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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE
 2010 GENERAL RATE APPLICATION

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
November 2nd, 2009

APPEARANCES

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1 --- Upon commencing at 9:09 a.m.

2

3 THE CHAIRPERSON: Okay, good morning,
4 everyone. Ms. Kalinowsky, it sounds like you have some
5 undertakings to file.

6 MS. KATHY KALINOWSKY: Good morning, Mr.
7 Chair. And, yes, we do. We have a number of
8 undertakings to file. And with this there'll only remain
9 one (1) undertaking outstanding, and I believe that we
10 should have that by the end of the day, hopefully.

11 Undertaking Number 23, I would -- I've
12 spoken with Mr. Gaudreau and that should be marked as MPI
13 number 36.

14

15 --- EXHIBIT NO. MPI-36: Response to Undertaking 23

16

17 MS. KATHY KALINOWSKY: Undertaking Number
18 27, I'd recommend that it be marked as MPI Exhibit Number
19 37.

20

21 --- EXHIBIT NO. MPI-37: Response to Undertaking 27

22

23 MS. KATHY KALINOWSKY: Undertaking Number
24 29, marked as Exhibit 38.

25

1 --- EXHIBIT NO. MPI-38: Response to Undertaking 29

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3 MS. KATHY KALINOWSKY: Undertaking Number
4 31 should be marked as Exhibit Number 39.

5

6 --- EXHIBIT NO. MPI-39: Response to Undertaking 31

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8 MS. KATHY KALINOWSKY: Undertaking Number
9 33 should be marked as Exhibit Number 40.

10

11 --- EXHIBIT NO. MPI-40: Response to Undertaking 33

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13 MS. KATHY KALINOWSKY: Undertaking Number
14 37, marked as Exhibit Number 41 of MPI.

15

16 --- EXHIBIT NO. MPI-41: Response to Undertaking 37

17

18 MS. KATHY KALINOWSKY: Undertaking Number
19 38, marked as Exhibit 42.

20

21 --- EXHIBIT NO. MPI-42: Response to Undertaking 38

22

23 MS. KATHY KALINOWSKY: Undertaking 39,
24 marked as Exhibit 43.

25

1 --- EXHIBIT NO. MPI-43: Response to Undertaking 39

2

3 MS. KATHY KALINOWSKY: And Undertaking
4 number 44 -- or Undertaking Number 40 should be marked as
5 Exhibit Number 40, sorry.

6

7 --- EXHIBIT NO. MPI-44: Response to Undertaking 40

8

9 THE CHAIRPERSON: Forty-four, you mean,
10 right? Undertaking Number 40 is MPI 44?

11 MS. KATHY KALINOWSKY: Yes, that's
12 correct.

13 THE CHAIRPERSON: Yeah, I think we're
14 fine. I've got columns on there. It sounds like you
15 were busy, which is probably fortunate because you
16 probably missed the Montreal/Winnipeg game. That's very
17 good.

18 Mr. Williams...?

19

20 MPI PANEL 1 RESUMED:

21 MARILYN MCLAREN, Resumed

22 DONALD PALMER, Resumed

23 OTTMAR KRAMER, Resumed

24

25 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

1 MR. BYRON WILLIAMS: Yes. Thank you and
2 good morning. I -- I'm certainly still trying to recover
3 from the Philadelphia/New York game, but I'm a little
4 shocked to see Mr. Saranchuk here instead of on his way
5 to -- to Philadelphia for Game 5.

6 Good morning, Mr. Chairman and members of
7 the Board. I'll be relatively quick this morning. I'm
8 going to ask just a couple questions on forecasting, and
9 I'm going to ask the MPI panel to pull up from the First
10 Round, CAC-1-28, and from the Second Round, CAC-2-17, and
11 these are not in the book of documents.

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: Just to repeat, from
16 the First Round, 1-28B, and from the Second Round, 2-17.

17 And, Mr. Palmer, I've foreshadowed (sic)
18 these questions to you offline, and these -- you'll be
19 aware, that the first two (2) are really just simple
20 housekeeping questions, I think. But if you can turn,
21 with regard to the Corporation's response, to CAC/MSOS-1-
22 28, to page -- the second last page of the attachment,
23 which would be page 11.

24 MR. DONALD PALMER: Yes, I have it.

25 MR. BYRON WILLIAMS: Yes. And this table

1 shows -- or this page shows the results of the multiple
2 linear regression for forecasting HTA earned units,
3 correct?

4 MR. DONALD PALMER: Yes.

5 MR. BYRON WILLIAMS: And just directing
6 your attention to the statistical output reflected on the
7 bottom half of the page, and specifically to the second
8 last line on the left-hand side, you'll see that there
9 are twelve (12) observations.

10 Correct, Mr. Palmer?

11 MR. DONALD PALMER: Yes.

12 MR. BYRON WILLIAMS: And going to the
13 right-hand side, you'll see that it's indicated that
14 there are eleven (11) degrees of freedom.

15 MR. DONALD PALMER: I see that.

16 MR. BYRON WILLIAMS: And if you could
17 just remind me, but am I right in suggesting to you that
18 the number of degrees of freedoms -- freedom equals the
19 number of observations minus the number of variable
20 coefficients?

21 Would that be right?

22 MR. DONALD PALMER: That's correct.

23 MR. BYRON WILLIAMS: And if I was
24 plugging that figure into the calculation, I would come
25 up with twelve (12) observations and subtract from it

1 five (5) variable coefficients.

2 Would that be right?

3 MR. DONALD PALMER: That's correct.

4 MR. BYRON WILLIAMS: And so the degree of
5 freedom should probably be seven (7), subject to check?

6 MR. DONALD PALMER: I would agree with
7 that, subject to check.

8 MR. BYRON WILLIAMS: And, Mr. Palmer,
9 just to -- from -- from my client's perspective is -- are
10 you aware whether that's a typographical, or if that's --
11 or the source of that different number, i.e. the eleven
12 (11)?

13 MR. DONALD PALMER: We'll have to double
14 check.

15 MR. BYRON WILLIAMS: And if you could and
16 if you could report -- you'll report back on -- on the --
17 whether the -- the -- whether that was a -- simply a
18 typographical error or if there's something to do with
19 the analysis, Mr. Palmer.

20 MR. DONALD PALMER: We'll do that.

21 MR. BYRON WILLIAMS: And again, just for
22 housekeeping, if you would do the same with page 12 and
23 the calculation of the degree of freedom there as well,
24 Mr. Palmer?.

25 Would you undertake to do that?

1 MR. DONALD PALMER: Yes, same -- same
2 thing, yeah.

3 MR. BYRON WILLIAMS: Thank you very much.

4
5 --- UNDERTAKING NO. 41: With regard to page 11 and 12
6 of CAC/MSOS 1-28 attachment,
7 MPI to provide an explanation
8 of the reason that the degree
9 of freedom was presented as
10 eleven (11)

11
12 CONTINUED BY MR. BYRON WILLIAMS:

13 MR. BYRON WILLIAMS: Turning to CAC-2-17,
14 Mr. Palmer, almost by introduction, I wonder if you can -
15 - referring you to 2-17H, and you can just confirm that
16 at the 5 percent significance level for 'N' equals twelve
17 (12) and 'K' equals two (2), the critical values are 'D'
18 with a little 'l' zero point eight one two (0.812), and
19 for 'D' with a little 'u', one point five seven nine
20 (1.579)?

21 You'll confirm that, Mr. Palmer? It's
22 confirmed on the next page if you're looking for the
23 source.

24 MR. DONALD PALMER: Yes, confirmed.

25 MR. BYRON WILLIAMS: I wonder if I could

1 ask you to turn to the page 9 of this attachment, which I
2 believe is the last page of the attachment, Mr. Palmer.

3

4

(BRIEF PAUSE)

5

6 MR. DONALD PALMER: I have it labelled as
7 a three (3), but, sure.

8

9 MR. BYRON WILLIAMS: It's the table at
10 the bottom. The last paragraph should start the "DW
11 statistic..."

11

MR. DONALD PALMER: Yes, I have it.

12

13 MR. BYRON WILLIAMS: Okay. And I
14 apologize, Mr. Chairman, I guess we have a pagination
15 difference between Mr. Palmer and -- and myself.

15

16 And -- and you'll agree, Mr. Palmer, that
17 the -- the commentary, with regard -- is with regard to
18 the DW statistic modelling at the 1 percent significance
19 level?

19

20 That's what this commentary is regard --
21 regarding --

21

MR. DONALD PALMER: Yes, that's correct.

22

23 MR. BYRON WILLIAMS: And the conclusion
24 drawn by MPI is that the statistic imply that it is
25 inconclusive to either accept or reject the null
hypothesis of no autocorrelation based on the two (2)

1 sided test.

2 Is that correct?

3 MR. DONALD PALMER: That's correct.

4 MR. BYRON WILLIAMS: I wonder, Mr.
5 Palmer, and if you need to check this I understand, I
6 wonder if you would agree that at the 5 percent
7 significance level, with regard to the non-HTA units
8 that's portrayed on the -- the bottom table, sir, the 'D'
9 value of zero point five seven three (0.573) is in the
10 positive autocorrelation interval?

11 MR. DONALD PALMER: We'll have to double
12 check that.

13

14 --- UNDERTAKING NO. 42: To indicate it they would
15 agree that at the 5 percent
16 significance level, with
17 regard to the non-HTA units,
18 the 'D' value of zero point
19 five seven three (0.573) is
20 in the positive
21 autocorrelation interval

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: Would you agree if -
25 - if that is -- subject -- and I understand that you're

1 going to double-check that assertion, would you agree
2 that at the -- if that assertion is correct at the 5
3 percent significance level, we would reject the
4 hypothesis of no autocorrelation?

5 MR. DONALD PALMER: I'll agree with that.

6

7 (BRIEF PAUSE)

8

9 MR. DONALD PALMER: We're good.

10 MR. BYRON WILLIAMS: Okay, thank you.

11 Just a couple of very short snappers referring you to the
12 CAC book of documents, CAC Exhibit Number 5 and in -- in
13 particular Tab 8.

14 And, Mr. Palmer, noting that Mr. Kramer's
15 in the back row, I don't think there's any need to bring
16 him -- bring him up but you certainly can if you --
17 you'll agree that this table was provided to MPI prior to
18 this morning along with the background table detaining
19 (sic) the source of the CPI information?

20 MR. DONALD PALMER: Yes.

21 MR. BYRON WILLIAMS: And you had an
22 opportunity to review the -- the source numbers and the
23 calculations as well, correct?

24 MR. DONALD PALMER: We did.

25 MR. BYRON WILLIAMS: And you don't take

1 issue with the actual calculations?

2 MR. DONALD PALMER: The actual
3 calculations themselves are fine. Certainly we probably
4 would take issue with the interpretation of some of those
5 calculations but the calculations themselves are -- are
6 good.

7 MR. BYRON WILLIAMS: Turning to Tab 9,
8 Mr. Palmer. Again, you'll agree that the -- the
9 information was provided to the Corporation in advance
10 and you've have had an opportunity to check the source
11 numbers and the calculations as well?

12 MR. DONALD PALMER: We have.

13 MR. BYRON WILLIAMS: And you'll confirm
14 that you take no issue with the -- the numbers or the
15 calculations.

16 MR. DONALD PALMER: As far as the raw
17 calculations, we have no issues with. But certainly the
18 interpretation of those is subject to great debate.

19 MR. BYRON WILLIAMS: Fair enough, Mr.
20 Palmer. I'm not sure, Ms. McLaren, you'll -- you'll need
21 this, but I -- I've asked your counsel to have at hand
22 the transcript from -- it seems so long ago now,
23 Wednesday, October 15th. And starting at about page
24 1,100, I just have two (2) or three (3) cleanup questions
25 on that.

1 Ms. McLaren, just to refresh your memory,
2 you'll recall we had some conversation about delays
3 relating to the EIC/EDL that pushed back to -- by about
4 three (3) months, certain of the PIPP initiatives.

5 You'll recall that?

6 MS. MARILYN MCLAREN: Certainly the BPR
7 initiatives.

8 MR. BYRON WILLIAMS: Excuse me, I
9 misspoke. You -- you recall that conversation?

10 MS. MARILYN MCLAREN: Yes.

11 MR. BYRON WILLIAMS: And thank you for
12 the clarifi -- or for the -- getting me set straight.

13 My question to -- to you is: Due to the
14 delay relating to EIC/EDL, were there any work change
15 orders and/or change requests to the Basic initiatives
16 whether PIPP, Streamline Renewals, et cetera?

17 MS. MARILYN MCLAREN: No, I believe
18 there were not.

19 MR. BYRON WILLIAMS: And if -- if you
20 recollect subsequently that there were, you'll advise us?

21 MS. MARILYN MCLAREN: I will.

22 MR. BYRON WILLIAMS: Turning to page
23 1,136, Ms. McLaren, line 16.

24

25 (BRIEF PAUSE)

1

2 MR. BYRON WILLIAMS: Ms. McLaren, you'll
3 -- you'll see a reference at page 1,136 to the engagement
4 of the Gartner Group as an external consultant providing
5 third party advice on project implementation.

6 MS. MARILYN MCLAREN: Yes.

7 MR. BYRON WILLIAMS: And who -- who is
8 Gartner re -- reporting to; management or the Board of
9 Directors?

10 MS. MARILYN MCLAREN: Management.

11 MR. BYRON WILLIAMS: And are there recent
12 Gartner implementation reports for PIPP or any of the
13 other Basic BPR progra -- projects available?

14 MS. MARILYN MCLAREN: I'm not sure what
15 you mean by "available."

16 MR. BYRON WILLIAMS: Has the Corporation
17 re -- received from the Gartner Group implementation
18 reports relating to PIPP?

19 MS. MARILYN MCLAREN: As part of the BPR
20 projects, PIPP would have been referenced in Gartner
21 reports, yes.

22 MR. BYRON WILLIAMS: And when would the
23 most recent report be?

24 MS. MARILYN MCLAREN: I don't remember
25 exactly. Within the last six (6) months, I think.

1 MR. BYRON WILLIAMS: Would the
2 Corporation be in a position to provide the most recent
3 implementation reports, solely as it relates to the Basic
4 program?

5 MS. MARILYN MCLAREN: Well, we'd have to
6 discuss a little bit more about exactly what you're
7 talking about. I think the projects which are solely
8 Basic or the -- any projects which Basic would be paying
9 some portion of?

10 MR. BYRON WILLIAMS: Any project of which
11 Basic is -- my -- my inquiry's directed to any project at
12 which Basic is paying a share.

13 MS. MARILYN MCLAREN: I -- I don't think
14 there would be a concern with that. I have -- haven't
15 looked at it in the last few weeks, but I'll come back
16 and let you know if I have any concern about that.

17 MR. BYRON WILLIAMS: Just so I'm clear,
18 do we -- we have an undertaking that you will provide the
19 most recent Gartner implementation report as it relates
20 to any BPR initiative in which Basic is sharing the cost,
21 and I -- we're -- you're making that undertaking with a
22 subject to, if -- if, upon further review, there's
23 anything that -- that you hadn't anticipated, you will
24 come back on the record?

25 MS. MARILYN MCLAREN: Correct.

1 MR. BYRON WILLIAMS: Okay.

2

3 --- UNDERTAKING NO. 43: To provide the most recent
4 Gartner implementation report
5 as it relates to any BPR
6 initiative in which Basic is
7 sharing the cost

8

9 MR. BYRON WILLIAMS: Thank you, Mr.
10 Chairman and members of the Board. I have no further
11 questions, subject to there's some undertakings that were
12 filed this morning, and I'd reserve the right to review
13 those while my colleagues are at -- at work.

14 THE CHAIRPERSON: Very good, Mr.
15 Williams. Thank you.

16 Mr. Oakes, are you ready to begin?

17

18 CROSS-EXAMINATION BY MR. RAYMOND OAKES:

19 MR. RAYMOND OAKES: I am, Mr. Chairman.
20 Thank you for that. And I'll get to work as mellu -- Mr.
21 Williams indicates.

22 The question for the panel is based on the
23 news releases and the preliminary materials filed with
24 this Board. I see that once again MPI was very proud to
25 indicate that MPI is holding the line on rates in 2010.

1 Is that correct?

2 MR. DONALD PALMER: With an over --
3 overall rate change, that's correct.

4 MR. RAYMOND OAKES: And, Mr. Palmer, that
5 would be a generalization, and the same would not
6 necessarily apply to certain classes of vehicles, like
7 motorcycles.

8 Is that correct?

9 MR. DONALD PALMER: We have always
10 provided the caveat that some vehicles will go up and
11 some will -- vehicles will go down, depending on their
12 current rate and the experience, yes.

13 MR. RAYMOND OAKES: And I think that your
14 news release of June 18th, 2009, that's at the back of
15 Volume I in SM.9, indicated that of the 45 percent of
16 Manitobans who will pay more, most will have faced
17 increases of less than twenty dollars (\$20).

18 Is that correct?

19 MR. DONALD PALMER: I don't have it right
20 in front of me, but I would agree with that.

21 MR. RAYMOND OAKES: Can you tell us, Mr.
22 Palmer, out of the insured that are receiving more than
23 one hundred dollar (\$100) increases, what percentage of
24 those would be motorcycles?

25

1 (BRIEF PAUSE)

2

3 MR. DONALD PALMER: We'll get that number
4 for you shortly.

5 MR. RAYMOND OAKES: Mr. Palmer, are you
6 in a position -- I believe the TI.3 talks about the total
7 motorcycle revenue?

8

9 (BRIEF PAUSE)

10

11 MR. DONALD PALMER: Not quite. The TI.3
12 is the results from our rate model. That's a measurement
13 and an as at point in time, with the number of
14 motorcycles or any vehicle from our -- an excerpt from
15 our database, active vehicles at a given point in time,
16 applying current rates to those, and the rates as if the
17 proposed rates had been charged at that same point in
18 time.

19 So it's reasonably close to an annual
20 revenue number, but it's not exact. It -- it's a
21 simulation.

22 MR. RAYMOND OAKES: Thank you for that.
23 Are you in a position, Mr. Palmer, to answer the
24 question, what the total motorcycle premium revenue that
25 the Corporation is looking to motorcyclists for 2010 is?

1 MR. DONALD PALMER: Are you looking at
2 vehicle type, or major class?

3 MR. RAYMOND OAKES: Major class.

4 MR. DONALD PALMER: Major class is 5.67
5 percent increase.

6 MR. RAYMOND OAKES: And what would the
7 total premium revenue in a -- in dollar amount be for
8 2010 that the Corporation is seeking?

9 MR. DONALD PALMER: On that rate model
10 it's \$13.1 million. So the actual revenue would be close
11 to that, but not exact.

12 MR. RAYMOND OAKES: I thank you for that.
13 To -- ask you to turn, if you would, to the
14 interrogatories in CMMG-1-1, please?

15

16 (BRIEF PAUSE)

17

18 MR. DONALD PALMER: And just before we go
19 there, Mr. Oakes, in answer to your previous question on
20 what percentage of motorcyclists -- of the people getting
21 more than a hundred dollar increases, what percentage are
22 motorcyclists, it's 34.7 percent.

23 MR. RAYMOND OAKES: I thank you for that.

24

25 (BRIEF PAUSE)

1 MR. DONALD PALMER: And I have CMMG-1.1.

2 MR. RAYMOND OAKES: Thank you, sir. Then
3 I'd ask you to turn to accident benefits. Can you
4 confirm that the majority of the claims expenses for
5 motor -- motorcycles would be captured on the page
6 entitled, "Accident Benefits Incurred?"

7

8 (BRIEF PAUSE)

9

10 MR. DONALD PALMER: These would be the
11 incurred reported to date. There certainly is
12 significant IBNR that would be in -- have to be added to
13 these, especially for the most recent years, but this is
14 the actual reported to date.

15 MR. RAYMOND OAKES: I appreciate that
16 qualification. In CMMG-2-1 you talked about the fact
17 that for the year 2008/2009 that there were no serious
18 losses reported for that year, and that you didn't
19 anticipate any being developed.

20 Is that still your evidence, sir?

21 MR. DONALD PALMER: Yes, it is.

22 MR. RAYMOND OAKES: So for the most
23 recent, that's more likely to be ultimate given that
24 statement.

25 Is that correct?

1 MR. DONALD PALMER: No, it's not.
2 There's certainly much development, especially in the
3 first year, from the lower-level cases being developed
4 into the kind of midrange. The catastrophic injuries,
5 you're correct, that we would generally see them within
6 the first year or so. Our reserving procedures are in
7 the -- for any catastrophic injury, we immediately put it
8 in at a reserve of half a million dollars, that gets us
9 into the serious rep -- serious loss reporting mill.

10 So, there would be significant development
11 on those specific cases, and as well as development on
12 the low and medium range as well. But, likely we're not
13 seeing any catastrophic injuries with -- with the
14 motorcycle class for '08/'09.

15 MR. RAYMOND OAKES: And your comments
16 with respect to ultimate losses, if we look at 2004/'05,
17 likely those claims costs are becoming, pretty much,
18 ultimate at this point.

19 Is that correct?

20 MR. DONALD PALMER: Again, subject to
21 some inflationary increases, they're likely -- won't have
22 too much more development. I would agree with that.

23 MR. RAYMOND OAKES: Mr. Palmer, I'd ask
24 you this informally, but can the Corporation provide what
25 its forecasts of the claims calculated for each of these

1 years were versus the actual incurred, what the forecast
2 premium revenue required was for each of those years?

3 MR. DONALD PALMER: We don't quite have
4 those numbers compiled as yet, Mr. Oakes, but we'll take
5 that as an undertaking. Likely have it by the end of the
6 day.

7 MR. RAYMOND OAKES: I appreciate that,
8 sir.

9

10 --- UNDERTAKING NO. 44: To provide forecast of claims
11 calculated for each year
12 versus the forecast premium
13 revenue required

14

15 CONTINUED BY MR. RAYMOND OAKES:

16 MR. RAYMOND OAKES: Would you agree with
17 me, Mr. Palmer, that the numbers shown as the totals for
18 each of those 5 years, show huge variation, year to year?

19 MR. DONALD PALMER: Absolutely. That's
20 as a result of the fairly small numbers of motorcycles,
21 and the small numbers of injuries. To be statistically
22 stable it would have to be more than that.

23 MR. RAYMOND OAKES: And despite --

24 MR. DONALD PALMER: And just the -- the
25 nature of the injuries are subject to great volatility,

1 in terms of the catastrophic injuries, certainly, who --
2 who gets hurt. In some cases fatalities versus serious
3 injuries, there are lower incurred amounts for
4 fatalities.

5 So, a matter of an inch or two (2) can
6 make the difference of a million or two (2).

7 MR. RAYMOND OAKES: I appreciate that
8 analogy. Now, despite all of your qualifications, which
9 everyone in this room holds in very high regard, and
10 despite the forecasting actuarial mechanism that's being
11 developed and approved by this Board, Mr. Palmer, you
12 can't tell me, whether in 2010, whether we're going to
13 have 3 million in accident benefits incurred at the end
14 of that year, or whether we're going to have 10 million,
15 can you?

16 MR. DONALD PALMER: I cannot.

17 MR. RAYMOND OAKES: And if I asked you to
18 bet your house, because I don't know whether you own a
19 farm, but if I asked you to bet your house on whether
20 it's going to be 3 million, or 9 million, you wouldn't do
21 that; would you, sir?

22 MR. DONALD PALMER: Well, I'm not sure
23 that you know whether I have a house either, but if I did
24 have a house, I would not bet on it being 3 million or 9
25 million, no.

1 MR. RAYMOND OAKES: Thank you for that.
2 If we might look at Territory 2, and we had an informal
3 discussion about questions from the executive of CMMG, as
4 a general starting point, you'd agree that the increases
5 for Territory 2, are for motorcyclists on average, quite
6 high?

7 MR. DONALD PALMER: They are for the
8 simple reason that the current rates are deficient.

9 MR. RAYMOND OAKES: What is the an -- the
10 average increase for motorcycles in Territory 2?

11

12 (BRIEF PAUSE)

13

14 MR. DONALD PALMER: I don't have that
15 right handy, do you have a reference?

16

17 (BRIEF PAUSE)

18

19 MR. DONALD PALMER: We'll -- we'll get
20 that very shortly for you, Mr. Oakes.

21 MR. RAYMOND OAKES: With respect to the
22 answers contained in CMMG-1-9, the Corporation agrees
23 that it's a double digit increase that's being sought for
24 motorcyclists in Territory 2.

25 Is that correct?

1 MR. DONALD PALMER: I can agree with
2 that, yes.

3 MR. RAYMOND OAKES: And you'll recall Mr.
4 Houghton came before the Board as a presenter and
5 certainly he indicated a concern with what is happening
6 in Territory 2 to cause those projected increases and
7 CMMG-1-9 asked for the Corporation's explanation.

8 I wonder if you might describe that and
9 indicate why those projected increases are sought.

10 MR. DONALD PALMER: Because the current
11 rates are inadequate to meet the expected cost of the
12 claims and have been for a number of years.

13 MR. RAYMOND OAKES: Now your answer in
14 CMMG-1-9 talked about significant accident benefit loss
15 cost in years 2006/'07 and 2007/'08.

16 Would -- can you advise what number of --
17 of claims you would be referring to with respect to those
18 loss costs in Territory 2?

19 MR. DONALD PALMER: That's contained in
20 the attachment. Specifically '06/'07 was seventy-three
21 (73) claims for \$8.5 million and 2007/'08 was sixty-six
22 (66) claims for \$5.9 million.

23 MR. RAYMOND OAKES: So, Mr. Palmer, given
24 what you've told us dealing with CMMG IR-1-1 and the huge
25 variability of those losses, are you telling us this

1 morning that you can forecast a double digit increased
2 rate for 2010 on the basis of some sixty (60) to seventy
3 (70) claims in those territories?

4 MR. DONALD PALMER: Remember that it's
5 not quite as easy as that. We use fairly sophisticated
6 actuarial techniques, we use ten (10) years of data, we
7 use credibility weighting, we use trending. So that
8 double digit increase is based on the rate methodology
9 that has been approved by this Board incorporating all of
10 those actuarial techniques that I have mentioned.

11 And -- and we've talked about predictions
12 versus forecasts but that would be indicative -- a rate
13 would be indicative of the expected value of the claims
14 in the rating period and I can tell you likely for
15 Territory 2 that those rates are still deficient, so
16 there is still cross subsidization to Territory 2
17 motorcycles for the 2010/'11 year.

18 MR. RAYMOND OAKES: Would that cross
19 subsidization include the fact that motorcyclists in
20 Territory 1 would be paying too much and subsidizing
21 Territory 2?

22 MR. DONALD PALMER: I think it would be a
23 mixture between the -- from Territory 1 but also from the
24 rest of the vehicles as a whole. Motorcycle indicated
25 rate is greater than what we're -- we're asking for in

1 this Rate Application.

2 MR. RAYMOND OAKES: Just before we leave
3 that attachment to CMMG IR-1-9, I'd ask you to confirm
4 that, out of the five (5) years shown for the loss data
5 for Territory 2, only two (2) out of the five (5) years
6 have any -- I'm sorry, three (3) out of the five (5)
7 years have any significant losses, major losses, if you
8 will.

9 MR. DONALD PALMER: Depending on what
10 your definition of "significant" is, if it's greater than
11 three hundred thousand dollars (\$300,000), I would agree
12 with that.

13 MR. RAYMOND OAKES: Right. I think the
14 Corporation uses five hundred thousand (500,000) for a
15 serious loss.

16 Is that correct?

17 MR. DONALD PALMER: For serious loss,
18 your word was significant. There's a difference.

19 MR. RAYMOND OAKES: And, certainly, the
20 most recent experience in Territory 2 is that there are
21 no serious losses.

22 Is that correct?

23 MR. DONALD PALMER: There are no serious
24 losses that are reported for the '08/'09 from Territory 2
25 motorcyclists.

1 MR. RAYMOND OAKES: Now, Mr. Houghton
2 from CMMG expressed a question, both in his -- his
3 comments to the Board at the outset of the Hearing as a
4 presenter, and I also provided you with his question
5 earlier, and the question is:

6 "According to projections, the average
7 touring motorcycle in Territory 2, Rate
8 Group 7, for example, could face a pre
9 -- a future premium of one thousand
10 four hundred and sixty-eight dollars
11 (\$1,468), yet projected premiums for
12 the same motorcycle commuting from
13 Territory 2 into Territory 1 would
14 expect to pay only twelve hundred and
15 seven dollars (\$1,207), some two
16 hundred and sixty-one (\$261) less.
17 Other rate groups show similar
18 reductions for commuter use."

19 Mr. Palmer, the question is, is not co --
20 commuter use generally understood to be a more risky
21 category?

22 MR. DONALD PALMER: Just to step back for
23 a minute, Mr. Oakes, these numbers have come from CMMG-1-
24 5, and I think to put that into context is fairly
25 important. These are not rates that we would apply for

1 or ever would apply for.

2 These rates were constructed based on the
3 question in the premise of CMMG-1-5, are breakeven rates
4 using only the experience. They do not incorporate
5 credibility weighting. They don't incorporate any of the
6 ranking rules that we have established over the period of
7 time. These are purely the experience numbers, the data
8 is the data. And we have done no massaging to these.

9 So to characterize that these are
10 projected rates and that we would somehow charge
11 commuters less than non-commuters is just not true.

12 MR. RAYMOND OAKES: So, in fact, that
13 would not happen, is that your evidence?

14 MR. DONALD PALMER: We have a ranking
15 rule, because a commuter -- or a non-commuter is more
16 stri -- restrictive use, we would not charge more for a
17 non-commuter than a commuter.

18 And the fact that the data indicates
19 differently is just an indicator that there's probably
20 not -- there's -- the data is not fully credible and we
21 have the credibility weighting rules within our rate
22 making methodology, so I would -- I would agree with you
23 that we would not charge more for a non-commuter than a
24 commuter.

25 MR. RAYMOND OAKES: Thank you for that

1 clarification.

2 Mr. Chairman, I have a handout to be
3 circulated. If I could ask for the secretary's
4 assistance at this time, and I will be asking that we
5 mark it as the next CMMG exhibit.

6

7 (BRIEF PAUSE)

8

9 THE CHAIRPERSON: We'll have a number in
10 a minute, Mr. Oakes. CMMG-3.

11 MR. RAYMOND OAKES: Thank you for that,
12 Mr. Chairman. CMMG-3 then, is a Free Press article that
13 was printed on October 14th, 2009. A very timely point
14 in time, not only for these Hearings, but also for
15 apparently deer coming into contact with vehicles.

16

17 --- EXHIBIT NO. CMMG-3: Free Press article, printed
18 October 14th, 2009

19

20 CONTINUED BY MR. RAYMOND OAKES:

21 MR. RAYMOND OAKES: Mr. Palmer, would you
22 agree that wildlife and livestock collisions, have a
23 significant result on the rates for small pool of
24 insured, like motorcycles, given the fact that these
25 losses are charged to that small pool?

1 MR. DONALD PALMER: If for a small pool,
2 if wildlife is an indicator of the inherent risk of those
3 vehicles, then yes, I would agree with that.

4 MR. RAYMOND OAKES: And in fact, if we
5 look at CMMG IR1-13, where it -- we look at that same
6 step loss data that we started looking at this morning,
7 and we looked at for motorcycle and single vel -- vehicle
8 accidents, you'll agree with me, that for single vehicle
9 accidents that they were a very large portion of the
10 collision claims cost for each of those years indicated?

11 MR. DONALD PALMER: And again, I would
12 say that's reflective of the inherent risk within those
13 vehicles, yes.

14 MR. RAYMOND OAKES: Would you agree with
15 me, Mr. Palmer, that wildlife and livestock collisions
16 largely are not the fault of the motorcyclists, in terms
17 of the assigned fault for those?

18 MR. DONALD PALMER: I -- I would have, in
19 terms of fault based and it depends on what your
20 requirement, specifically to gather that data. I would
21 agree that for purposes of our driver safety rating, for
22 example, that they would not be used as fault based, but
23 that's different than collisions that reflect the risk of
24 that vehicle. So -- but, they're not fault based for
25 driver safety rating purposes.

1 MR. RAYMOND OAKES: And, in fact, it's a
2 common experience, for example, a deer will come out and
3 the motorist will have no opportunity to brake or miss
4 that animal?

5 MR. DONALD PALMER: That's correct.

6 MR. RAYMOND OAKES: And, in fact, where
7 one (1) deer runs across the road, it's often the case
8 that more deers follow, even if you do take evasive
9 action?

10 MR. DONALD PALMER: I think I've, in
11 fact, heard that on a MPI advertising spot.

12 MR. RAYMOND OAKES: And Mr. Palmer, I
13 understand that there would be nothing to restrict MPI
14 from pooling these losses and spreading them across the
15 overall MPI pool.

16 Is that correct?

17 MR. DONALD PALMER: I would say that the
18 directive from the Public Utilities Board to match the
19 inherent risk of a -- a vehicle and reflect rates based
20 on the risk of the pool that that's enough of a criteria
21 that would prevent us from doing that.

22 MR. RAYMOND OAKES: Well, Mr. Palmer, the
23 Corporation currently pools the claims for pedestrian and
24 bicyclists across the entire vehicle pool, don't they?

25

1 (BRIEF PAUSE)

2

3 MR. DONALD PALMER: Sorry, Mr. Oakes,
4 could you repeat the question?

5 MR. RAYMOND OAKES: I said, does not the
6 Corporation currently pool the loss -- the costs -- the
7 claims costs across the entire pool for pedestrian and
8 bicyclists?

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: A couple of things
13 with that, Mr. Oakes. First of all, we don't have the
14 opportunity to charge premiums to cyclists nor
15 pedestrians so those claims have to be borne by the rest
16 of the motorists.

17 In terms of pooling them equally, they're
18 -- they're not. And those -- those are pooled on a per
19 unit basis across the vehicle population.

20 MR. RAYMOND OAKES: So, Mr. Palmer, you
21 say you can't charge the premium to the pedestrian. But
22 is it not the same thing, I don't see anything in the
23 news release saying that you charge a premium to deer.

24 MR. DONALD PALMER: First of all, you
25 talk about deer specifically and I think it's worth

1 pointing out, and again, and I've talked about inherent
2 risk of a vehicle and a motorcycle hitting a deer
3 certainly causes higher -- much higher risk than a car or
4 a truck hitting a deer. So, that is absolutely a factor
5 within the rating of the vehicle because motorcyclists
6 are much more prone to injury than cars or trucks.
7 There's no question about that.

8 So because rates reflect the risk of the
9 vehicle, then it's absolutely correct to -- that they're
10 not pooled. I will also say that there are smaller
11 animals that could cause a spill of a -- a motorcyclist,
12 hitting a coyote or a racoon, I suppose, could certainly
13 cause a crash resulting in injuries sliding along the
14 highway because of the spill. I don't think I've ever
15 heard of any injuries caused by coyotes or -- or racoons
16 in cars or trucks.

17 So as long as we are using actuarial rates
18 that reflect the risk of a given vehicle, then it's
19 absolutely correct to -- to reflect that risk within the
20 premiums charged for those vehicles and significantly
21 more risk is borne by the motorcyclist when hitting
22 wildlife than cars and trucks.

23 MR. RAYMOND OAKES: Mr. Palmer, the
24 article that was in the Free Press talks about these
25 collisions are costly. The figure that's used in this

1 article is \$28.9 million to fix the vehicles on an annual
2 basis.

3 Is that correct?

4 MR. DONALD PALMER: Yes.

5 MR. RAYMOND OAKES: And the article goes
6 on to talk about the work that Manitoba Conservation is
7 doing. That's at the end of the article quotes Vince
8 Crichton the Manitoba Conservation's manager of Game, Fur
9 and Problem wildlife.

10 And it talks about all of the things that
11 conservation is doing including GPS'ing the different
12 spots where the accidents occur so they can quantify and
13 find out where the problems areas are.

14 Do you see that, sir?

15 MR. DONALD PALMER: Yes, I do.

16 MR. RAYMOND OAKES: And it does say that
17 MPI moves big flashing signs around the city to warn
18 motorists about deer.

19 What else does MPI do to deal with a \$30
20 million a year problem?

21

22 (BRIEF PAUSE)

23

24 MR. DONALD PALMER: I guess the primary
25 way that we would -- would be in education, notifying the

1 public. This particular news item that you've
2 highlighted was a result of a MPI news release that
3 you've also included in this mail-out.

4 So it all comes down to public awareness,
5 to realize that there are -- that wildlife do pose a
6 significant risk on the road, certainly pose a
7 significant risk to more vul -- vulnerable vehicle than -
8 - than others, and certainly it's incumbent on each
9 motorist within Manitoba to be aware of the dangers of
10 wildlife. And certainly the dangers are -- are higher in
11 some types of vehicles than others.

12 MR. RAYMOND OAKES: Just on that point,
13 would you term motorcycles as vulnerable vehicles?

14 MR. DONALD PALMER: They're more
15 vulnerable to injuries caused by wildlife, absolutely.

16 MR. RAYMOND OAKES: And, Mr. Palmer,
17 given some preliminary indications, some questions in
18 this regard, if MPI pooled these costs of wildlife and
19 livestock collisions across all classes of insured for
20 all these claims, would the rates for private passengers
21 change, and if so by what percentage?

22 MR. DONALD PALMER: Probably about a
23 tenth of a percent, or about a -- about a dollar. And
24 what would the effect on rates for motorcyclists be if we
25 pooled those claims?

1 MR. DONALD PALMER: About 6 -- 6.3
2 percent, or about seventy-five dollars (\$75).

3 MR. RAYMOND OAKES: And that would be a
4 reduction?

5 MR. DONALD PALMER: Yes.

6 MR. RAYMOND OAKES: And how much on
7 average is the Corporation asking for -- from
8 motorcyclists in next year's application as a percentage?

9 MR. DONALD PALMER: I think I said 5.6
10 percent.

11 MR. RAYMOND OAKES: So that would cover
12 all of the increase you're seeking for motorcyclists?

13 MR. DONALD PALMER: If we were to deviate
14 from an actuarial sound methodology, that's correct.

15 MR. RAYMOND OAKES: Are there actual
16 principles that indicate that pooling of livestock and
17 wildlife claims are not actuarially sound?

18 MR. DONALD PALMER: And I don't have the
19 statement of principles in front of me right now. I can
20 -- I will likely get it within seconds, with Mr.
21 Johnston's (phonetic) fast finger -- fingers. But I can
22 tell you that the rate is expected value of the cost of
23 the loss transfer. That's what a rate is. And to pool
24 vehicles would not reflect the risk for motorcycles.

25 So yes, I think it's covered off in the

1 statement of principles.

2 MR. RAYMOND OAKES: Mr. Palmer, I'm
3 reminded of some special hearings a few years back, and I
4 know I gave Mr. Saranchuk my watch and promised never to
5 ask any loss transfer costs ever -- questions ever again,
6 but were those not the same arguments that you advanced
7 in relation to CMMG's request for loss transfer, or the
8 comparative fault system that we have now?

9 MR. DONALD PALMER: Not at all. In that
10 case there were risks that were borne by all vehicles. I
11 think wildlife is -- is completely different.

12 And -- and there is not any vehicles to
13 transfer those costs to unless you can find a way to
14 charge deer, then there is no transfer mechanism that
15 would be available.

16 MR. RAYMOND OAKES: I guess the transfer
17 mechanism would be the same for pedestrians and
18 bicyclists.

19 Isn't that correct?

20 MR. DONALD PALMER: That's not a transfer
21 mechanism. It's an assignment mechanism, yes.

22 MR. RAYMOND OAKES: Well -- I asked
23 informally about the Corporation recovering from
24 livestock owners annually for losses charged to the
25 motorcycle pool for livestock collisions.

1 Is the Corporation in a position to answer
2 any questions about those recoveries?

3 MR. DONALD PALMER: There are none.

4 MR. RAYMOND OAKES: So the Corporation,
5 am I to understand from that that they do nothing to
6 recover money from livestock owners who permit their
7 livestock to come into contact with motorists on the
8 road?

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: We would be statute
13 barred from getting recovery from -- from livestock
14 owners within Manitoba for injury claims.

15 For the physical damage there might be
16 some recovery but certainly there's costs that would be
17 incurred for those recovery that on a specific injury
18 basis that would be charged to the specific claim.

19 So from a cost benefit perspective it
20 likely is not worth getting the recovery for physical
21 damage. On out of province claims, likely, I'm not sure
22 if we have any out of province livestock claims,
23 depending on the specific case, we may or may not seek
24 recovery.

25 And -- and certainly livestock claims are

1 a small percentage of the number of claims that we would
2 see in a given year.

3 MR. RAYMOND OAKES: I thank you for that
4 and tend to move to the issue of road safety at this
5 juncture, ask the Corporation's witnesses, does MPI have
6 any quantitative goal with respect to increasing
7 motorcycle safety, road safety?

8 MS. MARILYN MCLAREN: Sorry, Mr. Oakes,
9 I'm not sure what you mean by the question. Quantitative
10 role in increasing road safety?

11 MR. RAYMOND OAKES: Is there any specific
12 goal that the Corporation has with respect to decreasing
13 motorcycle losses and increasing motorcycle road safety?

14 MS. MARILYN MCLAREN: The Corporation as
15 -- as part of the provincial mandate with respect to road
16 safety, road safety targets, the Province has adopted the
17 Transport Canada Road Safety 2010 vision and targets.

18 MR. RAYMOND OAKES: And can you elaborate
19 on what those are in -- in relation specifically to
20 motorcycles?

21 MS. MARILYN MCLAREN: No, not right this
22 minute but we will certainly pull that up and put it on
23 the record or -- or file it.

24 MR. RAYMOND OAKES: All right. So it's
25 the second undertaking?

1 MS. MARILYN MCLAREN: Okay.

2

3 --- UNDERTAKING NO. 45: To elaborate on Transport
4 Canada Road Safety 2010
5 vision and targets, in
6 relation specifically to
7 motorcyclists

8

9 CONTINUED BY MR. RAYMOND OAKES:

10 MR. RAYMOND OAKES: And Ms. McLaren --
11 Ms. McLaren, I'd ask you to pull out the Board counsel's
12 book of documents and go right to the very back, if you
13 would.

14 MS. MARILYN MCLAREN: Yes, I have it.
15 And if you look at the Auto Crime Prevention Strategies
16 that's a third of the way down, that reflects primarily,
17 of course, the Immobilizer investment.

18 Is that correct?

19 MS. MARILYN MCLAREN: Yes, it certainly
20 does.

21 MR. RAYMOND OAKES: And for the years
22 that are indicated, and specifically starting about 2006
23 and ending 2009/'10, would you agree with me that the
24 Corporation considered the Immobilizer Program -- it's
25 number 1 priority in road safety expenses?

1 MS. MARILYN MCLAREN: Sure, as part of
2 the road safety and loss prevention category overall,
3 yes.

4 MR. RAYMOND OAKES: And that's a program
5 that has no benefit to a motorcyclist's if -- they're not
6 able to take advantage of the Immobilizer Program.

7 Is that correct?

8 MS. MARILYN MCLAREN: That's true.
9 They're also not covered for theft under the Basic
10 compulsory program.

11 MR. RAYMOND OAKES: And Ms. McLaren, we
12 know that the Immobilizer Program was the focus in the
13 most -- the highest priority of road safety in those
14 years, because it had up to seventeen million six hundred
15 and forty thousand dollars (\$17,640,000) spent on it.
16 I'm look at 2008/'09.

17 Do you agree?

18 MS. MARILYN MCLAREN: Yes.

19 MR. RAYMOND OAKES: And so, when we look
20 at the motorcycle safety initiatives, the specific ones,
21 we see that they're the lowest category, motorcycle
22 safety education is some ninety-one thousand dollars
23 (\$91,000), the lowest expenditure of any of those
24 columns.

25 Do you agree with that?

1 MS. MARILYN MCLAREN: Yes, ninety-one
2 thousand (91,000) in the 2010/'11 year.

3 MR. RAYMOND OAKES: And so, that would --
4 conversely, the logical conclusion would be that the
5 Corporation really sees motorcycle safety as it's lowest
6 priority?

7 MS. MARILYN MCLAREN: No, I wouldn't
8 agree with that. And as we've talked in this forum, many
9 times in the past, Mr. Oakes, the thing about motorcycle
10 safety is so much of the aspects of safety cross vehicle
11 lines, and are imbedded -- I mean, impaired driving
12 initiatives focus on motorcyclists as much as they focus
13 on any other kind of vehicle operator.

14 You know, as we've talked here in the last
15 few years, we've done quite a bit to raise the awareness
16 of new drivers through the high school driver ed program
17 and, you know, the driver education and improvement
18 programs, to really highlight motorcycle awareness
19 amongst other road users, so it falls into that category.
20 It -- it really does cross through many of the other
21 categories. And the fact that it's the lowest dollars
22 means that, that is the amount that we believe is
23 appropriate to spend on very specific targeted promotion
24 of safety to that very small group of vehicles and
25 vehicle operators.

1 MR. RAYMOND OAKES: Well, Ms. McLaren, if
2 you look at the next smallest category, it's the
3 Vulnerable Road User Education Strategy, which the
4 Corporation spent -- is looking to spend next year,
5 hundred and sixty-eight thousand dollars (\$168,000).

6 And would you agree with me, despite Mr.
7 Palmer's comments a few minutes ago that motorcyclists
8 are vulnerable road users, at least in terms of wildlife
9 collision, that the Corporation doesn't even consider
10 them with respect to that category of vulnerable road
11 user education strategies?

12 Is that correct?

13 MS. MARILYN MCLAREN: Well, I would just
14 repeat what Mr. Palmer said, with respect to the fact
15 that motorcyclists are -- are much more at risk of being
16 injured in any kind of incident involving any kind of
17 wildlife. You know, I think the fact -- I think it's
18 even less than comprehensive to suggest that some of
19 these motorcycle claims costs involving wildlife even
20 involve collisions with wildlife.

21 You know, I mean -- and I don't know how
22 to say this delicately, right, there's often residual
23 effects on the roadway of a previous collision with
24 wildlife that will cause a motorcyclist to lose control
25 that does not affect any other kinds of vehicles that are

1 on the road.

2 So certainly they -- and that's -- we've
3 talked so many years here about the fact that 80 to 90
4 percent of all motorcycle claims costs are injury claims
5 costs, unlike any other category of vehicle. It's the
6 volatility of the injury claims costs that causes the
7 fluctuation in year-to-year costs that you were talking
8 about with Mr. Palmer.

9 We have far smaller groups of vehicles
10 that have far more stable claims costs year to year than
11 motorcyclists do because of the nature of the range of
12 possibilities of injuries that can be caused.

13 So certainly they are more vulnerable to
14 being injured when something untoward happens. So that
15 does not warrant them being categorized as a vulnerable
16 road user and lose our -- the advantages that we believe,
17 in terms of focussing on them specifically.

18 So, I mean, if you saw some advantage of
19 putting the ninety-one thousand (91,000) together with
20 the one sixty-eight (168) and rolling it all together, we
21 would see disadvantages. We think it makes sense to do
22 the things that are specifically dedicated to motorcycles
23 under that category.

24 And as we've talked about before, there's
25 all kinds of cross grouping education to motorcyclists,

1 and -- and particularly to other motorists, to be aware
2 of motorcyclists. So I don't think it is, in any way,
3 shape or form, a problem that we don't have motorcycle
4 safety education lumped in with vulnerable road users.

5 MR. RAYMOND OAKES: Well, just in terms
6 of a problem, I wonder if I could ask you to have CMMG-2-
7 6 in front of you.

8

9 (BRIEF PAUSE)

10

11 MS. MARILYN MCLAREN: I have it.

12 MR. RAYMOND OAKES: Thank you. And of
13 course CMMG Interrogatory 2-6 reference the motorcycle
14 safety program which is outlined in CMMG-1-3.

15 Ms. McLaren, I's ask you to confirm that
16 the Corporation doesn't have any research component to
17 develop new initiatives shown or included in its budget
18 for motorcycle safety.

19 MS. MARILYN MCLAREN: No, I think this
20 response says that there's twenty-five thousand dollars
21 (\$25,000) for surveys and evaluation included in the
22 budget referenced in CMMG-1-3.

23 MR. RAYMOND OAKES: Well, that's what the
24 answer says but that's not the answer to the question.

25 Would you agree with me that surveys and

1 evaluations are quite different than a research component
2 to develop new initiatives to assist in reduction of
3 claims costs?

4 MS. MARILYN MCLAREN: Surveys are quite
5 different from research. I'm not sure that evaluation is
6 as different from research, ut certainly there are some
7 differences. And we do not have a specific line item at
8 this point in the '10/'11 budget year to deal
9 specifically with the statement that you just made, with
10 respect to research to develop ways to reduce claims
11 costs.

12 MR. RAYMOND OAKES: Well, Ms. McLaren,
13 just to be fair, I don't think you've had a line item in
14 any of the years up to date dealing with motorcycle
15 safety prevention research.

16 Is that correct?

17 MS. MARILYN MCLAREN: Absolutely. As far
18 as I can remember, we have not spent money on out-of-
19 house resources to do that kind of research. We have
20 dedicated significant internal resources periodically
21 from time to time things like that.

22 You'll remember the -- motorcycle risk
23 study. Perhaps it's time to update that for the record
24 for these proceedings. We certainly have reviewed and
25 analyzed with internal resources, information and -- and

1 research published by others; some of it we have put on
2 the record through these proceedings. The Insurance
3 Institute of Highway Safety has -- has done a lot of work
4 on motorcycle risk and motorcycle claims costs, an
5 organization out of the US. I know that has been filed
6 at these proceedings some time.

7 So we spent a -- a significant effort
8 internally but have not hired external resources to
9 conduct research, no.

10 MR. RAYMOND OAKES: And, Ms. McLaren, in
11 answer -- in one of your previous answers you talked
12 about how the claims experience for motorcycles is
13 problematic.

14 Would you agree with that term?

15 MS. MARILYN MCLAREN: Certainly, I would
16 agree that the extent to which motorcycle claims costs,
17 and therefore premiums, are -- are driven by catastrophic
18 injuries is certainly problematic.

19 MR. RAYMOND OAKES: And, Ms. McLaren, I
20 would ask you this hypothetical question: If MPI needed
21 a 15 percent increase from private passenger consumers
22 next year, just like it's asking for motorcyclists in
23 Territory 2, would the Corporation be frantically seeking
24 safety initiatives for private passenger?

25 MS. MARILYN MCLAREN: I -- I suspect not.

1 Frantically seeking safety initiatives to -- to do
2 something in a one (1) year window, you know, I -- I
3 certainly understand the concern. I certainly -- as I
4 said, it -- it's absolutely problematic, specifically,
5 the extent to which motorcycle rate requirements are
6 driven by motorcycle serious injuries. That -- that's --
7 it's a problem.

8 But I'm not sure, given everything that
9 we've learned in these proceedings over the last many
10 years, that there are significant levers available within
11 the Corporation's mandate of public education and
12 awareness to -- to really -- really significant --
13 influence that.

14 MR. RAYMOND OAKES: As a last question,
15 I'd ask you to refer to CMMG-2-7, if you might. And the
16 last paragraph of your answer says:

17 "On this basis, we believe that the
18 current level of funding for motorcycle
19 programs is reasonable in relation to
20 other road safety expenditures."

21 Would you agree with me, Ms. McLaren, that
22 it's only reasonable if you assess the same priority, and
23 it -- that you have no different mandate, in respect of a
24 different loss experience?

25 MS. MARILYN MCLAREN: Well, I would

1 answer that in a similar fashion to a similar question
2 that Mr. Williams asked with relation to the
3 appropriateness of road safety expenditures. We would
4 certainly be here making a case for higher expenditures
5 in any one (1) of the lines of categorization of that
6 road safety expense budget shown in CAC/MSOS-1-105, that
7 we talked about earlier, if we thought there was a
8 legitimate business case to do so.

9 If someone was able to identify and -- and
10 propose to us, externally, or that we developed
11 internally, a strong business case, to spend more money,
12 to -- that -- that had a significant likelihood of making
13 a difference, we would be prepared to do that.

14 So it's not just that, well, you know,
15 we're -- we're holding tight to make sure we don't spend
16 any more on motorcycle road safety than they make up as a
17 percentage of the overall pool of vehicles. That's not
18 how we set our budgets. But, at this point in time,
19 given what we've got to work with, this is a reasonable
20 use of ratepayer dollars.

21 MR. RAYMOND OAKES: Thank you for that,
22 Ms. McLaren. I look forward to working with you over the
23 -- the coming years on that topic.

24 Mr. Chairman, I was hopeful to take us to
25 the break and I think we're just about that, and that

1 concludes the cross-examination at this time.

2 THE CHAIRPERSON: Thank you, Mr. Oakes.
3 Ms. Everard, do you know if Mr. Dawson's
4 going to have questions for the panel?

5 MS. CANDACE EVERARD: He does, Mr.
6 Chairman. And he and I actually had an exchange
7 yesterday over email, and given Hum and Simpson coming
8 this afternoon and other timelines that had been
9 projected, I told him I didn't think we'd get to him this
10 morning. Now that's obviously not the case. I don't
11 know if he will be able to make himself available at this
12 point. I do have an e-mail and a call in to him.

13 What I would suggest is this: I have some
14 followup questions on answers to undertakings, probably
15 at least a half an hour, that we can go with after the
16 break. I don't know if CAA has questions, so we'd -- Mr.
17 Kruk is shaking his head, "no," so it would sound like
18 no.

19 So probably what we'll do, Mr. Chairman,
20 when we resume is I can ask all my follow-up questions.
21 It could be longer than a half an hour; it's just a
22 guess. And then we can break for lunch, because, of
23 course, doctors Hum and Simpson will be here at one
24 o'clock. So we are starting a little bit earlier in the
25 afternoon than we have been.

1 THE CHAIRPERSON: Very good. Okay.

2 We'll take the break now. Thank you.

3

4 --- Upon recessing at 10:22 a.m.

5 --- Upon resuming at 11:02 a.m.

6

7 THE CHAIRPERSON: Sorry for the delay.

8 Something came up that has nothing to do with this file

9 that caused a bit of a delay.

10 Ms. Everard...?

11

12 RE-CROSS-EXAMINATION BY MS. CANDACE EVERARD:

13 MS. CANDACE EVERARD: Thank you, Mr.

14 Chairman. I have a few follow-up questions with respect

15 to various of the answers to undertakings that have been

16 filed. I'd ask the panel, firstly, to turn to Exhibit

17 14, which is the revised TI.15A. That's MPI Exhibit 14.

18 And I -- also to turn to the original

19 TI.15A that was part of the filing. We're just going to

20 do some comparisons between the GRA TI.15A and the

21 updated version at Exhibit 14.

22 MR. OTTMAR KRAMER: I have it.

23 MS. CANDACE EVERARD: Thank you, Mr.

24 Kramer. If we look at the -- under the heading of "Net

25 Premiums Earned," and in particular the Motor Vehicle

1 line, the -- the first line, we see that -- for the
2 current year, the '09/'10 year, there's been a slight
3 increase in the forecast. The Corporation was
4 forecasting, as of June of this year, 703.5 million, and
5 that's been updated to 704.1 million. And then there is
6 a decrease forecasted for the year of the Application to
7 726.9 million.

8 Are those numbers correct?

9 MR. OTTMAR KRAMER: Yes, they are.

10 MS. CANDACE EVERARD: And can you explain
11 to us the reasons behind those shifts?

12 MR. OTTMAR KRAMER: The increase in the -
13 - in the '09/'10 is based on a previous years written
14 revenue and -- and just the earning thereof. It's --
15 it's the spreading between months some -- sometimes
16 changes, and so it's -- there's a slight increase. The
17 decrease in the '10/'11 earned is -- is due to the
18 written premiums in '09/'10 being lower than initially
19 forecast.

20 MS. CANDACE EVERARD: Thank you. If we
21 move two (2) lines down on the document, we see the line
22 entitled, "Reinsurance Ceded." And we see that the
23 forecast in June for the current year was some ten point
24 two (10.2) to the negative, and that's been updated to a
25 negative eleven point three (11.3).

1 Is that correct?

2 MR. OTTMAR KRAMER: Yes, that is.

3 MS. CANDACE EVERARD: And what's the why
4 behind that? Why are we seeing those changes?

5 MR. OTTMAR KRAMER: That's due to the
6 hail storm that happened in August.

7 MS. CANDACE EVERARD: Thank you.

8 MR. OTTMAR KRAMER: The reinstatement
9 premiums associated with the hail storm.

10 MS. CANDACE EVERARD: Thank you. Moving
11 two (2) lines down in the document, we see the line
12 entitled, "Service Fees and other Revenues." That was
13 forecasted for the current year to be \$13.2 million as of
14 June, and that's been updated to about 15 million in
15 Exhibit 14.

16 Is that right?

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

18 MS. CANDACE EVERARD: And what's the
19 reason for that projected increase?

20 MR. OTTMAR KRAMER: I believe, and I'm
21 going off memory, I believe that increase is due to a --
22 higher monthly interest charges for people who take the
23 monthly time payment plans.

24 MS. CANDACE EVERARD: So, was that a
25 change in the rate, the interest rate?

1 MR. OTTMAR KRAMER: I believe it's slight
2 -- some of it was the forecasted interest rate, some of
3 it is just a higher -- higher people taking the in -- the
4 time payment.

5 MS. CANDACE EVERARD: Thank you. Now if
6 we go to TI.12 for a moment, which is at Tab 6 of the
7 Board's book of documents, we see and I'll just -- are
8 you there, Tab 6?

9 MR. OTTMAR KRAMER: Yes, I have it.
10 Thank you.

11 MS. CANDACE EVERARD: If we look at the
12 net claims incurred line, we see that the Corporation at
13 last year's GRA, the '09 GRA, was forecasting for the
14 current year, net claims incurred of about 624.9 million,
15 and there was a revised forecast as of the June 2009
16 filing to 595.7 million.

17 Is that right?

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

19 MS. CANDACE EVERARD: And if we look at
20 Exhibit 14, the third point in time, we see again for the
21 current year an increase, sort of back up to where it was
22 at last year's GRA for net claims incurred, to about 628
23 and a half million.

24 Is that right?

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

1 MS. CANDACE EVERARD: And why do we see
2 that shift, both the -- the downward shift as at the
3 filing of the GRA, and then the upward shift in Exhibit
4 14?

5 MR. DONALD PALMER: When we did our
6 forecast for '09/'10 we did revise our PIPP forecasts
7 downwards as a result of the release and reserves that we
8 have talked about, as well as, there was a decrease based
9 on the theft experience.

10 What we've seen so far this year, of
11 course, is the hailstorm that increased Basic claims by
12 10 or \$11 million, round numbers, as well as the
13 declining interest rates, which has boosted our -- our
14 liabilities. We do record those based on -- on a monthly
15 basis based on movement in interest rates, so that has
16 caused an increase in the claims incurred as well.

17 MS. CANDACE EVERARD: Thank you. If we
18 look at the next line down in Exhibit 14 and TI.15.A, we
19 have the claims expense line, and we see there's been a
20 slight change again from the filing at TI.15.A from 86.7
21 million down to about 83.1 million in Exhibit 14.

22 Is that correct?

23 MR. OTTMAR KRAMER: Yes, that is.

24 MS. CANDACE EVERARD: And, similarly,
25 there's a change at the following line, the road safety

1 line, in the GRA filing. At TI.15.A we have 24.4 million
2 being forecasted for the current year, and that is
3 revised upward to just over 23 million in Exhibit 14.

4 Is that right?

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

6 MS. CANDACE EVERARD: Continuing down
7 these documents to the underwriting income line we see
8 that in the GRA filing at TI.15.A there was a forecast
9 for an underwriting loss of some 74.6 million, and that
10 is now forecasted to be a larger loss of about 103.4
11 million.

12 Is that right?

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

14 MS. CANDACE EVERARD: And the reason for
15 that increase would be the -- the hailstorms that we've
16 spoken about, or are there any other factors?

17 MR. OTTMAR KRAMER: As Mr. Palmer had
18 previously indicated, the -- the main driver of that is
19 the net claims incurred, which is the hailstorm and the
20 discount rates due to the interest rate changes.

21 MS. CANDACE EVERARD: Thank you. The
22 investment income line, the next line on the document,
23 showed a forecast in TI.15.A of some 84.1 million, and
24 that is now forecasted to in -- to have increased -- or
25 to increase to about 89.9 million.

1 Is that right?

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

3 MS. CANDACE EVERARD: And if we look at
4 the bottom line, so to speak, for Basic, we see in
5 TI.15.A, as at the GRA filing, there was projected a net
6 income of some 11 and a half million, and that's now
7 flipped in Exhibit 14 to a forecasted net loss of about
8 11.5 million.

9 Is that right?

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

11 MS. CANDACE EVERARD: Can you confirm
12 whether there are any -- or there have been any changes
13 in the underlying assumptions over the course of the --
14 the updated Exhibit 14 that may have contributed to that
15 shift in net income?

16 MR. OTTMAR KRAMER: No, there was no
17 changes in any of the assumptions.

18 MS. CANDACE EVERARD: Thank you. Turning
19 then to the outlook period and the -- the year of the
20 Application, as a starter, we see that in TI.15.A filed
21 with the GRA, and looking specifically at the reinsurance
22 ceded line, we see that there was a negative \$10.4
23 million projected, and that is now still a negative, but
24 it's 12.3 million, or almost 12.4 million.

25 Is that right?

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

2 MS. CANDACE EVERARD: And is there any
3 different explanation for that than the other one (1)
4 that -- that you had provided, or is that the same?

5 MR. OTTMAR KRAMER: No, the same
6 explanation.

7 MS. CANDACE EVERARD: And if we look at
8 the underwriting income or loss line for the same year,
9 the year of the Application, we see what was a projected
10 underwriting loss in June of 79.8 million is now 84.8
11 million.

12 Is that correct?

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

14 MS. CANDACE EVERARD: And if we look at
15 the bottom line, as of June, the Corporation was
16 forecasting or projecting income for the year of the
17 Application of 8 and a half million, and that's not
18 shifted downward to about 3 and a half million.

19 Is that right?

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

21 MS. CANDACE EVERARD: And just looking
22 briefly at the three (3) remaining years in the outlook
23 period, we see, firstly, looking at 2011/'12, again, the
24 underwriting income or loss line, that as at June it was
25 projected as a \$79.3 million underwriting loss, and

1 that's now been updated to \$82 and a half million
2 underwriting loss.

3 Is that right?

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

5 MS. CANDACE EVERARD: And for the two (2)
6 subsequent years, 2012/'13 and 2013/'14, we see similar
7 shifts. There's an increase in the projected
8 underwriting loss of about 4 or \$5 million in each year?

9 MR. OTTMAR KRAMER: Yes, I would say 3, 4
10 million, but, yes.

11 MS. CANDACE EVERARD: That's fair.

12 MR. DONALD PALMER: And just -- I'd like
13 to remind the Board that you have characterized the sort
14 of extra three (3) years as '11/'12, '12/'13, '13/'14,
15 but the '11/'12 year is also important for this Rate
16 Application because of the staggered effect of the
17 renewals, so -- so those -- those amounts for '10/'11 and
18 '11/'12 both contribute to this Application.

19 MS. CANDACE EVERARD: Thank you for
20 pointing that out, Mr. Palmer. Just to look at the
21 figures for the bottom line for those three (3) years, we
22 see in '11/'12 what was projected as an income of 18.5
23 million in June is now down slightly to 15.6.

24 Is that right?

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

1 MS. CANDACE EVERARD: And for the next
2 year, 2012/'13, the net income that was projected in June
3 of 40.4 million is down to 37.6, yes?

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

5 MS. CANDACE EVERARD: And for the final
6 year shown on the table, 2013/'14, what was projected as
7 net income in June of 60 million is now down slightly to
8 just under 58 million.

9 Is that right?

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

11 MS. CANDACE EVERARD: Thank you. Those
12 are my questions that relate to that particular exhibit.
13 Moving then to Exhibit 15, which was the next exhibit
14 filed by the Board -- or pardon me, by MPI. This is the
15 table that deals with the breakdown of impaired
16 investments.

17 MR. DONALD PALMER: Yes, I have it.

18 MS. CANDACE EVERARD: And as the record
19 reflects and as we've spoken about already, in the
20 2008/'09 fiscal year the Corporation wrote down impaired
21 investments to the extent of about 24.6 million.

22 Is that right?

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE EVERARD: And according to
25 Exhibit 15, which provides for evaluation of those

1 various investments as of August 31st, '09, there has
2 been a recovery of about 5.9 million on those
3 investments.

4 Is that right?

5 MR. DONALD PALMER: Specifically, yes,
6 although it's hard to make a direct comparison, as you
7 have characterized it, for the simple reason that we
8 don't have the exact same number of units.

9 In -- in some cases, where we -- we wrote
10 the value down, and then we have since liquidated, so --
11 and in -- and in some cases we did write the value of the
12 investments down, and then, in fact, in -- since the time
13 of the write-down have bought more.

14 So there are some pluses and minuses in
15 that. So it's -- it's -- it is a -- a change of \$5.9
16 million but there's some ups and downs in that as well.

17 MS. CANDACE EVERARD: Thank you. The --
18 the 5.9 that's reflected on this exhibit under the
19 Unrealized Gain or Loss column and in this case it's a --
20 a gain, would be recognized in accumulated other
21 comprehensive income.

22 Is that right?

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE EVERARD: Now I note that
25 there are a number of the --

1 MR. DONALD PALMER: Sorry, sorry. I -- I
2 must correct on that.

3 MR. OTTMAR KRAMER: The CICA standards
4 for -- for that when you write an investment down, the
5 investments are not written up at all. The -- the only -
6 - if there is a gain you will realize that on the sale of
7 that -- that security but there is no -- no unrealized
8 booking of -- of any of these gains until they're sold.

9 You know what -- sorry. If we can strike
10 -- we've just been conferring. Yes, it is -- it is in
11 AOCI. The unrealized does go through AOCI. The -- the
12 unrealized loss never went through net income -- or it
13 went through net income initially but the reversal of
14 that loss does not go through net income, it does go
15 through AOCI, yes. Sorry for the confusion.

16 So you were 100 percent correct and we
17 were correct initially and then were incorrect and now
18 hopefully are correct.

19 MS. CANDACE EVERARD: Thank you. I note
20 that there are a few of these investments on the list.
21 Group Aeroplan is the first one and there a couple other
22 under Canadian Equities and some under US Equities where
23 there's nothing under the August 31st table.

24 Is that because those particular
25 investments were divested prior to that date?

1 MR. DONALD PALMER: That's correct.

2 MS. CANDACE EVERARD: So that would
3 include not only Aeroplan but American Express, Gulf
4 Stream International, J.C. Penney.

5 All the ones that have nothing under the
6 August 31st?

7 MR. DONALD PALMER: That's correct.

8 MS. CANDACE EVERARD: And the decisions
9 to divest these particular investments would have been
10 made by the investment managers or by a recommendation of
11 the working group or -- how did that occur?

12 MR. DONALD PALMER: That would be a
13 decision of the investment manager with the one (1)
14 exception of Gulf Stream. In the case of Gulf Stream,
15 that was one (1) remaining investment from one (1) of our
16 terminated managers.

17 And at the time of termination and
18 liquidation, we -- we couldn't sell it. And then, so, we
19 had that basically as an asset that wasn't under the
20 management of an investment manager. It was -- and we
21 had directed our transition manager to sell it whenever
22 they could and at that point in time they were able to --
23 to sell it some time between February 28th and August
24 31st.

25 But the rest would be just as a result of

1 the investment managers.

2 MS. CANDACE EVERARD: Thank you. Now you
3 mentioned earlier on in your evidence, Mr. Palmer, that
4 the Corporation has reinvested in some of these
5 investments?

6 MR. DONALD PALMER: Yes. Wherever you
7 see the book value at August 31st being greater than the
8 revised book value at year end, there would be more that
9 would have been purchased.

10 MS. CANDACE EVERARD: Thank you. That's
11 what I thought. And I note that the -- the two (2) that
12 seem to have fairly significant changes from the Revised
13 Book Value column to the August 31st Book Value Column
14 would be Tech Cominco under the Canadian Equities and US
15 Equities Bank of America.

16 We see in the case of Teck Cominco, a
17 revision from about five hundred and fifty-three thousand
18 (553,000) to about 1.9 million.

19 Is that right?

20 MR. DONALD PALMER: That's correct.

21 MS. CANDACE EVERARD: And for Bank of
22 America, we see an increase from about two hundred and
23 sixty-two thousand (262,000) to about 1.1 or 1.2 million,
24 yes?

25 MR. DONALD PALMER: That's correct.

1 MS. CANDACE EVERARD: So can you just
2 explain for the Board's benefit the reasoning behind the
3 Corporation making additional investments in stocks that
4 it believed earlier had a permanently impaired value?

5 MR. DONALD PALMER: Again, those would be
6 the -- the decisions to buy more would be those of the
7 investment manager. And at the time, although the
8 investment manager's input is -- is sought at the time of
9 impairment, it's not the final decision maker.

10 So -- so at the time under the various
11 criteria of writing down an investment, these two (2)
12 particular ones would match that criteria. And with --
13 at that time the decrease being other than temporary. So
14 -- but since that point in time at the values that those
15 given investments were at, the investment managers would
16 have thought that that was a -- a good deal and then
17 purchased accordingly.

18 And for -- for an example, the original
19 book value of Tech Cominco had dropped from \$3.6 million
20 to about half a million dollars. And then, since the
21 time of -- of year-end there was purchased up to \$1.9
22 million which in fact has appreciated in value to \$3
23 million. So in terms of -- of that particular purchase,
24 it's a -- it was a good purchase from that standpoint.

25 MS. CANDACE EVERARD: Did you --

1 MS. MARILYN MCLAREN: Ms. Everard, maybe
2 just further on that point. One (1) of -- one(1) of the
3 things that those of us within the Corporation had to
4 learn about all of this and I -- I certainly might need
5 to be corrected, but as I understand it and as I believe
6 that we've learned, this is the difference really between
7 accounting treatment and economic value that we're
8 talking about here.

9 And the investment managers deal in
10 economic value. And they don't necessarily agree,
11 understand, support the accounting treatment with respect
12 to writing down investments at year-end. They would not
13 necessarily have seen and -- and offered up sort of the
14 same perspective as we were required to do with respect
15 to accounting guidelines.

16 So I think that's really what a lot of
17 this comes down to. They focus on relative value and if
18 something is twenty cents (\$.20) on the dollar that they
19 paid for it but they still think they can sell it at
20 today's price and buy something else with that money that
21 has more value, they'll do it.

22 So the accounting treatment at year-end is
23 really quite different than what the investment managers
24 think about how best to proceed in the market. And
25 that's what really we've come to understand that there's

1 a big difference between their perspective on the
2 economic value and the relative value of different stocks
3 and what we need to do to accurately reflect things in
4 our financial statements according to the accounting
5 rules.

6

7 (BRIEF PAUSE)

8

9 MS. CANDACE EVERARD: Just so that we're
10 clear. When the Corporation is deciding how to proceed
11 with that accounting treatment as you've described and in
12 this case the write-downs, is that something that it
13 consults with the investment managers on before it does
14 so.

15 I -- I appreciate your evidence, Ms.
16 McLaren, about the different perspectives but, does the
17 Corporation seek that input?

18 MR. DONALD PALMER: Yes. When we have a
19 -- a list of impairment write-downs, we do go to the
20 investment managers and ask their opinion. And in -- in
21 fact we independently ask them to supply us a list of
22 companies that they believe are permanently impaired.

23 If it's on their list and on our list,
24 it's going to be -- end up being written down almost
25 assuredly. If it's on one (1) list or the other, it may

1 or may not depending on specific circumstances.

2 MS. MARILYN MCLAREN: But in practice,
3 the reality is that they generally have much, much
4 shorter lists than -- than what we come up with through,
5 you know, really close scrutiny from the folks in our
6 Investment Department.

7 We consult with our external auditor, you
8 know, so it really is an accounting perspective. In our
9 experience they rarely think something is permanently
10 impaired.

11 MS. CANDACE EVERARD: And in these
12 particular cases where decisions were made to re-invest,
13 was there consultation back and forth?

14 MR. DONALD PALMER: No.

15 MS. CANDACE EVERARD: And I think,
16 according your evidence earlier, it's the -- up to the
17 investment manager to make that decision?

18 MR. DONALD PALMER: Yes, they're --
19 they're measured on results over rolling four (4) year
20 periods, and we don't inter -- interfere on their
21 investment decision making in the mean time, other than
22 looking at the results.

23 MS. CANDACE EVERARD: Thank you. Those
24 are my questions with respect to that particular exhibit.
25 I'd now ask you to turn to Exhibit 18, filed by the

1 Corporation, which was the revised AOCI, or Accumulated
2 Other Comprehensive Income schedule.

3 Are you there?

4 MR. DONALD PALMER: Yes, I have it.

5 MS. CANDACE EVERARD: Now, I appreciate,
6 Mr. Palmer, when this exhibit was filed you gave a little
7 bit of a narrative about it. So, I just have a few
8 fairly specific questions.

9 If we look at the information on the
10 bottom half of the page, which sets out potential impacts
11 on the RSR at various points in time, we see and this is,
12 of course, points a time at which bonds would be re-
13 designated. We see, if we look at the final column, the
14 RSR would be column, we see a range from about 125.7
15 million up to 145, up to 160, and then down to 137, and
16 those are, of course, the four (4) points in time
17 reflected on this chart.

18 Is that right?

19 MR. DONALD PALMER: That's correct.

20 MS. CANDACE EVERARD: And would it be
21 fair to say that these figures represent a fair -- fairly
22 significant degree of variability in the RSR balance as
23 at that -- those different dates?

24 MR. DONALD PALMER: Yes, depending on the
25 AOCI, at -- at the time the RSR could be lower, as it --

1 as it would have been in March 1st, or it could be higher
2 as we're -- as at September 2009.

3 MS. CANDACE EVERARD: Thank you. Now,
4 the Corporation has set out a list of factors just
5 underneath the table that give rise to the magnitude of
6 the re-designation adjustment. And you had read them in
7 when you put the exhibit on the record.

8 Can you just give us a little bit of
9 commentary, with respect to each of those factors?

10 MR. DONALD PALMER: In terms of valuing a
11 -- a bond, certainly, the interest rate environment is
12 one (1) of the important variables in the current value
13 of a bond.

14 So, as interests rates go down, a value of
15 a bond will go up. Now, that has an offsetting effect on
16 our liabilities. And in particular, those ups and downs
17 would have -- that we talked about in March, June, and
18 September, would have been offset also by movement in the
19 value of liabilities, which this doesn't show, and are
20 reflected in the value of the RSR. So, just from that
21 perspective you're -- you're looking at, sort of, half of
22 the equation here.

23 In terms of inflation -- inflation rates,
24 we do have real return bonds that the inflation rate may
25 effect the value of those -- those bonds. There are

1 interest rate spreads, different rates between corporate
2 bonds and government bonds, for instance. And I think,
3 that really is illustrative within corporate bonds, we
4 did see -- historically we've had spreads of about 2
5 percent, probably, between government and corporate.
6 That spread increased after the credit crisis to,
7 probably 4 or 4 1/2 percent, which would decrease the
8 value of corporate bonds. Those spreads now, are back to
9 historic levels of about 2 percent.

10 The general economy, certainly, something
11 like the -- the credit crisis affected, not only
12 corporate bonds, but some provincial bonds, as well.
13 Things like, bonds from the Winnipeg Airport Authority,
14 for instance, may be affected by current economic
15 environment, and, of course, the -- just the amount of
16 AFS bonds in our portfolio was where selling off those
17 bonds and buying in the held for trading, that, at any
18 given time, that, of course, will affect the value of
19 your AOCI as well.

20 MS. CANDACE EVERARD: Thank you. So if
21 both interest rates and inflation began to increase, what
22 would be the impact directionally on the RSR?

23 MR. DONALD PALMER: If interest rates
24 increased and -- and are you saying if we had all of our
25 bonds designated as held for trading? Is that...?

1 MS. CANDACE EVERARD: If, as at the date
2 of the re-designation, both interest rates and inflation
3 had increased.

4 MR. DONALD PALMER: If they increase, the
5 value of those bonds goes down, but our liability goes
6 down as well. Because our duration is longer on the
7 liabilities, an increase in interest rates would cause an
8 increase in the RSR. I have to write this down. Just --
9 just let me double check.

10

11 (BRIEF PAUSE)

12

13 MR. DONALD PALMER: Yes, wha -- what I
14 said was correct. Overall, the RSR, at a point in time,
15 would go -- go up because the -- with higher duration
16 liabilities, your value of those liabilities fall more
17 than the value of your bonds.

18 However, a higher inflation environment on
19 an ongoing basis would also increase your ongoing claims
20 incurred, so that, in fact, on an ongoing basis, once you
21 got past that point in time, would have a negative
22 effect.

23 And, certainly, in our DCATs we have
24 investigated the effective high inflation scenarios, and
25 -- and they're certainly included in our adverse

1 scenarios.

2 MS. CANDACE EVERARD: Thank you. Mr.
3 Palmer, just one (1) more question with respect to this
4 table. The Corporation has indicated what the impact on
5 the RSR would be at various re-designation dates, but
6 it's fair to say that, at the end of the day, the true
7 impact will only be known once IFRS is actually
8 implemented.

9 Is that right?

10 MR. DONALD PALMER: Yes, that's correct.

11 MS. CANDACE EVERARD: Thank you. I'm
12 going to ask you to go with me then to Exhibit 25 filed
13 by the Corporation. This is the answer to Undertaking
14 Number 18, dealing with the rent at Cityplace.

15 We had had a conversation previously on
16 the record with respect to the rent that the Corporation
17 was paying under the existing lease, and we had asked
18 that the operating expenses and taxes be backed out of
19 that rent.

20 And if -- if we read Exhibit 25 correctly,
21 it appears to reflect that the base rent under the
22 existing lease was \$2.7 million per year, the operating
23 costs and taxes having been backed out.

24 Is that right?

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

1 MS. CANDACE EVERARD: And I believe the
2 evidence reflects that the renewal that was being
3 proposed by the landlord sought rent of about \$61 million
4 over its ten (10) year term, which would have been about
5 6.1 million in base rent a year.

6 Is that about right?

7 MR. OTTMAR KRAMER: Yes, that's correct,
8 at a high level.

9 MS. CANDACE EVERARD: So in other words,
10 the landlord was proposing to more than double the
11 Corporation's rent?

12 MR. OTTMAR KRAMER: Yes.

13 MS. CANDACE EVERARD: And was there a
14 rationale provided to the Corporation with respect to
15 that?

16 MR. DONALD PALMER: Not really other
17 than, again, remember that -- that negotiations started
18 before any major change in economic circumstances. So
19 those numbers that you have, said that, sort of prompted
20 us into other action. So, yes, you're accurate, we were
21 looking at double -- almost double rent.

22

23 (BRIEF PAUSE)

24

25 MS. CANDACE EVERARD: So, Mr. Palmer,

1 just so that I understand your answer correctly. Did the
2 landlord give a -- a particular reason to the Corporation
3 as to why it was taking the position with respect to rent
4 that it was?

5 What was its rationale or -- or
6 justification as to why it would be taking that position?

7 MS. MARILYN MCLAREN: None was provided.
8 Clearly the Corporation developed some opinions on that
9 and, you know, and we can talk about that if -- if you
10 like. But certainly, none was provided by the owner --
11 landlord at the time.

12 MS. CANDACE EVERARD: Yeah, if you could
13 tell the Board what the Corporation's opinions were that
14 were formed, we'd appreciate it having your -- your
15 evidence that the landlord didn't actually give an
16 explanation.

17 MS. MARILYN MCLAREN: Yeah, I -- I think
18 the economy was strong at that point particularly,
19 Winnipeg, Manitoba economy was strong.

20 There was not -- there was really not an
21 excess at all of space sufficient for our needs in the
22 downtown area or even a little further than downtown. We
23 believe they figured that the easiest thing for us to do
24 would be to pay higher rates and stay where we were. We
25 were not prepared to do that obviously and we were just

1 very -- we had made it very clear that we were not
2 prepared to even sit down and enter serious negotiations
3 if that was their starting point.

4 And we were seriously looking at other
5 options. We were just about to put a -- we were about to
6 put a request for information, I don't remember exactly
7 what we called it: Expression of interest.

8 An expression of interest on the street
9 with respect to having anyone else that was interested
10 come to us with alternative suggestions as to how we
11 house our -- our Corporate offices.

12 Perhaps moving to an existing space,
13 perhaps someone would build something for us, perhaps we
14 would enter into a building relationship. We were well
15 down the road with preparing that document. We had done
16 a cursory -- cursory I guess is a reasonable word,
17 assessment ourselves.

18 We had taken some -- more concrete steps
19 to really assess what it would take to move into at least
20 one (1) other existing building that we thought may
21 possibly work for us.

22 And all of those other options as best as
23 we had assessed them at that point were significantly
24 more expensive than staying in Cityplace for a reasonable
25 rental price.

1 We looked at sort of, you know, purchasing
2 and modifying an old building, maybe building something
3 new, things like that. So we really think they for the
4 most part, believed that we would choose the easy but
5 ridiculously expensive option as far as we can tell. And
6 we didn't want to do that.

7

8

(BRIEF PAUSE)

9

10 MS. CANDACE EVERARD: Thank you. We'll
11 just take a look at the next exhibit, which is Exhibit
12 26. It also relates to Cityplace. The question was
13 that:

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"The Corporation provide the net present value analysis of the lease costs from 2010 to 2023, assuming the \$5.5 million per year cost for the existing lease period and the new rent cost that was proposed by the landlord from 2013 to 2023, using a discount rate of 9 percent."

22

And the Corporation's answer was that:

23

24

25

"The net present value of the base rent for 2010 to 2023, using a discount rate of 9 percent, is \$35.9 million."

1 Is that right?

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

3 MS. CANDACE EVERARD: Now, the record
4 reflects that the costs -- the -- the piece of the
5 purchase price of the property that was attributable to
6 the building was about 67 million of the 81 and a half.

7 Is that right?

8 MR. OTTMAR KRAMER: Yes, for the entire
9 Cityplace building.

10 MS. CANDACE EVERARD: Thank you. So if
11 we compare that allocation to the net present value of
12 the lease, the 35.9, we have a difference of about 31
13 million.

14 Is that right?

15 MR. OTTMAR KRAMER: Yes, the difference
16 between sixty-seven (67) and thirty-six (36) is thirty-
17 one (31).

18

19 (BRIEF PAUSE)

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21 MS. CANDACE EVERARD: The amount
22 allocated to the building for investment purposes in the
23 Corporation's accounting has been 50 million.

24 Would that be a more fair comparison in
25 the Corporation's view than the sixty-seven (67)?

1 MR. OTTMAR KRAMER: Yes, that -- that
2 would be more fair. We're -- we're not totally finalized
3 on that, but fifty (50) is -- is appropriate for the non-
4 investment portion.

5 MS. CANDACE EVERARD: And that's under
6 IFRS, which has not been implemented yet?

7 MR. OTTMAR KRAMER: That's correct. That
8 -- that's a preliminary estimate. We haven't firmed up
9 the entire calculation yet.

10 MS. CANDACE EVERARD: So if we -- if
11 we're comparing apples to apples then, we look at, on the
12 leasing side, the net present value from 2010 to 2013 of
13 35.9 million versus the amount which the Corporation
14 thinks is going to be allocated to the building for
15 accounting purposes of 50 million.

16 Is that right?

17 MR. OTTMAR KRAMER: Yes.

18 MS. CANDACE EVERARD: Apparently I said
19 2013. I meant 2023. And this difference, that is,
20 between the 35.9 million and the 50 million, does not
21 take into account the opportunity, the cost of foregone
22 investment income.

23 Is that right?

24 MR. OTTMAR KRAMER: Not specifically, but
25 that's inherent in the discount rate. And -- and also,

1 just if -- if we're comparing the 50 million to the 36
2 million, at the end of 2023, if we're leasing, we've paid
3 that present value of \$36 million and have nothing, ver -
4 - versus if we purchased the building, at year 2023 we
5 still own a building which has significant value to it.

6 MS. CANDACE EVERARD: Thank you. The
7 next exhibit is Exhibit 27, still dealing with Cityplace
8 and the foregone investment piece. The question was
9 asking the Corporation:

10 "To provide the net present value
11 analysis of the \$2.9 million in
12 foregone investment income over a ten
13 (10) period using a discount rate of 9
14 percent."

15 And the Corporation advised that:

16 "The net present value of the \$2.9
17 million in foregone investment income
18 over ten (10) years, using a discount
19 rate of 9 percent, is 22.2 million."

20 The Corporation further stated that:

21 "The net present value of the 2.9
22 million in foregone investment income
23 for 2010 through 2023, using a discount
24 rate of 9 percent, is 28.2 million."

25 Is that right?

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

2 MS. CANDACE EVERARD: Now, further
3 looking at the lease versus purchase analysis, if you
4 will, and coming back to the -- the \$50 million
5 allocation for accounting purposes to the building. We
6 see that there's a -- a difference -- just one (1)
7 moment.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE EVERARD: If we -- if we look
12 at the \$50 million allocation for the building, of the
13 \$81 million purchase price, compared with the \$28.2
14 million net present value of forgone investment income
15 for the thirteen (13) year period that's reflected here,
16 would it be fair to say, using the same relativity, that
17 about 18 million of the foregone investment income
18 relates to the acquisition of the building?

19

20 (BRIEF PAUSE)

21

22 MR. OTTMAR KRAMER: Yeah, I've got
23 seventeen (17), but close enough.

24 MS. CANDACE EVERARD: Fair. We'll --
25 we'll use your seventeen (17). So, would it be fair to

1 say that taking the \$50 million cost allocated to the
2 building for accounting purposes, and the \$17 million in
3 foregone investment income, that the cost of the building
4 would be about 67 million, compared with the net present
5 value for the lease of 35.9 million.

6 Is that right?

7

8 (BRIEF PAUSE)

9

10 MR. OTTMAR KRAMER: I'm -- I'm at a
11 little bit -- trying to understand where you're going.
12 But, I think what's more comparable is the -- the present
13 value of the base rent, which we had in the previous
14 undertaking. And I don't have my numbers, I think that's
15 -- is it 20 -- 26 -- 26 of 35 million, or 36 million, is
16 comparable to the \$17 million. By adding that \$50
17 million in, you're -- you're not giving any credit for
18 the fact that we still have the building after all --
19 this is all said and done.

20 If we -- on the purchase at the end of the
21 thirteen (13) year period we're looking at, we still have
22 a building, which is -- has economic value to it and
23 could be sold. But, the apples to apples comparison, in
24 my mind, is the 17 million present value that's in --
25 that we just calculated under 27, compared to the 36

1 million that was in Exhibit Number 26.

2 MS. CANDACE EVERARD: Mr. Kramer, you had
3 given evidence on one of the previous Hearing dates.
4 It's at page 888 of the transcript. If -- you don't
5 necessarily have to go there, but you gave evidence about
6 an internal analysis that the Corporation did on the
7 lease versus buy. We had spoken about the BMO report and
8 -- and the lease versus buy components of that.

9 And the internal analysis that the
10 Corporation did is not on the record in this Proceeding.
11 Is that something that it's prepared to file with the
12 Board?

13

14 (BRIEF PAUSE)

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16 MR. OTTMAR KRAMER: Yeah, I just read
17 through my testimony, and as it indicated, we -- we
18 looked at the BMO report and we -- we tested that BMO
19 report and did additional work to ensure that the
20 information that the BMO report was correct but we don't
21 have anything formal that we can put on the record.

22 But we -- we did verify the information
23 and do our present value calculations with -- that
24 indicates some of that information that we filed in this
25 -- these undertakings.

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(BRIEF PAUSE)

MS. CANDACE EVERARD: We'll move then to Exhibit 28 which still deals with Cityplace. Just a couple of questions on that.

This undertaking was:

"To provide a comparison of leasing cost per square foot in 2013 based on an assumed renewal rate and operating costs and taxes with the cost per square foot to purchase."

And the response was:

"The proposed leasing costs for base rent excluding operating expenses for ten (10) years, 2013 to 2022 was 61 million and that the comparable cost based on purchasing the Cityplace property was 23 million."

Is that right?

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

MS. CANDACE EVERARD: And how did the Corporation come up with the figure of 23 million there?

(BRIEF PAUSE)

1

2 MR. OTTMAR KRAMER: The \$23 million was
3 calculated based on the -- the lost investment income
4 portion of the two point nine (2.9) that was related to
5 the building along with other building costs that are
6 non-recoverable when you own the building.

7 MS. CANDACE EVERARD: And how many square
8 feet does the Corporation occupy roughly?

9 MR. OTTMAR KRAMER: It's around three
10 hundred (300) I think slightly lower than three hundred
11 (300) but right around the three hundred (300) mark and
12 it does -- it does fluctuate.

13 MS. CANDACE EVERARD: You mean three
14 hundred thousand (300,000)?

15 MR. OTTMAR KRAMER: Three hundred
16 thousand (300,000), yes, sorry.

17 MS. CANDACE EVERARD: I figured but --

18 MR. OTTMAR KRAMER: All numbers are in
19 thousands unless indicated.

20 MS. CANDACE EVERARD: Thank you. Just a
21 couple of questions then on Exhibit 33 moving down the
22 line. This exhibit was in answer to an undertaking that:

23 "The Corporation provided detailed
24 analysis of the derivation of the cost
25 estimate of \$27.1 million for the PIPP

1 infrastructure project including the
2 nature and category of the expense --
3 expenditures anticipated, the estimated
4 cost of each and the year in which the
5 costs were expected to be incurred."

6 And if we look at the schedule that's
7 attached, I'll just ask a couple of detailed questions.
8 There is a capital expenditures line about a third from
9 the bottom of the table about 1.3 million in total from
10 '07/'08 to '09/'10.

11 Can you describe those capital
12 expenditures? What the type of expenditure is there?

13 MR. OTTMAR KRAMER: I don't have a
14 detailed list but most of those are data processing,
15 equipment servers, computers, et cetera.

16 MS. CANDACE EVERARD: Thank you. Moving
17 down to the second last line of the table, there's a
18 heading 'Deferred Development Program and Change
19 Management Allocation.' And we see the total cost at
20 that line over the years from '07/'08 to '09/'10 is about
21 6.4 million.

22 Can you describe what those costs
23 represent?

24 MR. DONALD PALMER: We -- we've had
25 considerable discussion about the program management

1 office in the context of all BPR projects.

2 So that's the overall BPR team. They're -
3 - many of them are working on more than one (1) project
4 at a time. So it -- it's the allocation from that
5 overall BPR team.

6 MS. CANDACE EVERARD: So this allocation
7 is Basic's piece, is that right?

8 MR. DONALD PALMER: Sorry?

9 MS. CANDACE EVERARD: This allocation,
10 the six point four (6.4) under Program Change Management,
11 is Basic's piece?

12 MR. DONALD PALMER: Yes, it is. Basic is
13 paying all of PIPP.

14 MS. CANDACE EVERARD: Yes. That was 100
15 percent allocated to Basic under the BPR.

16 MR. DONALD PALMER: That's correct.

17 MS. CANDACE EVERARD: Thank you.

18

19 (BRIEF PAUSE)

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21 MS. CANDACE EVERARD: I just have a
22 couple of other questions for now, and then there may be
23 a little bit of follow-up following on that most recent
24 exchange, but we'll -- we'll see about that after lunch.

25 The Corporation has a contract, as I

1 understand it, with Manitoba Medical, or Manitoba Health,
2 with respect to medical costs ha -- that are expended
3 associated with the vehicle accidents.

4 Is that right?

5 MR. DONALD PALMER: Yes, there is an
6 agreement with MHSC. It stems from the early days of
7 PIPP, that there was a loss of income to MHSC because
8 they lost subrogation rights, so this is just a
9 continuation of what those subrogation rights might have
10 been.

11 MS. CANDACE EVERARD: And what's the
12 annual contract amount?

13 MR. DONALD PALMER: There's not an amount
14 specified in the contract. It is -- there was an initial
15 estimate for the 1996 year, and it's been inflated every
16 year based on healthcare costs, based on growth in the
17 fleet. For the current year, '09/'10, it's around \$14
18 million.

19 MS. CANDACE EVERARD: And I take it,
20 based on your evidence, that there hasn't been a change
21 in the terms over the last fourteen (14) years.

22 MR. DONALD PALMER: No, after the
23 original agreement was negotiated, I think in 1996, there
24 has not been a change to that contra -- to that
25 agreement.

1 MS. CANDACE EVERARD: And do you know if
2 this approach is similar to that which is taken in other
3 provinces: Saskatchewan, BC, Ontario, Quebec?

4 MS. MARILYN MCLAREN: This is really done
5 differently in every jurisdiction.

6 MR. DONALD PALMER: I can tell you that,
7 at the time that we did our calculation, it was ba --
8 based on a New Brunswick formula. That was kind of the -
9 - the basis of the calculation.

10 MS. CANDACE EVERARD: Thank you. Mr.
11 Chairman, those are my questions for the moment. I see
12 it's five (5) to 12:00. I know Mr. Saranchuk has a few
13 follow-up questions in his area. I don't know if we want
14 to go to those now or take the break, seeing as the
15 professors will be here at 1:00.

16 THE CHAIRPERSON: He's indicating, no, so
17 we'll have the break and we'll be back at 1:00.

18 We're going with Professors Hum and
19 Simpson at 1:00?

20 MS. CANDACE EVERARD: Yes, Mr. Chairman.
21 It's my understanding that Mr. Williams will have a
22 direct examination of the professors, and then we'll move
23 to Ms. Kalinowsky's cross, and then Mr. Saranuck and the
24 other Intervenors, to the extent that they have any
25 questions. And Mr. Oakes is shaking his head, so

1 probably not.

2 THE CHAIRPERSON: Okay. And the Board's
3 secretary has circulated the CVs of both Professor Hum
4 and Professor Simpson, and we'll give them an exhibit
5 number.

6 Do you have the exhibit number, Mr.
7 Gaudreau? Dr. Simpson would be 6 and Dr. Hum would be 7.

8

9 --- EXHIBIT NO. CAC/MSOS-6: CV of Professor Simpson

10

11 --- EXHIBIT NO. CAC/MSOS-7: CV of Professor Hum

12

13 THE CHAIRPERSON: So we'll see you back
14 at 1:00.

15

16 (MPI PANEL NO. 1 WITNESSES RETIRE)

17

18 --- Upon recessing at 11:50 a.m.

19 --- Upon resuming at 1:05 p.m.

20

21 THE CHAIRPERSON: Okay, welcome back
22 everyone. I recognize two (2) familiar faces across the
23 way. Dr. Hum and Dr. Simpson, welcome.

24

Mr. Williams...?

25

MR. BYRON WILLIAMS: Yes, thank you, Mr.

1 edification, we do propose to briefly review the
2 qualifications of our -- of our witnesses both to
3 establish their expertise but also because some of their
4 work directly relates to some of the conclusions that
5 they draw.

6 So I'm going to spend a few minutes on
7 that and then certainly we'll do a -- a direct ev -- some
8 direct evidence as well.

9 And Dr. Hum, perhaps I'll start with you
10 and I'll refer you to your curriculum vitae which is
11 marked as CAC Exhibit Number 7.

12 DR. DEREK HUM: I have it. I can't read
13 it but I have it.

14 MR. BYRON WILLIAMS: And Dr. Hum, just so
15 you know and this is fine but your mic is on right now,
16 okay?

17 Dr. Hum, would it be fair to say that you
18 are expert in the quantitative analysis of programs and
19 policies using statistical data and techniques?

20 DR. DEREK HUM: I think that's fair.

21 MR. BYRON WILLIAMS: As well that you are
22 expert in risk management analysis?

23 DR. DEREK HUM: Yes.

24 MR. BYRON WILLIAMS: And you're expert
25 in issues relating to money and banking which I

1 understand is now known as monetary economics.

2 Would that be fair?

3 DR. DEREK HUM: Yes.

4 MR. BYRON WILLIAMS: And you're expert in
5 issues relating to microeconomics?

6 DR. DEREK HUM: Yes.

7 MR. BYRON WILLIAMS: For -- for certainly
8 my client's benefit, and hopefully for the benefit of at
9 least some of the Panel members, could you explain what
10 microeconomics is?

11 DR. DEREK HUM: Well very broadly
12 speaking, macroeconomics and microeconomics are the two
13 (2) major areas of economics which the discipline is
14 divided. Macroeconomics is probably familiar to most
15 people who read the Press, it concerns itself with the
16 behaviour of nations states, balance of payments, global
17 conditions, unemployment, inflation.

18 Microeconomics is more concerned with
19 groups of behaviour which are smaller, such as the
20 household, government departments, and, particularly, the
21 theory of the firm, individual firms. That would be
22 analysed under the rubric of microeconomics.

23 MR. BYRON WILLIAMS: Excuse me. How, if
24 at all, is that relevant to the discussion relating to
25 the rate stabilization reserve, sir?

1 DR. DEREK HUM: Well, MPIC is a firm, or
2 a Crown Corporation. It's not a -- it's not a country.
3 It's a -- and so, therefore, its behaviour, it's policies
4 with respect to setting its price, how it treats its
5 consumer base, the financial probity of its
6 relationships, and in this particular case, how it
7 behaves with respect to agencies which are designed to
8 monitor them, because it is a monopoly, this all comes
9 under the rubric of microeconomics.

10 MR. BYRON WILLIAMS: Thank you for that.
11 Very quickly, over your education, you have a BSC in
12 mathematics.

13 Is that correct?

14 DR. DEREK HUM: That's correct.

15 MR. BYRON WILLIAMS: And an MA from
16 Oxford University in politics, philosophy, and economics,
17 sir?

18 DR. DEREK HUM: That's correct.

19 MR. BYRON WILLIAMS: And a PhD from the
20 University of Toronto in the -- the goldie but oldie
21 category of Political Economy?

22 DR. DEREK HUM: That's correct.

23 MR. BYRON WILLIAMS: Dr. Hum, just
24 turning to page 2 of your curriculum vitae, in your past
25 life you were research director for Mimcome, Manitoba.

1 Is that fair?

2 DR. DEREK HUM: That's correct.

3 MR. BYRON WILLIAMS: And that was -- that
4 was a program designed to evaluate the economic and
5 administrative consequences of guaran -- the guaranteed
6 annual income system.

7 Would that be accurate?

8 DR. DEREK HUM: That's right.

9 MR. BYRON WILLIAMS: And I wonder if you
10 could describe what your role as research director
11 encompassed, sir.

12 DR. DEREK HUM: Well, it encompassed a
13 number of roles, but perhaps most relevant for today, the
14 research director directs a research staff of
15 approximately twenty-five (25) to thirty (30). That
16 research staff is divided into four (4) divisions. There
17 was an economic research element. There was a
18 statistical research division. There was an
19 administrative research division. And there was an
20 operations research division.

21 The research director also shares
22 responsibility to oversee the operational aspects of the
23 projects, such as the payments, surveys, which is collect
24 the data. And, as well, the research director was
25 involved at various times in such mundane matters as

1 negotiating budgets with the Federal/Provincial
2 government to make sure we had enough resources to carry
3 out our mandate.

4 MR. BYRON WILLIAMS: Thank -- thank you
5 for that. My understanding is that you're currently a
6 full professor at the University of Manitoba.

7 Is that correct, sir?

8 DR. DEREK HUM: That's correct.

9 MR. BYRON WILLIAMS: And just referring,
10 to anyone who's following along, we're at the bottom of
11 page 3 of your curriculum vitae. Among the courses you
12 have taught is -- are managerial economics for the MBA
13 Program.

14 Is that correct, sir?

15 DR. DEREK HUM: That's correct.

16 MR. BYRON WILLIAMS: You've taught
17 advanced microeconomic theory at the graduate level, sir?

18 DR. DEREK HUM: That's correct.

19 MR. BYRON WILLIAMS: And you've taught
20 money and banking at the third year level, sir?

21 DR. DEREK HUM: That's correct.

22 MR. BYRON WILLIAMS: What is money and
23 banking?

24 DR. DEREK HUM: Money and banking is the
25 old term. It's now called monetary economics or

1 financial monetary economics, but under the old rubric,
2 money and banking was that specialization that had to do
3 with the financial institutions, how they're governed,
4 what their behaviour is.

5 And, obviously, banking was interpreted
6 really as the financial sector. It included institutions
7 beyond simply the listed banks under the Bank Act, and it
8 would include such things as trust companies, credit
9 unions, and so forth. And money, of course, referred to
10 loosely as the conduct of monetary policy by the Bank of
11 Canada.

12 MR. BYRON WILLIAMS: Thank you in terms
13 of -- would risk analysis have been included within the -
14 - the course of study in money and banking, sir?

15 DR. DEREK HUM: Yes, as a major part,
16 simply because most of these financial institutions,
17 whether it be a bank, or a trust company, or an insurance
18 company, they're subject to various types of financial
19 risk. And the fundamentals of that, when we teach it, is
20 to examine what the balance sheets of these various
21 institutions look like, what are on the asset side, what
22 are on the liability side, and how they achieve a mix,
23 and what do they do under different circumstances and so
24 forth.

25 MR. BYRON WILLIAMS: Thank you for that

1 Dr. Hum. And we -- we're just going to stay on this same
2 page for one (1) more second. In terms of your research
3 and other experience, it would be fair to say that you've
4 conducted pure and applied research in areas such as mone
5 -- money and banking, policy and evaluation research,
6 quantitative methods, and program delivery design?

7 DR. DEREK HUM: Yes, that's fair.

8 MR. BYRON WILLIAMS: And we'll come to
9 your publications in just a moment, but you have
10 conducted extensive work on behalf of both the Federal
11 and Provincial government agencies, relating to the
12 quantitative analysis of government programs and
13 policies.

14 Is that correct?

15 DR. DEREK HUM: On many occasions, yes.

16 MR. BYRON WILLIAMS: Likewise, in a
17 similar vein, you have cond -- conducted similar work on
18 behalf of non-government organizations such as The
19 Economic Council of Canada, The CD Howe Institute, and
20 the IRPP?

21 DR. DEREK HUM: Yes, I have.

22 MR. BYRON WILLIAMS: I -- I don't want to
23 make you blush that much, Dr. Hum, but it would be fair
24 to say that you've published widely in many areas of
25 economics?

1 DR. DEREK HUM: I think that's fair.

2 MR. BYRON WILLIAMS: You have --

3 DR. DEREK HUM: Including law.

4 MR. BYRON WILLIAMS: So we'll -- we'll
5 stay away from law today. You have written or edited
6 seven (7) books, twenty (20) monographs, and now over one
7 hundred and twenty (120) journal articles, and book
8 chapters, sir?

9 DR. DEREK HUM: That's correct.

10 MR. BYRON WILLIAMS: And those pri --
11 largely would be peer reviewed?

12 DR. DEREK HUM: The vast majority, yes.

13 MR. BYRON WILLIAMS: I just want to look
14 turning to the heading, "Publications", which is over a
15 couple pages in your curriculum vitae, Dr. -- Dr. Hum. I
16 just want to look at a couple of the -- the things that
17 you have authored, or co-authored.

18 In 1991 for The Economic Council of
19 Canada, you published a peer reviewed monograph with your
20 partner, Dr. Simpson, on Income Maintenance, Work Ethic,
21 and the Canadian Mimcome Experiment.

22 Is that correct?

23 DR. DEREK HUM: That's correct.

24 MR. BYRON WILLIAMS: And for the Academic
25 Press in 1984, you prepared a peer reviewed book

1 regarding experimental social programs and analytical met
2 -- methods, and evaluation of the US income maintenance
3 projects?

4 DR. DEREK HUM: That's correct.

5 MR. BYRON WILLIAMS: And a very high
6 level, what did this involve?

7 DR. DEREK HUM: People may or may not be
8 aware that there were four (4) major social experiments
9 conducted in the United States during this period. This
10 was quite unique and innovative because it marked the
11 first time that the method of social experimentation was
12 applied to economics. Most people don't see economics as
13 a field experimental discipline.

14 They see that in -- in medicine, or they
15 see that in chemistry and so forth. But this was quite
16 innovative. And the book was a review of the four (4)
17 field trials in the United States that were conducted.

18 It revealed their findings, the
19 literature, and the methods that were used. Just to be
20 very clear about this, when I use experiment, I'm using
21 the term in the rigorous scientific sense rather than the
22 colloquial sense. People may not know that in these
23 field experiments the United States government or
24 agencies actually did random controlled trials with
25 various participants to -- to explore what the effects of

1 various government programs would be.

2 This is quite rare then, and is rare now.
3 So this is why it was unique.

4 MR. BYRON WILLIAMS: Thank you, Dr. Hum.
5 Just moving you over in your CV a couple pages, I see
6 that in -- you'll agree that in 1998 you -- and hopefully
7 for anyone -- the panel following along, I think these
8 articles have been highlighted, you co-authored with Dr.
9 Cameron and Dr. Simpson, an article, "Is Hypoinflation
10 Good Policy?" for Canadian Public Policy.

11 DR. DEREK HUM: Yes, I did.

12 MR. BYRON WILLIAMS: And what, if any,
13 relevance does that discussion have for -- for this
14 proceeding?

15 DR. DEREK HUM: That -- that may be hard
16 to say, but the basic thrust of the article was to
17 demonstrate, certainly within Canada, that it makes a
18 great deal of difference in understanding how an economy
19 works during periods of high inflation and during periods
20 of low inflation. We studied this, and empirically, to
21 our satisfaction, verified that results that -- or,
22 statements that may be conditionally true under one (1)
23 situation, say high inflation, may not hold under
24 conditions of low inflation, and visa versa.

25 So as a general rule we would expect that

1 the level of inflation and economy is a major factor in
2 deciding what statements can be relied upon as general
3 statements.

4 MR. BYRON WILLIAMS: Okay. Thank you,
5 Dr. Hum. Just a couple more articles I want to go
6 through with you. Turning over two (2) more pages, this
7 sounds like a thrilling article; in -- in 1985, for
8 Communications and Statistics, you published with a
9 number of co-authors, "Missing Data Estimators in the
10 General Linear Model: An Evaluation of Simulated Data as
11 an Experimental Design."

12 DR. DEREK HUM: That was an exciting
13 article. I haven't sold the movie rights yet. Yes, I
14 did co-author that.

15 MR. BYRON WILLIAMS: And on a very quick,
16 and high level, what did this involve?

17 DR. DEREK HUM: I think what would be
18 relevant for this audience, is the method, perhaps,
19 rather than the subject. Although, anyone who does
20 social science research knows of the vexing problem that
21 sometimes data are missing. So the question then arises,
22 what do you do?

23 What we studied, in this particular
24 article, was to -- to use the technique of Monte Carlo
25 simulation, by which we addressed the question of what to

1 do in this particular case. The issue is missing data,
2 but the procedure's probably of more interest to this
3 panel.

4 Missing data will cause havoc depending
5 upon, for example, how much data is missing. If you're
6 missing one (1) observation out of a sample of 10
7 million, you may not worry too much. But, if you're
8 missing 40 to 50 percent, it would be a concern.

9 The manner in which the data are missing
10 is also important. Is it a randomly missing, or is it
11 missing in certain clear patterns? Have you lost all the
12 data, for example, the females in the study, and only
13 have it for the males; then that would prescribe what you
14 can say about the females.

15 And also, how are the data that are
16 missing related to one another, because sometimes data
17 are going to be missing in various patterns, or to
18 anticipate what is the correlational structure of the
19 missing data with the data that you don't have missing?

20 Well, you can well imagine that there is
21 no simple answer for that. And what we did in this
22 study, is to the lin -- design an elaborate experimental
23 procedure by which we, to anticipate the language, stress
24 test the implications when data are missing in various
25 quantities, when data of various correlational structures

1 are missing, when are data missing in different ways, and
2 also it would be sensitive to whatever statistical
3 procedure that you used.

4 So, this was the basis of the exercise,
5 and the Monte Carlo simulation indicates that we did
6 thousands, and thousands upon replications with data to -
7 - to arrive at our conclusions.

8 MR. BYRON WILLIAMS: Thank you, Dr. Hum.
9 Just in terms of your prior expert evidence, it would be
10 fair to say that you've been qualified as an expert, and
11 testified before this Board on matters relating, both the
12 to the rate stabilization reserve, and the target mix for
13 the MPI investment portfolio?

14 DR. DEREK HUM: That's correct.

15 MR. BYRON WILLIAMS: Dr. Simpson, I'm
16 going to turn to you for just a couple of minutes, as
17 well.

18 Would it be fair to say that you are
19 expert in the quantitative analysis of programs and
20 policies using statistical data and techniques?

21 DR. WAYNE SIMPSON: Yes.

22 MR. BYRON WILLIAMS: And in
23 microeconomics?

24 DR. WAYNE SIMPSON: Yes.

25 MR. BYRON WILLIAMS: And in econometrics?

1 DR. WAYNE SIMPSON: Yes.

2 MR. BYRON WILLIAMS: And I wonder for --
3 again for the benefit of my client and the Board, if --
4 at least some Members of the Board, if you could indicate
5 what is econometric?

6 DR. WAYNE SIMPSON: Econometrics is
7 essentially the application of modern statistical
8 techniques to the analysis of -- of economic problems and
9 economic relationships.

10 MR. BYRON WILLIAMS: Thank you. In terms
11 of -- in terms of your education, Dr. Simpson, you have a
12 BA, again, in math.

13 Is that correct?

14 DR. WAYNE SIMPSON: Yes. University of
15 Saskatchewan.

16 MR. BYRON WILLIAMS: An MSC from the
17 London School of Economics in economics?

18 DR. WAYNE SIMPSON: That's correct.

19 MR. BYRON WILLIAMS: And a PhD in
20 economics from the London School of Economics?

21 DR. WAYNE SIMPSON: Yes.

22 MR. BYRON WILLIAMS: And you had a life
23 before you joined the University of Manitoba, Dr.
24 Simpson?

25 DR. WAYNE SIMPSON: Barely.

1 DR. DEREK HUM: He's from Saskatchewan.

2 MR. BYRON WILLIAMS: Hopefully no one on
3 the panel is from Saskatchewan, Dr. Hum.

4 Long, long ago you worked as an operations
5 analyst for the Bank of Canada, Dr. Simpson?

6 DR. WAYNE SIMPSON: Yes.

7 MR. BYRON WILLIAMS: And in the late
8 1970's you worked for the Economic Council of Canada at
9 the Centre for the Study of Inflation and Productivity?

10 DR. WAYNE SIMPSON: Yes, I did.

11 MR. BYRON WILLIAMS: And for far too many
12 years, you were head of the Department of Economics at
13 the University of Manitoba from 1997 through 2008?

14 DR. WAYNE SIMPSON: That's correct.
15 Although I've never said far too many.

16 MR. BYRON WILLIAMS: Just teasing you.
17 In terms of your -- you're currently a full professor at
18 the University?

19 DR. WAYNE SIMPSON: That's right.

20 MR. BYRON WILLIAMS: And you've taught
21 numerous courses in many areas of economics including
22 econometrics, at both the graduate and undergraduate
23 level, sir?

24 DR. WAYNE SIMPSON: Yes, I have.

25 MR. BYRON WILLIAMS: And -- and you've

1 taught microeconomics at both the general and the honours
2 level, sir?

3 DR. WAYNE SIMPSON: Yes, to
4 undergraduates, that's correct.

5 MR. BYRON WILLIAMS: And you have
6 conducted -- it would be fair to say that you've
7 conducted pure and applied research in areas such as
8 policy and evaluation research, quantitative methods, and
9 program delivery design?

10 DR. WAYNE SIMPSON: Yes.

11 MR. BYRON WILLIAMS: And like Dr. Hum,
12 you've conducted extensive work on behalf of government
13 agencies and NGOs relating to the quantitative analysis
14 of programs and policies?

15 DR. WAYNE SIMPSON: Yes.

16 MR. BYRON WILLIAMS: In terms of your
17 publications at a high level, you've written or co-
18 authored three (3) books and more than fifty (50) peer
19 reviewed journal articles and book chapters, Dr. Simpson,
20 in the area of economics?

21 DR. WAYNE SIMPSON: Yes.

22 MR. BYRON WILLIAMS: I just want to turn
23 you to a couple of those articles. On the second page of
24 your CV, would I be correct in suggesting to you that in
25 2001 for the Bank of Canada, you presented a discussion

1 of downward nominal wage rigidity, a critical assessment,
2 and some new evidence for Canada.

3 DR. WAYNE SIMPSON: Yes. When the Bank
4 of Canada starts to think about its inflation targets for
5 the upcoming period of time, it will convene a conference
6 of people, and I was invited to that conference to
7 discuss issues related to the inflation target and
8 essentially the behaviour in the economy at high and low
9 inflation.

10 MR. BYRON WILLIAMS: And how, if at all,
11 might it relate to some of the issues at -- at issue with
12 regard to the rate stabilization reserve, Dr. Simpson?

13 DR. WAYNE SIMPSON: Well, there --
14 there's been some discussion here about the -- the
15 behaviour of the financial markets in -- in high and low
16 inflation episodes, so that would be directly relevant.

17 MR. BYRON WILLIAMS: And just staying on
18 the inflation seem -- theme for a minute, Dr. Simpson, in
19 1996, for the Canadian Journal of Economics, with Dr.
20 Cameron and Dr. Hum, you presented a peer reviewed
21 article known as "Stylized Facts and Stylized Illusions."

22 DR. WAYNE SIMPSON: Yes, that's correct.

23 MR. BYRON WILLIAMS: And I wonder how if
24 at all, that discussion might be relevant to the matters
25 at issue today?

1 DR. WAYNE SIMPSON: Well, this again was
2 looking at inflation and looking at the links with
3 productivity for the macro-economy and it used modern
4 time series econometric techniques, of the sort that it
5 would be used to analyse time series both at the micro
6 and macro levels.

7 MR. BYRON WILLIAMS: Dr. Simpson, you've
8 testified before the Public Utilities Board on three (3)
9 prior occasions.

10 Is that correct?

11 DR. WAYNE SIMPSON: Yes, I have.

12 MR. BYRON WILLIAMS: You were qualified
13 as an expert witness, and testified on matters --
14 matters, M-A-T-T-E-R-S, relating the rate stabilization
15 reserve, the investment portfolio of MPI, and statistical
16 data relating to the payday lending customers, sir?

17 DR. WAYNE SIMPSON: That's correct.

18 MR. BYRON WILLIAMS: Doctor Hum and
19 Simpson, I -- I'd like to direct you to the report you
20 prepared, dated September 8th, 2009. I believe it's
21 marked, for those following along, as CAC-MSOS Exhibit
22 Number 3.

23 And just a quick question to start out,
24 Dr. Hum. Directing your attention to page 6, of the
25 evidence, do you have that?

1 DR. DEREK HUM: Yes, I do.

2 MR. BYRON WILLIAMS: At page 6, you --
3 you provide the results of the MP -- MPI risk analysis,
4 as set out in the original sections AI.18.1, and AI.18.3,
5 of the proceeding?

6 DR. DEREK HUM: Yes.

7 MR. BYRON WILLIAMS: And you're aware --

8 DR. DEREK HUM: Yes.

9 MR. BYRON WILLIAMS: You're aware that
10 subsequently that information was somewhat amended in the
11 MPI response to PUB Information Request 1-64?

12 DR. DEREK HUM: Yes, I am aware.

13 MR. BYRON WILLIAMS: Can you confirm that
14 the -- the evidence found in this report, as well as your
15 information responses to the Corporation, were prepared
16 jointly under your and Dr. Sic -- Simpson's direction and
17 control?

18 DR. DEREK HUM: I confirm that.

19 MR. BYRON WILLIAMS: And to the best of
20 your knowledge and ability, it is accurate?

21 DR. DEREK HUM: Yes.

22 MR. BYRON WILLIAMS: Likewise, Dr.
23 Simpson, can you confirm that this evidence was prepared
24 jointly under your and Dr. Hum's care and control --
25 direction and control?

1 DR. WAYNE SIMPSON: Yes.

2 MR. BYRON WILLIAMS: And to the best of
3 your knowledge and ability, it's accurate?

4 DR. WAYNE SIMPSON: Yes.

5 MR. BYRON WILLIAMS: Mr. Chair, thank you
6 for the Board's patience. I would ask, at this point in
7 time, that Dr. Hum be qualified as an expert in
8 economics, with particular emphasis on four (4) areas:
9 1) being the quantitative analysis of programs and
10 policies using statistical data and techniques, 2) being
11 risk management analysis, 3 being monetary economics, and
12 fourth, being microeconomics.

13 And I'd ask that Dr. Simpson be qualified
14 as an expert in economics, with particular expertise in
15 three (3) areas: 1) being the quantitative analysis of
16 programs and policies using statistical data and
17 techniques, 2) econo -- econometrics, and 3) micro-
18 economics.

19 THE CHAIRPERSON: Thank you. Ms.
20 Kalinowsky, any -- any problems with this?

21 MS. KATHY KALINOWSKY: I no objection.

22 THE CHAIRPERSON: Mr. Oakes...? Not
23 here. Mr. Dawson's not here either.

24 Ms. Charron, do you have any problem?

25 MS. CHARRON: We have no problem.

1 THE CHAIRPERSON: Okay. We're fine.
2 Thank you very much. Welcome, again.

3

4 EXAMINATION-IN-CHIEF BY MR. BYRON WILLIAMS:

5 MR. BYRON WILLIAMS: Dr. Simpson, I
6 wonder if you could set out, for the Board, your
7 understanding of your terms of retainer?

8 DR. WAYNE SIMPSON: Yes, taking into
9 account the objective underlying Board Order 157/'08 4C,
10 and with reference to both the approved methodology, and
11 to the methodology recommended by MPI, we were asked to
12 discuss the basis for, and possibility of bringing about
13 a consensus on rate stabilization reserve issues. And to
14 provide our views on the factors related to why, or why
15 not, such a consensus might, or might not, be achieved.

16 MR. BYRON WILLIAMS: Thank you. Perhaps
17 I can direct both, Dr. Hum and Dr. Simpson, to page 3 of
18 your evidence. And I'm going to pose the -- my questions
19 to you as a group and you determine who's best suited to
20 answer them.

21 Dr. -- Dr.'s Hum and Simpson, directing
22 you to pages -- the bottom of page 3 of your evidence,
23 and -- and in particular this -- the second last
24 paragraph. I wonder if you can briefly summarize your
25 approach to this paper.

1 DR. DEREK HUM: I'll answer that. In the
2 context of what Dr. Simpson has just read about the
3 Board's desire for consensus with respect to issues
4 relating to the rate stabilization reserve, we wanted to
5 discuss the issues within the context of the overall
6 corporate risk analysis by MPI. Subsidiary to that, we
7 wanted to examine, in moderate detail, the two (2)
8 candidate procedures, that is the DCAT, which is the --
9 which we characterize as the preferred method by MPI, and
10 the RAA, which we would characterize as the customary
11 position of the PUB.

12 And we only considered these two (2)
13 alternative ways. We thought we didn't have either the
14 time, or the resources, or also the inclination to rein
15 free over all possible candidate procedures by which an
16 RSR could be decided. So we limit ourselves the two (2)
17 that were, as it were, on the table, so that is why we do
18 not discuss that.

19 In particular, we do not discuss another
20 alternative that has been before this Board before, and
21 that's the MCT. It's our understanding that this is no
22 longer on the table, as it were, and so therefore we do
23 not give much attention to that. So that is what we saw
24 our purpose and mandate to be.

25 MR. BYRON WILLIAMS: Just for -- at a

1 high level, and this again can go to either Dr. Hum and
2 Simpson, are you the author of either the RAA approach or
3 the DCAT approach?

4 DR. DEREK HUM: Neither one of them.

5 MR. BYRON WILLIAMS: In -- in the last
6 paragraph on this page you've got an interesting state --
7 statement on line 2, that you did not simply vote for one
8 (1) procedure over another, and I wonder if you can
9 briefly outline what you mean by this statement.

10 DR. DEREK HUM: Well, it was just perhaps
11 a figurative way of saying that we did not see our
12 mandate as simply blessing one of these with our vote by
13 saying, "do this versus that."

14 We saw our purpose as primarily analytic
15 or exe -- exegetic, that we would try to explain as best
16 we could what is it about these two (2) methods that is
17 not currently commanding consensus? What differences may
18 be due to simply unintentional misunderstanding due to
19 phrasing, and what issues are actually quite
20 fundamentally a reflection of different approaches to the
21 problem.

22 And so that was how we saw our role. And
23 so that's how we figuratively put it by saying we're not
24 simply coming in as a tiebreaker vote to pick one (1)
25 over the other.

1 MR. BYRON WILLIAMS: Okay. Thank you for
2 that, Dr. Hum. Directing both yourself and Dr. Simpson
3 to page 5 of your evidence, and specifically the bottom
4 paragraph, I'm going to suggest to you that you make a
5 couple points in this paragraph. First, about potential
6 issues related to the pricing of products in a
7 competitive versus a monopoly environment, and then about
8 the potential treatment of reserves in a competitive
9 versus a monopoly environment.

10 And I'd ask you to discuss both the
11 pricing point and the reserves point.

12 DR. DEREK HUM: Thank you. I think we
13 might put this in the context of what was uppermost in
14 our minds when we wrote that. Perhaps, it's the
15 professor in us, but when we teach in microeconomics what
16 a monopoly situation is, there's a long list of features
17 or attributes about a monopoly. And we could go through
18 this list, but it's not particularly helpful at this
19 point.

20 But previously we had emphasized, and I
21 think it is very familiar to most people that a monopoly
22 is a situation in which the market share is 100 percent,
23 or virtually 100 percent, and associated with that, they
24 are able to set the price without any regard to a
25 competitor.

1 So many people focus on that particular
2 feature as a dominate characteristic of a monopoly. That
3 is perhaps so obvious as not to require too much more
4 explanation.

5 We wanted to give emphasis to something
6 that we thought, as we wrote, was perhaps less obvious to
7 many on the basis of the long list of attributes
8 associated with a monopoly, and that is the position and
9 nature of reserves. This has relevance to notions of
10 what would be a takeover attempt if they were in a
11 competitive environment.

12 In short, if a firm in a competitive
13 environment had vast amounts of reserves, way beyond
14 which any third party thought was necessary for the
15 conduct prudently of their business, this would attract
16 takeover attempts. People would want to buy this firm,
17 take it over, not only because it may very well be a good
18 firm, but also because of the tremendous reserves that
19 have been accumulated by this firm, which of course the
20 new owner could use for various other purposes.

21 We thought that this may not be as obvious
22 and spring to mind in the first instance. But in this
23 context, in the discussion of the appropriate level of
24 the reserves, this is the feature that is actually more
25 critical than the price setting one.

1 And so we wanted to do that and particular
2 in this institutional context, it is not for nothing that
3 most jurisdictions set up monitoring and regulatory
4 apparatus whenever there is a monopoly. And we believe
5 that the institutional responsibility of -- of such an
6 organization is not only to look at its pricing policies,
7 but also the level of reserves that a monopoly enjoys or
8 retains in its treasury is also an item that deserves
9 monitoring and scrutiny.

10 And so it's in that particular relevance
11 and perhaps gives you more of a background as to why we
12 wrote this material so tersely. But we were only
13 focussing on this.

14 MR. BYRON WILLIAMS: Just -- just on that
15 point, and very quickly if you would, your point seems to
16 be that in the -- in a competitive marketplace there
17 would be a market discipline --

18 DR. DEREK HUM: There is market
19 discipline.

20 MR. BYRON WILLIAMS: -- govern -- govern
21 the setting of the reserve. And -- and here that type of
22 discipline is -- is not present.

23 Is that right?

24 DR. DEREK HUM: That's correct. That's
25 correct.

1 going to come back to this section of your evidence in a
2 -- in a moment. But on a related theme, I wonder if you
3 could turn to page 14 of your evidence, the -- and the
4 paragraph that appears at the top of that page.

5 Doctors -- Dr. Hum and Dr. Simpson, in the
6 second last sentence at the paragraph that appears on the
7 top of that page -- second and third last sentences, you
8 make the following statements:

9 "On a full economic accounting basis,
10 excess reserves are wasteful."

11 And then you go on to say:

12 "They have an opportunity cost and
13 excess reserves kept in place just for
14 that rare event is wasteful."

15 I wonder if you could explain what you
16 mean by "opportunity costs," and why excessive reserves
17 might be considered wasteful, sir.

18 DR. DEREK HUM: I'm going to take a rest.

19 DR. WAYNE SIMPSON: Well, continuing with
20 the discussion of a mercantilist policy, any country
21 would recognize that they should accumulate reserves for
22 their war chest, so to speak, but they had other -- other
23 priorities and there were other things to do with money
24 besides simply throw it into a war chest. And,
25 similarly, if you think of any sort of accumulation of

1 funds, the question always, from an economist standpoint,
2 is, what is the alt -- alternative opportunities are
3 foregone by doing these -- by undertaking this.

4 And so I think the -- the -- one (1) of
5 the examples we used elsewhere in the paper was the
6 building of the floodway, and the discussion was, why
7 would you stop it at a one (1) in seven hundred (700)
8 year flood? If you could measure it, why not go to a one
9 (1) in ten thousand (10,000) year flood?

10 Well, of course, everything's a tradeoff
11 and -- and you're trying to protect yourself against
12 reasonable contingencies, recognizing that -- that all
13 projects and all money spent on projects have an
14 alternative opportunity use, and in the case of a ten
15 thousand (10,000) year flood, if it's dramatically more
16 expensive than insuring against a seven hundred (700)
17 year flood, you -- you might think that a seven hundred
18 (700) year flood was -- was adequate for the purposes,
19 given that there's always a cost to doing more.

20 MR. BYRON WILLIAMS: Thank you for -- for
21 that, very much, Dr. Simpson. Turning you to page 8 of
22 your evidence.

23

24

(BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: You've indicated
2 that you're -- you're looking at a com -- comparative
3 analysis of the DCAT and the risk analysis. I wonder if
4 you could summarize the four (4) major areas in which you
5 compare the two (2).

6 DR. DEREK HUM: There's nothing magical
7 or esoteric about that. We just felt that, for our
8 purposes, the organi -- the -- the discussion would be --
9 would proceed more orderly, if instead of jumping around
10 from thought to thought as it occurred to us, we would
11 discipline ourselves and focus our discussion along an
12 organizational taxonomy.

13 And so we said let's take a look at these
14 two (2) methods and look at the difference in the
15 objectives, the difference in the scope of their
16 endeavour, the difference in the tools that are used by
17 both of them, and the differences in the informational
18 requirements that will be required to -- to make these
19 two (2) particular techniques or tools operational.

20 So it's just an organizational taxonoma --
21 tax -- excuse me, taxonomic device.

22 MR. BYRON WILLIAMS: Thank you. Now, in
23 pages 8 through 12 of your evidence you present a
24 stylized model of the issues. And I wonder, for those of
25 us who experience heart palpitations at the mere sighting

1 of an economic formula, I -- I wonder if you could,
2 without delving into the formula too much, highlight the
3 purpose of this analytic model and the major observations
4 that flowed from it.

5 DR. DEREK HUM: Oh, I'll do that. Well,
6 maybe I should say, well, this is partly in revenge for
7 my request for a blackboard last time and I was refused.

8 So economists have a particular, and
9 perhaps to others a whimsical narrative style. They tend
10 to like to set out what they are going to do in terms of
11 stylize, analytic models and that is what we attempted to
12 do.

13 This is designed, whether it's successful
14 or not, to achieve certain clarity in terms of what the
15 structure of the argument that we're presenting, so that
16 people can see whether we're addressing this point or
17 that. And so to that purpose we conceptualize the issue
18 in this case as --as MPIC being a firm, which essentially
19 could be divided into two (2) divisions. One (1), 'B',
20 and I suppose is -- no one can take exception when the
21 other division is considered 'A', "all other activities."
22 So the total firm then comprises all the activities, just
23 divided into two (2) portions.

24 The advantage of that is perhaps not
25 realized to the next phase, when we perform what you call

1 that our "heart palpitating rendering." And this is a
2 formal statement which is designed to achieve
3 transparency in terms of our argument. It can be checked
4 by anybody else who chooses to examine and do the math,
5 and there's no ambiguity as to what it is we mean because
6 we are very precise in our terms by using standard
7 terminology and standard symbolic notation.

8 We do provide what we call the
9 interpretative translation for what we derive in our
10 propositions. And the purpose of this exercise was to
11 state rather unambiguously and with formal clarity what
12 some might interpret as two (2) negative aspects of the
13 analysis.

14 The negative aspect is that there can be
15 no fixed proportional simple rule by which the rate
16 stabilization reserve will be, if you like, a fixed
17 proportion of the total operation of the firm, okay? We
18 tried to formally demonstrate that. So that's a bit of a
19 holy grail that you will not achieve.

20 The second negative proposition we
21 propose, because there's a temptation that if it's not a
22 fixed proportion, maybe there's some simple rule of thumb
23 we could use to take the -- the rate stabilization
24 reserve should be the square root minus one (1) of the
25 minimum capital ratio or something liker that. We also

1 demonstrate, we -- we hope, that in Proposition 2, there
2 isn't going to be a very simple rule as well.

3 And if -- if we simply made these two (2)
4 statements in this forum, people would simply say, Well,
5 on what basis do you make that? Within this context of a
6 formal demonstration, I think we are tempted to
7 illustrate that it's a very complex issue and you will
8 not have a simple fixed proportion or simple rule,
9 because information requirements and conditions under
10 which this would obtain is transparently and formally
11 demonstrated to be very, very, very hard to satisfy.
12 Only by a real fluke of circumstances would you be able
13 to be confident that this is the right policy.

14 So in some sense, the results are
15 negative. You won't find an easy solution. It is
16 complex and the formal demonstration isolates that the
17 nature of this complexity is in what we have called, and
18 I'll retreat very briefly to the jargon, in the covarian
19 (phonetic) structure of the firm. And we explain that in
20 plain English what we mean by that.

21 And that is why subsequently we give a
22 great deal of attention to trying to understand the
23 relationship of the structure. So hopefully --

24 MR. BYRON WILLIAMS: Dr. Hum --

25 DR. DEREK HUM: -- your heart beats more

1 firmly now.

2 MR. BYRON WILLIAMS: I'm feeling better
3 already. Now I -- I just have a couple of questions of
4 clarification. Just in your model, would I be correct
5 in suggesting that Part B of the Corporation is the Basic
6 Program?

7 DR. DEREK HUM: I'm sorry, I didn't hear
8 that.

9 MR. BYRON WILLIAMS: In your model, would
10 it be fair to suggest that Part B is the Basic Program?

11 DR. DEREK HUM: Our -- our model is
12 flexible, but we relegated that observation and
13 interpretation to a footnote so that we didn't want what
14 we were trying to achieve in the formal expression of
15 that model to be bogged down by -- by individuals who
16 would say, it's not really Basic it's Basic plus, or
17 Basic minus. It -- it's of no consequence to the
18 mathematics exactly what you put into Division B or
19 Division A.

20 But we did have in mind that Division "B"
21 would be Basic, and Division "A" would be everything else
22 but Basic.

23 MR. BYRON WILLIAMS: And I guess my
24 second question is, what, if anything, does -- from --
25 from the perspective of risk analysis, what, if anything,

1 does your model tell us about the integrated nature of --
2 of the Corporation at a -- at a high level?

3 DR. DEREK HUM: Do you want to take a
4 turn, or should --

5 DR. WAYNE SIMPSON: No, you go ahead,
6 you're on a roll.

7 DR. DEREK HUM: I -- I think one of the
8 lessons that we take out of this is that the issues
9 pertaining to Basic have an impact on the other elements
10 of the firm, it's activities, and visa versa. And so
11 that risk management, effective risk management for an
12 organization such as MPIC, cannot probably be adequately
13 examined by only looking at one portion of the firm.

14 One often does break up problems for the
15 point of ease, but with respect to the risk exposure, or
16 risk management, of a firm having two (2) divisions, 'A'
17 plus 'B', you'd really have to look at 'A' plus 'B'.
18 It's not adequate to only confine your attention to 'B'.
19 It probably was not persuasive if General Motors had
20 said, The Chevrolet Division is doing very well,
21 notwithstanding that I don't want to talk about Buicks,
22 trucks, or the vans, or everything else that we're doing
23 in General Motors.

24 So the risk structure of the Corporation,
25 you have to bear in mind what we have called the

1 covariance structure of the entire firm in order to
2 properly assess its component contribution to the overall
3 total corporate risk.

4 MR. BYRON WILLIAMS: Thank -- thank you
5 very much for that. I'm going to ask you to turn to
6 page 12 of your evidence, both Dr. Simpson, Dr. Hum.
7 And under, "Differences in Objectives," in the first
8 paragraph, the last sentence, you -- just, first of all,
9 this will be a simple sent -- question. You see that
10 there's a suggestion in your evidence that:

11 "Both the RAA and DCAT are ostensibly
12 invoked to calculate the appropriate
13 reserve level, but a closer examination
14 of both methods will reveal that this
15 is not strictly the case, either for
16 DCAT or the RAA."

17 Do you see that sentence?

18 DR. DEREK HUM: Yes, I do.

19 MR. BYRON WILLIAMS: And I'd like to
20 follow up on that by asking you, perhaps, to turn to page
21 13. And then I'll -- I'll direct you to the -- the last
22 full paragraph, which starts, "What, then, is the
23 difference in the objectives?" And perhaps you can
24 discuss, at a high level, what you believe to be the
25 objectives of the -- of the RAA?

1 DR. DEREK HUM: And contrast that with
2 the DCAT, is that what you mean?

3 MR. BYRON WILLIAMS: You can -- yes, Dr.
4 Hum, that's lovely. I was going to come to that in a
5 subsequent question, but you've anticipated my desires.

6 DR. DEREK HUM: Well, you -- you referred
7 me to those two (2) pages, so I will assume that
8 everybody in this room has access to those pages. If --
9 if necessary, I may actually have to quote the exact
10 wording from those pages.

11 I think what we wanted to do in putting a
12 fine, fine point under the discussion of differences and
13 objective is to go beyond what I would call the gently
14 stipulated agreed colloquial understanding of what it is
15 that we're trying to achieve, and -- and no one can take
16 exception with that.

17 It's when this later on gets translated in
18 terms of the tool by which each method is trying to
19 achieve this. It reveals, I think, dramatic differences
20 that the unnuanced reading of the colloquial wording does
21 not give.

22 For example, under the RAA approach, I --
23 I did some slight translation to put it into statistical
24 terminology. It is to determine a target reserve level
25 that minimizes the risk of an unacceptably large year

1 over year increase for motorists that arise from an event
2 having a low probability of occurring in any given year.

3 I gave precision to unacceptably large,
4 but this is just an example, by say -- say 20 percent,
5 but I'm not -- I'm not bound by that. It could be 15.
6 It could be 10. Somewhere in the -- all of the material
7 I read, I -- I recall reading something that it should
8 never be more than 20 percent, but -- so I said 20
9 percent.

10 And I did draw your attention to the
11 slight change in wording in terms of unexpected losses
12 arising from non-occurring events or factors. I gave a
13 more precise statistical rendering of that, and so it is
14 then with respect to a one (1) year horizon.

15 When I compared that with what I call the
16 detailed enunciation of DCAT with what is putatively
17 trying to achieve the same objective, and parse what that
18 model does, that model is trying to achieve a
19 satisfactory financial condition, which, again, looking
20 at exactly what they've done, that is translated as
21 having a MCT that exceeds in the base year a certain
22 minimum required amount.

23 And then over a five (5) year horizon, as
24 opposed to one (1), for the RAA, assets must exceed
25 liabilities continuously. So it's -- it's I think fair

1 to say it's -- it's a stretch to say that these detailed
2 enunciation are equivalent.

3 So it's in that spirit that I said, while
4 they ostensibly are invoked to calculate the appropriate
5 reserve level, my close examination of their method and
6 what their procedures are leads me to say that they are
7 quite different in what they are actually doing.

8 MR. BYRON WILLIAMS: Thank -- thank you.
9 I want to direct your attention back to the bottom -- the
10 paragraph at the bottom of page 13 that flows into page
11 14. And -- and there's a -- the -- a statement that,

12 "Statistically rare events are not the
13 same as unexpected events,"

14 and an interpretation of how the RAA approach attempts to
15 capture this fine distinction.

16 And I wonder whether, Dr. Simpson, you or
17 Dr. Hum can attempt to address that paragraph.

18 Dr. Hum, your -- your mic.

19 DR. DEREK HUM: We're on page 13, are we?
20 I'm sorry.

21 MR. BYRON WILLIAMS: Yeah. Yeah. Your
22 mic, Dr. Hum.

23 DR. WAYNE SIMPSON: Well, I guess we were
24 doing a couple of things here. One (1) is we were trying
25 to clarify some terminology and draw the distinction

1 between a rare event in a probabilistic sense and some
2 sort of notion of a rare event that we might not
3 anticipate occurring, but -- but could -- but could
4 occur. It's plausible as opposed to probable.

5 And I think the example we gave in the
6 previous paragraph that led to this was the discussion of
7 hailstorms which is probably a good example because a --
8 a careful statistical analysis of, you know, micro
9 meteorological data would produce some pretty good ideas
10 of the probability of hailstorms from year to year over
11 time.

12 You know, you could gather a large amount
13 of data, say for South St. Vital where I live, and you
14 could say -- you could gather the hailstorms and their
15 severity and the information from year to year and you
16 could calculate probabilities. It -- it would,
17 therefore, not be fair to say that this is -- these are
18 unexpected events. They simply have low probability of
19 occurring in those -- that particular location in any
20 given year.

21 But of course, cumulatively over time, in
22 fact, there's a relatively high probability that a -- an
23 event with a low probability in any one (1) year will
24 occur.

25 And so, you know, take an example. If you

1 say an event only has a 1 percent chance of occurring in
2 any one (1) year over a fifteen (15) year period, it has
3 roughly a 15 percent chance of occurring. So this is
4 kind of the -- the -- the point we were making there.

5 The other point that related to this in a
6 statistical sense was the -- the statistical basis for
7 the RAA method which was that it tended to focus on the
8 events that are the outcomes that are on the tails of the
9 statistical distribution. The -- the 95 percent
10 confidence interval leaves only events that are a 5
11 percent chance of occurring. So it was trying to reflect
12 that consistent with the notion of events that are
13 anticipated but rare.

14 MR. BYRON WILLIAMS: Thank you for that.
15 Turning to page 15 and specifically the first full
16 paragraph on page 15, the second sentence, you discuss
17 the scenarios -- and I'm turning you to page 15 again,
18 the first full paragraph.

19 You discuss the scenarios constructed by
20 MPI and make the statement:

21 "The probabilities (if any) assigned to
22 events appear casual rather than
23 formal, and judgmental rather than
24 grounded in statistical methodology."

25 And I wonder if you can elaborate on what

1 you meant by that.

2 DR. DEREK HUM: This is a very simple
3 statement from our point of view on our reading of how
4 the scenarios were reported.

5 For us, probability refers to a
6 probability distribution and we saw in our documentation
7 available to us no evidence that for these particular
8 scenarios that any theoretical or empirically estimated
9 probability distributions were reported. So
10 consequently, without that it's very difficult to even
11 appeal to a 95 or a 97 percent confidence interval.

12 And so, therefore, what narrative we saw
13 was that statements such as three (3) hailstorms in the
14 last fifteen (15) years or we looked at historical
15 records of the Toronto Stock Exchange Index and so forth,
16 but we have -- we have seen nothing in the documentation
17 to suggest -- and they may have done it -- that any
18 theoretical or empirical distribution was calculated and
19 observed from which their particular scenario could be
20 said to have come from either the 95 or the 97 or the 99
21 percent portion of the tail of a distribution.

22 So it was with that reading in mind that
23 we said the probabilities, if any, were -- seemed to be
24 assigned casually rather than formal in the sense that
25 I've just explained, and judgmental rather than grounded

1 in terms of statistical methodology, as I have just
2 described.

3 MR. BYRON WILLIAMS: Just to follow up on
4 that point, and you do not need to turn there, but at
5 page 5 of its rebuttal evidence, MPI makes a statement
6 that -- and I'm --

7 DR. DEREK HUM: Okay, wait a second.
8 Wait a second. Well go -- yeah, I'm getting it.

9 MR. BYRON WILLIAMS: The Corporation did
10 not simply select random adverse effects -- events, but,
11 rather, built an assumed distribution based on historical
12 data and selected, in brackets, approximately the 95th
13 percentile of that distribution.

14 Do you have any comments on that
15 statement?

16 DR. DEREK HUM: Well, I -- I now have in
17 front of me the-- the rebuttal comment, and -- and I
18 guess my comment would be this. Is that, I'm sure they
19 wish they had more time to explain to us what they did,
20 but they said that most scenarios have an expected annual
21 probability of occurrence of about 5 percent.

22 And they said, for example, the
23 Corporation selected the 5 percentile of historical four
24 (4) year returns on the TSX. That would be fine perhaps
25 for any statement that they might would have wished that

1 involved investment, but that wouldn't carry over to
2 statements about the probability of hailstorms, for
3 example, or probability of -- of two (2) of their adverse
4 scenarios that might occur in combination because I could
5 see from their evidence filed no indication of any
6 probability distribution of meteorological events.

7 So, absent that, they could not have got a
8 95 or 97 percentile. And absent that, they could not
9 have also been able to report the joint probability
10 distribution of two (2) events occurring, because if you
11 don't have the distribution for one (1), you can't have
12 it for both together.

13 So all in all, I -- I don't see that the
14 gist of their comment makes me want to change very much
15 my interpretation that the probabilities were not
16 assigned according to and grounded in statistical
17 methodology. And --

18 MR. BYRON WILLIAMS: Just --

19 DR. DEREK HUM: And it appeared casual.
20 And if people take offence at that word, I apologize, but
21 to note that they had, what did they say, ninety (90)
22 some years of -- of Toronto stock exchange data.

23 I'm glad they have that, but to have that
24 data, I couldn't see no reported documentation of how
25 they actually used that data to calculate a distribution

1 of returns in their report. So -- so, again, they may
2 have the data for some elements, but I saw no evidence of
3 a rigorous estimation of a probability distribution.

4 MR. BYRON WILLIAMS: And Dr. Hum and Dr.
5 Simpson, just in terms of the evidence you would be
6 looking for, presumably you'd be looking for the
7 distribution, and, also, the -- the parametric form that
8 the distribution took, or what would you be looking for?

9 DR. WAYNE SIMPSON: Yeah, the standard
10 approach, I mean, we're assuming some sort of parametric
11 approach, which is the -- the classical approach to
12 statistical problems. And then there would be some
13 estimated or assumed probability distribution for which
14 you would summarize in terms of measures like the -- the
15 outcome in the tail, such as the 5 percent tail and 95
16 percent confidence interval, and so on, yeah.

17 MR. BYRON WILLIAMS: Okay. Just
18 returning to -- to your evidence at page 15, and this is
19 your evidence, Dr. Hum and Simpson, at page 15, in the
20 middle paragraph there's the -- looking towards the --
21 the second -- last two (2) sentences in that paragraph,
22 there's a suggestion that:

23 "DCAT picks only the out -- outliers
24 for its exercise, and a suggestion, as
25 well, that there's no sound basis for

1 grounding the calculation of an RSR
2 solely on the basis of a set of
3 hypothetical outliers."

4 Do you see that suggestion, first of all?

5 DR. WAYNE SIMPSON: Yes, we do, yeah.

6 MR. BYRON WILLIAMS: I wonder if you can
7 elaborate on that answer slightly, first of all, by
8 indicating what you mean by "outlier," and, secondly,
9 justify your statement that there is no sound basis.

10 DR. WAYNE SIMPSON: Well, I think the
11 point we were trying to get at here is that, related to
12 the other question of -- of how we go about defining
13 these adverse events, rare events, and characterizing
14 their probabilities.

15 And our -- our sense in using the term,
16 "outlier", was that these events, if properly evaluated
17 in statistical terms, would be way out there, in terms of
18 the -- of the tail of the probability distribution.

19 Now, anybody who's -- who's done a
20 statistics program knows that the -- the tails of a
21 distribution are particularly hard to characterize. And
22 -- but, given that, the further out you go the harder it
23 is to characterize. And getting out to the point one
24 (.1), or point zero one (.01) percent of the tail, which
25 is the notion of the outliers, is probably the most

1 difficult part of a distribution to characterize.

2 So, the -- so, the question goes to the
3 plausibility of these exercises, and the question of
4 whether these hypothetical outliers were in fact, can be
5 ground in observed events, and characterized in the way
6 that -- for example, in the RAA, we've looked at the 95
7 and 97.5 percent confidence intervals.

8 DR. DEREK HUM: I just want to add, in
9 that, sometimes a lot of misunderstanding occurs with all
10 good will because people use language differently.
11 Outlier is an accepted statistical term, it's not one of
12 our making. So, anyone who does statistics would know
13 what is meant by an outlier.

14 And furthermore, outliers do occur, they
15 can be observed. But, I -- we use the adjective,
16 hypothetical, as well, so that many of these scenarios
17 depicted in the DCAT represent, not only what we would
18 call a statistical outlier, but they're actually a
19 hypothetical outlier.

20 MR. BYRON WILLIAMS: Just going still on
21 this page, the last paragraph, you're -- you're
22 addressing the plausibility of the adverse scenarios.
23 And towards the bottom of the page, you suggest that:

24 "Some of the combinations may
25 contradict standard wisdom, ie: the

1 inverse relationship between the level
2 of real interest rates and equity
3 values."

4 And I wonder if you can explain why you
5 believe this scenario may contradict standard wisdom?

6 DR. DEREK HUM: Well, I'll take a crack
7 at answering that. It -- it contradicts standard wisdom
8 in terms of what is known, or is believed to be, what
9 investment behaviour on the part of individuals do with
10 their money. It is generally believed, and often
11 observed, that people invest so as to maximize their rate
12 of return.

13 And faced with a menu of assets, just take
14 two (2), equity and non-equity, and the ability to
15 borrow. Then typically when interest rates are low or
16 falling, the cost of borrowing is low, and the rate of
17 return from allocating your resources to that asset is
18 also low. So, you tend not to do that if, at the same
19 time, you had another alternative.

20 The other alternative in a well developed
21 financial market is typically equity, so low or falling
22 interest rate, tends to make new investors, and even
23 those who are fully invested with a portfolio, shift
24 their funds towards the other asset, which in this case,
25 in a simple model, is equities.

1 And following what is known to be, and
2 accepted as a standard law of demand and supply in
3 economics, if demand for a particular commodity or asset
4 class is increase, it tends to raise it's price, all
5 things being equal, absent an inflow of an IPO, or new
6 equity coming in and so forth. So, one tends to expect
7 revenue, or return, maximizing investment behaviour, to
8 have this type of effect on the financial markets.
9 That's in theory.

10 Empirically, we also do observe this, and
11 observe this over a wide variety of market environments
12 and wide variety of different time periods. It's not to
13 say that over any short period or in any given market, we
14 could not observe the opposite of that. But I think the
15 empirical evidence would suggest that -- that we don't
16 observe this very often.

17 MR. BYRON WILLIAMS: Thank you. Dr.
18 Simpson or Dr. -- Dr. Hum, do you have any comments on
19 the inclusion of ninety (90) years of TSX data in this
20 scenario?

21 DR. WAYNE SIMPSON: Well I mean, all data
22 is -- may be of some value so, you know, having a lot of
23 information on anything is -- is going to help you sort
24 out what is useful and what is not.

25 I think to some degree you have to draw --

1 to answer this one. I think that's exactly the -- your
2 question is exactly the opposite emphasis I wish to
3 convey. And it's really unfortunate that the thrust of
4 some of the questions are focussed on those elements in
5 which I have been critical of the DCAT.

6 We set out to give a, what we thought to
7 be a balanced appraisal of both, looking at strength and
8 weaknesses. And I certainly can point you to documented
9 statements in our report in which we have said, neither
10 one (1) of these is perfect, there are flaws to be had
11 and discovered in both and so forth.

12 So I certainly don't want you to think
13 that the sum total of our message is embodied in the
14 critical comments we have on the DCAT. So categorically,
15 I am not saying that it is not a useful tool for the
16 Corporation. Our position is exactly the opposite of
17 that.

18 But it is qualified with the following
19 caveats. It is not a perfect tool, okay? It is also
20 not, sometimes in some circumstances, the most useful
21 tool in terms of the purpose at hand.

22 One can have great confidence in a hammer
23 but faced with a screw to fasten onto the wall as I
24 indicated to hang a picture of the Golden Boy, it may not
25 be the best tool. And also like any tool, it can be

1 imaginatively and creatively used or it can be cavalierly
2 wielded.

3 And the thrust of the critical comments, I
4 want to correct the impression, were directed solely at
5 one (1) or two (2) scenarios that I believe did not have
6 basis in theory or empirical grounding and not about the
7 general methodology. In fact, let me be absolutely
8 clear. I absolutely hope MPIC continues to use DCAT
9 creatively and more refined in the future, and
10 furthermore, it's such a good tool, I hope they actually
11 extend it to Extension in the entire corporation, not
12 just the Basic.

13 MR. BYRON WILLIAMS: And maybe, I may be
14 pushing you too far but, just a point up on your tool
15 analysis, Dr. Hum, do you see the DCAT as the -- being
16 the -- as being the primary mechanism for setting a rate
17 stabilization reserve?

18 DR. DEREK HUM: I'm -- I'm sorry, I
19 didn't catch the last part of the question.

20 MR. BYRON WILLIAMS: Do you see the DCAT
21 as being the primary mechanism for setting the rate
22 stabilization reserve?

23 DR. DEREK HUM: Oh, I'm -- I don't know
24 if a simple answer to that would -- would help the Board
25 or not, because I -- I really see the notion of -- of the

1 way to set the RSR as a -- as a contextually specific
2 issue that also has to address whatever contributions
3 that the RAA has to make. And I think some -- and it --
4 that is also not a perfect tool, but it's not a useless
5 tool, so -- so I wouldn't want to put as starkly as that.
6 So for the purpose of your question, let me -- if I can --
7 -- may graciously pass on that, unless you have a lot of
8 time, which I know you don't.

9 MR. BYRON WILLIAMS: I'm going to go to
10 pages 16 and 17 of the -- of the -- the text. You
11 discuss differences in scope between the RAA and the
12 DCAT.

13 I wonder if you can outline at a high
14 level what you consider to be the differences in terms of
15 scope?

16 DR. DEREK HUM: I -- I think our -- our
17 feeling on this is in -- totally encapsulated by our two
18 (2) paragraph summary, which I -- I might just point out
19 the key words, and by way of contrast.

20 The RAA has a more limited scope, and *pari*
21 *passu*, the DCAT, has a broader scope. The RAA is a much
22 more abbreviated time horizon, one (1) year, two (2)
23 years. The DCAT is a much more elongated, longer term-
24 ish type of horizon, and it's a period of concern, five
25 (5) years.

1 The RAA is more narrow, in the sense that
2 it is concerned with a portion of the activities of the
3 total firm, what I have stylishly labelled the 'B' types
4 of activities and concerned with limiting increases in
5 the rate charged to motorists.

6 The DCAT is more broad in scope, being
7 concerned with the overall financial health and
8 satisfactory condition of the Corporation, which will
9 extend to matters beyond the obvious immediate concerns
10 of 'B'. They're there. And if one examines in detail
11 the -- what I call the covariant structure, one finds
12 these linkages, but at -- at first blush, they may not
13 seem to have been there, but they are.

14 So -- so they are -- I think the scopes
15 are quite apart, and for that reason, it will be a
16 challenge for consensus, in terms of, let's pick a took
17 that satisfy everybody.

18 MR. BYRON WILLIAMS: Mr. Chairman, just
19 for the Board's edification, I'm guessing about ten (10)
20 more minutes, or maybe fifteen (15), so we'll proceed,
21 and then I would propose a break.

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: Again, at a high
25 level, at pages 18 to 21, you discuss the differences in

1 the tools employed in the RAA and the DCAT.

2 At a high level, can you summarize these
3 differences?

4 DR. DEREK HUM: Yeah, we're just kind of
5 repeating ourselves. Why don't you do that. Page 18 to
6 21.

7 DR. WAYNE SIMPSON: Well, again, just
8 summarizing what -- what we said there in -- the -- the
9 RAA methodology looks directly at the question of
10 volatility in terms of the past experience of the
11 Corporation, the -- the time series of information we
12 have on -- on claims cost revenues, net underwriting
13 income, I think is the proper term. And apply standard
14 statistical techniques that are replicable, that others
15 can use given that data. The data's aggregate but
16 certainly out there for people to use and so on.

17 The DCAT is a -- is a different kind of
18 animal in the sense that it attempts to, as we've said,
19 paint a broad picture looking at -- at some of these
20 adverse scenarios that are -- are plausible and -- and
21 look at their consequences for the future balance sheet
22 over a five (5) year period in terms of the adverse
23 offence.

24 So there's -- there's quite a difference
25 in terms of the -- of the methodologies used, whether you

1 use formal statistical analysis or -- or a less formal
2 simulation approach and -- in terms of the horizons and
3 so on, as we've stated before.

4 MR. BYRON WILLIAMS: Just to focus you
5 in, Dr. Simpson, at page 20 of your evidence, and -- and
6 thank you for that answer -- there's a long paragraph in
7 the middle and about two-thirds (2/3s) of the way through
8 the paragraph there's a sentence that says:

9 "Finally, the DCAT is a tool that is,
10 metaphorically, a one (1) tail test."

11 And you go on to talk about how it does
12 not allow for favourable scenarios.

13 I wonder if you could elaborate on this --
14 this important paragraph?

15 DR. WAYNE SIMPSON: Well, we're -- we're
16 using the statistical terminology here and there's -- the
17 DCAT doesn't -- doesn't implicit -- explicitly use this
18 terminology but what it's looking at is the kinds of --
19 of adverse events that stress test the -- the
20 Corporation's financial position sequentially and all of
21 these are kind of the -- the worst case scenarios that
22 one could imagine and not built into here is any of the
23 more favourable scenarios that would offset this.

24 The RAA on the other hand, because it
25 deals with the actual experience of the Corporation,

1 would build in not only the -- the unfavourable but also
2 the favourable scenarios that would offset and improve
3 the -- the Corporation's financial position from -- from
4 year to year.

5 So, we wanted to draw that distinction
6 between -- between a whole series of events that one
7 could imagine might happen but couldn't imagine them all
8 happening at once and -- and the RAA looking at actual
9 historical data. And -- and the RAA does look at -- do a
10 one (1) tail test because it looks at the -- the 5 and 2
11 1/2 percent worst case outcomes but built into those are
12 both the combination of favourable and unfavourable
13 scenarios that have been experienced.

14 MR. BYRON WILLIAMS: Thank you very much.
15 Turning to page 21 under the heading, "Differences and
16 Information Requirements," and -- and the last paragraph,
17 there's a few statements I -- I would like you to discuss
18 and you may have addressed this first one (1) just
19 recently, but first of all, the first sentence talks
20 about the data requires -- requirements of the RAA and
21 perhaps, Dr. Simpson, you could just elaborate on that
22 briefly?

23 DR. WAYNE SIMPSON: I think, I basically
24 am repeating myself now, but our point here was that
25 ideally we would like -- you know, when doing an analysis

1 of this sort and looking at the -- the RAA analysis, one
2 would like to have more than fifteen (15) years of data.

3 Our understanding, from appearing before
4 the PUB now for the second time, is that events have
5 occurred, structural changes in the -- in data collection
6 in the Corporation have occurred which make data older
7 than fifteen (15) years of no value in doing this
8 analysis and we accept that and, you know, these things
9 occur.

10 Time series are often relatively short,
11 the analysis is often relatively short, because you do
12 the best with what you have that's relevant to the
13 problem at hand. So, a longer set of data would be more
14 helpful but it's simply not available.

15 MR. BYRON WILLIAMS: Excuse me. Thank
16 you for that.

17 DR. DEREK HUM: I -- I just want -- want
18 to add that we did not investigate or confirm the
19 availability of the amount of data for the RAA ourselves.
20 We -- we took it on faith that this was all the data that
21 was available and that data, previous to this, is in some
22 sense problematic, but we have not assessed that
23 ourselves. I do not know the reasons why that statement
24 is made. And, in fact, if I knew more I could comment
25 more because there are often ways in which statistical

1 procedures, you can think of it as a missing data
2 problem, statistical procedures can be devised to
3 compensate, and interpolate, or to create synthetic data
4 for some purposes at hand that will give you a longer
5 series. But, without these details, we haven't explored
6 that, we just took it on good faith that you only have
7 fifteen (15) years of data.

8 MR. BYRON WILLIAMS: Thank you. Staying
9 with the same paragraph, you're -- there's a sentence
10 about halfway through, you're suggesting that the RAA is
11 not a mere description of what is appo -- appeared in the
12 -- in the past, it's rather, an analysis of the under --
13 of an underlying distribution.

14 And I just wonder if you can elaborate on
15 this statement?

16 DR. WAYNE SIMPSON: Well, in -- in
17 approaching a statistical analysis in a classical or
18 parametric method, you would begin with the notion that
19 the data that you are confronting is generated by a
20 statistical process that you can learn something about,
21 that has inherent stability to it, that -- that what you
22 learn from one (1) year is -- is related to what you --
23 you will get out of it the next year.

24 And other than scale, you know, the
25 Corporation's activities from year to year may change

1 over longer periods, fifteen (15), twenty (20) years, but
2 from year to year will not change sufficiently to
3 invalidate that claim. That's a standard statistical
4 assumption, we -- we didn't invent it, we simply make it
5 because that's how you do statistical analysis.

6 And we -- I guess the -- there's -- the
7 RAA and it's use of standard statistical procedures, for
8 example, if you evalu -- if you elaborated on what those
9 procedures were, would see exactly what those
10 distributional assumptions are. So...

11 MR. BYRON WILLIAMS: Okay. Thank you.
12 Just one (1) last question before I get to your
13 conclusions. Turning to page 23. The -- the second last
14 paragraph, and the last full paragraph, you talk about
15 the logistical and -- I'm not going to try and pronounce
16 that word, dilemma for D -- DCAT -- DCAT. And about half
17 way through that paragraph, in terms of the plausibility
18 scenarios, you use the word, "justified true belief."

19 And I wonder if you can elaborate on -- on
20 what you mean by that statement?

21 DR. DEREK HUM: If I heard you correctly,
22 you said, logistical. I didn't mean logistical. I wrote
23 logical, okay? So, it wasn't having anything to do with
24 this.

25 MR. BYRON WILLIAMS: Thank you for

1 listening carefully.

2 DR. DEREK HUM: When -- when I said it
3 was a epistemological dilemma, I -- I wrote that in
4 reference to our mandate because epistemological has to
5 do with, what do we know, and how can we know that we
6 know? And the difficulty with the DCAT, in this
7 particular context, is if you give me a scenario, it's
8 very difficult for anyone to prove that that scenario can
9 never happen, I mean, unless it's really, really
10 logically inconsistence, or some bizarre event being
11 described.

12 So -- so, it's very difficult,
13 philosophically to disprove a negative, okay? You can
14 certainly say something has not happened, or something
15 did happen empirically, but a hypothetical is very
16 difficult to prove that in future it could never happen.
17 So, that's what I meant by saying there is a
18 epistemological dilemma, that a particular future adverse
19 scenario cannot be proven, that can never occur.

20 So, what should be the standard? Can
21 anyone come up with a scenario and say, I think this is
22 plausible, and you prove to me it can't ever happen in
23 future. You prove to me that the Winnipeg Blue Bombers
24 cannot win ten (10) consecutive Grey Cups. I mean, it's
25 very hard to prove that, right, never mind what you

1 believe in this room. And I truly believe that. This
2 person buys season tickets on that belief -- belief. He
3 actually truly believes it. You should see the way he
4 paints himself up before each game.

5 So the question then, philosophically, is
6 going beyond belief, to truly believe, to justify true
7 belief, which is a standard or accepted practical
8 criterium and philosophy for what we know, okay. It's not
9 enough to believe it. It's not enough to truly believe
10 it, but are the considerations that others would accept
11 in your justification of why your belief is -- is true.

12 And, in philosophy, when it reaches that
13 level of consensus, that's what people generally call
14 knowledge and epistemology. So I think there is dilemma
15 for the DCAT in some other scenarios in which I cannot
16 prove that they will not happen.

17 And I have it on good faith that the MPIC
18 truly believes it, take them at their word, but it may
19 not necessarily be justified from an epistemological sense
20 in the practical, philosophical understanding of the term
21 of how do we know this.

22 So, that's what I meant by saying that the
23 DCAT is unconstrained logically in the sense that it
24 could select adverse scenarios that attract no true
25 believers, other than in the extreme, the DCAT

1 practitioner himself or herself. I mean that person
2 could say, I'm the only one in the world that truly
3 believes this. Well, fine. That may be fine, but it may
4 not be knowledge, or we don't know that in terms of being
5 justified.

6 MR. BYRON WILLIAMS: Just -- just asking
7 you to turn to pages 24 and 25 and ask you at a high
8 level to summar -- summarize some of your key
9 conclusions.

10 DR. WAYNE SIMPSON: Okay. Well, here
11 we'll refer to Conclusions 2, 3, 5, and 6 in the report.
12 You can read them for yourself. But our sense here is --
13 is to draw distinctions between the two (2) methods.

14 As we say, we're not voting, so we're --
15 we're simply drawing these distinctions. One (1) in
16 scope, the RA (sic) method is directly applied to the
17 stipulated RSR objective of a fund to assure stability of
18 Basic rates, whereas the DCAT is more broadly concerned
19 with the future satisfactory financial health of the
20 Corporation.

21 Tools differ between the RAA and the DCAT.
22 The RAA is based on, as yet, limited historical
23 experience of adverse events for client motorists of MPI,
24 while the DCAT method is based on plausible adverse
25 scenarios chosen internally by MPI.

1 Number 5, now here we observe that the
2 various scenarios that we've just referred to, the
3 plausible adverse scenarios for the DCAT exercises are
4 selected without a specified probability of occurrence.

5 At least, if there -- if there is a known
6 probability, it's not specified in the documents. And
7 offsetting favourable scenarios are -- are not
8 considered.

9 And then, finally, in terms of -- of
10 transparency, we make the observation that the RAA and
11 DCAT methods, while both require an element of judgment,
12 the RAA is re -- constrained by its reliance on published
13 historical data and non-proprietary statistical
14 procedures that are relatively easy -- easily subject to
15 what we call external replicability.

16 That is to say someone with a knowledge of
17 statistical methods, and this data can -- can replicate
18 the -- the RAA procedure. The DCAT methodology, on the
19 other hand, is constrained by the spete -- speculative
20 future scenarios of MPI, the ones they might construct,
21 as they have in their exercises, which may or may not
22 find external support.

23 MR. BYRON WILLIAMS: Than -- thank you
24 both, Dr. Hum and Dr. Simpson. You're prepared, after a
25 brief break, to be cross-examined on your written and

1 oral evidence?

2 DR. WAYNE SIMPSON: Yes, we are.

3 MR. BYRON WILLIAMS: Okay. Mr. Chairman,
4 if I might, I'd suggest we stand down for a brief break.

5 THE CHAIRPERSON: Yes, thank you. Thank
6 you, gentlemen. We'll be back in fifteen (15) minutes.

7

8 --- Upon recessing at 2:44 p.m.

9 --- Upon resuming at 3:10 p.m.

10

11 MR. BYRON WILLIAMS: Mr. Chair, the --
12 the witnesses are ready.

13 THE CHAIRPERSON: Ms. Kalinowsky...?

14

15 CROSS-EXAMINATION BY MS. KATHY KALINOWSKY:

16 MS. KATHY KALINOWSKY: Good afternoon,
17 Professors Hum and Simpson. I have a number of questions
18 to ask of you this afternoon. Don't know whether we'll
19 finish, given that it's ten (10) past 3:00 and presumably
20 we're going till the usual four o'clock, but if not,
21 we'll finish off early tomorrow morning.

22 But when I did read your testimony, I have
23 to say that I had to have a dictionary in hand at times
24 to look up words like exe -- exegetical or exegesis,
25 which I understand is a critical explanation.

1 Is that correct?

2 DR. DEREK HUM: That'S correct.

3 MS. KATHY KALINOWSKY: So that's really
4 like an academic paper; that would be analogy?

5 DR. DEREK HUM: Sorry?

6 MS. KATHY KALINOWSKY: So an analogy
7 would be it's really an academic paper?

8 DR. DEREK HUM: The term is actually from
9 literary criticism in the study of literary text, in
10 which I'm sure in high school your teacher gave you an
11 exegesis of the plays of Shakespeare.

12 MS. KATHY KALINOWSKY: In preparing your
13 report, did you read the Canadian Institute of Actuaries
14 Dynamic Capital Adequacy Testing Standards of Practice?

15 DR. DEREK HUM: What is the title again?
16 I -- I read some notes but...

17 MS. KATHY KALINOWSKY: Canadian Institute
18 of Actuaries Dynamic Capital Adequacy Testing Standards
19 of Practice.

20 DR. DEREK HUM: No.

21 MS. KATHY KALINOWSKY: Did you read the
22 Canadian Institute of Actuaries Dynamic Capital Adequacy
23 Testing Educational notes?

24 DR. DEREK HUM: I think the notes
25 portion, that was included in the documentation I had, I

1 glanced at that, yes.

2 MS. KATHY KALINOWSKY: Actually it was
3 not included in the materials.

4 DR. DEREK HUM: I have accessed it, if
5 not this time, the last time, or whatever. I'm familiar
6 with that, but is there something that -- in that that I
7 should say that I read?

8 MS. KATHY KALINOWSKY: I can't put in
9 your testimony for you, sir. In preparing your exegesis,
10 did you read any Canadian Institute of Actuaries other
11 materials on DCAT?

12 DR. DEREK HUM: No.

13 MS. KATHY KALINOWSKY: Since both of you
14 are academics, did you read any academic articles on
15 DCAT?

16 DR. DEREK HUM: No.

17 MS. KATHY KALINOWSKY: And you both teach
18 at the University of Manitoba, and I think, I can't
19 remember, one of you also has taught at the Faculty of
20 Management.

21 Is that correct?

22 DR. DEREK HUM: I have.

23 MS. KATHY KALINOWSKY: And they teach
24 actuaries -- actuarial studies at that Faculty of
25 Management?

1 DR. DEREK HUM: No, I teach monet --
2 managerial economics.

3 MS. KATHY KALINOWSKY: Sorry, I said
4 "they" meaning in the Faculty of Management, the
5 professors there, some of them teach actuarial studies?

6 DR. DEREK HUM: Yes, they do.

7 MS. KATHY KALINOWSKY: And did you speak
8 to any of those professors, with respect to DCATs?

9 DR. DEREK HUM: No.

10

11 (BRIEF PAUSE)

12

13 MS. KATHY KALINOWSKY: In preparing your
14 written evidence, did you review AI.18, which is the DCAT
15 study?

16 MR. BYRON WILLIAMS: Is the reference to
17 AI.18.2, Ms. Kalinowsky?

18 MS. KATHY KALINOWSKY: Yes, it is.

19 MR. BYRON WILLIAMS: And that was the
20 DCAT scenarios that -- that you're referring Mr. -- Dr.
21 Hum and Dr. Simpson?

22 MS. KATHY KALINOWSKY: Yes, that's
23 correct.

24 DR. DEREK HUM: If that was the study
25 then, I did it. I don't recall the numbering.

1

2 CONTINUED BY MS. KATHY KALINOWSKY:

3 MS. KATHY KALINOWSKY: And did you review
4 the pre-filed testimony of the Manitoba Public Insurance
5 Corporation witnesses?

6 DR. DEREK HUM: Yes, I did.

7 MS. KATHY KALINOWSKY: Did you review the
8 information requests with respect to DCAT? In --
9 information requests that were posed.

10 DR. DEREK HUM: There's so many
11 information requests, I think I reviewed the ones that
12 were drawn to my attention concerning that.

13 MS. KATHY KALINOWSKY: Did you review any
14 other materials in preparation for your written
15 testimony?

16 DR. DEREK HUM: For this testimony?

17 MS. KATHY KALINOWSKY: Yes, this year.

18 DR. DEREK HUM: Well, I reviewed the
19 report we did on the RSR three (3) years ago, or two (2)
20 years ago. I reviewed the Board minutes of last year --
21 I mean the Board -- I guess it would be called Board
22 minutes. I've reviewed -- I don't have exactly a list,
23 but I reviewed anything that I saw, was brought to my
24 attention, that was relevant to the RSR issues.

25 I received from MPI all the material sent

1 to everyone, but I did not examine all of them. I
2 skipped over things having to do with road safety and --
3 and things that I thought were not germane to my
4 assignment.

5 MS. KATHY KALINOWSKY: Thank you. And
6 I'll start at the back of your test -- te -- written
7 report and testimony, rather than at the front. On page
8 24, if I could have both of you turn to that, please.

9 DR. DEREK HUM: I have it.

10 MS. KATHY KALINOWSKY: And in the middle
11 of the second paragraph, under concluding comments, the
12 second sentence there says:

13 "Our efforts are aimed at
14 deconstructing the methodological
15 assumptions underlying each procedure
16 to assist all parties."

17 Do you see that?

18 DR. DEREK HUM: Yes, I do.

19 MS. KATHY KALINOWSKY: And where do you
20 think the methodological assumptions are for the DCAT?

21 DR. DEREK HUM: I'm sorry, could you
22 repeat that question for me, please?

23 MS. KATHY KALINOWSKY: And where do you
24 think the methodological assumptions are for DCATs?

25 DR. DEREK HUM: You mean what do I think

1 they are, or where do I think they are?

2 MS. KATHY KALINOWSKY: Where.

3 DR. DEREK HUM: You mean where in their
4 text?

5 MS. KATHY KALINOWSKY: Where in general.

6 DR. DEREK HUM: I -- I don't want to
7 appear dense. Do you mean where they are enumerated or
8 written down in the documentation, or where in general
9 they reside in -- in the knowledge of the practitioners,
10 or...? That's why I asked you whether you meant what
11 they are, which I would try to describe and you see if
12 they -- you agree with me.

13 But if you meant where in terms of a place
14 in the text, is that would you meant?

15 MS. KATHY KALINOWSKY: Maybe I'll just
16 rephrase the question --

17 DR. DEREK HUM: Oh, thank you.

18 MS. KATHY KALINOWSKY: -- and go at it
19 slightly differently. And I apologize for perhaps being
20 obtuse there. But the DCAT standards of practice which
21 you said -- or at least the educational notes, which you
22 said that you glanced at at some point a couple a years
23 ago, has a number of -- of headings.

24 And those headings would be under the
25 method, and they include things like recent and current

1 financial position, satisfactory financial condition,
2 forecast periods, scenarios, base scenarios, pro --
3 plausible adverse scenarios, integrated scenarios,
4 ripple effects, scope of investigation and report.

5 Do you think those might be some of the
6 methodological assumptions that the actuaries and others
7 in MPI have used in preparing the DCAT?

8 DR. DEREK HUM: Oh, I'm sure they did
9 follow those. I -- I misunderstood you. I didn't think
10 these as you described them -- I don't really want to be
11 -- quibble words. I -- I didn't think those were
12 methodological assumptions so much as -- as a checklist
13 of things that practitioners of DCAT should have in mind
14 as they perform that, so they really aren't
15 methodological assumptions.

16 We may be -- this is one (1) of those
17 instances we may be quibbling with words when there's
18 really no -- no disagreement. I mean, if you wish me to
19 explain what I understand by how they do it, I'd be quite
20 happy to do it.

21 MS. KATHY KALINOWSKY: No, I'm not asking
22 you how they perform the DCAT. But the primary purpose
23 of an educational note under the standard -- issued under
24 the Standards of Practice by the Canadian Institute of
25 Actuaries is to provide guidance and support to actuaries

1 of life and property and casualty insurers in performing
2 DCAT analyses in -- in accordance with the standards of
3 practice. It's --

4 DR. DEREK HUM: Oh, I understand that,
5 that's right, but nowhere is that a methodological
6 assumption. It's a guidance for practitioners of it.
7 I'm not a practitioner if that is what you wish me to
8 admit. I'm not. I am someone who is -- who is an
9 outsider, if you wish, who is giving you a, what I call
10 exegesis, critical analysis of the procedures, as I -- as
11 I understand the results of this exercise of DCAT.

12 MS. KATHY KALINOWSKY: And you'd agree
13 then that the DCAT is an actuarial tool governed by the
14 Standards of Practice of a profession?

15 DR. DEREK HUM: Yes, I understand that.

16 MS. KATHY KALINOWSKY: And it's not an
17 economist's tool?

18 DR. DEREK HUM: It's -- no, it's not.

19 MS. KATHY KALINOWSKY: And it's something
20 that's standard throughout the industry to the best of
21 your understanding?

22 DR. DEREK HUM: If you say so. To the
23 best of my understanding it is used.

24 MS. KATHY KALINOWSKY: And it is accepted
25 by the National Regulator of Insurance, OSFI?

1 DR. DEREK HUM: If you -- I take -- I
2 take your word for all of that.

3 MS. KATHY KALINOWSKY: Do you think it's
4 helpful to have MPI committed to using industry standard
5 techniques in assessing risk?

6 DR. DEREK HUM: I'm -- I'm sorry,
7 again...?

8 MS. KATHY KALINOWSKY: Sorry, do you
9 think it's helpful to have MPI committed to using
10 industry standard techniques in assessing risks?

11 DR. DEREK HUM: In general, of course.

12

13 (BRIEF PAUSE)

14

15 MS. KATHY KALINOWSKY: Thank you, and I'd
16 like to have you move back in your report to page 15?

17 DR. DEREK HUM: I have it.

18 MS. KATHY KALINOWSKY: And the first full
19 paragraph that starts, "This series," but I'd like to go
20 down to the end there and I'll just read it in. But it
21 says:

22 "To be fair, many of the adverse
23 scenarios are hypothetical so for the
24 DCAT to be effective there must be a
25 high degree of confidence in the

1 ability of MPI to select the scenarios
2 of futures."

3 Is that correct?

4 DR. DEREK HUM: That's correct.

5 MS. KATHY KALINOWSKY: And are you aware
6 that some of the scenarios for the risk categories are
7 prescribed by the Actuarial Standards of Practice in the
8 educational notes?

9 DR. DEREK HUM: In a general way they
10 are, yes.

11 MS. KATHY KALINOWSKY: And are you aware
12 that a multi-disciplined team at MPI selected the
13 scenarios?

14 DR. DEREK HUM: I'm aware a team was
15 assem -- selected. I -- I will grant you it was multi-
16 disciplinary.

17 MS. KATHY KALINOWSKY: It was multi-
18 disciplinary. It had accountants, it had actuaries, had
19 economists on it.

20 DR. DEREK HUM: All right.

21 MS. KATHY KALINOWSKY: And would you also
22 be aware that this -- these adverse scenarios were
23 approved by management committee of the Corporation.

24 Management committee being the executive
25 committee?

1 DR. DEREK HUM: I believe that's to be
2 so.

3 MS. KATHY KALINOWSKY: And the adverse
4 scenarios were also approved by the Board of Directors of
5 our Corporation?

6 DR. DEREK HUM: I believe that to be the
7 case.

8 MS. KATHY KALINOWSKY: And are you aware
9 that MPI through this Proceeding has offered to the PUB
10 that it can alter the scenarios, pose new scenarios?

11 DR. DEREK HUM: I believe that to be the
12 case.

13 MS. KATHY KALINOWSKY: So with that
14 offering put in front of the Board and in this forum
15 then, would that be enough to satisfy or address your
16 above concerns that for the DCAT to be effective, there
17 must be a high degree of confidence in the ability of MPI
18 and really others to select the scenarios?

19 DR. DEREK HUM: It doesn't follow and no,
20 my answer is no. I do not have a high degree of
21 confidence that all of the scenarios selected, sanctioned
22 by the Board, approved by the DCAT practitioners are in
23 my judgment -- I guess the test would be would they be
24 plausible to others and to the Board Members.

25 And some of the scenarios I believe, in my

1 testimony, I claim to be not plausible because they
2 violate what is considered to be standard wisdom or
3 economic theory. And are, in fact, not borne out by my
4 understanding of this historical record, particularly the
5 one, in which, as I use as an example, the relationship
6 between interest rates and -- and equity prices.

7 So notwithstanding these recitation of
8 seals of approval, I'm in a minority, I don't find that
9 plausible. And I'm sorry for that.

10 MS. KATHY KALINOWSKY: Don't be sorry for
11 that just --

12 DR. DEREK HUM: Well, I actually am not
13 sorry, it was a figure of speech.

14 MS. KATHY KALINOWSKY: But really the
15 question was is that --

16 THE CHAIRPERSON: I'm sorry, Ms.
17 Kalinowsky, we'll just have to stop for five (5) minutes
18 just...

19
20 --- Upon recessing at 3:27 p.m.

21 --- Upon resuming at 3:28 p.m.

22

23 THE CHAIRPERSON: Okay, please.

24

25 CONTINUED BY MS. KATHY KALINOWSKY:

1 MS. KATHY KALINOWSKY: Thank you. I
2 wanted to get back to the final question that I had posed
3 to -- to you, Dr. Hum.

4 And that was that, with MPI offering to
5 the PUB to alter scenarios, to pose new scenarios, the
6 PUB in essence can choose whether the scenarios are
7 indeed plausible and that should be able to satisfy your
8 concerns that the -- for the DCAT to be effective, there
9 must be a high degree of confidence.

10 DR. DEREK HUM: I think I lost a question
11 in that. I mean if the PUB wishes to -- to have
12 additional scenarios, that would be fine. If the PUB
13 also finds the scenarios that -- that MPI chose and
14 consider them plausible, that's also fine.

15 I have no question with the technique of
16 DCAT. I want to make that clear. And the use of
17 scenarios to stress test the situation of MPI, I think I
18 made that abundantly clear that I actually think it's a
19 very good tool.

20 My -- my reservation was that in some of
21 the scenarios that were employed, I do not fit into the
22 category of every man test, that I find it plausible.
23 And -- and if you tell me that the PUB finds it
24 plausible, I -- I will -- I will simply say, well, I'm
25 the outlier.

1 MS. KATHY KALINOWSKY: Thank you for
2 that. I believe you had mentioned earlier that one (1)
3 of the scenarios that you had difficulty in believing
4 that was plausible was that scenario of sustained low
5 interest rates decline in the equities.

6 DR. DEREK HUM: Yes, I had special
7 difficulty with that one (1) but not -- no, that's not
8 the only one (1) but I had special dif -- parts because
9 of my professional background and experience that one (1)
10 I did have special difficulty with.

11 MS. KATHY KALINOWSKY: So I -- you would
12 not -- you would not agree that this actually occurred in
13 -- between 1937 and 1940?

14 DR. DEREK HUM: I believe that probably
15 did occur between 19 -- whatever years you -- in fact I
16 do believe there was one (1) episode in which this did
17 occur.

18 I applied the test of plausibility with
19 reference to the next five (5) years which I think is the
20 spirit of the DCAT exercise.

21 And I would have great difficulty
22 professionally as an -- as an economist to -- to -- to
23 think that extraordinarily peculiar episode, what we call
24 a 'black swan', actually is plausible as a guide for what
25 would be a projection for the next five (5) years from

1 this period going forward.

2 So -- so -- I recall -- I want to remind
3 you of -- of Professor Simpson and my distinction between
4 a rare event and a probable event. The fact that it --
5 an event has occurred and I would consider, if that is
6 the only example you can find to be a rare event, that
7 would be my definition of rare. It does not mean that it
8 is highly probable. So, yes, I do find it difficult to
9 classify it, as the Board obviously did, as being highly
10 plausible and highly probable.

11 DR. WAYNE SIMPSON: I think -- I think we
12 should add here that because there was a question about
13 the ninety (90) years of TSX data and so on and we -- we
14 said that, you know, it might not be wise to go back
15 before the -- the oil price shock.

16 Similarly, going back all the way to the
17 Second World War and even the Great Depression and a lot
18 of these macroeconomic considerations is -- is very
19 problematic. And part of the reason for that is because
20 these have been widely studied, carefully studied and --
21 and I think society has learned a great deal from that
22 experience.

23 And the -- the policy mistakes that are
24 widely acknowledged now that were made during the Great
25 Depression are very unlikely to be repeated. And

1 therefore, although we can find an instance where those
2 mistakes were made, I think we also know, and recent
3 events have suggested, that we aren't going to repeat
4 them any time soon for any extended period of time.

5 MS. KATHY KALINOWSKY: The first line of
6 the DCAT reads and there's no need to turn towards it,
7 but:

8 "The Corporation has performed DCAT on
9 the expected financial condition of the
10 Basic line of business."

11 You've mentioned in your written testimony
12 and again today, that:

13 "The DCAT is concerned with the overall
14 financial health of the Corporation."

15 Why do you say that?

16 DR. DEREK HUM: Well, perhaps this is
17 unconsciously on my part and I apologize for my wishing
18 that the DCAT would be performed on all of MPIC. But
19 even so, even with Basic, it is concerned with the
20 overall financial situation of the entire Basic line of
21 business and not just the narrow issue of what the level
22 of the reserve should be.

23 There's nothing -- and I'm not
24 recommending this or not recommending it, but there's
25 nothing to be lost by doing a DCAT examination of the

1 entire line of business.

2 And in the title of our paper which was --
3 which I interpret to be our mandate, if I refer you to
4 the title it says, what is it, "Corporate Risk Management
5 Tools," I regard Basic as part of MPI's total structure.
6 So, therefore, I perhaps mistakenly assumed that the
7 Corporation should be concerned with this entire risk
8 profile.

9 And as my example says, not just with the
10 risk of just one (1) division, so the attempt to cast it
11 that way was made explicit in the stylized model.

12 MS. KATHY KALINOWSKY: Thank you for that
13 response, Dr. Hum. I'd like you to move again backwards
14 in your report to page 7, and there's a target RSR by
15 method table, graph.

16 DR. DEREK HUM: I have that. I ha -- I
17 have that.

18

19 (BRIEF PAUSE)

20

21 DR. DEREK HUM: I -- I have that.

22 MS. KATHY KALINOWSKY: And that's really
23 a visual representation of the different methodologies
24 for -- that could perhaps be used to set the target RSR?

25 DR. DEREK HUM: Well, they weren't the

1 different methodologies, they were the result of the
2 different methodologies.

3 MS. KATHY KALINOWSKY: Thank you. And
4 right above that, it's -- in the text, it's written that:
5 "The DCAT recommended level of 185 [it
6 should be million] for 2010/'11 falls
7 midway in the risk analysis approach
8 target range, so consensus, so no
9 apparent disagreement appears
10 superficially at hand for a 2010/'11."

11 DR. WAYNE SIMPSON: Yes.

12 MS. KATHY KALINOWSKY: And I want to
13 first ask you about the \$102 to \$250 million spread for
14 the risk analysis.

15 Is that range of 150 percent, or \$150
16 million, the spread of the target, acceptable?

17 DR. DEREK HUM: So these are not my
18 numbers, first of all. I want to make it clear. I -- I
19 didn't -- I'm not claiming any one -- these are -- I'm
20 not blessing any of these, I'm describing, so...

21 MS. KATHY KALINOWSKY: And -- and maybe
22 I'll re-ask the question then. Do you have any concerns
23 about the veracity of a -- of a method for calculating
24 the RSR target, like the risk analysis does, that doubles
25 the range or the maximum target in one (1) year?

1 DR. DEREK HUM: Well, perhaps I might
2 clear up a misunderstanding here because this is one (1)
3 of those instances where I really believe -- I really
4 believe there is a misunderstanding of statistics and --
5 and the language in which it is described.

6 I know this is -- I -- I ask for
7 forbearance. I ask for forbearance. We look at, say the
8 height of people in this room, or whatever. And each of
9 us have a height, and if we were to plot it out, we would
10 be able to do so. And we could do this year by year or
11 group by group.

12 But if someone said that's too much
13 trouble, I just want to know what the height of the
14 people in the room is, and often we would say, well, the
15 average height is 5'8", and that would be called the mean
16 of the statistical distribution, or we would say the
17 point estimate of the distribution. That's just one (1)
18 number.

19 But you notice that if I said five point
20 eight (5.8), I've given you no information at all as to
21 who is the shortest person in the room and who is the
22 tallest person in the room. And someone might want to
23 say, well, that's very interesting, but I would really
24 like to know that, the shortest person and the tallest
25 person, could you give me a range of height of people in

1 the room, and I could do that, for sure.

2 So what I'm saying is that, to give the
3 point estimate or the mean is -- is just one (1) way of
4 describing a statistical distribution, but it actually
5 doesn't have quite as much information as giving you a
6 range, which is the height varies from 5'3" to 6'8".

7 And, furthermore, if it is generally
8 known, it's not in this chart, but if we actually knew
9 the form of the distribution, which in this case I would,
10 that the distribution of height of human beings follows a
11 norm in distribution, by giving me the range I actually
12 have contained in that the information of what the
13 average is, it would roughly fall at the middle. So in
14 some sense, you see, when you give a number like one
15 eight-five (185) without any range, I don't know. I
16 mean, it could vary from zero to 1 million and I have no
17 way of knowing.

18 But if you give me the range and I know it
19 follows essentially a normal distribution for any class
20 of distribution that is unimodal, I actually have the
21 information already. I mean, know it has to be
22 calculated, you've got to basically subtract one number
23 from the other and, you know, get in the middle.

24 So -- so there's -- this is an instance in
25 which there's really, really no argument about whether

1 the target should be one (1) number, one eight-five
2 (185), or the target should be a range, because it's
3 essentially describing the same phenomena. You just
4 choose how you describe it.

5 So this is one of those areas which I
6 think happily there could be consensus, you know, once we
7 understand what we choose to report.

8 Now parenthetically, if I said the target
9 was one eighty-five (185), that's even less information
10 because I don't know what the range is, but it's also not
11 very good information and not helpful in telling us,
12 well, when am I far away from one eight-five (185). Is
13 one eighty (180) too far way, is one ninety-nine (199)
14 too far away? We have no idea. But given a distribution
15 where I actually know the confidence intervals, I could
16 say, you know, less than one-o-two (102) is very far
17 away.

18 And I could actually quantify for those
19 who know the statistical jargon, well, how far away is
20 far away? You know, I can give a probability of -- of
21 happening -- I don't know if you're bored or not -- but
22 probability of it being that far away.

23 So -- so this is a case where there's
24 actually, you know, not much disagreement, we've just
25 chose to present the -- the data in different format.

1 And there are advantages I think to presenting it that
2 way.

3 DR. WAYNE SIMPSON: Yeah, we -- we think
4 there's more information in the range the RAA is
5 providing there than the DCAT number. I'm not sure what
6 else you want us to conclude from what the results are.

7 DR. DEREK HUM: Give me the --

8 DR. WAYNE SIMPSON: The results are what
9 they are.

10 DR. DEREK HUM: Give me the range and I
11 can calculate the midpoint for you.

12 DR. WAYNE SIMPSON: I think we find it a
13 bit curious that the -- the DCAT target is -- is a number
14 rather than a range but that is what it is, so -- so it's
15 been reported that way.

16 DR. DEREK HUM: I don't know what the
17 range is for the DCAT.

18 MS. KATHY KALINOWSKY: Well, in your
19 testimony, and you just said it was kind of curious, but
20 since the DCAT is set at \$185 million and that's midway
21 between a hundred and two (102) and two fifty-five (255),
22 you say that that suggests a degree of agreement. But
23 isn't it really that the results agree but -- but perhaps
24 the methods are different such that it -- you'd really
25 have to agree that it could be happenstance or

1 serendipitous that the dollar figure for the DCAT is
2 midway for the risk analysis?

3 DR. DEREK HUM: Oh, serendipitous is a
4 lovely word. In some sense, you know, you did misquote
5 me. I didn't say they agreed. I said no apparent
6 disagreement. And I was careful to put "consensus" in
7 quotation marks. I -- I wanted to highlight that -- I
8 didn't go on actually to -- to -- well, I don't think
9 there is consensus. There is no apparent disagreement
10 from the numbers.

11 And I think -- you used the word
12 "serendipitous." I think that's a very good word. But
13 serendipitous does not imply it will happen all the time.
14 So I might not expect this serendipitous happenstance
15 next time.

16

17 (BRIEF PAUSE)

18

19 DR. DEREK HUM: I actually used the word,
20 I see now, "appears superficially."

21 MS. KATHY KALINOWSKY: So then we're --
22 we're really in -- in agreement then it could be
23 happenstance, it's superficial, it's a curious incident,
24 that is just happens to be the midpoint?

25 DR. WAYNE SIMPSON: Yes.

1 DR. DEREK HUM: That's a shorter and
2 better answer.

3 MS. KATHY KALINOWSKY: Since you've been
4 around these proceedings a couple of years, you would --
5 you would be able to agree that the RSR target range for
6 2009/'10 and 2010/'11 would approximately have been 75
7 million to 115 million prior to this year?

8 DR. DEREK HUM: Subject to being
9 refreshed on the me -- on -- on the numbers, I mean.

10 MS. KATHY KALINOWSKY: And then that, for
11 the risk analysis, that -- that grew from 75 to 115
12 million to 102 to 255 million, is that correct?

13 DR. DEREK HUM: That's correct.

14 DR. WAYNE SIMPSON: Yes, we take the
15 figures as reported.

16 DR. DEREK HUM: Yes, we do. Yes, we do.
17 I take the figures as correct. I did not calculate these
18 figures myself. I want that understood.

19 MS. KATHY KALINOWSKY: And we all
20 understand that, Professor Hum.

21 MR. BYRON WILLIAMS: Just -- just in
22 terms of the premise, and I'm not disagreeing, it -- it
23 should just be understood that these numbers, I think,
24 were calculated by MPI and originally in error, and they
25 were revised, so just -- just for the record.

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CONTINUED BY MS. KATHY KALINOWSKY:

MS. KATHY KALINOWSKY: Yes, and you put that in in your direct. I -- I recognize that.

With respect to the risk analysis, do you have any comments to make with respect to its growth from the upper range going from 115 to 255 million in one (1) year with respect to its methodology or how you -- how much of a tool it can be utilized?

DR. DEREK HUM: It is not my method, so I'm not going to make a comment. I mean, the -- the numbers are what the numbers are, provided that they were calculated correctly and appropriately, and I shall assume they were.

DR. WAYNE SIMPSON: The -- the numbers also have a very specific interpretation in terms of, you know, the -- as I said before, the standard statistical procedures for calculating confidence intervals, and they provide a range out -- outside which we would not expect the -- the RSR to be depleted, essentially.

And so, in that sense, you know, the numbers are what they are. They're relatively straightforward to interpret. Are they sus -- with only fifteen (15) years of data, are they susceptible to some greater volatility than if you had thirty (30) or forty

1 (40) years? Yes.

2 We've taken it as the case that there's a
3 good reason why there's only fifteen (15) years of data.
4 In a brief discussion at the intermission, we're not
5 convinced that that hypothesis would be supported by a
6 careful statistical analysis of the data beyond -- before
7 fifteen (15) years and after fifteen (15) years ago, but
8 the fifteen (15) years is the basis for the RAA method.

9 And one (1) of the consequences of that is
10 that a year like last year will have some consequences on
11 the volatility of that range, yes.

12 MS. KATHY KALINOWSKY: I want to move
13 into a slightly different area now, but to talk about
14 probability. And you've stated, both in your written
15 testimony and again today, that there really is no
16 attached probability to the adverse scenarios occurring
17 as prepared by Manitoba Public Insurance in its DCAT
18 report?

19 DR. DEREK HUM: Yes.

20

21 (BRIEF PAUSE)

22

23 MS. KATHY KALINOWSKY: And, in fact, if
24 you were to look at AI.18.2, which is the DCAT report, on
25 page 15, you would note that the extremely large --

1 MR. BYRON WILLIAMS: Ms. Kalinowsky,
2 excuse me just for a second. We're just -- I didn't --
3 my oversight I didn't provide the witnesses with that
4 document today.

5 So if you can give us a couple of seconds,
6 we'll -- we'll dig up a copy of that and I'll share it
7 with them if -- with -- okay?

8

9 (BRIEF PAUSE)

10

11 MR. BYRON WILLIAMS: And that's my
12 oversight and I apologize for the interruption.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: Again, I apologize
17 for the -- for the interruption.

18 DR. WAYNE SIMPSON: Yeah, we have it now.
19 We haven't read it, but we have it.

20

21 CONTINUED BY MS. KATHY KALINOWSKY:

22 MS. KATHY KALINOWSKY: Okay. So on page
23 15 there, at the top paragraph, the final line says:

24 "This is with respect to the extremely
25 large hailstorm scenario, therefore the

1 probability of a high severity storm
2 occurring in Winnipeg was assumed to
3 be,"

4 and then than would be 4.4 percent.

5 Is that correct?

6 DR. WAYNE SIMPSON: Yes.

7 MS. KATHY KALINOWSKY: So that would be
8 the probability for that occurring, right?

9 DR. WAYNE SIMPSON: Why was fifteen (15)
10 years chosen? We don't -- we don't know. I mean, we --
11 we -- the numbers are there. I wouldn't call that a
12 careful statistical analysis of hailstorms by micro-
13 location in Manitoba and the consequences for hail damage
14 to vehicles, but the numbers are what they are, yeah.
15 They're there. There is a number. I'd expect to see a
16 lot more numbers associated with location.

17 Hailstorms don't cover Winnipeg for
18 example.

19 DR. DEREK HUM: I -- I -- bear with me
20 here.

21 DR. WAYNE SIMPSON: That would be
22 cataclysmic.

23 DR. DEREK HUM: Bear with me here. I'm
24 reading this:

25 "Three (3) major hailstorms --

1 Corporation -- one (1) in Winnipeg, one
2 (1) in Dauphin. Based on this
3 experience we have assumed that one (1)
4 of every three (3) hailstorm will cause
5 high severity damage. Therefore, of a
6 high severity storm occurring in
7 Winnipeg was assumed to be 4.4
8 percent."

9 Am I right in interpreting this as two (2)
10 in Winnipeg, one (1) was in Dauphin?

11 MS. KATHY KALINOWSKY: That's correct.
12 And actually --

13 DR. DEREK HUM: And, therefore --

14 MS. KATHY KALINOWSKY: -- since that was
15 written there was another hailstorm actually but that's
16 not even included.

17 DR. DEREK HUM: And, therefore, you're
18 using this to calculate the probability of a hailstorm in
19 Winnipeg, using the Dauphin, as well?

20 MS. KATHY KALINOWSKY: Using the Dauphin
21 severity.

22 DR. DEREK HUM: Am I interpreting this
23 correctly?

24 MS. KATHY KALINOWSKY: If it -- if it
25 were to go through part of Winnipeg, not all of Winnipeg

1 but just part of Winnipeg.

2 DR. DEREK HUM: Okay. I hate to be
3 unkind to -- to whoever calculated this but -- oh, what
4 the hell. I don't know where to begin, you know.

5 You have two (2) events of a hailstorm in
6 Winnipeg and you've got another one in Dauphin, so that
7 makes three (3) and then you use that to calculate the
8 probability of a hailstorm in -- a severe hailstorm in
9 Winnipeg.

10 I guess if I weren't from the Province of
11 Manitoba I would probably ask questions about where is
12 Dauphin, how proximity to Dauphin, what's the correlation
13 between storms in Dauphin and Winnipeg?

14 I'd be sort of like, you know, I don't
15 want to be mocking, but you don't have the weather today
16 for Winnipeg but I got pictures of Dauphin so we'll
17 report these.

18 So what you really have is two (2)
19 incidents in fifteen (15) years in Winnipeg and you use
20 one (1) in Dauphin and then, and then on the basis of
21 this, in fifteen (15) years you're going to calculate a
22 probability.

23 At the very least, given what we have said
24 in our direct testimony, we believe that, in order to
25 estimate a probability, you would have to have a

1 probability distribution of the underlying structure,
2 which probably could be obtained from meteorological
3 evidence, but I don't know if that was done.

4 But, in any case, if one worries about,
5 for the RAA, with fifteen (15) years of data for
6 continuously observed year by year of certain variables,
7 one probably would be worried about two (2) in Winnipeg,
8 one (1) in Dauphin, over fifteen (15) years to predict a
9 hailstorm.

10 Notwithstanding Professor Simpson's point,
11 that in statistics, since hailstorms, by definition,
12 haven't occurred every year because you only had three
13 (3) in fifteen (15), suggests to me it's in the tail of
14 the distribution, and statistics, the tails of the
15 distribution are extremely problematic and have a high
16 risk or volatility of being able to be estimated, even if
17 you had a distributional form, for which I see none in
18 the documentation. So --

19 MS. KATHY KALINOWSKY: But --

20 DR. DEREK HUM: -- I could go on and on,
21 but I'm going to be polite and say I stand by my remark.
22 There is really no serious estimation of a probability in
23 that work or report.

24 MS. KATHY KALINOWSKY: Well, did you take
25 a look at PUB-2-32 --

1 DR. DEREK HUM: All right.

2 MS. KATHY KALINOWSKY: -- which the PUB
3 asked the Corporation to set out the data for the extreme
4 large hailstorm scenario.

5 DR. DEREK HUM: I don't know. Where is
6 that?

7 MS. KATHY KALINOWSKY: And the
8 Corporation then provided seven (7) or eight (8) pages --
9 seven (7) or eight (8) pages of hail data?

10 MR. BYRON WILLIAMS: We'll provide that
11 to Dr. Hum if you'll just give us a moment, please.

12 DR. DEREK HUM: I -- I -- I'm sorry, I
13 don't have that in front of me.

14

15 (BRIEF PAUSE)

16

17 MS. KATHY KALINOWSKY: Well, perhaps I
18 can ask you the question right now, but do you remember
19 in your preparation for your testimony reviewing the IRs
20 and pre -- seeing one that dealt with extensive data on
21 extreme large hail storm scenarios?

22 DR. DEREK HUM: I don't have it in front
23 of me, and I would like to be refreshed.

24 THE CHAIRPERSON: I think we're going to
25 hold it over until tomorrow, until 9:00 a.m., because

1 we're almost at 4:00 anyway, and I have something I've
2 got to take care of right at 4:00.

3 MR. WALTER SARANCHUK: And just for the
4 record, Mr. Chairman, PUB/MPI-2-32 appears at Tab Number
5 36 in the PUB counsel book of documents.

6 THE CHAIRPERSON: All right. Mr.
7 Williams will find that for his witnesses, and we'll see
8 you back tomorrow at 9:00. Thanks.

9

10 (CAC/MSOS PANEL NO. 1 WITNESSES RETIRES)

11

12 --- Upon adjourning at 3:58 p.m.

13

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15 Certified correct,

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20 _____
Cheryl Lavigne, Ms.

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