



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: PUBLIC HEARING  
RE: MANITOBA PUBLIC INSURANCE  
GENERAL RATE APPLICATION  
FOR THE 2013/14 INSURANCE YEAR

Before Board Panel:

Regis Gosselin - Board Chairman  
Karen Botting - Board Member  
Anita Neville - Board Member

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
October 1, 2012  
Pages 701 to 897

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1 --- Upon commencing at 9:24 a.m.

2

3 THE CHAIRPERSON: If everybody's in  
4 agreement, we'll start even though it's a bit early.  
5 In fact, it's about six (6) minutes early, so a new  
6 record. Over -- back -- back to you, Ms. Grammond

7 MS. CANDACE GRAMMOND: Thank you, Mr.  
8 Chairman.

9

10 MPI PANEL RESUMED:

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: I'm going to  
17 have some questions now about cost allocation. So I  
18 will get into some questions about the methodology and  
19 what the Corporation is proposing. But before we do  
20 that, I want to get into a little bit about how costs  
21 are being allocated.

22 So I'd ask you to turn -- I'm assuming  
23 this'll be you, Ms. Reichert -- turn to Tab 39 of the  
24 Board's book of documents. This is an IR that the  
25 Board had posed. So Tab 39, and I'll ask you to go to

1 the very last page of that tab, which is one of the  
2 attachments to the IR response. So Tab 39, last page.

3 This, as I understand it, reflects  
4 allocation to Basic. So in some of the earlier pages  
5 that I -- I haven't asked you to turn to, we've got  
6 the overall corporate expenses, and then we see along  
7 the bottom of this table the percentage allocation to  
8 the Basic line of business.

9 Do I have that right?

10 MS. HEATHER REICHERT: Yes, you do.

11 MS. CANDACE GRAMMOND: So we see in  
12 '10/'11, the allocation was just under 70 percent; in  
13 '11/'12, it's just over seventy (70), forecasted back  
14 down to sixty-nine (69) for the current year; and then  
15 projected to -- to increase to 73 percent for the  
16 outlook period.

17 Is that right?

18 MS. HEATHER REICHERT: Yes, that's  
19 correct.

20 MS. CANDACE GRAMMOND: And these  
21 numbers are based on the -- what we call the old cost-  
22 allocation methodology?

23 MS. HEATHER REICHERT: They are based  
24 on the old allocation methodology except for '11/'12  
25 actual column. The actual for '11/'12, these should

1 be based on the financial statements, and the  
2 financial statements are using the new allocation  
3 methodology.

4 MS. CANDACE GRAMMOND: Okay. So that  
5 one (1) column is -- you're saying is new allocation  
6 methodology, whereas the other four (4) columns are  
7 old methodology?

8 MS. HEATHER REICHERT: That is my  
9 understanding, yes.

10 MS. CANDACE GRAMMOND: Can you  
11 provide, maybe as an undertaking, what the '11/'12  
12 actual would have been under the old methodology, just  
13 so that we can ensure that we're comparing these  
14 numbers on the same basis?

15 MS. HEATHER REICHERT: We can -- we  
16 can look into that undertaking. It -- it's quite an  
17 involved process to take the actuals and then restate  
18 them on an old methodology that -- that we're not  
19 using for the -- for that purpose. So we can -- we  
20 can look at that. It may be taking a bit of time for  
21 staff to re -- recast that.

22

23 --- UNDERTAKING NO. 11: MPI to indicate what the  
24 '11/'12 actual would have  
25 been under the old



1 methodology

2

3 MS. CANDACE GRAMMOND: I -- I guess  
4 just what I'm not understanding is the Board hasn't  
5 approved the new methodology for implementation.

6 So how is it that the financial  
7 statements reflect the new methodology?

8 MS. HEATHER REICHERT: As I understand  
9 it, the PUB hasn't approved the new methodology for  
10 the purposes of establishing the rates. It is up to  
11 the Corporation how we choose to reflect the financial  
12 statements. And the Board of directors in the  
13 Corporation, because we believe that the new  
14 allocation methodology is the -- the most fair and  
15 reasonable, chose to reflect their actual financial  
16 results using the -- the new methodology.

17

18 (BRIEF PAUSE)

19

20 MS. CANDACE GRAMMOND: Would it be  
21 possible for the Corporation to also restate this --  
22 this table for the five (5) years, reflecting the new  
23 methodology?

24 MS. HEATHER REICHERT: I can get staff  
25 to look, but I do believe we have already reflected

1 the forecast and projected and outlook years using the  
2 new methodology. I believe that's in an IR; or, if  
3 not, it was in the actual submission itself. But I'll  
4 ask staff just to look for that -- that reference.

5

6 (BRIEF PAUSE)

7

8 MS. CANDACE GRAMMOND: Thank you.

9 Just while we're talking then about the way in which  
10 the Corporation is preparing its financial statements  
11 relative to cost-allocation methodology, you can  
12 confirm then that the Basic financial statement that  
13 we see at AI-7 -- and -- and I -- I do want to talk a  
14 little bit more about the document at Tab 39. So I --  
15 I -- if you're going to leave there, then just mark  
16 it, if you would.

17 But those financial statements at AI-7  
18 are prepared with the new methodology. That's right?

19 MS. HEATHER REICHERT: Just one minute  
20 and I'll look up that reference. AI-7?

21 MS. CANDACE GRAMMOND: AI-7, the Basic  
22 financial statements.

23 MS. HEATHER REICHERT: Sorry, that's  
24 the audited financial statements for the Basic, yes.  
25 Sorry, I -- I forgot what -- what section that was.

1 Yes, tho -- the Basic audited financial statements  
2 that you see in AI-7 are based on the new methodology.

3 MS. CANDACE GRAMMOND: Just so that we  
4 understand, what are those financial statements used  
5 for -- that is, the Basic-only financial statements --  
6 other than for presentation to the Board?

7 MS. HEATHER REICHERT: They are used  
8 for presentation to the Board, but they're also used  
9 internally with our board of directors to -- to give  
10 them additional comfort about the -- the Basic line of  
11 -- of business and what those financial results are.

12 MS. CANDACE GRAMMOND: Now, the -- the  
13 GRA though, aside from the documents that we've  
14 mentioned and certainly for the purposes of rate-  
15 setting, has been filed on the basis of the old  
16 methodology?

17 MS. HEATHER REICHERT: That is  
18 correct. In TI.15 that shows the outlook periods, the  
19 forecast and outlook periods for purposes of rate-  
20 setting, '13/'14 and '14/'15 and the outlook years are  
21 based on the old cost-allocation methodology.

22 MS. CANDACE GRAMMOND: Okay. So just  
23 coming back to this document at tab 39, the last page  
24 that shows the percentage allocations to Basic,  
25 they're -- and I'm -- I do have cross-examination on

1 operating expenses, which we'll come to. But just  
2 while we're looking at this, I want to get an  
3 understanding about a couple of these line items.

4           We see at the second line item, which  
5 is data processing, a significant increase to the  
6 allocation to Basic in '13/'14. It jumps from around  
7 the 51 percent mark to about 77, 78 percent.

8           What is driving that increase?

9           MS. HEATHER REICHERT: Because these  
10 tables are taking total corporate expenses, which  
11 includes both normal operations and improvement  
12 initiatives, the increase that you see occurring for  
13 the Basic allocation on the data-processing line in  
14 '13/'14 is reflecting the increase relative to the  
15 information technology optimization project, which has  
16 significant ongoing data-processing expenses.

17           So you'll recall that that particular  
18 project we were initially going to do in house and  
19 incur a significant capital. Now that it is being  
20 done through IBM, that capital -- that significant  
21 capital is no longer required, and -- and the  
22 depreciation that would go along with that capital is  
23 no longer required. And that's being replaced by  
24 data-processing and -- and licensing costs being paid  
25 to IBM.

1 MS. CANDACE GRAMMOND: Thank you. And  
2 I do have some questions about the IBM outsourcing,  
3 which I'll ask later. But I -- I guess what I'm  
4 wondering is: Why is it that the allocation to Basic  
5 is increasing in relative terms?

6 Why is Basic bearing more of that than  
7 the other lines, relatively?

8

9 (BRIEF PAUSE)

10

11 MS. MARILYN MCLAREN: I believe, Ms.  
12 Grammond, what's happening here is really a return to  
13 more normal distribution. Something like the IT  
14 initiative that we're doing is -- is very corporate;  
15 it's not specific to a -- to a particular line of  
16 business.

17 Data processing often is really tilted  
18 towards one line more than another line because of the  
19 nature of the -- of the improvement initiatives. But  
20 this is -- is really a -- a more normal corporate  
21 distribution that you would expect to be at that  
22 level.

23 I suspect in the -- in the past years,  
24 what we had were higher allocations to the other lines  
25 than would -- than you would normally expect to see,

1 and now that is moving away and we're having more of a  
2 corporate distribution. Think of all the BPR  
3 initiatives. Many of them were funded solely by the  
4 Extension development fund or by the DVL line of  
5 business that we've been really focussed on quite a  
6 bit for the last few years.

7           Other things that we did a few years  
8 ago would be the -- the PIPP improvement initiative  
9 would have been solely funded by Basic. Something  
10 like the IT optimization is really shared equally --  
11 proportionally equally by the lines of business.

12           So all else being equal, Basic is about  
13 80 percent of the company, in terms of revenue,  
14 claims, all the other metrics that you would use. I  
15 think this is probably an indication that it's  
16 returning to that through an initiative that is really  
17 affecting each line equally -- proportionally equally.

18           MS. CANDACE GRAMMOND: Okay. We also  
19 see on the third line entitled, "Special Services," an  
20 -- a fairly significant increase in the current year,  
21 to 73 percent.

22           Now I appreciate '11/'12 is calculated  
23 on a different basis, but is there a -- something  
24 specific that's driving the increase of allocation to  
25 Basic for special services?

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: The -- the  
4 rationale for special services going up in percentage  
5 allocation is for the same -- for the same reasons  
6 just indicated by Ms. McLaren, the returning to -- to  
7 more of a -- of a normal distribution. Special  
8 services is where other costs relating to implementing  
9 significant improvement initiatives would also be  
10 charged. So it's the same -- it's the same rationale,  
11 just to a little bit smaller extent than -- that you  
12 saw in data-processing.

13 MS. CANDACE GRAMMOND: Now, Ms.  
14 Reichert, when you gave your direct evidence on the  
15 first day of the Hearing, you went through the flow  
16 chart that's in the filing with respect to cost  
17 allocation and explained all of the dollar amounts  
18 that are associated at each allocation component.

19 And we know that one of the changes  
20 that the Corporation is proposing to the new  
21 methodology this year is that at Level D, that the  
22 allocation of shared claims-handling costs be done  
23 using net claims incurred rather than gross written  
24 premiums.

25 I have that right?

1 MS. HEATHER REICHERT: Yes, you do.

2 MS. CANDACE GRAMMOND: And, again, I  
3 take it that the Basic financial statements that we  
4 spoke about a minute ago have been prepared using the  
5 new -- or, pardon me, the net claims incurred method.

6 Is that right?

7 MS. HEATHER REICHERT: Actually,  
8 unfortunately, when we were preparing our filing for  
9 the Public Utility Board, it was at that point that we  
10 were looking at net claims incurred as being the more  
11 fair and reasonable allocation methodology. The  
12 financial statements had already been prepared and  
13 were in the process of being audited at that point.  
14 They actually used the new methodology, as modified by  
15 the PUB directive, of using gross premiums written.

16 MS. CANDACE GRAMMOND: And is the same  
17 true, then, for the corporate financial statements?

18 MS. HEATHER REICHERT: If you mean by  
19 "corporate financial statements" the Basic compulsory  
20 audited financial statements, because the corporate  
21 financial statements do not include allocation,  
22 because they are just the corporate.

23 MS. CANDACE GRAMMOND: Okay. I'm  
24 going to ask you, then, to go to Tab 33 of the book of  
25 documents. This is where we have a -- an IR response



1 that speaks to this. And I'll ask you to go to the  
2 second page at Tab 33. We see a -- a table there that  
3 reflects, as I understand it, a comparison of the two  
4 (2) methods. So at the top of the table we see the  
5 net claims incurred method, and at the bottom table we  
6 see the gross written premiums method.

7 Is that right?

8 MS. HEATHER REICHERT: Yes, that --  
9 this table is showing what the calculation of the  
10 allocation percentages would be under the two (2)  
11 different methodologies. Yes.

12 MS. CANDACE GRAMMOND: And it would  
13 appear under the claims incurred method -- the top  
14 part of the table, which is the one that the  
15 Corporation is proposing -- the allocations to Basic  
16 are, in three (3) of the four (4) years, higher to  
17 Basic than under the gross written premiums method.

18 Is that right?

19 MS. HEATHER REICHERT: Yes, that is  
20 correct. And, again, just to -- to reiterate, even  
21 though it is a higher allocation to Basic, we believe  
22 that -- that that is appropriate. It is a fair and  
23 reasonable allocation of the -- of what Basic should  
24 be allocated on -- on, looking at its proportion, if  
25 you will, of the total effort that the Corporation

1 undertakes.

2 MS. CANDACE GRAMMOND: And in terms of  
3 dollar amounts, and I appreciate that this particular  
4 table is on percentages, not dollars.

5 But it's my understanding that for the  
6 current year the difference in dollar result to Basic  
7 is about \$5 million, that if the net claims incurred  
8 methodology -- or, sorry, the net claims incurred  
9 allocation was used at Level D of the cost allocation  
10 methodology, it would cost about \$5 million more to  
11 Basic.

12 MS. HEATHER REICHERT: If -- if you'll  
13 allow me, I actually have that in a schedule. I will  
14 -- okay, I -- I've got it here. So if -- if claims  
15 incurred methodology were used as compared to the  
16 gross premiums written methodology, you are correct in  
17 that 2013/'14 would see about 5.1 million more  
18 allocated to Basic, and in 2014 about 5.2 million more  
19 would be allocated to Basic.

20 So when you look at that from a rate  
21 perspective, you -- you add those two (2), take the  
22 average -- so essentially five point one (5.1), five  
23 point two (5.2) -- which would then equate to about  
24 five-eighths (5/8s) of a percent difference in the --  
25 in the rate.

1 MS. CANDACE GRAMMOND: Thank you.

2 Now, this approach, I gather -- and I -- I know you've  
3 said that the Corporation feels that the -- that using  
4 the claims incurred rather than gross written premiums  
5 is more fair and reasonable. This was something that  
6 was recommended by Deloitte in -- initially.

7 Is that right?

8 MS. HEATHER REICHERT: In the -- in  
9 the report that Deloitte did for us back in June 2009,  
10 this is the methodology that they recommended. That  
11 was further reviewed by our external auditors, KPMG,  
12 who also supported that it was the more fair and  
13 reasonable methodology to use that wouldn't bias or  
14 skew the results in any way.

15 MS. CANDACE GRAMMOND: And the  
16 reasoning, I gather, behind the idea that this is more  
17 fair and reasonable is along the lines that they feel  
18 that -- that it's the most reasonable comparator of  
19 actual business activity required to service customers  
20 under each line of business.

21 Does that sound about right?

22 MS. HEATHER REICHERT: That would be  
23 one of the reasons that they -- they felt that this  
24 was the best allocator. As you say, it is the most  
25 reasonable comparator of actual business activity

1 required to service customers. So again, it -- it  
2 meets that common-sense test of cost causality that I  
3 referred to in my direct examination.

4           And the other -- the other reason for  
5 going to net claims incurred as opposed to gross  
6 premiums written was on the -- the fact that you have  
7 an expense -- you're using an expense, claims incurred  
8 as an expense, to allocate an expense, and it does not  
9 skew, in any way, the results.

10           Recognizing that the lines of business  
11 that we have in Basic and Extension and SRE, Basic has  
12 no profit incorporated within its gross premium  
13 writtens, whereas Extension and SRE do, so you are  
14 unintentionally skewing the allocation to those areas  
15 that have the -- the profit included in the gross  
16 premium written.

17           MS. CANDACE GRAMMOND: Now, the other  
18 part of the proposal that MPI has brought forward is  
19 that the net claims incurred be used, but also that it  
20 be done on the basis of a four (4) year average rather  
21 than just one (1) year.

22           And we see at -- still at Tab 33 at the  
23 table at -- well, the -- I mean, the table that we  
24 were just looking at, sorry, on page 2. It does  
25 reflect the way for this four (4) year period that

1 that averaging would be calculated.

2 And in essence, it would -- it would be  
3 to just take the -- the four (4) years preceding the  
4 year of the Application and average them out.

5 Is that a fair description?

6 MS. HEATHER REICHERT: Essentially,  
7 yeah. We weight a four (4) year rolling average  
8 calculated using the four (4) previous years' actual.

9 MS. CANDACE GRAMMOND: And so for the  
10 four (4) years that are applicable in this  
11 Application, the four (4) year average would be 84.2  
12 percent to Basic, as shown on this table, compared  
13 with 81.3 percent under the method that the Board had  
14 imposed previously.

15 MS. HEATHER REICHERT: Yes, that is  
16 correct.

17 MS. CANDACE GRAMMOND: Now, we see as  
18 we look through this table that, at least to me, it  
19 looks like there's more variability in the claims  
20 incurred than there is in gross written premiums.

21 We see the claims incurred for Basic.  
22 It goes from eighty-five (85) to eighty-four (84) to  
23 seventy-nine (79), up to eighty-seven (87), for an  
24 average of eighty-four point two (84.2), as we had  
25 stated, whereas for premiums written it's really a lot

1 more consistent.

2 Does that show that the written  
3 premiums method is more stable than the claims  
4 incurred method?

5 MS. HEATHER REICHERT: Based on that  
6 math, it would appear that the gross premiums written  
7 are more stable. However, the reason that there was  
8 the fluctuation in the Basic is because in '10/'11,  
9 that was the year that the rebate was -- was reflected  
10 through MPI, which, as everyone here knows, was  
11 extremely significant and, we believe, a one (1) time  
12 only rebate of that magnitude.

13 So that is what did have some impact on  
14 the Basic percentage allocated in that particular  
15 year, which does point to why using any of these --  
16 any of these ratios that are going to be allocating,  
17 you know, a bulk of the expenses that need to be  
18 allocated, that you want to use a four (4) year  
19 average in order to -- in order to mitigate, should  
20 there be something significant like -- like that  
21 particular rebate.

22 Obviously, we aren't anticipating  
23 anything like that in the future, but a four (4) year  
24 rolling average will ensure that it -- it does stay at  
25 a stable percentage.

1 MS. CANDACE GRAMMOND: And just to  
2 clarify, was it the issuance of the rebate that  
3 affected the claims incurred that year, or was it the  
4 IBNR release?

5 MS. HEATHER REICHERT: That's probably  
6 my -- my mistake. I -- I associate the two (2). I  
7 mean, the -- the IBNR release was what generated the -  
8 - the rebate. So it would have been the IBNR release  
9 that impacted on the claims incurred expense. And it  
10 generated the rebate that we had that year. So thanks  
11 for that clarification.

12 MS. CANDACE GRAMMOND: Okay. Now, let  
13 me ask you this: If MPI wasn't proposing a change to  
14 net claims incurred over premiums written, would it  
15 still be asking for the four (4) year averaging piece?

16 MS. HEATHER REICHERT: If your  
17 question is would we -- if the Board did not support  
18 our request to use the more fair and reasonable net  
19 claims incurred and was directing us to use gross  
20 premium written, would we want to use a four (4) year  
21 rolling average, I would say, yes, for the very same  
22 reasons that you want to have a method that's going to  
23 mitigate any potential swings that may occur.

24 But I obviously very much hope that --  
25 that the Board will go with the net claims incurred as

1 the more fair and reasonable allocator.

2 MS. CANDACE GRAMMOND: Now, if the  
3 Board orders, as a result of this Hearing, that the  
4 new allocation methodology should be implemented but  
5 that the -- the gross premiums written should still be  
6 used, would the Corporation continue to use net claims  
7 incurred in its own financial reporting?

8 Or would we see the Corporation just  
9 basically producing one (1) set of books from this  
10 point?

11

12 (BRIEF PAUSE)

13

14 MS. MARILYN MCLAREN: We -- we  
15 wouldn't make a commitment on something like that  
16 without speaking to our board of directors. We would  
17 -- we would do our best to avoid two (2) sets of  
18 books.

19 MS. CANDACE GRAMMOND: Now, as you had  
20 stated, Ms. Reichert -- at least I think it was you --  
21 that when the cost-allocation methodology was  
22 originally brought forward to the Board a few years  
23 ago, it was the net claims incurred that was proposed,  
24 and the Board had, at that time, ordered, No, it  
25 should be gross premium written at that Level D.



1                   Is there anything that the Corporation  
2 believes has changed in the last few years that the  
3 Board should revisit the decision, or is it more just  
4 that the Corporation is -- is asking the Board to  
5 reconsider?

6                   MS. MARILYN MCLAREN:    No, we --  
7 nothing has changed. We're in a position to bring  
8 forward a number of proposals that we think stre --  
9 strengthen the cost-allocation methodology beyond what  
10 Deloitte had originally proposed back -- a few years  
11 back. This is -- we're -- we're treating this as --  
12 as sort of, you know, this -- this good opportunity to  
13 have a new methodology approved.

14                   We were very disappointed when the PUB  
15 made that statement about the premiums written  
16 initially. We didn't talk much about it in the  
17 intervening year or two (2), because there was, you  
18 know, other -- other issues being discussed. But  
19 right now, we believe that we have everything pulled  
20 together.

21                   We think we have a reasonable  
22 methodology here for the Board's approval. And we  
23 really believe claims incurred is a key part of that,  
24 and that's why we're really strongly arguing for that  
25 now this year.

1 MS. CANDACE GRAMMOND: Now, when  
2 Deloitte was here to testify, I believe it was in  
3 2009, there was some fairly significant discussion  
4 about the guiding principles that Deloitte had looked  
5 to when it came up with the methodology.

6 And just to -- to state what those  
7 were, I believe they were: fair and reasonable,  
8 practical and efficient, flexible and adaptable,  
9 acceptable in a regula -- regulatory context, and  
10 consistent with industry standards.

11 Does that sound about right?

12 MS. HEATHER REICHERT: Yes, that's  
13 correct.

14 MS. CANDACE GRAMMOND: And I -- I  
15 actually looked back at some of the evidence that  
16 Richard Olfert had given to the Board that year. And  
17 I appreciate he's not being called this year, so it's  
18 the MPI panel that's giving evidence on this. But I -  
19 - I did have an exchange with Mr. Olfert at that time.  
20 And he did, like the -- the MPI panel now, identify  
21 the fair and reasonable principle as one that, in his  
22 view, was supportive of the -- the net claims  
23 incurred.

24 But when we went through the rest of  
25 the guiding principles, he, in essence, testified that

1 either approach -- either net claims incurred or gross  
2 premiums written -- would be acceptable. And, I mean,  
3 I'm paraphrasing, and I do have the trans --  
4 transcript excerpt in front of me if you'd like to  
5 review it.

6 But does the Corporation have any  
7 comment at this point about the weight of the guiding  
8 principles and whether it's really one versus the  
9 others that is driving this request?

10 MS. HEATHER REICHERT: Okay, I'll --  
11 I'll give the first response to -- to that question.  
12 The Corporation is giving a -- a fair bit of weight to  
13 the fair and reasonable guiding principle. As I  
14 mentioned in -- in my direct testimony, it is, we  
15 believe, the key guiding principle. It is not the  
16 only one, as -- as has been mentioned. But it is  
17 definitely a very key one.

18 We need, as -- as Mr. Williams, I  
19 believe, said on -- on the opening day, we need just  
20 and reasonable rates, fair and reasonable rates. It  
21 needs to be -- it needs to be supportable and  
22 transparent for our customers that the allocation  
23 methodology that we are using is, in fact, fair and  
24 reasonable and understandable.

25 And we believe that that is achieved

1 more with net claims incurred being used as an  
2 allocator than with gross premiums written, where  
3 clearly it can be skewed based on -- based on  
4 decisions made on what kind of profit margin the  
5 Extension or SRE business is -- is being planned to  
6 have. So from that perspective, I don't think it  
7 passes that common-sense test that we talked about  
8 during the direct examination.

9 MS. CANDACE GRAMMOND: Thank you.  
10 Now, just so that we're clear about the dollars that  
11 we're talking about when we're talking about this  
12 issue. We've included in the book of documents, at  
13 Tab 20, one of the IRs that we had posed. And we can  
14 probably find this in more than one (1) place. But if  
15 we go to the last page at Tab 20...

16

17 (BRIEF PAUSE)

18

19 MS. CANDACE GRAMMOND: Sorry, I feel  
20 like I'm giving you the wrong reference. This -- this  
21 IR is where we ask the Corporation to rerun some of  
22 the filings on the basis of the new cost-allocation  
23 methodology, and the Corporation did that as  
24 requested.

25 So we see at the -- the third page in,

1 in essence, a new TI.15A that was rerun, including a 1  
2 percent rate reduction rather than no rate change and,  
3 as well, the numbers calculated on the basis of the  
4 new methodology.

5 Is that right?

6 MS. HEATHER REICHERT: Yes, that is  
7 the TI.15A that we're looking at.

8 MS. CANDACE GRAMMOND: And this is  
9 where that five thousand dollar (\$5,000) number is  
10 shown that we spoke about earlier?

11 MS. HEATHER REICHERT: I'm not sure  
12 that -- if you're referring to the five thousand  
13 dollar (\$5,000) number that's on the 2012/'13 column,  
14 is that the five (5) -- this -- we would need to look  
15 at the TI.15A that was done in response to the IR  
16 request for the 1 percent reduction on the old cost-  
17 allocation methodology.

18 I think it's only coincidence that this  
19 net income loss show -- or the loss showing here is  
20 five thousand (5,000) -- or, 5 million, I'm sorry. If  
21 I can -- if I can help, the -- there -- there is,  
22 within AI-16, where all of the cost allocation  
23 methodology documents are contained, there actually is  
24 at -- if folks wanted to go to it, there actually is,  
25 at Attachment B of AI-16, the table that compares old

1 --

2 MS. CANDACE GRAMMOND: Yeah. It --  
3 sorry to interrupt you, but it's in the book of  
4 documents as well at Tab 19. So --

5 MS. HEATHER REICHERT: Okay. Sorry.

6 MS. CANDACE GRAMMOND: -- that may be  
7 helpful as well.

8 MS. HEATHER REICHERT: I -- I think  
9 that might be an easier one to look at.

10 MS. CANDACE GRAMMOND: Sure. Thank  
11 you.

12 MS. HEATHER REICHERT: Actually --  
13 oops, sorry, this wasn't the one that I was going to  
14 refer folks to, but it -- it does -- it does do the  
15 trick as -- as well.

16 The one that I was going to refer you  
17 to actually has both outlook years so that you can  
18 see, again, what the impact to the rates would be  
19 under the two (2) different methodologies.

20 I'm not sure if that's where you wanted  
21 to take your question.

22 MS. CANDACE GRAMMOND: While we're at  
23 Tab 19, I'll maybe ask you to go to the last page. So  
24 this -- this last page reflects for the current year,  
25 2012/'13, an expense-allocation method comparison. So

1 it's got new method on the left, old method on the  
2 right.

3 We see, under step 5 at Level D, that a  
4 total of about 201 million is to be allocated. Do you  
5 see that?

6

7 (BRIEF PAUSE)

8

9 MS. HEATHER REICHERT: I'm sorry, can  
10 I get the page reference again?

11 MS. CANDACE GRAMMOND: For sure. Last  
12 page of Tab 19, under step 5. It's about halfway down  
13 the page. This is going through, step by step, the --  
14 the allocation at each level. And step 5, it would  
15 appear, represent -- represents schedule -- or, sorry,  
16 Level D, and it does show between 201 and 202 million  
17 being allocated among the lines at that step.

18 MS. HEATHER REICHERT: Yes. Yes, I'm  
19 at that point, yes.

20 MS. CANDACE GRAMMOND: So can you tell  
21 us then whether that number, that 201.7 million, is  
22 what we're talking about when we discuss the  
23 allocation at Level D and the net claims incurred  
24 versus the gross written premium as an allocator?

25 MS. HEATHER REICHERT: Yes, that's

1 correct. At Level D, it would be net claims incurred  
2 versus the gross premium written. And that -- this  
3 shows net claims incurred.

4 MS. CANDACE GRAMMOND: Okay. Now,  
5 this document gives us a little bit of how that 201  
6 million is comprised. If we look up the page, there  
7 are some component parts there.

8 Is it the case that some of the costs  
9 within the 201 million relate to claims incurred and  
10 some relate to overhead? Is -- are those sort of  
11 broad descriptions of what's included?

12 Or are those costs comprised of  
13 something else?

14 MS. HEATHER REICHERT: The costs that  
15 you see at Level D that are being allocated, they're  
16 being allocated on the basis of claims incurred. But  
17 it does not -- claims incurred expenses themselves,  
18 like claims incurred, are not included in those  
19 amounts.

20 If I can sort of reflect back on the  
21 direct testimony and the overall framework, before we  
22 get to any allocation of expenses, anything that can  
23 be directly assigned to a line of business, such as  
24 Basic claims incurred, would be directly assigned to  
25 the Basic line of business. And it's only costs that



1 cannot be directly assigned -- which in this example  
2 is in around two hundred (200) -- 200 million -- that  
3 we start to use allocators to allocate them to the  
4 appropriate line of business or category of business.

5                   When we get down to Level D, these are  
6 costs that have previously been allocated to the  
7 insurance line of business, and we're now trying to  
8 determine within that grouping what is the Basic line  
9 of business, what is Extension, and what is SRE. So  
10 there are no claims incurred themselves within that  
11 200 million.

12                   These would be expenses like finance,  
13 data-processing expenses for normal operations, things  
14 -- what I would call support costs for the  
15 Organization.

16                   MS. CANDACE GRAMMOND: And that's  
17 probably a good phrase to use, "support costs".  
18 Wouldn't it be fair to say that most of the support  
19 costs would be fairly static regardless of the volume  
20 of claims?

21

22                   (BRIEF PAUSE)

23

24                   MS. HEATHER REICHERT: Generally  
25 speaking, support costs for normal operations would be

1 relatively static. You know, normal operations within  
2 MPI do not -- do not fluctuate significantly. We need  
3 'X' number of people for doing claims adjusting, which  
4 is allocated directly to the lines of business. And  
5 similarly, we need a static number of people for  
6 finance, or for human resources, or whatever the  
7 other, you know, support category might be.

8                   So generally, it would be relatively  
9 static. The use for -- or, using net claims incurred  
10 to -- to allocate those costs, again, it's based on  
11 cost causality. More finance people are going to be  
12 used to support Basic than there are going to be used  
13 to ex -- support Extension, because most of the claims  
14 activity occurs in the Basic area.

15                   So again, it's the -- the  
16 fair/reasonable cost causality aspect of net claims  
17 incurred that is being reflected in this allocator.

18                   MS. CANDACE GRAMMOND: Now, when we  
19 talk about the support costs would that include things  
20 like management committee, internal audit, finance  
21 department, human resources?

22                   MS. HEATHER REICHERT: Yes, that's  
23 correct. If -- I -- we can go to a reference if it --  
24 if it's helpful. But, yes, generally that's the type  
25 of things that would be included in there.

1                   Sorry, and I'm just reminded, and  
2 claims handling staff, as well. Okay, which would be  
3 probably like the -- the bigger component of the total  
4 cost being allocated.

5                   MS. CANDACE GRAMMOND:     These are all  
6 types of things that are considered when the rates are  
7 set, right?

8                   Tho -- these are all expenses of the  
9 Corporation that the Board reviews, and the idea being  
10 that the -- the premiums are to -- intended to try to  
11 cover off those costs as well as the Corporation's  
12 other costs?

13                   MS. HEATHER REICHERT:    Yes, that's  
14 correct. These are all costs that are -- are included  
15 within the Corporation's cost to -- to get to what  
16 rate is required.

17                   MS. CANDACE GRAMMOND:    Thank you.  
18 Now, we talked about the net claims incurred versus  
19 gross premiums written. We've talked about the four  
20 (4) year averaging. In that piece, the Corporation is  
21 also asking to use a four (4) year rolling average for  
22 the weighted customer call centre contact ratio, which  
23 is another allocator that's used.

24                   And the Corporation has advised that  
25 it's making that request to address concerns expressed

1 by the --the Board about potential volatility of  
2 allocators based on only one (1) year of data.

3 Is that right?

4 MS. HEATHER REICHERT: Yes, that is  
5 correct.

6 MS. CANDACE GRAMMOND: So is it fair  
7 to say then, in essence, the Corporation is trying to  
8 smooth out the -- the numbers over a period of years?

9 MS. HEATHER REICHERT: In the -- in  
10 the case of the weighted customer call centre contact  
11 ratio, if -- if you look at what those ratios have  
12 been over the last four (4) years, they have been  
13 relatively stable.

14 It's our recommendation to use a four  
15 (4) average even though it has been stable in order  
16 that should something occur, like another very  
17 significant rebate or -- I'm trying to think of  
18 another example that -- that could significantly alter  
19 that particular one (1) year ratio, that by using a  
20 four (4) year rolling average, you in fact mitigate  
21 the impact in any one (1) year from something that --  
22 that might occur.

23 So I -- I wouldn't say -- from -- from  
24 the mitigating volatility, I guess if that's  
25 considered to be smoothing, then that -- that is part

1 of why we would recommend to do that four (4) year  
2 average.

3 MS. MARILYN MCLAREN: Yeah, maybe just  
4 to explain it a slightly different way. It -- we're --  
5 -- we're not trying to smooth the numbers as much as  
6 we're -- we really believe it's an improvement to the  
7 methodology.

8 It doesn't -- it -- it makes much more  
9 sense to have an average like that because, in  
10 reality, otherwise, what you'd be doing, you'd be  
11 looking at what actually happened in the call centre  
12 in '11/'12 and using that to set rates for '13/'14.

13 So if there was, you know, any kind of  
14 volatility as to what happens there, the -- you know,  
15 the -- we could be asked to administer something on  
16 the drivers and vehicle side that would cause all  
17 kinds of questions to come from vehicle owners, some --  
18 -- some sort of vehicle, you know, inspection change or  
19 something like that. And there would be this huge  
20 spike in activity in '11 and '12 that was never  
21 considered in sort of the whole rate-making exercise  
22 for '11 and '12.

23 But, somehow, that aberration that's  
24 never going to be repeated is going to influence the  
25 rates that you set for '13/'14 for Basic. So it -- it

1 actually just makes a lot more sense. It's an  
2 improvement to the methodology to not allow that kind  
3 of aberration in business activity in the past to  
4 affect the rates that you're being asked to approve  
5 for the future.

6 MS. CANDACE GRAMMOND: So a year like  
7 that, it would still be a factor in the allocator  
8 going forward, but it would be diluted?

9 MS. MARILYN MCLAREN: Exactly.

10 MS. CANDACE GRAMMOND: Now, Ms.  
11 Reichert, you mentioned -- mentioned a couple of  
12 moments ago that KPMG had done a review of the cost-  
13 allocation methodology. And it's included in the  
14 filing that -- that was done. And -- and the  
15 Corporation received an assessment.

16 Can you just explain a little bit about  
17 why KPMG was engaged to do that review?

18 MS. HEATHER REICHERT: Can I just  
19 clarify? The review that you're referring to is the  
20 initial review that they did of the 2009 Deloitte  
21 report.

22 MS. CANDACE GRAMMOND: Thank you for  
23 asking. I -- I was referring to the review that was  
24 done for the most recent financial statement.

25 MS. HEATHER REICHERT: Okay, we asked

1 KPMG to do further additional specific audit  
2 procedures on -- on the cost allocation with respect  
3 to the Basic financial statements for '11/'12. And  
4 that was -- and I believe I mentioned this in my  
5 direct as well, that that was done to provide  
6 additional comfort to the PUB, that the Corporation is  
7 appropriately -- is -- is appropriately using the --  
8 appropriately applying the cost-allocation methodology  
9 to the Basic financial statement.

10 So they just did additional specific  
11 work where they -- they tested that we in fact used  
12 the right formulas to allocate the costs and that  
13 those formulas were applied appropriately to the right  
14 total -- total dollars.

15 MS. CANDACE GRAMMOND: Now, I gather  
16 that KPMG was accepting of the allocator being gross  
17 written premiums as opposed to net claims incurred  
18 just because the financial statements were issued on  
19 that basis?

20 MS. HEATHER REICHERT: They -- they  
21 were. But they -- as -- as they indicated in their  
22 review of the 2009 report of Deloitte, they were very  
23 much in support of net claims incurred.

24 When the auditors actually do audit the  
25 Basic financial statements, there is always a

1 component of materiality that comes into play. So as  
2 we've shown in some of the filings and some of the  
3 schedules, the difference between gross premium  
4 written and net claims incurred would not have been  
5 considered a material amount for the auditors to say,  
6 Your financial statements are -- are unreasonable.

7           So they did their work, made sure that  
8 we were properly allocating on the basis that we said  
9 that we were allocating, but would not have qualified  
10 their opinion because we were using gross premium  
11 writtens ver -- versus net claims incurred. Because  
12 the difference was not a material difference; it would  
13 have been three (3) -- about \$3 million different.  
14 And that's not material to the overall Corporation or  
15 the Basic statements.

16           MS. CANDACE GRAMMOND: Thank you.  
17 Now, this is somewhat related to cost allocation, but  
18 I -- I want to get into a -- some questions about the  
19 interplay between Basic and the other lines of  
20 business.

21           Ms. McLaren, you gave some evidence on  
22 the first day about -- that MPI, you know, wouldn't  
23 exist if it wasn't for the Basic program. Certainly,  
24 MPI's business is highly integrated.

25           And I -- I assume that you would agree



1 and -- and tell me if my assumption is wrong, that the  
2 competitive lines are supported by Basic?

3 MS. MARILYN MCLAREN: No, I -- I would  
4 really need to understand a bit more of what you mean  
5 with the choice of the words, "supported by Basic."

6 MS. CANDACE GRAMMOND: Okay, sure.  
7 Can you tell us what your view is of whether or not  
8 the competitive lines are viable businesses, or could  
9 be viable businesses, without access to Basic's  
10 database of customers and the Autopac Online system?

11 MS. MARILYN MCLAREN: Sure, they would  
12 be viable businesses. They would operate, in some  
13 ways, very similarly to the way they do today. Some  
14 ways might be a bit different. But, you know, I mean  
15 -- and -- and as we've talked here before, that while  
16 MPI has most of the optional auto -- automobile  
17 extension insurance in this province, there are others  
18 that compete successfully, profitably. So I -- I  
19 wouldn't at all suggest that those lines would not be  
20 viable.

21 MS. CANDACE GRAMMOND: Would you agree  
22 that, to stand alone -- for the competitive lines to  
23 stand alone without Basic, certainly a significant  
24 investment would be required for them to be able to  
25 operate?

1 MS. MARILYN MCLAREN: You know, that -  
2 - that's really speculative. If they were to -- if  
3 somebody was to start up fresh, sure, investment would  
4 be required. In what fashion would they be separated  
5 from Basic, you know what I mean, that's not something  
6 I can really get my head around, just in terms of some  
7 of the concepts that you're talking.

8 And maybe -- maybe it would help to  
9 give a little bit of a -- an example, in terms of how  
10 they run and how it might be different in a different  
11 scenario. And we've talked about this many years ago,  
12 I think back when we were talking about the -- I think  
13 the last time somebody reviewed the allocation  
14 methodology, I think, was Arthur Andersen for us back  
15 in the early '90s, something like that.

16 But at -- at that time, you know, it's  
17 -- it's a balance, and sometimes the Extension line of  
18 business is disadvantaged by association with Basic.  
19 Sometimes it's -- there are -- it -- it -- there are  
20 advantages. So if they would stand on their own -- I  
21 mean, I think of things like this. For years, when we  
22 had the old allocation methodology, most of the  
23 operating expenses were allocate on -- allocated on  
24 the basis of premiums written.

25 So Basic would pick up, you know, 80

1 percent of the mailing costs to mail renewals that had  
2 a Basic and an Extension component. Extension would  
3 pick up 20 percent of the costs. But if Extension was  
4 not linked with registration and Basic and the renewal  
5 was not mailed in one (1) envelope, probably what the  
6 people responsible for administering that Extension  
7 program would do -- what -- is the way almost every  
8 insurer deals with policy renewals. Is they would,  
9 instead of mailing, you know, seven hundred thousand  
10 (700,000) renewals, this small book of business  
11 couldn't afford to do that.

12                   What -- what other insurers do is, they  
13 mail renewal notices to four hundred (400) brokers,  
14 three hundred (300) brokers. So they buy three  
15 hundred (300) stamps instead of having to pay 20  
16 percent of seven hundred thousand (700,000) stamps.

17                   So it's things like that. You would do  
18 things differently. So, yes, there are advantages,  
19 that it's all tied together in one (1) transaction.  
20 But we believe that for the most part those advantages  
21 go to Manitobans, not necessarily to the Corporation's  
22 competitive line, because in as many ways as the cor -  
23 - as the competitive line gets some advantages, it  
24 also gets a lot of costs.

25                   The operating expenses, by doing

1 allocations the way we do it, are in all likely -- in  
2 all likelihood higher than they would be if it was  
3 truly run as a standalone business trying to minimize  
4 its operating expenses, rely more heavily on brokers,  
5 as others do. So there -- it's -- it's a balance, and  
6 it goes both ways.

7 MS. CANDACE GRAMMOND: And just so  
8 that we're clear, it is the case that the competitive  
9 lines are -- have access, or are given access to  
10 Basic's infrastructure, using Autopac Online, as an  
11 example. When a broker is dealing with an Extension  
12 or SRE policy, they're still using Autopac Online,  
13 right?

14 MS. MARILYN MCLAREN: We do not  
15 administer SRE through Autopac Online at all. Autopac  
16 Extension is -- but -- but it pays a share of those  
17 costs, as well. So, I mean, it -- you know, if you  
18 believe that -- which we do believe that MPI exists to  
19 administer the Basic compulsory program, then I guess  
20 you could take the next step to say that everything  
21 MPI has really is Basics, and others tag on, which  
22 seems to be the way you're going.

23 That's not quite the way I think about  
24 it. But for the sake of, you know, the examination we  
25 can go down that road. So, sure, then Extension gets

1 to use Basic's Autopac Online. And it pays a cost to  
2 that.

3                   And what we're talking about here is  
4 what is a reasonable basis that does not turn  
5 everybody inside out and spend more money trying to  
6 allocate the costs than we spend on the costs to  
7 figure out a reasonable way to allocate the  
8 Corporation's costs across the different lines of  
9 business, knowing that all of it, for the most part,  
10 exists to administer the Basic compulsory program.

11

12                   (BRIEF PAUSE)

13

14                   MS. CANDACE GRAMMOND:    Would the  
15 Corporation agree that allocating the Level D costs on  
16 the basis of gross written premium is in some way a  
17 recognition of the support that Basic provides to the  
18 other lines?

19                   MS. MARILYN MCLAREN:    No. Well, I  
20 mean, okay, but it's -- it's not appropriate in our  
21 view. It is not an appropriate reflection of the  
22 costs. You -- it -- it's -- on that -- on that basis,  
23 it would be arbitrary.

24                   It would be, in effect, what I'm --  
25 would paraphrase back to you, what I hear you saying

1 is that if this Board decided to stick with a decision  
2 to use premiums written, and if part of that decision  
3 was that they wanted some sort of a reflection that  
4 most of MPI exists to administer the Basic program,  
5 and they've chosen this arbitrary way to put more  
6 costs towards the competitive lines -- I mean, I don't  
7 know.

8                   It -- it's not fair and reasonable.  
9 It's not logical. It doesn't follow the cost  
10 causation that we've been talking about. So if -- it  
11 -- it just doesn't make sense, right.

12                   I mean, that's not -- if there is some  
13 additional consideration to allocate the costs across  
14 the lines of business, then it ought to be fully  
15 discussed and fully transparent and fully ordered by  
16 this Board, as opposed to some extra additional -- I -  
17 - I don't want to speculate on what other words I  
18 would use, but it -- it doesn't make sense for me for  
19 all the reasons I've stated.

20                   MS. CANDACE GRAMMOND: Thank you. Can  
21 you just -- just so that I can under -- ensure that  
22 the Board understands, can you explain why it's your  
23 view that the gross written premium method is  
24 arbitrary?

25                   MS. MARILYN MCLAREN: Because there's

1 a better method available that is more appropriate,  
2 makes more sense, and better meets the test of being  
3 fair and reasonable.

4 MS. CANDACE GRAMMOND: So I -- I  
5 understand why that -- I understand why it's the view  
6 of the Corporation that that method is inferior to the  
7 method that the Corporation is proposing, and I -- I  
8 understand where the Corporation's coming from with  
9 that.

10 But does that necessarily make the  
11 gross written premium method arbitrary as well?

12 MS. MARILYN MCLAREN: I -- you know, I  
13 think there's a lot of shades of grey here. And we're  
14 not -- we're not talking about really extreme  
15 differences. And we talked about materiality and all  
16 kinds of things.

17 I think there's also -- maybe the word  
18 "arbitrary" was not the -- the best choice of -- of  
19 words, but we really don't believe that it's  
20 appropriate. And we think that it is certainly more  
21 arbitrary than a claims incurred would be.

22

23 (BRIEF PAUSE)

24

25 MS. CANDACE GRAMMOND: I just want to

1 take a moment to talk about retained earnings. And if  
2 you -- if you want a reference, it'll be the Corporate  
3 annual report, which is part of AI-7.

4

5

(BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: We see at page  
8 36 information with respect to Basic's retained  
9 earnings right at the top of the page on page 36 at  
10 the Corporate annual report.

11

12

(BRIEF PAUSE)

13

14 MS. CANDACE GRAMMOND: The Corporation  
15 has indicated that, as of year end 2012, Basic  
16 retained earnings total 213.7 million -- and I'm  
17 paraphrasing -- of which 155.7 million is allocated to  
18 the rate stabilization reserve and 58 million to Basic  
19 retained earnings.

20

That's right?

21

22 MS. HEATHER REICHERT: Yes, that's --  
23 that is correct.

23

24 MS. CANDACE GRAMMOND: And what we  
25 have in the Corporate annual report on the same page,  
36, and the next page, 37, is some information about



1 the retained earnings in the other lines. And I think  
2 this is probably the only place in the filing where we  
3 find this kind of information with respect to the --  
4 to the other lines.

5 We see under the heading of,  
6 "Extension," on page 36, and then under the subheading  
7 of, "Retained Earnings," that as of the same year end  
8 -- so 2012 year end -- Extensions retained earnings  
9 totalled 97.8 million.

10 Is that right?

11 MS. HEATHER REICHERT: Yes, that is  
12 what it says.

13 MS. CANDACE GRAMMOND: And on the next  
14 page, page 37, under the heading, "Special Risk  
15 Extension," we see that the SRE retained earnings as  
16 of same year end, 2012, were 45.8 million?

17 MS. HEATHER REICHERT: Yes, that is  
18 what it says.

19 MS. CANDACE GRAMMOND: And I also see  
20 reference here to the EDF, which is the Extension  
21 development fund. Just for the purposes of the -- the  
22 record, where it's reflected that the balance in the  
23 EDF as of February, 2012, is 20.8 million, is that in  
24 addition to the retained earnings in Extension and  
25 SRE, or is that 20 million in the EDF included in the

1 Extension retained earnings?

2 MS. HEATHER REICHERT: I believe,  
3 based on the first line under, "Retained Earnings," on  
4 page 36, Extension's total retained earnings are made  
5 up of retained earnings from the sale of Extension and  
6 the Extension development fund. So -- so the 97.8  
7 million would include the 20.8 million of EDF.

8 Extension retained earnings totalled  
9 97.8 million, and the EDF totalled 20.8 million. I'm  
10 sorry, I'm reading this out loud, and I should have  
11 read it silently.

12 So the 20.8 million, based on that  
13 description, is outside of the ninety-seven point  
14 eight (97.8).

15 MS. CANDACE GRAMMOND: Okay. So if --  
16 if we wanted a comprehensive picture, I guess, or a  
17 complete picture of where the Corporation was, in  
18 terms of -- in terms of retained earnings as at 2012  
19 year end, there would be the two thirteen point seven  
20 (213.7) in Basic, plus the ninety-seven point eight  
21 (97.8) in Extension, plus the twenty point eight  
22 (20.8) in the Extension development fund, plus the  
23 forty-five point eight (45.8) in SRE.

24 Does that sound right?

25

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: I'm -- I'm  
4 referring back to the financial statements on page 44.  
5 So if the numbers that you just quoted add up to four  
6 hundred thirty-one million, six hundred twenty-seven  
7 (431,000,627) as the total equity of the Corporation,  
8 then I agree.

9 MS. CANDACE GRAMMOND: And you said  
10 the reference, sorry, was page 44?

11 MS. HEATHER REICHERT: Yes, page --

12 MS. CANDACE GRAMMOND: And -- okay.  
13 That's along near the bottom of that table where the  
14 line item reads, "Total equity"?

15 MS. HEATHER REICHERT: On page 44,  
16 yes, right at the bottom where it says, "Total  
17 equity," four hundred and thirty-one, six twenty-seven  
18 (431,627) (sic) yes.

19 MS. CANDACE GRAMMOND: Thank you.  
20 Okay. Those are my questions with respect to cost  
21 allocation. What I'll do then is move into my next  
22 topic, which is operating expenses.

23 First of all, I have some questions  
24 about staffing levels. So the Corporation has  
25 provided information to the Board as part of the

1 filing with respect to staffing levels. We have TI.9  
2 at Tab 7 of the book of documents.

3 So I'd ask perhaps, Ms. Reichert, that  
4 you turn there.

5

6 (BRIEF PAUSE)

7

8 MS. CANDACE GRAMMOND: So at the first  
9 page of TI.9 -- and -- oh, I'll just wait for the  
10 Board to get there. It's Tab 7 of the book of  
11 documents and it's TI.9.

12 So this is a summary of actual versus  
13 projected staffing levels. So these numbers that we  
14 see, if I understand it, are FTEs, or full-time  
15 equivalents?

16 This -- these are not dollar amounts  
17 that we're seeing here?

18 MS. HEATHER REICHERT: That is  
19 correct.

20 MS. CANDACE GRAMMOND: And if I'm  
21 reading this correctly, we see that the actual  
22 staffing levels that the Corporation has experienced  
23 over the last four (4) years have, in every year, been  
24 less than what the Corporation had budgeted for?

25 MS. HEATHER REICHERT: That is

1 correct, but I would just ask you to look at the  
2 middle of that page and focus on normal operations  
3 staff. The same is true, but when you take corporate  
4 staffing in its entirety, it is very much impacted by  
5 improvement initiatives.

6                   The nature of improvement initiatives  
7 is much more volatile and a lot -- a lot more increase  
8 and decrease of staff from year to year. So the  
9 normal operations gives a -- a clearer reflection, I  
10 would say, of the -- the normal staffing complement at  
11 MPI.

12                   MS. CANDACE GRAMMOND: Thank you.  
13 Now, I understand that the staffing level information  
14 that's been provided to the Board this year has been  
15 presented in a different way than in previous years.

16                   Can you explain what the differences  
17 are and why the Corporation made this change?

18                   MS. HEATHER REICHERT: In prior years'  
19 submissions, the Corporation would provide the FTE,  
20 the full-time equivalent, info -- information at a  
21 point in time. So it was essentially a -- a head  
22 count at a point in time, at March 1st of whatever the  
23 particular year was that was being reflected.

24                   When we looked at that on -- upon my  
25 coming to -- to MPI, looked at that -- and, to me,

1 that wasn't an appropriate reflection of what  
2 vacancies might be over the course of a year, because  
3 you were looking at solely at an FTE account at a  
4 point in time.

5                   So in this submission we have got what  
6 the average FTE -- average FTEs filled during the year  
7 are, which is a much better comparison to the budget  
8 that is based on anticipating, you know, budgeted FTEs  
9 to be filled during a year.

10                   So it's a much more meaningful  
11 comparison than the previous -- the previous schedule  
12 was.

13                   MS. CANDACE GRAMMOND: Now, I  
14 understand in general terms that under the new  
15 calculation system, or on the new calculation basis,  
16 the forecasts for staffing for the year of the  
17 application and the outlook period are a bit higher  
18 than they were under the old, sort of, snapshot system  
19 that you talked about.

20                   Is that fair?

21                   MS. HEATHER REICHERT: No, I -- I  
22 wouldn't say that that's fair. We didn't change the  
23 method of our forecasting for purposes of the filing.  
24 We continued to forecast compensation expense in the  
25 same way that we had previously. It was merely in

1 this one particular table where we were showing the  
2 comparison of FTEs to budget, that previously it was  
3 FTEs at a point in time to the annual budget, which  
4 was not a good comparison.

5 So this schedule is comparing the  
6 average FTEs filled during the year, to the budgeted  
7 FTEs for the year. But it did not change the way that  
8 we forecast the compensation expense that's included  
9 within our submission.

10 MS. CANDACE GRAMMOND: And -- and I  
11 didn't mean to ask about the forecasting of the  
12 compensation expense, but rather the forecasting of  
13 the -- the number of bodies, the same basis that we've  
14 been looking at. And I'll -- I'll tell you where  
15 we're coming from with this.

16 There was a response to an IR, PUB/MPI-  
17 1-47(c). It's not in the book of documents, but I'd  
18 maybe ask you to turn there just so that I can ensure  
19 that I understand where you're coming from and that  
20 it's clear for the Board. So 1-47, PUB/MPI.

21 MS. HEATHER REICHERT: That was a -- a  
22 CAC reference, or --

23 MS. CANDACE GRAMMOND: No, PU --

24 MS. HEATHER REICHERT: PUB --

25 MS. CANDACE GRAMMOND: -- PUB/MPI-1-

1 47. And yeah, it's -- it's not in the book of  
2 documents.

3

4 (BRIEF PAUSE)

5

6 MS. HEATHER REICHERT: Okay.

7 MS. CANDACE GRAMMOND: So what we had  
8 asked was that TI.9 provided last year be reconciled  
9 with what was provided this year, and to the extent  
10 that the basis in the determination had changed,  
11 please provide supporting calculations. So the  
12 Corporation's answer is to provide us with a table.

13 And I -- the way that I read this table  
14 was that the -- under the -- the column "reporting  
15 basis," that there was a change in the -- in the  
16 calculation basis, if you will, from the 2012 GRA to  
17 the 2013 GRA to include the averaging that you spoke  
18 about. And it -- it seemed, at least for most of the  
19 year, as I -- and I appreciate it's not all of them,  
20 that under the new reporting basis the numbers are  
21 higher.

22 That's -- that was the basis for the  
23 question that I had asked. So let me know what you --  
24 you have to say about that.

25



1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: Hi. I am  
4 having staff just look at how the -- the 2012 GRA  
5 amounts were -- were calculated. I expect some of the  
6 difference might be the difference in the 2012 filing  
7 versus the 2013 filing. Because there can be changes  
8 to the -- the forecast and projection just by the  
9 passage of time and better information. So we are --  
10 we are checking on how -- on how exactly that -- those  
11 amounts were -- were calculated in the 2012 GRA. I  
12 don't have that right at hand.

13 MS. CANDACE GRAMMOND: That -- that's  
14 fine. We'll take that as an undertaking and go from  
15 there.

16

17 --- UNDERTAKING NO. 12: MPI to indicate if there  
18 was a change in the  
19 calculation basis from the  
20 2012 GRA to the 2013 GRA,  
21 and if so, how those  
22 calculations were made

23

24 MS. CANDACE GRAMMOND: So we'll leave  
25 that IR then, but while we're in our IR book, in our

1 IR binder, I'll ask you then to turn back one (1) to  
2 1-46. So PUB/MPI-1-46. This deals with compensation  
3 increases, and in particular, the attachment. So  
4 there's just the one (1) attachment to this IR that  
5 deals with -- and this is corporate compensation  
6 expenses. And we see here data over about a seven (7)  
7 -- sorry, we have a -- scratch that.

8 We see data here over a -- about a ten  
9 (10) year time period, from '04/'05 to 2014/'15. And  
10 what we had asked the Corporation to do, and we see  
11 this at the far right-hand column, was to record the  
12 compound annual growth rate for two (2) time periods,  
13 as compared with the actual.

14 So I'll ask you, Ms. Reichert, to go to  
15 that far right-hand column entitled, "Compound Annual  
16 Growth Rate." We see the first sub-column is  
17 reflective of the compound annual growth rate from 20  
18 -- 2004/'05 to 2011/'12, so that's a seven (7) year  
19 period, and we see there a number of 6.6 percent.

20 Are you with me?

21 MS. HEATHER REICHERT: Yes, I am.

22 MS. CANDACE GRAMMOND: Now, we also  
23 see along the bottom of the table CPI reflected year  
24 over year, which is often around 2 percent although it  
25 does fluctuate as shown. It -- it seems that the

1 Corporation's com -- compound annual growth rate of  
2 6.6 percent over that seven (7) year period is  
3 significantly higher than CPI over the same amount of  
4 time.

5 Can you comment on that?

6

7 (BRIEF PAUSE)

8

9 MS. HEATHER REICHERT: Yes, I can. So  
10 the -- the increase in actual salaries and benefits  
11 throughout those -- that period is going to be based  
12 on several different factors. One (1) would be the  
13 negotiated contract increases, which in the last four  
14 (4) years just ending in this current fiscal year, was  
15 2.9 percent in each year. That was just a base salary  
16 increase, which was a negotiated contract that, as --  
17 as stated, is over the inflation for those same years.

18 The other -- another factor that would  
19 increase the overall salary amounts would be any  
20 increases in staff in those particular years. And as  
21 we have noticed in the TI.9 that we were just looking  
22 at, improvement initiatives will significantly impact  
23 the salary costs in any given year, given that there's  
24 increases in technical staff for implementing all of  
25 the BPR projects that were implemented over the last

1 three (3) to four (4) years. So those -- those are  
2 increasing in the staff to do with the improvement  
3 initiatives.

4           And the other thing that will  
5 significantly increase the overall costs of salaries  
6 and benefits are the benefit amounts. So reflected in  
7 here would be the cost of the pension plan, which has  
8 increased over those past years as well, and the  
9 actual results would show any -- any valuation loss  
10 that may occur in the pension plan. So that would be  
11 a significant impact to the -- to the benefit cost,  
12 which you can see there in '11/'12, for instance, was  
13 a fairly significant increase.

14           So all of those factors contribute to  
15 why you would see a compound annual growth rate that  
16 would be different than what inflation may have been  
17 for that same -- for that same period.

18           MS. CANDACE GRAMMOND: In terms of  
19 dollars, if we look at the -- the last line within the  
20 square table which is entitled, "Total," we see that  
21 the actual total for salary and benefits in '04/'05  
22 was about 91 million, and then that increased to about  
23 155 million last year in 2011/'12.

24           That's right?

25           MS. HEATHER REICHERT: Yes, that is

1 correct.

2 MS. CANDACE GRAMMOND: Now, we see...

3

4 (BRIEF PAUSE)

5

6 MS. CANDACE GRAMMOND: You -- you  
7 comment on, Ms. Reichert, the increases in benefits,  
8 as distinct from salary, because we do have those  
9 broken down line by line; the compounded annual growth  
10 rate on the benefits line for the same seven (7) year  
11 period, from '04/'05 to 2011/'12, was about 13.4  
12 percent.

13 That's what's reflected here?

14 MS. HEATHER REICHERT: Yes, that's  
15 correct. And -- and again, that would be everybody  
16 experienced quite significant valuation issues within  
17 their pension plans over the last three (3) or four  
18 (4) years that contributed to significant increases in  
19 those costs.

20 MS. MARILYN MCLAREN: And maybe just a  
21 quick point for the new members of the panel. The dif  
22 -- the -- the big difference between '04/'05 and  
23 '05/'06 on this chart would have, for the most part,  
24 been attributed to the three hundred (300) new MPI  
25 employees that came late that year through the merger

1 with DVL.

2 MS. CANDACE GRAMMOND: Now, Ms.  
3 Reichert, I appreciate the explanation that you gave  
4 for why these numbers are growing in excess of  
5 inflation, the negotiated contract rates, increases in  
6 staff. But even given these increases or -- or having  
7 regard to these increases, as we saw at the beginning  
8 of this line of questioning about staffing levels, the  
9 Corporation has actually be under budget every year,  
10 in terms of number of FTEs.

11 So we -- we have -- even though less  
12 people than budgeted, we still have significant growth  
13 and expenditures over inflation. Would that be fair  
14 to say?

15 MS. MARILYN MCLAREN: Maybe a little  
16 bit of history here. The -- the data is the data, no  
17 argument. But there have been significant improvement  
18 initiatives under -- ever since the time frame that --  
19 that's shown here on this chart, significant  
20 improvement initiatives.

21 And although, you know, we -- we  
22 generally have this -- have had this anomaly where we  
23 have run under our staff establishment but budget the  
24 fol -- the forecast year to de -- at full staff, you  
25 can see the difference between '11/'12, '12/'13 is

1 still a decrease in total compensation. So '12/'13,  
2 '13/'14, and '14/'15 are well below the highest on  
3 this chart, which would have been '11/'12.

4                   We have had significant investment, a  
5 lot of it through the Extension development fund.  
6 This is a corporate chart. This is not a chart just  
7 for Basic. We have had significant investment, in  
8 terms of the Basic program as well, in terms of its  
9 service to Manitobans, things like the new PIPP  
10 administration system that we implemented two (2)  
11 years ago this month, things like driver safety  
12 ratings, streamlined renewals.

13                   All of those things and all of the  
14 extra staff it takes to fundamentally change your  
15 business are all embedded in these historic costs.  
16 And you can see that there is a de -- a definite  
17 mitigating of these increases or actual looking at  
18 reductions going forward.

19                   MS. CANDACE GRAMMOND: Thank you.  
20 Now, I'm going to ask for an undertaking for an  
21 updated schedule. And -- and tell me if you can  
22 provide it. It would be an undertaking -- or, a table  
23 that provides the total number of FTEs for each year,  
24 broken down into normal operations and improvement  
25 initiatives and using the new averaging methodology to

1 calculate staffing levels.

2 Can the Corporation provide that?

3 MS. HEATHER REICHERT: I'm sorry, can  
4 you repeat that just one (1) more time? I want to  
5 make sure I -- I understood the request.

6 MS. CANDACE GRAMMOND: For sure. We  
7 want a chart or a table that provides the total number  
8 of FTEs each year, broken down into normal operations  
9 and improvement initiatives, using the new  
10 methodology, or if we can call it that, that the  
11 Corporation's using to calculate staffing levels as  
12 opposed to just the -- the one (1) date in time  
13 snapshot approach?

14 MS. HEATHER REICHERT: Okay, so just  
15 to clarify, TI.9 does give the total FTEs based on the  
16 average as opposed to the point in time methodology  
17 and breaks it down between normal operations and  
18 improvement initiatives. And then the subsequent  
19 pages further break that down into the category of --  
20 of salary being -- or, sal -- category of FTE, being  
21 management, supervisory, technical, clerical.

22 MS. CANDACE GRAMMOND: Can you pro --  
23 and I -- I appreciate that. Can you provide that  
24 though dating back to the '04/'05 year, like 1-46 is  
25 ca -- is prepared?



1 MS. HEATHER REICHERT: It is possible.  
2 That would take a fair bit of -- of calculating to do,  
3 because we, at that time, wouldn't have -- wouldn't  
4 have collected it or recorded it in the manner that we  
5 did here. In order to get the four (4) years that we  
6 have here, we went -- had to go back and do a fair bit  
7 of work to recalculate on this basis, as opposed to  
8 the point in time basis.

9 So, yes, it can be done, but it would  
10 be a substantial amount of work to be able to do that.

11

12 (BRIEF PAUSE)

13

14 MS. CANDACE GRAMMOND: Okay. That's  
15 fine. We'll accept that explanation. And we don't --  
16 we won't require the table then on that basis.

17 So, if I understand you correctly, Ms.  
18 Reichert, just to confirm, this was the first year  
19 that the new calculation methodology was used by the  
20 Corporation? It wasn't tracking on that basis before?

21 MS. HEATHER REICHERT: That's correct.

22 MS. CANDACE GRAMMOND: Okay. I just  
23 have --

24 THE CHAIRPERSON: I wonder if we  
25 couldn't take a few minutes now at this moment? So

1 why don't we return at eleven o'clock?

2

3 --- Upon recessing at 10:50 a.m.

4 --- Upon resuming at 11:06 a.m.

5

6 THE CHAIRPERSON: I apologize for the  
7 slight delay, but we were talking business, not the  
8 Bombers. Thank you.

9 MS. CANDACE GRAMMOND: Let's not --  
10 let's not go there.

11

12 CONTINUED BY MS. CANDACE GRAMMOND:

13 MS. CANDACE GRAMMOND: Just while  
14 we're talking about staffing levels and compensation  
15 costs and so on, Ms. Reichert, I know you had  
16 mentioned that the Corporation has negotiated a new  
17 contract that has, or at least I think that's what you  
18 said, with increases of 2.9 percent per year.

19 MS. HEATHER REICHERT: No, let me --  
20 let me set the record straight. The last contract  
21 that was negotiated that just ended September 22nd,  
22 was for four (4) years. So the prior four (4) years  
23 ending September of 2012, was 2.9 percent a year.

24 MS. CANDACE GRAMMOND: Okay. thank  
25 you for clarifying that.

1                   So are negotiations then still ongoing  
2 with MGEU for the upcoming collective agreement?

3                   MS. HEATHER REICHERT:    Yes, they are.

4                   MS. CANDACE GRAMMOND:    How many  
5 employees of the Corporation, roughly, are subject to  
6 the MGEU collective agreement?

7                   MS. MARILYN MCLAREN:    Somewhat over 90  
8 percent.

9                   MS. CANDACE GRAMMOND:    That's good  
10 enough. Thank you. And does the Corporation have a  
11 sense at this stage of what the term might be of the  
12 collective agreement currently under discussion?

13                  MS. HEATHER REICHERT:    As I understand  
14 it, the -- the term that's currently being discussed  
15 is the same as it was previously. So four (4) years.

16                  MS. CANDACE GRAMMOND:    And does the  
17 Corporation have any sense of, or is there anything  
18 that it can tell the Board, about any wage, either  
19 increases or freezes, that might be included in that  
20 agreement?

21                  MS. MARILYN MCLAREN:    I think  
22 throughout the application we've talked about zero  
23 percent, largely -- solely, I guess, really, based on  
24 comments and statements that the Minister of Finance  
25 has made about the Government's expectations that is

1 extending to Crowns as well as government departments.

2 MS. CANDACE GRAMMOND: And in terms of  
3 that zero percent, is that something that the  
4 Corporation's considered just with respect to the  
5 bargaining unit members, or is that something that the  
6 Corporation is considering across the board?

7 MS. MARILYN MCLAREN: No, we wouldn't  
8 expect something like that to extend only to the  
9 bargaining unit.

10 MS. CANDACE GRAMMOND: Okay. Thank  
11 you. I'm going to move then from staffing and  
12 compensation costs into consulting fees. Last year  
13 the Corporation had provided details on accounts and  
14 associated costs of consultants. I believe that was  
15 an attachment to CAC/MPI-1-200 last year.

16 Is that something that the Corporation  
17 could update for 2011/'12 and file as an undertaking?

18 MS. HEATHER REICHERT: If I'm not  
19 mistaken, although it may not have been like exact  
20 numbers, but the range of -- of consultants used by  
21 the Corporation was in an IR response, and I just need  
22 to find that reference.

23 MS. CANDACE GRAMMOND: We certainly  
24 have the forecast for the current year being about  
25 25.5 million in consulting fees, and that was

1 considerably more than what had been spent last year  
2 or the year before.

3 But do you have a -- a reference?

4

5 (BRIEF PAUSE)

6

7 MS. HEATHER REICHERT: CAC/MPI-1-155  
8 gives some information on the number of consultants.

9 THE CHAIRPERSON: Could you repeat  
10 that reference again, please?

11 MS. HEATHER REICHERT: Yes. It is  
12 CAC-1-155.

13

14 CONTINUED BY MS. CANDACE GRAMMOND:

15 MS. CANDACE GRAMMOND: Thank you. And  
16 we had looked at that. The level of detail there  
17 though is significantly less than what was provided  
18 last year, which was the reason for us asking for the  
19 undertaking, and that the further detail be provided.  
20 And I do have a copy of the last year's information,  
21 if that would help.

22 MS. HEATHER REICHERT: Yes. Could you  
23 just provide that reference for last year's again?

24 MS. CANDACE GRAMMOND: Sure. CAC/MPI-  
25 1-200.

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: Yes, I believe  
4 we should be able to provide that information.

5 MS. CANDACE GRAMMOND: Thank you then.  
6 I appreciate that undertaking.

7

8 --- UNDERTAKING NO. 13: MPI to provide an update  
9 of accounts and associated  
10 costs of consultants for  
11 2011/'12

12

13 MS. CANDACE GRAMMOND: And just a  
14 couple more questions with respect to consultants.  
15 CAC had asked a question this year, and it actually is  
16 part of 1-50 -- or one-fifty-five (155) that you had  
17 drawn our attention to, and in particular 1-155(b)  
18 where the -- CAC had asked that the Corporation  
19 explain the process of skills transfer from an expert  
20 consultant to staff for ongoing maintenance of  
21 expertise purchased from the consultant.

22 And in essence, and I'll paraphrase,  
23 the Corporation's answer was that this was not  
24 relevant to rate setting. Can you elaborate on that a  
25 little bit, please?

1 (BRIEF PAUSE)

2

3 MS. MARILYN MCLAREN: Elaborate on the  
4 answer, or are you kind of re-asking the question?  
5 I'm not sure what you mean.

6 MS. CANDACE GRAMMOND: Well, either.  
7 I -- I guess I -- I'm not -- I'm not clear on why it's  
8 -- the Corporation holds the view that it's not  
9 relevant to rate setting. So if you want to talk  
10 about that, that will be fine, or if you just want to  
11 talk about the skills transfer that would be even  
12 better.

13 MS. MARILYN MCLAREN: Okay, well first  
14 let me talk about the answer, I guess, first. We have  
15 been pretty open and -- and forthright about how, why,  
16 when we use consultants, and that's part of the  
17 financial information that's included in the -- in the  
18 Rate Application. It forms the basis of the rates  
19 that we're asked to prove.

20 So going into some detailed human  
21 resource practices about how we manage skills transfer  
22 between consultants and staff, I mean, where -- where  
23 do you end an answer like that? And so we didn't  
24 believe it's really appropriate to the question of,  
25 you know, testing the rates and the underlying costs

1 that we're applying for. So that's really the basis  
2 of the answer.

3                   We -- we -- clearly what we've said in  
4 these proceedings before, now switching a little bit  
5 maybe more to the question, is that, you know, where -  
6 - wherever possible, our -- our first commitment is to  
7 our staff. But there are times when you need very  
8 specific skill sets for a very short period of time.

9                   And, also, there are other times when  
10 you need a set of skills that you need to acquire from  
11 the market, you don't have the time or resources to  
12 development them in house. So, you know, it's -- it's  
13 really a balance.

14                   Sometimes we use consultants to  
15 complement positions that are naturally and always  
16 will be part of our ongoing staff establishment. So  
17 there's not a lot of skills transfer there from  
18 consultants to staff. If you just need to quickly  
19 add, you know, programmers, they -- you bring them in,  
20 they help program, they leave again.

21                   So some of the more specialized  
22 activities -- like database administrators,  
23 architects, things like that -- there will be some  
24 level of skills transfer through time. But I -- I  
25 don't know how much I can say that wouldn't sort of



1 open up a whole long discussion that doesn't really  
2 help to serve the purpose of, you know, testing the  
3 underlying costs that support the rates.

4 MS. CANDACE GRAMMOND: Thank you.

5 And, yeah, I guess, first of all, don't -- don't take  
6 anything from the fact that we're asking about it that  
7 we think it's good to use consultants or not good.  
8 We're not implying any -- anything like that by  
9 asking.

10 And I know this was Mr. Williams'  
11 question specifically about the skills transfer. So I  
12 don't know what level of detail he was hoping to get.  
13 But when I read that question and answer, to me it --  
14 it was an issue of value, sort of. If there was a  
15 situation in which a consultant was probi -- providing  
16 a service and there was an opportunity for there to be  
17 some skills transfer so that perhaps -- and perhaps a  
18 corresponding cost savings, is that something that the  
19 Corporation would consider on a case-by-case basis?  
20 Or is it just the services are provided by the  
21 consultant, they get paid, and then -- and then  
22 they're gone?

23 I think that's -- that's how I took it,  
24 or that's what I thought about it when I read it. So  
25 is that something that the Corporation considers from

1 time to time, is -- is the idea of skills transfer?

2 MS. MARILYN MCLAREN: Absolutely.

3 They -- you know, I mean, we don't keep them in a  
4 different room. They are sitting right beside our own  
5 staff. And they are full, active participants, as are  
6 our own staff, on -- on these initiatives and  
7 projects. So there's probably some transfer back and  
8 forth.

9 MS. CANDACE GRAMMOND: Okay. And I'll  
10 -- I'll leave that line of questioning at that. And  
11 if Mr. Williams wants to ask more about it, given that  
12 that was his question, then -- then I'm sure we'll  
13 find out.

14 Okay, so I'm going to move then to a  
15 separate but related area, and that's the trend  
16 analysis. We have at Tab 31 of the book of documents  
17 the trend analysis filed by the Corporation.

18 I'm going to ask you to go to Schedule  
19 1, which is the second page in at Tab 31. So Tab 31  
20 of the book of documents, second page in, we see a  
21 chart with some pretty teeny numbers. And the chart  
22 is entitled, "Basic Internal Indicators," at the left.

23 As I understand it, the -- the trend  
24 analysis reflects comparative figures for the  
25 Corporation over a period of years, basically

1 including measurements of efficiency.

2 Would -- would that be fair to say?

3 MS. HEATHER REICHERT: Yes, I think  
4 that's fair to say.

5 MS. CANDACE GRAMMOND: And for  
6 context, is this an analysis that the Corporation does  
7 for any reason other than for the -- the Board at  
8 these hearings?

9

10 (BRIEF PAUSE)

11

12 MS. HEATHER REICHERT: It is something  
13 that management pays some attention to. But it is --  
14 it is definitely prepared for the -- the PUB as well.

15 MS. CANDACE GRAMMOND: So does the  
16 Corporation use any of these measures to set targets  
17 for itself, or is it more of a review of actual  
18 information?

19 MS. MARILYN MCLAREN: No, we don't use  
20 it to set targets. It really is a trend analysis.

21 MS. CANDACE GRAMMOND: Now, I'll ask  
22 you to look at item 4 on the list, which is the claims  
23 expense ratio. And this, I understand it, is a ratio  
24 that measures the Corporation's efficiency in  
25 adjudicating claims.

1 Is that right?

2 MS. MARILYN MCLAREN: No, it -- it's a  
3 ratio of claims expense in relation to claims  
4 incurred. I just don't want to put too much emphasis  
5 on the fact that it is some measure of efficiency,  
6 that -- that it's just the ratio of claims expense to  
7 claims incurred.

8 MS. CANDACE GRAMMOND: I -- I don't  
9 want to be unfair in asking the questions. And I -- I  
10 want to make sure that the panel is mindful one of the  
11 questions that Mr. Williams asked on behalf of CAC,  
12 which is CAC-1-60 -- pardon me, CAC-1-164, so 1-164.

13 And in essence, what was requested and  
14 provided was descriptions of -- or sorry, part of the  
15 question was descriptions of the various items on the  
16 trend analysis. And the Corporation, in its -- in its  
17 answer, provided some additional information.

18 So if we look at that IR -- I don't  
19 know if you have it in front of you -- but is -- is  
20 the Corporation of the view that the descriptions of  
21 the various items are not necessarily its own  
22 descriptions?

23 MS. MARILYN MCLAREN: No, tho -- these  
24 tend to be pretty standard measures, and those  
25 definitions would be pretty standard in the industry

1 as well. I just would caution that it -- you know,  
2 comparing one year to the last doesn't necessarily  
3 indicated changes in efficiency.

4 So, you know, it is -- it is trend  
5 information, it has some value as far as the overall  
6 indicative nature of a trend. You can use the word  
7 "efficiency". But I just don't want to put too fine a  
8 point on individual results in that context, that's  
9 all.

10 MS. CANDACE GRAMMOND: So when we look  
11 at the definition, if you will, of "claims expense  
12 ratio" that's shown on page 2, which does speak about  
13 measuring efficiency, does the Corporation disagree  
14 with that, or would the Corporation agree with what's  
15 reflected there at CAC/MPI-1-164?

16

17 (BRIEF PAUSE)

18

19 MS. MARILYN MCLAREN: These -- these  
20 are the -- going back to the CAC IR, first of all,  
21 those are CAC's language, not -- not ours necessarily.  
22 We gave them -- they gave the words; we gave the  
23 numbers.

24 But, you know, I mean, if you take --  
25 let me just find a couple of years here. You know, go

1 -- go back in line 4, claims expense ratio, and go  
2 from 1996 to 1997. And somehow 1996 over 1995, we got  
3 6.48 percent less efficient, and then the following  
4 year we got 5.22 percent more efficient. I -- I'm not  
5 sure I would agree with that categorization, that --  
6 that characterization of them as specific measures of  
7 efficiency in that context.

8                   Any number of things may have hap --  
9 one -- one -- well, one year did have, in fact, a  
10 massive hailstorm where our incurred would have been  
11 way out of whack. And maybe one of the other years  
12 was the last year of amortizing, you know, the change  
13 -- the big, significant changes of the car systems,  
14 some -- something like that.

15                   I mean, there are -- there are a number  
16 of things at play here. So picking numbers from year  
17 to year, you don't necessarily indicate changes in  
18 efficiency themselves on their face.

19                   MS. CANDACE GRAMMOND:     So what does  
20 the Corporation's board use this for?

21                   MS. MARILYN MCLAREN:     To have an  
22 overall conversation about the trends themselves and  
23 underlying changes to the business that may affect the  
24 math on these different lines.

25                   MS. CANDACE GRAMMOND:     Okay. If we

1 look at line 4 -- and -- and I thank you for giving us  
2 some commentary on some of the earlier years that we  
3 see and some of the -- the changes there -- we do see,  
4 if we look between 2011 and 2012, a gain and an  
5 increase of just under 6 percent with respect to -- to  
6 that.

7 Is there -- do you have any commentary  
8 that goes along with that particular piece of math?

9

10 (BRIEF PAUSE)

11

12 MS. MARILYN MCLAREN: No, nothing off  
13 the top of my head that would speak to the difference  
14 between 2011 and 2012.

15 MS. CANDACE GRAMMOND: Now, does the  
16 Corporation -- and I -- I know I had asked a general  
17 question at the beginning about whether the  
18 Corporation uses any of these measures to set targets,  
19 and -- and the answer was no.

20 Does the Corporation have any specific  
21 targets for any of the items that we see on this list  
22 of seventeen (17) Basic internal indicators?

23

24 (BRIEF PAUSE)

25

1 MS. MARILYN MCLAREN: No, not -- not  
2 specific targets against each of these in -- in that  
3 very narrow context. No.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: I'm going to  
8 ask you to turn to the last page at this tab, which is  
9 Schedule 3. So it's still trend analysis. But in  
10 Schedule 3 we have a column built in relating to  
11 compounded annual growth. And if we look at line 5,  
12 which is operating expenses per policy, and go across  
13 the page, we see the compounded annual growth rate.  
14 And this is over a seven (7) year period, which I  
15 appreciate is partially actual and partially a  
16 forecast, of 4.4 percent.

17 Can -- can the Corporation comment on  
18 that relative to inflation?

19 MS. HEATHER REICHERT: So, again, we  
20 always have to be mindful of what's included in the  
21 operating expenses. So, to the extent that operating  
22 expenses will include some allocation of improvement  
23 initiatives in the particular years that we're looking  
24 at, it will and can significantly impact on the ratio  
25 of operating expenses to -- to policy ratio that is --



1 is being reflected here.

2 So not having all of the detail right  
3 at my fingertips, that could contribute to -- to the  
4 increases that appear to be over the inflationary  
5 compounded annual growth rate.

6 MS. CANDACE GRAMMOND: Okay, so we --  
7 we've had some discussion about operating expenses  
8 and, in particular, staffing levels. I'm going to  
9 turn then to talk about claims costs, or to ask some  
10 questions about claims costs. If you can go to Tab 32  
11 of the book of documents, so just one (1) tab over  
12 from where we were.

13 We see at Tab 32 another IR that the  
14 Board had asked. And in particular, with respect to  
15 33(d), the Board had asked a question. And if we look  
16 at the answer, which is at page 2, the second page in  
17 at Tab 32, we see the Corporation has advised us that,  
18 using 1993 as a base year:

19 "Claims costs per vehicle have  
20 increased by 32.1 percent."

21 Are you with me?

22 MS. HEATHER REICHERT: Yes, I am.

23 MS. CANDACE GRAMMOND: And that  
24 increase is actually less than inflation over the same  
25 period, which it's reflected here was for 41.9

1 percent.

2 Is that right?

3 MS. HEATHER REICHERT: Yes, I -- I see  
4 that.

5 MS. CANDACE GRAMMOND: And claims  
6 costs, as I understand it, are comprised of both  
7 claims incurred and claims expenses. Is that right?

8

9 (BRIEF PAUSE)

10

11 MS. HEATHER REICHERT: Yes, I believe  
12 that that is the case in this scenario.

13 MR. BYRON WILLIAMS: Mr. Chairman, I  
14 think the court -- sorry, it's Mr. Williams over here.  
15 I think the court reporter was having some  
16 difficulties not in the last question, but the  
17 question one (1) before. She asked Ms. Reichert to  
18 repeat it.

19 MS. HEATHER REICHERT: I'm sorry. I  
20 was just saying, yes, I agreed with Ms. Grammond that  
21 I was at 'D' and it said:

22 "CPI has increased by 41.9 percent."  
23

24 CONTINUED BY MS. CANDACE GRAMMOND:

25 MS. CANDACE GRAMMOND: Thank you, Mr.

1 Williams. I'm sorry, I didn't know that there was an  
2 issue there, so thank you.

3 Okay. So still at Tab 32, if we go  
4 another few pages, in we see some numerical tables  
5 that the Corporation has provided. We see one  
6 entitled, "Schedule 2," and this is again using 1993  
7 as a base year and tracking actual claims incurred and  
8 claims expenses going forward.

9 Is that right?

10 MS. HEATHER REICHERT: Yes, that is.

11 MS. CANDACE GRAMMOND: And so we see  
12 here on the first line, entitled, "Net Claims  
13 Incurred," that there's been a 64.9 percent growth  
14 since 1993.

15 That is from 1993 to 2012?

16 MS. HEATHER REICHERT: Yes, that's  
17 correct.

18 MS. CANDACE GRAMMOND: And for claims  
19 expenses on the next line, the second line, we see a  
20 growth of about 252 percent over the same time period?

21 MS. HEATHER REICHERT: Yes, the claims  
22 expense 2012, three fifty-two point one (352.1). So,  
23 yes -- two fifty-two point two (252.2).

24 MS. CANDACE GRAMMOND: So to what does  
25 the Corporation attribute that significant growth in

1 claims costs relative to inflation?

2

3

(BRIEF PAUSE)

4

5

MS. MARILYN MCLAREN: Would it be --

6

would it be helpful to talk about some of the changes

7

to the business that have transpired since 1993?

8

Yeah? Okay.

9

I mean, during that time frame, we not

10

only moved from the tort system, with add-on accident

11

benefits, to the pure no-fault system; we had the old

12

claims system re-engineered to prepare for year 2000.

13

We had a brand new claims system which is call -- we -

14

- we -- which we call with the acronym CARS, claims

15

and reporting -- claims and administration reporting

16

system, which handles the claims.

17

As well, two (2) years ago we

18

implemented -- I'm thinking, about a twenty-five (25)

19

or \$30 million project that completely revamped the --

20

our -- our injury case management staff's ability to

21

really properly manage those claims. All those things

22

have happened.

23

We have brought three (3) new service

24

centres online in the City of Winnipeg, have built a

25

number of new service centres across Manitoba, have

1 renovated a number of other claims services across the  
2 province. So in terms of our understanding of our  
3 obligations to provide high-quality service to  
4 Manitobans on the claims side of the business, there's  
5 really been an exponential change since the early  
6 1990s.

7 MS. HEATHER REICHERT: And if I may  
8 just add, so in addition to the changes in the  
9 business that Ms. McLaren is just referring to, there  
10 are also -- the notes on this page, note 3, there was  
11 a restatement for the changes in accounting policy for  
12 pension plan experience gains and losses.

13 The year that that's referenced, you  
14 see actually a decrease in claims expense. So I would  
15 take that to mean that there was a gain in the pension  
16 plan valuation in that year. Currently, we have been  
17 experiencing some pension plan losses, as -- as many  
18 pension plans have -- have been.

19

20 So that would increase our claims  
21 expenses. And, in addition, when we adopted IFRS,  
22 IFRS accounting -- international accounting standard,  
23 there were changes that increased the claims expense.  
24 So the -- those are two (2) factors outside of all of  
25 the changes in the operations of MPI that would have

1 im -- impacted on these costs.

2 MS. CANDACE GRAMMOND: Thank you.

3 Now, looking at the same chart, we also see with  
4 respect to operating expenses -- because, to this  
5 point, we've been talking about claims expenses -- we  
6 see an increase, this is at the fourth line of data,  
7 of about 127 percent, again over the -- the same time  
8 period.

9 Is that -- is that correct? Am I  
10 reading that correctly?

11 MS. HEATHER REICHERT: Yes, you are.

12 MS. CANDACE GRAMMOND: And that's  
13 again compared with inflation of about 42 percent over  
14 the same time frame?

15 MS. HEATHER REICHERT: Yes, that's  
16 correct.

17 MS. CANDACE GRAMMOND: Now, are the  
18 operating expenses impacted by special projects in the  
19 same way that some other categories of expense are?

20 MS. HEATHER REICHERT: Yes, they --  
21 they would be impacted similar to claims expenses  
22 impacted.

23 MS. CANDACE GRAMMOND: I'm -- I --  
24 just give me a moment.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: I -- I might  
4 come back to that point at a -- at a later point in  
5 the proceedings, but we'll -- we'll leave it for the  
6 moment.

7 Last year, the Board recommended that  
8 the Corporation do a benchmarking study relative to  
9 operating expenses and staffing levels. The  
10 Corporation has given some information in response to  
11 that recommendation in the filing at AI-15.

12 And I'll paraphrase. But in essence,  
13 MPI has said that it is so unique that a direct  
14 comparison of itself to other jurisdictions would be  
15 both complicated and inconclusive.

16 Is that a fair restatement?

17 MS. MARILYN MCLAREN: That's fair.

18 MS. CANDACE GRAMMOND: Can you tell us  
19 whether the Corporation has made any attempts to  
20 compare the trend analysis or any of the metrics that  
21 we've been talking about, or even any part of -- of  
22 the -- the trend analysis, with other public or  
23 private insurers?

24 MS. MARILYN MCLAREN: Historically,  
25 for some number of years we did some of that trend

1 analysis, I think, specifically with information from  
2 SGI and ICBC that was sort of gleaned from their  
3 public annual reports, things like that.

4                   But even, you know, where they're much  
5 more similar than other auto insurers are, there --  
6 there's some pretty fundamental differences that made  
7 that really inconclusive as well. I think what --  
8 what our intentions are and what we plan to do through  
9 time is really to establish some key metrics in key  
10 parts of the operations of the Corporation that we  
11 will establish and track from year to year, whether it  
12 is call centre performance, whether it is related to  
13 the average number of claims files handled per claims  
14 employee, things like -- things like that. And I  
15 think that those -- it's important for us to do a  
16 better job of demonstrating our focus on efficiency  
17 and cost containment.

18                   We believe at the highest level, the  
19 most transparent level, our -- the measures that we  
20 have in that section of the application with respect  
21 to, you know, rate comparisons, which we've talked  
22 about; the extent to which auto insurance rate  
23 increases have been fundamentally lower than anywhere  
24 else in Canada, as reported by Statistics Canada  
25 that's in the Application.



1                   The key measure of effective -- not  
2 efficiency as much as effective functioning of any  
3 insurance system, we really believe is how much do  
4 people pay us and how much do they get back? So the  
5 loss ratio, how much money do people pay in rates and  
6 how much of that dollar do they get back, is a  
7 fundamental measure that really does also move into  
8 areas of efficiency and so on, because if we had an --  
9 an over -- overweight staff establishment, then you  
10 can't be paying as mu -- as much back out in claims  
11 with the rates that we have to work with.

12                   So I think there are some key staffing-  
13 and productivity-related measures. I think they  
14 really come down to productivity that we need to  
15 develop in a better way, that we're able to make those  
16 more transparent and -- and publish them here in this  
17 proceeding to, sort of, better demonstrate that --  
18 that focus on efficiency and cost containment.

19                   But I don't know that that, in any way,  
20 translates to somehow comparing ourselves effectively  
21 with other systems in other jurisdictions.

22                   MS. CANDACE GRAMMOND:    So can the  
23 Board expect something in that vein to be included  
24 with next year's filing, or what's you're an --  
25 anticipated time line on that?

1 MS. MARILYN MCLAREN: Cer -- certainly  
2 progress next year. Maybe not any sort of framework  
3 that we would consider complete, but -- but pro -- and  
4 I think we've -- we started down that road, you know,  
5 with the Gartner analysis, things like that.

6 So, I mean, I think it will be a bit of  
7 a catchall of things that we believe are important  
8 measures of our focus on -- on productivity and cost  
9 containment. And it will continue to be something  
10 like Gartner. And there are other parts of the  
11 company that have a significant impact on service.

12 But also that we have our eye on, in  
13 terms of productivity, that we'll certainly publish  
14 more along that vein next year than we have this year,  
15 and it will be an iterative process.

16 MS. CANDACE GRAMMOND: And what's the  
17 Corporation's view with respect to tracking its  
18 numbers against inflation? Is that something that the  
19 Corporation sees value in?

20 MS. MARILYN MCLAREN: Only in the most  
21 general way. I -- I know just from conversations with  
22 colleagues in private-sector insurance companies, as  
23 much as the other Crowns, everybody's costs run higher  
24 than the rate of inflation, as I understand it.

25 And that probably cuts across different

1 businesses, as well. You know, I mean, if you think  
2 about it, the expectations on business -- you know, I  
3 mean, we have operating expenses related to providing  
4 enhanced security at our facilities that we never had  
5 a decade ago.

6                   If you think about our human resources  
7 department, there's probably ten (10) positions in  
8 there that didn't exist a decade or more ago,  
9 everything from diversity coordinators to respectful  
10 workplace coordinators and health and safety  
11 facilitators, and any number of positions that we --  
12 we didn't do before in the business world. And all of  
13 that adds into the operating expenses.

14                   So I think, in the most general sense,  
15 you need to have your eye on where are you tracking in  
16 relation to CPI. But I don't there -- it would not be  
17 reasonable in the interests of providing access and  
18 providing high-quality service, to really somehow set  
19 that as any -- anything remotely along the lines of a  
20 benchmark.

21                   MS. CANDACE GRAMMOND: Okay. I'm  
22 going to move then to another area, which is capital  
23 expenditures. And, of course, IT expenses is -- is  
24 going to be a significant part of that. We'll ask you  
25 maybe, then, to go to Tab 41 in the book of documents.

1 Tab 41 in the book of documents is an IR that we  
2 posed.

3 Last year, the Corporation had intended  
4 to build two (2) data centres in house. That was on  
5 the basis of what was recommended to MPI by HP, or  
6 Hewlett Packard.

7 Is that right?

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

10 MS. CANDACE GRAMMOND: And at the  
11 time, the -- the -- what was presented to the Board at  
12 this hearing last year was that there would be a  
13 capital expenditure of about 65 mil -- or, pardon me,  
14 75 million, 65 million of which would be borne by  
15 Basic.

16 Is that about right?

17 MS. HEATHER REICHERT: Yes, that is  
18 correct.

19 MS. CANDACE GRAMMOND: And the Board,  
20 at the end of the day, did not support funding of the  
21 opt -- IT optimization through retained earnings, as -  
22 - as had been proposed by the Corporation?

23 MS. HEATHER REICHERT: Yes, that's  
24 correct.

25 MS. CANDACE GRAMMOND: So I gather

1 that the Corporation's plans with respect to IT  
2 optimization have changed on a number of levels, that  
3 it does have new -- new proposed steps and has  
4 contracted for services from IBM, which was mentioned  
5 a little earlier, as well as HP and Dominion  
6 Consulting.

7 Is that right?

8 MS. HEATHER REICHERT: Yes, that is  
9 correct.

10 MS. CANDACE GRAMMOND: So what I'm  
11 going to do is go through each of those one by one --  
12 that is, IBM, HP, and -- and Dominion -- just to break  
13 it down. So we'll start with IBM.

14

15 (BRIEF PAUSE)

16

17 MS. CANDACE GRAMMOND: Can you explain  
18 the purpose of the agreement and the nature of the  
19 work to be performed by IBM, at a high level?

20 MS. MARILYN MCLAREN: Sorry, what was  
21 the reference again? I mean, I -- I don't know if  
22 you're jumping straight to the provision of data  
23 centre services or whether it is the -- the  
24 overarching master services agreement. What are the  
25 nature of those -- I'm not sure what you mean.

1 MS. CANDACE GRAMMOND: Okay. Maybe  
2 you can comment on the overarching services agreement  
3 with IBM as a starting point.

4 MS. MARILYN MCLAREN: Sure. Quite  
5 some time ago now, we -- as we neared the end of the  
6 existing contract that we had with HP for provision of  
7 support services/consulting services to maintain our  
8 IT infrastructures, as we neared the end of that  
9 existing contract, we issued an RFP for -- to  
10 establish a master services agreement with a  
11 successful bidder that would really allow us to have a  
12 managed working relationship with a key IT -- IT  
13 partner that would -- whether it would be either  
14 consulting services or acquiring other -- other key  
15 kinds of IT support, that it would be under a master  
16 services agreement that gave us a contractual  
17 relationship that we could rely on that would extend  
18 for a five (5) year period with an option to renew for  
19 a five (5) -- for ano -- a further five (5) years.

20 Flowing from that RFP process, we -- we  
21 did con -- enter into master services agreement with  
22 the two (2) qualified bidders from that process, which  
23 were HP and IBM. So we didn't chose just one (1) of  
24 them. We entered into master service agreements with  
25 each of them.

1                   And that gives us a certain amount of -  
2 - of price certainty, access to certain skill  
3 resources, and access to these two (2) very major  
4 international companies with a wealth of research and  
5 development and all kinds of highly technical support  
6 in areas that we may need over the next five (5)  
7 years, and in both years with an option to renew for  
8 another five (5). So those are the master services  
9 agreements.

10                   MS. CANDACE GRAMMOND: Can you tell us  
11 why the Corporation entered into two (2) of those  
12 agreements with the two (2) different companies that  
13 you've described?

14                   MS. MARILYN MCLAREN: They bring  
15 different -- different things to the table. It --  
16 they both were qualified responders to the RFP  
17 process.

18                   We have worked very successfully for a  
19 very long time with HP, but we also realized that  
20 there may be opportunities to do some things  
21 differently and to have sort of a balanced approach to  
22 this really critical area for the corporation.

23                   MS. CANDACE GRAMMOND: Can you maybe  
24 give us an example of the -- a difference in the skill  
25 sets of the two (2)?

1 MS. MARILYN MCLAREN: On paper they  
2 would have very similar skill sets and very similar  
3 approaches. They have somewhat different approaches  
4 locally. And -- and they also -- one of the things  
5 that -- that is different with IBM is this managed  
6 services environment that they are aggressively  
7 marketing these days and promoting. And that was  
8 something that is quite different that HP is taking a  
9 different corporate approach to that for the most  
10 part. And that was something that we were interested  
11 with IBM, and that's what we've ended up with in terms  
12 of the -- the data centre optimization initiative.

13 MS. CANDACE GRAMMOND: And is that  
14 what's referred to in the materials as the  
15 outsourcing, or is that something different?

16

17 (BRIEF PAUSE)

18

19 MS. MARILYN MCLAREN: Don't -- we  
20 don't think of it really as -- as traditional  
21 outsourcing. I don't remember using that language  
22 very frequently at all in the materials. But it is --  
23 we will no longer be physically purchasing and  
24 operating data centres here in our own facilities.

25 Let me go a little bit step -- but we



1 will still have our own database analysts and our  
2 staff. You know, the -- the wonders of the virtual  
3 world, right? I mean, they will still be doing  
4 exactly the work that they did when the servers were,  
5 you know, 4 feet away from them as they will be in the  
6 future, when the servers are in Ontario. So it's not  
7 outsourcing the way I would traditionally think of it,  
8 and that's not the way we talk about it at MPI.

9 MS. CANDACE GRAMMOND: Okay. And  
10 maybe that's a -- a term that we've been using at our  
11 end, but -- but I think we're talking about the same  
12 thing: the idea of last year what was going to be two  
13 (2) in-house data centres now being one (1) in  
14 Markham, Ontario, and one (1) in Barrie, Ontario,  
15 managed by IBM.

16 MS. MARILYN MCLAREN: Yeah, exactly.  
17 And I -- again, not to put too fine a point on it,  
18 but you know, the -- the language that we use in this  
19 IR, 2-25, that we were looking at here at Tab 41,  
20 talking about the initial solution.

21 When we were here last year we thought  
22 that we would -- the -- the approach that was in that  
23 analysis document that HP prepared for us, the concept  
24 that we had really documented at that time was to  
25 build to -- much better, more robust, more capable

1 data centres to replace the two (2) that we have  
2 today.

3                   It wasn't -- it was not a decision. We  
4 knew that we had to figure out how best to handle our  
5 data centre requirements. And we were in the process  
6 of figuring that out, beginning last fall, and what --  
7 how -- so I mean it -- it was not a change in  
8 direction as much as it was an initial assumption that  
9 we might end up doing what we had done previously.

10                   And then when we seriously got into the  
11 work of understanding what really were our options and  
12 what was the best thing to do, that's when we decided  
13 with the IBM solution. There was really three (3)  
14 approaches we could have taken when we started to look  
15 hard at how we could have redeveloped the data centres  
16 that we needed to do, and we went with the IBM  
17 solution.

18                   MS. CANDACE GRAMMOND: And when you  
19 say three (3) options, can you just state for the  
20 record what those are -- or, what those were?

21                   MS. MARILYN MCLAREN: Sure. The IBM  
22 where -- where we would have them house the actual  
23 hardware: the servers, the telecommunications, and all  
24 those sorts of things.

25                   The second option would be to do what

1 we've done up until now, is completely do all of it  
2 ourselves and build it and maintain it and run it in  
3 our own facilities.

4                   And the third was a little bit of a  
5 hybrid of the -- of the do-it-all-yourself approach,  
6 where rather than construct the data centre that is  
7 the backup data centre, there are options on the  
8 market today where you can -- they're actually like  
9 data storage and data communication pods, almost like  
10 those storage pods and moving pods that you see, where  
11 they could bring one of these things into your  
12 facilities. It again, significantly reduces your  
13 capital cost. So it's a kind of in the middle of the  
14 two (2) solutions.

15                   But in terms of -- I'll leave it at  
16 that for now. I'm not going to start talking yet  
17 about why we chose what we did.

18                   MS. CANDACE GRAMMOND:    And so how did  
19 the -- the option that's ultimately now being pursued,  
20 which is the data cent -- centres in Ontario, how did  
21 that come about in the first instance?

22                   MS. MARILYN MCLAREN:    Through the  
23 analysis and research and thinking hard, not only  
24 about risk mitigation and -- and what made the most  
25 sense for us, but it really came down to -- also, as

1 well as learning about IBM and the -- some of the  
2 other organizations that have done the same thing has  
3 -- has decided not run their own physical data  
4 centres.

5                   Thinking about, you know, the -- like  
6 we were talking about before, the extent to which it  
7 is really reasonable in this day and age that a  
8 relatively -- in the grand scheme of things, a  
9 relatively small organization, you know, with less  
10 than a billion dollars of revenue a year and about two  
11 thousand (2,000) employees, can really ever expect to  
12 invest the kind of energy and oversight and money that  
13 it takes to truly stay at the very top of the game in  
14 terms of really managing these data centres and having  
15 the experts available that really know best how to do  
16 that.

17                   And that was really -- in addition to  
18 having a good strong financial business case to go  
19 with the IBM solution, we really decided that it's a  
20 very appropriate way to focus our energies and our  
21 staff efforts on the things that are truly unique  
22 about our business, where we have our value added and  
23 -- and we really can make a difference to Manitobans,  
24 and not to try to continue -- I mean, remembering how  
25 we came to need this IT optimization. Not only is it

1 to position us for the future, but the reality is that  
2 we did not stay up-to-date and current and managing  
3 our IT infrastructure as effectively as we needed to  
4 do in the last few years.

5                   So you have to convince yourself that  
6 not only do you have to take this big step up to  
7 recover the ground you've lost over the last few  
8 years, and then continue to spend a lot of money and  
9 have a huge management focus and attention to make  
10 sure you don't slip again. And at the end of the day,  
11 if you can find a company who does this for a living,  
12 who does this for any number of organizations of  
13 similar size or bigger or smaller, that they can  
14 really handle, they have the expertise, they're doing  
15 the research and development, they are implementing  
16 new versions of all the operating software exactly  
17 when they should, it just made so much sense for us to  
18 do that.

19                   And that's really how that came about;  
20 through the analysis of really understanding what it  
21 would take for MPI to do it all itself, to step up its  
22 game, and then keep its game stepped-up, and deciding  
23 that it really made sense to use these international  
24 experts to be part of a larger system where they also  
25 have the efficiencies of scale because they can do

1 this for any number of companies. We don't have the  
2 wherewithal, and there's no reason for us to have the  
3 wherewithal, to be that competent and that -- up in  
4 that -- that 90 -- 90th percentile, so to speak, to  
5 make sure that we are really absolutely doing it.

6                   It just didn't make sense for us to do  
7 that ourselves, or to be paying consulting dollars to  
8 do it alongside ourselves when we could have someone  
9 else do that for us without losing anything in terms  
10 of performance of the system and having our own staff  
11 do the things that they really do know the most about,  
12 and how to run our good systems to the benefit of  
13 Manitobans.

14                   MS. CANDACE GRAMMOND: And so what was  
15 the timing then of the genesis of this idea compared  
16 with last year's rate application hearing?

17                   MS. MARILYN MCLAREN: I would have to  
18 go back and provide -- I mean, depending on how  
19 specific you want to do, but I -- I believe that there  
20 were people doing this research, asking these  
21 questions about the time that I was here last year  
22 testifying, and I -- I was not made -- made aware of  
23 exactly what they were doing, where they were in that.  
24 But it was much later than these hearings last year  
25 that we made the decision to go that route.

1 MS. CANDACE GRAMMOND: And I guess  
2 what I was wondering is whether this -- the research  
3 and analysis that you mentioned that led up to this  
4 was done as a result of the decision that the Board  
5 made with respect to IT optimization or, you know,  
6 whether we would still be having this conversation if  
7 the Board had approved what was asked for last year?

8 MS. MARILYN MCLAREN: Oh, no, abs --  
9 absolutely. It was not based on -- we -- we didn't --  
10 we didn't sort of get the last Board order and say,  
11 Oh, gosh, we have to find a way to do this with less  
12 capital. Not at all.

13 Because at the end of the day, whether  
14 you spend less capital, it's all going to show up in  
15 your operating statement in either deferred  
16 development or amortized capital anyway, so that  
17 really wasn't the thinking. It was really just the  
18 due diligence process of the people in IT, with the  
19 advice of Gartner and all the other process that we  
20 follow, to decide that -- that it was not in our best  
21 interest to do it all ourselves.

22 MS. CANDACE GRAMMOND: Is -- is there  
23 a specific due diligence process or methodology that  
24 the Corporation follows when it's considering these  
25 kinds of things?

1 MS. MARILYN MCLAREN: Well, this is a  
2 pretty unique kind of thing. We have our processes  
3 with respect to project management, research, making  
4 decisions about what to do any time we decide we may  
5 need to change the business, or may need to change our  
6 business practices. How you go about deciding how  
7 best to handle your data centre requirements is not  
8 something that we would have had, sort of, on the  
9 shelf at MPI, because I'm not sure the last time we  
10 ever, if ever, we would have really done that.

11 MS. CANDACE GRAMMOND: Okay. Thank  
12 you. Mr. Chairman, I have more questions with respect  
13 to this. I can keep going, or we can take the noon  
14 break, whatever would please the Board.

15 THE CHAIRPERSON: One (1) follow-up  
16 question I have is in respect to the costs. I -- I  
17 realize that the -- the new arrangement has reduced  
18 the capital expenditures quite significantly. What's  
19 not as clear to me is what that means to your regular  
20 annual expenditures, based on this new arrangement,  
21 relative to what the -- we additionally -- what we  
22 were talking about last year.

23 MS. MARILYN MCLAREN: Well, I -- what  
24 -- we will be spending more money than we have because  
25 of this gap and how we did not, you know, keep up as



1 we needed to. But in relation to what we believe we  
2 would have needed to spend to do it ourselves, I  
3 believe -- and I will double check this likely during  
4 lunch, but I believe this is a lower cost solution  
5 going forward as well.

6 It is not more costly than doing it  
7 ourselves. There is -- there is a benefit, a  
8 financial benefit, to doing this as well as the other  
9 benefits that I talked about a few minutes ago.

10 THE CHAIRPERSON: So let's adjourn now  
11 and resume our proceedings at 1:15. Thank you.

12

13 --- Upon recessing at 12:01 p.m.

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

15

16 THE CHAIRPERSON: I believe we're  
17 ready to start, so back to you, Ms. Kalinowsky.

18 MS. CANDACE GRAMMOND: Thank you, Mr.  
19 Chairman.

20 THE CHAIRPERSON: I'm sorry, back to  
21 you, Ms. Grammond.

22 MS. CANDACE GRAMMOND: That's fine.  
23 I'll answer to Grammond, Kalinowsky, Everard; it  
24 doesn't matter.

25

1 CONTINUED BY MS. CANDACE GRAMMOND:

2 MS. CANDACE GRAMMOND: Before lunch we  
3 were talking about the Corporation's services  
4 agreement with IBM, and the Chairman had asked a  
5 question about the cost. And I just want to drill  
6 down into that a little bit further.

7 First of all, we know that the contract  
8 with MP -- or, sorry, between MPI and IBM is for an  
9 initial term of five (5) years plus a five (5) year  
10 renewal option.

11 MS. MARILYN MCLAREN: Yes.

12 MS. CANDACE GRAMMOND: And there's  
13 some information at Tab 38 of the book of documents  
14 relative to the cost. This is an IR where the Board  
15 had asked for excerpts of meeting minutes of the  
16 Corporation's board of directors.

17 So if we go to Tab 38, we'll see the IR  
18 itself and then a series of attachments. If we flip  
19 to the minute excerpt that's from February of 2012,  
20 it's about six (6) or eight (8) pages in from the  
21 beginning of the tab. It's entitled at the top of the  
22 page, "Minutes of the 402nd Meeting, February 3rd,  
23 2012," page 5.

24 We see at the bottom of that page  
25 reference to IT spending, and we see a motion passed

1 by the board that funding of up to 25 million in  
2 fiscal 2012/'13 would be distributed amongst the HP  
3 and IBM master service agreements, as management deems  
4 appropriate, in order to achieve objectives, et  
5 cetera.

6 Can you give us an indication of what  
7 the split is between the two (2)? Is it roughly  
8 equal, or is it weighted in favour of either IBM or  
9 HP?

10 MS. MARILYN MCLAREN: We would have to  
11 get back to you on that.

12 MS. CANDACE GRAMMOND: If you could,  
13 that -- that would be appreciated.

14  
15 --- UNDERTAKING NO. 14: MPI to indicate what the  
16 split of IT spending is  
17 between IBM and HP; and if  
18 any of that 12.9 million  
19 for transition and  
20 migration work is built  
21 into the 25 million

22  
23 MS. CANDACE GRAMMOND: And if we turn  
24 about two (2) pages in, so two (2) pages from where we  
25 are at the same tab, we find minutes -- or, an excerpt

1 of minutes from the May 31st, 2012, meeting. And  
2 again, here we have a motion by the board with respect  
3 to the IBM contract. We see at the first bullet,  
4 within that paragraph, the statement that:

5 "The tra -- transition and migration  
6 statement of work is for a fixed  
7 amount of 12.9 million."

8 And then at the next bullet:

9 "The data centre statement of work  
10 is for a projected amount of 86.56  
11 million."

12 Are you with me?

13 MS. MARILYN MCLAREN: Yes.

14 MS. CANDACE GRAMMOND: And that  
15 eighty-six and a half (86 1/2) appears to be broken  
16 down as reflected at the sub-bullet. So the first  
17 five (5) years is about 37 million, and then in the --  
18 in the five (5) year option if it's renewed there  
19 would be another 49 million.

20 Is that right?

21 MS. MARILYN MCLAREN: Yes.

22 MS. CANDACE GRAMMOND: Now, it was  
23 referenced in one of the IRs, it's not at this tab --  
24 and I can give you the reference if -- if you need it,  
25 but that the IBM agreement is in essence for a fixed

1 annual charge to the Corporation with provisions to  
2 cover increases or decreases in volume should those  
3 occur?

4 MS. HEATHER REICHERT: Yes, that's  
5 correct.

6

7 (BRIEF PAUSE)

8

9 MS. CANDACE GRAMMOND: Can you give us  
10 an indication of what kinds of things might cause an  
11 increase or decrease in volume and then, hence, in  
12 cost?

13 MS. HEATHER REICHERT: I can try. To  
14 the best of my understanding, currently we have a  
15 certain set of applications that are being transferred  
16 to the data centre. So as we continue operations, if  
17 -- if our applications -- if the number of  
18 applications that we are using grows or the volumes of  
19 the transactions that are -- are handled by those  
20 applications grow, that would trigger a volume  
21 increase that could mean an increase in the -- in the  
22 costs as part of the IBM contract.

23 MS. CANDACE GRAMMOND: And have any of  
24 those types of increases been built into the  
25 Corporation's forecasts, or are the forecasts based on

1 the contract amount?

2 MS. HEATHER REICHERT: The forecast,  
3 because it's looking at, in particular, the next two  
4 (2) years -- '13/'14 and '14/'15 -- are not  
5 anticipating any significant volume increases in  
6 applications or in amounts.

7 MS. CANDACE GRAMMOND: Now, it's  
8 apparent from looking at this excerpt of the board of  
9 directors meeting minutes that the -- the twelve point  
10 nine (12.9) that's paid in a fixed amount for  
11 transition and migration is distinct from 86 million  
12 under the -- the five (5) year contract -- or, sorry,  
13 the te -- the potentially ten (10) year contract?

14 MS. HEATHER REICHERT: Yes, that's  
15 correct.

16 MS. CANDACE GRAMMOND: And maybe this  
17 can piggyback onto the earlier undertaking about the  
18 25 million for the current year and how that's split  
19 between IBM and HP. The question is whether any of  
20 that 12.9 million for transition and migration work is  
21 built into the twenty-five (25)?

22 MS. HEATHER REICHERT: I don't believe  
23 that to be the case. But we will confirm that when we  
24 get the breakdown of the 25 million.

25 MS. CANDACE GRAMMOND: Thank you. Ms.

1 McLaren, in response to the question that Mr. Chairman  
2 asked before lunch about the savings, you had  
3 indicated that there was a savings to the Corporation.  
4 And I -- I have some questions about that.

5 First of all, I believe that the  
6 capital cost, certainly of the IBM approach or the IBM  
7 contract, is down to about 45 million compared with  
8 the seventy-one (71) that was proposed last year.

9 So it's about 26 million less?

10 MS. MARILYN MCLAREN: That's for the  
11 entire IT optimization initiatives, not just the data  
12 centre.

13 MS. CANDACE GRAMMOND: Okay, thank  
14 you. But that -- that is the right number?

15 MS. MARILYN MCLAREN: Yes.

16 MS. CANDACE GRAMMOND: And the  
17 Corporation had also advised in response to an IR, and  
18 I can give you the reference if you'd like, that there  
19 is expected about a 13 percent savings over ten (10)  
20 years under the current IT optimization plan over that  
21 proposed last year?

22 MS. HEATHER REICHERT: Yes, that's --  
23 that's correct.

24 MS. CANDACE GRAMMOND: Just so that  
25 we're clear, does that 13 percent in savings include

1 the 26 million of a reduction in capital costs, or is  
2 that in addition to?

3 MS. HEATHER REICHERT: Can I -- could  
4 -- could you just give me the reference for the 13  
5 percent?

6 MS. CANDACE GRAMMOND: Definitely.  
7 It's PUB/MPI-1-52. It's not in the book of documents.  
8 So it's -- the answer at (a).

9 MS. HEATHER REICHERT: Yes, I've got  
10 that. Could you just repeat your question? I'm  
11 sorry.

12 MS. CANDACE GRAMMOND: No, that's  
13 fine.

14

15 (BRIEF PAUSE)

16

17 MS. CANDACE GRAMMOND: The question  
18 was: When we talk about the capital costs being  
19 reduced from about 71 million proposed last year to  
20 forty-five (45) for, as Ms. McLaren says, the overall  
21 IT optimization initiatives, is that \$26 million  
22 savings distinct from the 13 percent that's referenced  
23 in this IR, or are the two (2) one and the same?

24 MS. HEATHER REICHERT: And if I -- the  
25 reduction in the capital cost of the two (2) scenarios



1 would be reflected in savings through lower  
2 depreciation amount being required.

3                   So previously, when we were going to be  
4 purchasing/acquiring our own data centre equipment, et  
5 cetera, we -- we're anticipating an increase of -- and  
6 actually the 26 million -- just -- just to get the  
7 same numbers as what was reflected in the last year,  
8 the total IT optimization last year was 75 million,  
9 which is the 71 million that you're referencing plus a  
10 4 million contingency of which 65 million was  
11 allocated to Basic.

12                   So the number that we had in the  
13 Corporation's estimates was 75 million, compared to  
14 what we now have, which is the 45 million. So that's  
15 why you'll often hear us refer to a saving of -- of 30  
16 million in total. And that was broken down between  
17 capital savings and implementation expense savings and  
18 some slight increase in -- in items that we deferred,  
19 so it was a combination that adds up to that 30  
20 million.

21                   So the 13 percent -- sorry to be long  
22 winded, but the 13 percent savings that we're  
23 referring would be factoring in the depreciation on  
24 savings on a much lower capital cost.

25                   MS. CANDACE GRAMMOND: Okay, thank

1 you. Now, the -- the analysis that was done with  
2 respect to the -- the 13 percent in savings was an  
3 internal analysis which I think we had asked be filed,  
4 and the Corporation declined to do so.

5 Can you tell us if that savings  
6 analysis included a component for labour savings?

7 MS. HEATHER REICHERT: Yes, it would  
8 have.

9 MS. CANDACE GRAMMOND: Can you give us  
10 an indication of how much?

11 MS. HEATHER REICHERT: I believe that  
12 there was a separate IR that indicated that we  
13 anticipate a savings of 20 FTEs upon total  
14 implementation of the ITO initiative.

15 MS. MARILYN MCLAREN: I think the  
16 answer to that IR was a little bit more narrow than  
17 that. There's twenty (20) positions that the  
18 Corporation will no longer need once it moves to the  
19 IBM solution.

20 But we are certainly holding out the  
21 possibility that there may be a small number of pos --  
22 new positions that we will need, related to really  
23 managing that relationship with IBM and managing the  
24 contract. So the -- it might not be -- it's not a nec  
25 -- sort of, a -- a hard commitment to reducing by

1 twenty (20). But there are twenty (20) FTEs that will  
2 no longer be doing the work for the Corporation.

3 MS. CANDACE GRAMMOND: And I -- I  
4 think the language that the Corporation had used on  
5 the record was that those twenty (20) FTEs will become  
6 redundant as a result of the IBM arrangement.

7 MS. MARILYN MCLAREN: Right. And  
8 there may be a small number of new positions. And, of  
9 course, as we've said a number of times throughout the  
10 material, we are not laying off any employees.

11 Anybody who is on staff will have an opportunity to  
12 move to -- to different work that is valuable and  
13 challenging and so on.

14 MS. CANDACE GRAMMOND: Yeah, and that  
15 was going to be my next question, that the -- those  
16 positions that are no longer needed will not actually  
17 be laid off or -- or terminated. But the Corporation  
18 has said that the IBM arrangement will lead to a  
19 savings of just under 2 million with respect to -- to  
20 staffing.

21 And so how is that going to be achieved  
22 if the staff are just being redeployed and not -- not  
23 being laid off or -- or otherwise exiting?

24 MS. MARILYN MCLAREN: Well, we will  
25 have fewer FTEs, and that's how the savings will be

1 achieved. Whether they -- you know, if the individual  
2 people that we're talking about are moved to other  
3 existing positions, that's how you get the savings.

4

5

(BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: Now, with  
8 respect to ongoing expenses, what is the -- the  
9 expectation with respect to the IT optimization as a  
10 whole, in terms of the -- there's the 45 million in  
11 capital costs that we've talked about.

12 What's the expectation in operating  
13 expenses, going forward?

14 MS. HEATHER REICHERT: Simply stated,  
15 or generally stated, it would be the five (5) years  
16 that's referenced in the minutes, for the first five  
17 (5) years, not to exceed the thirty-seven point three-  
18 two (37.32). So on an annual basis, whatever that's -  
19 - seven (7) -- 7 million and change each year for the  
20 first five (5) years.

21 MS. CANDACE GRAMMOND: So the  
22 distribution is expected to be fairly even over the  
23 period of years?

24 MS. HEATHER REICHERT: We are  
25 anticipating it should be fairly even, yes.

1 MS. CANDACE GRAMMOND: Okay. Now,  
2 we've had evidence earlier in the proceeding about the  
3 services agreement with HP, and that it is, obviously,  
4 a separate company and -- and separate contract from  
5 the MB -- or, IBM master services agreement.

6 Can you tell us what the process was  
7 with respect to the HP contract and whether it was in  
8 response to an RFP, as it was indicated the IBM  
9 contract was?

10 MS. MARILYN MCLAREN: Both master  
11 services agreements came out of the same RFP. They  
12 both submitted qualified bids, and we first entered  
13 into negotiations with HP. And once that was  
14 resolved, decided that there were good opportunities,  
15 as well, to enter into a second master services  
16 agreement. So they both came out of the same RFP.

17 MS. CANDACE GRAMMOND: Thank you. And  
18 the HP contract, as I understand it, is for a six (6)  
19 year term plus a five (5) year optional renewal?

20 MS. MARILYN MCLAREN: Yes, and the  
21 only reason it's six (6) instead of two (2) fives is  
22 that we were in the last year of the current contract  
23 when we negotiated the master services agreement. And  
24 it was in the best in -- in the Corporation's best  
25 interest to include that year as well as the first

1 year in the new contract.

2 MS. CANDACE GRAMMOND: And is it  
3 anticipated that the services provided by HP will  
4 result in the reduction of any FTEs within the  
5 Corporation?

6 MS. MARILYN MCLAREN: No, not at this  
7 point. The -- the work that we do with HP resources  
8 has always been focussed on some -- some number of HP  
9 staff working with MPI employees to maintain existing  
10 systems, but also many focussed on new business  
11 initiatives.

12 MS. CANDACE GRAMMOND: And does HP  
13 offer the same type of outsourcing that we spoke about  
14 with the -- the MPI databases being moved to Ontario?

15 MS. MARILYN MCLAREN: No, in -- in  
16 Canada they don't have a business or -- or facilities  
17 like IBM does. I don't know about anywhere else, but  
18 I know the don't in Canada.

19

20 (BRIEF PAUSE)

21

22 MS. CANDACE GRAMMOND: You had  
23 indicated, Ms. McLaren, that HP responded to the same  
24 RFP as did IBM. That ultimately led to the master  
25 services contract there.

1 I take it, then, that HP didn't offer  
2 any data warehousing services in its response?

3 MS. MARILYN MCLAREN: No, I -- as I  
4 talked about before, there were sort of these three  
5 (3) solid options that we looked at. One (1) of them  
6 was with that -- that pod. And that -- that would  
7 have been an HP solution. They -- HP does sell these  
8 pods.

9 MS. CANDACE GRAMMOND: Thank you.  
10 Now, there's also reference in the material to a  
11 contract that the Corporation entered into with  
12 Dominion Consulting (phonetic).

13 Can you explain what their role is,  
14 relative to HP and IBM?

15 MS. MARILYN MCLAREN: Much, much  
16 smaller. You can see that through the dollars. And  
17 it was -- it -- actually, it -- it's over now. The --  
18 the contract has run its course. It is finished.

19 And it was really for two (2) purposes.  
20 One that there was one (1) key individual that had  
21 some very specific expertise that we needed and worked  
22 with us for a number of years to provide that  
23 expertise. And occasionally, we needed some very  
24 specialized resources that we were not able to acquire  
25 through HP.

1                   And then we would turn to the principle  
2 of Dominion as well, so that any -- our first choice  
3 through the master services agreement would be to look  
4 for the resources from HP. When they were not able to  
5 provide them, Dominion was -- was next up, so to  
6 speak.

7                   MS. CANDACE GRAMMOND:   And on a go-  
8 forward basis, is Dominion expected to play any role?

9                   MS. MARILYN MCLAREN:   No, not at this  
10 time. I mean, things can change in the future, but  
11 that's not the expectation right now.

12                  MS. CANDACE GRAMMOND:   So, moving  
13 forward then, the Corporation has the two (2) fairly  
14 longer-term contracts in place: one (1) with IBM and  
15 one (1) with HP. And it's confident that it has the  
16 necessary resources through those two (2)  
17 arrangements?

18                  MS. MARILYN MCLAREN:   Yes, absolutely.  
19 And the RFP for the master services agreement had a  
20 list of a number of different kinds of engagements the  
21 Corporation was interested in, and they're very broad.

22                               And as you can see, the HP is really --  
23 at this point in time, really largely on the basis of  
24 contracted resources to work with our staff to achieve  
25 business deliverables, and the IBM is very, very



1 different, being the -- the data centre solution.

2                   So both of those fall within the  
3 different -- very different categories in the RFP, but  
4 we -- we really believe we have -- have our bases  
5 covered with these two (2) master services agreement.

6                   MS. CANDACE GRAMMOND: Thank you. I'm  
7 going to ask you to turn to Tab 8 of the book of  
8 documents. This is where we find TI.10, which is the  
9 Corporation's capital expenditures schedule going  
10 forward. And if we go to the second page at Tab 8, we  
11 see the total capital expenditures expected in each  
12 year; so Tab 8, TI.10, page 2.

13                   We see the actual capital expenditures  
14 for 2011/'12 were just under 15 million, projected to  
15 increase fairly substantially for the current year and  
16 then the two (2) years shown in the outlook period.

17                   Yes?

18                   MS. MARILYN MCLAREN: Yes.

19                   MS. CANDACE GRAMMOND: Now, it would  
20 be fair to say that the majority of the capital  
21 expenditures budgeted for the current year and the two  
22 (2) -- then the year of the Application and the  
23 subsequent outlook year are for IT-related expenses?

24                   MS. HEATHER REICHERT: If -- yes. If  
25 you look at the second page, '12/'13 under the

1 "Deferred Development Costs," I'm -- I'm just pointing  
2 to like the magnitude, IT optimization: 19.9 million.  
3 And part of IT optimization is the disaster recovery  
4 as well. So if you look, there's another eight point  
5 two (8.2).

6                   So just as it relates to deferred  
7 development costs that are capitalized, there's 28  
8 million relative to the IT optimization. It is  
9 significantly less in the subsequent projected and  
10 outlook years but is the bulk of '12/'13.

11                   MS. CANDACE GRAMMOND: Thank you. And  
12 what I wanted to ask you is: We had asked in IR  
13 Number 55 in the First Round -- and this is at Tab 36  
14 -- about IT costs. And so if -- if you turn to 1-  
15 55(a) attachment, which is at Tab 36, we've got the  
16 Corporation's information technology costs year over  
17 year. And we've got those broken down over the next  
18 couple of pages.

19                   If you to go actually the third page of  
20 that attachment -- and at least on my copy, the pages  
21 aren't numbered; they might have been where a hole got  
22 punched or something like that -- but we see the --  
23 the line item, "Total capital requirements for IT."

24                   And if we compare those numbers -- so  
25 I'm looking at the 40.6 million, the 33.9 million, and

1 the thirty-one-point-five (31.5) -- relative to the  
2 forecast for capital expenditures, in TI.10, we can  
3 see that it's -- like the very vast majority of the --  
4 of the capital expenditures. Is that right?

5

6 (BRIEF PAUSE)

7

8 MS. HEATHER REICHERT: Sorry, I'm just  
9 wanting to make sure that I'm comparing things done on  
10 the same basis. So the TI.10 under your Tab 8 re --  
11 reflects the capital costs relating to IT projects;  
12 not just IT optimization, but any of the IT  
13 initiatives. So it would reflect just those capital  
14 costs, so those things that are capitalized, or those  
15 things that are deferred.

16 The reference to PUB-1-55 -- whoopsies,  
17 sorry -- it has those costs, as well, the capital and  
18 the deferred. The reason that it -- well, sorry, let  
19 me just -- sorry, let me just back up.

20 You'll see some -- I could point you to  
21 the same numbers that are on the PUB-1-55A that are  
22 included in TI.10. It's just that they're categorized  
23 -- or grouped differently on TI.10.

24 So in total, this 40 million -- I'm  
25 looking at 2012/'13. The 40.6 million is included on

1 TI.10 in '12/'13, but it's broken out in this  
2 particular schedule under data processing equipment  
3 and deferred development costs. So, yes, of the 40 --  
4 of the 52.2 million in '12/'13, a full 40.6 million is  
5 with respect to IT projects, not just IT optimization.

6 Sorry, a long way to get to, yes,  
7 you're right.

8 MS. CANDACE GRAMMOND: No, that's  
9 fine. We appreciate the -- the information, so. And  
10 then the same would be true for 2013/'14 and '14/'15.  
11 That if we compare those numbers, that shows us what  
12 amount of the whole is related to IT?

13 MS. HEATHER REICHERT: Not exactly in  
14 that. In '13/'14 and '14/'15 we have an amount of 20  
15 million in each of those years for future projects,  
16 provision for future projects. The provision for  
17 future projects may not be just IT improven (phonetic)  
18 initiatives. It may be other improven initiatives  
19 that the organize -- the Corporation undertakes. But  
20 for all intents and purposes, the bulk of '13/'14 and  
21 '14/'15 projections would anticipate it being IT-  
22 related initiatives.

23 MS. CANDACE GRAMMOND: Okay, thank  
24 you. Now, we spoke a minute ago about the -- the 12.9  
25 million fixed amount that's to be paid to IBM for the

1 transition and migration work.

2                   Is -- and -- and can you tell us in  
3 what year those expenses are expected to be  
4 capitalized?

5                   MS. HEATHER REICHERT:     Definitely. In  
6 the budget for 2012/'13, looking to TI.10, included  
7 within IT optimization, deferred development costs of  
8 19.9 million, that's where the 12.9 million is  
9 included. So it's a hundred percent deferred and  
10 anticipated to be spent in 2012/'13.

11                   MS. CANDACE GRAMMOND:    Okay. Now, we  
12 spoke earlier about the 45 million overall capital  
13 budget for IT optimization. And I can give you the  
14 reference if you'd like. There was a table provided  
15 by the Corporation that reflects the anticipated  
16 spending of that 45 million over a period of years.  
17 And there is only a million budgeted for the year of  
18 the Application.

19                   So is it the case that those efforts  
20 will be substantially complete in the current year?

21                   MS. HEATHER REICHERT:     If I could get  
22 the reference that you're referring to, please.

23                   MS. CANDACE GRAMMOND:    Sure. It's AI-  
24 12.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: It's AI-12.4,  
4 which is page 8 of AI-12.

5

6 (BRIEF PAUSE)

7

8 MS. HEATHER REICHERT: Okay.

9 MS. CANDACE GRAMMOND: So we see here  
10 for the year of the application, 2013/'14, there's a  
11 million budgeted for IT optimization, leaving aside  
12 disaster recovery. Is it the case then that that  
13 piece is substantially complete in current year?

14 MS. HEATHER REICHERT: Yes, it is  
15 anticipated that in 2012/'13 almost all of the costs  
16 associated with, for sure the transition, and -- and,  
17 generally, the IT optimization initiative will be  
18 incurred.

19 And I just wanted to make reference in  
20 case anybody was looking to compare numbers, I think  
21 an IR had touched on that in 2013/'14 this particular  
22 schedule in AI-12 refers to 1 million in '13/14, which  
23 does not coincide exactly with the TI.10 that's  
24 showing 2 million.

25 There was, after the two (2) schedules

1 were done, a shift of -- of that million. But  
2 otherwise the totals are exactly -- exactly the same;  
3 it was just a shift between the years.

4 MS. MARILYN MCLAREN: And you -- you  
5 can't really put the disaster recovery aside for the  
6 moment, because a lot of the -- excuse me -- our  
7 disaster recovery solution is the IBM data centre  
8 approach. And when you have, for the most part,  
9 guaranteed redundancy with the two (2) data centres  
10 constantly in synchronization with each other,  
11 constantly ready to pick up for each other if one (1)  
12 should fail, that is a huge part of how we are  
13 approaching disaster recovery.

14 In -- in no small fashion -- you don't  
15 have to worry as much about recovering in the event of  
16 a disaster if your systems are pretty much guaranteed  
17 to function even if one (1) of your data centres goes  
18 down. So it is -- the data centre approach is of key,  
19 key -- integrated with our disaster recovery approach  
20 as well.

21 MS. CANDACE GRAMMOND: I didn't mean  
22 by that comment that it wasn't important. I just  
23 meant, for the purposes of the dollar allocation, that  
24 certainly the bulk of the capital costs were being  
25 done in current year and not a lot, in relative terms,

1 is left for the year of the Application.

2 MS. MARILYN MCLAREN: Yeah. No, I --  
3 I didn't think or suggest that you were thinking it  
4 wasn't important. But I guess the reality is that a  
5 good piece of the transition cost may very well be  
6 charged to disaster recovery, as well as the data  
7 centre optimization, so it will -- there -- there will  
8 be some split there.

9 So if you're looking at that 12.9  
10 million, some will be this year, a little bit will be  
11 next year, a little bit will be next year; but it will  
12 probably be in -- in the -- both of those initiatives,  
13 not just one or the other.

14 MS. CANDACE GRAMMOND: And just while  
15 we're talking about the data centres, is there any  
16 particular reason why the two (2) are both located in  
17 Ontario? Was there any discussion about either the  
18 data centres in two (2) different geographic locations  
19 or in a -- the western part of Canada?

20 MS. MARILYN MCLAREN: Well, there --  
21 there's a geographic limit to how far they can be from  
22 each other. If you're truly providing that constant  
23 synchronization they have to be within, I think it's--

24 MS. KATHY KALINOWSKY: Under 80  
25 kilometres?



1 MS. MARILYN MCLAREN: They have to be  
2 within about 80 kilometres of each other. And their -  
3 - most of their market, most of their business is  
4 centred there. So it's unlikely they were going to  
5 build new ones out west. We've done what we need to  
6 do to make sure that there's no degradation of  
7 response time, given that it's coming a fair distance.  
8 But they really need to be in fairly close proximity  
9 with each other.

10 Having said that, they are in different  
11 hydro grids, they are in telecommunications grids.  
12 There's some fundamental differences between those two  
13 locations that give us a lot of redundancy and  
14 security as far as that goes.

15 MS. CANDACE GRAMMOND: Okay. So would  
16 it be fair to say, then, with respect to the -- the 45  
17 million in -- in capital costs for IT optimization  
18 that -- and disaster recovery that it represents, sort  
19 of, a one (1) time -- or, at least for now, major  
20 overhaul of the Corporation's IT systems?

21 MS. MARILYN MCLAREN: It -- it does,  
22 and with a commitment that we will be operating at a  
23 higher level of security, stability, redundancy, more  
24 current versions of software than we have before we  
25 did this. It will position us for the future, like we

1 talked about more last year than -- than we've touched  
2 on this year.

3                   So having said all of that, it really  
4 provides an enhanced IT environment. And in all  
5 likelihood, there will be some additional costs to  
6 that than if we hadn't done any of that and risked  
7 simply not having a highly functioning IT environment.

8                   MS. CANDACE GRAMMOND: Okay, thank  
9 you. Now just before we leave TI.10, which is at Tab  
10 8, Ms. Reichert, you had mentioned the -- the 20  
11 million that's built in to the year of the Application  
12 and the subsequent year for future projects. We also  
13 see on the "Future of service, physical damage, and  
14 road safety" line, 8 million in each of the year of  
15 the Application and the outlook period.

16                   What can you tell us about the -- what  
17 kinds of things the Board might see within those  
18 forecasts?

19                   MS. MARILYN MCLAREN: When we put this  
20 material together and -- and to a certain extent, some  
21 of this continues to be true today. We are in the  
22 earliest possible stages of really scoping out what we  
23 would do in regard to the service and physical damage  
24 re-engineering components of that.

25                   I would expect that what you will see

1 is a good piece of the contingen -- the \$20 million  
2 contingency if -- will go towards a -- a larger, fully  
3 scoped, major physical damage re-engineering  
4 initiative that the Corporation would take on, with --  
5 with, clearly, some significant service benefits.

6 So I think probably the 8 million and  
7 more will be rela -- related to physical damage re-  
8 engineering. And we may very well be in a position  
9 therefore to -- you know, I mean, it -- depending on  
10 how you slice or dice it, some smaller pieces related  
11 solely to service and solely to road safety.

12 MS. CANDACE GRAMMOND: And for the  
13 purposes of the record, can you just give us a bit of  
14 a description of what physical damage re-engineering  
15 would entail?

16 MS. MARILYN MCLAREN: Damage to their  
17 vehicles, getting their -- getting -- using their  
18 Autopac coverage to get their damaged vehicles  
19 repaired is the most common real touch point that MPI  
20 has with Manitobans. Luckily, there's only fifteen  
21 thousand (15,000) or so people who are actually  
22 injured in a car crash so bad that they actually need  
23 to file a claim with the Corporation. Counting glass  
24 claims, we have a quarter of a million vehicle damage  
25 claims every year.

1                   We handle that business pretty much as  
2 we have for the last several decades. And it is still  
3 a very labour intensive, administratively burdensome,  
4 hands on, lots of touch points, and we just know that  
5 that's not what Manitobans will really expect from us  
6 going forward, particularly a younger generation.

7                   If any of you are -- are familiar at  
8 all with how much advertising automobile insurers do  
9 in the US, through US TV channels, you'll see that --  
10 that, you know, a number of them have introduced  
11 iPhone applications for filing a claim with their  
12 insurer, you know, right -- right on their iPhone,  
13 things like that.

14                   And if you think about the  
15 possibilities with technology today with people being  
16 able to provide their own information to the insurer,  
17 including digital photos of the damage, there -- there  
18 are a lot of oper -- opportunities that we know  
19 Manitobans would see as service improvements that we  
20 also know work in closely with the Automotive Trades  
21 Association. And the Motor Ve -- Motor Dealers  
22 Association would also provide efficiency and  
23 productivity improvements as well.

24                   So we really think that we need to,  
25 like we've done with Autopac Online and with driver's

1 safety rating and with the PIP, administrative changes  
2 that we've made, it's time to really bring that whole  
3 vehicle damage repair process into the new millennium.  
4 And that's really what we're talking about. It's hard  
5 to talk about that without having some significant  
6 service impacts, and we know that there are  
7 opportunities to -- to improve service. But it really  
8 is a fundamental change in the administration around  
9 handling vehicle damage claims.

10                   We expect that we will be able to find  
11 some efficiencies working with the trade to do that.  
12 We think it will be a real benefit to Manitobans. We  
13 think, though, that it -- it's really important for us  
14 to do this right now, because at the same time as we  
15 think we can get some administrative efficiencies into  
16 the system through re-engineering, we know that the --  
17 the cost of repairs, the cost of parts, the complexity  
18 of the way vehicles are constructed, is growing almost  
19 exponentially as well.

20                   So hopefully, if we can find some  
21 administrative and service improvements on this side,  
22 it'll help to, sort of, dampen down or mitigate what  
23 we know we need to do to really, really assure  
24 ourselves in this changing world that the repairs  
25 we're paying for are really, really safe and top

1 quality. So it kind of aligns, but they're quite  
2 different tracks.

3 MS. CANDACE GRAMMOND: Now, with  
4 respect to TI.10, and still the -- the line items  
5 relating to the items that you've just talked about,  
6 the 8 million for the year of the Application and the  
7 outlook, and as well the provision for future projects  
8 of 20 million per year, I -- I note that last year the  
9 Board had ordered MPI to provide with the GRA filing a  
10 list of planned capital projects. And -- and I  
11 appreciate the evidence that you've given, Ms.  
12 McLaren, with respect to the -- the future of service  
13 and -- and physical damage, and so on.

14 How, based on the information that the  
15 Board has, can it know that these estimates are fairly  
16 reliable for the purposes of the year of the  
17 Application?

18

19 (BRIEF PAUSE)

20

21 MS. MARILYN MCLAREN: I think -- I  
22 think we have a reasonably solid track record of  
23 managing within the forecasts we put together for the  
24 Board through these processes -- remembering how far  
25 out we're -- we're talking in some of these areas.

1 And because these are -- are capital provisions, you  
2 know, a number of the actual costs won't flow into  
3 operating expenses which actually have an impact on  
4 rates until the year after you spend them, so to  
5 speak, sometimes multiple years depending on the size  
6 and scope of the initiative.

7 But I think the Board can take comfort  
8 in the fact that we are putting our best estimates  
9 forward. We are committed to working within the  
10 estimates that we build in as part of this Rate  
11 Application. We believe that we have a responsibility  
12 to manage our expenses as closely as we possibly can  
13 to what we put in the Application, knowing it is well  
14 ahead of when we will actually begin to incur those  
15 expenses.

16 MS. CANDACE GRAMMOND: How is the  
17 Corporation able to come up with the estimates that we  
18 see here, or the forecasts that we see in TI.10? I'm  
19 just talking about those two (2) line items, I'm not  
20 talking about the whole schedule.

21 MS. MARILYN MCLAREN: Well, in terms  
22 of the 20 million it's -- it's a placeholder. It's a  
23 provision. So it is not an estimate. But again,  
24 anything -- anything that we've done, and anything we  
25 will continue to do in the future, whether it is the -

1 - things like streamlined renewals in DSR had a  
2 business case that after we spend the money we will  
3 actually reduce the cost of operating the Basic  
4 program.

5                   The same with the PIPP improvement  
6 initiative. There was a cost that is -- we are  
7 currently now absorbing in deferred development claims  
8 expense for that line of business. But at the end of  
9 the day it will lower the cost of administering PIPP  
10 claims. And when it comes to the physical damage re-  
11 engineering, we would expect to -- my expectation at  
12 this point is that it will -- my expectation is that  
13 it should pay for itself in the long term.

14                   There should be a financial business  
15 case, or if there's not a full financial business case  
16 there is still a strong service business case coupled  
17 with the financials that make it a worthwhile  
18 endeavour for the Basic ratepayers.

19

20                   (BRIEF PAUSE)

21

22                   MS. CANDACE GRAMMOND: Okay. Just  
23 before we leave the area of IT issues, I do have some  
24 questions with respect to the Gartner recommendations,  
25 and we have that information at Tab 40 of the book of



1 documents.

2                   Tab 40 is an IR that the Board posed,  
3 wherein we had asked the Corporation to breakdown what  
4 Gartner's recommendations were, what the status was,  
5 and what MPI's response or comments were in response  
6 to the recommendations. I'm not going to aks about  
7 all of them. I just want to go through a few of  
8 these.

9                   These are -- this is the chart that's  
10 found at the attachment at Tab 40. We see on the  
11 first page that Gartner had as a recommendation that  
12 the Corporation begin a telecom expense reduction  
13 management program, beginning with regular audits to  
14 look for billing errors. And the Corporation has  
15 indicated that this was actively part of its ongoing  
16 operational oversight.

17                   Can you tell us anything about an  
18 impact on operating expenses arising from this item?

19                   MS. MARILYN MCLAREN: I -- I suspect  
20 at some point I'll be giving up my desk phone. You  
21 know, we -- we still do have a fair number of people  
22 at MPI with BlackBerrys or -- or cell phones and a  
23 landline. So I think those are the kinds of things  
24 that -- that will be taking a very hard look at when  
25 it comes to telecom expense reduction.

1 THE CHAIRPERSON: Excuse me. I wonder  
2 if, for the benefit of the two (2) new Board members,  
3 if you couldn't give some background with respect to  
4 Gartner. We haven't discussed it at all at the Board  
5 levels here, so I want to make sure that they get that  
6 background.

7 MS. MARILYN MCLAREN: Yeah. Gartner  
8 is a internationally recognized company that provides  
9 research, expertise, advice to businesses in their --  
10 and their use of IT. They don't provide any other IT  
11 services. They don't have data centres that they run  
12 for people. They don't have, you know, a staff of  
13 programmers that they will send into your shop like HP  
14 does.

15 So they're very independent. And they  
16 are -- are widely recognized as very credible for the  
17 quality of the research that they do, the analysis  
18 that they do, the CIO mentoring and coaching programs  
19 that they have.

20 They really are as independent a  
21 resource as you can get when it comes to really  
22 getting some -- some expert advice, you know, without  
23 a vested interest when it comes to IT.

24 We -- the first time Manitoba Public  
25 Insurance used them is back when we had a number of

1 initiatives going on to get ready for the year 2000,  
2 computer changes. And at that point, they had a  
3 contract directly with the board of directors, the --  
4 it may have been the audit committee. I don't  
5 remember.

6 But they were actually an independent  
7 overseer in terms of are these projects on time, are  
8 they doing the right kinds of things, are they  
9 spending money wisely. And since then, every time  
10 we've taken large -- taken on large IT initiatives or  
11 when there's been fundamental changes inside the  
12 Corporation that relied on successful IT, we've really  
13 used them for that as well.

14 So they have a CIO scorecard. That's  
15 where some of these recommendations came from. It --  
16 they come in and basically compare your organization  
17 to other similar-sized organizations to give you a  
18 sense as to where does your spending fit it, where is  
19 your sophistication of managing IT, gives you some  
20 advice as to how they categorize different  
21 organizations' use of IT. Is IT kind of just a  
22 service provider or are they key business partners  
23 with the business, helping the business find  
24 solutions? Where do you want to be on that spectrum.  
25 So they provide all those kinds of things.

1                   A couple of years ago, through a  
2 reorganization, I moved sort of a business line vice  
3 president into the IT area. And to improve his  
4 knowledge of IT and to provide good oversight to that  
5 area, he has been getting some mentoring and coaching  
6 from Gartner. And, as well, we began using the CIO  
7 scorecard to give us a sense as to how MPI uses IT.

8

9 CONTINUED BY MS. CANDACE GRAMMOND:

10                   MS. CANDACE GRAMMOND: Thank you.  
11 Okay, continuing -- and thank you, Mr. Chairman, by  
12 the way, for asking for that background.

13                   Continuing on page 1 of the chart that  
14 the Corporation prepared, we see the fourth item  
15 relates to the development of benchmark applications.  
16 And the Corporation has indicated that that project  
17 will be initiated once the move to the IBM data  
18 centres has been done.

19                   Can you tell us about what form of  
20 benchmarking will be undertaken?

21

22                   (BRIEF PAUSE)

23

24                   MS. MARILYN MCLAREN: No, I can't.  
25 And I -- I don't know enough specifically about what

1 they were actually referencing in that statement. But  
2 I can give you an example about what I understand what  
3 we will be looking at, in terms of identifying  
4 additional optimization opportunities.

5                   Back -- and -- back when we developed  
6 Autopac Online as this online, real-time system that  
7 brokers use across the province to issue drivers  
8 licences, renew vehicle registration and insurance,  
9 make -- change addresses, all of those things, it was  
10 really -- we were ahead of our time. And it was a  
11 very unique application, in that we had this online  
12 real-time system across Manitoba for our brokers.

13                   We built that internally with  
14 assistance from an earlier iteration of the HP  
15 company. And we really had to build a lot of  
16 functionality in that that didn't necessarily exist in  
17 any other packages that we used.

18                   We -- we know today that we could  
19 really scale back the functions that are handled by  
20 Autopac Online and have a good number of them operated  
21 in a -- in a package that we use for all of our  
22 financials, which is the Lawson System. And we  
23 believe that would likely provide some optimization  
24 and also some standardization, and also make our  
25 custom applications smaller and rely on a -- which

1 generally tends to be better approached if you can  
2 rely on a -- on a packaged application as opposed to  
3 your own customized solution.

4                   So we think that's something that may  
5 be -- very well be something we want to do in the  
6 future when it comes to Autopac Online that would  
7 truly -- just looking for the language again -- be an  
8 -- an optimization and -- and efficiency lower-cost  
9 solution.

10                   We can't do that until we get  
11 everything settled and functioning well at IBM. And I  
12 honestly don't know what the benchmark process would  
13 be through that. But we think there are some  
14 opportunities to scale back our custom applications,  
15 make them leaner, and rely more on off-the-shelf  
16 programs.

17                   MS. CANDACE GRAMMOND: Thank you. The  
18 next item in the second sentence, refers -- references  
19 formalizing a metrics based IT oper -- operations  
20 process improvement program. Can you comment on what  
21 metrics are being developed?

22                   MS. MARILYN MCLAREN: This is really  
23 related to the actual infrastructure of our IT  
24 services function. And when it talks on the comments  
25 section about, you know, problem change, incident

1 management, break/fix is another phrase that we use a  
2 lot. It would be aspects of that that we would be  
3 looking at.

4                   So the actual detail of a metrics-based  
5 process improvement program, I can't give you  
6 specifics on, but the concept being if you have a lot  
7 more structure in dealing with documenting issues,  
8 documenting how you approach them, you may very well  
9 be in a better position to use some of those metrics  
10 to plan your work ahead, so that it is not as much  
11 break/fix as it is planned improvement.

12                   MS. CANDACE GRAMMOND: Thank you.

13 Turning to the next page, where the list of  
14 recommendations continues, we see that another  
15 recommendation from Gartner was to -- this is the  
16 second item:

17                   "To more actively enforce existing  
18 standards and put change management  
19 controls in place."

20                   And the Corporation has indicated that  
21 it's initiated and in the works so to speak. Can you  
22 tell us about what form of change management controls  
23 have been im -- implemented?

24                   MS. MARILYN MCLAREN: Again, this is  
25 really talking about the -- the hard infrastructure of

1 your IT environment. One of the things that we've  
2 done very well at MPI over the years is had a very  
3 good process from controlling change in the middle of  
4 big improvement projects. We -- we are very good at  
5 managing scope creep, or, you know, letting the  
6 deliverables get away from us.

7                   So this is really not talking about  
8 that. It is talking about when you implement the  
9 newest version of Sybase, how do you know you're doing  
10 it well, how do you know that you found all of the  
11 connections and all of the subsystems that -- that tie  
12 in and use that. And how do you really manage that.  
13 It -- it's not, sort of, at the most service-oriented  
14 level. We have never really implemented a technical  
15 software upgrade and brokers and staff have been  
16 unable to function the next day. That's never  
17 happened. We're very good at managing it at -- sort  
18 of at that -- that highest level.

19                   There's always -- often a few little  
20 funny things that happen unexpectedly, and this is  
21 about doing a better job of that kind of change  
22 management.

23                   MS. CANDACE GRAMMOND: Same page, if  
24 we move down three (3) items, we see that Gartner  
25 recommended that:



1 "MPI develop an IT business and  
2 operating model that is similar to  
3 that of an internal service  
4 provider, using service unit  
5 costing."

6 And the Corporation indicated that it  
7 has not accepted this recommendation as it has no  
8 intention of creating an IT model whereby service  
9 units are charged for specific services, and it will  
10 continue to allocate costs based on the cost-  
11 allocation methodology approved here.

12 Can you comment on that a little bit  
13 further, on why that recommendation was rejected?

14 MS. MARILYN MCLAREN: Yeah. And this  
15 is something that, although it says, "Not accepted," I  
16 -- I certainly plan to learn a little bit more about -  
17 - from Gartner, from the individual that I talk to on  
18 a quarterly basis, to -- to get his independent sense  
19 of where we're at with IT.

20 In my experience, that kind of approach  
21 may work very well where you have different divisions  
22 in a company that actually deliver different products  
23 and services. We have -- you know, we aren't. We've  
24 talked about MPI exists to -- for the Basic compulsory  
25 program. We have a couple of other small lines of

1 business, some responsibilities for drivers and  
2 vehicles, and a very integrated approach to doing most  
3 of that.

4           In my experience, when you have that --  
5 the IT department charging out its costs to the call  
6 centre, or the urban service centres compared to the  
7 rural service centres, it causes more contention than  
8 anything else. It causes competition. It causes  
9 competition for scarce resources. And quite frankly,  
10 it -- in my experience, it takes away from the  
11 cohesive corporate consensus we have on what we need  
12 to do and where we're going as a company.

13           Everybody needs to -- the -- the  
14 planning process is very much top down at MPI. The  
15 executive, the management committee with the support  
16 of the board, decides what the change initiative are,  
17 what we need to do differently next year compared to  
18 what we're doing today. And we fund that. We make  
19 sure that our staff and our systems are prepared to  
20 deliver on that.

21           To have initiatives or even your basic  
22 regular break/fix kind of support activities charged  
23 back out to users on the department basis is not  
24 something that's ever worked well, in my experience.  
25 I'm certainly open to learning more about it, but

1 that's where -- where my head was when we were  
2 deciding that's not likely somewhere we're going to  
3 go.

4 MS. CANDACE GRAMMOND: Thank you.  
5 Turning the page, page 3, we get into a list of items  
6 that Gartner recommended, as they say, "In order for  
7 MPI to better support growing the business," items to  
8 consider.

9 The first one listed there is to begin  
10 gathering data on budgets and spending patterns by  
11 Application, and then a bit of a further commentary,  
12 and MPI has indicated that this is something that it -  
13 - it would evaluate.

14 Can you give us a sense of the -- the  
15 status of the evaluation and whether, based on where  
16 the Corporation is at present, it believes this  
17 recommendation to have merit?

18 MS. MARILYN MCLAREN: We're not too  
19 far down that path. You know, again Gartner looks at  
20 things through a certain lens. My lens tends to be  
21 more focussed on the -- if we're growing this  
22 business, we've got a problem. We've got higher  
23 rates, more crashes, none of this is good. Unless,  
24 you know, we -- we blow the doors off immigration into  
25 Manitoba, it's a fairly static business.

1                   This -- we're -- we're not growing our  
2 market share. We're not expanding into new areas. So  
3 they -- they work with businesses who that is really  
4 their primary focus, growing and transforming their  
5 businesses. We are just, for the most part, trying to  
6 do a very good job by, you know, reinventing how we do  
7 what we do, but not doing more of it. So clearly  
8 these -- we -- we pay a lot of attention, we have a  
9 lot of respect for Gartner, but sometimes the lens  
10 doesn't always necessarily align.

11                   MS. CANDACE GRAMMOND:    And would that  
12 answer apply to the second item under this section as  
13 well, the one that deals with investing in process  
14 discovery technologies?

15                   Or would you have any further  
16 commentary with respect to that item?

17                   MS. MARILYN MCLAREN:    No, I think that  
18 pretty much covers it there as well.

19                   MS. CANDACE GRAMMOND:    Okay. The  
20 third set of recommendations that begin on the same  
21 page, page 3, is:

22                                    "That in order for MPI to better  
23                                    support transforming its business,  
24                                    it should consider..."

25                   And then again, there -- there's a list

1 of items.

2 The first one is:

3 "Establishing a target  
4 transformation budget for IT  
5 investments, such as mobile social  
6 media, that can change the dynamic  
7 as to how MPI empowers and interacts  
8 with Manitobans."

9 Now I appreciate, Ms. McLaren, you  
10 commented about some of the things that the future may  
11 hold with respect to that. And I see that the  
12 Corporation has not accepted that particular  
13 recommendation.

14 Are you able to comment on that a bit  
15 further?

16 MS. MARILYN MCLAREN: Yeah, I think  
17 it's really more of a chicken-and-egg analogy maybe.  
18 I -- I can't imagine the -- the culture of MPI, how --  
19 how we do our work, how we work to respond to the  
20 needs and -- and preferences of Manitobans, I can't  
21 imagine establishing a budget to, sort of, find and  
22 create new opportunities to do some of these things  
23 like social media, like they've mentioned.

24 We know we need to do a better job of  
25 modernizing our physical damage processes. I am

1 confident that, you know, social media and mobile will  
2 be an absolutely fundamental part of that, but that's  
3 where we start from. We start from: What do we need  
4 to do with what our job is at MPI to better improve  
5 services to Manitobans?

6 So it's just not how we would work as  
7 to set up a budget and say, I wonder what we might do  
8 with social media? Just -- that's just not how we  
9 think about it.

10 MS. CANDACE GRAMMOND: Turning over  
11 the page to the last section under which Gartner gave  
12 recommendations relates to becoming more effective and  
13 innovative. And one of the items, the third one on  
14 the list in terms of recommendation was to develop,  
15 document, and implement an information strategy which  
16 the Corporation has indicated is currently being  
17 defined.

18 Can you comment on that?

19 MS. MARILYN MCLAREN: No,  
20 unfortunately I'm going to have to get back to you on  
21 that one.

22 MS. CANDACE GRAMMOND: What -- one of  
23 the things that we were wondering about this item with  
24 respect to information strategy is how this would  
25 relate to -- to IT optimization and if this was

1 something that maybe would have been nice to have  
2 before MPI had to go down the IT optimization road.

3 It -- can you comment on that piece?

4 MS. MARILYN MCLAREN: I -- I would  
5 rather wait to find out exactly what they meant by an  
6 "information strategy". It may be much narrower in  
7 scope than what you're thinking.

8 MS. CANDACE GRAMMOND: Fair enough,  
9 thank you. I'm going to go back to talking about  
10 numbers a little bit with respect to capital  
11 expenditures now that we've covered off a lot of the  
12 substance.

13 Tab 36 of the book of documents we did  
14 talk about a little bit. This is PUB/MPI-1-55. And  
15 we have, on the last couple of pages of that tab, a  
16 comparison between actual and forecasted for corporate  
17 capital expenditures.

18 So we'll maybe go first to the 2011/'12  
19 year. So just -- I'm at Tab 36, on the second-last  
20 page. It would appear that for 2011/'12 the actual --  
21 and again, this is for -- sorry, I -- information  
22 technology costs were about three point seven (3.7)  
23 less -- 3.7 million less than budgeted.

24 Is -- do I -- am I reading that  
25 correctly?

1 MS. HEATHER REICHERT: If -- if I'm  
2 following you accurately, you're comparing the actual  
3 in the 2013 GRA set of columns of 38.7 million to what  
4 was forecasted. I'm -- I'm not sure what exactly  
5 might have been budgeted, assuming that the forecast  
6 is equal to the budget, then forty-two point four  
7 (42.2), yeah. So three point seven (3.7), sorry.

8 MS. CANDACE GRAMMOND: Yeah, I was  
9 just looking at the -- the far-right column, I guess,  
10 that sets out what the variance is.

11 MS. HEATHER REICHERT: Yes.

12 MS. CANDACE GRAMMOND: Thank you. And  
13 we see that one of the drivers behind that \$3.7  
14 million dollar difference was about one point one  
15 (1.1), one point two (1.2) less spent in compensation  
16 than anticipated.

17 Can you comment on that, why that  
18 amount was less?

19 MS. HEATHER REICHERT: So here again  
20 it would be -- it would be relating to -- relating to  
21 compensation expenses relative to improvement  
22 initiatives. So what would have been budgeted  
23 compared to what actually was incurred gave rise to  
24 that -- that under-expenditure. So it -- it would be  
25 mainly relating to a difference in what was



1 anticipated for improvement initiatives specific in  
2 '11/'12.

3 MS. CANDACE GRAMMOND: Do you know  
4 which improvement initiatives those would have been?

5 MS. HEATHER REICHERT: Not off the  
6 top, no.

7 MS. CANDACE GRAMMOND: Okay, that's  
8 fine. Another contributing factor to that difference  
9 of 3.7 million is on the amortization line for data-  
10 processing equipment, we see about 2.7 million less  
11 there.

12 Can you comment on that reduction?

13 MS. HEATHER REICHERT: Similarly --  
14 and we -- we had talked earlier. I think you noted  
15 that in '11/'12, actual capital expenditures were  
16 about 14 million. So that would have been something  
17 less than what had been budgeted for '11/'12. And the  
18 amortization of -- of that is what impacts on the  
19 operating expenses that you see here.

20 So lower than anticipated  
21 capitalization of costs in '11/'12 result in a lower  
22 than anticipated depreciation of those costs. So  
23 that's what you're seeing reflected on here.

24 MS. CANDACE GRAMMOND: And the third  
25 item that is significant with respect to this

1 difference between actual versus forecasted is on the  
2 computer equipment expense line of 1.7 million.

3                   Was there anything specific driving  
4 that?

5                   MS. HEATHER REICHERT:    As I  
6 understand, the Corporation has been planning for a  
7 desktop refresh, if you will.  And certain -- certain  
8 desktops were purchased.  They are a small cap -- they  
9 -- they're a small-expense item, so the are not  
10 capitalized.  They are expensed directly.

11                   And there was a significant purchase in  
12 2011/'12 that had not been forecasted in the 2012/'13  
13 -- or, the 2012 GRA.

14                   MS. CANDACE GRAMMOND:   And we see for  
15 the current year that the updated forecast that's been  
16 presented at this GRA is about 8.3 million more than  
17 what was presented last year.  And for the year of the  
18 application, it's about 10.4 million more than what  
19 was presented last year?

20                   MS. HEATHER REICHERT:    Yes, that's  
21 correct.

22                   MS. CANDACE GRAMMOND:    And both of  
23 those increases seem to be driven by increases on the  
24 IT or CIT departmental expense line.

25                   Is that correct?

1 MS. HEATHER REICHERT: Yeah, it would  
2 be under the caption of data-processing expenses. And  
3 that would be relating to the IBM contract.

4 MS. CANDACE GRAMMOND: Thank you.

5

6 (BRIEF PAUSE)

7

8 MS. CANDACE GRAMMOND: Now, on the  
9 last page of this tab -- so if you just turn over the  
10 page by one (1) -- we see that -- and, again, this is  
11 a comparison of last year versus this year, in terms  
12 of projections. We see about \$21 million less in the  
13 last actual year, so the 2011/'12 year, over what was  
14 -- was forecasted last year. Thi -- this, of course,  
15 relates to deferred development costs.

16 Can you comment on the reasons behind  
17 that decrease?

18 MS. HEATHER REICHERT: The most  
19 significant reason for that decrease is under the IT  
20 optimization project.

21 So last -- last year, 2012, in the --  
22 the 2012 GRA forecast, we would have been  
23 anticipating, at that point, building in house the --  
24 the data centres. So that is, of that 20.9 million  
25 difference in deferred, that is twelve point two

1 (12.2) of that total.

2 And the other amount is relating to  
3 disaster recovery, which is linked to that same  
4 project. So between that twelve point two (12.2) and  
5 five point two (5.2), that is the bulk of the -- the  
6 twenty point nine (20.9) decrease. So it -- again,  
7 from IBM, it's moving to the IBM solution.

8 MS. CANDACE GRAMMOND: Isn't the five  
9 point two (5.2) on the line that's HRMS?

10 MS. HEATHER REICHERT: I'm sorry. My  
11 eyes crossed. Yes, it's the HRMS. So that is a -- a  
12 project that, in '11/'12, we -- in the 2012 GRA we  
13 were forecasting to spend more. Not as much has been  
14 actually spent in '11/'12. That project has taken a  
15 bit longer than anticipated. So those costs are  
16 shifting over into '12/'13 and '13/'14. I'm sorry, my  
17 eyes just crossed.

18 MS. CANDACE GRAMMOND: That's fine.  
19 And HRMS is the Human Resource Management System? Do  
20 I have that right?

21 MS. HEATHER REICHERT: Yes, sorry, it  
22 is. I shouldn't have used the acronym.

23 MS. CANDACE GRAMMOND: That's okay.  
24 Okay, those are my questions with respect to IT  
25 expenses. I just have one (1) follow-up question on

1 operating expenses, and this will be an undertaking.

2 We would ask that the Corporation  
3 provide an analysis similar to that PUB/MPI-2-17-C,  
4 which is found at Tab 39 of the book of documents, for  
5 normal operations, and to provide the percentage of  
6 corporate normal operations by expense detail  
7 allocated to Basic.

8 MS. HEATHER REICHERT: We actually  
9 have that information, if you would like. I had a  
10 little bit of ESP and knew that the undertaking was  
11 going to be requested, so.

12 MS. CANDACE GRAMMOND: Sure, we'll  
13 take the filing now if -- if it's ready.

14 MS. KATHY KALINOWSKY: I would like to  
15 suggest that it be marked MPI Exhibit number 9.

16

17 --- EXHIBIT NO. MPI-9: Normal Operations/Expense  
18 Category

19

20 MS. CANDACE GRAMMOND: Mr. Chairman, I  
21 have two (2) more areas that I'm going to cover, one  
22 (1) of which will be quite short, the other one (1)  
23 that's longer. I'm happy to start on that now, or if  
24 you want to take the afternoon break. I -- I think  
25 we're probably going to finish a bit early, but we'll

1 see how the aft -- the rest of the afternoon goes.

2 THE CHAIRPERSON: I would suggest we  
3 start now.

4

5 CONTINUED BY MS. CANDACE GRAMMOND:

6 MS. CANDACE GRAMMOND: Okay, great.  
7 Okay, so I'm going to move, then, away from operating  
8 expenses and capital expense questions and get into  
9 some questions about road safety. So the first  
10 question that I would ask is just a -- a general one.

11 If you could explain to the Board why  
12 the Corporation engages in road safety, or why the  
13 Corporation spends any money on road safety  
14 initiatives.

15 MS. MARILYN MCLAREN: It was really  
16 one of the founding objectives of the Corporation  
17 being established back in 1970/1971, founded, I  
18 understand, on the -- the belief that given the  
19 monopoly, we could play a role that it would be very  
20 difficult or unattractive for a diffused market of  
21 private insurers, so that we have an opportunity to,  
22 kind of, use economies of scale, but to also focus  
23 efforts and attention and that, as the Crown monopoly  
24 insurer, we -- would have a role to play.

25 MS. CANDACE GRAMMOND: Would it be

1 fair to say that one of the expectations or the -- the  
2 hopes of road safety efforts is to -- to try and ga --  
3 try to mitigate losses to the Corporation, including  
4 reducing claims incurred?

5 MS. MARILYN MCLAREN: Sure, but I  
6 don't think there was ever a real expectation that --  
7 that on its own, in the parts of the road safety  
8 universe, that -- that MPI has a direct role in that  
9 it could actually ever accomplish that on its own.

10 MS. CANDACE GRAMMOND: And I -- I  
11 understand what you're saying, that MPI is not  
12 singlehandedly responsible for road safety, but  
13 certainly to the extent that any of its road safety  
14 efforts have the desired effect the result, one would  
15 hope, would be a mitigation of losses.

16 MS. MARILYN MCLAREN: Absolutely. The  
17 -- the beneficiaries would be Manitoba ratepayers  
18 through lower claims incurred/lower rates.

19

20 (BRIEF PAUSE)

21

22 MS. CANDACE GRAMMOND: And as I  
23 understand it, the -- the road safety activities of  
24 the Corporation in general terms historically have  
25 included efforts to raise awareness of issues,

1 education, as well as increased and targeted  
2 enforcement.

3 Would that be fair to say?

4 MS. MARILYN MCLAREN: The --  
5 predominantly our road safety initiatives have been  
6 focussed on education and awareness. There are a  
7 small number of examples, some limited examples where  
8 we have partnered with the police, provided some extra  
9 resources so that they could use -- for the most part  
10 we would fund officers over time to -- to take on  
11 targeted enforcement initiatives.

12 MS. CANDACE GRAMMOND: Okay. Now, we  
13 asked some questions of the -- the Corporation with  
14 respect to road safety flowing from the -- the  
15 visioning or the consultative process that took place,  
16 and the Corporation has advised that one of the areas  
17 that it intends to focus efforts on is that of driver  
18 education. And the Corporation has said that it's in  
19 the process of preparing an RFP for the substantive  
20 redevelopment of the high school driver education  
21 program.

22 Is that something that you can expand  
23 on for the Board?

24 MS. MARILYN MCLAREN: Since 1987, I  
25 believe, MPI has funded high school driver ed. It was



1 well before the merger of the driver vehicle licensing  
2 division with MPI. Some safety programs moved to MPI.  
3 High school driver ed was one of them in 1987. Ever  
4 since that time the costs of that program have been  
5 shared between Basic and Extension Autopac, with Basic  
6 picking up the lion's share.

7                   The Corporation, I believe, well over a  
8 decade ago, reduced the cost to students to fifty  
9 dollars (\$50). I think it used to be as much as a  
10 hundred (100), and it cut the cost to fifty dollars  
11 (\$50). So it -- we fund I think probably now seventy  
12 (70) -- about 75 percent of the cost to really run  
13 that program with the students contributing a really  
14 small part of it.

15                   Most young drivers learn to drive  
16 through the high school driver ed program. It is very  
17 popular year after year. The parents probably like it  
18 as much or more than the kids do because they don't  
19 have to teach their -- their kids.

20                   But having said that, we've worked very  
21 hard to get parents more and more engaged and to the  
22 point of -- of asking the students to track their  
23 practice hours and to actually get commitments from  
24 the student's parents up front that they will work  
25 with them and -- and get that practice time in. That

1 they can't do it all through -- through the program.

2           Manitobans strongly support it. They  
3 believe that it's an appropriate use of their premium  
4 dollars to -- to help to fund high school driver ed.  
5 And we really believe that given that that's where  
6 most young people learn to drive, given the fact that  
7 we have the resources of this mandatory insurance  
8 product, we -- given the emerging educational  
9 protocols, the new ways kids like to learn these days,  
10 we think there's some real exciting opportunities to -  
11 - to change this program.

12           There's all kinds of opportunities for  
13 tablet-based, computer-based simulation software,  
14 things like that. So that re -- really helping to  
15 expand their skill set and therefore reduce the risk  
16 before they even get behind the real wheel of a car.  
17 So we think there's some real opportunities here.

18           We think it is something that  
19 Manitobans would support, and we're interested in  
20 testing to see what's out there, and -- and who if  
21 anyone would like to help us do some of that.

22           MS. CANDACE GRAMMOND:    So what is the  
23 current status of the RFP process at this point?

24           MS. MARILYN MCLAREN:    Well, we expect  
25 to issue it before the end of the year. I'm not sure

1 that much has actually been done so far, but it -- if  
2 not, it will be under way shortly.

3 MS. CANDACE GRAMMOND: And the  
4 Corporation has indicated that the estimated cost for  
5 the consulting piece is two hundred and fifty thousand  
6 (250,000)?

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

9 MS. CANDACE GRAMMOND: Does the  
10 Corporation have any idea at this point what an  
11 estimate would be of the actual revamping of the  
12 program, or is it too early to even comment on that?

13 MS. MARILYN MCLAREN: I think it's too  
14 early. I -- you know, until a few months ago, I would  
15 have thought that we may very well have to support  
16 some research and development of -- of some of these -  
17 - for example, some of the, you know, computer-based  
18 simulation. I'm not sure if that's even true.

19 You know, I think there -- there may be  
20 things out there. So it -- it's really too soon to  
21 say and it's really too soon to really even establish  
22 the scope of what we would be prepared to consider. I  
23 mean, it really is quite open. We are prepared to be  
24 quite leading edge with the proper risk mitigation and  
25 -- and framework.

1                   But I think we have an opportunity that  
2 few, few other jurisdictions would have. And I think  
3 we should do as much as we can, given -- given where  
4 we are with this -- at this point in time with the  
5 financial stability. I think we should see what is  
6 the most we can do.

7                   MS. CANDACE GRAMMOND: And does the  
8 Corporation have any sense at this stage of how  
9 whatever, at the end of the day, the initiative is  
10 would be funded, whether -- would the Corporation be  
11 looking to do through a reserve fund or through a  
12 revenue requirement or...?

13                   MS. MARILYN MCLAREN: Well, that goes  
14 back to the conversation we've had about -- a few  
15 years back the PUB made a suggestion of having a --  
16 sort of a \$20 million fund for road safety  
17 initiatives. If -- this may be an appropriate use of  
18 something like that.

19                   You don't want to use retained earnings  
20 for something that will have to be repeated in the  
21 future and you're not confident is truly going to  
22 reduce the cost of collisions. You know, I mean, I  
23 think that would still be pretty speculative. This  
24 could be the most amazing high school driver ed  
25 program in the world, but kids still might crash into

1 other cars more than old people like me do, so.

2 But if it is really a capital  
3 investment to create a program that doesn't exist  
4 today but then would be self-sustaining once it was --  
5 almost like, sort of, the start-up costs. You could  
6 fund the start-up costs through capital and then have  
7 it funded on an ongoing operating expense basis. That  
8 -- that's possible.

9 I think it's too soon to say, but I  
10 think if there was a significant, upfront, one (1)  
11 time capital requirement, that might not be a bad way  
12 to do it.

13 MS. CANDACE GRAMMOND: Would the  
14 Corporation be in a position to track claims going  
15 forward? And I hear what you're saying, that there  
16 are still going to be kids getting into collisions no  
17 matter what.

18 But would the Corporation be in a  
19 position to compare kids coming through that system  
20 with their counterparts in the past to see if there is  
21 a return?

22 MS. MARILYN MCLAREN: I -- I certainly  
23 would expect so.

24

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(BRIEF PAUSE)

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MS. CANDACE GRAMMOND: The second initiative that the Corporation has referenced on the record, in addition to the driver education piece, is the infrastructure funding, which I gather is something new for the Corporation and -- and is resulting from the consultative process that was --

THE CHAIRPERSON: I wonder -- excuse me. I wonder if it wouldn't be an opportune time to break now and then, after we get back from the break, get on that topic?

MS. CANDACE GRAMMOND: Sure, absolutely.

THE CHAIRPERSON: Okay. Let's do that then, please. Let's take ten (10) minutes, so we're back in this room at ten (10) to 3:00.

--- Upon recessing at 2:39 p.m.

--- Upon resuming at 2:50 p.m.

MS. CANDACE GRAMMOND: Thank you, Mr. Chairman. I'm ready to continue, but before I do, MPI has a couple of exhibits to enter in response to undertakings, and as well, I believe, an oral undertaking to answer as well.

1 (BRIEF PAUSE)

2

3 MS. KATHY KALINOWSKY: If I could  
4 speak to these, please. Undertaking number 10, for  
5 ease of reference, we can list that, I suggest, as MPI  
6 Exhibit number 10. And a new item that we've just  
7 passed out is the budget amounts for 2012/'13, using  
8 the new method for cost allocation. I would recommend  
9 that that would be listed as MPI Exhibit number 11.  
10 And Ms. Reichert will speak to that.

11 And, in addition, Ms. Reichert can also  
12 give an oral response to one (1) of the undertakings  
13 that was just provided -- or, just taken earlier  
14 today. So with that, Ms. Reichert, please?

15

16 --- EXHIBIT NO. MPI-10: Response to Undertaking 10

17

18 --- EXHIBIT NO. MPI-11: Budget amounts for 2012/13  
19 using new method

20

21 MS. HEATHER REICHERT: Thank you, Ms.  
22 Kalinowsky. The Exhibit number 11 -- okay now?

23 Exhibit number 11, the -- the Board may  
24 recall when, under direct examination, I had referred  
25 you to this particular framework on how costs are

1 allocated under the new methodology. At that time, I  
2 was quoting numbers from the 2009/'10 budget that had  
3 been used by Deloitte in their report.

4 We've recast that same framework  
5 document using the 2013/'14 costs as estimated, or  
6 forecasted, within the 2013 GRA application, just to  
7 give you the comparison, using the new allocation  
8 methodology for the costs that are actually in the  
9 '12/'13 year.

10 So I -- I won't go through each of the  
11 levels, but the bottom line is that we start with  
12 total costs of -- of a billion sixty-eight  
13 (1,000,000,068), at -- at Level A. And then at the  
14 bottom of this -- of this particular exhibit, you will  
15 see that Basic insurance ultimately gets 856 million  
16 of that billion and sixty-eight (1,000,000,068), six  
17 hundred and seventy-one (671) of which is directly  
18 allocated -- or, directly assigned to it.

19 And then the other amounts of fifteen  
20 (15) and one seventy (170) are amounts that would be  
21 allocated during this cost methodol -- cost-allocation  
22 methodology to Basic insurance.

23 THE CHAIRPERSON: Can I just ask for a  
24 point of clarification?

25 MS. HEATHER REICHERT: Sure.



1 THE CHAIRPERSON: I'm looking, for  
2 example, at the box for Basic insurance, or at the  
3 very bottom. So we're getting, if I read this  
4 correctly, six seventy-one (671) from the -- from  
5 Level A. The one seventy (170) is coming from Level  
6 D.

7 But where's the fifteen (15) coming  
8 from? Or is that part of Level A, as well?

9 MS. HEATHER REICHERT: Yes.

10 THE CHAIRPERSON: You know, in the box  
11 it's six seventy-one (671) plus fifteen (15) plus one  
12 seventy (170), equals eight fifty-six (856). So I'm  
13 just wondering where the ...

14

15 (BRIEF PAUSE)

16

17 THE CHAIRPERSON: Not a trick  
18 question. So just wondering --

19 MS. HEATHER REICHERT: I need to get  
20 back to you on that one. I'm sorry. The other item  
21 that was given as an undertaking that I would like to  
22 report back on is with respect to the 25 million split  
23 for IBM and HP, as it relates to the master services  
24 agreement.

25 So of that 25 million, less than 5

1 million would be attributed to IBM, and the balance  
2 would be to -- to HP. So that just confirms what I  
3 had indicated to the Board, that the 12.9 million that  
4 is for the transition to the data centre -- data  
5 centre optimization project is not part of that 25  
6 million that was referenced in the minutes for IBM and  
7 HP.

8

9 CONTINUED BY MS. CANDACE GRAMMOND:

10 MS. CANDACE GRAMMOND: Thank you. So  
11 I -- I want to ask about infrastructure funding and --  
12 but before I do that, I just have a follow-up  
13 question, which is somewhat related to driver  
14 education or, certainly, young people.

15 Can you tell us whether the Corporation  
16 has anything to do with Safe Grad? Is that at all  
17 related to MPI, or does MPI sponsor it or fund it in  
18 any way?

19 MS. MARILYN MCLAREN: I'll double-  
20 check on that. We certainly fund MADD. And I believe  
21 we have histori -- we have done -- in the past, we've  
22 done something to promote and assist Safe Grad. But  
23 I'm not sure that my information's current so we'll --  
24 I'll get back to.

25 MS. CANDACE GRAMMOND: Thank you,

1 appreciate it. Okay, so moving then to the  
2 infrastructure funding. Oh, yeah, go ahead.

3 MS. HEATHER REICHERT: Sorry, just not  
4 to leave it hanging, and I apologize to the Chair, I  
5 was -- I'm having a tough day today. To answer your  
6 specific question about where the fifteen (15) comes  
7 from on that bottom of that schedule that we were just  
8 looking at, Level A, the components of Level A of that  
9 billion dollars, 813 million of that is directly -- is  
10 the types of costs, like net claims incurred,  
11 commissions and premium taxes, that are directly  
12 assigned to a line of business at the bottom. Of the  
13 813 million, six hundred and seventy-one (671) is  
14 directly assigned to the Basic line of business. So  
15 that's that six seventy-one (671).

16 The next number says 35 million up in  
17 that Level A category. That's of the general  
18 operating or corporate expenses. Of the corporate  
19 expenses, 35 million is directly assignable to a line  
20 of business. And of that 35 million, 15 million is  
21 directly assignable to Basic.

22 So six seventy-one (671) plus fifteen  
23 (15) are amounts that are directly assignable to the  
24 Basic line of business. And then one seventy (170)  
25 is an amount that had been subject to allocation. So

1 hopefully that helps to clarify.

2

3

(BRIEF PAUSE)

4

5

MS. CANDACE GRAMMOND: Okay, thank  
6 you, Ms. Reichert, for that. So, okay, so back to  
7 infrastructure funding. This is something new for the  
8 Corporation, as I understand it, that's resulting from  
9 the consultation process that was undertaken. Is that  
10 right?

11

MS. MARILYN MCLAREN: Yes.

12

MS. CANDACE GRAMMOND: And the  
13 Corporation has advised on the record that it intends  
14 to focus its immediate efforts on preparing a business  
15 case for a made-in-Manitoba roadway infrastructure  
16 improvement partnership program.

17

And the Corporation has said that there  
18 is support for this where there's a clear cost benefit  
19 that can be achieved in terms of reduced claims costs.  
20 Do I have that right?

21

MS. MARILYN MCLAREN: Yes.

22

MS. CANDACE GRAMMOND: Can you give  
23 the Board an indication with respect to this piece and  
24 what you might foresee the -- the Corporation becoming  
25 involved in?

1 MS. MARILYN MCLAREN: We made specific  
2 reference to ICBC. We -- with what we do know about  
3 their approach, there's -- there's a lot, I think,  
4 that's really pretty commendable. It's a pretty solid  
5 approach. It does not involve ICBC ever supporting  
6 even half of -- of the total cost of any of these  
7 infrastructure improvements.

8 So I think Manitobans would support  
9 something similar to that. I don't think we have  
10 enough detail. And I think we really want to -- we  
11 have not -- also have not consulted broadly with the  
12 municipalities who would be funding the majority of  
13 the costs either. So those are some things that --  
14 that we would look forward to doing.

15 But generally, something that saw --  
16 MPI providing enough funding to get some things done  
17 that otherwise wouldn't get done, but not the majority  
18 of any funding, figuring out with the engineering  
19 experts in these municipalities exactly what would  
20 need to be done, whether we think we would actually  
21 save claims dollars by making an investment in it,  
22 things along those lines I think is -- is an approach  
23 that Manitobans would likely support.

24 MS. CANDACE GRAMMOND: And the  
25 Corporation has indicated that it intends to hire a

1 consultant and to provide recommendations after  
2 reviewing the activities of ICBC and -- and how to  
3 sort of judge, I guess, in -- in my language, the  
4 cost-benefit analysis.

5 What's the current status with respect  
6 to securing that consultant?

7 MS. MARILYN MCLAREN: Very similar to  
8 the high school driver ed, in its earliest stages.  
9 Nothing tangible has really been drafted yet.

10 MS. CANDACE GRAMMOND: And the  
11 estimate of five hundred thousand (500,000) that the  
12 Corporation has put forward would relate again to the  
13 cost of the consultant and certainly not the -- the  
14 initiatives themselves?

15 MS. MARILYN MCLAREN: Exactly.

16 MS. CANDACE GRAMMOND: And as for  
17 driver -- the driver education revamp, is it too early  
18 to give any kind of indication in terms of cost for  
19 the infrastructure piece?

20 MS. MARILYN MCLAREN: Absolutely, but  
21 I think we would fully expect any costs to be  
22 recovered. So there would be a financial payback for  
23 any investments in that regard.

24 MS. CANDACE GRAMMOND: With respect to  
25 the financing of it, would you envision it possibly

1 through a reserve fund or through the revenue  
2 requirement?

3 MS. MARILYN MCLAREN: No, I think that  
4 would most likely be through a revenue requirement  
5 because it would be ongoing, and you would expect that  
6 whatever you spend you'd get back in claims costs. So  
7 it would pro -- I think most appropriate it would flow  
8 through the operating statement.

9 MS. CANDACE GRAMMOND: Thank you.  
10 Okay. I have some questions then moving into a  
11 different area that relates to road safety about hand-  
12 held communication devices. This is something we've  
13 had discussions about at these hearings over the  
14 years. And we know that the use of hand-held  
15 communication devices while driving was made an  
16 offence under the Highway Traffic Act a couple of  
17 years ago.

18 MS. MARILYN MCLAREN: I believe it was  
19 a couple of years ago now, yeah.

20 MS. CANDACE GRAMMOND: And there was  
21 an article in the -- in the Free Press over the  
22 summer. I don't know if -- if you, Ms. McLaren, or  
23 the Corporation had a chance to see it, but it was an  
24 editorial that ran in July of 2012 in The Winnipeg  
25 Free Press. And one of the comments made in the

1 article was that the risks associated with using a  
2 cell phone or other device while driving have not had  
3 the kind of publicity that has -- has been in --  
4 involved with drinking and driving, for example.

5                   Is the -- the publicity side of it  
6 something that the Corporation intends to have more  
7 involvement in going forward, again on that sort of  
8 education and raising awareness piece?

9                   MS. MARILYN MCLAREN: I -- I think  
10 that's certainly an area that we'll be paying some  
11 attention to, yeah.

12

13                   (BRIEF PAUSE)

14

15                   MS. CANDACE GRAMMOND: The article  
16 also referenced the fact that drivers that are going  
17 through the graduated licensing program, for example,  
18 have a zero tolerance with term -- in terms of alcohol  
19 in their blood.

20                   Do you know if there have been any  
21 considerations given by the province to any kind of  
22 zero tolerance element being built into graduated  
23 licensing with respect to cell phone usage, hands-free  
24 or otherwise?

25                   MS. MARILYN MCLAREN: No, I don't. I



1 wouldn't know about that.

2 MS. CANDACE GRAMMOND: Now, we have on  
3 the record that the Corporation, at least on one (1)  
4 occasion in the past, has specifically partnered with  
5 law enforcement to target offenders with respect to  
6 this issue, hand-held communication devices.

7 Is that something that the Corporation  
8 has any plans to engage in again in the future?

9 MS. MARILYN MCLAREN: I'm sorry, could  
10 you repeat the first part of that? The --

11 MS. CANDACE GRAMMOND: Yeah, for sure.  
12 On the record in this proceeding there's reference to  
13 the -- the Corporation partnering with law enforcement  
14 to specifically target this issue and to have  
15 increased enforcement for drivers out there. We have  
16 some statistics on the number of tickets issued and --  
17 and so on.

18 And what I'm wondering is whether or  
19 not the Corporation is considering or -- or may have  
20 even finalized future plans to -- to do that  
21 partnering again.

22 MS. MARILYN MCLAREN: I -- there's no  
23 reason that would be a one (1) time initiative. I  
24 think you would expect we would do that in the future.

25 MS. CANDACE GRAMMOND: And the -- the

1 numbers -- and this is in an IR response. If you'd  
2 like the reference I'm -- I'm happy to provide it.

3 In the February 2012 time frame there  
4 was this specific initiative. It resulted in sixteen  
5 hundred and sixty-seven (1,667) tickets being issued.  
6 And as of June 30th, at the time of -- that the -- the  
7 IR response was filed there had been twelve hundred  
8 and sixty-five (1,265) convictions with respect to  
9 those tickets.

10 Is the Corporation in a position to  
11 provide any update to that, to let us know if there  
12 have been further convictions in the ensuing months?

13 MS. MARILYN MCLAREN: We would have  
14 redo the work that was done back then and check the  
15 extent to which the numbers changed. But, I mean,  
16 that -- they -- I'm sure that it would be somewhat  
17 higher. There's -- a number of convictions take time  
18 to work through the way -- the system, so you could  
19 expect it would be higher.

20 MS. CANDACE GRAMMOND: That's fine. I  
21 -- I won't request a specific undertaking on that.

22 And the Corporation has also indicated  
23 that it -- it was considering doing a public  
24 advertising campaign in 2013, perhaps including a TV  
25 commercial relative to this issue.

1 Is that still the Corporation's plan?

2 MS. MARILYN MCLAREN: Yes, that's

3 right.

4 MS. CANDACE GRAMMOND: And is there  
5 anything new that the Corporation can tell the Board  
6 about its activities or position with respect to this  
7 issue?

8 MS. MARILYN MCLAREN: No, the things  
9 you mentioned are -- are still in play.

10 MS. CANDACE GRAMMOND: Okay.

11 MS. MARILYN MCLAREN: I can just maybe  
12 take a minute and let you know that we do provide a  
13 sponsorship to the Manitoba Association of School  
14 Boards for TADD and Safe Grad. And it's about -- I  
15 think last year was seventeen thousand, five hundred  
16 dollars (\$17,500).

17 MS. CANDACE GRAMMOND: And TADD would  
18 be Teens Against Drunk Driving?

19 MS. MARILYN MCLAREN: Yes.

20 MS. CANDACE GRAMMOND: Thank you.  
21 Okay. And I do have a couple of questions about the  
22 graduated licensing that's in place for motorcyclists.  
23 Can you describe to the Board the -- the current  
24 system that's in place?

25 MS. MARILYN MCLAREN: No, not off the

1 top of my head. I could go to the website where the  
2 GDL provisions are and -- and reference it there. If  
3 I can take a minute I can find that.

4

5 (BRIEF PAUSE)

6

7 MS. MARILYN MCLAREN: The reference  
8 for this is the MPI website. The driver licensing/GDL  
9 class 6.html page. It talks about that there are four  
10 (4) different stages for motorcyclists.

11 The first is an M-stage which only  
12 permits operation of a motorcycle while in the  
13 motorcycle training course. From there you go to  
14 learner stage, intermediate stage, and full stage.

15 To get a Class 6 learner licence you  
16 have to successfully complete a motorcycle training  
17 course. Once you have your learner's stage you can  
18 operate a motorcycle with these restrictions:  
19 maintaining a zero blood alcohol content and carry no  
20 passengers.

21 While in the classics learner stage  
22 you're not allowed to drive at night, you're not  
23 allowed to tow vehicles and you're not -- this is  
24 general. I guess there's trailers for motorcycles,  
25 but this is in general because the third one is:

1 "Operate off-road vehicles along or  
2 across a highway unless you have a  
3 minimum class 5 intermediate stage  
4 licence."

5 Class 6 intermediate means that, again:  
6 You must maintain zero blood alcohol content. You may  
7 carry a passenger, you may tow a vehicle and you may  
8 operate off-road vehicles along or across highways.

9 And the six (6) -- stage 6 full stage  
10 is:

11 "For the first thirty-six (36)  
12 months you must continue to maintain  
13 zero blood alcohol content while  
14 operating a motorcycle."

15 That's pretty much the extent of that  
16 information on the website.

17 MS. CANDACE GRAMMOND: And is the  
18 Corporation satisfied with the current system for  
19 graduated licensing for motorcyclists, or does it have  
20 any views about improvements that it wants to make?

21 MS. MARILYN MCLAREN: This -- these  
22 are provisions under the Drivers and Vehicles Act. We  
23 -- we don't have positions about being satisfied or  
24 not. It -- it's the law. We administer the law.

25 MS. CANDACE GRAMMOND: Now, with

1 respect to ORVs, you mentioned -- or off-road  
2 vehicles, you mentioned those in the context of what  
3 you were looking at on the website.

4 Can you tell the Board whether there  
5 are any licensing requirements to operate an off-road  
6 vehicle in Manitoba?

7 MS. MARILYN MCLAREN: Bear with me.  
8 I'll have to look that up, too.

9

10 (BRIEF PAUSE)

11

12 MS. MARILYN MCLAREN: No, as I  
13 referenced earlier, I -- I believe the only  
14 requirement is that you have to have an active Class 5  
15 licence in order to cross roadways on an off-road  
16 vehicle. I think there are other requirements. That  
17 you need to be within sight of an adult or have an  
18 adult with you if you're under the age of sixteen  
19 (16), fourteen (14). I'm not -- I'm not sure about  
20 those specifics.

21 MS. CANDACE GRAMMOND: Okay.

22

23 (BRIEF PAUSE)

24

25 MS. CANDACE GRAMMOND: And what's the

1 -- the case with respect to PIPP coverage for injuries  
2 in connection with collisions involving ORVs? Can you  
3 -- and maybe you could answer that in the context of  
4 an ORV collision with a motor vehicle, like a regular  
5 motor vehicle, or maybe a single vehi -- vehicle  
6 accident or two (2) ORVs, and are there any  
7 differences?

8 MS. MARILYN MCLAREN: The Personal  
9 Injury Protection Plan only applies to people injured  
10 by motor vehicles. So off-road -- people injured on  
11 an off-road vehicle are only brought into the Personal  
12 Injury Protection Plan coverage if they happen to be  
13 injured when that ORV is in collision with a motor  
14 vehicle.

15 So an -- someone injured on a  
16 snowmobile that loses control or two (2) ATVs that  
17 crash into each other, there's no Personal Injury  
18 Protection Plan benefits available. They are not --  
19 they do not fall into eligibility for those benefits  
20 unless there's a moving motor vehicle involved.

21 MS. CANDACE GRAMMOND: In cases where  
22 the Corporation receives claims for collisions  
23 involving ORVs that were being operated by minors, is  
24 that something that the Corporation tracks or has  
25 statistics on?

1 MS. MARILYN MCLAREN: Probably not  
2 because you don't have to have a licence to operate an  
3 ORV.

4 MS. CANDACE GRAMMOND: Would you be  
5 able to confirm that one way or the other?

6 MS. MARILYN MCLAREN: Sure.

7 MS. CANDACE GRAMMOND: Okay. I'd ask  
8 you to turn then to Tab 43 of the book of documents.  
9 This is a question that the Board had asked of MPI in  
10 the Second Round. And this relates to road safety and  
11 the technical conference that was discussed after last  
12 year's order. And in particular I'm looking at the --  
13 the answer to 'B' -- or, the question and answer, I  
14 guess, at 'B'.

15 The way that I think I read this answer  
16 is that the Corporation considers some of the -- the  
17 items listed in the question at 'B' to be outside of  
18 the Board's jurisdiction and the cor -- or, the  
19 Corporation has expressed a couple of exceptions to  
20 that.

21 Is -- is that a fair assessment of the  
22 Corporation's answer?

23 MS. MARILYN MCLAREN: Yeah, that --  
24 that's fair. I mean, we worked -- had a lot of  
25 discussion, worked pretty hard at really thinking



1 through our answer to this question, and really did  
2 our best to try to tie it -- not only, you know, so  
3 much in terms of the -- the Board's jurisdiction, but  
4 the -- the Corporation. What does the Corporation  
5 have responsibility for in the Basic program? What  
6 therefore flows through to Basic rates?

7 I mean, it -- the topic of road safety  
8 and how to make our streets safer is -- there's lots  
9 of public interest around that topic, and a  
10 fascinating topic, and all kinds of stakeholders and  
11 all kinds of people with opinions.

12 But in terms of the rationale for MPI  
13 being in front of this Board always ties back to the  
14 costs that underlay the Basic compulsory program, and  
15 that's what we tried to articulate in the answer.

16 MS. CANDACE GRAMMOND: So would it be  
17 fair to say then, with respect to a technical  
18 conference that relates more specifically to the  
19 underlying costs, that would be something that the  
20 Corporation would be a willing participant in?

21 MS. MARILYN MCLAREN: It -- it's  
22 really up to this Board to think about it's, you know,  
23 role and mandate and what its own rules say about  
24 technical conferences and all those things.

25 But in terms of the Corporation

1 participating in conversations about the dollar -- the  
2 rate -- the rate dollars that it would expect to spend  
3 on road safety initiatives is certainly something that  
4 it would expect to talk to this Board about.

5 MS. CANDACE GRAMMOND: Now, if we look  
6 at the question at 'B' on the first page at this tab  
7 and we see the list of items that the Board had  
8 included in its order that it wanted to have discussed  
9 at a technical conference, I just have a few more  
10 specific questions.

11 And, you know, understanding that the  
12 Corporation is not in a position to enact or amend  
13 legislation and that the Corporation has taken the --  
14 the view that it doesn't also discuss, you know,  
15 certain things that it talks about with government  
16 behind the scenes.

17 But I wonder though about some of  
18 theses -- and I'll -- I'll tell you which ones  
19 specifically -- whether the Corporation wouldn't be in  
20 a position to consider committing funding to at least  
21 raise awareness and sort of that piece as well as the  
22 education component, or through increased or targeted  
23 enforcement as the Corporation has done for certain  
24 items.

25 And so I -- I guess maybe, Ms. McLaren,

1 for -- you know, one (1) and two (2) are somewhat  
2 related in that they both deal with rural versus urban  
3 differences in -- in occupant restraint and collision  
4 fatalities.

5 Has the Corporation given any thought  
6 to taking initiatives to try to, you know, raise  
7 awareness or provide more education or enforcement in  
8 rural areas, to try to address these issues?

9 MS. MARILYN MCLAREN: We consistently  
10 have awareness-raising initiatives with respect to  
11 occupant restraints, for sure.

12 MS. CANDACE GRAMMOND: What about in  
13 rural areas specifically? Because I -- I mean, as I  
14 read one (1) and two (2), they really are dealing with  
15 the -- the difference in the numbers between the rural  
16 areas and the urban.

17 MS. MARILYN MCLAREN: Well, the  
18 initiatives that we've done are not limited to  
19 Winnipeg; they do go across the province.

20 MS. CANDACE GRAMMOND: What about  
21 extra initiatives in rural areas?

22

23 (BRIEF PAUSE)

24

25 MS. MARILYN MCLAREN: I think the work

1 that we do with the Manitoba Association of Chiefs of  
2 Police Traffic Committee, that's certainly a  
3 possibility. And the extent to which different juris  
4 -- different police have different concepts as to how  
5 to do that, I would say that we would already be  
6 reflecting some of those differences in our work with  
7 the -- the Traffic Committee.

8 MS. CANDACE GRAMMOND: And that  
9 evidence ties in with number 6, which was traffic  
10 enforcement in rur -- rural and urban areas.

11 Is that something that is -- that the  
12 Corporation discusses with the law enforcement on the  
13 committee?

14 MS. MARILYN MCLAREN: Absolutely.  
15 There -- there are some key differences across the  
16 province, and traffic enforcement is clearly the  
17 jurisdiction of those agencies. And we do our best to  
18 respond to their different views as how they should  
19 behave in their jurisdictions.

20 MS. CANDACE GRAMMOND: To date, it's  
21 my understanding that certainly the majority of the  
22 extra enforcement initiatives that the Corporation has  
23 funded over time have related to Winnipeg and the  
24 surrounding area; and maybe I have that wrong.

25 Has the Corporation committed extra

1 dollars for enforcement in any rural communities?

2 MS. MARILYN MCLAREN: Well, ab --  
3 absolutely. I mean, it's a mag -- it's a scale,  
4 right. I mean, almost between two-thirds (2/3s) and  
5 three-quarters (3/4s) of the population in Manitoba  
6 are -- are here, and in Winnipeg there's that many  
7 more police officers.

8 Remembering that the additional funding  
9 that we provide is almost exclusively dedicated to  
10 overtime for officers, when you have a handful of  
11 officers there's a limit to how much extra funding you  
12 can use. But absolutely the extra enforcement that  
13 we've done has -- has absolutely been across the  
14 province.

15 MS. CANDACE GRAMMOND: Thank you. I  
16 guess the last one on the list that I would ask about  
17 would be number 7, "Targeting problems intersections  
18 or roadways."

19 Is that something that could  
20 conceivably become part of the infrastructure review  
21 and ultimate spending?

22 MS. MARILYN MCLAREN: Absolutely.

23 MS. CANDACE GRAMMOND: Okay. I just  
24 have a few questions in another area, which is the  
25 area of anti-theft initiatives.

1                   We know that a number of years ago a  
2 program was established by the Corporation to instal  
3 after-market immobilizers in vehicles that had been  
4 identified as the most at risk vehicles.

5                   Is that right?

6                   MS. MARILYN MCLAREN:    Yes.

7                   MS. CANDACE GRAMMOND:    Ultimately  
8 there was legislation enacted that required the most  
9 at risk vehicles to have immobilizers installed?

10                  MS. MARILYN MCLAREN:    Yes.

11                  MS. CANDACE GRAMMOND:    The program  
12 commenced in about the 2002 -- 2005/2006 time frame,  
13 when thefts were a real problem for the Corporation,  
14 in terms of claims costs?

15                  MS. MARILYN MCLAREN:    Well, they'd  
16 been a real problem for a while before that, but that  
17 is when we really aggressively focussed on  
18 immobilizing the most at risk, absolutely.

19                  MS. CANDACE GRAMMOND:    And to support  
20 that initiative, the Corporation allocated funds from  
21 the RSR. I think it was initially 40 million, and  
22 then another ten (10) was added, which became known as  
23 the immobilizer incentive fund.

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

1 MS. CANDACE GRAMMOND: And then what  
2 the Corporation did going forward was track those  
3 expenditures against the savings and claims costs that  
4 were realized as the fleet became immobilized?

5 MS. MARILYN MCLAREN: Yes, exactly.

6 MS. CANDACE GRAMMOND: So would it be  
7 fair to say that the Corporation would call the  
8 immobilizer program a success?

9 MS. MARILYN MCLAREN: Definitely. I -  
10 - I think -- a few years back, I think we were already  
11 at around about three dollars (\$3) of savings for  
12 every dollar we'd invested, maybe more. And since the  
13 real spike in auto theft in Manitoba, which was always  
14 primarily in Winnipeg, auto theft is about 85 percent  
15 lower than it was back when it was at its worst.

16 MS. CANDACE GRAMMOND: What I'm  
17 wondering -- and we've -- we've sort of touched on  
18 this in the last few minutes with our discussion about  
19 road safety initiatives -- is if you could describe  
20 the Corporation's view of a similar approach being  
21 taken with respect to all or some of the road safety  
22 or loss prevention initiatives, in terms of tracking  
23 the expenditures against a reduction in claims costs?

24 MS. MARILYN MCLAREN: There -- in the  
25 Corporation's view, there is a significant difference

1 between road safety initiative and loss prevention  
2 initiatives.

3                   Loss prevention initiatives have a much  
4 higher standard, in our view, of actually proving a  
5 financial benefit. Potentially, an infrastructure  
6 program could be qualified as a loss prevention  
7 initiative. Certainly the immobilizer program was.  
8 Most road safety initiatives are simply not that  
9 financially sound. It -- it's highly uncommon for any  
10 jurisdiction to be able to say, you know, if we do  
11 this, this and this, we will reduce crashes by this  
12 much, like to really -- there's so many other  
13 variables, so many factors that come into play.

14                   Road safety initiatives should be  
15 funded by Basic ratepayers when there's strong public  
16 support that they -- that they are good solid  
17 initiatives, that we have some ability to establish  
18 our expected outcomes and measure results against  
19 those expected outcomes, but they don't necessarily  
20 tie to reduced claims costs. Loss prevention should  
21 tie directly back to reduced claims costs.

22

23   (BRIEF PAUSE)

24

25                   THE CHAIRPERSON:     Just I'd like to



1 explore a little bit more with respect to the  
2 initiatives that you're taking with respect to road  
3 safety and loss prevention. And I think we're kind of  
4 -- we're kind of -- we've talked about this  
5 peripherally, but this is about -- is there anything  
6 in this list of initiatives that could be taken that  
7 you're not taking because you are concerned about the  
8 impact on rates?

9 I guess what I'm -- where I'm going  
10 with this is that are you -- if you hang -- your hands  
11 -- are your hands being stayed because there's  
12 inadequate funding to undertake initiatives in this  
13 area?

14 MS. MARILYN MCLAREN: No, no. We  
15 would come and make a case for significantly expanded  
16 initiatives if we really believed that that was a  
17 prudent thing to do. We're not tying our own hands,  
18 so to speak, with -- with some preconceived idea as to  
19 what is appropriate.

20 Having said that, I -- I don't think  
21 it's appropriate for MPI to be running television ads  
22 every month, all year. People tune you out at a  
23 certain point, you know. So, I mean, I -- there's  
24 nothing that we think would be really good things to  
25 do but we just can't afford. We really do our best to

1 work with the -- the good ideas that come forward.

2           If more good ideas came forward, we  
3 would likely be willing to spend more money. It's a  
4 very, very difficult area. I mean, it truly could be  
5 a bottomless pit, right. I mean, there's any number  
6 of good ideas as to what to do to reduce roadway  
7 crashes. But what's prudent? What's reasonable?  
8 Which ones truly have some sort of expected outcomes  
9 that you're really prepared to say, you know, I think  
10 this is good value for Manitoba motorists?

11           THE CHAIRPERSON: Now, in respect of  
12 the immobilizer program, and obviously the success of  
13 that program shouldn't be overdetermined. In other  
14 words, you know, the fact that we -- MPIC was running  
15 a program contributed in part to the evolution of the  
16 number of cases where cars were stolen, technology,  
17 engineering and so on, better enforcement and so on  
18 and so forth. And I guess in respect of technology,  
19 you know, there's increasing evidence that there are  
20 more technological tools that would support road  
21 safety going forward.

22           I'm thinking, for example, device  
23 recorders embedded in the car and so on and so forth  
24 that can provide data that might lead to better  
25 programs and might lead to better enforcement and so

1 on and so forth.

2                   Is this an area where funding might be  
3 of -- of -- increased funding might be able to support  
4 initiatives that MPIC wants to take? In other words,  
5 is there technology that's available that would  
6 support road safety initiatives going forward but are  
7 not being adopted because we don't have the funding  
8 for it?

9                   MS. MARILYN MCLAREN: Nothing that's  
10 come to our attention. You know, we have provided a  
11 bit of funding now and again for research at -- at the  
12 University of Manitoba, primarily. I think we will  
13 probably do a bit more of that in the future.

14                   You know, I mean, I think there's some  
15 -- some very interesting things happening out there in  
16 the world with respect to driver-less cars, for  
17 example. You know, the -- people talk about the  
18 Google car, right? I mean, that is fully able to  
19 drive through traffic and, you know, I mean then we  
20 may become redundant, you know? Fifty (50), a hundred  
21 years from now, if there's no humans involved, we may  
22 become redundant. We won't need a public auto  
23 insurer.

24                   But there's nothing like that that has  
25 come to our attention that -- that would say, you know

1 what, there's -- there's real promise here. There is  
2 some critical mass. With another \$10 million, we  
3 could really make a difference, or two hundred  
4 thousand (200,000), or anything like that. Nothing  
5 has come to our attention.

6 MS. CANDACE GRAMMOND: Mr. Chairman,  
7 that's the conclusion of my cross. Obviously, subject  
8 to questions that may arise from answers to  
9 undertakings, including the one -- including the ones  
10 just filed, and also any other additional exhibits  
11 that MPI brings forward, like the second quarter  
12 report. But in the main, my cross-examination of the  
13 panel is done.

14 THE CHAIRPERSON: It's my  
15 understanding that we intend to start the cross-  
16 examination by Mr. Williams tomorrow? Is that -- is  
17 that correct?

18 MR. BYRON WILLIAMS: That -- that was  
19 my understanding, Mr. Chairman. I could do a fabulous  
20 opening statement on the Bipole 3 hearing this ev --  
21 if you would like. It's very interesting, but I would  
22 prefer to start on MPI tomorrow.

23 THE CHAIRPERSON: If there's no other  
24 business to conduct, I -- I -- we will adjourn the  
25 proceedings and resume them again tomorrow morning at

1 9:30.

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3 --- Upon adjourning at 3:31 p.m.

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6 Certified correct,

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12 Ms. Lorraine Douglas

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