12	998:18	850:22
871:9	returning	right-hand	rolling	910:14
876:22	875:22	901:6	888:12	1031:19
892:17	876:17	911:25	roof	<hr style="width: 100px; margin: 0 auto;"/>
909:11	882:25	914:25	970:3,10	S
999:3	991:12	975:11	977:5,7	safe 947:21
resume	returns	979:21	room 984:23	980:16
1009:20	891:8	982:10,11	rope 949:18	safety
resumed	930:2	rigidity	Rough 949:8	876:20
846:6,7,8,	revenue	862:13	roughly	880:13,20
9	876:22	ring 1020:2	901:24	881:2,4,7,
849:11,12,	877:3,23	rise	944:16	10,18,24
13 1003:15	878:4	908:6,13,1	947:17	882:14,15
resumes	880:2	8 914:9	957:4	883:4
1004:3	882:25	risk 860:7	976:10	886:22
resuming	review	861:14	977:17	salaries
856:12	858:2,7,19	871:10,11	979:7	967:20
888:25	859:2,12	876:19	980:11	salary
940:19	940:11	885:4	981:14	968:16,21
1000:2	1005:17	891:7	990:11	Saskatchewan
retain	1025:12,23	892:9	RSR	886:17
885:25	1027:13	899:9	849:17,19,	sat 1006:17
retained	1032:11	906:16	21	satisfied
850:11,18	1033:22	909:3,8	850:3,21	909:13
851:14	1041:22	915:17	859:18,19,	save 992:15
852:12	1049:16	916:6	23 860:20	Saving
896:12,13,	reviewed	917:19	862:2,8	986:12
16,25	858:18	918:8,13,1	864:7,16	savings
897:5,18	reviewing	6,18,22	866:7	987:12
898:11,13,	859:10	925:25	867:16	saw 987:18
14	reviews	927:18	869:1	996:2
899:2,4,6,	1021:11	930:13,14	870:4	1033:22
7,11,14,18	revise	935:7	893:6	1041:15
,22 916:4	1036:21	936:4	897:24,25	scale 870:9
1011:6,15	revised	1002:21	898:5,8,10	871:7,12,2
retention	863:22,24	1009:2,12,	916:5	5 876:1
892:15	908:21	22 1047:23	1010:7	878:12,14,
RETIRE	910:2	risks 917:19	ruled 1008:4	
1050:3		918:10		
		road 871:1		

20	896:24	seems 876:16	serious	896:15
scenario	899:2	883:3	1041:3	897:10
860:8	902:12	967:14	1048:20	seventy-two
863:3,6	919:24	1019:23	1049:4,11,12	861:3
865:17	922:9,16	seen 855:19	serves	893:9
903:17	927:10	871:24	966:25	894:12,21,22
916:19,21	937:25	877:19	service	895:2,21
922:4	942:24	878:1	947:2	several
927:20	971:6	891:3	969:9	907:18
928:4,10,1	983:10	1013:20	services	945:10
8 930:2	1011:7	select	991:21	972:5
1008:6	1026:22	860:12	997:17	severe
1010:7,9,1	1033:3	861:7	servicing	988:24
4,23,24	1039:4	selected	974:14	989:10
1011:1,11,23	1043:15	860:24	session	1024:13
1012:3,9	seconded	922:12	1049:25	SGI 868:17
1026:25	967:19	930:11	sets 936:5	886:18
1027:5	968:9,23	selecting	1035:17	shape 862:18
scenarios	secondment	1039:6	setting	share
859:4	967:23	selling	1035:16	958:2,10
860:7,12	secretary	969:2	1036:2,13	959:4
869:20,24	900:10,14	semantics	1041:11	sharp 926:7
893:14	section	883:7	settlement	sheet 853:22
895:10	852:1,17	sense 875:11	955:20	854:7,15,25
918:11	869:5	886:8	settlements	855:2,7,16
1002:21	876:8	950:24	953:22	,25
1003:4,5,1	878:4	956:9	955:24	866:3,10,16
6	919:21	963:4	seven 896:14	6,23
1004:5,13,	958:1	1029:2	897:2,10	867:14
14 1012:7	1013:11	sensitivity	898:15	868:11,20
schedule	1030:22	874:4	939:11,12	869:15,22
897:21,23	1031:23	sent 941:10	966:17,22	1004:24
954:5	sections	1023:14	967:8	1006:15
961:7	1015:21	separate	981:15,19	1008:18
962:16,22	1016:8	899:2,10	seventeen	shift 851:15
963:3	seeing	separately	967:5	shock
1000:8	877:23	1043:20	seventy	899:15,24
score 983:21	1021:17	September	894:9	shortcoming
984:5,10,1	1031:18	959:16,20	898:15	988:24
8	seek 865:21	960:8,9,11	seventy-five	1014:15
scorecard	947:25	,16,17	861:23	shortfall
978:18	seeking	961:12,13,	seventy-seven	902:7
982:9	912:2	17,22,23,2	850:4,5	short-term
scored 985:3	1012:17	5 990:6	seventy-three	921:5
scores 870:2	1016:14	series		936:13
second	seem 876:20	1029:19		showed
868:14	1041:17			
869:9	seemed 855:4			
892:17	1041:16			

873:10	869:10	896:7	someone	sought
876:14	986:25	six 923:25	866:10	1003:16
showing	996:12	925:20	875:18	sound 870:13
910:18	997:9	926:1,6,12	951:8	987:22
shows 877:11	1016:3	,13 931:13	sometime	sounded
878:15	1017:19	934:6	941:24	996:3
899:7	1041:16	sixteen	952:17	sounds
917:2	1043:21	981:4	somewhat	976:17
938:21	1048:15	sixty 894:19	886:3	997:9
951:5,15,1	similarly	895:3	892:8	1048:3
6 961:8	861:4	914:23	956:13	sources
979:16	869:9	915:3	975:13,15	885:4
sic 984:12	891:14	981:4	1016:17	987:9
signal	simple	sixty-one	somewhere	space
1048:9	930:17	981:21	971:18	970:12,16
signature	1026:7	sixty-six	988:5	speaking
858:17	simplifying	915:10	sooner	889:3
signed	927:19	size	866:25	946:11
959:16	simplistic	998:3,11	sophisticate	special
961:16	1027:5	skewed	d 885:16	933:8
significant	simply	918:16	sorry	specialized
862:3	850:21	sleeves	850:4,24	933:12,17,
877:23	897:12	887:4	852:14,15	21
881:14	899:20	Slide 938:1	853:11	specific
890:6	988:1,6	slight	870:17,22	854:15
891:5	single	1049:23	877:14	861:18
896:15	859:18	slightly	896:20	867:19
935:16	939:1,2	955:25	897:5,16,1	886:25
953:18	948:12	1049:23	7 899:6	897:5
971:24	single-value	small 938:2	902:9	928:9
972:12	859:21	software	914:25	952:6,17,2
973:3	sir 1010:4	986:22	931:3	2 963:23
983:8	1011:22	sole 931:7	936:22	964:1
991:25	1020:2	solely 848:8	939:21	1038:10
992:7	1021:1,15	894:6	946:3	specifically
1006:20	1022:16	896:8	949:23	861:19
1007:10	1023:10,25	966:3	980:2	867:13
1032:12	1027:11	solution	981:3	869:22
1039:15	1033:19	886:24	1023:11	883:16
1045:7,21	1040:5	solving	1031:3	896:12
significantl	1042:6	887:1	1046:15	945:6
y 861:2,5	1047:24	somebody	1047:12	952:7
863:6	sister 917:9	874:13	sort 851:25	997:20
869:13,23	situation	somehow	885:12	1036:17
891:19	861:17	952:19	887:1	1038:11
908:2	918:5	sorting	895:12	specificity
952:14	situational	1044:19	999:3	866:5
984:5	848:7	spend 866:22	1046:23	
similar	894:4		sorting	
861:11			1044:19	

955:12	stan 987:2	997:3	1002:2	1002:22
979:5,23	stand	starts	Sticking	1005:20
980:2,10	931:12,18	888:20	966:7	subjective
spending	937:5	state	stock 912:16	875:2
881:4	1000:12	871:18,22	storms	submission
970:1,11	standard	872:10	892:15	932:17
spent 980:17	881:20	953:3	straightfor	submissions
spill 901:2	922:9,16	983:12	ard 983:22	908:11
split 854:20	923:12	stated	strange	submitted
spoke 970:1	924:8,12	849:19	967:15	864:9
1008:15	925:17	928:22	strategic	955:7
spreadsheets	927:21	930:6	987:17	submitting
1035:3	928:24	935:5	strategies	928:13
spring	931:13,17	statement	887:3	subsequent
856:10	934:5	901:10	strategy	934:7
stability	1003:16	920:6	859:24	958:21
874:18,25	standards	970:4,7	strike	1018:7,8
891:6	987:3	973:13,15,	873:21	subset
909:11	988:12	22 974:4,7	strive	substantial
934:23	1004:15	996:2	906:10	1036:18
1031:21	1035:16	997:17	strong	1046:25
stabilizatio	1036:22	1017:20	866:13	substantiall
n 860:14	standing	1022:16,18	989:6	y 945:13
897:22	991:6	1029:3,5	strongly	success
899:3,8,11	standpoint	1030:4	857:11	932:2
stabilize	935:25	1042:25	structured	successive
871:18	946:19	1043:4	978:18	958:15
stable	stands	stating	structuring	960:23
875:23	890:20	868:9	866:18	sudden
890:22	1032:10	statistics	struggled	891:18
916:20	start 888:21	878:3	871:14	suf 899:14
1033:8,12,	890:13,14	status	struggling	sufficient
15 1049:10	891:18	988:11	1043:13	872:7
staff	900:25	stay 937:25	1044:10,11	886:21
967:20,22	950:19	1026:20	subheading	899:14
968:13	960:6	staying	1016:25	suggest
974:18,22	985:17	922:15	subject	865:10
989:10,24	989:13	965:8	901:22	876:10,23
992:11	990:23	1034:17	903:14	881:2
staffed	1006:5	steady	940:12	895:9
973:12	1039:2	871:18,22	947:23	911:8,25
staffing	started	872:10	949:5	914:5
948:5,14	854:3	steady-state	966:9	940:12
957:16,19	868:9	879:3	976:14	965:1
981:13	871:21	step 866:20	981:23	967:21
staggered	starting	907:2	1000:15	973:10
870:20	972:6	1000:14		
	990:17	steps 946:15		
	994:14			

981:13	894:23	916:6	tables	talks 979:15
999:21	surcharge	switching	950:10	target
1025:3	861:6,10	925:18,19	1031:10	859:21
suggested	862:6	synonym	taking	861:14,22,
866:8	863:1	1018:18	866:20	23
979:5	895:14	synonymous	885:11	864:7,17
suggesting	surcharges	1022:2	talk 866:4	865:2
866:9	917:4	synthesis	873:16	866:10,15
895:11	sure 851:19	997:15	876:25	867:17
899:16	859:3	system 873:8	883:15	870:4
901:15	862:22	976:23,25	891:13	892:4
902:20	870:18	980:15	892:12	893:6
904:6	872:7	981:1	985:14	894:22
908:1	874:7	982:2	996:19	895:20
915:15	880:16	988:25	1031:10,11	897:25
924:22	886:5	989:5,7,11	talked	898:5,11
925:6,10	887:9	990:1,5	851:16,24	1010:6
929:4	899:9	991:23,25	854:20	1011:9
934:5	903:18	992:1,2	858:10	targets
937:14	904:23	1042:15,17	868:20	994:9
938:13	937:8	,18	878:4	995:8,22
939:10	969:13	systemic	882:1	team
965:9	977:9	905:14,16	883:21	982:13,21
966:16	978:1	908:24	884:20	983:3,6,13
974:17	979:1,14	<hr/>	891:22	,21
975:12	985:10	T	915:20	984:7,18
976:24	988:20	<hr/>	938:24	985:3
994:5	999:7,14	Tab 850:7	951:3	991:21
1005:7	1002:8	851:4	1003:2	992:8
1013:7	1005:15	863:21,22	1029:16	technical
1022:25	1007:1,22	880:11	1036:14,17	854:3,16,2
1024:17	1010:4,14	896:10	1037:18	1 865:25
1026:16,23	1012:6	table 846:1	1040:12	866:2,6
1040:1	1024:3	852:1	1045:14	1001:9
suggestion	1031:21	857:5	1048:1	1002:2,10,
987:7	1047:2	878:11	talking	19
suggests	surplus	890:4	855:5	1004:2,11
893:6	897:13	910:12	869:6	1005:20
summarize	surprise	923:10	872:18	1009:1,16,
859:20	1009:20	937:14	876:7	20
912:2	surrounding	942:9,13	880:9	technically
superior	955:5	944:20,21	882:10	883:24
999:4	surveying	950:17	889:21	884:10
support	874:4	962:6	893:10	technician
857:15	suspect	965:3,4	899:13,21	955:24
866:13,14	1005:23,25	979:13,16	974:8	technologica
867:3	sustainable	1011:4,7	977:4	lly 885:12
975:3	945:14	1031:9,18,	1005:15	technology
988:25	sustained	23	1031:25	884:24
suppose		1033:18,22	1036:10	885:8
		1035:1	1040:14	

945:14	904:4	1039:5,14,	980:22	953:6
946:18	905:2	17	982:8	955:17
947:9	912:9	1040:4,22	1000:22	958:18
971:5,8	914:12	1046:3	1001:4	959:11
974:13	915:18	test 868:23	1018:16	961:10,18,
975:2,3	916:5	931:25	1023:14	25 966:5
Telematics	917:11	932:9	1038:17	971:5
884:23	919:14	934:7	1050:1	974:21
886:19,23	922:16,23	936:11	that'll	980:25
temper	927:2,4	937:6	1005:25	983:22
926:14	929:11	testified	that's	989:17
temporary	930:21	945:11	850:6,20	990:7
991:20	935:21	testing	853:4,7	994:20,23
ten 872:6	937:15,16	853:19	855:4,20	996:14
874:24	938:13	872:19	858:9	999:14,22
878:23	939:9	874:4	859:17,18	1000:25
881:8	940:5	1008:12	862:11	1003:25
923:13	946:8,24,2	tests 868:16	863:4	1008:14
927:23	5 947:8	text 1016:17	864:10	1011:19
929:1	948:1,5	textbook	869:5	1013:9
930:3	949:16	900:18	870:25	1014:13,14
934:13	950:21	thank 849:7	872:8	1017:18
1018:15	952:24	852:6	873:25	1018:1,9,1
1033:9	954:12	857:22	874:11,22	7
tended	965:1	859:16	875:25	1021:16,17
952:12	967:17	865:23	876:3	,18,21
term 876:17	972:25	870:7	877:25	1022:10
880:14	979:5	872:15	878:25	1026:1,3
952:12	985:6	875:4	881:12	1028:16
977:10	988:1,3,11	879:15	882:23	1029:8,15
1018:23	,12,15,16	884:16	883:13,21,	1030:15,21
1020:1,24	989:22	887:5	25 884:8	1031:21
1021:25	991:2,15	888:5,22	887:25	1032:16,18
1031:20	995:9	889:14	888:3	,23
1049:4	998:8	900:5,8	890:1	1033:6,20
terms 855:6	1000:8	902:4	894:17	1034:9,10,
858:25	1002:3,17	904:1	896:22	25
859:6,22	1003:14	910:21	897:18	1035:1,22,
866:8,20	1004:14,23	913:21	902:16	23 1038:3
868:24	,25	914:18	910:17	1040:6,17
872:19	1006:20	917:6	915:8	1046:2
874:4	1007:8,10,	923:17	920:8	1048:12
875:10	18	927:15	921:14	theft
879:8	1008:4,10	931:23	929:19	881:11,13
883:16	1010:5	939:8	930:17,18	theme 901:3
888:16	1013:20	940:14,24	935:16	themselves
889:20,21	1014:19	941:17,20	939:7	906:17
892:22,25	1016:15	956:21,23	944:8,17,2	themselves
893:10	1021:19	960:18	3	991:13
899:17	1025:1,5,1	963:11	947:13,20	theoreticall
901:13,15	3 1026:18	966:6	948:7	y 881:4
	1028:4		949:10	
	1029:13		951:15,19	
	1038:9			

thereby 909:10	998:6,25 999:15,18 1028:13,16	1000:9,12 1037:4 1049:25	total 896:25 901:21,24 910:18,22	959:14 989:9,20
therefore 909:11 974:22	1034:16 1041:20	today's 899:19	911:1,9,14 ,20 925:20 926:1	translate 880:22 882:21 1016:22
there'll 888:14	they've 983:5	tolerance 860:7,17,2	951:6 971:12 975:12,14	translated 929:25
there's 856:19 859:8 861:18 862:11,12, 17 863:3 866:7 867:18 873:1,2,3, 14 878:10 887:22 891:12,25 893:14 900:16 914:24 916:9 984:2 987:6 993:17 1007:17 1013:10,16 1018:6,11 1025:10,12 1031:22,24 1032:6 1034:4 1036:17,18 1037:18,19 1038:11 1044:16,18 1045:20 1048:17,20	thir 921:1 third 864:3 865:1,18 868:18 869:17 921:2 922:10 thirty-four 898:4 thirty-six 981:14,19 thousand 896:14 913:16,17 966:17,22 967:8 979:7,17,2 4 980:11,17 981:14,20 thousands 891:16 threshold 860:11,12 861:12 862:25 thresholds 860:9 throughout 852:14,18 953:17 TI8 958:1 timeliness 987:21 tiny 882:15 titled 900:11 today 871:8 941:5,25 984:12	4 861:8,15 1002:21 1009:2,13, 17,22 tomorrow 941:1,7,12 ,14,24 1000:11,18 ,20,24 1049:25 tomorrow's 940:23 tool 885:24 tools 854:6 top 874:11 875:1 878:17 879:25 897:23 898:3 901:5 910:12 911:24 914:25 919:19 952:5 958:9 965:4 979:21 982:9 1009:21 1031:18 1043:14 topic 884:23 1005:25 top-right 919:20 Toronto 1023:23 torturing 969:23	926:1 951:6 971:12 975:12,14 1032:13 1045:21 1047:16 touch 965:11 towards 1022:15 track 949:19 950:24 971:4 989:13 tracked 950:25 tracking 1021:7 tracks 885:2 971:7 trade 951:18 trades 954:12 training 969:8 transactions 1017:6 1020:9 transcript 846:17 867:11,12 887:11 1021:17 transcripts 854:19 transfer 897:23 transferred 898:7 transfers 897:6,18 transition	882:22 882:21 1016:22 translated 929:25 transparency 868:12 transparent 937:9 treasury 969:3 treated 898:12 trend 878:22 1033:9,10 trending 996:20 trends 861:20 862:20 876:11,18 1028:8,18 trigger 894:11,20 895:3,20 898:17,18 triggered 898:20 true 874:11 875:25 894:18 932:17 983:20 1002:6 1014:18 truly 886:11 try 879:7 895:9 961:5 1003:3 trying 852:4 857:14,17 885:24 886:22

897:12,21	1006:4	1049:10	926:22	undertakings
902:4	tweak 937:5		928:18	846:4
909:2,3,7		<hr style="width: 50px; margin: 0 auto;"/>	929:17	848:1
929:22	tweaked	U	955:14	888:11
945:1	884:9	ul 1015:15	958:6	889:8
950:16	tweaks 937:9	ultimate	960:13,21	956:19
958:6		1013:12,20	969:8	underway
960:21	twelve	1014:1	981:23	995:16
965:23	939:25	1015:15,20	989:6	underwriting
984:17	940:6	1016:7	990:14	1020:1,8,2
989:8	971:17,22	1019:19	992:14,22	4
1003:4	1013:14,15	1025:22	1020:25	unexpected
1012:17	,17,18	1027:10,17	1025:12	849:23
1014:9	1017:7	1028:11	1037:25	1046:5,9
turn 884:17	1019:4	1031:16	1044:11	
888:18	1020:11	1033:13,24	understandab	unfavourable
896:10	twenty 848:4	1040:16	ly 855:20	1027:24
901:5	864:19	ultimately	understandin	unions 953:5
910:6	874:13,24	987:9	g 851:19	unique
911:24	892:25	ultimates	852:3	950:22
916:2,18	893:7,25	1015:15	854:19,25	951:1
919:19	896:6	1028:6,23	865:7	952:1
921:20	923:20	1029:20,21	866:1	953:1,20,2
923:3	960:2,8	1033:4	887:10	3
937:12,24	970:1,3	1034:20	895:5,24	unit
938:1	1004:19	un 1003:24	948:10	943:6,8,13
952:19	1007:19,20	1025:12	963:24	universal
954:8,9	1010:24	unable	994:21,23	849:21
957:23	1011:10,24	1044:2,11	995:1	unless
964:24	1012:7,10	unchanged	998:16	891:11
969:24	twenty-five	849:20	1011:22	Unlike
970:23	861:22	unclear	1016:14	1019:8
982:9	863:11	981:5	1026:9	unreasonable
985:20	877:18	1003:12	1032:25	1003:24
987:16	twenty-four	uncomfortabl	understood	unsuccessful
1010:15	897:2	e 909:22	1027:6	1016:22
1016:24	924:3	underestimat	undertake	untoward
1021:24	twenty-two	ed 1043:19	962:5,7	899:25
1022:9	1045:23,24	understand	undertaken	upcoming
1031:22	two-point-	856:15,18	964:14	995:22
1038:23	nines	862:23	1011:6	update
1043:3	958:16	866:19	1012:3	855:24
turned	type 885:7	867:6	undertaking	upon 849:1,5
955:23	945:19	872:10	847:3	888:24,25
turning	1005:16	879:7	858:1	900:6
927:16	1012:1	884:24	889:4,8,12	907:11,25
942:2	1048:21	890:7,15	893:12,23	908:25
997:1	typical	897:13	895:9	914:19
1014:24	989:2	917:18	963:7	
1039:3	typically	925:2	997:9,24	
1043:16			1012:5	
turns 979:21				

929:12	1037:2	982:19	1004:18	1039:3
935:22	values	views	1036:6,22	1043:15
940:18,19	869:12	926:13,14	week 918:25	1050:1
943:13,23	872:21	928:19	956:19	we're 851:8
1000:1,2	907:8	929:6	974:8	852:17
1014:10	variability	virtual	976:23	853:12
1024:2	889:24	992:1	977:12	855:10
1050:5	890:6,8,14	vital 870:5	996:22	856:16,24
upside	,16	volatile	1001:17	862:15
930:14	variable	918:19	1008:16	865:4
upward	1041:20	1032:17	1019:24	869:6,11,14
851:14	variables	1034:19	weekend	871:4,8,9
878:11	906:14	1035:6	1001:17	872:5,7
921:4	929:15	volatility	weekly	876:1
useful	various	918:21	905:10	877:6
1001:10	963:20	1034:25	1013:11,17	880:9
utilities	964:20	1035:7	1031:18	882:22
844:1,19	1044:16	volume 878:5	1039:7	886:6,9
850:2	vary 885:15	879:17,19	1045:22	887:2
908:21	vast 874:22	1030:21	weeks 854:23	889:1
919:2	vehicle	1031:2,3	weighted	891:1
920:1	876:16	voluntary	961:15	892:1,10
950:3	885:2	885:20	welcome	894:12,13,19
986:21	902:8	_____	849:4	895:5,11
Utility	903:9	W	940:22	898:25
898:1,6,11	vehicles	wage 953:22	we'll 855:7	899:1,9,21
utilized	955:6	959:24	867:24	906:5
920:22	version	960:4,22	872:1	909:3
_____	858:8	961:24	888:20,21	940:7
V	885:13	wait 1043:15	896:5	944:12
vagaries	versus	walking	912:8	954:24
899:23	931:22	1039:2	919:9	956:15
valid	939:23	Ward 951:4,8	922:1	962:16
1007:12	948:12	997:2,5,16	940:15	984:6,7,17
validate	982:13,14	,18	941:9,13,18	989:3,4,8
1005:5,9	1044:21	998:5,10	8	991:6
valuation	victims	wasn't	942:12,13	1000:5,12,19
965:21	991:11	858:16	951:9	1005:13
966:4	view 903:21	water	955:16	1011:14
value 848:3	905:16	927:10,15	971:12,18	1014:1
859:18	908:12	ways 874:7	972:19	1019:15
893:24	917:21	952:17	983:9	1026:11
896:5	1006:12	988:24	985:18,24	1035:22
899:1,10	1019:14,20	1037:19	986:9,10	1036:25
914:16	,21	we'd 856:11	999:24	1038:7
938:5,11	1035:11	873:17	1007:8	1040:14
1001:21	viewpoint	941:1	1016:2	1044:10
1019:19			1023:23	1045:20
1031:16			1025:7,11	west 981:25
			1026:21,22	we've 852:16
			1027:14	

859:3	whole 856:23	925:5,11,1	965:7,15	2,18,24
862:3	946:14	6,24	966:5,13,2	1002:7,17
868:20	983:6	926:5,11,1	4	1003:10
871:23,25	whom 967:20	7,24	967:4,11,1	1004:1,21
872:17		927:9,14	4	1005:3,19
877:25	WI 1043:20	928:1,8,17	968:2,15,1	1006:2,16
881:6	wildfire	929:3,10,2	9	1007:7,17
884:19	885:11	1 930:20	969:7,13,1	1008:3,10,
887:9		931:5,11,2	9	23
890:24	Williams	3	970:8,15,2	1009:8,19
894:16	845:6	932:13,20	3	1010:3,13,
895:17	846:13	933:7,11,1	971:3,11,1	21
952:21	884:18	6,20 934:2	6	1011:3,21
957:2,3	888:18,19,	935:19	972:11,17,	1012:13,21
967:4	22 889:3	936:10,17	23	1013:5
994:25	900:6,8,23	937:1,11,2	973:8,17,2	1014:3,23
999:7	,24	4 938:10	0,25	1015:6,12,
1004:24	901:13,20	939:7	974:16	19
1025:22	902:3,11,1	940:2,5,10	975:5,10,1	1016:1,6,1
1026:10	9,25	941:4,12,1	6,23	3,20
1031:13	903:5,21	9,20	976:6,10,1	1017:3,12,
1032:3	904:1,16,2	942:1,2,7,	3,21	23
1034:18	1	12,22	977:3,15,2	1018:6,16,
1035:7	905:5,13,1	943:5,12,1	1 978:8,25	21
1036:10,14	9	8,22	979:19	1019:2,8,2
1037:13	906:1,8,20	944:2,10,1	980:6,14,2	3
whatever	907:1,10,1	4 945:23	3	1020:4,17,
852:13	5,22	946:5,23	981:2,5,9,	23
899:5	908:4,10,1	947:6,16,2	10,17,24	1021:12,23
1048:16,19	6,20	2	982:7,17,2	1022:7,15
	909:12	948:4,15,2	4	1023:8,16
whenever	910:1,5,11	3	983:9,16,1	1024:6,11,
993:9	,21	949:3,7,12	7	16,23
1027:13	911:4,7,13	950:1,18	984:20,25	1025:5
	,18,23	951:9,12,2	985:5,14,1	1026:6,15,
whether	912:6,13,2	1 952:24	9,24	21 1027:3
857:8,25	0	953:22	986:9,18	1028:3
861:12	913:2,7,13	954:8,15	987:6,15,2	1029:4,17,
873:17	,20,25	955:13,18,	4 988:8,14	23
881:16	914:4,18	22	990:4,9,13	1030:2,9,1
882:14	915:4,9,13	956:3,8,18	991:1,9	7,18,23
885:6	916:2,15	957:1,7,16	992:21	1031:2
887:15	917:6,14,2	,22	993:4,12,1	1033:1,7,1
947:13	5	958:5,14,1	7	6
949:24	918:14,23	9,25	994:1,20,2	1034:3,17
967:19	919:5,9,18	959:7,12,2	4 995:7,12	1035:9
973:21	920:8,13,1	1	996:1	1036:8
978:11	9,25	960:1,14,2	997:1,25	1037:7,24
1004:4	921:8,14	0 961:14	998:13	1038:16,22
1005:21	922:7,15,2	962:3	999:2,11,2	1039:1,13,
1007:10,14	2	963:10,11,	0	18,24
,18	923:3,9,17	16,25	1000:5,7,1	1040:7,19
1018:14	,24	964:11,18,	9	1041:9
1033:8	924:3,6,20	24	1001:6,7,1	1042:2,19

1043:2,6,7 ,12,24 1044:9 1045:8 1046:12,17 1047:8,12, 22 1049:20 Winnipeg 844:21 winter 947:1 wise 956:9 wish 861:3,5 880:12 908:23 1005:5 wishes 1004:5 withstand 916:6 witnesses 888:15 wonder 875:8 910:5 968:2 1044:12 wondering 877:17 worded 882:24 883:7 wording 884:9 wordsmithed 883:12 work 857:3,4 865:9 887:2 893:17 978:15 989:25 990:17 997:18 1000:23 1002:18,24 1006:7,12 worked 973:12	Workers 917:10 working 855:14 856:4 859:7 889:7 892:1 895:14,25 990:24 991:16 992:13 1000:19 1006:14 workload 857:15 1042:13 1044:22 works 941:15 world 984:4 worse 1012:8 1048:10 worst 876:1 worth 852:5 worthwhile 951:15 wringer 904:23 written 1020:10 wrong 1023:10 1042:20 <hr/> Y <hr/> ye 960:25 year-over- year 943:2 year's 856:6,9 859:5 867:12 957:25 959:3 960:24 961:15 1005:2	1034:11,12 year-to-year 890:6 yesterday 851:16,24 904:23 906:21,25 921:10 931:25 1006:18 1008:16 yet 855:19 914:11 990:21 994:17 1001:25 1002:18 1008:4,9 1028:15 1039:3 you'll 870:22 878:17 901:7 906:2 910:7 911:1 918:24 920:1 921:1 923:4,5,9, 20 936:11 938:3 942:8,24 944:4 957:24 959:1 960:25 964:25 969:25 970:24 975:7,24 976:2 979:22 982:12 985:20 986:12,20 994:4,5 1000:23 1003:13 1012:16 1014:24	1015:13 1016:25 1017:3 1018:22 1019:14 1022:10,11 ,16,17 1028:1 1032:9,21 1034:10 1043:3,17 you've 891:3 909:13,14 919:17 929:19 935:22 950:16 953:16 990:14 1004:21 1008:2 1022:1 1033:7 1037:25 1049:1 <hr/> Z <hr/> zero 934:7,15 958:22 959:8,14 960:10,11 961:11 1027:23 1045:23 1046:2,11 zeros 960:23,25 zone 894:10
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