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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE
GENERAL RATE APPLICATION
FOR 2007/'08 INSURANCE YEAR

Before Board Panel:

- Graham Lane - Board Chairman
- Eric Jorgensen - Board Member
- Len Evans - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 13th, 2006
Pages 1508 to 1825

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1 --- Upon commencing at 9:10 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. Depending on the events of the day we expect
5 this to be the last day of the cross-examination of the
6 Panel.

7 Ms. Reilly...?

8 MR. KEVIN MCCULLOCH: Mr. Chairman, if I
9 could.

10 THE CHAIRPERSON: Of course.

11 MR. KEVIN MCCULLOCH: I notice Mr. Singh
12 isn't in the room but I have four (4) undertakings.

13 THE CHAIRPERSON: Mr. Gaudreau is.

14 MR. KEVIN MCCULLOCH: Oh, I just saw him
15 come in -- four (4) undertakings to respond to that -- to
16 be filed as exhibits. The first one is Undertaking
17 Number 16 which would be MPI Exhibit 18, Undertaking
18 Number --

19 THE CHAIRPERSON: Just hold on, Mr.
20 McCulloch --

21 MR. KEVIN MCCULLOCH: Sorry.

22 THE CHAIRPERSON: -- if you don't mind.

23

24 (BRIEF PAUSE)

25

1 THE CHAIRPERSON: Thank you for your
2 patience, Mr. McCulloch.

3 MR. KEVIN MCCULLOCH: As indicated, Mr.
4 Chairman, I believe Undertaking Number 16 would be MPI
5 Exhibit 18; Undertaking 23, MPI Exhibit 19; Undertaking
6 24 MPI Exhibit 20; and Undertaking Number 25 MPI Exhibit
7 21.

8
9 --- EXHIBIT NO. MPI-18: Response to Undertaking 16.

10
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13 --- EXHIBIT NO. MPI-20: Response to Undertaking 24.

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15 --- EXHIBIT NO. MPI-21: Response to Undertaking 25.

16
17 THE CHAIRPERSON: Thank you, Mr.
18 McCulloch.

19
20 (BRIEF PAUSE)

21
22 THE CHAIRPERSON: Okay, Ms. Reilly.

23 MS. PAMELA REILLY: Thank you, Mr.
24 Chairman.

25

1 MPI PANEL:

2 BARRY GALENZOSKI, Resumed

3 MARILYN MCLAREN, Resumed

4 DON PALMER, Resumed

5 WILF BEDARD, Resumed

6

7 CROSS-EXAMINATION BY MS. PAMELA REILLY:

8 MS. PAMELA REILLY: Good morning to
9 Members of the Panel. My questions begin with the Bodily
10 Injury Claim Cost Savings Initiative so I'll direct my
11 questions to Mr. Bedard.

12 And by way of background, Mr. Bedard, the
13 Corporation's medical and rehabilitation benefits are
14 unlimited, correct?

15 MR. WILF BEDARD: Yes, that's correct.

16 MS. PAMELA REILLY: I take it they're
17 limited only by the Corporation's determination of
18 entitlement to the case managers, correct?

19 MR. WILF BEDARD: Yes, there's no
20 monetary limit to the coverage.

21 MS. PAMELA REILLY: Right. And the
22 Prolonged Recovery Unit is part of the Casualty and
23 Rehabilitation Department, correct?

24 MR. WILF BEDARD: Yes, that's correct.

25 MS. PAMELA REILLY: And I understand the

1 Prolonged Recovery Unit is staffed by a case management
2 supervisor, three (3) senior case managers, and one (1)
3 case manager, correct?

4 MR. WILF BEDARD: Sounds right, yes.

5 MS. PAMELA REILLY: Okay. And the
6 Prolonged Recovery Unit is used to evaluate files where
7 rehabilitation efforts have been unsuccessful to-date,
8 correct?

9 MR. WILF BEDARD: Yes.

10 MS. PAMELA REILLY: And I recall in the
11 supporting material filed by the Corporation SM.5.3 it
12 refers to a pilot project.

13 And I just wanted to clarify, is the
14 Prolonged Recovery Unit that pilot project?

15 MR. WILF BEDARD: Yes, it is. We
16 embarked on this. We felt there was a need to do
17 something more for these individuals that fell in this
18 category and the Prolonged Recovery Unit was the outcome
19 of that and we just decided that we would set it up for
20 two (2) years as a two (2) year pilot just to see how it
21 went, whether it had value. And we will do an assessment
22 after those two (2) years to determine whether that'll
23 become part of our business practices ongoing.

24 MS. PAMELA REILLY: Okay. And again just
25 to clarify, you've indicated it's a two (2) year project,

1 so am I correct that it started in 2004?

2 MR. WILF BEDARD: Yes, I think August
3 2004 I think would be -- would be the time we began. It
4 might have been sometime later than that that we actually
5 got it actually productive, but we started work I -- I
6 believe on it in 2004.

7 MS. PAMELA REILLY: Okay. Thank you.
8 And I just wanted to clarify the record. The
9 Corporation's response to the Manitoba Chiropractors'
10 Association second Information Request in Round 1, so
11 that's MCA-1-2, the response from the Corporation
12 indicated 2007, so I'm assuming that's just a
13 typographical error?

14

15 (BRIEF PAUSE)

16

17 MR. WILF BEDARD: You said 1-2?

18 MS. PAMELA REILLY: That's correct.

19 Response Sub B.

20

21 (BRIEF PAUSE)

22

23 MR. WILF BEDARD: Yes, that would be an
24 error. It's not May of '07.

25 MS. PAMELA REILLY: It would be May of

1 2004?

2 MR. WILF BEDARD: Yes, I believe that's
3 right.

4 MS. PAMELA REILLY: Okay. Thank you.
5 And the goal of the project and I -- and I believe this
6 is a quote again from the supporting material is to
7 mitigate costs by returning injured parties to normal
8 activity to the extent possible, correct?

9 MR. WILF BEDARD: Yes.

10 MS. PAMELA REILLY: And again as part of
11 the application, the pilot project, the Corporation has
12 realized savings of 2.86 million, correct?

13 And if you need a reference that was in
14 the supporting material, .5.3.C, and the response to the
15 Manitoba Chiropractic Association, second question in the
16 first round, so the MC-1-2.

17 MR. WILF BEDARD: Yes, I see 1-2B,
18 response is 2.86 million as at June 30th, 2006.

19 MS. PAMELA REILLY: Right. Okay. So
20 that was the cost savings over a couple of years?

21 MR. WILF BEDARD: Yes, to that point.

22 MS. PAMELA REILLY: Oh, okay. And does
23 the Prolonged Recovery Unit include chronic pain
24 patients? I believe you had indicated in prior
25 testimony, patients with chronicity --

1 MR. WILF BEDARD: Yes, it might. You
2 know, we have about a hundred (100) cases in -- in that
3 case load. They're all multi-year of activity. They're
4 very complex. They're very large; involve generally a
5 multitude of issues; some pre-existing some, you know, as
6 a result of the accident.

7 Your question as to would some of them
8 include chronic pain? It's likely, yes.

9 MS. PAMELA REILLY: Okay. And, again,
10 referring to the Corporation's response to the Manitoba
11 Chiropractors Association Question Number 7 in Round 1,
12 so that's the MCA-1-7?

13 MR. WILF BEDARD: Yes, I have it.

14 MS. PAMELA REILLY: The Corporation
15 defined chronic pain as, and I'm just quoting:

16 "Ongoing pain that lasts beyond the
17 usual recovery time for the injury and
18 that prevents the claimant from return
19 to full work duties and/or active
20 participation in life three (3) months
21 post-active treatment."

22 And I'm just wondering, how long has the
23 Corporation been using that definition of chronic pain?

24 MR. WILF BEDARD: I'm not really certain.
25 It's been a while. Of course, you know, this, of course,

1 is dealing with whiplash associated disorders. It
2 doesn't include anybody who has other types of injuries
3 and in terms of our injury categorization we would code
4 the file as a chronic pain case using this definition.

5 How long we've been doing that I'm really
6 not certain, but I'm -- I'm sure that's at least two (2),
7 three (3), four (4) years.

8 MS. PAMELA REILLY: So perhaps as far
9 back as four (4) years?

10 MR. WILF BEDARD: I -- I would say, yeah.
11 As far as my recollection is concerned, yes.

12 MS. PAMELA REILLY: Okay. So I take it
13 then if the claimant is returned to full work duties or
14 active participation in life they would then no longer
15 fall within that definition of chronic pain?

16 MR. WILF BEDARD: Yes. Again, it's just
17 a category of loss type that -- that we have for
18 statistical purposes.

19 MS. PAMELA REILLY: Okay. Now, I'm going
20 to refer you to the Public Utility Board, Question Number
21 13 in Round 1. And it's conveniently located, actually,
22 at Tab 20 of the Public Utilities Board book of
23 documents.

24 And, yes, I'm going to be referring to
25 that chart on the flip side, which is the attachment,

1 Schedule 1.

2 And this is a table showing twelve (12)
3 years of comparison in injury by type from the years 1995
4 to 2006, correct?

5 MR. WILF BEDARD: Yes, it is.

6 MS. PAMELA REILLY: And looking at the
7 years 1996 to 2002, so a timeframe of seven (7) years, in
8 the first row there where it indicates chronic pain we
9 see that the incidents of chronic pain range from a low
10 of one hundred and forty-one (141) in 1998 to a high of
11 three hundred and fifty-one (351) in the year 2000,
12 correct?

13 MR. WILF BEDARD: Yes.

14 MS. PAMELA REILLY: And then when we look
15 at the last four (4) years on that chart, that's the
16 years 2003 to 2006, the incidents of chronic pain are
17 down in numbers by about a third from a low of forty-six
18 (46) in 2005 to a high number of seventy-three (73) in
19 2003, correct?

20 MR. WILF BEDARD: Yes.

21 MS. PAMELA REILLY: And I suggest to you
22 that those levels appear consistently lower than the
23 previous seven (7) years that I just indicated, correct?

24 MR. WILF BEDARD: Yes.

25 MS. PAMELA REILLY: And is there any

1 explanation for that drop in numbers between the
2 preceding seven (7) years and the last four (4) years?

3 MR. WILF BEDARD: I believe that question
4 was asked and responded to in one of the IR's and the
5 response, if I can paraphrase, was that we have really no
6 explanation for that; the numbers are very small; they
7 are variable. Clearly they are smaller consistently over
8 the last four (4) years but, again, they could just as
9 easily go up again.

10 MS. PAMELA REILLY: Okay. My suggestion
11 is that it's...

12

13 (BRIEF PAUSE)

14

15 MS. PAMELA REILLY: I note you had a --
16 did you want to respond to that after your discussion
17 with Mr. McCulloch?

18 MR. WILF BEDARD: No.

19 MS. PAMELA REILLY: Okay. I'm suggesting
20 that the -- the difference and the decrease in the
21 numbers there is as a result of the definition of chronic
22 pain used by the Corporation.

23 MR. WILF BEDARD: That may be part of it.
24 Again, as I said, the -- the definition that -- that we
25 are using as you cited earlier has been around for a

1 period of time. You know, I don't work with this on a --
2 on a day-to-day basis so I know it's been a subject of
3 some discussion with clinicians and with our own members
4 of our healthcare services team in terms of what the
5 definition of chronic pain is.

6 I've mentioned that I believe that the
7 current definition has been around for two (2) to four
8 (4) years; that is kind of consistent with the numbers
9 here. But beyond that I'd just be speculating in terms
10 of why things have dropped to the level they are.

11 Again, the numbers are very, very small
12 and have shown a lot of variability over time.

13 MS. PAMELA REILLY: Did the Corporation
14 use a definition -- a different definition prior to, say,
15 2003?

16 MR. WILF BEDARD: I'm not sure if we had
17 a different definition. I think injuries being coded as
18 chronic pain has created a lot more awareness in the --
19 in the Organization over -- over time.

20 We are certainly seeing that there are a
21 number of patients who do fall within that category. And
22 the treatment of people who are in that category are
23 often difficult to treat and treatment and ongoing pains
24 are -- are consistent over time over a number of years.
25 This is an area that we are concerned about, an area that

1 the Corporation and our healthcare services team have
2 been working on improving.

3 So again, has there been a change in our
4 definition and our outlook on those and how we treat them
5 over time? Yes. And I think that's going to likely
6 continue to change into the future.

7 MS. PAMELA REILLY: Okay. Moving back to
8 the Prolonged Recovery Unit. And again quoting from the
9 Corporation material in SM.5.3.C the Corporation
10 indicated, quote:

11 "Savings came in the form of reserve
12 reductions on files where injured
13 parties were able to return to their
14 pre-accident level of functionality."
15 End quote.

16 And that's on page 9 if you just wanted to
17 confirm that quote, SM.5.3.C.

18 MR. WILF BEDARD: Yes, that's right. I
19 see it.

20 MS. PAMELA REILLY: And I just want to
21 understand by "reserve reductions," am I correct in
22 understanding that the Corporation sets aside certain
23 amounts of funding in reserve from which it pays a
24 claimant's medical expenses, and obviously if claimants
25 return to a pre-accident level of functioning that money

1 is no longer required in reserve to pay their -- their
2 claims, so, there's been a reduction?

3 Is that a general idea of what that means?

4 MR. WILF BEDARD: Yes, that's generally
5 it. There are a number of -- of coverage categories if
6 you will within the PIPP program and we have coding and
7 reserve allocations against each of those coverage
8 categories, and we do reserve based on ultimately what we
9 anticipate to spend on that particular case. And what
10 the \$2.6 million is referring to is a reduction or a
11 removal, if you will, of those reserves on a particular
12 case where those reserves are no longer necessary.

13 MS. PAMELA REILLY: Okay. Again, with
14 reference to the Prolonged Recovery Unit, and I'm
15 referring to the Corporation's response to the Manitoba
16 Chiropractors' Association question or Information
17 Request Number 2 in Round 1, so that's MCA-1.2, we were
18 looking at it previously and I apologize for jumping
19 around.

20

21 (BRIEF PAUSE)

22

23 MR. WILF BEDARD: I have it now.

24 MS. PAMELA REILLY: And after that we --
25 you may recall this off the top of your head, but the

1 Corporation indicated that the claimant in the prolonged
2 recovery unit is re-evaluated for one (1) residual
3 earning capacity, two (2) re-training or three (3) re-
4 education, correct?

5

6

(BRIEF PAUSE)

7

8

MR. WILF BEDARD: Those are the things
9 that we do look at.

10

11

12

13

14

15

MS. PAMELA REILLY: And in response to
the Manitoba Chiropractic Association question, how are
costs mitigated, the Corporation's response indicated
that there's a reassessment of the medical evidence which
may involve security more up to date or detailed medical
information, correct?

16

17

18

19

MR. WILF BEDARD: Yes, that's correct.

MR. DON PALMER: And using the word "may"
in there indicates that that's a discretionary decision
by the Corporation, correct?

20

21

22

23

24

MR. WILF BEDARD: It's the decision made
by the case manager who is looking at the case, whose
doing the re-evaluation. As I said earlier, these are
unique one-off cases; usually very thick, lots of
material.

25

They are reassigned to case managers

1 within the unit. They -- their first task would look at
2 -- would be to look at the entire case, including the
3 medical information, likely have some discussions with
4 some one from our health care services team and make an
5 assessment in terms of what was required to do a proper
6 evaluation on the current state of that particular
7 claimant.

8 MS. PAMELA REILLY: Okay. And is the
9 updated or detailed medical information, which may be
10 obtained provided by the claimant's treating physician?

11 MR. WILF BEDARD: It could be a treating
12 physician. It could be an independent practitioner. It
13 could be both.

14 MS. PAMELA REILLY: Okay. The case
15 managers also rely upon medical opinions from the
16 Corporation's own medical advisors, correct?

17 MR. WILF BEDARD: Yes, those medical
18 advisors as I was referring to them earlier, as members
19 of our health care services team, yes.

20 MS. PAMELA REILLY: And those medical
21 advisors, or the Corporation's medical advisors, if I can
22 use that phrase, they provide an opinion based upon just
23 a paper review of the claimant's medical history,
24 correct?

25 They don't -- in other words, they don't

1 actually examine the claimant.

2 MR. WILF BEDARD: No, they don't examine
3 the claimant. They would look at all the evidence in the
4 file, they would look at the documentation in the file,
5 the history, medical information, they may talk to the
6 practitioner involved in the case, over the telephone, if
7 there was some question or clarity.

8 But, no, specific to your question, no,
9 they do not examine the patient.

10 MS. PAMELA REILLY: And obviously, the
11 Corporation medical advisors may determine that that
12 claimant has reached their maximum function --
13 functioning and based on that information, the case
14 manager may then discontinue benefits, correct?

15 MR. WILF BEDARD: Well, it's not that
16 simple. We don't take discontinuing benefits lightly.
17 We are well aware of what, you know, that may -- what the
18 consequences of that may be to a particular individual.

19 It's -- it's done with a lot of
20 involvement with the case manager, the claimant. There
21 is communication. But, ultimately, there could be a
22 point in time where benefits are ceased.

23 When that is to take place, generally what
24 occurs is the case manager will meet personally with that
25 individual; go over all the evidence, in terms of why

1 we've reached that determination.

2 It's usually, even at that point, no
3 surprise to the individual that that's where we're headed
4 because they've been actually involved in the review of
5 the case over time.

6 And everything is explained and
7 demonstrated to the person at that time. And then it's
8 followed up by what we call, a decision letter; a very
9 detailed, comprehensive letter given to the claimant
10 outlining the reasons why the benefits are being
11 terminated.

12 MS. PAMELA REILLY: There are
13 circumstances where the Corporation medical advisor's
14 opinion, will sometimes differ with the claimant's
15 treating physician's opinion, in terms of, how well
16 they've responded to treatment or whether or not they're
17 able to return to functioning, correct?

18 MR. WILF BEDARD: Yes, at times there are
19 differences of opinion, certainly.

20 MS. PAMELA REILLY: Okay. In the event
21 of conflicting opinions between the Corporation's medical
22 advisors and the treating physician's opinion, case
23 managers most often though will take the Corporation's
24 medical advisor's opinion and discontinue benefits,
25 right?

1 MR. WILF BEDARD: I don't know if most
2 often is a -- is a fair categorization of that. Clearly,
3 as I said, we take ceasing benefits of any kind very
4 seriously, and before we would do that the case would be
5 reviewed and likely not only just with the case manager,
6 but may involve a review of their supervisor, maybe the
7 manager, and some decision based on that particular case
8 made.

9 And, yes, times will occur when we will
10 take the word of our healthcare services team over that
11 of the practising physician; that does occur, yes.

12 MS. PAMELA REILLY: And the Corporation
13 now has a policy to negotiate fee arrangements with a
14 number of healthcare service providers, correct?

15 MR. WILF BEDARD: Yes, that's correct.

16 MS. PAMELA REILLY: And those negotiated
17 fee arrangements are with chiropractors, physiotherapists
18 and athletic therapists, correct?

19 MR. WILF BEDARD: Yes, that's correct.

20 MS. PAMELA REILLY: Okay. I take it the
21 claimants are not advised by the Corporation of the
22 existence of fee arrangements between the Corporation and
23 healthcare providers, right?

24 MR. WILF BEDARD: No, I don't believe
25 they are, generally.

1 MS. PAMELA REILLY: So obviously the
2 claimants aren't privy to any limitations that those fee
3 arrangements may impose, correct; for example, a cap on
4 the number of visits that maybe permitted pursuant to
5 those fee arrangements, correct?

6 MR. WILF BEDARD: You know, it's
7 difficult to have a conclusive answer on that. It may
8 occur. You know if -- if an individual is being treated
9 it may come up in the conversation as a question. The
10 treating practitioner may say something to the -- to the
11 claimant about it as well. You know, communication of
12 that nature could take place in a variety of ways.

13 But if you're asking me if it's actually
14 part of our protocol to tell people that, I don't believe
15 it is, no.

16 MS. PAMELA REILLY: Okay. Fair enough.
17 Thanks. And I appreciate obviously the Corporation
18 wouldn't know what discussions take place between a
19 claimant and their medical advisor or their physician.

20 But certainly the case managers are aware
21 of these fee arrangements between the Corporation and --
22 and certain healthcare professionals, correct?

23 MR. WILF BEDARD: Yes, they are.

24 MS. PAMELA REILLY: And so I take it that
25 a case manager who's aware that these fee arrangements

1 may have certain limitations they'll be inclined to
2 determine that a maximum level of functioning has been
3 reached and discontinue the medical benefits, is that
4 correct?

5 MR. WILF BEDARD: Could you restate that
6 question please? I don't -- I'm not sure I understand
7 what you're getting at.

8 MS. PAMELA REILLY: The case managers are
9 aware that there may be limitations under these fee
10 arrangements, right?

11 MR. WILF BEDARD: They know that the
12 agreement that we have with whatever medical discipline
13 you're referring to, we have a negotiated and agreed upon
14 protocol upon which the limits to which we believe, not
15 only MPI but, again, the discipline, agrees which will
16 generally capture the requirements of the vast majority
17 of -- of injured individuals suffering from whiplash
18 disorders principally.

19 And if that first threshold breaks
20 through, for whatever reasons, the unique complex nature
21 of this injury, there's a protocol to go to the next
22 level of -- of cap, if you will. And -- and then you --
23 of course, maybe there's some consideration needs to be
24 given to -- that particular treatment modality is not
25 having the effect that the person needs in terms of

1 recovering from their injury and perhaps should try
2 something else.

3 MS. PAMELA REILLY: And I think you'd
4 agree that individuals, in terms of their recovery, it
5 doesn't necessarily fit into a neat protocol of a certain
6 amount of visits? Obviously everyone's recovery is going
7 to be individual to them?

8 MR. WILF BEDARD: Yes, that true --
9 that's true. But there are statistics that show
10 generally, in terms of the normal population, what degree
11 of treatment an individual, the majority of individuals
12 will respond to.

13 And I think the agreements that we've
14 made, including the agreement with the MCA, have -- have
15 looked at the research, has looked at practices, have
16 looked at patient recovery and we've agreed on -- on a
17 manner which we feel is best for -- for these individuals
18 in terms of -- of treatment and recovery.

19 MS. PAMELA REILLY: So when a claims
20 manager is making a decision whether or not to continue
21 or discontinue benefits, are the fee arrangements and the
22 limitations one of the factors they take into
23 consideration to discontinue?

24 MR. WILF BEDARD: No, that has nothing to
25 do with a person's entitlement to benefit.

1 MS. PAMELA REILLY: Okay. So,
2 irrespective of whatever fee arrangements may be made
3 under these -- with these various healthcare
4 practitioners, they are more of a guideline? In other
5 words, the case manager or if the treating physician
6 determines that they need more treatment contrary to what
7 the fee arrangement is, the Corporation will continue to
8 pay?

9 MR. WILF BEDARD: There are exceptions
10 certainly, you know, and -- and the fee arrangements that
11 we have with those three (3) that you mentioned do say
12 essentially that in the vast majority of cases this is an
13 adequate treatment, frequency, and duration. If, in
14 fact, the practising physician or chiropractor or
15 physiotherapist feels that that's not sufficient there's
16 a protocol to follow to request benefits in addition to
17 that and that's been in practice.

18 And that's been in practice with the
19 Physiotherapy Association for a few years now. The
20 feedback that I get there that it's working extremely
21 well. We've had that similar arrangement with the
22 Chiropractic Association since last January. And the
23 feedback that I'm getting there is again that it's
24 working extremely well; that there's no -- no issues with
25 the administration on how we set it up in those

1 agreements.

2 So it is having the benefits I think and -
3 - and creating the clarity that we were looking for in
4 dealing in this relationship between the patient and the
5 insurer and the practising medical practitioner.

6 MS. PAMELA REILLY: Okay. Obviously, if
7 the case manager determines that the claimant has reached
8 a maximum level of functioning, benefits are
9 discontinued, right? I mean, it -- it's a trite
10 question, I appreciate.

11 MR. WILF BEDARD: Well, you know, if in
12 fact it is determined that continuing treatment will not
13 have any greater opportunity or ability to improve the
14 person's condition and it just -- it becomes of no value
15 whether the person continues active treatment or not, and
16 that's the decision, then the funding of that treatment
17 will discontinue, yes.

18 MS. PAMELA REILLY: All right. And then
19 just to move a bit into the internal review and -- and
20 the appeal process, if that is the decision then of the
21 case manager the claimant then can move to the internal
22 review process and perhaps even onto the Automobile
23 Injury Compensation Appeal Commission, right?

24 MR. WILF BEDARD: Yes. As I mentioned
25 before, once the -- I -- I described to you the process

1 that we use in ceasing benefit. In that decision letter
2 that I mentioned which articulates all the details in
3 terms of why benefits have stopped, the concluding
4 paragraphs talk about the appeal process, the internal
5 review process, and the person in that letter is guided
6 in terms of what their next steps are if they disagree
7 with the -- the decision.

8 MS. PAMELA REILLY: Right. Okay, I'm
9 going to jump back a bit. We've already talked about in
10 the Prolonged Recovery Unit there's been a significant
11 savings there over the -- over the last couple of years
12 and in fact the savings have been exceeded by some eight
13 hundred and sixty thousand dollars (\$860,000), right?

14 In other words, the savings over the two
15 (2) years was 2.86 million I believe, and -- and the
16 Corporation was hoping for about a \$2 million savings?

17 MR. WILF BEDARD: Well, we weren't really
18 hoping for anything. I mean setting up the -- the
19 project we had to look at it as a business case. Was it
20 worthwhile to set up this -- this special unit to do this
21 task? Was there value to -- to the -- the injured party?
22 Was there value to the customer? Was there value to the
23 Corporation in doing this? And is this just an added
24 expenses with little out -- or not outcome or was there
25 some form of benefit?

1 for income replacement no longer exists. But, their
2 entitlement for other benefits under the PIPP program may
3 still continue.

4 So it's not a -- you know, an all win or
5 all lose situation. Again, each one (1) is very complex,
6 very different, and the outcomes are, you know, reflect
7 that as well.

8 MS. PAMELA REILLY: Were all of the
9 claimants in the prolonged recovery unit able to reach
10 their pre-accident level of functionality, do you know?

11 MR. WILF BEDARD: No, it's an ongoing
12 endeavour. As I said, we have about ninety (90) to a
13 hundred (100) cases in that unit. They're not -- they
14 haven't all been through the entire process, these things
15 take long periods of time; getting the assessments,
16 reviewing the files, getting new information, dealing
17 with the customer, their employees, and many of them have
18 numerous medical practitioners that you need to engage.

19 There's lots of activity that needs to
20 take place before, you know, there's determination;
21 ultimately, what will be the end result of the prolonged
22 recovery unit's efforts.

23 So, in terms of outcome, we've been very
24 successful, we feel, in allowing people to resume normal
25 activity or resume their pre-accident condition. Not all

1 have -- some that we've looked at -- quite a number that
2 we looked under the microscope, if you will, the
3 conclusion is that there is no more that we can do for
4 this individual.

5 It is what it is and nothing more. So,
6 you know, again it's very fluid and you can't make any
7 specific absolute statements, in terms of the success of
8 the program, looking at -- you know -- all of the files
9 in there. You look at -- have to look at the success of
10 each -- each one (1).

11 MS. PAMELA REILLY: Okay. So I take it
12 from that answer the Corporation doesn't really have any
13 statistics, at least yet, on -- on how many patients have
14 successfully gone through that unit and been returned to
15 functioning?

16 MR. WILF BEDARD: No, again it's --
17 they're all in there. They continue to be worked on.
18 They're at various stages as I said and that's why we
19 felt that we would let it run for the two (2) years and
20 then we'll do some determination at that point.

21 And there's really been no critical
22 evaluation done as you're suggesting, at this point.

23 MS. PAMELA REILLY: Okay. And I'm
24 assuming that claimants have the same right of appeal
25 from decisions of the prolonged recovery unit as other

1 claimants that aren't involved in that unit?

2 MR. WILF BEDARD: Certainly, yes.

3 MS. PAMELA REILLY: Okay. Does the
4 Corporation know what percentage of all the appeals come
5 from the prolonged recovery unit?

6 MR. WILF BEDARD: Oh, it would be very
7 few.

8 MS. PAMELA REILLY: Okay. The evidence
9 of the Corporation is that the actual regulatory and
10 appeal expenses for the '05/'06 year were 3.42 million.
11 Do you recall that?

12 And again if you need a reference, Tab 7
13 of the Public Utilities Board book of documents, I
14 believe sets out that figure.

15

16 (BRIEF PAUSE)

17

18 MR. WILF BEDARD: Can you point me to the
19 direction of where you're looking under Tab 7?

20 MS. PAMELA REILLY: On the left-hand
21 column under the heading, Expenses, the sub-heading,
22 Regulatory Appeal; it's about in the middle of the page.
23 And again, I'm looking at Tab 7 of the Public Utilities
24 Board book of documents. The very first page.

25 MR. BARRY GALENZOSKI: I can probably

1 better direct the answers on these.

2 MS. PAMELA REILLY: So again the question
3 was, at the '05/'06 expenses for the regulatory appeal
4 process were 3.42 million, correct?

5 MR. BARRY GALENZOSKI: That's correct.

6 MS. PAMELA REILLY: And the regulatory
7 and appeal expenses for the '04/'05 year were 1.85
8 million, right?

9 MR. BARRY GALENZOSKI: That's correct.

10 MS. PAMELA REILLY: And just as a
11 straight mathematical calculation there was an increase
12 from the '04/'05 to the '05/'06 year of 1.57 million?

13 MR. BARRY GALENZOSKI: Yes, or 85
14 percent.

15 MS. PAMELA REILLY: Okay. And the
16 Corporation responded to the Manitoba Chiropractor
17 Association question about the reason for the increased
18 costs and I'll refer you now to the MCA-1-3.

19 And the Corporation explained that the
20 increased costs were one (1) additional Public Utility
21 Board costs for the loss transfer hearing and,
22 additionally, costs to the advocate's office of eight
23 hundred and eight thousand (808,000).

24 And I just want to confirm, when the
25 Corporation refers to the Advocate's Office are we

1 talking about the Claimant's Advisory Office?

2 MR. BARRY GALENZOSKI: That's correct.

3 MS. PAMELA REILLY: Okay.

4 MR. BARRY GALENZOSKI: You'll also note
5 that there was additional automobile injury compensation
6 commission costs. I believe both of these organizations
7 had some startup costs for some office renovations and we
8 were billed for those also.

9 MS. PAMELA REILLY: Okay. And if I
10 understand correctly, the claimant advisor's office was
11 established in 2005?

12 MR. WILF BEDARD: That sounds right, yes.

13 MS. PAMELA REILLY: If I understand, my
14 recollection is that the legislation was enacted in 2004
15 and then the office opened, I think, it was May of 2005?

16 MR. WILF BEDARD: Sounds about right,
17 yes.

18 MS. PAMELA REILLY: Okay. And that
19 response to the Corporation's question, 1-3, the
20 Corporation also stated that the overall increased costs
21 were due to the Appeal Commission appeals.

22 And I think, Mr. Galenzoski, that was your
23 response. You indicated some of that was startup costs?

24 MR. BARRY GALENZOSKI: Some of that for
25 the -- we're talking about the Automobile Injury

1 Compensation Commission?

2 MS. PAMELA REILLY: Correct.

3 MR. BARRY GALENZOSKI: Those costs
4 increased, I think, because of some renovations to new
5 office space that they'd taken on around that time. I
6 could be wrong on that. But I believe that was the main
7 reason for that.

8 MS. PAMELA REILLY: Okay. So the eight
9 hundred and eight thousand dollars (808,000) that was
10 indicated as costs to the Advocate's Office, that's
11 separate and apart from any costs that the Appeal
12 Commission incurred or that were incurred on behalf of --

13 MR. BARRY GALENZOSKI: Yes. And that, I
14 believe, was a combination of some one-time costs
15 associated with that office and also their regular
16 operating costs.

17 MS. PAMELA REILLY: So the total increase
18 costs for the regulatory and appeal expenses, which are
19 1.57 million, we know that about .8 million are
20 attributed to the Advisory Office, so that leaves about
21 .7 million that are divided between the Claimant
22 Advisor's office and the Appeal Commission?

23 MR. BARRY GALENZOSKI: I can give you a
24 rundown of where the cost of increase of \$1.574 million
25 came from. We have larger costs -- Public Utility Board

1 costs were higher by three hundred and seventy-six
2 thousand, three hundred and fifty-two dollars (\$376,352)
3 and that was, I think, primarily because of special
4 hearings. The Appeal Commission costs were higher by
5 three hundred and fifty thousand dollars (\$350,000) and
6 then the Advocate's Office, eight hundred and eight
7 thousand dollars (\$808,000).

8 MS. PAMELA REILLY: Thank you. And then
9 I note that the regulatory and appeal costs are expected
10 to be relatively stable over the forecast and projected
11 years; around 3.3 and 3.4 million, correct?

12 MR. BARRY GALENZOSKI: Yes, that's
13 correct.

14 MS. PAMELA REILLY: Is the Corporation
15 anticipating more appeals? You've indicated that some of
16 the costs, at least three hundred and seventy-six
17 thousand (376,000) were attributed to the Public Utility
18 Board special hearings, but your -- your forecasted
19 amounts are about the same.

20 So I'm wondering is that forecast
21 anticipating increased appeal costs?

22 MR. BARRY GALENZOSKI: The forecast is
23 just anticipating the costs that were advised by
24 Consumers and Corporate Affairs that that group is
25 expecting to incur in the coming year. So it isn't

1 related to the number of appeals that they handle at all,
2 it's simply related to the expenses that they're
3 incurring.

4 I presume that they would be incurring
5 higher rental costs for the new premises that they're in
6 as well as staff costs; they maybe adding some staff in
7 that -- in that situation also.

8 MS. PAMELA REILLY: Okay, thank you.
9 And, again, I'm not sure if this is a question for Mr.
10 Galenzoski or Mr. Bedard but would you agree that the
11 2005 fiscal year is the first year that the Claimant
12 Advisors would have been involved in the Appeal
13 Commission appeals process?

14 MR. WILF BEDARD: Did you mention '05?

15 MS. PAMELA REILLY: Correct.

16 MR. WILF BEDARD: Yes.

17 MS. PAMELA REILLY: I'm going to refer
18 you now the Manitoba Chiropractic Association Question
19 Number 2 or Information Request Number 2 in Round 2, so
20 MCA-2-2.

21 MR. WILF BEDARD: Yes, I have it.

22 MS. PAMELA REILLY: And this is the chart
23 that Mr. Dawson referred to yesterday. And if we look at
24 that chart it shows a ten (10) year historical
25 perspective of the injury claims reported, the internal

1 reviews, external appeals, and then appeal decisions in
2 the claimants' favour, correct?

3 MR. WILF BEDARD: Yes.

4 MS. PAMELA REILLY: And when I look at
5 from the years 1996 to 2004 the numbers appear relatively
6 consistent in that there is a gradual increase in the
7 injury claims reported and corresponding increases in the
8 internal reviews and the external appeals.

9 Do you agree with that?

10 MR. WILF BEDARD: Yes, I do.

11 MS. PAMELA REILLY: And similarly, from
12 1996 to 2004 there's a corresponding increase in the
13 appeal decisions in the claimants' favour, correct? I
14 appreciate there's some fluctuation.

15 MR. WILF BEDARD: You're looking at the
16 percentage in favour --

17 MS. PAMELA REILLY: I --

18 MR. WILF BEDARD: -- and it goes from 33
19 percent in '96 to twelve point three (12.3) in '04 and
20 two point two (2.2) in '05?

21 MS. PAMELA REILLY: Okay, right. So the
22 appeal decisions in the claimants' favour, they have --
23 they have decreased?

24 MR. WILF BEDARD: Yes.

25 MS. PAMELA REILLY: But when I take a

1 look at 2005 again, the -- the injury of claims reported
2 has increased more or less in line with the previous
3 years, similarly with the internal reviews and the
4 external appeals.

5 But would you agree with me that when we
6 get to the appeal decisions in the claimants' favour,
7 from 2004, a number of twenty-eight (28), it drops
8 significantly to five (5); that's what the data shows,
9 correct?

10 MR. WILF BEDARD: Yes, that's the -- the
11 data to-date in terms of the '05 decisions that the ACAT
12 have rendered decisions on.

13 MS. PAMELA REILLY: And I appreciate that
14 yesterday there was an undertaking giving -- given
15 indicating that there may be some additional data, but is
16 it the Corporation's position that that additional data
17 will explain why there's a significant drop in that 2005
18 year for decisions in the claimants' favour?

19 MR. WILF BEDARD: Yes, it should show us
20 that, yes.

21 MS. PAMELA REILLY: And is there -- does
22 the Corporation have an explanation now or does it simply
23 want to wait until that undertaking is provided?

24

25

(BRIEF PAUSE)

1 MR. WILF BEDARD: I think maybe this
2 answer will help you.

3 There -- what -- what you're missing here
4 is a column in terms of the total number of decisions
5 that have been made. There are still a number of
6 outstanding decisions that were filed, appeals that were
7 filed with -- in the 2005 year that the Commission has
8 not yet rendered a decision on.

9 So although the chart here shows that
10 there's five (5) decisions in the claimants' favour out
11 of two hundred and twenty-eight (228), but that may only
12 represent perhaps twenty (20), thirty (30), forty (40)
13 decisions of -- rendered out of those two hundred and
14 twenty-eight (228) filed within the year.

15 And I think when we have that additional
16 information it'll provide some more clarity to what's
17 been going on here.

18 MS. PAMELA REILLY: Okay. So I think if
19 I understand what you're saying is that in the previous
20 years we have all of the decision in from those claims,
21 whereas in the 2005 year we're still waiting for
22 decisions to be rendered in the claims that were filed
23 that year?

24 MR. WILF BEDARD: You wouldn't have all
25 the decisions made in those previous years. You would

1 have more decisions made. But there are decisions still
2 outstanding that go beyond the '05/'04 years.

3 MS. PAMELA REILLY: Okay. And when does
4 the Corporation expect that they'll have that information
5 or that data? Do you have any idea?

6 MR. WILF BEDARD: We'll try and get it to
7 you this afternoon.

8 MS. PAMELA REILLY: Oh, very good. Thank
9 you. Does the -- does the Corporation have any -- or
10 track any statistics relative to the operation of the
11 Claimant Advisors office?

12 And I appreciate, I think in your evidence
13 yesterday you had indicated that it's too soon to track.
14 But, I'm wondering if the Corporation has already started
15 to track some of that data?

16 MR. WILF BEDARD: No, I don't think we're
17 tracking any data there. If we are, I certainly have not
18 seen it.

19 MS. PAMELA REILLY: And again, I recall
20 Ms. McLaren indicating yesterday that there had been no
21 input by the Corporation with respect to the decision to
22 establish the claimant advisors; no studies had been
23 undertaken.

24 Is that something that the Corporation has
25 done subsequently, in order to determine how effective

1 that Claimant Advisor's office may be?

2 MR. WILF BEDARD: No, nothing like that
3 has taken place.

4 MS. PAMELA REILLY: Okay. Just moving on
5 again to some of the issues under the review and the
6 appeal process. I think we've already determined that
7 while an individual is waiting for review or an appeal,
8 they're not receiving their benefits, correct?

9 MR. WILF BEDARD: Well, again, you can't
10 speak specifically or generally like that, I suppose.
11 Not all the reviews and appeals are as a result of a
12 removal of a benefit.

13 It could be that the individual has not
14 been cut off income replacement but, they are challenging
15 the calculation of that benefit. It may be benefits are
16 continuing for the majority of their entitlement, but
17 there is one (1) or two (2) specific items that the
18 Corporation felt it was not necessary for the individual
19 or fell outside of the program.

20 So you just can't say because there's an
21 appeal there's no benefits flowing. You know, that's far
22 from accurate. It could be just a small specific item,
23 all the way up to what you're suggesting as a total
24 cessation of entitlement.

25 MS. PAMELA REILLY: I see. Okay. With

1 respect to medical, are you saying that if a claimant is
2 determined to have reached maximum functioning, but the
3 claimant disagrees with that, is the Corporation still
4 going to pay them their medical benefits, pending an
5 appeal?

6 MR. WILF BEDARD: I don't think we look
7 at it in that way. We would look at it in terms of the
8 specific treatment, whether that treatment that the
9 individual was continuing to go to, whether we felt that
10 there was a value in that treatment, value in that
11 expense; not that we would not look at paying some other
12 form of treatment.

13 What we're saying is that given the
14 individual, given the injuries, given its history and the
15 treatment to date, it's -- it's of our view that
16 continuing incurring the expense of that treatment,
17 continuing to go to that treatment holds no value in
18 terms of improving the person's capacity or function.

19 We're not saying we -- no treatment.
20 We're not saying no rehabilitation. All we're saying is
21 that particular expense that you've been incurring has
22 stopped, in our view, being of any material value to your
23 recovery.

24 MS. PAMELA REILLY: Okay. And I -- and I
25 appreciate the rationale and I'm sorry if I missed it,

1 but I'm wondering though, you're saying that some of the
2 medical benefits may be paid, or some of some other type
3 of treatment may have been authorized by the Corporation
4 and the Corporation will pay for those treatments?

5 MR. WILF BEDARD: Yes, you know, we could
6 be looking at a chiropractic case, for example, where
7 it's determined that the individual will not benefit by
8 continuing that treatment beyond what we felt was an
9 appropriate period of time and we may stop paying for
10 chiropractic treatment.

11 But if there's a different treatment
12 modality that may have some benefit and we are of the
13 view that that -- it may have some benefit then certainly
14 that -- that would be considered, yes.

15 MS. PAMELA REILLY: Okay. Assuming that
16 benefits, whether they're income replacement or medical
17 benefits have been discontinued and a claimant is
18 appealing that decision, I take it that if the Appeal
19 Commission, for example, overturns that decision of the
20 Corporation then the Corporation then becomes obligated
21 to, at least, recommence those benefits, correct,
22 depending on the decision?

23 MR. WILF BEDARD: We would be guided by
24 whatever the outcome of the decision from the Commission
25 was. Whatever they -- they've decided and instructed us

1 to do we will comply with.

2 MS. PAMELA REILLY: Right. And does the
3 Corporation then pay back benefits from the date that
4 they were discontinued, whether they were income
5 replacement or medical?

6 MR. WILF BEDARD: If that's the decision
7 of the Commission then, yes.

8 MS. PAMELA REILLY: Okay. So I take it
9 then the Corporation obviously has to budget for that
10 type of contingency?

11 MR. WILF BEDARD: No, we don't budget for
12 that contingency specifically. What we will do is, we
13 were talking earlier about setting reserves under --
14 under compensation categories, if you will. What we
15 would do is ensure that we would re-activate reserving on
16 a particular file that reflected the decision that was --
17 that was made by the Commission.

18 MS. PAMELA REILLY: Is the average wait
19 time for a claimant from the time that benefits may have
20 been discontinued through to the Appeal Commission
21 process, is that wait still about seven and a half (7
22 1/2) months; do you know?

23 MR. WILF BEDARD: I think it varies. You
24 know, there are some that get heard fairly quickly. Some
25 are -- are -- are delayed for long periods of time. I

1 don't know if I could agree on any form of average that
2 you -- you put forward.

3 Clearly there are delays. The Commission
4 is concerned about those delays as are the Corporation
5 and we are working towards trying to find ways and means
6 to improve that.

7 MS. PAMELA REILLY: Thank you. And to be
8 fair, Mr. Bedard, that seven and a half (7 1/2) months I
9 gleaned from the transcript from 2004. So, again, I want
10 to be fair to you that that's where that number came.

11 So I just wanted to know if the
12 Corporation had any information about whether or not that
13 timeframe was still roughly the same?

14 MR. WILF BEDARD: Again, I don't know how
15 that figure was arrived at. All I can tell you is that
16 there are long delays in some cases and it is a concern
17 that we share with the Commission and there's been
18 discussions and dialogue in terms of how we can improve
19 that backlog.

20 MS. PAMELA REILLY: Thank you.

21 MS. MARILYN MCLAREN: But having said
22 that, this matter is completely within the jurisdiction
23 of the Automobile Injury Compensation Appeal Commission
24 not Manitoba Public Insurance.

25 There's been other information put on the

1 record that the Appeal Commission will use its discretion
2 in trying to accelerate more urgent cases which would
3 involve things like income. And there's also been
4 information put on the record that they often work with
5 the claimants to decide when the claimant is ready to
6 proceed.

7 Just because somebody files an application
8 for appeal doesn't mean they're ready to proceed to
9 hearing right that minute. They work with claimants on
10 that. They often ask for additional information
11 themselves.

12 There's a number of factors that will vary
13 the length of time between when someone actually files an
14 appeal and when the decision is rendered.

15 MS. PAMELA REILLY: Does that wait time
16 affect the Corporation's budgeting? Does it increase
17 expenses at all?

18 MS. MARILYN MCLAREN: I don't believe so.

19 MS. PAMELA REILLY: I'm going to move
20 then to some of the customer satisfaction surveys and I
21 have a few questions about that.

22 And, Mr. Chairman, I'm trying to recall
23 what time we usually break in the morning, but I can
24 indicate I should only be another fifteen/twenty (15/20)
25 minutes. Thank you.

1 Mr. Bedard, the Manitoba Chiropractic
2 Association in Second Round Question Number 1, asked a
3 question about target scores. So I'll just refer you to
4 that.

5 MR. WILF BEDARD: Yes, I have that.

6 MS. PAMELA REILLY: And in that question
7 the Chiropractic Association asked about the -- the
8 distinction between target scores and -- and the survey
9 results and -- and the Corporation, I believe, responded
10 indicating that -- let me back up a bit.

11 My understanding is the target scores for
12 physical damage claimant satisfaction index and the
13 bodily claimant satisfaction index differ because and in
14 -- in accordance with the Corporation's response, they
15 are different types of claims with different timeframes,
16 levels of client interaction, and outcomes, correct?

17 MR. WILF BEDARD: Yes, they're two (2)
18 different types of business. The physical damage are
19 very short-term cases, many of which are resolved within
20 thirty (30) days. A ninety (90) day old case would be --
21 would be an old case; most of them cycle well within
22 ninety (90) days.

23 The injury, of course, by the nature of --
24 of the -- the scheme, by the nature of the claim, many
25 times it could be years that that relationship continues;

1 very two (2) different types of business; different
2 elements that go into them. And as a consequence the
3 index that was identified in terms of a target does
4 differ, yes.

5 MS. PAMELA REILLY: Okay. And that --
6 and that may have answered my next question because
7 clearly the -- the target index score for bodily injury
8 claim is lower than that for the physical damage claim so
9 it suggest that the Corporation puts a -- a lower
10 standard on the customer satisfaction for bodily injury.

11 MR. WILF BEDARD: That target -- we don't
12 place a lower value at all. That is a target that was
13 established using the guidelines and practices and
14 research that we found in terms of the industry of -- of
15 customer satisfaction, the work that goes in that. It
16 wasn't set purely by MPI.

17 We've looked at the research. We've
18 consulted with experts in the field. We're looking at
19 comparing our target satisfaction level with like
20 industries and we've come up with that sixty-five (65)
21 index target for -- for the bodily injury side.

22 Again, we did the same thing for the
23 physical damage side. For the reasons I described
24 earlier, it's a very different relationship that we have
25 with customers and the target was set given the best

1 research and guidelines of that industry as well. And
2 that's the reason why the two (2) indices are different.
3 It's got nothing to do with value of the company and the
4 relationship we have with those two (2) different types
5 of customers.

6 MS. PAMELA REILLY: I suspected that. Is
7 the Corporation still selecting the -- the target for
8 bodily injury claims using companies involved in
9 disability management?

10 And again to be fair, Mr. Bedard, I recall
11 that there was a discussion between yourself and Mr.
12 Dawson a couple of years ago about the -- the basis for
13 the Corporation selecting its scores and so I'm -- I'm
14 just wondering is it -- is the Corporation still using
15 the -- the disability management model if I can put it
16 that way?

17 MR. WILF BEDARD: Yes, I do recall that
18 conversation that I had with Mr. Dawson a year or two (2)
19 ago. The methodology that we use and the resources that
20 we -- we evaluate has not changed and as a consequence
21 the -- the index has not changed either.

22 MS. PAMELA REILLY: Okay. Again with
23 reference to the Manitoba Chiropractors' Association
24 Second Round Information Request Number 5, and I believe
25 this was a response to the Chiropractors' Association

1 request about telephone or survey information.

2 And the Corporation responded at Sub C
3 stating that telephone surveys are completed under
4 contract with several professional Winnipeg research
5 companies, correct?

6 MR. WILF BEDARD: Yes.

7 MS. PAMELA REILLY: And you may have
8 answered this question yesterday in response to Mr.
9 Dawson and I think you'd indicated that the Corporation
10 is still, essentially, using the same type of survey.

11 I'm sorry, my question was going to be:
12 Has the Corporation altered its survey methods in the
13 last couple of years?

14 MR. WILF BEDARD: No, we have not. I
15 think I mentioned the other day that, you know, we do
16 some minor phrasing, rephrasing of questions and whatnot
17 to make them a little bit more clearer, that type of
18 thing, but in terms of the methodology, no, nothing has
19 changed.

20 MS. PAMELA REILLY: Okay. So to use Ms.
21 McLaren's term from yesterday, you've tweaked the
22 questions a bit?

23 MR. WILF BEDARD: Yes, we've tweaked the
24 questions a bit.

25 MS. PAMELA REILLY: So I take it the

1 Corporation is still creating those questions, is that
2 correct?

3 MR. WILF BEDARD: Yes, we do an annual
4 review and a peer review every year to make sure that
5 we're comfortable with the questions set in the
6 structure.

7 MS. PAMELA REILLY: And the Corporation
8 is still creating the lists of potential survey
9 respondents to contact by the independent people?

10 MR. WILF BEDARD: Yes, we keep them in
11 separate modelling pools, but yes we continue to do that.

12 MS. PAMELA REILLY: Okay. Thank you, I
13 just have a few questions now about the income
14 replacement benefits.

15 And I know that in response to the
16 Manitoba Chiropractor's Association Question Number 3 in
17 Round 2, so MCA-2-3, the Chiropractor's Association had
18 asked the question of what the rationale was for
19 legislating a seven (7) day waiting period for income
20 replacement benefits.

21 Does the Corporation have any other
22 response other than, it's in the legislation? Does the
23 Corporation know what the rationale is for that seven (7)
24 day waiting period?

25 MR. WILF BEDARD: It's in the

1 legislation. It's part of the program and our job is to
2 administrate the plan and this is one (1) of the
3 regulations within the plan that we administer to.

4 MS. PAMELA REILLY: Okay. Fair enough.
5 But, you would agree with me that that puts the financial
6 burden on the claimant with respect to at least that
7 seven (7) days that income, correct?

8 MR. WILF BEDARD: Yes, that's true, it
9 does.

10 MS. PAMELA REILLY: Has the Corporation
11 determined what the impact would be on its financial
12 situation if that seven (7) day waiting period were
13 eliminated?

14 MS. MARILYN MCLAREN: No. No, we have
15 not done that. And I guess maybe just for the sake of a
16 little bit further information for you other than the
17 fact that it is part of the legislation, it is -- just as
18 you suggested, in term -- it, in effect, works like a
19 deductible.

20 It's a deductible and we know that there
21 would be significantly more costs borne by ratepayers if
22 there was not a deductible of seven (7) days. I can also
23 tell you that with respect to automobile insurance,
24 public sector, private sector, any other jurisdiction
25 that we've been able to identify, seven (7) days is

1 standard or at the low end.

2 MS. PAMELA REILLY: Okay. If my
3 understanding is correct under the Manitoba Workers
4 Compensation legislation, there is no waiting period; is
5 that your understanding too, or does the Corporation
6 know?

7 MS. MARILYN MCLAREN: Yeah -- no, I
8 believe that to be true.

9 MS. PAMELA REILLY: And has the
10 Corporation consulted with that Workers Comp model to
11 consider that body's rationale for legislating no waiting
12 period?

13 MS. MARILYN MCLAREN: No, they're
14 fundamentally different public policy programs. And with
15 respect to the seven (7) day waiting period of automobile
16 injuries we would see no basis to recommend any change to
17 that -- to the government and we haven't done any
18 consulting on that basis.

19 MS. PAMELA REILLY: Okay. Thank you.
20 Mr. Chairman, those are my questions.

21 THE CHAIRPERSON: Thank you, Ms. Reilly.
22 I will take advantage of this few minutes and then we're
23 going to be moving to Ms. Bowman and Mr. Williams.

24 Mr. Saranchuk, Mr. Sousa, is the plan for
25 him to follow CAC/MSOS?

1 MR. WALTER SARANCHUK: That's my
2 understanding sir, yes.

3 THE CHAIRPERSON: Okay. I've got a few
4 questions of MPI and then we'll break as we're on our
5 last day of cross-examination of the Panel.

6 Is it still the expectation that through
7 the BPR process DVL functions and staff now located in
8 extension will eventually be merged into functions and
9 staff located in basic? I think we talked about this
10 last year, a bit.

11 MS. MARILYN MCLAREN: Yeah, I'm not sure.
12 I'm not sure. I don't think it's a question anymore of
13 you know, where -- in what insurance line should we place
14 those people. What we have to figure out, is what is the
15 best way to fairly allocate costs?

16 If you look at many of the people will
17 begin to do work that is much more integrated than it has
18 been. And you know, there -- people in the call centre
19 will, you know, within an hour will answer questions
20 about Autopac extension and basic insurance and claims
21 and driver licensing policy.

22 So that's our challenge, is to figure out
23 how do we properly allocate costs when the services
24 themselves are so tightly integrated? And I think also
25 there will continue to be some functions today in our DVL

1 and reported at the bottom line level through extension,
2 that are really truly isolated to DVL functions, will not
3 be integrated with insurance functions.

4 But, there are others that will be highly
5 integrated. So our challenge is, how do we allocate the
6 costs fairly without worrying as much about what
7 insurance division do we put them in. We may end up with
8 four (4) divisions, a regulatory function and three (3)
9 insurance lines. I'm not sure yet.

10 THE CHAIRPERSON: I understand. I think
11 that's consistent with your comments last year.

12 Would it be fair to say, in general, that
13 of the 28 million of current annual DVL function cost, if
14 I recall the number properly, now allocated in extension,
15 which I understand is offset by the government payments
16 of 21 million, that one could assume that 80 to 85
17 percent of the cost and results could be considered basic
18 related and the rest extension and SRE at the end of the
19 day.

20 MS. MARILYN MCLAREN: 85 percent of the
21 28 million?

22 THE CHAIRPERSON: Well, I'm just saying
23 that if we have \$28 million of net costs of 7 million at
24 the end, okay, that \$7 million, if you pursued with the
25 process of not ignoring the lines and figuring out where

1 they go, right now you have common services that you
2 share the costs between basic, extension and SRE.

3 Would that type of sharing, based on your
4 previous comments, not also apply to costs related to
5 this function?

6 MS. MARILYN MCLAREN: Many of our
7 operating expenses are allocated as a percent of revenue.
8 If you can't directly allocate them -- and that's what it
9 is; is about 85 percent basic and 15 percent split
10 between the other two (2).

11 For the sake of argument, I -- that would
12 probably be as good a rationale as anything else until we
13 do the homework.

14 THE CHAIRPERSON: And in last year's
15 hearing, and by the way, I don't mind if you -- as we're
16 collecting these questions as we go through, if you
17 respond later and just take them under advisement because
18 we're going to have the break anyway.

19 In the last year's Hearing, I think you
20 indicated that the five (5) year projected losses with
21 respect to DVL that would end up in extension was
22 approximately 40 million and that you hoped eventually to
23 achieve a balance over time; is that fair paraphrasing of
24 that?

25 MS. MARILYN MCLAREN: Yeah, I think so.

1 THE CHAIRPERSON: Would it be fair to
2 assume, going back to your comment that you felt in time
3 you'd work at it to try and, you know, bring down the
4 net, that the replacement of the existing approach to
5 discounts and surcharges next year will eventually
6 perhaps generate a contribution of the -- or perhaps even
7 a full offset of the \$7 million costs now and even the \$4
8 million of the Commission offset?

9 I'm saying you wouldn't necessarily have
10 to expect to get it all out of the rationale of the costs
11 themselves.

12 MS. MARILYN MCLAREN: If we believe that
13 the driver safety rating changes will allow us to have a
14 better safety framework, things like that, I think that
15 would be a fair assumption.

16 THE CHAIRPERSON: Because if you had a
17 more effective program, for example, presumably maybe
18 there wouldn't be as many accidents and injuries. I'm
19 not even just talking about revenues.

20 MS. MARILYN MCLAREN: No, I understand
21 that. And I think the possibility is there. I think the
22 direct link is maybe a little bit tenuous right now.

23 THE CHAIRPERSON: Yes, it would take
24 time, I imagine. Is it fair to assume that the changes
25 that'll go on through this process that you're involved

1 with and the integration, as well, will eventually affect
2 the forecast need for basic in future applications?

3 MS. MARILYN MCLAREN: I think that is
4 certainly possible, yes. I think -- we like -- driver
5 safety rating is one (1) example. There will be things
6 that become possible that would not otherwise have been
7 possible if the organizations had remained separate.

8 THE CHAIRPERSON: Yes. And forecasts are
9 made at a particular period of time and you usually can't
10 assume what the result is.

11 From the information filed, it would
12 appear that the annual extension net income is currently
13 being depressed by the net loss in DVL, is that fair?

14 MS. MARILYN MCLAREN: Yes.

15 THE CHAIRPERSON: Would it be fair to say
16 that some portion of SRE's net income relates to
17 interprovincial trucking?

18 MS. MARILYN MCLAREN: Yes.

19 THE CHAIRPERSON: And you indicated
20 before that you thought that basic was subsidizing it
21 with respect to PIPP costs of about a million eight (1.8)
22 a year?

23 MS. MARILYN MCLAREN: Yes.

24 THE CHAIRPERSON: Can you tell us if the
25 net income in the competitive lines associated with

1 interprovincial trucking makes up, if you like, the loss
2 on the group with respect to basic?

3 MS. MARILYN MCLAREN: Well, I think the
4 evidence shows that SRE has been and we expect it to
5 continue to be a profit line -- profitable line of
6 business. The trucking business is a significant share
7 of the SRE business. The -- where, you know, those costs
8 and profits and so on come from are -- are so different
9 within the two (2), I'm hard-pressed to give a direct
10 answer to that, but conceptually --

11 THE CHAIRPERSON: Or just --

12 MS. MARILYN MCLAREN: -- the, you know,
13 the -- that portion of the SRE business is as profitable
14 as the rest is.

15 THE CHAIRPERSON: Thank you. Well, basic
16 rates have been stable and are forecasted to climb with
17 the application.

18 Is this also the case for Extension and
19 SRE?

20 MS. MARILYN MCLAREN: For the most part,
21 yes, and we -- we do treat those lines in the same rate
22 setting fashion as we do basic where while the overall is
23 stable there's lots of up and down within the different
24 categories.

25 THE CHAIRPERSON: Thank you. Do you

1 recall or are you aware the reasoning behind leaving
2 Extension and SRE outside of the Board's jurisdiction
3 even at a high level?

4 MS. MARILYN MCLAREN: I believe the view
5 was that the compulsory program needed the third-party
6 review and approval of the rate-making process. The
7 competitive lines would be significantly disadvantaged to
8 be subject to this sort of a process and I think the
9 Government of the day and governments subsequently have
10 seen that.

11 THE CHAIRPERSON: To the level of detail
12 we get into, in other words?

13 MS. MARILYN MCLAREN: Yes.

14 THE CHAIRPERSON: Is there any other
15 forum in which policyholders of those other divisions are
16 able to survey and discuss and examine MPI's approach;
17 just a general question?

18 MS. MARILYN MCLAREN: I think, certainly,
19 with -- with respect to Special Risk Extension the
20 customized approach to those policies, the relationship
21 that is essential to have with the customers and with the
22 brokers who serve those customers really provides a
23 significant input and -- and oversight and consultation.

24 Extension -- again, I think you know we
25 rely significantly on brokers to provide a lot of that

1 input and perspective.

2 THE CHAIRPERSON: Thank you. If the
3 basic -- we were talking about "what ifs" the other day.
4 For example, when we were talking to Mr. Christie and
5 Drs. Hum and Simpson, for example, if basic deductible
6 for example was to increase to seven hundred dollars
7 (\$700) would that not reduce basic's claim cost while
8 increasing the opportunities for the Extension division?

9 MS. MARILYN MCLAREN: Yes.

10 THE CHAIRPERSON: In this last question
11 in this series, and then we'll have our break, I'm not
12 talking about whether or not an actuary operating
13 pursuant to their standards of practice would arrive at a
14 particular conclusion, I'm talking about something more
15 general than that.

16 Is it fully logically possible, without
17 reservation, to reach a conclusion on the capital
18 adequacy of a company when some divisions of that
19 company, highly profitable divisions, are outside the
20 purview of the reviewer?

21 MS. MARILYN MCLAREN: I would say, yes.

22 THE CHAIRPERSON: Okay. Thank you very
23 much. We'll have our break now.

24

25 --- Upon recessing at 10:27 a.m.

1 --- Upon resuming at 10:50 a.m.

2

3 THE CHAIRPERSON: Ms. Bowman...? Mr.
4 Williams...? Whenever you're ready.

5 MR. KEVIN MCCULLOCH: Mr. Chairman, if --

6 THE CHAIRPERSON: Sorry.

7 MR. KEVIN MCCULLOCH: No, that's okay.

8 There had been an undertaking requested by CAC/MSOS, Ms.
9 Bowman I believe, with respect to standards for
10 immobilizers. And Ms. McLaren would like to respond to
11 that verbally on the record, and if that's acceptable,
12 that should complete that Undertaking.

13 THE CHAIRPERSON: Ms. McLaren...?

14 MS. MARILYN MCLAREN: Thank you.

15 Transport Canada has determined that all the new vehicles
16 for sale in Canada as of the fall of 2007, must have a
17 factory installed anti-theft immobilizer device.

18 They have adopted two (2) standards that
19 manufacturers must meet to -- to pass that requirement of
20 them; one (1) is the UN, which is the United Nations
21 standard and the other is ULC, Underwriters Laboratories
22 of Canada.

23 There are no national standards.

24 Transport Canada has no role to play with respect to
25 after market immobilizers. And the Underwriter

1 Laboratories of Canada standard is what the vehicle
2 safety installation bureau requires with respect to after
3 market immobilizers. The VSIB has adopted the ULC.

4 THE CHAIRPERSON: Thank you. Mr.
5 Williams...?

6 MR. BYRON WILLIAMS: Out of competitive
7 instinct, I'm tempted to throw a few acronyms back at Ms.
8 McLaren, but I'll resist that temptation.

9 Mr. Chairman, I neglected to do this both
10 on Wednesday and Thursday. I did want to express my
11 appreciation to the courtesy extended to me on Tuesday, I
12 guess, by Board Counsel and the Board and all the other
13 intervenors who filled in for me due to my absence.

14 So to Mr. Oakes and Mr. Dawson and Ms.
15 Reilly, I want to express my appreciate.

16

17 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

18 MR. BYRON WILLIAMS: Mr. Bedard, it's
19 been a long time since we've talked. I feel like giving
20 you a hug.

21 THE CHAIRPERSON: Don't let us stop you.

22 MR. WILF BEDARD: I will.

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: Well how about this,

1 instead of giving you a physical embrace, let me give you
2 the warm embrace of my questions. I have probably
3 another half an hour to forty (40) minutes on road
4 safety, that I just want to finish up.

5 And it's been awhile, it's been a week, in
6 fact, since we talked. So I'm not going to recap the
7 entire cross-examination that we'd gone through. But, I
8 believe, when we left off, Mr. Bedard, and you can
9 correct me if my memory is wrong, we were looking at the
10 Corporation's response to First Round Interrogatory of
11 CAC/MSOS-1-24 Sub E; is that right, sir? You'll accept
12 that?

13 The Board may want to turn there.

14 MR. WILF BEDARD: I'll accept that sure.

15 MR. BYRON WILLIAMS: And you'll want to
16 have that at hand, as well, Mr. Bedard. The First Round
17 Interrogatory CAC/MSOS 1-24(e); that's the program
18 evaluations, the twenty-nine (29) that we spoke of?

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Do you have that,
23 Mr. Bedard?

24 MR. WILF BEDARD: Yes, I do.

25 MR. BYRON WILLIAMS: And just to remind

1 you and I'm sure Mr. Douglas will remind you of the
2 correct word to use because I -- but, we talked about and
3 you accepted, subject to check, that there were twenty-
4 nine (29) internal evaluations set out in this response,
5 is that right, sir?

6 MR. WILF BEDARD: Yes, I recall that
7 conversation from the other day.

8 MR. BYRON WILLIAMS: And we identified
9 that found in attachments 1, 2, 3, 5 and 6, were the type
10 of program evaluation which I called market surveys.

11 And I believe Mr. Douglas and the
12 Corporation has a different name which I can't recall,
13 but perhaps you could remind me what that other name is.

14 MR. WILF BEDARD: They're surveys against
15 national norms.

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: And again, just to
19 remind you, we went through one (1) or two (2) of those
20 surveys against national norms and we don't need to turn
21 there, but those are the attachments 5 sub-1 and 5-2;
22 relating to the driver education program awareness, is
23 that right, sir?

24 MR. WILF BEDARD: Yes, I think that's
25 right.

1 MR. BYRON WILLIAMS: And apart from the
2 twenty-six (26) surveys against national norms we also
3 identified, in Attachment 4, three (3) additional surveys
4 and set out in Attachment 4-1, 4-2 and 4-3.

5 And those were a different type of
6 evaluation performed by MPI internally, strategic
7 research, is that right, sir?

8 MR. WILF BEDARD: Yes, that's right.

9 MR. BYRON WILLIAMS: And I'm really going
10 to be focussing, Mr. Chairman and members of the Board,
11 on 4-3 but for just one second I'd ask you to turn to 4-2
12 Mr. Bedard. Attachment 4-2. And it'll be just for a
13 second. And that is -- they're kind of buried near the
14 end, Mr. Bedard.

15 And, in particular, Mr. Bedard, just for a
16 second, I want to direct your attention to Attachment 4-2
17 Internal Assessment of Young Drivers and the Graduated
18 Drivers License Programming, do you have that?

19 MR. WILF BEDARD: Yes, I do.

20 MR. BYRON WILLIAMS: And I just want you
21 to turn quickly -- or you can turn at any pace you
22 choose, but turn to page 12 of that study, if you would,
23 Mr. Bedard?

24 MR. WILF BEDARD: Yes, I have page 12.

25 MR. BYRON WILLIAMS: Thank you for your

1 courtesy. And you'll see the -- the heading there is
2 Research Limitations. Do you see that, sir?

3 MR. WILF BEDARD: Yes, I do.

4 MR. BYRON WILLIAMS: And I'll just draw
5 your attention to the last line of Research Limitations.
6 And it indicates that the current data does not measure
7 driving exposure, experience and enforcement levels; do
8 you see that, sir?

9 MR. WILF BEDARD: Yes, I do.

10 MR. BYRON WILLIAMS: And I wonder if you
11 can just define for me what the Corporation means by
12 "driving exposure", please?

13 MR. WILF BEDARD: Things like how much
14 time you spend on the road and the distance that you
15 would drive.

16 MR. BYRON WILLIAMS: Okay. And, again,
17 I'm not going to dwell on this report, but I'm going to
18 ask you just to flip now to page 1 of the report and
19 direct your attention to the bottom paragraph there?

20 And thank you for your definition of
21 "driving exposure". You'll see the second line of this
22 last paragraph.

23 "The indication from strategic research
24 is that the ideal measure of driving
25 exposure is kilometres driven."

1 Do you see that, sir?

2 MR. WILF BEDARD: Yes, I see that.

3 MR. BYRON WILLIAMS: I wonder if you can
4 indicate why MPI considers kilometres driven the ideal
5 measure of driving exposure?

6 MR. WILF BEDARD: It's really the only
7 true international measure that's been recognized by --
8 by everyone to -- to be a -- the ideal measure.

9 MR. BYRON WILLIAMS: So to -- and just to
10 confirm then, from the perspective of Manitoba Public
11 Insurance, the ideal measure of driving -- of driving
12 exposure is kilometres driven, is that fair, sir?

13 MR. DON PALMER: No, I would not agree
14 with that.

15 MR. BYRON WILLIAMS: So that would be the
16 -- and we'll get into -- to this a bit later this
17 afternoon. But the -- you can obviously know why I'm
18 asking this question. Mr. Evans may be interested as
19 well.

20 So would it be fair to say that it's the
21 position of the authors of this report from MPI Strategic
22 Research that the ideal measure is kilometres driven but
23 it may not be an opinion shared by Mr. Palmer or others
24 in the Corporation; would that be fair?

25 MR. DON PALMER: I would say different

1 purposes. Certainly, I would not share the opinion that
2 it's the ideal measure for rating purposes.

3 MR. BYRON WILLIAMS: And that's fair
4 enough, Mr. Palmer. We may come back to this.

5 Mr. Bedard, perhaps you can explain why
6 it's considered the ideal measure for the purposes of
7 strategic research for the evaluation of a program such
8 as graduated licensing?

9

10 (BRIEF PAUSE)

11

12 MR. WILF BEDARD: It really goes to
13 driving experience. You can enter this program at age
14 fifteen and a half (15 1/2) and not drive anywhere and
15 have no incidents and yet another individual could drive
16 many kilometres and may or may not have an incident or a
17 crash; that's really what we're getting at here.

18 MR. BYRON WILLIAMS: Okay. I want to
19 turn your attention with a bit -- with just a bit more
20 detail to Attachment 4-3 and that's a report entitled,
21 COPPS Copilot's Project Evaluation, an Analysis of the
22 Involvement in Crashes and Driving Convictions.

23 Do you have that, Mr. Bedard?

24 MR. WILF BEDARD: Yes, I do.

25 MR. BYRON WILLIAMS: Can you indicate

1 when this survey was -- or internal evaluation was
2 completed? It would have been after March 2004, but I
3 didn't see a date here.

4 If you can't, Mr. Bedard, that's fine. I
5 don't want to --

6 MR. WILF BEDARD: I don't seem to be able
7 to find a date either.

8 MR. BYRON WILLIAMS: And as I understand
9 we talked about this last Friday but the -- the COPPS
10 Copilot's Program is a program that's still offered by
11 Manitoba Public Insurance, is that right?

12 MR. WILF BEDARD: Yes, that's true.

13 MR. BYRON WILLIAMS: And just to help
14 describe it very briefly for the Board perhaps you can
15 walk with me to the executive summary which is set out at
16 Roman -- Roman Numeral Number I or I call it, "little i".

17 Do you have that, sir?

18 MR. WILF BEDARD: Yes, I do.

19 MR. BYRON WILLIAMS: And essentially my
20 understanding is that this is a program that MPI is
21 operating in cooperation with the Winnipeg Police
22 Services and that students are nominated to participate
23 in this program based upon certain criteria, is that
24 right?

25 MR. WILF BEDARD: Yes, that's correct.

1 MR. BYRON WILLIAMS: We don't need to go
2 into the criteria at this point in time.

3 There's a number of stated program
4 objectives, one (1) of them being number -- Roman Numeral
5 Number IV, or V-I Reduce Crash Risk and Collision Rate,
6 is that correct sir?

7 MR. WILF BEDARD: Yes.

8 MR. BYRON WILLIAMS: And in terms of the
9 nature of the program, how it works is that the Winnipeg
10 Police Service offers to nominated students the -- the
11 opportunity for a hands-on defensive driving course; is
12 that right, sir?

13 MR. WILF BEDARD: Yes.

14 MR. BYRON WILLIAMS: And it's a one (1)
15 day course and they get to train in a police cruiser at
16 the Red River X, is that right, sir?

17 MR. WILF BEDARD: Yes, that's correct.

18 MR. BYRON WILLIAMS: I wonder if -- if
19 you will turn now with me just to -- we're still in the
20 executive summary -- to the bottom of Roman Numeral
21 Number III, the bottom of that page, please?

22 MR. WILF BEDARD: Three (3) little i's?

23 MR. BYRON WILLIAMS: Three (3) little
24 i's; you've got it, Mr. Bedard.

25 Now, there's an important thing to keep in

1 mind about this study is that there's a small number of
2 CCP drivers. But you'll agree with me that the
3 conclusion from this study is that CCP drivers have a
4 higher involvement in crashes and convictions as compared
5 to driver education drivers; would that be fair, sir?

6 MR. WILF BEDARD: Yes, that would be
7 fair.

8 MR. BYRON WILLIAMS: So the students who
9 take the enhanced program have, and I'm referring you to
10 the top of the page, have statistically significant
11 differences in the involvement and convictions with CCP
12 drivers having more convictions than DEP driver's, is
13 that right, sir?

14 MR. WILF BEDARD: Yes, that was the
15 outcome.

16 MR. BYRON WILLIAMS: And I just want to -
17 - moving to page Roman Numeral Number IV, you'll agree
18 with me that the conclusion of strategic research in
19 terms of this program was that the objective of reducing
20 the involvement of the program's graduates in crashes and
21 convictions has not been met, is that right, sir?

22 MR. WILF BEDARD: Yes, that's right.

23 MR. BYRON WILLIAMS: And it goes on to
24 suggest that if the -- if the two (2) groups are indeed
25 equivalent and that I assume would be an important

1 caveat, the findings suggest that the one (1) day CCP
2 training may be deleterious, possibly producing a false
3 sense of competence which results -- which results to
4 higher crash and conviction involvement, is that right,
5 sir?

6 MR. WILF BEDARD: Yes, that's what's
7 suggested here, yes.

8 MR. BYRON WILLIAMS: They do offer an
9 alternative explanation to be considered is that the --
10 the candidates selected are a high risk group in
11 fairness, is that right, sir?

12 MR. WILF BEDARD: Yes, that's right.

13 MR. BYRON WILLIAMS: And they also
14 suggest perhaps a question for further research which is
15 the teaching skills of the individuals operating this
16 program; is that right, sir?

17 MR. WILF BEDARD: Yes.

18 MR. BYRON WILLIAMS: So you indicate the
19 program is still in operation. I wonder if you can
20 indicate to me, given the conclusions, that the results
21 may be deleterious. I hope I'm pronouncing that
22 correctly.

23 What, if any, changes have been made in
24 terms of the program in response to this study?

25 MR. WILF BEDARD: As a result of this

1 evaluation, I can tell you that there's been a number of
2 changes made to the program. I can't be any more
3 specific than that at this point, however.

4 MR. BYRON WILLIAMS: Perhaps what you
5 could do, Mr. Bedard, and this is of -- I'm not -- I
6 don't even require it for the end of the Hearing. But,
7 it would be helpful at some point in time to get a list
8 of the changes made for this Hearing.

9 And again, I don't need it for the
10 purposes of final argument, but at some point in the
11 future. If -- if -- would you undertake to do that?

12 MR. WILF BEDARD: Certainly, we'll do
13 that for you.

14

15 --- UNDERTAKING NO. 32: MPI to indicate to CAC/MSOS
16 what changes have been made
17 to the COPPS Copilot Program.

18

19 CONTINUED BY MR. BYRON WILLIAMS:

20 MR. BYRON WILLIAMS: Just in terms of
21 process within the Corporation, when you get a finding
22 that some of your -- or some of your driver education
23 programs or some of your road safety programs may have
24 results that are not in keeping with their objective,
25 what kind of action does road safety take?

1 For example, do they inform other
2 managers? What kind of action does the Corporation take?

3

4 (BRIEF PAUSE)

5

6 MR. WILF BEDARD: Each program is
7 reviewed annually during the budget preparation time.
8 Those evaluations are looked at and the recommendations
9 if, in fact, the recommendations are accepted to us and
10 the changes are made and the budget is there, and the
11 program continues. If not, we would discontinue the
12 program.

13 MR. BYRON WILLIAMS: That's fair enough.
14 Not just -- correct me if I'm wrong, but of the internal
15 evaluations that MPI has conducted since March 2004,
16 there's only three (3) that are of -- kind of this
17 nature; would that be fair, sir?

18 MR. WILF BEDARD: I described for you the
19 process that we use on an annual basis; not every program
20 is evaluated on an annual basis. But, that's the process
21 that we do utilize to critique the value of these
22 programs in determining whether changes are to be made or
23 whether we should discontinue them.

24 MR. BYRON WILLIAMS: And excuse me if I -
25 - I want to make sure that I'm not mis-stating your

1 information. So since March 2004, you've done kind of a
2 study like this on the COPPS Copilot Project and also one
3 (1) on graduated driver licensing.

4 And based upon my review of CAC 124(e),
5 I'd suggest to you that they're aren't any additional
6 evaluations of this type and nature; would that be fair
7 sir?

8 MR. WILF BEDARD: Again we roll -- roll
9 through all of the programs year over year and this is --
10 in this particular year, you've cited the ones we've
11 looked at. Next year we'd be looking at something else.

12 MR. BYRON WILLIAMS: And just to be
13 clear, by in this particular year, you mean since March
14 2004, correct?

15 MR. WILF BEDARD: Yes.

16 MR. BYRON WILLIAMS: And we're going to
17 leave this subject and move to driver ed in just one (1)
18 second, but I'm going to just -- if you can remind me,
19 like in terms of driver ed itself, the Corporation
20 engaged Northport to do a study of driver ed, and that
21 was an external, independent study.

22 Would you agree with that characterization
23 of it?

24 MR. WILF BEDARD: Yes, I would.

25 MR. BYRON WILLIAMS: And as a consequence

1 we don't need -- we'll get into this in a couple of
2 minutes, but as a consequence certain proposals were made
3 to amend the drivers ed program; is that right, sir?

4 MR. WILF BEDARD: Yes, that's correct.

5 MR. BYRON WILLIAMS: And we also have
6 internal evaluations such as the internal evaluation of
7 the COPPS Copilots Program and as a consequence of that
8 program also, certain amendments were made to the
9 program; is that right, sir?

10 MR. WILF BEDARD: Yes.

11 MR. BYRON WILLIAMS: And then we have the
12 twenty-six (26) surveys against national norm which tests
13 things such as whose program is it, awareness of the
14 program, et cetera.

15 Would that be a third type of evaluation
16 that the Corporation does, sir?

17 MR. WILF BEDARD: Yes, it's another way
18 of an evaluation, yes.

19 MR. BYRON WILLIAMS: So I've talked about
20 three (3) types of evaluations that the Corporation might
21 undertake; one (1) is an independent external evaluation
22 a' la Northport; the second is a internal evaluation like
23 the COPPS Copilots Project; and the third are these
24 surveys against national norms. Is that right, sir?

25

1 (BRIEF PAUSE)

2

3 MR. WILF BEDARD: Yes, that -- that's
4 true.

5 MR. BYRON WILLIAMS: And just going back,
6 and you probably don't need to turn there, but in the --
7 the -- found at Attachment 5-2 is this driver education
8 program awareness survey. And you'll agree with me that
9 one of the questions is: Whose program is it?
10 Do you recall that question, sir?

11

12 (BRIEF PAUSE)

13

14 MR. WILF BEDARD: Could you repeat that
15 question, please?

16 MR. BYRON WILLIAMS: Just when you look
17 at the surveys against national norms, such as the driver
18 education program awareness, you'll agree with me, and we
19 went over this last Friday, that one of the questions
20 that would be asked is, Whose program is it, and you
21 track that over time; is that right, sir?

22 MR. WILF BEDARD: Yes.

23 MR. BYRON WILLIAMS: And I wonder if you
24 can assist me in understanding how a question like that
25 and the answer to that assists you in designing programs

1 or evaluating programs in terms of their effect on -- on
2 hopefully reducing the effect of -- of accidents, both
3 economically and socially?
4

5 (BRIEF PAUSE)
6

7 MR. WILF BEDARD: The Northport Study --
8 the Northport evaluation is an evaluation of the program.
9 It measures awareness.
10

11 (BRIEF PAUSE)
12

13 MR. BYRON WILLIAMS: We might be
14 correcting that answer, sir.
15

16 (BRIEF PAUSE)
17

18 MR. WILF BEDARD: Okay, let's see if I
19 can get this right. The Northport is a program
20 evaluation; evaluation of the program itself. The
21 internal studies that we've done are measuring the
22 awareness of the programs.

23 MR. BYRON WILLIAMS: So in the last two
24 (2) years, a bit over that, you've got twenty-six (26)
25 studies of that type measuring the awareness of programs

1 and you've got two (2) or three (3) internal evaluations
2 measuring the effectiveness of programs; would that be
3 fair?

4 MS. MARILYN MCLAREN: Yes.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: Ms. McLaren, you
9 made me cough and laugh at the same time. I forgive you
10 though. Thank you for that answer.

11 Let's just go to the COPPS Copilots
12 evaluation. You'll agree with me that it asks a pretty
13 hard-nosed question, is this program reducing accidents?
14 You'll agree with me that, sir -- sir?

15 MR. WILF BEDARD: Yes, I would.

16 MR. BYRON WILLIAMS: And aren't those the
17 kind of questions that are going to assist you in program
18 design, those kind of hard-nosed question?

19 MR. WILF BEDARD: Yes.

20 MR. BYRON WILLIAMS: And studies like the
21 COPPS Copilot Study, those are the kinds of studies that
22 are not only going to assist you in program design, but
23 those hard-nosed studies are the ones that are going to
24 assist you in deciding whether you should even be
25 spending money on a program; isn't that fair, sir?

1 MR. WILF BEDARD: Spending the money,
2 changing it, stopping the program, yes.

3 MR. BYRON WILLIAMS: So studies like that
4 are a good thing in assisting in the design and -- the
5 design of road safety programs and also the allocation of
6 road safety budgets; would that be fair?

7 MR. WILF BEDARD: Yes.

8 MR. BYRON WILLIAMS: I wonder if -- if I
9 were to suggest to you that given that the budget for
10 internal evaluations, even for 2006/'07 is only fifty
11 thousand dollars (\$50,000) -- is, in fact, less than
12 fifty thousand dollars (\$50,000), does that raise a
13 question of whether the Corporation's spending enough on
14 internal evaluations like the COPPS Co-pilot Program?

15 MR. WILF BEDARD: No, I don't think so.
16 We're -- we're basically -- basing our budget on what we
17 feel to be the -- the funds necessary to do an
18 appropriate evaluation of the programs over time.

19 MR. BYRON WILLIAMS: And you -- you don't
20 -- let's accept that for a second. You wouldn't agree
21 with me that perhaps -- let's assume that you only have
22 that fixed amount of budget.

23 You might be better off spending a bit
24 more on evaluation like the COPPS Co-pilot's evaluation
25 and a little less on the surveys against national norms?

1 MR. WILF BEDARD: Again as I was saying
2 earlier, you know, we -- we do the budget based on what
3 we feel we need to evaluate the programs in a timely and
4 -- and consistent manner over time. If we felt we needed
5 to do more we would budget more, but we're satisfied that
6 the manner in -- in our budget allocation and our program
7 reviews are adequate.

8 MR. BYRON WILLIAMS: Thank you, Mr.
9 Bedard, for that.

10 Just -- I want to turn -- I'm going to
11 move directly to the subject of driver education and the
12 Board may wish to keep at hand three (3) interrogatory
13 responses from -- from the CAC-1-20, CAC-1-25, and from
14 the second round CAC-2-32. And just to repeat, they're
15 all from CAC-1-20, 1-25, and 2-32.

16 And, Mr. Chairman, I can just indicate
17 that this is the -- the last driver education -- or,
18 excuse me, road safety subject that we're on, then we'll
19 be moving to another topic.

20 Do you have those, Mr. Bedard, or are we
21 still looking?

22 MR. WILF BEDARD: No, I have them.

23 MR. BYRON WILLIAMS: And I wasn't trying
24 to be sarcastic there I was just trying to be courteous,
25 so.

1 I just want to draw your attention first
2 of all to the attachment to CAC First Round 1-20 which is
3 Road Safety Expenses Basic Share.

4 Do you have that, Mr. Bedard?

5 MR. BARRY GALENZOSKI: I have that.

6 MR. BYRON WILLIAMS: I'm back to the
7 other end of the table. I'm not going to hug you either,
8 Mr. Galenzoski, if that makes you feel better.

9 MR. BARRY GALENZOSKI: It makes me feel
10 wonderful.

11 MR. BYRON WILLIAMS: And just if I look
12 at the expenditure for driver education improvement would
13 it be fair to say that the actual for 2001/'02 was about,
14 let's say, \$1.8 million, sir?

15 MR. BARRY GALENZOSKI: Yes, that's
16 correct.

17 MR. BYRON WILLIAMS: And by 2004/'05
18 we're at almost 2.5 million; would that be fair, sir?

19 MR. BARRY GALENZOSKI: 2.3 million.

20 MR. BYRON WILLIAMS: Oh, excuse me, I
21 misspoke.

22 By 2005/'06 we're at almost 2.5 million,
23 would that be fair?

24 MR. BARRY GALENZOSKI: Yes, that's
25 correct.

1 MR. BYRON WILLIAMS: And I wonder if
2 you'd accept, subject to check, that that's about six
3 hundred and seventy-five thousand (675,000) more than was
4 spent in 2001/'02, approximately, sir?

5 MR. BARRY GALENZOSKI: Yes, I'll accept
6 that.

7 MR. BYRON WILLIAMS: And again, I'd
8 suggest to you that that would be a 38 percent increase
9 over the past five (5) years, would that be fair; being
10 six seventy-five (675) over one seven seven three (1773)?

11 MR. BARRY GALENZOSKI: That's correct.

12 MR. BYRON WILLIAMS: And would you also
13 agree that moving from the '05/'06 actual to the '06/'07
14 forecast, we're looking at an additional approximately
15 two hundred and seventy-six thousand (276,000), sir?

16 MR. BARRY GALENZOSKI: Yes, 11.3 percent
17 increase.

18 MR. BYRON WILLIAMS: That was very good.
19 Thank you.

20 How did you do that so quick?

21 MR. BARRY GALENZOSKI: I did it two (2)
22 days ago. I knew you were going to ask that question.

23 MR. BYRON WILLIAMS: On this -- would it
24 be possible to get a comparison of the driver education
25 budget like a breakdown of that specific line item; a

1 comparison from the 2001/'02 year verses the 2005/'06
2 year?

3 Would that be possible to obtain, Mr.
4 Galenzoski?

5 MR. BARRY GALENZOSKI: I guess anything
6 is possible. You know, we're going back quite a bit in
7 time with respect to the '01/'02 actuals and so we would
8 have to -- most of that is going to be in our records,
9 which is kept way offsite.

10 MR. BYRON WILLIAMS: Okay. So -- yeah --
11 and I wasn't looking for that today and maybe I'll re-
12 frame it then. Perhaps if you can provide -- would it be
13 easier -- and again, you know, we'll -- that will
14 probably be too much work. We'll explore that issue next
15 year.

16 At a high level and I think this is going
17 back to Mr. Bedard, but you're welcome to answer it if
18 you wish. Mr. Bedard, you'll agree with me that there's
19 been a significant increase in the Corporation's
20 expenditure on drivers education programming; is that
21 right, sir, since 2001/'02?

22 MR. WILF BEDARD: Yes, but you have to
23 keep in mind that this is population driven. Anybody who
24 qualifies can enroll and participate in the program.

25 MR. BYRON WILLIAMS: And I'm certainly

1 not asking you to apologize for the increase in
2 expenditure, Mr. Bedard.

3 It's partly population driven, but I'd
4 suggest to you that it's also because Manitoba Public
5 Insurance believes that driver education is an important
6 program, isn't that right?

7 MR. WILF BEDARD: Yes, absolutely.

8 MR. BARRY GALENZOSKI: I'll also
9 interject that it's not population driven more so than it
10 is by the number of students that are being put through
11 the plan. Plus the Corporation made the plan more
12 affordable for students a number of years ago, which has
13 also caused an increase in the uptake on the program.

14 MR. BYRON WILLIAMS: That's fair enough
15 and I appreciate that insight, Mr. Galenzoski.

16 And Mr. Bedard, you confirmed that MPI
17 believes that drivers education is an important program
18 and you're also committed to improving that program; is
19 that not right, sir?

20 MR. WILF BEDARD: Yes.

21 MR. BYRON WILLIAMS: And you'll spend
22 what it takes to improve that program provided it can be
23 justified in terms of the Corporation's overall budget;
24 is that right, sir?

25 MR. WILF BEDARD: Within reason, yes.

1 MR. BYRON WILLIAMS: And we're going to
2 go get into the guts of this in just one (1) second, Mr.
3 Bedard, but just at a high level, the Corporation in this
4 filing has talked about changes it's made to the drivers
5 education curriculum; is that right, sir?

6 MR. WILF BEDARD: Yes, that's correct.

7 MR. BYRON WILLIAMS: And I don't think
8 you need to turn there, but if you want -- every time I
9 say that, Mr. McCulloch insists that you turn there. So
10 if you're looking for where I'm kind of speaking from
11 it's SM.8, page 18.

12

13 (BRIEF PAUSE)

14

15 MR. WILF BEDARD: I have it.

16 MR. BYRON WILLIAMS: Yes, and Mr.
17 McCulloch will be happy and I'll be happy. And just when
18 we look at what driv -- has driven some of the changes in
19 drivers education, some of this dates back to the
20 Northport study which took a detailed look at drivers
21 education on or about the year 2000, is that right, sir?

22 MR. WILF BEDARD: Yes, that's right.

23 MR. BYRON WILLIAMS: And it noted that
24 there were promising effects on the attitudes and driving
25 habits of graduates but, not a statistical difference in

1 accident experience of your drivers who enrolled in the
2 program versus those who did not; is that right, sir?

3 MR. WILF BEDARD: Yes.

4 MR. BYRON WILLIAMS: And so it was
5 decided that improvements needed to be made to the
6 program.

7 MR. WILF BEDARD: Yes.

8 MR. BYRON WILLIAMS: And at the same
9 time, as this -- Northport was undertaking their study
10 there was similar research being undertaken in the United
11 States leading to efforts to improve the overall
12 effectiveness of programming; is that right, sir?

13 MR. WILF BEDARD: Educational
14 programming. Yes.

15 MR. BYRON WILLIAMS: And the Corporation
16 in October of 2002 issued a tender requesting a proposal
17 to address shortcomings to develop a new driver's
18 education curriculum; is that right, sir?

19 MR. WILF BEDARD: Yes, that's right.

20 MR. BYRON WILLIAMS: And the -- the task
21 assigned had a number of -- of projects in terms of
22 designing this curriculum but one (1) of them was to
23 incorporate recommendations made in the Triple A novice
24 driver education curriculum outline; is that right, sir?

25 MR. WILF BEDARD: Yes.

1 MR. BYRON WILLIAMS: And Northport was
2 awarded the contract to lead this province-wide committee
3 and it met for an extended period of time and recommended
4 what the Corporation calls are "sweeping changes to the
5 programs"; would that be fair?

6 MR. WILF BEDARD: Yes, it is.

7 MR. BYRON WILLIAMS: And the Corporation
8 has also dedicated itself to adopting new evaluation
9 benefits for the driver education industry which are
10 being developed by Northport's associates for the Triple
11 A foundation for Traffic Safety; is that right, sir?

12 MR. WILF BEDARD: Yes, that's true. And
13 just to add to -- to my response, Northport has asked us
14 to participate as being one of the test sites.

15 MR. BYRON WILLIAMS: Very good. And if I
16 was to summarize that, if you want to take a quick look
17 at the history, there was an independent review that
18 suggested that there perhaps could be some improvements.

19 The Corporation is -- undertook a
20 curriculum review and it also undertook to adopt new
21 evaluation benchmarks and to act actually as a pilot or a
22 test area; is that a fair summary of what we just
23 discussed?

24 MR. WILF BEDARD: I think so. Yes.

25 MR. BYRON WILLIAMS: Now, I used the word

1 Tripe A twice in the little discussion we had. Can you
2 tell me who the Triple A Foundation for Traffic Safety
3 is, sir?

4

5 (BRIEF PAUSE)

6

7 MR. WILF BEDARD: It's part of the
8 American Automobile Association. It's their foundation
9 for traffic safety.

10 MR. BYRON WILLIAMS: And I think we just
11 got some free advertising for Mr. Kruk.

12 And I take it that MPI thinks highly of
13 their -- their -- their positioning in the driver
14 education industry? They think highly of Triple A's
15 reputation?

16 MR. WILF BEDARD: They have a high
17 profile in that industry and we do monitor their
18 activities, yes.

19 MR. BYRON WILLIAMS: More than a high
20 profile, they have a good strong reputation; you'd agree
21 with that, sir?

22 MR. WILF BEDARD: They're recognized as
23 leaders in this area, yes.

24 MR. BYRON WILLIAMS: And MPI recognizes
25 them as leaders in this area?

1 MR. WILF BEDARD: Yes.

2

3 (BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: Now, going to this
6 committee, the province-wide committee of non-educators,
7 I'm assuming that this committee was given terms of
8 reference and that the scope of its review was set out
9 for it; is that right, sir?

10 MR. WILF BEDARD: Yes, I would say so.

11 MR. BYRON WILLIAMS: I couldn't find that
12 in any written form on the record of this proceeding; is
13 there a written document setting out the terms of
14 reference and the scope of the committee's review?

15 MR. WILF BEDARD: I'm not certain of
16 that. We would have to -- to look and see if we could
17 find something.

18 MR. BYRON WILLIAMS: Would you do that
19 for me, Mr. Bedard?

20 MR. WILF BEDARD: Certainly.

21 MR. BYRON WILLIAMS: I guess we'll call
22 that an undertaking. Thank you.

23

24 --- UNDERTAKING NO. 33: MPI to supply CAC/MSOS
25 written terms of reference

1 and scope of review for the
2 province-wide committee.
3

4 MR. BYRON WILLIAMS: Can you indicate to
5 me, in terms of the curriculum review, what, if any,
6 financial parameters were -- were given to the committee?
7 Was it told that you have to live within a certain budget
8 in terms of road safety expenditures?

9 MR. WILF BEDARD: No, it was not.

10 MR. BYRON WILLIAMS: So they were
11 essentially advised to come up with a blue sky of the
12 best way to improve driver education in Manitoba without
13 reference to any cost parameters; is that what you're
14 telling me, Mr. Bedard?

15 MR. WILF BEDARD: I think we -- what
16 we've asked them to do is look at the program evaluations
17 that we had, the work that was done, as you articulated
18 earlier, and to come up with some recommendations for
19 improving driver education here within the province.

20 MR. BYRON WILLIAMS: And there were no
21 financial restrictions put on the committee; that's what
22 I'm asking, sir?

23 MR. WILF BEDARD: I don't believe so, no.

24 MR. BYRON WILLIAMS: And this is a --
25 we're going to come to the actual committee notes in just

1 a minute, Mr. Bedard, but here's a short snapper for you.

2 In your -- the Corporation's response to
3 CAC/MSOS-1-25E, which you should have right nearby -- do
4 you have that, sir?

5 MR. WILF BEDARD: Yes, I do.

6 MR. BYRON WILLIAMS: And you indicate in
7 -- in part in this response:

8 "In ongoing research the Corporation
9 will continue to monitor whether there
10 are statistical differences between
11 driver education students and new
12 drivers who did not take driver
13 education."

14 Is that right, sir?

15 MR. WILF BEDARD: Yes, that's right.

16 MR. BYRON WILLIAMS: And I wonder if you
17 can indicate exactly how the Corporation intends to
18 continue to monitor whether there are statistical
19 differences. What kind of studies are ongoing right now?

20

21 (BRIEF PAUSE)

22

23 MR. WILF BEDARD: What we're doing on an
24 ongoing basis is looking at our -- our graduated
25 licencing program and looking at data separating the

1 driver education student experience from the non driver
2 ed experience; things like that.

3 MR. BYRON WILLIAMS: And who's conducting
4 this research? Is it internal or external?

5 MR. WILF BEDARD: It would be both.

6 MR. BYRON WILLIAMS: And is there a
7 report that's anticipated to be filed at some future date
8 in terms of the monitoring of whether there are
9 statistical differences, sir?

10 MR. WILF BEDARD: Not specifically
11 through driver's education but from other programs we
12 would be providing some form of report, yes.

13 MR. BYRON WILLIAMS: Is it the
14 Corporation's -- just so I -- I'm clear because we had an
15 important study in terms of Northport suggesting that
16 there were not statistically significant differences.

17 You -- the Corporation would continue to
18 report back to the Board in terms of its driver education
19 program and what it's doing and what if any new
20 information there is in terms of its -- whether there is
21 statistical differences between driver ed graduates and
22 new drivers who don't take it? Would you continue to do
23 that?

24 MR. WILF BEDARD: The crash experience is
25 not the measure for -- for these -- these programs, so, I

1 don't think we'll be providing a report as you're
2 suggesting.

3 MR. BYRON WILLIAMS: So the ongoing
4 research would be using different criteria than Northport
5 would have used; would that be fair, sir?

6

7 (BRIEF PAUSE)

8

9 MR. WILF BEDARD: Northport had a -- had
10 a variety of -- of data points that they were measuring
11 and the crash experience was only -- only one (1) of
12 them.

13 MR. BYRON WILLIAMS: It was a key one,
14 sir.

15 MR. WILF BEDARD: It would be one (1) of
16 the measures, yes.

17 MS. MARILYN MCLAREN: Just for a point of
18 further clarification Mr. Bedard mentioned earlier that
19 Northport has asked if we would like to be part of a
20 broader evaluation of -- of driver education programs. I
21 don't believe he continued to say that, you know, we
22 would welcome that opportunity.

23 My expectation is that statistics similar
24 to what they did before would be part of that evaluation.
25 If it's -- if it turns out not to be, we may still be

1 part of their evaluation but we would have to take a very
2 hard look at really determining how.

3 I guess I would hold out the possibility,
4 if at all, but how would we have a look at what was
5 provided in the past and find whether there's a way to do
6 it ongoing, or some very strong reasons not to.

7 MR. BYRON WILLIAMS: And I thank you for
8 that answer, Ms. McLaren. And you understand where my
9 clients are coming from, not -- you know, with a
10 fundamental desire to see driver education programs work
11 in Manitoba. So you understand where they're coming
12 from.

13 And so my understanding is that the
14 Corporation will be hoping to participate with Northport
15 in this project and secondly that certainly going in you
16 would like to have some kind of look at data, such as
17 collisions or if not, have a good hard explanation of why
18 it's not there.

19 MS. MARILYN MCLAREN: Yes, exactly.

20 MR. BYRON WILLIAMS: I don't think I said
21 it nearly as nicely as you, but I'll apologize for that.
22 CAC/MSOS-2-32, Mr. Bedard, if you could turn to that.

23 MR. WILF BEDARD: I have it.

24

25

(BRIEF PAUSE)

1 MR. BYRON WILLIAMS: And just in terms of
2 -- and again I apologize for jumping just a little bit, I
3 want to get to what the committee discussed.

4 But in terms of the major changes that you
5 did make to the curriculum, you'd agree with me that one
6 (1) of the major changes was presenting a three hundred
7 and fifty-five (355) page instructor's manual, sir? Was
8 that part of it?

9 MR. WILF BEDARD: Yes.

10 MR. BYRON WILLIAMS: And the committee
11 also recommended changes to the in-car curriculum, is
12 that right, sir?

13 MR. WILF BEDARD: Yes, that's right.

14 MR. BYRON WILLIAMS: And it also
15 recommended changes to classroom curriculum, is that
16 right sir?

17 MR. WILF BEDARD: Yes.

18 MR. BYRON WILLIAMS: And just if -- and
19 again I apologize for this, the reference that I'm
20 specifically looking at is AI-23B ii. I apologize for
21 jumping, Mr. Chairman.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: It's page 5 of AI-

1 23, Mr. Bedard. Mr. Bedard, in terms of the recommended
2 changes to the in-car curriculum, you'll note that one
3 (1) of the ones was the development of a mid-term
4 evaluation tool of in-car performance and reporting to
5 parents; is that right, sir?

6 MR. WILF BEDARD: Yes.

7 MR. BYRON WILLIAMS: I wonder if you can
8 indicate in the new approach, is there a final in-car
9 evaluation?

10 MR. WILF BEDARD: Yes, there is.

11 MR. BYRON WILLIAMS: And that's a
12 pass/fail in-car evaluation, sir? Or is it --

13 MR. WILF BEDARD: Yes, it would be.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: It is a pass/fail
18 evaluation?

19 MR. WILF BEDARD: Yes.

20 MR. BYRON WILLIAMS: In terms of the in-
21 car curriculum, am I right in suggesting to you that the
22 number of hours behind the wheel will be eight (8) hours
23 behind the wheel, sir?

24 MR. WILF BEDARD: Yes. Eight (8) hours
25 behind the wheel driving time as far as the curriculum is

1 concerned. In addition to that, twenty-five (25) hours
2 with a parent.

3 MR. BYRON WILLIAMS: So, in terms of the
4 actual experience behind the wheel with a -- in terms of
5 the training, there's eight (8) hours behind the wheel,
6 sir?

7 MR. WILF BEDARD: As I said, it -- the --
8 the with the -- the leader of the program, eight (8)
9 hours, yes. And then there is a requirement to have
10 parental participation, as well, that's the key change to
11 the program; where there's a requirement now for twenty-
12 five (25) additional hours behind the wheel validated by
13 a parent.

14 MR. BYRON WILLIAMS: Now, is there --
15 there's also I think an in-car observership, is that
16 still in the program, sir?

17 MR. WILF BEDARD: Yes.

18 MR. BYRON WILLIAMS: Now, in terms of the
19 eight (8) hours behind the wheel with the leader, that's
20 unchanged from the program as it was before; is that
21 fair, sir?

22 MR. WILF BEDARD: That's correct, yes.

23 MR. BYRON WILLIAMS: In terms of the
24 classroom curriculum, the hours for classroom
25 instructional time have been extended from twenty-seven

1 (27) to thirty-four (34) hours; is that right?

2 MR. WILF BEDARD: Yes, that's correct.

3 MR. BYRON WILLIAMS: Is there a certain
4 number of hours of mandatory classroom time or not?

5 MR. WILF BEDARD: Yes, there is a
6 mandatory requirement and I understand that's set out in
7 regulation.

8 MR. BYRON WILLIAMS: A mandatory amount
9 of time in the classroom?

10 MR. WILF BEDARD: Yes.

11 MR. BYRON WILLIAMS: And is the final
12 result of this a driver's education certificate?

13 MR. WILF BEDARD: Yes.

14 MR. BYRON WILLIAMS: And what are the
15 criteria that you must pass to get a driver's education
16 or achieve to get a driver's education certificate?

17

18 (BRIEF PAUSE)

19

20 MR. WILF BEDARD: Again, those
21 requirements are set out in -- in regulation. They're
22 currently being reviewed and amended. And rather than
23 just passing the in- class portion of the curriculum, you
24 have to pass all facets of the program.

25 MR. BYRON WILLIAMS: And that's a

1 significant change to the program making it more like
2 programs such as in Alberta; is that fair, sir?

3 MR. WILF BEDARD: We believe so. Yes.

4 MR. BYRON WILLIAMS: I just want to turn
5 quickly to the CAC-2-32 and you'll agree with me that
6 this attachment contains minutes of the committee process
7 relating to driver education; is that right, sir?

8 MR. WILF BEDARD: Yes, that's correct.

9 MR. BYRON WILLIAMS: And, in particular,
10 I turn your attention to attachment 1, page 3 of 3; do
11 you have that, Mr. Bedard?

12 MR. WILF BEDARD: That would be the third
13 page in?

14 MR. BYRON WILLIAMS: That's right.

15 MR. WILF BEDARD: I have it.

16 MR. BYRON WILLIAMS: And I want to draw
17 your attention, in particular, to the fifth bullet from
18 the top under "ideas to make..." -- excuse me.

19 The fifth bullet from the top and you'll
20 see, Mr. Bedard, that one of the suggestions was to
21 increase driving hours from eight (8) to ten (10) hours;
22 do you see that, sir?

23 MR. WILF BEDARD: Yes.

24 MR. BYRON WILLIAMS: And then there is a
25 comment that "very expensive and would irritate

1 commercial school instructors;" do you see that, sir?

2 MR. WILF BEDARD: Yes, I see it.

3 MR. BYRON WILLIAMS: So my understanding
4 was that there was a proposal to increase the driving
5 hours from eight (8) to ten (10) hours with the leader,
6 but that was rejected; is that right?

7 MR. WILF BEDARD: It wasn't rejected, as
8 I understand it. These are just minutes of one (1)
9 meeting. The recommendation that came to us was for --
10 for eight (8) hours.

11 MR. BYRON WILLIAMS: Well, someone
12 obviously thought that ten (10) hours would be better.
13 What -- why -- why don't we have ten (10) hours?

14 MR. WILF BEDARD: Again, as I said, the
15 committee didn't recommend it. These are minutes of
16 discussions. Obviously, somebody articulated the view
17 that increasing the number of in-car hours would be
18 expensive and may be an irritant to instructors,
19 although, that was not the prevailing recommendation of
20 the committee.

21 MR. BYRON WILLIAMS: Do you know who
22 expressed that view?

23 MR. WILF BEDARD: No, I do not.

24 MR. BYRON WILLIAMS: What -- what is
25 meant by "expensive," increasing from eight (8) hours to

1 ten (10) hours; how much would that cost, sir?

2 MR. WILF BEDARD: It would be a cost
3 primarily to commercial schools. An increased cost to
4 them. I have no idea what -- what that cost increase
5 would be by moving things from an eight (8) to ten (10)
6 hour requirement.

7 MR. BYRON WILLIAMS: So for the
8 programming that's not offered through commercial
9 schools, it wouldn't be a significant cost increase?

10 MR. WILF BEDARD: Commercial schools, as
11 I said, operate outside of us. Internally, there's been
12 no cost calculation in terms of what that would be.

13 Again, it was just an expression of
14 somebody on the committee suggesting that this would be -
15 - would be an expensive change and -- and again, as I
16 said, there was no -- no recommendation that came forward
17 from the committee when -- when their recommendations
18 did, ultimately, surface.

19 MR. BYRON WILLIAMS: Well, I -- I want to
20 explore this issue just for a couple more seconds, Mr.
21 Bedard, then we'll move on.

22 But why would -- why would MPI care if it
23 was expensive for commercial schools; can you help me?

24 MR. KEVIN MCCULLOCH: Mr. Chairman, at
25 this point I think I -- I have to break in to indicate

1 that Mr. Williams is expecting this Witness to be able to
2 respond to specifics raised in minutes from meetings of a
3 large group of people, not all of whom are MPI employees
4 or directed by MPI.

5 And I think it's perhaps a little unfair
6 particularly in this forum. It might have worked through
7 an Information Request, but in this forum to expect Mr.
8 Bedard to be able to respond as to what was in someone's
9 mind when they suggested a change in hours and -- and
10 reasons for that change.

11 THE CHAIRPERSON: Reasonable comments.
12 Mr. Williams...?

13

14 CONTINUED BY MR. BYRON WILLIAMS:

15 MR. BYRON WILLIAMS: Let me -- I'll move
16 on soon, Mr. Chairman, but I -- I want to just follow
17 this up on a bit of a different way.

18 Am I right that MPI has no internal
19 estimates in -- in terms of how much it would cost to
20 increase hours with a leader in the car, whether it's two
21 (2) -- two (2) additional hours, four (4) additional
22 hours, six (6) additional hours; would that be fair, sir?

23 MS. MARILYN MCLAREN: Let me jump in
24 here, again, just to put a little bit more context around
25 it.

1 We pay somewhere between ten dollars (\$10)
2 and fifteen dollars (\$15) an hour to the in-car
3 instructors. So times that by two (2), times about
4 fourteen thousand (14,000) students per year and that
5 gives you a ballpark of the salary costs that would be
6 increased.

7 The comment with respect to commercial
8 schools, many, many parents choose to have their children
9 complete high school driver education through Manitoba
10 Public Insurance and then pay a few hours extra to a
11 commercial school operator.

12 If this program extended its hours,
13 chances are there would be less additional work for the
14 commercial schools; that what that's related to.

15 MR. BYRON WILLIAMS: Okay. Thank you,
16 Ms. McLaren.

17 Would I be right in saying that if the
18 committee came forward to Manitoba Public Insurance and
19 said, we think we can really improve the program results
20 by an increase commitment to driving hours with a leader,
21 that would be something that MPI would be very --
22 initially supportive of or look very hard at?

23 MS. MARILYN MCLAREN: Certainly. Within
24 the context that there are probably more costs here
25 rather than just the salary costs for the instructors --

1 instructors. But we would certainly look at that and
2 regardless of the perceptions and impressions and
3 contributions of local high school driving education
4 experts within Manitoba, we expect that kind of
5 leadership from Northport who was leading this
6 initiative.

7 If they have evidence that two (2) hours
8 additional time in the car will make a fundamental
9 difference, we would expect that to have come forward and
10 we have no reason to believe that if that was true it
11 would not have come forward.

12 MR. BYRON WILLIAMS: And -- and just --
13 just to finish up this point, is MPI aware of any
14 commentary in driver education literature suggesting that
15 one (1) of the great weaknesses in most driver education
16 programs is insufficient hours behind the wheel?

17 MR. WILF BEDARD: Yes, that's true.

18 MR. BYRON WILLIAMS: And in fact Triple
19 A, Peter Kissinger from -- the President and CEO of the
20 Triple A Foundation for Traffic Safety, you're aware that
21 the -- he suggested the typical driver education program
22 is thirty (30) hours in a classroom and six six (6) to
23 eight (8) hours behind the wheel. This is hardly
24 sufficient by any standard to affect one's performance in
25 something as complicated as driving, especially given the

1 lack of emotional maturity of most teenagers.

2 Would you agree with that?

3 MR. WILF BEDARD: You're referring to the
4 article that he had written that was provided in the --
5 one (1) of the interrogatories? Yes, I've read that and
6 you're properly articulating what is stated in his -- his
7 article.

8 MR. BYRON WILLIAMS: Would individuals
9 like Mr. Kissinger argue that in -- in terms of driver
10 education programs, the more hours behind the wheel with
11 a leader the better?

12 MR. WILF BEDARD: Yes intuitively, you
13 know, the more hours behind the wheel will give you more
14 -- more comfort, more experience. I'd agree with that,
15 yes.

16 MR. BYRON WILLIAMS: I know MPI hasn't
17 studied this, but there is, you'd accept at least in a
18 theoretical level, that one (1) way to greatly improve
19 driver education performance in Manitoba might be to
20 provide for more hours behind the wheel with a leader.

21 Would that be possible, sir?

22 MR. WILF BEDARD: I think the way that
23 this was dealt with by the committee was recommending the
24 twenty-five (25) hours in-car experience with a parent.
25 I think -- that I think is addressing the concerns that

1 you're raising here.

2 MR. BYRON WILLIAMS: You're suggesting
3 that Mr. Kissinger's only -- would -- excuse me, let me
4 try this again.

5 Isn't the heart of Mr. Kissinger's point
6 that it's -- the ideal is to get more instructional hours
7 behind the wheel with a leader in the car?

8 MR. WILF BEDARD: Just more experience,
9 more exposure behind the wheel. I wouldn't necessarily
10 agree with you that it has to be with an instructor.

11 MR. BYRON WILLIAMS: So, let me put it to
12 you this way, Mr. Bedard. I would worry a lot about if
13 my kids were getting their driver's instruction from me
14 and so would Mr. Kruk.

15 Wouldn't you agree that, ideally, the best
16 driver education experience is with a trained
17 professional instructor behind the wheel?

18 MR. WILF BEDARD: No, I wouldn't
19 necessarily agree with that. I think what the suggestion
20 here is, is just more experience behind the wheel is
21 really what we're after.

22 MR. BYRON WILLIAMS: We'll explore this
23 issue I guess, next year, as well, Mr. Bedard.

24 Mr. Chairman, I can probably clean up just
25 a couple of quick things before the 12:00 break, with

1 your permission?

2 THE CHAIRPERSON: Please.

3

4 CONTINUED BY MR. BYRON WILLIAMS:

5 MR. BYRON WILLIAMS: Now, I'm going to
6 walk quickly down Mr. Dawson's territory and refer you to
7 MBA First Round Interrogatory to MPI 1-11.

8

9 (BRIEF PAUSE)

10

11 MR. BYRON WILLIAMS: Thank you, Mr.
12 Bedard, for turning there. I'm not sure if this holds
13 true or not, but this is -- found as an attachment to
14 this Interrogatory request, is a copy of the agreement
15 between the applicant and Manitoba Justice by which MPI
16 incurs expenses related to WATSS, is that fair, sir?

17 MR. WILF BEDARD: Yes.

18 MR. BYRON WILLIAMS: And I just want to
19 turn your attention to page 6 of this agreement, under
20 item 4, mutual agreements.

21 And you'll see that both -- excuse me:

22 "That both parties agree that the
23 performance of the WATSS is important
24 and to that end a measurement
25 evaluation model developed by an

1 independent third party will be
2 finalized prior to the commencement of
3 this agreement."

4 Is that right, sir?

5 MR. WILF BEDARD: Yes, I see that.

6 MR. BYRON WILLIAMS: And I haven't seen
7 on the -- perhaps I've missed it, but can you confirm
8 that this was, indeed, done?

9

10 (BRIEF PAUSE)

11

12 MS. MARILYN MCLAREN: I would have to
13 check with our representatives on the Provincial Auto
14 Theft Task Force, that's where this initial proposal and
15 the discussions around this came from.

16 The last I had heard this evaluation
17 framework had not been completed by the third party who
18 was initially expected to do so.

19 MR. BYRON WILLIAMS: So, just so -- and I
20 -- and you will undertake to check that, Ms. McLaren?
21 You're nodding your head?

22 MS. MARILYN MCLAREN: Yes -- yes.

23

24 --- UNDERTAKING NO. 34: MPI to check for CAC/MSOS
25 with representatives on the

1 Provincial Auto Theft Task
2 Force and advise whether the
3 evaluation framework has been
4 completed by the third party
5 who was initially expected to
6 do so.

7

8 CONTINUED BY MR. BYRON WILLIAMS:

9 MR. BYRON WILLIAMS: And just so I
10 understand, the agreement provided that before -- prior
11 to the commencement of this agreement, this measurement
12 evaluation model was to be finalized.

13 But, to the best of your knowledge, it
14 wasn't finalized prior to the start of the -- the
15 agreement; would that be fair?

16 MS. MARILYN MCLAREN: Yes.

17 MR. BYRON WILLIAMS: And it's still --
18 and to the best of your knowledge, you're not sure
19 whether it's finalized now?

20 MS. MARILYN MCLAREN: I'm not sure.

21 That's right.

22 MR. BYRON WILLIAMS: Going to sub B,
23 you'll see that part of the mutual agreement was that an
24 annual review was to be conducted by the same independent
25 third party and assuming -- you'll -- I'm going to

1 suggest to you that that probably has not been done;
2 would that be fair?

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

4 MR. BYRON WILLIAMS: So there's been no
5 independent -- or there's been no annual review of this
6 program by an independent third party; would that be
7 fair?

8 MS. MARILYN MCLAREN: No. There's been
9 no action under 401B. The Corporation, on its own, did
10 get some independent third party advice with respect to
11 the operation of this program, but, there was nothing
12 developed specifically and conducted by both parties,
13 mutually agreed, under the terms of that section of the
14 contract.

15 MR. BYRON WILLIAMS: Okay. And in terms
16 of the independent advice by the third party that the
17 Corporation sought, is there -- is that an evaluation of
18 the program?

19 MS. MARILYN MCLAREN: If you could give
20 me just a brief minute, please.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: Mr. Chairman, it's a
25 -- I only have a couple of questions here but if the

1 Corporation -- they've got two (2) hours to, kind of,
2 come up with an answer. It's not going to really throw
3 off my schedule if --

4 MS. MARILYN MCLAREN: I'm looking for the
5 reference in the material --

6 MR. BYRON WILLIAMS: Yeah.

7 MS. MARILYN MCLAREN: -- that is on the
8 record.

9 MR. BYRON WILLIAMS: Okay.

10 MS. MARILYN MCLAREN: There were
11 questions about, you know, what have we learned about the
12 operation of WATSS as to why it hasn't performed as might
13 have been expected. We pointed to things like the mix of
14 thieves is changing; some of the other things that were
15 raised in that response to an Information Request. That
16 largely came out of the individual at the Corporation
17 asked to have a look at it.

18 MR. BYRON WILLIAMS: Okay. And the
19 reason I particularly wanted to follow up, Ms. McLaren,
20 because I think CAC/MSOS had actually asked if there had
21 been an independent evaluation and, again, I don't have
22 the reference in front of me but I thought the answer had
23 been no so.

24 MS. MARILYN MCLAREN: Yeah. No,
25 specifically the collaborative process under the

1 contract, no.

2 MR. BYRON WILLIAMS: Is there something -
3 - okay, and Ms. McLaren, is there something in writing by
4 this third party that MPI, by itself, sought advice from
5 in terms of WATSS, in terms of an evaluation of the
6 program?

7 MS. MARILYN MCLAREN: We took that action
8 because we believed it was essential that something
9 happen and, you know, there was an individual that was,
10 sort of, part of the initial process who had proposed the
11 development of the evaluation matrix, so to speak. They
12 were unable to, sort of, deliver on that commitment to do
13 the work so the Corporation thought it was important to
14 do it.

15 We -- we had that work done. We've put on
16 the record some of the learnings from that work. But for
17 the most part that work was provided as a resource to the
18 provincial auto theft task force. So, yes, the
19 Corporation has something in writing on that but unless
20 Mr. McCulloch tells me otherwise, I'm not prepared to
21 make it public because it really was something to help
22 the program and help the people responsible for
23 administering the program.

24 MR. BYRON WILLIAMS: I haven't actually
25 asked for it yet. I'll ponder that over lunch. Maybe

1 that will be fine.

2 THE CHAIRPERSON: Yes, I think we'll
3 stand down now and, unfortunately, because of prior
4 commitments as previously outlined, we will not be able
5 to return until 2:00. But we will start directly at 2:00
6 and it's our expectations that whatever point in time we
7 conclude the examination, it will be today. Thank you.

8

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

10 --- Upon resuming at 2:05 p.m.

11

12 THE CHAIRPERSON: Welcome back. Mr.
13 McCulloch...?

14 MR. KEVIN MCCULLOCH: Mr. Chairman, the
15 wad of papers that you see before you are a number of
16 responses to undertakings that I would like to file as
17 exhibits. And the first one would be Undertaking Number
18 10 which is MPI Exhibit 22.

19

20 --- EXHIBIT NO. MPI-22: Response to Undertaking 10.

21

22 MR. KEVIN MCCULLOCH: Undertaking Number
23 11 which would be MPI Exhibit 23.

24

25 --- EXHIBIT NO. MPI-23: Response to Undertaking 11.

1 MR. KEVIN MCCULLOCH: Undertaking Number
2 12, MPI Exhibit 24.

3

4 --- EXHIBIT NO. MPI-24: Response to Undertaking 12.

5

6 MR. KEVIN MCCULLOCH: Undertaking Number
7 14, MPI Exhibit 25.

8

9 --- EXHIBIT NO. MPI-25: Response to Undertaking 14.

10

11 MR. KEVIN MCCULLOCH: Undertaking 18, MPI
12 Exhibit 26.

13

14 --- EXHIBIT NO. MPI-26: Response to Undertaking 18.

15

16 MR. KEVIN MCCULLOCH: And Undertaking 19,
17 MPI Exhibit 27.

18

19 --- EXHIBIT NO. MPI-27: Response to Undertaking 19.

20

21 MR. KEVIN MCCULLOCH: The last item, Mr.
22 Chairman, is a response to the Fraser Institute report --
23 or op/ed piece and an article that was in the Free Press
24 recently. And this article will be published in the Free
25 Press as an op/ed piece by Ms. McLaren and we thought

1 that it would be appropriate to provide the Board with a
2 copy of it.

3 And I'd also ask that that be filed as
4 Exhibit Number 28.

5

6 --- EXHIBIT NO. MPI-28: Article for Free Press.

7

8 THE CHAIRPERSON: Very good. Thank you,
9 sir. Mr. Saranchuk, could you arrange for that to be put
10 into the record.

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: Anything else?

15 MR. KEVIN MCCULLOCH: No, Mr. Chairman.

16 MR. WALTER SARANCHUK: Mr. Chairman,
17 there's one item that I just wanted to clarify for the
18 record. MPI has some prior knowledge of this as a result
19 of a discussion that I had with Mr. McCulloch.

20 And that was with request -- with regard
21 to a request that would be made or now is being made by
22 the Board with respect to the production of information
23 reflecting the following:

- 24 a) The annual level of injuries,
25 b) The annual level of car thefts,

1 c) The annual level of infraction
2 citations issued by Winnipeg Police Service and the RCMP
3 over the last five (5) years at least, and if it can be
4 over ten (10) then that would be fine too. But just now
5 that we have this opportunity making that formal request
6 on the record and I understand that there will be that
7 information filed in due course.

8 THE CHAIRPERSON: Is that fine, Mr.
9 McCulloch?

10 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman.
11 It's the due course portion of it that is uncertain at
12 this time.

13 THE CHAIRPERSON: 3:30? I notice in this
14 -- Ms. McLaren's op/ed piece, it refers to a PDF chart.
15 Do you have a photocopy of that?

16 MS. MARILYN MCLAREN: We'll get one of
17 those by 3:30 too.

18 THE CHAIRPERSON: Thank you. You could
19 add to that to the record too, Mr. Saranchuk.

20 MR. WALTER SARANCHUK: Yes, sir.

21 THE CHAIRPERSON: Okay, Mr. Williams.

22 MR. BYRON WILLIAMS: Yes, thank you, Mr.
23 Chairman, and just to let you know that Ms. Desorcy had
24 so much fun watching Professors Hum and Simpson yesterday
25 that she's back for -- back for more.

1 Prior -- sometime this morning I provided
2 My Friend, Mr. McCulloch with a couple of documents that
3 I'm going to use in cross-examination this afternoon.

4 One -- and I think there's copies on Mr.
5 Gaudreau's desk. One of them is an excerpt from a report
6 of the Auto Pack Review Commission which some people in
7 this room may have heard of.

8 And I've shared that with Mr. McCulloch.
9 I'll be chatting about that fairly early in the afternoon
10 and the second one is it is an excerpt from a publication
11 from the Victoria Transport Policy Institute and it
12 discusses at a certain level some matters related to pay-
13 as-you-drive. And we'll have a brief discussion of that
14 later -- later in the afternoon.

15 I'm not sure I'll make your 3:30 deadline
16 for that, but I'll be moving towards that, sir. And I
17 can't suggest the exhibit numbers for you. I think I've
18 run out of steam on -- on that, sir.

19 THE CHAIRPERSON: Mr. Gaudreau will
20 figure it out for us.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: Yes, there -- there
25 should be two (2) documents there, Mr. Gaudreau. They

1 should be separate exhibits. So, Mr. Chairman, I'd
2 suggest that the report -- the excerpt from the report of
3 the Autopac Review Commission be CAC-10 and the excerpt
4 from the Victoria Transport Policy Institute be CAC-11.

5 THE CHAIRPERSON: Very good, sir.

6

7 --- EXHIBIT NO. CAC/MSOS-10: Excerpt from the report of
8 the Autopac Review
9 Commission.

10

11 --- EXHIBIT NO. CAC/MSOS-11: Excerpt from the Victoria
12 Transport Policy
13 Institute.

14

15 (BRIEF PAUSE)

16

17 CONTINUED BY MR. BYRON WILLIAMS:

18 MR. BYRON WILLIAMS: Ms. McLaren, just
19 for a second I wonder if you could turn to page 66 of the
20 -- the transcript, please -- of the -- from Day 1 of this
21 hearing?

22 MS. MARILYN MCLAREN: We are going to get
23 it. In the meantime, if it's brief enough you can read
24 it to me.

25

MR. BYRON WILLIAMS: Yeah.

1 MS. MARILYN MCLAREN: Chances are I might
2 remember it.

3 MR. BYRON WILLIAMS: And what I just --
4 you might -- you might have already corrected this on the
5 record but I think there may be a typo on page 66 line 8.

6 And I just wanted to confirm with you,
7 you're talking about how a 1 percent increase in
8 inflation above expected would have a \$400 million affect
9 on annual operations based upon an Information Request
10 128 and I'm suspecting that you probably said three 3 to
11 4 million which would be consistent with that
12 interrogatory response PUB-1-28 and it was probably just
13 a typo; would that be fair?

14 MS. MARILYN MCLAREN: Yes, I believe I
15 said -- at least intended to say \$4 million.

16 MR. BYRON WILLIAMS: And -- just a small
17 matter but I just wanted to make sure we cleared that up.

18 Mr. Palmer, just a few questions for you.
19 I'm -- as I understand it I -- I listened carefully to
20 what you were saying last week. When -- from -- from
21 your perspective the goal of setting and adjusting rates
22 is to establish rates for policies issued during a
23 specific time period that results in sufficient revenues
24 to cover all expected costs including costs for claims
25 which may not be settled for many years into the future;

1 is that right, sir?

2 MR. DON PALMER: That's correct.

3 MR. BYRON WILLIAMS: And to determine
4 future expected costs, statistical information about past
5 history is developed and analysed to guide the prediction
6 of future expected costs; is that right, sir?

7 MR. DON PALMER: The actual expected
8 costs come out of the claims forecast and the financial
9 forecast method. So that's -- that's the methodology
10 that's used.

11 MR. BYRON WILLIAMS: Yeah. And in part
12 that relies about -- upon statistical information about
13 past history; is that right, sir?

14 MR. DON PALMER: Sure.

15 MR. BYRON WILLIAMS: And I understand
16 that when you're looking at the projected future costs
17 and we'll just elaborate on that for a minute, you
18 consider a number of factors including one (1) being the
19 extrapolation of past trends; is that fair?

20 MR. DON PALMER: That's fair, sure.

21 MR. BYRON WILLIAMS: And you also
22 consider and apply judgment regarding your current claims
23 trends?

24 MR. DON PALMER: Yes.

25 MR. BYRON WILLIAMS: And you also examine

1 external indicators relating to the cost of automobile
2 insurance, would that be fair? And if you need more
3 precision by external indicators, I mean things like the
4 state of the economy, the volume of new car sales,
5 inflation; would that be fair sir?

6 MR. DON PALMER: Sure, I'll accept that.

7 MR. BYRON WILLIAMS: I've pretty much
8 memorized that section of your evidence, so I'm hoping
9 you would.

10 And I won't go over the discussion that
11 you had with Mr. Saranchuk in this area, but just by way
12 of segue, in your discussion with Board Counsel, you talk
13 about different methods to assist in determining the
14 appropriate rate, such as the linear, exponential, and
15 financial forecast methods, is that right, sir?

16 MR. DON PALMER: That's correct.

17 MR. BYRON WILLIAMS: And the Corp, in its
18 rate setting places heavy emphasis on the financial
19 forecast models, right, sir?

20 MR. DON PALMER: I would say more than
21 heavy emphasis, I would say that's the claims forecast
22 that we use to set the rates.

23 MR. BYRON WILLIAMS: And what it does
24 compared to the other two (2) models is allows cost
25 growth to be more responsive to short and medium term

1 trends that are emerging in the field; would that be
2 fair?

3 MR. DON PALMER: That's fair.

4 MR. BYRON WILLIAMS: And it also
5 considers pure trends in the claims costs data, as well,
6 is that right?

7 MR. DON PALMER: That's correct.

8 MR. BYRON WILLIAMS: And I just want to
9 talk with you for a couple of minutes about what you mean
10 by -- by trends. And you don't need to -- Ms. McLaren
11 actually talked about this a little bit this morning, in
12 the context of driver rating, and I just want to use that
13 as an example.

14 And you've heard in the past from the
15 Public Utilities Board a suggesting that an improved
16 Bonus/Malus program can generate a meaningful reduction
17 in claims frequency and severity.

18 But you'd agree with me that the
19 Corporation is a bit more cautious in its view of the
20 impact that this initiative will have on claims costs;
21 would that be fair?

22 MR. DON PALMER: I would agree with that,
23 sure. I think Mr. Christie used the quote: "actuaries
24 are from Missouri". So I would ascribe to that theory,
25 although it's probably not in our standards of practice.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: And by being from
4 Missouri, what you're really saying is that you're going
5 to -- if there are cost reductions, you'll recognize that
6 in the rate making methodology as experience emerges;
7 would that be fair sir?

8 MR. DON PALMER: Could you repeat that
9 question, please?

10 MR. BYRON WILLIAMS: Too many people
11 talking to you at the same time, hey, Mr. Palmer. Yeah.

12 Just when you were talking about being
13 from Missouri or kind of the "Show Me" state; you're
14 really talking about -- in terms of recognizing
15 anticipated reductions, you won't do that until the
16 actual experience emerges.

17 You won't recognize that in the rate
18 making methodology, would that be fair?

19 MR. DON PALMER: I wouldn't necessarily
20 agree with that. And there may be other factors and we
21 talked about turning -- turning points and sort of,
22 ongoing field experience.

23 So I wouldn't necessarily say that it has
24 to be there, if there's some definite indication that
25 there may be a turning point in the experience; then we

1 would look at that, for sure.

2 MR. BYRON WILLIAMS: Okay. Well, let's
3 hone in just for a minute on driver and safety rating,
4 and I'm just quoting from your evidence at AI-19, page 9
5 and you'll probably have it memorized.

6 Your position at least with improvements
7 with that program is, that while the program may
8 influence driver behaviour and could decrease claim
9 costs, if it does these reductions will be recognized in
10 the rate making methodology as experience emerges; is
11 that right, sir?

12 MR. DON PALMER: In that context, I would
13 agree with you. We currently have a program and without
14 going into some of the criticisms that we went in before;
15 that we do -- do have some programs that rely on past
16 experience of drivers and conviction experience of
17 drivers and so on.

18 So, it's not that we're looking at
19 completely new parameters.

20 MR. BYRON WILLIAMS: That's fair -- I
21 just want to follow your show me -- show me example for
22 one (1) other situation for right now.

23 And again, you don't need to -- to go
24 there, but if you're looking for reference, in CAC-248, I
25 honestly don't think this is one (1) you need to go to

1 Mr. Palmer.

2 But my idealistic articling student asked
3 you the somewhat speculative question, if Manitoba -- if
4 MPI knew that vehicle kilometres travelled would be
5 reduced by half for all Manitobans in the next year,
6 while all other relevant factors would remain constant
7 how would that affect the Corporation's projections or
8 claims expenses for that coming year.

9 And you'll agree with subject to check
10 that your answer was the claims project would not change
11 until a change in trend is actually observed; would that
12 be fair, sir?

13 MR. DON PALMER: In that particular
14 example, yes.

15 MR. BYRON WILLIAMS: So at least in
16 driver rating and in -- and in things like a change such
17 as related to -- to pay-as-you-drive you would wait for
18 the actual experience to emerge for the actual trend to
19 be revealed before including that in your rate -- in --
20 in your forecast; is that right, sir?

21 MR. DON PALMER: In those two (2)
22 examples, yes.

23

24 (BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: Mr. Palmer, I want
2 to stay with you for a few more minutes on a related, or
3 at least a forecasting question. I think I've heard this
4 about a hundred (100) times in these proceedings over the
5 years, that the only guarantee in terms of forecast is
6 you're not going to get it exactly right.

7 Would that be an unfair statement?

8 MR. DON PALMER: That's not an unfair
9 statement.

10 MR. BYRON WILLIAMS: And hopefully I'm
11 not inviting another Simpson/Palmer debate, but in an
12 industry like auto insurance even the best forecasting
13 model can't expect perfection, would that be fair?

14 MR. DON PALMER: And I don't know how
15 you'd define perfection. I would say if over the long
16 term you've got a -- a very small variance one (1) way or
17 the other, as MPI has had over the last twelve (12) year,
18 then I think that indicates a good forecast.

19 But to judge it -- in fact I would say if
20 we had perfect results every year, that's -- that's
21 probably not a good forecast because we'd be not
22 forecasting an expectation but we'd try -- be gambling on
23 exact results and that's not really the purpose.

24 MR. BYRON WILLIAMS: So we're -- we're
25 expecting good results but not perfect results?

1 MR. DON PALMER: Something always to
2 strive for, I guess, yes.

3 MR. BYRON WILLIAMS: And I probably
4 wasn't going where you were -- you thought I was taking
5 you, Mr. Palmer, but as a corporation you are constantly
6 vigilant to look for material discrepancies between
7 forecasts and actual results; that would be fair?

8 MR. DON PALMER: Absolutely.

9 MR. BYRON WILLIAMS: And you monitor
10 those variances through your field people, through your
11 audits, through your internal and external actuaries, and
12 through your pricing and economics people; those are some
13 of the tools you use?

14 MR. DON PALMER: Yes, that's correct.

15 MR. BYRON WILLIAMS: And of course when
16 you do your year end financial statement you again have
17 an opportunity to reveal your actual versus your
18 forecast, is that right?

19 MR. DON PALMER: That's correct.

20 MR. BYRON WILLIAMS: And of course the
21 Public Utilities Board offers another vehicle by which
22 you can monitor forecast versus actual; would that be
23 fair, sir?

24 MR. DON PALMER: I -- I see you -- you
25 hesitating. I'll give you an example. For example, the

1 Board a couple of years ago took issue with an inflation
2 forecast that Manitoba Public Insurance was offered and -
3 - and for the purposes of rate making suggested and
4 adopted a different one; would that be fair, sir?

5 MR. DON PALMER: Sure. There, you now,
6 the -- the term 'management judgment' has been used a
7 lot in these hearings and I would accept that PUB
8 judgment would fall, sort of, in that realm.

9 MR. BYRON WILLIAMS: But that's another
10 check in -- in the event of that -- there's variations
11 between forecasts and actual; that's another check just
12 to see if there's any trends emerging in terms of
13 variances?

14 MR. DON PALMER: There is a -- there is a
15 difference. I'm not sure that I quite understand. When
16 you're monitoring actual versus expected, you're --
17 you're looking at a comparison of past results. In the
18 inflation scenario that you had indicated that was an
19 opinion of a -- a future trend. So there is very much a
20 difference between those.

21 MR. BYRON WILLIAMS: Fair enough. I
22 accept that. Perhaps it was a poor example.

23 Just -- you indicated previously that
24 you've -- you often monitor material changes between
25 forecast and actual, vigilantly.

1 When you see what you would consider to be
2 a material variation, I take it you spend some time
3 trying to understand what's lying underneath that
4 variance.

5 Would that be fair, sir?

6 MR. DON PALMER: If could describe my job
7 in one (1) sentence, that's probably what it is. And --
8 and I'll give you maybe an example that's very familiar
9 to this Board.

10 And I'm not sure of the exact year but it
11 was about 2004. We had a significant increase in serious
12 claims in the summer of 2004 that -- and that spike the
13 question that comes is -- is that a trend or is that an
14 aberration? Or another way to -- to ask that question
15 is, Was your forecast right? And the -- the events that
16 emerged were -- were just random aberrations or was your
17 forecast wrong then you have to change it.

18 In that particular case, we -- we
19 concluded correctly that it was an aberration and we
20 basically returned to the trend that it had been forecast
21 within our rate making.

22 So, that's one example of -- of an actual
23 analysis that we undertook.

24 MR. BYRON WILLIAMS: Thank you and that's
25 very helpful and that will speed things up. And just so

1 I understand, when you -- the -- the sum of your
2 existence at MPI, I'm teasing now, but -- your -- your --
3 when you see these variances, you'll ask yourself the
4 question, Is it an aberration, is it a merging trend, or
5 perhaps is there something -- did I get the forecast
6 wrong in terms of the model?

7 Those would be the questions you would ask
8 yourself?

9 MR. DON PALMER: I like to think one of
10 the reasons for my employment is my curiosity. So, yes,
11 I would agree.

12 MR. BYRON WILLIAMS: With all three (3)
13 of those factors, sir?

14 MR. DON PALMER: Yes.

15 MR. BYRON WILLIAMS: And I guess just one
16 (1) example where you might have amended the model that
17 the Corporation was operating under and you may choose to
18 agree or disagree with me, relates to premiums written
19 and earned.

20 And some years ago the Corporation
21 reviewed its forecast in terms of both volume and
22 upgrade. And -- and if my recollection's right, you
23 changed your methodology somewhat in terms of
24 forecasting; would that be fair, sir?

25 MR. DON PALMER: That's fair.

1 MR. BYRON WILLIAMS: And I guess the
2 point that I was making in my roundabout way, Mr. Palmer,
3 is that the Corporation doesn't take a material variance
4 or discrepancy from forecast lightly, is that right?

5 MR. DON PALMER: Absolutely not.

6 MR. BYRON WILLIAMS: And much of your
7 time is spent seeking to understand that -- those
8 variances, correct?

9 MR. DON PALMER: I would agree with that.

10 MR. BYRON WILLIAMS: And -- and I just
11 want to give you and just leave this subject with one
12 concrete example.

13 Let's assume just for a second that you --
14 with your annual forecast in terms of premiums written
15 and earned, you're assuming an upgrade factor of 3
16 percent and a volume factor of 2 percent, and both the
17 upgrade and volume factor were 50 percent higher. That
18 would be something -- and by that I mean the volume was 4
19 1/2 and -- excuse me, the upgrade was 4 1/2 and the
20 volume was 3; that would be something that would attract
21 a lot of attention from you, would it, sir?

22 MR. DON PALMER: Some -- that would
23 attract some attention, yes. There are some factors that
24 probably concern me less than others. And something like
25 volume or upgrade, both of those things, are largely self

1 correcting, because you may be off on your premium side
2 but there's generally an offset on your claim side.

3 Assuming that our -- that our rate-making
4 methodology is right and it has been and -- and Professor
5 Simpson I think alluded to that yesterday that there's a
6 -- there's a very, very strong correlation between
7 premiums and claims.

8 Again, thank goodness for that. And so
9 that kind of a -- a variation, what of course I would do
10 is check to see that there was some sort of offsetting
11 behaviour on the claims side, but generally there is,
12 yeah.

13 MR. BYRON WILLIAMS: And again, I'm going
14 to have to be more careful in the examples I choose, Mr.
15 Palmer. But, you'll confirm that a 50 percent variance
16 from forecast would be something that you would treat
17 seriously and consider to be quite significant, would
18 that be fair sir?

19 MR. DON PALMER: It's definitely
20 something that would require some investigation, yes.

21 MR. BYRON WILLIAMS: And would cause you
22 to explore your data, your model and just see what --
23 what had led to that variation, correct?

24 MR. DON PALMER: Sure.

25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Ms. McLaren, I'm
4 going to turn to you. And Mr. Chairman, I know you're
5 anxious for me to be done. I've got a fair bit of
6 territory to cover yet, but we're making good progress.

7 THE CHAIRPERSON: I was only kidding you,
8 Mr. Williams. You take your time, you've been patient
9 with everyone else, so it's our turn.

10 MR. BYRON WILLIAMS: Okay.

11

12 CONTINUED BY MR. BYRON WILLIAMS:

13 MR. BYRON WILLIAMS: Ms. McLaren, just if
14 you could remind me, am I right in suggesting your became
15 President and CEO of MPI, back in about 2004 or so, is
16 that right?

17 MS. MARILYN MCLAREN: Yes.

18 MR. BYRON WILLIAMS: And prior to your
19 service as CEO, you were part of the senior management
20 team of MPI for a number of years, is that right?

21 MS. MARILYN MCLAREN: Seven (7) years,
22 yes.

23 MR. BYRON WILLIAMS: And prior to joining
24 senior management you were an employee of MPI for quite a
25 few years before that, as well, is that right?

1 MS. MARILYN MCLAREN: Yes.

2 MR. BYRON WILLIAMS: So would I be right
3 in suggesting you've been an employee of the MPI family
4 for probably twenty (20) years, close, it's not that
5 critical?

6 MS. MARILYN MCLAREN: More than that,
7 yeah.

8 MR. BYRON WILLIAMS: And you've been part
9 of the senior management team or the big cheese for nine
10 (9) years, would that be right?

11 MS. MARILYN MCLAREN: Yes.

12 MR. BYRON WILLIAMS: So in the course of
13 your many years of experience, you've got to know the
14 members of the current senior management team quite well?

15 MS. MARILYN MCLAREN: Yes.

16 MR. BYRON WILLIAMS: And you also knew
17 and had extensive dealings with members of senior
18 management in the past, such as Mr. Zacharias and Mr.
19 Kidd, would that be fair?

20 MS. MARILYN MCLAREN: Yes.

21 MR. BYRON WILLIAMS: Mr. Bardua?

22 MS. MARILYN MCLAREN: Yes.

23 MR. BYRON WILLIAMS: Now, I may have this
24 wrong, but I understand that in your role as President of
25 MPI, you answer to the Board of Directors of MPI and

1 through them to the Province of Manitoba; would that be
2 fair?

3 MS. MARILYN MCLAREN: Yes.

4 MR. BYRON WILLIAMS: And certainly you
5 see a key role for you as President of MPI -- I hope I
6 have your title right; to -- in protecting the interests
7 of -- of the shareholders of MPI, namely the Province of
8 Manitoba, would that be fair?

9 MS. MARILYN MCLAREN: It's certainly part
10 of my responsibility, yeah. I think given the
11 legislative context of Manitoba Public Insurance, that I
12 wouldn't suggest that that is the central focus, at all.

13 I think the Corporation focuses more on
14 its clients and policyholders.

15 MR. BYRON WILLIAMS: I was just going to
16 get to that, I was just trying to use a less than elegant
17 segue.

18 And just knowing you as I do, you feel a
19 duty, as well as President to your clients and
20 policyholders, to the ratepayer of MPI I guess, to the
21 employees of MPI and to the Corporation itself; would
22 that be fair?

23 MS. MARILYN MCLAREN: Yes.

24 MR. BYRON WILLIAMS: And I think
25 listening to your evidence over the years, I would say

1 that you'd also agree that you have a great sense of
2 pride in and support for the vision of public auto
3 insurance; isn't that right?

4 MS. MARILYN MCLAREN: Yes.

5 MR. BYRON WILLIAMS: And so while it's
6 not always easy, your job and your duty is to protect and
7 balance the interest of the Province and the Corporation
8 and its ratepayers as they relate to the provision of
9 high quality assessable -- public insurance -- auto
10 insurance; would that be fair?

11 MS. MARILYN MCLAREN: What am I balancing
12 again, sorry?

13 MR. BYRON WILLIAMS: Too many things,
14 right? I would say you've got to balance between the
15 Province, between your ratepayers and between the
16 interests of the Corporation; would that be fair? If I'm
17 missing something, you know, it's not a trick question.

18 MS. MARILYN MCLAREN: As I said earlier,
19 I -- I guess that's true, but that tends not to be the
20 focus of deliberations within Manitoba Public Insurance.
21 It -- it really is strongly focussed on ratepayers, given
22 the legislative context, given our status as -- as owned
23 by the Province of Manitoba, the -- the Province is in a
24 pretty good position to look out for its interests.

25 MR. BYRON WILLIAMS: Fair enough. And --

1 and there's no doubt that in -- in exercising your duties
2 on behalf of MPI you exercise your judgment to the best
3 of your abilities; is that right?

4 MS. MARILYN MCLAREN: Yes.

5 MR. BYRON WILLIAMS: Now, based on your
6 conversation with Mr. Saranchuk from last Wednesday or
7 last week sometime and I'm not going to travel over the
8 same ground, but I know that you'd agree that when it
9 comes to setting rates for service for Manitoba Public
10 Insurance you'd also agree that the Public Utilities
11 Board has an important role to play; is that fair?

12 MS. MARILYN MCLAREN: Yes.

13 MR. BYRON WILLIAMS: And so in appearing
14 before the Public Utilities Board both in this proceeding
15 and in past proceedings you've offered what you consider
16 to be your best judgment on matters that affect rates for
17 service; is that right?

18 MS. MARILYN MCLAREN: Yes.

19 MR. BYRON WILLIAMS: And based upon your
20 observations from years of experience, you'd also agree
21 that individuals such as Mr. Zacharias and Mr. Bardua
22 appear to -- to do the same thing, to be exercising their
23 judgment in the -- in what they perceive to be in the
24 best interest of ratepayers; is that right?

25 MS. MARILYN MCLAREN: Yes.

1 MR. BYRON WILLIAMS: And I guess going
2 back to Mr. Saranchuk's point as I understood it at the
3 end of the day you'll agree that it's open to the Public
4 Utilities Board when it comes to matters for rates for
5 service of the Basic program to substitute its judgment
6 for that of the senior management of Manitoba Public
7 Insurance?

8 MS. MARILYN MCLAREN: Yes, that is their
9 legislative mandate.

10 MR. BYRON WILLIAMS: I -- Ms. McLaren,
11 you've been very helpful. I'd like to just turn you to
12 the -- my favourite book of -- which is the excerpt from
13 the report of the Autopac Review Commission which is
14 marked as CAC-10.

15 Thank you. And you -- you overheard the
16 jousting last week between Mr. Saranchuk and Mr.
17 Galenzoski about Mr. Saranchuk's silver hair did you not,
18 Ms. McLaren? You didn't hear that?

19 MS. MARILYN MCLAREN: I'm sure I did.

20 MR. BYRON WILLIAMS: I just want to take
21 you back in time to a time perhaps when Mr. Saranchuk
22 didn't have silver hair, when his hair might have been a
23 different colour.

24 And I want to go -- start out a couple of
25 years before Kopstein, you'll agree with me that in the

1 mid-1980s the Corporation was a very different
2 corporation from what it is today; is that fair?

3 MS. MARILYN MCLAREN: I think that's fair
4 in lots of different ways, yeah.

5 MR. BYRON WILLIAMS: You didn't have an
6 internal actuary such as Mr. Palmer?

7 MS. MARILYN MCLAREN: That's true.

8 MR. BYRON WILLIAMS: You didn't have to
9 come before the Public Utilities Board in terms of the
10 setting of rates for service for the Basic program?

11 MS. MARILYN MCLAREN: That's true.

12 MR. BYRON WILLIAMS: And just going to
13 the Kopstein report and, you know, you can -- I don't
14 know if you need to turn to it but I'm starting out on
15 page 21.

16 You'll recall that the Autopac Review
17 Commission was instituted in the late 1980s and that Mr.
18 Justice Robert Kopstein had a major role to play in that?

19 MS. MARILYN MCLAREN: Yes.

20 MR. BYRON WILLIAMS: And over your many
21 years with the Corporation you'd have a chance to look at
22 the report and consider elements of it and is that --
23 would that be fair?

24 MS. MARILYN MCLAREN: Yes.

25 MR. BYRON WILLIAMS: And you'll also

1 recall that what precipitated the review at least in the
2 -- the words of Mr. Kopstein or Mr. Justice Kopstein at
3 page 21 was the recorded loss of \$62 million in 1987
4 contributing to a decision to implement large premium
5 increases in 1988 resulting in what he characterized as a
6 loss of public confidence in MPI.

7 And now I'm not -- but that's at least his
8 view of what happened back in 1987 and 1988; would that
9 be fair?

10 MS. MARILYN MCLAREN: Yes.

11 MR. BYRON WILLIAMS: And if I wanted to
12 look at the three (3) elements of that -- of that loss I
13 would suggest to you that if we look at the three (3)
14 elements, according to at least Mr. Justice Kopstein, one
15 (1) of them was the Corporation budgeting to lose \$22
16 million in a particular year; is that right, Ms. McLaren?

17 MS. MARILYN MCLAREN: Yes, I see that.

18 MR. BYRON WILLIAMS: So that one (1) of
19 the problems he -- or one (1) of the issues he identified
20 was the Corporation budgeting for a loss in that year;
21 would that be fair?

22 MS. MARILYN MCLAREN: Yes, I see that on
23 page 21.

24 MR. BYRON WILLIAMS: And another key
25 factor to which he attributed the -- the major loss was

1 19 million in losses due to weather conditions and other
2 -- I can't even pronounce the word this late in the day,
3 vagaries; would that be fair?

4 MS. MARILYN MCLAREN: Yes, I see that.

5 MR. BYRON WILLIAMS: And again a third
6 factor identified by Mr. Justice Kopstein was the one (1)
7 time loss relating to some actuarial adjustments, is that
8 right?

9 MS. MARILYN MCLAREN: Yes.

10 MR. BYRON WILLIAMS: And Mr. Justice
11 Kopstein drew some conclusions from -- from this
12 experience; one (1) of them was that the Corporation
13 should not budget for a loss.

14 Would that be fair?

15 MS. MARILYN MCLAREN: Yes, that's on page
16 22.

17 MR. BYRON WILLIAMS: Yeah, and his
18 reasoning was that unforeseen and unbudgeted losses when
19 added to a budgeted loss can dramatically magnify the
20 total loss; would that be fair?

21 MS. MARILYN MCLAREN: Yes.

22 MR. BYRON WILLIAMS: He also concluded
23 that unusual weather conditions and certain other
24 occurrences are unpredictable by their nature and that
25 the resulting losses are an important part of what the

1 insurance business must expect and what must be
2 anticipated; is that fair?

3 MS. MARILYN MCLAREN: Yes.

4 MR. BYRON WILLIAMS: Just drawing your
5 attention towards the -- towards the latter part of this
6 document, specifically page 30. And again I won't dwell
7 on these pages in boring detail but you'll see that in
8 Recommendation 7.11 Mr. Justice Kopstein is talking about
9 some sort of replaying -- retained ser -- excuse me,
10 retained surplus kind of a -- which -- which you'd agree
11 with me later became the rate stabilization reserve, is
12 that fair?

13 MS. MARILYN MCLAREN: Yes, I believe so.

14 MR. BYRON WILLIAMS: And you'll also see
15 that in Recommendation 7.12 he indicated and suggested
16 that the Corporation not budget deliberately for losses
17 in any year but budget for surpluses when reserves had
18 been reduced below target levels; would that be fair?

19 I'm referring you to the bottom of page
20 712 and moving to the -- bottom of page 30 and moving to
21 top of page 31.

22 MS. MARILYN MCLAREN: Yes, I see that.

23 MR. BYRON WILLIAMS: And what he
24 suggested is that budgeting for surpluses should be such
25 as to result in the reserves being returned to the target

1 level over a period of not more than five (5) years, is
2 that right?

3 MS. MARILYN MCLAREN: Yes.

4 MR. BYRON WILLIAMS: And just tracing the
5 Williams history of Manitoba Public Insurance in twenty
6 (20) minutes or less, by the late 1980s or early 1990s
7 you'd agree with me that Manitoba Public Insurance had an
8 internal actuary, probably Mr. Palmer, and that it also
9 was subject to rate review by the Public Utilities Board?

10 MS. MARILYN MCLAREN: Yes.

11 MR. BYRON WILLIAMS: I want to -- I don't
12 have -- I have references for myself. I don't have them
13 for you here, so I'm -- I'm going to just take you to the
14 Corporate history. If you want to borrow them from me
15 I'll be -- be happy to, Ms. McLaren.

16 But I want to skip lightly over the 1990s,
17 but I wonder if you'd agree with me that in the early
18 1990s in at least a couple of years the Corporation was
19 still budgeting for losses when it brought a rate
20 application before the Public Utilities Board?

21 MS. MARILYN MCLAREN: I don't recall that
22 specifically, but, if you have a reference I'll accept
23 that.

24 MR. BYRON WILLIAMS: Yeah, and I guess a
25 couple of references, from Board Order 148/91, page 7 and

1 Board Order 174/92, page 12.

2 And if you'll accept that, subject to
3 check?

4 MS. MARILYN MCLAREN: Yes, we'll accept
5 that, subject to check.

6 MR. BYRON WILLIAMS: And indeed in the --
7 in Board Order 174/92 you'll agree with me, subject to
8 check, that there was concerns expressed by some groups
9 about budgeting or having a number -- of having planned
10 losses; would you agree with that?

11 MS. MARILYN MCLAREN: Yes, subject to
12 check.

13 MR. BYRON WILLIAMS: So at least in the
14 regulatory context, the issue of budgeting for a loss was
15 still a matter of some concern in the early 1990's; would
16 that be fair?

17 MS. MARILYN MCLAREN: Yes.

18 MR. BYRON WILLIAMS: And I guess just to
19 again quickly get over the 1990's, we come to the 1995
20 General Rate Application, setting rates for the 96/97
21 year and you'll recall that going into that that the
22 Corporation was projecting a serious deficit in retained
23 earnings as of February 28, 1996; would you recall that,
24 subject to check?

25 MS. MARILYN MCLAREN: 1996 did you just

1 say?

2 MR. BYRON WILLIAMS: Yes, as of February
3 28th, 1996.

4 MS. MARILYN MCLAREN: Did you say 1995
5 and then 1996?

6 MR. BYRON WILLIAMS: I meant to say 1996,
7 as of February 28th, 1996.

8 MS. MARILYN MCLAREN: Now, that we have
9 the years straight, can you repeat the question? I'm
10 sorry.

11 MR. BYRON WILLIAMS: I'm not -- I'm not
12 sure I can, and I apologize for any confusion, but of
13 course I can.

14 That as the Corporation was -- it was
15 looking at a serious deficit in retained earnings as of
16 February 28th, 1996, is that fair?

17 MS. MARILYN MCLAREN: Yes.

18 MR. BYRON WILLIAMS: And if we look to
19 the roots of that deficit in retained earnings, we could
20 look to a couple of factors; one (1) being a major adjust
21 to the incurred but not the reported.

22 Would that be fair?

23 MS. MARILYN MCLAREN: Yes.

24 MR. BYRON WILLIAMS: And another one (1)
25 was again, it was a bad winter and there was a \$12

1 million unforeseen increase in physical damage cost;
2 would that be fair?

3 MS. MARILYN MCLAREN: Yes.

4 MR. BYRON WILLIAMS: You could probably
5 just look over my shoulder, I'm sure Mr. Kruk was there
6 and will be nodding his head in agreement.

7 And in response to this projected deficit
8 in retained earnings, one (1) of the actions taken by the
9 Public Utilities Board was to impose a special 2 percent
10 levy to rebuild retained earnings, is that fair?

11 MS. MARILYN MCLAREN: For 1996 rates,
12 yes.

13 MR. BYRON WILLIAMS: And that would be
14 consistent with the approach of Mr. Justice Kopstein, as
15 recommended back in the 1980's, is that right?

16 MS. MARILYN MCLAREN: Yes, some level of
17 sophistication over and above that with respect to
18 isolating rates and special surcharges, but consistent
19 with the intention, yes.

20

21 (BRIEF PAUSE)

22

23 MR. BYRON WILLIAMS: I'm going to move to
24 this decade, Mr. Chairman and Ms. McLaren. And again you
25 can accept this subject to check, if you would.

1 Would you confirm that in Board -- in the
2 proceedings leading up to Board Order 173/'03 Manitoba
3 Public Insurance -- excuse me -- I'm going to skip that
4 question because I'm not going to be able to phrase it
5 very elegantly.

6 In terms of Board Order 173/'03 and do you
7 have -- do you have that there, Ms. McLaren, by any
8 chance, that decision?

9 MS. MARILYN MCLAREN: No.

10 MR. BYRON WILLIAMS: I apologize for
11 that. I can certainly put it to you and if you -- if
12 there's anything you disagree with, I'm referring to the
13 executive summary.

14 You'll recall that you were part of senior
15 management at that time, would that be fair, in 2003;
16 would that be right?

17 MS. MARILYN MCLAREN: Yes.

18 MR. BYRON WILLIAMS: And you and Mr.
19 Galenzoski and Mr. Bedard were there as sworn witnesses
20 in support of the MPI General Rate Application?

21 MS. MARILYN MCLAREN: Yes, we were.

22 MR. BYRON WILLIAMS: And in that year,
23 Manitoba Public Insurance was requesting an increase in
24 the overall vehicle premium of 2.5 percent; is that
25 right, subject to check?

1 MS. MARILYN MCLAREN: Yes.

2 MR. BYRON WILLIAMS: And in the
3 application that you brought before the Board you -- it
4 reflected a forecasted net loss of 1.3 million for the
5 year ending February 29th, 2004 and projected a net loss
6 of 13.8 million for fiscal 2005; is that right?

7 MS. MARILYN MCLAREN: Sounds familiar,
8 yes.

9 MR. BYRON WILLIAMS: And at the time that
10 MPI was coming before the Board seeking a 2.5 percent
11 rate increase, its current forecast showed that the
12 actuarially indicated rate increases required were 4.3
13 percent in fiscal 2005, 1.2 percent in fiscal 2006; would
14 that be fair?

15 MS. MARILYN MCLAREN: Yes.

16 MR. BYRON WILLIAMS: And what MPI was
17 doing essentially, was suggesting that given the
18 fluctuation and the indicated rate changes, it was
19 wanting to exercise its best judgment in proposing
20 smoothing the rate increase, by applying for a 2.5
21 percent increase, with the intention of seeking for
22 future similar increases; would that be fair?

23 MS. MARILYN MCLAREN: Yes.

24 MR. BYRON WILLIAMS: So that was the best
25 judgment of the Corporation in terms of what would be an

1 appropriate response in that year, is that fair?

2 MS. MARILYN MCLAREN: In that particular
3 circumstance, yes.

4 MR. BYRON WILLIAMS: And you'll recall
5 that the Board rejected that proposal and reiterated its
6 earlier position that MPI should, at a minimum, budget
7 for break-even position; would that be correct?

8 MS. MARILYN MCLAREN: Yes.

9 MR. BYRON WILLIAMS: And the Board
10 indicated its view that it considered the projected net
11 loss of 13.8 million to exceed the limits of a break even
12 position, correct?

13 MS. MARILYN MCLAREN: Yes.

14 MR. BYRON WILLIAMS: And you'll recall
15 that in the context of that hearing, the Board indicated
16 that an appropriate RSR target range for rate setting
17 purposes was between \$50 and \$80 million; that's the
18 Board, being the Public Utilities Board?

19 You'll accept that subject to check?

20 MS. MARILYN MCLAREN: Yes.

21 MR. BYRON WILLIAMS: And in that hearing,
22 MPI's Board of Directors was maintaining that the range
23 ought to be \$80 to \$100 million, is that fair?

24 MS. MARILYN MCLAREN: Yes.

25 MR. BYRON WILLIAMS: And one (1) of the

1 concerns expressed by the Board was that if the applied
2 for rates were approved, the forecast for the RS level --
3 RSR level would be around 38 million for fiscal 2004 and
4 down to 25.9 million for fiscal 2005; both amounts well
5 below the Board's minimum RSR target. And by Board, I
6 mean the Public Utilities Board.

7 MS. MARILYN MCLAREN: Agreed.

8 MR. BYRON WILLIAMS: So this was an
9 application fifteen (15) years after Kopstein where MPI
10 management in the view of the Public Utilities Board was
11 budgeting for loss, is that right?

12 MS. MARILYN MCLAREN: Yes.

13 MR. BYRON WILLIAMS: And it was budgeting
14 for a loss despite a forecast that the RSR was expected
15 to be below 30 million in 2004/05, is that right?

16 MS. MARILYN MCLAREN: Yes.

17 MR. BYRON WILLIAMS: So it was proposing
18 in its best -- so it was proposing, in its best judgment,
19 that the -- that it -- it budget for loss, despite being
20 more than \$20 million below the PUB's RSR target and more
21 than \$50 million before the MPI target; would that be
22 fair?

23 By that, I mean the bottom range of the
24 MPI.

25 MS. MARILYN MCLAREN: That's the history,

1 yes. It was within a particular context at a particular
2 point in time. That -- those are the historical facts.

3 MR. BYRON WILLIAMS: And that was just
4 three (3) years ago?

5 MS. MARILYN MCLAREN: Yes.

6 MR. BYRON WILLIAMS: You recall, as well,
7 that that was one (1) of the years in which MPI brought
8 forward evidence in terms of what the DCAT would indicate
9 would be a proposed target range for the RSR; do you
10 recall that?

11 MS. MARILYN MCLAREN: Yes, I believe we
12 had that on the record that year.

13 MR. BYRON WILLIAMS: And will you agree
14 that MPI was forecasting that it would be more than --
15 subject to check, more than \$69 million below the DCAT
16 recommended bottom range?

17 MS. MARILYN MCLAREN: Hmm hmm. Yes.

18 MR. BYRON WILLIAMS: Three (3) years ago,
19 were you acting -- you were acting in what you considered
20 to be ratepayers best interests, when you proposed
21 budgeting for a loss in that year, is that right?

22 MS. MARILYN MCLAREN: Yes.

23 MR. BYRON WILLIAMS: Mr. Chairman, I'm --
24 I'm just moving to another target I wouldn't mind a --
25 another target -- another line of questioning.

1 I think the -- the aim might be reversed
2 in this next line of questioning anyways. Could I step
3 down for five (5) minutes, would that be okay?

4 THE CHAIRPERSON: Oh for sure. It's late
5 on Friday afternoon --

6 MR. BYRON WILLIAMS: Or ten (10) minutes
7 would be --

8 THE CHAIRPERSON: -- and an early ten
9 (10) minute break is not going to hurt anyone.

10 MR. BYRON WILLIAMS: Okay. Thank you.

11 MR. KEVIN MCCULLOCH: Mr. Chairman, if I
12 could --

13 THE CHAIRPERSON: You're going to use up
14 our break now, are you?

15 MR. KEVIN MCCULLOCH: Just slightly, so
16 you could have the material perhaps to look at during the
17 break. I have that PDF table that was mentioned as part
18 of Exhibit 28 and I think it can just be added to Exhibit
19 28 --

20 THE CHAIRPERSON: Yes, it may.

21 MR. KEVIN MCCULLOCH: -- it doesn't need
22 -- doesn't need to be added as a separate exhibit.

23 The second item is a response to an
24 undertaking and this was the undertaking that related to
25 MCA 2-2, this was the chart that showed the number of

1 injury claims, internal reviews, external appeals, appeal
2 decisions in claimant's favour and the percentage.

3 And it was explained in evidence today
4 that the percentages shown were off because they were
5 giving you the percentage of the appeal decisions in
6 claimants favour against the number of external appeals
7 filed instead of appeal decision in claimants favour
8 against the number of decisions made that year.

9 And the Undertaking was given to correct
10 that chart. So what I would propose to file as Exhibit
11 29, is the response to Undertaking 29.

12 It shows just, for example, that in the
13 year 2005, out of the two hundred and twenty-eight (228)
14 external appeals filed, there were twenty-six (26) appeal
15 decisions. Five (5) were in favour of the claimant for a
16 percentage of 19.2 percent.

17 And it corrects the percentages all the
18 way down on that basis. So if I can file that as Exhibit
19 29.

20 THE CHAIRPERSON: Very good. Thank you.

21

22 --- EXHIBIT NO. MPI-29: Response to Undertaking 29.

23

24 THE CHAIRPERSON: Okay. We'll stand down
25 now.

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--- Upon recessing at 2:59 p.m.
--- Upon resuming at 3:18 p.m.

MR. BYRON WILLIAMS: Mr. Chairman, I say this often, but I did want to say that this year in particular, I think Board Counsel did a very thorough job and reduced some of the areas that we have to go through.

So I am going to be revisit -- both in the area of the RSR as well as auto theft, I am going to be moving into both areas, but trying not to track too far down Board Counsel's footsteps.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I'm going to start with a few questions about auto theft. And is -- just as a general question, as I tried to understand on behalf of my clients, the economics of the various auto theft initiatives, would I be correct in suggesting that the key driver in terms of pushing up auto theft claims costs is the total in attempted theft frequency? Is that the big number?

MS. MARILYN MCLAREN: Yes, there's been some increase in severity, but the increase has been in frequency.

1 MR. BYRON WILLIAMS: So one (1) of the
2 key objectives of the Corporation's initiatives, the
3 package, the family of initiatives is to either reduce
4 claims volumes or at least temper their growth; would
5 that be fair?

6 MS. MARILYN MCLAREN: Yes.

7 MR. BYRON WILLIAMS: And again without
8 travelling too far down My Friend Ms. Everard's path a
9 key focus that the Corporation has in the '06/'07 and
10 '07/'08 years are the MAR or most at risk vehicles; is
11 that right?

12 MS. MARILYN MCLAREN: Yes.

13 MR. BYRON WILLIAMS: And in particular,
14 not doing any disservice to the people outside the
15 perimeter, but a -- a major focus in terms of within the
16 City of Winnipeg?

17 MS. MARILYN MCLAREN: Yes.

18 MR. BYRON WILLIAMS: And, Ms. McLaren, I
19 -- I was taking notes diligently last Wednesday. I
20 haven't reviewed the transcript and -- and I wasn't sure
21 if I'd heard you right but I thought you said that the
22 total number of thefts in the first nine (9) months of
23 '06 was higher than it was in the first nine (9) months
24 of '05. Did I -- did I hear that correctly?

25 MS. MARILYN MCLAREN: Yes.

1 MR. BYRON WILLIAMS: And I take it that
2 you track the total number of thefts and attempted thefts
3 on a monthly basis; is that fair?

4 MS. MARILYN MCLAREN: Yes.

5 MR. BYRON WILLIAMS: And I'm sure it's
6 probably on the record somewhere. Did I miss the update
7 for the first nine (9) months of '06? Is that on the
8 record somewhere currently in terms of thefts and
9 attempted thefts?

10 MS. MARILYN MCLAREN: I don't remember.

11 MR. BYRON WILLIAMS: I don't think it is,
12 Ms. McLaren, so I wonder if -- could you give us first of
13 all a snapshot of -- of what it is and then perhaps you
14 could file that?

15 MS. MARILYN MCLAREN: We have some month
16 by month information that I could read into the record.

17 In the month of -- we can file this
18 information but for the sake of brevity I'll focus maybe
19 on the percent change one (1) month over the previous
20 year's month as opposed to the numbers. Well, I'll give
21 you a couple of numbers for example.

22 In January of '06 there were six hundred
23 and twenty-six (626) total thefts; the year before there
24 were five hundred and fifty-two (552) in January and
25 that's a 13.4 percent increase.

1 In February there was a 25 percent
2 increase; March, 38 percent increase; April, 15 percent
3 increase; May, a 5.29 percent increase; in June a 23
4 percent increase, and after that things did begin to turn
5 around. In July we had a 3.5 percent decrease, in August
6 a 9.32 percent decrease, and in September a 24.65 percent
7 decrease.

8 And the numbers and percents are somewhere
9 in the ballpark with respect to attempted thefts. For
10 example in January of '06 there was five hundred and
11 nineteen (519) attempted thefts, five hundred and -- oh,
12 three hundred and three (303) -- actually that's -- there
13 was a big increase for that one (1) month, a 71 percent
14 increase January over January.

15 In August there was 14 percent increase
16 of attempted thefts, August over August.

17 MR. BYRON WILLIAMS: Thank you for that
18 helpful answer and -- and just so I'm clear what you've
19 presented to me or what you've chatted about is a
20 comparison of the first nine (9) months of -- of 2006 in
21 terms of thefts and attempted thefts versus the first
22 nine (9) months of 2005; is that right?

23 MS. MARILYN MCLAREN: Yes.

24 MR. BYRON WILLIAMS: And you would
25 undertake to -- to file that on the record?

1 MS. MARILYN MCLAREN: Yes, we'll do that.

2

3 --- UNDERTAKING NO. 35: MPI to file for CAC/MSOS a
4 comparison of the first nine
5 (9) months of 2006 in terms
6 of thefts and attempted
7 thefts versus the first nine
8 (9) months of 2005.

9

10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: Does the Corporation
12 in terms of forecasting losses related to theft and
13 attempted theft, would you also have a forecast going
14 into the year which you would check it against? For
15 example, for the 2006 year or the 2006/'07 insurance
16 year, would you have a month by month expected forecast
17 as well?

18 MR. DON PALMER: The -- the counts on a
19 month to month might not be explicit. We have -- we
20 generally do our forecasts on an annual basis. The
21 dollars we would have an allocation by month. To
22 actually have a projected monthly claim count, we may not
23 have that.

24 MR. BYRON WILLIAMS: You may not or you
25 don't?

1 MR. DON PALMER: There's much shaking of
2 head in the back row so, no, we do not do them.

3 MR. BYRON WILLIAMS: Heads were shaking
4 side to side rather than up to down -- up and down?

5 MR. DON PALMER: Side to side, sir.

6 MR. BYRON WILLIAMS: Given that, have you
7 reviewed your forecast in -- in terms of '06/'07 in terms
8 of whether the Corporation is on pace for its anticipated
9 claims reductions in terms of theft and total theft?

10 MS. MARILYN MCLAREN: The forecast for
11 the 06/07 year was based on the previous history, but
12 also based on the expected reductions from the WATSS
13 program, only the WATSS program and I think that we did
14 expect a 20 percent reduction in Winnipeg total thefts.

15 And we, at this point, it's really
16 difficult to say because the last three (3) months,
17 should they continue, we will very -- very likely achieve
18 that by the end of the year, but based on the first six
19 (6) months, it can be variable. But that's what the
20 forecast was based on in 06/07 and the experience really
21 is, at this point, quite unpredictable.

22 MR. BYRON WILLIAMS: In terms of the
23 forecast for '06/'07 in terms of total thefts and
24 attempted thefts, given the experience over the past nine
25 (9) months, how much confidence does the Corporation have

1 in that forecast?

2 And just to help my clients, Ms. McLaren,
3 certainly their -- they've got to make a recommendation
4 to the Board in terms of what to do with the rates and it
5 would be helpful to get the Corporation's sense if you're
6 very confident, we'll hear you, but if you've got some
7 uncertainty we'd certainly like to hear that.

8 MS. MARILYN MCLAREN: No. But I think we
9 need to point out that what we're talking about is '06
10 and '07 and some consideration in the '07/'08 forecast
11 for the WATSS program. Our reductions in auto theft on
12 which the rate application is primarily based are savings
13 that will accrue in the '08/'09 on which half of the '07
14 rate application is based.

15 And I would say our level of confidence
16 continues to be very strong on that component of the rate
17 application. May we be somewhat off in the current year,
18 which is not the subject of this rate application; we
19 might be a little bit off.

20 But with respect to savings forecast
21 through the immobilizer program, we're probably more
22 confident now than we were in June.

23 MR. BYRON WILLIAMS: I might come back to
24 that. I'm going to check with my client, Ms. Desorcy, if
25 I get my very last break before I close.

1 But just, again, on the subject of anti
2 theft initiatives, am I right in suggesting to you that
3 the owners of new automobiles which have a factory-
4 installed auto immobilizer are rewarded by being moved
5 down one (1) CLEAR rate group; is that right?

6 MR. DON PALMER: Not explicitly in that;
7 that's about the effect and I'll explain that. In the --
8 the CLEAR model has the variable for anti-theft devices
9 and in those long multiple regression formulas that Mr.
10 Oakes and I went over there yesterday, I think, or maybe
11 it's not yesterday, we -- there is a variable for anti-
12 theft devices.

13 And for a new vehicle it has about the
14 effect of one (1) rate group down. So it's not an
15 explicit one (1) rate group down application, but that's
16 about the result of it.

17 MR. BYRON WILLIAMS: And is that uniform
18 for all factory installed immobilizers?

19 MR. DON PALMER: That meet the national
20 standard. It's -- and again depending on the given rate
21 group of the vehicle the -- the one (1) rate group is --
22 is certainly an estimate.

23 MR. BYRON WILLIAMS: Okay. And I -- I
24 believe this figure is on the record but just a ballpark
25 in terms of what the reduction, in terms of revenues,

1 comes from that?

2 MR. DON PALMER: One (1) rate group is
3 about forty dollars (\$40).

4 MR. BYRON WILLIAMS: And globally what's
5 the impact of that reduction on the application, Mr.
6 Palmer, just ballpark? And if you don't have it, that's
7 fine.

8 MR. DON PALMER: Now, are -- are you
9 talking for the new vehicle units? There's about a
10 hundred and thirty-eight thousand (138,000) at forty
11 bucks (\$40) a pop which is 5.5 million.

12 MR. BYRON WILLIAMS: And, Ms. McLaren,
13 we're -- we're on the subject of clearing up
14 uncertainties for my -- my client so again I -- I
15 thought I heard you say last -- last week, I thought it
16 was last Wednesday, that you -- the Corporation has some
17 concerns with the effectiveness of certain factory
18 installed immobilizers, is that right?

19 MS. MARILYN MCLAREN: Some that are in
20 the market now, yes. You know, there's been any number
21 of high profile news stories over the last couple of
22 months about late model GM vehicles in particular that
23 the owners truly believe they have immobilizers and yet
24 they are defeated and stolen.

25 MR. BYRON WILLIAMS: And I forget the --

1 the twelve (12) letter acronym for the national standard
2 but would these late model GM vehicles have installed
3 immobilizers that meet that standard?

4 MS. MARILYN MCLAREN: They did not --
5 they do not meet the national standard. No, they do not.

6 MR. BYRON WILLIAMS: So -- and just so
7 I'm clear and I can stroke this off my question list,
8 then these would not be the beneficiaries of any CLEAR
9 reduction for -- for immobilizers?

10 MS. MARILYN MCLAREN: That's right.

11 MR. BYRON WILLIAMS: And going down the
12 auto theft short snapper area just a couple of more
13 questions, Mr. Palmer.

14 The reference that I'm -- I'm going off of
15 if you want to look at it is CAC/MSOS First Round, Number
16 9, Sub 4 Attachment.

17 MR. DON PALMER: I have an attachment and
18 three (3) exhibits.

19 MR. BYRON WILLIAMS: Yeah, I think it's
20 Attachment 1, Exhibit 1, I just want to ask you a couple
21 questions about.

22 Now -- you have that, Mr. Palmer?

23 MR. DON PALMER: I have it, yes.

24 MR. BYRON WILLIAMS: Now, as I understand
25 this table -- it's just a look at estimated total and

1 attempted theft peer premium for most at risk vehicles
2 within Territory 1 and 5; is that right?

3 MR. DON PALMER: That's correct.

4 MR. BYRON WILLIAMS: And am I right in
5 suggesting to you that the number of units in '03/'04 was
6 ninety-seven thousand (97,000), in '04/'05 was eighty-six
7 point or eighty-six thousand six hundred and fifty-two
8 (86,652), and in '05/'06 was seventy-five thousand
9 (75,000); is that right?

10 MR. DON PALMER: That's correct.

11 MR. BYRON WILLIAMS: So --

12 MR. DON PALMER: And just one (1)
13 clarification of those numbers. That excludes units that
14 have been immobilized.

15 MR. BYRON WILLIAMS: That was the
16 question. So what -- what I was just trying to -- to be
17 confident of, Mr. Palmer, these -- it's not like this
18 pool of vehicles is disappearing from the market; you're
19 just removing -- you're removing the vehicles with --

20 MR. DON PALMER: These vehicles are
21 disappearing from the market. Remember the --

22 MS. MARILYN MCLAREN: Slowly.

23 MR. DON PALMER: -- that they're -- some
24 of these vehicles are fifteen (15) years old. We're --
25 we're talking about the 1991 Dodge Caravan in some cases,

1 so for that age of vehicle there is some attrition rate
2 on those. So we lose some of the -- the older ones at
3 some rate a year.

4 Now, there are some new vehicles on here
5 that of course won't disappear over time, but -- but
6 there is some attrition for sure.

7 MR. BYRON WILLIAMS: And just so I
8 understand so -- and would it be fair to say that some of
9 the immobilizers that are being installed under the IIP
10 are on vehicles that are on their way out of the market
11 fairly soon?

12 MR. DON PALMER: Again, they might be,
13 sure.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: And Ms. McLaren, I
18 saw you and Mr. Palmer chatting about this -- whispering
19 about this earlier, and I think you were anticipating
20 where I'm going on these questions anyways.

21 But, when we're looking at the
22 Corporation's projections for -- in terms of theft and
23 attempted theft for the '06/'07 year and the '07/'08
24 year; in developing those estimates was there any actual
25 trend or experience from the -- that it was based on from

1 the impact of the immobilizer incentive program?

2 That's inelegantly asked but you know what
3 I'm trying to get, Mr. Palmer?

4 MR. DON PALMER: When we did the
5 projections there was not that much experience with the
6 aftermarket immobilizers. We know that there has never
7 been one (1) defeated in a theft; we know that.

8 We also know that there is that rate group
9 decrease from the actual experience from CLEAR. So we
10 also know that the -- there is an effectiveness and a
11 reduction in claims from -- from those indicators.

12 So, I think this is one (1) of those cases
13 that when I say, show me, I'm confident that I've been
14 shown; both in the limited experience that we have with
15 the aftermarket immobilizers, approved aftermarket
16 immobilizer and the experience that has emerged from
17 CLEAR in the factory installed immobilizers.

18 Two (2) things on that. The bulk of the
19 savings would be in the '08/'09 years, which is sort of
20 the second half of the policy year that we're applying
21 for. And we are ahead of schedule from what we had
22 anticipated in our projections.

23 So there's two (2) factors that certainly
24 will modify things.

25 MR. BYRON WILLIAMS: Just to back up a

1 second there, I think I heard Mr. Galenzoski talk about
2 this last year. When you were projecting into '06/'07
3 for example, you weren't projecting any claims savings
4 from the IIP for that year; is that fair?

5 MR. DON PALMER: That's correct.

6 MR. BYRON WILLIAMS: Okay. And given --
7 and just -- I just want to make sure I understand where
8 you're coming from -- and given the results of the IIP in
9 2005/'06, you have little or no experience on the -- on
10 the aftermarket installed immobilizers; is that fair?

11 MR. DON PALMER: The effect of the
12 program becomes more pronounced the more vehicles that
13 you have immobilized. So if you had 5 percent of the
14 most at risk immobilized, you might not see any affect
15 because it's easy enough to find the other 95 percent.

16 The only -- we have seen significant take
17 up in the immobilizers over the last three (3) months,
18 once we have the free program and the other regulations
19 that came into effect on September 1.

20 And we have -- so we have one (1) month
21 experience and a 20 percent decrease year over year. I'm
22 not going to hang my hat on that experience, but you use
23 what you got and that's what I've got and that's very
24 good.

25 MR. BYRON WILLIAMS: Yeah and just --

1 just so -- again, I want to make sure I understand this.
2 When you're developing this forecast so you -- you didn't
3 have those last three (3) months in terms of using what
4 you've got; would that be fair?

5 MR. DON PALMER: That's fair.

6 MR. BYRON WILLIAMS: And what you did
7 have in terms of, I guess you'd call them, aftermarket
8 was the fact that you had about, in the calendar year of
9 2005, two thousand five hundred and twelve (2512)
10 installed; would that be fair?

11 MR. DON PALMER: That sounds about right,
12 yes.

13 MR. BYRON WILLIAMS: And -- and --

14 MS. MARILYN MCLAREN: But -- but --
15 sorry, I'm --

16 MR. BYRON WILLIAMS: Yeah, and I'm not
17 going to be argumentative, Ms. McLaren. So certainly
18 answer it. I'm just trying to explain this through
19 cross-examination to my client so.

20 MS. MARILYN MCLAREN: But what we also
21 had was not just the rate of immobilized -- immobilizer
22 take up to the end of the fiscal year. We had all the
23 information up to the point we finalized the content of
24 the application which was not really until May. And what
25 we had when we did that also was the decision to expand

1 the most at risk opportunity to a free program and we
2 also had the Government's intention to introduce
3 legislation that took effect September 1.

4 So those did not -- you know, the -- the -
5 - the forecasting process had proceeded based on
6 assumptions of immobilizer take-up. And when it came
7 time to -- we had a number of scenarios and when it came
8 time to make the decision as to on what basis were we
9 going to submit the rate application, and what would that
10 mean to rate requirements, we were able to believe in the
11 assumptions that would deliver the take-up of
12 immobilizers in the most at-risk vehicles that had been
13 put on the record, filed as part of this application;
14 because when that decision was made, we knew that we were
15 responding directly to the reasons that most at-risk
16 vehicle owners had given for not being part of the cost -
17 - the fifty/fifty (50/50) cost share and we knew of the
18 government's intention to introduce two (2) specific
19 requirements for immobilizers.

20 MR. BYRON WILLIAMS: I appreciate it and
21 we're going to finish up here fairly close -- or soon in
22 this area.

23 But just going -- Mr. Palmer, if -- and
24 I'm going off of memory of your words, you were saying
25 that if you had only 5 percent, for example, in terms of

1 aftermarket that's not a lot of experience and that would
2 be fair to say, that in terms of the effective
3 aftermarket you did not have a lot of experience in
4 2005/06; would that be fair?

5 MR. DON PALMER: With the specific
6 aftermarket for most at risk vehicles that's true. But
7 we -- we do have the experience of other applications of
8 approved --approved immobilization devices.

9 MR. BYRON WILLIAMS: And that's fair. I
10 want to come to that now. And so when -- if I'm right
11 then, when really you're, kind of, doing your -- you
12 didn't have experience from the aftermarket, what you did
13 have was some experience in terms of the factory
14 installed immobilizers; is that right?

15 MR. DON PALMER: Yes.

16 MR. BYRON WILLIAMS: And just to back me
17 up, let's say -- let's back up from the 2007/'08 -- let's
18 back up a year or two (2). Let's say we go to 2003, for
19 example, when you had sixty-three thousand eight hundred
20 and twenty-eight (63,828) factory-installed immobilizer,
21 would you have built into the -- the forecast for a rate
22 application the projected savings from the factory-
23 installed immobilizers?

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(BRIEF PAUSE)

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MR. DON PALMER: At that time the number of factory-installed immobilizers was on the way up and we didn't do an explicit forecast, I guess that's four (4) years ago, on the thefts of those vehicles, but to the degree that they would have been increasing within the nearer term, that would have been built into the trend.

MR. BYRON WILLIAMS: And just moving one (1) year up to 2004, the -- you would have had -- and that's in the calendar year, just to be fair, you had eighty-seven thousand five six six (87,566); would you have done an explicit forecast with regard to factory installed in that year?

MR. DON PALMER: We started our explicit immobilization forecast last year, as far as I can recall.

MR. BYRON WILLIAMS: And just so I understand, by "last year" you mean for the purposes of the 2006/07 rate application or for the 2007/08 rate application?

MR. DON PALMER: For the '06/'07 application.

MR. BYRON WILLIAMS: And I think that may satisfy my client. Just to finish up on this point, can

1 you give me -- in your experience, Mr. Palmer, another
2 example of a program where you've built in some projected
3 savings, where you don't have actual experience with that
4 specific program?

5 And if you think that question is unfair,
6 tell me that, but...

7 MR. DON PALMER: No questions for me are
8 unfair, Mr. Williams.

9 I think a very explicit example could be
10 an increase in deductibles, where we have a model built
11 within the pricing and economics department to model the
12 effect of a deductible change. And we have done that in
13 past applications when we increased the deductibles.

14 MR. BYRON WILLIAMS: Yeah. And I
15 realized that and I guess for increase in deductibles, if
16 memory serves me right, you did have the experience from
17 past increases of deductibles.

18 And again, Mr. Palmer, just I'm going off
19 of memory, but the very first GRA I appeared in, you
20 imposed a pretty big deductible and I think you were
21 basing your projections in part, upon past experience of
22 an earlier deductible increase, would that be fair?

23 MR. DON PALMER: No, I don't think that's
24 accurate. The technical term is that we have a loss
25 elimination model that looks at past history at the then

1 existing deductible change -- deductible levels and
2 restates that experience.

3 So there are some assumptions as far as --
4 some claims will just drop out because they're close or
5 slightly above the deductible and wouldn't make a claim,
6 if the deductible was increased.

7 So there's nothing -- it is very much a
8 model that -- with the deductible change that we hadn't
9 experienced before.

10 MR. BYRON WILLIAMS: Okay. So it's not
11 based upon past experience in any way whatsoever?

12 MR. DON PALMER: No, I didn't say that.
13 It's based on the claims that we saw adjusted for the new
14 deductible levels. So there is some modelling involved
15 in that, but it's -- but it is a model, it's not -- it's
16 not based on another deductible change, so to speak.

17 MR. BYRON WILLIAMS: Okay. And thank you
18 for that Mr. Palmer and Ms. Desorcy's nodding her head,
19 so I think I can move on to another subject.

20 MS. MARILYN MCLAREN: Mr. Williams, just
21 very briefly before you do that, there's other -- one (1)
22 other point I'd like to make in terms of this discussion.

23 Lots of conversations at lots of hearings
24 with respect to the rate making methodology, the
25 reliability and credibility that this Board and

1 Intervenor's have with that process that Manitoba Public
2 Insurance; the forecasting processes the Corporation has.

3 I just want to put on the record that two
4 (2) years ago, clearly one (1) of my very first mandates
5 as President was to bring a much stronger, much higher
6 profile, much more aggressive position to the fight
7 against auto theft.

8 As part of my efforts in that regard, I
9 thought it was absolutely essential to bring our
10 actuarial expertise into that process. Until that point
11 of time, Mr. Palmer's talking to you about how we began
12 to forecast theft differently for the '06 rate
13 application; that was the first time that we had turned
14 to the actuarial expertise we have within MPI to bring
15 those skills to bear on the auto theft program.

16 They have helped us understand it.
17 They've helped us to come up with reliable and realistic
18 approaches to deal with it. They've been key players in
19 the overall auto theft strategy. And they simply were
20 not participants before.

21 MR. BYRON WILLIAMS: Thank you Ms.
22 McLaren. Mr. Chairman, I just need like three (3)
23 minutes if I might, to step out of the room for a second.

24 THE CHAIRPERSON: That's fine. We'll
25 have a five (5) minute break.

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--- Upon recessing at 3:49 p.m.
--- Upon resuming at 4:00 p.m.

THE CHAIRPERSON: Any time you're ready,
Mr. Williams.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you, Mr.
Chairman. Ms. McLaren -- Ms. McLaren, sorry to
interrupt.

Mr. Chairman, if I start giggling it's
just cumulative fatigue of the -- the past month catching
up with me.

Ms. McLaren, again, recalling the
discussion you had with Board Counsel -- and I think
there's some interrogatories on this though we don't need
to refer to them. I definitely can say that this time.

But my understanding, without offering any
judgments, that the position of the Corporation is that
if the -- the PUB in its wisdom were to -- for the
purposes of rate setting would be to adopt an MCT ratio
of between 50 and 100 percent, then the Corporation would
resume transfers from Extension and SRE to the Basic
Program Retained Earnings RSR; would that be fair?

1 MS. MARILYN MCLAREN: Yes, because then
2 they would be required to help build it.

3 MR. BYRON WILLIAMS: And just following
4 up with that conversation and if for example the RSR were
5 to stay at 65 to 100 million based on the -- PUB's
6 decision from last year, or something like, that my
7 understanding is that the Corporation would not resume
8 transfers, is that fair?

9 MS. MARILYN MCLAREN: Yes.

10 MR. BYRON WILLIAMS: So -- so let's just
11 assume for one (1) second that the Corporation -- that
12 the PUB in its wisdom sets an RSR target range of \$65 to
13 \$100 million, am I right in assuming that all other
14 things being equal Extension reserves would be likely to
15 remain at or above 120 percent of the retained earning
16 target.

17 Would that be -- be fair; like, it would
18 just sit there?

19 MS. MARILYN MCLAREN: I don't think it
20 would be fair to make assumptions at all about that right
21 now.

22 MR. BYRON WILLIAMS: Well, I think you
23 had a bit of a discussion with Mr. Saranchuk about that
24 so let's -- it is a possibility you'll -- and you had a
25 bit of a discussion with Mr. Saranchuk.

1 Let's assume for a moment that they --
2 that -- that excess above -- identified MCT needs for
3 retained earnings in -- in extension and SRE just remain
4 within those account lines.

5 Would it not be fair to suggest to you
6 that that money would still be available to the Basic
7 program in the event that there was a need for the Basic
8 program to rebuild its retained earnings?

9 MS. MARILYN MCLAREN: If those
10 assumptions prove to be true that might in fact be true.
11 I think my conversation with Mr. Saranchuk was really to
12 suggest that one ought not to consider that the retained
13 earnings would continue to be there or would continue to
14 grow in those lines of business.

15 MR. BYRON WILLIAMS: And the suggestion
16 you're making is that you might make a reduced retained
17 earnings by way of a targeted dividend for example to
18 Extension and SRE ratepayers?

19 MS. MARILYN MCLAREN: Or over the long
20 term manage those lines differently so as not to
21 accumulate excess retained earnings?

22 MR. BYRON WILLIAMS: And in either paying
23 a dividend or managing those lines differently you would
24 be reducing the overall retained earnings of the
25 Corporation as a whole, all other things being equal,

1 correct?

2 MS. MARILYN MCLAREN: Yes.

3 MR. BYRON WILLIAMS: And you would be
4 doing so notwithstanding your belief that the retained
5 earnings target set by the Public Utilities Board for the
6 basic program was too low, and hence the basic program
7 was under-reserved; is that right?

8 MS. MARILYN MCLAREN: Yes. I think I
9 remember using the words along the lines, if the
10 Corporation utterly and completely fails to convince the
11 PUB that it should make a different decision, the
12 Corporation would have little alternative to understand
13 that that decision is unlikely to change and would
14 conduct itself on that basis.

15 There would be no -- no rationale that I
16 can think of that would make it reasonable or sensible to
17 do otherwise than assume that to be true.

18 MR. BYRON WILLIAMS: So you would reduce
19 the overall corporate retained earnings, notwithstanding
20 your belief that the basic program was under-reserved; is
21 that right?

22 MS. MARILYN MCLAREN: The overall
23 corporate retained earnings really are retained earnings
24 of three (3) individual lines of business and the -- you
25 know, the information that the Corporation has put on the

1 record is that if the Corporation is required by this
2 Board, over the longer term, to manage with an RSR
3 between \$85 and \$100 million that's what it will do. The
4 basic program will need to stand on its own and that's
5 what we will do.

6 MR. BYRON WILLIAMS: So, notwithstanding
7 your belief that the basic program was under-reserved,
8 you would drain excess retained earnings from extension
9 and SRE, just so I understand, is that right; or you
10 might?

11 MS. MARILYN MCLAREN: We will always make
12 sure that those lines of business have what they need,
13 and following that certainty that we will make sure that
14 that happens.

15 What I did put on the record, clearly, is
16 the Corporation will have some decisions to make and
17 really what you've been able to get me to do, and I guess
18 what Mr. Saranchuk did to a certain extent, was get me to
19 speculate on what some of those things might be. But it
20 is speculation.

21 MR. BYRON WILLIAMS: And that's fair.
22 But just going back to your character, Ms. McLaren, you -
23 - you've said your commitment is, and I believe this
24 firmly, to protect the best interests of MPI ratepayers.
25 You would not do anything that you believed would

1 jeopardize the interests of basic ratepayers, would you?

2 MS. MARILYN MCLAREN: Agreed. Within the
3 legislative context within which I operate.

4 MR. BYRON WILLIAMS: I don't know if this
5 is a question for you or not, Mr. Palmer. It's -- it is
6 a short snapper I think.

7 In the Corporation's response to PUB
8 Interrogatory First Round Number 28C...

9

10 (BRIEF PAUSE)

11

12 MR. DON PALMER: It has a blue sticky on
13 it so I know it's mine.

14 MR. BYRON WILLIAMS: Is blue your
15 favourite colour?

16 MR. DON PALMER: Was that on the record,
17 sir? Then, yes.

18 MR. BYRON WILLIAMS: Better than red.
19 Just without going into the conclusions, in -- in this
20 response, being PUB-1-28C, you summarize the result of a
21 1 percent increase inflation for one (1) year, is that
22 fair?

23 MR. DON PALMER: Yes. This is -- this is
24 very similar to the -- what I put on the record on last
25 Wednesday, I think.

1 MR. BYRON WILLIAMS: And you suggest you
2 draw certain implications, both for the operating and
3 balance sheet; is that right, sir?

4 MR. DON PALMER: Yes, understanding that
5 any changes in the balance sheet will also go through the
6 operating statement.

7 MR. BYRON WILLIAMS: Fair enough.

8 MR. DON PALMER: It may have been more
9 precise to draw a parallel between current operations,
10 results from current years operations and for the -- what
11 I call the operating statement and past year operations
12 for the change in the balance sheet.

13 MR. BYRON WILLIAMS: Would you undertake
14 to provide a demonstration of your calculation of these
15 operating and balance sheet impacts, as well as setting
16 out all assumptions that you relied upon in making this?

17 MR. DON PALMER: I don't think I have to
18 undertake to do that. On the 1 percent change, I would
19 refer you to AI-10, the actuarial report.

20 And where I got that number is that we
21 have a interest rate margin for adverse deviation, which
22 essentially changes the interest rate assumption by 1
23 percent, so that's what I used as a proxy to get to \$70
24 million.

25 MR. BYRON WILLIAMS: Well, would you be

1 able to recalculate the results for PUB-128C, assuming
2 that one (1) year after this 1 percent increase inflation
3 above expected results, it was followed by a year with a
4 1 percent decrease in inflation below expected the next
5 year; could you do that?

6 MR. DON PALMER: Again, I don't think I
7 have to do an undertaking for that. The -- with a little
8 bit of change, depending on claims volume and what not,
9 the balance sheet effect would negate -- so again, if you
10 increased interest rates and then decreased them the
11 following year, they would largely be an offsetting
12 entry; as far as the effect on the current year
13 operations, about the same.

14 We would experience some increase in costs
15 this year and a decrease next year.

16 MR. BYRON WILLIAMS: Thank you for your
17 answer and...

18 MR. DON PALMER: Let me add a caveat to
19 that. The interest rate assumption is one (1), within
20 the context of the actuarial report, is one (1) that we
21 don't flip around much, and because it is so sensitive,
22 for us to make a change and then reverse it the next
23 year, we talked about plausible or implausible scenarios,
24 I would say a decrease -- or an increase followed by
25 decrease or the other way around in consecutive years,

1 likely would not happen.

2 MR. BYRON WILLIAMS: And I think Board
3 Member, Mr. Evans, was getting at this point as well. Am
4 I right in suggesting to you that for the last few years,
5 inflation has been running at or around 2 percent; would
6 that be fair, sir?

7 MR. DON PALMER: Give or take a little,
8 sure.

9 MR. BYRON WILLIAMS: So a 1 percent
10 increase in, or a 1 percent decrease in inflation, would
11 be about a 50 percent change, would that be right?

12 MR. DON PALMER: I'm not sure that I
13 would state it in that term cause you don't really have a
14 relative strength. If you were running at zero percent
15 and went to 1 percent, that would be an infinite change.

16 So I don't think it's fair to characterize
17 it as such.

18 MR. BYRON WILLIAMS: Okay. Just so I'm -
19 - if you were running about 2 percent and you decreased
20 by 1 percent, that would be a -- would that be a 50
21 percent change?

22 MR. DON PALMER: I would prefer just to
23 call it a 1 percent decrease.

24 MR. BYRON WILLIAMS: It would be a pretty
25 material change?

1 MR. DON PALMER: Absolutely.

2 MR. BYRON WILLIAMS: Just one (1)
3 second, please.

4

5 (BRIEF PAUSE)

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7 MR. BYRON WILLIAMS: Mr. Galenzoski, I
8 think these come over to you.

9 I may be referring, Mr. Chairman, to a
10 little degree anyways, to the investment policy of the
11 Corporation, and I believe if you have the Board's book
12 of documents it might be at Tab 10. Otherwise, subject
13 to check, it might be at AI-17 but I'm not...

14

15 (BRIEF PAUSE)

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17 MR. BYRON WILLIAMS: Mr. Galenzoski, I
18 want to just briefly, in -- in the context of MPI's
19 investment policy statement could you define "systemic
20 risk?"

21 MR. BARRY GALENZOSKI: I'd define
22 systemic risk as just the risk that's inherent if we're
23 talking about investments in an investment portfolio.

24 MR. BYRON WILLIAMS: Just maybe elaborate
25 on that a little bit, Mr. Galenzoski.

1 MR. BARRY GALENZOSKI: Well, this is with
2 respect to the different asset classes and the risk that
3 each of them might bring to the table with respect to
4 their long-term performance.

5 MR. BYRON WILLIAMS: And as I understand,
6 the Corporation's position is that in a portfolio context
7 one (1) of the objectives is to -- that unsystemic risks
8 can be diversified away to a certain degree, is that
9 fair?

10 MR. BARRY GALENZOSKI: Well, I think -- I
11 don't think it can be diversified away. I think
12 diversification is a strategy to help reduce the impact
13 of risks associated with a portfolio in that the hope is
14 that everything doesn't go the same direction.

15 MR. BYRON WILLIAMS: And, Mr. Galenzoski,
16 I'm not going to quibble; I think we're on the same page.
17 I was just reading from PUB/MPI-1-64, saying that in a
18 portfolio conference there is unsystemic risk which can
19 be diversified away but I -- I think we're talking at the
20 same -- same --

21 MR. BARRY GALENZOSKI: Yes, we are, yeah.

22 MR. BYRON WILLIAMS: Now, Mr. Todd used
23 to give me lessons in portfolio theory so I don't know if
24 you'll agree with me on this or not, but my understanding
25 of modern portfolio theory is that the -- the total

1 expected risk of a portfolio or its expected standard
2 deviation can be described as the function of the
3 volatility of each security in the portfolio, usually
4 defined by standard deviation, and the correlations; the
5 degree to which prices move in relation to each other
6 between each security position.

7 Generally, would you accept that, Mr.
8 Galenzoski?

9 MR. BARRY GALENZOSKI: Sure.

10 MR. BYRON WILLIAMS: And the theory as I
11 understand is that because price movements of different
12 securities are not perfectly correlated the total risk of
13 the portfolio is less than the sum of the risks of its
14 component parts; would that be fair?

15 MR. BARRY GALENZOSKI: Right.

16 MR. BYRON WILLIAMS: And again you've --
17 I'm -- I'm sure you've covered some of this with Mr.
18 Saranchuk and maybe a bit with Mr. Oakes so I'm going to
19 try not to step too far down that path.

20 But as I understand it the -- roughly the
21 investment portfolio of Manitoba Public Insurance as of
22 February 28th, 2006, was about 1.9 billion; would that be
23 fair?

24 MR. BARRY GALENZOSKI: Yes, that would be
25 the book value.

1 MR. BYRON WILLIAMS: And again, just
2 generally, the composition of the portfolio as of
3 February 28, 2006, included marketable bonds of about 41
4 percent; nonmarketable bonds, or I guess M-U-S-H, of
5 about 19.4 percent; real return bonds, 13 percent;
6 Canadian equity, 16 percent; US equity, 6 percent; and
7 short term investments around 4 percent.

8 And that's rough, I took off a few decimal
9 points here and there, Mr. Galenzoski.

10 MR. BARRY GALENZOSKI: That's fine, I
11 would agree to that.

12 MR. BYRON WILLIAMS: And am I also right
13 in suggesting to you that somewhere between 70 and 75
14 percent of MPI's investment portfolio is in bonds or what
15 are coming called fixed income securities, or fixed
16 income assets; would that be right?

17 MR. BARRY GALENZOSKI: That would be
18 approximately right, yes.

19 MR. BYRON WILLIAMS: And again, I don't
20 think you need to turn to it, but my understanding in
21 terms of the investment strategy, in terms of these fixed
22 income assets, is that they are primarily passively
23 managed with a buy and hold strategy; would that be fair?

24 MR. BARRY GALENZOSKI: Well, to a large
25 extent, although we do have some expectations with

1 respect to some gains that we might take on an annual
2 basis.

3 MR. BYRON WILLIAMS: But by and large
4 it's a buy and hold strategy?

5 MR. BARRY GALENZOSKI: Yes, there's been
6 times in our history where we have sold significant
7 portions of the portfolio to get a gain, but by and large
8 it's a hold strategy.

9 MR. BYRON WILLIAMS: I wonder if you'd
10 accept the characterization of this part of the portfolio
11 is a relatively conservative, with the bonds passively
12 managed; would that be fair?

13 MR. BARRY GALENZOSKI: I can accept that.

14 MR. BYRON WILLIAMS: And I heard the
15 debate you -- not the debate, but the discussion you had
16 with the Chairman, to a certain degree, about that last
17 Wednesday.

18 And your position is that this type of
19 portfolio is appropriate in terms of the risk reward
20 trade off and the nature of MPI's business requirements,
21 would that be a fair statement of your position?

22 MR. BARRY GALENZOSKI: Yes, and we're
23 also trying to balance the duration of the investments
24 against the duration of our losses. We have some
25 guidelines in our investment policy statement regarding

1 that and the bonds do provide a significant movement
2 towards that.

3 MR. BYRON WILLIAMS: And I'll come to
4 that in a second. And you'll have to excuse my ignorance
5 in these areas. But -- just, if I was to say to you, why
6 not become a day trader, why not be an active player in
7 the market; what would your response be, Mr. Galenzoski?

8 MR. BARRY GALENZOSKI: Well, we're not --
9 we're not set up to do that, number one (1). The bonds
10 are managed by the Department of Finance, they wouldn't -
11 - they haven't got the resources to handle them that way
12 and it wouldn't be our style in any respect, anyway.

13 We're not there to take short term
14 advantage, as I explained before, when we do get a gain
15 out of those bonds, we're looking for a longer term
16 advantage where we would -- over all the life cycle of
17 the trade and the new investment, we'd make more money
18 rather than just take a short term investment gain.

19 MR. BYRON WILLIAMS: So -- and I think
20 you said this on Wednesday, you're not going to switch
21 your entire portfolio over in the course of a couple of
22 days, or even in the course of a year, would that be
23 fair?

24 MR. BARRY GALENZOSKI: That's correct.

25 MR. BYRON WILLIAMS: Just going back to

1 this question of why MPI's strategy versus why not be a
2 daytrader for example; and taking into -- you know --
3 accepting what you said about the legislature or the
4 Finance not allowing you to.

5 I'd suggest to you, if you have a well
6 diversified conservative investment portfolio, on a day
7 to day basis you can't be sure of gains, but the ability
8 to hold the same well diversified conservative portfolio,
9 over a longer period of time, same years, would make it
10 more likely that you'd experience gains; wouldn't it?

11 MR. BARRY GALENZOSKI: Well, if you're
12 talking about bonds, that's not necessarily true because
13 it's very much reflective of the current interest rates.

14 So if interest rates are rising, then
15 that's not going to be the case. If interest rates are
16 dropping, then you're likely to achieve that case.

17 MR. BYRON WILLIAMS: Let's take the
18 entire portfolio. If you took a look at the whole
19 portfolio with the diversity in it, you're theory is that
20 over -- over the long run, you're -- you're better off
21 with a more conservative, more passive strategy rather
22 than a short term daytrader kind of approach; would that
23 be fair?

24 MR. BARRY GALENZOSKI: Well, again we're
25 -- our goal is to take -- we need that money to pay

1 claims. We have liabilities that -- where that money is
2 derived from.

3 So the first goal is to make sure that the
4 money is going to be there when it's required. The
5 second is to get a rate of return consistent with our
6 tolerance for risk.

7 MR. BYRON WILLIAMS: And your sense is
8 that the risk associated with a longer term kind of
9 portfolio is -- is, given the Corporation's position,
10 less than it would be if you were a day to day trader;
11 would that be fair?

12 MR. BARRY GALENZOSKI: No, that would not
13 be fair.

14 MR. BYRON WILLIAMS: Okay. Going back to
15 the buy and hold strategy. In simple terms does that
16 mean that once you buy the investment you will tend to
17 hold it for a long time?

18 MR. BARRY GALENZOSKI: Well, if you look
19 at our portfolio, and particularly the bonds, which I
20 presume you're referring to primarily, on the MUSH side
21 we do buy and we do hold to maturity. We have never sold
22 a MUSH investment at this stage.

23 If you're looking at the rest of the
24 portfolio, the Department of Finance does trade these
25 investments as they determine that there may be an

1 advantage in the situation that I've just finished
2 talking about a couple of minutes ago.

3 So on that side of it, it is in the buy
4 and hold side of it. It is available for sale and that's
5 part of the discussions we're going to have, both
6 internally and externally when we decide how to classify
7 the assets with respect to the new accounting guidelines
8 that are approaching us for implementation in March 1 of
9 next year.

10 MR. BYRON WILLIAMS: Just dealing with
11 MUSH first of all, when you say you typically hold these
12 to maturity, would I be right in suggesting that maturity
13 is -- would be somewhere in the range of ten (10) years
14 for these?

15 MR. BARRY GALENZOSKI: Approximately
16 that. Yes.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: You mentioned also
21 earlier on you -- one of the tools that you used is a --
22 and I'm going to suggest to you this way, I'm not
23 rephrasing -- I'm not quoting you exactly, but I'm going
24 to suggest to you one of the tools that you use for risk
25 mitigation is to maintain a MacAuley duration on the

1 nominal bond portion with plus or minus 1.5 years of the
2 actuarially determined liability duration; is that fair?

3 MR. BARRY GALENZOSKI: That's fair.

4 MR. BYRON WILLIAMS: What does that mean
5 in English?

6 MR. BARRY GALENZOSKI: Well, it means
7 that we're trying to match our investments with our
8 liabilities to some degree and that we have a tolerance
9 so that we don't have to be perfectly matched at any
10 point in time.

11 MR. BYRON WILLIAMS: And so by
12 investments, it's not the MUSH that we're talking about
13 there, we're talking about the bonds to a fair degree;
14 would that be fair?

15 MR. BARRY GALENZOSKI: No, we're talking
16 the whole portfolio when we look at that.

17 MR. BYRON WILLIAMS: Including the bonds?

18 MR. BARRY GALENZOSKI: Including the MUSH
19 bonds, yes.

20 MR. BYRON WILLIAMS: And including the
21 other bonds?

22 MR. BARRY GALENZOSKI: Yes.

23 MR. BYRON WILLIAMS: And the liability
24 duration, as I understand, is 7.8 years, pursuant to the
25 investment policy statement?

1 MR. BARRY GALENZOSKI: Yep, that's
2 correct.

3 MR. BYRON WILLIAMS: And if I recall your
4 testimony with Mr. Saranchuk, as well as, I think, your
5 response to PUB-1-63 when -- when you're looking at the
6 performance of a equity investment manager you're
7 measuring that over annualized moving four (4) year
8 periods; would that be right, sir?

9 MR. BARRY GALENZOSKI: Yes. Well, we
10 look on an annualized basis as well as looking at it over
11 a rolling four (4) year average basis.

12 MR. BYRON WILLIAMS: Okay. But there the
13 managers are hired for the long-term and manage the
14 assets with the corresponding outlook; would that be
15 fair, sir?

16 MR. BARRY GALENZOSKI: Yes.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: Mr. Galenzoski, I
21 apologize for my deliberate pace. I'm getting tired as
22 the day proceeds as well. Mr. --

23 MR. BARRY GALENZOSKI: You can stop any
24 time.

25 MR. BYRON WILLIAMS: There -- there won't

1 be that much more. Mr. Chairman, I'd ask Mr. Gaudreau --
2 I think I asked him to distribute an excerpt from the
3 Saskatchewan Auto Fund annual report. It looks like
4 everyone's got it.

5 MR. BARRY GALENZOSKI: I have that.

6 MR. BYRON WILLIAMS: And I shared that
7 with Mr. McCulloch and I've -- I think it's -- we're up
8 to, what, CAC number 11?

9 THE CHAIRPERSON: It's twelve (12) isn't
10 it?

11 MR. BYRON WILLIAMS: Twelve (12).
12

13 --- EXHIBIT NO. CAC/MSOS-12: Excerpt from the
14 Saskatchewan Auto Fund
15 annual report.
16

17 CONTINUED BY MR. BYRON WILLIAMS:

18 MR. BYRON WILLIAMS: Mr. Galenzoski, I
19 want to talk to you about Saskatchewan for just one -- in
20 -- in just one second but I -- before we do that, just to
21 draw your mind back to Board Order 148/'04, page 82,
22 you'll recall during the General Rate Application of that
23 year there was considerable discussion about investment
24 portfolios and the Mercer report; do you remember that
25 generally?

1 MR. BARRY GALENZOSKI: Yeah, vaguely.

2 MR. BYRON WILLIAMS: That's about as much
3 as I'm capable of this late in the day, sir.

4 You'll -- and I'll suggest to you and you
5 can accept this subject to check if you would that the
6 Board suggested to MPI that it might consider some
7 further diversification out of fixed income securities --
8 by that it meant bonds and Treasury bills -- into
9 equities and diversification to some non US foreign
10 stocks and Canadian real estate which might improve the
11 overall risk level of the Corporation -- of the
12 portfolio?

13 Do you remember that generally?

14 MR. BARRY GALENZOSKI: Generally, and I
15 think that was in last year's order also.

16 MR. BYRON WILLIAMS: Your research is
17 more up-to-date than mine.

18 If I -- if I go to Saskatchewan and I --
19 and I just want to approach this at a high level just --
20 just by -- to look at where they are in Saskatchewan. I
21 draw your attention to page 35 of the Risk Management and
22 Management's Discussion and Analysis and, in particular,
23 to the second-last paragraph.

24 As I understand it and -- and I'm looking
25 at line 5 or so:

1 "In Saskatchewan legislation requires
2 the Auto Fund to follow the same
3 investment criteria that a federally
4 regulated property and casualty
5 insurance company must follow."

6 Would that be your understanding as well,
7 Mr. Galenzoski?

8 MR. BARRY GALENZOSKI: That's what they
9 say here.

10 MR. BYRON WILLIAMS: And you don't differ
11 with that or disagree with that?

12 MR. BARRY GALENZOSKI: No, if they're
13 going to say that in their annual report I take that as
14 being correct.

15 MR. BYRON WILLIAMS: And when we look at
16 the composition of the Saskatchewan portfolio again
17 referring to the last paragraph on page 35 you'll agree
18 with me that they suggest the majority of the portfolio
19 is in Treasury bills and highly liquid bonds and
20 debentures issued or guaranteed by the Canadian
21 government; is that right?

22 MR. BARRY GALENZOSKI: Again, I'm reading
23 what you're reading, so I have to accept that.

24 MR. BYRON WILLIAMS: And you'll let me
25 know if you disagree then?

1 MR. BARRY GALENZOSKI: I'll let you know
2 if you misread it, yes.

3 MR. BYRON WILLIAMS: That's all we can
4 hope for this late in the day. And it also invests in
5 corporate bonds and publicly traded North American
6 equities; that's -- I've read that correctly, sir?

7 MR. BARRY GALENZOSKI: Yes.

8 MR. BYRON WILLIAMS: And I've -- I'll
9 suggest to you that I've read correctly that Saskatchewan
10 has diversified its exposure to North American stock
11 markets by participating in an actively managed non-North
12 American pooled equity fund; would that be right, sir?

13 Did I read that correctly?

14 MR. BARRY GALENZOSKI: Again, that's what
15 it says, yes.

16 MR. BYRON WILLIAMS: And going down to
17 the bottom of -- of this page, being page 36, you'll note
18 that Saskatchewan has a statement of investment policies
19 and goals; is that right?

20 MR. BARRY GALENZOSKI: Yes, I would
21 expect that.

22 MR. BYRON WILLIAMS: And Saskatchewan,
23 going to the bottom paragraph here, suggests that they --
24 they have:

25 "An asset mix [excuse me] the

1 investment manager follows the SIP&G
2 which provides guidelines for the asset
3 mix of the portfolio regarding quality
4 and quantity of debt, real estate and
5 equity investments using a prudent
6 person approach."

7 Is that right, sir? Did I read that
8 correctly?

9 MR. BARRY GALENZOSKI: Yes, they have an
10 investment policy statement that is similar to ours.

11 MR. BYRON WILLIAMS: And they suggest
12 that the asset mix helps to reduce the impact of market
13 value fluctuations by requiring investments in different
14 pools and in -- in -- and in domestic and foreign
15 markets; is that right, sir?

16 MR. BARRY GALENZOSKI: Yes.

17 MR. BYRON WILLIAMS: Just a high level,
18 given that you're having to listen to my tortuous reading
19 of -- of this discussion, can you draw any contrast
20 between the approach in Saskatchewan versus the approach
21 in Manitoba?

22 MR. BARRY GALENZOSKI: There's not much
23 difference in the approach between the two (2)
24 organizations; in fact we -- we look at their investment
25 policy statement on a regular basis, as we do with ICBC,

1 just to look for where the differences might be.

2 They have a different mix with respect to
3 their asset mix. They have moved into -- they've --
4 they've traditionally for many, many years been in other
5 types of asset classes that we haven't explored yet, for
6 instance mortgages. I know they've been in those for
7 some time, some real estate, and they do invest in some
8 non -- non US-type investments for foreign equities.

9 MR. BYRON WILLIAMS: So it's -- you're --
10 just to summarize what I think you've said, it's a fairly
11 similar approach but in -- they have ventured into
12 certain classes such as mortgages where Manitoba Public
13 Insurance has not ventured and they've also ventured into
14 certain markets where Manitoba Public Insurance has not
15 ventured as of yet?

16 MR. BARRY GALENZOSKI: Yes. Some of the
17 major differences in their statement would be that they -
18 - they do not diversify -- diversify by investment style
19 as much as MPI does in -- in that they have mainly one
20 (1) manager that handles their equities.

21 And that doesn't give them the opportunity
22 then for diversification on style, whereas MPI has put
23 more effort into that side of the business.

24 MR. BYRON WILLIAMS: Just -- I want to
25 turn very quickly to the issue of the MCT. If you're

1 looking for references, I have the two (2) references for
2 you, PUB-1-31, as well as CAC-2--7.

3 It's going to be a lot of page turning for
4 some fairly simple questions, Mr. Galenzoski, but I
5 apologize for that. 2-7...

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Mr. McCulloch, just
10 if you're looking, it's PUB-1-31 and --

11 MR. BARRY GALENZOSKI: Okay. I have
12 those references.

13 MR. BYRON WILLIAMS: And just so I
14 understand, assuming for a second that MPI was to change
15 its investment portfolio mix to increase in
16 diversification within existing markets; am I right in
17 suggesting to you that that would have no effect upon the
18 MCT results, as the methodology does not include the
19 correlation between assets, all other things being equal;
20 would that be fair?

21 MR. BARRY GALENZOSKI: Yes, that's
22 correct.

23 MR. BYRON WILLIAMS: And likewise if MPI
24 was to change its investment portfolio mix to increase
25 exposure to international markets, all other things being

1 equal, would I be right in suggesting to you that an
2 increase in exposure to international markets would have
3 no effect on the results of the MCT model?

4 MR. BARRY GALENZOSKI: We're just
5 checking into that -- there's -- I know in the MCT it
6 does give you different calculations with respect to the
7 reduction in your -- in your capital requirements because
8 of various asset types.

9 And I believe there is a difference
10 between different types of assets and we'll just see if
11 that equates in here.

12 MR. BYRON WILLIAMS: Okay.

13
14 (BRIEF PAUSE)

15
16 MR. BARRY GALENZOSKI: It appears that
17 they do not differentiate and hopefully he hasn't gone
18 too far from the table. So on that side of it, I'd say
19 you're right.

20 MR. BYRON WILLIAMS: Thank you, Mr.
21 Galenzoski. And in CAC/MSOS-2-7, the proposition was put
22 to MPI that the MCT would yield the same number
23 regardless of whether the equity component of the MPI
24 investment portfolio was invested in the equity of one
25 (1) single Corporation or invested in a broadly

1 diversified basket of equities.

2 And if I'm understanding the response
3 correctly, or reading it correctly, if the market value
4 adjustment was the same for the two (2) portfolios, the
5 MCT would be the same; is that right sir?

6 MR. BARRY GALENZOSKI: You know, the
7 answer was that it wouldn't make a difference, but I
8 guess we have to look further than that and -- than the
9 answer that was provided here, in that the guidelines
10 wouldn't allow you to invest in one (1) single
11 Corporation for that big of an investment, so that would
12 preclude that from happening in any respect.

13 So if you're just looking for a contrast
14 then you've got the answer that's stated in CAC/MSOS-2-2,
15 but in practically it would not occur.

16 MR. BYRON WILLIAMS: And perhaps the
17 example was too blunt. If is it -- if it was -- all
18 other things being equal, if the portfolio was invested
19 in the equity of three (3) corporations or invested in a
20 broadly diversified basket of equities, if the market
21 value adjustment was the same for those two (2)
22 portfolios, would the MCT be the same?

23 MR. BARRY GALENZOSKI: So long as they
24 stayed within the required level of investment that would
25 be allowed in any one (1) particular investment then,

1 yes.

2 MR. BYRON WILLIAMS: To the degree
3 allowed by the rules then, would that -- would that mean
4 that they're invariant with respect to diversification?

5 MR. BARRY GALENZOSKI: I was just asking
6 what "invariant" means and it means not changing, and if
7 that's the definition then, yes.

8 MR. BYRON WILLIAMS: I think that's an
9 economist talking. Mr. Chairman, only two (2) -- two (2)
10 folders to go and I hate to ask for your indulgence, but
11 if I could just have another three (3) minute break? I
12 apologize.

13 THE CHAIRPERSON: That's fine, Mr.
14 Williams.

15

16 (BRIEF PAUSE)

17

18 THE CHAIRPERSON: Okay, Mr. Williams.

19 MR. BYRON WILLIAMS: Thank you, Mr.

20 Chairman. I apologize for the delay.

21 THE CHAIRPERSON: No need to apologize.

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: Just -- I'm going to
25 be moving into a -- for a few minutes into the area of

1 value at risk so there's a couple of things that the
2 Board and MPI may want to have at hand.

3 One is Appendix B to AI-16 which is titled
4 Value at Risk Study 2006 and the other one that you may
5 want to have at hand, and I think it's found in the
6 response to CAC first round Interrogatory 1-48 is the
7 value at risk study from 2001.

8 I make that suggestion to you subject to
9 check but I think that's where they are, CAC-1-48 as well
10 as Appendix B to AI-16. I will jump into some other
11 interrogatories at the right -- at the -- a bit later on.

12

13 (BRIEF PAUSE)

14

15 MR. BARRY GALENZOSKI: We have those
16 references.

17 MR. BYRON WILLIAMS: Thank you, Mr.
18 Galenzoski.

19 And I -- I want to just start with the
20 definition of value of -- value at risk if I might. And
21 I'm going to present two (2) to you just to see if --
22 hopefully they both work but the VAR of a portfolio is
23 the maximum loss that the portfolio will suffer over a
24 defined time horizon at a specified level of probability
25 known as the VAR confidence level.

1 Is that a definition you could accept,
2 sir?

3 MR. BARRY GALENZOSKI: I can accept that
4 one, yeah.

5 MR. BYRON WILLIAMS: And just -- actually
6 that's probably good enough.

7 If I were -- and, Mr. Galenzoski, if I've
8 mis-stated this you'll correct me, but if I were to say
9 that with 95 percent confidence over one (1) year the VAR
10 is 5 million, this would suggest that with a probability
11 of zero point nine five (0.95) you will lose 5 million or
12 less; is that right, sir?

13 MR. BARRY GALENZOSKI: Yeah, there's a 95
14 percent probability, but I don't know where you got the
15 \$5 million from.

16 MR. BYRON WILLIAMS: I'm just -- if -- if
17 that's the figure, if I have a 95 percent confidence that
18 the VAR is 5 million.

19 MR. BARRY GALENZOSKI: Okay. That's on
20 somebody else's portfolio.

21 MR. BYRON WILLIAMS: Yes, indeed, Mr.
22 Galenzoski. We're dealing at theory here right now.

23 MR. BARRY GALENZOSKI: I thought you were
24 quoting your personal --

25 MR. BYRON WILLIAMS: Maybe you can answer

1 if a portfolio is at zero what the value at risk is?

2 MR. BARRY GALENZOSKI: Well, there you're
3 in good shape. You have no value at risk.

4 MR. BYRON WILLIAMS: Again, when -- when
5 I say that with 95 percent confidence over one (1) year
6 the VAR for this theoretical portfolio, not mine, is 5
7 million; that means that equivalently 5 percent of the
8 time you will lose 5 million or more; is that -- that the
9 converse?

10 MR. BARRY GALENZOSKI: Yes.

11 MR. BYRON WILLIAMS: Just in terms of
12 methodology, my understanding with regard to AI-16 that
13 it was prepared in-house by Manitoba Public Insurance
14 staff so that the 2007 Basic Operational and Investment
15 Risk Analysis was prepared with in-house expertise; is
16 that right, sir?

17 MR. BARRY GALENZOSKI: Yes, that's
18 correct, and specifically the value at risk part of it
19 was prepared by the Corporation's Investment Department.

20 MR. BYRON WILLIAMS: If memory serves me
21 right, when -- when I started in these hearings or even a
22 few years ago the pricing and economics people was
23 popular with a lot of PhD's, Dr. Hickson, Dr. Darko-
24 Mensah, perhaps Dr. Jacobson (phonetic).

25 Do you recall that, sir?

1 MR. BARRY GALENZOSKI: Yes, I recall
2 that.

3 MR. BYRON WILLIAMS: And in terms of the
4 Investment Department now -- how many PhD's are in there
5 now?

6 MR. BARRY GALENZOSKI: They actually have
7 investment credentials now rather than PhD's in economics
8 which, I have to tell you that even the PhD in economics
9 that at one (1) time thought they could head up the
10 investment department in the Corporation was enrolled and
11 tried to get the same credentials that we currently have
12 in the investment department today, so in other words,
13 that individual having his PhD realized that he did not
14 have the training necessary to do the investment work in
15 the Corporation.

16 MR. BYRON WILLIAMS: In terms of your in-
17 house investment team, can you indicate how many peer-
18 reviewed articles on the subject of VAR they have
19 written?

20 MR. BARRY GALENZOSKI: They haven't
21 written any peer -- peer-reviewed articles on VAR.

22 MR. BYRON WILLIAMS: And in terms of
23 books or chapters in books on VAR have they written any
24 of those?

25 MR. BARRY GALENZOSKI: They've read them.

1 MR. BYRON WILLIAMS: They've read them,
2 they've not written them; is that right?

3 MR. BARRY GALENZOSKI: That's correct.
4 You have to keep in mind that the Corporation isn't
5 hiring staff to publish documents with respect to areas
6 that it's employed working on.

7 What we're hiring individuals to do is to
8 -- the job that's at hand, which is to help us with our
9 investment policy statement and other investment
10 situations.

11 MR. BYRON WILLIAMS: Thank you for that
12 answer, Mr. Galenzoski. In terms of the -- the value at
13 risk study itself for 2006, would I be correct in
14 suggesting to you that data was gathered over a twenty-
15 nine (29) -- twenty-nine (29) month period ending at
16 February 2006; would that be right sir?

17 MR. BARRY GALENZOSKI: Yes.

18 MR. BYRON WILLIAMS: I could certainly
19 point you to the reference, but would you accept that in
20 gathering data for the 2001 study, and if you're looking,
21 probably you can turn to page 24 of the report from --
22 found at -- from 2001.

23 But if I suggested to you that they used
24 thirty-six (36) months of data to develop the VAR
25 calculations, would you disagree with that, sir?

1 MR. BARRY GALENZOSKI: No, I wouldn't.

2 MR. BYRON WILLIAMS: And if I also
3 suggested to you that in -- when they were looking at
4 what was appropriate data for the 2001 report, they
5 looked at time periods such as three (3) months, twelve
6 (12) months, twenty-four (24) and thirty-six (36) months;
7 would you disagree with that sir?

8 MR. BARRY GALENZOSKI: No, that was what
9 the Corporation asked them to do.

10 MR. BYRON WILLIAMS: Is there a
11 particular reason that the Corporation chose twenty-nine
12 (29) months in this case?

13 MR. BARRY GALENZOSKI: At that time in
14 our discussions with the external provider of the VAR
15 calculation, that was considered to be appropriate; that
16 has been thought about more and, in fact, we've even had
17 some discussions with that very same service provider who
18 would now tell you that no one uses that length of
19 investment time horizon in their analysis with respect to
20 an investment portfolio such as MPI's.

21 MR. BYRON WILLIAMS: So your evidence is
22 that you'd like to gather data over a shorter period of
23 time.

24 MR. BARRY GALENZOSKI: I was answering
25 with respect to the investment time horizon.

1 MR. BYRON WILLIAMS: But I was speaking on
2 data, Mr. Galenzoski, to be careful.

3 MR. BARRY GALENZOSKI: And I understand
4 that and no, that wouldn't be my response. The reason
5 for the twenty-nine (29) months was that was when we
6 started using that data in-house.

7 Currently, we now have a longer time
8 frame, so for instance, we now have thirty-six (36)
9 months.

10

11 (BRIEF PAUSE)

12

13 MR. BYRON WILLIAMS: Would the
14 Corporation expect that the data gathered from a thirty-
15 six (36) month study might yield different results than
16 the data gathered from a twenty-nine (29) month study?

17 MR. BARRY GALENZOSKI: Absolutely
18 possible, yes.

19 MR. BYRON WILLIAMS: Am I right in
20 suggesting to you that when it comes to -- and just for
21 your reference, Mr. Galenzoski, it might help you,
22 CAC/MSOS-1-50.

23

24 (BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: If we're looking at
2 common VAR models, would I be right in suggesting to you
3 that three (3) common VAR models are the Monte Carlo
4 simulation, variance/co-variance and historical; would
5 that be right, sir? Sorry, Mr. Galenzoski?

6 MR. BARRY GALENZOSKI: Go ahead.

7 MR. BYRON WILLIAMS: I was asking you if
8 those are three (3) common models?

9 MR. BARRY GALENZOSKI: Yes, they are.

10 MR. BYRON WILLIAMS: And just so I
11 understand, historical is suggested by MPI to be the
12 simplest method requiring no assumptions about the data,
13 is that right?

14 MR. BARRY GALENZOSKI: Yes, that's
15 correct.

16 MR. BYRON WILLIAMS: And variance/co-
17 variance is a statistical technique where you gather
18 historical data for each asset, then calculate the co-
19 variance and the average return for the portfolio, would
20 that be right?

21 MR. BARRY GALENZOSKI: Yes.

22 MR. BYRON WILLIAMS: And that's the
23 original VAR calculation technique and the most common,
24 is that right?

25 MR. BARRY GALENZOSKI: Yes, that's

1 correct.

2 MR. BYRON WILLIAMS: And when you get
3 into Monte Carlo, we're talking some pretty significant
4 computer power. I think it's a calculation methodology
5 whereby a pricing model is specified and all inputs are
6 simultaneously varied to create simulated data; is that
7 right, sir?

8 MR. BARRY GALENZOSKI: Yes.

9 MR. BYRON WILLIAMS: Just directing your
10 attention to Appendix B of AI-16 being the Value at Risk
11 Study 2006, and it's, in particular, page 4, Mr.
12 Galenzoski, and I just want to make sure that I
13 understand this.

14 You see the heading, MPI's Historical
15 Simulation Model, and indicating that the investment
16 department has developed a historical simulation model to
17 calculate the value at risk, would I be correct in
18 suggesting to you that for the 2006 -- sorry -- yeah, and
19 I apologize, Mr. Galenzoski, Appendix B AI-16 page 4.
20 It's a slender document, six (6) pages, Value at Risk
21 Study 2006.

22 MR. BARRY GALENZOSKI: I have that.

23 MR. BYRON WILLIAMS: I'm sorry.

24 MR. BARRY GALENZOSKI: Go ahead.

25 MR. BYRON WILLIAMS: It says -- there's a

1 subheading or a title, MPI's Historical Simulation Model
2 and it says that:

3 "The investment department has
4 developed a historical simulation model
5 to calculate the value at risk of
6 Manitoba Public Insurance investments
7 portfolio."

8 First of all did I read that right, Mr.
9 Galenzoski?

10 MR. BARRY GALENZOSKI: Yes, you have.

11 MR. BYRON WILLIAMS: And a historical
12 method you say later in this section requires few
13 assumptions as it is based upon actual price history; is
14 that right, sir?

15 MR. BARRY GALENZOSKI: That's right.

16 MR. BYRON WILLIAMS: So of -- am I right
17 in suggesting to you that of the model approach used for
18 the calculation in -- in this year was the historical
19 approach; would that be right, sir?

20 MR. BARRY GALENZOSKI: That would be
21 correct.

22 MR. BYRON WILLIAMS: If I directed your
23 attention, Mr. Galenzoski, to the Value at Risk Study in
24 2001 performed for MPI by what was then known as I think
25 Comstat, C-O-M-S-T-A-T, would I be right in suggesting to

1 you that the approach used was the variance/co-variance
2 model, sir?

3 MR. BARRY GALENZOSKI: Yes, that's
4 correct.

5 MR. BYRON WILLIAMS: So in terms of the
6 study in 2006, you used a different input in terms of
7 data months than you did in 2001; is that fair?

8 MR. BARRY GALENZOSKI: Yes, there were
9 fewer data months as we've gone through.

10 MR. BYRON WILLIAMS: And you also used a
11 different model in that you used in 2006 historical
12 whereas in 2001 you used variance/co-variance; is that
13 right, sir?

14 MR. BARRY GALENZOSKI: Yes, that's
15 correct.

16
17 (BRIEF PAUSE)

18
19 MR. BYRON WILLIAMS: One (1) second, Mr.
20 Galenzoski, I have just a reference I want.

21 MR. BARRY GALENZOSKI: Okay. If -- if --
22 maybe I can just clarify that last answer with respect to
23 the two (2) approaches taken.

24 We did back test the -- the previous 2001
25 report using the historical methodology and found the

1 results were quite similar.

2 MR. BYRON WILLIAMS: Just so I'm clear,
3 if you would have used the variance/co-variance approach
4 for 2006, I'd suggest to you that the results might have
5 been different than if you would have used the -- then
6 using the historical approach for 2006; would you
7 disagree with me, sir?

8 MR. BARRY GALENZOSKI: Well, I can't
9 disagree with you on that because we haven't done it. I
10 suspect you haven't either. However, I can tell you that
11 we did back test with respect to 2001 using the
12 historical methodology and found that the results were
13 quite similar to those that we got out of the other
14 methodology in 2001.

15 MR. BYRON WILLIAMS: Mr. Chairman, I just
16 have a reference I want to put to Mr. Galenzoski, if
17 you'll forgive me for one sec.

18 MR. KEVIN MCCULLOCH: And while Mr.
19 Williams is searching for that, Mr. Chairman, I'm going
20 to have to ask that one of the Panel members be excused
21 at this point in time. Mr. Bedard has a business meeting
22 in Montreal tomorrow morning at eight o'clock. He's
23 delayed his flight as late as he can and I think the
24 current flight he's on will get him in there at 1:00 in
25 the morning. But he'll have to leave now and I'd ask

1 that he be excused.

2 THE CHAIRPERSON: Mr. Sousa, will your
3 questions require Mr. Bedard?

4 MR. CLAUDIO SOUSA: I do have some
5 questions around the protocols of claims adjusters. I
6 feel they're likely general enough that Ms. McLaren
7 should be able to answer them.

8 THE CHAIRPERSON: Very good. Thank you.

9 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman.
10 Mr. Bedard and Mr. Sousa had a discussion earlier this
11 afternoon and Mr. Bedard has left some information with
12 the rest of the Panel that we believe will be sufficient
13 to answer Mr. Sousa's questions.

14 THE CHAIRPERSON: And if not, you can
15 take an undertaking. You're used to that. Thank you
16 very much for your participation, Mr. Bedard. I hope you
17 have a good flight.

18 MR. WILF BEDARD: Thank you very much.

19

20 (WITNESS WILF BEDARD STANDS DOWN)

21

22 MR. BYRON WILLIAMS: Thank you. I have
23 my reference now, Mr. Chairman. And for your indulgence.

24

25 CONTINUED BY MR. BYRON WILLIAMS:

1 MR. BYRON WILLIAMS: And just to confirm,
2 the 2006 data was not run with a variance/co-variance
3 model; is that right?

4 MR. BARRY GALENZOSKI: That's correct.

5 MR. BYRON WILLIAMS: And that would
6 distinguish it from the approach in 2001; correct?

7 MR. BARRY GALENZOSKI: Yes. With the
8 proviso that we did back test.

9 MR. BYRON WILLIAMS: Mr. Galenzoski, I'm
10 going to make a suggestion to you and if you care to take
11 issue with the suggestion I'll share the reference with
12 you.

13 But I'm going to suggest to you that:
14 "because of the different modelling
15 techniques and assumptions
16 associated with VAR there is no
17 assurance that the resulting VAR
18 calculations between two (2)
19 managers will be comparable. As we
20 discussed above there are several
21 different methods for calculating
22 VAR. All are conceptually valid and
23 all can produce significantly
24 different results. A single manager
25 who measures VAR using historical

1 simulation will get a different
2 result than if he uses the
3 variance,/co-variance methodology.
4 Even two (2) managers using a
5 variance/co-variance approach will
6 likely obtain results that are not
7 comparable due to assumptions and
8 inconsistencies regarding the
9 volatility and correlation data for
10 and between the risk factors."

11 Would you agree with that statement, sir?

12 MR. BARRY GALENZOSKI: Well -- and I
13 might even add that just the change in the portfolio over
14 a period of time is going to change the results that you
15 might achieve.

16 So, in our -- in our case, the very fact
17 that we might have a different asset mix, that we have
18 different assets within that mix, all of those factors
19 are going to influence the calculation.

20 MR. BYRON WILLIAMS: And -- and the
21 reason I ask these questions, Mr. Galenzoski, is that I
22 thought the Corporation had indicated last week that it
23 used the same methodology in calculating the VAR.

24 Would I be right in suggesting to you that
25 the -- the model used in 2006 is different from the model

1 used in 2001; sir?

2 MR. BARRY GALENZOSKI: You're correct.

3

4 (BRIEF PAUSE)

5

6 MR. BYRON WILLIAMS: Mr. Chairman, I can
7 either go on here, I've got about twenty (20) minutes in
8 this area and then maybe ten (10) minutes on pay-as-you
9 drive.

10 I wouldn't mind a very brief break but
11 it's not -- just to rest up for a couple of minutes, with
12 your permission.

13 THE CHAIRPERSON: That's not a problem
14 and just you could start your break right now. I've got
15 a few questions, just to fill it in and then we'll have a
16 short break.

17 I think, subject to something else that
18 Mr. Williams or Mr. Sousa may bring up, this will
19 probably be the last round of Board question ahead of
20 closing statements, in a different area.

21 Would it be fair to say that MPI is the
22 embodiment or the expression of a public policy; that
23 being the provision of affordable, mandatory, public auto
24 insurance?

25 MS. MARILYN MCLAREN: Yes.

1 THE CHAIRPERSON: Would it be fair to
2 also say that MPI was created to advance a number of
3 public policy objectives, as well as the one (1) already
4 mentioned, the others to include support for
5 municipalities, hospitals and schools, further economic
6 development, employee, staff and agents; these leading to
7 investments, the interprovincial trucking subsidy and MPI
8 staff, brokers and other agents?

9 MS. MARILYN MCLAREN: Yeah, that's fair.

10 THE CHAIRPERSON: Is the environment a
11 field of interest where public policy objectives have
12 also been enunciated through the SDA and other government
13 pronouncements?

14 MS. MARILYN MCLAREN: Yes.

15 THE CHAIRPERSON: Would it be fair to say
16 that various government bodies among other groups pursue
17 environmental objectives in varied ways?

18 MS. MARILYN MCLAREN: Yes.

19 THE CHAIRPERSON: Has MPI received any
20 direction from Government, Crown Corporation Counsel, or
21 any other authority pursuant to the pursuit of
22 environmental objectives that would involved rate
23 setting?

24 MS. MARILYN MCLAREN: None.

25 THE CHAIRPERSON: Thank you. We'll have

1 our break now.

2 Let's give Mr. Williams ten (10) minutes
3 or so.

4
5 --- Upon recessing at 5:05 p.m.

6 --- Upon resuming at 5:18 p.m.

7
8 THE CHAIRPERSON: Mr. Saranchuk, do you
9 want to remind us of the tentative schedule for next
10 week, just so its in everyone's head.

11 MR. WALTER SARANCHUK: Yes sir. Nine
12 o'clock on Tuesday the 17th is the time slated for
13 closing argument; that will involve comments from Board
14 Counsel and representatives of all of the Intervenors.

15 And to accommodate MPI, the Board will sit
16 the next day, Wednesday the 18th, at four o'clock, and
17 MPI then will present its closing remarks.

18 THE CHAIRPERSON: The timing on the 18th
19 is unavoidable. It's a matter of people's schedules
20 conflicting. And it's trying to find a time, Thursday
21 wouldn't work, Friday doesn't work -- the farther out we
22 get, the worse it becomes. So, unfortunately, we'll just
23 have a relatively late start.

24 Okay. Mr. Williams, any time.

25 MR. BYRON WILLIAMS: Thank you.

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CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you. Mr. Galenzoski, I'm going to direct your attention to the Corporation's response to CAC, first round Interrogatory I-53.

MR. BARRY GALENZOSKI: I have that.

MR. BYRON WILLIAMS: Thanks. And you'll see that what was asked in this question was -- CAC had asked of Manitoba Public Insurance, which of the following documents MPI considered or reviewed in preparing its evidence for this proceeding, is that right, sir?

MR. BARRY GALENZOSKI: Yes, that's correct.

MR. BYRON WILLIAMS: And you'll agree with me -- and in fairness, first of all, let me say that I know MPI did a different literature has listed in another response other literature that's reviewed, but of the eleven (11) documents set out in this Interrogatory request, you'll confirm that MPI had reviewed four (4) of them; would that be right sir?

MR. BARRY GALENZOSKI: Yes.

MR. BYRON WILLIAMS: And the first one (1) Dowd (phonetic) et al, from September, 2003, MPI

1 reviewed and rejected due to its overly simplistic
2 approach, is that right sir?

3 MR. BARRY GALENZOSKI: Yes.

4 MR. BYRON WILLIAMS: The second, Jorion
5 Value at Risk, you loved -- I think that was a 2001
6 edition, is that fair?

7 MR. BARRY GALENZOSKI: We didn't use the
8 word, loved, we said it was very useful.

9 MR. BYRON WILLIAMS: Just playing with
10 you sir, late in the day.

11 And the Harlow article which is number
12 three (3) and the Merchant and Samuelson article, which
13 is number four (4); the Corporation reviewed and
14 determined to have little relevancy to the questions of
15 the appropriate time horizon for the value at risk
16 analysis, is that right?

17 MR. BARRY GALENZOSKI: That's right.

18 MR. BYRON WILLIAMS: So of the eleven
19 (11) listed, you had considered four (4), only one (1) of
20 which you relied upon; would that be fair?

21 MR. BARRY GALENZOSKI: Only one (1) --
22 one (1) we found very useful.

23 MR. BYRON WILLIAMS: And that's the
24 Jorion Article which you actually cite in -- I believe at
25 page 3 of Appendix B to your report, is that right, sir?

1 MR. BARRY GALENZOSKI: Yes, that's
2 correct.

3 MR. BYRON WILLIAMS: Just to double-check
4 with the -- the other articles that weren't referred to
5 or relied upon or considered, just going to page 1 of the
6 interrogatory you'll see Number 1 is Stock and IDO,
7 (phonetic) Value at Risk for the Asset Manager.

8 Were you aware that that document is also
9 part of the 2002 Chartered Financial Analyst Program,
10 sir?

11 MR. BARRY GALENZOSKI: No, I'm not.

12 MR. BYRON WILLIAMS: And on this list
13 also is at number -- excuse me -- Number 9 is Holton
14 Value at Risk Theory and Practice 2003.

15 Do you see that, sir, at Number 9?

16 MR. BARRY GALENZOSKI: Yes, I do.

17 MR. BYRON WILLIAMS: Now, this wasn't
18 reviewed by MPI; is that right?

19 MR. BARRY GALENZOSKI: That's correct.

20 MR. BYRON WILLIAMS: Of the ones on this
21 list it would be one (1) of the more recent documents;
22 would that be correct, sir?

23 MR. BARRY GALENZOSKI: It looks like it,
24 yes.

25 MR. BYRON WILLIAMS: Are you aware that

1 this document is considered by at least some in the field
2 or I'll suggest to you and you can let me know if -- if
3 you'll agree with that or not, to be the standard text,
4 indeed the first non-elementary book on value at risk?
5 Were you aware of that?

6 MR. BARRY GALENZOSKI: Our view is that
7 the Jorion book would be the more important of the
8 documents.

9 MR. BYRON WILLIAMS: Have you reviewed
10 Holton at any point in time?

11 MR. BARRY GALENZOSKI: No.

12 MR. BYRON WILLIAMS: Now, you -- again
13 you cite Jorion at page 106 of the -- of his text; is
14 that right, sir?

15 MR. BARRY GALENZOSKI: Where -- give me
16 the reference again to --

17 MR. BYRON WILLIAMS: Yes, I apologize for
18 that, Mr. Galenzoski. If you look at the Value at Risk
19 Study 2006, Appendix B to the Operational and Risk
20 Analysis dated June 14th, 2006, so that should be in AI-
21 16 I believe.

22

23 (BRIEF PAUSE)

24

25 MR. BARRY GALENZOSKI: And the reference

1 again?

2 MR. BYRON WILLIAMS: I believe it's
3 footnote 2, sir, on page 3.

4 MR. BARRY GALENZOSKI: Yes, that's
5 correct.

6 MR. BYRON WILLIAMS: And the reference at
7 footnote 2 is you're citing Jorion at page 106; is that
8 right, sir?

9 MR. BARRY GALENZOSKI: That's correct.

10 MR. BYRON WILLIAMS: Now, earlier you
11 indicated that you did dismiss both Harlow and Merton and
12 Samuelson (phonetic) as having little relevancy to the
13 question of the appropriate time horizon for the value at
14 risk analysis, is that right?

15

16 (BRIEF PAUSE)

17

18 MR. BARRY GALENZOSKI: That's correct.

19 MR. BYRON WILLIAMS: Would you confirm
20 that those indeed are the very two (2) footnotes that
21 Jorion relies upon for his statement at page 106?

22 MR. BARRY GALENZOSKI: That's correct.

23 MR. BYRON WILLIAMS: So the authors you
24 dismissed as irrelevant are relied upon by Jorion?

25 MR. BARRY GALENZOSKI: No, I think what

1 happened here is that we were relying on Jorion as being
2 a comprehensive review that -- or guideline that we could
3 use and they referred to other documents.

4 So that is just more proof that it was
5 fairly comprehensive.

6 MR. BYRON WILLIAMS: The very proposition
7 that you attribute to Jorion, he relies upon Merton and
8 upon Harlow and you dismiss those as irrelevant; is that
9 right?

10 MR. BARRY GALENZOSKI: No.

11 MR. BYRON WILLIAMS: Is the Corporation
12 of the view that Merton and Harlow are relevant to the
13 issue of the appropriate time horizon for the value at
14 risk analysis?

15 MR. BARRY GALENZOSKI: No, our view is
16 that we -- we chose and the one (1) we chose was Jorion.

17 MR. BYRON WILLIAMS: Now, I'll direct you
18 -- again I'm referring you to appendix B, AI-16 under
19 time horizon. So you should be on the same page, Mr.
20 Galenzoski.

21 MR. BARRY GALENZOSKI: I have that.

22 MR. BYRON WILLIAMS: The previous -- and
23 there's the -- the first bullet under there.

24 "The previous model assumed that risk
25 decreased as a the time horizon was

1 extended. This assumption has been
2 shown to be false by several authors."

3 And as authority for this proposition, you
4 cite Jorion, correct?

5 MR. BARRY GALENZOSKI: That's right.

6 MR. BYRON WILLIAMS: You're not
7 suggesting to the Board that at page 106 of his article,
8 Jorion indicated that the assumption that risk decreased
9 as the time horizon was extended, has been shown to be
10 false by several authors; are you?

11

12 (BRIEF PAUSE)

13

14 MR. BARRY GALENZOSKI: If you look at
15 Jorion and it says:

16 "This observation is sometimes taken as
17 support for the conventional wisdom
18 that stocks are less risky in the long
19 run than over a short horizon.

20 Unfortunately this is not necessarily
21 correct since the dollar amount of the
22 loss also increases with time."

23 And then it gives as a reference Merton
24 and Samuelson.

25 MR. BYRON WILLIAMS: So, I'm going to

1 suggest to you that nowhere does Jorion say that the
2 assumption that risk decreased as the time horizon was
3 extended has been shown to be false; would you agree with
4 that, sir?

5 He's a lot more cautious than that, is he
6 not, Mr. Galenzoski?

7 MR. BARRY GALENZOSKI: Well, based on
8 what I just read into the record, and I'll read it again:

9 "This observation is sometimes taken as
10 support for the conventionalism that
11 stocks are less risky in the long run
12 than over a short horizon.

13 Unfortunately this is not necessarily
14 correct since the dollar amount of the
15 loss also increases with time."

16 MR. BYRON WILLIAMS: Does he say anywhere
17 that the assumption that risk decreases as time horizon
18 was extended has been shown to be false?

19 MR. BARRY GALENZOSKI: No, but he doesn't
20 agree with it, so I guess on the other side of the coin
21 is that he thinks its not correct.

22 MR. BYRON WILLIAMS: I think the words
23 you're using is he says, it's not necessarily correct,
24 sir. He doesn't say it's not correct, does he?

25 MR. BARRY GALENZOSKI: He says, it's not

1 necessarily correct, right.

2 MR. BYRON WILLIAMS: Mr. Chairman, I did
3 -- I did share the copy of Jorion with Mr. Galenzoski and
4 certainly they would have had it. But if the Board would
5 like it, I think Mr. Gaudreau has copies of it, if it's
6 of some assistance to the Board. I'd certainly like to
7 have it marked as an exhibit.

8 THE CHAIRPERSON: Mr. Gaudreau...?

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: This is 14 is it?

13 MR. BYRON WILLIAMS: Your guess is as
14 good as mine, Mr. Chairman. I apologize.

15 THE CHAIRPERSON: 13.

16

17 --- EXHIBIT NO. CAC/MSOS-13: Copy of Jorion Value at
18 Risk Report.

19

20 CONTINUED BY MR. BYRON WILLIAMS:

21 MR. BYRON WILLIAMS: Now, Mr. Galenzoski,
22 Mr. Jorian's text was written in 2001, is that correct,
23 sir?

24 MR. BARRY GALENZOSKI: I believe that's
25 correct, yes.

1 MR. BYRON WILLIAMS: And if you're
2 looking for a reference, if you look at the footnote on
3 page 3 of your -- your text you'll see it was written in
4 -- not -- not in that text, excuse me, in terms of
5 Appendix B AI-16. You'll accept that subject to check?

6 MR. BARRY GALENZOSKI: Yes, I can see
7 that.

8 MR. BYRON WILLIAMS: And just so I know,
9 in 2001, as well Manitoba Public Insurance presented to
10 the Public Utilities Board a study on value at risk by
11 Comstat; is that right?

12 MR. BARRY GALENZOSKI: That's correct.

13 MR. BYRON WILLIAMS: And that study is
14 found at CAC/MSOS-1-46 if you could have it at hand? I
15 have to look for it myself so I'll let you dig it up.

16 MR. BARRY GALENZOSKI: I have that.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: So this is the same
21 year as the Jorion text; is that right, sir?

22 MR. BARRY GALENZOSKI: That's correct.

23 This risk -- Value at Risk Study was done in -- in
24 approximately April of 2001.

25 MR. BYRON WILLIAMS: And in April 2001 at

1 page 7 and I'll draw your attention to page 7 of 35, the
2 last paragraph. Do you have that, sir?

3 MR. BARRY GALENZOSKI: That's of the
4 current study?

5 MR. BYRON WILLIAMS: That's the study
6 from 2001.

7 MR. BARRY GALENZOSKI: Okay. I have
8 that.

9 MR. BYRON WILLIAMS: And the evidence
10 that the Corporation was presenting to the -- the Board
11 in 2001 and I'll draw your attention to the last
12 paragraph, the fourth -- fourth line is -- excuse me is --
13 - fifth line:

14 "As time progresses the expected
15 cumulative rate of return of the
16 portfolio increases at an increasing
17 rate because of the positive effects of
18 compounding, however, portfolio
19 volatility increases at a decreasing
20 rate, therefore the -- the future --
21 the whole -- the further the holding
22 period is extended, the lower the
23 chances are that the portfolio's
24 cumulative return will fall below
25 zero."

1 Did I read that roughly correctly, sir?

2 MR. BARRY GALENZOSKI: Yes, you did.

3 MR. BYRON WILLIAMS: And this suggests a
4 different conclusion in 2001 than the inference that you
5 draw from Jorion in 2001; is that right, sir?

6

7 (BRIEF PAUSE)

8

9 MR. BARRY GALENZOSKI: Could you repeat
10 the question, please?

11 MR. BYRON WILLIAMS: Would the suggestion
12 in this quote be different at -- made in 2001 be at odds
13 with the inference that you're suggesting we should draw
14 from Jorion at page 106?

15 MR. BARRY GALENZOSKI: Jorion is -- is
16 stating that -- that -- a different hypothesis.

17 MR. BYRON WILLIAMS: Thank you. I just
18 want to draw your attention quickly to CAC/MSOS-1-46.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Do you have that,
23 Mr. Galenzoski?

24 MR. BARRY GALENZOSKI: Yes, I have that.

25 MR. BYRON WILLIAMS: And the -- I have --

1 have about a ten (10) minute cross on this -- this e-mail
2 that appears but I'm going to try and short circuit it if
3 it might -- if I might or else we'll have to come back to
4 it.

5 In CAC/MSOS-1-46 we referred to an
6 exhibit, an e-mail response from Andy Dawson, and we
7 asked for a hardcopy of any and all communications to
8 Andy Dawson that initiated or resulted in the e-mail
9 response shown in the evidence.

10 And what was provided is -- is you'll see
11 and you'll confirm for me is an e-mail, May 4th, 2006, at
12 4:59 a.m. from -- to Glen Bunsten (phonetic); is that
13 right, sir?

14 MR. BARRY GALENZOSKI: Yes, the only
15 correction that it was 4:59 p.m.

16 MR. BYRON WILLIAMS: I am getting tired
17 and I apologize for that. I guess I was complimenting
18 your -- the work ethic of -- of your staff.

19 MR. BARRY GALENZOSKI: It was close to
20 5:00 so I'm impressed too.

21 MR. BYRON WILLIAMS: And -- and I just
22 wanted to clarify, there is, you know, and you can
23 examine this at your leisure, there is a -- a proposed
24 draft response in this e-mail, set out kind of halfway
25 down the page to Questions B and C; Question B being --

1 talking about the choice of appropriate time horizon and
2 also talking about liquidity assumptions in -- in
3 Question C.

4 And as I understand this, this was a draft
5 response in -- in 1999; would that be your understanding,
6 Mr. Galenzoski?

7 MR. BARRY GALENZOSKI: Yes, it appears to
8 reference 1999 report.

9 MR. BYRON WILLIAMS: And I don't know if
10 you can answer this question for me now, but you'll see
11 in the last paragraph there, B and C, the -- the first
12 few lines of that draft response -- I underlined that --
13 says:

14 "The risk on investments is due to
15 unexpected lower returns on the
16 portfolio. The longer the investment
17 time horizon the lower the risk and
18 vice versa."

19 And what I'm just trying to clarify, and I
20 wasn't clear from the e-mail, Mr. Galenzoski, was whether
21 this is an MPI draft which is being shared with -- with
22 Comstat or whether this draft response is from Comstat
23 back to MPI. I don't know if you know that right now.

24 I'm trying to figure out who was the
25 author of that statement though; was it MPI or was it

1 Comstat?

2 MR. BARRY GALENZOSKI: I probably won't
3 be much help on that because I wasn't the author of this
4 and the potential author inside MPI no longer works for
5 the Corporation.

6 MR. BYRON WILLIAMS: And I guess, would
7 you be able to inquire of Andy Dawson perhaps, Mr.
8 Galenzoski? I'm just trying to find out if the statement
9 in B and C is one which one would attribute to MPI or
10 which one would attribute to Comstat; that's all I'm --
11 you -- you don't know I guess is the -- the answer?

12 MR. BARRY GALENZOSKI: Well, I don't know
13 and I doubt if Mr. Dawson will know, going back to 1999.
14 And, you know, as he does reference that he's looked
15 through his file, I rather suspect he has more than one
16 (1) client and going back that far his recollections are
17 probably going to be thin and not very useful.

18 MR. BYRON WILLIAMS: Mr. Galenzoski,
19 that's fair. I -- I won't pursue that any -- any longer.

20 And that's -- I had a little line of
21 inquiry on Mr. Dowd (phonetic) but I -- and his article
22 from September 2003 but I'm not sure I'm not sure I'm
23 going to pursue that, Mr. Galenzoski, I'm getting too
24 fatigued.

25 I -- so I have a few kind of final

1 questions for Ms. McLaren on -- on pay-as-you-drive and
2 I'll reflect upon whether I want to pursue the Dowd
3 inquiry any further.

4

5

(BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: Ms. McLaren, as
8 instructed by my client I'm going to ask you some
9 questions on pay-as-you-drive and just a few short
10 snappers to -- to start us off.

11 In your evidence last week, I believe you
12 reference the work of Norwich Union and indicated that
13 they were undertaking a pilot project, in terms of pay-
14 as-you-drive.

15 Do you remember that testimony at least
16 vaguely, Ms. McLaren?

17 MS. MARILYN MCLAREN: Yes and I think
18 that was based on a news story I saw just that day or the
19 day before. It was fairly recent.

20 MR. BYRON WILLIAMS: Okay. And I'm going
21 to suggest to you Ms. McLaren, first of all, Norwich
22 Union as I understand it, is one (1) of Britain's biggest
23 motor insurers, would that be right?

24 MS. MARILYN MCLAREN: Yes, as I
25 understand it, that would be right.

1 MR. BYRON WILLIAMS: You know Ms.
2 McLaren, it will probably ease things along, I'll just
3 give Ms. Bowman a copy of the article to assist you.

4

5 (BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: And the reference
8 then, Mr. Chairman, certainly -- Mr. Chairman, certainly
9 I could provide this is the Board is interested, but the
10 reference is from the Sunday Times, October 1st, 2006.

11 And if I draw your attention to the third
12 -- third paragraph it reads:

13 "Norwich Union, one of Britain's
14 biggest motor insurers plans to offer
15 the pay-as-you-drive policy to all its
16 customers after a trial of the
17 technology proved, they claim, it's a
18 resounding success."

19 Did I read that correctly, Ms. McLaren?

20 MS. MARILYN MCLAREN: Yes.

21 MR. BYRON WILLIAMS: So just to clarify
22 the record on this point, it now sounds like it's no
23 longer a pilot, in terms of Norwich and that it is,
24 indeed, a commercial offering, would that be fair?

25 MS. MARILYN MCLAREN: Yes.

1 MR. BYRON WILLIAMS: And do you have the
2 -- and it also appears that Norwich is using that
3 satellite tracking technology to monitor drivers
4 movement, which is raising some concerns by civil liberty
5 campaigners, is that right?

6 MS. MARILYN MCLAREN: Yes, I see that.

7 MR. BYRON WILLIAMS: Do you know anything
8 more about the Norwich project, Ms. McLaren, or is your
9 knowledge as extensive as mine?

10 MS. MARILYN MCLAREN: No, I will leave it
11 with this story that we have in front of us. My
12 information goes back a bit and is based on a failing
13 memory.

14 MR. BYRON WILLIAMS: Again, Ms. McLaren,
15 just kind of as a short snapper, in your conversation, it
16 might have been with Dr. Miller, but it was with someone
17 -- you were talking about what Canadian data there is out
18 there in terms of --

19 MS. MARILYN MCLAREN: Yes, I remember
20 that.

21 MR. BYRON WILLIAMS: Thank you for
22 getting to the question quicker than I did. And I just
23 want to draw to your attention CAC Exhibit Number 11
24 which is -- which you should have, which is a study by
25 the Victoria Transport Policy Institute on distance based

1 vehicle insurance feasibility costs and benefits.

2 Do you have that, Ms. McLaren?

3 MS. MARILYN MCLAREN: Yes. We have
4 enough.

5 MR. BYRON WILLIAMS: I'm getting cheap in
6 my old age in terms of photocopying.

7 And I just want to draw your attention a
8 little bit to page -- page 19 and then to page 20, if I
9 might. The suggestion in the second paragraph on page 19
10 of this report, Ms. McLaren, is that:

11 "Mileage readings collected during
12 emission checks in one (1) major North
13 American urban region were matched with
14 individual vehicles, insurance claim
15 records for more than five hundred
16 thousand (500,000) vehicle years."

17 Do you see that and did I read it
18 correctly?

19 MS. MARILYN MCLAREN: Yes, that was read
20 correctly.

21 MR. BYRON WILLIAMS: Thank you. If you
22 turn to page 20, you'll see a box which talks about data
23 collection and accuracy.

24 And it appears that in -- since 1993 it
25 appears that this information was coming from the

1 Vancouver region, due to automobiles registered having to
2 have an emissions test at air care inspection stations.

3 And the suggestion made here, is that
4 there's been five hundred and sixty-two thousand
5 (562,000) vehicle years, approximately, vehicle years --
6 suitable for analysis, do you see that, Ms. McLaren?

7 MS. MARILYN MCLAREN: Yes.

8 MR. BYRON WILLIAMS: So would this be
9 data from -- it appears to be data from -- from a
10 Canadian jurisdiction which may offer some information on
11 pay-as-you-drive; would that be fair?

12 MR. DON PALMER: Without -- and this
13 study we got today, although we are somewhat familiar
14 with the Victoria Transport Policy Institute in past --
15 past years, and a study such as this -- the Victoria
16 Transport Policy Institute has a certain point of view
17 and a certain bias. And I don't want to draw too many
18 familiarities but we saw a report from the Fraser
19 Institute this week that we didn't have to open to know
20 what was inside it.

21 And I'll stop the comparison there with
22 the Victoria Transport Policy Institute. But I think it
23 is similar in the aspect that we didn't have to open this
24 to know what the conclusion are -- were going to be in
25 it.

1 And when you look at -- and I briefly
2 flipped through this. And when it talks about data
3 collection and accuracy, and the first thing it states is
4 it threw away half the data that it collected, that
5 raises some red flags to me.

6 And again positive -- I'm not saying
7 positive or negative, but there's something that you'd
8 probably have to look at. And I said the word 'probably'
9 in that statement because as I flipped through the rest
10 of this report, I see 'probably's' or 'believed to be',
11 all over the place.

12 And again an eyebrow raises when there's a
13 data point with fifty thousand (50,000) or more annual
14 kilometres and the data goes down. And they say, well we
15 think it's that way because we think the data is probably
16 wrong. Again, it raises a red flag to me.

17 So, to say -- to call this, sort of a,
18 definitive study of Canadian experience, I wouldn't quite
19 go that far.

20 MR. BYRON WILLIAMS: That's fair Mr.
21 Palmer. And remember my clients are agnostic on this
22 issue; they're just seeking more information.

23 I guess the point I was just bringing to
24 your attention is, you'd agree with me that this is some
25 information from a Canadian jurisdiction which may have

1 some relevance to this debate, is that fair?

2 MR. DON PALMER: It may have some
3 relevance, I will agree with that.

4 MR. BYRON WILLIAMS: And it's data that
5 to- date the Corporation hasn't examined in any great
6 detail?

7 MR. DON PALMER: That's also correct.

8 MR. BYRON WILLIAMS: But, there may be
9 some out there that you could, if -- if -- explore, in
10 the Canadian circumstance; with a jaundiced eye of
11 course, Mr. Palmer?

12 MR. DON PALMER: With somewhat of a
13 jaundiced eye. And again I'm not going to make any
14 conclusions with regard to this.

15 One (1) thing that I will volunteer
16 though, is that -- and again I'm not going to praise the
17 private insurance industry too greatly. But, the way the
18 private insurance companies compete is through market
19 segmentation; they -- they may talk about price or
20 expenses, but really it's a market segmentation question.

21 And the way that they do that is through
22 exploring different ways to classify the risks. And
23 there's many, many variables that they have used.
24 Probably the most recent and maybe one (1) of the more
25 controversial ones is credit risk; you know, that somehow

1 that credit score of an individual is related to how many
2 accidents they have.

3 And I have a hard time making that
4 intuitive connection, but it's there and there's some
5 statistical validity to it and many insurers are using
6 that.

7 Contrast that with mileage, specifically
8 measured, and there's many companies that use some sort
9 of ranges but in terms of -- of as strict pay-as-you-
10 drive there's only been very, very, very limited studies
11 within North America and -- and I have to ask why.

12 Given that -- that companies really have
13 been very, very good at market segmentation and here's a
14 variable that hasn't been explored and I -- and I have a
15 hard time believing that they haven't looked at it and
16 maybe dismissed it.

17 So again that's more anecdotal evidence
18 than -- than maybe you asked for, but it is one (1) of
19 the reasons that I kind of have some -- some doubts with
20 -- with pay-as-you-drive.

21 MR. BYRON WILLIAMS: These are --

22 THE CHAIRPERSON: Mr. Palmer, -- excuse
23 me just one (1) second. Just to check, what do you see
24 as the objective of pay-as-you-drive? What is the
25 program attempting to achieve?

1 MR. DON PALMER: Well, I think that's --
2 that's where the -- the difficulty lies. A private
3 insurance company is looking at market segmentation and a
4 way to drive profits; for market share and profits.

5 Other -- other groups have -- have put it
6 forward as environmental and -- and again whether there -
7 - there's a -- a link between the environmental purpose
8 that it could be use for and -- and I certainly laud that
9 objective, but whether it's actually linked to risk at
10 that point because nobody's using it I would have my
11 doubts.

12 THE CHAIRPERSON: I just leave with you,
13 because Ms. McLaren had indicated that the Corporation
14 tends to do some research. You might find some parallels
15 in other fields. Like, the big rage right now for
16 example in the electricity distributors, okay, is time-
17 of-use rates where the idea going on in Ontario is to
18 take the pressure off building generation plants by
19 having people run their washing machines in the night for
20 example, not on peak hours, and things of that nature.

21 And I would imagine there could be some
22 that would argue that if you looked in the long-term
23 future and you assume you could find a mechanism that
24 would reduce the density of traffic in the middle of a
25 snowstorm there might be an objective in it.

1 It doesn't require -- I'm just saying
2 there could be objectives other than would attract for
3 example a private insurer attempting the difficult job of
4 segmenting and not losing so much of their book of
5 business that --

6 MR. DON PALMER: And --

7 THE CHAIRPERSON: -- I imagine it would
8 be very, very tricky for a private insurer.

9 MR. DON PALMER: And I would agree with
10 that. I -- I would just say that the -- the objective of
11 a private company would -- would be risk-based, pure and
12 simple, and they haven't done it. So -- so it that's the
13 measurement and -- and since we have been charged with
14 actuarially sound and statistically driven, I had to say
15 that at least once during this hearing, that that may not
16 be exactly in -- in concert with pay-as-you-drive.

17 THE CHAIRPERSON: But I'm not going to
18 dwell on this, but isn't the objective of a private
19 insurance company to make money for their shareholders?

20 MR. DON PALMER: Absolutely.

21 THE CHAIRPERSON: Okay, Mr. Williams.

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: Just a few more
25 questions on this, Mr. Palmer. And again recognize my

1 it made sense, certainly there was an inverse
2 relationship between mileage driven and accident
3 experience because we in Manitoba have this thing called
4 winter, where mileage is down and claims are up; makes
5 sense, but certainly doesn't fit lock step with -- a
6 direct correlation with mileage driven and claims as one
7 (1) might expect.

8 MR. BYRON WILLIAMS: And just out of
9 fairness to Dr. Miller or others; that's a fairly basic
10 analysis. It's you know -- you know you'd want to test
11 that farther before you drew any conclusions from that.

12 MR. DON PALMER: You work with what you
13 got and that was all we had and again we didn't do the
14 analysis with any pre-determined conclusion.

15 We drew the statistics and that's about
16 all we did.

17 MR. BYRON WILLIAMS: Ms. McLaren, I'm
18 going to ask you just some open-ended questions from the
19 clients and you can -- I've got three (3) for you and you
20 can deal with them as you wish.

21 Generally, would consumers not choosing
22 pay-as-you-drive see a rate increase? And related: if so
23 how is the enhanced consumer -- how is this enhanced
24 consumer choice since many drivers cannot choose to drive
25 significantly less, such as road dwellers or urban

1 dwellers who work in a rural area?

2 MS. MARILYN MCLAREN: I think that's
3 exactly what happened and that would be the consequence
4 and that's one (1) of the issues, and that's one (1) of
5 the very broad public policy discussions that need to
6 take place.

7 There's a fundamental premise for
8 proposals like this, particularly those coming from folks
9 concerned about greenhouse gas emissions, that there is a
10 significant amount of discretionary driving going on.

11 And you know -- and that's probably true
12 in London, if not all of England. There are lots of
13 options to driving a motor vehicle in that environment.
14 We don't necessarily have the same options. That's one
15 (1) of the very significant discussions that would have
16 to take place.

17 MR. BYRON WILLIAMS: Okay, just a couple
18 of more. The suggestion has been made here that if
19 environmental concerns are the issue, should it be based
20 upon fuel consumption rather than kilometres driven?

21 And the question posed is: Is there any
22 evidence to suggest a correlation between risk and fuel
23 consumption?

24 MS. MARILYN MCLAREN: No, there's no
25 evidence to suggest a relationship between risk and fuel

1 consumption. If the mandate was to come up with some
2 sort of a different insurance rating concept to promote
3 the reduction of greenhouse gas, rather than insurance
4 risk based; I think it would make sense to be based on
5 fuel efficiency, rather than kilometres driven, yes.

6 MR. BYRON WILLIAMS: I think you've
7 answered part of this. Just for the client's
8 clarification though, just confirm that there are
9 jurisdictions where pay-as-you-drive is used, Norwich
10 Union is one (1) example, but there's no jurisdiction
11 where it's all pay-as-you-drive, is that correct?

12 MS. MARILYN MCLAREN: Absolutely.

13 MR. BYRON WILLIAMS: Mr. Chairman, I
14 don't know if the Board's interested or not, if you'd
15 like to see this article from the Sunday Times about the
16 Norwich Union experiment I'm certainly --

17 THE CHAIRPERSON: I am. I believe my
18 Panel Members have seen it too. But, just to be certain
19 we'll put it in as an exhibit.

20 MR. BYRON WILLIAMS: Thank you.

21 THE CHAIRPERSON: Do you have any more on
22 this subject, Mr. Williams?

23 MR. BYRON WILLIAMS: Not on this one, and
24 I'm just reviewing my notes.

25 THE CHAIRPERSON: Mr. Evans...?

1 MR. LEN EVANS: Just very briefly, I'll
2 ask Ms. McLaren an opinion.

3 Would it be easier for a public monopoly
4 such as MPI to institute, if this was desired and all
5 obstacles are put aside -- would it be easier for a
6 public monopoly company to bring in pay-as-you-drive as
7 opposed to a private company in a competitive
8 environment?

9 MS. MARILYN MCLAREN: If we speak within
10 the Canadian context and if the assumption that you've
11 made is really one of, if someone decides that insurance
12 rating should be based on pay-as-you-drive I don't think
13 it would be any easier to implement it in a public
14 insurance jurisdiction necessarily because across the
15 country in Ontario and Alberta and the Maritimes where
16 there are private automobile insurers, you know, meeting
17 the market need, in a fashion, they all have a regulatory
18 process.

19 All of the governments of those
20 jurisdictions have established rating, underwriting
21 criteria, rating framework. They specify the coverage.
22 They have bodies such as your -- this body that reviews
23 and approves rates.

24 So if there was to be a mandated change to
25 the risk classification structure it would come from a

1 regulatory legislated framework like that and a hundred
2 and fifty (150) companies could apply the change like
3 they did with accident benefit changes in Ontario where
4 the Legislature made changes to the compensation and all
5 of the companies just implemented them.

6 So, you know, given the context of this
7 decision is within -- within that context, that would be
8 my answer.

9 MR. LEN EVANS: Well, yes, I -- I don't
10 want to belabour the point, but it just seems to me
11 logically that if a company -- let's put MPI aside -- a
12 company in any jurisdiction had a monopoly they would be
13 in an easier position to make some significant change in
14 their system compared to a -- a private company in a
15 competitive market where the change they make may even
16 put them out of business or -- or jeopardize them
17 somehow.

18 So it just seemed to me logically it would
19 be much easier to introduce a system change in a
20 monopolistic situation than in a competitive situation.

21 MS. MARILYN MCLAREN: I -- thank you for
22 the opportunity to respond to that.

23 What you're suggesting is if a private
24 company did that in a competitive context where others
25 didn't and it didn't particularly meet public

1 satisfaction they could be severely damaged and go out of
2 business.

3 You know we -- we think -- at MPI we think
4 every day about how we really need to make sure we keep
5 the public onside because we will lose this whole
6 business at once with the stroke of a pen. We -- you
7 know, just because it's a monopoly doesn't mean it's here
8 to stay if it's not meeting public needs.

9 THE CHAIRPERSON: Thanks, Ms. McLaren.
10 We're confident then when you do your research the
11 Corporation will take an open mind.

12 I believe it's CAC/MSOS Number 14 and I
13 can assure My Learned Friend Mr. Williams that we have
14 seen this article. Thank you very much.

15 Mr. Williams...?

16

17 --- EXHIBIT NO. CAC/MSOS 14: Sunday Times about the
18 Norwich Union experiment.

19

20 MR. BYRON WILLIAMS: Mr. Chairman, I've
21 taken a lot of your time today and I appreciate that and
22 also I want to express on behalf of Ms. Bowman and myself
23 our appreciation to the MPI Panel for their candour and
24 for their assistance and that closes our cross-
25 examination, thank goodness.

1 THE CHAIRPERSON: Well, thank you, Ms.
2 Bowman and Mr. Williams, we appreciate your diligence in
3 pursuing your examination late Friday afternoon. We know
4 it's difficult enough to beginning (sic) and we
5 appreciate all the effort that's gone into it.

6 We're now going to turn to Mr. Sousa and
7 to give you just a couple of seconds and let us stretch
8 our legs and we can listen to you with our full
9 attention. We'll just take ten (10) minutes and we're
10 closing in on that barn again.

11

12 --- Upon recessing at 6:05 p.m.

13 --- Upon resuming at 6:15 p.m.

14

15 THE CHAIRPERSON: Okay. Once again we
16 thank you for your patience, Mr. Sousa, and the floor is
17 yours.

18

19 (BRIEF PAUSE)

20

21 MR. CLAUDIO SOUSA: Thank you, Mr.
22 Chairman. I will try and make sure that my cross-
23 examination is to the point and as brief as possible.
24 Hopefully we'll get out of here before darkness falls.

25

Having joined the proceedings a little bit

1 late today, I feel -- I was joking with Mr. Palmer that I
2 feel as if I've driven to the end of the marathon finish
3 line and I have brought no refreshments for you.

4 So I'm not sure if going last makes it to
5 my advantage or my disadvantage. You could very well be
6 compliant or just generally more irritable.

7 We're going to primarily be referring the
8 Scootering Manitoba first and second round
9 Interrogatories, as well as the, Scootering Manitoba pre-
10 ask.

11 Before I before, I would to file one (1)
12 exhibit, which I believe, Mr. Gaudreau has and that is a
13 discussion document prepared by Scootering Manitoba on
14 the proposed moped legislation reform.

15 For the record and to provide some context
16 for the Board, this document and the petition described
17 therein was referenced by MPI as one (1) of the pieces of
18 anecdotal evidence that was used as basis for rate
19 harmonization among a number of classes.

20 And also for -- it may interest the Board
21 to know that this document was presented in the fall, I
22 believe, November of 2005 to Mr. -- I always reverse his
23 name because he's got a first name and last name that are
24 the same, Mr. Ward Keith, whose the Director of Driver
25 and Vehicle Licensing; as well as Mr. John Spacek, whose

1 the Deputy Minister of Transportation.

2 THE CHAIRPERSON: This will be Exhibit,
3 Scootering Manitoba number four.

4
5 --- EXHIBIT NO. SM-4: Document and the petition
6 referenced by MPI as one (1)
7 of the pieces of anecdotal
8 evidence that was used as
9 basis for rate harmonization
10 among a number of classes.

11
12 MR. CLAUDIO SOUSA: I should also add,
13 Mr. Chairman, in our -- my cross-examination will not
14 rely specifically on this document, however, I did want
15 to introduce it as an exhibit, to ensure that if the
16 Board so desires that it may look at the full extent of
17 the changes that Scootering Manitoba is proposing.

18 In the Interrogatories, the only point of
19 reference was the speed increase from fifty (50) to
20 seventy (70); and certainly the changes that we are
21 recommending are much more extensive than just that
22 point.

23 I'll begin I think with Mr. Palmer, I'd
24 like to begin with a brief summarization of the claims
25 experience.

1 I'm not sure if Mr. Gaudreau also has a --
2 I hesitate to call it a book of documents, it is a page
3 in fact, which represents a, sort of a combination of two
4 (2) sets of data that I've received through first round
5 Interrogatories, as well as pre-ask.

6 And I've derived some -- some numbers from
7 those two (2) pieces of data that I wanted to prepare so
8 that they could be examined.

9 THE CHAIRPERSON: The latest one (1) will
10 be number five.

11

12 --- EXHIBIT NO. SM-5: Scootering Manitoba book of
13 documents.

14

15 CROSS-EXAMINATION BY MR. CLAUDIO SOUSA:

16 MR. CLAUDIO SOUSA: We'll start by just
17 reviewing this very briefly, Mr. Palmer, I'm sure we can
18 all look at it quickly and understand what its telling
19 us.

20 For the years 2001 to 2005, there's been
21 roughly a hundred and twenty-three (123) accidents or
22 exactly a hundred and twenty-three (123) accidents,
23 roughly twenty-five (25) accidents per year.

24 And that gives us a total claims
25 experience which includes both property and personal

1 injury of just over seven hundred thousand dollars
2 (\$70,000); is that correct?

3 MR. DON PALMER: Yeah, that's correct.

4 MR. CLAUDIO SOUSA: If we look at the
5 distribution of those cost and accidents, we see
6 certainly a very interesting trend or pattern emerging
7 for the moped class, in that 82 percent to be precise,
8 81.4 or a hundred (100) accidents were under five
9 thousand dollars (\$5000) and collectively they account
10 for approximately 15 percent of the overall seven hundred
11 thousand dollar (\$700,000) figure, correct?

12 MR. DON PALMER: That's correct.

13 MR. CLAUDIO SOUSA: Nineteen (19)
14 accidents sit in the middle of the range of losses
15 between five (5) and twenty-five thousand dollars
16 (\$25,000). These represent approximately 15 percent of
17 the accidents and account for 30 percent of that seven
18 hundred thousand dollar (\$700,000) claim experience.

19 Continuing at the top end of the scale,
20 and I should add that this -- this past year was the
21 first year in the moped class that we -- we have seen a
22 claim exceed the hundred thousand dollar (\$100,000)
23 threshold, there are four (4) accidents at the top end of
24 the scale that represent just over 3 percent of the
25 accident on records but actually account for

1 approximately three hundred and seventy-six thousand
2 dollars (\$376,000) or 53.5 percent of the overall claims
3 experience; is that correct?

4 MR. DON PALMER: That's correct.

5 MR. CLAUDIO SOUSA: Mr. Palmer, in your
6 pre-filed testimony you've characterized the deficiency
7 of the rates in the moped class as being significantly
8 subsidized by other ratepayers.

9 Would it be reasonable to conclude that
10 without these four (4) accidents at the top end of the
11 scale which, I gather, you attach certain amount of
12 confidence to in the rate making process, that without
13 those accidents at the top end of the scale the moped
14 rates would be perhaps more -- more in line with the
15 claims experience?

16 MR. DON PALMER: If you take away claims
17 activity you will have better results. I will agree with
18 that.

19 And I will also say that this kind of
20 distribution isn't really that much different than some
21 of the other larger classes. Granted -- and -- and from
22 the pre-asked questions of this distribution I sort of
23 anticipated where you were going and I -- I did, just out
24 of curiosity, pull this same kind of data for all purpose
25 passenger vehicles, just to see.

1 And found some differences, absolutely.
2 But if I look at the top 3 percent of claims in the
3 private passenger experience that accounts for about 35
4 percent of the losses. So when you think of private
5 passengers vehicles probably having more damage than --
6 than a moped would normally but less of a injury exposure
7 because of the protection that a private passenger
8 vehicle gives, I don't think the -- the 3 percent to 35
9 percent is that much different than the 3 percent and 50
10 percent in the moped.

11 It's also -- have the benefit of much more
12 robust data with all purpose passenger vehicles and, to
13 the same extent, if we go right to the bottom of the
14 scale, .01 percent of the claims account for almost 10
15 percent of the costs. So it's very common, regardless of
16 the size of class, that you would have this kind of
17 skewed distribution.

18 MR. CLAUDIO SOUSA: And just following on
19 with that, given the small size of the moped class, is
20 one of the differences that you describe that the --
21 while the inverse relationship is common to other
22 classes, private passenger, the example that you gave,
23 that the impact that it would have on -- on rates would
24 be exponentially higher the smaller the rate group?

25 MR. DON PALMER: Again, I would put to

1 you that our rate-making methodology does account for
2 some of those differences in the small size of the class.
3 We have procedures which we call credibility weighting
4 procedures.

5 Now, I have prepared and, again, in
6 anticipating -- in anticipation of where we were going
7 with this, I have prepared a table that I'd like to put
8 to you and put to the Board to ease the discussion.

9 MR. CLAUDIO SOUSA: That would be
10 acceptable.

11

12 (BRIEF PAUSE)

13

14 MR. KEVIN MCCULLOCH: I believe, that
15 would be Exhibit Number 30, Mr. Chairman.

16 THE CHAIRPERSON: Thank you, Mr.
17 McCulloch.

18

19 --- EXHIBIT NO. MPI-30: Table prepared by MPI.

20

21 CONTINUED BY MR. CLAUDIO SOUSA:

22 MR. CLAUDIO SOUSA: Mr. Palmer, if you
23 could be so kind as to walk us through this, that would
24 be appreciated.

25 MR. DON PALMER: And just on a higher

1 level, essentially we have three (3) procedures that help
2 to dampen experience of smaller classes, and two (2) of
3 them are credibility related procedures and one (1) is --
4 for lack of a better word, management judgment cap.

5 And what credibility is, is how much you
6 can believe the experience. And I know the Board would
7 love to go through about a three (3) hour dissertation on
8 Bourman (phonetic) credibility at this point, but I'm
9 going to dispense with that. But, it is a procedure that
10 has been approved by this Board in past years.

11 So, what we have done is applied the same
12 credibility rules that we have in past and there are some
13 classes that are smaller than the mopeds.

14 And just applying the credibility rules
15 that we have come up with, we come up with balanced
16 indicated changes. And there's a column marked
17 "original" and that's using the credibility procedures
18 that we use for every major class and every insurance use
19 territory combination.

20 We can up with an indicated rate increases
21 for mopeds of 153 percent in Territory 1. And through
22 our management judgment, we decided that it was prudent
23 to apply for 100 percent increase for mopeds, even though
24 with the credibility procedure indicated to us that we
25 should be applying for 153 percent.

1 THE CHAIRPERSON: Mr. Palmer, before you
2 go any further, just -- it's late in the day and our --
3 perhaps we're a touch tired, could you remind us how many
4 mopeds there are?

5 MR. DON PALMER: There's about fifteen
6 hundred (1,500).

7 THE CHAIRPERSON: And could you remind us
8 also of the definitional difference between a moped and a
9 scooter, and a motorcycle?

10 MR. DON PALMER: Sure. A moped, by
11 definition, is a two (2) wheel motorized vehicle. The
12 most important statistics that you would have to know is
13 an engine displacement of 50 cc's or less and a top speed
14 of 50 kilometres per hour or less.

15 If it's a two (2) wheel vehicle, engine
16 propelled, with either greater than a 50 cc engine
17 displacement or a top speed of greater than 50 kilometres
18 an hour, it's a motorcycle.

19 Now, within the motorcycle, we have body
20 styles and one (1) of those body styles is motor scooter.
21 And for ease of definition a motorcycle that looks like a
22 motor scooter, is a motor scooter; basically, upright
23 sitting, the bearing in front.

24 THE CHAIRPERSON: Does a scooter have a
25 displacement limit?

1 MR. DON PALMER: No, we do have separate
2 classification categories of motorcycle, body style motor
3 scooter, of less than a hundred (100) -- a hundred (100)
4 to five hundred (500) and -- and greater than five
5 hundred (500) just as we do for motorcycles. I'm not
6 sure there are any motor scooters with an engine
7 displacement greater than 500 cc's.

8 THE CHAIRPERSON: So how many fall in the
9 scooter category roughly?

10 MR. DON PALMER: About seventy (70).

11 THE CHAIRPERSON: Thank you. So then the
12 eight thousand (8,000) other ones are motorcycles?

13 MR. DON PALMER: That's correct.

14 THE CHAIRPERSON: Thank you.

15

16 CONTINUED BY MR. CLAUDIO SOUSA:

17 MR. CLAUDIO SOUSA: I can -- if there is
18 any scooter expert in the room it would be myself. I
19 would just correct one (1) -- one (1) item on Mr.
20 Palmer's recall of the Highway Traffic Act and that is
21 scooters and motorcycles can actually have three (3)
22 wheels. And as a minor point mopeds must be less than 50
23 cc, not equal to.

24 MR. DON PALMER: I'll accept that.

25 Should I proceed with this document?

1 MR. CLAUDIO SOUSA: I'm ready. Mr.
2 Chairman, are you?

3 MR. DON PALMER: So -- so back -- using
4 our regular procedure would indicate a -- for Territory
5 1, which is Winnipeg, moped the rate indicator would be
6 plus 153 percent and we have chosen a hundred (100).

7 Now, Mr. Sousa made -- said that it's a
8 small class and -- and probably shouldn't have the full
9 weight of -- of their experience against their rate and
10 I accept that, which is why we do the credibility
11 weighting procedure.

12 The -- the two (2) ways that we have
13 credibility are within the motorcycle major class; mopeds
14 are -- are a member of the motorcycle major class. And
15 then within the motorcycle major class there's another
16 credibility procedure to calculate the -- the insurance
17 use relativities; that's the rate of the mopeds versus
18 other types of motorcycles.

19 If we make the assumption that the
20 motorcycles as a class are fully credible and leave the
21 credibility procedure within that there would be an
22 indicator of plus 169 percent instead of the 100 that
23 we're asking for.

24 If we left the motorcycle credibility
25 alone but attach full credibility to the mopeds versus

1 the motorcycles, that would increase the rate indicator
2 to 260 percent. And if we threw away all our credibility
3 procedures and -- and relied only on the data that's
4 presented we'd show a rate increase required of 286 --
5 almost 287 percent increase instead of the 100 percent
6 that we're requesting.

7 So what I'm demonstrating here is that,
8 yes, we have taken into consideration the size of the
9 moped class, certainly -- and -- and beyond that, capped
10 it even more than another class would.

11 MR. CLAUDIO SOUSA: Thank you, Mr.
12 Palmer. It's a lot of insight that you've put into the --
13 the concerns of our members, so we thank you for that.

14 Something I would like to briefly examine,
15 I'm presuming I'm asking your opinion, under the current
16 rate making guidelines there's a rule or a procedure I
17 understand that if a claim is exceptional, I think
18 there's a five hundred thousand dollar (\$500,000) on a
19 claim, and I'm not sure of the -- the exact rate making
20 procedure but it is for all intents and purposes removed
21 to one (1) degree or another, or factored out somehow
22 from the claims experience of a class?

23 MR. DON PALMER: Not quite. We have
24 spread the effect -- we generally use five (5) years of
25 claims data to analyse. So if there's one (1) unusual

1 year it's given one-fifth weight.

2 For extraordinarily large claims, and by
3 that is five hundred thousand dollars (\$500,000) or more,
4 we average them out over a ten (10) year period. So
5 that's -- that's applied, but since there are no claims
6 in mopeds greater than \$500,000 that wouldn't necessarily
7 apply in this case.

8 MR. CLAUDIO SOUSA: And I'm presuming to
9 ask, on what basis was the five hundred thousand dollar
10 (\$500,000) limit set. Is it primarily based on -- on the
11 experience of private passenger? Is it, sort of, an
12 industry standard that is used?

13 MR. DON PALMER: It was a standard that
14 was selected by us because five hundred thousand dollars
15 (\$500,000) was our serious loss reporting threshold and
16 that's why we chose that -- that level.

17 MR. CLAUDIO SOUSA: Has MPI ever
18 considered looking at different thresholds for different
19 -- for significantly different types of vehicles or
20 insurance use in keeping with that -- that theme?

21 MR. DON PALMER: No. And, again, with
22 the other credibility procedures that I mentioned, I
23 mean, you can only dampen the experience so much. So we
24 have thought that those other procedures are -- are
25 sufficient to -- to take out unusual losses.

1 MR. CLAUDIO SOUSA: You can appreciate
2 that our membership certainly expresses despair over --
3 over this matter. They feel and perhaps rightly so, that
4 four (4) significant claims events are -- are really
5 responsible for what amounts to -- in many of their
6 opinions a rate shock increase of 100 percent.

7 Would MPI consider studying, at all,
8 alternate means of stabilizing rate groups above and
9 beyond what's done for -- today with the -- the
10 credibility factors?

11 MR. DON PALMER: No. We would not. And
12 the reason I would say we would not is -- is that the
13 moped class is not the smallest class that we have in
14 terms of numbers of vehicles.

15 The credibility weighting is -- is self-
16 correcting. So the bigger the group the more reliance on
17 their data. So, there is not full reliance on your --
18 your data, as I have indicated, and this -- this
19 procedure that we have developed has been accepted by the
20 Board.

21 We did go through an extensive study of it
22 a couple of years ago, much to the pain of everyone in
23 the room at the time. But -- so, no, I think that that
24 has been fully studied and fully developed and, I think,
25 fully accepted by this Board.

1 MR. CLAUDIO SOUSA: Thank you for that,
2 Mr. Palmer. I'd like to move, again, turning onto a
3 slightly different dimension of the proposed increase and
4 that is the impact to other ratepayers if the Board were
5 to apply a 20 percent cap on the increase.

6 Mr. Palmer, in your pre-filed testimony
7 you characterize that the 100 percent increase in -- and
8 I'm paraphrasing here, is necessary to avoid a decade or
9 more of significant subsidization by other ratepayers; is
10 that correct?

11 MR. DON PALMER: We have endured a decade
12 or more of rate increases for motorcycles. Their --
13 their experience in terms of their rate indications were
14 probably similar to that that's indicated for the moped
15 class currently.

16 And it's -- I think -- from a -- in order
17 to eliminate the cross-subsidization certainly it's --
18 it's better for other classes to bite the bullet at one
19 (1) stage in time, especially since -- we're talking
20 about a very large percentage increase, I appreciate
21 that.

22 But, in terms of a dollar amount, I think
23 the average is about a seventy-five dollar (\$75)
24 increase. Even with the increase, except for off road
25 vehicles which have very limited coverage and trailers,

1 the moped still would be the lowest rates in our -- in
2 our rate manual.

3 MR. CLAUDIO SOUSA: I appreciate that.

4 MS. MARILYN MCLAREN: Mr. Sousa, if I
5 could, just further on that point. What it was really
6 important for the Corporation to deal with, is the fact
7 that there's something very fundamentally different
8 happening with mopeds.

9 We spoke a couple of years ago that, you
10 know, for many, many years even though it was a very,
11 very small group of vehicles; their loss experience or
12 claims costs were very, very stable.

13 Surprisingly so, given how small the class
14 was, but the costs were very, very stable. And every
15 year we see more and more mopeds on the streets and
16 higher and higher claims costs.

17 There's a definite, definite change in
18 experience and a growing trend. And so while we say
19 that, you know, a large subsidy by other ratepayers,
20 clearly we'll do the math and it will be a dollar or
21 something like that.

22 It's not a large amount of money per
23 private passenger vehicle, but it really strikes to the
24 heart of fairness and equity which we believe actuarially
25 sound rate making is all about.

1 Something different is happening here. It
2 is a growing pool and for whatever reason, seems to be a
3 different make up of people than used to be or, or the
4 use is somewhat different than it used to be, something
5 different is happening.

6 And rather than start down a very long,
7 painful road of trying to catch up to a growing problem,
8 we've proposed this short term small dollar, large
9 percentage increase to get us on the right road in what I
10 believe -- I think we all believe, will continue to be a
11 real growth area, in terms of the numbers of mopeds.

12 MR. DON PALMER: If I can just add to
13 that and I think you -- if I can remember back that far
14 in your opening statement which seems like a lifetime
15 ago, you had talked about the moped definition being
16 outdated.

17 And essentially we're -- or would refer
18 more to power assisted bicycles, which is what they used
19 to be. And probably three (3) or four (4) years ago, you
20 can probably help me with that timing, is when this new
21 generation of motor scooters, I'll call them scooters,
22 came on the market.

23 And we probably didn't have the right
24 definition within the Highway Traffic Act to deal with
25 these or, or we did have the right definition, I think

1 they're more properly defined as motorcycle, body style,
2 motor scooter because I do believe that a lot of them
3 have the abilities to go more than 50 kilometres an hour.

4 There is a classification within Transport
5 Canada called LSM or limited speed motorcycle, which
6 Transport Canada has defined as having a top speed of 70
7 kilometres an hour.

8 And I think that's what you're referring
9 to in your petition.

10 MR. CLAUDIO SOUSA: That's correct.

11 MR. DON PALMER: And that's what the vast
12 majority of these vehicle are, they're LSM's; the limited
13 speed motorcycle.

14 MR. CLAUDIO SOUSA: Correct, however I
15 would add to the discussion, Mr. Palmer, that while
16 Transport Canada does test them to that specification,
17 the manufacturers, recognizing the laws in Manitoba and
18 other jurisdictions as being out of date and still
19 bearing the 50 kilometre limit, do equip them with
20 restricting devices that limit their speed.

21 And as such they do, from a manufacturers
22 standpoint, although no one tests them to the
23 specification of Manitoba mopeds, they do, for all
24 intents and purposes, meet the definition of moped in
25 Manitoba.

1 We would certainly not lobby MPI to change
2 the Highway Traffic Act and it's quite clear that we've
3 gone through the right channels for that.

4 MR. DON PALMER: And I -- and I agree
5 with you and I think that not testing them is the key.
6 So -- so what we have is a case where we had a new type
7 of vehicle that we forced into an archaic definition.

8 We may have had them in the right
9 definition and I'll take some responsibility for this; if
10 we had had the motorcycle body style motor scooter rates
11 properly rated. There were so few of them when we -- we
12 had very large increases to motorcycle rates that were
13 indicated. We applied them to all motorcycles equally,
14 including motor scooters and, -- and in retrospect maybe
15 we shouldn't have done that.

16 MR. CLAUDIO SOUSA: But that, sorry for
17 interrupting, but that does form the basis for what we
18 see now as a 70 percent reduction in that body style?

19 MR. DON PALMER: Absolutely. So -- so we
20 have recognized that the -- these are probably more
21 properly defined as motor scooters rather than mopeds --
22 power assisted bicycles -- and we're responding to that
23 by changing the -- the rates and, hence, the
24 harmonization of the moped rate with the motor scooters
25 under a hundred (100) cc.

1 And granted it doesn't affect many -- many
2 scooter operators because there only are seventy (70) of
3 them. But I think the reason that there's only seventy
4 (70) of them is that we have, through this huge rate
5 differential between the motor scooters and the mopeds,
6 really encourage a misclassification. And --

7 MR. CLAUDIO SOUSA: Right, that -- MPI's
8 position on that is very clear from your pre-filed
9 testimony that the Corporation feels very strongly that
10 the classification and the rates between the moped and
11 the motor scooter class are quite far apart and that our
12 organization does not dispute that that does, certainly,
13 create an incentive for people to remain within the moped
14 class, given a choice, if their vehicle does qualify they
15 would certainly not do that.

16 I think the harmonization certainly for a
17 small percentage of the -- I believe as of August, Mr.
18 Chairman, you asked about the number of mopeds. I
19 believe as of August there are roughly eighteen hundred
20 (1800) mopeds. That gives us an indication of what kind
21 of growth we're seeing year to year.

22 In -- in the pre-ask question number 2 of
23 Scootering Manitoba we wanted to find out, you know, just
24 how much of a problem the harmonization would actually
25 solve. And what we find there is that only 20 percent of

1 the registered owners of moped class vehicles actually do
2 possess today a Class 6 or a motorcycles license.

3 And while certainly the rate differential
4 between motorcycle and -- or motor scooter rather and
5 mopeds is certainly part of the picture, it would,
6 theoretically, only solve 20 percent of the issue.

7 So accessibility, I think, and certainly
8 the cost and inconvenience of obtaining a Class 6 license
9 is another reason that people prefer to -- to drive
10 vehicles which qualify as mopeds in Manitoba.

11 Would you agree with that, based on the
12 facts that we've looked at?

13 MR. DON PALMER: I would agree with that.
14 We have not addressed the issue of -- of riders with an
15 incorrect license and, again, I guess the assertion that
16 we've made since -- since most -- and it's granted
17 through anecdotal observation of the -- the scooters that
18 I see on the roads that are going more than 50 kilometres
19 an hour.

20 The anecdotal evidence of people in my
21 department that have gone into scooter dealerships and
22 said how fast do these go and they say, well, out of the
23 box it's fifty (50), but, you know, for an extra thirty
24 bucks (\$30) I can take a restrictor off.

25 MR. CLAUDIO SOUSA: Hmm Hmm.

1 MR. DON PALMER: And -- and those --
2 those kinds of things I -- my own opinion is that there's
3 probably more than -- than the 20 percent that we've
4 indicated here that would go more than 50 kilometres an
5 hour.

6 MR. CLAUDIO SOUSA: Oh, I -- I wasn't
7 insinuating that only 20 percent of scooters do that, in
8 fact I have no better data on that than you do. Every
9 make and model is different and -- and when the
10 restrictors are in place as -- as we pointed -- as you
11 pointed out earlier there are no tests which are
12 performed on these vehicles to actually determine whether
13 they do fifty (50) or not.

14 The topic of de-restriction is -- is
15 something that we are firmly on record as saying de-
16 restriction in and of itself is -- is certainly not
17 illegal. We do advise dealerships and individual members
18 that if they do de-restrict their scooter either
19 themselves or if they have someone do it that they
20 understand the laws and they make appropriate changes in
21 their licencing and insurance and that is -- we've been
22 very clear on that and in trying to inform the scooter
23 community of that fact.

24 I -- I would like -- we've drifted a
25 little bit from the original topic. We were -- we were

1 discussing about -- discussing subsidization and your
2 characterization of it.

3 I was getting to a point and -- and that
4 is there is a slight dichotomy of -- of how the
5 subsidization's been characterized. In the pre-filed
6 testimony it was described as a decade or more of
7 significant subsidization, however, the Board should note
8 that under cross-examination by Ms. Everard you did state
9 that the impact to ratepayers would not be significant if
10 the Board were to cap the increase.

11 So I'm hoping you can sort of finitely
12 tell me whether you believe that the subsidization is
13 significant or not significant.

14 MR. DON PALMER: In terms of a straight
15 dollar or percentage, it would be minor.

16 MR. CLAUDIO SOUSA: Thank you.

17 MS. MARILYN MCLAREN: More specifically
18 though the subsidization to moped owners would be
19 significant. The subsidization by other classes would be
20 not significant because there's so many more of them, but
21 the subsidization that's taking place to moped owners
22 would be significant in relation to the rates they would
23 otherwise be expected to pay; that was the context and
24 that's why they're different.

25 MR. CLAUDIO SOUSA: Thank you, Ms.

1 McLaren. I'll return to -- to the topic of whether or
2 not the 100 percent increase represents a significant
3 detriment or rate shock if you will to -- to ratepayers
4 in this class.

5 Mr. Palmer, you -- you described that on
6 average it's seventy dollars (\$70) and it's really not a
7 lot of money. A large segment of our membership would --
8 would certainly disagree with that statement.

9 Just by comparison I -- I did a quick look
10 at the, sort of the top fifty (50) dollar increases that
11 -- on the private passenger side of -- of things to see
12 what kinds of dollar increases we were seeing there. In
13 the top fifty (50) we're -- we're seeing -- bear with me
14 a moment -- we're seeing dollar increases that range from
15 anywhere from forty-nine dollars (\$49) at the bottom
16 fifty (50) to a high of a hundred and eighty-seven (187).

17 Now, the dollar increase proposed for
18 mopeds therefore is -- is somewhat comparable to that
19 price range, however, I think you'll agree that while the
20 dollar increases are comparable the -- the actual
21 vehicles that we're talking about, their retail value,
22 their annual premium for example are fundamentally
23 different.

24 As an example, some of the top vehicles
25 are Chevy Silverados of recent model years, Ford F150s

1 with a variety of insurance uses, but those are vehicles
2 that are all priced well into the thirty (30) or forty
3 thousand dollar (\$40,000) range; would you agree?

4 MR. DON PALMER: I agree with that.

5 MR. CLAUDIO SOUSA: Would it be fair to
6 conclude then that someone who chooses a vehicle that
7 perhaps costs two to three thousand dollars (\$2000 to
8 \$3000) new and may in fact, actually finance that
9 purchase, that seventy dollars (\$70) relative to a
10 private passenger vehicle is not a lot, but that to
11 someone who is perhaps choosing that for affordability
12 that seventy dollars (\$70) could, in fact, be
13 significant?

14 MR. DON PALMER: That seventy dollars
15 (\$70) could be significant to either a moped operator or
16 a Silverado driver.

17 MR. CLAUDIO SOUSA: Thank you. It is --
18 I do appreciate Ms. McLaren's comments that it's
19 certainly balancing -- the issue of subsidization across
20 classes. It needs to be balanced with attention rate
21 shock and clearly our bias is that we feel that this
22 would be quite a rate shock to the eighteen hundred
23 (1,800) or so vehicles and their owners.

24 THE CHAIRPERSON: Mr. Sousa, do you think
25 that the moped drivers should have a motorcycle license?

1 MR. CLAUDIO SOUSA: Mr. Chairman, on that
2 we at Scootering Manitoba use the phrase that we feel
3 mopeds should be affordable and accessible. Under the
4 current laws in Manitoba, a class six (6) license is
5 neither affordable nor accessible.

6 So, to suggest that everyone should be
7 required to go and obtain their class six (6) license as
8 a means of dealing with this issue, what we would be
9 asking eighteen hundred (1,800) Manitobans or sorry -- 80
10 percent of eighteen hundred (1,800) owners to do, is to
11 go and pay -- someone may correct me if I'm wrong here. I
12 believe the safety course, mandatory safety course, is in
13 the order of a hundred and seventy-five dollars (\$175);
14 as well as the inconvenience of having to go through the
15 graduated class six (6) program.

16 Our position on class six (6) license
17 would be, we would like to see a more affordable --
18 either a more affordable training course or perhaps a
19 form of a written test where some education is passed --
20 mandatory education is passed to the operator of a moped
21 without necessarily incurring the high cost of the safety
22 course or the inconvenience.

23 THE CHAIRPERSON: Thank you.

24

25 CONTINUED BY MR. CLAUDIO SOUSA:

1 MR. CLAUDIO SOUSA: I'd like to move now
2 quickly to a brief examination of the claims experience
3 for mopeds, specifically focussing on the amount of a
4 vehicle damage.

5 You can find high level summaries of this
6 in the one (1) sheet that was distributed which, sort of,
7 summarizes it.

8 Mr. Palmer, if we examined sort of the
9 response to the question, I've done a brief correlation,
10 a simple subtraction, if you will, from the personal
11 injury costs provided in pre-ask number one (1), with the
12 property and vehicle damage provided in Scootering
13 Manitoba I-1.

14 If you'd briefly take a look at those and
15 ensure that I haven't made any significant errors in
16 actually doing that subtraction?

17 MR. DON PALMER: At this late time in the
18 day, your subtraction is probably better than mine.

19 MR. CLAUDIO SOUSA: I'm still here at the
20 end of the finish line with no refreshments. If we
21 quickly examine that, we look at the bottom line, vehicle
22 damage represents, approximately a hundred and seventeen
23 thousand dollars (\$117,000) or 17 percent of the overall
24 loss experience of the moped class, is that correct?

25 MR. DON PALMER: That's correct.

1 MR. CLAUDIO SOUSA: And in keeping with
2 this, we also see that understandably and predictably,
3 the lower costs claims in the zero (0) to five thousand
4 (5000) range through vehicle damage, representing between
5 39 and 26 percent, depending upon which cross bracket you
6 look at, of the overall claims cost?

7 MR. DON PALMER: Sure.

8 MR. CLAUDIO SOUSA: And of course, as we
9 move up the scale, personal injury is responsible for the
10 majority of the claims experience, not unlike, I'm sure
11 the trend that we would see in motorcycle major class,
12 for example?

13 MR. DON PALMER: That's correct.

14 MR. CLAUDIO SOUSA: It would then follow
15 that and, I guess, I'm asking for your agreement here,
16 that it would be important then that these vehicle damage
17 and property costs be accurate?

18 MR. DON PALMER: Yes.

19 MR. CLAUDIO SOUSA: And for it to be
20 inaccurate would certainly affect the rate making process
21 and the confidence factors that are applied to the rate
22 making process?

23 MR. DON PALMER: We rely on accurate
24 data. Yes.

25 MR. CLAUDIO SOUSA: From -- and I'll

1 direct the Board's attention to Scootering Manitoba
2 Interrogatory I-2 and I'd like to preface this -- this
3 discussion or this question with the original reason I --
4 we started to examine this.

5 We, being very central in the scootering
6 community, received a number of reports from members, all
7 of these are unconfirmed and certainly can't be taken as
8 evidence here at this hearing, that upon incurring an
9 accident, an individual would be taking that vehicle or
10 dealing with the dealership and the dealership would
11 reassure that member that, don't worry, paraphrasing here
12 of course, don't worry, I'm going to jack up the repair
13 costs and the value of the bike to make sure you get a
14 new scooter out of this.

15 Of course, hearing that even hearsay is
16 quite troubling and we were curious as to how MPI and
17 specifically claims adjusters, operate on this vehicle
18 class in terms of assessing and estimation.

19 From the Interrogatory I-2 we learn that
20 MPI actually has no flat rate manual for establishing or
21 validating or confirming scooter and moped repair costs.
22 And MPI does, rightly so, state that the cost of that
23 manual is prohibitive and with that we do agree. We're
24 pretty cost conscious people when it comes to mopeds and
25 any book that costs that much must be made of gold or

1 something.

2 We are also pleased in MPI's response they
3 state that they are pursuing alternatives to remedy the
4 situation. Since adjusters rely primarily on scooter and
5 moped dealers and or repair shops for estimates, some of
6 which are done over the phone, would it be fair to say
7 that opportunity exists for great inconsistency on repair
8 costs and vehicle values that are quoted as part of the
9 claims process?

10 MS. MARILYN MCLAREN: I'm not sure it
11 would be fair to say "great inconsistency." It is still
12 a fairly small community, small number of dealers. And I
13 think the other side of that is, you know, the next step
14 on the process and that is our own salvage process. The
15 salvage is sold, sort of, in an open auction on the open
16 market, so to speak, and our history is that mopeds, as
17 well as motorcycles, tend to generate between 5 and 10
18 percent higher salvage value than other vehicles.

19 But, you know, throughout our years and
20 throughout the thousands and thousands of vehicles we've
21 dealt with through time and annually, salvage value is
22 about 20 percent of the actual cash value.

23 So mopeds and motorcycles generally are
24 maybe 25 to 30 percent of actual cash value. So that
25 kind of serves as a bit of a framework that, you know, if

1 we saw some really significant swings or discrepancies
2 that would be a really good indicator for us and we don't
3 see that.

4 MR. CLAUDIO SOUSA: Thank you for that.
5 And in keeping with that, the salvage value.

6 Salvage value you expressed as a
7 percentage of the value of the vehicle and since there
8 isn't, my understanding is, and you can correct me if I'm
9 wrong, that when establishing the value of a vehicle that
10 is, let's say, a year or two (2) old, that claims
11 adjusters will often rely on dealerships to provide them
12 with the value of -- of that vehicle; is that correct?

13 MS. MARILYN MCLAREN: To a certain
14 extent. But they also will get a lot of advise from the
15 salvage department again because, you know, whether it's
16 the actual cash value of the bike in its non-damaged
17 condition or what is the value of the bike now, there's
18 both some relevance there to the work that happens
19 through that salvage process.

20 And I guess just also and I don't know if
21 you're aware and it's worth letting you know that the
22 actual salvage price that is received through that
23 auction is actually credited right back to each
24 individual claim file. So that -- that serves to reduce
25 your -- your vehicle damage claims costs.

1 MR. CLAUDIO SOUSA: Thank you for that.

2 I was aware of that. Thank you very much.

3 I would just like to add and perhaps
4 obtain your comments on some material that's been
5 presented before the Board.

6 You'll recall that Mr. Brent McNaught who
7 is the owner/operator of Vespa Winnipeg presented before
8 the Board the first day of the hearings I believe and
9 some of what Mr. McNaught had to say certainly echoes the
10 concerns of - of the scootering community.

11 I'm paraphrasing the transcript here now,
12 but Mr. McNaught would suggest that adjusters perhaps are
13 -- are relying very heavily on the opinions of himself
14 and his staff. He describes receiving telephone calls
15 and being uncomfortable with being asked whether or not
16 the adjusters should write off the vehicle and I think
17 specifically Mr. -- Mr. McNaught said we're not
18 comfortable with that. As you understand we're -- we are
19 dealers and we don't have any true objectivity on
20 providing that information to MPI.

21 You characterize that in -- in my previous
22 question that there would not be a -- a great opportunity
23 for it. I would respectfully disagree that there is
24 certainly an incentive for a scooter dealer to sell a new
25 scooter as opposed to doing repairs on an existing one;

1 would you agree?

2 MS. MARILYN MCLAREN: Possibly, but I --
3 no, I wouldn't agree outright. I know generally that
4 vehicle repair work is pretty lucrative as well and I
5 would -- I would speculate that a lot of the repair work
6 happens in -- in the same dealerships as might look
7 forward to selling a brand new vehicle.

8 You know I think part of the consideration
9 is that if -- if as you've said and this is not known to
10 me if the vehicles tend to be worth two (2) or three
11 thousand dollars (\$3,000) there is more likelihood that
12 they -- they would be written off than -- than a more
13 expensive vehicle. That's true in the private passenger
14 class.

15 So I think I wouldn't dispute that, you
16 know, what -- what he said to be true, that he has had
17 some instances of that happen. That is not what I would
18 expect to happen. I think, you know, we would want to
19 attempt to eliminate that completely if it happens to a
20 certain extent right now.

21 Worst case scenario, if it was true really
22 frequently, it still is not a significant, significant
23 issue in the overall predicted cost of insurance for
24 mopeds, though.

25 MR. CLAUDIO SOUSA: Correct. I mean it -

1 - it does comprise I think we established 15 or 17
2 percent. I would like to -- to sort of redirect
3 slightly.

4 You said granted -- I -- I understand
5 that, to be fair, you are speculating that perhaps repair
6 -- repair activity is very lucrative as well to a
7 dealership. We would like to inform MPI and the Board
8 here at this hearing and -- and echo statements from Mr.
9 McNaught that in fact Mr. McNaught is the only MPI
10 accredited repair shop that is also a dealer.

11 So in the majority of instances when a
12 brand of scooter perhaps that Mr. McNaught does not sell,
13 MPI adjusters perhaps are relying quite directly on
14 dealerships which have no repair capacity or business
15 apart from selling brand new parts to repair a vehicle;
16 would you dispute that at all?

17 MS. MARILYN MCLAREN: I'm not sure if
18 that was the information that he presented or if that's
19 what you're suggesting, but, you know, I'll accept it on
20 its face, that's okay.

21 MR. CLAUDIO SOUSA: He -- just for
22 clarify, Mr. McNaught did --

23 MS. MARILYN MCLAREN: I remember about
24 the part him being the only accredited Autopac repair
25 facility, for sure.

1 MR. CLAUDIO SOUSA: Yes.

2 MS. MARILYN MCLAREN: No argument on
3 that.

4 MR. CLAUDIO SOUSA: And to the best of
5 our knowledge, Mr. Chairman and MPI, we agree that that
6 is in fact true, that the other dealerships are not MPI
7 accredited for repairs.

8 I have to thank Mr. Palmer for the
9 dissertation on Transport Canada. He's eliminated a
10 significant portion of some question that I had on that.

11 For clarity, I would like to simply
12 revisit that and frame my next question. Transport
13 Canada certainly no longer recognizes mopeds as they are
14 defined in Manitoba; that has existed for a number of
15 years. They do use the definition of limited speed
16 motorcycle, which includes mopeds.

17 That vehicle, and the Board can read for -
18 - the details in our legislative petition, has a number
19 of defining characteristics. Four (4) stand out: A top
20 speed of 70 kilometres an hour; an engine displacement
21 under 50 cc's; an automatic transmission; and a weight
22 limit of 95 kilograms.

23 In many other jurisdictions they have
24 accepted that definition, presumably set an insurance
25 classification that is in line with that definition, and

1 included the existing definition of moped in that
2 umbrella for any grandfathering of vehicles that do
3 exist.

4 And -- so to that matter of -- certainly I
5 think MPI and Scootering Manitoba agree that classifying
6 these vehicles is certainly problematic in our Province
7 today and that the correct remedy of course, is to
8 modernize the legislative definition and therefore the
9 insurance definition of these vehicles.

10 For the time being, until that occurs, I
11 would like to understand a little bit more about how MPI
12 determines whether or not, a vehicle is in fact a moped,
13 and how it goes about assessing or collecting information
14 if you will, as to the top speed of that vehicle.

15 MR. DON PALMER: That's the reason for
16 the harmonization in a lot of cases. What we do when we
17 have a unit within pricing and economics -- it's rate
18 group unit, and does the research through manufacturers,
19 through websites, through dealers, through customers in
20 some cases, and that has -- is what has caused us the
21 issues; that we have many, many cases that we go to
22 manufacturers and manufacturers websites and are told one
23 (1) thing and go to dealers and customers and are told,
24 and in fact, provided with signed affidavits providing
25 different information.

1 And that certainly is problematic for us.
2 And we do get some moped -- the VICC, Vehicle Information
3 Centre of Canada, in the IBC, that does have a serial
4 number decoder, so we get information along that line.

5 But, I guess through precedent we have
6 accepted most of these as mopeds.

7 THE CHAIRPERSON: Mr. Palmer, if you
8 didn't accept them as mopeds, then presumably you would
9 have put them in a higher classification with a higher
10 premium?

11 MR. DON PALMER: That's correct.

12 THE CHAIRPERSON: Mr. Sousa, I'm just
13 wondering how much -- we're thinking we might need a
14 little bit of a break, do you have an awful lot more to
15 go?

16 MR. CLAUDIO SOUSA: I was just detecting
17 all the shifting in the seats, Mr. Chairman, and --

18 THE CHAIRPERSON: We want to give you, as
19 they say, a fair shake at it, but we're also getting
20 tired because everyone started, basically at 9:00.

21 MR. CLAUDIO SOUSA: Yes.

22 THE CHAIRPERSON: So if you've got a fair
23 bit more I think what we'll do is take a break.

24 MR. CLAUDIO SOUSA: I estimate, and it
25 depends on how much discussion ensues, that we would be

1 no more than another twenty (20) minutes at best.

2 THE CHAIRPERSON: Okay, I think the --
3 just to summarize to date, if it's helpful, the primary
4 issue as we see it right now, and it might help you in
5 framing your questions as you go forward, is the proposed
6 shock, if you like, of a sudden harmonization adjustment
7 that would drive up the insurance cost to mopeds which
8 are increasing quickly in the number of vehicles. And a
9 lot of the owners have selected a moped for those various
10 reasons; for economy and low price.

11 You've also indicated a lot of
12 definitional type problems that have yet to be resolved
13 and things of that nature. And you're making a case, in
14 a sense, for a process of transition and I don't know if
15 I've captured it or not, but maybe you could think about
16 it while we have our break.

17 MR. CLAUDIO SOUSA: Thank you, Mr.
18 Chairman. I will certainly --

19 THE CHAIRPERSON: We're going to have a
20 short break.

21

22 --- Upon recessing at 7:18 p.m.

23 --- Upon resuming at 7:33 p.m.

24

25 THE CHAIRPERSON: Renewed and refreshed,

1 Mr. Sousa, we're back.

2 MR. CLAUDIO SOUSA: Thank you, Mr.
3 Chairman. Outside of the discussion that we've been
4 having concerning the rate classes, the outdated
5 legislation, there are a few more matters I feel are
6 outside of that, somewhat related. I do understand from
7 your summary has understood very clearly what our
8 concerns are, so I will proceed quickly through --
9 through this matter.

10

11 CONTINUED BY MR. CLAUDIO SOUSA:

12 MR. CLAUDIO SOUSA: The -- I would like
13 to quickly revisit, or visit, how the moped class has
14 been treated or classified or handled, if you will, in
15 terms of insurance classification in -- in prior years.

16 In -- I believe it was in the fall of 2004
17 was the first time that our organization detected that
18 MPI was applying the 50 kilometre an hour component to --
19 to vehicle registration, or at time of registration the
20 question around the 50 kilometre an hour limit was
21 raised.

22 But prior to that timeframe that practice
23 was not in place, is that correct?

24 MR. DON PALMER: The -- the issue was
25 when this new -- I'll say new class of vehicle came onto

1 the scene and that was about that time or maybe before
2 then.

3 MR. CLAUDIO SOUSA: Okay. And at that
4 time would it be correct in concluding that MPI, in
5 helping to ensure that brokers were aware of -- of the
6 true definition of these vehicles, not only sent the
7 broker -- the network of Manitoba brokers a -- a memo to
8 that effect, but also introduced a prompt within the MPI
9 registration system that prompted the broker to ask the
10 registering owner whether or not the vehicle does more
11 than 50 kilometres?

12 MR. DON PALMER: That sounds about right,
13 yes.

14 MR. CLAUDIO SOUSA: Okay. Our -- our
15 membership certainly takes -- we've established here very
16 clearly at this hearing, that no one tests these vehicles
17 to -- to know that they do fifty (50). Certainly in the
18 case of a new vehicle purchase it is very uncommon for a
19 buyer to be given access to a test drive, for example.

20 And, as such, upon registering the vehicle
21 the owner would really very often have no basis to answer
22 that question and my conclusion there or my question is
23 this, is it fair for MPI under the current old
24 legislation to -- to continue to proceed with that
25 practice of forcing a question which the consumer is --

1 is uninformed to answer upon vehicle registration?

2 MR. DON PALMER: That's the law so I -- I
3 can't say that it's unfair just because that's the
4 definition that we're -- we're bound by.

5 MR. CLAUDIO SOUSA: I would have to
6 respectively disagree that it is -- it is not the law
7 under the Highway Traffic Act that the operator of the
8 vehicle is responsible for classifying it.

9 MR. DON PALMER: No, a fine distinction
10 but -- but for us to classify and define the vehicle the
11 criteria is top speed.

12 MR. CLAUDIO SOUSA: And I guess we'll
13 have to agree to disagree. I don't believe that MPI's
14 current practice of asking the owner for that information
15 is -- is really proper or -- or fair or in fact even
16 accurate.

17 MR. DON PALMER: I have no further
18 comment.

19 MR. CLAUDIO SOUSA: Comment on that? I'm
20 just stating it.

21 Related to this matter Scootering
22 Manitoba's membership has a -- has a number of concerns
23 in terms of how MPI has been attempting to remedy or deal
24 with the difficulties of -- of the legislation which as
25 we were discussing at the break are -- are painful for

1 both consumers as well as -- as MPI.

2 Has MPI at any time formally or informally
3 requested that or informed the Winnipeg Police Service to
4 spot check, pull over, and -- and validate the licence of
5 -- of scooter operators which are observed to be doing
6 more than 50 kilometres an hour?

7 MS. MARILYN MCLAREN: No.

8 MR. CLAUDIO SOUSA: In the case of -- of
9 owners of mopeds registered prior to the time when MPI
10 began to make more attempts to more accurately classify
11 the vehicles, i.e, the -- the prompt or the -- the
12 question that is asked upon registration, has MPI ever
13 attempted outside of -- of public service announcements
14 which we are -- are very aware and involved in, has MPI
15 ever informed registered owners to perhaps correct or
16 inform them that in fact the legislation requires that
17 their vehicle only do fifty (50)?

18 MR. DON PALMER: It's in the policy
19 guide.

20 MR. CLAUDIO SOUSA: And when was it added
21 to the policy guide approximately?

22 THE CHAIRPERSON: I don't know if it
23 helps but strangely enough I used to own a moped and I'm
24 going back now over ten (10) years and I knew that the
25 limit was fifty (50) and it was 49 ccs and one (1) of the

1 strong advantages of acquiring it at the time, I was
2 going to pick up a Globe & Mail on Saturday and stuff
3 like that was, obviously the -- some of the factors
4 you're talking about, the low cost, the fact that in
5 those days the MPI insurance I think was under fifty
6 dollars (\$50).

7 MR. CLAUDIO SOUSA: Correct, Mr.
8 Chairman, and we -- we agree with that today. We do find
9 however though that there are currently before the
10 provincial magistrate six (6) members that I'm personally
11 aware of that I would have to say all of them were not
12 aware or not informed of the 50 kilometre an hour limit.

13 And what I'm attempting to establish here
14 is that prior to -- in our opinion the fall of 2004 when
15 one would take a scooter or a moped to a broker and have
16 it insured the broker would simply look at the engine
17 displacement and conclude it as a moped and they would
18 not examine any other characteristics.

19 Would you agree with that?

20 THE CHAIRPERSON: You're suggesting
21 better education or information?

22 MR. CLAUDIO SOUSA: Yeah. I'm suggesting
23 that if MPI is -- and -- and what appears to be now the
24 Winnipeg Police Service is now enforcing the Highway
25 Traffic Act, which has always been in place; we don't

1 dispute that, that there hasn't been good information
2 distributed to the owners of these vehicles.

3 We do what we can, but we certainly don't
4 reach everyone.

5 MR. DON PALMER: Was there a question?

6

7 CONTINUED BY MR. CLAUDIO SOUSA:

8 MR. CLAUDIO SOUSA: The question is,
9 prior to 2004, there was certainly a much looser protocol
10 around classifying vehicles upon registration. And that
11 of the fourteen hundred (1400) mopeds at -- prior to
12 2004, there would have been about -- between four and six
13 hundred (400 and 600) registered, that at least those
14 vehicles were never subject to the same type of
15 information that someone registering a new moped, scooter
16 would be subject to today.

17 MR. DON PALMER: That was about the time
18 that the LSM's really gained popularity.

19 MR. CLAUDIO SOUSA: But there were LSM's
20 or scooters and mopeds before that, Chairman Lane is one
21 (1) of them and I certainly had one (1) registered well
22 early -- in the mid 90's as well.

23

24

(BRIEF PAUSE)

25

1 MR. CLAUDIO SOUSA: MPI has proposed
2 dramatic changes certainly to these rates, as well as a
3 harmonization between the motor scooter class under a 100
4 cc and the moped class.

5 Is MPI doing this in preparation for any
6 planned reclassification of mopeds that are registered
7 today?

8 MR. DON PALMER: No.

9 MR. CLAUDIO SOUSA: And would it be
10 therefore fair to conclude that if harmonization is to
11 take place that it -- given that legislative reform is,
12 and I say this with a hopeful tone, legislative reform is
13 on our doorstep; that if harmonization were to be
14 approved by the Board that perhaps it should either be
15 done, if it was approved, then it should be done with an
16 eye towards what an LSM is actually defined as, or
17 perhaps that it be deferred until the Province of
18 Manitoba decides how it's classifying these vehicles.

19 MR. DON PALMER: No, I wouldn't agree
20 with that. We don't know any date of reform of the
21 legislation. We have an issue now, we have a serious
22 deficiency in the rate now and this is -- and we -- and
23 we acknowledge that there's an inequity between the motor
24 scooter rates and the -- which would qualify as LSM's, as
25 well.

1 So I think now is the time to make this
2 harmonization and if there are future changes have to be
3 made because the legislation has changed; then we'll do
4 them at that time.

5 MR. CLAUDIO SOUSA: Thank you Mr. Palmer.
6 The concern or the question comes from the fact that in
7 the proposed harmonization, the current rate group which
8 is being harmonized, that is a 100 cc or less; there are
9 only -- there's only one (1) manufacturer which is
10 producing bikes and has bikes on the road; that are in
11 the 80 to 90 cc class that MPI would be essentially
12 saying that a 49 cc bike, if we accept a top speed of
13 seventy (70); is the same insurance risk as a 90 cc bike,
14 double the engine size and perhaps with a top speed of
15 about 120 kilometre an hour.

16 And we would have concern that we would
17 perhaps be creating yet another difficulty in splitting
18 that class. And if -- would it not be better to look at
19 perhaps creating a motor scooter 50 cc and under or under
20 50 cc class, as part of the harmonization.

21 MR. DON PALMER: At this point in time,
22 because there are so few registered as motor scooters; if
23 there's one (1) or two (2) vehicles in that category and
24 they're -- they're grouped in, it probably means that
25 they're getting a deal, that doesn't bother me too much.

1 At the point if it meant we should have a
2 different displacement split then we would certainly look
3 at it at that time but I think it's premature now.

4 MR. CLAUDIO SOUSA: Thank you, Mr.
5 Palmer. I'm on my last topic, Mr. Chairman. I can see
6 the strain on everyone's physique in the room so I will
7 try and be brief. Although I did learn that you used to
8 drive a moped and we're going to send you a t-shirt for
9 that. Honorary club member.

10

11 (BRIEF PAUSE)

12

13 MR. WALTER SARANCHUK: Any t-shirts
14 should be after the order.

15 MR. CLAUDIO SOUSA: I respectfully take
16 that under advisement from board counsel. They're not
17 worth very much.

18

19 CONTINUED BY MR. CLAUDIO SOUSA:

20 MR. CLAUDIO SOUSA: The last topic I'd
21 like to deal with is that of the forthcoming loss
22 transfer and examining what kind of impact or smoothing
23 effect that would likely have based on moped class
24 experience?

25

 MR. DON PALMER: The rates have been

1 calculated with the new PIPP cost allocation embedded
2 into the rates.

3 MR. CLAUDIO SOUSA: So multi-vehicle
4 accidents have been taken into account and property
5 damage attached to those have been factored into your
6 confidence ratings and your rate making methodology
7 somehow?

8 MR. DON PALMER: The -- the PIPP costs
9 have. We've had some discussions about physical damage
10 costs and they have not been allocated. They're -- they
11 go to the -- the category that incurs the losses, but the
12 PIPP costs have been split.

13 MR. CLAUDIO SOUSA: Thank you for that,
14 Mr. Palmer. That was a very short end to my topic
15 because that was really the crux of my question is to
16 determine whether or not considerations have been already
17 made for -- for certainly what would have a smoothing
18 impact on the claims rate.

19 MR. DON PALMER: We have completely
20 restated our databases.

21 MR. CLAUDIO SOUSA: Thank you. I thank
22 the Board for their patience at this late hour and MPI
23 Panel as well. That concludes my cross-exam.

24 THE CHAIRPERSON: Thank you, Mr. Sousa.
25 One other -- Mr. Palmer, when you were reviewing the

1 indicated rates and the numbers and you reminded everyone
2 of the long transition with respect to motorcycles, okay,
3 is there any reason to believe that we're not witnessing
4 the beginning of that trend for this group?

5 MR. DON PALMER: If we are bound by the
6 current 20 percent capping rules there's every indication
7 that we would be looking at that long, long road. So
8 this is a jump start on it, so to speak.

9 THE CHAIRPERSON: Well, just talking
10 generalities, what's the, say, the average premium for a
11 small motorcycle? Like, one that's past the scooter
12 size, past moped, in one of these other categories?

13 MS. MARILYN MCLAREN: Approximately what
14 would the small motorcycle be worth because the rate
15 groups are value based?

16 THE CHAIRPERSON: Let's say three
17 thousand dollars (\$3,000).

18

19 (BRIEF PAUSE)

20

21 THE CHAIRPERSON: There's no science in
22 this. I was just, sort of, wondering, for Mr. Sousa's
23 advantage, like, part of it is an educational process and
24 if, even reaching the level you're talking about with the
25 harmonization, absent, a lot of, you know, diligence on

1 their part in holding down claims costs and education, I
2 would think in their absence the expectations would be a
3 lot worse than with their presence?

4 MR. DON PALMER: The -- before the
5 harmonization whether it was a 100 cc motor scooter or a
6 100 cc sport bike, if there is such a thing, they have
7 the same -- they would have had the same rate.

8 With the rate decrease that we're
9 proposing they're going down by about 75 percent.

10 THE CHAIRPERSON: So you're saying that
11 seventy (70) that are falling right now on the scooters
12 are credibly rated at the premium on the harmonized
13 level? There's no reason to believe that the mopeds
14 would go any further than what they're harmonizing to
15 then?

16 MS. MARILYN MCLAREN: Right. The -- the
17 seventy-one (71) motor scooters, we've never had a claim
18 on them, not one (1).

19 THE CHAIRPERSON: That is interesting;
20 that's very interesting.

21 MR. DON PALMER: It's such a small group
22 that, you know, that there's no credible experience.

23 THE CHAIRPERSON: I understand. Okay.
24 Well, thank you very much, Mr. Sousa, we appreciate your
25 attendance and your --

1 MR. CLAUDIO SOUSA: Sorry, if I could
2 just redirect on or -- or comment on Chairman Lane's
3 question.

4 The -- in looking at harmonization I -- I
5 think MPI is -- is rightly so examining the -- the
6 situation purely from a rate differential standpoint
7 meaning the harmonization of rates would remove the
8 incentive for people to register as moped rather than
9 motor scooter and I -- I think to simply allow that
10 harmonization without considering the impact that the
11 licencing issue has, would -- would not be a complete and
12 fair picture for -- for the consumers and the users of
13 these vehicles.

14 It might interest the Board to know that
15 when I do speak on -- on these matters I do so as someone
16 who rides a 1,200 cc motorcycle, a 150 cc scooter, as
17 well as a 49 cc moped so I -- I do have first-hand
18 experience with all types of vehicles and -- and the
19 premiums therein and, you know, the accessibility and
20 affordability is something that we are -- are fighting
21 very hard to maintain and certainly the -- the rate shock
22 would erode the principle upon -- upon which we base our
23 -- our intervention.

24 THE CHAIRPERSON: Well, just while you're
25 here, Mr. Sousa, I'll ask you another general question

1 with that piece of information.

2 Do you feel comfortable that a moped
3 operator with no previous experience or training, for
4 example, to ride a motorcycle, that that's a safe
5 condition for them?

6 MR. CLAUDIO SOUSA: We certainly promote
7 safety and safety education provided it is affordable.
8 Currently we don't have affordable education apart from
9 the free training that we do provide to our members.

10 THE CHAIRPERSON: So the issue isn't the
11 necessity or lack of necessity to go through a motorcycle
12 training program; it's the cost that's associated with it
13 that troubles you?

14 MR. CLAUDIO SOUSA: It's the cost and
15 certainly the inconvenience. Whether that's an unsafe
16 condition, we've seen mopeds triple in number in the five
17 (5) years that we're -- we're looking at here.

18 If you look at their claims experience as
19 a percentage it certainly has not kept pace with that
20 growth and it suggests that despite lack of training of
21 the new riders, which form 80 percent of -- of that
22 fourteen (14) or eighteen hundred (1,800), are untrained
23 and are not necessarily creating a claims experience that
24 is keeping pace with the growth and popularity of the
25 vehicles.

1 THE CHAIRPERSON: Well, maybe this
2 discussion will help and inform MPI as they go forward
3 with their new responsibility for formal DVL functions.

4 MR. CLAUDIO SOUSA: Thank you, Mr.
5 Chairman.

6 THE CHAIRPERSON: So thank you again. So
7 now we've reached that stage in proceedings. Mr.
8 McCulloch...?

9 MR. KEVIN MCCULLOCH: Mr. --

10 THE CHAIRPERSON: Do you have any
11 redirect?

12 MR. KEVIN MCCULLOCH: Mr. Chairman, I
13 have one (1) very brief question in redirect. First I
14 would like to file three (3) more exhibits.

15 As MPI Exhibit Number 1 we have -- sorry,
16 31, we have the breakdown of automobile thefts -- sorry,
17 yes, thefts covering the period January to September 2006
18 and comparing those thefts from 2005. This was
19 information that was verbally provided by Mr. Palmer in
20 response to a question from Mr. Williams but we did
21 undertake to file that information and I filed that as
22 Exhibit 31.

23 THE CHAIRPERSON: Thank you. We recall
24 the conversation.

25

1 --- EXHIBIT NO. MPI-31: Breakdown of automobile
2 thefts covering the period
3 January to September 2006 and
4 comparing those thefts from
5 2005.
6

7 MR. KEVIN MCCULLOCH: The next two (2)
8 are undertakings, Undertaking 15 would be MPI Exhibit 32
9 and the last one Undertaking 20, Exhibit 33. And these
10 are two (2) responses to Undertakings requested by CMMG.

11 THE CHAIRPERSON: Thank you sir.
12

13 --- EXHIBIT NO. MPI-32: Response to Undertaking 15.
14

15 --- EXHIBIT NO. MPI-33: Response to Undertaking 20.
16

17 RE-DIRECT EXAMINATION BY MR. KEVIN MCCULLOCH:

18 MR. KEVIN MCCULLOCH: On the re-direct
19 Mr. Chairman, in the course of cross-examination, there
20 was a question asked with respect to MPI's knowledge on
21 the process by which ICBC chose, or the government in
22 British Columbia chose to direct MCT as a test for
23 retained earnings for ICBC. And Ms. McLaren has
24 information on that that wasn't provided in -- in the
25 cross.

1 MS. MARILYN MCLAREN: I wanted to just
2 have a chance to sort of expand a little bit on
3 information that Mr. Galenzoski put on the record last
4 year, with respect to questions about the fact that it
5 was the Government of British Columbia that established
6 EC-2, the directive with respect to retained earnings for
7 the basic compulsory insurance program run by ICBC.

8 And he said at that time, that yes it was
9 the government but, he understood that it was based on
10 advice from the Corporation, the Insurance Corporation of
11 British Columbia.

12 In my conversations with our counterparts
13 there, my understanding is that the Corporation made a
14 recommendation to the Government that was based on advice
15 from actuarial consultants; that is were the 100 percent
16 MCT came from, was with the assistance of external
17 consulting actuaries.

18 My understanding also from my counterparts
19 also at ICBC is that the government then chose to do a
20 little bit of a reality check on that advice and sought
21 it's own external actuarial advice.

22 And the outcome of that was the Government
23 directive on the 100 percent MCT to be used as the target
24 for the compulsory program, retained earnings.

25 THE CHAIRPERSON: Thank you. And just to

1 recall for the benefit of the three (3) Panel Members,
2 the significant difference between ICBC and MPI
3 presumably is the fact that they are still tort linked;
4 is that not true?

5 MS. MARILYN MCLAREN: Yes, the basic
6 compulsory program is two hundred thousand dollars
7 (\$200,000) of third party liability, limited to that in
8 the basic compulsory program and accident benefits.

9 The accident benefits have increased
10 fairly significantly in British Columbia over the last
11 number of years, even though they have not moved to a
12 pure or threshold no fault system, they have continued to
13 increase those benefits.

14 THE CHAIRPERSON: The reason I mention it
15 is when we had an opportunity to review some of the
16 information from ICBC, my understanding from reading it,
17 that unlike MPI, their claims information seems to be
18 relatively unstable, like, they were having significant
19 increases in claim costs that were referred to that lead
20 to some \$500 million transfer from their competitive
21 lines over to basic under government direction, I think
22 that's what it referred to.

23 MS. MARILYN MCLAREN: I think there was a
24 public policy discussion about -- of the retained
25 earnings that the Corporation had, how should they be

1 split? My recall is not that that conversation really
2 circled around the volatility of their claims.

3 Since that -- since that initial decision
4 has been made though the Corporation has had to apply for
5 two (2) rate increases and the BCUC public record is that
6 they have had significant claims costs instability.

7 Their claims have increased significantly
8 and they expect them to continue because of the tort
9 volatility, yes.

10 THE CHAIRPERSON: I guess the other
11 remarkable thing there is their incredible population
12 growth, sort of ala Alberta, as compared to ours, stable.

13 But not that necessarily the situations
14 are exactly accurate or have or the same or that; it's
15 just that we just encourage discussion because it helps
16 to broader the Panel's background knowledge.

17 MS. MARILYN MCLAREN: And that's why we
18 thought it would be worth putting a little bit more
19 information on the record.

20 THE CHAIRPERSON: It is. Thank you very
21 much. Do you have anything else Mr. McCulloch?

22 MR. KEVIN MCCULLOCH: No, Mr. Chairman,
23 that completes the re-direct.

24 THE CHAIRPERSON: You're not kidding us?

25 MR. KEVIN MCCULLOCH: Unless we need to

1 open up to cross-examination on the re-direct.

2 THE CHAIRPERSON: Well thank you very
3 much. Thank you for your openness and your transparency,
4 your willingness to engage in conversation and
5 discussion. We found it most stimulating and we've had a
6 very long day. I wish you a very good weekend and we
7 will see you on Tuesday morning. Presumably you will
8 want to hear the Intervenors' closing statements.

9 Thank you, everyone, we stand adjourned.

10

11 --- Upon adjourning at 8:02 p.m.

12

13

14 Certified Correct.

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18

19

20 Wendy Warnock

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