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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 3, 2012

Pages 1019 to 1200

APPEARANCES

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

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--- Upon commencing at 9:28 a.m.

THE CHAIRPERSON: Sorry. If all the parties are ready, we will -- we will start the proceedings for today. Are there any matters to attend to before we resume the cross-examination?

MR. BYRON WILLIAMS: Just one (1), Mr. Chair. There's on additional exhibit for CAC/Manitoba. Can you hear me, Mr. Chairman?

THE CHAIRPERSON: Yes.

MR. BYRON WILLIAMS: Okay. There's one (1) additional exhibit for CAC/Manitoba. It is titled: Excerpts from the record, PUB Order 110/96; and the transcript from the -- and the transcript from the 2012/'13 GRA. And we would suggest it be marked as CAC number 9.

--- EXHIBIT NO. CAC/MANITOBA-9:

Excerpts from the record, PUB Order 110/96; and the transcript from the 2012/'13 GRA

THE CHAIRPERSON: Thank you.

MPI PANEL RESUMED:

MARILYN MCLAREN, Resumed

LUKE JOHNSTON, Resumed

HEATHER REICHERT, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And just for the panel, we are going to be working off of that exhibit for the next thirty (30) minutes to forty (40) minutes. And then a bit later this morning CAC-5, CAC-7, and CAC-8 will be -- will be coming back up. So hopefully they'll be near you on your -- on your table; 5, 7, and 8 are coming a bit later.

Good morning, MPI panel, and Ms. McLaren in particular. Ms. McLaren, just a couple questions for you, and then I -- I think I'll be -- many will be -- for the next little bit will be for Ms. Reichert.

But you'll recall on Monday morning, Ms. -- Ms. McLaren, that you had a discussion -- a bit of a discussion with my Learned Friend, Ms. Everard, about the issue of using premiums written or claims incurred as an allocator with regard to the cost allocation process in Manitoba Public Insurance?

MS. MARILYN MCLAREN: I do.

MR. BYRON WILLIAMS: And while the word "arbitrary" might have popped up partway through that conversation, as I -- I reviewed the notes of that conversation I -- I think that, in terms of this particular issue, you made a statement something to the effect that there are a lot of shades of grey here.

Do you remember that?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And would it be fair to say that when we think of cost allocation, that with -- with respect to many of the individual decisions that must be made in the development of an overall cost allocation methodology, there are often no firm standards or guidelines?

MS. MARILYN MCLAREN: Well, I think there's guidelines and principles, firm standards we -- we think we've all found to be generally lacking, I think.

MR. BYRON WILLIAMS: And so you'll agree with me that notwithstanding the principles and the -- the guidelines, when we get down to the standards there's an element of subjectivity in the cost allocation exercise?

MS. MARILYN MCLAREN: That's fair. And I think it's really important to keep a focus on the -- some of the parts, so to speak. You know, there -- there will be subjectivity at the detailed level, but it really does need to hang together and be appropriate in its entirety.

MR. BYRON WILLIAMS: Thank you for that. Recognizing though that there is potential for subjectivity, you would not disagree with me that reasonable arguments could be made often for and against any particular decision at a detailed level, and that reasonable persons could come to different conclusions, agreed?

MS. MARILYN MCLAREN: That's fair. But I think, you know, in this context that we're talking about specifically, what we've got is two (2) of the, you know, preeminent national accounting firms saying that the case you're talking about, claims incurred is more appropriate.

MR. BYRON WILLIAMS: And I -- I don't really wish to re-travel the ground My Friend, Ms. -- Ms. Everard, did travel with you, but it -- it would also be the case that KPMG has signed off on a -- on the written premiums incurred?

MS. MARILYN MCLAREN: They have.

MR. BYRON WILLIAMS: And I misspoke and I said Ms. Everard in -- instead of Ms. Grammond. I'm dating myself, and my apologies. Turning to Ms. -- Ms. Reichert, and I wanted to have a little bit of a chat about cost allocation.

And you probably know all this stuff by heart, but -- but if not, some of the questions I'm -- I'm asking there are references in CAC Exhibit number 9. So, for example, at page 2 there's a discussion of what Saskatchewan is doing. You've seen it before. So certainly again, if the Board is wishing to follow along, those first few pages of CAC Exhibit 9, I've -- I've marked off some of the references that we may be -- may be going into.

And, Ms. Reichert, in terms of the -- the review undertaken for Manitoba Public Insurance by Deloitte, you'll agree with me that captured at different parts of -- of the Deloitte documentation was a -- a discussion of the approaches taken by different Crown corporations with regard to either cost allocation or with regard to relat -- you know, related companies.

Do you recall that?

MS. HEATHER REICHERT: Yes, I do.

MR. BYRON WILLIAMS: And the information I'll ask you to agr -- agree with me that we have from Del -- Deloitte suggests that in the case of Saskatchewan, SGI, that they operate each of its insurance operations in a separate fund or subsidiary, correct?

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

MR. BYRON WILLIAMS: And so with that particular Crown, there is no allocation of assets or liabilities between the different insurance operations, and that's because discreet balances are maintained for each operation.

You'd agree with me?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Well, they -- they still have an allocation process. They handle a number of different kinds of claims for different lines of business in their claim centres across the province. They still have some form of allocation.

MR. BYRON WILLIAMS: And then -- thank you for that, Ms. McLaren. Just going to CAC-9, page 2. At the bottom on the right-hand side, you'll see a -- you'll see a statement from Deloitte suggesting that there's no allocation of assets or liabilities between the different insurance operations as discrete balance sheets are maintained for each operation.

Is that your understanding?

MS. HEATHER REICHERT: If I may, this is the report that Deloitte & Touche did on the asset liability allocation. What Ms. McLaren was referring to where CGI would be doing some allocation would be in their expense area where they are integrated, like Manitoba Public Insurance is integrated.

MR. BYRON WILLIAMS: Thank you. Thank you for that.

MS. MARILYN MCLAREN: But having said that, they are integrated in a much different and far less comprehensive way as -- as we are in their practice. They operate different lines of business that touch each other and touch the customer in separate ways, not in one (1) way like ours is.

They do not handle their Extension auto insurance business at the same time as they handle their compulsory insurance. It is together with all the kind -- SGI is a much, much bigger, broader company. When they started in 1945, 1948, somewhere, they were immediately into farm insurance, homeowner's insurance, and all those things.

Their Extension auto insurance is handled through that big part of their company.

MR. BYRON WILLIAMS: And I thank you for that, Ms. McLaren. That's helpful. In terms of

Manitoba Hydro -- and if you're looking for a reference, that's at four (4), and -- and, again, that's from the asset and liability allocation methodology. So we'll start with that.

My understanding is that while Manitoba Hydro has two (2) distinct lines of business -- being electric and gas -- there is no allocation of assets or liabilities between these lines of business. Rather each line of business is accounted for as a separate entity with its own general ledger.

Is that your understanding as well?

MS. HEATHER REICHERT: Based on what I read here in the Deloitte report, yes, that is my understanding. They are very much a capital-intensive organization as compared to MPI, which is more a people/information-oriented organization.

So, consequently, it is -- it is possible for them to segregate quite easily the assets that are doing the gas work versus the electricity.

MR. BYRON WILLIAMS: Okay, thank you for that. And as I understand it, any assets that are jointly used are minimal, based upon what Deloitte tells us?

MS. HEATHER REICHERT: Based upon what I read in this paragraph, yes.

MR. BYRON WILLIAMS: And that they're kept on the balance sheet of the electricity line of business, correct?

MS. HEATHER REICHERT: I haven't read the whole paragraph again, but I'm assuming that's what it says here. Yes, I -- I don't intimately know Hydro's line of business.

MR. BYRON WILLIAMS: But this is the information provided be -- by you to Deloitte and -- and through you to the Public Utilities Board.

So you're -- you have no reason to believe it's inaccurate, Ms. Reichert?

MS. HEATHER REICHERT: No. If it says it here, I have absolutely no reason to believe that it's inaccurate.

MR. BYRON WILLIAMS: The point -- and as you do look towards that paragraph, it certainly would have caught the attention of our clients is -- is the fact it appears -- and Deloitte is informing us -- that in terms of assets that may be jointly used, such as information technology, there is a charge level by Manitoba Hydro for the use of the asset.

Do you see that?

MS. HEATHER REICHERT: Yes, I do.

MR. BYRON WILLIAMS: Now, Ms. -- Ms.

McLaren, I believe in your discussion with Ms. Everard, perhaps it was last Friday, but there was some discussion of the pro -- some of the recommendations of the Gartner Group, in terms of charges for information technology services.

And am I correct in understanding that -- that -- that Manitob -- Manitoba Public Insur -- Public Insurance was not particularly keen on that idea but was looking at exploring it somewhat more?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And, Ms. McLaren, in terms of your willingness to explore it somewhat more, what drives -- what drives that?

MS. MARILYN MCLAREN: Trust in Gartner as an expert in this field and the source of good educational information.

MR. BYRON WILLIAMS: And if I'm going beyond your conceptualization of this issue, you'll -- you'll stop me.

What, if any, possible opportunities for the -- for the business might flow from that type of levy?

MS. MARILYN MCLAREN: Potentially, at a departmental level, you're talking about very small busi -- business units within the Corporation, there would be ma -- there may be more direct responsibility for justifying expansions of the use of IT. I don't see it much beyond that in terms of opportunities.

MR. BYRON WILLIAMS: Okay, thank you for that. Ms. Reichert, back to you. And just a couple of questions in terms of ICBC. And if you're looking for a reference it's on page 3 of the CAC Exhibit number 9.

In terms of ICBC, my understanding is that there's been a cost allocation debate going on in that province for -- for a fair while.

Is that your understanding as well, Ms. Reichert?

MS. HEATHER REICHERT: Only based on what I read here, not from any other personal knowledge.

MR. BYRON WILLIAMS: Well, Deloitte is informing us, are they not, that there's been a dialogue at the British Columbia Utilities Commission dating back to 2004, on certain of these issues in terms of cost allocation. Is that your understanding of what Deloitte is informing us?

MS. HEATHER REICHERT: Yes, it is.

MR. BYRON WILLIAMS: And, just drawing your attention to the first bullet towards the top of the page, you -- we can see that back in 2006, at least, the BCUC was -- was struggling with the decision of how to allocate a cost centre common to both the Basic and optional segments, and coming to at least a preliminary view that it should be split 50/50, after directly costing the non-insurance segment.

Do you see that, Ms. Reichert?

MS. HEATHER REICHERT: Yes, I do.

MR. BYRON WILLIAMS: Ms. McLaren, you may not have a -- an answer to this. But if we look at what appears to be a -- an extended debate in British Columbia about cost allocation, are you aware whether or not that might flow from a -- a larger competitive industry in the non -- non-Basic lines?

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

MR. BYRON WILLIAMS: I'll break it into two (2) pieces, Ms. McLaren. You'll agree with me, at least from what Deloitte tells us, that there appears to be an extended cost allocation dialogue in British Columbia?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And -- and if you're not aware, this is fine, but I'm asking you are you aware whether or not the duration and apparent intensity of that cost allocation dialogue in British Columbia flows from the -- the reality that there's a larger competitive market out there than there might be in Manitoba?

MS. MARILYN MCLAREN: There's a larger competitive market so -- I believe -- primarily, not solely, I won't -- but primarily from the fact that more of the common automobile insurance coverages are optional in British Columbia. That makes the larger market.

ICBC is a predominant player, like MPI is. But the compulsory program in British Columbia has no physical damage on vehicles. It is the accident benefits and the liability is the only compulsory coverage in British Columbia. So there is a bigger market, because there are more coverages that people are looking to buy.

MR. BYRON WILLIAMS: Thank you. That's probably about as far as I'll ask you to go on that. Ms. Reichert, in the Deloitte review of -- of cost allocation and their -- their research of the regulatory environment, to your knowledge did they examine the practices or any decisions of the Manitoba Public Utilities Board, as it related to Centra Gas?

And, specifically, if -- if you're

looking for a -- a reference, it's Centra Gas decision, or the PUB decision 110/96. It -- I've got a little excerpt from it at page 5, but...

(BRIEF PAUSE)

MS. HEATHER REICHERT: I -- honestly, I don't know.

MR. BYRON WILLIAMS: Based on -- on the Corporation's work with Deloitte, would it be your understanding that in a number of jurisdictions that rather -- excuse me -- in a number of jurisdictions, that some of the relationships between regulated companies and their affiliated companies are -- are governed by affiliate codes of conduct?

If you're not aware, Ms. Reichert --

MS. HEATHER REICHERT: I'm not aware.

MR. BYRON WILLIAMS: So that's not a concept that's familiar to the Corporation?

MS. HEATHER REICHERT: Not familiar to me, anyways.

MR. BYRON WILLIAMS: Just travelling, Ms. Reichert, a little farther afield and drawing on your expertise as a CA, are you familiar with the concept of transfer pricing as it is -- is used by a number of jurisdictions to -- for pur -- tax purposes relating to relationships between parent companies and their affiliates?

MS. HEATHER REICHERT: I am familiar with the concept, but in my career and my experience being mostly in the public sector, it is -- has -- not something that I've been intimately involved with, no.

MR. BYRON WILLIAMS: And if we looked through Deloitte's work, for example, we wouldn't see that concept articulated there?

MS. HEATHER REICHERT: No, you -- you would not.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: For those following in CAC Exhibit 9, we're probably about page 14. Ms. McLaren, probably over to you.

You'll agree that while Manitoba Public Insurance has, in recent years, become a provide -- well, has -- let me try this again.

You'll agree that while Manitoba Public Insurance provides other services, it is, at its core, a provider of compulsory automobile insurance products to Manitobans?

MS. MARILYN MCLAREN: I'm sorry, I'll have to ask you to do that again.

MR. BYRON WILLIAMS: You'll agree that while Manitoba Public Insurance offers other lines of business, such as Extension and SRE, at its heart, at its core, it is a provider of compulsory automobile insurance products to Manitoba?

MS. MARILYN MCLAREN: That's right. That's exactly the way we've talked about it here many times. I would just add the perspective on that, that the way that is done in Manitoba for the compulsory insurance is this inextricable integration with the registration as well.

That's a feature of public auto insurance systems that does not exist other places. And so as much as we exist to provide the Basic, it is always together with registration on both drivers and vehicles.

MR. BYRON WILLIAMS: Thank you. And it would be fair to say that the other services provided, such as Extension, are comp -- complementary in that they leverage existing MPI customer records and customer points of contact, agreed?

MS. MARILYN MCLAREN: Sure, that's fair.

MR. BYRON WILLIAMS: And --

MS. MARILYN MCLAREN: Sorry, not -- not all of them, but Extension does. SRE, not -- not really at all.

MR. BYRON WILLIAMS: And I believe my -- my question was premised on -- on Extension, but thank you for that clarity.

And I don't want to get into numbers with -- in terms of Extension, but there's no doubt that it is -- within that marketplace, the Manitoba Public Insurance product is -- is very strong.

MS. MARILYN MCLAREN: That -- that's true. And this -- if I can expand on that just a little bit, I think it's an important point, because we're talking about cost allocation right now.

Ever since MPI was created, ever since public auto insurance came to Manitoba, MPI has provided add-on coverages in addition to the compulsory insurance as part of the same process. It's been like that since the beginning.

We've always had most of that market primarily, because back in the day -- excuse me -- insurers decided they were not prepared to stick around and really compete for that market. And some have continued to really around the edges, but it has not been a -- a very strong competitive market. Manitobans have always had choices, but they've always, for the most part, stuck with us.

So we've always had to have some method of figuring out how to share those costs. It became more important when we hired the first actuary and started to understand the importance of rate-making and then found ourselves here, really having to transparently and -- and solidly communicate the underlying costs for the compulsory program through -- through the regulatory process.

When I say that MPI exists to provide Basic automobile insurance, that's absolutely true. And the fact that we provide others is really, at its heart, a benefit to the Basic ratepayers, because there are -- there's an opportunity to share costs that otherwise would not be there.

Now, let me explain what I mean by that, because this is -- I think it's really important and we haven't really put this in the material anywhere in this kind of a context.

So if -- the infrastructure that we have would not be any different if we had no competitive lines of business. So Basic ratepayers really would be bearing the sole cost of a lot of the infrastructure that -- that they -- that is now shared a little bit between the other lines.

Autopac Extension, particularly, does have revenue-generating advantages by being associated with Basic. I -- I will not agree that they have any real cost-saving opportunities. I think that Extension business would run fundamentally differently if it was not part of this larger system. But it does have revenue-generating opportunities.

But I would really make the case that that also helps Basic ratepayers. In the mid-'90s, throughout the '90s, after years of having a very small product offering on Extension, we significantly expanded that, because we found there were other things that we could provide to Manitobans on an optional basis that they were interested in purchasing, that had value to them.

We've more than doubled the size of the Extension book of business, which has a significant cost-allocation impact, which means that Basic is not paying anywhere near as much as it used to. If you don't allocate costs on -- on premiums, if you're allocating them on claims with $10 million worth of new premium, you get probably 7, 8, $9 million worth of new claims.

So either way, the fact that we have managed this Extension business, expanded this Extension business, and Manitobans choose to deal with us helps Basic ratepayers. So even when you say, Yes, Extension gets a revenue-generating opportunity, because we're so integrated, that in itself helps Basic.

MR. BYRON WILLIAMS: Let me -- we'll dissect your answer in a second, but let me just see if I understand your answer.

You're acknowledging that there is a revenue benefit to the Extension program from its relationship with Basic, while stating that there is a cost-saving benefit to Basic in that it -- some of the expenses that -- that it would otherwise incur can be allocated to Extension?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: So in essence, you are arguing that the benefits flow both ways, with some cost-saving benefits to Basic and some revenue benefits to Extension?

MS. MARILYN MCLAREN: Sure. I mean, I guess from a cost-causation perspective, the revenue-generating opportunity comes first and then the benefit also flows back to Basic.

MR. BYRON WILLIAMS: And your evidence is that the economies of scale that the Manitoba In -- Public Insurance Basic monopoly enjoys in no way translates into cost savings for the Extension program.

Is that the third part of your argument?

MS. MARILYN MCLAREN: Yes. When I look at the way others run their automobile Extension insurance, they -- as -- the example that I had with Ms. Grammond the other day, right, I mean, Extension would be buying three hundred (300) stamps instead of buying, back -- back in the day, when they used a different me -- methodology, 20 percent of seven hundred thousand (700,000) stamps.

They wouldn't be picking up a share of these service centres all across the province, these -- these claim centres everywhere. They wouldn't do business like that. So there are significant costs that go along with being that closely linked with -- with Basic.

MR. BYRON WILLIAMS: And have you asked or were -- were the terms of retainer for Deloitte robust enough to test your premise that there are no benefits to the Extension program flowing from the economies of scale inuring to the Basic program?

MS. MARILYN MCLAREN: Based on -- no, it was not. Based on my knowledge of the business, and, again, you know, they -- let's all, me particularly, try not to be too black and white about this, absolutely no cost saving. I'm sure we could find some somewhere.

But I really believe that there are, overall, no real cost-saving advantages to the other lines of business. Alternatively, they actually pick up some costs. They wouldn't if they were truly on their own running the business differently.

So we didn't ask them to do that because what we asked them to do was to help establish a cost-allocation framework. And it -- you know, I mean, we -- we have to go back and always remember what we're talking about here. We're trying to reasonably reflect the sharing of costs in this very integrated service delivery model.

Eighty (80) some-odd percent of all the costs are directly assigned. And, you know, we're here today arguing for the adoption of a methodology that has minimal change from what we're doing today. We believe it's a better system. So we're really -- in the grand scheme of things, no, we absolutely did not ask Deloitte to go right back to square 1 and do anything as labour intensive, as costly as that would have been, and as different as you're suggesting.

MR. BYRON WILLIAMS: And recognizing the two (2) way benefits that we've discussed, you -- it would be fair to say that you also didn't go to Deloitte and ask them to look at different conceptualizations of how the relationship might work, whether it's transfer pricing or affiliate codes of conduct or anything like that?

MS. MARILYN MCLAREN: No, because this is an organization that creates -- that -- that exists because of a statute in the legislature of Manitoba. It is administering a compulsory program. It is not a private, for-profit enterprise. It is the organization it is. And all we're really trying to do is to find a way to allocate a small percentage of our overall costs because the way we deliver service is so integrated.

MR. BYRON WILLIAMS: But the issue could be defined differently, you'll agree with me, Ms. McLaren, in that you're -- you're looking at the overall fairness of the relationship between Basic and Extension and trying to capture a mechanism that fairly reflects the benefits that flow both ways?

MS. MARILYN MCLAREN: Well, the relationship between the lines is as it exists in the statute. And absolutely we have put forward a methodology that as its first principle is -- is fair and reasonable. So we're absolutely considering those principles.

But, no, there was no mandate. And unless this Board decides it -- it would like to tack on another five (5) to ten (10) years of discussing this, I don't think there's any mandate. There's no issue for ratepayers to take that fundamental step backwards and start all over again.

MR. BYRON WILLIAMS: Just in terms of the economies of scale -- and if we're looking -- if anyone's looking to follow along, we're probably at page 19 of the CAC-9. Just in terms of the economies of scale that the Corporation does enjoy.

Would it be accurate to say -- to suggest that, by virtue of its public insurance monopoly, MPI is able to manage operating expenses to achieve economies of scale in the areas such as infrastructure, promotion, claims processing and repair, and distribution?

Would that be fair?

MS. MARILYN MCLAREN: Did you reference that list somewhere? Did you come up with that list? I'm -- I'm having trouble keeping it all in my head.

MR. BYRON WILLIAMS: I'm stealing from MPI, to be quite honest, Ms. McLaren.

MS. MARILYN MCLAREN: Okay, give me half a second.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And, Mr. Chair and members of the panel, just while MPI is conferring, I did neglect to note that our client, Ms. Desorcy, is here this morning. So she's in the back row.

MS. MARILYN MCLAREN: Okay. I see that reference. I stand behind the reference.

MR. BYRON WILLIAMS: And those economies of scale impact the bottom line by keeping expenses down and also by enabling service delivery to function efficiently and effectively.

Fair enough?

MS. MARILYN MCLAREN: Yes, but that doesn't necessarily mean that -- even with those efficiencies, that somehow extension is running its business under this big umbrella in a less costly way than it would if it stood on its own, because if it stood on its own, it would do things fundamentally differently.

So as it -- as -- as the system exists, sure. The extension would get some of those efficiencies. But that is not any indication that a fundamentally different approach to managing the business wouldn't be lower cost if it was alone.

MR. BYRON WILLIAMS: And -- and on that particular issue, we really -- we don't have any independent evidence of that.

We're relying on, kind of, your -- your instinct or my instinct?

MS. MARILYN MCLAREN: Well, I -- I actually would go a little further than saying it's somewhere between your instinct and my instinct. I -- I've got fairly in-depth, multi-decade knowledge of the business that -- that helps me stand behind the beliefs I have. But, no, we have no external quantitative analysis.

MR. BYRON WILLIAMS: Fair enough. When we -- when we go to the -- the big picture of the relationship between Basic and extension, would it be accurate to characterize it as -- as that there are some shared or joint costs as well as some jointly invested assets, but different streams of revenue?

Is that the big picture of what's going on?

MS. MARILYN MCLAREN: Yes. Yes. And the shared costs are largely driven by the fact that we serve customers as one (1) customer at a time, not as users of different lines of business.

And we use the example of someone needing to report their change of address. They need to do that on the driver's licence, which also includes an insurance portion. They need to do that for the registrar when it comes to where that vehicle is located. They need to do it for Basic. They need to do it for extension. That's one (1) simple transaction, shared across three (3) lines. In one manner of thinking, you could say five (5) lines. How do you share those costs?

MR. BYRON WILLIAMS: I'm going to reflect upon that at the -- at the break, Ms. McLaren. And, Ms. Reichert, thank you for your cooperation as well. Well done. The -- Mr. Johnston, just -- there's been many questions asked by Board counsel, in terms of investments. So I -- I only have one (1) really, maybe two (2).

In terms of measuring -- let me try this again.

When we look at the -- the various investment portfolio managers, in terms of measuring their risk for -- for their -- within their mandates -- and let's take the example of the Canadian mandate, would it be accurate to say that risk is measured by the standard deviation of the monthly returns about the mean value of a moving four (4) year time period, as well as by the Sharpe ratio calculated over the same four (4) year time period?

Mr. Johnston, if you 're looking for a reference, CAC-1-82 probab...

(BRIEF PAUSE)

THE CHAIRPERSON: Could you repeat the reference, please?

MR. BYRON WILLIAMS: I -- I believe it's page 2 of CAC-1-82. Mr. Chair -- Chairman, just -- I'm only going there for a second. I don't think it's contentious. I just want to get it established, but that's the reference.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Okay. Our investment advisor is not in the back row at the moment, so we're going to give this our best shot.

Maybe you could repeat the question, and we'll see what we can do to provide a good answer.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: In judging whether the investment manager's level of risk is consistent with or less than the level of risk inherent in his or her benchmark, is it accurate to say that risk is measured by the standard deviation of the monthly returns about the mean value of a moving four (4) year time period as well as by the Sharpe ratio calculated over the four (4) -- same four (4) year time period.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Yes. I believe you were reading from our answer to that IR, yes, so we would agree with that.

MR. BYRON WILLIAMS: Mr. Chairman, and -- and members of the Board, and also the MPI panel, you can probably put away CAC-9 for a few moments, and we're going to be moving to CAC Exhibit 7. The front of that should say, "Addendum to the MPI Risk Management." It's got a small title. CAC Exhibit 7.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And we'll come to this in -- and I -- I misspoke. I have one (1) more reference from nine (9). I apologize for that.

So, Mr. Johnston, with my apologies for making you shuffle papers a bit too much, if you could have at hand CAC-9, page 22. And then we will come to CAC-7 quite promptly.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Johnston, you can see in -- in -- at page 22 of CAC-9 we've reproduced the Corporation's response to an Information Request CAC-1-10. You see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And the question being posed to Manitoba Public Insurance was why does the decline in equity -- in the equity market scenario assume a decline in equity asset value to -- with that reduced value remaining level for the entire forecast period.

Not that I quoted it verbatim, but that was a question posed to you, Mr. Johnston?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes, one of the -- one of the reasons for looking at the four (4) year period is to attempt to take in consideration that there are certain scenarios where equities decline quickly and -- and suddenly rise, recover.

If you look at the cumulative return over multiple-year periods you have a better understanding of a more sustained equity decline. It's something that, of course, would -- would affect the Corporation, to a greater extent, in terms of its RSR balance.

If -- if equities decline, then recover three (3) months later, not a big issue. If they stay at a depressed level for multiple years then -- then that's definitely a big issue for MPI.

MR. BYRON WILLIAMS: Thank you. So, in essence, the use of the four (4) year returns was to partially account for the impacted sudden decline recovery scenarios, agreed?

MR. LUKE JOHNSTON: Yes, to -- to partially decline, that's fair. And I'd like to present a couple exhibits.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes, and -- and --

MR. BYRON WILLIAMS: And just, Mr. Johnston, before you do, I'm just -- in terms of what you're doing, perhaps your counsel can just advise us whether this is in the way of redirect or -- or your -- your plans, okay?

MS. KATHY KALINOWSKY: Sure. I can just say that Mr. Johnston anticipated the area in which you'd be going today, in terms of some of the follow-up. And he just prepared some -- two (2) exhibits which can perhaps assist the Board in their understanding, and perhaps yourself too.

So with your permission, we'd like to file them.

MR. BYRON WILLIAMS: I don't think you need my permission. And -- and certainly our clients would not object. We would merely, certainly, ask that in -- we do not have our -- our expert here. So that in the event that there is further questions regarding these exhibits that we would wish to pose, we would -- when we finish today we would -- we would ask the -- the tra -- Board's permission not to close our cross-examination, reserving the right to -- to re -- resume on this particular issue.

I'm not sure what Board counsel's advice are -- or is. So we're -- certainly we don't ever want to prevent the Board from hearing relevant information though.

MS. CANDACE GRAMMOND: I guess one thought that I have, and Mr. Williams, this is up to you, is -- is would you like to take a few minutes and look at the exhibits before you continue with your cross?

If -- if so, it may be appropriate to take a few minutes just to allow you to do that because I -- I don't think you've seen the documents, although maybe you have.

MR. BYRON WILLIAMS: I've not seen the co -- documents. I -- I certainly anticipate that the -- the witness has a kind of a prepared speech or a can -- speech in the can. So I'm certainly -- there'll be a break coming up. So, from our perspective, we'd prefer to hear his answer now. And we'll play around with it later.

THE CHAIRPERSON: Seems fair to me. And I would agree that if there's new evidence being introduced, that we should have access to the expert in the subject matter.

(BRIEF PAUSE)

MS. KATHY KALINOWSKY: With that, I would like to recommend to the Board that the exhibit entitled "Year -- Yield of Canadian T-bills and Canadian Bonds over Ten (10) Years" be marked as MPI Exhibit number 13. And the exhibit entitled "Four (4) Year Budgeted Compounded Return Relative to 5th Percentile" be marked as MPI Exhibit number 14, please.

--- EXHIBIT NO. MPI-13: Document entitled "Yield of Canadian T-bills and Canadian Bonds over Ten (10) Years"

--- EXHIBIT NO. MPI-14: Document entitled "Four (4) Year Budgeted Compound Return Relative to 5th Percentile"

MS. KATHY KALINOWSKY: And I think Mr. Johnston would like to speak to them -- these exhibits, then, please.

MR. LUKE JOHNSTON: Thank you. I -- I apologize for filing these. I just completed them yesterday. I just -- as you can appreciate, it's -- it's fairly difficult to describe some of these issues in words and get my point across clearly.

If -- if we can start with the exhibit titled "Four (4) Year Budgeted Compounded Returns." The -- one important consideration when we're looking at equity returns is that we're comparing these returns relative to budget. And you'll notice on the -- the first line of this exhibit, it says:

> "Four (4) year budgeted equity returns, assuming 6.1 percent per year compounded, is 26.7 percent."

So if we assume 6.1 percent a year over four (4) years, we're going to -- we're essentially assuming we're going to get a 26.7 percent return.

If -- if you look at the -- the following table, talking about four (4) year returns -- and I won't get into the -- the details of this, because I suspect we're going to go that way. But there's some examples of -- of returns in here. And -- and, for example, looking at 1956, the present data, you'll see that a one (1) in twenty (20) year event, just purely looking at the data, would be negative 16 percent.

However, negative 16 percent relative to an expected budget of twenty-six point seven (26.7), you're actually 43 percent below your target. So that's a very important consideration.

Flipping to the -- the second page of this exhibit, and this -- this is really how I -- what I wanted to bring up in regards to this -- this four (4) year recovery that Mr. Williams was discussing.

This is our last four (4) years, equity -- actual returns relative to budget. So you can see there was a fairly significant decline in '08/'09. And this is where -- this is where I struggle a bit, because you see in '09/'10 we have an actual of 2.9 million.

Now, I don't -- I don't know if we call that a recovery, but we have positive equity returns $15 million below budget. The '10/'11 year, we were actually relative close to budget; good news. Then again in '11/'12, we're -- we're way below budget.

So here's a four (4) year period where we're looking at recov -- recovery. So what -- if -- you can see on the bottom, every four (4) years we've basically been $144 million under budget. And I definitely wouldn't call that a recovery.

All we're getting at in the example that -- or, the -- the IR that Mr. Williams was referencing is that we're looking at the -- the total returns over the four (4) year period relative to budget, and I -- and again, I just wanted to stress to the Board what -- what that exactly looks like.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you. And I'll have a couple of just quick questions on this right now, and then I'll have not many I don't expect later, but I'm -- I would want a chance to confer with our expert, which probably would not take place till -- till tomorrow.

Just going to the four (4) -- the first page, Mr. Johnston, have you done a similar calculation for the period between 1919 and 1956, sir?

MR. LUKE JOHNSTON: Yes, I have. I could include that in here, as well. That -- that is, as you know, is largely the assumptions used for the -- the DCAT scenario. If you give me just a moment, we can -- we can add to this exhibit. But I can also read in the information.

The -- using data over all periods, 1919 to -- to present, the 1st percentile of four (4) year cumulative returns is negative 71.3 percent. The -- the one (1) in forty (40) year event, or the 2 1/2 percentile, is negative 60.3 percent. And the 5th percentile is negative 42.75 percent.

So that's -- that's on the record; but, yes, I -- the --

MR. BYRON WILLIAMS: You may have misheard my question, so just -- and I appreciate that, and we certainly don't mind having that put on the record.

But my question was: Have you calculated this for the period from 1919 to 1956?

MR. LUKE JOHNSTON: I didn't -- I did not do that period in isolation on this exhibit, and -- and I -- I don't -- I don't have those statistics in front of me right now.

MR. BYRON WILLIAMS: But you could certain undertake to do that for me, sir?

MR. LUKE JOHNSTON: Yes, I could.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Just to confirm the undertaking, with a thank you to Ms. McLaren, is to replicate the analysis presented in the four (4) year budgeted compounded return relative to 5th percentile, but using the time period 1919 and to the end of 1955.

--- UNDERTAKING NO. 16: MPI to replicate the analysis presented in the four (4) year budgeted compounded return relative to 5th percentile, but using the time period 1919 and to the end of 1955

MR. LUKE JOHNSTON: Yes, that's -- that's clear to me. Thanks.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Now, Mr. -- Mr. Johnston, just a couple more questions about the analysis that you presented to me this morning.

Did you model, in doing this, a change in credit spreads?

MR. LUKE JOHNSTON: Just -- just to be clear, the -- the question is asking if the equity scenarios produced include a change in credit spreads?

MR. BYRON WILLIAMS: Yes.

MR. LUKE JOHNSTON: The -- the percentiles shown in the exhibits are -- are purely just the percentiles of the historical data, no -- no other modelling was done.

MR. BYRON WILLIAMS: Focussing now not on -- on this analysis, but on the -- the decline in equities analysis found in your DCAT, for that exercise did you model a change in credit spreads?

MR. LUKE JOHNSTON: Again, there -- they -- just -- just to be clear, I can step back perhaps, as I mentioned last week I felt it important to at least look at the entire period of the TSX, recognizing that all -- all data may have some importance but not carry equal weight necessarily.

So again, I -- I didn't -- I didn't -- I did basically the exact same process to provide my underlying rationale to support the equity decline scenario and then made a -- a judgmental selection, approximately, based on that data. No credit spreads were analyzed as part of that analysis.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Would you agree that in DCAT modelling of market disruptions it is standard practice to -- to model changes in credit spreads, sir?

MR. LUKE JOHNSTON: I'm not clear if it's a standard practice. That's not -- that's not what we've done in this scenario. And -- and again, I'm not aware of -- of other DCATs. I agree that that could be a consideration. It's -- it's not one that -- that we used in creating this model.

MR. BYRON WILLIAMS: Do you consider it likely, sir, that in a market disruption of the magnitude of which you speak, being a 40 percent decline, that nothing would happen to credit spreads?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: If -- if you're referencing the potential side effect of, for example, increasing spreads on corporate bonds, for example, the assumption that we -- we use here is that the -- the Corporation's asset-liability management program will essentially offset those impacts.

And if there are some minor impacts, or -- they -- they could be positive or negative as we've seen in some of these previous IRs, depending on the direction and the magnitude. But again, the -- the assumption is that the key driver is equity decline and our asset-liability management program will stay up to the task of -- of offsetting the majority of any kind of interest rate change.

MR. BYRON WILLIAMS: Thank you, Mr. Johnston, I'll ponder that. The -- in terms of the -- your finding that the -- you found that the 5th percentile of the cumulative four (4) year returns on the TSX from 1919 to present was minus 43.2 percent, correct?

MR. LUKE JOHNSTON: Yeah, approximately negative 43 percent.

MR. BYRON WILLIAMS: And -- and without asking you to elaborate, I will ask you to confirm that the Corporation undertook a historic analysis of the cumulative four (4) re -- four (4) year return of the TSX from 1919 to present.

That's correct?

MR. LUKE JOHNSTON: That's correct. That is the -- the evidence presented with that scenario to support that assumption.

MR. BYRON WILLIAMS: Okay. And the panel does not need to turn there, but that information -- that analysis was provided to the Public Utilities Board in the Corporation's response to PUB-1-60(c), I'll -- I'll ask you to accept, subject to check?

MR. LUKE JOHNSTON: That's -- that's fair. Thank you.

MR. BYRON WILLIAMS: Now, Mr. Chairman, I'm -- I'm happy to continue. I've probably got about thirty (30) to forty (40) minutes on this particular bit of questioning. So if -- and -- and it is a bit numerical. So if the Board wished a break, it might not be a bad time.

THE CHAIRPERSON: Why don't we do that. And return to this room at a quarter to 11:00, please.

--- Upon recessing at 10:32 a.m.

--- Upon resuming at 10:46 a.m.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes, thank you, Mr. Chairman and members of the Board. Mr. Johnston, just, as I said, I don't expect to have many more questions about MPI Exhibit 14, perhaps one (1) af -- after lunch. And then I may certainly reserve once I have a chance to talk to my -- my expert, but again I don't expect many.

But, Mr. Johnston, I've just been trying to -- to understand your source information. So I wonder if with -- with regard to MPI Exhibit 14 you could provide a footnoted or source document with -- identifying where on the record each piece of information is, and if any are calculated, for example, some of the budgeted or actual investment numbers, that would be of assistance as well.

MR. LUKE JOHNSTON: Definitely do that.

MR. BYRON WILLIAMS: And so your undertaking simply to provide us with a source -- sourced identified documents. We thank you for that.

--- UNDERTAKING NO. 17: MPI to provide, with regard to MPI Exhibit 14, a footnoted or source document identifying where on the record each piece of information is

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Johnston, when we left we were about to embark upon the exciting exercise of looking at CAC Exhibit 7. And -- and just to remind the -- us of where we were, we were talking about the analysis of the cumulative four (4) year events that Manitoba Public Insurance had undertaken in support of its equity scenario, correct?

MR. LUKE JOHNSTON: That's correct.

MR. BYRON WILLIAMS: And when we go to CAC-7 -- for the Board, unfortunately, it was PDF'd, so we didn't number it. But if you could move five (5) pages in. And you should see a bunch of a numbers on a page and a -- and a heading on the left-hand side "Sorted four (4) year TSX SP returns."

Do you see that, Mr. Johnston?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And before we get into a bit of a dialogue about these numbers, you'll agree with me, subject to check, that these are merely -- they're your numbers merely sorted by four (4) year returns for particular time -- time periods?

MR. LUKE JOHNSTON: That's a fair assessment, yes.

MR. BYRON WILLIAMS: And I want to direct your attention, to start with, Mr. Johnston, to the left-hand side of this page, under the heading "All Data, 1923 to 2012."

Do you see that, sir?

MR. LUKE JOHNSTON: Yes.

MR. BYRON WILLIAMS: And when we look

at this first column, and you'll see that the -- the first figure there is nineteen thirty-three, period, o-two (1933.02) minus 80.91 percent.

Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And if I'm trying to figure out what those -- those numbers represent, what -- what is represented here on -- on this first number, is the time period, the cumulative four (4) year returns from the time period of February -- I have to do my math here -- 1929 through February 1933, correct?

MR. LUKE JOHNSTON: Yes, or perhaps easier to explain would be the -- the four (4) year cumulative return ending on that particular date for -- for equities.

MR. BYRON WILLIAMS: That is even better, sir. And what it tells us for the four (4) year return ending on that particular date is that the observation, based upon -- on the data, is that it was minus 80.91 percent.

Not a good four (4) year period?

MR. LUKE JOHNSTON: You're correct. Minus eighty point nine-one (80.91).

MR. BYRON WILLIAMS: And what this

first column does -- and it -- it goes -- you'll agree with me, Mr. Johnston, it goes on for several pages -- is it sorts the observations of Manitoba Public Insurance over this time period from worst to best, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And -- and just to make that point, again to that nineteen thirty-three, o-two (1933.02), we're agreed that the worst observation during this time period was the minus 80.91 percent for a cumulative four (4) year return, correct?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And if we were to flip all the way to the end of this document, CAC Exhibit 7, you will agree with me that the best four (4) year cumulative return observed was for the period ended January 1929, and that was 170.49 percent.

MR. LUKE JOHNSTON: I see that, and I agree.

MR. BYRON WILLIAMS: Right in the midst of the Roaring '20s, I guess, Mr. Johnston, or at the end of the Roaring '20s.

MR. LUKE JOHNSTON: Perhaps.

MR. BYRON WILLIAMS: And, Mr. Johnston, staying on the -- on the positive side, the -- the happy side, if we go up to the five (5) best observations in that time period, you'll agree with me that they're all in the 1920s, correct, with the fifth observation being the 1929, from September, of 146.14 percent to the good?

MR. LUKE JOHNSTON: I see that. Yes.

MR. BYRON WILLIAMS: So -- and I do apologize to the panel for flipping back and forth, but let's go back to the negatives, which are about five (5) pages in from the top, from the front.

And again, referencing you to the first column, Mr. Johnston, you can do the math with me or you can accept it subject to check. If I want to look at the worst thirty (30) returns, the -- the worst thirty (30) observations, the thirtieth observation would be from 1931.1, the minus fifty-nine point one-seven (59.17)? You'll accept subject to check?

MR. LUKE JOHNSTON: Yeah, without -- without counting I will say that the thirtieth observation is either that number or very close to that number.

MR. BYRON WILLIAMS: And if one were to scan these thirty (30) worst observations for the date on which they ended, Mr. Johnston, would it be fair to say that they were all in the 1930s?

MR. LUKE JOHNSTON: Yes, based on the summary, yeah, that -- that is the case.

MR. BYRON WILLIAMS: And this is MPI's data, sir?

MR. LUKE JOHNSTON: Sorry, yeah, I'm just confirming from what I see here that that -- that is the case, and it is our data.

MR. BYRON WILLIAMS: And -- and in fairness, it's -- you're presenting someone else's data, but it's your analysis.

MR. LUKE JOHNSTON: That's correct.

MR. BYRON WILLIAMS: Mr. Johnston, you could certainly do the math, but I wonder if you would accept, subject to check, that for this entire time period running from 1919 through to 2012, MPI has presented to us one thousand and sixty-four (1,064) observations?

MR. LUKE JOHNSTON: Subject to check, I'll confirm that.

MR. BYRON WILLIAMS: And if we were looking for the 5th percentile observation, would you agree that we would be looking for the observation that was worse than 95 percent of the observations?

MR. LUKE JOHNSTON: Yes.

MR. BYRON WILLIAMS: And I don't want

to challenge my math skills too much, but if I was trying to figure out the -- the 5th percentile observation, just in terms of what's presented here, I would multiple the total number of observations of one-zero-six-four (1,064) by point zero five (.05), correct, sir?

MR. LUKE JOHNSTON: Yeah, that would give you the approximate 5th percentile.

MR. BYRON WILLIAMS: And if we did the math, we'd probably come up with around the fifty-third observation approximately? Fifty-three-point-two (53.2)?

MR. LUKE JOHNSTON: Subject to check, I'll accept that.

MR. BYRON WILLIAMS: And, Mr. Johnston, just to assist the panel, if we flip to the second page of these negative observations, you'll see, highlighted in yellow, the minus 43.90 percent for the time period ending January 1940.

Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And you would accept, subject to check, that this is the 5th percentile, based upon these -- or, the approximate 5th percentile, based upon these observations?

MR. LUKE JOHNSTON: I'll accept that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And just another way to -- to put it is, this -- this is the fifty-third-worst stock market return outcome in the cumulative four (4) year period examined by MPI, agreed?

MR. LUKE JOHNSTON: I'll accept that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And in terms of the 5th percentile calculation that MPI came up with, it's -- it's relatively close in that your calculation was forty-three point two (43.2), negative, agreed?

MR. LUKE JOHNSTON: Yeah, the magnitude is -- is very close, I agree.

MR. BYRON WILLIAMS: Mr. Johnston, if we worked, from the fifty-third-worst observation, our way back all the way to the worst observation, I wonder if you would agree with me that none of these observations ended later than August of 1941.

MR. LUKE JOHNSTON: I'll accept that.

MR. BYRON WILLIAMS: And I don't know how your history is, Mr. Johnston, but would you agree with me that of the fifty-three (53) worst cumulative four (4) year returns observed by Manitoba Public Insurance, all ended prior to the bombing of Pearl Harbour in December of 1941?

MR. LUKE JOHNSTON: They appeared to all be before that date, so I -- I would agree.

MR. BYRON WILLIAMS: Mr. Johnston, if -- if we could just go to the -- the second column now. You -- we probably have to flip back a page. It's labelled, "Data to 1955" -- "December of 1955," Mr. Johnston, so that -- it should be the first page where those numbers appear.

And I just -- I know I'm asking the panel to flip, so I -- I'm hoping the panel's with me. Thank you.

And, Mr. Johnston, you'll agree with me that, essentially, this column presents the same type of information as the first column, sorted from worst to best, but it covers the time period only up to December of 1955, agreed?

MR. LUKE JOHNSTON: Subject to check, I agree.

MR. BYRON WILLIAMS: So, essentially,

it's covering the time frame, subject to check, between 1919 and December of 1955?

MR. LUKE JOHNSTON: Agree.

MR. BYRON WILLIAMS: And, Mr. Johnston, you can certainly check if you wish, but I wonder if you would agree that, again, the worst observation is the 1933 -- the period ended February 1933 of the minus 80.91 percent?

MR. LUKE JOHNSTON: That's correct. All the observations you've discussed from the 1930s will of course repeat themselves in this data set.

MR. BYRON WILLIAMS: And likewise, the best observation, if we went to the end of this column, would be from the Roaring '20s, that nineteen twent -- January 1929, the 170.49 percent, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And just by looking at the time periods, Mr. Johnston, you would agree with me that there's a lot less observations in the period between 1919 and 1955 as compared to the period between 1919 and 2012?

MR. LUKE JOHNSTON: I agree. I agree.

MR. BYRON WILLIAMS: So while there are a lot less observations than in the first column, this shorter time frame between 1919 and December 1955 contains the extremes, both of the positive and the negative, of that entire time period between 1919 and 2012, agreed?

MR. LUKE JOHNSTON: I agree that the -- the most extreme events, I -- I don't know what number, but let's say that top five (5) definitely are -- are on each end. There appears to be a lot of negatives in the '30s. I won't count them, but I agree.

MR. BYRON WILLIAMS: And we might have agreed before, subject to check, that in fact the top thirty (30) negatives were from the 1930s?

MR. LUKE JOHNSTON: Yeah, it was approximately that number. I'll accept that.

MR. BYRON WILLIAMS: Subject to check, Mr. Johnston, you'd agree that there were three hundred and eighty-nine (389) observations within this period from 1919 to 1955?

MR. LUKE JOHNSTON: Subject to check, I'll accept that.

MR. BYRON WILLIAMS: And that the 5th percentile observation would be the nineteenth observation, sir?

MR. LUKE JOHNSTON: Approximately, yes. I agree.

MR. BYRON WILLIAMS: And so we're

looking, in terms of the observations of the approximate 5th percentile, I'll suggest to you, subject to check, that would be that shaded figure of negative 64.81 percent for the period ended July 1933?

MR. LUKE JOHNSTON: I'll accept that.

MR. BYRON WILLIAMS: So if we were to compare the 5th percentile events for the -- the entire time period at 43.9 percent as compared to the 5th percentile event for the period ending in December of 1955, you'll agree with me that the -- the 5th percentile event for the period ending in December 1955 was significantly larger?

MR. LUKE JOHNSTON: Yeah, it appears to be about 21 percent larger. I'll -- I'll call that significant.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And we'll move through these -- the next column much quicker. I'm sure everyone will be pleased.

But, Mr. Johnston, if we move to the third column, labelled "Data from 1956" -- "from January of 1956," you'll agree with me that it -- it covers the period from January of 1956 through to at some point in 2012, subject to check?

MR. LUKE JOHNSTON: I'll accept that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I apologize to the court reporter. If we're looking to the worst event in this modern era, that would be the period ended January 1977, the minus 31.65 percent, correct?

MR. LUKE JOHNSTON: I see that, correct.

MR. BYRON WILLIAMS: And, Mr. Johnston, if you can't agree with this, that's fine. But that would be during stagflation -- S-T-A-G-flation -- during the 1970s, agreed?

MR. LUKE JOHNSTON: Yeah, I won't claim to be intimately familiar with that -- that period. But, subject to check, I'll accept that.

MR. BYRON WILLIAMS: I was going to ask if you were even born then, Mr. Johnston, but the Human Rights Code would probably prohibit that. So I will not, sir, on the condition that you don't ask me, because I was alive.

If we're looking for the best event, sir, in that period -- dear Lord, it's -- tha -- that would be the -- the cumulative four (4) year return of 141.47 percent for the period ended November 1980, agreed?

MR. LUKE JOHNSTON: Agree. I see that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And if we -- if -- if we can -- purely focussing on the extremes at either end within -- within this more modern era, Mr. Johnston, can we agree that the lows are not as low and the highs are not quite as high as in the other two (2) columns, just focussing on the extremes, as in the other two (2) columns?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: That is true. The -- the most extreme high or low observations are -- are smaller, in absolute terms, than the other columns.

MR. BYRON WILLIAMS: And if we were to assume, subject to check, that there are six hundred and thirty-five (635) observations within this time period, you'll agree with me that the ninety (90) -- the -- the 5th percentile observation would be the --

approximately the thirty-fourth observation, sir?

MR. LUKE JOHNSTON: Agree, subject to check.

MR. BYRON WILLIAMS: And if we looked for the -- the yellowed number, you'll agree with me, subject to check, that that thirty-fourth observation, being the 5th percentile, would be for the cumulative four (4) year period ended in December of 1977 and the return of minus 16.43 percent, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: Again, if we were to canvass the 5th percentile observations for the entire period versus the 1919 through 1955 period through the modern era, sir, you would agree that the 5th percentile observation in the modern period is significantly lower than the other two (2) 5th percentile observations?

MR. LUKE JOHNSTON: Based on my previous characterization of "significant", I'll accept that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Just a few more questions in this regard, Mr. Johnston. And perhaps to refresh your memory, in terms of the first column being the entire time period, we had agreed previously that no event worse than the 5th percentile observation took place later than 1941?

Do you recall that, sir, subject to check?

MR. LUKE JOHNSTON: I -- I recall that.

MR. BYRON WILLIAMS: In performing your decline in equities scenario, were you aware at that time that no event below the 5th percentile had taken place later than 1941?

MR. LUKE JOHNSTON: Yes, I was. And if I could -- if I could expand on that point. I've been confirming a lot of things, but I -- I'd like to discuss this in more detail.

So I think -- I don't think there's anyone here that doesn't believe that equities are risky. And how you go about measuring that level of risk can be -- can be done in different ways. My approach was to take the entire history and look at that data.

Obviously, I recognize we've -- we've just gone through all the historical observations in these older periods. But you'll notice in the DCAT I've done a few things. First, I -- I looked at a four

(4) year period, again, to -- to attempt to smooth out some of these more severe events. The reality of the Corporation is not necessarily that we have four (4) years to recover. They can occur more swiftly in a, for example, one (1), two (2), three (3) year period.

You'll also notice that I did not select the observed percentile from that analysis. So as we've seen here, there's -- there's numbers in the negative seventies (70s), negative sixties (60s), negative fifties (50s), forties (40s). I believe that you -- you need to give some weight to this period. I don't deny that there's more variability in the 1956 to present. The issue I'm having is more around that you completely ignore that period.

And the reason I -- I provided Exhibit 13, MPI Exhibit 13, if -- if you're there, is not -- not to suggest that equities necessarily follow this -- this pattern. But if we look at T-bills, ten (10) year Canadian bonds, I -- I'd suggest that if -- if I followed the type of approach used by Professor Simpson as of 2007, I basically would have assumed zero percent probability of the current interest rate environment. I don't see any observations post-1956 that are in the range of the ones we're seeing today.

So if I was to go back a few years, I

would probably be going through the same -- if we were talking about interest rates, I'd likely be going through the same discussion in terms of, you know, why would I think that interest rates from pre-1956, for example, are relevant.

Again, I -- I can see the data. At the end of the day, I have to make a professional judgment based on what I believe is a relevant risk for the Corporation. And I have -- I have many tools to do that. The ones -- the information I put in the DCAT does give you that entire history. And, of course, others such as Professor Simpson have different views on how to -- how to utilize that data.

MR. BYRON WILLIAMS: Mr. Johnston, just going -- and thank you for that -- that answer. Seeing the events below the 5th percentile, did you statistically test for a structural break in the data?

MR. LUKE JOHNSTON: No, I did not. And I -- I am aware of the -- the evidence provided by Professor Simpson in that regard.

MR. BYRON WILLIAMS: Did you consider, in the pre-nineteen (19) -- when -- in the pre- post-war period that there were not such institutional tools such as bank deposit insurance?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Again I recognize that -- I think the quote was "Modern economic stabilization policies," perhaps are different today, or believed to be different. Again, it's just a matter of deciding that the pre-1956 has zero percent weight or to give it some consideration.

If -- I would -- I would say that if -- if I was limiting my review only to 1956 data, if that was a decision that -- that I made, then the assumptions in terms of how to model this scenario may also be different. The -- again we've talked about how the Board's target one (1) -- one (1) in forty (40) years are -- are believed to be. The -- I'm just saying that I've selected neg -- negative 40 percent in light of the available evidence.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And just so I understand, Mr. Johnston, you've spoken of including all the data, you've spoken of using only the -- the more modern data, and I think you've also suggested that there's a third option which might be to give significantly less weight to the less modern data.

MR. LUKE JOHNSTON: Yes. There's -- there's different approaches that can be used. I haven't explicitly labelled the weighting of the -- the pre-1956 data. It -- it was a more judgmental selection, I -- I will admit that.

The -- again though the -- the issue of equity risk is -- is one of the -- the reasons that I produced again this Exhibit 14. And there's -- again we're not -- we're not denying at all here that -- that risk is present.

And if you look at page 2 of Exhibit 14, and you go to the -- the middle of that page "Four (4) year budgeted compounded return relative to 5th percentile," I'm -- I'm trying to give the Board here an idea of -- of what some of these impacts would look like using only 1956 data, and -- and possibly using the Board's target of one (1) in forty (40).

Again there's -- there's more -- there's -- the DCAT is -- one of the benefits is that it -- it runs these through their financial model, and it decides how you're going to recognize the losses and -- and all that type of actions, but just in terms of a four (4) year magnitude.

There's still significant risk here.

We're -- we're discussing really how -- you know, what's the best way to assess that risk in terms of -- of the RSR. So that --that's really why I'm -- I'm showing this here.

Forty (40) percent again is -- is my judgment, but I've -- I've stated here that the Corporation is more than willing to work more collaboratively with the Board and Intervenors to -- to really get this scenario to where we're all comfortable and it's acceptable for DCAT purposes.

MR. BYRON WILLIAMS: Mr. Johnston, I -- I sincerely thank you for that -- that answer. And just the -- the last question on this particular point.

If we did go back to the -- the observation closest to the minus 40 percent used in your decline in equities analysis, you'll agree with me that all the observations worse than that are still in the pre-Pearl Harbor era?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: That appears to be correct. I'll -- I'll accept that.

MR. BYRON WILLIAMS: I think we can put that one away for -- for a while. Mr. Johnston, I -- I believe I, in the presence of your counsel, notified you I'd be asking just a couple questions about the relationship of claims incurred with claims expenses. And I don't have a reference in the materials for the -- for the Board. And I'm just going to catch up with my notes, so just -- if you'll permit me to stand down for just a minute.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: So this is not going to be the first reference I make, but for the Board's benefit, if you're putting away CAC Exhibit number 7 and picking back up number 9, in a couple minutes we'll be coming to page 25. So that's the -- the big CAC-9, the one that was handed out this morning.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: But we're not quite there yet. Mr. Johnston, one of your adverse scenarios you looked at was the 1:100 probability high loss ratio, correct?

MR. LUKE JOHNSTON: That's correct.

MR. BYRON WILLIAMS: And so without really needing a lot of detail about that scenario, it was focussed on a adverse even -- event in terms of claims incurred?

MR. LUKE JOHNSTON: That's -- that's fair, yeah.

MR. BYRON WILLIAMS: And for the purposes of your modelling, you determined that if you were adjusting claims incurred it would also be ap -- appropriate -- and it's page 25 of the document, Mr. Johnston, to adjust claims expenses proportionally.

Agreed?

MR. LUKE JOHNSTON: Agreed. That's -- yeah, on page 25 as you referenced.

MR. BYRON WILLIAMS: And, Mr. Johnston, if you're capable at a high level to -- to discuss what you -- real -- realizing that I'm not capable of a low level, a detailed level, if you're capable of articulating what you mean by a proportionate adjustment.

Was that a 1:1 adjustment? How -- how did that -- was that determined?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: My -- my understanding is that we -- we had to -- or, had to -- we wanted to ensure that more claims didn't sim -- assume that with expenses were going to necessarily stay exactly the same. So the percentage increase that we saw in -- in claims we also applied that percentage increase to expenses -- a claims expense.

MR. BYRON WILLIAMS: And just to make sure I understand what you've done -- and we'll just use a -- a hypothetical, Mr. Johnston, if claims incurred were ten dollars ($10) and claims expenses were one dollar ($1), and you increase both by 10 percent, the result would have been claims incurred were eleven dollars ($11) and claims expenses were one dollar and ten cents ($1.10)?

MR. LUKE JOHNSTON: Approximately -- approximately that. I would -- I would -- I'm not sure if the math works out exactly the same, but if claims expenses are a certain portion of -- relative to claims incurred that pro -- proportion would carry forward. And perhaps I described that incorrectly in my previous statement, so I'll -- I correct that. But proportionately, it's -- it's -- that's how I describe it.

MR. BYRON WILLIAMS: So -- and aga...

You were assuming, sir, that claims expenses were positively correlated with claims incurred, but not perfectly positively correlated, correct?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, I'm trying to get my heard around "perfectly positively correlated", not that I don't understand the term. But there's -- clearly, in this scenario, we're assuming a direct relationship between these two (2) proportions. So is that perfect positive correlation? I'm -- I'm not sure. But the proportion is consistent and moves directly with each other.

The -- the issue here is again to -- to try to put something in here to quantify what type of increase you might get in claims expenses. For -- for hail, for example, we look -- we can look at past storms and see how expenses came in and try to adjust those to what -- what a big hailstorm might look like.

But for a mix of collision and PIPP and all these different types of increases in claims, it's not quite as clear how expenses would be impacted. But we've -- again, we've assumed that proportional basis as a way to forecast this.

MR. BYRON WILLIAMS: And just so I understand, sir, was that assumption based on the Corporation's analysis of the relationship between claims expenses and claims incurred, or was it a judgmental assumption?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: That -- that's a judgmental assumption. Again, to -- just to recognize that in this adverse scenario we would expect to see more claims expenses. And -- and how to analyze the type of expe -- increase in claims expenses you might see in such an extreme scenario is -- is obviously difficult. So we need some sort of assumption there.

MR. BYRON WILLIAMS: And, sir, I'm not at your financial forecast model yet. I'm directing your attention now to your stochastic modelling.

In your stochastic modelling for the Corporation, is there the same proportionate relationship between claims incurred and claims expenses?

MR. LUKE JOHNSTON: The -- the expenses that we can allocate to a specific claim are included in the -- in the claims incurred, so this is part of the stochastic modelling. The -- the stochastic model is -- is done in isolation of -- of those other non-allocated level of claims expenses.

If we were to run the results of the claim model through the financial statements, again, for extreme type of scenarios we'd have to -- I would assume it's -- it's reasonable to make some kind of a judgment that -- about how your claims expenses are going to change when you start getting, you know, much -- or, deviate significantly from your base forecasts.

I wouldn't expect a huge change in claims expenses for being, you know, moderately above or below your base forecast. But again, it's -- it's difficult to assess what that would be when you're at the 99th percentile, for example.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Perhaps I -- I can add to that. Again, just to be clear, the stochastic model is not looking at these claims expenses that cannot be allocated to particular claims. The benefit of a DCAT type of approach is taking one of these extreme events, running it through the financial model, and -- and coming up with the ripple effects.

MR. BYRON WILLIAMS: Mr. Johnston -- and for the Board, I'm now at page 25 of CAC Exhibit 9. And, Mr. Johnston, if you -- do -- do you have that, sir?

MR. LUKE JOHNSTON: I do.

MR. BYRON WILLIAMS: If you flip through that, at pages 25, 26, 27, you'll agree with me that we've simply replicated pages 1 through 3 of TI.2?

MR. LUKE JOHNSTON: Yes.

MR. BYRON WILLIAMS: And what -- as -- as this humble lawyer was making his way through the -- through these documents, in -- and in terms of the overall -- directing your attention, I guess, to page 25.

This page sets out the financial forecasting method, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: The next page sets out the required rate changes from the exponential method, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And the third just sets out the -- the linear method?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And if I were to compare under the overall, which is the second column, the claims for the financial forecasting method per unit versus the exponential versus the linear, there are modest differences between all three (3) of them in terms of the claims line, agreed?

MR. LUKE JOHNSTON: That's fair. They're -- they're not equal.

MR. BYRON WILLIAMS: That might be a better way of saying it. If -- again, focussing on overall, the -- I would suggest to you that the claims expense does stay the same, agreed?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes, I see that. That's correct.

MR. BYRON WILLIAMS: And this is not meant as criticism, but just for the purposes of understanding, sir, so if -- if one is looking at the financial forecasting method and how one derives the estimate for claims expenses, would I be correct in suggesting to you that there is no assumed -- how do I put this; would I -- the claims expenses are -- are kept constant and there is no proportionate adjustment for changes in the claims incurred?

MR. LUKE JOHNSTON: Yes, that's correct. The -- the claims expenses included in these exhibits are as per our -- our forecasts. The -- we did not proportionately adjust these expenses for the linear exponential method.

And, again, I wouldn't expect these claims to change significantly for -- for claims as in changes in claims per unit of a dollar or two (2) here -- here or there. More extreme scenarios, definitely. And then that's -- it's -- it's more of a materiality-type issue here that we don't -- we didn't recast expenses in these exhibits.

MR. BYRON WILLIAMS: Sir, and -- is the Corporation in a position, just for the -- my client's understanding, to tell us how strong the mathematical relationship between claims expenses and claims is?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Again, I just -- I just want to be clear of the difference between modelling claims expenses in a -- in a DCAT extreme scenario and -- and this example.

To your question, I'm not aware of the

correlation, for example, over time between claims expenses and claims incurred. I -- I -- I'm aware that we do have some evidence that shows the historical trends and -- and those numbers. But off -- off the top of my head I -- I don't know how strong that relationship is, and how that flows through, and how we forecast claims expenses given the -- the information we have at the time the forecast is made.

MR. BYRON WILLIAMS: And -- and I thank you for that, Mr. Johnston. And going forward for future forecasts, do you see any value in exploring that relationship?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Perhaps. Like as I've -- I've mentioned, it is fairly well documented. And if -- if the suggestion is that perhaps forecasting could be improved by examining that relationship further, I'll possibly take that under consideration.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. McLaren, I -- I feel as if I've been neglecting you. The -- the -- I just have a few questions, and -- and mind -- mindful of human rights considerations as well, I -- I'm thinking that only you and I can probably remember some of these things. So at page 28 of CAC-9, if I could ask you to turn -- turn there, Ms. McLaren.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I have the reference.

MR. BYRON WILLIAMS: And not many questions, Ms. McLaren, but I'm just trying to remind everyone where the -- the roos -- roots of the RSR may -- may come from.

And before you, you'll agree you have an excerpt from one of the Kopstein position papers, being number 7, and -- and you'll see it's referenced as a response to CAC-1-175?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And can we agree that -- that a significant genesis for the Kopstein review was a -- and directing your attention to the circled third bullet, reported 62 million loss in the '86/'87 insurance year?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: What I remember is that -- you're asking the -- the genesis for the Kopstein --

MR. BYRON WILLIAMS: You know, I could ask the --

MS. MARILYN MCLAREN: -- committee itself?

MR. BYRON WILLIAMS: -- I could ask the question better. And thank you, Ms. McLaren, it -- it should have been asked better in the first place.

The context for the Kopstein committee, they were looking, you know, in that particular year they were -- were looking at a circumstance, one of the -- a significant consideration was the -- the $62 million reported loss?

MS. MARILYN MCLAREN: I think the main rationale for forming the Kopstein Commission was a 25 percent rate increase that the Corporation came forward with for the Basic compulsory program, I believe, for the 1988 rating year.

MR. BYRON WILLIAMS: And Mr. Johnston -- even Mr. Johnston would agree that's rate shock?

MS. MARILYN MCLAREN: I think we'd all

agree.

MR. BYRON WILLIAMS: The genesis for that 25 percent rate increase was driven in part by a significant loss in the '86/'87 year?

MS. MARILYN MCLAREN: Yes, in part.

MR. BYRON WILLIAMS: And if -- if we try and disentangle what happened in that year, Kopstein's conclusion was that there were three (3) factors driving it, including a -- a budgeted loss, a -- a bad winter, and then a -- a number of actuarial adjustments proposed by Tillinghast, agreed?

MS. MARILYN MCLAREN: Right. And I think even back at that time, the rate-making would have been sophisticated enough to not put too much emphasis for a going-forward rate requirement on the one (1) bad weather year. I think it would be primarily the recasting of the outstanding liabilities and the budgeting for a loss.

MR. BYRON WILLIAMS: And just directing your attention to the -- the line 1 above, or the bullet 1 above, in that era, this was just at the time when Manitoba Public Insurance was determining that it would appropriate to employ either a consulting actuary or a staff actuary, agreed?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And, Ms. McLaren, if you could just flip to the next page, being page 29 in CAC-9, you'll see Recommendation 7.11, basically to set a -- a sur -- retained surplus target of about 15 percent of premiums, agreed?

MS. MARILYN MCLAREN: Right. And as we've talked about here previously as well, at that time best practice, the standard in the industry was to have retained earnings as a percentage of premiums.

MR. BYRON WILLIAMS: I understand that, Ms. McLaren. Do we generally agree that the -- the genesis of the -- the RSR target is Kopstein and the report?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Was their first conversation about having a rate stabilization reserve flowing from the Kopstein Commission. Is that the question?

MR. BYRON WILLIAMS: Sure.

MS. MARILYN MCLAREN: That's probably fair. I'm not completely certain. That's reasonable.

MR. BYRON WILLIAMS: And if we compare today to then, can we agree that the Corporation's forecasting methodology has materially changed for the better since then?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Can we also agree back then that, given its dearth of actuarial support, that Manitoba Public Insurance had some significant issues with incurred liabilities? Let me -- Ms. McLaren, let me ask that better as well.

At that point in time, back in the Kopstein era, or just prior to that at least, MPI was not really performing actuarial -- actuarial policy liability violations -- valuations and had challenges in under -- understanding what was going on, in terms of incurred liabilities?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Yeah, just a quick read of this page 28 of your Exhibit number 9. It looks like this Tillinghast work that was done as at October, '87, was -- was not done on any sort of regular basis at all.

MR. BYRON WILLIAMS: And we can agree that while there still may be some disputes between parties in terms of the actuarial review of liabilities, the Corporation has taken major strides since then in improving its assessment of -- of incurred liabilities?

MS. MARILYN MCLAREN: Absolutely. The twice-annual external appointed actuary review of liabilities, the work that Mr. Johnston does on an ongoing basis, any -- any number of things, absolutely.

MR. BYRON WILLIAMS: Ms. McLaren -- and I'm not sure if you're the right person, but I'll -- I'll deal with you. And then you can send me elsewhere.

In -- in the event that Basic insurance had to book a hundred million dollar loss regardless of the cause, essentially, just starting out, on the income statement this loss would be booked to the -- the bottom line?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: The retained earnings would be reduced by that amount and, depending on how much was in retained earnings, potentially it would be in a deficit?

MS. MARILYN MCLAREN: Right.

MR. BYRON WILLIAMS: Now, there would be some issues -- or cash flow would eventually be reduced by that amount?

(BRIEF PAUSE)

MS. HEATHER REICHERT: If I can, you had indicated that we incurred a loss or booked a loss of a hundred million. So, eventually, as that claim is paid out it would impact on the cash flow of the Corporation, yes.

MR. BYRON WILLIAMS: And I thank you for that. But again, there would be time to -- to manage the -- the cash flow?

MS. HEATHER REICHERT: Depending on the nature of the particular claim, that would determine how much time there was to manage that cash flow.

MR. BYRON WILLIAMS: And there would be a reduction in investment income from a hundred million dollar loss, agreed?

MS. HEATHER REICHERT: Yes, I agree.

MR. BYRON WILLIAMS: And as Manitoba Public Insurance moved forward from that loss and moved into the next general rate application they would have to make a determination on whether a rate increase was warranted given the -- related to the lasting impact, if any, of this loss on overall operations?

MS. HEATHER REICHERT: Yes, that's

correct.

MR. BYRON WILLIAMS: And it's conceivable that if its RSR was outside the target range, Manitoba Public Insurance might ask for a couple percentage points for a number of years to rebuild the RSR?

MS. MARILYN MCLAREN: Sure. And there is some history on that. Back, I think, beginning in 1996, we had some serious issues with the RSR. And that year, this Board approved a 2 percent surcharge on rates. The following year, it approved an additional 2 percent, for a total of four (4). And then the following year an additional 1 percent, for a total of five (5).

And eventually those surcharges came back out of the rate. One percent came out the next year, and then the -- the four (4) was eliminated after that. But at one (1) point, we were surcharging up to as much as 5 percent specifically to rebuild the RSR.

MR. BYRON WILLIAMS: And, Ms. McLaren -- and we're probably both testing our memory on that, at that -- at the starting point when the RSR surcharge was imposed, can we agree that the deficit in retained earnings was in the range of $50 million, subject to check?

MS. MARILYN MCLAREN: Subject to check, that sounds about right. Put another way, negative retained earnings to the tune of about 50 million.

MR. BYRON WILLIAMS: I thank you for that. Mr. Chairman, I'm moving to a lengthy area. I could start it. What I -- I would recommend for the -- the panel, subject to your schedule, is we could just start a few minutes early in the afternoon to -- to make up for it.

THE CHAIRPERSON: Why don't we do that? Let's adjourn now and return in this room at one o'clock to resume the proceedings. Thank you.

MS. KATHY KALINOWSKY: If I could, Mr. Chair? I believe Mr. Johnston has a response to an undertaking that he can just give orally. So if we could do that right now before the break?

THE CHAIRPERSON: Please do. Yeah, thank you.

MR. LUKE JOHNSTON: Yes, the response is to Undertaking number 7. And the question -- or the undertaking was in regards to the interest rate risk paragraph shown in the annual report. And it says that:

"A change of 58 million flowing from a hundred basis point change in interest rates."

The question was to advise to the end of September 2012, if there was a more current number to the 58 million. And I have the following information:

"As of August 31st, 2012, if there is a parallel shift in the yield curve where interest rates increase by a hundred basis points, it is estimated that the market value of the fixed income portfolio will fall by 61.3 million. Conversely, if interest rates fall by a hundred basis points the market value of fixed income will increase by approximately 72.7 million."

THE CHAIRPERSON: Thank you. I think we can adjourn now? Yes, adjourn and -- and resume the proceedings at one o'clock.

--- Upon recessing at 11:51 a.m.

--- Upon resuming at 12:58 p.m.

THE CHAIRPERSON: I believe we're ready to -- to resume proceedings. We have some new documents.

MS. KATHY KALINOWSKY: Yes, good afternoon, Mr. Chair and Board members. Undertaking number 6, which is the accumulation of a large amount of cash, I would suggest that that be marked MPI Exhibit number 15.

--- EXHIBIT NO. MPI-15: Response to Undertaking 6

MS. KATHY KALINOWSKY: And Undertaking number 15, I would suggest that that be marked MPI Exhibit number 16. In that, we've slightly changed the undertaking. It was for Manitoba Hydro to outline the role of the consulting actuary, and instead we changed that to MPI outline the role of the consulting actuary. And I believe that Mr. Williams will probably agree to that change in the undertaking.

--- EXHIBIT NO. MPI-16: Response to Undertaking 15

MR. BYRON WILLIAMS: I object.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I withdraw that objection, Mr. Chairman. We are going to come -- come to the IBNR in just a second. But in what -- just for the Board's information we have had some off-the-record discussions with MPI just to expedite the record, or the discussions a little bit.

So I'm -- in what will, I'm sure, look like a suspiciously well prayer -- prepared response, I am going to ask Mr. Johnston: In terms of the increase in DSR premiums as applied for, can you provide an indication to the Board of the increases by DSR level after one (1) year of clean driving?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I may have to hold my question.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: If -- if that answer is prepared, I would suggest certainly, with no objection from my client, that you distribute it, and then I'll just ask Mr. Johnston to explain what -- what the -- what this demonstrates.

MR. LUKE JOHNSTON: Yes, thank you.

MS. KATHY KALINOWSKY: Sure, and if I

could suggest that it be marked as the next exhibit number, which would be MPI Exhibit number 17.

--- EXHIBIT NO. MPI-17: Document prepared showing the increases by DSR level after one (1) year of clean driving

MR. LUKE JOHNSTON: Yes, thank you for that question. In -- in front of you, you have what's titled, "Comparison of Driver Safety Rating Premiums in 2012 and 2013 Proposed after One (1) Year of Clean Driving."

And what -- the -- the purpose of this exhibit is to show what drivers will actually experience in terms of driver premium rates, assuming that they have a clean year of driving.

So in the -- in the first column you'll see the DSR level, followed by the 2012 and 2013 proposed driver safety rates. If we look at this table in isolation, it -- it would appear that, for example, someone at twenty (20) demerits is receiving a five hundred dollar ($500) rate increase on their -- their driver premium. Or, similarly, someone at negative one (1) is -- is going from forty-five dollars ($45) to one hundred dollars ($100), which would be more than a hundred percent rate change.

What we show in the middle table is how drivers move on the scale if they have a clean year of driving. So it shows the current level and standard movement, which means they drive at least -- I believe it's three hundred and thirty (330) days in a year. And the modified movement, which is the amount that they'll move on the scale if they choose to opt out and not have a licence.

So, for example, I'll stick with twenty (20) demerits, because that's the most significant premium. A driver at twenty (20) demerits, or negative twenty (20), who drives and has a clean year of driving, would be subject to our standard upward movement of -- to move to a negative thirteen (13).

And this is an additional incentive for demerit drivers to improve their behaviour. They can move up the scale faster. And if you move along the bottom, you'll see they can save nine hundred dollars ($900) in their driver premium by driving one (1) clean year.

The other option for a driver at twenty (20) demerits would be to simply sit out the year. The benefit, of course, to MPI would be that they are --

they are identified as a high-risk driver and they're not driving. That would allow them to avoid those driver premium costs and move up the scale to a -- a more favourable level, but obviously not as significant a movement as someone that actually shows that they can drive a full year clean. And they would save three hundred dollars ($300).

So there -- there are ways for drivers to get out of these significant levels, either by opting out or -- or driving safely. And, again, I just wanted to present this because it does appear on the face of it that driver premiums are going up significantly at certain levels. But that -- that's not the case on the assumption that the driver has a clean year. Of course, if they do not have a clean driving year and fall down the scale, their -- their premiums will go up.

(BRIEF PAUSE)

THE CHAIRPERSON: Can I ask a question? There's a column there that talks about modified movement?

MR. LUKE JOHNSTON: The -- on -- on the demerit side, where the -- the premiums are much more significant, we did recognize that drivers should be able to opt out and still move up the scale, as a choice to not have to -- to pay the, say, twenty-five hundred dollars ($2,500).

We don't want to give them the same amount of credit as somebody that does drive safely, but we do allow them to move to higher levels and then avoid those premiums.

Yes, and by -- by "opt out" means they -- they don't have a licence, or they don't have a licence for the required period to move up the scale by the standard movement.

So -- so, for example, if someone was suspended for half a year, and then they drove clean driving for the second half of the year, they would still be able to receive modified movement, some kind of benefit; but, of course, not the same level as someone that drives a full year.

(BRIEF PAUSE)

MS. ANITA NEVILLE: How do you determine the levels that they move up?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: These -- these are in regulation. However, I will say that we -- we have a lot of evidence on the record also that shows that the -- the risk decreases as they move up the scale and the -- the movements are approximately reasonable from a risk perspective.

So what I mean by that is if -- if we look at all the drivers at twenty (20) demerits, if somebody moves up to thirteen (13) demerits, we should see a decreased level of risk from those drivers, wherever they came from, as they move up the scale. And we definitely do see that.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Johnston, just for the benefit of my client and their legal counsel, in terms of the -- how the merits may apply to young drivers still in the graduated licensing program, I wonder if you can just articulate that -- do you have to graduate from the graduated dri -- licensing program to be eligible for merit?

Or how does that work, sir?

MS. MARILYN MCLAREN: No, as soon as they are a licensed driver and they have -- the meet the criteria of a year with no incidents, they get a merit point, absolutely.

MR. BYRON WILLIAMS: Thank you, Ms. McLaren. Mr. Johnston -- and -- and again to the Board, in terms of MPI Exhibit 14, I've not had a chance to discuss it with Dr. Simpson.

But, Mr. Johnston, if I could get you to go back to that document. The front page is for your budgeted compound return relative to 5th percentile.

MR. LUKE JOHNSTON: I'm there.

MR. BYRON WILLIAMS: And just directing your attention to the second -- second page, if I might, Mr. Johnston, in the top table it appears to me -- or, I'm going to suggest to you that you were doing an analysis of what was forecast and then the actual results and -- and looking at the variance between budget and actual.

And I -- am I correct, sir?

MR. LUKE JOHNSTON: Yes, that's correct. Regardless of the level of the equity gain or loss, what -- what flows through the income statement will be relative to our budget. The -- the equity returns budgeted in this -- in this history are -- are not identical to the 6.1 percent we're budgeting in this GRA, but they are relatively close, around the 6 percent range.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: In -- and just so I understand this, in comparison to the analysis that you performed in the decline in equities, is what we see here an -- almost an opportunity cost analysis, sir?

MR. LUKE JOHNSTON: Really, what I was trying to -- to provide for the -- for the Board's information is just an -- an understanding of -- of -- that we're -- we are looking rel -- relative to budget and -- and, also, to show a recent four (4) year period where we've had, you know, a significant loss and a partial recovery, which was referenced in one of the IRs.

MR. BYRON WILLIAMS: Now, sir, the other two (2) tables there on that page, is the outcome of those tables also a forecast to actual analysis?

MR. LUKE JOHNSTON: Yes. Again, trying to show that we might -- here I'm trying to show that we might have differences of opinion on -- on how to model equity risk. But I'm trying to show here an order of magnitude in -- in terms of how some of those assumptions play out.

And so what I've done is calculate what a particular scenario would be relative to budget and show the approximate magnitude of losses that would occur if -- if that scenario played out.

Again, I -- I believe I said this when I described it, the recognition of those losses and how they flow through net income can happen in -- in many different ways. But assuming over a four (4) year period it's all recognized, this is the approximate losses relative to the 2013/'14 base equity level.

MR. BYRON WILLIAMS: So just so I understand it, sir, this is not a recasting of your decline in equity scenario using post-1956 data or modern data?

MR. LUKE JOHNSTON: Yes, that's correct. I haven't made any assumptions about how the losses would be recognized and -- and how they flow through the statements. Again, just to -- I show a approximate -- or order of magnitude.

MR. BYRON WILLIAMS: Could you recast the decline in equities scenario using post-December-1955 data, sir?

MR. LUKE JOHNSTON: With -- with adequate time, I could recast any DCAT scenario, provided I have all the necessary assumptions needed for -- for that scenario.

MR. BYRON WILLIAMS: How long would that take, sir?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: We have in, at least, I think, two (2) cases, recast a scenario -- I know one (1) for sure -- from the Public Utilities Board, a 35 percent decline. I think to -- in -- in fairness to my financial modelling friends, two (2) or three (3) days to -- to understand the assumptions and apply them correctly, run the model, and review the results would be reasonable.

MR. BYRON WILLIAMS: I'll ponder that. Just conceptually, what you've presented on page 2 of Exhibit 14 reminds me to some degree of the risk analysis, leaving aside the VA -- VAR is -- conceptually, is that a fair statement, sir?

MR. LUKE JOHNSTON: I would not say that. The -- the DCAT -- again -- again, we're -- we're discussing how to -- to model an equ -- equity risk scenario. And what I'm doing here is looking at some of these 1956 to present models that could be built and -- and demonstrating the -- the significance of the impact.

The delineations that are modelled are being applied here to the 2013/'14 year to give you an approximate estimate of the impact. However, I'm -- I'm definitely not doing what the operational risk analysis does in looking at the historical variability between actual and budget and then -- and then assuming that's my model. That -- that's not what I'm doing here.

We're still looking at equity returns over time and applying it to our -- our forecast like -- like the DCAT does.

MR. BYRON WILLIAMS: So you wouldn't agree with the suggestion that you're applying a -- a budget vary analy -- variance analysis, but only to one -- one particular component of risk?

MR. LUKE JOHNSTON: The DCAT is applying a equity risk scenario relative to our base forecast, which is our budget. So that is what the DCAT is -- is doing, and that's -- that's what this is try -- trying to provide as information, recognizing it's not -- there's some other assumptions required to run a full scenario through our financial model.

MR. BYRON WILLIAMS: Okay, thank you for that. For the -- the panel, I will be returning to

CAC Exhibit 5 around page 30, and for you, Mr. Johnston, of course. And once you're done shuffling that document, in terms of CAC Exhibit number 9, the other thick document, you might want to have page 33 nearby; and finally, in reserve for about twenty (20) minutes from now, CAC Exhibit 8.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: My evil ploy, Mr. Johnston, was to get you to shuffle as many papers. Have I succeeded, sir?

MR. LUKE JOHNSTON: Yes, just reshuffling as we appear to be changing topic areas here.

MR. BYRON WILLIAMS: Directing your attention to CAC-5 page 30, Mr. Johnston, you'll agree with me this is a excerpt from the external actuary's summary of policy claims liabilities as of October 31st, 2011?

MR. LUKE JOHNSTON: Yes, I agree.

MR. BYRON WILLIAMS: And just to orient -- orient ourselves, at the bottom you'll see, "Total claims liabilities."

Do you see that line?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And if we go over to the -- under the heading, "Net," you'll -- I'll suggest to you that the external actuary at this point in time is estimating total claims liabilities in the range of $1.3 billion?

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

MR. BYRON WILLIAMS: And just again to -- to put this in context, one (1) line -- or, one (1) column to the right is the figure of 1.348 billion, which would have been what was estimated by MPI -- or, what it was carrying, excuse me, prior to the review?

MR. LUKE JOHNSTON: Yes, that's correct. If all assumptions that I forecasted had played out as expected, that was our -- our booked value, our expectation of booked value at that point in time.

MR. BYRON WILLIAMS: Now, I want to move up on this page again. You'll see the number in the top -- near the top left-hand corner, the number "1" and the heading, "Incurred but not Reported Claims and External Adjustment Expenses."

Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And if in the future for "incurred but not reported" I use "IBNR," you'll understand that that's what I'm referring to?

MR. LUKE JOHNSTON: Yes, that will be helpful. Thank you.

MR. BYRON WILLIAMS: For both of us, sir. And the estimate of the actuary at this point in time for the IBNR, including adjustment expenses, would be $258.7 billion -- excuse me, let's strike that -- $258.7 million?

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

MR. BYRON WILLIAMS: And just to hone you in on where we are going, if -- in terms of accident better -- benefits other indexed, you'll agree with me that the estimate of IBNR by the external actuary was $39.5 million, agreed?

MR. LUKE JOHNSTON: Agreed.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Johnston, if you can turn one (1) page over, to page 31 of CAC Exhibit 5. You'll agree with me that this is, again, an extract from the external actuary's report of

October 31st, 2011, being Exhibit 4, sheet 6?

MR. LUKE JOHNSTON: Yes, that's correct. And -- and what you're seeing here are the -- we -- we did speak about this a little bit last week. The -- these -- these are the IBNR estimates from the various different methods. We talked about the BF method, using incurred verus paid. These are various tools that the actuary uses to estimate the IBNR.

MR. BYRON WILLIAMS: And we will come back to this table as it appears on Exhibit 8.

But just, again, to make sure that we're orientated to this document, if I go to the second column, "Incurred Development Method," the -- the estimate of IBNR that would flow from that would be roughly $31 million, as at this -- this time of the actuary's report?

MR. LUKE JOHNSTON: That's correct.

MR. BYRON WILLIAMS: And, again, if we just went over a couple of lines to the paid BF method, which is column 5, it would be roughly 35.5 million?

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

MR. BYRON WILLIAMS: And the number that we saw on the -- the previous page, the 39.5 million, is -- appears as the selected method of the external actuary under column 6?

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

MR. BYRON WILLIAMS: Mr. Johnston, if I can ask you to turn to page 32 of CAC Exhibit 5, that somewhat intimidating sheet with all sorts of numbers on it.

Do you have that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And perhaps I -- I apologize if this appeared on your version, but if there's the word "tail" in the bottom right-hand corner, we should strike that out. I don't know if that's only on my copy or not, but I -- I should -- I didn't mean to do that.

MR. LUKE JOHNSTON: Yes, I -- I do have that there. And --

MR. BYRON WILLIAMS: Okay.

MR. LUKE JOHNSTON: -- I'm sure we'll discuss that, so.

MR. BYRON WILLIAMS: Now, Mr. Johnston, again, this is -- if we look in the top-left hand corner, we see this again relates to the accident benefit others indexed.

And without going into par -- a great

deal of explanation right now, this is an important piece of information in terms of how the incurred development and the incurred BF method are -- are developed, agreed?

MR. LUKE JOHNSTON: Yes, and just briefly for the -- the benefit of the -- of the Board, I talked -- I spoke last week about development over time. And what you're -- what you see in the -- in the top table is the insurance year. And these are -- these are claims that occur in those particular years.

And the -- this is the reported losses that we have in our claims system at various points in time. So just briefly, 2000/2001, you see thirty-four, six forty-two (34,642) was reported after eight (8) months, growing to sixty-seven million, sixty-four point -- sixty-four, eight seven five (64,000,875), et cetera.

And this is what -- what I mean by development. Especially in the early years, we don't know the full details of our claims. They -- and -- and typically, there is some upward development. But as you also see here, after a certain period of time, the -- the development stabilizes and it can be up or down.

MR. BYRON WILLIAMS: Mr. Johnston,

thank you. And we will go, in -- in a couple of moments, in a bit more detail at some of those numbers. But perhaps for -- and My Friend, Ms. Grammond, did this last week, but just -- just to remind us, because I often forget.

When we use the word "incurred", in terms of the development, we're referring both to -- to the amount that has been paid on a particular claim, as well as the amount that has been set aside in case reserves, agreed?

MR. LUKE JOHNSTON: Yes, obviously we -- we know the paid, that's one component. And the case reserves are the values set by the case managers, not by the actuaries - by the actual case managers of those claims.

MR. BYRON WILLIAMS: And the challenge in any actuarial exercise, knowing roughly that, is -- is to estimate the incurred but not reported.

And some of the selected factors that we'll get to in just a moment are an important component to that analysis?

MR. LUKE JOHNSTON: Yes, they definitely are important. We rely heavily on past patterns of development to predict the future. And when I spoke last week about the importance of the new reserving guidelines we put in and the stability that was created from -- from those reserving changes, this is an example of why that's so important.

If we have high levels of variability, it makes it a lot more difficult for us to forecast the development of these claims to the extent that they're more stable. It -- it helps improve our estimates.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And in terms of -- I'm going to suggest to you that there -- in terms of predicting IBNR -- no, we'll -- we'll strike that. And I will come back to it.

Mr. Johnston, just again focussing you on the top third of the -- the document. And you gave us an -- an explanation. I just want to kind of walk it through a little bit more. And on -- on the left-hand side, under, "Insurance year," if I could direct you to the '06/'07 year just for a moment, sir.

Do you see that?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And you'll also see the first line is eight (8). And I'll suggest to you that for the '06/'07 year, the figure of 37.75

million is incurred development for that insurance year at eight (8) months?

MR. LUKE JOHNSTON: That's fair. That's the -- the paid and ca -- and case reserves at that point in time. That would be that particular accident year as of -- what we know as of October 31st.

MR. BYRON WILLIAMS: And if I went twelve (12) -- to -- just one (1) column, over under the -- the number "12" and show -- for that same year, '06/'07, and showed you the figure of $55.1 million, that would be the incurred development at twelve (12) months for that particular insurance year?

MR. LUKE JOHNSTON: Yes. So that would be for all accidents that occurred in that particular insurance year, those are the -- the paid plus reserves that we know as of the end of that year. Of course we have a lot more to learn about some of these claims that are still open, but that's what we know as of that day.

MR. LUKE JOHNSTON: And if I wanted to determine the de -- development from eight (8) months to twelve (12) months, I would -- for the '06/'07 year, I would take that figure of 55.1 million under the -- under the twelve (12) and divide it by the 37.75 figure under the eight (8).

And I would suggest to you it would yield one point four-seven-one-zero (1.4710), sir?

MR. LUKE JOHNSTON: That's correct. It's -- it's simply the ratio between those two (2) numbers. And -- and if you go to the table below, that basically is a collection of all the ratios at the various stages of development. So you'll see an '06/'07, that there's one point four-seven-one-o (1.4710), as you -- as you stated.

MR. BYRON WILLIAMS: And therein lies the explanation for the -- the numbers in -- in the middle.

I'll suggest to you, Mr. Johnston, that they're a reflection of the -- the ratio between development at -- at particular periods of time set out above?

MR. LUKE JOHNSTON: That's fair.

MR. BYRON WILLIAMS: And without doing the math but just going up one (1) line, again, in the middle under '05/'06 we see, under eight (8) months, one point six-five-seven-two (1.6572).

And that's simply the calculation of the -- for the '05/'06 year of the development -- incurred development at twelve (12) months, divided by the incurred development at eight (8) months, agreed?

MR. LUKE JOHNSTON: Agreed. And that's a -- that's a good example, actually, of how -- how variable the development is in the very early stages of a claim. So you just saw one point four-seven (1.47), and -- and now you see one point six-five (1.65), basically two (2) years apart, the same -- same period.

MR. BYRON WILLIAMS: Mr. Johnston, just moving down this table -- or this -- these two (2) pages, you'll see some lon -- lines such as, "Latest nine (9) volume weighted," "Latest three (3) volume weighted," "Simple average of four (4) of last six (6)." How that's a simple average, I'll never know.

But do you see those lines, sir?

MR. LUKE JOHNSTON: Yes, I do and I will note that these are -- these are standard throughout the report, although not always applicable, which we can get into if we go through some of these.

MR. BYRON WILLIAMS: And -- and, Mr. Johnston, just to make sure I understand, let's -- let's take the -- the latest nine (9) volume weighted. That would essentially be calculated by taking, again, under the -- the number "8", in terms of months of development, that would be calculated in -- in taking the -- the latest nine (9) years of losses at a certain period of development, whatever number of months it is, divided by the -- the -- let me try that again.

For the latest nine (9) volume weighted under the eight (8), I would get that by calcul -- dividing the last nine (9) year losses at twelve (12) months by the last nine (9) year losses at eight (8) months, correct?

MR. LUKE JOHNSTON: That's correct. It's basically taking the -- the sum of the losses at each period as opposed to just taking the average of the ratios. That gives a little bit more weight to higher years, but a -- a similar number, likely.

MR. BYRON WILLIAMS: And just again, so I understand that point, it's not a calculation of the ratios, but of the actual losses to -- and that's where the weighting comes from?

MR. LUKE JOHNSTON: Yes, sorry. It -- the sum of the losses at one period divided by the sum of the losses at an earlier period.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And, Mr. Johnston, right near the end of this barrage of numbers we'll see a -- a line with an asterisk, the selected factors.

Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: And this is the -- these are the factors ultimately selected by the external actuary which he will use in his estimate of claims liability, in terms of the incurred development method?

MR. LUKE JOHNSTON: That's right. These are the incurred development assumptions for this coverage.

MR. BYRON WILLIAMS: And without going into the BF methodology, or the incurred BF methodology, in any great detail, my understanding is that the -- the results from the incurred development method ultimately feed into the -- in -- incurred BF, leave -- leaving aside trend lines and -- and everything else, agreed?

MR. LUKE JOHNSTON: Yes, I agree. And -- and the -- the main reason for that, in particular for a coverage such as this one, is we -- we believe that the best information we have after three (3) to five (5) years into a claim is the information provided by case managers, particularly on the -- the serious losses.

MR. BYRON WILLIAMS: And, Mr. Johnston, in -- in your experience in selecting the -- the factors, the selected factors, would it be fair to say that the -- the actuary will -- will take a look at different averages, perhaps paying particular attention to more recent developments, and that the selected factors will be the product of his -- his or her actuarial judgment after taking that type of information into account?

MR. LUKE JOHNSTON: I -- I think that's fair. And of course, again, the -- as I mens -- mentioned previously, the -- of course the history has to be applicable to the -- the matter at hand.

One issue in here, and I'm not going to go through all the -- the numbers, but we did have that very substantial reserving change in '05/'06 with -- that trickled a little bit into the following year. That's an example where there's a huge effect on the development assumptions that we had that wouldn't -- you wouldn't expect that to be reflective of the future in any way.

MR. BYRON WILLIAMS: Thank you, Mr. John -- Johnston, for that. Now, there's one other thing that we haven't chatted about, which is the tail factor. And -- and I'd like you to run along with me, the bottom line, "Selected Ultimate," out to under -- hopefully it's circled -- under one hundred and twenty-eight (128) months, you should see circled the figure of one point zero-three-four-five (1.0345).

Do you see that, Mr. Johnston?

MR. LUKE JOHNSTON: Yes, I do. And essentially what that is saying, that from that period forward for any acc -- applicable accident year we're assuming a further development of 3.45 percent above the -- the current reported amounts.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Johnston, I'm going to just present you something from the external actuary's report, mostly to just kind of -- if you're looking for it, it's probably at page 26 -- excuse me, 32 of CAC-9, just if you've got it.

And I'm -- I'm -- because it's complicated, I'm going to read it to you, and then I'll let you elaborate on it, if -- if you feel the need. And in terms of the incurred tail factor, Mr. Johnston, I'll -- I'll suggest to you that it was initially selected as one point zero-zero-two-three (1.0023) to ultimate.

Incurred will grow annually by zero point two-three (0.23) of twen -- for twenty-five (25) more years beyond the first ten (10) years, and that that growth factor of zero point two-three (0.23) was judgmentally selected so that initial incurred tail factor would equal one point zero-six (1.06).

I'll suggest to you, as well, that loss development factors after one hundred and sixteen (116) months were then revised to reflect the recent experience if there were at least five (5) observed factors, resulting in a final incurred tail factor of one point zero-three-four-five (1.0345).

I didn't read it verbatim, Mr. Johnston, but did I get it?

MR. LUKE JOHNSTON: That's a accurate description of -- of what was done.

MR. BYRON WILLIAMS: And in terms of those -- in terms of the adjustments for recent experience, if I go directly above the one point zero-three-four-five (1.0345) at -- at one twenty-eight (128) months, will -- will that be the -- the three (3) numbers being one point zero-zero-five-zero (1.0050); moving to the right, zero point nine-nine (0.99); and then moving to the right, zero point nine-nine (0.99)?

Is that what that's referring to, sir?

MR. LUKE JOHNSTON: Yes, we've -- our -- our methodology for recognizing actual experience, once we have five (5) years of data, we take the growth adjustment that you've discussed in -- in your last comments, and we -- we changed that to reflect actual experience, positive or negative.

MR. BYRON WILLIAMS: And in terms of this one point zero-three-four-five (1.0345) -- and if you want to flip over to page 33 of CAC-9, really focussing you on the middle of that page -- I understand that it was based upon a -- a review of claims more than -- than ten (10) years old.

Would that be fair, sir?

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

MR. BYRON WILLIAMS: And without going into the -- the details of the review, I -- I'd ask -- I want to ask -- I would ask you to agree that in -- in terms of that number, that -- that load of 3.45 percent, even after that review, it's difficult to assess the likelihood and magnitude of -- of the impact of the assumptions in that review.

Would that be fair?

MR. LUKE JOHNSTON: Yes, that's -- that's definitely fair. We're -- we're talking about a period where the Corporation has no information. And the -- the -- we have had debate at the hearings about what -- what's an appropriate load to put on for relapse of claims or increasing cost of claim -- claimants as they age.

And the -- the purpose of -- of the review was to get a better understanding of the underlying claims that -- that this assumption is being applied to and try to make the estimate as -- as credible as possible and ensure that we actually do need a tail load.

MR. BYRON WILLIAMS: In terms of that 3.45 percent load, it would be fair to suggest to you that, given the -- the limited data, you don't have particular confidence that that's the right number?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: On page 33 of CAC Exhibit 9, we -- we talk about the -- the study that was done and why we have concern that there -- there may be an adverse development in the future.

Just to touch on a few of those points, of these long-term claims, only about 27 percent of them have personal care reserves right now. I believe it's reasonable to assume that, as claimants age and their situations change, that it's possible that that number could increase. And when I say possible, I don't mean hypothetical extreme scenarios; I mean on a best-estimate basis.

Similarly, a second point, again the average claimant today that -- that is receiving personal care benefits is only getting about 39 percent of the maximum that they could be receiving. So that -- that's another reason why we see a need for load.

Returning to your question, you're -- you're correct that the actual amount of the load is very difficult to predict. I -- I believe that we need a load for this coverage on a best estimate basis. And what we've done here is try to take the existing tail load that we have and find a way to move that -- that tail load gradually towards where the data is -- is taking us.

But, of course, I won't ultimately find that out till forty (40), fifty (50) years in the future, but nonetheless I need -- I believe something is needed here. And -- but I -- I agree, it's very difficult to estimate.

MR. BYRON WILLIAMS: And where the -- the data is taking you, sir, at least those -- those three (3) mos -- most recent years, in -- out to one twenty-eight (128) it -- it was slightly positive, out to one (1) -- one forty (140) it was a negative development, and out to one fifty-two (152)?

MR. LUKE JOHNSTON: I'm going to assume that you're -- you're looking at the averages below, and -- and --

MR. BYRON WILLIAMS: Fair enough, sir.

MR. LUKE JOHNSTON: -- that's -- that's reasonable to do. In -- you will see that, of course, we -- we have some concern with the -- the latest observations. In particular, running from the column titled, "One twenty-eight (128) to one forty (140)," we -- we see positive development of one point-o-one eight four (1.0184). Moving along, also positive development, one point-o-o-four one (1.0041.), et cetera.

So clearly there's -- if we look at the averages, I -- I would agree that there's some averages above one (1) and some below. But we're -- we're committed to -- to recognizing that experience as it becomes available.

MR. BYRON WILLIAMS: Recognizing the in -- uncertainty, would you be prepared to characterize the one point zero three four five (1.0345) as slightly conservative?

MR. LUKE JOHNSTON: I don't know I would come to that characterization at all. To be honest, I'm -- I'm very concerned about the risks in this coverage, and I think we should definitely be cautious of the assumptions that we select. I -- I went through just a few points in that study that we -- we did on the serious claimants, and I -- I see some legitimate risk of positive development. In my professional opinion, this is as good of a best estimate as I can come up with for this coverage.

We did not talk about weekly indemnity. But we did a similar analysis for that line and -- and I concluded that it wasn't reasonable to have a tail based on how we reserve claims. So I don't think by any means I'm -- I'm being conservative here.

MR. BYRON WILLIAMS: Just to finish off this point, Mr. Johnston, and we had a bit of this discussion yesterday, apart from some limited discussions with SGI, you haven't sought out any analogous or comparable information, whether from worker's compensation systems, or from -- from the -- from Quebec, the SAAQ?

MR. LUKE JOHNSTON: No, I have not.

MR. BYRON WILLIAMS: Now, back in 2005 there was a special analysis conducted. Do you recall that, sir?

MR. LUKE JOHNSTON: I believe you're

referencing the analysis done by our appointed actuary to justify a tail factor of 6 percent.

MR. BYRON WILLIAMS: Yes, I am. Now, since then, has a new study of -- of that type been completed?

MR. LUKE JOHNSTON: No, it hasn't. We are basing our projections now on the information that we have in this tail period along with the -- the study that you see that we just discussed in -- on page 33 of CAC Exhibit 9, along with any other relevant information that we have. We don't...

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'll leave it at that.

MR. BYRON WILLIAMS: I was hoping for more, sir. Just teasing you.

If we could to -- turn to CAC Exhibit number 8, and I believe we can put CAC-5 away for good. I shouldn't say that, but that's my -- my best estimate, Mr. Johnston.

In terms of CAC-8, just -- it -- it should be a one (1) page sheet and -- and in the top left in a small headline you should see "accident benefits other indexed." Do you have that, Mr. Johnston?

MR. LUKE JOHNSTON: Yes, I do.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And we've already had a bit of a discussion about this, the top of this document, but you'll agree with me that apart from the shading in grey, that this is pulled directly from the external actuary's report of claims liabilities as of October 31st, Exhibit 4, sheet 6?

MR. LUKE JOHNSTON: Yes, I reviewed these numbers and they're accurate.

MR. BYRON WILLIAMS: And before, Mr. Johnston, when we briefly discussed this table, we agreed that essentially it provides the estimate of IBNR for "accident benefit other indexed" that would be achieved through four (4) different methodologies, being the incurred development, the incurred BF, the paid development, and the paid Bornheutter -- I don't want to even say that, the paid BF method.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And under these

methods you can see that the range of estimate achieved at the low end flows from -- on the left-hand side the incurred development method.

And you'll agree that it is around 31 million?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: At the high end of the -- the range of the -- through the various methods is the paid BF. And -- and you'll see that it -- it is around 35.5 million.

MR. LUKE JOHNSTON: Correct.

MR. BYRON WILLIAMS: And if one wanted to understand where the selected figure on the extreme right of 39.5 million was garnered, you can see that MPI has incorporated some of the estimates from the incurred BF which are shaded, as well as two (2) of the estimates from the paid BF, which is -- which are shaded.

Agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: So essentially, the selected methodology and the estimate of thirty point five (30.5) incorporates the incurred BF for the years '94/'95 through '08/'09, the paid BF for the years '09/'10 and '10/'11, and the incurred BF for the year '11/'12?

MR. LUKE JOHNSTON: That's correct. And if I could expand on that a little bit. The -- there is a very specific rationale for -- for these selections. Serious claims are very difficult -- it's very difficult to estimate our liability for -- for these claims in the first several years. As case managers assess the details of the claim and the expected payments for the various benefits, they can -- they have a better estimate of the -- the true costs by about the two (2) to three (3) year timeframe on the -- on large claims.

After three (3) -- three (3) years, we assume that our most accurate information is from the incurred BF method, because this -- this is what case managers are telling us and we assume that they're reserving the claims accurately at that point.

Prior to that period, the data is fairly unstable, not so much on paid but on -- on curred -- in -- on incurred for sure. What we do for the first three (3) years is we use a higher-of method, the higher of either the paid BF method or the incurred BF method.

And on the face of it that might sound conservative, but the -- the reason we do it is as follows. As I mentioned, paid has a lot more stability. If we have paid data telling us that we need a higher IBNR than the incurred method shows that -- that early on, we believe it's important to recognize that estimate.

On the other hand, if we have case managers putting in very significant dollars into claims, perhaps signalling to us that we have a lot of serious losses in this particular year, it's also important that we recognize a potential for a higher ultimate from that method.

So that's what we do in the first -- that's the reason we do the higher-of method in the first three (3) years. Of course, we have no justification to do that higher-of once we've assumed hat case managers have accurately reserved these claims after about three (3) years.

MR. BYRON WILLIAMS: Thank you, Mr. Johnston. In terms of the ultimate estimate, we can agree that it's higher than the estimate achieved by any of the alternative -- or, excuse me -- any of the methodologies?

MR. LUKE JOHNSTON: That's true, and that's largely due to the -- that higher-of methodology that I just spoke of.

MR. BYRON WILLIAMS: And indeed it's $4 million higher even than it's closest competitor, the paid BF?

MR. LUKE JOHNSTON: That's true, and I believe I just gave the rationale for why that's the case.

MR. BYRON WILLIAMS: So the most I'm going to get out of you is that while it looks conservative, in your view, it's not.

MR. LUKE JOHNSTON: Again, I -- I think I ran through that fairly clearly, I hope. I -- you know, we can look at other methods farther down the history. And -- and I've -- I've given, I think, a fairly clear rationale on why we use the incurred after three (3) years.

If you look at the other methods, they may have higher indications in the history, such as the paid method is often much higher than the incurred method in -- in older accident years. I don't pick those numbers, because again I -- I assume that case -- case reserves are set properly after three (3) years.

MR. BYRON WILLIAMS: Now, Mr. Johnston, if we move to the -- the second half of this discussion, it doesn't really have a title. Perhaps we should call it, "Sensitivity Analysis."

You'll agree with me that in terms of the methodology selected by Manitoba Public Insurance in the top part of the -- the -- the table at the top, the analysis presented in the second table duplicates -- duplicates that methodology in that it uses the incurred BF method for years '94/'95 through '08/'09, the paid BF method for '09/'10 and '10/'11, and then the incurred BF for '11/'12, agreed?

MR. LUKE JOHNSTON: Yes, we reviewed these and got approximately the results you're showing in the table.

MR. BYRON WILLIAMS: And on that point, directionally and in order of magnitude, you're satisfied with -- with the calculations here, and you will notify us of any material differences?

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

MR. BYRON WILLIAMS: So if we're trying to determine -- compare the results of the bottom estimates versus the selected method and the -- its conclusions of thirty (30) -- 39.5 million in IBNR, we can agree that the methodology employed in both MPI's selected method and the results at the bottom is the same.

What has changed is the loss development factors, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: Well, sir, let's -- let's take the -- in the -- the middle of this second table in Exhib -- CAC Exhibit 8, you'll see the column labelled, "Latest Three (3) Volume Weighted Selected Out to One Hundred and Sixteen (116) to a Hundred and Twenty-eight (128) Development."

Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. BYRON WILLIAMS: So in this analysis it leaves the tail factor, the 3.5 percent load, unchanged, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: So that element of caution -- not to say conservatism -- is maintained. And essentially what -- what has been produced here is, just looking at the latest three (3) volume -- the loss development factors based upon the latest three (3) volume weighted, agreed?

MR. LUKE JOHNSTON: That's true. And I -- I don't want to go into too much of this, but we talked a little bit about the importance of recognizing the latest experience. And I provided some examples of -- of how some of the more recent experience has been a little more adverse. What -- what you can make of that summary there is that, on average, we appear to be putting more weight to the latest information.

In regards to -- and I know you didn't address these, but there's a -- a latest nine (9) volume and a latest six (6) volume. The latest nine (9) volume weighted, we -- we simply can't use because it includes previous averages under a different reserving structure. And the vol -- the latest six (6) also includes some runoff from that, but I -- I know you did not go to that, but I just wanted to make it clear.

MR. BYRON WILLIAMS: So if we just look at the last three (3) years' experience using the same selected methodology, the results -- the estimate would be about $2.7 million less, agreed?

MR. LUKE JOHNSTON: Just a pure application of three (3) year averages, you'd get that -- that number you stated, yes.

MR. BYRON WILLIAMS: And that's leaving the tail factor from one twenty-eight (128) to ultimate unchanged?

MR. LUKE JOHNSTON: Sorry, pure application of the averages and the assumed tail factor applied to that.

MR. BYRON WILLIAMS: If we go over

another two (2) lines and take a -- a simple average of the middle three (3) of the last five (5), selected out to one sixteen (116) to one twenty-eight (128), and again leave that cautious three point four-five (3.45) tail unchanged, the result we would get, you would agree, is 22.4 million, or roughly 17 million less than the IBNR of MPI?

MR. LUKE JOHNSTON: Yes. And of course, given there's so many factors, I -- I can't characterize why -- why specifically that is the case, other -- other than to say there has been more weight given to more recent observations.

And without having to go through every single loss development assumption and deciding whether it's a best estimate or not, I -- I will say that I, you know, I have selected my LDFs on -- on the best-estimate basis. And this is how the results turn out relative to those selections.

MR. BYRON WILLIAMS: And just for a moment, directing your attention to the -- the last column, which removes the tail factor from one twenty-eight (128) to -- to ultimate for both incurred and paid, first of all, method.

You'll agree with -- that's what we've done -- done there, sir?

MR. LUKE JOHNSTON: Agreed.

MR. BYRON WILLIAMS: And without asking you to com -- comment on the reasonableness of removing the entire tail factor, Mr. Johnston, does this demonstrate the sensitivity of -- of these estimates to a tail factor?

MR. LUKE JOHNSTON: That's fair.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: In particular, a tail factor of 3.45 percent.

MR. BYRON WILLIAMS: Could you ballpark an estimated tail factor of 2 percent, Mr. Johnston, or is that -- that asking too much?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Johnston, you could do it at the break, too, if it's...

MR. LUKE JOHNSTON: I just wanted to make sure that I was correct and just kind of pro -- taking a proportion of that -- that number and didn't want to just assume that. My -- again, not performing the calculations, but I would assume approximately if you had a factor -- a tail factor of 2 percent versus 3.45, that number would likely fall to about 30 to $35 million, in terms of impact, negative. We --

MR. BYRON WILLIAMS: Mr. --

MR. LUKE JOHNSTON: When we go back to the office, we can actually put those numbers in.

MR. BYRON WILLIAMS: Mr. Johnston, just I want to make sure I understand what you -- you're saying. When you say -- I think I heard minus thirty-five (35), you're -- you're referring to the bottom number as compared to the minus. Excuse me.

Perhaps you could articulate what the -- the number is rather than letting me stumble through it.

MR. LUKE JOHNSTON: Yeah, I was just saying that my expectation on an approximate basis would be if a 3.45 percent tail generates a $57 million negative difference, I would assume that a 2 percent tail, just taking the proportion of two (2) versus three point four five (3.45) would give you about a 30 to $35 million difference there, negative.

MR. BYRON WILLIAMS: And, essentially, if I wanted to take that difference, let's say the -- the high end of 35 million, what you mean is that instead of an IBNR of 39.5 million for accident benefit other, it would be around 4.5 million, taking that higher range.

Is that what you meant, Mr. Johnston?

MR. LUKE JOHNSTON: Again, on a approximate magnitude basis, that's in the ballpark.

MR. BYRON WILLIAMS: Mr. Chairman, I have, I anticipate, half an hour of questions to go. I saw that there was an undertaking filed by MPI in terms of what Mr. Parkinson (phonetic) -- not Mr. Parkinson of Manitoba Hydro, but Mr. Parkinson on behalf of MPI -- that I -- I might like a chance to look at.

And it's -- it's -- I'm totally at the pleasure of the panel, but if we could take a fifteen (15) minute break on that. And then that would leave me done, with the exception of the exhibits, MPI 13 and 14, which were filed this morning, which our experts haven't had a chance to look at.

THE CHAIRPERSON: So let's take a break of fifteen (15) minutes. And back in this room at, say, twenty-five (25) after 2:00.

--- Upon recessing at 2:12 p.m.

--- Upon resuming at 2:26 p.m.

MR. BYRON WILLIAMS: Thank you, Mr.

Chair, and, members of the panel.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. McLaren, I think this goes to you. I'd like to have a -- just a very brief discussion about productivity indicators and benchmarks. And as we embark upon the discussion, when I ask some of these questions I'd like you to keep in mind a distinction between benchmarks comparing you to other organizations in different jurisdictions and then internal benchmarks or productivity indicators. Okay?

MS. MARILYN MCLAREN: Sure.

MR. BYRON WILLIAMS: Now, in terms of -- in -- in terms of the -- a conversation I believe you -- you held with My Friend Ms. Grammond, I can't even remember what day or which week it was, Ms. McLaren, but you had some discussion with her in terms of productivity. And I -- I -- my understanding was that you were expressing some appreciation for the Gartner Group in terms of the assistance it had -- it had provided to you in terms of information technology and benchmark analysis?

MS. MARILYN MCLAREN: Yes, that's fair.

MR. BYRON WILLIAMS: And keeping in mind that distinction between comparisons with others and -- and internal benchmarks, let's start with -- with the Gartner Group. I take it that you found some value in their benchmarking exercise with -- with other jurisdictions?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: And apart from the Gartner Group as an external consultant to assist you with benchmarking compared to others in terms of information technology, has the Corporation retained any other external assistance to -- to assist it in that external comparison to others exercise?

MS. MARILYN MCLAREN: We've dabbled a little bit, but nothing that we've really latched onto and that we're serious with.

MR. BYRON WILLIAMS: Again, looking at external comparators, first of all, Ms. McLaren, in your view is there something inherently unique about information technology that allows you to look at external comparators, or are there other areas where -- where that might be fruitful?

MS. MARILYN MCLAREN: No, I -- I think there are likely some others. There's an organization, I believe, the Forrester Group does a lot of work with call centres and metrics for call centres. We've had some information from them, but not -- the -- you know, we -- the information -- the study that we have now done with Gartner for two (2) years was really part of a larger use of Gartner resources. So we did not go looking for IT benchmarks and landed on Gartner. It really happened the other way around.

MR. BYRON WILLIAMS: And so there -- there may be some opportunities in external comparisons in -- in metrics relating to call centres. Again, focussing on the external, are there any others like that?

MS. MARILYN MCLAREN: There -- there may very well be; nothing that I would hold out any sort of commitment to this group at this time.

MR. BYRON WILLIAMS: Recognizing the value of the Gartner Group in assisting you to compare yourself to others, can you identify what, if any, assistance you ref -- rec -- rac -- received from them in terms of internal productivity exercises, or metrics, or do you consider them one and the same?

MS. MARILYN MCLAREN: For the most part I think they're one and the same.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Now, in your

discussion with Ms. Grammond you also mentioned looking at establishing some key metrics in terms of the average number of files handled by employees.

Do you remember making a statement to that effect?

MS. MARILYN MCLAREN: The context being claims files, both injury and physical damage, I believe.

MR. BYRON WILLIAMS: And in terms of that vision of -- of establishing key metrics, how far down the path is MPI in terms of this specific average number of files handled by -- in terms of emp -- by employees?

MS. MARILYN MCLAREN: I would say at this point closer on the injury side of things because we have completed the bodily injury improvement initiative, we have -- everything has been re-engineered on that piece of the business, so I think it would take -- we -- we are closer to having a good sense as to work-load expectations per work group and per employee in that area. Potentially, within the year.

MR. BYRON WILLIAMS: And on the other side?

MS. MARILYN MCLAREN: That -- I'm --

I'm not sure that that would make sense to really aggressively pursue that as we are likely to embark on a major re-engineering effort on the physical damage side of things. I might prove wrong on that, but my thinking at this point is it would likely follow what we've done on the injury side of things, in terms of re-engineering it, getting your staff in a position where you're truly confident they have the tools and the knowledge and the supports to do the job well, and then you're in a better position to set benchmarks.

MR. BYRON WILLIAMS: We'll come back to the injury side in just one (1) second, Ms. McLaren.

In terms of the, "re-engineering," in quotation marks, on the physical damage side, is that an information systems re-engineering? Is it a structure engineering? What -- what do you mean by that?

MS. MARILYN MCLAREN: Top to bottom, side to side, much as we did with the bodily injury re-engineering exercise. We would likely have to fundamentally re-engineer key claims handling and claims filing process, both that affect customers, that affect body shops, that effect MPI, and falling from that there would be significant changes to job responsibilities, job descriptions, potentially organization, organizational units, and it would really touch all of those things. It would be a significant IT component, absolutely, but it would also be much more in terms of organizational change, and actual customer/MPI, and customer/body shop, and body shop/MPI process and -- and relational changes, as well.

MR. BYRON WILLIAMS: Given the magnitude of that restructuring that you appear to be contemplating, is it your view that the forward looking forecasts of the Corporation can -- in terms of your outlooks -- can -- can accommodate that? Is there enough -- is the money in there already for the re-engineering?

MS. MARILYN MCLAREN: We talked in the capital there's -- there's an $8 million provision in the next two (2) years for the road service and PD, and the road safety visioning, and I would expect a good piece of the $20 million provision would -- would likely go towards that, as well. That is there because we don't have a specific clear sense.

I would also expect that as with the bodily injury initiative the capital cost of the project is returned in lower expenses and lower claims incurred. So my expectation for a physical damage re-engineering would be that it would follow that similar model. That, you know, regardless of whether every dollar of capital is really in the outlook, it would need to have a very strong business case to -- to proceed.

MR. BYRON WILLIAMS: And recognizing that I did miss an hour or two (2) of this Hearing, although I read the notes, is that -- has that business case been finalized or presented to the Board?

MS. MARILYN MCLAREN: No, and that's why, you know, a good chunk of money is in the unallocated $20 million provision.

MR. BYRON WILLIAMS: Let's go back to the metrics, in terms of the average number of files handled on the injury side.

What, if any, external assistance is MPI seeking in that regard?

MS. MARILYN MCLAREN: As -- as one of the benefits that we have, one of the opportunities that we've had as a user of the FINEOS claims management software system -- excuse me -- we are a member of both a North American user group and also a public-sector user group. I believe we've talked about this here before.

But there are automobile injury compensation systems in Australia that are very similar to ours and to Quebec's and to Saskatchewan's. And that Australia organization uses FINEOS as well. In New Zealand, they have a -- a broader system that is a broader accident compensation system, administered by the Accident Compensation Corporation of New Zealand. They also use FINEOS and they are part of this user group.

So we have had new opportunities, which we're really trying to make as -- as much use of as possible to use them to learn. They have been FINEOS users longer and, in some cases, have been in the no-fault injury compensation administration business longer. So we are learning from them, primarily.

In addition, we can get a little bit of information in that regard from FINEOS. We have regular meetings with ICBC, SGI, and -- and the SAAQ on the injury side of the business. We learn from them as well. And there's some dialogue, as well, with the local Workers' Compensation Board of Manitoba.

MR. BYRON WILLIAMS: The -- there was a recent review of the personal injury protection plan by the Office of the Auditor General of Manitoba.

Is that correct?

MS. MARILYN MCLAREN: Yes, there was.

MR. BYRON WILLIAMS: And am I correct

in -- in understanding that one of the areas -- let me back up.

And I guess we should acknowledge right off the bat that the -- it sounds like the audit was going on at the same time as the business process review was taking place as well, agreed?

MS. MARILYN MCLAREN: It was. Yes, it was.

MR. BYRON WILLIAMS: So taking those -- taking that into context, there was a -- a comment I'll ask from -- I'll ask you to agree -- from the Auditor General suggesting that MPI needs to improve its performance information with regard to PIPP.

Do you recall that -- that type of statement?

MS. MARILYN MCLAREN: In a general sense, yes.

MR. BYRON WILLIAMS: And what did Manitoba Public Insurance understand that recommendation to mean?

MS. MARILYN MCLAREN: You know, to -- for the most part, we understand that we have met that obligation to improve through the new injury management system. And that was the response to many of the recommendations.

If you would like me to be more specific, what I would do is, I would just give this group the reference to the public accounts committee, where the Auditor General and I spoke. She spoke about the recommendations, I spoke about the Corporation's response to the recommendations. It was all there at the public accounts committee of the legislature.

MR. BYRON WILLIAMS: Certainly. I think there was a link in one of the Information Responses, so I've reviewed it. So I'm not going to ask for it. If the panel wishes for it, I'll leave that -- that up to them.

And -- and -- but on the specific issue of measuring and reporting on PIPP performance, is it your view that you have already satisfied the -- the thrust of the Auditor General's recommendation?

MS. MARILYN MCLAREN: In terms of positioning ourselves to do so, yes. As of about the middle of September, two (2) weeks ago, we would have hit, I think, the two (2) year mark in having implemented that system. So there's not as much data and reporting mechanisms there as there will be as we continue to move forward through time.

But absolutely, the -- the system has delivered what we believed we needed, in terms of better ability to have digital information, information in computer systems, not in paper files. And -- and we are better positioned to deal with that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: So recognizing an intent to move forward in a metrics related to call centre performance, the average number of files handled by employees, particularly on the injury side, what, if any, other key metrics moving forward, with regard to productivity, does the Corporation contemplate?

MS. MARILYN MCLAREN: In terms of the key staffing areas, you know, and if you look at physical damage claim staff, injury claim staff, call centre staff, that -- that's really the -- a significant majority of the people that work at MPI. So that really covers a fairly critical mass of employees.

Because so much of our work is handled through brokers on the front end of the system, we don't have the same opportunities on the front end. We don't, you know, renew policies, for the most part, with our own staff, things like that. So the ones that I spoke to already are the ones that immediately come to mind; and -- and, again, as -- as we've talked about, IT most certainly.

MR. BYRON WILLIAMS: Now, I think probably the next question goes to Ms. Reichert, but certainly the next few are probably either for Ms. Reichert or Ms. McLaren. So, Mr. Johnston, you and I have talked enough, in my view, and I'm sure yours, for a while.

Ms. Reichert, in terms of CAC Exhibit number 9, I wonder if you can turn to page 35, please.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And certainly, Mr. Reichert, you or Ms. McLaren, you'll agree with me, first of all, that -- that the excerpt here is Chart 1 from the response to CAC/MPI-1-148?

MS. HEATHER REICHERT: Yes, I see that.

MR. BYRON WILLIAMS: And on the chart I'll suggest to you that we see three (3) different lines: one (1) representing CPI, one (1) representing net claims incurred per vehicle, and one (1) representing claims expense per vehicle.

Do you see those three (3) lines, Ms. Reichert?

MS. HEATHER REICHERT: Yes, I do.

MR. BYRON WILLIAMS: And if we were to try and visually describe how these lines progress over time from 1993 through to 2012, could we agree that the CPI -- that there is a fairly close relationship between the CPI line and the net claims incurred per vehicle line?

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

MR. BYRON WILLIAMS: And could we also agree that in terms of claims expense per vehicle, starting on or about 1999, there appears to be a divergence from the other two (2) lines, with that rising at a steeper angle?

MS. HEATHER REICHERT: Yes, I would agree.

MR. BYRON WILLIAMS: I'm not sure that was statistically correct language there, but...

MS. MARILYN MCLAREN: Mr. --

MR. BYRON WILLIAMS: Williams.

MS. MARILYN MCLAREN: -- Williams, if I could just give a little bit of context to this graph, particularly in the interest of the new panel members, because I find these graphs really, personally, bordering on a bit frustrating. Starting with a hundred dollars in 1993, first of all, claims incurred is always several times larger than claims expense. So when you're staring with a hundred dollars in 1993 and putting them on the same point, it really just doesn't work from a practicality point of view.

But the important point that I want to make is that the Corporation works very hard to manage and mitigate increases in claims incurred and it does that with staff. So one example is the extent to which we have staff employed at MPI to find ways in the market to maximize our use of used parts in the vehicle repair process.

So if we're successful at, you know -- with those staff, we hire staff to do that. And if they're successful we'll pay fifty (.50) cents on the dollar as opposed to an original equipment manufacturer part. That dampens down the claims incurred, but it makes your expenses go higher. Not nearly as -- you're saving way more than you're spending, but your expenses go up to manage your incurred going down.

The -- now in this claims expense calculation, I don't know if we have included our anti-theft initiatives, but that's another one, the immobilizers. The -- that is a loss prevention initiative that's reported in the same category generally as claims expense.

So we spend all this money immobilizing vehicles, your incurred comes down. So there's not a -- there's not as much of this kind of strange relationship that this graph would -- would purport to show when you understand sort of the differences and quantum between incurred and expense in 1993 and how you can really help.

And that's one of the things that is really an advantage of this public auto insurance model. When you have the entire market here, you can work really hard to keep your incurred down. But to do that, it takes people and resources, and therefore you have expenses.

MR. BYRON WILLIAMS: Well, thank you, Ms. McLaren. In terms of the discussion, let's -- let's just take immobilizers just as -- as one example. That significant expenditure would have been trailing down, magnitude-wise, out of the MPI claims expense budget by when?

MS. MARILYN MCLAREN: Maybe three (3) years ago.

MR. BYRON WILLIAMS: And you've just jumped into the discussion; so, Ms. Reichert, don't feel -- feel hurt. I'm -- I'm talking to your boss.

I'll talk to anyone, I don't care. I love you all.

The -- Ms. McLaren, one -- one thing my client is struggling to get our -- our head around is we see this portrayal, in terms of this graph, and then -- and then we think on the -- some of the very intriguing things the Corporation is doing on its forecasting or its DCAT, where it's assuming a proportionate relationship between claims expenses and claims incurred.

And our client and -- and their legal counsel is struggling to -- to reconcile those -- those two (2) divergent -- at least at first glance -- divergent patterns.

Does that help?

MS. MARILYN MCLAREN: That's fair.

MR. BYRON WILLIAMS: So help me to understand, Ms. McLaren. Are we to expect, over time, a continued divergence, in terms of the -- the expense between net claim incurred -- net claims incurred -- excuse me, let me try this again.

Are we to expect a continued divergence between the relative growth of net claims incurred and claims expense per vehicle?

MS. MARILYN MCLAREN: It's possible, as -- as demonstrated on this kind of a graph, with this, you know, starting point in 1993 treating the hundred dollars as if it's equal.

I don't know how that translates to the work that Mr. Johnston does. And he can speak when I'm finished if he can somehow explain the importance of the different views that this uses compared to what he uses in -- in DCAT and forecasting and so on.

But a big part of our interest in the future will be focussed on things like having a more robust infrastructure within MPI to really continue to have a comfort level that � that repairs -� funded repairs are -- are done to a very high quality of safety, high quality standard, and so on.

So I think it �- we also hope to continue to do a really good job on price of parts contain �- you know, containing the price of parts. So it's �- it's possible that something like this graph will continue along that trend. I -- I can't say more specifically.

But one of the things that we really do -- the money in this business is all in incurred, and the extent to which you an manage incurred is the extent to which you keep to a record of one (1) rate increase in fourteen (14) years out of fifteen (15), and -- and having the lowest rates across the country.

That -- that's where a lot of the value is. So if it takes staff and other forms of claims expense to manage the incurred, that really is one of our highest-priority jobs.

MR. BYRON WILLIAMS: And we'll get to you if you feel inclined, Mr. Johnston, in a second. The -- the relative growth in premium hasn't hurt either, in terms of keeping costs down at the -- where the -- hasn't hurt at all, as well, in terms of keeping the rate increases low, Ms. McLaren.

Not that it's on this table but my simple point to you is when we are trying to understand what are some of the factors that are allowing us to have relatively low rate growth, a rate -- overall rate increases, it's not just on the clau -- the -- the cost side. There is a built-in inflationary impact on the premium side.

MS. MARILYN MCLAREN: Sure. And putting aside the significant changes we've had in our view of the cost of providing the injury coverage, we still have a comparable growth in our vehicle damage claims every year that it tracks right along very well with the growth in premiums.

So, you know -- and a lot of -- I'm sure a lot of this dampening effect on the incurred is related to, you know, the adjustment in the injury claims reserves, as well.

MR. BYRON WILLIAMS: Now, just to be -- just to continue my dialogue with you for just one (1) or two (2) more questions, certainly our client's understanding traditionally in these proceedings is that -- that claims expenses have tended to move in tandem with claims incurred. And my client could certainly pull up statements from Mr. Zacharias or others to that effect.

And I'll certainly look forward to hearing from Mr. Johnston, but I guess to re -- you perhaps have already answered this, but are we expecting that to change?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Absolutely not directionally, and the conversations that we've had through time would really substantiate that, and I'm not taking a different view of that. But I just think it's important to point out that, you know, there's somehow -- there are sometimes tradeoffs that happen, and -- and I'll -- I'll give you an example.

It's something that we've been talking

to the repair trade about for -- for some time. It -- it's publically known right now within the repair industry. For many years, we -- there was a quasi-independent recycling -- recycler central office that administered the collection of used parts and distribution to repair facilities.

Working with MPI, with the shops, and with recycle -- recycler centre office we were able to determine when a used part would be available. We would therefore put it on the estimate, and the recycler central office would use like a coordinating function.

Way back when that concept was first determined -- first identified as something that would make sense for the Corporation to be involved in, the -- the business case was put forward internally in the Corporation that this is something that should be done internally, that we would have the opportunity to really do a better job, and to get more used parts in the system, and to really better administer the entire thing.

If the decision had been taken to do that, it would have added to claims expense. And -- like, this was a long time ago now -- the decision was made, no, let's get an organization external to the

Corporation to do it. Then it can be part of claims incurred. And our staffing levels won't increase and our -- therefore, our claims expenses won't increase by adding this new program.

We've made the decision with the full support of that industry, as well as the trade, the repair trade, to now bring it in. So we are going to have more staff. We're going to have a increase in claims expense, but we believe we'll get about a million dollars a year and more used parts on vehicles. And so there's a significant offset to that.

So sometimes it really works that way. So I think we just need to have that understanding here that while we absolutely believe if there was, you know, two thousand (2,000) more injury claims next year, we would need more staff to handle them.

In the bigger picture, given the changes that we've had as well with our -- our understanding of the likely future cost of injury claims, I'm not sure that it takes any more people, or any fewer people, to administer a claim now that we think is worth $1.2 million when, you know, three (3) years ago, we thought it might have been $2 million.

So there's not a direct, solid relationship as simplistically as it may have been talked about here before by Mr. Zacharias and Mr. Galenzoski, but certainly the relationship does still hold. But it is subject to changes in business processes and changes in purposeful initiatives that are almost always focussed on managing that incurred.

MR. LUKE JOHNSTON: Yeah, we -- we talked a little bit about this relationship between expenses and incurred, and -- and I indicated that I struggled a little bit with what to assume in the DCAT.

One significant driver of this low trend that you're seeing in the incurred per vehicle is -- is PIPP. And if -- if you look in TI.17 and how we forecast PIPP, we were essentially looking at trend rates less than 1 percent, almost flat. And the -- the underlying reasons for such a -- a low trend rate appears to be declining frequency relative to how many collisions we have but still, an absolute basis, slightly more injury claims.

So how -- how this type of trend rate of -- of 1 percent or lower relates to what we'd expect the trend rate to be for staffing expenses on -- on these PIPP claims isn't entirely clear. I -- I don't -- I wouldn't -- I wouldn't assume that the staffing costs would be in the 0.5 percent growth rate.

But again, as Ms. McLaren indicated, we

still appear to be having about the same or a little bit more injury claims. And -- and whether the costs of taking or handling these claims changes, whether we're -- we're fortunate enough to have slightly lower-severity accidents or not is, you know, isn't clear.

MR. BYRON WILLIAMS: With the Board's per -- permission, I just want to explore this a bit more. To a certain degree, we're trying to get insight or comparators that give insight to what's actually going on in the Corporation.

So whether it's to Ms. McLaren or -- or to Mr. Johnston, does that suggest that -- that in trying to -- to do a comparison of claims incurred versus claims expenses per vehicle, one takes out PIPP and looks at the trends in terms of collisions? You know, you're trying to make these adjustments; you're thinking it's important for your modelling exercise.

Let's give some advice to the -- to the Public Utilities Board.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: That's something we could look into. We're just -- I wanted to understand our -- our current ability to specifically tie the --

the costs of certain expenses to certain coverages. And that -- that's what I'm not as clear on, but it's something we can definitely investigate.

MR. BYRON WILLIAMS: Now I'm not sure who this question goes to. But if you can turn to CAC-9, Exhibit 9, page 37.

MS. HEATHER REICHERT: Sorry?

MR. BYRON WILLIAMS: CAC-9, exhibit -- excuse me, I'm getting fatigued. CAC Exhibit 9, page 37. I have a feeling this might be one of those indicators that prompts Ms. McLaren to intervene. Feel free.

Ms. Reichert, you'll -- first of all let's start with -- this is a response to CAC Information Request 2-76.

Do you see that?

MS. HEATHER REICHERT: Yes, I see that.

MR. BYRON WILLIAMS: And just for the -- your and the Board's information, this response, there's actually two (2) pages of it; so there's four (4) tables in -- in total. Just by -- in terms of summarizing the two (2) -- first two (2) tables, which I -- I think are less important, but you may disagree, I'll suggest to you, Mr. Reichert, that in Tables 1 and 2 in -- in this Information Request, the Corporation is calculating the average expense per unit both for claims and operating expenses for years 2007/'08 through to 2016 and '17?

MS. HEATHER REICHERT: Correct.

MR. BYRON WILLIAMS: And just for those trying to follow along, the Table 1 looks at Bla -- Basic claims expenses per Basic earned vehicle unit, and Table 2 looks at Basi -- Basic operating expenses excluding regulatory appeal for Basic earned vehicle units.

Do you see that?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And I'll -- I'll ask you to turn to page 38. And let's just work at one (1) table at a time. I'll suggest to you that Table 3 -- and, in -- in particular, I'll ask you to look at the fifth column, being CPI claims expense.

And I'll suggest to you that what -- what this analysis in -- in column 5 is doing is -- is taking a base year, being 2007/'08, and calculating the -- what the expense would be -- the claims expense would be based upon a per unit cost if it increased by CPI, agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And Table 4,

column 5, does the same thing for operating expenses excluding the regulatory appeal, agreed?

MS. HEATHER REICHERT: Yes.

MR. BYRON WILLIAMS: And, essentially, side by side, going back up to Table 3, one (1) has a comparison between what the claims expense per vehicle unit would be if it grew at CPI as compared to the actual growth in terms of MPI claims expense?

MS. HEATHER REICHERT: Yes, that's correct. This table is comparing -- assuming, you know, MPI were to grow at inflation, what the difference is to how we are actually appearing to grow.

So it -- it's making an assumption indirectly in this comparison that it would be appropriate for MPI to grow at the rate of inflation. Therefore, you know, this increase or decrease relative to -- to CPI is of -- of some supposed significance.

I would offer that I think that the base assumption that it would be appropriate for CPI's expenses to -- to grow at inflation is -- if flawed in that -- and Ms. McLaren has talked about this -- this many times -- being a public insurer, one of our key mandates is to be accessible to all Manitobans.

And therefore, we have significantly more service centres available throughout this province than would another private insurer that you might expect would actually be able to manage their operations within a inflationary increase.

Similarly, the investments that we've made -- again, as Ms. McLaren has talked about -- to assist with keeping our claims incurred down and therefore overall rates for Manitobans down, the -- those investments are what you see getting reflected through claims expenses and operating expenses, through the depreciation and amortization of very significant expenditures in the last, I guess, four (4) to five (5) years.

So, yes, I understand what the table is trying to show, but the basic premise that it would be appropriate for MPI to grow at the rate of inflation and do all of these things that we're doing to keep claims incurred down and, therefore, the overall rates for Manitobans, as low as they are, I think, is -- is inaccurate.

MR. BYRON WILLIAMS: Well, let's try and turn this discussion away from defending claims growth, and let's -- let's try and turn it back to potential productivity indicators to assist the Board.

And using the earned unit measurement and whether it's inflation; or less than inflation, like the -- the CRTC does with stretch factors; or wheth -- whether it's inflation plus a modest amount, is there some conceptual value, if we are going to look at productivity indicators for this Corporation, of trying to, you know, use some sort of baseline based upon earned units?

So, Ms. -- Ms. McLaren, if you're not understanding me, whether we're thinking inflation or a stretch factor less than inflation or more than inflation, if this regulator is looking for some productivity comparisons for this Corporation, is the Basic earned unit a suitable vehicle, no pun intended, for that? There might have been a pun intended.

MS. MARILYN MCLAREN: Earned vehicle units may very well be. I -- I strongly doubt that any version of CPI would be the other piece of that.

MR. BYRON WILLIAMS: But is -- Ms. McLaren, and I -- clearly, none of us know where the Board wishes to go, but if -- just in terms of why they might be, you know, a good starting point, when we look at how rates are set for Basic insurance, if we went to TI.2, that, as I understand it, is based upon that kind of Basic earned vehicle unit, a starting place?

MS. MARILYN MCLAREN: Yes, absolutely. That -- and that's -- Mr. Johnston went through that back earlier in the proceedings. Calculating the cost per earned vehicle, per earned unit, the risk per earned vehicle, so that fundamentally the rating methodology should drive no change in rates if somehow there was, all of a sudden, thirty thousand (30,000) more vehicles or thirty thousand (30,000) fewer vehicles in the Province of Manitoba, putting aside considerations of traffic density and things like that

But, absolutely, earned units are key, and -- and I agree that in some fashion, tracking against that may, I fact, be appropriate. It's the CPI I'm -- I'm having an issue with.

MR. BYRON WILLIAMS: Well, maybe that's a dialogue for another year, Ms. McLaren. This may be as close as you and I come to consensus on anything for some time, so -- so let -- let's move from there.

I do want to talk for a couple minutes in terms of understanding the interrelationship between the budgetary guidelines set by the Board as compared to the approved budget, how that budgeting process works. And we had a discussion around that, Ms. McLaren, last year, but we do have a couple of new Board members, and -- and also Mr. Williams has forgot some of that discussion.

So I wonder if you could outline when

the budgetary guidelines are set and then when the -- the approved budget is set.

If -- if memory serves me right, I'll suggest to you the budgetary guidelines are sometimes -- some time in the fall, and the approved budget is some -- some time early in the -- the new year.

MS. MARILYN MCLAREN: Yes, for a budget that will begin March 1 -- and rates of course are -- are approved a little bit differently from that. So kind of in -- right now within the Corporation we are starting to put together the budget for meeting -- you know, basically what we're talking about is the operating and -- and claims expense budgets for the year that starts March 1.

And it isn't finalized until later. Oft -- but the important -- the important thing is really separate from that cycle, in my mind, because it is early in the year January when, you know, the executives are trying to determine what is the reasonable -- reasonable -- January/February/March, locking it down in April, what is the forecast of operating and claims expenses that form part of this rate application.

So you really need to start there. So we start making our best assessment as to what are the expenses that will form part of this rate application that's finalized in April. And then everything that happens in the Corporation now, where we issue budget guidelines and so on, are all predicated on the assumption that we're meeting what we put in this rate application.

And when in the past there's been some variance from that, it's our job to come here with a very strong case the following year as to why it changed from that. But our starting position is always that we will do what it takes, unless there are extremely compelling other reasons to have guidelines that support what we've already determined in April, and underlie this application.

MR. BYRON WILLIAMS: And I thank you for giving a better answer than the imprecise question. So let's break that down into -- to three (3) steps, as I understand it.

January through April, the Corporation presents an app -- you know, does the deep thinking, in terms of claims and operating expenses which is going to form the basis of its presentation to the Public Utilities Board. Step 1.

MS. MARILYN MCLAREN: Yes. A minor basis, because the big part is the revenue and incurred forecasting.

MR. BYRON WILLIAMS: Fair enough. Let's -- let's focus on -- on operating claims expenses. Step 2, in the fall of 2000 -- of the part -- particular year, the budgetary guidelines are -- are set by who?

MS. MARILYN MCLAREN: By the CFO and her finance team, and vetted and approved by management committee. Some things actually may also go to the board of directors for information. I don't think approval for information.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And just so I understand, the budgetary guidelines, while they may go to the board for information they're set by the -- the CFO with -- or -- and/or the management committee?

MS. MARILYN MCLAREN: The CFO brings them for vetting and agreement from the management committee as a whole.

MR. BYRON WILLIAMS: And then the actual budget for that particular year, step 3, is finalized early in -- in the new year?

MS. MARILYN MCLAREN: Yes, either

January or February it -- it's formally approved and adopted.

MR. BYRON WILLIAMS: You can take this by way of undertaking if you would be prepared to. Usually we ask an Information Request about this and neglected to this year; hard to believe that we neglected an Information Request.

But for the 2011/'12 year, I wonder if you can provide, by way of undertaking, the budgetary guideline and whether the budget that was ultimately set complied with it?

MS. MARILYN MCLAREN: Okay, so you're asking for something that was underway two (2) years ago?

MR. BYRON WILLIAMS: We're going to get to '12/'13 in a -- in a second. And, Ms. McLaren --

MS. MARILYN MCLAREN: We should be able to do that.

MR. BYRON WILLIAMS: Yeah.

MS. MARILYN MCLAREN: We should be able to do that.

--- UNDERTAKING NO. 18: MPI to provide the budgetary guideline for 2011/2012

MR. BYRON WILLIAMS: And also the budgetary guideline for 2012/'13, as -- as well.

MS. MARILYN MCLAREN: We should be able to do that as well.

--- UNDERTAKING NO. 19: MPI to provide the budgetary guideline for 2012/2013

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Ms. McLaren, just kind of a last subject for today is the subject of budgeting for a -- a loss. And I want to just indicate, our -- our client's interest is not this particular Application in particular. It's the concept. And -- and, certainly, they heard your -- your direct evidence, in terms of a range around 10 million, one way or the other, as well as the -- the issue of recognizing the effect over two (2) years of staggered renewals.

One question flowing from that though is recognizing that there is more uncertainty in the second year of the staggered renewal than the first year, the inherent uncertainty of forecasting, whether we should be giving equal weight to -- to both years within that concept.

MS. MARILYN MCLAREN: Oh, absolutely. I think it should be equal weight, because the rates are in force for that full two (2) year period for the, you know, for -- for the vehicle owners, right? So, I mean, it's not like there's uncertainty as to what we're going to charge in '14/'15.

Half of the customers will start to be charged '14/'15 rates that are somewhat uncertain. But half of them will be charged rates that will be approved as part of this process right now. So that's -- that is the basis of needing to look at the two (2) years. And it is the extent to which the rates that are approved and begin to be charged March 1 flow through to fiscal periods. So that's the context and I believe the way we've done it since -- since we staggered in 1995, is appropriate.

MR. BYRON WILLIAMS: And in terms of the magnitude, what's the magic in -- in that particular figure? Well -- well, your -- in your direct evidence, you suggested that -- that there's been some consensus, in terms of a certain amount, negative or positive, being essentially budgeting for -- for break even. Is it 1 percent?

What -- what is the figure, first of

all, in the Corporation's mind?

MS. MARILYN MCLAREN: No, I -- I think it's less than 1 percent. I mean, if it's a full, clear 1 percent rate requirement, we would come forward and look for it. We don't believe that there is any value in budgeting for a loss, unless there's such a -- such a clear case to be made, something that has not happened in -- in my experience.

But if, for example, for very unusual and tangible reasons we expected to lose $10 million over the next two (2) years but we knew something very solid and reliable was going to happen in the third year that negated that loss and actually meant we probably had too much money, we would probably not request the rate increase based on the $10 million.

But that's highly unusual. I can't imagine a situation where something like that would happen. We haven't been in it before. And so the concept of not budgeting for a loss and seeking rate requirement -- rate approval that matched the requirement, I think, is certainly -- like this year it was like a .3 percent change. And that's break even, in our mind.

If it had been point six (.6) or point eight (.8), we -- we may very well have come looking for close to a 1 percent increase.

MR. BYRON WILLIAMS: Just a last question. You can use kind of the current situation as a hypothetical or not. But let's take a situation. You're presenting a GRA for the 2013/'14 year; essentially break even over the '13/'14, '14/'15 year; but your -- your expectation for the '12/'13 is a loss.

In your view, no weight should be given to the fact whether or not you're in a loss within the -- the current year as compared to the GRA year?

MS. MARILYN MCLAREN: That's right. I would say no weight should be given because remembering, you know, one of the -- the first step that we take in our forecasting and -- and PUB rate application development process is to restate the forecast for the current year, the year that we are in. Back at that time, we're very, very early in the '12/'13 year, but that's the first thing we do.

So if we go through our -- our comprehensive forecasting processes and the result of that is a $5 million loss or -- or a $50 million loss, whatever the number is in '12/'13, and that we break even in '13/'14 and '14/'15, that explicitly means that whatever the issue was in '12/'13 and '14 -- '12 el -- '12/'13 is not going to carry forward to hurt the net income in those years. So we shouldn't put any weight on that.

And if we -- you know, if this Board starts to see a deterioration in the year -- the current year from what we said last year when we were here for rate approvals and it's starting to deteriorate the forecast for the year in the application, that absolutely would -- would take some weight.

But when you have the in-year result not being followed on in future, the -- then it should not have weight, and it -- it's explicitly part of the way we do the forecast process.

MR. BYRON WILLIAMS: I thank you for that. And I may have inadvertently misled you and the Board. I do have just a few questions about road safety that -- that I intended to -- to ask. And so I apologize for that.

Ms. McLaren, yesterday we had a really brief discussion about the opportunities and the -- the risks associated with a more ambitious road safety vision for Manitoba Public Insurance.

Do you recall that conversation?

MS. MARILYN MCLAREN: Yes.

MR. BYRON WILLIAMS: Not that

memorable, I'll admit. But what I propose to do is I'm -- I'm going to suggest to you a number of potential risks or opportunities associated with the vision. You can tell me if you think they're credible and -- and if any other additional response, you can -- you can do so.

Is there an opportunity in this road safety visioning exercise not only potentially for Manitoba Public Insurance to step to the table with a more assertive commitment, but to lever greater commitments from -- from other key players?

MS. MARILYN MCLAREN: I'm not sure. I think certainly there is an opportunity for more synergy. One of the things that caught us a bit by surprise is -- well, one of the things that didn't catch us by surprise is -- is the commitment and -- and level of interest in the people working in this area.

But it did catch us a bit by surprise that they are not well connected and -- and sharing information and ideas with each other. So I'm not sure that -- that we would necessarily help to leverage more commitment, but certainly more effective use of maybe even the existing commitment. I'm not sure.

MR. BYRON WILLIAMS: Is there a risk if Manitoba Public Insurance comes to the table with, let's say, a bit more money, that it may provide an excuse to others to -- to not -- to derogate their responsibilities?

And if you wanted me to ten (10) second clip that, instead of increasing the pie of investment, you just re-shift it.

MS. MARILYN MCLAREN: I think that's always a risk. I think, you know, we've talked about that here before, when, you know, some people think we should be buying and staffing and using sanding -- sanding trucks in the City of Winnipeg in the wintertime, right, because we'll save the money.

I mean, you can point to MPI and as -- as the beneficiary of any road safety expenditure. So it's absolutely a risk that we have to find a way to work -- work with.

MR. BYRON WILLIAMS: Is -- following up on that, is there some sort of baseline or survey of who's doing what and how much they're investing today?

MS. MARILYN MCLAREN: Not to my knowledge.

MR. BYRON WILLIAMS: From the Corporation's perspective, might that be a good issue to examine, to set some sort of baseline?

MS. MARILYN MCLAREN: Anything's

possible. I -- I don't know that -- I mean, there -- there's no real context or framework for that to happen. I mean, it's not -- we don't have sort of a cohesive group that has agreed to come to the table and share information about what they're spending and -- and so on and so forth.

I mean, it's not something we would be doing on our own. I think the concept is certainly -- has value, but I don't know that we have any existing mechanism to really start pulling some of that together with the support of the groups that are -- that are involved.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Is there a risk that if MPI is expressing a -- a willingness to come to the table with more resources, that the -- that the utilization of those resources could be, in quotation marks, "politicized" and -- and that those additional resources could be wasted?

MS. MARILYN MCLAREN: Sure. I think, you know, this is an area of public discussion that -- that can be quite easily, small 'P', politica -- politicized, for sure. You know, I mean, it's -- it's not -- it's not simple. That's certainly a valid risk.

MR. BYRON WILLIAMS: In your survey provided -- and I -- I can't remember which of the two (2) documents it -- it was, whether the -- the one in the AIs or -- or the one on the public website -- but MPI indicated that stakeholder groups frequently spoke about the importance of program evaluation and requested greater clarity -- clarity on how the Corporation measures the effectiveness of its programming.

Do you recall a statement to that effect?

MS. MARILYN MCLAREN: I do.

MR. BYRON WILLIAMS: How, if at all, does the Corporation expect to provide that greater clarity?

MS. MARILYN MCLAREN: I expect that at least one (1) of the things we might do would be to share some of the information that's been shared here. Probably not for a few years now, but we used to file, largely I think at CAC's request in terms of when you run program 'X', how do you now you're getting the value you expected to get from it.

And we talked about here that that is the methodology we use, what are the objectives, and did we meet the objectives. So we have that for a number of programs. We would share some of that information.

MR. BYRON WILLIAMS: Just one second, plea -- please, Mr. Chairman.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. -- Mr. Chairman, and panel members, I -- I thank you for your patience in the last day and a half. Subject to any outstanding undertakings, and as well in terms of an opportunity for -- for our experts to review MPI Exhibits 13 and 14, we'd like to close our cross-examination of this panel, and to express appreciation to the -- the panel and to the folks who used to be in the back row for their assistance, as well. Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: I have some a few -- some questions in relation to the presentation that was made by the cyclists at the outset of these proceedings. We had a couple representatives from the cycling associations advocating for modification of some of the wording and signs, and so on. And -- and -- now, I know that -- based on what they told us they -- that they are -- that -- that you have consulted with them in the past with respect to the issues that they might have with respect to MPIC.

Now, in -- in respect of the presentation that was made, are you open to looking at those recommendations and -- and incorporating them where possible in your materials and so on?

MS. MARILYN MCLAREN: Sure. And, you know, the -- the language that's in the driver's handbook now was vetted through and received the support of Bike to the Future, in terms of how it talks about sharing the lane. We will continue to work with them.

They -- I think at the heart of the issue that -- on that particular issue that they were talking about, they -- they would like to see a change to the HTA, and without that change they would still like us to go further and describe and recommend to Manitobans that they behave on the road in a way that Bike to the Future would consider more of a best practice.

The driver's handbook is about teaching new drivers the law, and we feel quite constrained to the extent to which we can, you know, move from that advocacy of a best practice versus talking within the context of what the law says. So I think there's some limitations there.

But in general, we've done a lot more work on cycling safety. We believe that MPI has a vested interest in helping to reduce conflict between cars and bikes, absolutely. And if -- if there were more good ideas as what we could to do help that we would certainly be interested in it.

Again, I think it's prob -- you know, like -- it -- it's not our job to -- to somehow be the primary advocate of changing driver behaviour to better respect and -- and respond to cyclists. I mean, it -- there -- there's a limit to what we can do -- reasonably do with ratepayers' dollars. But in terms of the concept of understanding that its in our best interest to reduce that conflict, and being willing to work with groups like the two (2) that were here, we have done more of that in the last year than we've ever done before, and we plan to continue.

THE CHAIRPERSON: I thin -- unless we have some other business to conduct, I believe this is the end of today's proceedings.

(PANEL STANDS DOWN)

MS. CANDACE GRAMMOND: It is. I would just remind everyone we're back on Tuesday the 16th, 9:30. We hope to hear from Gary Gibson of the Department of Finance that day. Assuming that that happens, then whenever his evidence is finished after cross-examination, if there's time, then we would have hopefully Mr. Oakes at least start his cross-examination. If there isn't time on the 16th then Mr. Oakes would start on the 17th, and then on the Thursday of that week, the 18th, we're hearing from Professor Simpson being called by CAC, and presumably he'll go for the whole of that day. So those are the -- the details with respect to our next steps.

The other piece, is I did ask Mr. Singh; there won't be anything going on in this room between now and the next time that we meet, so if people want to leave papers and parts of their file behind they certainly can.

THE CHAIRPERSON: Thank you. With that I will adjourn today's proceedings, and we'll see each other again on the 16th at 9:30 in the morning. Thank you.

--- Upon adjourning at 3:36 p.m.

Certified Correct,

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Lorraine Douglas, Ms.