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 16, 2012

Pages 1201 to 1352

APPEARANCES

Candace Grammond	)Board Counsel
Kathy Kalinowsky	)MPI
Byron Williams	)CAC
Raymond Oakes	)CMMG
Liz Peters	)CAA

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LIST OF EXHIBITS

--- Upon commencing at 9:31 a.m.

THE CHAIRPERSON: Good morning to everyone. I believe that we're ready to start. It is 9:30. I wonder if there are some documents to acknowledge.

MS. KATHY KALINOWSKY: Yes, we have a fair number of exhibits that I'd like to enter in this morning. Undertakings were sent in two (2) batches over the past several days, and paper copies have been provided to the secretary. And we can go through and mark them as numbers. And I believe that copies were also printed out for various different individuals.

So if you'd like me to proceed with entering them in as exhibit numbers, I've coordinated this already with Mr. Singh, of the Board, in terms of the numbers.

But, for the record, I would suggest that Undertaking number 2 be marked as MP -- MPI Exhibit number 18.

--- EXHIBIT NO. MPI-18: Response to Undertaking 2

MS. KATHY KALINOWSKY: Undertaking number 3 be marked as Exhibit number 19.

--- EXHIBIT NO. MPI-19: Response to Undertaking 3

MS. KATHY KALINOWSKY: Undertaking number 5 be marked as Exhibit number 20.

--- EXHIBIT NO. MPI-20: Response to Undertaking 5

MS. KATHY KALINOWSKY: Undertaking number 8, Exhibit number 21.

--- EXHIBIT NO. MPI-21: Response to Undertaking 8

MS. KATHY KALINOWSKY: Undertaking number 11 should be Exhibit number 22.

--- EXHIBIT NO. MPI-22: Response to Undertaking 11

MS. KATHY KALINOWSKY: Undertaking number 12, Exhibit number 23.

--- EXHIBIT NO. MPI-23: Response to Undertaking 12

MS. KATHY KALINOWSKY: And Undertaking number 13 should be marked as Exhibit number 24.

--- EXHIBIT NO. MPI-24: Response to Undertaking 13

MS. KATHY KALINOWSKY: Undertaking number 18 should be marked as MPI Exhibit number 25.

--- EXHIBIT NO. MPI-25: Response to Undertaking 18

MS. KATHY KALINOWSKY: Undertaking number 19 should be marked as MPI Exhibit number 26.

--- EXHIBIT NO. MPI-26: Response to Undertaking 19

MS. KATHY KALINOWSKY: Undertakings number 16 and 17 have been combined together into one (1) exhibit, and that should be marked as Exhibit number 27.

--- EXHIBIT NO. MPI-27: Response to Undertakings 16 and 17

MS. KATHY KALINOWSKY: An amended DCAT report has been filed, and that should be marked as MPI Exhibit number 28.

--- EXHIBIT NO. MPI-28: Amended DCAT report

MS. KATHY KALINOWSKY: And then, finally, Exhibit 29 should state MPI restated figures from CAC Exhibit number 8.

--- EXHIBIT NO. MPI-29: MPI restated figures from CAC Exhibit 8

MS. KATHY KALINOWSKY: And Exhibit number 8 was filed by CAC, and Mr. Johnston accepted it subject to check of some numbers. Some numbers have been checked, and Mr. Johnston would just like to comment on some of those numbers because there's a slight discrepancy in some of those numbers.

So at that stage, Exhibit number 29, if the Board has that in front of them.

THE CHAIRPERSON: Do you mind if I ask a question? Exhibit number 28 looks identical to what was previously filed. Am I -- is there a change to the document?

MS. KATHY KALINOWSKY: I'll have Mr. Johnston speak to that one, too.

MR. LUKE JOHNSTON: It is identical, other than to update the -- the date of Board approval and to include my signature in the report. Yeah.

MS. KATHY KALINOWSKY: And with that,

Mr. Johnston, could you please speak to MPI Exhibit number 29?

MR. LUKE JOHNSTON: Yes. I -- as mentioned, I accepted numbers subject to -- to check during my cross. In -- in CAC Exhibit 8 we -- we went through a series of numbers on accident benefit -- benefits other indexed.

I believe the only issue that I had with the numbers from CAC was when we -- when we spoke we talked about using a higher of method in the first three (3) years, either paid or incurred, because in the first three (3) years we didn't know for sure what type of claims these were going to develop into.

I believe the main issue with -- in our differences here is the -- just that the higher of method wasn't used in the earlier years. There were also -- there were also some changes made to the -- the paid -- paid tail LDF factors. I don't think that's the major issue. But in terms of order of magnitude method 1 on this sheet is the three (3) year average used in CAC Exhibit 8. We basically get the same numbers.

Method 2 is the evidence presented about removing this tail factor. We've restated those numbers. If -- if the CAC exhibit was to remove this higher of method I suspect that we would be fairly close to this 57 million negative.

And then finally method 3 I was asked during cross to approximate approximately how much that 57 million would be impacted if we only partially removed the tail factor. I said it's probably reasonable to be about 35 million. When I restated the numbers, I -- I came up with a different answer and that's the -- the thirteen (13) -- negative 13 million there.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: Thank you. I also would like to advise the Board that the Board secretary advised us that Mr. Delaurier would be attending today, and so we do have cas -- two (2) case managers to meet with him.

Unfortunately he's not here, so the case managers at some point will be returning to their -- to the office and to their normal work. But should Mr. Delaurier do -- show up today or next day in the hearing, I do have their phone numbers and they would be able to attend immediately and meet with him. So I just wanted to put that on the record and advise that we have taken his concerns very seriously. Thank you.

THE CHAIRPERSON: Thank you very much for responding and being prepared for that eventuality. So thank you very much for doing that.

Before we -- before we start with the comments from Mr. -- Mr. Oakes, I wonder if we could take a second, please, just for my benefit.

(BRIEF PAUSE)

THE CHAIRPERSON: So much for that. I wonder if -- are you prepared to start, Mr. Oakes?

MR. RAYMOND OAKES: Certainly, Mr. Chairman.

MPI PANEL:

MARILYN MCLAREN, Resumed

HEATHER REICHERT, Resumed

LUKE JOHNSTON, Resumed

CROSS-EXAMINATION BY MR. RAYMOND OAKES:

MR. RAYMOND OAKES: The first questions on behalf of the CMMG relate to the reason -- the main reason for the intervention dealing with premium increases. I wonder if the Corporation's witnesses could -- and the Board could find CMMG-2-8 to review the premium changes over the last ten (10) years.

(BRIEF PAUSE)

MR. RAYMOND OAKES: And IR-2-8 relates to the motorcycle major class. It shows historical premiums from the years 2003/'04 to the present. And I'd ask the Corporation's witnesses after reviewing that table to confirm that the motorcycle premiums have more than doubled over the last ten (10) years.

MR. LUKE JOHNSTON: That -- that's approximately correct. That would be, of course, premium changes and growth in the fleet. The -- the majority would be premium changes.

MR. RAYMOND OAKES: And just for terms of specifying the actual premium revenue increase, in 2003/'04, we see that there's five million two hundred and sixty-three thousand five hundred and ninety-nine dollars ($5,263,599) in premium. And that's risen in 2013/'14, to eleven million eight hundred and eighty-four thousand seven hundred and twenty-eight (11,884,728).

Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. RAYMOND OAKES: And if I might ask you to change to a different reference at this point, and it would be the start of the CMMG interrogatories 1-1. And then dealing with the most recent year that we have data displayed for. In 2011, the Corporation has collected total premium of twelve million eight hundred and seventeen thousand four hundred and thirty-four (12,817,434). Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. RAYMOND OAKES: And yet the losses in that year, the actual total losses displayed in that table are much less than half of that at five million five hundred and twenty-eight thousand nine hundred and seventy-four (5,528,974). Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do. As you know, motorcycle loss costs definitely fluctuate significantly. I believe about half of their -- their costs are serious loss related. But that said, 2011, at least as of this point appears to be a fairly good year for motorcycle claims costs.

MR. RAYMOND OAKES: And then if we could go to the top of that table, you'd have the same conclusion, I guess, in 2004, where there was actual premium collected of six million five hundred and ninety-seven thousand eight hundred and nineteen dollars ($6,597,819), but the actual losses were again half of that at three million three hundred and fifty-nine thousand nine hundred and ninety-four (3,359,994). Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do. And it -- it -- again, it does -- it does fluctuate. You've -- you've highlighted a -- a couple of good years here. It -- it can swing both -- both ways, high -- high and low.

MR. RAYMOND OAKES: Just in terms of that comment, sir, would you agree with me in reviewing that table that for five (5) of the eight (8) years shown there was actual loss ratios of less than 75 percent?

MR. LUKE JOHNSTON: Yes, that's true. Again, we will expect quite a bit of variability with motorcycles. One (1) way that we try to account for that is we do use ten (10) years of loss experience as the basis for setting rates for motorcycles, ten (10) years for all -- all PIPP costs. Because, as is pretty clear by this table, it's not -- it's not something that we can forecast with an incredible degree of accuracy, but we hope that using a longer-term average is a -- is a good approximation for this group.

MR. RAYMOND OAKES: Would you agree

with me in collecting considerably more premium in more than half of the years shown that the Corporation is being conservative?

MR. LUKE JOHNSTON: At the time of the rate application, the -- these were -- these were our forecasts. And you can see, on average, how the loss ratio turned out, or at least how it looks as of right now. We -- we did talk earlier about the PIPP program and how we've significantly revised our forecast downward. Those -- those changes have a very significant impact on motorcyclists, which resulted in more than a 10 percent rate decrease last year.

So we definitely acknowledge that our PIPP forecasts went through some very significant improvements recently and that would effect years prior to the -- to making those changes.

And -- but as we've -- as we've discussed here, going forward we're very confident in our forecasts and we would expect this relationship between losses and premiums to improve significantly for motorcycles.

MR. RAYMOND OAKES: Mr. Johnston, the belief of the motorcycles is that given the changes to the methodology that these numbers are proof that motorcyclists were overcharged relating to the years when the tail factor methodology was different than selected now by the Corporation.

Do you understand their concern that they were overcharged for many of those years as a result of that unsuitable methodology?

MR. LUKE JOHNSTON: I -- I would understand all -- all policy holder's concern when we rebate such a significant amount of money, which -- which all came from the PIPP program.

Of course, we did rebate those funds. Motorcyclists were -- were also part of that 45 percent rebate. That said, those were our forecasts at the time that we brought to the Board and -- and those, of course, were the estimates that we used to get rates approved. We have better information now and -- and we're using it.

MR. RAYMOND OAKES: Moving to a very general consideration of RSR issues, and Mr. Williams often indicates that his questions will be at a high level. I'm not sure that I can guarantee that particular elevation, but these are general questions relative to the RSR.

And the reference, and it's been replete through the transcript, but at SM.3, page 11, the Corporation talks about that the Basic has $1.89

billion in investments.

So I wonder if the Corporation could confirm that on the record?

MR. LUKE JOHNSTON: Could you repeat the reference, please?

MR. RAYMOND OAKES: SM.3 at page 11.

(BRIEF PAUSE)

MS. HEATHER REICHERT: Yes, we can confirm that.

MR. RAYMOND OAKES: And without going too far afield and having any -- any scraps over jurisdiction, I understand that the Extension division has about another 15 percent of those funds, so roughly total Extension and Basic would be somewhere around $2.2 billion dollars.

Would that be correct?

(BRIEF PAUSE)

MS. HEATHER REICHERT: The -- the annual report would contain all of the investments including Extension and Basic. So the reference in the annual report would include all -- all assets, all investment assets.

MR. RAYMOND OAKES: Well, Ms. Reichert, you and I had talked this morning and I indicated I was going to ask some questions generally in this area. The reference I have in front of me is the quarterly financial report for the first quarter ended May 31st, 2012. It was filed as part of A.18 in early August.

I understand that there is a second-quarter report coming out today, but I wanted -- if you do have a copy of that first-quarter report, just to ask some questions generally about that.

Do you have that reference?

MS. HEATHER REICHERT: Yes, I do.

(BRIEF PAUSE)

MR. RAYMOND OAKES: And what I'm speaking about generally at page 7 of that quarterly report it shows, "Condensed Interim Statement of Financial Position." So this would be the -- the asset balance sheet essentially.

MS. HEATHER REICHERT: Asset and liability, yes.

MR. RAYMOND OAKES: Okay. And would you confirm for me that the investment property over and above the $2.2 mil -- billion that we spoke about, but in addition to those sums the Corporation also has hard assets like investment property of a hundred and ninety-six million six hundred and sixty-one thousand dollars ($196,661,000). Can you confirm that?

MS. HEATHER REICHERT: Actually if you look on page 7 our investment portfolio would be the total of cash and investments equity and investment property, and if you were to add those three (3) numbers that should come very close to the 2.2 billion that you were referencing. So that includes the hundred and ninety-six (196). It's not in addition to.

MR. RAYMOND OAKES: Thank you for that clarification. So in addition to that sum then I guess we should probably also add property and equipment, another hundred and twenty-two million nine hundred and eighty-three thousand dollars ($122,983,000). Would you confirm that?

MS. HEATHER REICHERT: I can confirm that property and equipment is a hundred and twenty-two million nine-eighty-three (122,983,000) but that is not part of our investment portfolio.

MR. RAYMOND OAKES: I agree. So the Corporation has 2.2 billion in overall investments, and then it has some hard assets including property and equipment of one hundred and twenty-two million nine hundred and eighty-three thousand dollars ($122,983,000). Is that correct?

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

MR. RAYMOND OAKES: And does the Corporation have a line of credit? I look at the liabilities. I don't see any breakdown or notes that deal with that. But can you tell me whether the Corporation has a line of credit?

MS. HEATHER REICHERT: No, we do not.

MR. RAYMOND OAKES: And -- but the Corporation can borrow, is that correct?

MS. HEATHER REICHERT: The Corporation can borrow but the Corporation does not need to borrow given that we have cash and investments that -- that exceed our current liabilities.

MR. RAYMOND OAKES: And just on that point, when I do the math quickly it looks like you have about $400 million to the "good," if we can use that term. Your assets outweigh your liabilities by about 400 million. Would that be an accurate guess?

MS. HEATHER REICHERT: Actually, yes. You wouldn't actually need to guess. The equity, which is the assets less the liabilities that we have on the balance sheet, our equity position at the bottom of this page shows 427 million and change.

MR. RAYMOND OAKES: All right. Now, you say the Corporation doesn't need to borrow because it has lots of cash. The Corporation, I guess, would have borrowed with respect to a mortgage say on City Place. Would that be correct?

MS. HEATHER REICHERT: No, that would not be correct. The Corporation did not need to borrow money in the purchase of that investment.

MR. RAYMOND OAKES: And what is that investment roughly worth?

MS. HEATHER REICHERT: The purchase of City Place occurred for approximately 80 million. Some of that we occupy, so it is operational. We -- you know, it's used operationally. About 36 million of that is considered investment, being the parking lots and the City Place Mall itself that is held for its investment income.

MR. RAYMOND OAKES: And this may be a question for your president but would it not be true that the liabilities and the operational cash requirements for MPI are ultimately backed up by the Manitoba government?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I think, Mr. Oakes, you're speaking to part of the RSR discussion and debate that -- that's happened in this forum for many, many years now. It -- it's probably reasonable to think that if something happened to this ins -- something catastrophic happened to this insurance fund, rather than have claimants go without compensation, a government would step up. But, I mean, that -- that leads into the whole discussion and debate that we've had about why an RSR at are -- at all?

What we're trying to do with the RSR is provide a measure of rate stability; we know Manitobans value that. Above many, many other things, stability is important; that's the main purpose of the RSR. And whether or not we need one at all, I think, has pretty much been settled by this PUB for well over a decade.

MR. RAYMOND OAKES: I won't burden the Corporation with many more questions in this area. But would you agree with me that the primary exposure to the Corporation in terms of a financial calamity occurs in a hail scenario or some other natural disaster?

MS. MARILYN MCLAREN: No. Based on our DCAT, that is the best tool we have to really assess the risk to the insurance fund. And hail scored pretty low. You know, we buy insure -- reinsurance for a lot of the hail. We are exposed. We would be paying any -- any hail claims that went up above $300 million. That -- that is fairly rare. Certainly something of that size and magnitude has never happened in Manitoba yet.

And, you know, I guess bringing that discussion about the risk of hail back full circle to your clients, that's not a risk in the Basic program for motorcyclists. And the motorcycle rate does not include any contribution towards that kind of catastrophe reinsurance.

So the biggest risk to the insurance fund is really related to the uncertainty around the value of equities and any potential fundamental change for the worse on our review of the claims liabilities, all right. Injury claims liabilities, which certainly have a direct link back to your clients.

MR. RAYMOND OAKES: Right. And for those, there's reinsurance, as well. Is that correct?

MS. MARILYN MCLAREN: Well, there -- there's reinsurance sort of on a -- on a claim or incident basis for sure. We do not have reinsurance that if, for example, for some unanticipated reason, we had far, far more serious injury claims in a given year, what the reinsurance provides is coverage in a major multiple catastrophic injury situation, like a bus, a school bus, a multi-vehicle incident where there was many, many catastrophic injuries resulting from that one (1) incident.

We do not have reinsurance if our actuary and the external actuary take a much more con -- conservative view of what the existing claims will cost us. We don't have reinsurance if we have many, many more incidents in a given year. The only kind of reinsurance we have on the injury side of the business is if we have many, many serious losses coming from one (1) crash.

MR. RAYMOND OAKES: Just again, generally, at a high level, how many millions of dollars would the Corporation spend annually on buying reinsurance?

(BRIEF PAUSE)

MS. HEATHER REICHERT: We -- we can look up the specific reference, but if my memory serves, it's in and around $12 million a year.

MR. RAYMOND OAKES: Now, Ms. McLaren,

jumping back to the other head that the DCAT indicates is the greatest exposure, and that's the performance of equities, would you agree with me that that is -- primarily flows back to the responsibility of the Minister of Finance?

MS. MARILYN MCLAREN: Decisions to invest in equities do, definitely. As we've talked about here before, under the Act, the Minister invests MPI's funds that are available for investment.

Does that answer your question? I'm not sure that's exactly what you're looking for.

MR. RAYMOND OAKES: Yes, that does. So would you agree with me then when I go further and say that if that's their responsibility, and there's a calamity experienced in that selection of equities that that again is reason for the government to be responsible and to back up the Corporation?

MS. MARILYN MCLAREN: No, I don't agree with that at all.

MR. RAYMOND OAKES: And can you elaborate, please?

MS. MARILYN MCLAREN: Investment decisions are made largely by the Assistant Deputy Minister on a best judgment basis on an ongoing basis throughout -- throughout the years, and on different aspects of the fund. When it comes to equities, the Assistant Deputy Minister enters into contracts with, you know, equity managers that are -- that are out there in the marketplace doing that work.

Nothing -- given the -- the profile of the investment policy statement, given the -- the policies around which MPI investments are made, nothing is going to happen to the MPI investment fund when it comes to the way it is managed by its independent commercial investment managers under the -- under the overall direction of the Assistant Deputy Minister. Nothing different is going to happen to that fund than happens to all of the other funds out -- out there in the equity market, in general.

The fact that the Department of Finance, and with support from MPI members and Investment Committee Working Group, have -- have done asset liability studies and -- and it has seen -- been deemed to be prudent to investment in equities, there's -- there's certainly no logic to tie back to say, Well, if the equities don't do well, Manitoba taxpayers should somehow step up. It -- it -- they're just totally disconnected processes. They are not at all aligned.

And the Department of Finance does the best it can, and as -- again, as we've shared here through the years, have done very well on behalf of the MPI fund. Better than -- better than average, more times than not.

So if something happens with equities, there's certainly no logic, or no legal framework either, to have the Manitoba taxpayers step up and somehow make the MPI investment fund whole. By the same token, if the fund did really, really well, we wouldn't have to share some of that, because it was the Department of Finance that oversaw it and we wouldn't have to give up some of our returns.

MR. RAYMOND OAKES: Moving to a brief technical discussion, I think it will involve Mr. Johnston. And it's at Tab 30 of the PUB materials. It is a response to PUB/MPI-1-26.

MR. LUKE JOHNSTON: I'm there.

MR. RAYMOND OAKES: And, Mr. Johnston, the -- this table in the response gives the percentage for change for three (3) different types of forecast methods.

Is that correct, sir?

MR. LUKE JOHNSTON: Yes, that's correct.

MR. RAYMOND OAKES: And the first of those is the financial forecasting, the second the exponential method, and the linear method is the third. So far, so good?

MR. LUKE JOHNSTON: So far, so good.

MR. RAYMOND OAKES: And when we look at the motorcycle major class, we see that the financial forecasting asks for an increase of .1 percent, but the other two (2) methods call for decreases. The first, minus 3.5 percent for the exponential method, and 4 percent for the linear method.

Is that correct, sir?

MR. LUKE JOHNSTON: Yes, that's correct. And we -- we spoke about these methods in prior hearing days. Exponential and linear are literally just like -- trend lines fit through history with -- with no -- no reflection of the Corporation's actual forecast for those -- for those loss costs.

MR. RAYMOND OAKES: You would agree with me, sir, that there is validity in each of the exponential and linear method, though, and that each method would be actuarially sound?

MR. LUKE JOHNSTON: As -- again, as I mentioned, the -- the -- earlier, the financial forecasting method would include, where applicable, linear or exponential methods. For example, our PIPP forecast is basically looking at the linear growth of

PIPP costs over the last decade.

So our financial forecasting method does utilize some of those other methods. The -- the actuarial estimate must be the -- the actuaries best estimate. And there's many cases where fitting a trend line through the history wouldn't -- wouldn't constitute an actuaries best estimate given what they know about the -- the trends and the recent data and the various history of the -- the coverage.

MR. RAYMOND OAKES: Now, Mr. Johnston, the Corporation in other issues, and I'm thinking of the claims cost allocation where it looked at a scenario of averaging two (2) approaches in that area, looking at a -- a premium driven calculation versus a claims cost type of attribution, and the Corporation suggested perhaps one (1) of the methods in dealing with it is to average those two (2) ways of dealing with claims cost allocation.

Would you agree with me that one (1) approach might be to average the requested change of these three (3) different actuarial methods?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'd have to look at

what -- what that would produce, but as -- as I previously mentioned the -- essentially some of that averaging actually occurs already 'cause if -- if applicable -- like if we have a very strong linear relationship in the past for -- for certain costs, like collision would be an example where the linear fit is almost perfect -- we would use it in the financial forecasting methodology.

So in that sense it's definitely giving weight to these other methods, not explicitly, but -- but as part of that whole forecasting process.

MR. RAYMOND OAKES: I thank you for that, sir. I had only a few brief questions relative to that issue. Move on to a general issue that was espoused the first afternoon of these hearings by one of the presenters, so certainly not in evidence.

But on September 25th Doug Houghton talked about a flat PIPP rate. And Ms. McLaren, I would believe that you know of that issue, have considered that issue, and you've no doubt formed an opinion against it, but can you confirm that you've thought of the, and considered the issue of a flat PIPP rate for insured in Manitoba?

MS. MARILYN MCLAREN: If I recall what Mr. Houghton was speaking about was sort of a combination of a flat PIPP rate moved onto the driver licence off of the vehicle premiums.

You're nodding, so I'll take that as agreement.

I think Mr. Johnston has -- has testified here previously that, you know, to a certain extent the premium requirement to pay PIPP claims within the vehicle premium system is -- is fairly flat across the different vehicle rate groups on the private passenger vehicle side already.

I think to just decide -- well, PIPP claims cost, for the sake of argument, $200 million, let's just take $200 million off of the vehicle premium requirement and move it onto the driver licence requirement and divide that equally amongst all the drivers, breaks many of the rules that we've worked long and hard here to establish over time. When you have a strong rating methodology that can show you that for the most part PIPP injury -- injury claims costs don't vary too much across the different rate groups for private passenger vehicles, we do know that they vary significantly from other vehicle class -- the -- the major vehicle types and within the other classification systems that we have.

In my view, if there was any sort of

broad public policy decision made to do something like that and move it from vehicles to drivers, then our responsibility in this process would be to ensure that we have a classification system for drivers.

So in no way does it make any sense, except in the limited circumstances where you have actuarial evidence saying the costs are flat. No other way would it make sense to have a flat premium just assigned, you know. I mean, there's also issues around who would be paying the premium and how -- the extent of that, but if you're going to have $200 million of revenue collected from drivers instead of from vehicle owners, you have to have a classification system to do that.

You -- a flat premium that everybody would pay equally just wouldn't make any sense. That would not stand the test of the -- the protocols and the statistical soundness and the rate making principles that we followed here for -- for many years.

MR. RAYMOND OAKES: You did understand that Mr. Houghton still would have the implementation of the Bonus-Malus concept and each driver would be a -- rated according to his driving experience?

MS. MARILYN MCLAREN: Well, but if you think about what we do today, we use four (4) factors, and driving record is one (1) of them. I think you'd have to look at that on the driver's side of the equation, as well. I mean, would we have to -- we would -- clearly, given what we know on the vehicle premium side of things that we've developed for the years, you would have to charge a higher driver licence premium to somebody with a motorcycle licence than with someone with just a private passenger licence based on the losses. You -- you'd have to do that.

So you'd need some sort of a licence class indicator which might be similar to insurance use. You may very well need a territory differentiator like we do on the vehicle side of things. You may have a four (4) -- a matrix of four (4) different aspects of a classification on driver's licence, as well. You may -- you -- you couldn't do anything else.

And if you simply, you know, just sort of put the discussion in a different context, if what we're talking about is flat rating -- let's just talk about it on the vehicle side of things for a minute -- you know, I mean, basically, we need about $800 million. There is about eight hundred thousand (800,000) vehicles; let's just get everybody do pay a thousand dollars each, you know. You'd have owners of really, really high-end vehicles and taxis dancing in the streets. And people with lower -- you know, lower end vehicles, trailers, for example, or -- or even other, you know, mopeds would be marching on the legislature.

So, you know, the -- just flat rating is contrary to what we've come to understand about what drives the cost of insurance in this province, and we've responded to it in -- in really solid dependably predictive ways through this -- through this process that we've had here for several decades. It -- it works. And -- and to just -- just put a bunch of money on driver licences and just use the DSR scale wouldn't stand the test of any of what we've built here.

MR. RAYMOND OAKES: Well, Ms. McLaren, perhaps we can talk about how well the existing system is doing. You referenced the number of registered vehicles.

Can you tell me roughly how many licensed drivers we have in Manitoba?

MS. MARILYN MCLAREN: It's roughly in the same ballpark. It's -- it's around eight hundred (800) -- eight hundred thousand (800,000), or so.

MR. RAYMOND OAKES: And you'll agree with me that each licensed driver contributes to the Corporation's exposure every time that they exercise their privilege to drive?

MS. MARILYN MCLAREN: Absolutely. And as we talked about I think in the direct examination at the beginning of the process, Manitoba is the last jurisdiction in this country that I'm aware of that -- that charges an insurance premium to each and every driver. We strongly believe that that is an appropriate way to do it. We're really, really pleased with the strong linkages between DSR for drivers and DSR for vehicle owners, and how each represents a predictive -- a method of predicting the cost that drivers on the various points on the scale will bring forward whether they're vehicle owners or not.

MR. RAYMOND OAKES: Well, I'll suggest to you, Ms. McLaren, that some of those aren't contributing to the claims costs in proportion to their risk. And the reference at CMMG 2-10 was that twelve thousand nine hundred and fifty-four (12,954), or 1.5 percent of vehicles registered in Manitoba, do not pay for PIPP coverage as of August 1st, 2012.

Do you recall that?

MS. MARILYN MCLAREN: Sure. But, I mean, that's not at all the conversation we're having in terms of premiums on drivers or premiums on vehicles. And if -- if that reference speaks to the fact that some vehicles don't pay premiums we understand what those reasons are, and they are by statute. It's not something that's discretionary.

And by the same token, if drivers of those vehicles have Manitoba driver licences and cause crashes, they -- they will be contributing through the driver-based DSR system that we have in force today.

MR. RAYMOND OAKES: Well, just in that respect they may contribute something but CMMG IR-1-7 show the average incurred for highway extra-provincial trucks is one million six hundred and eighty-two thousand forty-six dollars ($1,682,046) per year.

MS. MARILYN MCLAREN: Again, that situation is by statute. It's not discretionary. It's not something that anyone in this room has any control over. It's something that the -- the province has -- has established through regulation, through statute. And the evidence is what the evidence is. But it has no bearing on the conversation you started to have about premiums on vehicles versus drivers.

MR. RAYMOND OAKES: Well, we'll attempt to bring it back to that, if you -- in a few moments. CMMG-2-11 and 2-12 related to the experience, 2011 there were twelve thousand six hundred and eighty-eight (12,688) PIPP claimants, for a total of one hundred and thirty-nine million eight hundred and three and ninety-nine (139,803,099).

Drivers without a registered vehicle account for three thousand one hundred and ninety-two (3,192), or 27 percent of those claims in 2011. And that was the response in CMMG-2-12. In addition, unlicensed non vehicle owners account for six hundred and ninety-three (693) claims in 2011, or another 6 percent of these total vehicle claims.

And the question is, Ms. McLaren, if one-third (1/3) of all PIPP claims are for non contributors then why should you be seeking PIPP claims costs to be recovered from motorcyclists when other vehicle owners and licensed drivers pay nothing?

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

MR. RAYMOND OAKES: I think I might need the assistance of the court reporter for that. But I can certainly give you those data again, that 27 percent of drivers without a -- or the drivers without a registered vehicle account for 27 percent of the eleven thousand seven hundred and eighty-four (11,784) total PIPP claims. Unlicensed non vehicle owners account for another 6 percent of those tot -- total vehicle claims. And one-third (1/3) of all PIPP claims are for non contributors.

And the question being then, Why should motorcyclists pay substantially more for their coverage when other vehicle owners and licensed drivers pay nothing.

MS. MARILYN MCLAREN: Well, there are no licensed drivers who pay nothing. On the DSR scale all drivers make a contribution to the plan. I don't think there's anything else I can say -- that there are some registered vehicles by statute that do not pay premiums, so let's just put that aside.

According to the law there are a number of vehicles that have to be registered, have to be insured along with that according to the MPIC Act and regulations. And licensed drivers, according to largely the same statutes, also pay premiums.

So -- I mean, the -- the piece in this that you're missing, I think, is that -- and I'm -- I'm looking at the response to CMMG-2-12. These are licensed drivers who obviously were driving an -- an uninsured vehicle. They didn't happen to have an insured vehicle. But there's premium being charged, being collected, and the fact that families in this province are able to have multiple licensed drivers access one (1) insured -- one (1) registered and insured vehicle and have the premium paid for that vehicle, is an important principle.

And, I mean, I'm -- if you're arguing that somehow motorcycles should be exempt from paying premiums because there's other vehicle classes that, according to the statute, are exempt from paying premiums I guess that's a conversation with somebody in the Legislature.

The -- the vast, vast majority of vehicles used on the roadway in this province are required to be registered and insured. They are required to have Basic Autopac insurance. And what we're here to do is to figure out the best ways to find -- to reasonably and equitably charge premiums enough to cover the losses, according to some sort of logical, reasonable classification system and rate-making methodology.

So the fact that 27 percent of PIPP claims came from drivers who are not the registered owner of a vehicle is not a concern to me. I don't -- I don't think it's a problem. I don't think it's unreasonable to have vehicles operated by any number of licenced drivers, be they family members or -- or other family members.

If anyone -- if every one of those

people -- if they -- if they caused the accident, and I'm sure, you know, a small fraction would have caused them, less than half, generally that's the way the stats work out given multi-vehicle crashes and so on. If they caused the accident, they're going to pay a whole lot more for their driver licence next year.

The system works. The system generates revenue from people based on their behaviour, but there's nothing wrong with the fact that licenced drivers were using someone else's insured vehicles and were involved in a crash.

MR. RAYMOND OAKES: Well, Ms. McLaren, I'm not going to ask you to repeat that very long answer, but there were a number of components to it I'd like to ask you questions about. And maybe asking you to defend the undefendable, if I talk about the thirteen thousand (13,000) vehicles that don't pay for PIPP coverage.

But you mention that everybody contributes, and I'd suggest to you that the proposed driver premium offset for 2013, is a measly fifty-two dollars and sixty-three cents ($52.63) for each HDA unit. Can you confirm that?

MS. MARILYN MCLAREN: Yes.

MR. RAYMOND OAKES: And with respect to

your comments about the family, would you not agree with me that the current system also encourages high risk drivers to transfer ownership to other family members as so not to pay higher vehicle premiums and, therefore, does not contribute fairly to the public insurance system?

MS. MARILYN MCLAREN: If -- if at all, only in the most marginal way. And we've refiled evidence from previous years to that effect. You can't run from the DSR scale on your driver's licence. And there are significant -- and especially if you think about the third and final stage of increasing those amounts on the negative side of the equation that are being proposed this year. Significant impacts on driver licences of causing crashes.

And people are staying in the system. They are paying those higher amounts. We have explained that as some of our positive variance on driver licence revenue over the last year or two (2) since DSR came in. So there -- there's no issues there with respect to whether or not high risk drivers pay more.

Manitobans fundamentally believe that those who cause crashes should pay more than those who don't. And the fact that it happens to a significant extent now on the driver's licence is something that I -- that, you know, through the PUB process, we've all worked hard to achieve. And -- and I believe it's working as intended.

MR. RAYMOND OAKES: I'm going to move from that area into the issue of road safety. Ms. McLaren, would you agree with me that in the area of road safety that there are no new initiatives for motorcycle road safety for the upcoming year you've applied for?

(BRIEF PAUSE)

MR. RAYMOND OAKES: And I'm speaking in the motorcycle context.

MS. MARILYN MCLAREN: I -- I don't believe that we've identified anything specific that we will be doing in the coming year that we've not done previously, no.

MR. RAYMOND OAKES: And the IR has indicated that the road safety budget for motorcycle initiatives was a hundred and eighty-five thousand ($185,000) out of the $13.8 million spent from the Basic program.

Can you confirm that?

MS. MARILYN MCLAREN: Sure, but -- but for the sake of the -- the new panel members I would just say that what -- our consistent response to a question of that nature is that the vast majority of our road safety expenditures apply to Manitobans in the broadest sense, not specific to one (1) class of vehicle or another.

A big part of the money we spend on road safety is to heavily subsidize the high school driver education program. Within that program there -- there's motorcycle awareness, but it's also teaching people the rules of the road to the benefit of all driving classes.

So the amount of money that we spend on motorcycle-specific initiatives is very small in relation to the total. It does not -- it does not compare poorly to the percentage that motorcycles make up of the total vehicle pool as well. But all of our -- all of our programming related to anti-drinking and driving, safe driver behaviour, really is applicable to all drivers, not -- not -- does not exclude motorcyclists.

And I -- I guess I would also say for the -- for the sake of the panel members, CMMG and MPI meet, you know, fairly regularly outside of this forum.

Road safety is often the key topic.

A number of initiatives that the CMMG has talked to the Corporation about is more related to the licensing side of things, the -- the regulatory aspect, not insurance-funded education and awareness, that it is the primary responsibility of the Basic Autopac road safety expenditures.

So -- and again, there are some of those potential regulatory and even roadway construction concerns that -- that CMMG has raised. They have also raised those with -- with government, as far as I know, and have cal -- and have talked to the regulatory -- the Registrar and so on at MPI that are not really related to the insurance education and awareness that we do as part of the -- the fun -- the road safety funding that Basic pays for.

MR. RAYMOND OAKES: Thank you again for that very long answer. I heard in that answer though that the money that MPI spends on road safety is applicable to all motorists.

Is that correct?

MS. MARILYN MCLAREN: That is more absolute, black and white, than -- than I intended it to be, if exact -- if that's exactly what I said. Seatbelt awareness wouldn't have much to do with motorcycles.

But in the broadest sense things like the sixty (60) second driver, the high school driver education, anti-drinking and driving, those clearly would apply to all drivers.

MR. RAYMOND OAKES: And another example might be the $55 million that MPI spent on the Immobilizer Program would have no application to motorcycles.

Is that correct?

MS. MARILYN MCLAREN: Sure, and which the motorcycles didn't help pay for either.

MR. RAYMOND OAKES: Ms. McLaren, another part of your answer said that we spend about the same as -- on motorcycle road safety as we do on overall vehicle, primarily private passenger. And I think that there's references to the amount spent in the CMMG IR dealing with that issue.

But would you not agree with me when we started looking at the start of the cross-examination at CMMG-2-8, and we saw that the premium base had more than -- or the premium increases had more than doubled for motorcycles, that perhaps there's unique challenges that we need to do more than spend the same as in private passenger that hasn't had any increases over that same decade?

MS. MARILYN MCLAREN: I can tell you that the amount we spend on motorcycle safety awareness, specifically targeted at motorcycles, the amount that -- that you quoted a few minutes ago is based on our best assessment of prudent expenditure of funds like it is on every other kind of road safety programming. We decide if there's an opportunity to hopefully make a difference. We try to articulate what difference we think that will make. We spend the money. We go back and see if we made the differences we thought we would make.

I've never ever had someone propose to me a way to double or triple the money we spend on motorcycle road safety and had to say to them, Well, those are all really good ideas but we just can't afford it, you know.

And -- and we have enough conversations on this topic sort of outside of the PUB process that there -- there's never been a circumstance where we've said, Well, you know what, I'm sorry, a hundred and thirty-five thousand (135,000), or whatever the number is, is -- is all we're prepared to spend.

It's not easy to come up with good pragmatic road safety initiatives that we believe have a reasonable value for the money spent. It's true across the board. You know, something else that we have significantly, in the last year or two (2), we have, I think, in almost every jurisdiction within the province doubled the amount we're spending on the roadside Checkstop Programs. Again, applies to all vehicles, motorcycles included.

But the police came and said, You know, we can resource this more heavily if you can provide extra funds, which are largely spent on overtime for existing police officers. And we did that.

But I've never said, Okay, well, these are really good ideas on how we can help make motorcycling safer in Manitoba but we just can't spend the money. So if we continue to work together we'll continue to find other things that we can do. If we think there's thing that would make sense to do twice a year instead of once a year, I'm more than prepared to do that.

But it's -- like the conversation I had with Mr. Williams in terms of road safety in the broader sense, we have to be prudent because there's no limit to how much you can spend on road safety. And there is no limit to what might be good ideas conceptually but you have no basis at all to figure out whether there's any kind of value that are -- is likely to be gained from it.

So this is a conversation we can continue to have. I am not at all hard fixing the -- the money that we've spent in the past or the money that we plan to spend next year. It comes down to ensuring that there's a reasonably broad consensus that the money would be well spent.

MR. RAYMOND OAKES: Ms. McLaren, can you point to or give us hope for any new initiatives in the coming year or longer relative to road safety for motorcycles?

MS. MARILYN MCLAREN: As we said at the beginning of this piece of the cross, we don't have any of those at this point, no.

MR. RAYMOND OAKES: All right. I'll move to my next issue, and that's wildlife collisions. And, similarly, perhaps you can confirm whether or not the Corporation has any new initiatives planned in this -- in response to this issue.

MS. MARILYN MCLAREN: No, we don't.

MR. RAYMOND OAKES: And just to summarize, the Corporation has an exposure of about $30 million annually for a wildlife collision cost. Would that be correct?

MS. MARILYN MCLAREN: Yes, that's in the ballpark.

MR. RAYMOND OAKES: Now, there was some extensive materials filed in response to PUB-1-67A, the addendum to that. And it talked about the geographical mapping and the like. I was curious that it didn't really mention the Whiteshell or Hadashville area where I know I travel every weekend and see dead deer and blood stains on the highway every time that I go out.

Do you have any anecdotal evidence relative to those corridors at all?

MS. MARILYN MCLAREN: No, other than to say, me too, as I drive east on Number 1.

(BRIEF PAUSE)

MR. RAYMOND OAKES: And the -- the Corporation was good enough in pre-ask 2 to talk about calculations for the Whiteshell, that particular area, in Highway 1. And one (1) of the initiatives that the CMMG has been pressing for in re -- in response to the $30 million wildlife collision problem that we have in Manitoba is wildlife fencing. Are you familiar with our questions in that area?

MS. MARILYN MCLAREN: Yes, I am.

MR. RAYMOND OAKES: And the Corporation has estimated that it would cost $2.8 million to erect wildlife fencing along the 19 kilometre stretch of the TransCanada Highway between Falcon and West Hawk Lake. And the Corporation has estimated a payback of twenty-four-point-three-five (24.35) years.

Do you see that in pre-ask 2?

MS. MARILYN MCLAREN: I don't have it in front of me but I remember that. My memory certainly would support what you have read.

MR. RAYMOND OAKES: Right. I think there is similar questions in -- in the Second Round of interrogatories CMMG. Now, the Corporation has estimated that payback of twenty-five (25) years based on a 50 percent reduction in wildlife collisions. I would suggest to the Corporation that that is an unduly low and conservative estimate of reductions, and that if the wildlife fencing was done properly that it might be much higher than that.

Are you able to respond to that?

MS. MARILYN MCLAREN: I'm just going to pull the pre-ask out, if you can give me a minute.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: No, I don't -- I don't think it's unreasonable to say that you wouldn't -- that -- that a reas -- I think it's reasonable to say that at best you could probably reduce the collisions by about 50 percent.

I think it's important to note that this 19 kilometre stretch that is being discussed here accounts for a quarter of a million dollars out of 30 million, right, which is what, a tiny, tiny portion. And I think given that it's a fairly short stretch, given the fact that there are -- you know, there -- I'm just thinking about that highway, there's at least, you know, one (1) roadway that runs under the highway at a certain point.

Given that the terrain doesn't change at all at the eastern side or the western side of that 19 kilometre stretch deer -- deer move, and they move around and they would move around the fence. And I think we have seen a number of reports -- I mean, the part of the country that has done an awful lot of fencing to reduce wildlife deaths related to highways is -- is in the national parks in Alberta and BC. Mostly just Alberta, I guess. And they still have -- they still have significant losses of wildlife even with the money that they've spent on fences.

You know, I mean to talk about $3 million for a stretch of roadway that has one one hundred and twentieth (1/120th) of your claims costs, how -- why? What -- what would be the rationale, and how would you ever justify doing it there and not everywhere else. You mentioned sort of the geographic mapping in -- in passing but, you know, the fact is you've got $30 million -- $30 million in wildlife claims being incurred in every -- every corner of not only this province, but the city.

I mean, there are wildlife claims surprisingly close to downtown. They're everywhere. And everyone talks about the increase in the deer population. And to think that somehow with the kind of dispersed impact that you could look to fencing as a solution, it -- it doesn't make any sense to me at all.

MR. RAYMOND OAKES: I think we heard last year that to fence the area near Birds Hill Park, which has I think a high -- even higher percentage of deer collisions, that that would be about seven hundred thousand dollars ($700,000).

Do you recall that?

MS. MARILYN MCLAREN: Yes, and I think one (1) of the IRs had an explanation as to why there's a difference in the estimates in that area.

MR. RAYMOND OAKES: And the Corporation has done calculations at a 50 percent reduction in wildlife collision with a total payback of twenty-four (24) some years.

What payback would the Corporation agree would be reasonable? If the fence stopped 75 percent of the wildlife collisions and you got a payback in fifteen (15) years, would that be deemed to be feasible?

MS. MARILYN MCLAREN: Not when it's talking about one one-twentieth (1/120th) of your problem. I mean, I think that's the point, right? I mean, this is a 19 kilometre stretch and we've -- you know, the information -- I don't know that we included it in the application again this year, but it is readily available on our website, and we can file it if -- if the panel members find it helpful, but we actually have maps on our website that shows the deer collision hot spots across this province and across the city. It just gives you an immediate sense of how dispersed this really is.

So I'm not sure what the argument -- I mean, if there was something -- if there was amp -- some -- some proven technology that came forward that could be installed on vehicles that would somehow entice the deer to get off the roads and stay in the ditches, that might be something that would make sense to fund, because it would have -- it would be helpful wherever this happened. But to look to fencing when you have such a diffused problem doesn't make any sense to me in terms of a particular payback formula for a tiny little stretch of highway in the province.

MR. RAYMOND OAKES: Just for the benefit of the Board, I think that map is already contained in the PUB-1-67(a), the attachment with the Wildlife Collision Reduction Pilot Intervention 2011. So I think that deer vehicle crash, the map for 2006 to 2009, is already there.

Ms. McLaren, I -- your answer -- before you talk about other jurisdictions, are you familiar with the Coquihalla highway in BC and the fact that that is wildlife fenced for a large portion of that highway?

MS. MARILYN MCLAREN: No, not personally at all. No.

MR. RAYMOND OAKES: And have you travelled at all on the east coast, Newfoundland, the like, seeing extensive areas of wildlife fencing?

MS. MARILYN MCLAREN: No, I have not.

MR. RAYMOND OAKES: If I can refer you

to the other pre-ask that was filed with the Corporation, and that was Pre-ask 1, if I give you a few minutes for that.

MS. MARILYN MCLAREN: I have it.

MR. RAYMOND OAKES: Ms. McLaren, you'd indicated that, you know, the Whiteshell corridor was only accounting for about a quarter million dollars in losses a year. But in addition to that, deer collisions or -- or wildlife collisions are accounting for fatalities of Manitobans.

Do you see that?

MS. MARILYN MCLAREN: Yes, three (3) fatalities over the last ten (10) years.

MR. RAYMOND OAKES: Okay. And when there's a consideration of fatalities, is there not a -- a greater duty on the Corporation to consider things in addition to payback number of years and the like, if it's something that the Corporation can eliminate or reduce fatalities?

MS. MARILYN MCLAREN: Finding legitimate ways to have an impact on fewer fatalities is absolutely something that the Corporation would see as valuable, and does see as valuable.

MR. RAYMOND OAKES: Well, would the Corporation confirm that it has not yet tried any initiatives in this area in rural areas?

Is that correct?

MS. MARILYN MCLAREN: The awareness and increased enforcement pilot that we did last year was in the Charleswood -- generally Charleswood part of Winnipeg. So we have not run a pilot like that outside the city, that's true.

MR. RAYMOND OAKES: So your evidence is there's only been one (1) urban initiative undertaken?

MS. MARILYN MCLAREN: Yeah. Other than broad awareness campaigns, yes.

MR. RAYMOND OAKES: So no barriers or fencing has ever been tested by the Corporation?

MS. MARILYN MCLAREN: The Corporation has not funded any fencing for wildlife at all, no.

MR. RAYMOND OAKES: And even the one (1) urban initiative attempted, that was about eighty-eight thousand dollars ($88,000), we understand, from the materials, and that failed to yield any positive action or response?

MS. MARILYN MCLAREN: Absolutely. It didn't even come close.

MR. RAYMOND OAKES: And CMMG 1-11 talked about wildlife allocation of losses. And 91 percent of the deer collision or wildlife collision losses originated in rural areas.

So I wonder if you can confirm that?

MS. MARILYN MCLAREN: What was the reference again?

MR. RAYMOND OAKES: CMMG 1-11.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Yeah, there are a surprising number in Winnipeg, but they tend to be lower speed and less costly.

MR. RAYMOND OAKES: So $24.5 million of losses from wildlife collision originate outside of the city?

MS. MARILYN MCLAREN: That's right.

MR. RAYMOND OAKES: Mr. Chairman, I have no further questions. That completes my cross-examination.

THE CHAIRPERSON: Thank you, Mr. Oakes. Mr. Williams, you have still some questions. It would be, I think, an opportune time to break right now. I have a few questions myself, so I hope you can -- can I take a few minutes to ask my questions?

Okay. I just want to clarify, per the amended DCAT report, the target RSR, if we go along with the proposed DCAT meth -- methodology is $200 million. And in the 2011 annual report, page 39, the target DCAT there is mentioned as 210 million.

So I just wanted to confirm -- I'm assuming that the DCAT amount is the appropriate amount, the 200 million is what you're suggesting would be the level that would allow you to issue an unqualified -- an unqualified actuarial report?

MR. LUKE JOHNSTON: Yes, that's correct. The -- the current DCAT at the time of the financial report was a target of two ten (210). The DCAT indication has fluctuated, from I believe about 185 million to a maximum of 210 million, depending on various items such as our -- our forecasted equity balances as a good example.

THE CHAIRPERSON: But as things stand right now, you would be able to issue an unqualified report if you -- if there was 200 million in the DSR?

MR. LUKE JOHNSTON: Sorry, yes, that's correct, any -- 200 million or higher, yeah.

THE CHAIRPERSON: Now, this is a question for Ms. McLaren. Now page -- per page 31 of the 2011 Annual Report, assuming that PUB agrees to the proposed DCAT methodology, MPIC will have achieved all of its ROE and equity target levels. Now, if you look at page 31 there's a system of -- of metres there that show where you are with respect to your targeted DSR and equity levels. I'm looking at -- specifically mentioning the graphs there.

MS. MARILYN MCLAREN: Yes, in the centre of page 31 the first gauge is the one that we're talk -- and that talked about $210 million and the MPI target is in green. In the next annual report that would say $200 million. And if -- sort of following your -- your line of questioning, if the PUB was to adopt the Corporation's proposal, there would be one (1) target. It would -- you know, the red and the green would disappear. There would be one (1) target and it would be based on the two hundred dollars ($200) (sic) that we're here asking for recognition of the share.

THE CHAIRPERSON: But, I guess in -- in some levels -- or it's pretty clear that the targets have been largely surpassed. I'm thinking specifically of Extension where the target -- if I -- I'm just going from memory here, a 294 percent of target?

MS. MARILYN MCLAREN: The -- the competitive lines of business, the Extension and SRE, that's -- that's true, Extension in particular is higher than its target. I think that may also include the Extension Development Fund on that gauge as well though, which is sort of targeted retained earnings at this point.

THE CHAIRPERSON: So, I -- I guess the question I'm asking is, you know, you've identified a number of goals with respect to the equity and RSR area, and it's shown there, and I guess the question is, do you have any strategic goals to address levels when the levels have been largely surpassed?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Are you talking specifically about the non-Basic lines, or are you asking what would happen if Basic was surpassed sometime in the future?

THE CHAIRPERSON: No, I'm asking -- because Basic is the major element of that, and I guess now that -- if we go along with methodology, all of those goals will have been addressed. And I guess the -- you've ide -- identified a number of strategies as part of that element of your strategic plan. And I guess the question I'm asking is that have you got any goals to -- or strategies to address situations where all of them have been surpassed and you're sitting with significant amount of excess retained earnings?

MS. MARILYN MCLAREN: Okay. We would have to -- to take a step and think about the answers to some of those questions, if in fact for the first time ever there was no more divergence or uncertainty about what the PUB target was for the RSR and what the Corporate target was. So the -- we would need to think about how we articulate a new position of agreement on the RSR target. That's certainly fair. And the extent to which I -- I would comfortable in telling you that if you look at the dials individually, which is really the way I manage the business, because it -- there's very few -- you know, there are very few circumstances where it is appropriate to think about the financial condition of the Corporation without considering the individual lines of business.

I really -- when I think about cus -- customers and service and the things that MPI does to meet the needs of Manitobans, I think very globally integrated corporately. When I think finances and annual reports, I think line of business, because one (1) consolidated financial result doesn't mean anything to me when we have such important differences between the lines of business.

And I can tell you, if I do it that way, on sort of that individual line, the SRE line of business is the smallest insurance line of business and can have some more -- "volatile" is a strong word, because it's not been volatile through the years -- but it is very subject to individually huge losses because of the nature of its business, insuring long-haul trucking fleets and things like that.

So I'm not at all concerned that we are sitting at 122 percent of the target on that line of business. I think that's -- given that our targets are, you know, fairly conservative in an insurance world, in a competitive environment, I'm not at all uncomfortable with that.

Extension, clearly, is in a different situation, because it has that allocated retained earnings in terms of the Extension Development Fund. But if it was significantly over and -- and planned and looked like the forecast wa -- was going to be significantly over going forward, absolutely the -- the Board of directors would have some decisions to make. It would ultimately pro -- likely be reflected in the annual report.

THE CHAIRPERSON: Now, if you look at page 46 of the annual report, there's a statement of changes in equity there. Now, if I remove the portion that's related to the comprehensive income, which is approximately 60 million, and I can kind of think of that as being pretty soft because of changes in valuations and so on, but if you look at that, you know, I'm summing -- I'm seeing 200 million for the RSR, 35 million for the Extension, 37 million as being the target for the SRE. I'm getting a total of 282 million.

So if I take out the 60 million I'm basically getting a total equity of approximately 370 million out of 400 and some million. So we're basically sitting at a $100 million in excess of the target levels for the individual si -- individual businesses.

So, you know, am I wrong in my calculation of the retained earnings that are contained in your annual report -- pardon me, contained in that statement of equity which is more than the -- approximately the cu -- the figure I arrived at is 282 million as being the reserve levels that you'd like to have.

(BRIEF PAUSE)

MS. HEATHER REICHERT: If I may, I -- I

believe that it -- it -- what you are doing is you're adding the targets for the individual lines of business and comparing it to the total equity for all lines of business. We need to look specifically at each line of business and what its equity position is relative to the reserve that we need.

So when you look at the Basic portion on page 46, so the first two (2) columns, you will see that in total the retained earnings for the Basic line of business is about $212 million. Of that, we are recommending the RSR target level be 200 million, leaving us with a -- a small excess retained earnings, if you will, of approximately 12 million.

So it -- it's not appropriate to say, well, you've got an excess of twelve (12) there, you've got an excess of a hundred million in Extension and -- and SRE, so therefore, you've got a hundred in total excess. The separate lines of business, based on -- as -- as we've talked here before about appropriately allocating the costs of running each of those businesses, need to be looked at separately as it relates to the -- the reserves that are required.

So 212 million of retained earnings currently for the Basic line of business, of which the Corporation is recommending two hundred (200) is required for the RSR.

THE CHAIRPERSON: I think, you know, we will -- we'll be hearing from Dr. Simpson in a few day's time. And, you know, part of his -- part of his submission involves the notion that the monies that -- that are beyond what's required by MPIC, more appropriately belong back in the pockets of Manitobans where they can be spent by Manitobans.

And I guess the question that I have would be, have, you know, would the board be -- would the MPICB Board be con -- be prepared to consider options for dealing with security -- pardon me, equity levels that are beyond target -- target levels as part of their overall strategy for dealing with -- with equity at MPIC?

MS. MARILYN MCLAREN: Can I ask you to repeat that? I'm sorry.

THE CHAIRPERSON: I guess the question I'm asking is whether or not the -- the board at MPIC would be prepared to consider its overall strategy in regards of equity levels when the individual target levels, collectively, represent more than is required by MPIC?

MS. MARILYN MCLAREN: The -- the best answer I can give to that is we don't think about it corporately. As -- and as I said, I mean, the one (1) that would appear from the look -- you know, from the annual report that we talked about, Extension is the one (1) that has more, more than it needs. And the Board of Directors has some responsibility to consider its strategies with respect to that issue, absolutely.

But, I mean, it -- it's so critically important that, you know, we've -- we've always said, right? The -- the -- given that they're different lines of business in -- in some respects -- in -- in the most important respect, different legal legislative frameworks. When it comes to SRE, different customers, very different. You -- you need to think about their customer bases, their financial condition, their financial position, and you need to think about it as lines of business.

If we -- you know, there have been times in the past when Extension transferred excess retained earnings to Basic in an effort to get Basic retained earnings where the Company thought it needed to be. In past times the PUB rebated that money, so, you know, in -- in no small part we've talked about that was one (1) of the reasons the transfer stopped, because if -- if our Board decided to rebate excess retained earnings it would -- probably should rebate Extension premiums to

Extension customers.

I mean, we were trying to deal with the need to have more retained earnings and it was like a gift from Extension to Basic to help establish more retained earnings. If you found that there were no sort of gifting requirements or opportunities, the Board has the responsibility to figure out what to do and it may very well legitimately decide, given its knowledge of that particular line of business, that while, you know, the target -- again, the target is -- is the minimum, and strong insurance companies, strong insurance lines, have four (4) and five (5) times their minimum in excess retained earnings. So the fact that we might have -- are getting close to two (2) times, or maybe even a bit more than two (2) times, may -- the Board may be -- may decide -- the Board of Directors may decide it's not uncomfortable with that for some period of time.

But it really doesn't work for the responsibilities that we have at MPI to deal with these four (4) different lines of business that we work with to think corporately. If there ever was a decision to rebate excess retained earnings in the competitive lines they would probably go to the ratepayers in those lines. If there was ever a time when there was excess retained earnings there and Basic was in dire straits, I'm sure the Board of Directors would think again, as it has in the past, think about, you know, assisting, transferring, if one (1) was in a better position than another.

But it -- it just doesn't -- it -- it doesn't work for us to somehow roll it together, because it's so important that they do stand on their own. If -- you know, there was a time -- I want to be clear about when that time was now -- time goes.

In the 1990s when Extension was not doing well as a line of business and its retained earnings were insufficient, and at one (1) point the Corporation was -- made a decision to transfer some excess retained from SRE to Extension. Never, ever in a million years would we ever have considered, you know, if Basic had a bit more money that -- to transfer Basic money, right. I mean, Basic is a regulated line. It's mandatory. People have no choice about whether they buy it. It has to stand on its own.

If there have been times when -- to support retained earnings a -- a movement of funds could go there, that -- that was one (1) thing, but certainly there's never ever been any consideration of them going to other way.

All right. So it was some of those considerations that we really do think about them as discreet lines of business. And it wouldn't be any different to me if Extension had far, far more money than it needed and the other two (2) were just where they needed to be, than as if SRE and Extension had somewhat more than they needed.

It -- you know, I mean, it just -- we think about it as lines of business.

THE CHAIRPERSON: Okay. I would suggest we break for ten (10) minutes or so. And we'll be back in the room at say fifteen (15) after for the next --

MS. KATHY KALINOWSKY: If I --

THE CHAIRPERSON: -- line of questioning.

MS. KATHY KALINOWSKY: -- if I could, I do have the second-quarter financial results and I lid -- would like to pass those around right now before the break. So if individuals would like to take a look at that, I would suggest that it be marked as MPI Exhibit number 30.

THE CHAIRPERSON: Okay. Thank you.

--- EXHIBIT NO. MPI-30: Second-quarter financial results

--- Upon recessing at 11:03 a.m.

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

THE CHAIRPERSON: Thanks. Ms. Kal -- Kalinowsky...?

MS. KATHY KALINOWSKY: Sure, now that we're ready to resume the proceedings with respect to the cross-examination on the undertakings, Mr. Johnston would like to address a couple of the undertakings right now in advance of the cross-examination, just clarify and highlight some areas for the panel members and the Intervenors and the Board. Thanks.

THE CHAIRPERSON: Please go ahead.

MR. LUKE JOHNSTON: I'll start with Undertaking number 3. And this undertaking was in regards to the internal quarterly reviews that we do in -- of our claim liabilities. And just to -- I thought it'd be important to explain what exactly happens in -- in these reviews.

First of all, we -- we only look at PIPP -- PIPP benefits. Oh, sorry.

THE CHAIRPERSON: Before you go there, could you identify the exhibit number?

MR. LUKE JOHNSTON: Oh, sorry. Par -- pardon me. Exhibit 19, sorry.

THE CHAIRPERSON: Okay. Yeah, yeah.

(BRIEF PAUSE)

THE CHAIRPERSON: Yeah, okay.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Thank you. So the -- I believe the undertaking was -- came about asking if there was any favourable runoff in claim liabilities in the quarterly reviews. So you'll see here actually we had unfavourable runoff in both cases, so I thought it was important to ex -- explain that.

It -- it might appear to be something adverse, but it's not. And I'll -- I'll get into that. Just to quickly explain how we do the internal reviews, we do not change any assumptions from our appointed actuary unless we see a very strong case to do so or an abnormal claim reporting pattern, for example.

We do update the interest rates at each review per our Asset Liability Management Program. If we didn't make any of these updates, we could potentially have a massive adjustment come October. So we update those monthly.

In the middle of the page here you'll see that the review, as of April 30th, indicated that we needed to increase our IBNR by 16.8 million. Eleven (11) million of that was from PIPP, excluding our enhancements, and 5 million was from our enhanced coverages.

If you go down to the bottom of the page, it says that of that 11 million, 5 million was to decre -- to offset the decreases in excess reserves. And what that is, is last year at the hearings, when we did our quarterly review we found that a new automated reserving methodology that was being used was putting in more reserves than were re -- required. So we had to make a significant negative IBNR adjustment.

We have now fixed that issue in the system, and reserves are getting posted at more reasonable levels. I'm basically just reversing. As they take out the excess reserves, I'm reversing my adjustment. The -- the 4.9 million at -- as of April 30th, we did indicate some -- some adverse experience in the current year of 4.9 million.

Moving to the next page, it talks about PIPP enhancements, indicating a requirement for a $5.5

million increase in IBNR. I just wanted to make it clear that there is not -- there hasn't been adverse development here. The issue is that we expected that this section 138 enhancement would be reserved this year, and it hasn't -- or, hasn't to a great extent yet.

So we had budgeted for decreases in IBNR, but they -- they didn't happen. So I'm essentially just adjusting to make sure our original estimates stay the same. And we'll update that -- the enhancement estimates once we get case reserves in the system.

Moving to July, we also a $13 million increase in IBNR. But again, that -- almost that entire increase is related to these enhancements. They're trying -- we trying to get a handle internally on how to properly case reserve for these items. And we don't want to just put in arbitrary amounts, so we're -- we're working on that.

For now, again, I'm leaving the -- the original estimates that we made the same, basically just ensuring that our budget stays identical. So we have budgeted for decreases and putting them back in. Moving now to Exhibit 27, that is Undertaking 16 and 17.

THE CHAIRPERSON: The exhibit number on that is...?

MR. LUKE JOHNSTON: Twenty-seven (27). I just wanted to note that in MPI Exhibit 14, we had several corrections that I've listed in this undertaking title page here. This was also the exhibit that Mr. Williams asked us to update for the different time period.

When we were referencing -- were referencing the data we noticed that in using 1956 and after data, if we're using four (4) year returns we should really start four (4) years after 1956. And we caught that when we were updating this. So that was -- that was an error that we've fixed. In terms of percentiles it has a minor difference, but order of magnitude minimal.

We -- in our actual investment income, we -- we noted that we had incorrectly incru -- included some private equity write-downs. And we just corrected our figure there, a -- a minor adjustment.

And to be consistent, the budgeted figures shown on our -- our spreadsheet were reflecting a difference in how we used to budget equity returns. We've con -- made it consistent, so it matches exactly with AI-9, Schedule 4. And I think that's it.

THE CHAIRPERSON: Thank you for those comments. Now, I just wanted to, since this has been tabled, I would like to go back to the quarterly report that's just been provided for the second quarter of MPIC. And, looking to page -- looking to page 10 of that report, I couldn't help but note that the -- the net income for the period was twenty-one million a hundred and eighty-six thousand (21,186,000).

So I wonder, Ms. Reichert, could you comment on that, whether or not you believe that trend will continue or do you expect that the financial results will be as projected for the end of the year?

MS. HEATHER REICHERT: We do anticipate that by the end of the year the financial results will come in to -- closer to what our budgeted amounts are. So for Basic, we do expect that we will reach a break-even situation by the end of the year.

THE CHAIRPERSON: Now, if you turn to -- to page 6, again, on the topic of -- of the equity levels and RSR and Extension retained earnings and so on. So I -- I couldn't help but note that the -- that the numbers have changed as a result of this -- of these results.

Now, is that reflecting, for example, looking at the Extension retained earnings has gone up even more than what's in the financial statement for the year end. So is that just a reflection of the -- the variation in the income for the period?

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

MS. MARILYN MCLAREN: If -- If I can, Mr. Chairman, for the benefit of new panel members. The -- given that our fiscal year starts the first of March and ends at the end of February, we always have more positive financial bottom lines in the first two (2), sometimes three (3) quarters. And then a bad one in the fourth quarter, almost always.

In the summertime, we tend to have fewer crashes but sometimes higher severity crashes. But the winter, with just so many, you know, slippery fender bender, lots, lots more frequency in the winter months. So we always plan to go into the final four (4) or five (5) months of the year with above -- with more money than we expect to have at year-end. We always expect to lose money in the last quarter and a bit.

THE CHAIRPERSON: Thank you for that explanation. I believe, Mr. Williams, if you're prepared to start -- no -- I --

MS. CANDACE GRAMMOND: Mr. Chairman, I do believe that Mr. Williams has some more questions.

But I also have some follow-up on a variety of the new exhibits, so I could probably go first if that's agreeable.

THE CHAIRPERSON: That's fine with me. Thank you.

MS. CANDACE GRAMMOND: Thank you.

RE-CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Mr. Johnston, you were speaking a moment ago about Undertaking number 3, which is Exhibit 18 -- or sorry, Exhibit 19. And you -- you elaborated a little bit on what we see the Corporation having said in that exhibit. And -- and we appreciate that.

What I'd ask you to comment on now is the findings of the July 31st liability review in the context of the forecast that had been put forward in this GRA, so for the -- the Basic claims incurred and the RSR balance for each of the current year and the year of the application.

MR. LUKE JOHNSTON: Just to be clear, I believe your question is, the -- the findings of the July 31st review relative to the original forecast we made. And at the end I'm -- you mentioned the RSR balance, the impact on that?

MS. CANDACE GRAMMOND: Ye -- yeah. What I'm trying to understand is, given that the July 31st review obviously affect the current year, the 2012/'13 year, can you comment on, in terms of directional impact and perhaps order of magnitude, any effect of that review on what's before the Board?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes, the reason I highlighted a couple of the items in here, in -- in particular, the excess reserving issue, PIPP enhancements, was to just indicate to the Board that those particular items, though there's adjustments in here, our forecast hasn't changed for those. It's just more of a timing of how they're -- they have or have not been reported.

The -- the changes that you're seeing in here are actually very minimal relative to our original budget, so I'm not expecting any significant changes from the October review. We did mention that we discussed the interest rate provision for adverse deviation. But in terms of actual experience relative to forecast, I'm expecting it to be -- recognizing the magnitude of the losses here, relatively close to forecast.

MS. CANDACE GRAMMOND: So really you're not expecting then much of a change in terms of current year or application year?

MR. LUKE JOHNSTON: yes, I would -- I wouldn't expect any of the experience we've seen in the first six (6) months to -- to result in a dramatic change to our forecast that would -- that would change the rate indication.

MS. CANDACE GRAMMOND: Thank you. Those are my questions with respect to that exhibit. I do have some questions with respect to Undertaking 8, which is Exhibit 21. This deals with the asset and liability cashflows for the next ten (10) years.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: What I'd ask you to do is just describe and sort of interpret the schedule that we see here for the Board.

MR. LUKE JOHNSTON: As -- as we discussed on prior days, these -- these are the -- the two (2) -- the -- the top is the payment pattern of claims and the -- the bottom is the -- the cashflow pattern of the fixed income portfolio.

And when we talked about this we -- we discussed how they don't really match. Like they -- like we have -- we use a -- a duration matching strategy. So the duration is the same, but clearly, as you can see on this exhibit, we're not in any way attempting to match dollar for dollar these -- these impacts.

The claim payment pattern is -- is very different than -- than how we are paid on -- under fixed income assets. So we do use that duration matching strategy and it works in that 80 to 90 percent accuracy, but it's not expected that these two (2) patterns of cash flow as you're seeing would be matched dollar for dollar.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: And just -- just another point, this is the -- the claim information on the top is essentially the payout pattern of our current liabilities. So that's why -- you can see collision, for example, trails off into the point where we're paying basically nothing.

So we're not -- we haven't forecasted here future years claim payments on collision. It's our -- it's our point in time, essentially, if we wrapped up business today this is the -- the runoff of the payments.

MS. CANDACE GRAMMOND: And would you say based on what we see here that there is a risk of or requirement that the Corporation may have to liquidate assets because cashflows are in excess of liabilities as they're maturing, or would you say that that's not an issue?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Maybe you can repeat the question. It would be most helpful.

MS. CANDACE GRAMMOND: Sure. Would you say based on what we see in this schedule that there is -- and I'll maybe phrase it a little bit differently, that there is no risk apparent or no expected requirement that the Corporation may have to liquidate assets on an untimely basis because cash flows are in excess of liabilities as they mature?

MR. LUKE JOHNSTON: No, I don't see any significant risk of that happening.

THE CHAIRPERSON: Can I just ask some more questions about this particular exhibit. And just deep in my understanding, I -- for example, I'm looking at the very first row there, or column rather, and it's showing that the total ILE will -- IL -- pardon me, ILAE will be two hundred and twelve thousand (212,000), and then the fixed income portfolio cashflow will be two hundred and fifty-seven (257).

So the -- that two hundred and fifty-seven (257) is generated from the sale of bonds and the revenues earned from the bonds they're still holding, right?

MR. LUKE JOHNSTON: That's correct, yeah, the coupon and principle.

THE CHAIRPERSON: Okay.

MR. LUKE JOHNSTON: Yeah.

THE CHAIRPERSON: Okay. So -- so the optimal scenario would be that, you know, for -- my experience is in the banking environment so you always try to match your -- your exposures.

And so I'm seeing here, for example, that, you know, you've got the next column you're showing IL -- ILAE of eighty-one (81) and you've got cash flows of a hundred and sixty-seven (167). Now, I'm trying to reconcile that with the -- the, you know, your -- your statement that you try to achieve matching.

You know, so here we see twice the level of cashflow that you need for the exposure. Could you explain what's going on there?

MR. LUKE JOHNSTON: So the -- what we do is essentially try to match the average payment date, the -- between the two (2) cash flow patterns. The cash flows on claim liabilities are going to run off into thirty (30)/forty (40) years in the future, which is not something that we can easily match to.

So when we say we're matching a duration, the average payment date weighted by the cashflows for -- for claims is about eight (8) to ten (10) years. And the -- for fixed income, I believe, it's about seven (7) to nine (9) years.

And what that does is, you -- when interest rates change, when two (2) sets of cashflows have about the same duration, the interest rate impacts tend to be about the same as well. We -- as of right now we don't really have a way, in my understanding, to match ca -- the -- the claim liability cashflows throughout the whole period that they're paid. So that -- that's the -- the best option we have on the table at the moment. But, yeah, we'll always be looking at this to improve it.

THE CHAIRPERSON: But the -- but that -

- that line that's showing the total including ILAE, is only one (1) aspect of your exposure here, right? I mean, you would have other exposures in relation to the pensions and so on that requires you to have cashflow to meet your li -- meet your obligations?

MS. HEATHER REICHERT: Yes, that -- that's correct. And to specifically look at -- to specifically look at the column that you are referencing in 2014. So Mr. Johnston had commented that that particular column, at this point in time, is not forecasting what we anticipate to incur in collision claims payouts, or in additional comprehensive claim payouts.

So when you look at 2013, where there was approximately sixty (60) -- 80 million with respect to -- with respect to collision and comprehensive, if you assume that the same level occurs in 2014, then we would have a cash requirement in 2014 of approximately 160 million with respect to liabilities, which is very close to what we are at this point estimating to be the payout for the fixed income of 167 million on the very last line.

So we try very much, as Mr. Johnston was saying, to match the duration of the payouts for -- for basically, it would be bodily injury is the -- is the longest -- but the duration of our anticipated claim payouts with the duration of our fixed income portfolio, which of course is changing on a -- on a continual basis as we buy and sell bonds through -- through the Assistant Deputy Minister in Finance.

THE CHAIRPERSON: So I know that you have a considerable, fairly sizeable, equity portfolio that includes stocks and so on. Now, clearly, they would be generating a dividend flow, which is not reflected here.

MS. HEATHER REICHERT: Yes, that's correct. This is just fixed income. And some of our -- our equities are -- are ma -- managed by equity fund managers. And often the dividends are reinvested and we actually don't receive a -- a cash flow from dividend income. But -- but to answer your question specifically, this cashflow is for fixed income, anticipated maturities, and coupons.

THE CHAIRPERSON: But that -- but your response suggests to me that, in effect, you're not using dividends to meet your liability exposure on an ongoing basis. You're -- you're -- those dividends are being reinvested and the equity portion is basically building as time goes forward, if -- if I -- if I follow what you're saying.

MS. HEATHER REICHERT: Yes, in some cases that's true. In other cases we may get some dividend income, but it is not being used as part of this matching that we're trying to match our fixed income portfolio to our claims liabilities.

That is the overall matching strategy that MPI is following because of the -- the movement in interest rates impacting both of those particular items in a -- in a similar but offsetting manner. So that's why we are matching claim liability duration with the fixed income portfolio duration.

THE CHAIRPERSON: No. Okay, I -- that part I understand. I guess what I'm getting at is that, you know, what seems to be happening is that you are -- you're using bonds to match your liabilities for the -- for an initial ten (10) years. And the stock portion of your portfolio is not needed on an ongoing basis to generate revenues that you need to use for your liabilities. So your stock portfolio is over here. You're using bonds to match your front-end liabilities, which is somewhat consistent, I guess, with the notion that you don't really need your stock portfolio right away.

What I'm getting at is Mr. Johnston said, Well, my -- our exposure is on the equity portfolio; that's where the bulk of our exposure is.

But, in reality, you don't need to liquidate that equity portfolio to meet your liabilities on a go-forward basis, at least for the first ten (10) years or so. You've got plenty of bonds in place that allow you to generate the cashflow you need to do your matching but also meet your liability exposure.

I guess what I'm getting at is if you're holding that equity portfolio for extended periods of time, your exposure from equity variations on the stock portfolio is not as dramatic as the DCAT is suggesting.

You're holding those equities well beyond the four (4) year period which is generating that blip of risk exposure.

MS. MARILYN MCLAREN: I -- I think I would speak to -- I -- I would like to make two (2) points in relation to that.

The first is that in our experience, very, very few equity managers hold anything for any length of time. So, you know, that -- the fact that they are turning over the equity portfolios and the accounting rules about having to recognize losses, gains, whatever, when -- you know, when -- when it is turned over like that negates what you're saying about the fact that we don't really need the equities and -- and we're not cashing them in to pay claims.

So the reality of holding that equity, having the equity investments, given the accounting rules and given the reality that these equity managers are turning it over. And if they sell it for more, we recognize the gain. If they sell it for less, we recognize the loss. It flows right into income.

And the -- you know, the -- the other comprehensive income becomes real income on a pretty regular basis. So that -- we're not just sort of holding -- you know, buy and hold, right. We don't just, you know, buy a bunch of bank stocks and hold them forever. That's not how it works in practice, given the way the equity managers work and given the fact that we have to follow the accounting rules that recognize all of that on a really regular basis.

MR. LUKE JOHNSTON: Just -- just to add to -- to that, you're -- you're absolutely right that the claim liabilities are covered, in a sense, by the fi -- fixed income. That's intentional. And that's why, when we talk about interest rate impacts, why it's -- we say in the DCAT report there's some risk of, you know, interest rate impacts, but it's ver -- it's minimal because we've matched these two (2) segments, right.

But all the -- like the equity losses and all that will continue to flow through. They're not matched specifically to the -- these liabilities, but they'll continue to hit the bottom line, so, yeah.

MS. MARILYN MCLAREN: And then to -- together with the fact that the PIPP-related liabilities are still growing every year. We are not at a... I'm not finding the word I'm thinking about. But it's -- it's -- it continues -- it's not a -- we're not status quo yet, right. I mean, we still have more and more claims every year. We don't have claims closing at the same rate we have new ones opening.

So because we have more liabilities every year, that means we also have more equities every year, so it becomes a growing impact through time, is because there's more and more money to in -- invest through time. So that -- that's the other piece of it. You know, thirty (30), fifty (50) years from now, we will have a much more static book of liabilities, and, therefore, to a certain extent, assets as well.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you. Mr.

Johnston, you also gave some evidence about Undertaking 16 and 17, which are MPI Exhibit 27. I just have some follow-up questions with respect to that exhibit.

Can you tell us whether the information reflected in these undertakings any way alters MPI's request for a minimum RSR target point of 200 million?

MR. LUKE JOHNSTON: No, the -- the exhibits were presented for a couple of reasons. One, it was to -- to show some -- some actual versus budget results in recent years.

And one thing that -- one point that I wanted to make about budgeting and -- and actual results is that we don't know that we're in a four (4) year equity decline when we're in a four (4) year equity decline.

Like -- like we're -- the Corporation's going to keep putting out a 6.1 percent equity forecast, because that's the long-term return. So in -- in these scenarios, I -- I put the percentiles in here and I'm -- I've showed how much of an impact that is on our 2013/'14 equity balance.

In the DCAT report, I've made assumption that after two (2) years, the Corporation's going to see the extent of some of these equity losses and we're -- and, again, we're not going to stand still.

However, that's -- it's a -- a difficult assumption to make. The -- the equities don't have to necessarily have to decline 40 percent all at one (1) time, right. We could have four (4) equally bad years, which we keep putting out 6.1 percent and we keep looking at our forecasted statements as saying, Don't worry, it's going to get better, our forecast is positive, we don't need a surcharge.

But as you can see, like from the -- from the example that I show between actual and budget in here, it's not just going to flow so nicely as -- as how I've done in the DCAT, right, I need to make generalizing assumptions in that report.

In -- in -- let's just go to the right page here. In Attachment C, which is page 6 of Exhibit 27, you'll see that... You'll see that the one (1) in twenty (20) year 5th percentile event is indicating about a $270 million decline. That's not the DCAT recommendation. And again, that's because, I assume, that we had some management action after two (2) years.

So if we didn't do anything, we would proceed to lose the equity budget -- equity income budget for the years after that, which would be about -- about $30 million a year. And that would push it even higher.

MS. CANDACE GRAMMOND: Now, what we see in these attachments at this exhibit are alternate versions, obviously, of the equity decline adverse scenario.

Disregarding any other adverse scenarios and just focussing on these, what is the minimum RSR target point that's implied by what we see just in these documents?

MR. LUKE JOHNSTON: Again, this -- this would be purely just applying the -- some of these percentiles. And -- and we had -- Mr. Williams and I had a discussion about what the appropriate period is too. So we really -- I -- I wanted to show the different periods here and hopefully give some context around why I would have picked negative 40 percent.

The -- again, the -- one of the main benefits of the DCAT is you don't just apply impacts and ignore the fact that there's going to be management or regulatory action.

So if I just took a -- one (1) -- you know, if -- if I decided that 1919 to present is the appropriate time period to use and I just hit it, you know, hit MPI 40 percent, maybe I get 270 million, right. But if I say, how are losses going to be recognized, what's MPI going to do, what's the Board going to do, it makes it a more realistic, plausible scenario.

So -- so these don't -- again, these don't change a recommendation or imply -- imply a dif -- a different number, I guess.

MS. CANDACE GRAMMOND: So your answer is, with the qualifications given, that these exhibits do not imply a different target point than 200 million?

MR. LUKE JOHNSTON: No, they don't. It's just to provide information about how large particular percentiles im -- would impact our current equity balance and -- and to show, again, how losses are recognized relative to budget.

MS. CANDACE GRAMMOND: Okay. Mr. Chairman, I may have some more questions about that exhibit, but I need to have a discussion with Mr. Cathcart before I can say that one way or the other. So I'm just going to move to a different document. And then we'll either have a lunch break or a short break before I close.

Okay, I'll ask you then -- and this is probably going to be a Ms. McLaren line of questioning. I'll ask you to go to MPI Exhibit 12, which is the answer that was filed to Undertaking number 9. This was filed when we were sitting before, but we have not yet asked any questions about it. So undertaking 9, MPI Exhibit 12. This is the list of problem intersections.

MS. MARILYN MCLAREN: Yes, the top fifty (50).

MS. CANDACE GRAMMOND: Thank you. So what we have here are the -- the top fifty (50) problem intersections with collision counts per year and so on.

Can you give us an indication of the cost implications that relate to claims from -- from the intersections that we see here?

MS. MARILYN MCLAREN: That would have to be a new undertaking. But it's, I think it may suffice to say, small. If you look at the narrative immediately following the word "response", the top fifty (50) intersections account for 20 percent of the total intersections collisions. But intersection collisions themselves only account for 40 percent of total collisions in Winnipeg.

So you're looking at one fifth (1/5) of less than half of all the Winnipeg collisions. So it -- I'm not the one to be asking math questions of, but it is a pretty small fraction of the overall cost of collisions in Winnipeg.

THE CHAIRPERSON: Will your databa --

would your database permit you to -- I'm sorry for interrupting. Would your database permit you to quantify the cost of those collisions?

MS. MARILYN MCLAREN: I'm pretty sure we could do that in -- in a fashion. I don't know if it would exactly be just adding, you know, more columns on the side. But in -- in some sort of fashion, we would be able to do that.

MS. CANDACE GRAMMOND: Thank you. So, Ms. McLaren, you'll provide that then, what Mr. Chairman requested?

MS. MARILYN MCLAREN: We will certainly see what we can do. I -- I can't imagine that we would be able to file it even before final comments and arguments. I don't have any idea how long it would take. I can certainly commit to provide something along those lines in the next application.

THE CHAIRPERSON: I think that would be fine.

MS. MARILYN MCLAREN: Thank you.

MS. CANDACE GRAMMOND: Okay, thank you. There actually isn't an undertaking, the -- well, not for this year. What Ms. McLaren has indicated is that when they file the material next year, they will give an indication of what it was that Mr. Chairman asked for. But it won't be forthcoming as an undertaking, per se, in this hearing.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. Now, Ms. McLaren, is it the Corporation's view that even the top five (5) interse -- intersections on this list should be given special attention, in terms of road safety initiatives?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: That may prove to be the case. And I think this is -- this is the kind of thing that we would look to if, in fact, we were to move forward with some sort of an infrastructure funding initiative, you know. But if you look at the first one, Leila and McPhillips, there -- there's a fair bit variability across the four (4) years even, you know.

So we would -- there's certainly just the -- the ranking -- the four (4) year average ranking would be something to look at. But you would also have to look at whether or not, you know, since 2010 or maybe partway through 2010, the city already started to do some things at those intersections.

So this is certainly important data, particularly if we were to look at some sort of infrastructure funding. Separate from that, I'm not sure what legitimate initiatives might be undertaken on an intersection by intersection basis.

MS. CANDACE GRAMMOND: Does the Corporation have discussions with the City of Winnipeg about intersection by intersection in terms of what the city is doing? Does it -- is there any back and forth?

MS. MARILYN MCLAREN: No. We certainly have a -- a building relationship with, I believe it's Public Works, but the -- the people who are responsible that they are at the table at some of our road safety coordinating meetings.

But without having our own mandate to do something at intersections, or to bring anything to the table, any discussions about intersections have been pretty minimal at this point. But it really is exactly the kind of thing that would feed into consideration of whether it makes sense for us to have some sort of an infrastructure funding initiative and -- and how that might actually be constructed if we were to go down that road.

MS. CANDACE GRAMMOND: Thank you. Mr.

Chairman, I'm looking at the clock. Between cross-examination and I have a couple of emails from members of the public to read in. I probably have about half an hour to go. I don't know what Mr. Williams' time estimate is, so I guess the question is should we just keep going and maybe take a short break at some point so I can consult with Mr. Cathcart? Or do you want to actually take a lunch break and come back at 1:00?

THE CHAIRPERSON: Let me consult my colleagues.

MR. BYRON WILLIAMS: To assist the panel, I'd -- just to assist the panel, I wouldn't expect to be longer than twenty (20) minutes.

THE CHAIRPERSON: I would -- it would suggest to me that we should keep going.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. Okay. So my next questions, then, relate to Exhibit 9, which was -- it's a two (2) page document that would have been filed last time. It's not actually -- I guess it is in response to an undertaking. It just doesn't have an undertaking number on it, but it -- so it is MPI Exhibit 9. This relates to operating expenses.

MS. MARILYN MCLAREN: We have it.

MS. CANDACE GRAMMOND: Thank you. Now, I believe what had been requested of the Corporation was to provide a revised document that had been provided previously and to include only normal operations, excluding business process review expenses, IT optimization, and so on. Is that -- is my understanding correct?

MS. HEATHER REICHERT: Correct.

MS. CANDACE GRAMMOND: So that's what we see here is -- is just normal operations?

MS. HEATHER REICHERT: Correct. You see normal operations on a corporate basis, normal operations on a Basic basis, and then the percentage that Basic is of the total corporate normal operations.

MS. CANDACE GRAMMOND: Thank you. Now, if we look at the first table, which as you've said is the corporate normal expenses, and we look at the first line relating to compensation, and we compare the '10/'11 actual with the '11/'12 actual, we see that number going up from a hundred and fortyish to about 154 million.

That would appear to be about a 10 percent increase. Would you agree?

MS. HEATHER REICHERT: I agree that that might be the -- the calculation of the increase.

To -- to be clear, though, compensation will include benefits in this category. So in '11/'12 there was a significant valuation adjustment for the pension that resulted in an overall $26 million, I believe it was, impact to the compensation line on a corporate basis.

MS. CANDACE GRAMMOND: So is that why, then, we see as we look across that line to current year and -- and forward, that we see those numbers staying fairly static in the 150 to 155 million range?

MS. HEATHER REICHERT: Without going into the -- the breakdown of all the components of the compensation, there -- generally, when there -- when we incur evaluation adjustment such as that, it does impact on the amount that we have to contribute as an employer for the pension on a go-forward basis.

So, yes, a component of the 150 million going forward would be as a result of anticipated increases in the pension cost.

MS. CANDACE GRAMMOND: Now if we go to the second page of Exhibit 9 we have, as you described, the table that reflects the percentage attributable to Basic of the overall expenses. And I'm going to ask you to look at the data processing line, which is the second line on the table. And I -- I -- we see here an increase from, again, '10/'11 to '11/'12, and then another increase as we -- we look across that line.

Can you comment on the reasons behind that increased allocation to Basic?

(BRIEF PAUSE)

MS. HEATHER REICHERT: Generally speaking, when there is an improvement initiative and it is in process we are trying to categorize the impact of that improvement initiative, ongoing expenses relating to that improvement initiative, segregating them and keeping them outside of normal operations.

Once that improvement initiative -- it's like a construction project, only in this case it's with respect to IT development, when that project is completed then the cost to maintain that software application, so data processing costs, maint -- maintenance software licensing become part of our normal operations.

So to the extent that a particular improvement initiative results in us anticipating incurring licensing cost increases more than an inflationary-based increase, it would increase slightly the percentage of the overall allocation of data processing costs to Basic if the particular improvement initiative is -- is mainly to the benefit of the Basic ratepayers.

So the main and the most significant improvement initiative that we have going forward, currently in process and going forward is relating to the IT optimization, which includes the movement of the -- of our -- our servers to Ontario and having them managed by IBM.

So there are significant ongoing expenditures relative to the data pro -- processing costs that we will be paying to IBM. And we've talked previously in this hearing about how that resulted in some increases in ongoing expenses, but resulted in significant decreases in capital expenditures and therefore depreciation and amortization of those capital expenditures on a go-forward basis such that it was -- the -- the business case exists for moving to the IBM solution as opposed to building an in-house data server warehouse.

So long answer to the short question is the reason that -- that it would appear that the data processing -- Basic is getting a higher allocation of data processing is a result of improvement initiatives once completed becoming part of normal operations that have a significant data processing component to them.

MS. CANDACE GRAMMOND: Thank you. The next line item I would ask you about is the special services line, which is the third line. We see as we look across this table a dip in current year, the 2012/'13 year.

Can you comment on that reduction for current year and then the increase in the two (2) subsequent years?

MS. HEATHER REICHERT: Only to the point that special services includes anticipated expenditures with respect to external labour. From a normal operating perspective we do have external labour amounts that we pay to Hewlett-Packard, or HP, sorry, from the master services agreement that we have with them.

So the only thing that comes to mind for '12/'13 is anticipating proportionately less of those in normal operations for '12/'13. And, again, I'm fairly certain that -- that it is tied into the overall reduction of external operation -- or external labour in '12/'13, offset by anticipating increasing data processing costs. So they -- they're all integrated.

But -- sorry, I -- I don't have the -- the breakdown of the specific details of special services right in -- in front of me.

MS. CANDACE GRAMMOND: Okay. Thank you, Ms. Reichert. The next line item is building expenses. And we see for the year of the application and the subsequent year, somewhat of an increase. We see there in -- in earlier years that allocation was right around 73 percent, and that's projected to go up to seventy-five (75).

Can you comment on the factors behind that?

MS. HEATHER REICHERT: No, I'm afraid I can't without getting into -- to more specifics of the -- of the actual detail behind that particular line item. I'm sorry.

MS. CANDACE GRAMMOND: Would it have anything to do with service centres or call centres, perhaps?

MS. MARILYN MCLAREN: The service centres are our -- our largest building expense, for sure. But, I mean, just taking a -- a quick look at the first page where the dollars are, I mean, overall the dollars are coming down a bit in the outlook years, corporately. And there's -- yeah, they're coming down a -- a little bit as well in the Ba -- I mean, there's nothing that comes to mind, right? I mean, it -- it's a tiny difference that we would really have to take as an undertaking and dig into if you thought you needed more specific detail. No undertaking, right?

MS. CANDACE GRAMMOND: That -- that's fine. One (1) last question with respect to this table. The telephone telecommunications line, again, we see a -- an increase of about 3 percent from 2010/'11 to every subsequent year. And this is in the allocation to Basic.

And I appreciate that the dollar amounts are -- are not huge, but is there a particular reason for -- for that increase in the allocation to Basic at that line item?

MS. HEATHER REICHERT: Again, I -- I would say that this is related to the movement to the IBM solution -- telecommunications -- the impact on telecommunications overall will ha -- will increase to -- to have the data move from Manitoba to Ontario and back. So there -- there is some anticipated, but as you've noted, not an overall -- not an overall significant, in -- in pure dollar amount.

MS. CANDACE GRAMMOND: Okay. Thank you. I then have some general questions with respect to just getting some evidence from the Corporation on the record about what we were planning to do today. And that was to hear from Mr. Gibson of the Department of Finance. Now, I understand from discussions I've had with MPI counsel that Mr. Gibson was not able to attend today or this hearing.

And maybe, can you just comment on the -- the reasons? I -- we appreciate that the Corporation was willing to produce him, but if you could comment on that, I'd appreciate it.

MS. MARILYN MCLAREN: He is away from work due to a -- an illness, has -- has been for a number of weeks now.

MS. CANDACE GRAMMOND: And can you explain to the Board the Corporation's position with respect to the idea of having an alternate person come and testify about investment matters in Mr. Gibson's stead?

MS. MARILYN MCLAREN: It's -- the treasury branch of the Department of Finance is a very small branch. There are maybe -- well, certainly fewer than ten (10), much -- far fewer than ten (10) people in that branch.

Mr. Gibson, as the Assistant Deputy Minister, is absolutely the leader and pulls all functions together. The individuals that report to him have very -- I don't mean this word in a negative way -- but have very siloed responsibilities, and there would be no one available that would be able to speak to the function as a whole.

MS. CANDACE GRAMMOND: And you said that Mr. Gibson's been away from the office for a number of weeks. Who is managing the Corporation's investments while he's away?

MS. MARILYN MCLAREN: The strategies with respect to managing the investments are -- are in a holding pattern. Nothing new is being pursued, but the actual tasks related to managing the portfolio as it exists are being well executed by his subordinates.

MS. CANDACE GRAMMOND: And is that with respect to bonds and equities?

MS. MARILYN MCLAREN: Bonds are actively managed by the Department of Finance. The equities are managed by independent commercial equity investors, in -- investment managers. But the staff do oversee those managers, and they would be doing that, as well, with support from the investment staff at MPI as well.

MS. CANDACE GRAMMOND: Now, I understand that, assuming that Mr. Gibson will be back at the office by this time next year, that the Corporation is willing to produce him if the Board ask that he testify at that time?

MS. MARILYN MCLAREN: I -- I would assume as well, un -- unless something fairly fundamental were to change.

THE CHAIRPERSON: You'll understand that we were somewhat dismayed to hear about his not being able to attend this hearing. I guess the concern I had was in relation to, you know, who's minding the store while he's away, because obviously the portfolio's extensive.

And I guess the question is then, can you give us some assurance that if we were to get hit by a Black Swan event, heaven forbid, that you have the wherewithal to be able to address decisions that need to be taken and actions that need to be taken?

MS. MARILYN MCLAREN: Ab -- absolutely. You know, the -- I would be in immediate contact with the Deputy Minister and seek his support in -- in addressing that. You know, this is -- the MPI fund is not Mr. Gibson's sole responsibility so that, you know, the province has a vested interest in -- in addressing that as well. And I would -- that would be -- my immediate contact, would be his boss, the Deputy Minister.

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Just one (1) follow-up question with respect to this issue. Is -- is there expected to be any change, in terms of the amount of cash that the Corporation is holding? We did have evidence before that the Corporation is holding quite a bit of cash at the moment, relative to its usual practices.

MS. MARILYN MCLAREN: You know, as -- as best as I understand it, I -- there will certainly not be a change in that approach during Mr. Gibson's absence. And as -- as I understand, and there was a little bit of discussion about this earlier in terms of whether or not the fund was foregoing opportunity/revenue by holding the case. I think it's -- it's pretty clear that any movement of interest rates would instantly wipe out any foregone revenue by holding the cash.

So if -- if it proves that Mr. Gibson's absence is for a prolonged period of time, the -- the Deputy Minister, I'm sure, will deal with that. But in the meantime, assuming a fairly short continuation of his absence, I don't see any change in that approach right now.

MS. CANDACE GRAMMOND: Okay. I do have some questions with respect to the second-quarter report that's now been filed as MPI Exhibit 30. First of all, just a couple of general questions.

In the Application, the Corporation is forecasting a net loss of about 4.7 million for the current year. And I believe that it's now forecasting a net loss of 8.4 million.

Can you confirm that there is no change in the Application or -- or, the outlook for the year of the Application?

MS. HEATHER REICHERT: Correct. The six (6) month results are not changing our -- our forecast for the outlook and projected years that are the basis of the application.

MS. CANDACE GRAMMOND: Now, Mr. Chairman had asked a question about the -- the twenty-one point one (21.1) -- or, pardon me, 21.2 million in income for the first six (6) months of the current year.

Is it the case that that includes 5 million in income from Basic and the balance from the other lines?

(BRIEF PAUSE)

MS. HEATHER REICHERT: Yes, I believe

that's -- that's the case.

MS. CANDACE GRAMMOND: Now, I'm looking at page 7 of the second-quarter report. This is where we see that reference to the net income for the -- the first two (2) quarters. We also see at sub paragraph (II), Roman numeral II, reference to an increase in total expenses of 6.1 million.

Can you comment on what that relates to?

MS. HEATHER REICHERT: Yes, I can. On the very last paragraph on page 7, it talks about the 6.1 million compared to -- to last year. It's primarily due to compensation increases of 3.2 million and higher pension costs of 1 million.

MS. CANDACE GRAMMOND: Thank you. And is that -- this increase of 6.1 million consistent with the forecasted levels of compensation for the current year, 2012/'13?

MS. HEATHER REICHERT: Yes, it -- yes, it would be consistent with what we are forecasting.

MS. CANDACE GRAMMOND: Now, we see, still on page 7 in sub paragraph (III), Roman numeral III, a reference to a decline in investment income of 27.5 million due mainly to unrealized loss on the fair value through profit or loss bonds.

Can you comment on the cause with

respect to that decline?

MS. HEATHER REICHERT: Only to say that that would just be a general market decline that we're experiencing in -- in the -- in that particular area.

MS. CANDACE GRAMMOND: Would it be related to interest rates?

MS. HEATHER REICHERT: Sorry, yes, it would be.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, Ms. Reichert, can you comment then on the effect of that decline, in terms of claims liabilities, pursuant to the Corporation's matching strategy or immunization strategy?

MR. LUKE JOHNSTON: What we do for claim liabilities is we approximate how much an impact would be at the beginning of the year so the accounting department can change the booked value as the interest rate changes occur.

So when we get to a -- a liab -- a liability review, like I -- I was mentioning before, we don't suddenly have this massive interest rate adjustment when we -- we calculate our liabilities.

So these are -- these are incorporated into the claim liability estimates automatically at the end of every month, when we recalculate the discount rate. There's often a slight difference between the monthly estimate and the -- what we get when we actually do the quarterly reviews, but it's usually quite minimal.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So, Mr. Chairman, in terms of questions then, I may have a few more on that one (1) exhibit after I discuss with Mr. Cathcart. But what I propose to do now is read into the record the two (2) emails that the Board received from members of the public.

So the first one came in on October 3rd at 2:23 p.m. This is from David Grant. It was addressed to the general Public Utilities Board email address, and it reads as follows:

READ-IN OF MR. DAVID GRANT:

MS. CANDACE GRAMMOND: Our conversation yesterday was both enjoyable and informative. I offer the following suggestions; I have made these ideas clear to MPI and their NDP masters in recent years, to little apparent effect.

1. Now that the key for a modern car is no longer just a cheap metal stamping, MPI must change their practices to improve the stewardship of ignition keys in MPI hands. In every case where no key can be found when MPI disposes of a vehicle, there should be an auditable explanation. MPI should review these statements, audit them, and make further improvements. MPI foregoes millions of dollars every year in auction income by losing too many keys. Buyers know it will cost them between two hundred (200) and five hundred and fifty ($550) to replace a key that MPI and its contractors have lost. They bid less money when a rebuildable car has no keys.

Item 2. Much of the money spent on hail and storm claims is wasted. There is no reason for keeping this coverage as a part of Basic car use coverage. Nearly every car damaged by hail has dents in its sheet metal. Glass and lamp damage is comparatively rare. The current system pretends that minor hail dents have an appreciable effect on older, lower value cars.

Owner pride in a week-old car will be diminished if it has small hail dents. A five hundred dollar ($500) car has almost the same utility and value after it suffers a dozen 2-millimetre-deep hail dents. With enough degradation of its finish and many years of small dents, it may be nearly impossible to even find the new hail dents. There is no need to write it off.

The current system also invites fraud in hail claims. I suggest that MPI offer storm/hail coverage as it does loss of use coverage, a minor extra premium for those who want it, and lower annual costs for those of us who do not. Extra co -- extra-cost glass coverage could be amended to include windows broken by vandals, rocks, and hail. These changes would save Manitobans millions of dollars per year."

Number 3. On 2010, 10/01 -- and this is Candace now talking -- it means October 1st, 2010], MPI announced a rule whereby all vehicles would be scrapped if in MPI hands and older than the 1995 model year. This is costing MPI millions of dollars per year in auction income. There are many examples of claim centre abuse of process to write off vehicles just to take them off the road as pre-'95 vehicles. Scrap the rule and these abuses will stop, too.

This rule was developed by Manitoba Conservation with the help of the Manitoba Motor

Dealers Association. Does nothing to help MPI ratepayers or to improve road safety. It works well to improve car sales at local dealers. It does nothing to reduce greenhouse gases, its alleged goal, in MP -- in Manitoba or globally.

While the motor dealers probably benefited from this change to the supply of older cars for use by Manitobans, the effect on low-income Manitobans has been less wonderful. There was a telling article in 2011 in the national press outlining how the availability of serviceable, low cost cars was key to lifting workers out of poverty. Many low-paying jobs are on off shifts and in parts of the city not well served by public transit. With no car, this population cannot work at these jobs.

Item 4. Some time ago, MPI's Ms. McLaren promised the PUB that she would provide to me the dollar effect on average car premiums of changing the Basic deductible to one thousand (1,000) and to two thousand dollars ($2,000). All that followed was an invite for me to visit MPI for a coffee. No numbers were offered.

Item 5. The idea that massive damage to a car can be safely repaired in its first few years but that a second claim for minor damage later in its life means it must be scrapped is entirely arbitrary. This is just another technique used by MPI to waste ratepayer money and benefit lobbyists like the auto repair industry. I would ask MPI to provide a clear justification for use -- continuing to use this rule to scrap such lightly damaged cars.

Number 6. Claim centres write estimates that do not include readily available used body parts. This technique is used to write off cars that would normally be quickly repaired with such parts and returned to the customer. MPI needs to increase the auditing of such staff choices and provide real deterrents to such wasting of rate payer funds.

The radio was stolen from a previously flawless 1994 Mustang GT 5.0. The adjacent plastic dash panel was damaged. A nice used replacement panel could have been supplied locally for under a hundred dollars, and the car could have been returned to its owner. Instead, MPI pretended that this piece of plastic would cost many thousands of dollars which led to the write-off and scrapping, because it is older than 1995 model year, of this collector car.

I would like the opportunity to ask the MPI staff at the PUB hearings for responses to these suggestions. I would also like these ideas put on the record in a fashion that will be more obvious to the public and local media. Sincerely, David Grant, engineer.

(READ-IN CONCLUDED)

MS. CANDACE GRAMMOND: The second email --

THE CHAIRPERSON: Excuse me, before you go there. Just for my edification, is it the intention that MPIC would respond to this letter? Is that...?

MS. CANDACE GRAMMOND: Typically, and I -- I do recall Mr. Grant presenting, either last year or the year before, but I -- I believe that typically MPI's practice is to send a letter to the people that present in response to their presentation. I don't know what their position is with respect to the ones that I've been reading in. I -- this is the second, and there will be a third one that I'm about to read in.

MS. KATHY KALINOWSKY: Yes, the practice of MPI is always to respond in writing to the individuals that present, whether orally they present or in writing. And the Board is always CC'd and copied on that response from the Corporation.

THE CHAIRPERSON: Now, I guess to the -- to the point that he is making that this should be available transparently, the response to these queries. I mean, a -- a letter that would be sent to us -- or, copied to us.

Is there some way we can get that on the record, official record?

MS. CANDACE GRAMMOND: I think what he was requesting was that -- that his ideas were put on the record in an -- in a fashion that was more obvious to the public and local media. So the fact that it's now part of the transcript will certainly make it available on the Board's website.

And my thought, as well, would be that once MPI responds to him and copies the Board, that that document would be a matter of public record, as well.

THE CHAIRPERSON: For the sake of expediency, I wonder if it'd be possible -- is it possible for MPIC to respond before the end of these hearings so that we can hear the response as a panel?

MS. MARILYN MCLAREN: I'm not sure. He covered a lot of territory. If not before the close of argument next week, certainly shortly thereafter, I would assume.

THE CHAIRPERSON: Thank you. I would appreciate that.

MS. CANDACE GRAMMOND: Okay. So the third email was received today, October 15th -- or, pardon me, October 15th, 2012, at 10:29 p.m., and it was submitted to the general Public Utilities Board email address. It reads:

"To Public Utilities Board, re: Manitoba Public Insurance rate placement (Driver Safety Rating)."

And it's from Terrence Zimmerly. So it reads:

READ-IN OF MR. TERRENCE ZIMMERLY:

MS. CANDACE GRAMMOND: Issue: In November of 2008, I moved to the province of Manitoba and provided MPI with a driving history and claims history dating back to July of 1995, demonstrating safe driving practice in the Province of Saskatchewan.

In September of 2010, I was placed on the DSR at a plus seven (7). I do not understand this placement. My son, who is now twenty-five (25) years old, moved to the province in 2011 from Ontario, and this year his DSR is at plus eight (8). And mine is only at plus nine (9), and I have driven for thirty-two

(32) years with no accidents and only two (2) traffic citations. My wife has two (2) accidents in thirty-four (34) years of driving and no citations for plus three (3) DSR, five (5) points lower than our son [exclamation point]! This does not make sense.

A parishioner who moved to Manitoba from Calgary in 2010 was given a DSR of plus fifteen (15), he told me. And that is why I decided to inquire last winter from MPI. I was told that the placement on the DSR cannot be reviewed. Further, I was told that because we moved to the province when the system was being set up, we were placed in a different category than our son, who moved later. I do not understand this penalty for having moved to Manitoba earlier than our son. And it seems that the placement is not reflecting accurately safe driving, and the net result is my wife and I are paying more for our insurance.

The MPI representative I discussed the above with said that MPI was powerless to change its policy without directive from the Manitoba Public Utilities Board, which would not meet again until October. Hence, this inquiry and letter more than six (6) months since my last contact with MPI in the spring.

Yesterday I obtained copies of our

driving abstracts from MPI from our insurance broker. [Bracket] (The -- the MPI specialist at our insurance broker was mystified by my rating and simply thought it was a mistake. He told us that my wife's rating could be changed by providing a letter from Saskatchewan of her driving record and claims history. But since I have already done this when we initially moved mine could not be modified so easily [close bracket].)

The issue is my initial placement on the scale was too low, at least three (3) points lower than if I had moved from Saskatchewan two (2) years latter (sic) as the same driver [exclamation point]!

Please look into this matter which may have impacted a number of persons moving to Manitoba between 2007 and 2010. Let me know what ways I can assist in sorting this issue out.

Peace,

Terry Zimmerly

(READ-IN CONCLUDED)

MS. CANDACE GRAMMOND: And there are two (2) phone numbers and an email address reflected, as well.

THE CHAIRPERSON: Thank you. I

appreciate that MPIC can't speak to this particular case, given the confidentiality of the matter. But I do have a question with respect to the statement that the placement -- once -- placement on a DSR cannot be reviewed by MPIC.

Could you -- could you comment on that, please?

MS. MARILYN MCLAREN: I wish I didn't have to. Of course, anyone that has a concern about the way they were placed within the system has full opportunity to have it reviewed. So that -- I mean, we -- we don't always communicate exactly as I would like our staff to do at -- either at our counters or on -- in the call centre.

I would also speak to the comment about the same person apparently telling them that, well, there's nothing that MPI can do about it and it's something the PUB would have to deal with in October. That -- that's not a fair representation of the policy. And this is just really an issue of transition, and it's something that we struggled a great deal with as we were bringing forward, the new DSR system.

You have a long-standing system of placing drivers and -- and vehicles according to the discount sale that exists. How do you get everybody into the new system? And often people coming in just at the end of the old system, or just at the beginning of the new system, it -- it can sometimes be a bit awkward.

So we can certainly dig into the circumstances in this case, and we can also, you know, I -- I will have a -- a look. But, I mean, I -- letters that are written to me directly, letters that are written to the -- the Minister that he asks us to prepare responses for, each and every one of those cross my desk before they go out. So I have not had a lot of complaints about the effects of transition into DSR, but we can certainly have a close look at this one.

THE CHAIRPERSON: Thank you very much for that.

MS. CANDACE GRAMMOND: So, Mr. Chairman, just with the proviso that I need to talk to Mr. Cathcart, I don't have any further questions. So perhaps we can have Mr. Williams do his cross follow-up.

THE CHAIRPERSON: Mr. Williams...?

MR. BYRON WILLIAMS: Yes, and the panel, just to assist, if they wanted to have MPI Exhibits 25, 26, and 27 available, and also MPI.

RE-CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. Reichert, probably my first couple questions are to you, directing your attention first of all to MPI 25, which is the Corporation's response to Undertaking 18.

And I -- just to make sure that -- that I have my understanding of it correct, essentially what this response tells us is, first of all, we can agree that the 2011/'12 corporate budget guideline for normal operations was 223.6 million, correct?

MS. HEATHER REICHERT: Yes, that is what that says.

MR. BYRON WILLIAMS: And then the actual approved budget which would have taken place at some point later in time for 2011/'12 was about 3 million higher -- $3 million higher, at 226.9 million, correct?

MS. HEATHER REICHERT: Again, yes, that is what -- what that line says.

MR. BYRON WILLIAMS: So in -- in that particular year, the approved budget was somewhat higher by about 1.5 percent than the guidelines, correct?

MS. HEATHER REICHERT: Yes, that appears to be the case.

MR. BYRON WILLIAMS: And if we just flip to MPI 26, we can see as well that the initial corporate budget guideline was in the range of 250 million, agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And that the approved corporate normal operations budget, which came a bit later, was around $4 1/2 million higher, agreed?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: So again, in -- in this particular year, the -- the approved budget was somewhat higher than the budgetary guideline, correct?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: Now, Mr. Johnston, I want to direct your attention to the Corporations respo -- response to Undertaking 16 and 17, which is marked as MPI Exhibit 27.

Do you have that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And just -- we'll direct your attention to the third page, but which is numbered at the bottom, "1."

Do you -- do you see that, Mr. Johnston? The title at the top would be the, "TS Composite and Index, 1956 to March 2012." Do you have that, sir?

MR. LUKE JOHNSTON: Yes, I believe it's number 3 on the top of your handout.

MR. BYRON WILLIAMS: We're actually just working off the exhibit, Mr. Johnston. And I think, just to assist the panel, you might want to make sure you have the exhibit there. Sorry, I didn't mean to trick you.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'm there.

MR. BYRON WILLIAMS: Not that I don't from time to time, Mr. Johnston, but not on this occasion. And -- and to orient ourself to this document, this is, we'll agree, a follow-up to the MPI Exhibit 14 filed earlier in the proceeding?

MR. LUKE JOHNSTON: Yes, that's correct. And it was -- the benefit that I saw in providing it was to -- to show that we're really looking at differences from budget, not in, you know, absolute declines in equities. There's the -- the budget to consider as well.

MR. BYRON WILLIAMS: And just in terms of -- in terms of this document, and then we'll get into a couple of details later. Pages 1 and 2 look at the results of the composite, if we examine the composite index between 1956 and March, of 2012, agreed?

MR. LUKE JOHNSTON: Correct.

MR. BYRON WILLIAMS: And if we flip over, for orientation purposes, to pages 3 and 4, again we're looking at some results flowing from the compos -- composite index, but at a different time period, being 1919 through 1955, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And then -- and then the -- flipping over again to pages 5 and 6, we're looking at a different time period, in terms of the competence -- competence -- in terms of the composite index, being the period from 1919 through to March 2012, agreed?

MR. LUKE JOHNSTON: Agreed. This -- this portion wasn't requested, but we -- we added it for completeness.

MR. BYRON WILLIAMS: And, I -- I -- just at the macro level for this document, in essence, it provides, without asking you to elaborate, insight into the sensitivity of your conclusions, depending on the time period examined?

MR. LUKE JOHNSTON: That's right.

There's -- there's been a lot of talk about percentiles and which period to use and how they impact MPI's equity forecast. So this -- this does provide that insight.

MR. BYRON WILLIAMS: And flipping you back to page 1 at the bottom, which is the -- again, the -- the composite index from the 1956 to March 2012 period. Excuse me. If we were -- we were chatting about percentiles.

If we're looking at a one (1) in twenty (20) year event or a 5th percentile event in this particular time period, we're talking about, in terms of a negative -- or, in terms of a four (4) year cumulative return, we're talking about a minus 17 percent, agreed, sir?

MR. LUKE JOHNSTON: Agreed. There's been a -- unfortunately been a couple other numbers presented. This should be all consistent now, but it's about negative seventeen (17).

MR. BYRON WILLIAMS: And in terms of the different numbers, they -- they range in between sixteen (16) and 17 percent.

Directionally, it's not particularly material, sir?

MR. LUKE JOHNSTON: Not at all. Yeah.

MR. BYRON WILLIAMS: Now, if we want to flip over to page 2 of this -- this same exhibit, and again, we're again looking at some results for the composite index '56 to March 2012, sir, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And just for clarity -- and I believe My Friend, Ms. Grammond, clarified this, but just for all of us -- the analysis, without asking you to elaborate, that's presented on this page, is not an apples-to-apples analysis with the decline in equities analysis presented in the DCAT, agreed?

MR. LUKE JOHNSTON: No, it's not. I did not attempt to, you know, run all these different percentiles through the DCAT.

MR. BYRON WILLIAMS: And again, sir, there is a -- one (1) other inter -- Information Request the Corporation has been asked by the PUB, being PUB-2-32, being a 35 percent decline in equities.

Again, this analysis that's presented here on Ex -- MPI Exhibit 27 is not an apples-to-apples analysis, comparable to the response to PUB-2-32, agreed?

MR. LUKE JOHNSTON: Agreed. In -- in terms of order of magnitude, this would most closely align to a situation where the particular decline occurs and there's, again, no -- no management or regulatory action. Of course, the DCAT being run through the financial model will be more detailed than this high-level analysis, but that's generally what it's showing.

MR. BYRON WILLIAMS: And just in terms of no management act -- activity -- and, again, this analysis, sir, relies on a -- an expectation that the Corporation will not adjust its forecast for investment income from equities for -- for any of the years in question, in that it would remain at 6.1 percent, sir?

MR. LUKE JOHNSTON: Yes, that's right. General consensus, to my knowledge, on how to forecast equities is to -- to basically assume independence from prior years' returns. So we, in all likelihood, would continue to forecast about 6 percent, the -- the long-term average that we discuss when we're talking about how we forecast equity returns.

MR. BYRON WILLIAMS: And just so I understand, in -- in terms of the particular scenario, recognizing that it's not a DCAT analysis being presented, sir, but in terms of the particular scenario, the financial results from this scenario are particularly devastating in year 1, agreed?

MR. LUKE JOHNSTON: And just to clarify, the -- the results are devastating for the equity decline scenario?

MR. BYRON WILLIAMS: In terms of the analysis you presented, the real bad year is year 1?

MR. LUKE JOHNSTON: In terms of the -- the DCAT scenario that --

MR. BYRON WILLIAMS: Sir, just so I'm clear, it's not the DCAT. It's -- it's this document here that I'm... I don't -- I didn't want to cut you off, but I just want to make sure that you're...

And my question to you, sir, in terms of page 2 of your -- your analysis, Exhibit 27: Am I correct in suggesting that the -- the material variance between budget and actual, the biggest one is -- is year 1?

MR. LUKE JOHNSTON: I must be struggling with the -- the reference. If you're referencing Exhibit 27, I'm not sure where -- where you're looking at year 1. Maybe you can help me.

MR. BYRON WILLIAMS: Well, just for example, sir, if we were to look up to the top of the page, in terms of the impacts, in terms of your analysis in the fiscal year '08/'09, we'll agree that the -- the material deviation is year 1?

MR. LUKE JOHNSTON: My apologies. I -- yes, the actual results relative to budget in -- in this particular period of time, the first year was the largest impact.

MR. BYRON WILLIAMS: And... And just so I understand, the -- the limited ana -- analytical approach would be to assume that even after that result, there would be no adjustment in your investment income for -- forecast going forward, agreed?

MR. LUKE JOHNSTON: The only adjustment that I would expect, I would -- I would, again, expect that we would use either the minimum equity return that I spoke of. As you know, in the past, we've also applied the equity risk premium.

Similar idea, all those forecasts should be close to 6 percent. And the -- the only extent that -- that would -- it would be impacted significantly is that we have a lower equity balance to which that 6 percent is applied to. So it would be expected to reduce investment income from equities off of the lower base.

MR. BYRON WILLIAMS: And you, of course, in -- in terms of this limited scenario, have adjusted off the lower base, sir?

MR. LUKE JOHNSTON: This is looking at

a beginning equity balance, that being the '13/'14 year, and then saying, How would a cumulative four (4) year decline or a -- sorry, a compounded four (4) year decline or a compounded two (2) year decline, what kind of impact would that produce, given the starting point of the '13/'14 balance, again, relative to budget?

MR. BYRON WILLIAMS: Just so I understand, sir, in -- in year 2, and -- and for the purposes of your calculation, would you adjust the base?

MR. LUKE JOHNSTON: The -- again, the results in the above table are -- are the -- the actual and the budget. That would have been based on the -- whatever we had, whatever info we had at that time, the current base amount, the -- any other ins and outs we've had, in terms of profits and any -- anything really that would affect forecasting of equity returns.

MR. BYRON WILLIAMS: And, Mr. Johnston, just because I do want to understand your methodology, moving from the first-year impact, recognizing that there's been a material downward variance and with a concordant impact on -- on the equ -- equity available, does your analysis take into account an adjusted base?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, I'm -- I'm struggling with the line of questioning. Again, the -- the -- the above table is the reality. It's not -- it's not any kind of scenario I produced. It's -- it is the -- or, the actual in the budget.

And the -- the information in the lower tables to this exhibit, again, are just providing information that percentile impacts, like the ones that you're seeing on this page, if they were applied to '13/'14 balance, that is the approximate impact relative to budget over a four (4) year period.

Clearly, in reality, going forward there's going to be all kinds of other things happening, good or bad, that could affect the -- the balance we have in equities. The -- that's -- I realize that. That's not the point I'm trying to make here.

It's, again, just to show an order of -- of magnitude and, in particular, these three (3) different periods and the type of impacts that are produced by the different percentiles.

MR. BYRON WILLIAMS: Thank you for that helpful answer, sir. Just in terms of the sensitivity to the period analyzed, I wonder if -- if to start with I can ask you to have one (1) -- one (1) finger on page

2 and one (1) finger on page 4. And -- and, Mr. Johnston, not to drag us through too many numbers, but -- so one (1) on page 2 and one (1) on page 4.

And, again, on page 2 we're looking at the consequence of this limited analysis, looking at an index between '56 and 2012, whereas in -- on page 4 we're looking at the magnitude of the impact for the -- a period, a far earlier time, 1919 to 1955.

Do you see that, sir?

MR. LUKE JOHNSTON: Yes. Yes, I do.

MR. BYRON WILLIAMS: And -- and just as -- let's focus on the 5th percentile event based upon this type of analysis. In the -- if we look at the more modern era, the -- the impact that you identify is around 170 million, agreed?

And just for the Board's benefit, we're looking at the four (4) year budgeted compounded return relative to 5th percentile, one (1) in twenty (20) year event, the 5th percentile, 169.598 million.

Agreed, Mr. Johnston?

MR. LUKE JOHNSTON: Yes, for that particular -- I can just state, purely a mathematical exercise, yeah. There's other percentiles -- or pardon me, there's other -- yes, sorry, percentiles there, in particular, the -- the one (1) in forty (40), which has been used for the risk analysis.

MR. BYRON WILLIAMS: We -- we can use either, Mr. Johnston, but just if we flip over to page 4 now, if we were to compare the 5th percentile event to the 5th percentile event for the ear -- earlier time period, the 1919 to 1955, we could agree that for the -- the 5th percentile event in the 1919 to 1955 perserd -- period, we're looking at a negative result over twice the magnitude of the -- the more modern period, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And likewise, sir, if we were to do the same analysis for the one (1) in forty (40), we would be looking at a negative event more than twice the magnitude of the -- the more modern period, agreed?

MR. LUKE JOHNSTON: Agreed. Pardon me, agreed.

MR. BYRON WILLIAMS: And, Mr. Johnston, just now to direct your attention, keeping your finger on page 2 and flipping over to page 6. And -- and we'll just make sure the panel is with us.

Mr. Johnston, again, at page 6, this is an analysis looking at the entire time period running from 1919 to March 2012, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And if, again starting with the 5th percentile event, can we agree that looking at the more modern period versus the entire time period amounts to a $100 million difference, again recognizing the limitations of this analysis?

MR. LUKE JOHNSTON: Yes, and -- and the -- the three (3) separate attachments that you have here really assist in my explanation as to why I selected a -- a negative 40 percent decline. It's pretty clear that I didn't rely on the 1919 to 1956 period. I think that's evident, based on the numbers we've just reviewed.

At the same time, again recognizing that these are just order of magnitude and they haven't been run through DCAT, there is a significant, but not $200 million, impact if I was only to look at the recent period. So as -- as I've previously mentioned, I thought it was important to consider -- give consideration to the earlier period. But I -- I clearly have not picked -- or recommended that we need protection from $380 million impacts, or even, for that matter, the $270 million impact indicated on page 6.

The -- that -- that scenario has been

tempered, again, by management and regulatory action which brings it down to a couple hundred million. I believe that's a -- a good balance between the extremes that you saw in the much earlier period, with the, you know, apparently more stable current period. That's the balance I selected, and that's -- that's the basis of -- of my recommendation.

MR. BYRON WILLIAMS: And -- and just -- we'll follow up on that response in just one second, sir. But just in terms of the one (1) in forty (40) year event, the difference between the modern era and the entire time period is -- is roughly $150 million, sir, agreed?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: It might be one forty-nine (149).

MR. LUKE JOHNSTON: Yeah. No, that -- that one fifty (150) is close enough, yeah. I agree.

MR. BYRON WILLIAMS: Now, sir, just in terms of your evidence that the 40 percentile event somehow reflects the modern era, can I suggest to you, subject to check, that if you analyzed cumulative four (4) year periods, all the data points that you have below the 40 percent decline cumulative four (4) year event, that not one (1) of them occurs in the modern era, defined as post-1956?

MR. LUKE JOHNSTON: Subject to check, I'd accept that. Again, I have previously stated that there -- there definitely are 40 percent declines over a shorter period. And in the DCAT, I've tried to allow for this longer-term recognition of these events, recognizing how losses are real -- or, how declines are realized through the RSR.

Shorter events are also applicable, but I did not model them. We spoke a little bit earlier about other comprehensive income. For example, if -- if I was just to include a certain position at a -- a point in time inclusive of other comprehensive income, we could be in a very significant decline position.

That's not what I'm doing here. I have included a four (4) year time period to allow MPI to, you know, recognize this event over an extended period of time and include appropriate management actions, even though there may actually be very significant impacts to unrealized gains, for example.

MR. BYRON WILLIAMS: Mr. Johnston, I have no doubt that you could come up with scenarios to justify a $200 million RSR. I just want to confirm, for the purposes of -- of my question, your understanding, subject to check -- I'm going to push a little farther than 1956 now.

And I'm going to say -- suggest to you that there was not one (1) event worse than the minus 40 percent selected that took place after Pearl Harbor?

MR. LUKE JOHNSTON: As a purely factual statement, a four (4) year compounded return, I believe that to be the case, as per the -- the various returns that we went through previously with Mr. Williams.

MR. BYRON WILLIAMS: Mr. Chairman, I -- I do thank the panel for their consideration and MPI for their assistance, as well.

THE CHAIRPERSON: Thank you. I have a few more questions to ask in relation to the DCAT. I hope you'll forgive me for extending the question period a little bit longer. But I do want to understand it a little bit better, particularly understand how it's going to behave going forward.

So all things being equal -- and correct me if I'm wrong. All things being equal, as your book of business grows and your portfolio increases over time, assuming that the percentage of stocks remains roughly the same on a percentage basis, what happens to the DCAT?

MR. LUKE JOHNSTON: Well, for equities you -- you would expect, all things equal, a larger equity balance would -- would indicate a potential for a larger and absolute dollars decline.

The -- we've had a lot of debate here about what the most appropriate equity scenario is. But regardless of what is selected, if it's maintained consistently, you wouldn't expect the fundamentals of that scenario to change, given the long history that we have.

If that's the type of scenario that is run consistently going forward, barring a significant change in your equity allocation, you should get a fairly consistent number growing approximately in proportion to the size of the -- the portfolio.

THE CHAIRPERSON: Okay. So I guess one of the consequences of the data set that you've selected is we're stuck with it, basically, because unless there's another event that exceeds 40-plus percent, that data set will stay with us for an extended period of time?

And I don't see it dropping off in the near future.

MR. LUKE JOHNSTON: Again, yeah, as -- as we've discussed, there -- there's different opinions on which period to be used. The one I've used does incorporate the whole -- the whole history. And it would be -- yeah, like adding one (1) year to basically a hundred years of information would have a significant effect on -- on the percentiles.

They're -- of course, we're always looking at market conditions and the ri -- all the risks of the Corporation, and that -- those types of things would always be considered. But, yeah, we do know that equities in the la -- in the recent period or the period before that are very volatile, and -- and they'll continue to be.

THE CHAIRPERSON: So, in effect, assuming that our -- the equity portion of the portfolio remains the same, we're a bit of a -- we're getting on a bit of treadmill, in terms of rate increases here because, you know, you -- your -- the DCAT formula will require us to have increasing reserves.

And we will need to be generating some additional revenues to keep up with the DCAT changes.

MR. LUKE JOHNSTON: That's true if -- again, if equity balances are growing. We're currently using a percentage of premium base method, and that's also going to be true of that method, that the RSR, if left unchanged, would grow with our -- our premium base.

And I -- I think it -- it makes absolute sense that that RSR should grow as our -- as our risk level grows, be it claim liabilities or increased equity balances.

MS. MARILYN MCLAREN: And just to reiterate something we talked about quite a few days ago now is the fact that unlike -- and I know Mr. Christie spoke to this in prior years -- unlike any other insurance company he could think of at the time is our -- our risk is all in the balance sheet, and our liabilities are so far in excess of our annual premium that it's -- it's absolutely a natural expectation that -- that there would be this need for some period of time. It won't go on forever.

But, you know, insurance companies that have more of their -- their revenue is -- is shared among different lines of business in -- in a more corporate fashion, and companies that are not solely automobile, companies that are not pure no fault, where they don't close claims and -- and pay those claims over many, many, many years. Those are all very different scenarios where the risk would be a little -- a lot more balanced between income statement and balance sheet.

We are an anomaly in the insurance business because of these things. And it's -- it's -- we need to protect ourselves against this balance sheet risk that does -- will continue to grow for some period of time - not forever. But we need to be able to reflect that, and that's what, you know, one of the things that the DCAT does very well for us.

So that's where the risk it. The risk isn't on hail storms. The risk isn't in normal operations. The risk is in changing expectations about what those existing liabilities, and therefore some future liabilities as well, are -- are going to do.

THE CHAIRPERSON: That's all the questions I have. So I think we are -- we have completed the business for today. And is there anything else that...

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Mr. Cathcart has some additional questions that he would like me to ask, and these relate to the discussion that we've been having with respect to Exhibit 27, Undertakings 16 and 17.

RE-CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: So, Mr. Johnston, you've talked about the -- the number of -- the 269 million that's reflected in the two (2) year -- sorry, on page 6, Attachment C, the 269 million that we see under the heading of, "Four (4) Year Budgeted Compounded Return," and that that figure, as we see at the -- the top of Attachment C relates to the combined period from 1919 to 2012.

Can you confirm that in the DCAT there would be some assumed action by management at play and that that would take the DCAT target point down to 200 million?

MR. LUKE JOHNSTON: Yes, absolutely. Again, the intent here was more to put some magnitude around all of the percentiles we're talking about and how it relates to the budget, et cetera.

A -- a fairly easy way to -- to look at this particular event is if we're assuming, say, 25 to $30 million of equity, investment income per year, I basically assumed that after the -- the second year, we were going to start having some management action and those last two (2) years wouldn't be applicable.

MS. CANDACE GRAMMOND: Now, Mr. Johnston, if we look at Attachment A, page 2, which I know you spoke about with Mr. Williams, we see -- and this is of course the post-1956 period -- we see under the heading, "Two (2) Year Budgeted Compound Return," the reference to the one (1) in twenty (20) year event and the -- about the 145.5 million there.

Now, would we assume in that scenario that there would still be some type of action taken by management, such that perhaps the DCAT target point should actually be lower than 145 million?

MR. LUKE JOHNSTON: Again, one of the -- one of the reasons I looked at four (4) year periods was, as we've discussed, quick recoveries in the stock market likely wouldn't generate any kind of a surcharge requirement. Even if the single-year event is substantial, if we recover quickly thereafter, that's not really a -- a significant concern. It's the loss of -- that -- the budgeted investment income and the sustained decline over a longer period.

This -- this particular example is showing the -- the 5th percentile one (1) in twenty (20) year. Again, it's... That there, of course, are a full spectrum of different equity scenarios that could be considered. There's a bunch in this report.

I am looking at a scenario that, of course, is plausible and the most adverse. I did speak earlier about perhaps including a -- a wider range of outcomes in future DCATs, show the Board one (1) year, two (2) year, three (3) year, four (4) year impacts. But, yeah, my belief again is the -- the four (4) year is the -- the most relevant period, because it's a sustained decline.

MS. CANDACE GRAMMOND: So, okay, if we look then at the four (4) year number on the same page, the one (1) in twenty (20) year event is the hundred and sixty-nine (169) or 170 million.

Same question: Wouldn't it be the case that when one takes into account action by management, the -- the DCAT target point in that scenario would actually be less than the number shown?

MR. LUKE JOHNSTON: Yes, and again the -- if we are -- if we were to decide internally, and here, that 1956 to 2012 is the relevant period for equity risk, then of course I would get a -- a different number. And I'd get a lower number because of -- of the reasons we've discussed in this exhibit. The -- the percentiles are clearly lower. And my recommendation is to not solely rely on that period but to include and at least give some weight to pre-1956 periods.

MS. CANDACE GRAMMOND: And I take it,

Mr. Johnston, that you have not run a DCAT that excludes the pre-1956 data?

MR. LUKE JOHNSTON: I haven't run a -- a particular scenario using this data set, but you do have the -- the order of magnitude impacts in here. It would be reasonable to assume that if a four (4) year scenario has an impact of 270 million and that gets -- turns into 200 million after you assume management action, that you would expect a -- a somewhat proportional adjustment for a four (4) year scenario with a -- a similar decline and similar management action.

MS. CANDACE GRAMMOND: One (1) last question. What is the position of the Corporation with respect to whether the Board should be setting rates and the RSR target range, including reference to AOCI, or accumulated other comprehensive income?

MR. LUKE JOHNSTON: We -- it's def -- it's definitely a consideration. And it's an important piece to look at when you're deciding on whether to -- to rebate or surcharge. I spoke earlier about that single-year decline. And I don't think anyone needs evidence here to see that a 30 or 40 percent single-year decline is -- has occurred in the -- in the recent past.

If -- I don't believe it'd be prudent to think that because we have -- you know, we lose $60 million through net income and we have a significant negative AOCI, that we're thinking about surcharging at that point in time.

So the -- the DCAT is tied again to the purpose of the RSR, the RSR balance and, again, recognizing how that is -- is recognized in -- in profit and loss. But again, I -- it definitely should be a consideration when de -- deciding on rebates and surcharges if there is, for example, a very significant or very negative AOCI balance.

MS. CANDACE GRAMMOND: Thank you, Mr. Chairman. Those are my questions.

THE CHAIRPERSON: Ms. Kalinowsky...?

MS. KATHY KALINOWSKY: Sure. I just have one (1) item that I'd like to bring forward at this time, in that we are expecting later today hopefully to be able to file the peer review with respect to the DCAT from Mr. Joe Cheng, the external appointed actuary.

And I -- the hearing is closing right now so, unfortunately, we don't have a final copy of it, but we should by the end of today. So I will be sending that out by email to the different parties. If there is a need for -- I assume Mr. Johnston will speak to it on Thursday morning, when we next convene, in advance of Professor Simpson's testimony.

And at that time, should there be any cross-examination, that we're certainly ready to have the panel come forward at that point.

THE CHAIRPERSON: Thank you very much for that. So unless there's some other business that we need to conduct before we adjourn, I will adjourn these proceedings until next Thursday morning at 9:30.

MS. CANDACE GRAMMOND: This Thursday, I guess, two (2) days from now.

THE CHAIRPERSON: Right. Yes. What did I say?

MS. CANDACE GRAMMOND: You said, "next Thursday," which would -- to me, would indicate a week from this Thursday. So I just want to be clear about that. The only other thing I would say for the record is just we know that CAA doesn't have any questions on cross-examination.

We haven't had a representative from IBAM attend, so I would just state that for the record that we, therefore, assume that there's no cross for -- from anyone at IBAM.

(PANEL STANDS DOWN)

THE CHAIRPERSON: Thank you for that. So we're adjourned until this coming Thursday at 9:30 in the morning. Thank you.

--- Upon adjourning at 1:15 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.

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