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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE COMPANY
GENERAL RATE APPLICATION
FOR 2009/10 INSURANCE YEAR

Before Board Panel:

- Graham Lane - Board Chairman
- Eric Jorgensen - Board Member
- Alain Molgat - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
September 29th, 2008
Pages 678 to 886

APPEARANCES

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1 --- Upon commencing at 9:07 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.
4 We'll start with Mr. Saranchuk. He has received some
5 communication.

6 MR. WALTER SARANCHUK: Yes, Mr. Chairman.
7 Mr. Gaudreau, the Board's Executive Director received a
8 letter dated September 24th from the organization known
9 as Time To Respect Earth's Eco Systems, known by the
10 acronym TREE. And the request is that since the -- that
11 is that group is not appearing as Intervenor or a
12 presenter that it would be appreciated if this letter
13 were at least acknowledged in the record admitted into
14 the evidence as having been received.

15 So that's the September 24th, 2008 letter
16 from Resource Conservation Manitoba to Gerry Gaudreau,
17 the Executive Director of the PUB.

18

19 (RESOURCE CONSERVATION MANITOBA LETTER DATED SEPTEMBER
20 24, 2008 INSERTED BELOW)

21

22 Dear Mr. Gaudreau:

23 Re: MPI and Sustainability

24 Resource Conservation Manitoba (RCM) and
25 Time to Respect Earth's Ecosystems (TREE) have engaged in

1 a number of interventions before the PUB advocating just
2 and sustainable policies for Manitoba Hydro, Centra Gas,
3 and Manitoba Public Insurance. On this occasion we
4 select two particular matters for consideration. We
5 continue to stand by our previous submissions in support
6 of pay as you drive (PAYD) insurance. Please consider
7 this letter supplemental input from RCM and TREE to the
8 current MPI GRA review and include it in the record.

9 MPI sponsored workshop on sustainable
10 transportation opportunities

11 During the fall 2006 GRA hearing MPI,
12 acknowledging its responsibilities under Manitoba's
13 Sustainable Development Act (SDA) and the need to develop
14 its role in support of sustainable transportation, agreed
15 to engage in a collaborative approach with stakeholders
16 to explore PAYD and other alternatives. The first step
17 of that engagement occurred in a June 17, 2008 workshop.
18 MPI was to respond to numerous suggestions generated at
19 that workshop. RCM and TREE invite MPI to update
20 workshop participants and the PUB regarding progress and
21 a timeline for MPI's response.

22 The above request complements PUB
23 Directive 8.e.i of Order 150/07 that MPI provide, "an
24 update as to MPI's consultations with the government with
25 respect to the role, if any, to be played by

1 environmental objectives in rate making;"

2 Method of rebating excess premiums

3 Mr. Hugh Arklie has emailed the PUB a
4 submission urging that future rebates of surplus premiums
5 occur via an electronic credit to MPI customer accounts
6 in order to reduce the resource waste and extra costs
7 associated with the mail out of physical cheques. RCM
8 and TREE support that position. RCM has already made its
9 position clear in its April 14, 2008 letter to the PUB
10 (attached).

11 It has come to our attention that in
12 response to a previous appeal by Mr. Hugh Arklie, as
13 reported in Mr. Gaudreau's letter to Mr. Arklie of
14 December 14, 2007, the PUB cited RCM/TREE's silence on
15 the issue as a consideration for not varying their order
16 in favor of electronic payment. RCM and TREE
17 emphatically reject the interpretation that our previous
18 silence (based on lack of awareness and consideration of
19 the issue) means agreement with recent rebate procedures.
20 We believe that the Board's stated concern to distinguish
21 the coming year's premium from the past year's rebate can
22 be handled by appropriate bill presentation and
23 messaging.

24 Sincerely,

25 Stephen Walker, President, Resource

1 Conservation Manitoba (RCM)

2 Peter Miller, Vice President, Time to
3 Respect Earth's Ecosystems (TREE)

4 (INSERT CONCLUDED)

5

6 (RESOURCE CONSERVATION MANITOBA LETTER DATED APRIL 14,
7 2008 INSERTED BELOW)

8

9 Dear PUB:

10 Re: MPI Rebate Methods

11 It has been brought to the attention of
12 Resource Conservation Manitoba that the pending provision
13 of vehicle insurance rebates by Manitoba Public
14 Insurance, pursuant to an Order of the Public Utilities
15 Board, will entail the preparation and distribution of
16 hard copy printed cheques to tens of thousands of
17 eligible drivers.

18 Given the desirability of greening
19 business practices and in light of the principles of
20 sustainability, RCM's respectful suggestion would be
21 that, to the greatest extent practicable, such rebates be
22 distributed by electronic means so as to reduce the use
23 of paper, not to mention expense and effort on the part
24 of MPI.

25 One way to do this might be, for example,

1 by crediting the rebated amount to the accounts of
2 qualifying vehicle owners toward the purchase of vehicle
3 insurance in the following year.

4 In any case, RCM has full confidence that
5 MPI has the administrative capacity to accomplish this
6 with minimal environmental impact and optimal efficiency.

7 Thank you.

8 Yours truly,

9 Kenton Lobe, President, Board of Directors
10

11 (INSERT CONCLUDED)
12

13 THE CHAIRPERSON: And to that there's an
14 attachment from Mr. Kenton Lobe.

15 MR. WALTER SARANCHUK: Yes, sir.

16 THE CHAIRPERSON: That's fine. Thank
17 you. Okay, where we left off last week -- oh, first, Mr.
18 McCulloch, do you have anything for us?

19 MR. KEVIN MCCULLOCH: Not yet, Mr.
20 Chairman.

21 THE CHAIRPERSON: See, I am learning,
22 slowly but there.

23 Mr. Williams...?
24

25 MPI PANEL RESUMED:

1 WARD KEITH, Resumed

2 DON PALMER, Resumed

3 MARILYN MCLAREN, Resumed

4 OTTMAR KRAMER, Resumed

5

6 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

7 MR. BYRON WILLIAMS: Yes, good morning,
8 Mr. Chairman and Members of the Board.

9 Mr. Kramer, I'm going to come back to you
10 in -- in just a second. But, Ms. McLaren, just -- my
11 memory seems to be getting more feeble in my dotage. I -
12 - I just want to review the RSR history over the -- the
13 RSR rebate history over the last couple of years at a
14 very high level.

15 Would it be fair to say that in last
16 year's rate application, the Public Utility Board ordered
17 a RSR rebate that was somewhat higher than what the
18 Corporation had recommended.?

19 Would that be fair?

20 MS. MARILYN MCLAREN: Yes. I think a
21 little over 2 percent higher.

22 MR. BYRON WILLIAMS: And going back one
23 (1) more year in time, would it be fair to say that the
24 PUB ordered a RSR rebate which the Corporation was in
25 affect opposed to?

1 MS. MARILYN MCLAREN: Yes, I believe so.

2 MR. BYRON WILLIAMS: And if -- and if
3 your memory -- if your recollection changes, you can
4 certainly advise me.

5 And going back three (3) years ago, would
6 it also be fair to say that the PUB ordered an RSR rebate
7 which the Corporation opposed?

8 MS. MARILYN MCLAREN: Yes.

9 MR. BYRON WILLIAMS: Mr. Kramer, on --
10 just in the -- apparently the much thinner than usual
11 CAC/MSOS book of documents, page 16, that should be the
12 excerpted Basic expenses by category. It's a longer
13 sheet. Yeah. Hopefully it's numbered page 16 in your --
14 your version.

15 And we have been talking about changes in
16 the -- whether compensation or data processing or
17 amortization costs between the '05/'06 period and the
18 '09/'10 period.

19 Is that right, sir?

20 MR. OTTMAR KRAMER: Yes, I believe that's
21 what this sheet represents.

22 MR. BYRON WILLIAMS: And you'll recall
23 last week when we were talking about amortization costs
24 between '05/'06 and '09/'10, the projection for -- be --
25 for that year, we'd agreed that they'd more than doubled.

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Is that fair?

MR. OTTMAR KRAMER: Between '05/'06 and '09/'10?

MR. BYRON WILLIAMS: Yes, sir.

MR. OTTMAR KRAMER: No, they haven't quite doubled. Close to it but not quite.

Oh, sorry, sorry. I was looking at data processing. Yes, the amortization, yes, it has. Sorry.

MR. BYRON WILLIAMS: Okay. And we'd actually confirmed that last week. I just want to -- if I suggested to you that they've -- in -- in that period actually increased by 137.8 percent, would that make sense to you, sir? I can do the calculation with you if you need.

MR. OTTMAR KRAMER: Yes, that's correct.

MR. BYRON WILLIAMS: And these other two (2) figures we confirmed last week, but let's just go '05/'06 to '09/'10 in terms of data processing in the range of 90 percent, you'll agree with that -- the increase?

And we did confirm it last week if you'll accept it, subject to check.

MR. OTTMAR KRAMER: Yes, it appears -- appears reasonable.

1 MR. BYRON WILLIAMS: And compensation
2 again, in that period, '05/'06 to '09/'10, projected a
3 little less than 20 percent, being 19.8 percent, sir?

4 MR. OTTMAR KRAMER: Yes, that's correct.

5 MR. BYRON WILLIAMS: Just in terms of --
6 again this period, and focussing on data processing
7 costs, I wonder if the Corporation -- and, Mr. Kramer,
8 you may wish to -- if you wish to answer this question,
9 take it as an undertaking. I wonder if for the -- each
10 individual year, being '06/'07, '07/'08, '08/'09 and
11 '09/'10, I wonder for each of those years if you can give
12 me the data processing costs, if any, attributed to Basic
13 and associated with the Business Process Review?

14 MR. OTTMAR KRAMER: I don't have that
15 currently in front of me but we can take that as an
16 undertaking.

17

18 --- UNDERTAKING NO. 19: MPI to provide the data
19 processing costs, if any,
20 attributed to Basic and
21 associated with the Business
22 Process Review for each
23 individual year, being
24 '06/'07, '07/'08, '08/'09 and
25 '09/'10

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: And I appreciate
3 that very much, sir. And similarly with amortization
4 costs for each year, being '06/'07, '07/'08, '08/'09 and
5 '09/'10, if you could undertake to provide me with the
6 amortization costs, if any, attributed to Basic and
7 associated with the BPR or Business Process Review?

8 MR. OTTMAR KRAMER: Yes, we can do that.

9

10 --- UNDERTAKING NO. 20: MPI to provide the
11 amortization costs, if any,
12 attributed to Basic and
13 associated with the Business
14 Process Review for each
15 individual year, being
16 '06/'07, '07/'08, '08/'09 and
17 '09/'10

18

19 CONTINUED BY MR. BYRON WILLIAMS:

20 MR. BYRON WILLIAMS: And likewise, with
21 compensation costs for the years '06/'07, '07/'08,
22 '08/'09 and '09/'10, I wonder if you would undertake for
23 each year to give me the compensation costs, if any,
24 attributed to Basic and associated with the BPR?

25 MR. OTTMAR KRAMER: Yes, we can do that.

1 --- UNDERTAKING NO. 21: MPI to provide the
2 compensation costs, if any,
3 attributed to Basic and
4 associated with the Business
5 Process Review for each
6 individual year, being
7 '06/'07, '07/'08, '08/'09 and
8 '09/'10

9
10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: Thank you very much.
12 This isn't in my thinner book of documents of CAC/MSOS
13 but in the Corporation's response to PUB-2-11 -- and I'll
14 just give you a second for Mr. Palmer to grab that for
15 you.

16
17 (BRIEF PAUSE)

18
19 MR. BYRON WILLIAMS: Do you have the
20 information request, Mr. Kramer?

21 MR. OTTMAR KRAMER: Yes, I believe we
22 both do.

23 MR. BYRON WILLIAMS: And that's PUB-2-11?

24 MR. OTTMAR KRAMER: Yes, that's correct.

25 MR. BYRON WILLIAMS: Okay. In terms of

1 Question 2-11(B), the question was put:

2 "Please indicate the total number of
3 increased staff in each department to
4 address BPR initiatives."

5 And you'll confirm for me that the
6 Corporation's answer was:

7 "The total increase in staff for BPR
8 initiatives by division are as follows:
9 human resources, eighteen point five
10 (18.5); business innovation and
11 insurance operations, a hundred
12 seventeen point seven (117.7), for a
13 total of one hundred and thirty-six
14 point two (136.2)."

15 Is that right, sir?

16 MR. OTTMAR KRAMER: Yes, that's what the
17 -- we had indicated in the IR response.

18 MR. BYRON WILLIAMS: And again, and maybe
19 this is on the record somewhere and I've missed it. If
20 so, I apologize. But of that one hundred and thirty-six
21 point two (136.2), can you indicate to me how many of
22 those might be attributed to Basic?

23 MR. OTTMAR KRAMER: No, we don't have
24 that currently calculated.

25

1 (BRIEF PAUSE)

2

3 MR. OTTMAR KRAMER: In discussion with
4 Mr. Palmer, we would not have a definitive amount of head
5 count, we would have -- we have a proxy of compensation
6 dollars by initiatives that's allocated to Basic but not
7 head count. We do not allocate head count as such; we
8 allocate compensation dollars. So we would not have the
9 -- the head count to -- that's allocated to Basic.

10 MR. BYRON WILLIAMS: Would some of these
11 heads, which we're unable to count, be attributed to --
12 I'm teasing.

13 But some of those would -- would be in
14 Basic, would they not, sir?

15 MR. OTTMAR KRAMER: Absolutely. I -- for
16 the PIPP initiative infrastructure study, et cetera, yes,
17 those -- those would be allocated to Basic some hundred
18 percent. Other projects would be only a portion.

19 MR. BYRON WILLIAMS: Would it be --
20 recognizing that it would be -- it sounds -- let me just
21 say, am -- am I correct in understanding that what you're
22 saying is that to even achieve a proxy or estimate you
23 would have to back out compensation numbers?

24 Is that fair, sir?

25 MR. OTTMAR KRAMER: We -- we allocate

1 compensation. If we used a similar manner to allocate
2 heads we could perhaps do a -- a calculated amount.

3 MR. BYRON WILLIAMS: Would you be able to
4 provide us -- recognizing that it's an estimate, Mr.
5 Kramer, would you be able to provide us with such an
6 estimate? Attribute -- count -- estimating the number of
7 full-time equivalents from the -- flowing from the Basic
8 program that are associated with the BPR?

9 MR. OTTMAR KRAMER: Yes, we can undertake
10 to take a look at that, see if -- if we can do a
11 calculation.

12

13 --- UNDERTAKING NO. 22: MPI to provide an estimate
14 the number of full-time
15 equivalents flowing from the
16 Basic program that are
17 associated with the BPR

18

19 CONTINUED BY MR. BYRON WILLIAMS:

20 MR. BYRON WILLIAMS: And when you're
21 doing that, if you would, I wonder if you would include
22 or let me go at it this way: The average cost per
23 employee associated with -- with these Basic initiatives
24 associated with the BPR.

25 MR. OTTMAR KRAMER: I don't understand.

1 Average costs -- is at the average compensation dollars
2 per employee. So show the calculation or...?

3 MR. BYRON WILLIAMS: What I'd like, Mr.
4 Kramer, and I apologize for my inarticulate questioning,
5 the average compensation costs for the employee and the
6 average cost all-in. And -- and I'll give you an example
7 if -- if it doesn't make sense.

8 When we look at Manitoba Hydro, they tell
9 us that their average cost per employee in wages and
10 benefits is around eighty thousand (80,000) per year and
11 then when you throw in office space, et cetera, they're
12 up to about a hundred -- hundred thousand (100,000).

13 Would you be able to provide that
14 calculation?

15 MR. OTTMAR KRAMER: We've never done a
16 calculation in a similar manner and I'd -- I'd be
17 hesitant to do anything because it -- it may not be
18 correct or consistent with anything else that's done.

19 MR. BYRON WILLIAMS: And just so I'm
20 clear, in your -- your planning exercises and your
21 budgeting exercises, does Manitoba Public Insurance not
22 have a kind of rule of thumb per employee, in terms of
23 the costs all-in?

24 MR. OTTMAR KRAMER: No, we -- we
25 generally have not got in all-in costs. Yes, we've got a

1 compensation in the benefits but each -- each department
2 has different requirements and we've -- we've never done
3 an -- just an average all-in cost.

4 MR. BYRON WILLIAMS: So you don't look at
5 the incremental costs over and above compensation
6 associated with -- with each staff?

7 MR. OTTMAR KRAMER: Not with each staff;
8 with each department or with each initiative but not each
9 staff.

10 MR. BYRON WILLIAMS: Finally, and -- and
11 I apologize for belabouring this point, in terms of the -
12 - the BPR -- additional staff associated with the BPR,
13 the full-time equivalents, would you also be able to
14 indicate in which year they were -- they were added?

15 MR. OTTMAR KRAMER: Yes, we -- we could
16 do it by year, similar to the response that we gave in 11
17 -- PUB 2-11(A).

18 MR. BYRON WILLIAMS: Thank you very much
19 for that.

20

21 --- UNDERTAKING NO. 23: MPI to indicate, in terms of
22 additional staff associated
23 with the BPR, the full-time
24 equivalents, which year they
25 were added

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Probably my last
3 question on -- on number sixteen (16), which is the
4 excerpted Basic expenses by category. If I look at the
5 compensation costs just focussing on the period between
6 '07/'08 to the projection for '09/'10, they're rising
7 from an actual of eighty-two million two hundred and four
8 thousand (82,204,000) to a projected of ninety million
9 five hundred and fifty-seven thousand (90,557,000).

10 Is that right, sir?

11 MR. OTTMAR KRAMER: Yes, that's correct.

12 MR. BYRON WILLIAMS: If I suggested to
13 you that's about a 10.16 percent increase, would you
14 accept that?

15 MR. OTTMAR KRAMER: Yes, that is -- I've
16 got ten point two (10.2).

17 MR. BYRON WILLIAMS: I'll -- I'll live
18 with that, Mr. Kramer.

19 MR. OTTMAR KRAMER: Yeah, ten point (10.)
20 something, yeah, around it.

21 MR. BYRON WILLIAMS: I was trying to be a
22 little more cautious but...

23

24 (BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: Again, it's -- this
2 is not in your package of materials but if you could turn
3 to CAC/MSOS-1-3 please.

4 And I'm assuming this is for Mr. Kramer,
5 but it may be for Ms. McLaren so...

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Mr. Kramer, you'll
10 see at a high level what this Information Request is
11 seeking guidance on is both the Corporation's approved
12 guidelines for the '07/'08 and '08/'09 years, as well as
13 the approved budgets.

14 Do you see that, sir?

15 MR. OTTMAR KRAMER: Yes, I see that.

16 MR. BYRON WILLIAMS: And you'll see just
17 even in the question in CAC/MSOS-1-3(D) there's a
18 reference to budgetary guideline. And I -- I wonder at a
19 very high level if you can tell me what the Corporation
20 understands by budgetary guideline and who sets them?

21

22 (BRIEF PAUSE)

23

24 MR. OTTMAR KRAMER: The budgetary
25 guidelines are prepared by one (1) of the departments --

1 budgeting and planning department -- within the MPI,
2 reviewed by management, and then presented to the Board
3 as a -- as a high-level -- high-level look at the -- the
4 next fiscal year that we're trying to set the budget for.
5 So they're initially prepared by line staff and approved
6 by the Board.

7 MR. BYRON WILLIAMS: They're approved by
8 the Board and...

9 MR. OTTMAR KRAMER: Oh, sorry, they're
10 approved by the Board, not by management committee.
11 They're given to -- approved by -- by management
12 committee, reviewed by the Board as an information item.

13 MR. BYRON WILLIAMS: So just so -- just
14 so I understand, they make their way to the -- the Board
15 for information purposes, but they are approved by the
16 management committee.

17 Is that right, sir?

18 MR. OTTMAR KRAMER: Yes, that's correct.

19 MR. BYRON WILLIAMS: And in the budgetary
20 planning timeframe, when are these budget guidelines
21 approved?

22 MR. OTTMAR KRAMER: They're -- they're
23 approved by management committee in the September
24 timeframe.

25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: These guidelines, do
4 they -- clearly they -- you'll agree with me that they're
5 set for the Corporation as a whole?

6 MR. OTTMAR KRAMER: Yes, they're on a
7 corporate basis.

8 MR. BYRON WILLIAMS: Are there budgetary
9 guidelines set for the Basic program as well?

10 MR. OTTMAR KRAMER: No, nothing
11 specifically.

12 MR. BYRON WILLIAMS: And in terms of
13 setting these budgetary guidelines, presumably the input
14 -- some of the input that the Corporation would look at
15 would be inflation guidelines, what the Corporation is
16 applying for from the Public Utilities Board, factors
17 like that.

18 Would that be fair?

19

20 (BRIEF PAUSE)

21

22 MR. OTTMAR KRAMER: Yes, that would be
23 correct inflation, prior your submission to the Public
24 Utilities Board for the General Rate Application, et
25 cetera; those sort of things, yeah.

1 MR. BYRON WILLIAMS: Moving for a second
2 from the budgetary guidelines to the approved budget, my
3 understanding -- let's say we were looking at the '07/'08
4 insurance year, the approved budget might be set or in
5 fact in that year was set in January of 2007.

6 Would that be right, sir?

7 MR. OTTMAR KRAMER: Yes. We go through
8 our budget process and generally the budget approval is
9 at the Board level in the January timeframe.

10 MR. BYRON WILLIAMS: And just so I
11 understand, the actual approved budget then is approved
12 by the Board of Directors of Manitoba Public Insurance?

13 MR. OTTMAR KRAMER: Yes, that is correct.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: And just following
18 this process, we've gone from guidelines to the approved
19 budget then presumably at some point in time we get to
20 the actuals, right, the actual numbers for a year?

21 MR. OTTMAR KRAMER: Yeah in a little over
22 twelve (12) months, yes.

23 MR. BYRON WILLIAMS: And when we're
24 looking at the actuals, let's say it's June of 2007 and
25 it appears that the Corporation may be running over and

1 above the approved budget.

2 What's the -- what's the decision -- what
3 process is required then if in effect the Corporation is
4 running over and above the approved budget?

5 Do you have to go back to the Board of
6 Directors?

7

8 (BRIEF PAUSE)

9

10 MS. MARILYN MCLAREN: Mr. Williams, it
11 would just depend on the context. If we were -- we're
12 often -- there's often timing differences. So assuming
13 it's not a timing difference, assume in June we only find
14 out we're over budget and expect to continue to be over
15 budget, if it would be in sort of less than an
16 inflationary amount, we would inform the Board. If it
17 was material we would go back and inform them but then
18 seek their support to continue on that basis.

19 MR. BYRON WILLIAMS: Just going back to
20 the guidelines for a second. The budgetary guidelines
21 for the '07/'08 year would be set in September of 2006 or
22 recommended in 2006? September of 2006, is that right?

23 MR. OTTMAR KRAMER: Yes, that's correct.

24 MR. BYRON WILLIAMS: Moving now again to
25 the approved budget, in terms of the approved budget and

1 referring specifically to Basic, would Basic's share of
2 the approved budget be an exact reflection of the
3 application presented to the Public Utilities Board?

4

5

(BRIEF PAUSE)

6

7

MR. OTTMAR KRAMER: Could you just state
8 that question again?

9

MR. BYRON WILLIAMS: I'll try and state
10 it better if I might.

11

When you look at the approved budget,
12 let's say the 2007 year and focussing specifically on
13 Basic, would that be the same numerical figure that was
14 presented to the Public Utilities Board as forecast
15 expenses for the Basic program for that year?

16

MR. OTTMAR KRAMER: As I had indicated
17 earlier, we -- we do not prepare a budget or guidelines
18 on a Basic basis. But the -- the budget and the
19 guidelines one (1) of the factors we do look at is the
20 Public Utilities Board submission from the previous year.
21 So -- so that -- that goes into preparing that budget on
22 a corporate basis.

23

But it -- but it isn't exact. There can
24 be economic factors, operational factors, that would
25 drive us to -- to increase, decrease a variety of

1 changes. It will happen from -- from that PUB submission
2 to the final budget that is approved in the January
3 timeframe.

4 MR. BYRON WILLIAMS: Just -- let's --
5 let's go to the response to CAC/MSOS-1-3(d). You'll
6 confirm for -- for me that the focussing solely on normal
7 operations, recognizing we're looking at the Corporation
8 as a whole, the budget guideline for normal operations
9 for the '07/'08 year was \$171.7 million.

10 Is that right?

11 MR. OTTMAR KRAMER: Yes, that's correct.

12 MR. BYRON WILLIAMS: And the approved
13 budget was a bit higher, being 174.8 million.

14 Would that be right, sir?

15 MR. OTTMAR KRAMER: Yes, it was higher
16 for various reasons.

17 MR. BYRON WILLIAMS: About -- a little
18 less than 2 percent higher. Is that right?

19 MR. OTTMAR KRAMER: Yes, that's correct.

20 MR. BYRON WILLIAMS: Now, if you flip in
21 your book -- if you -- CAC/MSOS book of documents to page
22 18 stamped in the top right-hand corner?

23

24

(BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: And if you could
2 also have at hand the attachment to CAC/MSOS-1-3(A) and
3 (C) which looks at the approved and actuals for 2007/'08,
4 Mr. Kramer? That'll be in the Information Request that
5 you were just looking at?

6 Now, Mr. Kramer, and if the photocopying
7 doesn't come out that well I apologize for this but
8 you'll see what is presented on stamped page 18 of the
9 CAC/MSOS book of documents is excerpt from the 2007/'08
10 Rate Application, Basic Expenses by -- by Category, being
11 TI.9(B) in that proceeding.

12 Do you see that, sir?

13 MR. OTTMAR KRAMER: Yes, I see that.

14 MR. BYRON WILLIAMS: And you'll see as
15 well -- and hopefully you can read it, if not you'll have
16 to -- might have to -- I might have to give you a cleaner
17 copy -- that projected for '07/'08 in terms of total
18 Basic expenses, the very bottom right-hand number would
19 be a figure of a hundred and thirty-six million two
20 hundred and sixty-five thousand (136,265,000).

21 If you can't read it, Mr. Kramer, I'm
22 going to share with you with your counsel's permission a
23 better copy. I'm sure he won't mind.

24 MR. OTTMAR KRAMER: On taking the glasses
25 off, I believe that's a sixty-five (65) and not an

1 eighty-five (85), but wasn't 100 percent certain.

2 MR. BYRON WILLIAMS: Yeah. We're into
3 bifocal territory are we not, Mr. Kramer?

4 So just to run through the '07/'08 year,
5 the PUB would have been in -- in the rate application for
6 that year recognizing it was -- at an early period in
7 time, would have been presented with a projection for the
8 '07/'08 year of somewhere in the range of 136 million.

9 Is that right, sir?

10 MR. OTTMAR KRAMER: Yes, that -- that
11 appears to be correct.

12 MR. BYRON WILLIAMS: And then going to
13 the back of -- of CAC/MSOS-1-3, the information response,
14 the approved budget for '07/'08 for Basic -- Mr. Kramer,
15 it's probably on the backside of the -- the page you're
16 looking at -- would be in the range of 139 million.

17 Would that be right, sir?

18 MR. OTTMAR KRAMER: Yes, 139.1 million.

19 MR. BYRON WILLIAMS: And the actuals
20 would be -- for Basic again, would be in excess of the
21 approved budget, being some one hundred forty-one million
22 nine hundred and sixty-thousand (141,961,000).

23 Would that be right?

24 MR. OTTMAR KRAMER: Yes, and that excess
25 was primarily driven due to the loss -- safety and loss

1 prevention, i.e. the immobilizer, and was higher than the
2 -- the approved budget or the previous year's PUB
3 submission, primarily driven by increased immobilizer
4 spending.

5 MR. BYRON WILLIAMS: So --

6 MR. OTTMAR KRAMER: And recovered from
7 the Immobilizer Incentive Fund.

8 MR. BYRON WILLIAMS: It's still being
9 spent though, Mr. Kramer? It's coming out of the
10 reserves?

11 MR. OTTMAR KRAMER: It's still being
12 spent, but it was set aside through previous managements'
13 mit -- wisdom as a reserve and might not have the exact
14 timing on that \$50 million immobilizer spend, but the --
15 the monies were set aside and reserved for.

16 MR. BYRON WILLIAMS: And just to confirm,
17 if I'm looking at the actuals versus the approved budget,
18 then it's a little less than 3 million higher or about 2
19 percent higher.

20 Would that be right, sir?

21 MR. OTTMAR KRAMER: My colleague, Mr.
22 Palmer, indicates that that's correct and it's -- it's
23 driven again like I said by the Immobilizer which was I
24 believe about \$4 million higher.

25 Excluding that, it appears that we would

1 have been lower than the -- than the budget.

2 MR. BYRON WILLIAMS: And if we look --
3 just comparing the actuals to the numbers that were
4 presented to the Public Utilities Board, being one
5 hundred and forty million nine hundred and sixty thousand
6 (140,960,000) versus the GRA projection of a bit over 136
7 million, that would be about \$5.6 million higher, sir?
8 Five point six nine (5.69)?

9

10 (BRIEF PAUSE)

11

12 MR. OTTMAR KRAMER: Yes. I get -- I get
13 \$5.6 million, driven largely by the Immobilizer of \$4.6
14 million additional spending in that year on the
15 Immobilizer initiative recovered from the IIF.

16 MR. BYRON WILLIAMS: So that would be
17 about 4 percent higher than the GRA projection? The
18 actuals.

19 MR. OTTMAR KRAMER: Yes, that 4 percent
20 number appears to be correct.

21 MR. BYRON WILLIAMS: And I -- and I
22 apologize for the -- the -- the mum -- mind numbing
23 inquiries, Mr. Kramer, but we're going to move onto the
24 '08/'09 year.

25 Looking at the corporate level, the

1 2008/'09 budget guideline for normal op -- operations was
2 181.7 million, correct?

3 MR. OTTMAR KRAMER: Yes, that is correct.

4 MR. BYRON WILLIAMS: And the approved
5 normal operation budgets was -- was some \$2.3 million
6 higher, being 184 million, correct?

7 MR. OTTMAR KRAMER: Yes, that is correct.

8 MR. BYRON WILLIAMS: So about 1.3 percent
9 more than the guideline?

10 MR. OTTMAR KRAMER: Yes. As indicated in
11 that IR response, that's correct.

12 MR. BYRON WILLIAMS: Just flipping over
13 one (1) more page -- keep -- keep that IR out, Mr.
14 Kramer, if you don't mind -- and flipping over one (1)
15 more page in the CAC/MSOS book of documents, being page
16 19, in the top right hand corner. And again if you need
17 help with your -- with your glasses, I think my -- Ms.
18 Aik -- Aiken can give you a cleaner copy.

19 For the -- you'll agree with me that what
20 we're looking at is the projection of Basic expenses by
21 category presented in the '08/'09 Rate Application. I
22 believe it's -- was TI.7(B) in that year, sir?

23 MR. OTTMAR KRAMER: Yes, I believe so.

24 MR. BYRON WILLIAMS: And going to the --
25 the table, Total Basic Expenses, towards the bottom right

1 side of that table, you'll agree with me, if your -- if
2 you've got your glasses off, and are -- are squinting
3 carefully, that the projection for '08/'09 was some one
4 hundred and forty-two million nine hundred and seventy-
5 two thousand (142,972,000).

6 Does that look right, sir?

7 MR. OTTMAR KRAMER: Yes, that appears
8 correct.

9 MR. BYRON WILLIAMS: And flipping back to
10 CAC/MSOS-1-3(E), am I right in suggesting to you that the
11 approved budge for Basic for this year was a hundred and
12 fifty six point (156.) -- or a hundred and fifty-six
13 million hundred and forty-three thousand (156,143,000),
14 sir?

15 MR. OTTMAR KRAMER: Yes, the total for
16 Basic was \$156.2 million.

17 MR. BYRON WILLIAMS: And that's some -- a
18 bit over \$13 million higher, sir?

19 MR. OTTMAR KRAMER: Yes, that -- that's
20 higher, primarily due to Immobilizer spending and other
21 initiatives, which I believe we've taken as an
22 undertaking to show you what kind of dollars will -- are
23 in Basic's share for -- for those various initiatives.

24 MR. BYRON WILLIAMS: Would you agree,
25 subject to check, that's a bit over 9 percent higher be -

1 - from the approved -- that the approved budget is -- is
2 a bit over 9 percent higher than the projection provided
3 to the Public Utilities Board, sir?

4 MR. OTTMAR KRAMER: Yes, again that --
5 that is about 9 percent higher for -- due to Immobilizer
6 spending and initiative spending.

7

8 (BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: Now -- and if you
11 need a reference, Mr. Kramer, one other one you might
12 want to have nearby is PUB-2-14.

13

14 (BRIEF PAUSE)

15

16 MR. OTTMAR KRAMER: I've got it. Thank
17 you.

18 MR. BYRON WILLIAMS: And you did, with
19 reference to the '08/'09 year, suggest that Immobilizer
20 expenditures were -- were part of the factor driving the
21 variant -- variance between the information presented to
22 the Public Utilities Board and that presented to -- or in
23 the -- in the approved budget.

24 And am I right at a very high level, what
25 -- what this Information Request tries to do is reconcile

1 the Corporation's responses to two (2) different
2 Information Requests, CAC/MSOS-1-3 and CAC/MSOS-1-12?

3 Is that right?

4 MR. OTTMAR KRAMER: Yes, I believe that's
5 what it indicates on the -- the top of the IR request.

6 MR. BYRON WILLIAMS: And essentially, if
7 you go to the 2008/'09 approved expense budget and if you
8 need a chance to read their information response, you
9 certainly can but you'll see that the line for safety and
10 loss prevention programs in this -- in the approved
11 budget here is 18.122 million, sir, which is the -- it's
12 a correct -- it's corrected from what was incorrectly
13 presented in -- in CAC-1-3.

14 Is that right?

15

16 (BRIEF PAUSE)

17

18 MR. OTTMAR KRAMER: Could you repeat the
19 question, please?

20 MR. BYRON WILLIAMS: And I -- I
21 apologize. The numbers are a little bit different. It -
22 - and a -- this -- the -- the more reliable number is the
23 number in safety and loss prevention set out in PUB-2-14.

24

25 Is that right, in terms of --

1 MR. OTTMAR KRAMER: From a budgetary
2 standpoint, yes, not a rate application standpoint.

3 MR. BYRON WILLIAMS: Fair enough. Thank
4 you. And I apologize for the confusion. That didn't
5 need to be so confusing.

6 Since that time -- since that 18.122
7 million was -- was budgeted, is the road safety and loss
8 prevention actuals or are they expected to be higher,
9 sir, than they're -- they are set out in the -- in the
10 line?

11 MR. OTTMAR KRAMER: The more current
12 forecast was what was presented under CAM -- CAC/MSOS-1-
13 3, which -- which shows the \$19.6 million. That was
14 filed in error. We -- but \$1.5 million was added to the
15 road safety loss prevention for additional Immobilizer
16 incentive costing.

17 MR. BYRON WILLIAMS: And I apologize for
18 the confusion. So the actual approved expense guideline
19 -- approved budget for '08/'09 appears in PUB-2-14 then,
20 sir?

21 MR. OTTMAR KRAMER: Yes, that was with --
22 what was approved and one dash three (1-3) is -- is what
23 was filed with the PUB.

24 MR. BYRON WILLIAMS: So it would be an
25 updated version of the approved budget?

1 MR. OTTMAR KRAMER: Yes.

2 MR. BYRON WILLIAMS: And it would be
3 somewhat higher than the approved budget.

4 MR. OTTMAR KRAMER: It was higher by \$1.5
5 million due to initial Immobilizers --

6 MR. BYRON WILLIAMS: Right.

7 MR. OTTMAR KRAMER: -- incentive
8 expenses, based on the MaR-2 list.

9 MR. BYRON WILLIAMS: Focussing -- but the
10 actual approved budget, which appears in PUB-2-14, being
11 a 154.643 million, you'll agree with me is considerably
12 higher than the budget that was presented to the Public
13 Utilities Board with regard to the '08/'09 Rate
14 Application?

15 MR. OTTMAR KRAMER: Yes, what was
16 presented by -- in the '08/'09 Rate Application was not a
17 budget but it was a forecast at that point in time and --
18 and the actual approved budget was higher due to
19 Immobilizer spending and initiative spending which we
20 will be providing as an undertaking.

21 MR. BYRON WILLIAMS: In terms of the
22 2008/'09 approved budget does the Corporation expect that
23 it will, with regard to the Basic program, remain within
24 that budget or that it will exceed it?

25 MR. OTTMAR KRAMER: The budgets are

1 presented each year. At this point in time I -- I can't
2 tell you that we will be considerably over or under, but
3 the budget is -- is presented, approved and all attempts,
4 as Ms. McLaren has indicated, is to -- to meet the budget
5 and if there are considerable variances we would examine
6 those, try to understand whether they're timing-related
7 or if they're caused by some sort of other economic or
8 operational factor and review that at that point in time.

9 But currently we intend on -- on either
10 meeting the budget or attempting to be operational
11 efficient and not spend the dollars that -- that we had
12 budgeted if they don't make prudent sense to do so.

13 MR. BYRON WILLIAMS: You track your
14 budgets on a monthly basis; how you are doing, actuals to
15 your approved budget, correct?

16 MR. OTTMAR KRAMER: Yes, we do.

17 MR. BYRON WILLIAMS: So the most recent
18 information you would have would be for -- for which,
19 July 31st or August 31st?

20 MR. OTTMAR KRAMER: We would have the
21 August 31st numbers.

22 MR. BYRON WILLIAMS: In terms of Basic
23 expenses, as of August 31st, were you ahead of budget,
24 were you above the -- the budgetary guidelines or below,
25 sir?

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(BRIEF PAUSE)

MR. OTTMAR KRAMER: As of August 31st we are under budget on a -- on a corporate basis.

MR. BYRON WILLIAMS: Okay. On a corporate basis. And on a Basic?

MR. OTTMAR KRAMER: I believe on a Basic basis --

MR. BYRON WILLIAMS: Yes.

MR. OTTMAR KRAMER: -- also, yes.

MR. BYRON WILLIAMS: Do you have any problem with sharing those for August 31st?

(BRIEF PAUSE)

MR. OTTMAR KRAMER: Yes, we -- we could take that as an undertaking and get those number -- that number for you on a high-level overall basis.

MR. BYRON WILLIAMS: Thank you very much.

--- UNDERTAKING NO. 24: MPI to provide numbers regarding the budget of Basic and Corporate as of August 31st

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Mr. Keith, I don't
3 think we've even spoke in this hearing, so I apologize
4 for that.

5 And I have a few questions for you and you
6 may in -- in the CAC/MSOS materials I'll probably be
7 referring you to page 17 in the top right hand corner.

8 MR. WARD KEITH: Yes, I have it, Mr.
9 Williams.

10 MR. BYRON WILLIAMS: And I don't think
11 you need to turn here, Mr. Keith, but in the original
12 application filed by the Corporation in SM.5.4 the
13 Corporation talks at a high level about some of its all
14 payrolls, claims costs, saving initiatives.

15 Do you -- you recall that, sir?

16 MR. WARD KEITH: Yes.

17 MR. BYRON WILLIAMS: And one of the --
18 the points the Corporation makes is that it -- it
19 suggests that through its -- its negotiating with various
20 trade groups throughout the province it's had some
21 success in controlling labour, paint, and material costs,
22 is that right, sir?

23 MR. WARD KEITH: That's correct.

24 MR. BYRON WILLIAMS: And certainly in its
25 application in this proceeding the Corporation references

1 a recent agreement with the, I only have the initials,
2 the MMDA and the ATA covering labour, paint and materials
3 in southern Manitoba, is that right, sir?

4 MR. WARD KEITH: Yes.

5 MR. BYRON WILLIAMS: And that's a renewal
6 of a -- of a previous three (3) year agreement and this
7 renewal runs, as I understand it, from January 1st, 2008
8 to August 31st, '08.

9 Is that right, sir?

10 If you're looking for a response, Mr.
11 Keith, the reference is CAC/MSOS-1-18.

12 MR. WARD KEITH: I believe the agreement
13 was to the end of July of 2009. Let -- let me just
14 confirm that.

15 MR. BYRON WILLIAMS: And I misspoke. I
16 think it's to the end of -- let me rephrase the question.

17 The agreement ran from January 1st, 2008
18 to August 31st, 2009, is that right, sir?

19 MR. WARD KEITH: Yes, that's right.

20 MR. BYRON WILLIAMS: Thank you for being
21 careful and I apologize for misspeaking.

22 So it runs for about a nineteen (19) month
23 period, is that right, sir?

24 MR. WARD KEITH: Yes.

25 MR. BYRON WILLIAMS: And it was a renewal

1 of a previous three (3) year agreement that had been
2 negotiated with the ATA and the MMDA, is that right, sir?

3 MR. WARD KEITH: That's right.

4 MR. BYRON WILLIAMS: And would I be
5 correct if I looked at that -- that agreement running
6 from January 1st, 2008 to August 31st, 2009, that if I
7 looked at the increase for frame labour it would be about
8 12 percent over that nineteen (19) month period?

9 Would that be correct, sir?

10 MR. WARD KEITH: That's correct.

11 MR. BYRON WILLIAMS: But -- but in
12 fairness, there's -- there's also no increase in the cost
13 of paint materials for that nineteen (19) month period,
14 is that right?

15 MR. WARD KEITH: That's correct. No
16 increase in paint materials or shop materials.

17 MR. BYRON WILLIAMS: So for that nineteen
18 (19) month period, there's no increase in paint materials
19 or shop materials. Now if you could turn to again in the
20 CAC book of documents, page 17, that's -- you'll see
21 that's an Interrogatory to CAC/MSOS-1-30 from last year's
22 hearing.

23 Is that right, sir?

24 MR. WARD KEITH: Yes.

25 MR. BYRON WILLIAMS: And in that previous

1 three (3) year agreement, the old one, would I be correct
2 in suggesting that on an annual basis that paint
3 materials were projected to increase 6 percent annually,
4 sir?

5 MR. WARD KEITH: That was what the
6 agreement called for in the third year of the agreement.

7 MR. BYRON WILLIAMS: So only in the 3rd
8 year? What did it provide for in the previous two (2)
9 years?

10 Do you know that, sir?

11 MR. WARD KEITH: I don't have that
12 information with me but we could provide it if you'd
13 like.

14 MR. BYRON WILLIAMS: Would you do that,
15 sir? You'll undertake to do that, to provide in the two
16 (2) previous years of that agreement, the paint material
17 increases?

18

19 (BRIEF PAUSE)

20

21 MR. WARD KEITH: I'm sorry, Mr. Williams,
22 I can probably avoid that undertaking. In reading the
23 agree -- the -- the Information Response. It was for
24 each year of the three (3) year agreement.

25 MR. BYRON WILLIAMS: So 6 percent

1 annually. If -- if I again, I could perform the math for
2 you although it would be torturous. Would that -- so
3 over that three (3) year period, paint materials rose --
4 you'll agree subject to check, about 19.1 percent?

5 MR. WARD KEITH: Yes, subject to check.

6 MR. BYRON WILLIAMS: And again in that
7 previous three (3) year agreement, shop materials rose
8 for each year of that agreement, at about 5 percent, sir?

9 MR. WARD KEITH: Yes.

10 MR. BYRON WILLIAMS: So you'll agree,
11 subject to check, that over that three (3) year period
12 the cumulative increase would be some 15.8 percent?

13 MR. WARD KEITH: Yes.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: Mr. Kramer, just a
18 bit of tire kicking -- and if you think this is an unfair
19 analysis you'll -- you'll let me know. But you'll agree
20 -- I'm trying to get a sense of the cost for full-time
21 equivalent in Basic, purely focussing on compensation.

22 Would one (1) way to estimate that be to
23 take your estimate of full-time equivalence set out in
24 PUB-1-40, let's say for the '08/'09 year of one thousand
25 two hundred and eighty-seven (1,287) full-time

1 equivalence for Basic, and divide that by the forecast
2 compensation costs for that year?

3 MR. WARD KEITH: I -- I didn't catch the
4 numbers. I think the logic appears to be correct.

5 MR. BYRON WILLIAMS: Well, I was worried
6 about the logic first. I'm going -- and I'll give you my
7 references. I've just done it as a -- as a quick kind of
8 -- I -- I'm going to suggest to you that the -- looking
9 at the '08/'09 year, the estimated number of full-time
10 equivalents for the Corporation based on PUB-1-40 is one
11 thousand two hundred and eighty-seven (1,287).

12 Is that right, sir?

13 MR. OTTMAR KRAMER: Yes, that appears
14 correct.

15 MR. BYRON WILLIAMS: And if I looked at,
16 for example -- and I don't think you need to turn there,
17 but CAC-1-3, the forecast Basic compensation costs are
18 some eighty-seven million three hundred and five thousand
19 (87,305,000).

20 Is that about right, sir?

21 MR. OTTMAR KRAMER: Yes, that appears
22 correct.

23 MR. BYRON WILLIAMS: So if I was trying
24 to ballpark the cost per full T -- FTE not -- not -- just
25 on compensation, we're looking at somewhere in the range

1 of sixty-seven thousand eight hundred thirty-six dollars
2 (\$67,836)?

3 Would that be about right?

4 MR. OTTMAR KRAMER: Yes, that would be
5 about right.

6 MR. BYRON WILLIAMS: And at a very high
7 rough estimate that's not a methodological approach you
8 would -- you disagree with -- it kind of sounds logical
9 to you, sir?

10 MR. OTTMAR KRAMER: At a high level, yes,
11 it sounds reasonable.

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: Probably you, Mr.
16 Kramer, but I could be wrong, or it might be -- if you
17 could turn to in the CAC/MSOS book of documents, page 20,
18 in the right hand corner.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: And again, Mr.
23 Kramer, if you're not the right guy you'll -- you'll tell
24 me, but this is -- you'll agree subject to check, that
25 this is an excerpt from the response of the Corporation

1 to CMMG-1-32?

2 MR. OTTMAR KRAMER: Subject to check, it
3 appears so.

4 MR. BYRON WILLIAMS: And if you'll agree
5 as well, subject to -- to check, that -- that what --
6 what it attempts to do is -- well let me back up a
7 second.

8 You'll agree that in -- in the
9 Corporation's application, in TI.5, it -- it con --
10 contains a comparison of a number of indicia of MPI
11 versus Crowns, and -- and other -- and -- and the
12 industry as well, in terms of certain indicators.

13 Is that right, sir?

14 MR. OTTMAR KRAMER: At a high level, it
15 attempts to -- to show what the MPI has relative to ICBC,
16 SGI in the industry.

17 MR. BYRON WILLIAMS: And what the
18 Corporation has done in TI.5 is look at -- again you
19 don't need to turn there -- but factors such as net
20 premiums written, net claims incurred, claims expenses,
21 operating expenses, total claims costs, commissions and
22 taxes, and -- and at a very high level, tried to compare
23 them to the other western Crowns, as well as the industry
24 generally.

25 Is that fair, sir?

1 MR. OTTMAR KRAMER: It -- it attempts to.
2 I don't know if in -- industry data is there the whole
3 time for -- for all the indicators, but it -- it attempts
4 at a high lever on a consolidated basis, including
5 various lines of business that we or the other companies
6 may have.

7 MR. BYRON WILLIAMS: And the
8 Corporation's information in TI.5 goes back, you'll agree
9 with me, a considerable number of years.

10 Perhaps back to 1988, or so, sir?

11 MR. OTTMAR KRAMER: I -- I don't have it
12 in front of me, but I know it does go back considerably.

13 MR. BYRON WILLIAMS: Yeah. Now what CMMG
14 in this thoughtful Information Request has essentially
15 tried to do, you'll agree subject to check, is ask MPI to
16 recast certain elements of TI.5 using the 2001 year as
17 the base, rather than going back farther in time.

18 Is that fair, sir?

19 MR. OTTMAR KRAMER: Yes, the starting off
20 with oh -- 2001 as the -- the year where we start up as a
21 hundred (100).

22 MR. BYRON WILLIAMS: So what this
23 response attempts to capture is the relative change
24 between certain factors for certain firms since 2001,
25 correct?

1 MR. DON PALMER: I think that you
2 characterize very well and say "attempts to capture". In
3 any comparison of this kind, there are many underlying
4 factors which could contribute to -- to differences.

5 For example, and I -- and I don't know
6 this for a fact, but ICBC may have -- when you see the --
7 the number from a hundred (100) down to eighty point six
8 (80.6) in two (2) years. There may -- might have been a
9 fundamental change in the way that they account for
10 certain expenses. For instance, maybe they used more out
11 of house counsel which maybe wasn't included in this --
12 maybe in another line item in the...

13 For our statements in the '05/'06/'07
14 years that you see some large increases, those would
15 account for Immobilizer expenses as part of our claims
16 expense; the other Crown's would not have those. So
17 there are many factors that may contribute to this. And
18 -- and to draw any conclusions, I would say is -- would
19 be at your peril to do that.

20 MR. BYRON WILLIAMS: Let's go back just
21 to my question. So -- you're -- you're not --

22 MR. DON PALMER: Or ours.

23 MR. BYRON WILLIAMS: You're -- I guess it
24 depends how the Board interprets it, doesn't it, Mr.
25 Palmer?

1 see on this table and -- and I accept your cautions, and
2 I think they're -- they're appropriate, Mr. Palmer. Am I
3 right that the little square is MPI, that the triangle is
4 SGI, and ICBC is the pretty little diamond?

5 MR. DON PALMER: That's correct.

6 MR. BYRON WILLIAMS: And they're -- it's
7 fair to say that they're starting out in two-o-one (201)
8 at the same starting place.

9 Would that be fair, sir?

10 MR. DON PALMER: That was the index, yes.

11 MR. BYRON WILLIAMS: And you'll -- you'll
12 agree with me that the -- the square being MPI and the
13 little triangle being SGI are tracking together quite
14 closely 'til two-o-three (203) or so, sir?

15 MR. DON PALMER: Yes.

16 MR. BYRON WILLIAMS: And then we see a
17 diversion, recognizing there may be very good reasons for
18 that with -- where -- where MPI's appear -- appears to be
19 rising at a faster pace over the following years than
20 SGI.

21 Is that fair, sir?

22 MR. DON PALMER: To my eye, it looks like
23 the diversion actually just happened in one (1) year and
24 then tracked very closely -- very close to parallel
25 beyond that. So -- so whatever happened that would cause

1 a difference looks like happened in the '04 year.

2 MR. BYRON WILLIAMS: And then perhaps in
3 the '06 year as well, sir? '07 year, I mean, sorry.

4 MR. DON PALMER: I would say '07 and then
5 it looks like there's a bit of a conversion back in -- in
6 '08.

7 MR. BYRON WILLIAMS: And -- and we'll
8 agree that regardless of the factors, ICBC has followed a
9 different and relatively lower path over the -- over that
10 period, correct?

11 MR. DON PALMER: Yes. Again, there looks
12 like there was a real diversion in '02/'03 year and then
13 maybe some slight increases. Certainly for the ensuing
14 two (2) years, it looks pretty close.

15 MR. BYRON WILLIAMS: And I appreciate
16 that, Mr. Palmer. And if you could just flip to the next
17 page of the CAC documents, being page -- the page stamped
18 twenty-one (21) in the top right-hand corner.

19 And you'll agree that this is a similar
20 table but attempting to track -- track the relative
21 change in operating expenses, sir?

22 MR. DON PALMER: Attempting to -- to
23 track. And -- and again, for clarification, the large
24 increase from '05 to '06 would be the merger with DVL.

25 MR. BYRON WILLIAMS: And by the large

1 increase you're -- you're referring to the -- the fact,
2 I'll suggest to you, that the industry Manitoba and SGI
3 appear to be tracking together up till 2005, and then
4 after that Manitoba appears a little higher on the -- on
5 the index?

6 Is that right, sir?

7 MR. DON PALMER: That one (1) time
8 increase, yes.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: Mr. Chairman, I -- I
13 have a -- just on this area I have a few more questions
14 that I'd like to finish up just before the break, if --
15 if I might.

16 Just going into the -- to the issue of
17 cost allocation and also the recent merger that Mr.
18 Palmer referenced with DVL. Just Basic -- and I know Ms.
19 Everard and Mr. Saranchuk both have had questions on this
20 so I won't belabour it. But I just want to make sure I -
21 - I understand the Corporation's evidence.

22 If I phoned MPI -- the MPI call centre and
23 given my notorious driving record, asked a driver vehicle
24 licensing in question today, the MPI call centre would be
25 able to hopefully assist me.

1 There'll be someone there who -- who's
2 there to answer those -- those type of questions,
3 correct?

4 MR. DON PALMER: Yes.

5 MR. BYRON WILLIAMS: So the -- the call
6 centre staff are getting DVL calls and presumably that
7 same person that I talked to will also be getting calls
8 related to Basic and to extension and SRE.

9 Am I right on that?

10 MR. DON PALMER: Yes.

11 MR. BYRON WILLIAMS: And just at a high
12 level and I'm not sure that much turns on it but in terms
13 of dividing up that staff person's time at the claim
14 centre, how -- how is it divided?

15 Is it divided by the number of calls going
16 to each -- each -- each category? Is it -- or the number
17 of time spent on each call?

18 Or could you give me some insight into the
19 process.

20 MR. DON PALMER: Assuming it was call
21 centre not claim centre, all of those things are -- are
22 factored in.

23 MR. BYRON WILLIAMS: Well, how are they
24 recorded? Is it automated? Is it -- God forbid it's not
25 time sheets for example. How -- how do they do it, Mr.

1 Palmer?

2 MS. MARILYN MCLAREN: Mr. Williams, the
3 staff do categorize the calls, in terms of public
4 information categories. Clearly a claim is a claim.

5 But if it is a question about where can I
6 renew my driver licence and how much is my Immobilizer
7 discount and all those general kinds of enquiries, the
8 staff do categorize them. There is an automated method
9 of tracking the average length of call based on the
10 categories. So both the average -- claims calls are the
11 longest calls; not necessarily always the highest volume.
12 So both come into play.

13 The average length of call times the
14 volume of that particular kind of call leads to a
15 calculation and allocation of the cost of call centre
16 staff time.

17 MR. BYRON WILLIAMS: Just jumping around
18 a little bit just to finish up kind of this -- this
19 general theme, in terms of the new claim centre business
20 case -- I -- I don't you need to turn there -- but would
21 I be right in suggesting that one (1) of the factors
22 driving the need for -- the Corporate -- what the need
23 in the Corporation's view for a new claim centre, was the
24 fact that claim centre workloads have been exacerbated by
25 the popularity of extension products, such as Auto Loss

1 of Use?

2 Would that be a factor?

3 MS. MARILYN MCLAREN: That's one (1) of
4 the number of factors.

5 MR. BYRON WILLIAMS: And a num -- another
6 factor would be the rapid growth between 1999 and 2005
7 and the -- the growth in the number of extension
8 policies, would that be fair?

9 MS. MARILYN MCLAREN: No, very, very few
10 extension policies ever require, sort of a stand-alone
11 trip to the claim centre.

12 MR. BYRON WILLIAMS: So Auto Loss of Use
13 would be a factor, exacerbating workloads, and that's one
14 of the things that came into the discussion, but in your
15 -- your view, the extension products growing popularity
16 has not been?

17 MR. MARILYN MCLAREN: That's right,
18 because you have to look at it in a more discreet level
19 than that. The Auto Loss of Use, again, would only come
20 in to play when there's already a claim having occurred.

21 Somewhat more clerical time required
22 because of the popularity of the Loss of Use product, but
23 has no effect on adjusting time, estimating time, and
24 most of the other products have no impact at all.

25 MR. BYRON WILLIAMS: Okay, Mr. Chairman,

1 this would be the -- probably an appropriate time for the
2 break, with your permission.

3 THE CHAIRPERSON: Very good. We'll stand
4 down for fifteen (15) minutes. Thank you.

5

6 --- Upon recessing at 10:11 a.m.

7 --- Upon resuming at 10:39 a.m.

8

9 THE CHAIRPERSON: Mr. McCulloch, you have
10 some filings?

11 MR. KEVIN MCCULLOCH: I do, Mr. Chairman,
12 three (3) written responses to undertakings. The first
13 one being a response to Undertaking Number 7, dealing
14 with what gains on equities have been realized in the
15 current fiscal year. I would ask that that be entered as
16 MPI Exhibit No. 11.

17

18 --- EXHIBIT NO. MPI-11: Response to Undertaking 7

19

20 MR. KEVIN MCCULLOCH: We then have the
21 response to Undertaking Number 9: What are the
22 investment portfolio dollar amounts for the venture
23 capital comprised of. That would be MPI Exhibit Number
24 12.

25

1 --- EXHIBIT NO. MPI-12: Response to Undertaking 9

2

3 MR. KEVIN MCCULLOCH: And response to
4 Undertaking Number 16, provide the Board with statistics
5 of volume of automobile insurance business published by
6 the Manitoba Superintendent of Insurance; that's in
7 response to the question as to what other companies are
8 writing automobile insurance in Manitoba. And that would
9 be filed as MPI Exhibit Number 13.

10

11 --- EXHIBIT NO. MPI-13: Response to Undertaking 16

12

13 THE CHAIRPERSON: Thank you, sir.

14 MR. KEVIN MCCULLOCH: In addition, Mr.
15 Palmer has a response to, I believe, MPI -- or sorry,
16 Undertaking Number 11.

17 MR. DON PALMER: Yes, with regard to the
18 Aon report at AI.11, there was some question about a
19 title in one of the charts that said, "New Economic
20 Scenarios". That, in fact, is -- is a typo. That's the
21 base scenario that we had talked about. And all the
22 assumptions underlying both the base assumptions and the
23 alternative assumptions are itemized in that report.

24 And just for the record, the base
25 assumptions are on -- in AI.11, page 36 to 38, and the

1 alternative assumptions are on pages 39 to 41.

2 THE CHAIRPERSON: Thank you, Mr. Palmer.
3 Mr. Williams...?

4

5 (BRIEF PAUSE)

6

7 CONTINUED BY MR. BYRON WILLIAMS:

8 MR. BYRON WILLIAMS: Just departing from
9 script for a moment. With regard to Undertaking 16, and
10 I'm sure Mr. Saranchuk or Ms. Everard will have more
11 thoughtful questions than I do, but turning to the fourth
12 page, am I right in suggesting that in 2006 of the 824-
13 some million in premiums, MPI wrote 814 million or about
14 98 percent?

15 MS. MARILYN MCLAREN: Yes.

16 MR. BYRON WILLIAMS: And likewise --

17 MS. MARILYN MCLAREN: Sorry. And I'll
18 take your calculation of the percentages, but those
19 numbers are correct.

20 MR. BYRON WILLIAMS: Yeah and probable --
21 I think point -- at ninety-eight point eight (98.8) but
22 98 percent, between friends.

23 And likewise for the '07 year, are we
24 again looking about -- MPI, with about 98 percent? Or to
25 ninety-nine (99), somewhere in that range?

1 MS. MARILYN MCLAREN: Yeah, about \$10
2 million, yeah. A million dollars written by other
3 insurers.

4 MR. WALTER SARANCHUK: Just in fairness -
5 - excuse me for the interjection, but --

6 MR. BYRON WILLIAMS: Yeah.

7 MR. WALTER SARANCHUK: -- we went through
8 some of this too at our side, and when you exclude the
9 Basic
10 -- because the Basic is included in there -- when you
11 exclude the Basic, it works out to somewhere in the area
12 of 95 percent.

13

14 CONTINUED BY MR. BYRON WILLIAMS:

15 MR. BYRON WILLIAMS: Thank you, Mr.
16 Saranchuk.

17 I want to turn to issues related road
18 safety and loss prevention.

19 And, Mr. Chairman, I -- I forgot to
20 introduce my client, one (1) of my clients earlier today,
21 so Ms. Desorcy is -- is here.

22 And, Ms. McLaren, I'll probably go to Mr.
23 Keith later or -- I'm not sure who does road safety; I'm
24 assuming it's Mr. Keith though. But just -- just to set
25 the playing field so -- so that we don't need to -- to

1 fight over this later, we can agree that MPI wrote issues
2 around road safety or important to Manitoba Public
3 Insurance but your view is that the solution to issues
4 around road safety is that MPI is only part -- part --
5 part of the package.

6 Would that be fair?

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

8 MR. BYRON WILLIAMS: And certainly in the
9 conversation that follows, my clients will be expressing
10 concern not necessarily saying that this is all your
11 fault.

12 Do you understand that?

13 MS. MARILYN MCLAREN: Thank you for that.

14 MR. BYRON WILLIAMS: I'd like you to turn
15 to, in the CAC/MSOS book of documents, page 23 stamped in
16 the right -- top right corner, being the response to
17 CAC/MSOS-1-6.

18 Do you have that, Mr. Keith?

19 MR. WARD KEITH: Yes.

20 MR. BYRON WILLIAMS: And what this table
21 presents is one (1) measure of the road safety
22 environment in Canada. You'll agree with that, sir?

23 MR. WARD KEITH: Yes.

24 MR. BYRON WILLIAMS: And what it's --
25 it's showing using data both from Transport Canada and

1 Statistics Canada, is inter-jurisdictional comparison for
2 casualty rates over a seven (7) year period, as measured
3 per billion motor vehicle kilometres.

4 Is that right, sir?

5 MR. WARD KEITH: That's correct. That's
6 what this particular measure is.

7 MR. BYRON WILLIAMS: And let's just take
8 the -- the 2006 year for a second, in terms of
9 fatalities. The Canadian average is eight point nine
10 (8.9) fatalities per -- per billion motor vehicle
11 kilometres travelled.

12 Is that right, sir?

13 MR. WARD KEITH: Yes.

14 MR. BYRON WILLIAMS: The -- the Manitoba
15 average is somewhat higher, being nine point nine (9.9)
16 per billion motor vehicle kilometres travelled.

17 Is that right, sir?

18 MR. WARD KEITH: In 2006, yes.

19 MR. BYRON WILLIAMS: And if I just go --
20 and I apologize for that imprecision. You'll agree with
21 me, just at a quick eyeball level, that this -- that over
22 the past three (3) years reported, being 2004, 2005 and
23 2006, the fatalities in Manitoba per billion motor
24 vehicle kilometres have been higher than the Canadian
25 average.

1 Would that be fair, sir?

2 MR. WARD KEITH: Yes, that's fair.

3 MR. BYRON WILLIAMS: Moving just to the -
4 - the second part of this table, again you'll see at the
5 extreme top right hand corner the Canadian average for
6 injuries per billion motor vehicle kilometres travelled
7 with six-o-four point two (604.2) in 2006?

8 MR. WARD KEITH: Yes.

9 MR. BYRON WILLIAMS: And the Manitoba
10 average you'll agree is above -- for 2006, is above the
11 Canadian average, sir?

12 MR. WARD KEITH: Yes.

13 MR. BYRON WILLIAMS: And subject to
14 check, I wonder if you'll agree with me that for all
15 seven (7) years portrayed in this table, the -- being
16 from the year 2000 to the 2006 year, the -- the Manitoba
17 average of injuries per billion motor vehicle kilometres
18 travelled is higher than the Canadian average?

19 Would that be fair, sir?

20 MR. WARD KEITH: Yes, that's -- that's
21 fair.

22 MR. BYRON WILLIAMS: Now injuries and --
23 or -- excuse me, casualty rates per billion motor vehicle
24 kilometres travelled is one (1) recognized statistic or
25 metric in terms of road safety.

1 We've agreed on that, Mr. Keith?

2 MR. WARD KEITH: Yes, more specifically
3 it's one (1) way to measure relativity among
4 jurisdictions.

5 MR. BYRON WILLIAMS: And thank you for
6 that. Two (2) other ways to measure relativity amongst
7 jurisdictions, if you'll turn to page 24 of the -- the
8 book of documents, are fatality and injury data per
9 hundred thousand population and per hundred thousand
10 licensed drivers, is that right, sir?

11 MR. WARD KEITH: Yes.

12 MR. BYRON WILLIAMS: And this is --
13 you'll see on page 24 of the CAC/MSOS book of documents
14 an excerpt from information that was provided by -- the
15 source here states Statistics Canada but perhaps you will
16 agree with me that the source is both Transport Canada
17 and Statistics Canada? I believe I've shared the
18 background information with the Corporation.

19 MR. WARD KEITH: Yes, I would agree with
20 that.

21 MR. BYRON WILLIAMS: And so just for the
22 benefit of the Board the -- the properly cited source
23 should include Transport Canada and Statistics Canada.

24 I want to turn to the fatalities per
25 hundred thousand population just for a second. And I

1 wonder, you'll agree with me, Mr. Keith, that within
2 Manitoba there's over 1 million people; would that be
3 fair, sir?

4 MR. WARD KEITH: Yes.

5 MR. BYRON WILLIAMS: So just roughly
6 doing the math and realizing that these are people's
7 lives that I'm roughly doing the math with, with a
8 population of over 1 million and ten point one (10.1)
9 fatalities per hundred thousand of the population, would
10 it be fair to suggest that in the 2006 year there were
11 approximately one hundred (100) deaths in Manitoba
12 related to motor vehicle collisions?

13 MR. WARD KEITH: Yes.

14 MR. BYRON WILLIAMS: And the 2006 year
15 would be the most recent year for which data is
16 available; would that be fair, sir, to your knowledge?

17 MR. WARD KEITH: It's the most recent
18 data that's available with respect to cross-
19 jurisdictional relativity. We do have updated data with
20 respect to 2007 fatalities and serious injuries in
21 Manitoba.

22 MR. BYRON WILLIAMS: Well then perhaps
23 you could do two (2) things for me if -- if you would: I
24 wonder if you could undertake to provide the provincial
25 data from 2006 in terms of the total number of deaths in

1 Manitoba related to motor vehicle collisions and for 2007
2 as well, sir?

3 MR. WARD KEITH: Yes, I can speak to
4 that. With respect to the transport -- with respect to
5 the, sorry, the collision data.

6 In 2007 fatal collisions were down
7 7.7 percent compared to the same number of collisions in
8 2006 and actual deaths resulting from motor vehicle
9 accidents were down 8.4 percent. The -- the actual
10 numbers there are a hundred and -- one hundred and four
11 (104) fatal collisions in 2006 down to ninety-six (96) in
12 2007, and one hundred and nineteen (119) deaths in 2006
13 down to one hundred and nine (109).

14 I can also tell you that with respect to a
15 broader -- a broader view of the ten (10) year analysis
16 of this data that what the information indicates is from
17 1998 to 2007 fatal collisions in this province declined
18 by 18.7 percent and injuries -- collisions involving
19 injuries, serious injuries, declined by 12 1/2 percent.

20 MR. BYRON WILLIAMS: Thank you very much
21 for that.

22 In -- let's deal with the -- the 2007
23 year. In terms of the deaths, the one hundred and nine
24 (109) deaths, does the Corporation have a breakdown of
25 those one hundred and nine (109) deaths in terms of how

1 many might be related to unsafe speed, impaired driving,
2 auto theft and occupant restraints, sir?

3 MR. WARD KEITH: Based on police reported
4 data there are indicators on the police reports that
5 identify potential contributing factors but I would
6 caution that with respect to the contributing factors of
7 speed, impaired driving and non-seat-belt use that this
8 is not often a one-to-one correlation. So there may be
9 multiple contributing factors relating to one (1) single
10 fatal collision.

11 MR. BYRON WILLIAMS: That's fair enough.
12 In -- in terms of those police reported information, you
13 are able to provide them, sir? For the hundred and nine
14 (109) deaths in -- in 2007?

15 MR. WARD KEITH: Yes, we could take that
16 as an undertaking.

17

18 --- UNDERTAKING NO. 25: MPI to provide police
19 reported information for the
20 hundred and nine (109) deaths
21 in 2007

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: What about -- would
25 there also be information in terms of the deaths in which

1 auto theft was a contributing factor as well, sir?

2 Would that information also be part of the
3 picture, or not?

4 MR. WARD KEITH: I'm not certain, Mr.
5 Williams, that that information is available through the
6 traffic collision database.

7 MR. BYRON WILLIAMS: Certainly if -- when
8 you're doing this, if -- if it -- if there's any
9 information on that that you can share, certainly that
10 would be appreciated by my clients.

11

12 --- UNDERTAKING NO. 26: MPI, if possible, provide
13 number of deaths in 2007 in
14 which auto theft was a
15 contributing factor

16

17 CONTINUED BY MR. BYRON WILLIAMS:

18 MR. BYRON WILLIAMS: With regard to both
19 the 2006 number of deaths being one hundred and nineteen
20 (119) and the 2007 number of deaths being one hundred and
21 nine (109), would it also be possible to get a breakdown
22 between City of Winnipeg and other, sir?

23 Is there a rural urban split that you can
24 share with us?

25 MR. WARD KEITH: Yes, there is a rural

1 urban split. Urban is not defined as the City of
2 Winnipeg, it's based on the size of the -- of the
3 community, but I think it would give a fair
4 representation.

5 MR. BYRON WILLIAMS: Thank you very much
6 for that. And just so I -- I understand the definition.
7 Is urban more than ten thousand (10,000) in population or
8 are you aware of the actual definition?

9 MR. WARD KEITH: Subject to check, Mr.
10 Williams, I believe that is the -- that is the threshold.

11 MR. BYRON WILLIAMS: And perhaps -- and I
12 appreciate your assistance in -- in providing both these
13 years. Perhaps in doing so, if you could just put in the
14 definition for rural and urban that you're employing.
15 That would be appreciated, sir.

16 Is that okay?

17 MR. WARD KEITH: Yes.

18

19 --- UNDERTAKING NO. 27: MPI to indicate the
20 rural/urban split in deaths
21 for the years 2006 and 2007,
22 as well as MPI's definitions
23 for both rural and urban

24

25 CONTINUED BY MR. BYRON WILLIAMS:

1 MR. BYRON WILLIAMS: I'm going to ask you
2 to turn, Mr. Keith, one (1) more page in the CAC/MSOS
3 book of documents. You'll see the response to the
4 Information Request, CAC/MSOS-1-8, sir.

5 Do you see that?

6 MR. WARD KEITH: Yes.

7 MR. BYRON WILLIAMS: And out of great
8 economy, we've actually put the -- the answer which is on
9 the backside of that page, so you -- you might want to
10 keep that in mind.

11 But what -- what is essentially paid on
12 the -- presented, I guess, on page 26, although it's hard
13 to see with the staple, would be a -- an overview of the
14 Road Safety Expenses Basic Share from the time period of
15 2002/'03 through to the projection of '09/'10.

16 Is that right, sir?

17 MR. WARD KEITH: Yes.

18 MR. BYRON WILLIAMS: And just going down
19 to the occupant safety education strategies, looking
20 across that -- that timeframe, would I be write in
21 suggesting to you that in terms of that line of the
22 expenses, the high watermark would be the '03/'04 year,
23 sir, being some three hundred and eight hundred thousand
24 dollars (\$308,000)?

25 MR. WARD KEITH: Yes.

1 MR. BYRON WILLIAMS: And over the next
2 few years, both actuals and forecasts, we see some ups
3 and downs with the projection in '09/'10 being about
4 three hundred and three thousand dollars (\$303,000), sir?

5 MR. WARD KEITH: Yes.

6 MR. BYRON WILLIAMS: So at least looking
7 at this line, it would appear that it -- it's still a bit
8 less than it was six (6) years before, in terms of an
9 annual projected expenditure, sir?

10 MR. WARD KEITH: Yes.

11 MR. BYRON WILLIAMS: Allowing for
12 inflations, would it be accurate or fair to say that --
13 that in terms of occupant safety education strategies,
14 the Corporation is paying -- spending a bit less in -- or
15 projecting to spend a bit less in 2009/'10 than -- than
16 it was back in '03/'04, sir?

17 MR. WARD KEITH: Yes.

18 MR. BYRON WILLIAMS: And would it be the
19 Corporation's position that issues relating to seatbelt
20 usage are less significant than they were six (6) years
21 ago?

22 MR. WARD KEITH: No, that would not be
23 the position of the Corporation.

24 MR. BYRON WILLIAMS: We've had some
25 discussion in the past, Mr. Keith, I think with your

1 colleague, Mr. Bedard, about the Road Safety Vision 2010.

2 Are you familiar with that philosophy and
3 that plan, sir?

4 MR. WARD KEITH: Yes.

5 MR. BYRON WILLIAMS: And essentially Road
6 Safety Vision 2010 is Canada's National Road Plan. Would
7 that be a fair description?

8 MR. WARD KEITH: Yes.

9 MR. BYRON WILLIAMS: And one (1) of the
10 targets in terms of Road Safety 2010, or a sub target, is
11 the -- the 95 percent rate of seat-belt wearing and
12 proper use of appropriate child restraints by all motor
13 vehicle occupants. Is that correct?

14 MR. WARD KEITH: Yes, that's the target
15 that was identified?

16 MR. BYRON WILLIAMS: And you're aware as
17 well that Transport Canada regularly surveys seat-belt
18 usage in jurisdictions across Canada. Is that fair, sir?

19 MR. WARD KEITH: If by regularly you mean
20 every second year alternating in rural and urban centres,
21 that would be correct.

22 MR. BYRON WILLIAMS: Yes. You've
23 answered the question better than I asked and I
24 appreciate that. And just so I understand, let's say the
25 2006 year Transport Canada would have undertaken a survey

1 of rural Canada and followed in the 2007 year by a survey
2 of urban areas in terms of occupant restraint usage.

3 Is that fair, sir?

4 MR. WARD KEITH: Yes.

5 MR. BYRON WILLIAMS: And MPI's familiar
6 with that data and it's reported to it on a -- and it has
7 some familiarity, at least at a high level with that
8 information, is that right, sir?

9 MR. WARD KEITH: Yes.

10 MR. BYRON WILLIAMS: Just turning to page
11 27 through 29 of the CAC/MSOS book of materials. And I'm
12 referring to the -- page 27, the top right corner.

13 You'll agree with me with -- in terms of
14 what I'm presenting to you at page 27, is an excerpt from
15 a Transport Canada September 2006 survey of seat-belt use
16 in rural areas of the country, sir?

17 Do you see that?

18 MR. WARD KEITH: I do, and it appears to
19 be that.

20 MR. BYRON WILLIAMS: Thank you. And
21 you'll see that just under "method" what they've got
22 defined as rural Canada is that towns with a population
23 of fewer than ten thousand (10,000) but more than -- more
24 -- but more than one thousand (1,000) that are located
25 outside any census metropolitan area or census

1 agglomeration.

2 Is that right, sir?

3 MR. WARD KEITH: Yes.

4 MR. BYRON WILLIAMS: And just so I know,
5 when Transport Canada's speaking of rural Canada, I'm
6 assuming they're -- they're speaking of my favourite
7 town, my home town of Souris, but they're presumably --
8 are they speaking about the roads around Souris as well
9 or are they talking about the -- the rural areas outside
10 of the -- the little town, sir?

11 MR. WARD KEITH: It would be the roads
12 around those locations as well.

13 MR. BYRON WILLIAMS: And going back to
14 your comment that these rural surveys are done on a --
15 every second year Transport Canada would have undertaken
16 surveys and rural Canada also in 2004 and 2002.

17 Is that right, sir?

18 MR. WARD KEITH: Yes.

19 MR. BYRON WILLIAMS: And the objective
20 certainly is, through these surveys, to get some sense of
21 how much people are buckling up in rural Manitoba and
22 also to what if any trends are emerging in terms of seat-
23 belt usage.

24 Would that be fair, sir?

25 MR. WARD KEITH: I think that's correct.

1 It is to provide some sense, and by that I mean it's
2 observational data that takes place over a two (2) week
3 period of time with certain hours of the day. And they
4 observe for actual seat-belt use for the vehicles that
5 they observe.

6 MR. BYRON WILLIAMS: And would it be fair
7 to say that it's the best information that we have in
8 terms of seat-belt usage?

9 MR. WARD KEITH: I think it's valid
10 information because it is observational, but there are
11 other -- there are other methods as well.

12 If I can just expand on that. For
13 example, with respect to self reported data that we do
14 record in -- when accidents are -- are filed with the
15 Corporation whether or not the occupants were wearing
16 their seat-belt at the time of the accident. And as
17 well, we do public surveys of Manitobans in general to
18 try and gauge seat-belt use on a regular or consistent
19 basis. And those numbers are generally slightly higher
20 than these data.

21 With respect to claims, 94 percent of
22 drivers and just under 90 percent of passengers tell us
23 that they were wearing their seat-belts at the time of
24 the accident.

25 And with respect to the survey data within

1 Manitoba, again, the numbers are pretty much the same;
2 drivers indicating 92 or 93 percent seat-belt use all the
3 time and just under 90 percent for passengers.

4 MR. BYRON WILLIAMS: And just so I'm
5 clear, in terms of the self-reported data this isn't
6 based on independent observation; it's the -- it's data
7 reported by the person who was involved in the accident.

8 Is that right, sir?

9 MR. WARD KEITH: That is correct, but
10 there is no -- there's no impact to the claim depending
11 on the answer that the driver or passenger provides, and
12 so on that basis I do believe that there is some
13 reasonableness to that data.

14 MR. BYRON WILLIAMS: Okay. And in terms
15 of the survey data that you cited, is it -- is that an
16 observational survey or, again, is it something reported
17 by the -- the person being surveyed about their own
18 conduct?

19 MR. WARD KEITH: I believe I indicated
20 it's self-reported data.

21 MR. BYRON WILLIAMS: Thank you. Going to
22 the observational data, if you can just turn to page 28
23 of CAC/MSOS book of documents, am I right in suggesting
24 to you that the Canadian average of this observational
25 survey in 2006 was about 88.3 percent, sir?

1 MR. WARD KEITH: Yes, that's correct.

2 MR. BYRON WILLIAMS: And leaving aside
3 the Territories, with no disrespect intended, would I be
4 correct in suggesting to you that the three (3) provinces
5 below that Canadian average, in terms of rural Canada
6 seat-belt use, would be Saskatchewan, Alberta and
7 Manitoba?

8 Is that right, sir? I misspoke,
9 Newfoundland and Labrador should be in there too, sir.

10 MR. WARD KEITH: And British Columbia,
11 yes.

12 MR. BYRON WILLIAMS: That wasn't a very
13 carefully thought out question, was it?

14 MR. WARD KEITH: We should perhaps start
15 over with that question.

16 MR. BYRON WILLIAMS: Yeah. Let's go to
17 this: Manitoba is below the Canadian average in this ar
18 -- as reported in this survey?

19 MR. WARD KEITH: As reported in this
20 observational survey, yes.

21 MR. BYRON WILLIAMS: Just flipping to the
22 next page, being page 29 the CAC/MSOS book of documents,
23 you'll see, if we focus on Manitoba, Mr. Keith, that in
24 the 2002 year the -- the observations were quite low,
25 being 80.8 percent, in 2004 they were ninety one point

1 three (91.3) and then in 2006 they were somewhat lower,
2 being eighty-six point nine (86.9), is that right, sir?

3 MR. WARD KEITH: Yes.

4 MR. BYRON WILLIAMS: So in terms of
5 Manitoba, again realizing that these are snapshots in
6 time, if anything, there would be a modest decline
7 between 2004 and 2006 in observed seat-belt usage in
8 rural Manitoba?

9 MR. WARD KEITH: Yes, and I think there
10 are a number of factors that -- that address this. I --
11 firstly, with respect to your brief exchange with Ms.
12 McLaren, the Corporation's mandate at this time continues
13 to be education and awareness. And our efforts in -- in
14 that regard, with respect to educational awareness,
15 continue be -- to be talking about the risks of non-seat-
16 belt use through our high school driver's ed program, as
17 well as our focus on regular and appropriate correct use
18 of car seats for children under the -- under the age that
19 require car seats by legislation.

20 And then with respect to awareness,
21 primarily public presentations using our -- the MPI
22 rollover simulator which is an extremely effective tool,
23 although as you can appreciate, the reach is somewhat
24 limited; and then our mass media advertising campaigns
25 which have the -- the greatest -- the greatest reach.

1 MR. BYRON WILLIAMS: And the other
2 element, presumably that -- that the Corporation would be
3 looking for, apart from its own efforts, would be
4 enforcement in rural areas.

5 Would that be fair, sir?

6 MR. WARD KEITH: Two-fold. I think, the
7 first would be legislation. And in Manitoba in 2003 the
8 legislation was amended to introduce demerits for non-use
9 of seat-belts. And that, as you can see from the data
10 both in urban and rural observational surveys from
11 Transport Canada, had a -- a really exponential effect,
12 in terms of increasing the seat-belt use, to the point
13 where we -- Manitoba rose from just over 80 percent to --
14 into the mid to low 90's for seat-belt use. So that had
15 a significant impact. In addition, I can tell you at
16 this point Manitoba has the highest fines all across
17 Canada for non-seat-belt use and conviction for non-seat-
18 belt use.

19 So there is certainly legislation in place
20 to -- to encourage motorists and passengers in vehicles
21 to use their seat-belts when behind the wheel or being an
22 occupant in a vehicle. But tied to any legislation of
23 course, is enforcement and -- and what Manitobans see as
24 the perceived risk of being apprehended.

25 MR. BYRON WILLIAMS: And -- and thank you

1 for that thoughtful answer. So the bulk in -- in rural
2 seat-belt use you in -- in 2004 you attribute, in part,
3 to -- to legislation.

4 Is the relative -- is that fair, first of
5 all?

6 MR. WARD KEITH: Yes, I think that's
7 fair, in part. I can't speak specifically to the
8 increase but that -- we believe certainly had an impact
9 on seat-belt use in this province.

10 MR. BYRON WILLIAMS: And in terms of the
11 relative decline from 2006, being some -- between 4 and 5
12 percent lower, to what do you attribute that, sir?

13

14 (BRIEF PAUSE)

15

16 MR. WARD KEITH: I -- I -- well, I think
17 part of the -- part of the equation as I indicated is --
18 is the issue of enforcement and the perceived risk of
19 being apprehended.

20 I can tell you that in other
21 jurisdictions, for example, where you have seen a
22 significant increase from 2004 to 2006, that in those
23 jurisdictions, just like in Manitoba in 2003, there were
24 legislative amendments made that -- that -- that dealt
25 specifically with the consequences of non-seat-belt use

1 and their use wearing rate increased proportionally.

2 MR. BYRON WILLIAMS: And so if I
3 understand your -- your answer to the last two (2) or
4 three (3) questions, you're pointing to a bump in terms
5 associated with stronger legislative sanctions for going
6 without a seat-belt. In terms of the relative decline
7 you're pointing in part at least to Manitobans
8 perceptions that while the legislation may be strong, the
9 risk of being caught with -- and fined for being without
10 a seat-belt is relatively low.

11 Is that right, sir?

12 MR. WARD KEITH: I -- I don't know that I
13 would agree that it's relatively low but I would believe
14 that it has declined over the past few years.

15 MR. BYRON WILLIAMS: And -- and just to --
16 -- to finish on this -- this rural issue, what if any --
17 let me try this again.

18 Does MPI, in terms of its own activities,
19 see opportunities in rural Manitoba to -- to successfully
20 increase occupant this restraint usage?

21 MR. WARD KEITH: I believe we do have
22 some ability to increase the usage or to influence the
23 usage, again based on the effectiveness and the messages
24 that we're able to provide directly to Manitobans in
25 terms of the risks of not wearing seat-belts.

1 This particular year we focussed on speed and our
2 simulation campaign. But there will be initiatives that
3 are considered in -- in the future years in order to
4 address this issue.

5 MR. BYRON WILLIAMS: There's not enough
6 money for the -- the occupant restraint this year, sir?

7 MR. WARD KEITH: It's not a question, Mr.
8 Williams, of there not being enough money; it's a case of
9 recognizing that when it comes to education and awareness
10 that we have up until this point focussed on three (3)
11 contributing factors: non-seat-belt use, impaired
12 driving, and speed. And we attempt to cover all three
13 (3) of those -- all three (3) of those areas of concern.

14 MR. BYRON WILLIAMS: But not this year
15 for occupant restraint, in terms of that kind of focussed
16 media campaign such as in 2006, is that right, sir?

17 MR. WARD KEITH: Not with respect to the
18 current year and not with respect to that specific line
19 of initiative, mass media public awareness. We do
20 continue to use our various sponsorships in order to --
21 to get messages out to Manitobans in terms of the
22 importance of seat-belt use. But with respect to that
23 specific advertising initiative, that was in 2006 and is
24 not planned for the current year.

25 MR. BYRON WILLIAMS: And you're also

1 aware, going back to your comment about enforcement that
2 in -- in other jurisdictions such as Saskatchewan, there
3 is a -- there is some support for the police in terms of
4 financially supporting increased enforcement in terms of
5 occupant restraint.

6 Are you aware of that, sir?

7 MR. WARD KEITH: Yes.

8 MR. BYRON WILLIAMS: And to what degree
9 if at all, in the '08/'09 or '09/'10 year, does MPI have
10 that built into the budget?

11 MR. WARD KEITH: I would refer you to the
12 budget line that refers to our Road Watch programs. Road
13 Watch is a program, an initiative, that has been ongoing
14 for several years where we fund the overtime costs
15 associated with doing check stops outside of the normal
16 Christmas check stop season. I raise that in -- in
17 context of this conversation, because although it is
18 initially focussed as an impaired driving initiative,
19 there are a number of other -- a number of other offence
20 notices that can be issued when those vehicles are pulled
21 over, one (1) of which is -- one (1) of which is non-
22 seat-belt use.

23 MR. BYRON WILLIAMS: How big is that for
24 this year, sir? Just -- I apologize for not having that
25 information at my hand. Road Watch.

1 MR. WARD KEITH: The total budget for the
2 current year is three hundred thousand dollars (\$300,000)
3 and that is funding for the Winnipeg Police Service who
4 participates in that program, rural RCMP, as well as a
5 number of smaller Police Services across the Province.

6 MR. BYRON WILLIAMS: Am I correct in
7 suggesting that it's mainly focussed in the Christmas
8 period, sir?

9 MR. WARD KEITH: No that's not correct.
10 It's intentionally focussed outside of the Christmas
11 period, because the -- the police agencies take quite a
12 bit of responsibility in terms of administering check
13 stop programs during the Christmas season. This funding
14 is specifically in order to -- to increase the -- the
15 visible presence of -- of law enforcement outside of the
16 check stop program, typically on long weekends during the
17 summer from May to perhaps the end of October --

18 MR. BYRON WILLIAMS: Thank you --

19 MR. WARD KEITH: -- and again speaks to
20 the importance of -- of what I started discussing, which
21 was the -- which was the perceived risk of being
22 apprehended.

23 MR. BYRON WILLIAMS: Thank you very much
24 for that. Just flipping over to pages 30 through 33,
25 you'll agree what's presented? There are excerpts from

1 the -- the cumulative Transport Canada rural and urban
2 surveys of seat-belt use in Canada for the 2006/'07
3 period, sir.

4 Is that right?

5 MR. WARD KEITH: Yes, that's what it
6 appears to be. Yes.

7 MR. BYRON WILLIAMS: And this is material
8 dated January 2008, is that right, sir? The top right
9 hand corner, page 30.

10 MR. WARD KEITH: Yes.

11 MR. BYRON WILLIAMS: If I flip over to
12 page 32 -- if you would with me, be kind enough, Mr.
13 Keith. What we're looking at is Chart 2 which presents,
14 based upon the 2007 survey:

15 "Urban Canada seatbelt use, all
16 occupants of light duty vehicles by
17 province or territory."

18 Sir, is that right?

19 MR. WARD KEITH: Yes.

20 MR. BYRON WILLIAMS: And we see the
21 Canadian averages some 93 percent.

22 Would that be correct, sir?

23 MR. WARD KEITH: Yes.

24 MR. BYRON WILLIAMS: And we also see
25 jurisdictions such as Saskatchewan being at 95.4 percent

1 and British Columbia being at 95.3 percent.

2 Is that right, sir?

3 MR. WARD KEITH: Yes.

4 MR. BYRON WILLIAMS: And if we look to
5 Manitoba, and let's see if I get my provinces right on
6 this one, sir, leaving aside the Territories, would I be
7 right in suggesting to you that the three (3) provinces
8 that are below the Canadian average are Alberta,
9 Manitoba, and Newfoundland?

10 Would that be correct, sir?

11 MR. WARD KEITH: Yes, excluding the two
12 (2) -- the two (2) Territories.

13 MR. BYRON WILLIAMS: And all three (3) of
14 those jurisdictions, being Newfoundland, Manitoba, and
15 Alberta are below the 90 percent.

16 Is that correct, sir?

17 MR. WARD KEITH: Yes, based on the
18 observational data in 2007.

19 MR. BYRON WILLIAMS: And if I flip over
20 one (1) more page, being page 33, you'll see, Mr. Keith,
21 that what Transport Canada has done is combined the
22 results for the rural observational survey in 2006 with
23 the urban observational survey in 2007.

24 Is that right, sir?

25 MR. WARD KEITH: Yes.

1 MR. BYRON WILLIAMS: And again, we have
2 the Canada -- Canadian average at ninety-two point five
3 (92.5).

4 Is that right, sir?

5 MR. WARD KEITH: Yes.

6 MR. BYRON WILLIAMS: And we see again the
7 big three (3), being Newfoundland, Manitoba and Alberta,
8 in terms of the provinces -- would be the three (3)
9 provinces below the 90 percent line, sir?

10

11 (BRIEF PAUSE)

12

13 MR. WARD KEITH: Yes, five (5)
14 jurisdictions in total, including the Territories and
15 seven (7) in total that are below the Canadian average.

16 MR. BYRON WILLIAMS: Now, Mr. Keith, just
17 last year in the Board order, and you don't need to turn
18 there, but there was an estimate of the cost to Manitoba
19 Public Insurance in terms of the failure to use seatbelts
20 on an annual basis, being some \$23 million.

21 Do you recall that, sir?

22 MR. WARD KEITH: Yes, I recall that.

23 MR. BYRON WILLIAMS: And the Corporation
24 -- does it still consider that to be a -- recognizing
25 there's no scientific certainty, but that's a fair

1 representation of what it considers to be the annual cost
2 of accidents associated with the failure to use occupant
3 restraint.

4 Is that fair?

5 MR. WARD KEITH: It was a fair assessment
6 of the annual cost at the time that that analysis was
7 undertaken.

8 MR. BYRON WILLIAMS: Is it your
9 expectation that the province of Manitoba will hit that
10 magic 95 percent level, sir, by the targeted vision in
11 the -- in terms of by 2010, that target for -- of
12 Transport Canada?

13 MR. WARD KEITH: That's difficult for me
14 to anticipate, Mr. Williams.

15 MR. BYRON WILLIAMS: Would it be fair to
16 say that based upon the most recent Transport Canada
17 surveys, there's been a bit of slippage, in terms of
18 Manitoba's performance, sir?

19 MR. WARD KEITH: Yes, I think that's
20 fair, based on the observational data that was done in
21 2006 and 2007.

22 MR. BYRON WILLIAMS: Would it be fair to
23 say that based upon that observational data, Manitoba is
24 in the bottom third of the Canadian provinces, leaving
25 aside the Territories?

1 (BRIEF PAUSE)

2

3 MR. WARD KEITH: I -- I guess that's a
4 fair statement, although I don't know that we would leave
5 out the Territories.

6 MR. BYRON WILLIAMS: Just flipping to a --
7 the issue of speeding just for a second, my understanding
8 that in terms of the speed costing framework Manitoba
9 Public Insurance is -- is working on that in the current
10 fiscal year.

11 Is that right, sir?

12 MR. WARD KEITH: Yes, that's right.

13 MR. BYRON WILLIAMS: Is it done yet?

14 MR. WARD KEITH: No.

15 MR. BYRON WILLIAMS: You'll certainly --
16 when's the -- what's the expectation of when it will be
17 completed?

18 MR. WARD KEITH: We expect it will be
19 completed by the end of the fiscal year.

20 MR. BYRON WILLIAMS: Would it be possible
21 for the Corporation -- is that something that it's
22 prepared to share in the public domain, outside the --
23 the regulatory process, sir?

24 MR. WARD KEITH: Yes, that's something
25 we'd be prepared to share.

1 MR. BYRON WILLIAMS: So once it's gone
2 through all the -- the corporate hoops then you -- you'd
3 be prepared to share it with my client, sir?

4 MR. WARD KEITH: Yes.

5

6 --- UNDERTAKING NO. 28: MPI to provide speed costing
7 framework once it is
8 completed

9

10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: And -- and just in
12 terms of the -- the last question on road safety at this
13 point in time, my understanding is that the Corporation
14 is working with the RCMP on strategies to assist them in
15 proving the quality consistency collection and analysis
16 of traffic enforcement data.

17 Is that right, sir?

18 MR. WARD KEITH: Yes.

19 MR. BYRON WILLIAMS: Is the Corporation
20 anticipating getting annual reports from the RCMP or how
21 -- how is that going to work, practically, sir?

22 MR. WARD KEITH: We provided some
23 additional information on this particular initiative in
24 one (1) of the information responses. What we've done is
25 entered into a two (2) year pilot agreement with the RCMP

1 in order to fund a data analyst that the RCMP will use to
2 take conviction as well as accident data and use that to
3 -- to better target their enforcement activities.

4 As part of that agreement which, again, I
5 believe was -- was provided as one (1) of the information
6 responses to a CMMG inquiry there are requirements that
7 we be provided with annual updates on the work of that
8 data analyst and the resulting -- the resulting outcomes.

9 MR. BYRON WILLIAMS: And when will MPI
10 get that first report from the RCMP?

11 MR. WARD KEITH: Likely in the spring of
12 2009.

13 MR. BYRON WILLIAMS: Thank you.

14 I'm moving on to a new area. One (1)
15 second, please, Mr. Chairman.

16
17 (BRIEF PAUSE)

18
19 MR. BYRON WILLIAMS: I'm thinking this is
20 Mr. Palmer but I'm not sure.

21 Mr. Palmer, you can -- you can have it
22 nearby if you need it, I'm not sure if you will or not,
23 but my understanding is that your -- the external actuary
24 has performed the dynamic capital adequacy testing for
25 the Corporation.

1 You had some discussions with Board
2 Counsel on that subject last week, is that right, sir?

3 MR. DON PALMER: Yes. It's not complete
4 for the current year but we have done it, yes.

5 MR. BYRON WILLIAMS: And there's a report
6 from a previous year that's been provided, is that right,
7 sir?

8 MR. DON PALMER: That's correct.

9 MR. BYRON WILLIAMS: And I certainly
10 don't want to re-enter the -- the long debate about
11 whether the Basic RSRs should be set with reference to
12 the -- the risk analysis or some percent of MCT, but in
13 term -- I'm correct in suggesting that the Corporation
14 will continue on an annual basis to perform DCAT or
15 dynamic capital adequacy testing, sir, is that right?

16 MR. DON PALMER: Yes, it's a requirement
17 under the appointed actuary standards which our actuary
18 does comply with.

19 MR. BYRON WILLIAMS: And it's always good
20 to live up to those standards, is it not, Mr. Palmer?

21 MR. DON PALMER: Absolutely.

22 MR. BYRON WILLIAMS: And at a high level,
23 and I'm going to be doing a bit of an injustice to -- to
24 it, but at a high level, in terms of the dynamic capital
25 adequacy testing, would it be fair to say that what your

1 actuary attempts to do is to take what she or he
2 considers to be plausible scenarios relating to whether
3 it's inflation or asset deterioration or catastrophe, and
4 run scenarios considering how these scenarios might
5 affect the Corporation from a solvency perspective.

6 Would that be fair?

7

8 (BRIEF PAUSE)

9

10 MR. DON PALMER: Yes. And -- and you
11 left out one (1) word and that would be plausible adverse
12 scenario.

13 MR. BYRON WILLIAMS: We don't need to
14 worry about the -- about the good ones?

15 MR. DON PALMER: That's true.

16 MR. BYRON WILLIAMS: Okay. And so these
17 are scenarios that from the actuary's perspective are
18 plausible, adverse scenarios then just so I understand
19 you.

20 Is that right?

21 MR. DON PALMER: Yes.

22 MR. BYRON WILLIAMS: The events may be
23 unusual, but they're not inconceivable. Would that be
24 fair?

25 MR. DON PALMER: That's -- that's

1 correct, yes. That would mean that they're plausible.

2 MR. BYRON WILLIAMS: Okay. And -- and
3 these are events that the actuary in her or his
4 professional opinion consider the Corporation may wish to
5 -- to contemplate from a solvency perspective.

6 Is that right?

7 MR. DON PALMER: Not quite. There are a
8 number of the adverse scenarios that are specifically
9 mentioned and required in the standards that I mentioned.

10 MR. BYRON WILLIAMS: One (1) of the
11 scenarios in the -- the DCAT filed in this proceeding
12 considers the Corporation's ability to withstand
13 sustained economic inflation.

14 Is that right, sir?

15 MR. DON PALMER: Yes, that's one (1) of
16 the -- the scenarios within the required standards.

17 MR. BYRON WILLIAMS: So it's -- it's
18 mandated by the required standards, is that right, sir?

19 MR. DON PALMER: That's correct.

20 MR. BYRON WILLIAMS: And apart from the
21 fact that it's been mandated by the required standards,
22 certainly you professionally would think that it's an
23 important scenario to test, is it not, sir?

24 MR. DON PALMER: I too have to comply
25 with those professional standards so yes.

1 MR. BYRON WILLIAMS: It's not just about
2 compliance, Mr. Palmer. For the Corporation, inflation
3 is a risk that you consider potentially real and
4 material, is it not, sir?

5 MR. DON PALMER: Yes.

6 MR. BYRON WILLIAMS: And essentially what
7 the Corporation -- or, excuse me, essentially what the
8 actuary has done in -- in his work on behalf of the
9 Corporation, the DCAT analysis, has replicated five (5)
10 year cumulative increase in Canadian CPI, from the years
11 1979 to 1983.

12 Is that accurate, subject to check?

13 MR. DON PALMER: Subject to check, yes.

14 MR. BYRON WILLIAMS: And just so I
15 understand the actuarial -- what's the -- the standards --
16 -- are the actual years in the inflation scenarios
17 mandated by your actuarial standards or are those what --
18 what he's chosen in his professional judgment?

19 MR. DON PALMER: The specific years are
20 not mentioned in the standard.

21 MR. BYRON WILLIAMS: So that's a matter
22 of his professional judgment, is that right, sir?

23 MR. DON PALMER: Yes.

24 MR. BYRON WILLIAMS: And as I understand
25 the DCAT analysis, on an annual basis -- and you can

1 accept this, subject to check, or you can check me up if
2 you -- you wish, Mr. Palmer -- for this period we're
3 looking in the 1979 year of CPI inflation of 9.8 percent;
4 1980, 11.1 percent; 1981, 12.2 percent; 1982, 9.2
5 percent; and 1983, 4.6 percent.

6 Does that sound about right, sir?

7 MR. DON PALMER: Subject to check I'll
8 accept those -- those numbers, yes.

9 MR. BYRON WILLIAMS: And the assumption
10 the actuary made in his testing again was 10 percent.
11 When he moved forward, he was looking at 10 percent
12 inflation in the '07/'08 year, 11 percent in the '08/'09
13 year, 12 percent in the '09/'10 year, 9 percent in the
14 '10/'11, and 5 percent in the '11/'12 year, subject to
15 check?

16 MR. DON PALMER: Mr. Johnston is nodding
17 his head in the back row, yes -- so yes.

18 MR. BYRON WILLIAMS: I appreciate Mr.
19 Johnston's head nod.

20 So -- and, Mr. Palmer, you're aware that
21 the Bank of Canada has an explicit monetary target of 2
22 percent, being the midpoint of it's 1 to 3 percent target
23 range, as measured by the CPI over the midterm?

24 MR. DON PALMER: Yes.

25 MR. BYRON WILLIAMS: You're also aware

1 that the Bank of Canada may adjust its short term
2 interest rate on an over -- overnight basis to try to
3 keep the CPI at 2 percent, is that right, sir?

4 MR. DON PALMER: That has been the
5 practice in recent history, yes.

6 MR. BYRON WILLIAMS: And would it be fair
7 to say that if we looked back to the decade of the late
8 1990's through 2007, the Bank of Canada was fairly
9 successful in keeping inflation stable and relatively
10 low, sir?

11 MR. DON PALMER: Yes.

12 MR. BYRON WILLIAMS: So do you yourself
13 question the plausibility of the actuary's high inflation
14 scenario?

15 MR. DON PALMER: No. Within there have
16 been guidelines, Bank of Canada activities that -- that
17 have looked at inflation for a long period of time.
18 Certainly inflation, if you looked in the 1960's to -- to
19 talk about inflation in the 10/12 percent was probably --
20 had not been experienced in the recent past that it
21 happened.

22 So, no, I would not consider that
23 implausible.

24 MR. BYRON WILLIAMS: So the risk of
25 inflation beyond 2 percent and indeed beyond the

1 boundaries of 1 to 3 percent is in your view not an
2 implausible scenario?

3 MR. DON PALMER: That's correct.

4 MR. BYRON WILLIAMS: It's one that as the
5 Corporation looks forward it should be mindful of because
6 there's a very real risk notwithstanding short term
7 recent history.

8 Is that fair, sir?

9 MR. DON PALMER: That's correct.

10

11 (BRIEF PAUSE)

12

13 MR. BYRON WILLIAMS: Mr. Chairman, if I
14 just might have a second?

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: I apologize for the
19 delay. I misplaced...

20

21 (BRIEF PAUSE)

22

23 MR. BYRON WILLIAMS: I apologize for the
24 delay.

25

Mr. Palmer, I want to spend a few more

1 minutes on inflation and you'll forgive me, I'm -- I'm
2 certainly a brilliant actuary or a brilliant economist,
3 so I'm going to get you to help me with a little bit of
4 this.

5 MR. DON PALMER: I'm not positive I'm one
6 (1) of those two (2) things either but we'll --

7 MR. BYRON WILLIAMS: The odds are better
8 that you're one (1) of them at least, Mr. Palmer, you'll
9 agree?

10 MR. DON PALMER: If we're talking odds,
11 okay, I'll give you that.

12 MR. BYRON WILLIAMS: If I'm looking for
13 just a working definition of inflation if I suggested to
14 you it's the time-rate of change in either a price, a
15 group of prices, or a broader index of prices, would --
16 would you agree with that?

17 MR. DON PALMER: Yes.

18 MR. BYRON WILLIAMS: And as I understand
19 the term "index," an index is a number that summarizes
20 the overall trend of its component parts. And it could
21 be a -- a producer price index or a consumer price index,
22 but it would be something of that nature, sir?

23 MR. DON PALMER: Yes.

24 MR. BYRON WILLIAMS: Colloquially it
25 tells you where the swarm is going but not where the

1 individual bee is headed. Would that be fair?

2 MR. DON PALMER: I don't think I
3 understand that analogy.

4 MR. BYRON WILLIAMS: That's okay. I was
5 just being flippant with you, Mr. Palmer.

6 Would it be fair -- let's focus on the
7 Consumer Price Index. Would it be fair to say that the
8 level of the CPI in a given year or period provides a
9 measure of the price level faced by consumers in that
10 year or period, sir?

11 MR. DON PALMER: Yes.

12 MR. BYRON WILLIAMS: And that the rate of
13 change over time of this index provides a measure of
14 inflation, would that be fair?

15 MR. DON PALMER: Yes.

16 MR. BYRON WILLIAMS: And again, you may
17 or may not be familiar with this term, but the measure of
18 inflation based on changes in the total C -- CPI, is
19 often called headline inflation. Are you aware of that,
20 sir?

21 If -- if not...

22 MR. DON PALMER: Based on my -- the nods
23 from the back row, I'm aware of that now.

24 MR. BYRON WILLIAMS: Thank you. Thank
25 you again to the back row. And just in broad strokes

1 again and recognizing my client's here and she's trying
2 to follow along, as well, Mr. Palmer, the CPI index
3 equals a hundred (100) in the base year by definition, is
4 that fair?

5 MR. DON PALMER: Yes.

6 MR. BYRON WILLIAMS: So if one (1) year
7 later the index were one hundred and two point nine
8 (102.9), we would say that inflation is measured by CPI,
9 increased by 2.9 percent, correct?

10 MR. DON PALMER: Yes.

11 MR. BYRON WILLIAMS: And you'll also
12 agree with me that the CPI is based on the costs of a
13 basket of goods purchased by a typical household and is
14 the most common index quoted in Manitoba -- Canada?

15 MR. DON PALMER: Manitoba and Canada.
16 There -- there are separate measures for both.

17 MR. BYRON WILLIAMS: And we've already
18 talked about the Bank of Canada and its explicit monetary
19 target of 2 percent. You recall that conversation?

20 MR. DON PALMER: Yes.

21 MR. BYRON WILLIAMS: And my understanding
22 is that the Bank of Canada adjusts its key short-term
23 interest rate, the overnight rate, to try to keep the CPI
24 at 2 percent, all other things being equal, if the CPI is
25 actually greater than 2 percent, would that be fair, sir?

1 Or do you want me to restate that?

2

3 (BRIEF PAUSE)

4

5 MR. DON PALMER: That would not be the
6 only consideration for the -- the change in the bank
7 rate. For instance, they also have a target of full
8 employment. So certainly, changes in the interest rate
9 could also affect the employment. So -- so there's not,
10 you know, one (1) measurement. There certainly are other
11 considerations. That's one (1). I'm sure there are
12 others as well.

13 MR. BYRON WILLIAMS: So I oversimplified
14 but all other things being equal, if the CPI is greater
15 than 2 percent, the -- the Bank of Canada may increase
16 its policy rate, would that be fair, to try and drive
17 down inflation, all other things being equal?

18

19 (BRIEF PAUSE)

20

21 MR. DON PALMER: I'll check the
22 transcripts but I think you are right.

23 MR. BYRON WILLIAMS: Just in terms of why
24 this -- the Bank of Canada might choose to increase the
25 policy rate as a means to dampen inflation, you'll agree

1 with me that, generally, an increase in the Bank of
2 Canada policy rate tends to result in an increase in all
3 domestic interest rates which would have the effect of
4 decreasing real investment demand, all other things being
5 equal?

6

7 (BRIEF PAUSE)

8

9 MR. DON PALMER: Not necessarily but
10 maybe directionally.

11 MR. BYRON WILLIAMS: Let me put it more
12 simply or bluntly. When the Bank of Canada isn't worried
13 about --

14 MR. DON PALMER: Sorry, go ahead.

15 MR. BYRON WILLIAMS: We'll wait a --
16 we'll wait a second.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: Let me just try that
21 again. When the Bank of Canada is worried about
22 inflation, it may tend to increase its rates with the
23 objective of achieving a decrease in aggregate demand for
24 the Canadian -- for Canadian output.

25 Would that be fair?

1 MR. DON PALMER: Yes.

2 MR. BYRON WILLIAMS: And I'm not
3 conversant with more recent or brand-new economic tests -
4 - texts -- as your -- the individual to your right may
5 be, but in the old economic tests there used to be a
6 distinction in terms of circumstances that cause
7 inflation such as cost push and demand pull.

8 Are you aware of that at a high level?

9 MR. DON PALMER: I'm pretty sure I was
10 about thirty (30) years ago in my undergrad economic
11 courses, so I have a vague recollection of those.

12 MR. DON PALMER: And we won't stress
13 either yourself or too much -- myself too much about
14 this, but I'm going to suggest to you that cost push
15 inflation arises due to increases in the economy's input
16 costs due to, for example, exogenous increases and some
17 input for which there are no close substitutes; would
18 that be your understanding, as well?

19 MR. DON PALMER: Yes.

20 MR. BYRON WILLIAMS: And an example I
21 think we can all relate to today might be an increase in
22 the worldwide price of crude oil which flows out and
23 impacts not just energy but transportation,
24 manufacturing, and industrial processing costs; would
25 that be fair, sir?

1 MR. DON PALMER: Yes.

2 MR. BYRON WILLIAMS: And one (1)
3 consequence of that, all other things being equal, could
4 be an increase in -- in inflation regardless of the state
5 of the Canadian economy from this exogenous factor; would
6 that be fair?

7 MR. DON PALMER: Yes.

8 MR. BYRON WILLIAMS: In other words, what
9 -- what I -- I'm going to suggest to you that what we
10 mean by cost push inflation, the type of inflation that
11 can arise even if the economy is not operating above its
12 sustainable level of production; would that be fair?

13 MR. DON PALMER: Sure.

14 MR. BYRON WILLIAMS: The other category
15 that I suggest to you we might consider is demand pull
16 inflation which typically arises due to an overheated
17 economy, usually with a tight labour market; would that
18 be fair?

19 MR. DON PALMER: Yes.

20 MR. BYRON WILLIAMS: Demands above the
21 overall long-run supply on the economy and prices are
22 increasing, is that fair?

23 MR. DON PALMER: Pulled up, yes.

24 MR. BYRON WILLIAMS: You're doing a
25 better job than me, Mr. Palmer.

1 I'm going to suggest to you that if
2 inflation in Canada is determined to be due mainly to
3 cost push, i.e. the -- an exogenous factor like oil, the
4 Central Bank is probably less likely to aggressively
5 offset it through
6 restrictive monetary policy; would you agree with that,
7 sir?

8

9 (BRIEF PAUSE)

10

11 MR. DON PALMER: Yes.

12 MR. BYRON WILLIAMS: It would be more
13 likely to aggressively intervene if it's judging that
14 inflation is a product of the demand pull variety; would
15 that be fair?

16 MR. DON PALMER: Could you repeat that
17 again, please?

18 MR. BYRON WILLIAMS: If the Bank of
19 Canada -- I'm going to try it more simply.

20 If the Bank of Canada thinks that
21 inflation is being driven by an overheated Canadian
22 economy, demand pull factors, it's more likely to
23 intervene in terms of inflation, fair enough?

24 MR. DON PALMER: Yes.

25

1 (BRIEF PAUSE)

2

3 MR. DON PALMER: And -- and just to help
4 the Bank of Canada out, they -- they also look at core
5 inflation which excludes those energy factors that you
6 talked about.

7 MR. BYRON WILLIAMS: We might come back
8 to that.

9 You're aware that the Bank of Canada
10 offers a -- a -- excuse me one (1) second.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: You're aware that
15 the Bank of Canada offers a monetary policy report
16 update, and I'm going to suggest to you it's on a
17 quarterly basis; is that fair?

18 MR. DON PALMER: Yes.

19 MR. BYRON WILLIAMS: And the Corporation,
20 in terms of its forecasting exercises, will have, at
21 least at a high level, some familiarity with these
22 updates, correct, sir?

23 MR. DON PALMER: Yes.

24 MR. BYRON WILLIAMS: I wonder if you'd
25 agree with me that in its most recent monetary policy

1 report update, being that of July 2008, the Bank of
2 Canada suggested that total CPI inflation over the next
3 year is expected to be much higher than projected at the
4 time of its April report.

5 Is that something you could agree with,
6 sir?

7 MR. DON PALMER: Subject to check, we'll
8 take your word for it. It sound reasonable.

9 MR. BYRON WILLIAMS: Okay. And certainly
10 I'll provide you with -- with -- I should have done it
11 ahead of time. But just to finish off on this point, in
12 fact what it suggested was that assuming energy prices
13 follow current prices, CPI inflation was projected to
14 rise temporarily above 4 percent, peaking in the first
15 quarter of 2009.

16 Does that sound reasonable, subject to
17 check?

18 MR. DON PALMER: It sound reasonable,
19 subject to check, yes.

20 MR. BYRON WILLIAMS: Mr. Chairman, I'm --
21 I'm going to be moving to a new area and I can let you
22 know and other parties that I don't think I'll be too
23 long in the afternoon. I'll certainly be done -- I'm
24 anticipating by or before the -- the mid-afternoon break.

25 I -- I wonder if this would be an

1 appropriate time for a --

2 THE CHAIRPERSON: Yes, and that will
3 probably help Mr. Oakes prepare as well. Okay, we'll
4 have our break now and if everyone doesn't mind, we'll
5 come back at 1:00. Thank you.

6

7 --- Upon recessing at 11:49 a.m.

8 --- Upon resuming at 1:12 p.m.

9

10 THE CHAIRPERSON: Okay, Mr. Williams.

11 MR. BRIAN WILLIAMS: Mr. Chairman, just
12 one second. I might need to engage in a bit of offline
13 conversation with My Friend, Mr. McCulloch, sorry.

14

15 (BRIEF PAUSE)

16

17 MR. BRIAN WILLIAMS: Mr. Chairman, if we
18 might stand down just for five (5) minutes. I apologize
19 for this. There was a mis-communication.

20 THE CHAIRPERSON: Okay, that's fine.

21

22 --- Upon recessing at 1:13 p.m.

23 --- Upon resuming at 1:16 p.m.

24

25 THE CHAIRPERSON: Okay, Mr. Williams...?

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Yes, and I apologize
3 for the -- for the delay. And just for the next forty
4 (40) minutes or so, hopefully we'll do a little bit of
5 tire kicking in the investment area and I'm sure we'll
6 have a few questions tomorrow as well.

7 And the Board won't have this before them
8 but I've shared with MPI that I'm going to be making a
9 couple references to the transcript from October 4th,
10 2006.

11 Mr. Palmer, if you can just have in front
12 of you right now page 355 from the transcript of October
13 4th, 2006. Do you have that, sir?

14 MR. DON PALMER: I have it.

15 MR. BYRON WILLIAMS: And I just -- you'll
16 -- you'll accept on blind -- pure blind faith that I'm --
17 that we're -- I'm referring you to a quote from Mr.
18 Galenzoski. I'm referring you in particular to lines 3
19 to 8, and you see the discussion:

20 "And the goal for the future is to
21 establish almost like a budget for risk
22 that we're prepared to take and --
23 monitor that on an ongoing basis and,
24 if necessary, make adjustments to our
25 portfolio that would keep us within the

1 risk tolerances that we're -- we -- we
2 have decided to take on."

3 Did I read that correctly, Mr. Palmer?

4 MR. DON PALMER: Yes.

5 MR. BYRON WILLIAMS: Elegantly, sir, or
6 was it just okay?

7 MR. DON PALMER: It was lovely.

8 MR. BYRON WILLIAMS: I'm turning to page
9 356 as well. Just one further quote, I wish to draw to
10 your attention. And you'll agree with me that we're
11 again, looking at a statement by Mr. Galenzoski, down at
12 lines 22 to 25. Do you see that, sir? Page 356, at the
13 bottom.

14 MR. DON PALMER: Mr. Galenzoski, yes.

15 MR. BYRON WILLIAMS: And the statement
16 that I'm suggesting to you says:

17 "So what we need to do now is come up
18 with an overall plan as to the level of
19 risk that we think is appropriate, the
20 rationale for doing that and present
21 that to our Board."

22 Did I read that correctly, sir?

23 MR. DON PALMER: Yes.

24 MR. BYRON WILLIAMS: And just -- and
25 you'll excuse me for being dense or uncertain of the

1 record, Mr. Palmer, but if -- if I were to look through
2 the record or through the MPI materials for this --
3 whether it's the budget for risk or the overall plan as
4 to the level of risk, where do I find that best
5 articulated, sir?

6

7

(BRIEF PAUSE)

8

9 MR. DON PALMER: As to specific
10 references in this Hearing, we haven't submitted anything
11 of that nature. We do -- I was on the record with Ms.
12 Everard, I believe, talking about the VaR report. That's
13 value at risk that we perform monthly so that would --
14 would relate to this but we haven't submitted anything in
15 evidence in this Hearing.

16

17

(BRIEF PAUSE)

18

19 MR. BYRON WILLIAMS: So value at risk but
20 in terms of -- as to how the Corporation defines what's
21 appropriate risk, is -- where do I find that?

22

23

24

25

MR. DON PALMER: We have a value at risk
overall target of 3 percent of the overall portfolio.
That's probably the -- the closest to any sort of
quantitative evaluation of that.

1 MR. BYRON WILLIAMS: Okay. We'll work
2 our -- we'll work our way through this. Mr. Palmer, I'll
3 tell you why I'm just seeking some guidance so that I can
4 understand.

5 In your annual report, for example, and at
6 the MPI Annual Report 2007, you don't need to turn to it.
7 I'll read it to you at page 26.

8 There's a statement:

9 "To increase the percentage of revenue
10 derived from investment income while
11 remaining within acceptable investment
12 risk profiles..."

13 And I'm just -- perhaps you can talk at a
14 high level both empirically or quantitatively and also
15 other factors in terms of what the Corporation considers
16 to be acceptable investment risk profiles.

17 Could you do that for me, sir?

18 MR. DON PALMER: There's a couple of
19 things. Certainly there are a few quantitative measures
20 of risk within investment portfolios.

21 And our individual investment managers
22 have to have a risk that's lower than the benchmarks. So
23 that would be standard deviation, sharp ratios and so on.

24 And that -- that would be contained in
25 each manager's contract not the investment policy per se.

1 MR. BYRON WILLIAMS: And in terms of each
2 manager's contract -- and without -- I -- I don't want to
3 bring you to an acceptable burden in terms of regulatory
4 burden, but would it be possible to extract those
5 specific elements from -- from those contracts, sir?

6 MR. DON PALMER: Those are not contracts
7 between MPI and the manager. It's the Department of
8 Finance, so, we would not be able to release those
9 contracts.

10 MR. BYRON WILLIAMS: Just staying on this
11 theme of acceptable versus unacceptable risk, in your
12 discussion with the Chairman I believe a -- a couple days
13 ago, probably about a week ago now, you discussed types
14 of risks - I'm going to suggest to you - you spoke of
15 interest rate risk, timing risk, diversification, default
16 risk, return risk, the mismatch between assets and
17 liabilities.

18 Within -- is it your view that the -- the
19 numbers contained within the investment manager's
20 contract speak to all those -- those types of risks, sir?

21 MR. DON PALMER: No. There are other
22 risks within the insurance context. And right now, our
23 measurement of -- of those risks would be within the
24 dynamic capital adequacy test that you related this
25 morning.

1 And that's essentially the -- the risk of
2 -- of getting to an unacceptable financial condition or
3 position.

4 MR. BYRON WILLIAMS: So if I wanted to
5 get a sense of what the Corporation considers to be
6 acceptable versus unacceptable risk, I would go to these
7 -- the contracts that exist with the investment managers,
8 I would go to a certain degree to the 3 percent value at
9 risk guideline.

10 I would turn as well to the solvency test
11 conducted in the dynamic capital adequacy testing, is
12 that right?

13 MR. DON PALMER: And the -- the dynamic
14 capital adequacy test not strictly solvency. It's
15 measurement of financial condition of the Corporation.

16 MR. BYRON WILLIAMS: Any other places I
17 should be going if I want to get a sense of the
18 Corporation's definition?

19 MR. DON PALMER: We also do an
20 operational risk assessment as part of our regular
21 reporting to the audit committee.

22

23 (BRIEF PAUSE)

24

25 MR. DON PALMER: Now that's again overall

1 Corporate risk. And -- and I'm -- I'm going much, much
2 broader than just an investment risk.

3 MR. BYRON WILLIAMS: So just going back
4 to Mr. Galenzoski's budget or, you know, the -- or
5 overall plan, in terms of risk tolerance speaking of
6 investment risk, would it be fair to say that what the
7 gap is not consolidated in -- in any particular location,
8 that it's in information, and you'll excuse the -- the
9 descriptor but, scattered throughout the -- throughout
10 the proceedings.

11 MR. DON PALMER: It -- it's found in many
12 different places that would have to be pieced together,
13 yes.

14 MR. BYRON WILLIAMS: Going back again to
15 Mr. Galenzoski's comments, if perhaps only for the -- the
16 benefit of the -- the humble counsel for CAC/MSOS.

17 Do you see any value in trying to
18 consolidate it or put it together into one (1) overall
19 description?

20

21 (BRIEF PAUSE)

22

23 MR. DON PALMER: There's one (1) other
24 source of -- of those many scattered sources and that's
25 also the efficient frontier that we talked about that was

1 a trade-off between risk and -- and return.

2 To have one (1) consolidated measure, and
3 we -- we had risk studies in the past, there is value at
4 doing those on a -- from time to time. I wouldn't say
5 every year and -- and certainly they're no guarantee that
6 everyone will agree with them because, again, they're
7 very subject to the assumptions that you made with --
8 with each of those risk studies.

9 So I think we do all the work, we have all
10 the quantitative measures, and we can find them and
11 supply them at any time. So to have one (1) annual
12 document, I don't necessarily see the value of that.

13 MR. BYRON WILLIAMS: And that's fair
14 enough. And, again, if it's too much work you'll tell me
15 but, for the benefits of my clients in this proceeding,
16 could you try and piece together -- would it be possible
17 without too much to piece together something for this
18 proceeding, sir?

19

20 (BRIEF PAUSE)

21

22 MR. DON PALMER: The -- the two (2)
23 pieces that you're missing that I've talked about are --
24 are the -- the VaR measurements and the management
25 contracts which we can't file.

1 (BRIEF PAUSE)

2

3 MR. DON PALMER: I'm also going to -- to
4 go back to page 356 of the transcript that -- that you
5 had.

6 MR. BYRON WILLIAMS: Fair enough.

7 MR. DON PALMER: And up earlier on that
8 page, last sentence of -- of the first paragraph of 356,
9 Mr. Galenzoski said:

10 "We would do an asset/liability review
11 that would support any changes that we
12 make to move towards those other
13 things."

14 So, the statement at the bottom of the
15 page is certainly within the context of that
16 asset/liability study which we have done and filed with
17 this Board.

18 MR. BYRON WILLIAMS: Okay. And we'll
19 move on.

20 But just in terms of what the Corporation
21 defines as acceptable versus unacceptable risk, we'll
22 agree that it's a -- it's on the -- largely on the
23 record, from a variety of sources and that there are two
24 (2) areas that are currently missing from the record:
25 One is the VaR; and the other is the contracts between

1 the department and the various investment managers. Is
2 that fair, sir?

3 MR. DON PALMER: Yes, and also within the
4 context of the efficient frontier, there's certainly
5 management judgment as to where you want to be on that
6 efficient frontier. That's probably the most important,
7 yes.

8 MR. BYRON WILLIAMS: Okay. And let's --
9 just -- just in terms of -- and we'll certainly talk with
10 Mr. Bell tomorrow but in terms of -- and again, I'm going
11 off my notes so if I'm misstating the record, you'll
12 correct me.

13 But my understanding, in terms of the --
14 some of the modelling that Aon was asked to do, one of
15 the things it was told not to model, just as an example,
16 would be emerging markets. Would that be fair?

17 Does that ring a bell from your discussion
18 last week, sir?

19 MR. DON PALMER: That was one of the
20 constraints that that would be -- be left out. And --
21 and again, that would be a part of the consideration of
22 that would be all the acceptable assets in the Financial
23 Administration Act.

24

25

(BRIEF PAUSE)

1 MR. BYRON WILLIAMS: Just in terms that I
2 don't want --

3 MR. DON PALMER: And -- and just to --

4 MR. BYRON WILLIAMS: -- oh, go ahead,
5 sorry.

6 MR. DON PALMER: -- clarify that. And --
7 and certainly with those decisions also made with members
8 of Department of Finance as part of the working group and
9 -- and their requirements as to what may or may not be
10 acceptable assets.

11 MR. BYRON WILLIAMS: So that, again, goes
12 into the discussion of what are -- what is acceptable or
13 not acceptable risk. Whether it's a numerical measure or
14 not, this would be a -- a policy or -- in speaking of
15 emerging markets specifically, it would either be a
16 policy or a legislative constraint and a judgment in
17 terms of what is not an acceptable risk for the
18 Corporation.

19 Correct, sir?

20 MR. DON PALMER: Yes.

21 MR. BYRON WILLIAMS: Are there others
22 like that -- that -- of -- for example, a hedge fund, is
23 that another one, sir?

24 MR. DON PALMER: Yes.

25 MR. BYRON WILLIAMS: Are there others?

1 MR. DON PALMER: Commodities would be one
2 that we would not consider or -- or the Department of
3 Finance likely would not consider.

4 MR. BYRON WILLIAMS: And --

5 MR. DON PALMER: Currencies would be
6 another one that would be outside the framework.

7 MR. BYRON WILLIAMS: Any other ones, Mr.
8 Palmer, that you can think -- that's a good start.

9 MR. DON PALMER: It -- it's really limit
10 -- limitless. I think that's -- that's enough of an
11 example list.

12 MR. BYRON WILLIAMS: Now where do -- now
13 some of those, I would -- those limits -- limitations, I
14 would find those in the investment policy statement
15 presumably; would that be fair?

16 Where -- where would I find them
17 articulated, Mr. Palmer?

18 MR. DON PALMER: I really don't think
19 you'd find a specific list anywhere. It's more the lists
20 that we've got within the investment policy statement or
21 our inclusive lists not -- not necessarily exclusive
22 lists.

23 MR. BYRON WILLIAMS: And just to clarify,
24 so -- so the fact that your judgment or your best --
25 excuse me -- that you're -- you're suggesting that the

1 Department of Finance would not go into the commodities
2 market, is that -- is that written down somewhere or is
3 that just based on your discussions, sir?

4 MR. DON PALMER: Excluded from the Aon
5 report that was part of those discussions, so from that -
6 - from that standpoint, it's -- it's excluded. I think
7 that's the only exclusion that you'd find on the record.

8 MR. BYRON WILLIAMS: Thank you, Mr.
9 Palmer. And I apologize for the -- I -- I'm sure it was
10 as painful for you as it was -- was for me.

11 Going back to -- again to the transcript
12 from October 4th, 2006, just flip over one page to 354
13 and to the top of 355, Mr. -- Mr. Palmer. You -- you see
14 a -- just a discussion between Mr. Galenzoski and Ms.
15 Everard. Mr. -- at -- starting at line 20, Mr.
16 Galenzoski is saying:

17 "Part of our diversification strategy
18 on the equity portfolios is to look for
19 different styles of investments and
20 different type of portfolios.

21 For instance, the US versus a Canadian
22 type portfolio, we have -- we have
23 different styles of management. We --
24 we have large cap, small cap managers,
25 so, those are the diversification

1 things that we're looking for so we can
2 measure the risks that those managers
3 bring to the table."

4 How did I do on that, Mr. Palmer? Did I
5 read that correctly?

6 MR. DON PALMER: Perfect.

7 MR. BYRON WILLIAMS: Just on that small
8 and mid cap managers, am I right in suggesting to you
9 that -- that position -- the person who is filling that
10 has been terminated and that currently there -- that
11 portfolio is being passively managed, sir?

12 MR. DON PALMER: On the US side, that's -
13 - that's true, yes.

14 MR. BYRON WILLIAMS: Thank you for that.
15 And are -- looking into the future in terms of the US
16 side, in terms of the small and mid caps, are we to
17 expect in the future that that will continue to be
18 passively managed or is the Corporation looking to -- to
19 put a new -- new person into that position? Or a new
20 firm?

21 MR. DON PALMER: That is currently under
22 consideration, one of those two (2) things.

23 MR. BYRON WILLIAMS: So the Corporation
24 is still considering whether or not to continue to -- to
25 look for a new firm to conduct that task or,

1 alternatively, the Corporation is considering whether to
2 passively manage to -- to the -- as -- as the current
3 status quo; is that right, sir?

4 MR. DON PALMER: Not quite.

5 MR. BYRON WILLIAMS: I tried.

6 MR. DON PALMER: The -- remembering the
7 Department of Finance is ultimately responsible for the
8 investment of -- of funds, so, those decisions that you
9 articulated and attributed to the Corporation, I agreed
10 to what you said if you substituted the words "Department
11 of Finance" instead of the Corporation.

12 MR. BYRON WILLIAMS: Okay. And that's --
13 that's helpful, Mr. Palmer, and we'll move off this
14 subject in just a minute. But just -- I'm going to
15 suggest to you an inference I drew from the 2006
16 transcript which I'm going to draw in contrast to the
17 2008 trans -- or the 2008 discussions we've had so far.

18 And again, you may disagree with the
19 inference. But I'm going to suggest to you that if one
20 looks at the 2006 transcript, there's a lot of discussion
21 by Mr. Galenzoski in terms of working in partnership with
22 the Department of Finance where the Corporation's
23 discussions this year seem to be more deferential to the
24 -- to the Department of Finance.

25 Am -- am I just misreading the

1 Corporation's comments this year, Mr. Palmer, or has
2 there been some change that I'm not aware of?

3 MS. MARILYN MCLAREN: Let me tackle that
4 one, Mr. Williams. There's been no change in substance
5 or form. There's no change in legislation.

6 I think probably as -- as the evolution of
7 the Corporation's leadership really is -- this is a small
8 reflection of that.

9 Language is very important to me, the
10 executive team. It's certainly, I can tell you, feels
11 very much like a partnership and as I said earlier in
12 response to a question from Ms. Everard, in my
13 experience, at the Investment Committee Working Group,
14 the Department of Finance has never made a decision that
15 the Corporation would not have made itself in my
16 experience.

17 But, the fact of the matter is, the
18 legislation is as it is and they have the control. And
19 it's important to us to use the language that reflects
20 that legislative state.

21 MR. BYRON WILLIAMS: And so just so I
22 understand, Ms. McLaren, and if I mis-stating it you'll -
23 - you'll correct as is your habit which I respect.

24 Under the legislative scheme the
25 Corporation acknowledges that the final -- the final say

1 goes to the Department of Finance, but, your view of the
2 current working arrangement and the one that's existed
3 for a considerable period of time, is that you are
4 working in partnership and that the Corporation concurs
5 with the -- the direction of the portfolio.

6 MR. DON PALMER: Yes.

7 MR. BYRON WILLIAMS: Very quickly, I just
8 want to talk about MUSH, M-U-S-H and at a very high level
9 I'm going to describe those to the Corporation or ask if
10 you'd agree with a working definition of non-marketable
11 bonds issued by Manitoba municipality school divisions
12 and health care facilities.

13 Would that be a fair description?

14 MR. DON PALMER: Yes.

15 MR. BYRON WILLIAMS: And, Mr. Palmer, I'm
16 not going to ask you to check the -- or refer you to the
17 annual reports in question, but I wonder if you would
18 accept, subject to check, that if we went through the
19 2005 Annual Report and looked at the total investment
20 portfolio as of February 28, 2006, we'd see assets in the
21 range of 1.9 billion with much compromising,
22 approximately 19 percent or approximately 369 million?

23 Will you accept that subject to check,
24 sir?

25 MR. DON PALMER: I will say "comprising"

1 instead of "compromising" but -- but other than that,
2 yes.

3 MR. BYRON WILLIAMS: Well, I'm feeling
4 very amenable today so maybe we'll comprise and
5 compromise.

6 And again, just ballpark, if I looked at
7 the portfolio at February 28, 2007 would you agree,
8 subject to check, it would be in the range of 2 billion
9 with MUSH totally or comprising about 402 million, sir?

10 Page 38, Mr. McCulloch, if you're looking.

11 MR. DON PALMER: Yes, that sounds about
12 right.

13 MR. BYRON WILLIAMS: And again, the 2007
14 Annual Report, if we look to the portfolio as of February
15 29th, 2008 about 2.2 billion with MUSH again comprising
16 about 20 percent or about 440 million?

17 Does that sound about right?

18 MR. DON PALMER: Yes.

19 MR. BYRON WILLIAMS: And as I gather from
20 your discussion with Ms. Everard from last week, I can't
21 remember the day anymore, but, am I correct in -- well,
22 let me back up a second.

23 So the last two (2) or three (3) years
24 we've got MUSH about 20 percent of a \$2 billion
25 portfolio; would that be fair, sir?

1 MR. DON PALMER: Give or take, sure.

2 MR. BYRON WILLIAMS: And move out a few
3 years, based upon your discussion with Ms. Everard,
4 you're looking at a portfolio by 2012/2013 of \$3 billion.
5 Is that about right, sir? And the source -- that would
6 be PUB 1-8.

7 MR. DON PALMER: That's our projections
8 currently, yes.

9 MR. BYRON WILLIAMS: And if -- if we're
10 just working off that same rule of thumb, 20 percent, for
11 MUSH we're talking about a \$600 million worth of -- of
12 investments by the Corporation in that. Is that about
13 right, sir?

14 MR. DON PALMER: Yes.

15 MR. BYRON WILLIAMS: And I don't know how
16 the Corporation forecasts this, if at all but, does the
17 Corporation really see the demand for MUSH growing that
18 rapidly over the -- the next few years, sir?

19

20 (BRIEF PAUSE)

21

22 MR. DON PALMER: Yes, we've been at
23 20 percent for a -- a long period of time and we don't
24 see that changing.

25 MR. BYRON WILLIAMS: Mr. Palmer and Ms.

1 McLaren, you can help me with this, and I -- first of
2 all, I want to, on behalf of my clients, acknowledge
3 they, like MPI and the province, think that the -- it's
4 important to invest in Manitoba.

5 But what I'm -- I'd like to -- to get my
6 head around, Mr. Palmer, is there some magic in the
7 figure of 20 percent or that -- or is there some magic in
8 the total absolute dollar amount that the province might
9 require 600 million?

10 How do we -- how do we know what the
11 market is out there for MUSH and what's an appropriate
12 level for the Corporation?

13 MR. DON PALMER: Twenty (20) percent had
14 -- has been the guideline and continues to be the
15 guideline.

16 MR. BYRON WILLIAMS: And is that
17 guideline written down somewhere?

18 MR. DON PALMER: It's in the investment
19 policy statement.

20 MR. BYRON WILLIAMS: And is that
21 guideline a consequence of a direction from the -- the
22 province, that figure of 20 percent?

23 MR. DON PALMER: As in all matters in the
24 investment policy statement, it's reached with -- with
25 input from the Department of Finance and from MPI.

1 MR. BYRON WILLIAMS: Okay. And -- and
2 just -- the reason -- one of the reasons I'm asking, if
3 you go just to the transcript again from October 4th,
4 2006 at page 425 and I may be misreading the question and
5 answer, but Mr. Evans...do you have that, Mr. Palmer?

6 MR. DON PALMER: Yes.

7 MR. BYRON WILLIAMS: At line 21 to 23,
8 Mr. Evans seemed to be saying, So there's no overall
9 policy guidelines in MPI as to what percentage of your
10 total holdings should be MUSH.

11 And Mr. Galenzoski, the first words out of
12 his mouth are, "No". But I'm not -- are there guidelines
13 or not for MPI? That -- that's what I'm just trying
14 to...

15 And, Mr. Palmer, if you say it's in the
16 investment policy statement, I'll accept that. Does the
17 Corporation foresee that there will actually be \$600
18 million worth of MUSH to buy in 2012 and '13, sir? And,
19 if so, how do you know?

20 MR. DON PALMER: I can't say that for --
21 for certain -- for certainty. And if there's not, we'll
22 -- we'll deal with that when we get there.

23 And -- and again, that's the cumulative
24 total, not -- we don't have to buy \$600 million in a
25 given year.

1 MR. BYRON WILLIAMS: Absolutely,
2 absolutely.

3 MS. MARILYN MCLAREN: And, Mr. Williams,
4 at the top of your page 425, it -- Mr. -- I think that's
5 Mr. Galenzoski talking to say --

6 "they tell us at the beginning of the
7 year as a level of commitment, they'd
8 like us to set aside for bonds [means
9 MUSH in this context] and if it's
10 thirty (30) to 50 million,
11 that's...[that's MUSH.]

12 And that is generally how it still happens
13 today.

14 So they -- they give us an idea as -- and
15 sometimes, the asked turns out to be higher through the
16 years, sometimes it's a bit lower. But that is their
17 best estimate for their own budgeting purposes and,
18 depending on what the province's capital activities are
19 with respect to those categories of investment.

20 MR. BYRON WILLIAMS: We'll leave that. I
21 want to talk about real estate just for a few minutes.
22 And, Mr. Palmer, don't worry about that statement. I'll
23 look it up. If I have any problems with it, I'll -- I
24 don't want you to lose your noble assistant there.

25 MR. DON PALMER: I have many noble

1 assistants.

2 MR. BYRON WILLIAMS: Just -- just as --
3 moving to real estate and just let's start at very high -
4 - I'm not even sure I'll call them principles but let's
5 call them principles.

6 When we're talking about an investment
7 asset, would you agree that in a well-functioning market
8 we'd expect asset prices to -- to reflect expected
9 returns? Is that something you'd agree with, sir?

10 MR. DON PALMER: Yes.

11 MR. BYRON WILLIAMS: And if we look at
12 returns from real estate, they would ultimately come --
13 I'm going to suggest to you from two (2) sources: the
14 flow of rental income and capital gains realized.

15 Would you agree with that as well, sir?

16 MR. DON PALMER: Yes.

17 MR. BYRON WILLIAMS: When we look at the
18 real estate market, whether it's Canada or the United
19 States, would it be your understanding that real estate
20 booms are fairly frequent, fairly common?

21 MR. DON PALMER: There are different
22 types of real estate. I guess, largely speaking,
23 residential and commercial. Certainly, the residential
24 real estate would be subject to -- to great booms and
25 commercial could be as well but probably not to the same

1 extent as residential would be.

2 MR. BYRON WILLIAMS: Okay. Just so I
3 have your answer then, certainly within the residential
4 market, you'll acknowledge that it's subject to booms to
5 -- to some -- at some frequency and the commercial market
6 subject to booms with perhaps less frequency.

7 Is that your evidence, sir?

8 MR. DON PALMER: When you're talking
9 about booms, I would say that they would be more
10 localized booms. And if you have a diversified
11 portfolio, you would be less subject to those booms.

12 MR. BYRON WILLIAMS: Do we know what your
13 real estate portfolio's going to look like, Mr. Palmer?

14 MR. DON PALMER: It'll be Canadian real
15 estate. As to the exact holdings within that. No, we
16 don't know. It -- it will be commercial and it will be
17 across Canada. But -- but an exact makeup of that, I
18 can't say.

19 MR. BYRON WILLIAMS: So as I understand
20 your evidence and -- I'm sure it's on the record
21 somewhere, there will be no residential and there also
22 will be no involvement in the American market, sir?

23 MR. DON PALMER: With residential, that's
24 no single family dwellings. There may be multi-family
25 units that would be included in that. And yes, we will

1 be limiting ourselves to the Canadian market.

2 Just going back a couple of steps with the
3 IPS or the Investment Policy Statement, we have an
4 allocation in non-marketable bonds of a target of the 20
5 percent. So it is in the -- what we referred to.

6 MR. BYRON WILLIAMS: I trusted you on
7 that, Mr. Palmer, but I thank you for confirming that.
8 Just going back to the concept of -- of booms. I'm not
9 sure how familiar you are with any of the economic
10 literature.

11 But would it be your experience that in --
12 in terms of real estate booms, there's some evidence to
13 show that they're often followed by a prolonged period of
14 price stagnation within the marketplace?

15 MR. DON PALMER: Sorry, could you repeat
16 the question?

17 MR. BYRON WILLIAMS: Just in terms of
18 your knowledge of the -- the economic literature, would
19 it be your understanding that after rapid price rises,
20 I'm going to call them booms, the real estate market is
21 often characterized by periods of stagnation? Was -- was
22 that your understanding, sir, or no?

23 MR. DON PALMER: That could be. But
24 remember that our -- our investment in real estate will
25 be more focussed in on steady stream of rental income, as

1 you had mentioned that's one (1) of the sources of return
2 of real estate.

3 And that certainly will be what our focus
4 will be on more than some sort of speculation in -- in
5 terms of capital appreciation. That wouldn't be our --
6 our more primary goal would be to focus on steady stream
7 of -- of rental income rather than capital appreciation.

8 MR. BYRON WILLIAMS: Fair enough and I
9 accept that. And just to finish this specific point, are
10 you familiar at all with any of the studies in the -- for
11 example, in the -- the US marketplace in terms of the
12 aftermath of price boom, sir?

13 MR. DON PALMER: No.

14 MR. BYRON WILLIAMS: Does the Corporation
15 accept that -- generally, you talked about two (2)
16 different streams of real estate, commercial and
17 residential, is that right, sir?

18 MR. DON PALMER: Yes, that's one (1)
19 division that could be made.

20 MR. BYRON WILLIAMS: Does the Corporation
21 accept that there's a positive correlation between the
22 commercial and residential real estate market?

23 MR. DON PALMER: Again, I -- I think on a
24 localized level, you could likely make that correlation.
25 Again, we would be more diversified than that.

1 MR. BYRON WILLIAMS: And just to finish
2 off on this point, your evidence in this Hearing is talked
3 about using real estate as -- one (1) of the purposes of
4 investing is to serve as some sort of hedge or protection
5 against inflation pressures elsewhere in the portfolio.

6 Is that right, sir?

7 MR. DON PALMER: I wouldn't say elsewhere
8 in the portfolio. I -- I would say a hedge against
9 inflation because we are -- our liabilities are subject to
10 inflation pressures.

11 MR. BYRON WILLIAMS: Thank you for that
12 clarification.

13 You're not suggesting that there's a
14 perfect correlation between inflation and -- and real
15 estate prices, are you, sir?

16 MR. DON PALMER: It's not a perfect
17 correlation in -- in our definitions although the real
18 estate income, the rental income that I talked about,
19 often has inflation escalator built in to those kind of
20 rental contracts. So perfect, no; high -- high
21 correlation, absolutely.

22 MR. BYRON WILLIAMS: Would it be a
23 precondition for your investments in commercial or
24 residential -- commercial real estate or residential that
25 there be inflation escalators, sir?

1 MR. DON PALMER: Not necessarily.

2 MR. BYRON WILLIAMS: Are you familiar with
3 the concept of shadow pricing?

4 MR. DON PALMER: Yes --

5 MR. BYRON WILLIAMS: If not, that's okay.

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: I'm going to move to
10 a different subject. Unfortunately, for me or you, Mr.
11 Palmer, still with you, I think, in the -- in the context
12 of forecasting, are you familiar with the concept of
13 structural breaks?

14 MR. DON PALMER: Not exactly in those
15 terms.

16 MR. BYRON WILLIAMS: Well, let me try it
17 on you and -- and we'll see and I'll -- and painful as it
18 is we'll have to try it by way of a hypothetical, okay,
19 Mr. Palmer? You're prepared to cater to me for a few
20 minutes, please?

21 MR. DON PALMER: Sure.

22 MR. BYRON WILLIAMS: Let's look at the
23 demand for asbestos which, for hypothetical purposes, will
24 -- you can use it -- let's assume you can use it for heat
25 insulation, electrical insulation brake shoes, okay?

1 And you'll assume with me, if you will, Mr.
2 Palmer, that we have some historical information relating
3 to the demand, let's say, from -- from a number of years
4 in the -- in the early part of this century.

5 Will you assume that, Mr. Palmer?

6 MR. DON PALMER: Yes.

7 MR. BYRON WILLIAMS: And let's pretend
8 that if we graph the historical data it could be described
9 fairly accurately by a trend line that indicated in each
10 year the demand grew by 1 million units? Is that fair,
11 sir, for the purposes of the hypothetical?

12 MR. DON PALMER: Sure.

13 MR. BYRON WILLIAMS: And let's assume as
14 well that each year we forecast the succeeding year to
15 increase by a million over the previous year's forecasts
16 and the forecasts turn out to be both fairly accurate, by
17 which I mean the actuals are clustered around the trend
18 line as well as unbiased, the actuals are overall just as
19 likely to be greater than forecasts as they are to be less
20 than forecasts.

21 Is that okay with you, Mr. Palmer?

22 MR. DON PALMER: Yes.

23 MR. BYRON WILLIAMS: Let's suppose that
24 this forecast method works pretty well up to the late
25 '70s, early '80s when it becomes clear how toxic the

1 substance is, resulting in it being banned from most uses
2 in many countries.

3 Are you okay with that, Mr. Palmer?

4 MR. DON PALMER: Yes.

5 MR. BYRON WILLIAMS: And I'm going to
6 suggest to you and ask you to assume that the effect of
7 the banning would show up on a graph of demand by year as
8 a sudden drop, okay. You'll accept that?

9 MR. DON PALMER: Yes.

10 MR. BYRON WILLIAMS: So the old
11 forecasting method would no longer be appropriate because
12 there was, what I'm going to call, a structural break that
13 was reflected in the data. Does that make sense?

14 MR. DON PALMER: I'm with you.

15 MR. BYRON WILLIAMS: Okay. So, that data
16 should be split into pre-break and post-break data each
17 with their own separate trends. Would that be fair?

18 MR. DON PALMER: That's fair.

19 MR. BYRON WILLIAMS: And just out of
20 curiosity, Mr. Palmer, I've used the -- the language
21 "structural break." Is there a different word that you
22 would use in your -- in your -- your work?

23 MR. DON PALMER: I can use structural
24 break. I can relate to that.

25 MR. BYRON WILLIAMS: I just have a few

1 kind of questions relating to PIPP and the Appointed
2 Actuaries Report as at October 31st, 2007.

3 Could you pull that up, Mr. Palmer, if you
4 would?

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: Mr. Palmer, I'm
9 going to just make sure I walk over the cover page to you
10 to make sure that we're talking off of the -- the same
11 document because I think there's a few in there, okay?

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: Mr. Palmer, these
16 are mostly questions of trying to understand what the
17 report's saying, so, not that I would ever try and trick
18 you but, hopefully, in these ones you'll accept my
19 legitimate position of ignorance on them.

20 And --

21 MR. DON PALMER: I'll accept that.

22 MR. BYRON WILLIAMS: It's not much of a
23 leap is it, Mr. Palmer? Perhaps you could turn to page
24 12 first of all under Comprehensive?

25

1 (BRIEF PAUSE)

2

3 MR. DON PALMER: Yes?

4 MR. BYRON WILLIAMS: And in about the
5 fourth paragraph under the heading "Comprehensive"
6 there's a paragraph that starts:

7 "There is no IBNR in our provision for
8 the 1996 hailstorms."

9 But, Mr. Palmer, I want to draw your
10 attention to the last sentence in that paragraph where it
11 says that:

12 "the 1996 hailstorm-incurred
13 development was not used because the
14 observed factors, some of which are
15 below unity, reflect the less accurate
16 reserving practice used at that time."

17 Do you see that, Mr. Palmer?

18 MR. DON PALMER: Yes.

19 MR. BYRON WILLIAMS: And again, at a very
20 high level could you explain to me what's meant by that?

21 MR. DON PALMER: When we look at setting
22 an IBNR for -- especially in an unusual event like a
23 large hailstorm as we had observed in 2007 in -- in
24 Dauphin, and remember that this report is written with
25 data as at October 31st, so some two and a half (2 1/2)

1 months after the hailstorm, so the -- the data was still
2 very green in -- in -- not mature in terms of having all
3 the claims reported.

4 So we have to come up with an estimate of
5 what that value of that hailstorm would be even though we
6 have incomplete information. So you search for other
7 proxies because there is not much data available. So we
8 have had two (2) other large hailstorms within our
9 history. In 2001 we had one and in 1996 we had one.

10 When we were looking at the data as -- as
11 to how we can best use it to -- to approximate what the
12 Dauphin hailstorm would look -- look like, we went back
13 in time to 1996 and had different computer systems. We
14 have since rewritten our computer system, for instance,
15 with 1999 in our claims administration reporting system
16 called CARS was 1999 so that -- that certainly would have
17 an effect on the -- the development of claims.

18 So -- so all this statement says is we
19 have two (2) -- two (2) recent data points and reject --
20 we rejected one because the world has changed.

21 MR. BYRON WILLIAMS: Okay. And -- and
22 just -- so by just language of less accurate reserving
23 practices at the time, is that focussed exclusively on --
24 on the old computer system or -- or are there -- are
25 there other elements of that that may not have been

1 canvassed in your answer, sir?

2 MR. DON PALMER: That would be the main
3 one and remember, in this context, we're talking
4 exclusively the comprehensive claims.

5 MR. BYRON WILLIAMS: And just staying on
6 comprehensive, let me be flipping over to the top of the
7 next page right at the -- right near the top you see
8 there's a discussion about the progression of glass
9 claims. And there's a reference that

10 "this may not show directly in the
11 recorded data as the date of loss for
12 glass claims is often inadvertently
13 recorded as a repair date."

14 And just if you can explain again at a
15 quick and high level, what's meant by that, Mr. Palmer.

16 MR. DON PALMER: Glass claims are -- are
17 one of those things that are not necessarily the result
18 of some specific high impact collision where you get a
19 chip in the windshield and over time, it may grow into a
20 crack and -- and over some period of time, our customer
21 say -- would want to replace that windshield but wouldn't
22 necessarily know when the initial impact happened. So
23 that's what that is referring to.

24 MR. BYRON WILLIAMS: Okay. And again,
25 just a couple of -- a last couple of quick points in --

1 in this area.

2 I understand that and you've talked about,
3 I think, in a previous proceeding, but I just want to
4 make sure I understand for this one. There -- that a new
5 reserving calculator was introduced during the '05/'06
6 fiscal year.

7 Is that right?

8 MR. DON PALMER: Yes, specifically for
9 PIPP claims, yes.

10 MR. BYRON WILLIAMS: Yeah, and I should
11 have been more precise.

12 And am I correct in suggesting that every
13 PIPP claim with the reported PIPP loss greater than fifty
14 thousand (50,000) was reviewed and the case reserve
15 updated using the new reserve -- reserving calculator?

16 MR. DON PALMER: Yes.

17 MR. BYRON WILLIAMS: And would I be
18 correct in suggesting that the results of this have been
19 two-fold: one being, an improvement in the consistency
20 of the case reserve estimates; and secondly, being in
21 significant changes to the historical reported incurred
22 loss development patterns, sir?

23 MR. DON PALMER: Yes.

24 MR. BYRON WILLIAMS: Mr. Keith, just to
25 finish up with you. Thank you, Mr. Palmer. And again,

1 this isn't in the CAC/MSOS materials which may be why
2 they're so -- so thin this year.

3 But, Mr. Keith, if you could turn to
4 CAC/MSOS, first round, 25(B), sub 3, there's a policy
5 discussion paper regarding the driver education program,
6 sir.

7

8 (BRIEF PAUSE)

9

10 MR. WARD KEITH: I'm sorry. What is the
11 reference again, Mr. Williams?

12 MR. BYRON WILLIAMS: CAC/MSOS, first
13 round, 25(B), sub 3, please. It's policy discussion
14 paper 205 regarding driver's education prepared by
15 Northport dated December 19th, 2005.

16 MR. WARD KEITH: Yes.

17 MR. BYRON WILLIAMS: And, Mr. Keith, I
18 just want -- we'll try and move through this quickly if --
19 -- and let Mr. Oakes get on with his job.

20 I wonder if you can turn, first of all, to
21 pages 8 and 9, where there's a discussion of program
22 weaknesses and challenges. Do you see that, sir?

23 MR. WARD KEITH: Yes.

24 MR. BYRON WILLIAMS: And in particular,
25 I'm going to draw your attention to the -- to page 9 at --

1 - near the top. And there's a comment by Northport that:
2 "While DEP, [presumably the Driver
3 Education Program] has many unique
4 strengths compared to driver education
5 programs in other jurisdictions, there
6 are also identifiable weaknesses, weak
7 coordination with GDL, single-stage
8 program, instructor capabilities widely
9 variable, weak control over instructor
10 training, large class sizes, a number
11 of other ones."

12 Do you see that, Mr. Keith?

13 MR. WARD KEITH: Yes.

14 MR. BYRON WILLIAMS: I'm just curious
15 about the -- the -- the first four (4) from weak
16 coordination with GDL through weak control over
17 instructor training and I wonder if you can address these
18 at a high level.

19 Does the Corporation, first of all, accept
20 the criticisms identified by Northport and, if so, just
21 let me know at a high level how the program has changed
22 in response to this.

23 MR. WARD KEITH: Yes, these were weakness
24 that were identified by Northport through this process
25 and so the Corporation accepted those at that time.

1 With respect, I'll jump first to
2 instructor capabilities and weak control over instructor
3 training. Since this -- since this discussion paper was
4 created, some additional efforts were put in place in
5 order to standardize the training of instructors that are
6 involved in the program and as well, regular in-services
7 were instituted for all instructors of the program where
8 they're brought together at least once a year in order to
9 discuss issues relating to the program delivery as well
10 as new and emerging instructional techniques.

11 MR. BYRON WILLIAMS: Let's move up to
12 weak coordination with GDL. Just let me know what the
13 Corporation has done in response.

14

15 (BRIEF PAUSE)

16

17 MR. WARD KEITH: Just one moment, Mr.
18 Williams, please.

19

20 (BRIEF PAUSE)

21

22 MR. WARD KEITH: This issue, Mr.
23 Williams, related to the existing GDL program. In some
24 jurisdictions that have graduated driver licencing, there
25 are two (2) stages to the program. There -- and in

1 Manitoba there is a single stage and so as a result, the
2 Driver's Ed program is based on a single-stage program as
3 well.

4 MR. BYRON WILLIAMS: And this is a -- a
5 point that my clients are certainly quite interested in,
6 Mr. Keith, and -- and we'll come back to this single-
7 stage program.

8 But you'll agree with me at a high level
9 that when there's been efforts to look at the success of
10 driver education empirically, the results have been, at
11 best, mixed.

12 Would you agree with that?

13 MR. WARD KEITH: Yes.

14 MR. BYRON WILLIAMS: And there is
15 certainly another discussion paper by Northport to that
16 effect summarizing the literature and there's -- you --
17 you probably don't need to go there unless we're going to
18 disagree, but you'll agree with me that there's --
19 there's been a number of sites which have had some
20 difficulty establishing a positive relationship between
21 driver education and -- and reduce the accidents. Would
22 that be fair?

23 MR. WARD KEITH: Yes, in terms of the
24 long-term effectiveness of the program, I would agree
25 with that.

1 MR. BYRON WILLIAMS: And I wonder if
2 you'd also agree with me that some of the driver
3 education programs that have shown the most promise
4 perhaps have been in Scandinavia where they've employed
5 graduated driver education programs.

6 Are -- are you aware of that literature or
7 research, sir?

8 MR. WARD KEITH: Only the extent to which
9 it's addressed in the literature review.

10 MR. BYRON WILLIAMS: And would you agree
11 with my characterization of the Northport conclusion that
12 this is an area that, in terms of graduated driver's
13 education programs that shows promise?

14 MR. WARD KEITH: Yes, I would agree with
15 that conclusion.

16 MR. BYRON WILLIAMS: And where is the
17 Corporation, just so I understand, on that issue? Is it
18 still a one (1) stage process in terms of driver's
19 education, first of all?

20 MR. WARD KEITH: Yes.

21 MR. BYRON WILLIAMS: Is the Corporation
22 examining or looking at opportunities in terms of
23 graduated driver education programming?

24 MR. WARD KEITH: What the Corporation is
25 involved in, and as we've discussed about at these

1 Hearings in the past, is we are involved in a full-scale
2 review of the program, particularly with respect to the
3 summative nature of the -- of the evaluation which is
4 intended to look at the overall effectiveness of the
5 program and that's the valuation that will be done
6 through the Triple A Foundation in the United States in
7 conjunction with two (2) other jurisdictions and driven
8 through the Canadian terms of Northport and TIRF, the
9 Traffic Research -- Traffic Injury Research Foundation.

10 MR. BYRON WILLIAMS: But that focusses on
11 evaluation; is that right, sir?

12 MR. WARD KEITH: It focusses on the --
13 the ultimate effectiveness of the program, yes.

14 MR. BYRON WILLIAMS: In terms of program
15 design, just in case my question was imprecise, I'm
16 suggesting to you that certainly Northport says that
17 there's some promising data and examples from certainly
18 Scandinavia in terms of graduated driver's education.

19 And my question to you specifically in
20 terms of program design is where -- what's the position
21 of Corporation -- of -- of the Corporation on this issue?

22

23 (BRIEF PAUSE)

24

25 MR. WARD KEITH: MR. Williams, the

1 Corporation hasn't taken a formal position on this issue
2 as of yet. At this point, what we prefer to do is
3 proceed through the formative evaluation which is ongoing
4 with the help of Northport as you're aware.

5 And one (1) of the elements that will be
6 looked at through that evaluation is program design and -
7 - and we'll look at what the research comes back with and
8 what the evaluation findings indicate in terms of future
9 directions for the program in Manitoba through that
10 process.

11 MR. BYRON WILLIAMS: And just to finish
12 on this specific point, if you just flip over to page 14
13 of this same report -- do you have that, Mr. Keith?

14

15 (BRIEF PAUSE)

16

17 MR. WARD KEITH: Yes.

18 MR. BYRON WILLIAMS: And you'll see a
19 heading, "Initiatives Within MPI's Broader
20 Responsibilities," sir; do you see that?

21 And --

22 MR. WARD KEITH: Sorry, that wasn't the
23 page 14 I was looking at.

24 MR. BYRON WILLIAMS: Okay.

25 MR. WARD KEITH: Just one (1) second,

1 please.

2 MR. BYRON WILLIAMS: The bolded heading
3 in -- in the policy discussion paper 205 appears at page
4 14 of my version: D2 Initiatives Within MPI's Broader
5 Responsibilities?

6 MR. KEVIN MCCULLOCH: Excuse me, Mr.
7 Williams, was that the November 3rd, 2005?

8 MR. BYRON WILLIAMS: I've got the
9 December 19th, 2005, Mr. McCulloch. It's CAC/MPI-1-25B
10 Sub 3, sir.

11

12 (BRIEF PAUSE)

13

14 MR. KEVIN MCCULLOCH: I have that one
15 now, too.

16 MR. WARD KEITH: Yes, so do I.

17 MR. BYRON WILLIAMS: It's probably a lot
18 of page turning for a limited response, but you'll --
19 you'll see under subsection C in the middle of that
20 paragraph the recommendation by Northport that in the
21 future it would be desirable to establish a full-fledged
22 advance -- advance phase such that drivers are encouraged
23 or required to complete a two (2) phase course before
24 moving on to a full licence; do you see that, sir?

25 MR. WARD KEITH: Yes.

1 MR. BYRON WILLIAMS: And you also see the
2 suggestion that the benefits of some form of second phase
3 training are supported by research results, particular in
4 Scandinavia, sir? Do you see that?

5 MR. WARD KEITH: Yes.

6 MR. BYRON WILLIAMS: And are you telling
7 me that the Corporation's position is that there's not
8 enough evidence to suggest a second phase at this point
9 in time?

10 MR. WARD KEITH: No, only that no
11 decision has been made with respect to proceeding on that
12 basis.

13 MR. BYRON WILLIAMS: And what kind of
14 time line are you -- are you looking at for that, sir?

15 MR. WARD KEITH: I guess there are a
16 couple of issues that play there, Mr. Williams. The
17 first is that we likely wouldn't move to a move -- to a
18 change of the programs such as that until such time as
19 the two (2) evaluations have been completed and we can
20 have a -- a good look at the program, its current
21 effectiveness, as well as the individual elements of the
22 program that lead to that effectiveness.

23 Also, compare our program to the other two
24 (2) jurisdictions that are being considered under the
25 large-scale evaluation.

1 phase, training, the other
2 two (2) jurisdictions that
3 are a part of the broader
4 survey, do they employ some
5 form of second phase training
6

7 MR. BYRON WILLIAMS: Mr. Chairman, I
8 thank the MPI panel for their time and, subject to a
9 number of undertakings, that closes our cross-examination
10 in this area, sir.

11 THE CHAIRPERSON: Thank you, Mr.
12 Williams. Ms. Everard, do you have a few questions
13 before we break?
14

15 CROSS-EXAMINATION BY MS. CANDACE EVERARD:

16 MS. CANDACE EVERARD: Sure, Mr. Chairman.
17 Firstly, we had a couple of followup questions with
18 respect to the answer to Undertaking 16, which is Exhibit
19 13 in this proceeding. That's the schedule from the
20 Superintendent of Insurance.

21 Firstly, if we could just confirm when
22 we're looking at the column relating to the premiums for
23 2007, that there are two (2) insurance companies on the
24 list that are selling more than a million dollars for
25 that particular year. That would be the very first one,

1 the ACEINA Insurance and then Saskatchewan Mutual
2 Insurance Company.

3 Is that right?

4 MS. MARILYN MCLAREN: Looks like it, yes.

5 MS. CANDACE EVERARD: And it was pointed
6 out earlier on the record, the percentage of the whole of
7 the business for these two (2) years that's held by the
8 Corporation and was also noted that the dollar amounts
9 here for the Corporation include the Basic component.

10 So if we back out the Basic net premiums
11 earned for each of these years which we can go in to
12 specific numbers from TI.15 but ballpark, they're around
13 600 million per year, would it be fair to say that the
14 percentage of business owned by the Corporation in the
15 remainder -- so once the Basic component is completely
16 backed out of these numbers, that percentage would be in
17 and around 95 percent per year?

18 Do you want me to break that down in some
19 more detail?

20 MS. MARILYN MCLAREN: No, that -- that's
21 probably close enough.

22 MS. CANDACE EVERARD: So would it be fair
23 to say with that level of the market being owned by the
24 Corporation that it is monopolizing the field in the
25 extension and SRA pieces or if the Corporation doesn't

1 agree with that, then how does it portray the situation?

2 MS. MARILYN MCLAREN: We certainly have
3 most of it. You know, we're always careful about use of
4 the word "monopoly" and "monopolizing." It's -- it's
5 competitive, it's optional. There is a percentage of
6 Manitobans who buy nothing other than the compulsory
7 program as well so... Certainly, we have the lion's
8 share.

9 MS. CANDACE EVERARD: Thank you. The
10 Board also had a few questions on the exhibit filed by
11 MPI late last week and I -- I don't have the exhibit
12 number handy but it's the press release dealing with the
13 new agreement with the brokers.

14 MR. KEVIN MCCULLOCH: That's Exhibit
15 number 10.

16

17 CONTINUED BY MS. CANDACE EVERARD:

18 MS. CANDACE EVERARD: Thank you, Mr.
19 McCulloch.

20 It's set out on the second page of the
21 document in the first bulleted paragraph that there will
22 be a gradual decrease in commissions for Basic Autopac
23 sales.

24 Can the -- someone from the panel confirm
25 for the record, first of all, the -- the reasoning or the

1 -- the why behind that decrease?

2 MS. MARILYN MCLAREN: Yes, it's directly
3 associated with the move to streamlined renewals,
4 significant decrease in work effort in brokers' offices
5 associated with the renewal process once renewals are
6 streamlined beginning next -- late next year.

7 MS. CANDACE EVERARD: So can the decrease
8 be quantified in terms of a percentage decrease or is it
9 a volume decrease given the streamline process?

10 MS. MARILYN MCLAREN: Well, I mean if --
11 today, if there are nine hundred thousand (900,000)
12 policies -- say nine hundred thousand (900,000) earned
13 units, nine hundred thousand (900,000) policies, there
14 would be nine hundred thousand (900,000) renewal
15 transactions done in the brokers' offices each year and
16 that means new documentation, new stickers, selecting
17 payment options, going through the entire renewal process
18 nine hundred thousand (900,000) times a year.

19 Under a streamlined renewal process, that
20 would happen per policy once every five (5) years. So,
21 in effect, it would be an 80 percent decrease in the
22 number of times brokers would have to go through that
23 renewal transaction per policy.

24 They'll still have a number of people
25 coming in on an annual basis; those who choose to pay in

1 full and choose to do so in a broker's office will come
2 in to do that, but the payment process is significantly
3 faster and -- and less complex than a renewal process.

4 MS. CANDACE EVERARD: Thank you. I
5 appreciate that the Corporation has stated that this
6 change will not affect the year of the application that
7 we're dealing with in this proceeding but, clearly, it
8 will affect the projections for the subsequent years.

9 Would it be possible for the Corporation
10 to provide the Board with the revised projections that
11 reflect the impact of this change?

12 MS. MARILYN MCLAREN: No, sorry, we won't
13 be able to do that because this is not -- this is just a
14 piece of a more complicated puzzle that is starting to
15 come together largely as a result of the changes brought
16 forward by the Government in Bill 40.

17 So the streamlined renewals, the one (1)
18 part driver licence, driver safety rating, all of which
19 will be -- we've proposed to discuss here in this forum
20 and apply to the Public Utilities Board in a special rate
21 application in late January. So, the filings associated
22 with as we -- I think, at least if not other places in
23 this application in my pre-filed testimony talked about
24 the fact that the forecasts and -- and general financial
25 basis of that application in late January will be the

1 same as we have before you now.

2 The financial impact of the changes that
3 are specifically to be dealt with at the January
4 application will be reflected in -- in the material put
5 forward at that time. We don't have that available at
6 this point.

7 MS. CANDACE EVERARD: Thank you. If we
8 look at the next bullet on the same page of the document,
9 there's reference to the flat fees paid to brokers for
10 other types of transactions are increasing and, in
11 particular, in the last sentence there's reference to a
12 flat fee on new driver's licence applications being paid
13 until 2013.

14 And as you've mentioned, and as is
15 reflected farther down on this page, customers will now
16 be required to visit a broker only once every five (5)
17 years.

18 Is it fair to say that these new
19 arrangements will mitigate the fact that the Province is
20 no longer paying a commission to the Corporation with
21 respect to the collection of driver's licence fees?

22

23

(BRIEF PAUSE)

24

25

MS. MARILYN MCLAREN: The brokers

1 received a payment for renewing driver licences and for
2 taking driver licence photos; that began to be paid by
3 MPI when we took responsibility for DVL.

4 But the costs of providing that were also
5 part of the \$21 million that the Government pays us. So
6 they didn't really stop, they're -- they're kind of still
7 funding that directly to us as opposed to -- to brokers.

8 So, really, the -- the flat fees in the
9 second bullet, generally flat fees are paid to brokers
10 for off-cycle transactions, if you do a transfer, if you
11 do a name and address change, perhaps a vehicle load
12 change on a -- on a -- in a truck, something like that.
13 So that's where the flat fees come in.

14 And with respect to the compensation for
15 driver's licence insurance, there has just -- there's
16 been some conversation with the brokers for the last
17 little while that since, you know, DVL and MPI are merged
18 into one (1) organization there has always been insurance
19 on drive licences.

20 This is something that -- that gave them -
21 - it's something that they were looking for, I guess,
22 through the negotiations, was a move that we -- they
23 would earn a commission on the driver licence premium as
24 they do on the vehicle premium. Also reflects some of
25 the changes that are likely to come forward through the

1 driver safety rating.

2 One (1) of the issues that they had was
3 the -- the one dollar (\$1) fee and this was a way to deal
4 with that in a longer-term perspective that -- that met
5 their needs and it made a lot of sense to the Corporation
6 as well.

7 MS. CANDACE EVERARD: Thank you. Still
8 on the -- the same bulleted paragraph and the last
9 sentence which reflects that the flat fee will be paid
10 until 2013, is this to imply that there will be no fee
11 after that year or that the structure will change?

12 MS. MARILYN MCLAREN: The -- and I -- I
13 don't remember all the dates off the top of my head but
14 for a period of time they will be paid a commission and a
15 flat fee and then the flat fee will end. The fee is
16 intended as part of the transition strategy.

17 It was -- as mentioned in this, it was
18 very important to both MPI and the brokers that changes
19 be staged to give brokers a chance to sort of redefine
20 and then to -- to accommodate the changes in -- in a
21 planned stepped way so that it didn't all hit them at
22 once without time to adapt to the changes that were
23 coming.

24 So that is what the fee referenced in the
25 last sentence of the second bullet is really part of the

1 transition funding for them.

2 MS. CANDACE EVERARD: Thank you. Just
3 one (1) additional point for confirmation with respect to
4 the significant savings that you referenced by virtue of
5 the five (5) year plan.

6 Can you confirm for the record whether any
7 of those cost savings will be realized by ratepayers?

8 MS. MARILYN MCLAREN: That -- I think I
9 even said that in the news release somewhere. That's
10 fully our intention is to flow through savings directly
11 to ratepayers in -- in some fashion.

12 And I think it -- it's Mr. -- in Mr.
13 Palmer's occasionally stay-tuned comment, you can expect
14 to see how we would propose to do that in the application
15 that will be coming forward in the new year with respect
16 to DSR streamlined and the one (1) part licences.

17 MS. CANDACE EVERARD: Last question, I
18 think, on this issue for the moment is whether this
19 agreement between the Corporation and the brokers is
20 available for a review by the Board?

21 MS. MARILYN MCLAREN: At this point it's
22 not a public document. It -- I suppose through time it -
23 - it may become more public than it is today but the
24 agreement right now is between MPI and IBAM and is -- is
25 not a public document at this point.

1 Just one (1) last point since we are
2 talking about this, Ms. Everard, that I really can't pass
3 up the opportunity to comment on. The extent to which we
4 have been able to move forward which been -- the -- the
5 Government has decided to, which the Corporation
6 certainly is supportive of, but the Government's decided
7 to move forward on the significant initiatives.

8 And as we've talked about, the Bill 40 was
9 passed; regulations are still in development, they're not
10 final yet. So we don't know exactly what it is we're
11 dealing with. We're doing some public consultations
12 right now to inform some of our advice to Government with
13 respect to driver safety rating.

14 But I really want to make the point that
15 none of this, these benefits in -- in lower costs, in a
16 better driver safety rating, in better service and
17 streamlined renewals, none of this really would have been
18 possible to the extent we've been able to really leverage
19 these opportunities if not for the merger. If not for
20 MPI and DVL coming together, these advantages which, in
21 large part, will flow to Basic ratepayers, simply would
22 not have been possible without the merger.

23 So we're looking forward to having a
24 pretty comprehensive story to tell you and an application
25 that really bodes well for the future when we come back

1 in the New Year.

2

3

(BRIEF PAUSE)

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5

6

THE CHAIRPERSON: We'll take our
afternoon break now. Thank you.

7

8

--- Upon Recessing at 2:36 p.m.

9

--- Upon Resuming at 3:00 p.m.

10

11

THE CHAIRPERSON: Okay.

12

MR. KEVIN MCCULLOCH: Mr. Chair --

13

THE CHAIRPERSON: Yes, sir...?

14

15

MR. KEVIN MCCULLOCH: Yes, Mr. Chairman,
just whittling away at the undertakings.

16

17

18

19

Our Undertaking Number 4 provide the date
of the last cost allocation methodology study, the one
done by Arthur Anderson, Mr. Palmer's ready to provide a
verbal response to that.

20

THE CHAIRPERSON: Mr. Palmer...?

21

22

23

24

25

MR. DON PALMER: The Arthur Anderson cost
allocation review is dated July 16th of 1998. It was
transmitted to the Public Utilities Board in a letter
dated July 23rd, 1998, a letter from Ms. McLaren to Mr.
G. Barron and that was in compliance with Board Order

1 93/97

2 THE CHAIRPERSON: Thank you, sir. Ms.
3 Everard...?

4

5 CONTINUED BY MS. CANDACE EVERARD:

6 MS. CANDACE EVERARD: I just have one (1)
7 follow-up question, Ms. McLaren, on one (1) of the
8 answers that you gave just prior to the break relating to
9 the relationship between the \$6 million payment that had
10 previously been made by the province with respect to
11 driver licence fees that was discontinued and the \$21
12 million payment that the Corporation receives annually
13 from the Province.

14 If I understood your evidence correctly,
15 you said that the 6 million was effectively included in
16 the 21 million and it was the Board's understanding from
17 previous years that, in fact, the 6 million was not a
18 part of the twenty-one (21).

19 So can -- can you just clarify that,
20 please?

21 MS. MARILYN MCLAREN: You didn't mention
22 the \$6 million figure before the break. What you
23 mentioned was driver licence commissions and I stand by
24 what I said with respect to driver licence commissions.

25 The \$6 million you're referring to was --

1 used to be a contribution from the Province to pay broker
2 commissions for vehicle registration and insurance, not
3 the driver licence but vehicle registration and insurance
4 and no, the -- their contribution stopped sometime before
5 the merger between MPI and DVL and, therefore, had
6 nothing to do with the \$21 million transfer for doing DVL
7 functions.

8 MS. CANDACE EVERARD: Thank you.

9 MS. MARILYN MCLAREN: If I could, Ms.
10 Everard, then to follow up with a different answer now
11 that I understand the context of what you intended to
12 ask, we've talked about the \$6 million being reasonably
13 representative of about a 1 percentage point difference -
14 - or 1 percentage point in Autopac, Basic Autopac rates,
15 so, the \$6 million is equated to about 1 percent on rate.

16 And I think your question was: Will this
17 change to the Basic commission payments to brokers serve
18 to mitigate that loss? It will be significantly in
19 excess of that 1 percent.

20 And at the end of the day, when fully
21 implemented, Basic commissions are expected to be 2 1/2
22 percent instead of 5 percent.

23

24

(BRIEF PAUSE)

25

1 THE CHAIRPERSON: Thank you. Mr. Oakes,
2 it's your turn.

3

4 CROSS-EXAMINATION BY MR. RAYMOND OAKES:

5 MR. RAYMOND OAKES: Thank you, Mr.
6 Chairman. As a preliminary matter, I would ask that we
7 mark the book of CMMG cross-exam references as the next
8 exhibit, Exhibit 3, CMMG-3?

9 THE CHAIRPERSON: We have it.

10

11 --- EXHIBIT NO. CMMG-3: Book of CMMG Cross-exam
12 References

13

14 MR. RAYMOND OAKES: Also as a -- like the
15 record to show that there's been cooperation between the
16 Intervenors. Mr. Dawson is sharing his water supply with
17 the other Intervenors. So he'll want that addressed at
18 the issue of costs, I'm sure.

19

20 CROSS-EXAMINATION BY MR. RAYMOND OAKES:

21 MR. RAYMOND OAKES: Mr. Palmer, today and
22 last week, you've provided this Board with a wealth of
23 expertise that's commensurate with your professional
24 position over at MPI, both actuarial finance investment
25 and event today, the phenomenon of real estate booms. I

1 have a very general question for you.

2 It's of the three (3) other public
3 insurance programs in Canada, in your opinion, which
4 would be the most similar to Manitoba?

5 MR. DON PALMER: They all have some
6 similarities and some differences, so, I don't know that
7 there's any one that is specifically more like us than
8 any other.

9 MR. RAYMOND OAKES: I wonder, sir, if you
10 were to consider coverage benefits, demographics or
11 economics, which of the three (3) public insurers would
12 be most similar to Manitoba?

13 MR. DON PALMER: If you're talking
14 strictly in terms of Basic compulsory coverage, not
15 companies, but Basic compulsory coverage, that would be
16 SGI.

17 MR. RAYMOND OAKES: Thank you, sir.

18 Moving to the issue of motorcycle road
19 safety initiatives - so this may be Mr. Keith - and ask
20 the very general question whether safety and motorcycle
21 safety, in particular, are important constituent elements
22 to the MPI mandate.

23 MR. WARD KEITH: Yes, we can confirm
24 that.

25 MR. RAYMOND OAKES: And last year at

1 these Hearings, CMMG presented material from the National
2 Agenda for Motorcycle Safety, also known as NAMS.

3 Do you recall that, sir?

4 MR. WARD KEITH: Yes.

5 MR. RAYMOND OAKES: And the NAMS report
6 included such issues as driving under the influence,
7 other drivers driving into motorcycles, conspicuity
8 issues -- that's a new one for me -- helmets, road
9 infrastructure and other issues. Do you recall that,
10 sir?

11 MR. WARD KEITH: Yes.

12 MR. RAYMOND OAKES: And has the
13 Corporation taken any time since that last GRA to analyse
14 the NAMS recommendations?

15 MR. WARD KEITH: Only on a cursory basis.

16 MR. RAYMOND OAKES: Can I ask you, sir,
17 what sort of quality control process does MPI have in
18 place to monitor effectiveness of its existing programs?

19 MR. WARD KEITH: Is your question, Mr.
20 Oakes, specific to motorcycle safety programs?

21 MR. RAYMOND OAKES: Well, I think that
22 would be helpful.

23 MR. WARD KEITH: Our involvement with
24 motorcycle safety primarily relates to support for rider
25 education which we do in partnership with Safety Services

1 Manitoba, previously the Manitoba Safety Council, and so
2 we work regularly with that organization to review not
3 only the curriculum that they administer through their
4 programs, but also the evaluations that they receive from
5 the participants in those programs.

6 MR. RAYMOND OAKES: And how about
7 internally, how does it review the -- the effectiveness
8 of its existing programs?

9 MR. WARD KEITH: Well, in addition to
10 rider training, which is specific to motorcycle safety,
11 there are more generalized programs related to general
12 education and awareness of road safety matters, many of
13 which transcend the motorcycle riding group.

14 And as well, with respect to motorcycle
15 safety in particular, the focus of raising general
16 motorist awareness of the need to share the road and the
17 risks that go along with sharing the road with those that
18 are less conspicuous than those in other vehicles.

19 And typically, the way that those programs
20 are measured is in terms of reach and effectiveness with
21 respect to recall and whether or not any of those
22 programs -- whether Manitobans report any of those
23 programs as resulting in changing their behaviour.

24 MR. RAYMOND OAKES: Thank you, sir. If I
25 could turn your attention, Mr. Keith, to the first tab in

1 the CMMG cross-exam references binder and specifically
2 CMMG IR 1-35.

3 MR. WARD KEITH: Yes.

4 MR. RAYMOND OAKES: And if you have that,
5 sir, then looking to the third last column in that list
6 of advertising costs, it indicates safety and media.

7 Could you explain what's caught up in
8 safety media?

9 MR. WARD KEITH: Safety media generally
10 relates to the expenses that we incur to do advertising
11 as well as various media campaigns to -- to achieve the
12 greatest reach in terms of awareness. Some examples
13 include bus board campaigns, radio advertisements, mass
14 media television advertisements like I spoke about with
15 Mr. Williams, as well as video training specifically with
16 respect to motorcycle safety, the motorcycle training
17 video that was completed in -- in cooperation with the
18 CMMG and Scootering Manitoba and Safety Services Manitoba
19 last year.

20 As well as other items such as Free Press
21 Tips, which is the quarter-page advertisement that we
22 have reserved in the Winnipeg Free Press and on a more
23 general basis, the 60-Second Driver Campaign which -- all
24 of which speak to road safety in general but to which
25 there are motorcycle elements.

1 MR. RAYMOND OAKES: And of the roughly a
2 million dollars shown there, how much of that would you
3 say, approximately, would be related to specific
4 motorcycle initiatives?

5

6 (BRIEF PAUSE)

7

8 MR. WARD KEITH: Sorry, Mr. Oakes, I'm
9 referring to our response to CMMG 1-38 which I believe
10 answers that question. The question was: Please provide
11 a table showing spending on road safety programs specific
12 to motorcycle safety.

13 And there is a line with respect to safety
14 production and media totalling rough -- rough figures for
15 forecasts for 2008, 2009, ninety thousand (90,000), close
16 to one hundred thousand dollars (\$100,000).

17 MR. RAYMOND OAKES: So, about a tenth.

18 MR. WARD KEITH: Yes, if my numbers are
19 correct.

20 MR. RAYMOND OAKES: And could you explain
21 the later column, safety production. What would be --
22 what would that be comprised of?

23 MR. WARD KEITH: These are really
24 interrelated accounts if you will. Safety production is
25 the actual production costs associated with

1 advertisements and media campaigns.

2 MR. RAYMOND OAKES: And the next page in
3 the binder refers to the question and answer at IR 1-36.
4 Can you tell me what programs were included in the
5 eighty-six thousand dollars (\$86,000) spent in '07/'08?

6 MR. WARD KEITH: Yes, this account
7 primarily related to the funding that we provide or the
8 subsidies that we provide to motorcycle riders or
9 potential motorcycle riders who take the Safety Services
10 Manitoba 21-hour course.

11 MR. RAYMOND OAKES: Mr. Keith, I'm given
12 to understand that there's a publication made available
13 by the Motorcycle Safety Foundation entitled MSF Guide to
14 Motorcycling Excellence.

15 Has the Corporation reviewed that
16 document?

17 MR. WARD KEITH: I don't believe the
18 Corporation has reviewed that document.

19 MR. RAYMOND OAKES: We talked a few
20 minutes ago about the share of spending on road safety.
21 What share of the total spending on road safety would be
22 directly related to motorcycle road safety?

23 MR. WARD KEITH: Again, I -- I think for
24 that -- a response to that question, I would refer you to
25 CMMG-1-38 where the total combined for 2008/'09 was

1 projected at two hundred and eight thousand dollars
2 (\$208,000), if I've got that right.

3 MR. RAYMOND OAKES: And in terms of the
4 overall expenditure, if you could just follow to make
5 that -- make the evidence more complete?

6

7 (BRIEF PAUSE)

8

9 MR. WARD KEITH: Well, referring to the
10 attachment to 1-36, the total Basic share would be one --
11 five point one (5.1) million.

12 MR. RAYMOND OAKES: And if you could
13 provide that percentage then, please?

14

15 (BRIEF PAUSE)

16

17 MR. WARD KEITH: I'm advised by my
18 finance colleagues that that equates to about 4 percent
19 of the total which, again, is compared to about 1 percent
20 of the motorcycle pool relating to the overall pool of
21 registered vehicles.

22 MR. RAYMOND OAKES: The next attachment
23 in the binder is TI.3 and that relates to the summary of
24 premium increases by major class vehicle.

25 And if I suggest to you, sir, that the

1 motorcycles are shown there at almost \$12 million of
2 premium revenue with a total of all classes in excess of
3 six hundred and forty-three million (643,000,000), and so
4 motor -- would you agree with me, subject to check with
5 your finance colleagues, that motorcycle premiums are
6 about 1.8 percent of the total premium base?

7 MR. WARD KEITH: Yes, we would confirm
8 that.

9 MR. RAYMOND OAKES: Last year we talked
10 at this Hearing about road repair hazards and road
11 signage in connection with motorcycles.

12 Has the Corporation taken any actions
13 related to that issue since last year's Hearing?

14 MR. WARD KEITH: We have since the last
15 year's Hearing met with members of the CMMG to talk, in
16 general, about road safety initiatives and MPI's
17 involvement with respect to those initiatives and as part
18 of that process, we were provided with a number of
19 recommendations for consideration that had to do with
20 road design and infrastructure and highway signage and
21 those have, at the request of CMMG, been forwarded to
22 Manitoba Infrastructure and Transportation for their
23 consideration.

24 MR. RAYMOND OAKES: Thank you for that
25 response.

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(BRIEF PAUSE)

MR. RAYMOND OAKES: I believe that's going to complete the questions that we have of you, Mr. Keith. And we wish to move to the issue of reserves and risk margins so, Mr. Palmer, I think you're back up at bat.

Mr. Palmer, the Corporation holds Pfads which are a type of reserve or risk margin. You would agree with that characterization?

MR. DON PALMER: They're a provision for adverse deviation that's required under the Standards of Practice of the Canadian Institute of Actuaries.

MR. RAYMOND OAKES: And they're both a -- they can be characterized as reserves or as risk margins; would that be correct?

MR. DON PALMER: It's a risk margin that's built into the reserves. I wouldn't say it's a reserve on its own. It's -- it's part of the calculation of the reserves that are, as I mentioned, in compliance with the Standards of Practice.

MR. RAYMOND OAKES: And, Mr. Palmer, if you could move to Tab 3 of the CMMG materials. I want to discuss some other reserves and the production there at

1 Tab 3 in response to IR-1-47 CMMG it talks about other
2 financial reserves.

3 Can you advise us for the record what is
4 the purpose of the \$13 1/2 million allowance for doubtful
5 accounts, it's thirteen five fifty eight?

6 MR. OTTMAR KRAMER: I'll respond to that.
7 That allowance for doubtful accounts is a provision for
8 the accounts receivable that we currently have
9 outstanding and provision for uncollectible accounts
10 based on the -- the criteria that we put in place based
11 on the aging of the accounts receivable.

12 MR. RAYMOND OAKES: So with respect to
13 that number, what percent of the total accounts
14 outstanding would that represent?

15

16 (BRIEF PAUSE)

17

18 MR. OTTMAR KRAMER: We -- we have to make
19 that calculation. I don't have that currently but it's -
20 - it's a fairly small percentage.

21 MR. RAYMOND OAKES: And is that a
22 percentage that would have varied over the last five (5)
23 years?

24 MR. OTTMAR KRAMER: The methodology would
25 not have varied. The allowance will go up or down

1 depending on the aging of the accounts receivable.

2 MR. RAYMOND OAKES: And still sticking
3 with CMMG-1-47 and the schedule, what is the purpose of
4 the one million five hundred and fifty-eight thousand
5 dollar (\$1,558,000) provision for Workmen's Compensation?

6

7 (BRIEF PAUSE)

8

9 MR. OTTMAR KRAMER: If you're referring -
10 - I believe it's the one point four (1.4) million?

11 MR. RAYMOND OAKES: Right, one four o
12 four (1404), I'm sorry.

13 MR. OTTMAR KRAMER: Right, that's a
14 provision for Workers' Compensation. We self-insure our
15 Workers' Compensation. The WCB handles our claims, but
16 we self-insure that -- that risk and -- and that's a
17 provision for claims.

18 MR. RAYMOND OAKES: And how about the
19 next column down, the fleet rebates?

20 MR. DON PALMER: With the fleet rebates
21 we -- we know that there's more paid out in rebates than
22 there are in surcharges and they're paid out at the end
23 of each policy year, so, that's the provision to pay for
24 those rebates to our fleet customers.

25 MR. RAYMOND OAKES: And the next column,

1 the almost \$420 million shown for unearned premiums?

2 MR. OTTMAR KRAMER: The unearned
3 premiums, if you write your insurance contract at the end
4 of the year, for most of us there's going to be an
5 unearned portion. That is the unearned portion if you've
6 paid in full and, let's say, you pay halfway through our
7 fiscal year, half of it would be earned in that fiscal
8 year.

9 The other half wouldn't and this is the
10 unearned portion for all the -- all the people that have
11 insured their vehicles through us.

12 MR. RAYMOND OAKES: And then the next
13 one, provision for employee current benefits?

14 MR. OTTMAR KRAMER: That's -- as it says,
15 it's a provision for future -- for current -- for
16 employee current benefits. That's for long-term
17 disability, health, et cetera, a provision for the --
18 that liability.

19 MR. RAYMOND OAKES: And then there's
20 another provision for employee future benefits, a hundred
21 and eighty-eight million five hundred and eighty
22 (188,580,000)?

23 MR. OTTMAR KRAMER: That's related to the
24 future benefits related to pension and any other post-
25 retirement health benefits that employees receive.

1 MR. RAYMOND OAKES: In estimating that
2 column, the future employee benefits, does the actuary
3 consider a range of possible estimates for that?
4

5 (BRIEF PAUSE)
6

7 MR. OTTMAR KRAMER: In -- in setting what
8 the inflation discount rate is, we look at numerous
9 ranges but the actuary actually only calculates it based
10 on one (1) -- one (1) discount rate and one (1) inflation
11 amount but they have -- we do look at numerous rates and
12 the actuary looks at the rates that we've chosen to
13 ensure that he feels comfortable with them.

14 MR. RAYMOND OAKES: So there would be a
15 range of estimates for that.

16 MR. OTTMAR KRAMER: He -- the actuary
17 does not calculate the benefits or the liabilities based
18 on a range; we -- will just do it based it on the amounts
19 that are chosen and we've got those documented in our
20 annual report.

21 MR. RAYMOND OAKES: I'm going to move to
22 the issue of operating costs, which involves Tab 4 of the
23 materials. And the question I have for the Corporation
24 is: With reference to CMMG-IR-1-67, please confirm that
25 the CPI reflects increases in prices over the years used

1 in the index.

2 MR. DON PALMER: Yes.

3 MR. RAYMOND OAKES: So the purpose of an
4 index is to reflect cost and price increases.

5 MR. DON PALMER: Yes, and I think Mr.
6 Williams and I had that discussion earlier on today.

7 MR. RAYMOND OAKES: And then looking at
8 CMMG-1-32, Chart 3, can you confirm that it shows that
9 the claims expenses for MPI rise from an index number of
10 one hundred (100) in the year 2001, to a hundred and
11 seventy (170) in the year 2008?

12 MR. DON PALMER: Yes. And again these
13 were referenced in Mr. Williams' cross-examination this
14 morning. That index, comparatively speaking, is -- is
15 there. You'll notice a fairly steep rise in the latter
16 half of that, due to the Immobilizer Program, which is
17 listed as a claims expense.

18 MR. RAYMOND OAKES: Doe the Corporation
19 accept that in moving from an index number of one hundred
20 (100) to one hundred and seventy (170) that would be a 70
21 percent increase?

22

23 (BRIEF PAUSE)

24

25 MR. DON PALMER: Yes, it's -- it's

1 compounded just under 8 percent per year.

2 MR. RAYMOND OAKES: And similarly, I
3 don't -- and I'm not going to traverse all of the same
4 ground Mr. Williams said earlier today, but I just want
5 to touch briefly -- if you could confirm claims expenses
6 fell in BC from one hundred (100) in the year 2001 to
7 ninety point four (90.4) in 2008.

8 MR. DON PALMER: That's what was reported
9 in the annual report, and -- and again, we don't know all
10 the lines items. It could very well be that there were
11 items that were included in claims expenses in 2001 that
12 are not included that -- in later years.

13 So for instances, out of -- out-of-house
14 legal counsel, if they were using more out-of-house
15 counsel in the later years, that may reflect that change.
16 I -- I'm just speculating on that, but there's probably
17 some reason for -- for that drop.

18 MR. RAYMOND OAKES: Okay. And subject to
19 perhaps those same qualifications, Saskatchewan, can you
20 confirm the index increase from 100 to 145.5 percent --
21 or I'm sorry, decreased.

22 MR. DON PALMER: That was an increase
23 from 100 to 145 over that seven (7) year stretch.

24 MR. RAYMOND OAKES: And in terms of
25 operating expenses, looking at Chart 5, still one dash

1 thirty-two (1-32), did the operating expenses for MPI
2 rise from one hundred (100) in 2001 to a hundred and
3 eighty-two point six (182.6) in 2008?

4 MR. DON PALMER: Yes. And -- and again,
5 I will point you in the '05/'06 year that showed a very
6 large spike, and that's coincident with the merger with
7 DVL, so -- so, yes, we took on new expenses at that time
8 and that's what this reflects.

9 MR. RAYMOND OAKES: And can you confirm
10 for me that in BC, according to this information, the
11 operating expenses fell?

12 MR. DON PALMER: According to this
13 information and I don't have the background for it.

14 MR. RAYMOND OAKES: All other things
15 being equal, and I appreciate your qualifications about
16 the -- the database that was being presented.

17 Would higher claims expenses and operating
18 expenses result in higher rates?

19 MR. DON PALMER: Not necessarily. For
20 instance, in the Immobilizer Program, if we spent \$50
21 million in order to save \$130 million, then those
22 expenses would result in a decrease in rates, as with any
23 other program; that generally we do a cost benefit
24 analysis on that. There's likely savings associated or
25 there better be savings related to any initiative.

1 So this would show half of that equation,
2 but I certainly would not agree with you that an increase
3 in -- in expenses would necessarily equate into an
4 increase in rates, no.

5 MR. RAYMOND OAKES: I appreciate that
6 answer. With respect to capital expenditures, how do
7 those costs flow into the rate requirements?

8 MR. DON PALMER: Depending on what those
9 capital expenses are and -- and what they're for. We've
10 talked about many of the BPR initiatives which are not
11 Basic so they wouldn't flow into the rate setting at all.

12 MR. RAYMOND OAKES: And again, your
13 qualification on the last answer talked about if there's
14 cost savings and the like, likely that's not the case on
15 the capital expenditures; if capital expenditures are
16 higher, then likely rates are higher.

17 Would that be fair to say?

18

19 (BRIEF PAUSE)

20

21 MR. DON PALMER: Again, not necessarily.
22 With any capital expenditures you -- you may have built
23 in efficiencies with that capital expenditure. And
24 again, if we put in a computer system, that would be
25 capitalized that makes the operation more efficient, then

1 absolutely there would be associated savings with that.
2 nd -- and no, I would not agree with it necessarily
3 increasing rates, no.

4 MR. RAYMOND OAKES: All right. I'm going
5 to ask you about the answer to PUB-1-41 which is
6 contained at Tab 5 of our CMMG materials.

7 And looking at the response to PUB-1-41,
8 forecast capital expenditures have been significantly
9 higher than actual expenditures since 2001. And I would
10 suggest that the difference was some thirteen million
11 three hundred and eighty-five thousand dollars
12 (\$13,385,000).

13 Can you confirm that?

14 MR. OTTMAR KRAMER: Where do you see that
15 number?

16
17 (BRIEF PAUSE)

18
19 MR. RAYMOND OAKES: I think where that
20 number came from was through a calculation adding the
21 difference between the actual and the forecast in those
22 years.

23 Another way of putting it, would you agree
24 with me that, with respect to the forecast shown for the
25 period, that in each case they're significantly higher

1 than the actual expenditures?

2 MR. OTTMAR KRAMER: I'm -- I'm just
3 looking at the data right now. The -- the forecast in
4 most years was higher. In '05/'06 it was fairly close.
5 So the forecast was higher.

6 But back to your questioning just earlier,
7 that would not result in higher rates. In fact, that
8 would result in potentially lower rates, but not on a
9 significant basis either, because these costs are
10 capitalized and then amortized. So the impact on rates
11 is basically immaterial.

12

13 (BRIEF PAUSE)

14

15 MR. OTTMAR KRAMER: The other thing I'd
16 like to add, a large part of the difference are deferred
17 development costs related to some of the -- the DVL
18 projects and some of the BPR projects, which, again, do
19 not impact the Basic operations.

20 MR. RAYMOND OAKES: I'm going to be
21 moving to a motorcycle specific topic, and that's the
22 topic of broker information on declared values, as
23 referenced at Tab 6 of the materials.

24 And the question is: Does the selection
25 of the declared value range become an input into the rate

1 of motorcycle premiums?

2 MR. DON PALMER: Yes.

3 MR. RAYMOND OAKES: And if a person
4 selects a declared value range that's greater than the
5 actual value of the motorcycle and the motorcycle is
6 written off, they're, in fact, paying for coverage they
7 don't need?

8 MR. DON PALMER: Theoretically that's
9 true, yes.

10 MR. RAYMOND OAKES: And conversely, if a
11 person selects a declared value range less than the
12 actual motor -- value of the motorcycle and the
13 motorcycle is written off, then they have inadequate
14 coverage, would you agree with that?

15 MR. DON PALMER: That part I would not
16 agree with.

17 MR. RAYMOND OAKES: And why so, sir?

18 MR. DON PALMER: Some -- some customers
19 use this as an opportunity for self insurance, so they --
20 so -- so they're managing their own costs based on their
21 own risk tolerance.

22 MR. RAYMOND OAKES: And is that something
23 that the Corporation's condoning in setting up this
24 system of rating?

25 MR. DON PALMER: We're not condoning it,

1 we're -- we're -- we're not rejecting it, we're just
2 stating that that's likely what happens.

3 MR. RAYMOND OAKES: At this time, does
4 the Corporation have motorcycle value data available to
5 them for claims adjusting?

6

7 (BRIEF PAUSE)

8

9 MR. WARD KEITH: Yes, there is motorcycle
10 value data available for that purpose.

11 MR. RAYMOND OAKES: And we ask the
12 question in CMMG 2-19 about whether there's any statutory
13 or legal inhibition to making that data available to
14 brokers, and I understand from the response that there
15 was no such inhibition or restriction?

16 MR. WARD KEITH: Yes, that's right.

17 MR. RAYMOND OAKES: And --

18 MR. WARD KEITH: Sorry, just to rephrase,
19 there -- there's no statutory or other legal provision
20 that would prevent us from doing so.

21 MR. RAYMOND OAKES: And so could you
22 advise what the Corporation's rationale is in not making
23 it available in order to better serve the needs of
24 motorcyclists in the broker's office?

25 MR. WARD KEITH: The concern with doing

1 so is really very straightforward. Adjustors or
2 estimators have a number of different tools that they use
3 to evaluate the actual cash value of a motorcycle at the
4 time of a loss, or any other vehicle for that matter, but
5 ultimately, the actual cash value is assessed at the time
6 of a loss based on the actual condition of the vehicle
7 that was involved in the loss and the data values that
8 are available to adjustors are used only as a guideline.

9 The concern of the Corporation would be
10 that making that information available to brokers and
11 then motorcyclists for the purpose of setting a declared
12 value would perhaps lead to misperception that that is,
13 if you will, a guaranteed value on the -- in the event of
14 a -- of a claim resulting in a total loss and, of course,
15 that wouldn't be the case; the value would be assessed at
16 the time of that loss.

17 MR. RAYMOND OAKES: How about with --
18 with respect to other major classes, what happens, for
19 examples, on motorhomes, are there declared values
20 required?

21 MR. WARD KEITH: Yes.

22 MR. RAYMOND OAKES: And is there
23 information provided to the brokers about -- are those --
24 are those self declared or is there some other provision
25 for setting the value?

1 MR. WARD KEITH: It's self declared, and
2 the tools that are available to the broker and the
3 training are the same as for motorcycles.

4 MR. RAYMOND OAKES: And, of course, for
5 passenger vehicles, such as car or light trucks, it's not
6 necessary to declare a value, is that correct?

7 MR. WARD KEITH: Well, it is if the value
8 of the vehicle is over the maximum matured value.

9 MR. RAYMOND OAKES: And the other
10 component in determining the rate for motorcycles is the
11 declared value or the engine displacement range, is that
12 correct?

13 MR. WARD KEITH: That's correct.

14 MR. RAYMOND OAKES: And I understand that
15 MPI uses three (3) engine displacement ranges?

16 MR. DON PALMER: That's correct.

17 MR. RAYMOND OAKES: And I understand that
18 those three (3) are: 100 ccs or less; 101 to 500 ccs;
19 and 501 ccs or more, is that correct?

20 MR. DON PALMER: That's correct.

21 MR. RAYMOND OAKES: And would the bulk,
22 and by bulk I mean more than 80 percent on an approximate
23 basis of motorcycles, fall into that last category?

24 MR. DON PALMER: Yes.

25 MR. RAYMOND OAKES: And given the wide

1 range in engine displacement within that range, can it be
2 confirmed that that's a homogeneous class or not?

3 MR. DON PALMER: There is one (1) other
4 categorization that -- that you haven't talked about that
5 and that's body style. Certainly in the literature that
6 we have looked at, the body style is really more
7 indicative of the risk than the engine displacements.

8 So to say that a 700 cc sport bike is
9 homogeneous with a 1400 cc touring bike, I'll grant you
10 that that's not homogeneous. But when you take into
11 consideration the -- the body style it becomes more
12 homogeneous.

13 MR. RAYMOND OAKES: With respect to the
14 Insurance Bureau of Canada and their clear rate group
15 system, how many engine displacement ranges are used?

16 MR. DON PALMER: There is no clear rating
17 system for motorcycles.

18 MR. RAYMOND OAKES: Has the Corporation
19 investigated how many engine displacement ranges SGI and
20 ICBC use?

21

22 (BRIEF PAUSE)

23

24 MR. DON PALMER: We're not aware of the
25 exact number of engine displacement categories they have.

1 MR. RAYMOND OAKES: Are you aware whether
2 they're more or less than MPI?

3 MR. DON PALMER: I suspect they're more
4 but that's a guess.

5 MR. RAYMOND OAKES: Has the Corporation
6 undertaken any studies to verify that it has the correct
7 number of engine displacement ranges?

8 MR. DON PALMER: No.

9 MR. RAYMOND OAKES: I'm going to move to
10 the issue of claims costs and I'd ask you to confirm, Mr.
11 Palmer, that when rates are set they're based on the
12 financial forecast method?

13 MR. DON PALMER: Yes.

14 MR. RAYMOND OAKES: In looking at the
15 answer to CMMG 2-4, and that's contained at Tab 7 of the
16 materials, I understand that during the last five (5)
17 years the actual results have been lower than the
18 financial forecast in four (4) out of the five (5) years
19 identified there. Can you confirm that, sir?

20 MR. DON PALMER: Yes, and I recall having
21 this conversation with Ms. Everard early -- or last week.

22 MR. RAYMOND OAKES: Well, I'll try not to
23 duplicate those fine efforts but just a few questions:
24 Just, basically if the forecast is higher, all things
25 being equal, are the rates higher?

1 MR. DON PALMER: Yes.

2 MR. RAYMOND OAKES: And for 2007 the
3 financial forecast was fifty-seven million, one hundred
4 and thirty-two thousand (57,132,000) higher than actual?

5

6 (BRIEF PAUSE)

7

8 MR. DON PALMER: Yes. Although that
9 doesn't necessarily relate directly to -- to a rate that
10 may be an evaluation of past claims which would relate to
11 the level of the rate stabilization reserve.

12 MR. RAYMOND OAKES: In the Corporation's
13 view what would be a reasonable level of difference
14 between financial forecasts at the time of the
15 application and actual results?

16 MR. DON PALMER: There really isn't a
17 measure of that and I think you certainly cannot measure
18 on a -- a year-by-year basis or even a four (4) -- four
19 (4) or five (5) year basis. It's a longer term where
20 stated purpose is to break even over the long term.

21 So to cherry pick a year or two (2) and
22 say that wouldn't -- that year was less than forecast,
23 therefore your rates are -- are too high, would be
24 inaccurate and...

25

1 (BRIEF PAUSE)

2

3 MR. DON PALMER: There are certainly
4 random events that can occur that could make your
5 forecast higher or lower as a one (1) time adjustment in
6 IBNR for instance.

7 MR. RAYMOND OAKES: Well, you haven't
8 changed your answer much since last week, so that's
9 comforting.

10 Going to move from that because that's an
11 area that was examined at length. Single vehicle
12 accidents. In the last number of hearings CMMG has
13 discussed what they see as the inordinate number of
14 single vehicle accidents for motorcycles in Manitoba
15 relative to other jurisdictions; do you recall that, sir?

16 MR. DON PALMER: Yes.

17 MR. RAYMOND OAKES: Has the Corporation
18 undertaken any analysis of the differences during the
19 last year?

20 MR. DON PALMER: Between us and other
21 jurisdictions? No.

22 MR. RAYMOND OAKES: Okay. Thank you. Is
23 one (1) possibility that the Corporation's adjusting
24 approach and related systems force the assignment of
25 single vehicle accident status to an accident where the

1 other party is not identified?

2

3

(BRIEF PAUSE)

4

5 MR. DON PALMER: When there's no
6 identified other -- other parties, that's a requirement
7 of the HTA, not necessarily forcing of the claims system.
8 And -- and again, you talk about possible reasons. You
9 raised one (1). I can raise one (1), that other
10 jurisdictions with tort jurisdictions that do not have
11 first-party accident benefits coverage for motorcyclists.

12 In a case of single vehicle accident,
13 there may be no benefits and so there would be no need to
14 report that -- that incident because there's no benefit
15 to reporting that.

16 So there are many reasons for differences
17 between us as a pure, no-fault, very generous accident
18 benefit jurisdiction and that of a -- of a tort
19 jurisdiction.

20 MR. RAYMOND OAKES: In addition to those
21 factors as you point to, there may be other claims
22 handling differences in other jurisdictions, rate making
23 and assignment; is that correct?

24

25

(BRIEF PAUSE)

1 MR. DON PALMER: There would be
2 differences in claims handling. I'm not sure how that
3 relates to rate making.

4 MR. RAYMOND OAKES: Just to go back, a
5 second ago you said that the HTA binds the Corporation's
6 hands as to the coating of those SVAs. You're not
7 telling us that the Highway Traffic Act affects your rate
8 making and the assignment of those claims costs to a
9 certain major class?

10 MR. DON PALMER: No, there's no rate
11 setting requirements in the HTA.

12

13 (BRIEF PAUSE)

14

15 MR. RAYMOND OAKES: A similar issue is
16 wildlife claims. And in CMMG 1-20, which is found at the
17 next tab which is Tab 8 of the binder, it shows that
18 there were eleven (11) motorcycle/wildlife claims ten
19 (10) years ago in 1998, and in 2007, it shows forty-four
20 (44) claims.

21 Can the Corporation give any indication
22 why those would quadruple?

23

24 (BRIEF PAUSE)

25

1 MR. DON PALMER: There is certainly
2 randomness in -- in those numbers with the small number
3 of -- relatively small number of motorcyclists. Yes,
4 there was forty-four (44) last year and eleven (11) in
5 the first year.

6 There's also been a growth in the number
7 of motorcycles on the road. Seems to recall probably a
8 50 percent increase, so those would all be factors, but
9 to point -- to say why is there forty-four (44) one (1)
10 year compared to eleven (11) ten (10) years ago, I don't
11 have a specific reason for that.

12 MR. RAYMOND OAKES: Is the Corporation
13 aware of any other group of motorists that have
14 experienced a quadrupling of those kind of claims?

15 MR. DON PALMER: We're not acknowledging
16 that there's a quadrupling of claims. I -- it's -- it's
17 randomness, not necessarily systemic. If -- and I'm not
18 aware of any specific group, but I'm sure if you look at
19 any small group of vehicles that there'd be huge
20 randomness in any particular type of claim.

21 I can tell you, for instance, that our
22 hail claims of last year were probably quadrupled from
23 the year before, and again, a random event.

24 MR. RAYMOND OAKES: Just before I leave
25 that, the costs show that they've increased from fifty-

1 six thousand eight hundred and fifty-four (56,854) to 1
2 million two hundred and thirty-three thousand two hundred
3 and eighty-one (1,233,281) during that same time. Would
4 you agree that that's an increase of about twenty-two
5 (22) times?

6 MR. DON PALMER: I will -- that's --
7 that's the math, but we have no information here on the
8 type of claims. For instance, of that forty-three (43) -
9 - forty-four (44) claims, you could have one (1) of those
10 claims being a million dollar claim and the other forty-
11 three (43) totalling two hundred and thirty-three
12 thousand dollars (\$233,000). So -- so again, there's
13 such large randomness in this that I don't want to
14 speculate as to what the causes might be.

15 MR. RAYMOND OAKES: Mr. Palmer, would you
16 agree that motorcyclists generally don't have any control
17 over wildlife entering a roadway?

18 MR. DON PALMER: I would agree with that.

19 MR. RAYMOND OAKES: Would you agree that
20 in the vast majority of cases the responsibility for
21 preventative action to limit wildlife on roadways is
22 someone else other than the motorcyclists?

23 MR. DON PALMER: I would acknowledge that
24 wildlife on the road is a hazard for all vehicles, and
25 certainly there's higher inherent risk to a motorcyclist

1 because of the lack of protection of that type of
2 vehicle.

3 MR. RAYMOND OAKES: Well, sir, I asked
4 you about the responsibility for preventative action, and
5 I'd suggest that it falls on the shoulder of government
6 and other agencies more than it would the individual
7 motorcyclist, would you agree?

8 MR. DON PALMER: I would not agree that
9 there is responsibility for -- for that, no.

10 MR. RAYMOND OAKES: But you have no
11 difficulty with respect to from a rating perspective
12 those costs are assigned to the motorcyclist.

13 MR. DON PALMER: For the reasons I
14 stated, yes.

15 MR. RAYMOND OAKES: Has the Corporation
16 undertaken any analysis over discussions with other
17 insurers related to the assignment of wildlife claims,
18 either related to the assignment of fault or waiving
19 deductibles?

20 MR. DON PALMER: No.

21 MR. RAYMOND OAKES: How about have you
22 inquired in Saskatchewan whether in a wildlife claim any
23 fault is assigned for rating purposes?

24 MR. DON PALMER: I'm not personally aware
25 or knowledgeable of the SGI rate making methodology, no.

1 MR. RAYMOND OAKES: I have a production
2 but given the lateness of the hour perhaps I will hand
3 that out just as we close and we can revisit that when we
4 recommence.

5 How about with respect to claims involving
6 pedestrians, are those coded as single vehicle collision
7 claims for rating purposes?

8

9 (BRIEF PAUSE)

10

11 MR. DON PALMER: We'll -- we'll take that
12 one (1) as an undertaking, Mr. Oakes.

13 MR. RAYMOND OAKES: There's no one here
14 that can tell us whether those are coded as single
15 vehicle accident claims?

16 MR. DON PALMER: We're -- we're checking
17 on it as we speak and whether we can get the answer to
18 you in five (5) minutes, I'd rather take the undertaking.

19

20 --- UNDERTAKING NO. 30: MPI to advise, with respect
21 to claims involving
22 pedestrians, whether those
23 are coded as single vehicle
24 collision claims for rating
25 purposes

1 CONTINUED BY MR. RAYMOND OAKES:

2 MR. RAYMOND OAKES: I understand. If a
3 motorcyclist swerves to avoid an accident where another
4 driver crosses the motorcyclist's path and that driver is
5 not identified, is that a single vehicle accident in
6 MPI's coding?

7 MR. DON PALMER: Yes.

8 MR. RAYMOND OAKES: Mr. Chairman, I have
9 the next issue is rate line adjustment which I can assure
10 you that despite my best attempts will likely be kind of
11 a dry topic. Seeing it is almost 4:00 on a Monday, would
12 you prefer me to do that at a later time?

13 THE CHAIRPERSON: Ms. Everard, tomorrow
14 we have the Aon witness, correct?

15 MS. CANDACE EVERARD: Yes, Mr. Chairman.

16 THE CHAIRPERSON: And do we have any
17 expectations for how long it will take to...?

18 MS. CANDACE EVERARD: Not to my
19 knowledge.

20 THE CHAIRPERSON: Mr. Oakes, how much
21 more do you have in your cross-examination?

22 MR. RAYMOND OAKES: Whenever you ask a
23 lawyer for an estimate of time that's always a difficult
24 issue it seems. I would think one (1) more hour.

25 THE CHAIRPERSON: We should be all right.

1 Okay, we will adjourn for the day. Thank you. See you
2 back at 9:00.

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(PANEL RETIRES)

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6 --- Upon adjourning at 3:56 p.m.

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8 Certified correct,

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Cheryl Lavigne, Ms.

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