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MANITOBA PUBLIC UTILITIES BOARD

RE:

MANITOBA PUBLIC INSURANCE  
DRIVER SAFETY RATING

Before Board Panel:

Graham Lane - Board Chairman  
Len Evans - Board Member

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
April 7, 2009

Pages 227 to 410

APPEARANCES

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

2

3 THE CHAIRPERSON: Okay, good morning,  
4 everyone. Welcome back, Day 2.

5 Ms. Everard, do you want to continue with  
6 your cross-examination?

7 MR. KEVIN MCCULLOCH: Mr. Chairman, I did  
8 mention to Ms. Everard that we have one (1) filing this  
9 morning. This is the response to CAC/MSOS Pre-Ask Number  
10 1 and I would ask that that be filed as MPI Exhibit  
11 Number 6.

12

13 --- EXHIBIT NO. MPI-6: Response to CAC/MSOS Pre-Ask  
14 1

15

16 THE CHAIRPERSON: Thank you, sir.

17

18 (BRIEF PAUSE)

19

20 THE CHAIRPERSON: Very good. Anything  
21 else, Mr. McCulloch?

22 MR. KEVIN MCCULLOCH: No, sir.

23 THE CHAIRPERSON: Okay. Away we go then.

24

25 MPI PANEL, RESUMED:

1                   MARILYN MCLAREN, Resumed

2                   DONALD PALMER, Resumed

3

4 CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

5                   MS. CANDACE EVERARD:    Thank you, Mr.  
6 Chairman.  Yesterday when we adjourned, we were  
7 discussing some issues surrounding the transition to the  
8 proposed system, and I want to get into some questions  
9 with respect to new Manitobans and how they'll be treated  
10 coming into the province.

11                   The Corporation has advised at the  
12 response to IR-7, posed by the Board, that all new  
13 Manitoba drivers will initially placed at DSR Level 0.

14                   MS. MARILYN MCLAREN:    Yes, that's right.  
15 And that means initially, the very first time we  
16 encounter them when they're in the broker's office, that  
17 very first minute.

18                   MS. CANDACE EVERARD:    The answer also  
19 provides that the driver can provide claims history for  
20 up to the previous ten (10) years, so does the word "can"  
21 mean that it's optional?

22                   MS. MARILYN MCLAREN:    Yes, but most are  
23 very anxious to do so because they won't be eligible for  
24 a discount without it.

25                   MS. CANDACE EVERARD:    But if the

1 individual had a poor claims history, they would have the  
2 option of not producing it?

3 MS. MARILYN MCLAREN: There's nothing  
4 really we can do as -- as the insurer to force the  
5 production.

6 MS. CANDACE EVERARD: So they have the  
7 option?

8 MS. MARILYN MCLAREN: They do have the  
9 option, but the other piece of that is the driver's  
10 abstract from the licensing authority which may or may  
11 not have accident-related convictions on it.

12 MS. CANDACE EVERARD: And that was gonna  
13 be my next question, whether or not it was required that  
14 the individual produce a driver's abstract from the other  
15 jurisdiction?

16 MS. MARILYN MCLAREN: Well, no, the  
17 licensing authorities don't really work that way. It --  
18 it's not up to the individual. The inter-jurisdictional  
19 record exchange and the -- the Canadian driver licensing  
20 agreement really calls for the jurisdictions to exchange  
21 and share that information.

22 It's very much predicated on the Canadian  
23 Council of Motor Transport Administrators, who is  
24 basically the national organization of registrars of  
25 motor vehicles across the country, and as well as

1 representation from Transport Canada, one (1) of their --  
2 their key objectives is insuring, to the extent possible  
3 that one (1) individual has only one (1) licence and one  
4 (1) driving record.

5                   So the information is exchanged between  
6 jurisdictions. It's not the customers responsibility to  
7 bring that information forward.

8                   MS. CANDACE EVERARD: But given the  
9 framework that you've described, MPI will be in receipt  
10 of that person's driver's abstract?

11                   MS. MARILYN MCLAREN: Yes, definitely.

12                   MS. CANDACE EVERARD: Are there any  
13 jurisdictions from which an individual might be coming  
14 that is not a party to the framework that you described?  
15 In other words, are there places that people may come  
16 from where there will be no driver's abstract coming  
17 along with them?

18                   MS. MARILYN MCLAREN: Yes. The framework  
19 I talked about is a Canadian framework and all  
20 territories and provinces are part of that framework. In  
21 addition there are a number of US states where there are  
22 reciprocal agreements, either between the national  
23 coordinating body or individual provinces.

24                   But there are -- are many countries and  
25 many US states that are not what are known as reciprocal

1 jurisdictions. So at that point it -- it is up to the  
2 customer's discretion if they want to get a driver's  
3 abstract from that jurisdiction and produce it.

4 MS. CANDACE EVERARD: And I take it that  
5 the framework that we've discussing is in place now?  
6 It's not something that's new to DSR?

7 Is that correct?

8 MS. MARILYN MCLAREN: Exactly. It's been  
9 in place for quite a while.

10 MS. CANDACE EVERARD: Okay. The IR  
11 answer also reflects that if a driver's abstract is  
12 provided to the head office, the information will be  
13 entered and it appears that any convictions that are  
14 reflected on the abstract that -- that are part of DSR  
15 will be assigned the appropriate number of demerits.

16 MS. MARILYN MCLAREN: Yes, that's right.

17 MS. CANDACE EVERARD: In the last  
18 paragraph of this answer it's reflected that this method  
19 may be more generous to some new Manitobans.

20 Can you elaborate on that, what that  
21 means.

22 MS. MARILYN MCLAREN: One (1) example  
23 might be the fact that it has taken a Manitoban ten (10)  
24 years to get five (5) merit points in the system that we  
25 have today. So the five (5) merit points plus the five

1 (5) years of claim-free driving is what will give them  
2 the ten (10) new DSR merit points.

3 It's possible, depending on the  
4 information that comes forward, from both the licensing  
5 authority and the previous insurer, that they may very  
6 well get to ten (10) without ten (10) years of  
7 experience, because of the different system.

8 MS. CANDACE EVERARD: The answer also  
9 reflects that if individuals prove to be higher risk  
10 drivers they will quickly gravitate to their correct  
11 position on the scale.

12 Can you expand on that statement?

13 MR. DONALD PALMER: As we've discussed  
14 yesterday, with all transition it's -- it's a starting  
15 place. But we have seen that there is really a  
16 connection between risk and the rate that's -- and -- and  
17 movement.

18 So if they are higher risk drivers and  
19 start having accidents and convictions, then they will  
20 move on the scale freely, just like all of the  
21 Manitobans. So they'll -- they'll find their place.

22 MS. CANDACE EVERARD: This IR response in  
23 the last paragraph again also provides in the very last  
24 sentence that other options for placing new Manitobans  
25 were considered but proved to be overly punitive and much

1 too complex for the public to understand.

2 First question is: What were those other  
3 options that were considered?

4

5 (BRIEF PAUSE)

6

7 MR. DONALD PALMER: Mostly a question of  
8 -- if...

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: We're going -- it's a  
13 fairly complex answer, so we're going to take that as an  
14 undertaking and -- and submit it after the break.

15 MS. CANDACE EVERARD: Sure. And just so  
16 the record's clear, the first question was: What were  
17 the other options that were considered. And then my next  
18 question was going to be: Why were they deemed to be  
19 overly punitive and much too complex for the public to  
20 understand? Thank you.

21

22 --- UNDERTAKING NO. 3: MPI to reply to questions:  
23 What were the other options  
24 for placing new Manitobans  
25 that were considered? And

1                                    why were these options deemed  
2                                    to be overly punitive and  
3                                    much too complex for the  
4                                    public to understand?  
5

6 CONTINUED BY MS. CANDACE EVERARD:

7                                    MS. CANDACE EVERARD:    Okay.  I want to  
8                                    move then into some discussion about the financial impact  
9                                    of the proposed program.  It's evident from the  
10                                    Corporation's filings that the approach being taken by  
11                                    the Corporation, with respect to how to view the  
12                                    financial impact of DSR, is that it should be done  
13                                    together with the financial impact of the broker's  
14                                    commission reduction.  And I am going to have some  
15                                    questions about that.

16                                    But first of all, I'd like to ask some  
17                                    questions about where the Corporation would be without  
18                                    the -- either of these initiatives.  So if I could ask  
19                                    you to turn to the answer to Question 12 posed by the  
20                                    Board in the round of IRs.

21

22                                    (BRIEF PAUSE)

23

24                                    MS. CANDACE EVERARD:    And in particular  
25                                    I'm looking at the answer to 12 Sub B.  Perhaps you could

1 just read in the second paragraph under "B" that begins,  
2 "The rate application is...".

3 MR. DONALD PALMER:

4 "The rate application is the  
5 Corporation's view of the desirable  
6 rating impact on Manitobans of both DSR  
7 and streamlined renewals. Without  
8 either initiative, the Corporation  
9 likely would have applied for overall  
10 rate reductions taking the net income  
11 forecast closer to break-even. The  
12 Corporation takes the position that DSR  
13 and streamline renewal programs ought  
14 not to be introduced with an across-  
15 the-board decrease, but by rewarding  
16 the longest term safe drivers."

17 MS. CANDACE EVERARD: And I believe what  
18 Ms. McLaren said yesterday in her opening evidence was  
19 that rather than apply for a 2 percent rate decrease in  
20 the next GRA, the Corporation decided to include this  
21 rate decrease for the safest drivers in the DSR  
22 transition strategy?

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE EVERARD: So that tells us  
25 where, from the Corporation's perspective, it would have

1 been. Let's talk about for a moment just the pure impact  
2 of the DSR, so still leaving aside the commission savings  
3 for the moment.

4 If I could get you to turn to Question 17  
5 posed by the Board in the IR process, and in particular  
6 the answer to 17(a). There's a table reflected there.  
7 Can you explain for the record what the table represents.

8

9 (BRIEF PAUSE)

10

11 MR. DONALD PALMER: Table of the  
12 projected total Basic net written premium, the next  
13 column -- I'm -- I'm looking at the -- the title on the -  
14 - the column; it looks like it was truncated -- but that  
15 would be the impact of the DSR on the -- the total  
16 written premium. And the next one is the percentage of  
17 total Basic written premium of the -- the decrease.

18 MS. CANDACE EVERARD: Now, do these  
19 percentages represent what the required rate increases  
20 would be to implement the DSR without...?

21 MR. DONALD PALMER: No, they're --  
22 they're the rate decreases that we have put in as a  
23 result of lowering the rates.

24 MS. CANDACE EVERARD: Okay. If I could  
25 ask you to turn to the Application for a moment, and in

1 particular SM-5, page 29. And, Mr. Palmer, you did give  
2 some evidence on this section yesterday but I want to go  
3 into it a little bit further.

4                   On SM-5, page 29, there's a table at the  
5 top of the page, and I think, Mr. Palmer yesterday -- and  
6 I haven't checked the transcript, as of yet -- but I  
7 think you gave evidence about the total impact, and  
8 particularly the numbers under Version 2, and you told us  
9 that in the current fiscal year, 2009/'10, that the pure,  
10 if we can call that, impact of DSR was a reduction in  
11 premium of some 5.2 million, and in the next year,  
12 2010/'11, it was a reduction of some 20.4 million.

13                   Is that right?

14                   MR. DONALD PALMER: That's correct.

15                   MS. CANDACE EVERARD: Now if we add  
16 together the five dollar (\$5) amounts under that column,  
17 that is under Total Impact Version 2, so if we add  
18 together everything from the five point two (5.2) through  
19 to the thirty-three point one (33.1) at the bottom, I  
20 believe it comes out to about 10.9 million.

21                   Is that right? I'm sorry, 110.9 million.  
22 I misspoke.

23                   MR. DONALD PALMER: That sounds better.  
24 And subject to check, I'll -- I'll take your word for it.

25                   MS. CANDACE EVERARD: And if we look at

1 one of the pre-asks posed by the Board and answered by  
2 the Corporation, in particular Number 2, and I'm asking  
3 you to turn to the Schedule attached to that answer, so  
4 the chart which is Attachment 2(b). We see --

5 MR. DONALD PALMER: I have it.

6 MS. CANDACE EVERARD: We see the same  
7 figures reflected in the row entitled "Total Net Premiums  
8 Written," under the DSR heading for each of the years;  
9 that is the same five (5) figures that we just looked at  
10 on page 29 of SM-5.

11 So the -- that total of 110.9 million.

12 Are you with me?

13 MR. DONALD PALMER: Yes, I'm there.

14 MS. CANDACE EVERARD: And if we look at  
15 this table a little bit further, the row entitled "Total  
16 Earned Revenues" reflects, and again, I'm looking under  
17 the heading of DSR for each of the five (5) years, we see  
18 a decrease in Total Earned Revenues in the current year,  
19 2009/'10, of some 3.8 million decrease in total earned  
20 revenues for next year, 2010/'11, of some 17 million,  
21 23.7 million in the subsequent year, and so on.

22 Is that right?

23 MR. DONALD PALMER: Yes.

24 MS. CANDACE EVERARD: And if we total  
25 those five (5) figures, it would appear to be a decrease

1 in total earned revenues of some \$93.7 million.

2 Does that sound about right?

3 MR. DONALD PALMER: It sounds about  
4 right, yes.

5 MS. CANDACE EVERARD: Now still looking  
6 at the -- this particular attachment, 2(b) to the Pre-  
7 Ask, there's another column reflected in each of the  
8 years which is called SRP, which I take it stands for  
9 Streamline Renewal Process, is that right?

10 MR. DONALD PALMER: Yes.

11 MS. CANDACE EVERARD: And we see in the  
12 current year there's no dollar amount associated with  
13 that heading. In the next year, 2010/'11, there is a  
14 figure reflected on the Commission row, under that  
15 heading, of some six hundred and thirty-three thousand  
16 (633,000).

17 Is that right?

18 MR. DONALD PALMER: Yes.

19 MS. CANDACE EVERARD: And in the  
20 subsequent three (3) years reflected on this table, the  
21 same figure increases to about 6 million in 2011/'12, to  
22 fourteen point six (14.6) in 2012/'13, and to twenty  
23 point one (20.1) in 2013/'14?

24 MR. DONALD PALMER: Yes.

25 MS. CANDACE EVERARD: So in other words

1 the first real significant number in that column on this  
2 chart kicks in in 2011/'12.

3 Is that fair to say?

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

6 MS. CANDACE EVERARD: There's another  
7 column reflected on this chart. It's the -- the first  
8 one in each year on the far left. It's called "ADJ FC".

9 Would that stand for Adjusted Forecast?

10 MR. DONALD PALMER: Yes.

11 MS. CANDACE EVERARD: And can you explain  
12 the difference -- or what the adjustments have been to --  
13 to the forecast, why that column's there and what it  
14 means?

15 MR. DONALD PALMER: The adjusted forecast  
16 is -- is basically changing the starting point from the  
17 third-quarter results. So for written premium, for  
18 example, we -- we previously had a eight/nine (8/9)  
19 forecast. We have actualized that up to the end of the  
20 third-quarter, and then from there started our  
21 projections again with the assumptions in -- in volume  
22 forecast and upgrade forecast and whatnot. So it's --  
23 it's an adjustment from -- just because we've got a  
24 different starting place of -- of actuals.

25 MS. CANDACE EVERARD: But these adjusted

1 forecasts do not include any changes in assumptions?

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE EVERARD: Okay. Still  
4 looking at this table, there's another line that we have  
5 a question about, and that is under the heading of "Net  
6 Claims Incurred", the first row is "Claims Expense," and  
7 there appears to be in each of the years, a small  
8 reduction reflected.

9 What does that relate to?

10

11 (BRIEF PAUSE)

12

13 MR. DONALD PALMER: Some of the allocated  
14 costs change when you change for -- forecasts. So it --  
15 it's a question of cost allocations.

16 MS. CANDACE EVERARD: Okay. I'd ask you  
17 then to turn to Question 13 posed by the Board in the  
18 Information Request round.

19 MR. DONALD PALMER: Could -- could we  
20 have one (1) moment, please?

21 MS. CANDACE EVERARD: Yeah, of course.

22

23 (BRIEF PAUSE)

24

25 MR. DONALD PALMER: Just taking a look at

1 the answer to Pre-Ask 2(a) just for a moment. In -- in  
2 the long term, the savings that were derived from  
3 streamline renewal, sort of drive -- drives the  
4 sustainability of the decreases from DSR. We don't have  
5 full implementation, as you pointed out, of -- of the  
6 streamline renewal savings until 2013/'14 but we do have  
7 -- as our financial projections have shown, there was net  
8 income shown for the next few years, which further  
9 enabled us to provide that rate decrease.

10 So over the long-term, this statement is  
11 absolutely correct. There's that short-term bridging,  
12 however, that's more the result of the short-term  
13 financial position of the Corporation, rather than that  
14 long-term SRP effect.

15 MS. CANDACE EVERARD: What you're saying  
16 basically is that the savings from the broker commission  
17 deal don't kick in at the same time as the premium  
18 reductions from DSR, so there's a bit of a time lag, for  
19 lack of a better word.

20 MR. DONALD PALMER: That's correct.

21 MS. CANDACE EVERARD: Okay. If I can get  
22 you to have a look at Question 13 posed by the Board in  
23 the IR round, and Attachment A. And we're still dealing,  
24 in general, with the same subject matter that we've been  
25 speaking of in the last few minutes.

1 MR. DONALD PALMER: I have it.

2 MS. CANDACE EVERARD: Thank you. This  
3 attachment -- that is Attachment A to Question 13 --  
4 provides for the outlook period and going out for the  
5 next few years, a series of projected net losses along --  
6 I'm looking at the very bottom row of the table. If I'm  
7 reading it correctly, it would appear that there's a  
8 projected loss for the current year of some 1.2 million;  
9 to go to fourteen point nine (14.9) next year, 2010/'11;  
10 the year after that, 2011/'12, to be 17.4 million; and  
11 then in 2012/'13 to be about 8.5 million.

12 Is that right?

13 MR. DONALD PALMER: Not exactly. The --  
14 that's the change in the -- the differences between the  
15 financials in the 2009 or -- or with DSR and without DSR,  
16 so it's not net income as you have described it.

17 MS. CANDACE EVERARD: Thank you for  
18 correcting that. I appreciate that. This is the  
19 difference between the two (2) tables on this document:  
20 The first that reflects with DSR and the second that  
21 reflects without?

22 MR. DONALD PALMER: That's correct.

23 MS. CANDACE EVERARD: If we add together,  
24 though, the numbers that I described, we would get a  
25 total change from with DSR to without DSR, of some 42.1

1 million over the four (4) year period; that is from the  
2 current year, 2009/'10, through to 2012/'13?

3 MR. DONALD PALMER: The fastest fingers  
4 on the calculator have confirmed that.

5 MS. CANDACE EVERARD: And this change of  
6 some 42.1 million over the four (4) year period that  
7 we've described, does take into account for those years  
8 the commission savings, because those are included in the  
9 numbers on this table, that's right?

10 MR. DONALD PALMER: That's correct.

11 MS. CANDACE EVERARD: So just to make  
12 that I understand this correctly, even taking into  
13 account for those four (4) years the commission savings,  
14 there's still \$42.1 million less coming in over the four  
15 (4) year period than there would have been without DSR.

16 Would that be fair to say?

17 MR. DONALD PALMER: And that reflects the  
18 decreases that we've included as part of DSR  
19 implementation.

20 MS. CANDACE EVERARD: And those are  
21 decreases --

22 MS. MARILYN MCLAREN: Sorry, Ms. Everard,  
23 that may seem like putting too fine a point on it, but  
24 the Corporation really believes it's not putting too fine  
25 a point on it at all; that's not the cost of DSR. That

1 does not necessarily have to be -- the \$40 some odd  
2 million difference in the Corporation's financial  
3 position is not because of DSR; it's because of the  
4 rating -- the -- the rate application that the  
5 Corporation has filed along with the new DSR program.  
6 They really are quite separate.

7 DSR could be implemented without that loss  
8 of revenue. If you didn't look at those decreases in the  
9 people with eight (8), nine (9), or ten (10), merits  
10 there would not be that loss of revenue.

11 MS. CANDACE EVERARD: And that was going  
12 to be my next question, so let's talk about that.

13 Why not implement DSR without the \$42  
14 million reduction?

15 MS. MARILYN MCLAREN: For the reasons  
16 that the Corporation has stated. Clearly, the financials  
17 show -- and -- and -- we very clearly said yesterday that  
18 there's -- there's nothing on the horizon that shows any  
19 deterioration in the financials that have been in front  
20 of this Board beginning last June, I guess. There's no  
21 deterioration.

22 The fact of the matter is, understanding  
23 the process that we've been involved with here at the PUB  
24 for many years, the \$42 million dollars was going to go,  
25 one (1) way or the other. It is not based on a break-

1 even situation, so why then implement DSR with a rate  
2 decrease that -- that loses some revenue? It certainly  
3 does not create a financial loss but -- but foregoes some  
4 revenue. Because if we didn't, the revenue would have --  
5 we believe would have had to be foregone anyway.

6                   And this is an excellent opportunity to  
7 kick off the new program in a way that really does  
8 recognize the people with eight (8), nine (9), and ten  
9 (10) merits. It addresses one (1) of the biggest  
10 irritants with the old program, with respect to one (1)  
11 aspect of the double-dipping. And for those reasons we  
12 decided it was a -- a good way to deal with what clearly  
13 appears to be more net income than a break-even program  
14 would expect to have.

15                   MS. CANDACE EVERARD: So if I understand  
16 what you're saying correctly, the Corporation's position  
17 is that it would have ended up with that premium  
18 reduction in any event and it's taking this chance to  
19 give a better financial advantage to the safer drivers,  
20 as opposed to those that do not have safe driving  
21 records.

22                   Is that basically what you're saying?

23                   MR. DONALD PALMER: As with any rate  
24 change that we apply for wit -- this -- this Board, it's  
25 not -- it has never been done on an across-the-board

1 basis. So we always look at the classification cells  
2 that -- that need increases and -- and need decreases and  
3 then balance all those to the total revenue requirement.

4 This is exactly the same as that and if I  
5 could direct your attention to the financials with DSR  
6 and -- and specifically, the 2010/'11 and '11/'12 bottom  
7 lines, the negative 8.3 million and the 9.5 million for  
8 that rating year absolutely break even, or very, very  
9 close to -- to break even, from a rates setting  
10 perspective.

11 So that reflects the -- as we've always  
12 done with the striving for break-even rates and this  
13 Application before the Board for those targeted rate  
14 decreases does exactly the same as we have always done.

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE EVERARD: At a typical GRA,  
19 the Corporation provides certain projections, with  
20 respect to where it thinks its financial position will be  
21 in ensuing years. There have also been projections  
22 provided, as we've just been discussing, with respect to  
23 this Application.

24 Is it the case though that the Corporation  
25 is asking the Board in this Application to set DSR rates

1 based on -- more heavily on the -- the projections than  
2 it normally would at a GRA? Like at -- at a GRA, the  
3 Board is taking into account the future projections but  
4 is only setting rates on the year with which it is  
5 dealing. Is -- is there a difference between that and  
6 the pending Application?

7 MR. DONALD PALMER: No, no real  
8 difference. I -- I guess the one slight difference --  
9 we're applying for DSR rates for a sixteen (16) month  
10 period, so there is a -- a bit of a stub period  
11 difference.

12 But ignoring that for a moment, if we look  
13 at the rates that we're applying for, for '10 -- '10/'11,  
14 that really both affect the '10/'11 year and the '11/'12  
15 year -- again, just as we do for any rate application.  
16 So the -- the real test, whether those are break-even  
17 rates or not, is to look at the bottom line results of  
18 '10/'11, '11/'12, as I've just pointed out, and that  
19 shows the break-even.

20 So again, this is no different than any  
21 other rate Application that we present before this Board.

22 MS. MARILYN MCLAREN: And with respect to  
23 Mr. Palmer's comments and your question about, you know,  
24 the -- their projections, as opposed to a nearer term  
25 forecast, it's also really for a very small, small

1 percentage of the Corporation's overall revenues. So in  
2 effect, that is what we're doing. There is an outlook  
3 period here that would normally be covered with a -- you  
4 know, a full-blown forecast, and that is because we are  
5 in this sixteen (16) month window period.

6                   The -- I -- I'm not sure that we would  
7 being that, you know, if we were looking at the entire  
8 \$800 million of revenue required to have a, you know, a  
9 sufficient stable break-even program for a -- a period of  
10 time. I mean, it is for a very small percentage of the  
11 overall revenue.

12                   MS. CANDACE EVERARD: We've been  
13 discussing the approach being taken by the Corporation to  
14 reward the -- the very safest drivers over the last few  
15 minutes. What about the prospect for, rather than  
16 rewarding the safest drivers in the way of reduced  
17 premiums, but improving basic benefits for accident  
18 victims?

19                   Is that something that's been given  
20 thought by the Corporation?

21                   MS. MARILYN MCLAREN: As part of this  
22 process, no, no. Making sure the basic Autopac program  
23 continues to have the -- one of the best most  
24 comprehensive package of benefits, is something that we  
25 pay a great deal of attention to. There's been a number

1 of times since 1994 that the pure no-fault program has  
2 been modified to expand its scope so to speak.

3 That's something that the Corporation  
4 works on and considers and -- and, you know, when  
5 appropriate makes recommendations to government on, but  
6 certainly was not in -- in any way -- that ongoing  
7 process was not in any way tied to this process here.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE EVERARD: Okay. If we  
12 continue to look at Attachment A to the answer to Number  
13 13, and some of the numbers that we've been speaking of,  
14 the table relating to the "with DSR projections" reflect,  
15 as, Mr. Palmer, you've stated, a net loss of 8.3 million  
16 in 2010/'11, and net income of 9.5 million in 2011/'12.

17 MR. DONALD PALMER: That's correct.

18 MS. CANDACE EVERARD: And that's compared  
19 to the next table, which is the "without DSR" table, that  
20 reflects for 2010/'11, net income of 6.5 million, and for  
21 2011/'12, net income of 27 million.

22 Am I right?

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE EVERARD: How confident is  
25 the Corporation, or how sure can the Board be, with

1 respect to these projections, given that they are a few  
2 years out?

3 MR. DONALD PALMER: Again, that's  
4 virtually the same situation, wherein -- and -- in any  
5 GRA, give or take a few months. I mean, we're here in  
6 April instead of October, so that -- that six (6) month  
7 period. I can tell you that we have started our  
8 forecasting process for -- for the next GRA and there are  
9 a few ups and downs in that. We're taking a -- a real  
10 close look at investment income for instance, taking a  
11 look at the emerging experience that we've seen on the  
12 claims side as well.

13 Right now, I can tell you that our claims  
14 forecast look very good. We've -- as we've described  
15 last year in -- at the 2009 GRA our forecasts for auto  
16 theft, the -- the actuals were coming in much better than  
17 -- than forecasted, so we've taken -- we'll take that  
18 into account. We also had a lot of discussion with  
19 regard to our PIPP forecasts, and that there -- there  
20 seemed to be, over the last couple of years, an over-  
21 forecasting of -- of PIPP. We've -- we're taking a good,  
22 hard look at that, and early indications are that we'll  
23 be bringing our PIPP forecasts down somewhat.

24 So I certainly don't expect any  
25 significant bottom-line differences on a going-forward

1 basis and it's possible it could even be a little better.

2 MS. CANDACE EVERARD: And we'll have  
3 those revised forecasts at the GRA application later this  
4 year?

5 MR. DONALD PALMER: They will be filed in  
6 June, yes.

7 MS. CANDACE EVERARD: I'd ask you to turn  
8 to Question 18 posed by the Board in the IR exchange  
9 process. The answer to Sub A at Number 18 provides that  
10 there were no alternate rate schedules considered, and  
11 the answer also provides that gradual implant --  
12 implementation proposed for the DSR was based on, or  
13 consistent with, the Corporation's practice and the  
14 Board's rate-making methodology.

15 In the second paragraph, there's reference  
16 to an exception to that implementation strategy, being  
17 the decision to reduce driver premiums for those  
18 individuals at DSR Level 8 or higher.

19 So that was a policy decision made by the  
20 Corporation, is that fair to say?

21 MS. MARILYN MCLAREN: Yes, as opposed to  
22 an overall reduction in the revenue requirement from  
23 vehicle premiums; that was the decision. The starting  
24 point being, as we spoke a few minutes ago, the revenue  
25 shown in those outlook periods in the projections was

1 what participants to these proceedings have come to  
2 understand as excess. It was excess revenue, it was  
3 going to disappear one (1) way or the other. The policy  
4 decision was what kind of application to put together and  
5 apply for to do with excess revenue.

6 MS. CANDACE EVERARD: So the  
7 Corporation's thinking was by having that excess revenue  
8 disappear in favour of the safest drivers, the  
9 Corporation could connect with them better, draw their  
10 attention to the -- the new system or was it something  
11 else?

12 MS. MARILYN MCLAREN: No, that -- very  
13 much so, very much so. It was just a great opportunity.  
14 Other things as well. As -- again, as we spoke about  
15 earlier, the fact that it immediately addressed -- I -- I  
16 don't remember off the top of my head how many hundred  
17 thousand vehicle owners in the categories 8, 9, and 10,  
18 would see their driver premium disappear, immediately  
19 removing sort of an irritant that -- that we've heard  
20 about for many years.

21 It -- it served a number of purposes but  
22 the primary overall purpose, the revenue was about to  
23 disappear we believe, given precedent in these  
24 proceedings, and how best to start a program whose number  
25 1 objective was to enhance the rewards for the safest

1 drivers; to be able to do that right on Day 1.

2                   It's -- it's a great opportunity to -- to  
3 catch their attention, to increase the likelihood that  
4 they will pay -- it's a very big challenge getting people  
5 to understand a new program like this. And we've done a  
6 number of things and we'll continue to do a number of  
7 things to increase the likelihood that they will pay  
8 attention to it.

9                   Because it's related to merits, we know we  
10 have some level of attention right now, but the other  
11 point is how do we get them to understand? And to do  
12 something like this that will more likely grab their  
13 attention and cause them to have a little bit closer look  
14 at it, we really believed for -- for all intents and  
15 purposes, for all of the reasons stated, it achieves  
16 immediately one of the key goals of DSR.

17                   It removes one of the irritants for a  
18 significant number of these people. It will cause them  
19 to be more interested in paying attention to what it is  
20 we've done and how the new system will work. All of  
21 those was -- were the reasons that we chose this  
22 Application, as opposed to a different one.

23                   MS. CANDACE EVERARD: And so the irritant  
24 that you're talking about being removed is the driver's  
25 licence premium?

1 MS. MARILYN MCLAREN: For vehicle owners,  
2 yes.

3 MS. CANDACE EVERARD: And when you say  
4 that the Corporation is gonna consider doing some other  
5 things to draw attention to the system, can you just give  
6 us a quick summary of what those will be?

7 MS. MARILYN MCLAREN: I think that  
8 information is somewhere in the Information Request  
9 responses, related to the kinds of things we plan to do  
10 on the website. The renewal forms are a key part of  
11 that, actually showing the scale on each and every form.  
12 Personalized placement on the form for each and every  
13 driver and vehicle owner.

14 So there's a number of things from a  
15 communications perspective that we will continue to work  
16 on to increase their -- their interests in becoming  
17 informed.

18 MS. CANDACE EVERARD: In developing the  
19 DSR program that's been proposed, what consideration did  
20 the Corporation give to the current economic changes and  
21 current economic times and what those conditions -- or  
22 what kind of impact those conditions would have on the  
23 Corporation?

24 MR. DONALD PALMER: I would say that  
25 those short-term economic conditions were not part of --

1 of the overall program design. We've -- we've been in  
2 the design process for a long -- a long time.

3           As Ms. McLaren said in her opening  
4 statement, it's finally here, it's been a long time  
5 coming. We have pulled out -- I know with the CAC  
6 request on literature review, asking us what we did, we  
7 went back to some emails that were exchanged in 2006 on -  
8 - as kind of the early program design. So from that --  
9 that standpoint, no, I would say that the current  
10 economic situation didn't come into that -- that program  
11 planning.

12           Of course, as we get -- got closer and we  
13 were assigning actual rates and looking at the pro  
14 formas, then absolutely our -- our forecasts became  
15 important. And -- and it was through those forecasts  
16 that we saw that there was excess revenue through the  
17 2010/'11 and '11/'12 years that we could -- that we  
18 didn't need and we will provide that targeted rate  
19 decrease.

20           MS. MARILYN MCLAREN:    Just a little bit  
21 different perspective on the same answer. Clearly, no  
22 consideration during the design because the design was --  
23 was well underway, and actually the public consultations  
24 were largely complete, you know, before the significant  
25 economic difficulties started in the last quarter of last

1 year.

2                   The -- I'm very confident that the  
3 transition strategy would have been the same, even if,  
4 you know, very robust economic times were -- were still  
5 in existence here. But I think that the transitioner's  
6 strategy is particularly appropriate, given the challenge  
7 of changing and -- and volatile and unpredictable  
8 economic circumstances.

9                   Clearly, the big piece of the economic  
10 environment in which we operate right now, that we had to  
11 be assured of before coming forward with the Rate  
12 Application, was the dependability of the forecasts that  
13 we've been talking about for the last half hour or so.  
14 So that's the -- that's the key piece of that.

15                   In a broader sense, you know, with respect  
16 to the Corporation's history with economic circumstances  
17 and recessions and so on, often we will see a decrease in  
18 the number of vehicles registered and insured. But as  
19 we've talked about many times before, we believe that we  
20 have the best possible relationship between the rate  
21 charged for each and every vehicle and the risk that each  
22 and every vehicle presents. There's a very direct,  
23 measurable trade-off to a reduction in units registered  
24 and insured and a reduction in claims costs, because we  
25 have such a good link there.

1                   So that doesn't pose an unknown like it  
2 might for another organization or -- or this Corporation,  
3 you know, a decade or more ago.

4                   One (1) of the things we need to be  
5 concerned about in a program like this is that there's  
6 fundamental difference -- there's a fundamental  
7 difference between safe driving behaviour, claims  
8 reduction, accident reduction. A program like this is  
9 not intended to discourage claiming. A program like  
10 this, and everything else we do on the road safety front,  
11 is to discourage the accidents in the first place.

12                   So we want to be very careful that you --  
13 especially when people are uncertain about their economic  
14 future, you don't want to be doing things that encourage  
15 them to just avoid claiming, even if they've had a  
16 legitimate accident. Those kinds of considerations go  
17 into the design and that again talks about the spread and  
18 why the people at the lowest risk probably need to pay a  
19 little bit more than they would on a pure actuarial  
20 basis, like we were talking about yesterday, because you  
21 don't want to make the program unsustainable from that  
22 public policy guaranteed access perspective.

23                   So those are all considerations that --  
24 that we live and breath within the Corporation when it  
25 comes to the Basic compulsory program, but there's really

1 only a very narrow application of all of those  
2 considerations that came to determining what this  
3 application would be.

4 MS. CANDACE EVERARD: With respect to the  
5 forecasting there's been evidence given that even with  
6 the poor economic conditions, or unfortunate economic  
7 conditions in which we find ourselves that the  
8 Corporation was relying on its forecasts. And I know you  
9 told me a few minutes ago, Mr. Palmer, that the  
10 assumptions for the adjusted forecast that we saw did not  
11 change.

12 Do economic times or recession, if you  
13 want to call it that, give rise to a change in any of the  
14 assumptions used by the Corporation for its forecasting?

15 MR. DONALD PALMER: Sure. In terms of  
16 the -- you know, always we're looking at changing  
17 interest rates, changing inflation rates. The economic  
18 times can -- can affect the volume forecasts, can affect  
19 the upgrade forecasts, so absolutely, that -- the -- the  
20 economic environment really is a key component of our  
21 revenue forecasting process and our claims forecasting  
22 process. We have an economist on -- on staff who -- who  
23 sits on -- on the revenue forecast committee. She is  
24 also a member of pricing and economics staff, so it's  
25 part of that ongoing research.

1                   So absolutely, it's part of the economic  
2 scan that we always look towards in our forecasting  
3 processes.

4

5                                   (BRIEF PAUSE)

6

7                   MS. CANDACE EVERARD:    Okay.  So we've had  
8 some evidence in the last hour or so since we've convened  
9 this morning, with respect to the projected decreases in  
10 revenue to the Corporation.  And we've talked about the  
11 pure impact of the DSR.  We looked at page 29 or SM-5  
12 with the 110 million.  We've looked at other ways of  
13 calculating the effect and the -- the \$42 million  
14 expected decrease over the next four (4) years.

15                                   And I appreciate the Corporation's  
16 evidence that that money was going somewhere anyways and  
17 I'm not going back to that particular point right now.

18                                   But my question is with -- no matter how  
19 you look at it, whether you're looking at the hundred and  
20 ten (110) or the forty-two (42) and whether it would  
21 have gone somewhere anyways, at the end of the day is it  
22 fair to say that with less money coming in there will be  
23 an impact on investment income to the Corporation?  Less  
24 money to invest, less investment income?

25                                   Is that fair to say?

1                   MR. DONALD PALMER:    We would have had  
2 less money coming in anyway.  I -- I think that's the  
3 point.  If we weren't applying for this targeted rate  
4 decrease for safe drivers at this Rate Application, we  
5 would have been come -- all else being equal, we would  
6 have been coming back with a rate decrease at the 2010  
7 GRA.

8                   So to say that we would have had less  
9 investment income, it's not really an apples to apples  
10 comparison, because -- because we would never come to the  
11 GRA with projections of a -- an average of a \$16 million  
12 bottom line in the two (2) years that are effected by a  
13 Rate Application.  That would be an indicator of  
14 approximately a 2 percent rate decrease that we would  
15 have applied for, again spread out in an actuarially  
16 sound method amongst all the rating classifications.

17                   So -- so if -- if you're asking:  Is our  
18 investment income less with less premium income?  Sure.  
19 But we would have never been into -- we wouldn't have  
20 seen that, we wouldn't come to this Board with an  
21 application that showed healthy bottom lines when we're  
22 looking for a break-even.

23                   Or let me rephrase:  We think that break-  
24 even is a healthy bottom line, a big positive bottom  
25 line.

1 MS. CANDACE EVERARD: While we're  
2 speaking of investment, investments in the investment  
3 portfolio, can you give us an indication of what the  
4 current unrealized losses are in the Corporation's  
5 investment portfolio?

6

7 (BRIEF PAUSE)

8

9 MR. DONALD PALMER: We've had an  
10 investment rate of return in the last year of  
11 approximately minus 5 percent.

12 So certainly we have less -- less assets  
13 than we had a year ago. In terms of an exact number, in  
14 terms of unrealized loss, or -- or accumulated other  
15 comprehensive income, I -- to be more specific I'd like  
16 to defer that until we file the fourth-quarter report  
17 with this Board later on in these Hearings.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE EVERARD: Okay. So, Mr.  
22 Palmer, you indicated yesterday and you've indicated  
23 again that the fourth-quarter results ending February  
24 28th of this year will be provided within about a week,  
25 at least some indication.

1                   What about, particularly with respect to  
2 these investment issues, a -- a current update, a from  
3 March 1st to present date indication, is that something  
4 that can be provided?

5                   MR. DONALD PALMER:    From March 1st of  
6 2009?

7                   MS. CANDACE EVERARD:    Yes.

8                   MR. DONALD PALMER:    They're pretty good.  
9 That -- I don't know that I can be more specific than  
10 that.  Certainly, the last month has been better than the  
11 previous six (6) were.

12                  MS. CANDACE EVERARD:    Hm...

13                  MR. DONALD PALMER:    And -- and may I just  
14 add that I -- I've talked about -- about a minus 5  
15 percent rate of return; that -- that is reflective, of  
16 course, of our portfolio mix of 80 percent fixed income  
17 and 20 percent equities.  So, yes, the -- the stock  
18 markets have been down considerably over the last six (6)  
19 months, but there's less impact on us than many other  
20 large organizations that have a different asset mix than  
21 we have.

22                  MS. CANDACE EVERARD:    Thank you.  Is the  
23 Corporation aware that SGI has very recently announced  
24 that it will be seeking a 4.2 percent increase in rates  
25 in the upcoming year?

1 MR. DONALD PALMER: We are aware of that,  
2 yes.

3 MS. CANDACE EVERARD: Okay. Speaking of  
4 updates, with respect to investment issues, the -- if --  
5 if possible, can the Corporation provide an update, with  
6 respect to the possible implications of IFRS, or the  
7 International Financial Reporting Standards, on the  
8 forecast going forward?

9 Is there any new information on that?  
10

11 (BRIEF PAUSE)  
12

13 MR. DONALD PALMER: We don't -- right  
14 now, we're not seeing impact. And remember that IFRS  
15 doesn't come into effect until March 1st of 2011.

16 The classification of financial  
17 instruments looks to be very much the same as it is  
18 today. There doesn't seem to be much -- much difference  
19 that we can -- but again, we're -- we're still in  
20 preliminary phases of IFRS planning and making those  
21 decisions. So as far as a detailed update to be provided  
22 at -- at this Hearing, I really won't be in a position to  
23 do that.

24

25 (BRIEF PAUSE)

1 MS. CANDACE EVERARD: Mr. Palmer, you  
2 just said that IFRS takes effect March 1st of 2011, but  
3 isn't it the case that for comparative purposes, there  
4 will be required -- the financials prepared in that  
5 manner, as of March 1st, 2010?

6 MR. DONALD PALMER: Yes, that's true.

7 THE CHAIRPERSON: I'm just wondering  
8 about an update. I know from Manitoba Hydro, they have  
9 given us estimates of write-downs that they would expect  
10 to take as a result of the adoption of IFRS.

11 There's a lot of different accounting  
12 policies that of course are affected by IFRS, and in some  
13 cases some corporations have been early adopters and some  
14 have not. But we have received forecasts of potential  
15 affects on, you know, future results and current results,  
16 so we were just wondering whether or not you were at that  
17 same state of assessing, for example, deferred costs, and  
18 things of that nature?

19

20 (BRIEF PAUSE)

21

22 MR. DONALD PALMER: Just to give a little  
23 bit of information what we have done over the last number  
24 of months; when we were here back in September/October we  
25 had not chosen a financial -- or an implementation

1 partner for -- to help us with our IFRS Implementation.  
2 We have done that now. We have appointed Deloitte as our  
3 implementation partner.

4           We have gone through some preliminary  
5 workshops in -- in terms of identifying the major items  
6 that we think will affect us under IFRS. That -- that  
7 list is with respect to financial instruments, insurance  
8 contracts, employee benefits, and fixed assets. So we  
9 have identified those. We're going into a more detailed  
10 analysis.

11           Part of our -- our planning phase and our  
12 -- and our project plan was to have essentially a  
13 blackout period for January, February, and March, because  
14 that's a -- a very busy time for our -- for Deloitte.  
15 And they, in their -- in their project plan, in their --  
16 the proposal they had asked for that blackout period, and  
17 -- and in fact managed to decrease the cost of -- of the  
18 plan.

19           So -- so that really was a consideration  
20 in -- in the selection. And it -- and it certainly also  
21 matches with our -- our busy time, so to save money and -  
22 - and to -- to mesh better with our -- our business plan  
23 was -- was fine with us. So -- so we have done that  
24 identification.

25           One (1) of the -- the major changes with

1 regard to IFRS is the whole issue and classification of  
2 property, plant, and equipment. And a company like Hydro  
3 certainly has huge fixed assets that really it's a --  
4 it's a major part of their consideration. We're a much  
5 different business than that, so there is not the same  
6 effect on us as far as property, plant, and equipment.

7                   So we -- we are certainly back into the --  
8 the detailed plan, making many of those decisions over  
9 the summer. We will likely be able to inform the -- the  
10 Board of major detail policy considerations likely in the  
11 Fall. So we're -- we're well on the way.

12                   I can tell you that with the scan that --  
13 that we've done so far and -- there's not huge impact on  
14 us from a bottom-line perspective, or from -- from a  
15 financial results perspective, from a balance sheet  
16 perspective. When we get into Phase 2 of IFRS-4, which  
17 will happen sometime in the future, 2013, '14, '15,  
18 depending on who you talk to, there will likely be a much  
19 bigger impact on us. But as far as Phase 1, so far it's  
20 not huge.

21                   THE CHAIRPERSON: And when you say not  
22 you, you're specifically including in that potential  
23 impact on pension obligations and deferred costs?

24                   MR. DONALD PALMER: Yes. I -- I'm  
25 including that.

1 THE CHAIRPERSON: Thank you.

2

3 (BRIEF PAUSE)

4

5 CONTINUED BY MS. CANDACE EVERARD:

6 MS. CANDACE EVERARD: Mr. Palmer, the  
7 implications of IFRS that you've just been speaking of  
8 are not included, I take it, in the forecast that are in  
9 this Application?

10 MR. DONALD PALMER: That's correct.

11 MS. CANDACE EVERARD: But some of the  
12 changes dealing with IFRS, as we've discussed, will be in  
13 place during the outlook period that's presently before  
14 the Board?

15 MR. DONALD PALMER: Yes, beginning in  
16 March 2011, yes.

17 MS. CANDACE EVERARD: So how much weight  
18 can the Board safely place on the forecasts that are  
19 before it, given that there are all these impending  
20 changes?

21 MR. DONALD PALMER: I don't know --  
22 they're not -- from what we've seen so far, they're not  
23 huge. So -- and I would -- I would even say is large  
24 smaller than huge? I don't know. It's not significant  
25 from our forecasting perspective, that we've seen so far.

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: We've heard in the  
4 media recently that the Corporation has made a major land  
5 purchase, and if I'm wrong about that then please correct  
6 me, but what are the implications of that purchase going  
7 to be and are those included in the forecast that are  
8 before the Board?

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: You're referring to  
13 the acquisition of City Place --

14 MS. CANDACE EVERARD: Yes, sir.

15 MR. DONALD PALMER: -- and some parking  
16 lots that adjoining City Place. From a operating  
17 statement perspective there's not an immediate impact on  
18 the financials. On a long term going-forward basis, that  
19 -- that purchase was -- or the reason for that purchase  
20 was -- was mainly us purchasing our own home, so we won't  
21 have the lease costs going forward. We will have some  
22 amortization costs. Long term, likely our operating  
23 costs will decrease over the long term, so there will be  
24 a -- a financial gain.

25 So -- so that will, in effect, on a going

1 -- going forward basis, that -- those effects have not  
2 been built into our -- our projections.

3           There will be -- part of that purchase  
4 will be classified as an investment, so there will be  
5 investment income flowing to the Corporation through --  
6 because of the retail space, because of the parking lot  
7 revenue. That will -- has also not been taken into  
8 account but investment and investment revenue is part of  
9 the projections, and so in terms of -- of the im --  
10 impact and change there will be a small impact, but --  
11 but just looking at the operating statement, it won't be  
12 obvious that there has been a major acquisition.

13           THE CHAIRPERSON: Did you sell  
14 investments to buy the building?

15           MR. DONALD PALMER: The -- the purchase  
16 is not closed yet. The closing date is May the 1st. In  
17 terms of -- of planning and partially because of the  
18 current economic situation, we do have a large -- large  
19 amount of cash -- cash holdings currently, so there  
20 really isn't a large liquidation of assets that's  
21 required for this purchase.

22           THE CHAIRPERSON: So you don't have to  
23 take any realized losses as a result of the acquisition?

24           MR. DONALD PALMER: Not as a result of  
25 the acquisition. There are some realized losses that we

1 have taken over the last year but that wasn't as a -- as  
2 a result of making this acquisition of City Place.

3 THE CHAIRPERSON: Thank you.

4

5 CONTINUED BY MS. CANDACE EVERARD:

6 MS. CANDACE EVERARD: Mr. Palmer, I'm  
7 going to ask you to turn back to Question 13 posed by the  
8 Board in the IR round. And this figure probably appears  
9 in a number of places but we'll look at it on Attachment  
10 B.

11 The forecast for the year that just ended,  
12 2008/2009, in respect of total claims costs, is reflected  
13 as a \$26.4 million decrease in claims costs, compared to  
14 that which was forecasted.

15 Now that we are past that year end, was  
16 this realized or what was the final result?

17

18 (BRIEF PAUSE)

19

20 MR. DONALD PALMER: We're a little  
21 uncomfortable talking too much about our financials over  
22 the last year until they're tabled in the Legislature.  
23 So we're feeling constraints by that legislation.

24 In very broad terms our claims costs were  
25 better than forecast and -- and better than this -- this

1 number, so they have not -- certainly have not  
2 deteriorated. And all -- and -- and at the risk of -- of  
3 being mocked by counsel once -- once again, I will just  
4 say, stay tuned for that filing of the fourth-quarter  
5 financial.

6 MS. CANDACE EVERARD: Can you give us a  
7 sense of the source or the cause of the decrease? Was it  
8 just that the forecast was high or was there something --  
9 is there something specific that we can point to that  
10 resulted in the decrease?

11 MR. DONALD PALMER: Two (2) major sources  
12 that have I've -- that talked about.

13 One (1) was, comprehensive costs were  
14 lower, mainly because of auto theft; continues to be a  
15 very, very successful program and we've seen -- we  
16 expected the thefts to decrease very significantly and  
17 they have done even better than -- than we had expected.  
18 So -- so that's one source.

19 The other source that we talked about at  
20 some length in our GRA was PIPP costs, that we had PIPP  
21 projections, and over the last three (3) or four (4)  
22 years, the PIPP costs have not come up to the expectation  
23 that -- that we had in our -- in our rates and in our  
24 actuarial review. So that -- we have -- so those costs  
25 are -- have decreased for 2008/'09.

1                   Those are the two (2) major implications.

2                   MS. CANDACE EVERARD:    When the fourth-  
3   quarter information comes in a week or so, will you be  
4   able to split the savings according to those two (2)  
5   categories?

6                   MR. DONALD PALMER:    No.  Again, they're -  
7   - even though they're released and public, they're  
8   unaudited.  We're a -- we haven't done the audited split  
9   between Basic and the other lines of business and that  
10  will all form part of the 2010 GRA.

11                   So one -- once we file them, the -- the  
12  savings that we've seen, the \$26 million or so, that  
13  would have been apart from -- from PIPP.  The way that we  
14  have always booked our PIPP losses is kind of actualized  
15  them to budget, and then at the year end when we have  
16  completed our -- all our actuarial review, we actualize  
17  them.  So -- so most of the variance between this \$26  
18  million figure and what will be included in the fourth-  
19  quarter financial would be PIPP adjustments.

20                   MS. CANDACE EVERARD:    So does that mean  
21  the twenty-six (26) is attributable to the decrease in  
22  comprehensive costs and the -- basically, the success of  
23  the anti-theft initiatives?

24                   MR. DONALD PALMER:    Because of the timing  
25  of this -- this was based on -- on third-quarter -- for

1 the first three (3) quarters, we had also seen a decrease  
2 in collision costs. It -- it intrigued us somewhat and  
3 there was all kinds of speculation as to whether that was  
4 tied to gas prices, for instance, that were very high in  
5 the last spring and summer. All those decreases rapidly  
6 deteriorated in the fourth-quarter. We had a -- a very  
7 bad winter, from a claims perspective, with icy streets  
8 and whatnot.

9                   So -- so these costs that were based on  
10 third-quarter results would have also included some  
11 savings on collisions. Our actual fourth-quarter  
12 results, those savings in collision have evaporated.

13                   So to give you an exact number of how much  
14 of that decrease was -- was collision and how much was  
15 comp., probably 75 percent. I'm taking some liberties  
16 here, but about three-quarters (3/4s) of it would --  
17 would have been decrease in -- in Comprehensive costs due  
18 to theft, and the other quarter probably for collision  
19 costs.

20                   MS. CANDACE EVERARD: Thank you. Mr.  
21 Chairman, noting the time do you want to take the morning  
22 break?

23                   THE CHAIRPERSON: It's a good time.  
24 Thank you.

25

1 --- Upon recessing at 10:31 a.m.

2 --- Upon resuming at 10:52 a.m.

3

4 THE CHAIRPERSON: Okay, folks. Ms.

5 Everard...?

6 MS. CANDACE EVERARD: Thank you, Mr.

7 Chairman.

8

9 CONTINUED BY MS. CANDACE EVERARD:

10 MS. CANDACE EVERARD: If I could ask the  
11 panel to have a look at Answer 16 to the written  
12 questions posed by the Board, in particular the answer to  
13 Sub C, which is the very last schedule. This deals with  
14 the issue of the administrative costs related to DSR.

15 Ms. McLaren, you had indicated in your  
16 opening evidence that the costs were about a million and  
17 a half a year, and that would appear to be consistent  
18 with the numbers reflected in the total column or the  
19 total row on this table?

20 MS. MARILYN MCLAREN: I would agree.

21 MS. CANDACE EVERARD: The one (1)  
22 exception being the current year, 2009/'10, reflects  
23 costs of some eight hundred thousand dollars (\$800,000)?

24 MS. MARILYN MCLAREN: Yes.

25 MS. CANDACE EVERARD: There's a reference

1 here on the fourth row to computer costs licence fees for  
2 some forty thousand dollars (\$40,000) a year.

3                   What is the software that's being licensed  
4 by the Corporation?

5

6                                   (BRIEF PAUSE)

7

8                   MR. DONALD PALMER:    It's Informatica,  
9 which is used in relation to the Enterprise Data  
10 Warehouse.

11                   MS. CANDACE EVERARD:    The next row on the  
12 table reflects maintenance computer costs.  What does  
13 that cover?

14

15                                   (BRIEF PAUSE)

16

17                   MS. MARILYN MCLAREN:    We're going from  
18 little bit limited information and from memory here, but  
19 we believe some of that would likely be related to  
20 software maintenance, but also probably some maintenance,  
21 with respect to new servers and -- and data storage that  
22 we would require for the -- the new DSR data.

23                   MS. CANDACE EVERARD:    Does the  
24 Corporation expect that implement -- implementation of  
25 DSR will result in the purchase of any new computers?

1 MS. MARILYN MCLAREN: Servers, data  
2 storage, things like that, but no more PCs, things like  
3 that.

4 MS. CANDACE EVERARD: This schedule that  
5 we're looking at, 16 Sub C in the second row, reflects  
6 some numbers related to the amortization of capital  
7 assets.

8 What capital assets are those that are  
9 being amortized?

10 MS. MARILYN MCLAREN: That -- that would  
11 be the servers and the data storage.

12 MS. CANDACE EVERARD: And it would appear  
13 that the -- for the 2013/'14 fiscal year, the dollar  
14 amount dropped significantly. Why is that?

15 MR. DONALD PALMER: That's the end of the  
16 amortization period.

17 MS. MARILYN MCLAREN: It's only a three  
18 (3) year amortization for that kind of equipment.

19 MS. CANDACE EVERARD: And there's not  
20 expected to be a renewal or replacement of those assets  
21 in that year?

22 MS. MARILYN MCLAREN: It's hard to say,  
23 but -- but what we found lately is some of this  
24 equipment is actually lasting a little bit more than  
25 three (3) years. You know, that's something that's

1 changed through time. It used to be amortized over five  
2 (5) and organizations found themselves replacing it in  
3 less than five (5), dropped the amortization period, now  
4 it seems to last a little bit longer.

5 MS. CANDACE EVERARD: I'd ask you to turn  
6 to Question 14 posed by the Board in the written  
7 exchange. This deals with the idea of a cost benefit  
8 analysis relating to the DSR. The Corporation says in  
9 this response -- and I know this evidence has been given  
10 in the last couple of days -- that the Corporation's of  
11 the view that claims savings are more likely to be  
12 achieved as a result of the DSR, rather than the old  
13 system or the current system.

14 Can you elaborate on the reasons for that.

15 MR. DONALD PALMER: That's certainly  
16 linked to the understandability of the new system and  
17 also with regard to our communication strategy,  
18 specifically with the renewal forms that customers will  
19 be able to link their immediate behaviour with what they  
20 pay in -- in rates. And also gives the consequences of -  
21 - or benefits if they improve their driving behaviour,  
22 certainly for the higher risk drivers, that in the next  
23 number of years you will see these benefits, in terms of  
24 lower rates and -- and lower DSR level.

25 So when they're able to link their

1 behaviour with the rates that they pay as a consequence  
2 of that behaviour, we believe that will improve their  
3 behaviour.

4

5

(BRIEF PAUSE)

6

7 MS. CANDACE EVERARD: Going forward, will  
8 the Corporation be able to measure the savings levels, if  
9 any, by comparing the actual numbers to the results of  
10 the prospective modelling process?

11 MR. DONALD PALMER: We will always be  
12 able to compare actual versus expected results. To link  
13 specifically that one causes the other and -- and make  
14 that 100 percent link is always very difficult. And --  
15 and, for instance, when we look at weather, and say we  
16 had implemented DSR just at the beginning of this past  
17 winter, and it's like -- so -- and say for instance that  
18 the resulting claims costs were the same as they were in  
19 the previous winter, well, we would have had no idea to  
20 attribute that to say, DSR has no effect, or we -- the  
21 proper -- the -- the right answer would be, Well, we  
22 would have seen a 25 percent increase, because the winter  
23 was so bad, but we in fact saw zero so that 25 percent  
24 decrease would have been DSR.

25

It's -- it's hard to make that link

1 because you don't -- you don't have two (2) controlled  
2 experiments happening at the same time.

3 So certainly we will -- as always we will  
4 compare actual results versus expected results. We will  
5 try as best we can to attribute any differences to  
6 certain causal factors that we know about, but it will  
7 always be an estimate.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE EVERARD: Does the  
12 Corporation have an expectation going forward of what the  
13 distribution of drivers will be on the DSR scale and how  
14 that can be used to measure any changes in behaviour?

15 MR. DONALD PALMER: Yes, that's the  
16 prospective modelling exercise that comes up with an  
17 estimate of the number of drivers in -- in each DSR  
18 category, so that will be used as a -- for comparative  
19 purposes, yes.

20 MS. CANDACE EVERARD: Going forward,  
21 would the Corporation consider it appropriate to measure  
22 the impact of DSR on claims costs by comparing the  
23 forecast presented here in TI-1 and TI-2, with the actual  
24 future claims experience?

25 MR. DONALD PALMER: The implementation of

1 DSR is one of those causal factors that I -- I mentioned,  
2 so absolutely, actual versus expected comparisons will be  
3 made. And -- but there -- we know that there will be  
4 other factors that influence claims costs, too.

5 So to be able to distinguish specifically  
6 that it was DSR impact, or it was weather impact, or it  
7 was some -- some other economic impact, we'll have to  
8 make some estimates, with regard to that.

9 MS. CANDACE EVERARD: So what you're  
10 saying is going forward it's going to be difficult to  
11 isolate or measure what the effect of the DSR has been at  
12 the end of the day?

13 MR. DONALD PALMER: I would agree with  
14 that.

15 MS. CANDACE EVERARD: We know that the  
16 Corporation isn't forecasting claims costs reductions on  
17 account of DSR, but if driver behaviour does improve,  
18 does the Corporation anticipate that the average position  
19 on the DSR scale will move, not upward, but towards the  
20 merit side?

21 MR. DONALD PALMER: More merits, less  
22 demerits, yes.

23 MS. CANDACE EVERARD: If that were to  
24 occur, would it result in a further decrease in premium  
25 revenue beyond that which has been projected?

1                   MR. DONALD PALMER:   And claims costs, so  
2 the two (2) -- the -- the decrease in premium revenue  
3 would be offset by the decrease in claims costs.

4                   Again, very much the same as a -- an  
5 upgrade factor.  If we get the upgrade factor or the  
6 actual doesn't come out the same as what we expected it  
7 to be, there would be differing premium income coming in  
8 because of that difference, but there's also different --  
9 there's a claim impact on that.  And as long as we have  
10 the rates right, the two (2) will move in lockstep.  So  
11 upgrade volume -- if you have more vehicles on the road,  
12 you have more premium income, but you -- those additional  
13 vehicles that are on the road also have claims, so you  
14 also have an increase in claims costs.  So, again, the  
15 two (2) will be offset and move in lockstep.

16

17                   (BRIEF PAUSE)

18

19                   MS. CANDACE EVERARD:   As the record  
20 reflects, the Corporation isn't using actuarial  
21 indicators for the purposes of DSR, but rather the  
22 direction basis.

23                   To what extent is that a factor in any  
24 mismatch of the offset or lockstep that you've described?

25

1                   MR. DONALD PALMER:    That would be a  
2 factor, somewhat different than the upgrade that I've  
3 mentioned, where the rates are more actuarially  
4 determined, in terms of the -- the clear scale and the  
5 rate line that we've talked about.

6                   I'm trying to rationalize what direction  
7 it would -- it would go, but if there are less claims and  
8 more movement into the lower categories that -- or higher  
9 merit levels that aren't -- don't reflect enough  
10 discount, likely the claims costs would go down more than  
11 the decrease in premium revenue.

12

13   (BRIEF PAUSE)

14

15                   MS. CANDACE EVERARD:    So, to summarize  
16 your evidence, profitability will increase under the  
17 scenario, if behaviour improves? I'm not asking you to  
18 guarantee us that that's going to happen.

19                   MR. DONALD PALMER:    For MPI,  
20 profitability is always a dangerous word. I -- I would  
21 say that that would indicate a general rate decrease in  
22 ensuing applications.

23

24   (BRIEF PAUSE)

25

1 MS. CANDACE EVERARD: Okay. I'm going to  
2 move, then, to some questions dealing with the Rate  
3 Stabilization Reserve or RSR.

4 Mr. Palmer, you gave some evidence in your  
5 pre-filed testimony dealing with the RSR which I'd like  
6 you to refer to, particular -- particularly page 4. Oh,  
7 and it would help if I was looking at page 4 of your  
8 evidence instead of Ms. McLaren's.

9 So, page 4 of your evidence, the fourth  
10 last paragraph references in full the Rate Stabilization  
11 Reserve.

12 Can you read in that particular paragraph,  
13 and actually the one underneath it also, please.

14 MR. DONALD PALMER:

15 "The Basic Rate Stabilization Reserve  
16 is intended to protect motorists from  
17 rate increases made necessary by  
18 unexpected events and losses arising  
19 from non-recurring events or factors.  
20 The RSR is expected to be 116.3 million  
21 as at February 28th, 2010, compared to  
22 an RSR of 120.4 million presented at  
23 the 2009 GRA.

24 The RSR is projected to decrease to 108  
25 million as at February 28th, 2011,

1 compared to 127 million shown in the  
2 2009 GRA."

3 MS. CANDACE EVERARD: And can you explain  
4 the reason for the decline in the RSR balance from that  
5 forecast last year?

6 MR. DONALD PALMER: Because we've  
7 included a rate decrease targeted at safe drivers in this  
8 Application.

9 MS. CANDACE EVERARD: That's the DSR,  
10 right? Sorry the head nod will not show up on the  
11 transcript.

12 MR. DONALD PALMER: That's correct.

13 MS. CANDACE EVERARD: Thank you. Given  
14 what is reflected in your pre-filed testimony as the  
15 stated purpose of the RSR, which is consistent with what  
16 it's been in the past, can you describe how the DSR is  
17 consistent with that stated purpose?

18

19 (BRIEF PAUSE)

20

21 MR. DONALD PALMER: The -- the \$116  
22 million and the \$120.4 million are very close to the  
23 maximum levels that have been prescribed by the Public  
24 Utilities Board. So in terms of amounts in excess of  
25 that maximum, I don't know that it is even proper to call

1 that Rate Stabilization Reserve. It's excess RSR, excess  
2 retained.

3 So I don't think or -- amounts in excess  
4 of that, I don't know that the statement of protection --  
5 protecting motorists from rate increases made necessary  
6 by unexpected events, don't think that protection  
7 necessarily applies to amounts in excess of the RSR  
8 that's prescribed by the Public Utilities Board.

9 MS. CANDACE EVERARD: Historically  
10 though, haven't excess amounts in the RSR have been dealt  
11 with by way of a rebate rather than rate reduction?

12 MR. DONALD PALMER: Once they're there,  
13 yes. And -- and we have applied for decreases on a going  
14 forward basis when we saw that there was going to be a  
15 net income that would add to the RSR, we have reduced  
16 rates so the RSR doesn't get into those excessive levels.

17 MS. CANDACE EVERARD: So your evidence  
18 and the Corporation's view isn't that the DSR is a draw  
19 in the RSR for something other than its stated purpose,  
20 but rather the funds that are being drawn, for lack of a  
21 better word, are not properly RSR funds to begin with it.

22 Is that where you're coming from?

23 MR. DONALD PALMER: By this rate  
24 reduction we're -- we're ensuring that those excess funds  
25 won't be there so they don't have to be drawn down

1 through some other means.

2 MS. CANDACE EVERARD: Okay. That brings  
3 me to the question and answer from the Information  
4 Request exchange at Number 12, which deals with this very  
5 issue.

6 In particular I'm looking at the response  
7 to 12 Sub B, the first paragraph which deals with the  
8 overall financial impact and the Corporation's view of  
9 the DSR. And the final sentence in that paragraph reads:

10 "There is no 'draw' [in quotes] on the  
11 RSR."

12 Can you elaborate on that statement being  
13 made by the Corporation, with reference to the content of  
14 TI-2 in the Application. In other words, bring the two  
15 (2) together for me.

16

17 (BRIEF PAUSE)

18

19 MR. DONALD PALMER: Looking at page TI --  
20 TI-2 at -- with DSR, the Rate Stabilization Reserve  
21 balances are shown in the middle of the page. So for the  
22 end of 2007/'08, we were at \$127 million. The forecast  
23 for the end of '08/'09, \$121.7 million. And then  
24 projected to be 116.3 million, decreasing to 107 -- 108  
25 million for 2010/'11, back up to 117, and then on to 150

1 in '12/'13.

2                   The -- the balances for each one of those  
3 years are either in excess or in the upper part of the  
4 range of the RSR target range, as set by the PUB. So in  
5 -- in terms of -- of drawing down the RSR, we're well in  
6 the range so -- so we don't look at that as a -- as a  
7 draw. I suppose you could argue in '10/'11, you have a  
8 loss of \$8.3 million, you might characterize that as a  
9 draw, but then is made up by net income for the policy  
10 year in the following year of \$9.5 million.

11                   So -- so in that first full year of DSR  
12 operation, there is no draw. Comparing that to the RSR  
13 statements in -- on the next page, the retained earnings  
14 without DSR, on a going forward basis everyone of those  
15 numbers from '10/'11 and beyond is in excess of the RSR.  
16 So would be -- there would be some required action,  
17 either rate decreases that net incomes would decrease on  
18 a going forward basis, or if we kept rates the same,  
19 likely that would signify or signal rebates for those  
20 particular years.

21                   MS. CANDACE EVERARD: So from -- if I  
22 understand what you're saying, Mr. Palmer, the  
23 perspective of the Corporation is that when we compare  
24 the with-DSR number son page 1 to the without-DSR numbers  
25 on page 2, the fact that the with-DSR numbers are smaller

1 consistently does not constitute a draw on the RSR?

2 MR. DONALD PALMER: That's correct. It -  
3 - it is an indicator that there is a lower rate level in  
4 the with DSR numbers.

5 MS. CANDACE EVERARD: Now the Board asked  
6 a pre-ask question with respect to the RSR; that was  
7 number 4. If I could ask you to have a look at that  
8 answer.

9

10 (BRIEF PAUSE)

11

12 MR. DONALD PALMER: I have it.

13 MS. CANDACE EVERARD: So the answer to  
14 Pre-Ask Number 4 is the with-DSR schedule relating to the  
15 RSR, but it has included in it, not only the Board's RSR  
16 target range but also the Corporation's internal RSR  
17 target range?

18 MR. DONALD PALMER: That would be 50 to  
19 100 percent of MCT, yes.

20 MS. CANDACE EVERARD: Right. And it  
21 would appear that for the four (4) years commencing with  
22 the current year, 2009/'10, and ending with 2012/'13, the  
23 projected RSR balance at year-end will be less than the  
24 Corporation's internal range. Meaning less than the  
25 bottom end of the Corporation's internal range. I'm

1 looking at the 116.3 million in 2009/'10, compared with a  
2 bottom-end in the Corporation's eyes of 130 million, and  
3 so on.

4 MR. DONALD PALMER: And -- and I would  
5 also point out that the top of the PUB range is also  
6 below the bottom of the target range, yes.

7 MS. CANDACE EVERARD: I know, but that's  
8 not what I'm asking you about right now.

9 So, do we agree with -- with the  
10 proposition that the year end balance for those four (4)  
11 years is less than the bottom-end of the Corporation's  
12 range?

13 MR. DONALD PALMER: Yes, I will agree.

14 MS. CANDACE EVERARD: Now, CAC/MSOS asked  
15 an Information Request on the issue of the Corporation's  
16 view of what the RSR balance should be. That was Number  
17 2. You don't necessarily need to go there, but you can  
18 if you want.

19 In -- in essence, the Corporation, when  
20 asked about its view of the appropriate size of the RSR  
21 and whether that had changed since the last GRA, said  
22 that it was further investigating the issue of the size  
23 of the RSR and will likely be addressing this issue at  
24 the 2010 GRA.

25 Can you comment on that further?

1                   MS. MARILYN MCLAREN:    Through -- through  
2 the discussions at the last proceedings, the Corporation,  
3 I believe, went on the record to say that -- that it,  
4 too, as -- as the PUB, itself, the Board has stated,  
5 believes it's in the public interest to -- to resolve  
6 this divergence of -- of views, with respect to that.

7                   I can tell you what -- what we're doing  
8 within the Corporation right now began some time ago; is  
9 -- is determining whether or not there are alternative  
10 and -- and appropriate ways to assess the risk, the  
11 financial risk, that the Corporation faces. That's  
12 really what the RSR is all about, is in terms of finding  
13 the -- the appropriate mechanism to provide Manitobans  
14 with the rate stability that they really rely on.

15                   So we're -- we're -- the Corporation's  
16 first objective is: Is there a different way to assess  
17 that financial risk? We -- we are not, sort of,  
18 beginning the process to say, Okay, how can we propose to  
19 move closer and -- and get rid of this divide, so to  
20 speak?

21                   So that's what we're doing. And that work  
22 is underway, just as the forecasting is underway, just  
23 as, you know, we have all of that year-end work. We  
24 really need the year-end wor -- so it's all coming  
25 together. It's not yet done.

1                   But I would just confirm the statement in  
2 that Response to -- to CAC/MSOS, that we expect we will  
3 have something new on the subject to bring forward in the  
4 application.

5                   MS. CANDACE EVERARD:    Thank you.  I'm  
6 going to ask you to turn now to Question 22, posed by the  
7 Board in the First Round, which also deals with RSR  
8 balance.  And Attachment A, in particular, is where I'd  
9 ask you to look.  And that's the first Attachment A.  It's  
10 the 1-22 Sub A, Attachment A, as opposed to the Sub B,  
11 Attachment A.

12                   MR. DONALD PALMER:    I think I'm with you.

13                   MS. CANDACE EVERARD:    Hope so.  So, this  
14 schedule just go -- takes us out another year.  It goes  
15 out to 2013/'14, and it would appear provides that -- at  
16 this point, it's projected that -- or forecasted, rather  
17 -- that as of the end of that particular fiscal year, the  
18 RSR balance looks to be about 201.8 million.

19                                    Is that right?

20                   MR. DONALD PALMER:    That's what the  
21 schedule shows, yes.

22                   MS. CANDACE EVERARD:    And this is with  
23 DSR, and that would -- as reflected on the face of the  
24 schedule, if that were to materialize, put the RSR well  
25 above the Board's range for that year, which is set to

1 top out at 132 million.

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE EVERARD: And actually it  
4 looks that the projected RSR balance, even in the  
5 previous year, 2012/'13, is set to -- or projected to  
6 top-out the Board's range by exceeding it by some 24  
7 million.

8 MR. DONALD PALMER: Yes.

9

10 (BRIEF PAUSE)

11

12 MS. CANDACE EVERARD: For this four (4)  
13 year period that we've been talking about, that is  
14 between 2009/'10 and 2012/'13, does the Corporation have  
15 a plan, or has it given any thought to what would happen  
16 if there's an event or series of events that would lead  
17 to a decrease of the RSR balance, to take it below even  
18 the Board's bottom end range, like a hail storm, or a  
19 series of hail storms, or whatever scenario you want to  
20 imagine.

21

22 (BRIEF PAUSE)

23

24 MR. DONALD PALMER: Any RSR rebuilding  
25 strategy that we would employ would depend on the

1 circumstances at the time, whether the draw or the reason  
2 that we went below the bottom end of the PUB was a one  
3 (1) time event, like, catastrophic, or -- or whether it  
4 was the result of some other economic activity like  
5 higher inflation, your remedial action could include just  
6 an RSR surcharge on rates. It could include both an RSR  
7 surcharges and -- and a regular rate increase.

8           We have seen, during my tenure at MPI,  
9 probably both of those -- those happen. In the mid  
10 1990s, we saw the RSR dip below zero. There was RSR  
11 surcharges that were put in on a gradual basis, so we put  
12 in an RSR surcharge of 2 percent in the first year, and  
13 then an additional 2 percent in the second year, and then  
14 an additional 1 percent in the third year, in order to  
15 replenish the -- the RSR.

16           So the projections that we have don't  
17 include that -- that eventuality, and we would address  
18 that sort of on a -- on a case-by-case basis, as what we  
19 thought the best solution was at the time.

20           MS. MARILYN MCLAREN: But maybe a little  
21 bit more specifically related to the outlook that you's  
22 referencing here, Attachment A, of Sub A, PUB/MPI-1-22.

23           If -- trying to keep the rolling twenty  
24 (20) month two (2) year periods, that if, for example, we  
25 were preparing an application for the '12/'13 year and a

1 status quo revenue requirement and -- and claims forecast  
2 looked like it was going to produce a \$33 million -- or  
3 \$51 million net income for that year, which is the income  
4 shown in the '13/'14 year, which is the income for the  
5 previous year, which is the rate at for '12/'13 we're  
6 talking about.

7                   If instead of \$150 million the RSR was at  
8 \$50 million, a legitimate approach to consider would be  
9 to apply for a status quo rate application, not reduce  
10 rates to avoid the net income of \$51 million, but leave  
11 rates where they otherwise already were and apply for the  
12 use of those rates to rebuild the RSR.

13                   So given the numbers that we were looking  
14 -- here, that may very well be a legitimate approach, but  
15 who knows where will be when. But in terms of this  
16 particular outlook and projection that might be  
17 reasonable if that happened at some point.

18

19                   (BRIEF PAUSE)

20

21                   MS. CANDACE EVERARD: We've heard  
22 evidence about the Corporation's view that this rate  
23 decrease -- sort of in lieu of a rate decrease, the DSR  
24 is being proposed and that the idea is that the savings  
25 accrue to the best drivers rather than across the board

1 as a normal rate decrease would.

2 Does the Corporation have a view on  
3 distribution of any future premium rebates that may arise  
4 in the normal course, and whether if that were to occur  
5 those should be distributed according to DSR rating, as  
6 opposed to across the board as has been done in the past?

7 MR. DONALD PALMER: First, let me correct  
8 you, Ms. Everard. Generally, rate decreases are not done  
9 on an across-the-board basis; they are done specifically  
10 with regard to individual classification cells. So for  
11 example, in 2007 we had a 2 percent -- 2.6 percent  
12 average rate decrease, but some Manitoba motorists got an  
13 increase. More got decreases. Certainly more got  
14 decreases that were -- the decrease is greater than 2.6  
15 percent.

16 So depending on the past historical  
17 experience of those particular classification cells, that  
18 would be the indicator of the individual rate changes  
19 that occurred, so not done on an overall basis. With  
20 regard on a going-forward basis, we would take the same  
21 approach and -- and say -- but add one (1) more variable  
22 into the mix and that's DSR levels and DSR rates.

23 In general, over the last ten (10) years  
24 for -- for sure we haven't looked at the driver premium  
25 in too much detail. We haven't looked at the discount --

1 the vehicle discount levels. We haven't looked at  
2 necessarily the surcharge levels. I would anticipate  
3 that would change over the -- the next number of years.

4           And -- and we've already indicated to the  
5 Board that we're looking at increasing the maximum  
6 vehicle discount rate over the next number of years to 27  
7 1/2 percent and then to 30 percent. That becomes part of  
8 our -- or will become part of our regular annual rate-  
9 setting exercise, as to the distribution of rate  
10 decreases and whether they will be giving, in terms of  
11 lower rates, for pleasure cars in Winnipeg, or whether  
12 they'll be given to DSR Level 12 drivers.

13           It will be certainly part of the rate-  
14 setting balancing exercise in -- in which we get the  
15 required overall level of revenue.

16           MS. MARILYN MCLAREN: Ms. Everard, that -  
17 - that was the actuary always looking well into the  
18 future. I think your question was also focussed on what  
19 might a future rebate look like if we ever had too much  
20 money in the RSR. That's sort of a retrospective view of  
21 the world.

22           First, I think it's -- it's fair to say  
23 that the Corporation sees little opportunity for rebates  
24 in the -- in the foreseeable future. I think one (1) of  
25 the large drivers of past rebates, I think that's been

1 mentioned in -- in orders of this Board, related to the  
2 taking of gains in the equity market. That hasn't  
3 happened for about two (2) years now, not necessarily  
4 because of the economic circumstances, but the  
5 Corporation has -- has not chosen to -- to do that within  
6 the last couple of years.

7                   And I think as we continue to improve the  
8 -- the forecasting processes and the relationship between  
9 rates charged and risk presented and -- and dealing with  
10 some of the things on the PIPP side of things,  
11 significant excess revenue from forecast is becoming less  
12 and less likely.

13                   So having said that, if we find ourselves  
14 in the position of having to figure out what to do about  
15 rebates, we may very well think about it differently. We  
16 might. But there -- there are different ways to think  
17 about it and -- and we may choose to think about it  
18 differently.

19                   I can tell you SGI has done it differently  
20 than we have. They've rebated excess funds in their RSR,  
21 calculated by base rates; not the rates that people  
22 actually pay but -- but by the base rate. So if  
23 someone's entitled to a 20 percent discount, they would  
24 in effect get a rebate calculated on the base rate, not  
25 the discounted 20 percent rate that they actually paid.

1 So they're targeting some of that excess rebate to their  
2 best drivers.

3 There's more than one (1) way to do it.  
4 We may very well in the future if we find ourselves in  
5 that situation come back with exactly the same approach,  
6 as we have previously. We -- we may not. But I think we  
7 don't expect to find ourselves in that situation any time  
8 soon, but we'll have to figure it out and see what we  
9 come to the Board with if we get there.

10 MS. CANDACE EVERARD: And if there was a  
11 situation that arose where a premium rebate was on the  
12 horizon, the Corporation, I think by what you're saying,  
13 would have the ability to track and distribute funds  
14 according to DSR level?

15 MS. MARILYN MCLAREN: Yes, we -- we could  
16 do that. Yeah.

17 MS. CANDACE EVERARD: Now looking back at  
18 Attachment A, to 1-22 Sub A --

19 MR. DONALD PALMER: Sorry, could you  
20 repeat that?

21 MS. CANDACE EVERARD: Sure. I just want  
22 to look back at Attachment A to 1-22(a). It's the same  
23 one we've been looking at.

24 The RSR projected balances reflected here  
25 include or reflect the impact of not just the DSR but

1 also of the streamline renewal process?

2 MR. DONALD PALMER: Yes.

3 MS. CANDACE EVERARD: Can you tell us  
4 whether there are any other changes to the forecasts  
5 reflected in this document from those presented at the  
6 last GRA, other than the DSR and SRP?

7 MR. DONALD PALMER: And the start of --  
8 from a different base, again, these would be generated  
9 from the results that were generated from the Q3 results.  
10 So -- and we talked about that a little bit this morning,  
11 that adjusted forecast.

12 MS. CANDACE EVERARD: And Q3 means  
13 Quarter 3?

14 MR. DONALD PALMER: Yes.

15 MS. CANDACE EVERARD: Okay. Looking at  
16 Attachment B for a moment, so just the very next page,  
17 this is Attachment B to 1-22 Sub A.

18 And just to do a little comparison between  
19 Attachments A and B -- A being the with-DSR, and B being  
20 without-DSR -- we see that if we look at the very last  
21 year reflected in the outlook period 2013/'14, the with-  
22 DSR anticipated balance is 201.8 million and the without-  
23 DSR balance for the same year is 255 million?

24 MR. DONALD PALMER: That's correct.

25 MS. CANDACE EVERARD: So that's a

1 difference of about 51 million? Sorry, 54.

2 MR. DONALD PALMER: That's correct.

3

4 (BRIEF PAUSE)

5

6 MS. CANDACE EVERARD: So I take it, based  
7 on the evidence that's been given over the course of this  
8 proceeding, that it's the Corporation's view that the  
9 impact of the DSR on the RSR will not serve to weaken the  
10 financial position of the Corporation.

11 MR. DONALD PALMER: That's correct.

12 MS. CANDACE EVERARD: Okay, continuing  
13 with Question 22. I now want to ask you to turn the page  
14 and look at Attachment A to 122(b). This schedule  
15 provides a bit more detail in that it breaks out the  
16 detail of net income pre-DSR, DSR, and the streamline  
17 renewal numbers.

18 Is that correct?

19 MR. DONALD PALMER: That's correct.

20 MS. CANDACE EVERARD: So if I'm reading  
21 this correctly, if we look at the year 2009/'10, the year  
22 that we're in, Basic's net income would have been about  
23 2.6 million -- sorry, that would have been a \$2.6 million  
24 net loss to Basic, but with the implementation of DSR, as  
25 reflected on this schedule, the net loss moves to about

1 6.3 million.

2 Is that right?

3 MR. DONALD PALMER: That's correct.

4 MS. CANDACE EVERARD: And then in the  
5 next year, which will be the subject of the GRA to be  
6 filed in June, the 2010/2011 fiscal year, the -- there  
7 was projected income, positive income, to Basic of some  
8 7.5 million, but taking into account the DSR, and as  
9 well, the modest commission savings in that year, the --  
10 at the end of the day, the current projection is a net  
11 loss of 8.3 million.

12 Is that right?

13 MR. DONALD PALMER: That's correct.

14 MS. CANDACE EVERARD: If we look across  
15 the DSR row in this schedule, from 2009/'10 through to  
16 2013/'14 -- so I'm looking at the three point seven  
17 (3.7), the sixteen point five (16.5), the twenty-three  
18 (23), et cetera -- if we add those together, it appears  
19 to give a total underwriting loss of some 90.8 million,  
20 if we just add those figures together.

21 Does that look about right?

22

23 (BRIEF PAUSE)

24

25 MR. DONALD PALMER: I would agree with

1 that.

2 MS. CANDACE EVERARD: Okay. Just a  
3 couple of questions while we're discussing the RSR, with  
4 respect to the Dynamic Capital Adequacy Test or the DCAT.

5  
6 Does the Corporation believe that the  
7 implementation of DSR will expose it to any new sources  
8 of risk?

9  
10 (BRIEF PAUSE)

11  
12 MR. DONALD PALMER: We -- we're talking  
13 about -- in terms of -- of driver premiums, specifically  
14 -- about \$30 million. So, there may be some risk --  
15 especially when you implement a -- a new program -- there  
16 could be some risk that your outcomes won't be what you  
17 expect. That's one (1) -- one (1) of the risks of  
18 development of any new program, I suppose.

19 Would that be big enough to be one of the  
20 top three (3) adverse scenarios in the DCAT? I doubt it.  
21 I suppose it's possible that -- if we were that much  
22 different in -- in -- in our projections and what our  
23 prospective modelling has been. But it -- it's hard to  
24 me -- for me to imagine a scenario that there is huge  
25 adverse consequences, of the risk of -- of DSR. So I will

1 say almost certainly not, but I'm gonna leave myself that  
2 much of an opening, being a still -- a conservative,  
3 careful actuary.

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: Couldn't it be argued  
8 that it actually reduces the overall risk, because it  
9 provides the Corporation with more options, with respect  
10 to the scale of difference between merit and demerit?  
11 More flexibility?

12 MR. DONALD PALMER: There is more  
13 flexibility in terms of management reaction to some of  
14 the -- those risks. I don't know that it necessarily  
15 reduces the risk itself.

16 MS. MARILYN MCLAREN: Or maybe we're  
17 talking the difference between inherent risk and residual  
18 risk. The -- and inherently, the risk is the risk, but  
19 based on some of the management options, the residual may  
20 be somewhat lower.

21

22 CONTINUED BY MS. CANDACE EVERARD:

23 MS. CANDACE EVERARD: Just for the  
24 purposes of the record, can you confirm when the Board  
25 last saw a DCAT report from the Corporation?

1 MR. DONALD PALMER: There was one (1)  
2 filed at the last proceedings. I think it was for -- not  
3 the previous year-end, but the one before that. I'll  
4 have to double-check on that.

5 MS. CANDACE EVERARD: I'm not trying to  
6 test your memory, so if you could double-check, that  
7 would be appreciated.

8 MR. DONALD PALMER: There definitely was  
9 one (1) that was filed at the last proceedings.

10 MS. CANDACE EVERARD: Do you remember if  
11 it included any information relative to DSR?

12 MR. DONALD PALMER: No, it would have --  
13 would not have.

14 MS. CANDACE EVERARD: When does the  
15 Corporation anticipate the Board will see an updated  
16 DCAT?

17 MR. DONALD PALMER: At the next GRA.

18 MS. CANDACE EVERARD: And presumably,  
19 that will include reference to DSR?

20 MR. DONALD PALMER: The DSR will be  
21 incorporated into the base scenario, yes.

22

23 (BRIEF PAUSE)

24

25 THE CHAIRPERSON: While they are

1 conferring I'm just returning to this risk business, just  
2 in conceptual terms.

3                   Could it be argued that your assumption  
4 with respect to claims cost, which is no effect of the  
5 DSR, is actually presumably the worst case scenario?

6                   Vis-a-vis the DSR. How could the DSR lead  
7 to a worsening in claims experience?

8                   MS. MARILYN MCLAREN: I think it's  
9 unlikely that it would lead to a worsening. There is the  
10 possibility that people in the upper reaches of the merit  
11 schedule will decide that the financial impact of filing  
12 a claim is lower than it otherwise would have been and  
13 maybe they'll file claims.

14                   I don't think that's much of a risk. We  
15 did see that though. I think it was the year, 2001, when  
16 we stopped taking away the full merit discount from long-  
17 term safe drivers who had their first at-fault accident,  
18 and instead charged them the \$200 surcharge on the first  
19 in a long time. The accident frequency of that group  
20 increased.

21                   So I think, again, that comes back to the  
22 difference between accident frequency and claiming  
23 frequency. The accidents I'm sure were there. I don't  
24 think they started driving worse. I think they started  
25 filing, probably for the most part, less -- less severe

1 claims. But -- but we do have a little bit of history  
2 where the program design can make people come forward  
3 with claims that seems they otherwise didn't.

4 THE CHAIRPERSON: Interesting, thank you.

5

6 CONTINUED BY MS. CANDACE EVERARD:

7 MS. CANDACE EVERARD: Ms. McLaren, just  
8 following on your exchange with the Chairman, what about  
9 the converse scenario, where an individual just does not  
10 insure the vehicle and then still has a claim? They  
11 choose not to insure because of a high premium, but then  
12 there are still some kind of collision and claims cost  
13 that flow from that.

14 MS. MARILYN MCLEAN: That's always a  
15 possibility. I think the design of the program, you  
16 know, the -- the integration with registration, makes  
17 that less likely here than in other jurisdictions. You  
18 don't have a plate, you don't have a sticker, you -- you  
19 have to register the vehicle.

20 We do have, you know, some level of  
21 enforcement, with respect to unlicensed drivers driving  
22 vehicles. Clearly, there's no coverage for the vehicle  
23 when someone knowingly gives their vehicle to someone  
24 without a driver's licence, so there's no claims cost  
25 there. But, clearly, if there are other injured people

1 or -- or damage to another party's vehicle, those would  
2 be costs that the fund bears.

3                   That's one (1) of the considerations;  
4 again, the public policy perspective versus the actuarial  
5 science of where is the top and where is the bottom. You  
6 can't price people out of the market. It's very  
7 important that drivers stay engaged. It's one (1) of the  
8 things that -- that, years ago, as long as -- 1971, lead  
9 the Government to create the -- how do you wear off  
10 demerits, and -- and, again, is included in the  
11 regulation, kind of the same idea: How do you wear off  
12 those demerits? Trying very hard from, you know, the  
13 Government's perspective to keep people engaged, keep  
14 people part of the program.

15                   THE CHAIRPERSON: Don't you have that  
16 problem with the auto theft, with youth stealing cars,  
17 damages; they do not pay off the debt owing to MPI,  
18 presumably?

19                   Don't you have that problem of  
20 disengagement?

21                   MS. MARILYN MCLAREN: Absolutely.  
22 Particularly the problem --

23                   THE CHAIRPERSON: Does the DSR help at  
24 all with this? I realize that you have the opportunity  
25 to provide some form of relief.

1 MS. MARILYN MCLAREN: You know, there are  
2 -- in -- in the driver licensing system there are  
3 probably a handful -- well, more -- you know, describe  
4 handful -- several dozen young people who have never had  
5 a driver licence, who have been convicted of stealing  
6 many cars and have all kinds of demerits. We -- we do  
7 know that -- that important tool in helping young,  
8 disconnected, disenfranchised people, to sort of become  
9 productive members of society is a driver licence. It  
10 offers employment. It offers all kinds of things.

11 There may be opportunities there, in terms  
12 of getting rid of those demerits through the, you know,  
13 the accelerated process that's specified in the  
14 regulation.

15 I think we always as -- as, you know, the  
16 public insurer, we have always had claims that are paid  
17 that we never -- didn't get a premium for or cannot  
18 subrogate and so on. So that -- that's always been  
19 there. This doesn't increase the likelihood of that  
20 unless the rates charged on that demerit side of the  
21 scale really encourage people to opt out. That's where  
22 the risk would be on that side of things.

23 THE CHAIRPERSON: I will have to reflect  
24 on that. What I was getting at was whether or not there  
25 was any opportunities in the DSR to allow, or to further

1 rehabilitation, if you like, of people that have  
2 basically fallen out of the system, because of their  
3 practices as youths.

4 MS. MARILYN MCLAREN: There -- there's  
5 some of that that's always been part of the system  
6 though. I mean, I think the -- clearly, this system,  
7 itself, is designed for -- for people who are engaged,  
8 who are active participants in the vehicle insurance and  
9 the driver licence system, clearly. I think the  
10 Corporation has considered and actually had a look at one  
11 (1) opportunity that came by fairly recently to help some  
12 of these people re-engage.

13 It's probably not significantly enhanced  
14 with the Driver Safety Rating System, because these are  
15 people who have had their licences suspended or never had  
16 a licence. They have a bunch of demerits in the existing  
17 system. And we've looked at -- at some programs with  
18 some of the agencies that are helping to foster sort of a  
19 -- training and employment, and -- and see if there's  
20 something we can do to get them into the system.

21 I -- I think that is part of what we do,  
22 and I don't know that it's significantly enhanced with  
23 the change to the, you know, Bonus-Malus structure.

24 THE CHAIRPERSON: Thanks. I was just  
25 wondering because I was thinking as the success goes on

1 with the anti-theft campaign, eventually you get down to  
2 the flat line, so to speak, of the incidents of theft,  
3 which presumably is considerably less than what was the  
4 experience that led to the program. And then you're left  
5 with hundreds of people presumably that have participated  
6 a theft that have grown past that now, but are  
7 disassociated with normal driving and licensing, and a  
8 lot of things that come with life.

9 MS. MARILYN MCLAREN: I think that's  
10 true. One (1) of the things that we do need to learn  
11 about: There -- there's been some research showing that  
12 people who don't obey traffic laws tend not to obey any  
13 laws. So there is a -- a fairly strong, you know,  
14 broadly speaking criminal element down there at the  
15 bottom of the demerit scale. Some of those certainly  
16 would have been auto theft, in -- in our context.

17 I think the thing that makes Manitoba a  
18 little bit different from a broad statement about, you  
19 know, who is having all these convictions, is the extent  
20 to which the auto theft problem here was driven by youth.  
21 And I think that's something that we'll always inform the  
22 programs we decide to support, the initiatives that we  
23 decide to take part in -- is very important for us, in --  
24 in this community, you know, to stay very focussed on  
25 what can we do to -- to help the youth.

1                   It -- it's not necessarily the same in  
2 other places.

3                   THE CHAIRPERSON:    I was just recalling  
4 your comments many, many applications ago, when you were  
5 advancing the whole idea of the Immobilizer Fund and all  
6 the rest of it, and you cast a sort of a wide net of the  
7 social considerations related to auto theft.  And that's  
8 what I was basically pursuing.

9                   As you come out of that problem, through  
10 efforts, I was just wondering what do you do with the  
11 basically the ones that have engaged in it again.  So  
12 just on that, whether you continue to give thought now  
13 that you don't have the problem, or is the problem -- at  
14 least it's becoming less and less over time.

15                  MS. MARILYN MCLAREN:   No, I -- I think  
16 that's fair.  And I think that is part of, you know, the  
17 capacity the -- the way this program works that we can  
18 look to do things like that.

19                  One (1) of the things in all honesty that  
20 we're looking at -- and again, you probably will see more  
21 in -- in June -- is -- so if the Corporation's risk  
22 related to theft is -- is diminishing to the point where,  
23 you know, structured programs are not required to deal  
24 with it, are -- are there other kinds of risk that the  
25 Corporation would face from -- to a significant extent

1 maybe some of the same kids.

2                   You know -- I mean, what -- what's  
3 happening in that broader context in a way that -- that  
4 MPI may have a need or desire to help mitigate other  
5 situations that can cost us money on the claims front,  
6 and -- and can hurt us, as is -- active and contributing  
7 Corporation to sort of the fabric of this community.

8                   THE CHAIRPERSON: Thank you.

9                   Ms. Everard...?

10

11 CONTINUED BY MS. CANDACE EVERARD:

12                   MS. CANDACE EVERARD: Thank you, Mr.  
13 Chairman. I'm just going to move into a bit of a -- a  
14 different area and I have a few questions on and -- then  
15 before the lunch break.

16                   Does the Corporation agree that in  
17 assessing rates for service the Board should have a look  
18 at the overall financial well-being of the Corporation?

19                   MS. MARILYN MCLAREN: No, actually. We  
20 understand that this Board has taken that position for a  
21 long period of time. We -- we've acknowledged that but  
22 we've not agreed or -- or supported it.

23                   We're not sure where that takes us. I can  
24 remember in years past, Mr. Galenzoski posing some of  
25 those questions through time. Where does that take us if

1 in fact the basic program is -- is strong and financially  
2 sound but other parts the Corporation aren't? Do you do  
3 something different with basic rates? Do you give us a  
4 different basic RSR?

5 I'm not sure where that takes us, so I  
6 think this -- especially when you consider the fact that  
7 the basic compulsory program is 80 percent or more of the  
8 financial position of the Corporation, the activities of  
9 the Corporation. I'm -- I'm not sure where that  
10 perspective would actually play out in -- in the  
11 regulatory process, according to -- that we have here  
12 with the Basic compulsory program.

13 MS. CANDACE EVERARD: Okay. And we'll  
14 come back to that in a second.

15 In the round of Information Requests the  
16 Board asked that the retained earnings for Extension an  
17 SRE be provided -- this is at 1-22 Sub C -- and the  
18 response was that these retained earnings are not germane  
19 to the Application.

20 Do you have anything to add as to the why,  
21 behind that answer, beyond what you've already said?

22 MS. MARILYN MCLAREN: No, not -- not  
23 really beyond what we've already said. The annual report  
24 that the Corporation publishes is a -- is a corporate  
25 document. Detail is broken out there. You have the one

1 from the last fiscal year. Another one will be tabled in  
2 the legislature in June. You'll have that -- he'll have  
3 that one. That's the way we've dealt with this for the  
4 last number of years, is -- that is public information,  
5 it's on the record, and that's what we are able to  
6 discuss in these proceedings.

7 MS. CANDACE EVERARD: So the financial  
8 information that will be coming forward within a week or  
9 so will not include anything with respect to an Extension  
10 or SRE?

11 MR. DONALD PALMER: It -- it will be  
12 corporate.

13 MS. CANDACE EVERARD: So it will --

14 MR. DONALD PALMER: Yes.

15 MS. CANDACE EVERARD: So I take it then,  
16 based on the oral evidence that we've just heard, that  
17 the Corporation is maintaining its answer in 1-22 Sub C  
18 and is basically refusing to provide the information  
19 that's being requested right now?

20 MS. MARILYN MCLAREN: Yes.

21 THE CHAIRPERSON: Your assets are  
22 commingled, are they not? Like, there is no such thing  
23 as Basic investments?

24 MR. DONALD PALMER: That's correct.

25 THE CHAIRPERSON: So some things are

1 desperately gone wrong in Extension or SRE or something  
2 like that, and you had to liquidate investments that  
3 would affect Basic as much as the other divisions,  
4 correct?

5

6 (BRIEF PAUSE)

7

8 MR. DONALD PALMER: No. I -- I wouldn't  
9 necessarily agree with that. If you had to liquidate  
10 assets, I guess it would depend on what assets you  
11 liquidated. There could be a positive or negative effect  
12 of that.

13 Something desperately wrong that happened  
14 to Extension and SRE, again with the relative size of  
15 those -- those divisions compared to Basic, our Basic  
16 revenue, as Ms. McLaren pointed out, is about 80 percent  
17 of total corporate revenue. So again, to -- to say that  
18 there would be something that wrong really would be the  
19 tail wagging the dog. It's difficult for me to say that  
20 there'd be a huge impact on Basic from -- from what  
21 you've described.

22 THE CHAIRPERSON: The investments are  
23 commingled so the asset mix of the investment portfolio  
24 is done on a corporate-wide basis, correct?

25 MR. DONALD PALMER: Yes.

1 THE CHAIRPERSON: And the nature of  
2 Extension and SRE is not identical in all characteristics  
3 to that of Basic, is it?

4 MR. DONALD PALMER: No. I would say that  
5 in terms of claims liabilities, for instance, Basic  
6 probably has a longer tail because of the long-term  
7 nature of PIPP benefits.

8 Extension would be very short tail. Most  
9 of -- I'm thinking about 75 per -- 80 percent of the  
10 Extension premium is likely deductible buy-down. That's  
11 our biggest product, which would be very short -- short  
12 tail Extension -- would be split between the physical  
13 damage and liability which would be medium tail.

14 THE CHAIRPERSON: Yes, I was thinking  
15 along the same lines on that point. I mean, the matching  
16 of terms of assets and liabilities would differ between  
17 Basic and Extension and SRE?

18 MR. DONALD PALMER: Yes.

19 THE CHAIRPERSON: Hm --

20 MS. MARILYN MCLAREN: Sorry, Mr.  
21 Chairman, if I could. The portfolio is a corporate  
22 investment portfolio. It doesn't necessarily mean that  
23 each and every purchase or sale has to be handled that  
24 way. There was a time a while back when we were -- we --  
25 we designated some investments to fund the increase of

1 the remaining Part 2 accident benefit claimants after we  
2 moved into the PIPP environment.

3                   So -- and -- and there's constant change  
4 in the investment portfolio. You know, bonds -- bonds  
5 come and go, equities come and go. There would -- there  
6 would be nothing that would prevent us, if we somehow had  
7 this catastrophic event in one (1) of the competitive  
8 lines, that -- that needed some cash to take some of the  
9 ongoing turnover of the portfolio for that purpose. It  
10 would have no effect on other lines.

11                   THE CHAIRPERSON: I'm just thinking, as  
12 you are through this, I mean, right now there are no  
13 assets specifically designated as being Basics'  
14 investments, as opposed to a commingled situation?

15                   MR. DONALD PALMER: The -- the last time  
16 we had earmarked investments was probably about five (5)  
17 years ago.

18                   THE CHAIRPERSON: And what happens to  
19 Basic and vice versa, so to speak? If changes occur in  
20 Basic, for example, if the deductible jumps, it also  
21 affects what happens potentially in your marketing of  
22 your Extension productions, does it not? In other words,  
23 you would have an opportunity to generate profits in  
24 Extension if you did something with Basic, is that not  
25 true?

1 MR. DONALD PALMER: I -- I certainly  
2 remember an increase in deductible in Basic that  
3 generated huge losses in Extension. So depending on  
4 coverage, depending on what rate impact you may take, it  
5 could affect you either way.

6 THE CHAIRPERSON: Yes, that's all I was  
7 getting at, is there could be an effect on the if you  
8 want to call it competitive lines by something that  
9 happens to Basic or vice versa, so to speak. They affect  
10 each other.

11 MR. DONALD PALMER: I would agree that  
12 Basic would affect Extension. The other way is certainly  
13 less likely.

14 THE CHAIRPERSON: I'm sure we'll carry on  
15 thinking about this.

16 Ms. Everard...?

17

18 CONTINUED BY MS. CANDACE EVERARD:

19 MS. CANDACE EVERARD: Thank you. I just  
20 have a few more questions on this subject.

21 We've had evidence in past proceedings  
22 about the percentage of Basic customers that are also  
23 customers of Extension. Roughly where is that percentage  
24 at present?

25 MS. MARILYN MCLAREN: Overall, probably

1 somewhere over 80 percent. It hasn't changed much.

2 MS. CANDACE EVERARD: I -- and I -- I  
3 thought it was maybe closer to ninety (90). For some  
4 reason I thought maybe eighty-eight (88) but I'm just  
5 going by my memory.

6 Does that sound about right?

7

8 (BRIEF PAUSE)

9

10 MS. MARILYN MCLAREN: It's generally in  
11 the ballpark. We don't have it in front of us right now.  
12 It depends how you slice and dice it, too.

13 MS. CANDACE EVERARD: But the eighty-  
14 eight (88) isn't completely out of line?

15 MS. MARILYN MCLAREN: Probably not.

16 MS. CANDACE EVERARD: Okay. Now, we know  
17 that in the Board's last order, following on the GRA from  
18 -- that was conducted in -- or the hearing that was  
19 conducted in 2008, there were some statements in the  
20 order, with respect to the Board's views on information  
21 and Extension and I'm sure that -- that the panel's  
22 familiar with those. Following on that order coming out  
23 there was some media attention to the order, naturally,  
24 and there was a statement made that was quoted in a -- in  
25 an article by the Minister, Mr. Chomiak, something to the

1 effect that he would leave it up to the Corporation and  
2 the Board to work this issue out, this issue of the Board  
3 seeking information -- certain information with respect  
4 to Extension and SRE and the Corporation not providing  
5 it.

6 Is the Corporation familiar with the  
7 statement that I'm referring to from the Minister?

8 MS. MARILYN MCLAREN: We saw those same  
9 media reports, sure.

10 MS. CANDACE EVERARD: Does that statement  
11 by the Minister in any way change the Corporation's  
12 perspective with respect to these matters, or is it the  
13 evidence that regardless of that statement the  
14 Corporation's position is the exact same?

15 MS. MARILYN MCLAREN: Well, we responded  
16 to the Information Request well after the Minister's  
17 comments. There's a great deal of discussion around, not  
18 only the Order itself, but, in no small part, the -- the  
19 news release and -- and news follow-up that took place  
20 when that Order was released.

21 In my view, some of the back and forth  
22 that -- that went on, excluding comments by the Minister  
23 -- I'm not talking about comments from the Minister at  
24 all -- but some of the comments and quotes and so on that  
25 went on, put the Corporation in a very awkward position.

1                   At no time -- at no time has -- has this  
2 Board ever suggested that the Corporation is doing  
3 anything other than complying with the legislation as it  
4 exists. And it was -- it was very difficult  
5 characterization of the situation that was played out in  
6 the media that has -- I have a real concern with that.  
7 And -- and I'm not sure how best to address that.

8                   When you -- when you are complying with  
9 the legislation -- where there is no question on anyone's  
10 part that we've ever been told that we're doing anything  
11 other than complying with the legislation. I mean,  
12 that's one (1) of the things that happened subsequent to  
13 the Minister's comments, is we had a look at it and  
14 reviewed it and second-guessed ourselves and asked  
15 others, and that was the continuing conclusion -- that --  
16 we are complying with the legislation. Nothing  
17 substantive has changed.

18                   There has been conversation back and forth  
19 over more than a decade, periodically, about what should  
20 the jurisdiction be and what should the information be.  
21 But I think, you know, the Corporation's made its  
22 position clear. We -- you know, there's a process now in  
23 place, actually, where the Auditor General asks our  
24 external auditor to confirm whether or not the  
25 Corporation is behaving and conducting itself consistent

1 with the applicable legislation. We work very hard at  
2 that.

3 so I think this whole situation, when --  
4 when, really, what -- what the Order has said in the last  
5 couple of years, is that the Board believes its  
6 jurisdiction ought to be expanded. That -- that we have  
7 said we don't believe that, but that's not our issue. So  
8 to be characterized as -- as some not cooperative and  
9 withholding information, but at the same time being  
10 characterized as fully complying with the legislation, is  
11 -- is a very awkward position that we're very  
12 uncomfortable with.

13 MS. CANDACE EVERARD: Ms. McLaren, you've  
14 just described a -- a line of communication between, I  
15 think -- did you say the Attorney General and the  
16 external auditor that something that's new?

17 MS. MARILYN MCLAREN: No, I'm sorry, I  
18 said the Auditor General. The Auditor General for the  
19 Province of Manitoba asks our external auditor to -- to  
20 confirm that. And I -- I believe that there is a note or  
21 comment to that effect in legislation or in our annual  
22 report, something to that. It's a standard process that  
23 they use now with all Crowns and agencies that they  
24 oversee.

25 MS. CANDACE EVERARD: So was that

1 something that's new to MPI? Or -- 'cause you just said  
2 it's in effect now, and so that lead me to believe that  
3 maybe it was something that was relatively new.

4 MS. MARILYN MCLAREN: Not -- not for a  
5 long, long standing time, but it has been a few years.  
6 And I believe we assisted in the testing of the process.  
7 We were one of the first organizations to go through the  
8 process, as requested by the Auditor General. But, no,  
9 it is -- it is a broader process now. It's been in  
10 place, I would suggest, for less than five (5) years --  
11 I'd say, less than five (5) years.

12 MS. CANDACE EVERARD: And just so that  
13 we're clear, you spoke about the jurisdiction of the  
14 board being set out in the legislation, and certainly,  
15 that's the case, and the issue that the Corporation does  
16 not agree that that jurisdiction, set out in the  
17 legislation, should be expanded.

18 But does the Corporation agree that  
19 there's a distinction between that possibility or that  
20 issue versus the Board's jurisdiction remaining the same;  
21 that is, over rates for servi -- rates for service in  
22 Basic, but the Board being provided with some  
23 information, with respect to the other lines of business,  
24 in order to carry out its duties over the jurisdiction  
25 that it has.

1                   Do -- do you appreciate the -- the  
2                   distinction that I'm trying to draw?

3                   MS. MARILYN MCLAREN:    Yes, I -- I do  
4                   appreciate that.  And, you know, we -- we are constantly  
5                   using our judgment to provide the information that we  
6                   think is important and relevant to the Board's legislated  
7                   jurisdiction.  Mr. Palmer just, you know, provided a fair  
8                   bit of detail about the Extension lines and the tail on  
9                   claims and so on; that's really not precisely within the  
10                  legislated mandate of the Board, but -- but we shared  
11                  that, because we are trying very hard to do as much as we  
12                  can to ensure this is an effective and -- and meaningful  
13                  process.  But we're always cognisant of our  
14                  responsibilities to the competitive lines and the  
15                  legislation that we are obligated to -- to hold to.

16                  MS. CANDACE EVERARD:   And -- and just  
17                  following-up on that point, with respect to information  
18                  that the Corporation has provided or does provide.

19                  Isn't it the case that a number of years  
20                  ago there was information certainly with respect to the  
21                  retained earnings of the competitive lines provided and  
22                  that that changed some number of years ago; maybe four  
23                  (4) or five (5) years ago the Corporation stopped  
24                  providing that?

25                  MS. MARILYN MCLAREN:    We -- and I don't

1 remember the context of that. I don't remember when we  
2 started and I don't remember precisely when we stopped  
3 it. Bit for some reason we started providing some  
4 forecasts of net income and retained earnings to  
5 competitive lines, and that -- we -- we no longer do  
6 that.

7 But clearly anything that is in the public  
8 domain is information that is available to this Board as  
9 well.

10 MS. CANDACE EVERARD: Does the  
11 Corporation agree that as a general principle were there,  
12 in -- in a situation where there is uncertainty or --  
13 complete information, that perhaps that should give rise  
14 to some conservatism in action?

15 MS. MARILYN MCLAREN: Certainly one (1)  
16 of the considerations is -- one of the realities of the  
17 work that we are all asked to do is, you know, making  
18 decisions with imperfect information. And we use our  
19 judgment, the Board uses its judgment.

20 MS. CANDACE EVERARD: Mr. Chairman, I'd  
21 suggest we have the lunch break now, if that's  
22 acceptable.

23 THE CHAIRPERSON: Sounds like a good  
24 time. Okay. Perhaps we'll see you all back then at  
25 1:30. Thank you.

1 --- Upon recessing at 12:17 p.m.

2 --- Upon resuming at 1:34 p.m.

3

4 THE CHAIRPERSON: Okay, fed and watered,  
5 we are back.

6 Ms. Everard...?

7

8 CONTINUED BY MS. CANDACE EVERARD:

9 MS. CANDACE EVERARD: Thank you, Mr.  
10 Chairman. I just want to follow-up the subject matter  
11 that we were speaking of just before the lunch break.

12 Ms. McLaren, you and I had an exchange  
13 with respect to the rough percentage of Basic policy  
14 holders that also take part in Extension, and I think we  
15 agreed it was in and around 88 percent, or somewhere in  
16 that range.

17 Does the Corporation have a sense of what  
18 number of its Basic policy holders avail themselves of  
19 Extension, whether that's from MPI or from another  
20 insurance carrier? In other words would that percentage  
21 change any if there were other insurance carr --  
22 insurance carriers taken into account?

23 MS. MARILYN MCLAREN: It would be higher.  
24 The percentage would be higher because there are more  
25 people buying Extension than those who buy it from MPI.

1 MS. CANDACE EVERARD: Do you have a sense  
2 of how much higher?

3 MS. MARILYN MCLAREN: I think in these  
4 proceedings previously we filed information published by  
5 the Superintendent of Insurance in Manitoba; that's  
6 really our gauge because it -- it reports on automobile  
7 insurance premiums written by the various insurers doing  
8 business in Manitoba.

9 MS. CANDACE EVERARD: Okay. What are  
10 some of the types of coverage that's available through  
11 Extension? I -- I know about having a lower deductible,  
12 there's third party liability coverage. Are those the  
13 main ones, or are there other significant types of  
14 coverage offered through Extension?

15 MR. DONALD PALMER: Those would be --  
16 those two (2) would be the lion's share. There's a  
17 coverage for off-road vehicle because they're -- they're  
18 not covered under the basic Autopac other than third-  
19 party liability. We have a rental car policy. There's  
20 some extension motorcycles products. Those are -- that  
21 would be most of them.

22 MS. CANDACE EVERARD: Okay. What is the  
23 Corporation's view of the Basic coverage that's  
24 available? Is it the Corporation's view that that's  
25 adequate, such that the Corporation, if it had to, would

1 advise a person that they don't need Extension coverage?  
2 Or where does the Corporation stand on the adequacy  
3 there?

4 MS. MARILYN MCLAREN: The Corporation's  
5 view is that adequate coverage is really very subjective  
6 and needs to be determined by the vehicle owner. I think  
7 when it comes to lia -- liability, extending the  
8 liability coverage, the Corporation has always taken the  
9 position that people should buy as much as they can  
10 afford. It comes at a very low cost no matter you  
11 purchase it and it's not difficult to envision rare but  
12 costly circumstances where it may in fact come into play.

13 Deductible really depends on people's  
14 cashflow, you know, I think in terms of the Basic  
15 program. We believe that the Basic program is very broad  
16 covered, comprehensive coverage, high quality coverage,  
17 but individuals, for various reasons, may choose to buy  
18 even more; that it -- it's a balance that always needs to  
19 be struck by what are you requiring people to buy and  
20 what may meet people's needs on a more individualized  
21 basis.

22 Sometimes people's needs change as their  
23 personal circumstances change. Sometimes that's not so  
24 true; they -- they have a particular view of the  
25 insurance they want to carry; it doesn't change so much

1 through time. But it -- the value of having access to a  
2 variety of optional coverages is that people can exercise  
3 their right to determine what is best for them outside of  
4 the compulsory insurance program.

5 MS. CANDACE EVERARD: Is it true that the  
6 liability coverage under Basic is two hundred thousand  
7 dollars (\$200,000)?

8 MS. MARILYN MCLAREN: Yes, that's true.

9 MS. CANDACE EVERARD: So just so -- to  
10 make sure that I understand this correctly, if I drive my  
11 car, which is insured here obviously, down into the  
12 States and enter -- or have some kind of a collision that  
13 causes horrific damage or injury, does that mean that I'm  
14 covered to the extent of two hundred thousand dollars  
15 (\$200,000) Canadian under Basic?

16 MS. MARILYN MCLAREN: That's right.

17 MS. CANDACE EVERARD: And if I want to  
18 have coverage beyond that, then it -- I may want to  
19 entertain purchasing an Extension policy in that regard.

20 Is that right?

21 MS. MARILYN MCLAREN: Yes.

22 MS. CANDACE EVERARD: I'm going to ask  
23 you to take a look at Question 23, posed by the Board in  
24 the Information Request exchange. We took a quick look  
25 at the strategic plan yesterday; we're going to look at a

1 different part of it now.

2                   The question posed by the Board in Sub A  
3 of this IR, was to advise of the extent to which the DSR  
4 system has been incorporated into the business plan. The  
5 Corporation provided a copy of its Strategic Plan and  
6 advised  
7 that the DSR was included in Strategy 3.6.

8                   Is that right?

9                   MR. DONALD PALMER: That's correct.

10                  MS. CANDACE EVERARD: I'd ask you to turn  
11 to page 13 of the Strategic Plan which reflects Strategy  
12 3.6 as part of the strategies relating to Goal Number 3.

13                  Could you please read in for the record  
14 Goal Number 3, as reflected on page 13.

15                  MR. DONALD PALMER:

16                         "Manitoba Public Insurance will be a  
17 leader in automobile insurance and  
18 vehicle and driver licensing providing  
19 Manitobans with superior products,  
20 coverage, and service. The Corporation  
21 will utilize technology to provide  
22 products and services that will enhance  
23 the value it delivers to Manitobans."

24                  MS. CANDACE EVERARD: And as the IR  
25 response reflects, the Corporation has advised that the

1 DSR was included in Strategy 3.6.

2                   Could you read in Strategy 3.6 for the  
3 record, please.

4                   MR. DONALD PALMER:

5                    "To improve the service relationship  
6                    between drivers and vehicle owners and  
7                    the Corporation by modernizing business  
8                    processes, ensuring all aspects of  
9                    driver risk rating are consistent,  
10                    clear, and fair."

11                   MS. CANDACE EVERARD: We talked about,  
12 yesterday, the three (3) stated goals for the DSR  
13 program: That is to provide higher reward for safest  
14 drivers, provide strong incentives for high-risk drivers  
15 to improve their behaviour, and to improve driver  
16 understanding of how their behaviour affects the amount  
17 they pay for insurance.

18                   Can you elaborate on how those stated  
19 goals will address the strategy in three point six (3.6),  
20 that you just read in?

21

22                   (BRIEF PAUSE)

23

24                   MR. DONALD PALMER: I -- I think the key  
25 is the last few words of that particular strategy:

1                   "...ensuring all aspects of driver risk  
2                   rating are consistent, clear, and fair.

3

4                   In terms of -- of safe driving, safer  
5                   drivers paying lower amounts of insurance, I -- I think  
6                   that would meet anybody's definition of -- of fair,  
7                   certainly from an actuarial perspective, and -- and  
8                   really one (1) of the things that our -- our customers  
9                   are advising that they're -- that they want.

10                   In terms of clear, again that's the  
11                   enhancing -- enhancement of the understanding of the  
12                   program, to make sure that our drivers understand the  
13                   relationship between their driving behaviour and the  
14                   rates that are charged.

15                   MS. CANDACE EVERARD:     Just a moment, Mr.  
16                   Chairman.

17                   MR. DONALD PALMER:     The -- in the  
18                   Information Response we said three point six (3.6), which  
19                   certainly is applicable. I think there's another  
20                   strategy that is related to that and I think that's the  
21                   one that we referenced yesterday, and that's seven point  
22                   four (7.4), which is to develop a clear and  
23                   understandable method to reward good drivers -- ensure  
24                   that individuals pay insurance rates that reflect the  
25                   risk they represent on the road.

1 MS. CANDACE EVERARD: So the Corporation  
2 is of the view that the DSR in fact relates to both of  
3 those strategies, three point six (3.6) and seven point  
4 four (7.4)?

5 MR. DONALD PALMER: Absolutely.

6 MS. CANDACE EVERARD: Is it the case  
7 though from the answer to the IR given by the  
8 Corporation, that it's priority is three point six (3.6)  
9 over seven point four (7.4), or is that not the case?

10 MR. DONALD PALMER: I think they're equal  
11 priorities. When we were looking through the Strategic  
12 Plan and -- to determine where DSR was because we knew it  
13 was in there, three point six (3.6) is the first one I  
14 found, so that's the one I quoted, and I, likely, in the  
15 Information Response, should have quoted both of them.

16 MS. CANDACE EVERARD: Thank you. I'd ask  
17 you now to turn to Question 20, posed by the Board. This  
18 was a question to ask the Corporation to explain the  
19 extent to which DR program -- DSR program revenue  
20 reduction and costs were being borne by Extension, and if  
21 the same were not borne by Extension, why not? The  
22 answer was that there has been no change to the Extension  
23 discount program, therefore no costs are allocated.

24 Is that right?

25 MR. DONALD PALMER: That's correct.

1 MS. CANDACE EVERARD: Is it the case then  
2 that there have been no changes in the processes or  
3 procedures related to DSR or Streamline Renewal that will  
4 impact the procedures undertaken to write Extension  
5 insurance policies?

6 MR. DONALD PALMER: The...

7

8 (BRIEF PAUSE)

9

10 MR. DONALD PALMER: There -- there are no  
11 changes to the processes for writing Extension policies.  
12 With Streamline Renewal, their -- their renewals are  
13 included on the same form, but again attached to the --  
14 the Basic policy. So again, that -- that process has not  
15 changed.

16

17 (BRIEF PAUSE)

18

19 MS. CANDACE EVERARD: Have there been any  
20 changes to Extension underwriting to take into account  
21 the new emphasis on rewarding good drivers and incenting  
22 poor drivers to improve?

23 MR. DONALD PALMER: No.

24 MS. CANDACE EVERARD: If it turns out  
25 that as a result of the DSR program there are savings in

1 the way of claims costs reduction, would there be savings  
2 for the Extension line of business, as well as for Basic?

3 MR. DONALD PALMER: There could be.

4 MS. CANDACE EVERARD: If that  
5 materializes that there are savings to the Extension  
6 line, then wouldn't it follow that some of the costs of  
7 the DSR should be borne by Extension as well as Basic?

8 MR. DONALD PALMER: No. I -- I wouldn't  
9 agree with that. The -- the costs -- any reduced costs  
10 in -- for Extension would be passed along and in lower  
11 Extension rates. The purpose of the DSR program and the  
12 inter-relationship of vehicle premiums and driver  
13 premiums is solely Basic. There are no driver --  
14 Extension driver premiums per se.

15 So the program was designed exclusively  
16 for the Basic program and that's where the costs should -  
17 - should be.

18 MS. CANDACE EVERARD: But isn't DVL part  
19 of the Extension line of business?

20 MR. DONALD PALMER: No. There's a  
21 separate line of business for administration of the  
22 Driver Vehicle Act. The losses that have -- that we've  
23 seen over the past few years in term -- and have been  
24 noted in our annual report, are funded by profits from  
25 Extension, but they're not part of the Extension line of

1 business.

2 MS. CANDACE EVERARD: It's not part of  
3 Basic either?

4 MR. DONALD PALMER: That's correct.

5 MS. CANDACE EVERARD: We know that the  
6 Corporation has a cost allocation study in the works. Is  
7 there an update that can be provided to the Board at this  
8 time with respect to that?

9 MR. DONALD PALMER: The update is that  
10 the cost allocation study is in the works. We -- we have  
11 selected a -- a vendor to -- to do that study. Deloitte  
12 has been chosen for that assignment and they are -- they  
13 are underway. We have had one (1) workshop within MPI  
14 with key personnel to -- and key management to discuss  
15 the study and for them to understand our business and --  
16 and what we do.

17 So it's -- the work is ongoing. We expect  
18 to have sort of a touch point update likely next week.  
19 And we are on schedule to file that study with the Board  
20 with our Application in -- in June.

21 MS. CANDACE EVERARD: Thank you. I'm  
22 going to move then to some questions about the DSR scale.  
23 If I could ask you to turn to Question 5 posed by the  
24 Board.

25 The questions were asked at Sub A and Sub

1 B why the regulation did not contemplate further positive  
2 merit levels beyond plus fifteen (15) and conversely why  
3 the scale did not contemplate further demerit levels  
4 beyond minus twenty (20).

5 Can you just elaborate, for the record,  
6 the responses with respect to those two (2) points?

7 MR. DONALD PALMER: There comes a point  
8 that an extra year of -- of clean driving doesn't  
9 necessarily mean a reduced rate or a reduced risk. And  
10 for example, with our -- in our public consultation and -  
11 - and the number of -- of people who have responded to  
12 this, I -- I clearly remember one (1) particular letter  
13 that the individual said that, you know, he was certainly  
14 in favour of -- of having more recognition that he  
15 himself had been driving for sixty-three (63) years  
16 without an accident. And I think that that's certainly  
17 commendable. I don't know that he has less risk than  
18 somebody who had only been driving sixty-two (62) years.

19 So -- so there is a diminishing return at  
20 that point. Fifteen (15) years is certainly a point that  
21 -- that that's scale -- the graph is certainly flattening  
22 out. Whether it's definitely fifteen (15) years -- maybe  
23 slightly more or slightly less, but that's certainly  
24 around the level where you get diminishing returns.

25 In terms of the negative side of the

1 scale, there's real limitations as to again, somebody who  
2 is that high, whether there is any value in giving  
3 penalties that are so big that they start to lose  
4 meaning. And again, when we were doing our -- our  
5 initial studying in -- into the existing program and see  
6 what demerit levels some people had had, and there was  
7 people that had literally hundreds of demerits. There's  
8 a -- no value beyond that in -- in giving them more,  
9 because they're obviously not learning from getting  
10 demerits.

11 So again, even the twenty (20) scale,  
12 there's very few drivers up there. You're -- you're  
13 getting to the point where there's not much more value  
14 that you're going to get by providing somebody with more  
15 than twenty (20) demerits.

16 MS. CANDACE EVERARD: Just on that point,  
17 that is an individual with twenty (20) demerits, if I  
18 could ask you to turn over the page to the answer to "D",  
19 of the same IR. This was the question where we asked:

20 "If an individual who's already at  
21 demerit level minus twenty (20) is  
22 convicted of, say, impaired driving,  
23 loses their licence for a year, where  
24 do they end up on the scale when they  
25 resume driving?"

1                   And the answer was:

2                    "At their renewal selection after  
3                   conviction, they will be assigned  
4                   additional demerits, but since they are  
5                   at the maximum, they will remain at DSR  
6                   level minus twenty (20)."

7                   I think everybody understands that the  
8                   bottom level on the scale is minus twenty (20), but what  
9                   does the Corporation mean when it says it will assign  
10                  additional demerits? Does that mean it -- it keeps track  
11                  of other demerits beyond the minus twenty (20), or -- or  
12                  what does that mean?

13                  MR. DONALD PALMER: This is -- is almost  
14                  -- difference between an operating statement and a  
15                  balance sheet. So, in terms of specific demerits, in a -  
16                  - in a scale, will move you certain number of steps. At  
17                  the end of that, you will be at a -- accumulated number  
18                  of demerits. That accumulated number is always capped at  
19                  twenty (20).

20                  So -- so if you're twenty (20), you have a  
21                  conviction that gives you two (2) demerits, we keep track  
22                  of all those convictions. Minus twenty (20), minus two  
23                  (2) is twenty-two (22), but the cap on the scale is  
24                  twenty (20).

25                  So -- so we do keep track of those

1 demerits, but in terms of the actual DSR level, there's  
2 no addition.

3 MS. CANDACE EVERARD: Yeah. And -- and I  
4 understand that, that the lowest DSR level is minus  
5 twenty (20), so for premium purposes that person's always  
6 gonna be treated as a minus twenty (20). But when you  
7 say the Corporation will still track demerits in excess  
8 of that -- that is the case? That -- that's what you  
9 said?

10 MR. DONALD PALMER: Yeah, we know the  
11 convictions that people will continue to accumulate, yes.

12 MS. CANDACE EVERARD: So what happens to  
13 those excess demerits if I can call them that? Using the  
14 example that you gave, if somebody's already at a minus  
15 twenty (20), they have another minor conviction, or a  
16 minor conviction, such that they're notionally at minus  
17 twenty-two (22), the Corporation is gonna keep track of  
18 that and then what did they use that information for?

19 MS. MARILYN MCLAREN: What we're talking  
20 about here is an individual's building driver record.  
21 There may have been two (2) entries on that driver record  
22 to get to minus 20; there may have been forty-two (42)  
23 entries on that driver record. The driver record  
24 basically stays intact as long as there is new  
25 convictions coming forward. So there are a tiny number

1 of individuals whose personal driving record in the  
2 driving record database is pages long.

3                   What -- what we're saying in this instance  
4 is if an individual receives a drunk driving conviction  
5 that's worth ten (10) demerits, there will be a line on  
6 his driver record showing the drunk driving conviction,  
7 showing the ten (10) demerits, but for insurance rating  
8 purposes if that would really put him at thirty (30) or  
9 forty (40) or whatever, he sits at twenty (20).

10                   So an individual's driving record has all  
11 of their activity since we began to track it, since it  
12 was created when they first got their licence and every  
13 bit of activity that's happened since. So when we say we  
14 -- we assign the additional demerits, there is a row on  
15 the driver record for each conviction with the  
16 appropriate number of convictions normally assigned for  
17 that offence.

18                   MS. CANDACE EVERARD:    So then -- and --  
19 and I appreciate that minus twenty (20) is the lowest  
20 place on the DSR scale, and for premium purposes that's  
21 where the person's going to be categorized and treated,  
22 so then what is the other information used for, the  
23 information that you just described that still stays on  
24 the driving record?

25                   MR. DONALD PALMER:    It could be used for

1 -- well, is used in driver's abstracts, for instance, any  
2 -- for interjurisdictional purposes. We talked about  
3 reciprocal agreements and -- and new Manitobans coming in  
4 and how they're treated. The same information goes  
5 outward for -- for Manitobans. So not used for rating  
6 purposes but certainly used for other driver record  
7 purposes.

8 MS. MARILYN MCLAREN: The information  
9 about the convictions that people received are --  
10 historically have been used in two (2) places within  
11 Manitoba, and now currently house those two (2) places  
12 within Manitoba Public Insurance. The driver improvement  
13 and control would pay a lot of attention to the most  
14 recent drunk driving conviction in a long string of  
15 convictions that perhaps accumulates to twenty (20) or  
16 forty (40) demerits; that's where it would be used on a -  
17 - in an operational, administrative capacity with respect  
18 to the driver's record.

19 MS. CANDACE EVERARD: And I appreciate  
20 that, that, that driver may be called in for a show cause  
21 hearing or whatever. I mean, if they're convicted of an  
22 impaired, they're not going to have a licence anyways but  
23 that kind of think we -- we understand.

24 How does an individual in that scenario  
25 move up the scale? There's a schedule in the material

1 with respect to a person moving up a certain number of  
2 levels if they have one (1) year of clean driving with an  
3 active licence or a year of driving with an inactive  
4 licence. So for the purposes of that scale -- and I -- I  
5 will have some more questions about that, but just with  
6 this one (1) narrow example, how will an individual in  
7 the scenario that -- that we've just been describing,  
8 that is they're notionally worse than minus twenty (20),  
9 do they still move on the same scale?

10 So if they have one (1) clean year,  
11 they're moving up per that accelerated scale?

12 MR. DONALD PALMER: Okay. Yes, they are  
13 treated as if they were a minus twenty (20) so if they  
14 were at minus twenty (20) and they have another  
15 conviction in one (1) year and another one the year after  
16 that and then they started safe -- safe driving, see the  
17 light, then after they have a clean year, then they will  
18 start moving up the DSR scale.

19 MS. CANDACE EVERARD: And -- and that's  
20 from minus twenty (20)?

21 MR. DONALD PALMER: That's correct.

22

23 (BRIEF PAUSE)

24

25 MS. CANDACE EVERARD: Okay. So -- just

1 so that we're clear, if we have two (2) individuals, one  
2 (1) in a situation that we've just described which was at  
3 a minus twenty (20), they did have another conviction  
4 that notionally would cause them to have more demerits  
5 than minus twenty (20). And we have another individual  
6 who say has had two (2) major convictions and only two  
7 (2) major convictions, such that they are at minus twenty  
8 (20) and notionally no worse.

9 Both of those individuals if they had from  
10 day 1 to day 365 a clean active driving year, they will  
11 both end up at the same level, which I believe would be a  
12 minus thirteen (13).

13 MR. DONALD PALMER: That's correct.

14 MS. CANDACE EVERARD: Thank you. I'd ask  
15 you then to turn to Question 11, posed by the Board.  
16 This is the IR that asked to reproduce the renewal  
17 notices for certain individuals.

18 MR. DONALD PALMER: I have them.

19 MS. CANDACE EVERARD: In particular what  
20 we asked for at Sub A was the renewal notice for an  
21 individual with the minus twenty (20), so at the twenty  
22 (20) demerit level at three (3) different points in time.  
23 It appears from looking at the face of the renewal  
24 notice, but we just want to confirm, that that individual  
25 is able to pay their driver premium in monthly

1 instalments.

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE EVERARD: Has the Corporation  
4 considered its view of whether drivers that find  
5 themselves at a minus twenty (20) or at some other poor  
6 level on the scale, to undergo driver retraining? Some  
7 form of reeducation?

8 MR. DONALD PALMER: That certainly is a  
9 possibility and again, as Ms. McLaren -- as Ms. McLaren  
10 outlined, there are two (2) functions here that -- we're  
11 talking insurance rates and measurement of risk, which is  
12 the insurance portion. There's also driver improvement  
13 and control, which is measuring a driver and -- and  
14 possible remedial action that can be taken for that --  
15 that driver.

16 So yes, it -- there are courses that are  
17 in some cases required to -- as remedial action, so that  
18 that driver may become a safer -- safer driver and start  
19 moving up the DSR scale, but is really not part of the  
20 DSR and the insurance premiums.

21 MS. CANDACE EVERARD: As I'd indicated I  
22 do have some questions about moving up the scale. And so  
23 I would ask you now to turn to SM-1, Attachment B, page  
24 2, which has that chart that reflects who gets to go  
25 where and in what circumstance.

1 MR. DONALD PALMER: Sorry. Again, SM-1?

2 MS. CANDACE EVERARD: SM-1, Attachment B,  
3 page 2. So it's just about the third last page in SM-1.

4 MR. DONALD PALMER: And at the top says  
5 "Movement on scale after implementation"?

6 MS. CANDACE EVERARD: That's the one. So  
7 the chart -- or the table in the right hand corner on the  
8 bottom half of the page reflects the steps.

9 What is a definition of an "inactive  
10 licence"? I could seem to locate a definition of that in  
11 the material. But if I've missed it, please tell me.

12 MR. DONALD PALMER: An active driver is  
13 someone who has had an active valid licence for at least  
14 eleven (11) months in the -- prior to the renewal. So an  
15 inactive driver is someone who had -- either didn't renew  
16 their driver licence, possibly was suspended, for some  
17 reason was not driving for eleven (11) months of the  
18 previous year.

19 MS. CANDACE EVERARD: Okay, so --

20 MR. DONALD PALMER: And -- and did not  
21 have an active licence for that time.

22 MS. MARILYN MCLAREN: We can provide a  
23 definition. The people with a medical suspension would  
24 be in this category. People who choose not to renew  
25 their licence because they can't afford the surcharge are

1 in this category. Clearly operating in the principle that  
2 there -- there are inactive licences and also inactive  
3 drivers, someone whose -- whose driving privileges have  
4 been suspended under the law because of egregious  
5 behaviour would not be in the inactive category.

6 MS. CANDACE EVERARD: Okay. Thank you  
7 for clarifying that, because on this particular document  
8 there is reference to someone having their licence be  
9 inactive because of a temporary medical suspension, so we  
10 knew that that was included. And similarly, someone who  
11 chooses to sit out as has been described.

12 But my next question was going to be  
13 whether inactive was something different from suspended,  
14 as in suspended either pursuant to Criminal Code, or by a  
15 judge or whatever the case be.

16 So your evidence, Ms. McLaren, is that  
17 that is -- if you are suspended because that penalty has  
18 been imposed on you, whether it's under the legislation  
19 by a judge or presumably by the driver improvement  
20 people, you are not considered inactive; you are  
21 suspended.

22 So it's like a third category?

23 MS. MARILYN MCLAREN: That's right. And  
24 the demerits sit until you come back.

25 MS. CANDACE EVERARD: Okay. So while you

1 are under a suspension, your DSR level remains the same?

2 MS. MARILYN MCLAREN: Correct.

3 MS. CANDACE EVERARD: Ms. McLaren, would  
4 you be able to provide that definition? I -- I think  
5 we've got it, but if you have something more official  
6 that would be great.

7 MS. MARILYN MCLAREN: Yes, we'll do that.

8 MS. CANDACE EVERARD: Thank you.

9

10 --- UNDERTAKING NO. 4: MPI to provide definition for  
11 "suspended driver"

12

13 CONTINUED BY MS. CANDACE EVERARD:

14 MS. CANDACE EVERARD: So the idea  
15 according to Attachment B, is that someone with an active  
16 licence moves out of the demerit zone at a more  
17 accelerated rate than does someone with an inactive  
18 licence. So for example, the guy or girl, at minus  
19 twenty (20), if they have an active licence they'll move  
20 out -- up seven (7) steps in one (1) year of clean  
21 driving, or with an inactive licence will move up four  
22 (4) steps?

23 MR. DONALD PALMER: That's correct.

24 MS. CANDACE EVERARD: Now, I gather from  
25 this table that the accelerated movement up the scale

1 only applies to individuals between, essentially DSR  
2 Level 3 and 20, because it would appear that everything  
3 over that, that is anyone who's sitting at a minus one  
4 (1) or better on the scale, is moving up only with one  
5 (1) year of clean, active driving.

6 Is that right?

7 MR. DONALD PALMER: That's correct.

8 MS. CANDACE EVERARD: Has there been any  
9 discussion or does the Corporation have a view of the  
10 equity of that being the case when we think about a  
11 situation where someone in the merit side, for example,  
12 may have to give up their licence for a period of time  
13 for medical reasons? Because if I'm understanding this  
14 correctly -- and -- and tell me if I'm wrong -- someone  
15 in the merit zone who has to give up their licence for a  
16 period of time for medical reasons, isn't going to move  
17 anywhere on the scale. Whereas someone in the demerit  
18 zone who may be inactive for the same reason will have  
19 movement.

20 Is that something that's been talked  
21 about, looked at?

22 MR. DONALD PALMER: Absolutely. And --  
23 and the -- the cause for great debate in -- in our  
24 planning -- and as you I'm sure realize there are many  
25 judgments within the DSR program as -- as to how we

1 should treat certain people under certain circumstances.

2           The -- as far as the treatment of inactive  
3 drivers -- and there is not -- if someone doesn't drive,  
4 it's not an indication -- if they're certainly at a merit  
5 level that they will improve upon a given merit level.  
6 We -- we're aware that under the -- that people really do  
7 wai -- or can wait out higher driver's licen -- or  
8 premium, because they can't afford -- afford it. And  
9 that's their lesson. And we didn't think that it was  
10 fair that they necessarily mo -- move up as fast as  
11 someone who had and was driving for a year to improve  
12 upon their skills, but thought that should be some  
13 incentive for them to get back on the road.

14           And so that was the compromise situation  
15 to move up but slightly slower. We saw a different issue  
16 with people who were at the merit level and didn't see  
17 that -- that they had improved that much more.

18           MS. CANDACE EVERARD: Thank you. I'm  
19 going to ask you now to turn to 26 -- Question 26, posed  
20 by the Board in the IR exchange, and in particular Item  
21 B. This was a question relating to the predicted value  
22 of at-fault claims and minor convictions.

23           And if you look at the last sentence of  
24 the answer to "B," it reads:

25           "The selected penalties were based on

1                   the results of the retrospective model,  
2                   the existing demerit penalties, and  
3                   public acceptability."

4                   MR. DONALD PALMER:    That's correct.

5                   MS. CANDACE EVERARD:    Can you rank for  
6 the Board, in the Corporation's view, the relative  
7 importance of those three factors in the selection of the  
8 DSR proposed penalties?

9                   MR. DONALD PALMER:    They're all of  
10 importance.  I don't think we can rank one as being more  
11 important than the others.

12

13                                   (BRIEF PAUSE)

14

15                   MR. DONALD PALMER:    If I can just maybe  
16 expand on that a little bit.  As we are introducing a --  
17 a new program and the existing demerits for -- take that  
18 as an example, and sometimes there could be great focus  
19 on just the fact that maybe you're giving different  
20 number of demerits for speeding, three (3) versus two  
21 (2), for instance, and that becomes the focus of people  
22 looking at the program, rather than the overall part of  
23 the program itself.  So with our various modelling  
24 options, certainly we had to ensure that whatever number  
25 of merits or demerits were chosen that the model was

1 still predictive.

2                   So -- so I think the -- the existing  
3 demerit penalties, I think that certainly ties into  
4 public acceptability and to make sure that the -- the  
5 model still works and is predictive of risk, is tied  
6 right into that. So whatever we choose has to meet all  
7 three (3) of those, or at least the -- the first criteria  
8 and the third criteria.

9                   And I think the existing demerit penalties  
10 really is -- feeds into the public acceptability as well.  
11 So -- so they're all interwoven together. The goal  
12 certainly is that you -- you end up with a model that is  
13 predictive and -- and we've done that.

14

15   (BRIEF PAUSE)

16

17                   MS. CANDACE EVERARD: What if we looked  
18 at it this way: The results of the retrospective models  
19 seem to indicate that the safest drivers were paying a  
20 bit more than they should, and the worst drivers were  
21 paying a bit less than they should, and the Corporation's  
22 consideration of that situation was -- seems to really  
23 have been driven by public acceptability.

24                   So isn't it fair to say that public  
25 acceptability is a bit of a -- has trumped in a way the

1 other two (2), at least to an extent?

2 MS. MARILYN MCLAREN: From the  
3 perspective of the Corporation's belief that pure  
4 actuarial rate making on the DSR scale is not  
5 appropriate, I would agree with that. But we -- we  
6 clearly needed to put a lot of emphasis on insuring the  
7 model really did still work and that it was predictive,  
8 and that's very, very important to us.

9 I -- I think it's fair to say, an  
10 important consideration of -- of the governments -- and I  
11 think we referenced that somewhere in response to one (1)  
12 of the questions -- is don't mess with the demerits that  
13 have been in existence for a long time in the middle of a  
14 massive new program implementation.

15 If -- if they decide they want to  
16 introduce something like demerits for twenty-four (24)  
17 hour roadside suspensions, it should be done in the  
18 context of a revisit and consideration of a policy change  
19 on the whole drinking and driving deterrence front; not  
20 as part of a program implementation. So that was very  
21 important as well.

22 When it comes to public acceptability,  
23 that -- that's the toughest nut in all of this. And if  
24 you just think about the way we talked about convictions  
25 and accidents on the part of yourself, Board counsel, and

1 counsel for CAC/MSOS, yesterday, Mr. Williams talked  
2 about the fact that his clients tended to think that  
3 convictions were really important because they're  
4 purposeful -- I'm paraphrasing, forgive me -- but that  
5 accidents are accidents.

6 Well, in exactly the same half day period,  
7 you characterized something quite different in that  
8 convictions happen, they're dealt with, but they don't  
9 cost the Corporation's insurance fund anything.  
10 Accidents are what really drive insurance costs. So  
11 inferring from that, maybe accidents need to be weighted  
12 more heavily. Two (2) completely different views, both  
13 legitimate, both held strongly by certain sectors of the  
14 population. So let's find public acceptability in all of  
15 this.

16 And I think often when it comes to things  
17 like this, we need to introduce change in a manner that  
18 is at least disruptive and as consistent with the current  
19 reality as possible. And I think that's -- speaks to,  
20 not the program design but the transition strategy. You  
21 know, I think the program design has a lot of flexibility  
22 through time, like I mentioned yesterday, but transition  
23 is something that we need to deal with very carefully, so  
24 that people do understand it and they can bridge between  
25 what we do today and what we will be doing next year.

1

2

(BRIEF PAUSE)

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7

MS. CANDACE EVERARD: Okay. Coming back to the second category, so to speak, the retrospective model being the first, existing demerit penalties being the second, and public acceptability being the third.

8

9

10

11

12

When we're talking about existing demerit penalties, are we considering those in the context of really the transitional considerations only, or are we also thinking of them in a way that affects the selection of the ultimate targeted DSR penalties going forward?

13

14

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(BRIEF PAUSE)

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22

MS. CANDACE EVERARD: Maybe we can just take a step back. Can you clarify what the Corporation meant by existing demerit penalties in its answer to 26(b).

23

24

25

MR. DONALD PALMER: We have demerit penalties in terms of the demerits that are assigned for each conviction. So as opposed to the demerit penalties

1 for a driver premium char -- charged ones and -- and I  
2 see there that that could be a bit ambiguous, but in this  
3 context we meant the demerits assigned for each  
4 conviction.

5 MS. CANDACE EVERARD: So the number of  
6 convic -- or the number of demerits that are associated  
7 with each conviction that a person has?

8 MR. DONALD PALMER: That's correct.

9 MS. MARILYN MCLAREN: Yeah, Annex A of  
10 the regulations, starting on page 39, the list of all the  
11 different convictions and the demerit points that are  
12 associated with each one.

13

14 (BRIEF PAUSE)

15

16 MS. CANDACE EVERARD: And just as a bit  
17 of a follow-up on this discussion of public  
18 acceptability, can we have a few examples of what the  
19 Corporation's referring to?

20 MR. DONALD PALMER: Could you be a little  
21 more specific?

22 MS. CANDACE EVERARD: Sure. What I'm  
23 trying to ask is: How did public acceptability influence  
24 the design of the system?

25 MR. DONALD PALMER: We had extensive

1 surveying done back in 2006/2007, in that period, that we  
2 have filed as part of this Application about whether  
3 certain actions should affect a premium and by how much.

4           So -- so that certainly was -- was part of  
5 it. I -- I remember being an observer in -- in focus  
6 groups of -- asking: Do you think this action should  
7 count towards what you pay for your driver's premium or  
8 for your vehicle premium and how much should be taken  
9 into consideration? So if you have a scale from zero to  
10 ten (10), is it a zero, is it a two (2), is it a five  
11 (5), is it a ten (10).

12           And asking various scenarios for that, I  
13 know something like impaired driving that some people  
14 said even if you were at the highest merit level and had  
15 an impaired driving you should immediately go to the --  
16 the worst level that you -- that you could. That kind of  
17 -- those are some -- some beliefs that some people had.

18           So essentially it was through surveying  
19 that we were -- came up with the -- the split that we --  
20 we've got and the input factors that we selected.

21           MS. MARILYN MCLAREN: Other examples  
22 would be the decision to stick with minus twenty (20),  
23 even if the research that Mr. Palmer talked about  
24 indicated there was no perceptible change after twelve  
25 (12) demerits. We probably would have been inclined to -

1 - to propose to government sticking with the minus twenty  
2 (20) on both the downside, on the upside. I don't think  
3 the public would be thrilled with thinking that twelve  
4 (12) is the worst you can be, or that there's any point  
5 of going to fifty (50), you know? So I think things like  
6 as well.

7                   The design of the program -- the  
8 Attachment B, page 2, from SM-1, that we were talking  
9 about before, the accelerated movement is not unlike  
10 what's existed since 1971 in the regulations with respect  
11 to the Charge 1 demerit point additional premiums. Kind  
12 of -- we always sort of think about it as -- as the half-  
13 life, you know, that you kind of wear down your demerits  
14 in an accelerated way that's very consistent.

15                   More than anything else the DSR regulation  
16 is probably most similar to the regulation that had the  
17 demerit point additional premiums, since 1971. So some  
18 of those fundamental principles that -- that we were able  
19 to make work for us with the new system that people do  
20 know and understand and make sense to them, wasn't --  
21 that would be another example of making sure that key  
22 concepts were publicly acceptable.

23

24

(BRIEF PAUSE)

25

1 MS. CANDACE EVERARD: Would it be fair to  
2 say that the proposal to increase the maximum vehicle  
3 premium discount from 25 percent to 30 percent is  
4 something that was driven by public acceptability, or is  
5 that a -- is that another example that we can look to?

6 MR. DONALD PALMER: That will be well  
7 received by the public and certainly would fall under the  
8 -- the category of being publicly acceptable, but again  
9 that has to be done on the context of being able to  
10 afford it, that we still have premiums that cover the --  
11 the operation of -- of the insurance program, and there -  
12 - there really still has to be some of that actuarial  
13 soundness.

14 If the best drivers only are on average 20  
15 percent better than -- than the -- or 20 percent better  
16 than medium drivers, if -- however you rank them -- then  
17 it certainly wouldn't be indicated that we should give  
18 them more than a 20 percent discount. I think we've seen  
19 from the -- the evidence that there are drivers who are  
20 30 percent better than other drivers in -- in terms of --  
21 and should get that vehicle discount. So more than just  
22 the public acceptability factor would -- would feed into  
23 the decision to go to the 30 percent discount.

24 MS. CANDACE EVERARD: On the flip side,  
25 looking at driver premiums at the bottom end of the

1 scale, the -- the minus twenty (20), which, as we've  
2 discussed, the Corporation is considering have a twenty-  
3 five hundred dollar (\$2,500) maximum driver premium going  
4 out a few years, obviously subject to approval, et  
5 cetera, but is that idea and that accelerated scale  
6 something that is also an example of public  
7 acceptability?

8 MR. DONALD PALMER: Partly publicly  
9 acceptable. And -- and I -- I know that there was a --  
10 specific survey questions around that: What do you think  
11 the most somebody should pay would be? It would -- it  
12 also becomes a question of affordability and  
13 collectability. We don't want to have hundred thousand  
14 dollar penalties that nobody would ever pay and likely  
15 still drive.

16 So there's a bit of a tradeoff there.  
17 What do you think that level is, in -- in terms that  
18 you'll still collect it? People will still treat that as  
19 an incentive to become a safer driver, but -- but will  
20 still pay it and be licensed and become that better  
21 driver.

22 So at what level -- is it twenty-five  
23 hundred (2,500)? Is it twenty-eight hundred (2,800)? It  
24 -- it becomes a bit of a grey area but that was a number  
25 that seemed to satisfy the publicly acceptable criteria,

1 as well as being something that people would pay, again  
2 within the context of weekly -- monthly payments. And  
3 again, that becomes a very key part of this, is that we  
4 not only can charge the premium, but -- but we will give  
5 the opportunity of the people to be able to afford it to  
6 pay on a monthly basis.

7 MS. CANDACE EVERARD: And we know because  
8 it's been discussed in the last couple of days, that the  
9 driver premiums that is -- are being looked at for  
10 2011/'12 and 2012/'13 are not on the table in this  
11 application?

12 MR. DONALD PALMER: That's correct.

13 MS. CANDACE EVERARD: And I take it that  
14 -- and -- and you may have said this yesterday, Mr.  
15 Palmer, but the -- the Corporation will continue to  
16 evaluate as time goes on and as the system is in place,  
17 the appropriateness of what has been reflected currently,  
18 and it may change?

19 MR. DONALD PALMER: Yes. We will  
20 continue to study it, yes.

21 THE CHAIRPERSON: When you are educating  
22 the public to the new DSR plan, will you be informing  
23 them of the -- of the transition plan up to the higher  
24 levels of penalties that lie in the future, so they'll be  
25 aware of the consequences of continued bad driving?

1 MR. DONALD PALMER: Yes, we will.

2

3 CONTINUED BY MS. CANDACE EVERARD:

4 MS. CANDACE EVERARD: I'd like to take  
5 you to Question 46 posed by the Board. This was the IR  
6 where we asked the Corporation to compare the impact of  
7 the new system on individuals at various DSR levels who  
8 had one (1) at-fault accident and one (1) minor  
9 conviction, versus that of the old system. And we -- the  
10 assumption was made for the purposes of the exercise that  
11 the average -- or that the vehicle premium was twelve  
12 hundred dollars (\$1,200) per year.

13 MR. DONALD PALMER: Yes.

14 MS. CANDACE EVERARD: So I just want to  
15 have a -- a run through these tables. We look at the  
16 first example, Example Number 1. This was an individual  
17 who was initially placed at DSR Level 7, and it would  
18 appear that if that individual had no incidents in the  
19 next seven (7) years, under the current system, they'd be  
20 paying the Basic -- a total premium of sixty-five hundred  
21 (6,500); whereas, under the proposed system, they'll be  
22 paying a premium of sixty-two hundred (6,200).

23 Is that right?

24 MR. DONALD PALMER: That's correct.

25 MS. CANDACE EVERARD: And if we look at

1 the lower table, just at the DSR half, if that individual  
2 has one (1) at-fault claim, which will take them down  
3 five (5) levels on the DSR scale, as well as a minor  
4 conviction, which will take them down an additional two  
5 (2), they'll be paying seven thousand six hundred and  
6 seventy-five dollars (\$7,675), so it's a difference of  
7 fourteen hundred and seventy-five dollars (\$1,475).

8 Is that right? I'm subtracting this  
9 sixty-two hundred (6,200) from the seventy-six seventy-  
10 five (7,675).

11 MR. DONALD PALMER: Sorry, you -- you  
12 lost me. I think I got halfway back, but could you  
13 repeat that, please?

14 MS. CANDACE EVERARD: Yeah, for sure.  
15 Under the -- the new system -- under the DSR system -- so  
16 we're just looking at the right-hand side of the two (2)  
17 tables -- this individual, if they are initially placed  
18 at DSR Level 7, they have one (1) year of cleaning  
19 driving. Based on the -- the average premium that we  
20 discussed, the twelve hundred dollars (\$1,200), they're  
21 going to pay sixty-two hundred dollars (\$6,200). If they  
22 have one (1) at-fault claim and a minor conviction,  
23 they're going to pay seventy-six hundred and seventy-five  
24 dollars (\$7,675), so they're -- they're paying an extra  
25 fourteen hundred and seventy-five dollars (\$1,475) over a

1 seven (7) year period, as a consequence of the at-fault  
2 claim and the minor conviction.

3 MR. DONALD PALMER: That's correct.

4 MS. CANDACE EVERARD: If we turn over the  
5 page, the second example was an individual who's  
6 initially placed at DSR Level 5, so they're starting out  
7 two (2) levels lower than the person in Example 1. Under  
8 DSR, with a clean record for one (1) year, they're paying  
9 six thousand five hundred and fifty-five dollars  
10 (\$6,555), and with the same seven (7) level hit, due to  
11 an at-fault accident and a minor conviction, they're now  
12 paying eight thousand dollars (\$8,000), so that's a  
13 difference of fourteen hundred and forty-five dollars  
14 (\$1,445).

15 MR. DONALD PALMER: Yes, that's true --  
16 correct.

17 MS. CANDACE EVERARD: In the third  
18 example, the same scenario, this time though the person  
19 is starting out at DSR Level 3, rather than paying six  
20 thousand nine hundred and twenty dollars (\$6,920),  
21 they're paying eight thousand three hundred and fifteen  
22 (8,315), with their seven (7) level hit, which is  
23 thirteen hundred and ninety-five dollars (\$1,395) more.

24 MR. DONALD PALMER: I'm with you again.

25 MS. CANDACE EVERARD: In the fourth

1 example, the individual who starts out at DSR Level 0,  
2 rather than paying seven thousand seven hundred and forty  
3 dollars (\$7,740) with a year of clean driving, they pay  
4 eight thousand nine hundred and thirty-five dollars  
5 (\$8,935) over seven (7) years after the seven (7) level  
6 hit, so they're paying eleven hundred and ninety-five  
7 dollars (\$1,195) more.

8 MR. DONALD PALMER: That's correct.

9 MS. CANDACE EVERARD: So the relative  
10 difference, looking at the four (4) examples that we've  
11 looked at, are that the person who starts out at DSR  
12 Level 7, is going to pay fourteen hundred and seventy-  
13 five dollars (\$1,475) more than they would have, but for  
14 the seven (7) demerits; whereas a person who starts out  
15 at DSR Level 0 is only paying eleven hundred and ninety-  
16 five dollars (\$1,195) more over the same period.

17 Is that right?

18 MR. DONALD PALMER: That's correct and I  
19 would also point out that the second driver is paying  
20 eight thousand nine hundred and thirty-five dollars  
21 (\$8,935) compared to the first one of seven thousand six  
22 hundred and seventy-five dollars (\$7,675). So -- so  
23 again, it's not so much the difference as the ultimate  
24 level of each of those drivers. And in your latter case  
25 they are paying about thirteen hundred dollar (\$1,300) --

1 thirteen hundred dollars (\$1,300) more over that seven  
2 (7) year period.

3 MS. CANDACE EVERARD: I appreciate that.  
4 When we compare Example 1 to Example 4, the Example 4  
5 person is paying more in dollars, but the -- the relative  
6 increase to each individual is more for the person who  
7 started out at DSR Level 0 than the person who started  
8 with seven (7) DSR merits.

9 MR. DONALD PALMER: And that difference  
10 is reflected with the risk.

11 MS. CANDACE EVERARD: Sorry. Can -- can  
12 you explain that, because shouldn't a person at a Merit  
13 Level 7 be less risky than a person at Merit Level 0?

14 MR. DONALD PALMER: Yes. And they --  
15 they pay sixty-two hundred dollars (\$6,200), versus  
16 seventy-seven hundred and forty dollars (\$7,740).

17 MS. CANDACE EVERARD: But they're paying  
18 more for the same seven (7) demerits. Their penalty is  
19 greater in other words.

20

21 (BRIEF PAUSE)

22

23 MR. DONALD PALMER: On a relative basis  
24 with the -- the change in the curve, because we have  
25 demonstrated that the DSR level -- the ultimate DSR level

1 is reflective of -- of risk, so -- but is not completely  
2 actuarially sound.

3                   So within these -- these levels and the  
4 constraints that we have, on a percentage basis you --  
5 you're right there. But those two (2) drivers, again  
6 you'll have to look at ultimately what they pay, not  
7 necessarily what they would have paid under different  
8 scenarios.

9

10   (BRIEF PAUSE)

11

12                   MS. CANDACE EVERARD: I -- I just want to  
13 follow-up on this a little bit further. In SM-1, on page  
14 5, it's reflected that -- and I'm looking at Subparagraph  
15 F -- it says that:

16   "By phasing in the higher demerits  
17 surcharge amounts over four (4) years  
18 drivers will have time to adjust their  
19 behaviour and improve their position on  
20 the scale before being assessed higher  
21 penalties. No one will receive a  
22 higher surcharge if they receive no new  
23 convictions."

24                   Just coming back to IR-46 that we were  
25 looking at, and this time I'll ask you to turn to Example

1 6, which we had not looked at yet. This is the person  
2 who started out at DSR Level Minus 10, so ten (10)  
3 demerits. It -- it appears from the face of this example  
4 that under the current system their driver premium would  
5 be seven hundred and fifteen dollars (\$715) and under DSR  
6 it would be nine hundred (900).

7 Is that right?

8

9 (BRIEF PAUSE)

10

11 MR. DONALD PALMER: That -- that's  
12 correct.

13 MS. CANDACE EVERARD: And that comes from  
14 the top table on that page?

15 MR. DONALD PALMER: That's correct.

16 MS. CANDACE EVERARD: If we look at  
17 Example 7 of the same IR answer, and this is an  
18 individual who starts out in DSR at Demerit Level 20, so  
19 a negative twenty (20), again looking at the top table  
20 which reflects the difference between the current system  
21 and the new system, it would appear that the driver  
22 premium to be paid under the existing system is eighteen  
23 hundred and five dollars (\$1,805) and under the driver --  
24 or the DSR system, rather, two thousand three hundred and  
25 eighty four dollars (\$2,384).

1 Is that right?

2 MR. DONALD PALMER: That's correct.

3 MS. CANDACE EVERARD: Now, on this  
4 particular table for current system, the left-hand side  
5 column -- or table, rather, for Year 1 it reflects a  
6 driver's premium of nine hundred and twenty-five dollars  
7 (\$925).

8 Do you see that?

9 MR. DONALD PALMER: I see that, yes.

10 MS. CANDACE EVERARD: The Corporation  
11 provided, as part of the filing, a table of the current  
12 driver premium charges, and in particular SM-1,  
13 Attachment A.

14 Sorry, I didn't realize you --

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

17 MS. CANDACE EVERARD: Yeah, for sure.

18 So in Example 7, in the top table, it's  
19 reflected that this individual who, under the current  
20 system, is the equivalent of a DSR minus twenty (20), is  
21 going to be paying a driver premium of nine hundred and  
22 twenty-five dollars (\$925). If we look at SM-1,  
23 Attachment A, there is a list of the driver premiums  
24 under the current system, and it appears that a person at  
25 minus twenty (-20) the current premium is a thousand and

1 forty-four dollars (\$1,044).

2 Is that correct?

3 MR. DONALD PALMER: Sorry, under the DSR  
4 system it's a thousand and forty-four (1,044)? I think  
5 there -- there is, under the current system, the -- we  
6 have a number of demerits up to twenty (20), which is  
7 nine hundred and twenty-five dollars (\$925) as a  
8 surcharge, and then twenty-one (21) or more is nine  
9 hundred and ninety-nine (999). We have combined those  
10 all into twen -- into twenty (20), and set that level at  
11 -- at the nine hundred and ninety-nine dollars (\$999).

12 So there are -- I think there were thirty-  
13 nine (39) drivers who had exactly twenty (20) demerits.  
14 So strictly speaking, this -- this phasing-in the  
15 surcharge, those thirty-nine (39) drivers will be paying  
16 more under the -- under the DSR system than the old  
17 system.

18 Yeah, in our -- in our modelling exercise  
19 there was thirty-nine (39).

20 MS. CANDACE EVERARD: So --

21 MR. DONALD PALMER: And one (1) -- one  
22 (1) other addition into the -- that table, I've just been  
23 informed that that driver premium, nine twenty-five  
24 (925), we should be adding forty-five dollars (\$45) to  
25 each one of those levels as the basic premium.

1 MS. CANDACE EVERARD: Thank you for  
2 clarifying that.

3 Just backing up for a moment to a  
4 statement that you just made a couple of minutes ago,  
5 that some of -- or these individuals at Demerit Level 20  
6 will actually be paying a somewhat higher driver's  
7 premium under DSR. And that's even in the absence of a  
8 new conviction or an at-fault claim?

9 MR. DONALD PALMER: That's correct.

10

11 (BRIEF PAUSE)

12

13 THE CHAIRPERSON: We'll just take a ten  
14 (10) minute break now, then we'll come back at 3:00 and  
15 go through to 4:00. Thank you.

16 MS. CANDACE EVERARD: Thank you, Mr.  
17 Chairman.

18

19 --- Upon recessing at 2:50 p.m.

20 --- Upon resuming at 3:10 p.m.

21

22 THE CHAIRPERSON: Okay; welcome back.  
23 Ms. Everard...?

24 MS. CANDACE EVERARD: Thank you, Mr.  
25 Chairman.

1 CONTINUED BY MS. CANDACE EVERARD:

2 MS. CANDACE EVERARD: I'm now going to  
3 turn to some questions, with respect to intersection  
4 safety cameras also known as red-light cameras. Question  
5 32 posed by the Board in the Information Request process  
6 deals with this.

7 Firstly, I think it's clear from the  
8 record that red-light camera convictions or infractions  
9 are not incorporated into the proposed DSR design.

10 Is that right?

11 MR. DONALD PALMER: That's correct.

12 MS. CANDACE EVERARD: Now, looking at the  
13 response to 1-32(a), which provides for the number of  
14 Highway Traffic Act convictions in Winnipeg for the years  
15 2000 through 2007, it would appear that that number over  
16 the last few years has declined fairly significantly.

17 Would you agree?

18 MR. DONALD PALMER: Yes, I would agree  
19 with that.

20 MS. CANDACE EVERARD: And just so that  
21 we're clear what we're talking about when we're speaking  
22 of Highway Traffic Act convictions, we're talking about  
23 tickets issued by an officer at the time of a moving  
24 violation as opposed to a camera infraction?

25 MR. DONALD PALMER: Yes.

1 MS. CANDACE EVERARD: Now the Corporation  
2 has said in the answer to Sub B that a review of this  
3 data and the numbers under Sub A that there would appear  
4 to be a correlation between the introduction of the red-  
5 light cameras in 2003 and a downward trend in convictions  
6 under the Highway Traffic Act in subsequent years; is  
7 that right?

8 MR. DONALD PALMER: Yes, the convictions  
9 did decrease after 2003.

10 MS. CANDACE EVERARD: In fact, in 2000 --  
11 in both 2000 and 2002 there were over forty thousand  
12 (40,000) convictions under the Act and when the red-light  
13 cameras came into effect January, I believe it was  
14 January, yeah January of 2003, that figure fell in that  
15 year, 2003, to some thirty-two thousand (32,000) and  
16 thereafter has ranged between twenty-one thousand  
17 (21,000) or so and about twenty-seven and a half (27 1/2)  
18 thousand.

19 Is that right?

20 MR. DONALD PALMER: That's correct.

21 MS. CANDACE EVERARD: Now, at the last  
22 GRA the Corporation had indicated that it was having some  
23 discussions with the Winnipeg Police Service about this  
24 decline and that the police recognized the importance of  
25 traffic enforcement and had a number of initiatives

1 underway to try to improve the situation. Is there an  
2 update with respect to those discussions?

3 MS. MARILYN MCLAREN: Just that I'm  
4 confident that that commitment on the part of the WPS is  
5 there, it remains, and that the conversations are  
6 continuing, the meetings continue, and I believe that --  
7 that we may actually see an increase over the '07 stats  
8 when we see the '08 stats at this point.

9 MS. CANDACE EVERARD: I appreciate that  
10 this IR response and the discussion that we've been  
11 having deals solely with Winnipeg. Do we know anything  
12 about the statistics in other parts of Manitoba that  
13 would be dealt with by the RCMP, whether there has been a  
14 decline there or not?

15 MS. MARILYN MCLAREN: Over the -- the  
16 last decade or so there -- there certainly has been a  
17 decline and it's across the country. It's not something  
18 that is specific to Manitoba or Winnipeg at all.  
19 Virtually every jurisdiction has seen a -- a decrease in  
20 traffic enforcement as measured by the incidence of  
21 tickets being handed out.

22 More recently, though, the RCMP has  
23 increased. I think the last two (2) years we saw an  
24 increase in the number of convictions dealt with by the  
25 RCMP in Manitoba.

1 MS. CANDACE EVERARD: Coming back to the  
2 issue of the intersection safety cameras or the red-light  
3 cameras, let's leave aside for the moment the issue or  
4 the fact that the driver cannot be identified by the  
5 camera at this point. If we leave that aside, what does  
6 the Corporation say about the predictive value for future  
7 claims of those infractions versus Highway Traffic Act  
8 convictions?

9 MR. DONALD PALMER: I don't think we know  
10 the answer to that question. We -- we don't -- we don't  
11 have the -- the stats. We haven't put them into our  
12 database. We haven't done the predictive modelling to --  
13 to come up with any conclusion on that.

14 MS. CANDACE EVERARD: But wouldn't you  
15 agree -- would you agree as a general proposition that  
16 whether it's a speeding infraction that's caught on the  
17 camera or whether it's a running the red light, the act  
18 is still, if committed, the same act whether it's caught  
19 by a camera or caught by a live-body officer?

20 MR. DONALD PALMER: Sure, I -- I would --  
21 I would agree with that. In terms of predictive value,  
22 though, I think you still have to know the -- the  
23 accident frequency of the particular person or -- or  
24 vehicle and I don't know that if -- if there's a vehicle  
25 that gets red-light cameras, if that vehicle is going to

1 have more accidents. I don't know the answer to that.

2 MS. CANDACE EVERARD: So let me ask you  
3 this: If the driver in the case of the camera infraction  
4 could be identified, and come to a little bit more  
5 discussion about that in a moment, but if that were the  
6 case would your answer change?

7 MR. DONALD PALMER: Sure. I would say at  
8 that point in time, if the driver was identified, that  
9 then it becomes no different, as you said, than a -- than  
10 if that ticket had been given by a police officer.

11 So I don't see any reason to distinguish  
12 if the driver was identifiable between the red-light  
13 camera and the -- getting caught in a speed trap.

14 MS. CANDACE EVERARD: So if there was a  
15 way to identify the driver as a general proposition, it  
16 would be appropriate, desirable to include those  
17 convictions, and I know it's an if, in the assignment of  
18 demerits under the system?

19 MR. DONALD PALMER: I would agree.

20 MS. CANDACE EVERARD: Now I -- I  
21 appreciate that there are sections of the Highway Traffic  
22 Act that deal with this issue and that those are not  
23 within the -- the control of the Corporation but I do  
24 want to have a discussion about this.

25 I'm assuming that the Corporation is

1 familiar with the section of the Highway Traffic Act  
2 which is 229(2) that says that whenever there's an owner  
3 of a vehicle that's involved in a contravention of the  
4 Act, the owner can be charged with any offence for which  
5 the driver may be charged although both cannot be  
6 convicted.

7 MR. DONALD PALMER: That's -- that's  
8 correct.

9 MS. CANDACE EVERARD: So in other words  
10 if there's a situation, and just I'll give this as an  
11 example because it's one of the more common ones of  
12 there's a failure to exchange particulars, and let's say  
13 it's a hit and run in a parking lot and there's a witness  
14 that sees the hit and run, don't know who the driver is  
15 but notes the licence plate, reports it to the police,  
16 chances are that owner is going to end up with a ticket  
17 for failing to exchange and it's going to be up to them  
18 to either identify who the driver was or otherwise deal  
19 with the ticket.

20 Is -- is that scenario somewhat familiar?

21 MS. MARILYN MCLAREN: That's the  
22 intention of that provision, yes.

23 MS. CANDACE EVERARD: Does the  
24 Corporation have a view with respect to whether the  
25 legislation that applies to the camera infractions could

1 be amended to be dealt with similarly?

2                   And as I say, I appreciate it's not within  
3 the control of the Corporation but I'm asking whether the  
4 Corporation has a view on that.

5                   MS. MARILYN MCLAREN: I think, yeah, we  
6 really don't have an opinion on that other than to say  
7 that many sections of many pieces of legislation could  
8 probably be modified somehow.

9                   You know, it's clearly -- clearly I think  
10 everyone in this room knows there are significant public  
11 policy issues around here that are well outside the realm  
12 of this Corporation or this Board.

13                   Intersection safety cameras have lots of  
14 interest and -- and policy and -- and all kinds of  
15 baggage, so to speak, that go with them that are -- that  
16 have nothing to do with the Corporation, its Application  
17 or the Public Utilities Board.

18                   Governments can change sections of  
19 legislation. I think we all know that this particular  
20 legislation was discussed and brought in and -- and  
21 commitments to be made about exactly what the purpose of  
22 it was and how demerits would not be assigned and that's  
23 the situation we continue to find ourselves in.

24                   So I'm not sure what else we -- we can  
25 enlighten through this proceeding on this topic.

1 MS. CANDACE EVERARD: Well, that's fine,  
2 but I think there may be some more enlightenment, so I'm  
3 going to continue with -- with a few more questions.

4 We know that to the extent that there are  
5 infractions being caught by the cameras and -- and  
6 whether it's the speeding or whether it's running the red  
7 light as we've identified, it's the same offence that's  
8 occurring but it's an issue of identification.

9 And certainly based on the material that's  
10 been provided, the existing system, the proposed system,  
11 convictions where the driver is identified for speeding,  
12 running a red light, carry penalties that affect their  
13 current merit or demerit status and their level under the  
14 proposed DSR. We're agreed so far?

15 MR. DONALD PALMER: Absolutely.

16 MS. CANDACE EVERARD: So I appreciate  
17 that the government may or may not choose to amend  
18 various pieces of legislation for many different reasons,  
19 but notionally wouldn't the DSR system run more fairly  
20 and more comprehensively if all of these infractions that  
21 are occurring but are not being captured because of this  
22 identification issue, would that not be more appropriate  
23 and -- and make the system run better if there were a way  
24 to do that?

25 MS. MARILYN MCLAREN: I -- I think we

1 would agree with you that it would certainly be more  
2 comprehensive. The system may -- the functioning of the  
3 system may be enhanced with more data, therefore more  
4 robust information about the actions of drivers because  
5 there's always a driver behind the wheel, whether they're  
6 identified or not.

7                   Whether that translates to being fair as  
8 defined by notions of public acceptability that are  
9 within the jurisdiction of other bodies, we're not going  
10 to speculate or comment on that. It's -- it's outside  
11 our responsibility.

12                   MS. CANDACE EVERARD: Okay. So whether a  
13 driver gets tagged by a speed trap being operated by an  
14 officer or a mobile photo radar unit, same act, but there  
15 will be different sets of consequences in those two  
16 situations and the Corporation doesn't take a position on  
17 the fairness of that?

18                   MS. MARILYN MCLAREN: Right, because the  
19 authority who -- who holds the responsibility to weigh in  
20 on that I think has -- has made a determination for  
21 whatever reason. Maybe part of that is public  
22 perceptions of fairness, maybe it's not, I'm not sure.  
23 But I think our perspective on what it means is -- is  
24 limited by the comments I've made so far.

25                   MS. CANDACE EVERARD: Now we know from

1 the answer to Question 32 that was posed, that the  
2 Corporation does not receive information from the  
3 Winnipeg Police Service with respect to the number of  
4 infractions that are associated with the cameras.

5 Is that right?

6 MS. MARILYN MCLAREN: Yes, I -- I -- to  
7 my knowledge we don't have that data at all.

8 MS. CANDACE EVERARD: And, Ms. McLaren,  
9 you mentioned earlier today the -- or maybe it was Mr.  
10 Palmer, I forget -- the survey results, and certainly  
11 there have been extensive survey results provided as part  
12 of the filing and the whole public consultation process  
13 that was undergone.

14 And it appears from having a review of  
15 those results with respect to these cameras and this  
16 issue that the Corporation did not survey the public for  
17 the most part with respect to the cameras. Is that --  
18 there was some but at least for some of the questions  
19 that we reviewed, red-light cameras were excluded.

20 And I -- I can give you a reference if  
21 you'd -- if you'd like it.

22 MS. MARILYN MCLAREN: If you have a  
23 reference as to what we did --

24 MS. CANDACE EVERARD: Yeah, sure.

25 MS. MARILYN MCLAREN: -- include, that's

1 fine, sure.

2 MS. CANDACE EVERARD: Tab 2, which is the  
3 September '07 survey, page 12. This is an example of a  
4 question being posed and, as I say, the red-light camera  
5 as being specifically excepted from the question, or  
6 excluded from the question.

7

8 (BRIEF PAUSE)

9

10 MS. MARILYN MCLAREN: Okay, we've got  
11 that reference.

12 MS. CANDACE EVERARD: So would that type  
13 of an exclusion in a survey question have been put there  
14 or that part of the question specifically excluded by the  
15 Corporation for the reasons that you've identified or why  
16 would that be specifically excluded?

17 MS. MARILYN MCLAREN: I think the  
18 Corporation recognized very early in the process with  
19 respect to the development of DSR that very explicit  
20 public statements, public commitments, had been made with  
21 respect to what those convictions would be use for and  
22 what they wouldn't be, those of the intersection safety  
23 cameras.

24 I think we did an earlier survey where if  
25 -- we'll double-check but going from memory we did ask a

1 direct question that was the public surveyed were  
2 overwhelmingly opposed to including those intersection  
3 cameras in a system like the merit discount program, DSR,  
4 demerit point, additional -- any of those, they -- they  
5 overwhelmingly opposed that. We --

6 MS. CANDACE EVERARD: That would be Tab 4  
7 pages 30 and 31.

8 MS. MARILYN MCLAREN: Okay. So we did  
9 that earlier; we knew that. We also knew because of the  
10 public statements that had been made -- and made, you  
11 know, not just once back in 2003 -- that there was no  
12 appetite to diverge from -- from that public commitment  
13 and -- and the way the program was introduced. So we  
14 were trying to make sure people understood exactly what  
15 we were talking about, what we deemed to be in the realm  
16 of the feasible, and proceeded on that basis.

17 MS. CANDACE EVERARD: So it's fair to say  
18 then, given that feedback and given the scheme currently  
19 set out in the legislation, that the Corporation is  
20 content and doesn't -- I'm not getting that the  
21 Corporation is taking a strong position with respect to  
22 any changes regarding these cameras and the -- the  
23 ability or lack thereof to identify the driver; is that  
24 fair to say?

25 MS. MARILYN MCLAREN: No, that's not fair

1 to say. I think what's fair to say is the convictions  
2 that move people down the new DSR scale are specified in  
3 the Regulation, intersection safety cameras aren't there.  
4 If they ever show up there, that'll be a decision on the  
5 part of the government to include them.

6                   You know, people recommend different  
7 things to government at different times. This Board  
8 recommended for a number of years that seatbelt  
9 convictions should earn demerits. For many years that --  
10 that was recommended by this Board. Many years after  
11 that, the government decided to do it. I'm -- I'm not  
12 sure what exactly led them to do it at that particular  
13 point in time but -- but they're there now.

14                   So that's the regulation; that's what  
15 we're working with. That's all you should really take  
16 from this conversation is -- is we're working with what  
17 we have to work with.

18                   MS. CANDACE EVERARD: Okay. On a  
19 somewhat related point I want to put a bit of a scenario  
20 to you.

21                   Let's say we have a vehicle owner that has  
22 ten (10) years claims-free driving experience, no  
23 convictions under the Highway Traffic Act, such that if  
24 the system that's currently being proposed is fully  
25 rolled out and the vehicle premium discounts end up being

1 what is currently set out, that person will pay zero  
2 dollars for their driver's licence and will enjoy a 30  
3 percent discount on their vehicle premium; Okay?

4 MR. DONALD PALMER: Yes.

5 MS. CANDACE EVERARD: So in -- in other  
6 words, this is a person who is a good driver who's being  
7 rewarded for their experience which is certainly one (1)  
8 of the goals of the system.

9 MR. DONALD PALMER: Yes.

10 MS. CANDACE EVERARD: So what if that  
11 person had ten (10) red-light camera infractions in the  
12 last year and their spouse, who also drives the vehicle  
13 but is not the registered owner, had three (3) Highway  
14 Traffic Act speeding convictions and two (2) at-fault  
15 accidents, I take it there would be no effect on the  
16 owner's DSR level in that scenario and hence no change in  
17 the vehicle premium collected?

18 MR. DONALD PALMER: Under the situation  
19 as you've described, that's correct.

20 MS. CANDACE EVERARD: The spouse, the --  
21 the offending spouse with the three (3) speeding tickets  
22 under the Highway Traffic Act and two (2) at-fault  
23 accidents is obviously going to have an effect on their  
24 DSR level and pay a driver premium accordingly but the  
25 vehicle premium's going to remain the same?

1 MR. DONALD PALMER: Yes.

2 MS. CANDACE EVERARD: Now, let's add one  
3 (1) more factor into this scenario. The same vehicle  
4 owner with the offending spouse unfortunately had that  
5 spouse pass those offending genes on to their child.

6 So we now have a licensed driver, third  
7 driver on this vehicle, who also has multiple at-fault  
8 accidents and let's say some major convictions. The same  
9 result would hold true. That is the child would suffer  
10 whatever consequences there would be to his or her DSR  
11 level whereas the registered owner of the vehicle, still  
12 not having at-fault claims themselves or any convictions  
13 themselves, that vehicle premium discount is going to  
14 remain intact.

15 Is that right?

16 MR. DONALD PALMER: That's correct.

17 MS. CANDACE EVERARD: Is it fair to say  
18 or is it the Corporation's view that that registered  
19 owner is still deserving of a zero dollar driver's  
20 licence and a 30 percent vehicle premium discount by  
21 lending the vehicle or letting the vehicle be driven by  
22 these other poor drivers?

23 MS. MARILYN MCLAREN: Definitely because  
24 in the system that we have, we've got all those DSR  
25 demerits and -- and surcharges and will be getting

1 significant additional financial contribution from those  
2 other two (2) people. Absolutely.

3 MS. CANDACE EVERARD: So it's -- the  
4 Corporation is comfortable with that -- those driver  
5 premiums being collected from the two (2) bad drivers but  
6 the vehicle premium having the discount intact and that  
7 registered owner basically being unaffected as far as the  
8 Corporation is concerned by the bad behaviour of the  
9 individuals to whom they'd lent the vehicle?

10 MR. DONALD PALMER: Unaffected from the  
11 MPI premium perspective. I suspect with the situation as  
12 you've described there are other consequences besides the  
13 Autopac premium, the payment of several deductibles, for  
14 instance, the fact that the vehicle may be significantly  
15 depreciated because of the number of accidents that it  
16 has had.

17 So there are other consequences. So from  
18 a MPI premium perspective, you're -- you're correct.

19 MS. MARILYN MCLAREN: We're -- we're more  
20 than comfortable. We think that's one of the real  
21 strengths of the program. That's why it -- we believe  
22 it's such a benefit to individually rate each and every  
23 driver.

24 You can't control who owns vehicles, you  
25 can't control that side of the equation. But this is

1 highly, highly preferable to administratively listing who  
2 these people are and having a complicated rating system  
3 based on the relative contribution of three (3)  
4 individual drivers to one (1) vehicle premium.

5                   Highly complicated, highly  
6 administratively burdensome and we think it's ideal that  
7 the Manitoba system allows for individual risk grading of  
8 individual drivers. So we -- that's exactly what we're  
9 here to -- to sort of celebrate the continuation that's  
10 been in place since 1971 of that approach.

11                   MS. CANDACE EVERARD: Thank you. I now  
12 have a few questions with respect to the streamlined  
13 renewal process so I'd ask you to turn to SM-2.

14                   This is the part of the Application, of  
15 course, that deals with and describes the streamlined  
16 renewal process.

17                   We would appreciate it though if the  
18 process of how renewing licence and registration will  
19 change, and so if that could be described for the record?

20                   MS. MARILYN MCLAREN: We mentioned  
21 yesterday that the -- the building block, the -- the  
22 necessary building block for the streamlined renewal  
23 process was really the integration of the functions of  
24 the former DVL branch of government into the Corporation,  
25 and the alignment of driver licence renewal processing

1 along with Autopac renewals on the same date, in the same  
2 process, in the broker's office as all of which we did  
3 about two and a half (2 1/2) years ago in the Fall of  
4 2006.

5                   So what we were able to with that is -- is  
6 leverage those opportunities to significantly improve the  
7 administration yet again and extend the licensing period  
8 from one (1) year to five (5) years, knowing that almost  
9 no policy coverage changes are made during the renewal  
10 process. So there's nothing magic about having a -- a  
11 document, a licence or so on for a one (1) year period  
12 versus a five (5) year period.

13                   And as the popularity of the monthly  
14 payment program continues to grow, we're also now in a  
15 position where, as most Manitobans really believe the  
16 annual renewal process to be not much more than a  
17 payment, we will begin treating it like a payment.  
18 Monthly payments will take place over the full five (5)  
19 year cycle of that policy period.

20                   At the twelve (12) month intervals we will  
21 send a notification to people saying that their -- their  
22 monthly payment will go up three dollars (\$3), down two  
23 dollars (\$2), but the payments will continue. So for the  
24 majority of customers who -- who do make use of the  
25 monthly payment plan and a streamlined renewal process,

1 they will no longer have to go to visit the broker unless  
2 they really, truly need to do so.

3                   And we're aligning this, as well, with a  
4 five (5) year one (1) part driver licence document and we  
5 think it's appropriate that a new photo be taken every  
6 five (5) years and that's why we've aligned the process  
7 together in a five (5) year window.

8                   So that's basically the heart of it, is  
9 people will go to see their broker when they need to, not  
10 annually unless they need to, and they will have to go  
11 for a new photo and new documentation every -- once every  
12 five (5) years.

13                   MS. CANDACE EVERARD: Tell me about some  
14 of the specifics of the vehicle renewal process. When  
15 you go now to your broker you get a little sticker to be  
16 put on your licence plate and you get a certificate of  
17 insurance that sits in the glove box, normally. How is  
18 that going to be done? Are stickers still going to be  
19 used and -- and how is that going to happen?

20                   MS. MARILYN MCLAREN: Stickers will be  
21 used. They're -- they're not used in all jurisdictions  
22 anymore; maybe that's something that will need to be  
23 looked at at some point but certainly during the  
24 transition stickers will continue to be used. They'll be  
25 issued for a five (5) year period.

1 MS. CANDACE EVERARD: So -- okay, I --  
2 that I understand. The payments, though, will still be  
3 due notionally annually or monthly depending on what the  
4 person does. How will whether or not a person's sticker  
5 is valid as in the premiums been paid, how will that be  
6 known to, say, the police service, for example, when  
7 they're running a plate? How is that going to work?

8 MS. MARILYN MCLAREN: All of the police  
9 agencies in the province have online access to vehicle  
10 registration information. None of them for -- for many  
11 years now have relied on the plates themselves or even  
12 the -- the paper documentation. They always confirm the  
13 validity of the vehicle registration, the validity of the  
14 driver licence by using their online computer systems.

15

16 (BRIEF PAUSE)

17

18 MS. CANDACE EVERARD: So year to year,  
19 and I'm not talking about the every five (5) years when  
20 the person has to attend at the broker's office for their  
21 picture and to -- to renew their insurance, but in the  
22 intervening years when it's basically going to be done by  
23 the mail or through the mail, what is the role of the  
24 broker then to be paid during those intervening years?

25 MS. MARILYN MCLAREN: Well, I -- I guess,

1 you know, just to be clear, for -- for most people during  
2 that five (5) year cycle the work that will be done  
3 through the mail that you -- that you just referenced is  
4 really the Corporation sending a -- a statement of  
5 account, a notice really of what their -- their new  
6 premium and so on will be.

7                   Whether we continue to use traditional  
8 mail, whether we'll be able to move in the next few years  
9 to an e-mail system is -- is a possibility, something  
10 that we would strive to look for -- to -- to look to do.  
11 For the people who are on the monthly payment plan, it  
12 ends with them looking at the notice and saying, Oh,  
13 okay, that's it. There is no work to do.

14                   For people who continue to pay on an  
15 annual basis they will pay their next annual payment  
16 probably many, many of them through online banking. If  
17 they still want to get, you know, a pocket full of twenty  
18 dollar (\$20) bills and go and visit their broker they can  
19 certainly do that, but we expect that to be the minority  
20 in most cases.

21                   So the role of the broker at the twelve  
22 (12) month point really ceases to exist other than to  
23 accept cash or cheque payments from those who continue to  
24 pay that way.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: So in a transaction  
4 that you just described where the person is paying  
5 through online or whatever means and they're not actually  
6 making a trip to the broker's office, does a commission  
7 still accrue in favour of the broker?

8 MS. MARILYN MCLAREN: Yes, it does.

9 MS. CANDACE EVERARD: And why is that?

10 MS. MARILYN MCLAREN: Because the brokers  
11 have always been expected to do more than just process  
12 the renewal as the renewal has -- has been in place for  
13 all of these many years, very much similar to a -- a  
14 private sector model. Brokers service the policy. We  
15 know they answer tens of thousands of phone calls on our  
16 behalf about questions people have about their Autopac,  
17 insurance, registration, throughout the year.

18 We also know that in many case the -- the  
19 payment that they receive to process some sort of a mid-  
20 term change does not really fully cover their costs to  
21 process those changes.

22 So we never -- when the commission was  
23 5 percent and there was an annual renewal involved, we  
24 never expected that they were fully earning that  
25 5 percent during that, for the most part, ten (10) minute

1 transaction at the renewal. There was more work  
2 involved. Much of that work does continue in a  
3 streamlined concept. That's why we would continue to pay  
4 them.

5 MS. CANDACE EVERARD: Just as an aside,  
6 we've been speaking of paying online, paying monthly.  
7 What about payment by credit card, is that still  
8 possible?

9 MS. MARILYN MCLAREN: Yes, annual credit  
10 card and monthly credit card, those are both options in  
11 place, have been since 2000.

12

13 (BRIEF PAUSE)

14

15 MS. CANDACE EVERARD: Ms. McLaren, you  
16 mentioned that the popularity of the monthly payment plan  
17 has increased. Roughly what percentage would we be  
18 talking of basic policy holders that would pay by month?

19 MS. MARILYN MCLAREN: I believe there's  
20 now more people on the monthly payment plan than the --  
21 the decreasing number who continue to use the quarterly  
22 payment plan. There's still a significant number of our  
23 customers who just do pay it once a year when it comes  
24 due.

25 And part of the -- the consideration

1 around that is there's a large number of vehicles that  
2 aren't eligible for the -- for the time payments, for the  
3 monthly payment plans. There is an incredible number of  
4 low-value trailers that we've talked about in this forum  
5 through the years.

6 So there's over a hundred thousand  
7 (100,000) vehicles just if you look through, off-road  
8 vehicles and low-value trailers, that are not eligible.  
9 So that tends to -- to weight the distribution towards  
10 the annual payment, as well.

11 But in terms of the -- the payment plan  
12 that we have, tilted towards monthly over quarterly and a  
13 growing number of people using the quarterly payments --  
14 monthly payments, sorry.

15 MS. CANDACE EVERARD: Can you give me a  
16 ballpark though on the percentage of people that are at  
17 monthly? Like, is it like 10 percent, or a quarter?  
18 Half?

19 MS. MARILYN MCLAREN: We'll look that up.  
20 Excuse me just for a second.

21

22 (BRIEF PAUSE)

23

24 MS. MARILYN MCLAREN: Okay. There's  
25 about 60 percent of the policies that are paid on an

1 annual basis. And remember that is skewed because of  
2 more than a hundred thousand (100,000) that don't have a  
3 choice of any other way. 30 percent -- close to  
4 30 percent use the monthly and the quarterly has -- has  
5 dropped down to less than 15 percent, about 13 percent.

6 MS. CANDACE EVERARD: So as it stands  
7 then, about 60 percent of individuals attend at their  
8 broker's office and pay annually?

9 MS. MARILYN MCLAREN: As it stands, 100  
10 percent do because they need to get their new sticker and  
11 so on and so forth. But in the new model easily  
12 30 percent won't be. And some percentage of the  
13 60 percent will continue to, but they don't have the  
14 option today. I mean, many people, more every day, are  
15 using online banking and other features like that. They  
16 don't have that option today because of the need to go  
17 and get the documentation.

18 MS. CANDACE EVERARD: So does the  
19 Corporation have a sense of what percentage there will be  
20 of those individuals who will for whatever reason still  
21 choose to go visit the broker, pay the premium and get  
22 some kind of a piece of paper in their hand?

23 MS. MARILYN MCLAREN: Pure speculation on  
24 my part. At this point maybe 30 percent.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: With respect to the  
4 idea that the premiums will need to be renewed every five  
5 (5) years and the new driver's licence pictures taken  
6 every five (5) years, does that mean at least for the  
7 first while that every fifth year there's going to be a  
8 bit of a hump in terms of the amount of work to be done  
9 or is -- can this be staggered or --

10 MS. MARILYN MCLAREN: It's -- it's being  
11 staggered. Yeah, it'll take us till the end of 2013 to  
12 get the entire population onto their five (5) year cycle.

13 So some people will renew again in 2010,  
14 some people will renew in two (2) years, three (3) years,  
15 so there's an evolutionary process that will take until  
16 2013.

17 One of the things that we did so  
18 effectively in 1995 was smooth the workload and -- and we  
19 won't do anything that creates little humps or -- or  
20 peaks if there's any way to avoid it and we've continued  
21 with exactly the same process this time out as -- as we  
22 did when we staggered people off of the February date for  
23 the first time.

24 MS. CANDACE EVERARD: Other than the  
25 reduced broker commissions which I'll be coming to, are

1 there any cost consequences to the Corporation of this  
2 initiative, the streamlined renewal process?

3 MS. MARILYN MCLAREN: There will be some  
4 savings in postage. I think, you know, a few things  
5 along those lines we have not fully scoped out all of  
6 that to this point in time but there will be some other  
7 much more minor efficiencies through this process.

8 MS. CANDACE EVERARD: And the postage  
9 savings that you mentioned will be borne by or enjoyed by  
10 Basic? Is that the expectation?

11 MS. MARILYN MCLAREN: Until such time as  
12 we have -- until such time as we -- we might have a  
13 different sort of expense allocation formulas, the  
14 postage today is -- is shared by Basic and Extension and  
15 I expect in that current model the savings would be  
16 prorated, as well. Basic picks up the lion's share so  
17 they would see the lion's share of the savings.

18 MS. CANDACE EVERARD: And I take it just  
19 with respect to extension that the plan of attending once  
20 only five (5) years that will apply the same for  
21 Extension coverage as for Basic?

22 MS. MARILYN MCLAREN: Yes, that's right.

23 MS. CANDACE EVERARD: Okay. I'd ask you  
24 to turn to Question 47 posed by the Board. This deals  
25 with the broker arrangements.

1                   The response at Sub A provides:

2                    "An agreement was negotiated between  
3                    MPI and the Insurance Brokers  
4                    Association of Manitoba. There is no  
5                    contract in place between the two (2)  
6                    organizations."

7                    What exactly does that mean? There's an  
8                    agreement but no contract?

9                    MS. MARILYN MCLAREN:    That's right. It's  
10                    -- yeah, it's an agreement.

11                   MS. CANDACE EVERARD:    So it's verbal?

12                   MS. MARILYN MCLAREN:    We have an  
13                    agreement with the Manitoba Chiropractic Association. It  
14                    -- it's not a contract.

15                   MS. CANDACE EVERARD:    I guess to me,  
16                    agreement and contract kind of mean the same thing. So  
17                    I'm just sort of struggling, and maybe it's just  
18                    semantics, but do you mean there's no written signed  
19                    contract or...?

20                   MS. MARILYN MCLAREN:    There is a written  
21                    signed agreement between the two (2) organizations. It  
22                    probably is semantics so I don't want to put too fine a  
23                    point on it.

24                    You know, it's -- IBAM is an association  
25                    of brokers. We're more comfortable with the term

1 "agreement" just for that reason, but it's virtually one  
2 and the same; it's a commitment to work together within  
3 certain principles.

4 MS. CANDACE EVERARD: And the changes to  
5 the agreement -- I'll -- I'll go with you and use your  
6 word -- reflect -- and this is set out at the answer to  
7 Sub A also that by 2012 the commission payable to brokers  
8 will decrease to 2 1/2 percent and there's a table at Sub  
9 C that sets out the declining scale; is that right?

10 MS. MARILYN MCLAREN: Yes, that's right.

11 MS. CANDACE EVERARD: Now, it's reflected  
12 in Sub A, Sub B, and C, so that is 1-47(a), and I'm  
13 looking at Sub B and C within that, that there will also  
14 be a one (1) time increase in the flat fee compensation  
15 for all commissionable transactions that will be adjusted  
16 by CPI, the Consumer Price Index. Does this mean that  
17 there's a one (1) time payment to brokers or what does  
18 that refer to?

19 MS. MARILYN MCLAREN: The -- the flat  
20 fees that have been part of the commission schedule since  
21 1971 haven't changed for a long, long time so what --  
22 what B and C together mean is that we increased the fees  
23 and then specified a way to continue to increase them on  
24 a regular annual basis so there won't be a need for that  
25 kind of a delta again.



1 allocated between Basic and  
2 Extension  
3

4 CONTINUED BY MS. CANDACE EVERARD:

5 MS. CANDACE EVERARD: At 47(c), where the  
6 table appears with respect to the percentage commissions  
7 that will be rolled out, it's reflected just -- this is  
8 the last sentence above the table -- that Extension  
9 commissions are not germane to the application. Can you  
10 elaborate on that beyond what's on the record?

11 MS. MARILYN MCLAREN: I'm not sure what I  
12 would say to elaborate; it's pretty clear.

13 MS. CANDACE EVERARD: So there's --  
14 there's nothing further that you want to add?

15 MS. MARILYN MCLAREN: No, no.

16 MS. CANDACE EVERARD: Is it the case that  
17 the commissions ultimately paid by Extension are going to  
18 be reflected in regulation?

19 MS. MARILYN MCLAREN: Yes, that's true.

20 MS. CANDACE EVERARD: But at this stage  
21 the Corporation is not willing to give the Board an  
22 indication of the numbers?

23 MS. MARILYN MCLAREN: There -- there  
24 isn't a regulation at this point and so we're not  
25 prepared to, yes.

1 (BRIEF PAUSE)

2

3 MS. CANDACE EVERARD: I assume though  
4 that ultimately the percentages reflected in the  
5 Regulation will set out what is in the agreement.

6 Is that fair to say?

7 MS. MARILYN MCLAREN: I hope so.

8 MS. CANDACE EVERARD: And when will those  
9 figures be available?

10 MS. MARILYN MCLAREN: I -- I expect no  
11 later than a month or two (2), certainly before the June  
12 filing.

13 MS. CANDACE EVERARD: So will it be  
14 included in the June filing?

15 MS. MARILYN MCLAREN: I expect it will be  
16 on the public record by then.

17 MS. CANDACE EVERARD: Mr. Chairman, I  
18 just have about another page. Do you want me to keep  
19 going or do you want me to resume in the morning?

20 THE CHAIRPERSON: Let us resume in the  
21 morning. See you all tomorrow --

22 MS. CANDACE EVERARD: Thank you.

23 THE CHAIRPERSON: -- at 9:00. Thank you.

24

25 (MPI PANEL RETIRES)

1 --- Upon adjourning at 3:58 p.m.

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5 Certified correct,

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11 Cheryl Lavigne

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