



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re :

PUBLIC HEARING

RE: MANITOBA PUBLIC INSURANCE

GENERAL RATE APPLICATION

FOR THE 2013/14 INSURANCE YEAR

Before Board Panel:

Regis Gosselin - Board Chairman

Karen Botting - Board Member

Anita Neville - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 16, 2012

Pages 1201 to 1352

1 APPEARANCES

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3

4 Kathy Kalinowsky) MPI

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6 Byron Williams) CAC

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8 Raymond Oakes) CMMG

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10 Liz Peters) CAA

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

2

3 THE CHAIRPERSON: Good morning to
4 everyone. I believe that we're ready to start. It is
5 9:30. I wonder if there are some documents to
6 acknowledge.

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

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

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

21

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

23

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

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

2

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

5

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

7

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

10

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

12

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

15

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

17

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

20

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

22

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

25

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

2

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

5

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

7

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

10

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

12

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

17

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

20

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

24

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

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

4

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

7

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

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

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

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

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

25 MS. KATHY KALINOWSKY: And with that,

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

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

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

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

23 Method 2 is the evidence presented about
24 removing this tail factor. We've restated those
25 numbers. If -- if the CAC exhibit was to remove this

1 higher of method I suspect that we would be fairly
2 close to this 57 million negative.

3 And then finally method 3 I was asked
4 during cross to approximate approximately how much that
5 57 million would be impacted if we only partially
6 removed the tail factor. I said it's probably
7 reasonable to be about 35 million. When I restated the
8 numbers, I -- I came up with a different answer and
9 that's the -- the thirteen (13) -- negative 13 million
10 there.

11

12 (BRIEF PAUSE)

13

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

19 Unfortunately he's not here, so the case
20 managers at some point will be returning to their -- to
21 the office and to their normal work. But should Mr.
22 Delaurier do -- show up today or next day in the
23 hearing, I do have their phone numbers and they would
24 be able to attend immediately and meet with him. So I
25 just wanted to put that on the record and advise that

1 we have taken his concerns very seriously. Thank you.

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

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

8

9 (BRIEF PAUSE)

10

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

13 MR. RAYMOND OAKES: Certainly, Mr.
14 Chairman.

15

16 MPI PANEL:

17 MARILYN MCLAREN, Resumed

18 HEATHER REICHERT, Resumed

19 LUKE JOHNSTON, Resumed

20

21 CROSS-EXAMINATION BY MR. RAYMOND OAKES:

22 MR. RAYMOND OAKES: The first questions
23 on behalf of the CMMG relate to the reason -- the main
24 reason for the intervention dealing with premium
25 increases. I wonder if the Corporation's witnesses

1 could -- and the Board could find CMMG-2-8 to review
2 the premium changes over the last ten (10) years.

3

4

(BRIEF PAUSE)

5

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

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

16 MR. RAYMOND OAKES: And just for terms
17 of specifying the actual premium revenue increase, in
18 2003/'04, we see that there's five million two hundred
19 and sixty-three thousand five hundred and ninety-nine
20 dollars (\$5,263,599) in premium. And that's risen in
21 2013/'14, to eleven million eight hundred and eighty-
22 four thousand seven hundred and twenty-eight
23 (11,884,728).

24 Do you see that, sir?

25 MR. LUKE JOHNSTON: Yes, I do.

1 MR. RAYMOND OAKES: And if I might ask
2 you to change to a different reference at this point,
3 and it would be the start of the CMMG interrogatories
4 1-1. And then dealing with the most recent year that
5 we have data displayed for. In 2011, the Corporation
6 has collected total premium of twelve million eight
7 hundred and seventeen thousand four hundred and thirty-
8 four (12,817,434). Do you see that, sir?

9 MR. LUKE JOHNSTON: Yes, I do.

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

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

21 MR. RAYMOND OAKES: And then if we
22 could go to the top of that table, you'd have the same
23 conclusion, I guess, in 2004, where there was actual
24 premium collected of six million five hundred and
25 ninety-seven thousand eight hundred and nineteen

1 dollars (\$6,597,819), but the actual losses were again
2 half of that at three million three hundred and fifty-
3 nine thousand nine hundred and ninety-four (3,359,994).

4 Do you see that, sir?

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

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

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

25 MR. RAYMOND OAKES: Would you agree

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

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

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

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

22 MR. RAYMOND OAKES: Mr. Johnston, the
23 belief of the motorcycles is that given the changes to
24 the methodology that these numbers are proof that
25 motorcyclists were overcharged relating to the years

1 when the tail factor methodology was different than
2 selected now by the Corporation.

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

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

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

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

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

1 billion in investments.

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

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

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

7

8 (BRIEF PAUSE)

9

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

12 MR. RAYMOND OAKES: And without going
13 too far afield and having any -- any scraps over
14 jurisdiction, I understand that the Extension division
15 has about another 15 percent of those funds, so roughly
16 total Extension and Basic would be somewhere around
17 \$2.2 billion dollars.

18 Would that be correct?

19

20 (BRIEF PAUSE)

21

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

1 investment assets.

2 MR. RAYMOND OAKES: Well, Ms. Reichert,
3 you and I had talked this morning and I indicated I was
4 going to ask some questions generally in this area.
5 The reference I have in front of me is the quarterly
6 financial report for the first quarter ended May 31st,
7 2012. It was filed as part of A.18 in early August.

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

12 Do you have that reference?

13 MS. HEATHER REICHERT: Yes, I do.

14

15 (BRIEF PAUSE)

16

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

22 MS. HEATHER REICHERT: Asset and
23 liability, yes.

24 MR. RAYMOND OAKES: Okay. And would
25 you confirm for me that the investment property over

1 and above the \$2.2 mil -- billion that we spoke about,
2 but in addition to those sums the Corporation also has
3 hard assets like investment property of a hundred and
4 ninety-six million six hundred and sixty-one thousand
5 dollars (\$196,661,000). Can you confirm that?

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

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

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

23 MR. RAYMOND OAKES: I agree. So the
24 Corporation has 2.2 billion in overall investments, and
25 then it has some hard assets including property and

1 equipment of one hundred and twenty-two million nine
2 hundred and eighty-three thousand dollars
3 (\$122,983,000). Is that correct?

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

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

11 MS. HEATHER REICHERT: No, we do not.

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

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

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

23 MS. HEATHER REICHERT: Actually, yes.
24 You wouldn't actually need to guess. The equity, which
25 is the assets less the liabilities that we have on the

1 balance sheet, our equity position at the bottom of
2 this page shows 427 million and change.

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

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

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

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

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

25

1 (BRIEF PAUSE)

2

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

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

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

24 MS. MARILYN MCLAREN: No. Based on our
25 DCAT, that is the best tool we have to really assess

1 the risk to the insurance fund. And hail scored pretty
2 low. You know, we buy insure -- reinsurance for a lot
3 of the hail. We are exposed. We would be paying any -
4 - any hail claims that went up above \$300 million.
5 That -- that is fairly rare. Certainly something of
6 that size and magnitude has never happened in Manitoba
7 yet.

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

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

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

22 MS. MARILYN MCLAREN: Well, there --
23 there's reinsurance sort of on a -- on a claim or
24 incident basis for sure. We do not have reinsurance
25 that if, for example, for some unanticipated reason, we

1 had far, far more serious injury claims in a given
2 year, what the reinsurance provides is coverage in a
3 major multiple catastrophic injury situation, like a
4 bus, a school bus, a multi-vehicle incident where there
5 was many, many catastrophic injuries resulting from
6 that one (1) incident.

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

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

19

20 (BRIEF PAUSE)

21

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

25 MR. RAYMOND OAKES: Now, Ms. McLaren,

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

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

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

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

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

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

22 MS. MARILYN MCLAREN: Investment
23 decisions are made largely by the Assistant Deputy
24 Minister on a best judgment basis on an ongoing basis
25 throughout -- throughout the years, and on different

1 aspects of the fund. When it comes to equities, the
2 Assistant Deputy Minister enters into contracts with,
3 you know, equity managers that are -- that are out
4 there in the marketplace doing that work.

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

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

24 And the Department of Finance does the
25 best it can, and as -- again, as we've shared here

1 through the years, have done very well on behalf of the
2 MPI fund. Better than -- better than average, more
3 times than not.

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

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

16 MR. LUKE JOHNSTON: I'm there.

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

21 Is that correct, sir?

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

24 MR. RAYMOND OAKES: And the first of
25 those is the financial forecasting, the second the

1 exponential method, and the linear method is the third.

2 So far, so good?

3 MR. LUKE JOHNSTON: So far, so good.

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

10 Is that correct, sir?

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

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

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

1 PIPP costs over the last decade.

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

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

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

22

23 (BRIEF PAUSE)

24

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

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

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

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

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

24 MS. MARILYN MCLAREN: If I recall what
25 Mr. Houghton was speaking about was sort of a

1 combination of a flat PIPP rate moved onto the driver
2 licence off of the vehicle premiums.

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

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

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

25 In my view, if there was any sort of

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

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

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

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

24 MS. MARILYN MCLAREN: Well, but if you
25 think about what we do today, we use four (4) factors,

1 and driving record is one (1) of them. I think you'd
2 have to look at that on the driver's side of the
3 equation, as well. I mean, would we have to -- we
4 would -- clearly, given what we know on the vehicle
5 premium side of things that we've developed for the
6 years, you would have to charge a higher driver licence
7 premium to somebody with a motorcycle licence than with
8 someone with just a private passenger licence based on
9 the losses. You -- you'd have to do that.

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

17 And if you simply, you know, just sort
18 of put the discussion in a different context, if what
19 we're talking about is flat rating -- let's just talk
20 about it on the vehicle side of things for a minute --
21 you know, I mean, basically, we need about \$800
22 million. There is about eight hundred thousand
23 (800,000) vehicles; let's just get everybody do pay a
24 thousand dollars each, you know. You'd have owners of
25 really, really high-end vehicles and taxis dancing in

1 the streets. And people with lower -- you know, lower
2 end vehicles, trailers, for example, or -- or even
3 other, you know, mopeds would be marching on the
4 legislature.

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

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

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

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

23 MR. RAYMOND OAKES: And you'll agree
24 with me that each licensed driver contributes to the
25 Corporation's exposure every time that they exercise

1 their privilege to drive?

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

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

21 Do you recall that?

22 MS. MARILYN MCLAREN: Sure. But, I
23 mean, that's not at all the conversation we're having
24 in terms of premiums on drivers or premiums on
25 vehicles. And if -- if that reference speaks to the

1 fact that some vehicles don't pay premiums we
2 understand what those reasons are, and they are by
3 statute. It's not something that's discretionary.

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

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

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

21 MR. RAYMOND OAKES: Well, we'll attempt
22 to bring it back to that, if you -- in a few moments.
23 CMMG-2-11 and 2-12 related to the experience, 2011
24 there were twelve thousand six hundred and eighty-eight
25 (12,688) PIPP claimants, for a total of one hundred and

1 thirty-nine million eight hundred and three and ninety-
2 nine (139,803,099).

3 Drivers without a registered vehicle
4 account for three thousand one hundred and ninety-two
5 (3,192), or 27 percent of those claims in 2011. And
6 that was the response in CMMG-2-12. In addition,
7 unlicensed non vehicle owners account for six hundred
8 and ninety-three (693) claims in 2011, or another 6
9 percent of these total vehicle claims.

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

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

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

1 are for non contributors.

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

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

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

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

1 insured vehicle and have the premium paid for that
2 vehicle, is an important principle.

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

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

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

25 If anyone -- if every one of those

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

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

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

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

24 MS. MARILYN MCLAREN: Yes.

25 MR. RAYMOND OAKES: And with respect to

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

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

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

23 Manitobans fundamentally believe that
24 those who cause crashes should pay more than those who
25 don't. And the fact that it happens to a significant

1 extent now on the driver's licence is something that I
2 -- that, you know, through the PUB process, we've all
3 worked hard to achieve. And -- and I believe it's
4 working as intended.

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

11

12 (BRIEF PAUSE)

13

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

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

20 MR. RAYMOND OAKES: And the IR has
21 indicated that the road safety budget for motorcycle
22 initiatives was a hundred and eighty-five thousand
23 (\$185,000) out of the \$13.8 million spent from the
24 Basic program.

25 Can you confirm that?

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

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

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

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

1 Road safety is often the key topic.

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

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

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

21 Is that correct?

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

1 motorcycles.

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

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

10 Is that correct?

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

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

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

1 that same decade?

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

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

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

24 It's not easy to come up with good
25 pragmatic road safety initiatives that we believe have

1 a reasonable value for the money spent. It's true
2 across the board. You know, something else that we
3 have significantly, in the last year or two (2), we
4 have, I think, in almost every jurisdiction within the
5 province doubled the amount we're spending on the
6 roadside Checkstop Programs. Again, applies to all
7 vehicles, motorcycles included.

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

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

20 But it's -- like the conversation I had
21 with Mr. Williams in terms of road safety in the
22 broader sense, we have to be prudent because there's no
23 limit to how much you can spend on road safety. And
24 there is no limit to what might be good ideas
25 conceptually but you have no basis at all to figure out

1 whether there's any kind of value that are -- is likely
2 to be gained from it.

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

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

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

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

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

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

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

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

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

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

14

15 (BRIEF PAUSE)

16

17 MR. RAYMOND OAKES: And the -- the
18 Corporation was good enough in pre-ask 2 to talk about
19 calculations for the Whiteshell, that particular area,
20 in Highway 1. And one (1) of the initiatives that the
21 CMMG has been pressing for in re -- in response to the
22 \$30 million wildlife collision problem that we have in
23 Manitoba is wildlife fencing. Are you familiar with
24 our questions in that area?

25 MS. MARILYN MCLAREN: Yes, I am.

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

7 Do you see that in pre-ask 2?

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

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

20 Are you able to respond to that?

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

23

24

(BRIEF PAUSE)

25

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

6 I think it's important to note that this
7 19 kilometre stretch that is being discussed here
8 accounts for a quarter of a million dollars out of 30
9 million, right, which is what, a tiny, tiny portion.
10 And I think given that it's a fairly short stretch,
11 given the fact that there are -- you know, there -- I'm
12 just thinking about that highway, there's at least, you
13 know, one (1) roadway that runs under the highway at a
14 certain point.

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

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

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

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

22 Do you recall that?

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

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

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

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

22 So I'm not sure what the argument -- I
23 mean, if there was something -- if there was amp --
24 some -- some proven technology that came forward that
25 could be installed on vehicles that would somehow

1 entice the deer to get off the roads and stay in the
2 ditches, that might be something that would make sense
3 to fund, because it would have -- it would be helpful
4 wherever this happened. But to look to fencing when
5 you have such a diffused problem doesn't make any sense
6 to me in terms of a particular payback formula for a
7 tiny little stretch of highway in the province.

8 MR. RAYMOND OAKES: Just for the
9 benefit of the Board, I think that map is already
10 contained in the PUB-1-67(a), the attachment with the
11 Wildlife Collision Reduction Pilot Intervention 2011.
12 So I think that deer vehicle crash, the map for 2006 to
13 2009, is already there.

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

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

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

24 MS. MARILYN MCLAREN: No, I have not.

25 MR. RAYMOND OAKES: If I can refer you

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

4 MS. MARILYN MCLAREN: I have it.

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

11 Do you see that?

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

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

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

24 MR. RAYMOND OAKES: Well, would the
25 Corporation confirm that it has not yet tried any

1 initiatives in this area in rural areas?

2 Is that correct?

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

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

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

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

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

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

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

23 MR. RAYMOND OAKES: And CMMG 1-11
24 talked about wildlife allocation of losses. And 91
25 percent of the deer collision or wildlife collision

1 losses originated in rural areas.

2 So I wonder if you can confirm that?

3 MS. MARILYN MCLAREN: What was the
4 reference again?

5 MR. RAYMOND OAKES: CMMG 1-11.

6

7 (BRIEF PAUSE)

8

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

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

15 MS. MARILYN MCLAREN: That's right.

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

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

24 Okay. I just want to clarify, per the
25 amended DCAT report, the target RSR, if we go along

1 with the proposed DCAT meth -- methodology is \$200
2 million. And in the 2011 annual report, page 39, the
3 target DCAT there is mentioned as 210 million.

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

9 MR. LUKE JOHNSTON: Yes, that's
10 correct. The -- the current DCAT at the time of the
11 financial report was a target of two ten (210). The
12 DCAT indication has fluctuated, from I believe about
13 185 million to a maximum of 210 million, depending on
14 various items such as our -- our forecasted equity
15 balances as a good example.

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

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

21 THE CHAIRPERSON: Now, this is a
22 question for Ms. McLaren. Now page -- per page 31 of
23 the 2011 Annual Report, assuming that PUB agrees to the
24 proposed DCAT methodology, MPIC will have achieved all
25 of its ROE and equity target levels. Now, if you look

1 at page 31 there's a system of -- of metres there that
2 show where you are with respect to your targeted DSR
3 and equity levels. I'm looking at -- specifically
4 mentioning the graphs there.

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

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

22 MS. MARILYN MCLAREN: The -- the
23 competitive lines of business, the Extension and SRE,
24 that's -- that's true, Extension in particular is
25 higher than its target. I think that may also include

1 the Extension Development Fund on that gauge as well
2 though, which is sort of targeted retained earnings at
3 this point.

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

10

11 (BRIEF PAUSE)

12

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

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

1 significant amount of excess retained earnings?

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

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

25 And I can tell you, if I do it that way,

1 on sort of that individual line, the SRE line of
2 business is the smallest insurance line of business and
3 can have some more -- "volatile" is a strong word,
4 because it's not been volatile through the years -- but
5 it is very subject to individually huge losses because
6 of the nature of its business, insuring long-haul
7 trucking fleets and things like that.

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

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

23 THE CHAIRPERSON: Now, if you look at
24 page 46 of the annual report, there's a statement of
25 changes in equity there. Now, if I remove the portion

1 that's related to the comprehensive income, which is
2 approximately 60 million, and I can kind of think of
3 that as being pretty soft because of changes in
4 valuations and so on, but if you look at that, you
5 know, I'm summing -- I'm seeing 200 million for the
6 RSR, 35 million for the Extension, 37 million as being
7 the target for the SRE. I'm getting a total of 282
8 million.

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

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

22

23 (BRIEF PAUSE)

24

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

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

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

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

23 So 212 million of retained earnings
24 currently for the Basic line of business, of which the
25 Corporation is recommending two hundred (200) is

1 required for the RSR.

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

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

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

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

24 MS. MARILYN MCLAREN: The -- the best
25 answer I can give to that is we don't think about it

1 corporately. As -- and as I said, I mean, the one (1)
2 that would appear from the look -- you know, from the
3 annual report that we talked about, Extension is the
4 one (1) that has more, more than it needs. And the
5 Board of Directors has some responsibility to consider
6 its strategies with respect to that issue, absolutely.

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

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

1 Extension customers.

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

19 But it really doesn't work for the
20 responsibilities that we have at MPI to deal with these
21 four (4) different lines of business that we work with
22 to think corporately. If there ever was a decision to
23 rebate excess retained earnings in the competitive
24 lines they would probably go to the ratepayers in those
25 lines. If there was ever a time when there was excess

1 retained earnings there and Basic was in dire straits,
2 I'm sure the Board of Directors would think again, as
3 it has in the past, think about, you know, assisting,
4 transferring, if one (1) was in a better position than
5 another.

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

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

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

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

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

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

14 MS. KATHY KALINOWSKY: If I --

15 THE CHAIRPERSON: -- line of
16 questioning.

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

23 THE CHAIRPERSON: Okay. Thank you.

24

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

1 results

2

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

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

5

6 THE CHAIRPERSON: Thanks. Ms. Kal --

7 Kalinowsky...?

8 MS. KATHY KALINOWSKY: Sure, now that

9 we're ready to resume the proceedings with respect to
10 the cross-examination on the undertakings, Mr. Johnston
11 would like to address a couple of the undertakings
12 right now in advance of the cross-examination, just
13 clarify and highlight some areas for the panel members
14 and the Intervenors and the Board. Thanks.

15 THE CHAIRPERSON: Please go ahead.

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

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

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

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

3 THE CHAIRPERSON: Okay. Yeah, yeah.

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: Yeah, okay.

8

9 (BRIEF PAUSE)

10

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

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

23 We do update the interest rates at each
24 review per our Asset Liability Management Program. If
25 we didn't make any of these updates, we could

1 potentially have a massive adjustment come October. So
2 we update those monthly.

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

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

17 We have now fixed that issue in the
18 system, and reserves are getting posted at more
19 reasonable levels. I'm basically just reversing. As
20 they take out the excess reserves, I'm reversing my
21 adjustment. The -- the 4.9 million at -- as of April
22 30th, we did indicate some -- some adverse experience
23 in the current year of 4.9 million.

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

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

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

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

20 For now, again, I'm leaving the -- the
21 original estimates that we made the same, basically
22 just ensuring that our budget stays identical. So we
23 have budgeted for decreases and putting them back in.
24 Moving now to Exhibit 27, that is Undertaking 16 and
25 17.

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

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

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

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

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

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

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

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

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

24 Now, is that reflecting, for example,
25 looking at the Extension retained earnings has gone up

1 even more than what's in the financial statement for
2 the year end. So is that just a reflection of the --
3 the variation in the income for the period?

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

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

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

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

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

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

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

6 MS. CANDACE GRAMMOND: Thank you.

7

8 RE-CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

9 MS. CANDACE GRAMMOND: Mr. Johnston,
10 you were speaking a moment ago about Undertaking number
11 3, which is Exhibit 18 -- or sorry, Exhibit 19. And
12 you -- you elaborated a little bit on what we see the
13 Corporation having said in that exhibit. And -- and we
14 appreciate that.

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

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

1 MS. CANDACE GRAMMOND: Ye -- yeah.
2 What I'm trying to understand is, given that the July
3 31st review obviously affect the current year, the
4 2012/'13 year, can you comment on, in terms of
5 directional impact and perhaps order of magnitude, any
6 effect of that review on what's before the Board?

7

8 (BRIEF PAUSE)

9

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

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

1 forecast.

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

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

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

15

16 (BRIEF PAUSE)

17

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

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

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

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

15

16 (BRIEF PAUSE)

17

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

24 So we're not -- we haven't forecasted
25 here future years claim payments on collision. It's

1 our -- it's our point in time, essentially, if we
2 wrapped up business today this is the -- the runoff of
3 the payments.

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

10

11 (BRIEF PAUSE)

12

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

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

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

24 THE CHAIRPERSON: Can I just ask some
25 more questions about this particular exhibit. And just

1 deep in my understanding, I -- for example, I'm looking
2 at the very first row there, or column rather, and it's
3 showing that the total ILE will -- IL -- pardon me,
4 ILAE will be two hundred and twelve thousand (212,000),
5 and then the fixed income portfolio cashflow will be
6 two hundred and fifty-seven (257).

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

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

13 THE CHAIRPERSON: Okay.

14 MR. LUKE JOHNSTON: Yeah.

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

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

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

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

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

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

25 THE CHAIRPERSON: But the -- but that -

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

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

14 So when you look at 2013, where there
15 was approximately sixty (60) -- 80 million with respect
16 to -- with respect to collision and comprehensive, if
17 you assume that the same level occurs in 2014, then we
18 would have a cash requirement in 2014 of approximately
19 160 million with respect to liabilities, which is very
20 close to what we are at this point estimating to be the
21 payout for the fixed income of 167 million on the very
22 last line.

23 So we try very much, as Mr. Johnston was
24 saying, to match the duration of the payouts for -- for
25 basically, it would be bodily injury is the -- is the

1 longest -- but the duration of our anticipated claim
2 payouts with the duration of our fixed income
3 portfolio, which of course is changing on a -- on a
4 continual basis as we buy and sell bonds through --
5 through the Assistant Deputy Minister in Finance.

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

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

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

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

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

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

24 What I'm getting at is Mr. Johnston
25 said, Well, my -- our exposure is on the equity

1 portfolio; that's where the bulk of our exposure is.

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

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

13

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

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

20 The first is that in our experience,
21 very, very few equity managers hold anything for any
22 length of time. So, you know, that -- the fact that
23 they are turning over the equity portfolios and the
24 accounting rules about having to recognize losses,
25 gains, whatever, when -- you know, when -- when it is

1 turned over like that negates what you're saying about
2 the fact that we don't really need the equities and --
3 and we're not cashing them in to pay claims.

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

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

19 MR. LUKE JOHNSTON: Just -- just to add
20 to -- to that, you're -- you're absolutely right that
21 the claim liabilities are covered, in a sense, by the
22 fi -- fixed income. That's intentional. And that's
23 why, when we talk about interest rate impacts, why it's
24 -- we say in the DCAT report there's some risk of, you
25 know, interest rate impacts, but it's ver -- it's

1 minimal because we've matched these two (2) segments,
2 right.

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

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

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

23

24 CONTINUED BY MS. CANDACE GRAMMOND:

25 MS. CANDACE GRAMMOND: Thank you. Mr.

1 Johnston, you also gave some evidence about Undertaking
2 16 and 17, which are MPI Exhibit 27. I just have some
3 follow-up questions with respect to that exhibit.

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

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

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

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

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

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

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

14 In -- in -- let's just go to the right
15 page here. In Attachment C, which is page 6 of Exhibit
16 27, you'll see that... You'll see that the one (1) in
17 twenty (20) year 5th percentile event is indicating
18 about a \$270 million decline. That's not the DCAT
19 recommendation. And again, that's because, I assume,
20 that we had some management action after two (2) years.

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

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

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

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

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

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

1 going to do, it makes it a more realistic, plausible
2 scenario.

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

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

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

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

21 Okay, I'll ask you then -- and this is
22 probably going to be a Ms. McLaren line of questioning.
23 I'll ask you to go to MPI Exhibit 12, which is the
24 answer that was filed to Undertaking number 9. This
25 was filed when we were sitting before, but we have not

1 yet asked any questions about it. So undertaking 9,
2 MPI Exhibit 12. This is the list of problem
3 intersections.

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

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

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

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

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

25 THE CHAIRPERSON: Will your databa --

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

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

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

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

18 THE CHAIRPERSON: I think that would be
19 fine.

20 MS. MARILYN MCLAREN: Thank you.

21 MS. CANDACE GRAMMOND: Okay, thank you.
22 There actually isn't an undertaking, the -- well, not
23 for this year. What Ms. McLaren has indicated is that
24 when they file the material next year, they will give
25 an indication of what it was that Mr. Chairman asked

1 for. But it won't be forthcoming as an undertaking,
2 per se, in this hearing.

3

4 CONTINUED BY MS. CANDACE GRAMMOND:

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

10

11 (BRIEF PAUSE)

12

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

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

1 do some things at those intersections.

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

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

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

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

25 MS. CANDACE GRAMMOND: Thank you. Mr.

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

9 THE CHAIRPERSON: Let me consult my
10 colleagues.

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

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

16

17 CONTINUED BY MS. CANDACE GRAMMOND:

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

25 MS. MARILYN MCLAREN: We have it.

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

8 MS. HEATHER REICHERT: Correct.

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

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

15 MS. CANDACE GRAMMOND: Thank you. Now,
16 if we look at the first table, which as you've said is
17 the corporate normal expenses, and we look at the first
18 line relating to compensation, and we compare the
19 '10/'11 actual with the '11/'12 actual, we see that
20 number going up from a hundred and fortyish to about
21 154 million.

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

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

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

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

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

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

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

1 another increase as we -- we look across that line.

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

4

5 (BRIEF PAUSE)

6

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

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

20 So to the extent that a particular
21 improvement initiative results in us anticipating
22 incurring licensing cost increases more than an
23 inflationary-based increase, it would increase slightly
24 the percentage of the overall allocation of data
25 processing costs to Basic if the particular improvement

1 initiative is -- is mainly to the benefit of the Basic
2 ratepayers.

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

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

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

1 MS. CANDACE GRAMMOND: Thank you. The
2 next line item I would ask you about is the special
3 services line, which is the third line. We see as we
4 look across this table a dip in current year, the
5 2012/'13 year.

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

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

16 So the only thing that comes to mind for
17 '12/'13 is anticipating proportionately less of those
18 in normal operations for '12/'13. And, again, I'm
19 fairly certain that -- that it is tied into the overall
20 reduction of external operation -- or external labour
21 in '12/'13, offset by anticipating increasing data
22 processing costs. So they -- they're all integrated.

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

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

8 Can you comment on the factors behind
9 that?

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

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

17 MS. MARILYN MCLAREN: The service
18 centres are our -- our largest building expense, for
19 sure. But, I mean, just taking a -- a quick look at
20 the first page where the dollars are, I mean, overall
21 the dollars are coming down a bit in the outlook years,
22 corporately. And there's -- yeah, they're coming down
23 a -- a little bit as well in the Ba -- I mean, there's
24 nothing that comes to mind, right? I mean, it -- it's
25 a tiny difference that we would really have to take as

1 an undertaking and dig into if you thought you needed
2 more specific detail. No undertaking, right?

3 MS. CANDACE GRAMMOND: That -- that's
4 fine. One (1) last question with respect to this
5 table. The telephone telecommunications line, again,
6 we see a -- an increase of about 3 percent from
7 2010/'11 to every subsequent year. And this is in the
8 allocation to Basic.

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

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

21 MS. CANDACE GRAMMOND: Okay. Thank
22 you. I then have some general questions with respect
23 to just getting some evidence from the Corporation on
24 the record about what we were planning to do today.
25 And that was to hear from Mr. Gibson of the Department

1 of Finance. Now, I understand from discussions I've
2 had with MPI counsel that Mr. Gibson was not able to
3 attend today or this hearing.

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

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

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

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

21 Mr. Gibson, as the Assistant Deputy
22 Minister, is absolutely the leader and pulls all
23 functions together. The individuals that report to him
24 have very -- I don't mean this word in a negative way -
25 - but have very siloed responsibilities, and there

1 would be no one available that would be able to speak
2 to the function as a whole.

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

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

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

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

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

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

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

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

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

24

25 CONTINUED BY MS. CANDACE GRAMMOND:

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

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

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

24 MS. CANDACE GRAMMOND: Okay. I do have
25 some questions with respect to the second-quarter

1 report that's now been filed as MPI Exhibit 30. First
2 of all, just a couple of general questions.

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

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

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

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

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

22

23 (BRIEF PAUSE)

24

25 MS. HEATHER REICHERT: Yes, I believe

1 that's -- that's the case.

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

8 Can you comment on what that relates to?

9 MS. HEATHER REICHERT: Yes, I can. On
10 the very last paragraph on page 7, it talks about the
11 6.1 million compared to -- to last year. It's
12 primarily due to compensation increases of 3.2 million
13 and higher pension costs of 1 million.

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

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

20 MS. CANDACE GRAMMOND: Now, we see,
21 still on page 7 in sub paragraph (III), Roman numeral
22 III, a reference to a decline in investment income of
23 27.5 million due mainly to unrealized loss on the fair
24 value through profit or loss bonds.

25 Can you comment on the cause with

1 respect to that decline?

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

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

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

9

10 (BRIEF PAUSE)

11

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

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

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

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

8

9 (BRIEF PAUSE)

10

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

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

21

22 READ-IN OF MR. DAVID GRANT:

23 MS. CANDACE GRAMMOND: Our
24 conversation yesterday was both enjoyable and
25 informative. I offer the following suggestions; I

1 have made these ideas clear to MPI and their NDP
2 masters in recent years, to little apparent effect.

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

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

24 Owner pride in a week-old car will be
25 diminished if it has small hail dents. A five hundred

1 dollar (\$500) car has almost the same utility and value
2 after it suffers a dozen 2-millimetre-deep hail dents.
3 With enough degradation of its finish and many years of
4 small dents, it may be nearly impossible to even find
5 the new hail dents. There is no need to write it off.

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

14 Number 3. On 2010, 10/01
15 -- and this is Candace now talking -- it means October
16 1st, 2010], MPI announced a rule whereby all vehicles
17 would be scrapped if in MPI hands and older than the
18 1995 model year. This is costing MPI millions of
19 dollars per year in auction income. There are many
20 examples of claim centre abuse of process to write off
21 vehicles just to take them off the road as pre-'95
22 vehicles. Scrap the rule and these abuses will stop,
23 too.

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

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

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

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

23 Item 5. The idea that massive damage to
24 a car can be safely repaired in its first few years but
25 that a second claim for minor damage later in its life

1 means it must be scrapped is entirely arbitrary. This
2 is just another technique used by MPI to waste
3 ratepayer money and benefit lobbyists like the auto
4 repair industry. I would ask MPI to provide a clear
5 justification for use -- continuing to use this rule to
6 scrap such lightly damaged cars.

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

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

23 I would like the opportunity to ask the
24 MPI staff at the PUB hearings for responses to these
25 suggestions. I would also like these ideas put on the

1 record in a fashion that will be more obvious to the
2 public and local media. Sincerely, David Grant,
3 engineer.

4

5 (READ-IN CONCLUDED)

6

7 MS. CANDACE GRAMMOND: The second email

8 --

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

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

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

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

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

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

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

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

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

1 THE CHAIRPERSON: Thank you. I would
2 appreciate that.

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

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

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

13

14 READ-IN OF MR. TERRENCE ZIMMERLY:

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

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

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

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

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

25 Yesterday I obtained copies of our

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

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

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

17 Peace,
18 Terry Zimmerly

19
20 (READ-IN CONCLUDED)

21
22 MS. CANDACE GRAMMOND: And there are
23 two (2) phone numbers and an email address reflected,
24 as well.

25 THE CHAIRPERSON: Thank you. I

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

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

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

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

23 You have a long-standing system of
24 placing drivers and -- and vehicles according to the
25 discount sale that exists. How do you get everybody

1 into the new system? And often people coming in just
2 at the end of the old system, or just at the beginning
3 of the new system, it -- it can sometimes be a bit
4 awkward.

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

15 THE CHAIRPERSON: Thank you very much
16 for that.

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

22 THE CHAIRPERSON: Mr. Williams...?

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

1 RE-CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

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

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

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

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

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

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

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

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

5 MS. HEATHER REICHERT: Yes.

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

9 MS. HEATHER REICHERT: Correct.

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

13 MS. HEATHER REICHERT: Correct.

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

18 Do you have that, sir?

19 MR. LUKE JOHNSTON: Yes, I do.

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

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

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

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

8

9 (BRIEF PAUSE)

10

11 MR. LUKE JOHNSTON: I'm there.

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

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

23 MR. BYRON WILLIAMS: And just in terms
24 of -- in terms of this document, and then we'll get
25 into a couple of details later. Pages 1 and 2 look at

1 the results of the composite, if we examine the
2 composite index between 1956 and March, of 2012,
3 agreed?

4 MR. LUKE JOHNSTON: Correct.

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

10 MR. LUKE JOHNSTON: Agreed.

11 MR. BYRON WILLIAMS: And then -- and
12 then the -- flipping over again to pages 5 and 6, we're
13 looking at a different time period, in terms of the
14 competence -- competence -- in terms of the composite
15 index, being the period from 1919 through to March
16 2012, agreed?

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

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

25 MR. LUKE JOHNSTON: That's right.

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

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

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

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

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

23 Directionally, it's not particularly
24 material, sir?

25 MR. LUKE JOHNSTON: Not at all. Yeah.

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

5 MR. LUKE JOHNSTON: Agreed.

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

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

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

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

24 MR. LUKE JOHNSTON: Agreed. In -- in
25 terms of order of magnitude, this would most closely

1 align to a situation where the particular decline
2 occurs and there's, again, no -- no management or
3 regulatory action. Of course, the DCAT being run
4 through the financial model will be more detailed than
5 this high-level analysis, but that's generally what
6 it's showing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25 MR. LUKE JOHNSTON: This is looking at

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

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

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

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

24

25

(BRIEF PAUSE)

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

6 And the -- the information in the lower
7 tables to this exhibit, again, are just providing
8 information that percentile impacts, like the ones that
9 you're seeing on this page, if they were applied to
10 '13/'14 balance, that is the approximate impact
11 relative to budget over a four (4) year period.

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

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

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

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

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

9 Do you see that, sir?

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

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

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

20 Agreed, Mr. Johnston?

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

1 been used for the risk analysis.

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

11 MR. LUKE JOHNSTON: Agreed.

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

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

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

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

1 MR. LUKE JOHNSTON: Agreed.

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

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

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

25 The -- that -- that scenario has been

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

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

14

15 (BRIEF PAUSE)

16

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

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

21 MR. BYRON WILLIAMS: Now, sir, just in
22 terms of your evidence that the 40 percentile event
23 somehow reflects the modern era, can I suggest to you,
24 subject to check, that if you analyzed cumulative four
25 (4) year periods, all the data points that you have

1 below the 40 percent decline cumulative four (4) year
2 event, that not one (1) of them occurs in the modern
3 era, defined as post-1956?

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

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

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

23 MR. BYRON WILLIAMS: Mr. Johnston, I
24 have no doubt that you could come up with scenarios to
25 justify a \$200 million RSR. I just want to confirm,

1 for the purposes of -- of my question, your
2 understanding, subject to check -- I'm going to push a
3 little farther than 1956 now.

4 And I'm going to say -- suggest to you
5 that there was not one (1) event worse than the minus
6 40 percent selected that took place after Pearl Harbor?

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

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

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

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

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

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

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

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

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

24 MR. LUKE JOHNSTON: Again, yeah, as --
25 as we've discussed, there -- there's different opinions

1 on which period to be used. The one I've used does
2 incorporate the whole -- the whole history. And it
3 would be -- yeah, like adding one (1) year to basically
4 a hundred years of information would have a significant
5 effect on -- on the percentiles.

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

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

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

22 MR. LUKE JOHNSTON: That's true if --
23 again, if equity balances are growing. We're currently
24 using a percentage of premium base method, and that's
25 also going to be true of that method, that the RSR, if

1 left unchanged, would grow with our -- our premium
2 base.

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

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

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

1 balance sheet.

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

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

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

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE GRAMMOND: Mr. Cathcart has
22 some additional questions that he would like me to ask,
23 and these relate to the discussion that we've been
24 having with respect to Exhibit 27, Undertakings 16 and
25 17.

1 RE-CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

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

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

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

18 A -- a fairly easy way to -- to look at
19 this particular event is if we're assuming, say, 25 to
20 \$30 million of equity, investment income per year, I
21 basically assumed that after the -- the second year, we
22 were going to start having some management action and
23 those last two (2) years wouldn't be applicable.

24 MS. CANDACE GRAMMOND: Now, Mr.
25 Johnston, if we look at Attachment A, page 2, which I

1 know you spoke about with Mr. Williams, we see -- and
2 this is of course the post-1956 period -- we see under
3 the heading, "Two (2) Year Budgeted Compound Return,"
4 the reference to the one (1) in twenty (20) year event
5 and the -- about the 145.5 million there.

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

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

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

24 I am looking at a scenario that, of
25 course, is plausible and the most adverse. I did speak

1 earlier about perhaps including a -- a wider range of
2 outcomes in future DCATs, show the Board one (1) year,
3 two (2) year, three (3) year, four (4) year impacts.
4 But, yeah, my belief again is the -- the four (4) year
5 is the -- the most relevant period, because it's a
6 sustained decline.

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

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

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

25 MS. CANDACE GRAMMOND: And I take it,

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

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

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

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

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

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

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

15 THE CHAIRPERSON: Ms. Kalinowsky...?

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

22 And I -- the hearing is closing right
23 now so, unfortunately, we don't have a final copy of
24 it, but we should by the end of today. So I will be
25 sending that out by email to the different parties. If

1 there is a need for -- I assume Mr. Johnston will speak
2 to it on Thursday morning, when we next convene, in
3 advance of Professor Simpson's testimony.

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

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

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

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

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

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

25

1 (PANEL STANDS DOWN)

2

3 THE CHAIRPERSON: Thank you for that.

4 So we're adjourned until this coming Thursday at 9:30

5 in the morning. Thank you.

6

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

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11 Certified Correct,

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16 Cheryl Lavigne, Ms.

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