MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)
GENERAL RATE APPLICATION FOR
2015-2016 INSURANCE YEAR

Before Board Panel:

Karen Botting - Board Chairman
Regis Gosselin - Board Member
Anita Neville - Board Member
Susan Proven - Board Member
Allan Morin - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 28, 2014
Pages 740 to 977

1 APPEARANCES

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3

4 Kathy Kalinowsky)Manitoba Public

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8 Meghan Menzies (np))

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10 Raymond Oakes)CMMG

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12 Angele Young)CAA (Manitoba)

13 Mike Mager (np)

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15 Irvin Frost)ARM

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18 Jason Carter)

19 Charles Feaver (np))

20

21 Dave Schioler (np))IBAM

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23

24

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1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Good morning,

4 everyone. Welcome back to the General Rate Application

5 hearing in regard to the Manitoba Public Insurance

6 Corporation. Without -- we're going to begin this

7 morning with a presentation by the Manitoba Motor

8 Dealers Association, and I believe Mr. Kent Ledingham

9 is going to lead the presentation.

10 So I welcome you here this morning, and

11 we look forward to your presentation. So you may --

12 may begin. Thank you.

13

14 PRESENTATION BY MANITOBA MOTOR DEALERS ASSOCIATION:

15 MR. KENT LEDINGHAM: Good morning,

16 everyone. My name is Kent Ledingham. I'm president of

17 the Manitoba Motor Dealers Association. I'm here today

18 with Steve Chipman, president and CEO of Birchwood

19 Automotive Group, and a representative on the joint

20 working group with MPI, and Michael Blackey, a

21 representative of the Automotive Trades Association and

22 is also a representative of the joint working group

23 with MPI.

24 Briefly, the Automotive Trades

25 Association is a nonprofit organization that has been

1 on Manitoba's business landscape since 1937. We
2 represent more than one hundred and forty (140)
3 businesses in our province. Simply, the ATA is
4 committed to promoting and maintaining high standards
5 with Manitoba's automotive industry with the sole
6 purpose of providing gold-standard service to our
7 customers.
8 Members of our association are required
9 to engage in ongoing training for management and
10 technical staff. Training benefits everyone;
11 employers, employees, our industry, and our customers.
12 ATA and our members have established high standards of
13 quality that apply to all workmanship, management, and
14 customer service. Together, we are working to
15 eliminate unprofessional behaviour in our industry.
16 The Manitoba Motor Dealers Association
17 represents new vehicle franchise dealerships in
18 Manitoba, more than one hundred (100). The MMDA deals
19 with provincial issues that affect the well-being of
20 the franchise, automobile, and truck dealers. We also
21 have a sales certification program that has graduated
22 over a thousand vehicle sales people since its
23 inception in 1995.
24 MMDA also partners -- partners with
25 several other companies and organizations. Their

1 support has been crucial to the success and financing
2 of all the programs and initiatives that the
3 Association undertakes.
4 Our presentation focusses on the rapid
5 and unprecedented change we are now seeing in the
6 automotive industry, the mounting challenges the
7 industry will face moving forward, and how this could
8 impact the Manitoba consumer; most notably, fuel
9 economy and the impact it will have on the industry.
10 Corporate Aver -- Automobile Fuel
11 Economy, CAFÉ, standards require vehicle manufacturers
12 to double fuel economy by 2025. As a result,
13 significant changes are happening in the automobile
14 design with the use of aluminum and complex materials
15 in common vehicles, such as the 2013 Dodge Dart and the
16 2015 Ford F-150. The new materials are lighter and
17 improve fuel -- and improve fuel economy, but they also
18 require new tools, training, and equipment for repairs.
19 Cost of repairs, which in turn impacts
20 rates. Cost of repairs could increase due to the
21 aforementioned point, as well as the fact that
22 traditional welding and heat-straightening methods
23 cannot be applied, as they compromise the structural
24 integrity of these complex materials. Recruitment and
25 training of all skilled technicians, where investment

is needed, and the role Manitoba Public Insurance plays in our role -- our world.

Our industry has evolved, and we're now seeing rapid change. I can only imagine what Henry Ford would think of front, side, and console air bags, GPS technology, rain sensors, backup cameras, autos -- audible signals when a collision is imminent, and vehicles that one day in the future will drive themselves. To understate the obvious, vehicle manufacture is changing rapidly with autonomous driver options, lightweight materials, and diverse repair procedures. Even entry-level models on the market today have complex electronics and features that were only previously seen in luxury vehicles. With these changes, more vehicles are being written off due to complex repair costs.

Recently, BMW introduced its new electric cars in the i3 and i8, both of which use carbon fibre in the body, another first for the industry. Latest -- later this year, the aluminum body 2015 Ford F-150 will be released into the market, and that is a very common vehicle in Manitoba's fleet.

With the introduction of new vehi -- materials such as these, the industry will be challenged to keep up with repairing these new

1 materials. With a focus on fuel economy and green
2 environment the auto industry also faces tremendous
3 pressures to satisfy customer demand, such as lighter
4 vehicles and better fuel economy.
5 On top of this, I-CAR USA and rou --
6 anticipates roughly two hundred and forty (240) new
7 models or redesigns will be released in the market by
8 2016. The impact of new technology has had a major
9 ripple effect through our industry. Requirements by
10 some original equipment manufacturers' certification
11 programs are vary -- very sensitive to the terms of who
12 can perform repairs and the requirements for
13 replacement of parts to maintain vehicle warranty, such
14 as the mandatory of OEM parts which tends to be -- tend
15 to be more expensive.
16 Additionally, OEMs have developed
17 competitive pro -- parts programs in the past several
18 years, such as price match, that provide new OEM parts
19 at after-market and recycled parts pricing. This may
20 impact the after-market and recycled part suppliers
21 that also has a positive impact on Manitoba's con --
22 customer satisfaction and reduces warranty costs.
23 As a result of warranty restrictions to
24 OEM certified repair programs and competitive
25 strategies through price match there'll be less user

1 recycled and after-market parts and greater use of OEM
2 parts. This will impact repair operations, repair --
3 remove and replace or repair, and depending on the
4 supply chain, it may even impact the duration of the
5 repair process and the associated loss of use costs.
6 This will have an impact on Manitoba
7 Public Insurance. More expensive parts, more time
8 spent repairing a vehicle, all the costs must be
9 absorbed by the public auto insurer. Let me give you
10 an example. Today's vehicles are much more
11 technologically advanced and windshields in today's
12 cars come with rain sensors, lane departure, heads-up
13 display, humidity sensors, acoustic inter-layering, as
14 well as heated and solar coatings.
15 Windshield replacement for the vehicles
16 will be at a higher cost. And I've included a few
17 examples for you to see the difference in the price
18 from then to now. For example, a Toyota Camry 2013
19 windshield was eight hundred and forty dollars ($840);
20 in 2011 it was five hundred and three (503).
21 A Dodge Ram pickup two hundred -- in
22 2013 is a thousand and eighteen dollars ($1,018); in
23 2012 it was four hundred and fifteen dollars ($415). A
24 Lexus ES350, in 2013 it was a thousand and six dollars
25 ($1,006); in 2009 it was eight hundred and forty one

1 (841). A Ford Focus in 2013 was six hundred and sixty
2 dollars ($660); in 2011 it's two hundred and seventy-
3 six ($276). A Chevy Malibu in 2013, nine hundred and
4 eighteen dollars ($918); in 2011, three hundred and
5 sixty-five (365).
6 But that's just the tip of the iceberg
7 with respect to vehicle repairs. Currently, accred --
8 accreditation and shop capabilities are focussed on
9 unibody design that predominantly uses steel. Moving
10 forward, our world is facing tremendous change and the
11 use of complex materials, such as aluminum and carbon
12 fibre, will require new tools, equipment, and training
13 procedures.
14 To adjust in our changing marketplace
15 repair shops will be required to invest in training,
16 tooling, and infrastructure to be able to provide safe,
17 quality repairs. New vehicle technology requires us to
18 purchase additional toos -- tools and reeducate and
19 reteach. Repair methods are constantly changing as
20 vehicle change. We must find a way to balance
21 investment with cost-effectiveness and market demand.
22 To continue to perform safe, quality
23 repairs in the future, repair shops will need to invest
24 in training, infrastructure, and equipment to be
25 qualified by the manufacturer, and then learn new

1 repair procedures. Some OEMs are introduce --
2 introducing certified repair facilities that will limit
3 customer choice. They are setting tighter requirements
4 for OEM warranty that -- which impacts tools,
5 equipment, material, et cetera. And not all repair
6 shops will be able to do repairs in the future.
7 The quality of a proper repair to the
8 latest standards is a concern. We must ensure we have
9 qualified, knowledgeable, and skilled staff to handle
10 the emerging conditions. Combined, these factors will
11 lead to higher repair costs. The amount and pace of
12 change means that you will see significant changes in
13 physical damage, which, as I mentioned earlier, will
14 impact Manitoba Public Insurance claims experience.
15 The ATA and MMDA both have longstanding
16 relationships with Manitoba Public Insurance as strong
17 business partners, and together we act in the best
18 interest of the ratepayers and the industry. Our
19 customers want and expect rate predictability and
20 stability, which is the -- in the best interest of all
21 Manitobans.
22 In 2008, Manitoba collision repair
23 industry study commissioned jointly by the Manitoba
24 Public Insurance, the Automotive Trade Association, and
25 the Manitoba Motor Dealers Association, conducted a

1 Health of the Industry Study.
2 One of the key issues identified in the
3 study was the recruitment and retention of qualified
4 tradespeople. In 2012, the update to the shuddy --
5 study showed this continues to be a significant concern
6 for the industry. To help attract and retain skilled
7 collision repair workforce in Manitoba, the -- the
8 successful tool allowance apprenticeship cost program,
9 funded by Manitoba Public Insurance, was extended.
10 Going forward, given the rate of change
11 in the industry, Manitoba Public Insurance's role in
12 training will become increasingly important as a
13 broader set of skills and -- are -- skills are required
14 with less frequent use as new models are introduced.
15 This has serious implications for shop training and
16 being able to stay current. Our current challenge is
17 the -- is access and availability of repair method
18 instructions. There's no room for trial and error. A
19 mistake can lead to a total loss.
20 Our perspective is that Manitoba Public
21 Insurance must keep pace with rapidly changing
22 technology in vehicle design to be able to provide
23 guidance to the industry. They must continue to be the
24 experts to ensure the integrity of our respective
25 industries.

1 Manitoba Public Insurance has been vital
2 to the industry in providing access, process, and
3 distribution of the latest technical detail and
4 information for consistent use by trade -- trades
5 across the process. This role will become increasingly
6 important in the future as industry performs -- to
7 perform quality repairs.
8 We seek continued need to integrate
9 quality control, training certification, and parts
10 programs for comprehensive and consistent repairs
11 across the province. We are committed to working with
12 the Corporation in efforts to improve the customer
13 service experience for physical damage claims
14 processing.
15 We have successfully negotiated a two
16 (2) year labour-rate agreement for motor vehicle repair
17 body shops in Manitoba. This agreement provides rate
18 increase for labour, paint material, shop materials
19 effective January 1st, 2015, to December 31st, 2016.
20 Our rigorous negotiations are based on comprehensive
21 data and deep analysis. Our common goals are to
22 maintain the health of the industry, maintain costs,
23 and provide exceptional service to our shared
24 customers. We find the Corporation well managed, with
25 a strong attention to cost and delivering value to

1 Manitobans.

2 Clearly, Manitoba Public Insurance works

3 in a spirited collaboration with our industry, looking

4 for innovative ways to deliver value to Manitobans.

5 Manitoba Public Insurance is relying -- relying heavily

6 on the use of pilots to prove that the solutions they

7 are proposing and Physical Damage Re-engineering

8 Program will work.

9 Our members appreciate this approach.

10 We have the full trade support and have a meaning --

11 and have had meaningful participation in the first

12 pilot. The Physical Damage Re-engineering Program's

13 first phase, collaborative estimating, brings shops and

14 Manitoba Public Insurance onto a common technology

15 platform, with -- with shops utilizing Mitchel Repair

16 Centre.

17 The role of Mitchel Repair Centre to

18 light vehicle auto body and frame shops across Manitoba

19 will be completed over the course of approximately one

20 (1) calendar year. The Physical Damage Re-engineering

21 Program will also include a distribute -- distributed

22 estimating proof of concept, where we will test the

23 possibility of having shops write first estimates

24 instead of Manitoba Public Insurance. For the best

25 interest of Manitoba motorists, we will need to work

1 closely with Manitoba Public Insurance to develop
2 solutions to common issues.
3 In closing, we strongly believe that
4 Manitoba Public Insurance has taken the right actions
5 to protect Manitobans with respect to both improvements
6 and the approach of this current rate application. We
7 believe the rate application that Manitoba Public
8 Insurance is putting forward will effectively deal with
9 the rate premium deficiency and capital deficiencies
10 and, as mentioned earlier, will help keep the rates
11 predicable and stable for all Manitobans.
12 With the efforts -- these efforts will
13 now allow Manitoba Public Insurance to deal with
14 structural challenges to the repair -- auto repair
15 industry and thereby prevent further rate increases or
16 reductions in services provided to Manitobans. Both
17 the industry and the Corporation have a shared
18 responsibility to ensure our customers experience safe,
19 quality repairs. To do so, Manitoba Public Insurance
20 must be in a position to manage and quickly respond to
21 changes in the industry, such as technology and
22 weather. Thank you.
23 THE CHAIRPERSON: Thank you very much,
24 Mr. Ledingham. Questions from the panel?
25

QUESTION PERIOD:

MR. REGIS GOSSELIN: I do have a few questions. I guess I wanted to clarify in my mind the Manitoba Motor Dealers Association and the Automotive Trade Association --

MR. KENT LEDINGHAM: Yes.

MR. REGIS GOSSELIN: -- tho -- I would think the membership of those intersects, right?

MR. KENT LEDINGHAM: Yes.

MR. REGIS GOSSELIN: Okay. So you're representing the Motor Dealers Association?

MR. KENT LEDINGHAM: And the ATA. Michael Blackey is for ATA.

MR. REGIS GOSSELIN: I see. Okay.

MR. KENT LEDINGHAM: Yes.

MR. REGIS GOSSELIN: Okay. So -- so it's a shared -- the position you're expressing is on behalf of both of those associations, okay. Now, I guess from my perspective, what I -- what I find interesting in what you said is it -- it matches closely to what we've been hearing from MPI through these first days of the hearing process.

And I guess what I want to know from -- from this end is that the investment that -- that ma -- MPI proposes to make in training to help you address

1 this new model designs and so on, and new technologies
2 -- the -- the question I have is, you know: Wouldn't
3 that necessarily be undertaken by the -- the
4 manufacturers that are selling these cars to start
5 with, as opposed to MPI taking that role and -- or is
6 that going on at the same time that MPI is -- is
7 proposing to accelerate the training by your dealers?
8 MR. KENT LEDINGHAM: Well, I think that
9 the manufacturers would provide some training and
10 investment and tools and things that would be needed by
11 the individual body shops and dealerships to handle
12 these new types of repairs, would be something that
13 would be incurred on us. And if there was specific
14 ongoing training, we'd need MPI's support for that.
15 MR. MICHAEL BLACKNEY: Do you mind if I
16 step in --
17 MR. KENT LEDINGHAM: No, sure.
18 MR. MICHAEL BLACKEY: -- for a sec,
19 please?
20 THE COURT REPORTER: Can I get your
21 name, sir?
22 MR. MICHAEL BLACKEY: Michael Blackey.
23 We've met with all the manufacturers, and they --
24 Oh, sorry. Is that better? We have met
25 with all the manufacturers, as MMDA and ATA. We --

1 we've been down that road. Every manufacturer has a
2 different standard to what they're teaching and
3 supplying to the industry, as far as the technology
4 required for a body technician or a painter to repair
5 their vehicle.
6 I'll give you an example. BMW has a
7 very, very, very high standard within their
8 organization. And some manufacturers prefer that you
9 don't buy their cars. I'm not going to say the name,
10 but they don't have any standards at all.
11 We, the industry, as well as MPI, we
12 can't handle that. Every customer that comes in the
13 door has the right to have their vehicle repaired to
14 the highest standard whether the manufacturer is
15 supplying that -- that information and -- and training
16 or not.
17 So MPI has taken the role, with the
18 support of the ATA and the MMDA, in trying to move
19 towards a program of education and training so that
20 that province-wide training can take place here in the
21 Manitoba and the ability to repair the car properly.
22 MR. REGIS GOSSELIN: Now, the
23 Automobile Recyclers we heard last week told us that
24 one (1) of the advantages of -- of dealing in used or
25 recycled parts is the fact that the cost of those parts

are considerably less than the original parts available from manufacturers, and profit margins are better for the industry as a result.

Can you comment on that? Can you give us your perspective on that -- that point of view expressed by the -- that position taken by the recyclers?

MR. MICHAEL BLACKEY: The profit margins for who? That becomes the question. As -- representing the -- the body repair side, we operate -- the profitability and customer satisfaction portion of our business comes in -- in -- a lot to do with cycle time.

If we are supplied a great quality recycled part every time, that wouldn't be an issue. But the fact is that doesn't happen. That's not reality in our world. And every time they supply a part that is not of the quality that our shop will use, then there's a process of having to return that part. Very manpower intensive; we have to get on the phone, then we negotiate.

Or if there's excessive damage on it, then we have to get on the phone and negotiate with that recycler how much are they willing to pay us to repair this damaged part that they're asking us to put

on a customer's car. Sometimes I've -- I've seen more damage on the recycled part than on the part that I'm supposed to be replacing.

It becomes, to the customer, a -- a huge annoyance because it ties up their car for, you know, additional time. If it's additional time that we have to repair the damage, then -- then they have a courtesy car or are paying for the car themselves for an additional day, two (2) days, three (3) days.

The process of repairing is -- isn't just the time to repair, but it's also the time for things like body filler to dry and -- and that. So, you know, it might be an hour of repair time or two (2) hours of repair time, but it might be an extra day or two (2) of -- of tying up the customer's car.

Yeah, we -- we use recycled parts in the system. The recyclers would like us to use way more, but there becomes an issue of the quality of what they're supplying. I have met with the National Recyclers Association. I attend CCIF -- that's the Canadian Collision Industry Forum -- meetings held across the country, and I've met with the National President of the Recyclers Association of which Manitoba is not part of. They do not have and they have not adopted the -- the standards of the national

1 association. We'd like to see them move in that
2 direction -- absolutely.
3 MR. REGIS GOSSELIN: The -- we have
4 heard about the -- the process initiated by MPI to
5 address the Physical Re-engineering Program involving
6 fourteen (14) -- fourteen (14) or thirteen (13)
7 companies that -- or these individuals or participants
8 in this committee. Now, you -- you, organizationally,
9 are probably members of this -- this committee, or are
10 you individually invited to attend this -- this
11 committee?
12 In other words, MPI told us that they
13 set up this fourteen (14) member committee or thirteen
14 (13) member committee to participate in helping MPI
15 move forward with this Physical Damage Re-engineering
16 Program.
17 MR. MICHAEL BLACKEY: Are you referring
18 to the joint working group?
19 MR. REGIS GOSSELIN: Yes, I am.
20 MR. MICHAEL BLACKEY: Okay.
21 MR. REGIS GOSSELIN: So -- so what I --
22 what I'm asking is whether or not the members of those
23 committee are -- were selected by you as an
24 organization, or are you simply invited by MPI,
25 individually, to participate as part of this program at

1 company -- at the company level?
2 MR. MICHAEL BLACKEY: Okay, at the
3 organization level, the Automotive Trades Association,
4 we were asked to join the joint working group because,
5 along with MMDA, we represent over 80 -- now, I'm just
6 going to take a number off the top of my head, so don't
7 hold me to it, but it's about 85 percent of all the
8 repairs that are done in the Province of Manitoba.
9 So, as the ATA, we were asked to put
10 forward a -- a person that would sit on this joint
11 working group. That person is me, but only because I'm
12 getting old. I've been in the industry for forty-four
13 (44) years a month ago. So I kind of have a bit of a
14 background and they -- they thought I would be the best
15 person to...
16 And I believe the MMDA was -- I'll let
17 Steve Chipman answer that one.
18 MR. STEVE CHIPMAN: Thank you. My name
19 is Steve Chipman. I represent the -- I was on the
20 Manitoba Motor Dealers Association Board, and I was
21 nominated to sit on this committee by the Manitoba
22 Motor Dealers Association.
23 So the selection of the rep -- and
24 there's a third representative -- I don't know if
25 there's thirteen (13) or fourteen (14), but there's

1 three (3) -- three (3) from the trade. The other
2 person's a gentleman named Eric Danberg, and he's the
3 president of Boyd Auto Body Canadian Operations. So he
4 has cross-Canada experience dealing with other
5 jurisdictions, so it's -- we have Michael's long
6 experience and Eric's experience in the body industry
7 and my car-side experience. So we're representative of
8 -- of the trade.
9 MS. ANITA NEVILLE: Good morning, and
10 thank you for being here. I'm listening to you, and
11 I've been listening to MPI. And I guess what I haven't
12 got clear in my own mind is how the training is taking
13 place.
14 Is it taking place at individual
15 dealerships? Is it taking place at individual shops?
16 Is the province involved, Workforce 2000? Are the
17 colleges involved? How are you end -- how are you --
18 is it being -- is there being planning done on a
19 industry-wide basis?
20 How are you projecting the training
21 that's required over the next year or two (2)? Do you
22 actually have a time line of the changes that are
23 coming? I'm struck by the dramatic comments you make
24 about windshields. Do you have projections for other
25 aspects of car repair?

1 You have to help me. This is...
2 MR. MICHAEL BLACKEY: Okay, maybe I can
3 answer part of that. And then --
4 MS. ANITA NEVILLE: Okay.
5 MR. MICHAEL BLACKEY: -- my colleagues
6 can jump in where -- wherever for additional
7 information. The agreement that exists between the
8 repair industry and MPI, the -- the contract, has --
9 part of it is -- is I-CAR training. We have agreed
10 that I-CAR training is the most relevant, up-to-date,
11 and comprehensive training that exists today.
12 I-CAR is a company out of the United
13 States who contracts through another organization in --
14 in Canada to provide training in the Canadian
15 marketplace. They, in turn, get their information
16 directly from the manufacturer, and they put these
17 courses together. They have a comprehensive education
18 platform that we have agreed -- 'we' meaning the entire
19 industry, MPI, MMDA, ATA -- have agreed that this is
20 where we have to be. We have to have this kind of
21 training in Manitoba.
22 Is I-CAR complete in their training?
23 No, they do have some holes in it. And that's what
24 we're trying in Manitoba here to do, is to bring it to
25 a different level of training where the -- the holes in

1 the I-CAR platform, because it is a platform that
2 they're trying to -- hey, they're company trying to
3 make money, right. They sell this training all across
4 Canada.
5 So that's where we're trying to get to a
6 different level because of this, not scare, but the
7 existence of -- of the requirement for this new
8 technology in the cars that we fix right now today.
9 MS. ANITA NEVILLE: How is this
10 training and the new technology being integrated into
11 new training, that is high schools and colleges? Are
12 you working with them to -- to provide the information?
13 Is I-CAR involved there? Are there Canadian experts
14 who can provide this training?
15 You're focussing on one (1) area, but
16 there's a whole group of people presumably coming into
17 the industry, as well.
18 MR. MICHAEL BLACKEY: We do have
19 representation that sits with the Provincial
20 Apprenticeship Program. Absolutely we have people on
21 that where they're -- and I know I've sat on that, I
22 sat for thirteen (13) years on that committee. But
23 where -- we worked extensively at the college level.
24 But then it went beyond that, and that is what are they
25 teaching at the high school level to prep for -- for

1 the college level for those kids that showed interest
2 in that area.
3 MS. ANITA NEVILLE: Are you, as well,
4 projecting the costs of the new training? You've given
5 the illustration of the windshield.
6 MR. KENT LEDINGHAM: M-hm.
7 MS. ANITA NEVILLE: I'm not a car buff,
8 so I can't -- bumpers. I don't know. What --
9 whatever. Can you project the costs and have you
10 related that to the increase that MPI is asking for?
11 MR. KENT LEDINGHAM: It's really hard
12 to project the costs.
13 MR. MICHAEL BLACKEY: Yeah.
14 MR. KENT LEDINGHAM: We get surprised
15 by the new technology just as much as anybody going
16 forward. And --
17 MR. MICHAEL BLACKEY: That -- that's
18 one (1) thing about the -- the OEMs. They -- they
19 don't tell the dealers, Oh, guess what, two (2) years
20 from now you're going to be looking at -- at these
21 additional costs because the bumpers that we're going
22 to be supplying you are now going to be double or
23 triple the amount of money, or utilizing a technology
24 that you don't understand.
25 The manufacturers actually never relay

1 that information to the dealers as a group. I don't
2 know. Kent, have you ever had that?
3 MR. KENT LEDINGHAM: I think the Ford
4 dealers would be prime examples where a year ago they
5 announced that the new truck was going to be all
6 aluminum panels. And that was a surprise to the
7 industry in general that they were going down that
8 direction.
9 And I had a -- and the industry in
10 general was surprised by it, and I was approached by a
11 small body shop in my home town, and they're very
12 concerned about how is this going to affect them
13 training-wise and equipment-wise. They don't -- you
14 know, what kind of investment are they going to have to
15 make to repair these new Ford pick-ups that are going
16 to be entering the market in a year?
17 MS. ANITA NEVILLE: So you're saying
18 that you don't know what's coming in two (2) years, and
19 you're not sure what's coming in one (1). How do you
20 make the projections, and how does MPI make the rate
21 increase projections?
22 Are you just pulling a number out of the
23 air, or how...
24 MR. MICHAEL BLACKEY: Well, it's with
25 the technology that we're familiar with, okay? We -- I

1 can't speak on behalf of MPI on how they do that.
2 That's kind of their process. I represent the body
3 shops.
4 When it comes to the training and the
5 technology that we need, it's always an after the fact.
6 We always play catch-up. Now, the good thing about
7 that is that the number of vehicles -- up until this F-
8 150, the number of vehicles coming that we have to
9 repair that have aluminum on them are fairly minimal
10 until we saw the Dodge Dart come along.
11 Now, I happen to work for a Chrysler
12 dealership, so I know what a surprise this was with the
13 Dodge Dart because it's an entry-level vehicle, and it
14 has more different types of steel in it than -- than I
15 know. And I know our techs now have to go to a computer
16 terminal in the shop, in the body shop, and start and
17 read before they even attempt to repair the vehicle
18 because they don't know that the -- the sill is one
19 type of steel, the post is another, this is another,
20 that's another. And where you could last year cut
21 here, you can't cut there anymore.
22 MS. ANITA NEVILLE: So what you're
23 saying then -- what I'm hearing is that the customer is
24 paying for the hourly wage of the body shop person to
25 learn, to go to the computer and sit and figure it out

at whatever hourly rate that is.

MR. MICHAEL BLACKEY: No, because we operate on a flat-rate system, and we operate with an estimate. Now, the Mitchell estimating system says that the repair of that panel -- let's just say panel, okay -- is going to be one point five (1.5) hours. If our technician, because this is a first-time occurrence for him and he doesn't know and he has to go to the computer, if he can't achieve it in one point five (1.5), that's okay because that's all we're going to get paid because that's all the repair time is.

No, the consumer at no point is paying for that. No different than in the mechanical side. It's -- they -- they -- that's -- education is part of the cost of -- of running a -- a business.

MS. ANITA NEVILLE: So the takeaway that I'm getting from your presentation is that you're surprised when the new technology comes. You have no advance information to say that things are changing.

MR. MICHAEL BLACKEY: That in part is correct. The joint working group is meeting with the manufacturers. We're building a relationship and we're trying to get this information plenty ahead of time. We're taking a proactive approach rather than sitting back and being surprised like they are in other

1 jurisdictions.

2 MS. ANITA NEVILLE: Thank you.

3 MR. STEVE CHIPMAN: What's happened is

4 -- frankly is that the industry's changed in the last

5 three (3) years. They're pushing hard to reduce

6 weights in vehicles so that fuel economy will go up.

7 The new F-150, which is the most popular

8 vehicle in Canada -- there's a hundred and twenty

9 thousand (120,000) of them sold in Canada in a year,

10 it's about 7 percent of the market place -- that's

11 going to go down 700 pounds. They're trying to get to

12 24 miles per gallon, by 2025, 55 miles per gallon.

13 Like, that's -- in a -- in a Ford pick-up truck is very

14 difficult to do because you're pulling around a lot of

15 weight. So that's a challenge.

16 And I equate this to electronics in

17 vehicles twenty (20) years ago. When they started

18 putting electronics in the cars in the mechanical side,

19 it was a very difficult learning curve. It was very

20 difficult to attract people because the -- the men who

21 had been -- and women who had been used to fixing cars

22 didn't know how to deal with those.

23 We're having great difficulty attracting

24 younger people into this business. We are working with

25 the trade schools. We -- there's a program --

1 apprenticeship program in Red River and at -- in
2 Brandon. We work with them, but there's not enough
3 people to fill the spots coming up.
4 The average age of a technician in
5 Manitoba in body -- there -- there's a body technician
6 and there's a paint technician. The average age is
7 forty-three (43), and it's getting higher. It's not
8 getting lower. The -- that's what our studies are
9 showing us. So it's very difficult to attract young
10 people into the business.
11 I was in Saskatchewan yesterday. I was
12 in Saskatoon talking to dealers, and the same problem
13 there. They said -- they got -- and they pay -- their
14 -- their labour rate is much higher there. But they
15 have real difficulty tracking -- and I'm -- I'm on the
16 -- I'm -- this year I'm the Chair of the Canadian
17 Automobile Dealers Association, so I'm across the
18 country, and this is not an uncommon issue.
19 I -- I don't know if it's quite -- to
20 say we're surprised. We know it's coming. I know it's
21 -- I know there's aluminum coming into Honda Accords.
22 I -- I know there's -- there's programs coming.
23 They're -- they're going to have to do things to reduce
24 the weight in vehicles. It's just the expense to us of
25 capital costs.

1 The manufacturer does provide training.
2 There's courses they offer. But I have to pay for a
3 technician to go to Toronto, spend a week there; I have
4 to pay his salary, pay his travel costs. The course is
5 free, but there's costs to me. And then when he comes
6 back, I have to spend a couple hundred thousand dollars
7 in equipment that meets -- because aluminum -- aluminum
8 repairs require special equipment.
9 There's contamination of -- between
10 aluminum and steel, and you can't even fix them in the
11 same room. You have to build a different segregated
12 room to fix a car that has aluminium in it. So there's
13 some challenges coming. We have met, and I think we're
14 the first provincial group or organization that we met
15 with the -- the global manufacturer. We met -- went to
16 Toronto with the MPI working committee. Went down --
17 tried to figure out where is everybody going. Trying
18 to get ahead of the curve.
19 But it's a challenge because we know
20 that the manufacturers are trying to reduce weight, and
21 make cars more fuel efficient. It'll make cars cheaper
22 to operate from a gas consumption point of view, and
23 maybe better for our environment. But there's an
24 offset because lower gas consumption, lower fuel
25 expense, may raise your repair costs.

1 So it -- it's not like, Let's reduce gas
2 and everybody's going to have a much lower cost to
3 operating vehicles. There's a tradeoff, and I think
4 the tradeoff people are saying, Look, it's much better
5 for our environment if we reduce emissions at the costs
6 of maybe repair.
7 Now, we've done it in -- in the body
8 world. We've gone away from paints -- we're now water-
9 based paints, again in an attempt to reduce emissions.
10 So we're -- we are adapting and moving. It's just
11 difficult to do.
12 MS. SUSAN PROVEN: Okay. In terms of
13 reducing fuel consumption and making those vehicles
14 lighter, has anyone thought about making them smaller?
15 Because it just seems ironic that when we're headed
16 into this new scenario, that the cars just get --
17 keeping get -- they seem to be getting bigger and
18 bigger. So that's my first question.
19 MR. STEVE CHIPMAN: Well, they -- they
20 are -- we are introducing smaller models. In Canada,
21 the most popular vehicle is a Honda Civic. In the
22 Untied States, it's a size bigger; it's a Toyota
23 Corolla -- sorry, Toyota Camry. So the American
24 marketplace is different than the Canadian marketplace
25 to a degree. There are smaller -- in Canada we do buy

1 smaller cars, but it's -- it's what consumers -- again,
2 I can make the smallest car in the world but if you
3 don't want to drive it that's part of the issue.
4 And, you know, part -- part of the issue
5 here when you're driving on the roads and you're out in
6 the country, people like the security of being in a
7 bigger vehicle. I hear that all the time. That's why
8 the -- the most popular growth area right now is in the
9 -- in the small compact vehicle sport utility, like a
10 RAV4 or a Ford Escape. Those type of vehicles are
11 really growing in popularity.
12 MS. SUSAN PROVEN: I just ask that
13 because in Europe I didn't see, in five (5) countries,
14 a half-tonne. No half-tonnes. It's just so different.
15 Now, back to aluminum --
16 MR. STEVE CHIPMAN: They all run on
17 diesel, too -- like it's 80 percent diesel, and in
18 Canada it's 5 percent diesel. So it's -- again, it's a
19 different -- a different economy. The roads are a
20 little tighter too, a little smaller. But that's what
21 people are used to, right. And people are prepared --
22 because the price -- price of fuel in -- in Europe is
23 way more expensive than it is in Canada.
24 MS. SUSAN PROVEN: M-hm. Back to the
25 aluminum, this isn't the first time that we've seen

1 aluminum, is it, in a vehicle? Like, there are
2 vehicles --
3 MR. STEVE CHIPMAN: Oh -- oh, there
4 are, but it is aluminum frame where it gets very
5 expensive. It's the sub-frame that's aluminum.
6 There's been aluminum hoods -- Nissan's aluminum hoods
7 have been looming around, but not in the frame.
8 They've even tried aluminum engines, but it's -- it's
9 the aluminum in the frame that's very difficult to
10 repair.
11 MS. SUSAN PROVEN: Yes, that's what I
12 was confused about because I think I have an aluminum
13 part to my sports car.
14 Anyway, back to working together --
15 manufacturers working together, I think I heard a
16 couple of comments that, you know, we don't necessarily
17 know what the manufacturers are doing. This was the
18 comment that one (1) of you gentlemen made.
19 And I know they -- that the
20 manufacturers are -- aren't they having to work
21 together right now to create that computer interface
22 that will run the autonomous car? Aren't they having
23 to do some work to make sure that they have the same
24 communication within these vehicles so that when
25 they're driving the autonomous cars, they can -- the

1 cars can speak to each other.
2 Is that not true?
3 MR. STEVE CHIPMAN: I'm not sure. It
4 would make sense. Autonomous cars are about ten (10)
5 years away in my -- my read of the situation. They're
6 about ten (10) years away. They will reduce accidents.
7 They should reduce premiums. That's the big -- big
8 advantage about autonomous car is that all little
9 fender-benders should disappear, hypothetically,
10 because you're now -- the person who is in charge of
11 the car won't be distracted and -- and run into
12 someone.
13 MS. SUSAN PROVEN: Right. So I just --
14 I mean I heard on a press release somewhere that they
15 were actually having to collaborate. They have to make
16 sure that they have the communication devices so that
17 this can work. And I'm just thinking --
18 MR. STEVE CHIPMAN: Well, what happens
19 --
20 MS. SUSAN PROVEN: -- maybe --
21 MR. STEVE CHIPMAN: -- I'll interrupt -
22 - but what happens, like all the software is often
23 developed by independent companies and they sell it to
24 the manufacturers. So I -- I'm presuming you go like
25 VHS or BETA, what -- what -- you've got to have a

1 system to talk, right.
2 MS. SUSAN PROVEN: So, okay. So, on a
3 different note, one (1) other comment that I -- or, not
4 comment but question -- I -- when you talked about --
5 it was you, Mr. Black, right?
6 MR. MICHAEL BLACKEY: Blackey.
7 MS. SUSAN PROVEN: Blackey -- okay.
8 MR. MICHAEL BLACKEY: Yeah, that's
9 okay.
10 MS. SUSAN PROVEN: You talked about,
11 you know, what you had seen, and Ms. Neville asked you
12 about the training.
13 I'm just wondering what's happening in
14 the other provinces when it comes to gearing up for
15 this, being ready for it? Like, what are these other
16 provinces doing?
17 You said you had a bit of a national
18 take on this?
19 MR. MICHAEL BLACKEY: M-hm.
20 MS. SUSAN PROVEN: M-hm.
21 MR. MICHAEL BLACKEY: M-hm.
22 MS. SUSAN PROVEN: What have you seen?
23 MR. MICHAEL BLACKEY: I've seen -- one
24 (1) of the -- here, I can answer it this way. When we
25 met with the global auto manufacturers, we were the

first group that they had ever met with. And I think that says what the other provinces are doing, is they're struggling. The entire industry in Canada is struggling. The entire industry in North America is struggling.

And we're all struggling to catch up because their technology that the manufacturers are -- are investigating and -- and ultimately putting into their vehicles is being done at a pace that has never been done before. And simply because Obama signed the CAFÉ Agreement.

MR. REGIS GOSSELIN: I -- you know, one (1) -- one (1) of the issues that -- probably the major issue that this panel is concerned about is the costs; you know, costs of -- of insurance.

And -- and I -- you know, I know that, for example, MPI has told us that they are investing $65 million in the Physical Damage Re-engineering Program, which is a fair chunk of cash over a number of years. And that's just the out-of-pocket costs, doesn't include staff time and all the other things that go along with that -- that program.

Now, do you see real advantages from your standpoint from this program if it's -- if it ultimately achieves the results that they are

1 projecting will be achieved, from your perspective as
2 opposed to MPI's perspective?
3 MR. MICHAEL BLACKEY: I volunteer my
4 time on the joint working group. I do have a day job
5 that -- that pays me. We meet -- we schedule for
6 meeting every second Monday morning for three (3) to
7 four (4) hours. That volunteer time that I spend on
8 that, that takes me away from my job, and my job
9 doesn't disappear. I have to get it done somehow.
10 I would never be donating the kind of
11 time to our industry that I am with this joint working
12 group if I didn't think that it was going in the right
13 direction or needed the help of our two (2) industries
14 in -- who we represent -- in -- in taking that forward
15 with MPI. The relationship that we have today with MPI
16 is, in my forty-four (44) years experience, the
17 absolute best it's ever been.
18 We have a big challenge ahead of us that
19 was -- didn't exist in the past. And this group at MPI
20 and the group from the industry, I believe, is moving
21 forward in -- in the best way possible. I -- I know
22 from other jurisdictions how it operated in, say,
23 Saskatchewan where it became political and -- and in
24 British Columbia where it became actually legal,
25 challenges between the trade and -- and the insurance

1 industry.

2 I don't believe that that's the best way

3 of doing it. That's not, in my mind, the answer to it.

4 The answer is what we're doing here.

5 MR. STEVE CHIPMAN: Yeah, can -- can I

6 answer that? Is -- the issue is we believe the process

7 will make it better for the customer. We will be able

8 to fix cars quicker. Because my biggest complaint I

9 have from a customer is, It took so long to get my car

10 fixed. People have an accident, they want their car

11 back as soon as possible.

12 We think -- and -- and we -- we're

13 working at lean processes and Six Sigma processes in

14 our shops trying to make sure the customer gets their

15 car back as fast as possible in the best condition

16 possible. That's -- that's our ultimate goal. And we

17 talk about being part of this because MPI and the MMDA

18 and the ATA, we have a common customer we're trying to

19 serve. We're trying to get them a vehicle back at a

20 good price, fixed properly, as quickly as possible.

21 That's our ultimate goal.

22 And I think that's MPI's goal. That's

23 our goal. And we're trying to sha -- we share that

24 goal, so. And we think that the process they're

25 talking about, in fact, is what we've been lobbying

1 for, working towards, asking MPI to -- to consider for
2 the last ten (10) years or more. And that's -- as long
3 as I've been involved is ten (10) years now, and it's -
4 - that's what we've been working on.
5 MR. REGIS GOSSELIN: I guess one (1) of
6 the -- one (1) of the things we've learned through this
7 -- this application and before that is the -- is the
8 hourly rate that's charged by -- by the industry for
9 repairs, which, you know, is -- I think the number that
10 comes to mind is sixty-five dollars ($65) an hour,
11 which appears to me to be relatively low compared to
12 what I would be billed if I go to a repair shop myself
13 directly.
14 So how does that work? I mean, how do
15 you -- how does the industry sit down with MPI and
16 discuss an hourly rate? Educate me about how that -- I
17 mean, I -- I get the impression maybe I would --
18 probably pushing downwards and you're pushing upwards
19 to get the kind of investment you need. Could you
20 educate me about that process?
21 MR. STEVE CHIPMAN: Well, it -- it's --
22 we arm wrestle. It's not -- it's not like a friendly
23 conversation. We go hard at it. We look at
24 comparables. We look at our costs. We -- we did a
25 health of the industry study jointly. We -- we opened

1 our books and said, Here's what we need. It's going to
2 go to seventy dollars ($70) December 1st, and that's
3 low, we think. We will pay our technicians about 35,
4 40 percent, depending on the shop, of what we -- of
5 that -- that number that goes out to our technicians.
6 So it -- it's a long process. We -- we
7 look at what the industry is -- is trending, what our
8 expenses are. But, you know, we get little increases
9 each year. You know, we had 2 percent, 3 percent. We
10 don't get big increases if we get -- and we -- we try
11 and -- we try and come up with a rate that we think's
12 fair.
13 MR. REGIS GOSSELIN: Now, that one
14 fifty (150), you're going to have to invest some
15 dollars. How do you get that back?
16 MR. STEVE CHIPMAN: Well, I'm going
17 have to be more efficient. All right, that's one (1)
18 thing I'm going to have to try and do is get more
19 efficient and that's what we're working on our side.
20 We're trying to -- we're going down lean processing,
21 trying to -- to come up with a more efficient way of
22 running our shops. I'm not going to get it back from
23 the -- from the manufacturer.
24 I'm hoping that there won't be as many
25 shops -- from my own perspective, there won't be any --

1 as many shops being able to fix F-150s and I'll be able
2 to get that business because can't do it as a GM store
3 and -- and Steinbach won't be able to fix that Ford-
4 150. Sometimes those cars will go in there because it
5 -- but I'm hoping to get business that way.
6 But it -- it's just a matter of -- of
7 trying to -- again, we'll have to see how -- what the
8 market does and where we've locked into a rate for two
9 (2) years. And in two (2) years time I may have to
10 come back to MPI and say, Look, I can't afford to run
11 my business. I can't afford to keep people at the rate
12 you're paying me, and that's basically how -- how the
13 discussion goes.
14 But we -- we open our books to -- to
15 them and show them what -- what we're making, and what
16 our returns are, and what are costs are and expenses
17 are. And I -- I have to -- one of my basic expenses
18 each month when I look at the statements for our two
19 (2) body shops, the first thing I look at is -- is car
20 rental expense. That's -- I look at the profit line.
21 I go to the car rental expense because
22 that's a variable we can control. If I can -- if I can
23 get cars through the shop quicker, I don't have to
24 spend as much on car rentals. So hopefully I can get
25 more cars through the shop, and I don't have to spend

as much on car rentals, if we're efficient.

THE CHAIRPERSON: Well, thank you very much for coming and joining us, and giving your presentation. And I guess that will end this part of the presentation.

We're going to take just about two (2) minutes. You can talk amongst yourselves for a minute because we're going to change so our advisors can come and retake their seats. Okay. Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay, welcome back. And we're going to continue with our cross-examination with Ms. Grammond taking the lead on that. Ms. Grammond...?

MPI PANEL 2 RESUMED:

LUKE JOHNSTON, Previously Sworn

HEATHER REICHERT, Previously Sworn

CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Thank you, Madam Chair. Ms. Reichert, I think the next set of questions

1 will be mostly for you but, of course, if anyone else
2 wants to jump in that's okay, too. I'm going to talk a
3 little bit about the rate application, or ask you some
4 questions about the rate application.
5 I'm going to ask you to go to Tab 2 of
6 the Board's book of documents. This is an excerpt from
7 the rate making section of the filing. For the record,
8 it's -- the same table is also found at the overview
9 Section 13 page 35, but -- if anybody prefers that, but
10 we'll use this one.
11 So, Ms. Reichert, what we see here is a
12 reflection of what the proposed 2.4 percent rate
13 increase would look like by major class. Is that
14 right?
15 MS. HEATHER REICHERT: Yes, that's
16 right. And I'm actually going to turn the -- the --
17 these particular questions on this table over to Mr.
18 Johnston.
19 MS. CANDACE GRAMMOND: Sure.
20 MR. LUKE JOHNSTON: I also agree that
21 that's correct.
22 MS. CANDACE GRAMMOND: Mr. Johnston,
23 this table, though, does not include the 1 percent RSR
24 rebuilding fee that's been applied for?
25 MR. LUKE JOHNSTON: That's correct. We

1 -- we did our rate-making exercise the usual way before
2 consideration of any RSR fees.
3 MS. CANDACE GRAMMOND: Now, we see here
4 that the overall size of the fleet is up to one million
5 seventy-three thousand (1,073,000) and change?
6 MR. LUKE JOHNSTON: Correct.
7 MS. CANDACE GRAMMOND: Which is an
8 increase over last year?
9 MR. LUKE JOHNSTON: Yeah. Generally --
10 recently, the fleet tends to grow around the, you know,
11 2 percent, maybe a little higher than that, range per
12 year.
13 MS. CANDACE GRAMMOND: And I have some
14 questions on volume factor which I'll come to in a bit.
15 And so what we see in the far right column here
16 entitled, "Experience rate change," those are the
17 proposed rates after application of the capping process
18 that MPI goes through.
19 Is that right?
20 MR. LUKE JOHNSTON: That's right.
21 There's a -- there's an experience base cap. So any --
22 any effect from experience is capped at 15. And then
23 there's another 20 percent cap that's inclusive of all
24 changes, like rate groups and any other balancing that
25 occurs.

1 MS. CANDACE GRAMMOND: And there's no
2 changes or proposed changes to any of those adjustment
3 rules over previous years?
4 MR. LUKE JOHNSTON: No, there's not.
5 MS. CANDACE GRAMMOND: And what we see
6 on this table are averages, so within each major class
7 listed there will be increases and decreases?
8 MR. LUKE JOHNSTON: Absolutely.
9 MS. CANDACE GRAMMOND: And as we've
10 heard, one (1) of the main drivers behind the potential
11 rate changes are the significant increase in the
12 physical damage forecast, which I understand has the
13 biggest impact on those major classes with a high
14 proportion of physical damage loss costs built into
15 their rates.
16 Is that fair to say?
17 MR. LUKE JOHNSTON: Yes, that's right.
18 So we do the overall forecast first. And as we look --
19 we looked at that waterfall graph, and -- and the
20 increase in collision severity was a big chunk of that,
21 in the 3 1/2 to 4 percent range.
22 In terms of the individual rates, we
23 look at the relative cost of each classification, like,
24 vehicle classification. And, of course, if your
25 history now includes more collision, your relative rate

1 will indi -- be indicated to be higher whereas a class
2 like motorcycles where clearly were not affected by the
3 winter, the relative rate would become lower or -- or
4 the same, so they wouldn't be impacted as much.
5 MS. CANDACE GRAMMOND: And on the flip
6 side of that, the public class that does have greater
7 exposure to winter driving would be impacted in the
8 opposite direction?
9 MR. LUKE JOHNSTON: Correct. Yes, they
10 are -- off the top of my head I -- I can't recall, but
11 clearly that -- you know, taxis and vehicles like that
12 are on the road frequently, and they're -- often can't
13 -- like, their driving isn't always discretionary. And
14 so if they're out on really bad roads, they would feel
15 the impact of a really bad winter storm, for example,
16 the most.
17 MS. CANDACE GRAMMOND: Now, with
18 respect to the private passenger class, the first one
19 that's on the list, we know that that constitutes about
20 90 percent of the Corporation's premium revenue. Is
21 that right?
22 MR. LUKE JOHNSTON: Correct.
23 MS. CANDACE GRAMMOND: So, therefore,
24 the indicated rate change for that class is fairly
25 close to the overall proposed increase of two point

1 four (2.4)?

2 MR. LUKE JOHNSTON: Yes, when we're

3 talking about what's happening with our forecast and

4 stuff, we're generally talking about what's happening

5 to private passenger vehicles. When -- when we talk to

6 Mr. Oakes about motorcycles and -- and such, it'll be a

7 different story for sure, but, of course, when -- 90

8 percent plus of the fleet, that's the general -- where

9 the -- all the action occurs, so to speak.

10 MS. CANDACE GRAMMOND: And we see for

11 private passenger the average rate for that class is

12 proposed to go from nine hundred and fifteen dollars

13 ($915) to nine hundred and forty (940), so up by about

14 twenty-five dollars ($25)?

15 MR. LUKE JOHNSTON: Correct.

16 MS. CANDACE GRAMMOND: Diana, if I can

17 just get you to scroll down a bit to the next page,

18 page 49.

19

20 (BRIEF PAUSE)

21

22 MS. CANDACE GRAMMOND: Sorry, it's not

23 at Tab 2. If you could go to the -- to rate making 5.4

24 in the filing.

25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Perfect. So,
4 Mr. Johnston, this is a reflection in terms of the -- I
5 guess where various vehicles in the fleet would fall on
6 the spectrum in terms of actual dollar impact if the
7 proposed 2.4 percent increase is granted?
8 MR. LUKE JOHNSTON: That's right.
9 That's the impact of all the combined changes that we
10 apply. And most are typically -- the benefit of this
11 annual process where we're continually adjusting the
12 relative rates is that, when changes do occur, they're
13 generally stable, you know, relatively stable around
14 the current rate, with the exception of classes that
15 maybe have, you know, smaller numbers of -- of vehicles
16 and they're more -- more variable.
17 MS. CANDACE GRAMMOND: And again, this
18 does not show or reflect the proposed 1 percent RSR
19 rebuilding fee?
20 MR. LUKE JOHNSTON: That's correct.
21 MS. CANDACE GRAMMOND: So if we just
22 look at this quickly, and I'm not going to go through
23 all of it, but the decreases are about -- just under 30
24 percent of vehicles under the rate app would have a
25 decrease?

1 MR. LUKE JOHNSTON: That looks
2 approximately right, subject to check.
3 MS. CANDACE GRAMMOND: And then of
4 course 11 to 12 percent, no change, and the remaining
5 58, 59 percent would be -- have increases.
6 MR. LUKE JOHNSTON: That's right. And
7 -- and per your comments on the passenger vehicles, as
8 you'd expect, most kind of hover in that twenty-five
9 dollar ($25) type of rate increase you'd expect.
10 MS. CANDACE GRAMMOND: And if we just
11 scroll down to the bottom, we'll see that the biggest
12 increases for six hundred and forty-five (645) vehicles
13 are all taxis except for one (1) motorcycle.
14 MR. LUKE JOHNSTON: That's right.
15 Taxis, the rates are -- are very high, in the seven (7)
16 to ten thousand dollar ($10,000) range. So almost any
17 rate increase is large in dollar terms.
18 MS. CANDACE GRAMMOND: And this type of
19 increase I think is consistent with what we've seen in
20 the last couple of years.
21 Would that be fair to say?
22 MR. LUKE JOHNSTON: For taxis or
23 for...?
24 MS. CANDACE GRAMMOND: For taxis, yeah.
25 MR. LUKE JOHNSTON: Yeah. Taxis is

1 definitely an issue. Their experience is concerning
2 any -- any time you have a rate in that kind of
3 magnitude. Clearly, they didn't do favour -- you know,
4 have favourable results with the recent winter, so
5 that's put even more pressure on their rates.
6 MS. CANDACE GRAMMOND: And just one (1)
7 other question with respect to the rate application
8 specifically.
9 The Corporation charges a variety of
10 service fees, transaction fees, and so on, and it's not
11 asking that any of that be changed this year.
12 MR. LUKE JOHNSTON: That's correct.
13 MS. CANDACE GRAMMOND: Okay. I just
14 have a few questions then about last year's financials,
15 so the Corporation's financials for 2013/'14. I did
16 ask some questions of Mr. Guimond on this, so I'm not
17 going to go over those, but I just have a couple of
18 additional questions.
19 MR. REGIS GOSSELIN: Ms. Grammond, do
20 you mind if I interrupt for a second, please?
21 MS. CANDACE GRAMMOND: Not at all.
22 MR. REGIS GOSSELIN: I just want to go
23 back to the -- to the discussion we just had, which
24 were two (2) tables.
25 Now, I wonder if you could make sure

that I've got my -- my numbers right because the original application provided for a 2.4 percent rate increase overall and -- and a 1 percent rate rider which to me would mean that, for example, private passengers would go up to three point seven (3.7) from two point seven (2.7).

MR. LUKE JOHNSTON: Yes. Like, all -- all these, we didn't differentiate the rebuilding fee in any way. It's just a --

MR. REGIS GOSSELIN: Just straight 1 percent.

MR. LUKE JOHNSTON: -- just a flat 1 percent on whatever the rate was calculated to be.

MR. REGIS GOSSELIN: Everybody gets 1 percent. So it would suggest to me, as an example, the off-road vehicles would be -- would actually be decreasing by 13.3 percent.

Am I interpreting that --

MR. LUKE JOHNSTON: Approximately. It might work out slightly different when it's applied, but, yes. Yeah.

MR. REGIS GOSSELIN: But the -- but M. Guimond said that week that his preference would be -- his -- his -- while they're not changing application, the preference would be that it would be 3.4 percent

1 rate increase across the classes.
2 MR. LUKE JOHNSTON: Yes, that's -- that
3 was suggested by Mr. Guimond. And -- and in terms of
4 how it would be applied, the results would be similar
5 but not identical because like, as you can imagine,
6 calculating the overall rate change at three point four
7 (3.4) is -- is going to be a little bit different than
8 calculating it at two point four (2.4) and applying a
9 uniform fee across everyone.
10 MR. REGIS GOSSELIN: Well, I guess I
11 wonder -- I wonder if we could get an undertaking from
12 MPI to give us what the numbers would look like with
13 the 3.4 rate percent increase because we -- I think we
14 need to know what the impact will be by individual
15 grouping here, major class, because it won't be 2.7
16 percent; it'll be something like 3.9 percent or
17 something like that, I would think.
18 MR. LUKE JOHNSTON: Okay. So just so I
19 understand, update the table on page 48 to include a
20 3.4 percent overall. And would the Board also like the
21 -- the dollar and percent distribution tables, as well?
22 MR. REGIS GOSSELIN: Yes.
23 MR. LUKE JOHNSTON: Yeah, okay. We can
24 do that.
25

1 --- UNDERTAKING NO. 20: MPI to update the table on
2 page 48 to include a 3.4
3 percent overall
4
5 CONTINUED BY MS. CANDACE GRAMMOND:
6 MS. CANDACE GRAMMOND: So on the
7 2013/'14 results, Diana, I'm going to ask you to go to
8 the overview, Section 3, page 7, which is probably not
9 on the list of the documents I gave you so I apologize.
10 But you're very fast, so I'm sure you'll just get right
11 on it. Isn't she wonderful?
12 Okay. So in OV.3 we have some
13 commentary from the Corporation with respect to last
14 year's financials, and in particular on page 7 we have
15 what we -- oh, I'm not sure if -- oh, there we go,
16 yeah. So on -- we have what we see on the screen.
17 This is the beginning of the com -- the Corporation's
18 commentary on last year.
19 And as that section unfolds, we have a
20 series of explanations from the Corporation. If we go
21 to page 8, we see a variety of explanations being
22 provided by the Corporation with respect to the
23 financial result last year, and how that came about.
24 And one of the items on page 8 at the
25 second bullet there that begins, "Physical damage claim

1 severity," references an increase there for three (3)
2 reasons: the new labour and material agreements with
3 body shops, the 1 percent PST increase, and higher
4 total loss settlement values, for an overall impact of
5 24 million to the negative.
6 Have I got all that right, Mr. Johnston
7 or Ms. Reichert, whoever wants to answer?
8 MS. HEATHER REICHERT: Yes, that's
9 correct.
10 MS. CANDACE GRAMMOND: Can you give us
11 an indication of how much of that 24 million to the
12 negative was due to item 3, the higher total loss
13 settlement values?
14
15 (BRIEF PAUSE)
16
17 MS. HEATHER REICHERT: I'm -- we're
18 trying to remember if there was an Information Request
19 on that particular item. Nothing is coming directly to
20 mind, so we would probably need to take that as an
21 undertaking.
22 MS. CANDACE GRAMMOND: I'm not aware of
23 an IR, but that doesn't necessarily mean that there
24 wasn't one. If you could take a look at that and
25 either direct us to an IR or answer by way of

1 undertaking, that would be appreciated. So --
2 MS. HEATHER REICHERT: Yes, we can do
3 that.
4 MS. CANDACE GRAMMOND: Okay, so --
5 MS. HEATHER REICHERT: So the
6 undertaking would be to give the proportion -- or the
7 amount of the 24 million that relates to a higher total
8 loss settlement value?
9 MS. CANDACE GRAMMOND: Correct. Yeah,
10 thank you.
11
12 --- UNDERTAKING NO. 21: MPI to give the amount of
13 the 24 million that relates
14 to a higher total loss
15 settlement value
16
17 CONTINUED BY MS. CANDACE GRAMMOND:
18 MS. CANDACE GRAMMOND: Now, we also
19 know that another component of the loss was about --
20 from last year was about 25 million in premium
21 deficiency and a DPAC write-down, which I understand is
22 deferred policy acquisition costs.
23 Is that right?
24 MS. HEATHER REICHERT: Yes, that's
25 correct.

1 MS. CANDACE GRAMMOND: And I understand
2 that the premium deficiency resulted from higher than
3 expected claims costs and continued low interest rates
4 such that the premiums were insufficient to cover the
5 claims costs.
6 Is that right?
7 MS. HEATHER REICHERT: Yes, that's
8 correct.
9 MS. CANDACE GRAMMOND: Now, we see --
10 I'm just going to take you to Pro Forma number 4, which
11 is in the book of documents at Tab 7.
12
13 (BRIEF PAUSE)
14
15 MS. CANDACE GRAMMOND: And we see about
16 in the middle of the table under the heading "Net
17 Claims Incurred" that there was about a $3.8 million
18 increase in claims expenses last year.
19 Can you comment on what was behind that
20 increase, the reasons for it?
21 MS. HEATHER REICHERT: Yes, I can.
22 Now, one -- one of the things that is important when
23 we're looking at variances in claims expense, operating
24 expenses, road safety. These are all allocations. So
25 they're allocations from overall corporate expenses,

1 and they're allocated to first the Basic insurance
2 line. And then from there, they're then allocated to
3 claims or operating expense.
4 So that's why it always makes it
5 extremely difficult just to talk about a claims expense
6 variance without talking about what happened overall in
7 corporate expenses, which is what we did try to do this
8 year in the expense section, in the Appendix 1, tried
9 to help people understand what happened in corporate
10 operating in total, and then what happened to the
11 allocations as it related to -- to claims and operating
12 specifically.
13 So with respect to the claims expense,
14 the difference of the 3.8 million -- I'm just wondering
15 if you have it on the attachment. So what we -- what
16 we did was combine -- all of those items with the
17 number 3, are all of the -- the components of total
18 expenses that get allocated to the basic line of
19 business.
20 So I think if -- if you'd just scroll
21 down a bit, Diana, you'll see all of the claims, road
22 safety, operating, and regulatory. We have combined
23 all of those to show that, in total, there was a $5.9
24 million variance which includes the 3.8 million
25 variance for claims expenses.

1 The other aspect that I talked about
2 when we did the presentation on Friday, that expenses
3 are comprised of normal operating expenses, initiative
4 implementation, and initiative ongoing, which you can
5 again see that five point nine (5.9) broken down into
6 those categories.
7 So the explanations on the next page
8 within the book of documents talks about the increases
9 in normal operating. Thank you, Diana. If you'd keep
10 going down to number 3 there. So this -- this gives
11 all of the overall reasons, again keeping in mind that
12 they are allocations from corporate expenses.
13 So this shows normal operating expense,
14 the reasons that it increased from one eighty-one (181)
15 to one eighty-eight (188). So again, a portion of that
16 normal operating expense is going to be contained
17 within that $3.8 million of variance in claims
18 expenses; similarly, implementation expense and
19 initiatives ongoing expense, okay.
20 So there -- there isn't -- there isn't
21 as simple a way to say the 3.8 million as it relates to
22 claims expense is precisely this, because it's an
23 allocation of all of these other variances that you see
24 in front of you.
25 So overall -- overall, there was a $5.9

1 million increase in Basic expenses. And the most
2 significant variance -- when you look at the -- the
3 page that you have in front of you, the most
4 significant reason for that increase was salaries and
5 overtime that was higher than forecasted. Another
6 significant increase was in external labour costs that
7 were required to support delivery. That was the 2
8 million two (2).
9 And then there are -- within initiative
10 implementation expense and within initiative ongoing
11 expense there were transfers between those two (2)
12 categories. So you can see the -- I'm just trying to
13 think. The -- there is a decrease in expenses under
14 initiative ongoing expense, decrease in expenses due to
15 less costs associated to the IBM Data Centre than
16 forecasted. Some of those costs were moved into normal
17 operating expenses above.
18 So the main -- just to recount, the main
19 reasons for increases in overall operating expenses in
20 Basic, which includes claims, operating, the loss
21 prevention, and regularly, the main components of that
22 are salaries and overtime being higher, the higher
23 external labour. And then the other items basically
24 offset one another. So there's some external labour
25 expenses for unbudgeted projects that you see there,

1 but then there was also some decreases, less
2 depreciation under ongoing -- ongoing expense, so it's
3 the combination of those.
4 And that's, un -- unfortunately,
5 probably the best way of -- of looking at a specific
6 variance on that pro forma.
7 MS. CANDACE GRAMMOND: Thank you.
8 You've answered my next couple of questions by all the
9 information you've just given. So that's helpful.
10 Thank you.
11 Going back to the first page, so page 6
12 of PF.4, and just looking at the income investment
13 line, we see that -- and again, this is last year --
14 the forecasted investment income at last year's GRA was
15 -- at the 2014 GRA was 114.5 million, and the actual
16 was a hundred and forty-seven point seven (147.7). So
17 overall, the Cor -- or the -- yeah, Basic, I guess, did
18 better by about 33.1 million.
19 MS. HEATHER REICHERT: That's correct.
20 MS. CANDACE GRAMMOND: And within that,
21 I understand that there was a $22 million loss in fixed
22 -- in some securities, but a $37 million gain on
23 Canadian equities, as well as 11 million in income on
24 US equities and about -- just under 9 million in real
25 estate and infrastructure.

1 Is that consistent with your
2 recollection?
3 MS. HEATHER REICHERT: Yes, that --
4 that's correct. You may recall at last year's General
5 Rate Application, we actually were forecasting within
6 '13/'14 and within that budget that we were moving out
7 of the US passive equity market that we were in because
8 it had stopped paying dividends. And it was an
9 important aspect of -- of that investment that we have
10 an income stream from it.
11 So we actually forecasted to sell off
12 those equities and forecasted to get a gain from that
13 sale of about 45 million. When we did the -- the
14 transaction and sold off those equities, we actually
15 gained about fifty-five (55), fifty-six (56). Hence,
16 that $10 million positive variance that you see here
17 explaining what we had forecasted last year and what we
18 actually achieved.
19 And then I think I commented on Friday
20 that within '13/'14, we had a rebalancing of Canadian
21 equities. So when our percentage allocation is above
22 the maximum target for any particular investment area,
23 we need to rebalance and bring that down to mitigate
24 the risk of having too much money tied up in equities.
25 We had to rebalance, and by rebalancing

1 the Canadian equities last year, that is how we
2 achieved the -- the overall gain of the $37 million
3 that you see there.
4
5 (BRIEF PAUSE)
6
7 MS. CANDACE GRAMMOND: Thank you.
8 Okay. So leaving then 2013/'14 and going to current
9 year 2014/'15 and year of application 2015/'16, as we
10 know, the Corporation forecasts to break even over the
11 -- the two (2) year period that I just referenced.
12 That's right?
13 MS. HEATHER REICHERT: Actually, the
14 rating periods for this General Rate Application would
15 be the '15/'16 and the '16/'17 fiscal years.
16 MS. CANDACE GRAMMOND: My apologies.
17 The Corporation forecasts to break even for Basic for
18 2015/'16 and 2016/'17 in the application with which
19 we're dealing?
20 MS. HEATHER REICHERT: Yes, that's
21 correct.
22 MS. CANDACE GRAMMOND: Okay. And --
23 MS. HEATHER REICHERT: Sorry. Just let
24 me clarify it. That is before the RSR rebuilding fee.
25 MS. CANDACE GRAMMOND: Yes. Yes. And

with respect to that, in the application as filed, when the Corporation's providing pro formas to the Board, they do not include any subsequent year rate increases through the projections that are provided. However, this year, there was the 1 percent on a go-forward basis that was included.

Is that right?

MS. HEATHER REICHERT: That is correct.

MS. CANDACE GRAMMOND: Okay. So if we look at the current year for a moment, the 2014/'15 fiscal year, we can find information relative to that at Pro Forma 1, which is at Tab 4 of the book of documents. You don't necessarily need to turn there, although you certainly can if you wish. I'm also going to take you to the overview section that deals with the current year.

Per the application as filed, the Corporation is expecting a loss in the current year of some 38 million, and that's considerably more than what the Corporation was forecasting last year. About 30 million more, in fact.

Is that right?

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

MS. CANDACE GRAMMOND: And in the

1 overview section of the application, this is at page 11
2 of overview section 4, the Corporation has provided a
3 series of again explanations for the change in this
4 particular forecast and this $30 million swing.
5 So at the first bullet the Corporation
6 has referenced the fact that at last year's rate
7 hearing the Board gave the Corporation only half of the
8 rate increase that was asked for. And what the
9 Corporation said here is that the impact of that would
10 be $4 million in the current year.
11 Is that right?
12 MS. HEATHER REICHERT: That's correct,
13 because -- again because we set the rates to break even
14 over the two (2) year period due to staggered renewals,
15 the impact of a reduction in our rate request is half
16 in the first year.
17 MS. CANDACE GRAMMOND: Right. So it
18 would be 8 million overall but 4 million in current
19 year.
20 MS. HEATHER REICHERT: Correct.
21 MS. CANDACE GRAMMOND: Second reason
22 identified by the Corporation was that the fleet didn't
23 grow as much as the Corporation thought it would, and I
24 -- I will have some questions on volume factor.
25 But that was about a $5 million

1 difference?

2 MS. HEATHER REICHERT: Correct.

3 MS. CANDACE GRAMMOND: Thirdly, the

4 forecast was restated because of increased costs in

5 collision and comprehensive.

6 And that's -- I know that's not exactly

7 the wording that's here, but it -- but that's correct?

8 MS. HEATHER REICHERT: That's right.

9 It was the physical damage severity, and on Friday

10 afternoon when we did the presentation Mr. Johnston did

11 talk about how with the severity increasing we needed

12 to rebaseline the '14/'15 forecast budget to reflect

13 the fact that the severity had gone up. And it -- it

14 has in the past never gone down, so we had to

15 rebaseline our starting point, if you will.

16 MS. CANDACE GRAMMOND: And we spoke a

17 minute ago in the context of last year's results about

18 the -- the three (3) factors -- specific factors

19 pointed to by the Corporation, which were the new

20 labour and material agreement, the PST increase, and

21 the higher total loss settlement values. Those reasons

22 would apply to this year, as well.

23 Is that right?

24 MS. HEATHER REICHERT: Obvious -- yes,

25 they would contribute to the fact that we had to

1 rebaseline, and that was the 17 million. Mr.
2 Johnston...?
3 MR. LUKE JOHNSTON: The other piece is
4 that we -- in light of some of the recent severity
5 trends we've seen, we -- we also increased our -- our
6 assumed trend rate going forward. Prior, it had been
7 in the 3 to 3 1/2 percent range. Now it's -- it's in
8 the 4 to 4 1/2 percent range. So that's part -- part
9 of the increase.
10
11 (BRIEF PAUSE)
12
13 MS. CANDACE GRAMMOND: Now, I also
14 understand that about 3 1/2 million of the forecast
15 variance relates to an increase in unallocated loss --
16 loss adjustment expenses. Can you comment on
17 that?
18 MS. HEATHER REICHERT: Sorry, do you
19 have a reference for that number?
20 MS. CANDACE GRAMMOND: I do. Just one
21 (1) moment.
22
23 (BRIEF PAUSE)
24
25 MS. HEATHER REICHERT: I think we found

1 the -- the reference, Ms. Grammond, on this claim --
2 claims -- Volume II, claims incurred section, CI.8.2,
3 at the bottom table -- sorry, page 51.
4 MS. CANDACE GRAMMOND: Thank you. And
5 I found my reference --
6 MS. HEATHER REICHERT: Okay.
7 MS. CANDACE GRAMMOND: -- which is
8 different but goes to the same thing. It's Pro Forma
9 5, page 9, which is just the comparative statement that
10 the Corporation had filed on current year. Okay. I
11 apologize I didn't have that at my fingertips.
12 MS. HEATHER REICHERT: Yeah, that's
13 fine.
14 MS. CANDACE GRAMMOND: So whichever
15 reference you want to have regard to, can you just
16 comment a little bit on this 3.5 million, which was an
17 increase in the unallocated loss adjustment expenses?
18 MS. HEATHER REICHERT: Yes, I -- I can.
19 And -- and Mr. Johnston will jump in if -- if I falter
20 at all. But the adjustment to the -- to that
21 particular item within 2014/'15 is with respect to the
22 Physical Damage Re-engineering Initiative.
23 Collaborative estimating is one (1) of the first areas
24 that the Corporation is embarking on and do
25 collaborative estimating with the -- with the trades.

1 There is software that they all need to
2 be -- have available to them. So this 3.5 million
3 represents software licencing costs that the
4 Corporation is incurring. Yeah, so it's -- it's
5 representing increases in software licencing costs that
6 those body shops require in order to be able to
7 participate in the Physical Damage -- Damaging Re-
8 engineering Initiative.
9 So, that is why that particular line
10 item has increased in the '14/'15 year.
11
12 (BRIEF PAUSE)
13
14 MS. HEATHER REICHERT: And just to
15 clarify, as Mr. Johnston is -- is helping me out here.
16 Of that total increase, what I'm just referencing is
17 two point six (2.6) of that total. So the -- the bulk
18 of it is the -- the licencing that I'm referring to,
19 two point six (2.6) of that total three point five
20 (3.5).
21 MS. CANDACE GRAMMOND: The -- the
22 licencing costs relative to the software, is that
23 something that is just a cost of doing business to the
24 Corporation or is that in any way recoverable from the
25 body shops?

1 MS. HEATHER REICHERT: It is a cost of
2 doing business. In order to ensure that they can do
3 the collaborative estimating with us, they need this
4 software. We need them to have this software. So that
5 was part of us progressing on this initiative, was to -
6 - to provide that software to the body shops.
7 MS. CANDACE GRAMMOND: Thank you. We -
8 - we have gone here to PF5. And we'll -- if you have
9 that open, keep your finger on it because I'm going to
10 come back to it in a minute.
11 But if we look back at the overview,
12 page 11, where we had the list of five (5) bulleted
13 items. We've, in essence, talked about the first three
14 (3) of them. The fourth bullet references a $9 million
15 increase in forecasts to reflect restated historical
16 results.
17 Now, that $9 million amount that we see
18 in the overview, page 11, doesn't seem to show up on
19 Pro Forma 5, page 9. At least it -- I'm sure it's
20 there, just not in a way that's readily apparent.
21 Could you comment on that? And it could
22 be applied relative to the $27 million increase -- or
23 decrease rather in PIPP reserves, but if you could
24 comment on that.
25 MR. LUKE JOHNSTON: Yeah. Well, we --

1 it's -- now that we have the interest rate impacts in
2 our forecast, it can get a little bit confusing in
3 terms of, you know, why did -- especially on the injury
4 side, which is very sensitive to interest rate changes.
5 So what we did for the PIPP changes is
6 that we said, What is the change in our forecast before
7 interest rate impacts. So a few -- in the claims
8 incurred section we talk about the ultimate costs. So
9 when we re -- when we -- when the reserve review was
10 done, all the history was updated. We updated our
11 forecasts, and -- and it created that $9 million impact
12 before -- it actually says there in the overview
13 section, "For the impact of interest rate adjustments."
14 So that was really isolated so the Board
15 could see, okay, well, that particular initia -- you
16 know, change was worth 9 million. And then -- and then
17 the interest rate piece is described in another section
18 -- or in the following bullet, pardon me, yeah.
19
20 (BRIEF PAUSE)
21
22 MR. LUKE JOHNSTON: In -- you're --
23 you're correct though. In the -- to your question, in
24 the pro forma section, it wasn't split out that way.
25 That's something that on the actuarial side I have to

1 do myself and provide that in the overview. That's not
2 something accounting can do on their own.
3 MS. CANDACE GRAMMOND: And that's okay.
4 We just want to try to understand how the numbers
5 connect from document to document.
6 Okay. So in terms of -- okay. Yes.
7 I'm just being asked that perhaps now we could take a
8 break, so that's fine with me, if it pleases the Board.
9 THE CHAIRPERSON: That's fine. We'll
10 take a fifteen (15) minute break. Thank you.
11
12 --- Upon recessing at 10:35 a.m.
13 --- Upon resuming at 10:52 a.m.
14
15 THE CHAIRPERSON: Okay. Welcome back.
16 And we're -- we'll continue with the cross-examination
17 by Ms. Grammond.
18 MS. CANDACE GRAMMOND: Thank you, Madam
19 Chair.
20
21 CONTINUED BY MS. CANDACE GRAMMOND:
22 MS. CANDACE GRAMMOND: Okay. So
23 continuing on with our discussion of current year
24 financials, we see -- and this is again in Pro Forma 5,
25 the comparative statement that the Corporation filed --

1 we see that the forecast for investment income for the
2 year has decreased. Last year it was 63 million, and
3 that's down to twenty-eight point eight (28.8). And we
4 have some further detail about that at page 9 of Pro
5 Forma 5.
6 Is that right? Do I have all of that
7 right so far?
8 MS. HEATHER REICHERT: Yes, you do.
9 MS. CANDACE GRAMMOND: Okay. So we see
10 -- thank you, Diana -- the decrease of 24 million
11 that's anticipated. And that's due to higher fixed-
12 income loss due to higher interest rates in 2015 GRA
13 for 2014/2015. And then immediately underneath that
14 there's reference to an additional loss or anticipated
15 loss of about 6.3 million due to rebalancing.
16 And I know, Ms. Reichert, you commented
17 on rebalancing a few minutes ago, prior to the break.
18 This reflects that rebalancing occurs in 2014/'15 in
19 the 2014 GRA, but not until 2016/'17 in the current
20 GRA, so fewer gains are realized in 2014/'15.
21 Can you comment on that a little bit
22 further and perhaps the reasoning for rebalancing being
23 deferred to next year?
24 MS. HEATHER REICHERT: So when we would
25 have completed the forecast at this time or in last

1 year's General Rate Application, the 2014 rate
2 application, we were forecasting to receive in 2014/'15
3 the 1.8 percent rate increase.
4 We were also forecasting lower -- a
5 lower growth interest rate forecast, not the standard
6 interest rate forecast which I showed on Friday is
7 always assuming more quickly getting to -- reverting to
8 the mean.
9 So in last year's forecast, there was
10 two (2) things. We were forecasting a 1.8 percent rate
11 increase that would have brought in more money than
12 what we actually received. We were also forecasting
13 lower interest rates which would have had less of a
14 negative impact on our fixed-income portfolio.
15 So those two (2) things meant that we
16 would have had more money coming in, equities would
17 have gone above the maximum target for equities, and we
18 would have therefore had a rebalancing gain from that.
19 So fast forwarding to this year, a .9
20 percent rate increase, we're forecasting higher
21 interest rates which have a greater negative impact on
22 our bonds. And therefore that rebalancing of equities
23 that we forecasted to occur last year is no longer
24 forecasted to occur in '14/'15. And that is why
25 there's the -- the negative difference explanation in

1 the -- in this particular schedule.

2 MS. CANDACE GRAMMOND: Thank you. In

3 keeping with some questions about the current year, I'm

4 going to ask you to go to the second quarter report of

5 the Corporation which is filed in response to one (1)

6 of the pre-asks that the Board had posed.

7 I'm going to ask you to go to page 6 of

8 this quarterly report. So at the top of page 6 we have

9 some narrative with respect to the second quarter

10 results. It would appear that the Corporation had a

11 net income of 37.6 million which was less than what the

12 Corporation had in the same two (2) quarters last year

13 of 41.9 million.

14 Is that right?

15 MS. HEATHER REICHERT: That's correct.

16 That's on an overall corporate basis; this is not just

17 Basic.

18 MS. CANDACE GRAMMOND: So going to

19 Basic, if I read this correctly, Basic had 8.6 million

20 in income which was compared with twenty-one point

21 three (21.3) income -- pardon me, 21.3 million in

22 income last year.

23 MS. HEATHER REICHERT: That's correct.

24 MS. CANDACE GRAMMOND: So both Basic

25 and overall corporate were down from last year.

MS. HEATHER REICHERT: That's correct.

MS. CANDACE GRAMMOND: So the competitive lines then would have had about 29 million in income for the first half of this year, if we take the overall income less what Basic had?

MS. HEATHER REICHERT: That's correct.

MS. CANDACE GRAMMOND: And it would seem that the total corporate-earned revenue, as opposed to net income, was up. I'm looking at the next section on page 6 under the heading "Current Year and Last Year" just a little bit down from where we are.

Yeah, we see there total earned revenues for the six (6) months increased from the previous year by 23.7 million, that this was primarily attributed to an increase in driver premium, an increase in motor vehicle premium, an increase in SRE premium and an increase in service fees.

Have I paraphrased that correctly?

MS. HEATHER REICHERT: Correct.

MS. CANDACE GRAMMOND: Now, if we look for the investment income of the Corporation during the -- or as at the close of the second quarter, we see -- and I'm looking on page 9, although I think this information is in more than one (1) place in this document, but we'll go to page 9 for the moment.

1 And just for the record, I'm not
2 referring to the PDF page numbers, I'm referring to the
3 hard copy document numbers, so just a little bit
4 farther down, Diana, you're on the right page, yeah.
5 So we see there, just near the bottom of
6 the screen, the investment income line item for the
7 first -- or for the second quarter proper, so the three
8 (3) months ended August the 31st of 2014 there was
9 investment income of 45 million and change, but for the
10 six (6) months ended August 31, 2014, so for the full
11 two (2) quarters, the investment income was about 83.8
12 million.
13 Is that right?
14 MS. HEATHER REICHERT: Yes, that --
15 that's correct.
16 MS. CANDACE GRAMMOND: And Basic's
17 share of that -- I appreciate this is corporate-wide --
18 would be about 85 percent or 71 million.
19 MS. HEATHER REICHERT: Approximately,
20 yes.
21 MS. CANDACE GRAMMOND: And can you give
22 us an indication of how much of this investment income
23 relates to the sale of equities versus valuation
24 changes in the fixed income portfolio?
25 MS. HEATHER REICHERT: You know, I -- I

1 can take that as an undertaking because I don't have
2 that particular schedule right in front of me. I do
3 know that there was quite a sizeable gain due to
4 decreasing interest rates in the first six (6) months,
5 so it was actually going in the opposite direction from
6 what we had forecasted.
7 So, I do know that on a net basis -- or
8 on a -- it was about a sixty (60) -- sixty (60) some --
9 you know what, I'm not even going to -- to guess. I'll
10 take it as an undertaking to give you the breakdown of
11 that investment income on a Basic allocation basis of
12 what was equities and what was fixed income gains due
13 to low interest rates.
14 MS. CANDACE GRAMMOND: Thank you.
15
16 --- UNDERTAKING NO. 22: MPI to give a breakdown of
17 that investment income on a
18 Basic allocation basis of
19 what was equities and what
20 was fixed income gains due
21 to low interest rates
22
23 CONTINUED BY MS. CANDACE GRAMMOND:
24 MS. CANDACE GRAMMOND: If we go to page
25 17 of this document, I don't know if that would help

you at all. We do have there a note to the report that gives us the -- so, yeah, that's right. Thank you.

Note 6 which gives a breakdown of what that 83.8 million in income -- investment income is comprised of.

MS. HEATHER REICHERT: Yes, I see that.

MS. CANDACE GRAMMOND: So this would seem to reflect that there was, first of all, 25.4 million in interest income. The third line item, a 21.7 million unrealized gain on fair value through profit or loss bonds. Going farther down, dividend income of 7.8 million, and then a gain on the sale of equities of about 11 million.

MS. HEATHER REICHERT: That's correct.

MS. CANDACE GRAMMOND: So those would be some of the components of the total number that we see?

MS. HEATHER REICHERT: You're right. These are actually all of the components. I had forgotten that this detailed note was actually attached. So --

MS. CANDACE GRAMMOND: Okay.

MS. HEATHER REICHERT: -- what I was referring to is -- is -- you'll see there's quite a difference in the August 2013 six (6) month results as

it relates specifically to the unrealized gain loss on fair value through profit or loss bonds. And that is because at this time last year interest rates, in fact, were increasing, and so we were experiencing a loss on our marketable bonds.

This year there are actually decreases in the interest rates, so we have unrealized gains on our marketable bonds. And it, as you can see, is quite a -- no, it's quite a significant -- quite a significant change over the prior year.

MS. CANDACE GRAMMOND: So in terms of then the Corporation's current forecast for investment income for the current year, if we look back at pro forma 5, and you can go there if you want but you don't necessarily have to, as at the time of that filing the Corporation was forecasting 28.8 million in investment income; that's obviously for Basic.

There's now -- and I appreciate that this eighty-three point eight (83.8) is corporate wide but that does appear to be quite an improvement, even if you take into account the Basic allocation of that number.

Can you comment on that?

MS. HEATHER REICHERT: So...

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: Sorry, I'm going
4 to get you to repeat the question.
5 MS. CANDACE GRAMMOND: For sure. So,
6 in essence, my question is this: At the time the GRA
7 was filed the Corporation was forecasting 28.8 million
8 in investment income for Basic for the current year.
9 We're now more than halfway through this current year.
10 Per the second quarter report, the
11 Corporation as a whole has investment income of 83.8
12 million but we know that roughly 85 percent of that is
13 going to be allocated to Basic which is quite a bit
14 more than 28 million.
15 So I'm asking you to comment on that.
16 Seemingly things are looking better as of end of second
17 quarter than they were when the application was filed.
18 MS. HEATHER REICHERT: So as it relates
19 to investment income, it is looking better because the
20 -- as it relates to the fixed income, or the marketable
21 bonds, interest rates have been decreasing where we
22 were, at the time of the filing, forecasting them to
23 increase. So when we were forecasting the bonds to
24 increase -- or the -- the yields on the bonds to
25 increase, that was resulting in us having a loss on the

1 marketable bonds forecasted at the time of the GRA.
2 So now interest rates are going down,
3 opposite to what we had forecasted; that's showing
4 positively on the note that we just looked at. But
5 what you need to remember is, of course, that whenever
6 we are gaining in the marketable bonds with interest
7 rates going down we are losing on the claims side.
8 So from an overall financial
9 perspective, at the end of the first six (6) months we
10 actually have a net loss of about 14 million between
11 what's happening to the claims increasing in -- in cost
12 and the marketable bonds decreasing in value.
13 So it's an actual $14 million negative
14 impact to the Organization when -- on a -- on a net
15 basis compared to what we were forecasting to have
16 happen.
17 MS. CANDACE GRAMMOND: So what you're
18 saying is, looking at this investment income piece
19 isn't the total picture. We have to look at the impact
20 on claims, as well.
21 And you're saying it nets out to a $14
22 million loss, roughly?
23 MS. HEATHER REICHERT: Roughly. That's
24 correct.
25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Thank you, Ms.
4 Reichert. Staying with the second quarter report,
5 going back to page 6 and moving away from investment
6 income, we see that -- and I'm -- I'm back at sort of
7 the bottom of page 6 under that heading of, "Current
8 year and last year," we see that claims incurred
9 increased by 35.4 million com -- compared to last year.
10 Are you with me?
11 MS. HEATHER REICHERT: Yes, I am.
12 MS. CANDACE GRAMMOND: And that's due
13 to a $9 million increase in physical damage claims as
14 well as a $26.3 million increase in bodily injury
15 claims?
16 MS. HEATHER REICHERT: That's correct.
17 And the increase in the bodily injury claims, that is
18 where you would see the impact of the decreasing
19 interest rate negatively impacting on those claims.
20 MS. CANDACE GRAMMOND: Okay. If we go
21 to the top of the next page, page 7, there's reference
22 to the retained earnings of the Corporation which are
23 shown at $358 million corporate-wide.
24 So that's 108 1/2 million in Basic and
25 249 1/2 million in non-Basic?

MS. HEATHER REICHERT: That -- that's correct.

MS. CANDACE GRAMMOND: And the 108.5 million in Basic is up just under 10 million from what it was at the time of the filing?

MS. HEATHER REICHERT: That's correct, because, as I was commenting on Friday when we made the presentation, we expect and we budget to make money in Basic in the first six (6) months of the year when the weather isn't as -- when the weather isn't as contrary to -- to favourable driving. And we expect in our forecasting to lose significantly in the last six (6) months of the year.

So the forecast that we had prepared for '14/'15 to lose in the neighbourhood of 38 million is still likely what will -- what will occur, if -- if not worse given what's happening currently with the interest rates.

MS. CANDACE GRAMMOND: And is the idea of Basic doing better in the first half of the fiscal year than the second half, does that apply equally to the other lines of business as well?

MS. HEATHER REICHERT: It would apply similarly for the Extension line of business, which is -- is quite connected to the Basic line of business.

The special risk extension would not be as proportionate. It -- it has the -- has -- is subjected to losses throughout the year. But also, obviously, if bad weather -- bad winter driving could negatively impact SRE, as well.

And then the -- the DVA, driver vehicle line of business, is not impacted by the -- by the weather to the extent that the Basic is.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Now, I understand that the Corporation isn't making any proposed changes to its rate application based on the second quarter reports.

MS. HEATHER REICHERT: That's correct.

MS. CANDACE GRAMMOND: Now, the Board asked a pre-ask question of the Corporation just prior to the hearing -- actually, a series of pre-ask questions. But I'm going to ask you to go to Pre-Ask 5.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So the first

1 part of Pre-Ask 5 was to ask the Corporation to file a
2 table reflecting how actual interest rates and bank
3 interest rate forecasts had changed since the GRA was
4 prepared. So the Corporation provided a table on that
5 which is found at page 1. It's Pre-Ask 5(a)
6 attachment. Yeah, there we go. Thank you, Diana.
7 Can you give us some commentary on how
8 the new rates that we see here compare with what MPI
9 had forecasted previously for the same time frame?
10 MS. HEATHER REICHERT: Yes, I can. So
11 if you look to the -- to the far left of this
12 particular schedule, you'll see the calendar years and
13 -- and broken out by the -- the quarters. So with
14 respect to 2014, Quarter 1 and Quarter 2, those
15 highlighted yellow numbers are the actual interest
16 rates that -- on average during those two (2) quarters.
17 At the time of filing the General Rate
18 Application for 2015, we were using the March 2014
19 standard interest rate forecast which at that time was
20 two point six-two (2.62) for the first quarter and two
21 point eight-one (2.81) for the second quarter.
22 So you can see there was a -- almost a
23 forty (40) basis point and an eighty (80) basis point
24 difference, being a decrease. So that -- that decrease
25 negatively impacts on our claims liabilities, and it

1 shows favourably to -- relative to our forecast that's
2 in the GRA, shows relatively favourably for the
3 marketable bonds.
4 And you can see a column that had the
5 yellow highlighted numbers. Based on the five (5)
6 major banks and Global Insight, it shows all of the
7 quarterly projected averages of those six (6) -- of
8 those six (6) entities.
9 And when you look at the October column
10 compared to the March column, in all instances you see
11 that there is a -- a decrease in what is currently
12 being forecasted for interest rates compared to six
13 (6), seven (7) months ago.
14 MS. CANDACE GRAMMOND: So what you're
15 saying is if we look at the column entitled "October
16 2014 Standard," that's the more current information.
17 And the information just to the right of that, "March
18 2014 Standard," is the older information that the
19 Corporation had at the time that the GRA was prepared?
20 MS. HEATHER REICHERT: That's correct.
21 MS. CANDACE GRAMMOND: Okay. So if we
22 compare March to October, what you're saying is that
23 the October numbers are, I think in every instance,
24 less than what we see for March?
25 MS. HEATHER REICHERT: That's correct.

1 MS. CANDACE GRAMMOND: Okay. It would
2 seem, though, looking at the October column, from the
3 two (2) numbers highlighted in yellow that you've
4 referenced through to the bottom of that column which
5 is up to the 2018 year, that the projections are still
6 that interest rates will go up from where they are.
7 MS. HEATHER REICHERT: Excuse me. That
8 -- that is correct. They are still projected to go up
9 but have not yet, and in fact shown to -- to follow
10 what the economists are forecasting.
11 MS. CANDACE GRAMMOND: Now, the second
12 part of this Pre-Ask Number 5 was to advise of whether
13 the Corporation was proposing any changes to the pro
14 forma forecasts as a result of this interest rate
15 information.
16 And so the Corporation filed as Pre-Ask
17 5(b) attachment revised pro formas based on the October
18 20th standard interest rate forecast.
19 Is that right?
20 MS. HEATHER REICHERT: That's correct.
21 MS. CANDACE GRAMMOND: And the
22 Corporation says in the narrative part of (b) that the
23 pro formas show, that based on current interest rate
24 forecasts, the indi -- indicated rate increase would be
25 three point six (3.6).

1 MS. HEATHER REICHERT: That's correct.
2 MS. CANDACE GRAMMOND: Okay, instead of
3 the two point four (2.4) plus one (1) that is pending
4 before the Board at the moment.
5 MS. HEATHER REICHERT: That's right.
6 MS. CANDACE GRAMMOND: The Corporation
7 also said, and this is shown in the document up on the
8 screen at the moment, that the net result for the
9 current year would be an $82.4 million loss, so that's
10 just near the bottom of the screen at the net income
11 loss for manual operations line.
12 And that's, of course, compared with the
13 forecasted loss in the GRA, which was 38 million.
14 MS. HEATHER REICHERT: Excuse me. Yes,
15 that's correct. And, again, that would be the impact
16 of the -- the decreasing interest rate, the net impact
17 to us between claims and our marketable bonds.
18
19 (BRIEF PAUSE)
20
21 MR. REGIS GOSSELIN: Ms. Reichert, you
22 indicated that the -- in your Application, or at least
23 in the materials, that this spread in maturities
24 between the liabilities and the investment in the bond
25 portfolio had been narrowed from two (2) years down to

one (1) year.

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

MR. REGIS GOSSELIN: So have you been able to gauge the impact of that change in terms of your exposure? In terms of, you know, the -- how material has been -- has that change been reflected in the rate -- in the values?

MS. HEATHER REICHERT: I -- I don't have a dollar amount for you --

MR. REGIS GOSSELIN: Okay.

MS. HEATHER REICHERT: -- but by going from plus or minus two (2) year bandwidth to plus or minus one (1) year bandwidth, it almost is cutting the -- the risk in half.

So if I recall correctly, I -- I'd have to go back to -- to last year's information and -- and take a look at that. But you're correct, that this pro forma is using the assumption that we were within a -- a one (1) year bandwidth to mitigate the risk of -- of interest rates not doing what the economists say that they are going to do.

And I just wanted -- Mr. Johnston reminded me just to indicate that the only thing that was changed on these pro formas was the impact of

1 interest rates. So we didn't go in and -- and look at
2 anything else that interest rates might have -- might
3 have impacting on the -- on the forecast.
4 MR. LUKE JOHNSTON: Just -- just to add
5 to that, the other piece -- of course, there's the --
6 we have the Asset Liability Program, which isn't
7 duration matched at the moment, but there's -- there's
8 offsetting pieces to that.
9 There's also just the interest
10 investment income, like the interest income from the
11 bonds. And if you forecast a much higher interest
12 rate, you'd be buying bonds at that particular yield,
13 your interest income goes up as -- as well. And that's
14 something you can't offset on the claims side. That's
15 just -- you're getting higher -- higher returns and
16 you're getting better coupon interest.
17 So when we see gaps between two (2)
18 scenarios, there -- there's other pieces other than
19 just matching of assets and liabilities that cause
20 those differences.
21
22 CONTINUED BY MS. CANDACE GRAMMOND:
23 MS. CANDACE GRAMMOND: And I am going
24 to have some questions about the duration matching, but
25 I'm not going to get into those right at the moment.

1 Okay, so just a few more questions on
2 Pre-Ask 5. We see -- so we've talked about, Ms.
3 Reichert, the -- what's shown on page 1 of the answer
4 at sub (b) which is on the screen, which is the
5 statement of retained earnings.
6 If we go to the next page, which is page
7 2 of that answer, so now we have the pro forma based on
8 a three (3) por -- 3.4 percent rate increase, so the
9 overall rate increase, but no RSR rebuilding fee and
10 the October standard interest rate forecast.
11 That's -- I'm just looking at that bold
12 line that's across the top. So this, then, reflects
13 what the financials would look like if interest rates
14 don't change, and they stay at the October rate that's
15 used in the document.
16 Is that right? Or is this still based
17 on an increasing forecast based on what the banks are
18 saying?
19 MS. HEATHER REICHERT: This -- this is
20 based on the column that was on Attachment A.
21 MS. CANDACE GRAMMOND: Yeah.
22 MS. HEATHER REICHERT: So the column
23 headed "October 2004 Standard." So all of those
24 interest rates that are shown to increase over the
25 forecast period, those are what are underlying the pro

1 forma that you are looking at. So it's not assuming
2 that -- what's at October 2014 is the rate for the
3 entire five (5) year period.
4 MS. CANDACE GRAMMOND: Okay.
5 MS. HEATHER REICHERT: It is the fore -
6 - the forecasted increased interest rates.
7 MS. CANDACE GRAMMOND: Based on the
8 banks' forecast?
9 MS. HEATHER REICHERT: Based on the
10 banks' forecast.
11 MS. CANDACE GRAMMOND: So what would be
12 the impact directionally if interest rates stay where
13 they are in the October number? So if we go back to
14 the -- the first column that we looked at with the
15 yellow highlighting at the top, if it stays at, say, 2
16 percent and those increases don't materialize, how
17 would that impact this pro forma?
18 MS. HEATHER REICHERT: So when we ran -
19 - now, not necessarily on the October forecast, but
20 when we ran previously internally and assumed that
21 interest rates remained flat, that was the amount that
22 was referenced when Mr. Guimond was doing his
23 testimony, that that would indicate like a 7 percent
24 rate increase. It -- it is that significant.
25 When interest rates stay flat, the

1 impact on -- on the -- the premium rate is -- is quite
2 significant. So that was what was referenced in Mr.
3 Guimond's testimony.
4
5 (BRIEF PAUSE)
6
7 MS. CANDACE GRAMMOND: Ms. Reichert,
8 did the Corporation run a pro forma on that rough 7
9 percent increase? And if so, can we get a copy of it?
10 MS. HEATHER REICHERT: I believe that
11 we did do that, but we can definitely undertake to do
12 that if you want it on the October rates that are
13 currently, and -- and assuming that those stay flat.
14 MS. CANDACE GRAMMOND: Okay. Yeah. I
15 mean, I -- I think it would be helpful for the Board
16 because what -- I think what I've heard, and what we've
17 heard from MPI is that despite what we see on this
18 column and what the banks are saying, the Corporation
19 is not -- not buying what the banks are selling. So I
20 think we need to see what that would look like if the
21 Corporation ends up being right.
22 MS. HEATHER REICHERT: Yeah. So I will
23 take that as an undertaking, that we will revise -- or
24 we'll do a pro forma scenario assuming that the October
25 current interest rate remains at that level throughout

1 the forecast period.

2 MS. CANDACE GRAMMOND: I'm also going

3 to ask you, can -- oh, sorry, go ahead.

4 MS. HEATHER REICHERT: Sorry. The

5 quest -- Mr. Johnston was just wanting to clarify. So

6 we'll -- we'll assume no increase in -- no increase

7 embedded within the pro forma, and therefore just show

8 you what the -- what the total impact would be had we

9 used that interest rate forecast back in -- in March,

10 assuming in October.

11 MR. LUKE JOHNSTON: The -- yeah, the

12 question was if -- what rate change would you like to

13 have in there? Like we could leave the -- the base

14 assumptions, like the three (3) -- like three point

15 four (3.4) could stay in there. We could put it at

16 zero. We could -- we could do a dif -- whatever you

17 would need.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE GRAMMOND: Okay. Mr.

22 Johnston, in response to that question I'm advised that

23 we'd like to see the same rate increase that's before

24 the Board, and know --

25 MR. LUKE JOHNSTON: Okay. So the two

1 point four (2.4) and -- and one (1) RSR rebuild fee?
2 MS. CANDACE GRAMMOND: Yeah.
3 MR. LUKE JOHNSTON: Okay.
4 MS. CANDACE GRAMMOND: And would it
5 also be possible to incorporate into the pro formas the
6 second quarter actual results for current year?
7 MR. LUKE JOHNSTON: That's a good --
8 that's a good question. Yeah, like -- like to Ms.
9 Reichert's previous com -- comment, all other forecasts
10 are assumed to remain the same unless they are directly
11 impacted by interest rates.
12 So -- right. To redo -- like we -- I
13 can talk to Ms. Reichert about resetting actuals but to
14 redo every single forecast based on Q2 to-date results
15 is not realistic. And that -- that becomes problematic
16 because we could literally have to look at everything
17 again.
18 MS. HEATHER REICHERT: It essentially
19 is like trying to do the whole general rate application
20 over.
21 MS. CANDACE GRAMMOND: That's fine.
22 Then -- then don't do that piece. So to clarify the
23 undertaking, you're going to file an updated set of pro
24 formas in the form at the answer to Pre-Ask 5(b).
25 You're going to maintain the rate increase and RSR

rebuilding fee that are before the Board, and you're going to maintain the 2 percent October 2014 standard average interest rate throughout the --

MS. HEATHER REICHERT: Forecast period.

MS. CANDACE GRAMMOND: -- forecast period. Good?

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

MS. CANDACE GRAMMOND: Thank you.

--- UNDERTAKING NO. 23: MPI to file updated set of pro formas in the form at the answer to Pre-Ask 5(b), maintaining rate increase and RSR rebuilding fee and 2 percent October 2014 standard average interest rate throughout the forecast period

CONTINUED BY MS. CANDACE GRAMMOND:

MS. CANDACE GRAMMOND: Okay. I'm going to move then to some questions about the financials for the year of the application. We've just been talking about current year. Now we're going to go to 2015/'16,

1 year of the application.

2 So if we go to Pro Forma 1, which is at

3 Tab 4 of the Board's book of documents, we see

4 Corporation pursuant to the GRA budgeting -- and I'll

5 just ask you to scroll down a bit, Diana, if you don't

6 mind -- budgeting for a net loss in 2015/'16 of 6.3

7 million plus a net income of about 18 million in the

8 year subsequent, 2016/'17.

9 And as we discussed earlier, taking

10 those two (2) periods together represents a break-even,

11 subject to the additional income for the 1 percent RSR

12 rebuilding fee that's being requested.

13 MS. HEATHER REICHERT: Correct, subject

14 to the fact that there is an RSR rebuilding fee in

15 there. So you -- you have to be budgeting to have

16 income in order to replenish the retained earnings, the

17 RSR. So that's why this does not -- in a year where we

18 would not a rebuilding fee, these two (2) numbers would

19 net basically to break even on their own.

20 MS. CANDACE GRAMMOND: Thank you. And

21 we see of course again in the year of the application,

22 so this 2016, the first shaded column, Corporation is

23 budgeting for an underwriting loss of about 56 million,

24 to be offset by investment income of just under 50

25 million. And that's a typical approach that the

1 Corporation takes for Basic every year.
2 Is that right?
3 MS. HEATHER REICHERT: Yes, that's
4 correct.
5 MS. CANDACE GRAMMOND: And these
6 underwriting losses that we see, the 56 million that I
7 just mentioned and then the 66 million in the next
8 year, these underwriting losses are -- are the forecast
9 even with the 2.4 percent rate increase and the 1
10 percent RSR rebuilding fee that the Corporation's
11 applying for?
12 MS. HEATHER REICHERT: That is correct.
13 MS. CANDACE GRAMMOND: Now, we see
14 throughout the outlook period for the investment income
15 projections a significant increase over time. And I'm
16 looking from even the current year all the way through
17 to -- across the way, we go from 28 million up to about
18 128 million.
19 And that would be influenced by the
20 projected increases in interest rates by the banks?
21 MS. HEATHER REICHERT: It would be
22 impacted by in -- increases in the actual coupon rate,
23 so -- which we are assuming is -- is increasing, as
24 well as -- as I was explaining on Friday about how we
25 rebalanced in 20 -- get my years right -- 2013/'14.

1 When equities were beyond their target,
2 the model will also forecast rebalancing. If equities
3 are above their maximum target for two (2) quarters,
4 then it -- it forces the realization of equity gains.
5 So that is what you see in some of these increases in -
6 - in the 20 -- I believe 2016/'17 year, and then likely
7 again -- it's part of the 2018/'19 year.
8 MS. CANDACE GRAMMOND: Okay. Thank
9 you. I'm going to go then to some questions about the
10 volume factor and the upgrade factor, which also play
11 into the future projections. Firstly, I'll deal with
12 volume factor.
13 Maybe you can just give us a brief
14 explanation of what that is.
15 MS. HEATHER REICHERT: I'm going to
16 turn it over to Mr. Johnston for that. He likes to
17 talk about volume increases.
18 MS. CANDACE GRAMMOND: Oh, well, there
19 you go.
20 MR. LUKE JOHNSTON: I don't know if
21 'like' is the word, but love. The... So, yeah, the vo
22 -- the volume factor is really just the growth in the
23 fleet. And rather than counting just how many vehicles
24 there are, we count how many units there are. And so a
25 unit is one (1) vehicle with an enforce policy for the

entire year because that's what matters because that's what we get our premiums off of.

And so how that grows year to year is what we refer to as volume growth.

MS. CANDACE GRAMMOND: And volume growth is one (1) of the reasons that when we look at projections -- and I'm not taking you to a specific one right now. But when we look at the Corporation's net financial projections going forward, one (1) of the reasons that we see increases, particularly in revenue, is the volume factor?

MR. LUKE JOHNSTON: That's correct. It generally kind of fluctuates in the 1 1/2 to 2 1/2 percent per year range.

MS. CANDACE GRAMMOND: And for this application the Corporation is utilizing a volume factor of 1.75 percent for the current year, and then, as well, through the outlook period, as I understand it?

MR. LUKE JOHNSTON: That's correct. That's the -- what we call the HTA upgra -- or volume factor, pardon me. Roughly 99 percent of our premium comes from motor vehicles. So that -- so HTA excludes ORVs and trailers. So we utilize that. That's the volume growth of that particular segment; 1.75 is our

1 forecast.

2 MS. CANDACE GRAMMOND: Now, I

3 understand that HTA unit growth, so, again, everything

4 except ORVs and trailers, in the last full year, so the

5 2013/'14 year, was actually only 1.41 percent, which

6 was the lowest that the Corporation had in about seven

7 (7) years?

8 MR. LUKE JOHNSTON: Yes, it was. And

9 it was -- definitely we tried to take a longer term

10 view of the volume growth, and we kept getting pushed.

11 You can see in -- you don't have it here, but in

12 2011/'12 it was 2.15. And then in 2012/'13 it was

13 2.51, and those are some of the largest growth rates

14 we've ever seen.

15 So there was -- from our end, we -- we

16 felt the need to maybe -- the -- the long-term average

17 had traditionally before then been about a 1 1/2

18 percent a year. So we felt the need, from a

19 forecasting perspective, to push that up a little

20 higher because it seemed to be trending that way. And

21 then, of course, once we do that, we get a result that

22 looks more like the longer term average.

23 So you're right, it was lower, like,

24 subject to check, but the lowest in about six (6) or

25 seven (7) years.

1 MS. CANDACE GRAMMOND: And, Mr.
2 Johnston, are you looking on page 8 of the revenue
3 section of the filing?
4 MR. LUKE JOHNSTON: Yes, I am.
5 MS. CANDACE GRAMMOND: Okay. Diana,
6 maybe you could pull that up. I'm not going to go into
7 a lot of detail on this, but it might be helpful for --
8 if everybody had that in front of them. So this is
9 R.1.1. Yeah, perfect.
10 So, Mr. Johnston, what you were just
11 referring to was if we -- if we go down the chart to
12 the 2013/'14 year and across we see that 1.4 percent
13 that I had referenced, which was the lowest in, I think
14 I said, about seven (7) years. It looks like the last
15 time that number was below 1.4 was in 2006/'07 when it
16 was at 1.15?
17 MR. LUKE JOHNSTON: Yeah, that's right.
18 And -- and in the table you can see as well the kind of
19 2008/'09 and after we had a period there what would be
20 called average or higher growth rates. And prior to
21 that, they were -- they were much lower, so we were --
22 we've kind of been on the fence about whether this is
23 an ongoing trend.
24 We -- well, you can see the ten (10)
25 year average at -- at the bottom. We kind of settled

on a ten (10) year being a reasonable forecast.

MS. CANDACE GRAMMOND: Right. And -- and as you said, the -- the 1.75 percent that the Corporation's using represents something between the five (5) and ten (10) year average?

MR. LUKE JOHNSTON: That's right.

MS. CANDACE GRAMMOND: And if you used a shorter average time frame, like the three (3) years, the volume factor would be higher?

MR. LUKE JOHNSTON: That's correct. And I don't know if you're getting into this, but there are some forecasts that directly utilize earned units. So collision would -- would -- we would assume that the frequency increases at the same rate as the fleet grows. Other forecasts, it's not apparent that that's the case, like injury claims.

So there is -- there is a bit of a relationship between premium growth on the -- from the units or volume and the claim side, but not a one (1) to one (1).

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Has -- has the Corporation given any thought to how that relationship

1 may change with the new technology coming in vehicles,
2 like the collision avoidance possibilities and -- and
3 so forth?
4 Do you think that -- that relationship
5 may change over time?
6 MR. LUKE JOHNSTON: In the short-term I
7 don't expect it to. There is -- I won't go to it but
8 there is a -- at least in recent history been a very
9 strong relationship between collisions per vehicle
10 unit, so in terms of the rating period I don't expect
11 that to -- to be an issue.
12 But, of course, we watch that closely
13 from -- from various perspectives; driver safety
14 rating, just -- you know, the winter frequency in -- in
15 different months, and how it -- it's changing. It's
16 something we definitely keep our eye on, but I -- I
17 wouldn't -- I wouldn't expect that to be a big
18 contributor in the short term.
19 MS. CANDACE GRAMMOND: Thank you. I'm
20 going to go then to some questions about the upgrade
21 factor. So this is the other piece that the
22 Corporation turns its mind to in terms of changes in
23 the fleet.
24 Can you just give us a brief description
25 of what the upgrade factor is?

1 MR. LUKE JOHNSTON: Yes. So if we have
2 a particular set of rates in effect, and historically
3 we've seen that you naturally get changes in prem -- it
4 can be negative or positive but historically you get
5 changes in premium purely from people changing their
6 vehicles, selling an old vehicle, buying a new vehicle
7 which has a higher rate.
8 In that scenario, the Corporation hasn't
9 changed any of the rates. The customer has just chosen
10 to buy a more expensive highly rated vehicle. Other
11 ways it can occur is as more people move to the City,
12 Winnipeg has higher rates generally for most
13 classifications. And then all -- you know, any other
14 kind of movement in between vehicle types, like people
15 are moving more to SUVs and if -- if they happen to be
16 higher rated that would create upgrade.
17 And it's -- so we look at that history
18 because it's obviously very important for projecting
19 premiums. There are other classes that have had
20 negative upgrade. Motorcycles are a good example. As
21 everybody kind of migrated out of the sport bikes we
22 saw a negative upgrade, just from their -- how they
23 selected their vehicle preferences.
24 MS. CANDACE GRAMMOND: Now, the upgrade
25 factor utilized by the Corporation has two (2)

1 components, as I understand it. Vehicle upgrade, which
2 is in the main --what you've been speaking about, but
3 as well the DSR upgrade.
4 Can you talk about that a little bit?
5 MR. LUKE JOHNSTON: Yes, the -- when we
6 put driver safety rating in, we -- we expected -- we
7 didn't know what kind of impact it would create. We're
8 obviously hoping for a positive impact in -- in terms
9 of people's behaviour. But there's going to be changes
10 as people move along -- up and down the scale, and if
11 it changes their average discount rate they get on
12 their vehicle, again we haven't changed any rates in
13 our system. The only thing that's changed is what
14 discount they're entitled to because of their DSR
15 rating.
16 And so we're watching that closely to
17 see how everybody moves. If there's a tendency for a
18 shift down the scale, you would expect to get
19 additional premium revenue because people have, on
20 average, lower DSR ratings, lower vehicle discounts
21 than they previously had.
22 So whatever the case, we wanted to make
23 sure that was separated from the normal way we
24 calculate vehicle upgrades to make sure we weren't
25 confusing the -- the two (2), and -- and forecasting

them separately.

MS. CANDACE GRAMMOND: Thank you. Now for the purposes of the application, the Corporation is utilizing an upgrade factor comprised of both components of 2.6 percent, and that's the same throughout the outlook period in the application?

MR. LUKE JOHNSTON: That's correct. The upgrade has actually been -- been falling historically until recent years where it seems to have stabilized at right around 2.6 percent. If you have page 11 of the revenue section, the last three (3) years, two point six (2.6), two point five six (2.56), two point five eight (2.58), that looks pretty stable to me, so we -- we just kept that flowing out through the forecast.

MS. CANDACE GRAMMOND: And that represents roughly the five (5) year average? Actually I guess it's act -- maybe closer to the three (3) year average, but it's -- it's right in there. As you said, the -- the numbers are just really stable.

MR. LUKE JOHNSTON: That's right. If we went back farther, you'd actually see it fall from upwards of 4 percent. It's been -- it's been declining steadily but it seems to have stopped.

MS. CANDACE GRAMMOND: Thank you. I'm

1 just going to move to a couple of quick questions about
2 driver premiums. The reference for this, although we
3 can -- we'll just be looking at it briefly, is on page
4 24 of the same revenue section in the filing.
5 So -- and, Diana, if you can just scroll
6 down to page 24, it will be a few pages.
7 So what we see here is what the
8 Corporation is forecasting in terms of driver premium
9 revenue, and we see that the numbers are quite stable
10 year over year.
11 Would that be fair to say?
12 MR. LUKE JOHNSTON: Yes. We really --
13 initially, we really struggled with this forecast
14 because it was new and we had to predict how every
15 driver on the scale was going to move each year.
16 But now that we have several years of
17 experience, we're -- we have something to go on so to
18 speak, and -- and it's bringing more stability to this
19 forecast.
20 MS. CANDACE GRAMMOND: Now, although
21 the numbers are fairly stable, we do see the numbers
22 going down, right? Like in the "Difference" column we
23 pretty much see negative numbers in every year until
24 2017/'18.
25 Can you comment on the why behind that?

1 Is it due to less drivers or is there some other reason
2 for the decrease?
3 MR. LUKE JOHNSTON: Just give me one
4 (1) second. I'm going to find that.
5
6 (BRIEF PAUSE)
7
8 MR. LUKE JOHNSTON: On page 20, about
9 the middle of the page, we did get lower driver unit
10 growth than we expected in '13/'14, and that -- that's
11 consistent with the vehicle volume factor as well. The
12 two (2) should be fairly similar.
13 The population grows substantially,
14 you'd expect the -- the volume of the fleet to grow
15 larger than -- than normal. So that -- majority of
16 that impact would likely just be re-base lining our --
17 our forecast for lower units.
18 The other items discussed in this
19 section, I just wanted to make sure, seem to be pretty
20 stable in terms of how drivers are moving and -- and
21 having claims, so, that should be the main impact.
22 MS. CANDACE GRAMMOND: Thank you. I'm
23 going to move then to some questions about investments
24 of the Corporation.
25 So we'll start at Tab 8 of the book of

1 documents which is just a two (2) page summary from the
2 investment income section of the filing, but there's a
3 lot of information there.
4 So, first off, and there's probably
5 going to be a lot of going back and forth between these
6 two (2) pages, so I apologize in advance, but it's just
7 the way it is.
8 On the second page, so page 6 at this
9 tab, we have at the top part of the table, in essence,
10 the -- an inventory of what's contained in the
11 Corporation's investment portfolio. So we see in terms
12 of amount, as at the end of 2013/'14 on the line item
13 called "Total Assets" the balance in the investment
14 portfolio is about 2.447 billion, so just under $2 1/2
15 billion.
16 Is that right?
17 MS. HEATHER REICHERT: That's correct.
18 MS. CANDACE GRAMMOND: Now we see that
19 -- looking across that line item towards the outlook
20 period, we see that that number is expected to dip in
21 current year and then rebound and continue to increase
22 through the outlook period.
23 MS. HEATHER REICHERT: Yes, that's --
24 that's correct.
25 MS. CANDACE GRAMMOND: Now, do those

1 projections that we're looking at include the 2.4
2 percent rate increase that's been applied for as well
3 as the one (1) point -- or the 1 percent RSR rebuilding
4 load?
5 MS. HEATHER REICHERT: Yes, they --
6 they would from the standpoint of anticipated
7 additional cash coming into the Corporation as -- as
8 well as anticipated losses that negatively impact on --
9 on cash.
10 MS. CANDACE GRAMMOND: And the funds
11 that the Corporation has for investment are primarily
12 unearned premiums and unpaid claims.
13 Is that right?
14 MS. HEATHER REICHERT: I'm sorry. I
15 didn't quite catch the whole question.
16 MS. CANDACE GRAMMOND: Oh, I'm sorry.
17 Just, the money that the Corporation has in this
18 investment portfolio primarily relates to unearned
19 premiums and unpaid claims.
20 Is that right?
21 MS. HEATHER REICHERT: That would be
22 definitely the bulk.
23 MS. CANDACE GRAMMOND: Now, we've had
24 some reference, Ms. Reichert, earlier within your
25 evidence that the portfolio is managed within the

1 minimum investment targets in the investment policy
2 statement, so, meaning each of the investment classes
3 that we see listed on these two (2) pages has a target
4 in that investment policy statement. And then the
5 Corporation tries to stay within those.
6 Is that right?
7 MS. HEATHER REICHERT: Each of -- each
8 of the different vehicle -- investment vehicles,
9 they're -- we have a target, but we have a minimum and
10 maximum range around that target. I think I had quoted
11 those ranges on Friday from a question from Mr. Morrin.
12 So we manage the -- the financial
13 forecast, monitors -- calculates what -- what the
14 actual allocation percentage is. And as I mentioned,
15 if it is beyond the maximum in any two (2) quarter --
16 like, two (2) quarters in a row, then the financial
17 model will rebalance the portfolio to get the -- the --
18 each of the various sectors within the -- within their
19 range.
20 MS. CANDACE GRAMMOND: Thank you. Now,
21 the majority of the portfolio sort of just around the
22 60 percent mark is in Canadian fixed income and MUSH.
23 Is that right?
24 MS. HEATHER REICHERT: That's correct.
25 MS. CANDACE GRAMMOND: And MUSH are the

1 municipal's -- you -- you say what it is.
2 MS. HEATHER REICHERT: It's mu --
3 municipal school and hospital bonds, not universities,
4 as often people think the 'U' is standing for; it's
5 municipal school and hospital.
6 MS. CANDACE GRAMMOND: And those MUSH
7 bonds are, of course, non-marketable bonds?
8 MS. HEATHER REICHERT: That's correct,
9 they're non-marketable bonds. We reflect them in our
10 financial model at book value. And we just reflect
11 interest income coming from those bonds.
12 MS. CANDACE GRAMMOND: Okay.
13 Previously, the Corporation had more in bonds. There
14 was a time, even a few years ago, when it was more like
15 77 percent?
16 MS. HEATHER REICHERT: Yes. I
17 understand that -- that it was not that long ago that
18 the Corporation actually had a hundred percent bonds.
19 And I believe it was at the time of the last asset
20 liability management study in and around 2007, 2008
21 that they started to diversify more into other
22 investment vehicles.
23 MS. CANDACE GRAMMOND: And that was, I
24 believe, the Aon report that you're referring to?
25 MS. HEATHER REICHERT: That was the Aon

1 report from 2007/'08.

2 MS. CANDACE GRAMMOND: All right. If

3 we look at the composition of the portfolio just a

4 little bit more. And I'm looking on page 6, so the

5 page that's up on the screen but the -- the lower part

6 of the table. We see that -- so I'm looking at the

7 second line item. The Canadian fixed income component

8 specifically ranges from -- if we start at 2011/'12

9 it's at 39 percent. And then if you look across that

10 row to, "Current year," those bonds are in that 37 to

11 39 percent range?

12 MS. HEATHER REICHERT: That's correct.

13 MS. CANDACE GRAMMOND: Through the

14 outlook period we see a projected decrease from year of

15 application through to the end of more like 32, 33

16 percent, so it is somewhat of a change.

17 Can you comment on the reasons for that?

18 MS. HEATHER REICHERT: So the -- the

19 reason there would be more fluctuation within the

20 Canadian fixed income line is that when other asset

21 classes go beyond their allocation percentage, so if

22 equities goes beyond its maximum, which is -- Canadian

23 equities, the maximum is 18 percent. So if it goes

24 beyond 18 percent and we're required to rebalance, the

25 money comes out of equities and it goes into the

1 marketable bond category.
2 So that's why you would see more
3 fluctuation in that particular line than you would in
4 some of the other sectors, other investment areas. And
5 just so -- so within that 37.5, and then to the low of
6 31.1 within that five (5) year forecast period, the
7 market -- just to remind you, the marketable bonds, the
8 -- the range is 25 minimum to 40 percent maximum. So
9 we're still maintaining it within the -- within the
10 targeted range.
11 MS. CANDACE GRAMMOND: So if I
12 understand you correctly, I -- I had asked about the --
13 the seeming decrease in Canadian fixed income bonds
14 from year of application through to the end. And you
15 answered that sometimes it's higher because of re-
16 balancing.
17 So what we're seeing here doesn't
18 contemplate increases due to re-balancing, is that what
19 you're saying, and that -- so if you do re-balance,
20 those percentages may increase?
21 MS. HEATHER REICHERT: Sorry, you're
22 right. So the thirty-seven (37) -- sorry. The -- the
23 other factor that is going to impact on those
24 percentages is, as the portfolio grows, the -- the
25 relative percentage of any one (1) item within the

1 total portfolio will change.
2 So just by -- even if you -- even if we
3 do increase the amount in the Canadian fixed income,
4 depending on how it increases relative to the overall
5 increase in the total size of the portfolio, you can
6 see a reduction in its percentage of the total. So it
7 -- it will go down relative to the -- its percentage of
8 the total portfolio.
9 MS. CANDACE GRAMMOND: Okay. Thank
10 you. Now, to the extent that the MUSH bonds are part
11 of the Corporation's investment portfolio that support
12 Basic's actual -- actuarial liabilities, which are 100
13 percent market interest rate sensitive because they are
14 discounted, would you agree that there's a type of an
15 accounting mismatch between the liabilities and the
16 supporting assets, particularly the MUSH bonds?
17 MS. HEATHER REICHERT: Yes. To the
18 extent that the MUSH bonds do not fluctuate with market
19 as the marketable bonds do and as our claims discount
20 rate does, yes, there is that -- that bit of a
21 mismatch.
22 I -- I can turn to Mr. Johnston if he
23 wants to add any more to that particular response.
24 MS. CANDACE GRAMMOND: I -- I'm happy
25 to hear from Mr. Johnston. I do have more questions on

1 the mismatch. I just -- while we were here and sort of
2 seeing the MUSH in the grand scheme of things, I wanted
3 to confirm that. So I'm happy to hear from him, or we
4 can talk about it later.
5 MR. LUKE JOHNSTON: Really quick, yeah.
6 The -- the way we deal with that -- the mismatch is,
7 when we calculate our discount rate on the claims
8 liability side, we actually use the book yield of MUSH
9 bonds, which -- which is consistent with the accounting
10 treatment of that. So that's -- that's how we adjust
11 for that particular issue.
12 MS. CANDACE GRAMMOND: Okay. We also
13 see here on page 6 a reference to the real estate
14 component of the Corporation's portfolio. And we -- we
15 do see a fairly dramatic change there over time.
16 Obviously back in 2009/'10, it was a very small
17 percentage.
18 Or if we look in -- if we want to look
19 at the dollar numbers at the upper part of the chart,
20 we see about 38 million in real estate in '29 -- or
21 2009/'10, and then that's forecasted to increase to
22 about 356 million by the end of the outlook period.
23 So I'm -- I would like to talk about
24 that. In particular, we appreciate that this year MPI
25 has divided its real estate investments into two (2)

1 components because of the different accounting
2 treatment. So maybe you can comment on those factors.
3 MS. HEATHER REICHERT: Okay. So with
4 respect to the -- to real estate, when doing our
5 forecast, we have to make some assumptions with respect
6 to whether or not we are going to increase our
7 investment in any one of the particular categories that
8 you see there.
9 Now, real estate, it's not as liquid as
10 an investment, so we don't anticipate selling off
11 necessarily real estate investments that we -- that we
12 hold. But under -- under this particular line and in
13 our forecasts, we are forecasting to increase our
14 investment in real estate by 50 million in '15/'16
15 fiscal year.
16 So that's why you see, in '15/'16, the
17 amount goes from 242 million under '14/'15 real estate,
18 and increases to three hundred and five (305) in
19 '15/'16. We made an assumption in our financial model
20 that we would be increasing our real estate investment.
21 So that's why you see that fluctuation.
22 And then, as it relates -- so -- so the
23 real estate that's in the pooled fund, we have --
24 through the department of finance, we have an
25 investment manager that manages a pooled fund of real

1 estate investments. So through that we would get
2 income returns and, to the extent that that pooled fund
3 may sell assets or not, we would achieve gains. So
4 that's the real estate pooled fund.
5 The other investment in real estate that
6 we have is our ownership of Cityplace, and we occupy
7 some of that. So some of that is our own property for
8 our accommodations, but the bulk of about 60 percent of
9 our investment -- pardon me, our ownership of Cityplace
10 is treated as an investment for financial statement
11 purposes.
12 So that's the actual retail part of
13 Cityplace, and the parking lots of Cityplace. Those
14 are treated as investment property. And within here we
15 would be forecasting what we expect to earn as a return
16 from those retail operations, or the parking lot
17 operations.
18 MS. CANDACE GRAMMOND: Now, I
19 understand that Cityplace has an established value of
20 38.3 million. That's in the filing. I have the
21 reference if you'd like.
22 MS. HEATHER REICHERT: That -- that
23 would be -- that would be the investment -- I believe
24 you're referencing the investment portion of Cityplace.
25 MS. CANDACE GRAMMOND: And you

1 mentioned the rental income being recorded relative to
2 retail space. There's also rental income from the
3 parking lot space, as well?
4 MS. HEATHER REICHERT: Yes, there is.
5 MS. CANDACE GRAMMOND: And with respect
6 to the pooled fund that you mentioned, that other
7 component of the real estate portfolio, is it correct
8 that all unrealized or realized gains or losses flow
9 through the profit and loss statement?
10 MS. HEATHER REICHERT: Yes, that's
11 correct.
12 MS. CANDACE GRAMMOND: And one (1)
13 other question to do with real estate. Last year we
14 had some discussion about some opportunities that the
15 Corporation may have with Artis Longboat regarding
16 development of the parking lots.
17 Is there any update with respect to that
18 that you can share with the Board?
19 MS. HEATHER REICHERT: There -- there's
20 nothing really to update the -- the Board on as it
21 relates to that particular parking lot.
22 MR. REGIS GOSSELIN: Just to clarify my
23 mind. We're talking about the parking lot -- the flat
24 parking lot behind -- the parking lot immediate to this
25 building?

MS. HEATHER REICHERT: Correct, the --

MR. REGIS GOSSELIN: You own both?

MS. HEATHER REICHERT: -- the actual address of the parking lot is 225 Carlton, but it's Carlton and Hargrave --

MR. REGIS GOSSELIN: Right.

MS. HEATHER REICHERT: -- just behind -- kitty-corner to the MTS Centre.

MR. REGIS GOSSELIN: But this -- this one right behind this building here -- this one here rather, just immediate to this building, is that owned by MPI as well?

MS. HEATHER REICHERT: Yes, it is.

MS. CANDACE GRAMMOND: Madam Chair, I don't have any further questions about real estate investments. I'm noting the time. We do have the taxi cab people coming at 1:00, so this might be a good time to take lunch.

THE CHAIRPERSON: Yes, it would be take -- a good time to go. So we'll return for one o'clock, and we'll have a presentation by the taxi cab drivers.

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

--- Upon resuming at 1:02 p.m.

1 THE CHAIRPERSON: Okay. Welcome back
2 to this afternoon's hearings. Our presenter has
3 emailed and said that he's a bit late. He was in court
4 this morning, so he -- he's on his way shortly, so
5 Candace is going to continue with her cross-examination
6 -- sorry, Ms. Grammond is going to continue with her
7 cross-examination at this point. And when the
8 presenter arrives, then we will suspend Ms. Grammond's
9 test -- examination, and we'll continue with the
10 presenter. Thank you.
11 MS. CANDACE GRAMMOND: Thank you, Madam
12 Chair. And before I begin just one (1) housekeeping
13 announcement that I think everyone in the room is aware
14 of, but for those that aren't here that will read the
15 transcript, we've decided on a change in the schedule.
16 We had originally anticipated that Dr. Simpson would be
17 testifying on behalf of CAC on November the 4th.
18 Given the fact that other cross-
19 examination on his topics needs to be done before his
20 attendance, it's now been decided that he will testify
21 on November 5th. The only caveat to that is that he's
22 not available at 9:00 a.m. It's anticipated that he'll
23 be coming later in the day. We don't know exactly what
24 time just yet. And, Mr. Williams, if you want to jump
25 in.

1 MR. BYRON WILLIAMS: Yes. The -- Dr.
2 Simpson finishes class at 2:30 on the -- November the
3 5th, so he anticipates he can be here sometime between
4 3:00 and shortly after 3:00. The difficulty for a date
5 after the 5th is that Dr. Simpson is -- has obligations
6 outside of Winnipeg on the 6th through the 11th.
7 So our sense was -- of course, it's up
8 to the Board and their tolerance of how late we work
9 into the evening but that -- that would be timely to
10 have him, shortly after the cross-examinations that
11 were relevant to his evidence was completed, and that's
12 the time we could have him available.
13 MS. CANDACE GRAMMOND: And I -- I think
14 that'll be fine. The panel is aware of it and has
15 agreed to it. We'll -- if we can get him earlier then
16 -- then three o'clock on that date, that would be great
17 if possible. Regardless, we'll proceed with his
18 evidence that day, finish him off the evening of the
19 5th. The 6th and 7th then would be the cross-
20 examination of Mr. Oakes, Mr. Monnin, and Mr. Frost.
21 If CAA has any questions, they would ask them then.
22 I will make arrangements with Mr.
23 Schioler for the IBAM witness to come during those two
24 (2) days. I'm assuming that those Intervenors don't
25 have questions on the DCAT or RSR issues that Dr.

1 Simpson will be testifying on. To the extent that
2 that's -- those items are not completed on the 6th and
3 7th, those would continue on the 12th, and then closing
4 arguments on the 13th and 14th. So that's the plan,
5 for the record.
6 MS. KATHY KALINOWSKY: Would there be
7 any possibility of having a split appearance by
8 Professor Simpson? Maybe the morning of the 5th, and
9 then if he has an afternoon class that he teach that,
10 and then do cross-examination after? If he could do
11 his presentation in the morning, or anything like that
12 to perhaps facilitate, rather than just having one (1)
13 long marathon session?
14 MR. BYRON WILLIAMS: I can certainly
15 make inquires of Dr. Simpson. If memory serves me
16 right, I think he had a pretty full day on the 5th.
17 But I can -- I can make those inquiries. And -- and I
18 would just indicate further to My Friend Ms. -- Ms.
19 Grammond's comments, that it's not clear to me that the
20 cross-examination of CAC will be done by the time Dr.
21 Simpson's up, so there may be some spillover into the
22 6th on our part, as well.
23 MS. CANDACE GRAMMOND: And that's
24 understood, as long as the subject matter is unrelated,
25 and I know that we are all in agreement on that, then

1 that would be fine.

2

3 CONTINUED BY MS. CANDACE GRAMMOND:

4 MS. CANDACE GRAMMOND: Okay. So having

5 addressed that, I'll proceed then with some questions

6 on investment income. So before lunch, we were talking

7 about the composition of the portfolio. Now I'm moving

8 into the income piece.

9 We -- we spoke, Ms. Reichert, about the

10 fact that, per the filing for the current year, the

11 Corporation is expecting investment income of some 28

12 million. At least that's what it was expecting at the

13 time of the filing, and that's on the portfolio of

14 about 2.4 billion as of the same date.

15 That would seem to be a return of less

16 than 2 percent. Is that fair to say?

17 MS. HEATHER REICHERT: Just purely

18 doing the math, yes. It would appear to -- to be that.

19 And the reason it would be so low is because again

20 we're forecasting interest rates on those marketable

21 bonds to increase. So there are capital losses that

22 are reflected that are reducing the overall investment

23 income on the portfolio.

24 MS. CANDACE GRAMMOND: Thank you. And

25 thank you, Diana, for pulling up the document on the

1 screen that you've pulled up. This is found at Tab 8
2 of the Board's book of documents. It's the second
3 page. I'm going to be spending some time on the page
4 just before this, so if you can scroll. Thank you.
5 At the bottom of that chart, we see --
6 and -- and we've discussed this in passing. Along the
7 very bottom of the chart, we have the percentage
8 allocation to Basic of the overall corporate investment
9 income. And that's -- for the 2013/'14 year, it was
10 85.5 percent.
11 Is that right?
12 MS. HEATHER REICHERT: Yes.
13
14 (BRIEF PAUSE)
15
16 MS. CANDACE GRAMMOND: Just on that --
17 actually, I'll -- I'll come back to the allocation
18 piece. We'll -- we'll deal with the investment income.
19 So looking at the chart that's on the screen, we see
20 that the majority of the investment income to the
21 Corporation -- this is just right at the top of the
22 screen, the line item called "Total" which represents
23 the total bond income -- does show us that the majority
24 of the investment income is from bonds, which makes
25 sense given that that's the biggest piece of the

portfolio.

Would that be fair to say?

MS. HEATHER REICHERT: Yes.

MS. CANDACE GRAMMOND: And we have seen, if we look across that line, the total bond income having decreased from the early years shown, and again forecast to increase in the later years shown, but in the middle seeing a defi -- definite decline, particularly over the last five (5) years or so. And that would be due to changes in interest rates.

Is that right?

MS. HEATHER REICHERT: Yes, correct.

MS. CANDACE GRAMMOND: In the next section, under the heading of "Dividend and Other Income," we again see changes. If we look at the -- under the heading "Dividend and Other Income," the line called "Total," we see increases from the investment income or the dividend investment income earned in the early years of the chart. Moving across the page to the right, we see increases, fairly substantial increases in rel -- in relative terms.

Would that be right?

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

MS. CANDACE GRAMMOND: And that would

1 also be due to interest rate changes?
2 MS. HEATHER REICHERT: That would be
3 due to both capital gains on equities as well as
4 dividend income on the equities.
5 MS. CANDACE GRAMMOND: In the third
6 section of the table, we have the heading "Gains During
7 Period Profit and Loss," where we see again along the
8 total line very significant fluctuations over the years
9 shown here in terms of result to the Corporation.
10 Would you agree?
11 MS. HEATHER REICHERT: Yes. And this
12 is where you see -- the actual capital loss on the
13 marketable bonds are shown here. So you can see on
14 that very top line marketable bonds, unrealized gains.
15 This is where the -- where the loss, the capital loss
16 on the -- on the marketable bonds is shown as it
17 relates to forecasted increases in interest rates.
18 MS. CANDACE GRAMMOND: Now, if we look
19 at last year for a moment, the 2013/'14 year, in that
20 gains section we see two (2) losses at the top of the -
21 - the section, a $15.7 million loss and a $9.8 million
22 loss. And then offsetting those losses a little
23 farther down we see gains on both Canadian and US
24 equities of some total of about 115 million.
25 Would that be right?

1 MS. HEATHER REICHERT: Yes. And
2 that's, as I referenced both, I guess, on Friday and
3 earlier this morning, these are -- on the Canadian
4 equities, that was a result of rebalancing during
5 '13/'14. And on the US equities, most of that was
6 forecasted to occur because we were moving to a vehicle
7 that actually gave us dividend income.
8 MS. CANDACE GRAMMOND: That was the
9 move to the passively managed US portfolio?
10 MS. HEATHER REICHERT: Correct. Or to
11 the ETF US portfolio, yes.
12 MS. CANDACE GRAMMOND: What does ETF
13 stand for?
14 MS. HEATHER REICHERT: Exchange traded
15 funds that provide for a dividend or an income stream
16 which our previous investments, which are actually held
17 in a passive equity vehicle, stopped providing --
18 stopped providing dividend returns.
19 MS. CANDACE GRAMMOND: Now, in terms of
20 interest forecasts for the Canadian and US equities,
21 I'll ask you to go to PUB/MPI III-3. So, Diana, this
22 is not in the book of documents, but you will find it
23 in the Third Round IRs.
24
25 (BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: In particular,
2 I'm looking at the attachment to PUB/MPI III-3.
3
4 (BRIEF PAUSE)
5
6 MS. CANDACE GRAMMOND: I'm advised that
7 the -- Diana's just having a bit of technical trouble
8 there. While we're waiting for the document, I
9 understand that the Corporation is forecasting returns
10 of 7.3 percent from current year through the outlook
11 period on -- for now, I'm just talking about Canadian
12 equities.
13 Is that correct, Ms. Reichert?
14 MS. HEATHER REICHERT: Yes, that is --
15 that is correct, it is at 7.3 percent. So that is
16 based on the 15 year annualized return. And that was
17 in previous orders from the Public Utility Board. That
18 was the approved method for forecasting equity returns.
19 MS. CANDACE GRAMMOND: Which was a
20 change from the method that the Board had approved
21 prior to that?
22 MS. HEATHER REICHERT: Correct. This
23 method has -- was approved, I think, two (2) years ago
24 by the Public Utility Board.
25 MS. CANDACE GRAMMOND: Now, the

1 Corporation provided -- oh, do you need... The
2 Corporation had provided some commentary on this issue
3 in the filing in the investment income section. I do
4 have the reference if -- if you need it.
5 But the Corporation is saying that, by
6 using the Board ordered return of the 7.3 going forward
7 as opposed to what MPI was using last year, which was
8 about 6.2 percent, that corporate investment income was
9 down by about 8.9 million per year.
10 Is that consistent with your
11 recollection? If you need the reference, I'm at
12 investment income 5.3, page 34.
13 MS. HEATHER REICHERT: Yeah, I have --
14 I have the reference. So I'm just reading from your --
15 using last year's six point two (6.2) forecasted return
16 instead of the PUB ordered 7.3 percent return reduces
17 corporate investment income on average by $8.9 million
18 per year.
19 So the converse of using the -- of that
20 is then, by using the 7.3 percent we are forecasting a
21 higher -- a higher investment income.
22 MS. CANDACE GRAMMOND: Right, than you
23 would with the six point two (6.2)?
24 MS. HEATHER REICHERT: Correct.
25 MS. CANDACE GRAMMOND: And at this

1 time, is the Corporation proposing any change to the
2 method that the Board had ordered or not?
3 MS. HEATHER REICHERT: No, we're not
4 proposing a change. We've just highlighted it as
5 something that did change from how we had forecasted
6 this last year. So we are being more optimistic in
7 this GRA as it relates to investment income from
8 Canadian and US equities than we were last year.
9 So -- so the -- this method of
10 forecasting has -- has created a situation where the
11 overall rate request that's been asked for is less than
12 it would have been had we continued to use a 6.2
13 percent return for -- for equities. So it was just to
14 ensure that the Board understood, with all forecasts,
15 sometimes they -- they may come in higher but in other
16 cases they may come in lower.
17 MS. CANDACE GRAMMOND: Now, the 7.3
18 percent that's being forecasted for Canadian equities
19 is the same as what is being forecasted for US
20 equities, and we see that just at the next IR, PUB/MPI
21 III-4 attachment?
22 Does that sound about right --
23 MS. HEATHER REICHERT: Yes.
24 MS. CANDACE GRAMMOND: -- just while
25 we're --

1 MS. HEATHER REICHERT: Yeah. Yeah.
2 Yes, it is.
3 MS. CANDACE GRAMMOND: -- waiting for
4 it? And if I could just get you to comment, the -- and
5 this -- the -- the structure of this table is the same
6 as the one that we were just looking at for the
7 Canadian equities. We see just above the line of total
8 return where we see the 7.3 percent in bold we have the
9 line item "Dividend yield" and the line item of
10 "Capital return."
11 Are those the two (2) components that
12 comprise the total return projection of seven point
13 three (7.3)?
14 MS. HEATHER REICHERT: Yes, they are.
15 MS. CANDACE GRAMMOND: And with respect
16 to the capital return here for the US equities, we see
17 that that's in and around 5 percent, or just under 5
18 percent through the outlook period?
19 MS. HEATHER REICHERT: Yes, that --
20 that's correct.
21 MS. CANDACE GRAMMOND: Now, we talked a
22 little bit about the change with US equities from the
23 active trading to passive management, or the EFT that
24 you just referenced a minute ago.
25 Can you comment on how the anticipated

1 income from US equities may change if they were still
2 actively traded compared to the forecast that we see
3 here?
4 MS. HEATHER REICHERT: Well, generally
5 speaking when you have a more passive investment like
6 we have with the US ETF fund there are going to stay
7 closer to the -- the benchmark of -- of that particular
8 fund, whereas if we were actively trading in equities
9 we would have more fluctuation in the returns that we
10 would achieve on those equities.
11 So the -- the active market for equities
12 is going to go up and down with much more volatility
13 than the fund that we were investing. So we're
14 investing in that particular fund to have -- to have
15 the assurity of income coming in off of that -- off of
16 that investment. So that would be the -- the
17 difference between those two (2) types of vehicle.
18 MS. CANDACE GRAMMOND: And can you
19 comment on how the decision was made to move those US
20 equities into passive management, including who made
21 the decision?
22 MS. HEATHER REICHERT: The decision was
23 made through the investment committee working group.
24 It's a joint working group that has members from MPI,
25 as well as members from the Department of -- of

1 Finance. So when -- when it -- when we were aware that
2 the US equity investments that we had were no longer
3 paying dividends and the dividends were just being re -
4 - recapitalized in -- in the fund, that was contrary to
5 what we required in order -- in order to be making the
6 -- the forecast and in our investment income.
7 So we looked at that and we say, Well,
8 it -- it's important that we have that income stream,
9 so we looked at other US vehicles that could provide
10 more of that guaranteed income stream, and that's when
11 we moved to the exchange -- the exchange traded funds.
12 So that really -- and at the time we did that was also
13 the -- that was in last year the -- in the '13/'14
14 year, where we also knew that the interest rates were
15 not doing what we had hoped that they would do. They
16 were staying low.
17 So we knew that we were going to have a
18 significant net income impact from that, so -- so two
19 (2) things. One, we wanted the stream of income from
20 the US portfolio. And two, we also appreciated getting
21 that gain in a year that was otherwise seeing
22 decreasing and -- and low interest rates.
23 MS. CANDACE GRAMMOND: And did the
24 shift to passive management have any impact on the fees
25 paid by the Corporation to external managers?

1 MS. HEATHER REICHERT: Generally
2 speaking, it's my understanding that fees for managing
3 a passive fund are less than fees for managing an
4 active fund.
5 MS. CANDACE GRAMMOND: And what about
6 the Canadian portfolio? Would the investment committee
7 working group ever consider a switch there to passive
8 management? I'm not saying it should.
9 I'm just asking whether that would be
10 something that would be considered.
11 MS. HEATHER REICHERT: Well, we -- we
12 look at -- again, we look at our entire investment
13 portfolio. We look at the diversity. We are currently
14 undertaking, as you know, an asset liability matching -
15 - or management study. So we would look at what makes
16 the most sense to mitigate the risks to MPI, as well as
17 have the funds available to pay our claims, and then,
18 thirdly, to maximize the yield on our investments as
19 much as possible.
20 So to the extent that moving out of an
21 active Canadian equity market into a more passive one
22 might accomplish some of those things, then we would
23 look at it, but we would look at it in the context of
24 an overall asset liability ma -- management study.
25 MS. CANDACE GRAMMOND: Thank you.

1 MR. REGIS GOSSELIN: That US ETF that
2 you're -- that you -- you've purchased, it tracks which
3 index in the US, do you know?
4 MS. HEATHER REICHERT: It attracts the
5 Russell 1000 value and the Russell 2000 value.
6 MR. REGIS GOSSELIN: Now, you -- you
7 have an active manager dealing with your Canadian
8 equity?
9 MS. HEATHER REICHERT: Yes, the
10 Department of Finance has a contract with -- we have a
11 couple of equity managers for our Canadian portfolio.
12 MR. REGIS GOSSELIN: So considerably in
13 the future you might be looking to do a similar ETF
14 purchase to substitute for what represents $4 million
15 cost a year right now for -- you're -- you're spending
16 $4 million a year now to manage your portfolio?
17 MS. HEATHER REICHERT: That $4 million
18 a year for managing the portfolio is both our bonds
19 portfolio as well as the equity portfolio and -- and
20 real estate, our entire portfolio. So -- so to the --
21 we -- we ensure that when -- when we are investing in
22 whatever it is that we're investing, that the fees that
23 we're paying are reasonable for the type of investment.
24 So we -- we wouldn't -- we would look
25 first -- I guess we would look more broadly than just

1 the fees that we're paying for a particular investment
2 vehicle. We would look to see what kinds of return
3 we're getting on that vehicle. And if they're
4 generating above the benchmark net of fees, then we're
5 not going to take an action just to -- just to
6 eliminate some fees or -- or reduce some fees is that
7 is going to impact the overall yield of our portfolio.
8 MS. CANDACE GRAMMOND: Madam Chair, I
9 do have a few more investment questions. But I note
10 that Mr. Minuk is here, so it may be expedient to have
11 him do his presentation on behalf of the taxicab
12 companies. And then we can move forward after that.
13 THE CHAIRPERSON: Thank you, Ms.
14 Grammond. I think we will invite Mr. Minuk to come
15 forward to make his presentation.
16
17 (BRIEF PAUSE)
18
19 THE CHAIRPERSON: Welcome and...
20 MR. MARTY MINUK: Is it working now?
21 Yeah, it is. Thank you. Thank you.
22 THE CHAIRPERSON: Okay, you may begin.
23 I believe you're --
24 MR. MARTY MINUK: My name is Marty
25 Minuk. And I am here to make a few comments on behalf

of Unicity Taxi and Duffy's Taxi.

THE CHAIRPERSON: Okay, thank you. You -- you may start with your presentation.

PRESENTATION BY UNICITY TAXI AND DUFFY'S TAXI:

MR. MARTY MINUK: All right. My comments will be brief other than to, first of all, thank you on behalf of both Unicity and Duffy's to be able to come here and make a few comments.

In speaking with both Unicity and Duffy's after their individual attendance without representation last week, I believe that they now truly understand the importance of the Board's work and that, going forward, with respect to future applications by MPI for rate hikes, my impression is that they intend to have a much more active involvement. And likely, given even their small numbers but the significant impact and the costs that they bear, are likely to come back and actually apply for standing and deal with their matters.

In the meantime, they have informed me that the current annual Basic insurance premium that each owner/operator pays is eight thousand two hundred dollars ($8,200), with a six hundred dollar ($600) deductible. They point that out in comparison to the

1 situation with limousine operators, who they say pay
2 insurance premium of twenty-five hundred dollars
3 ($2,500), along with a six hundred dollar ($600)
4 deductible.
5 Both Unicity and Duffy's have observed
6 in the material presented by MPI that, for their class
7 of vehicle, the raise or the increase in premium that
8 is being proposed is in the range of 5.3 or 5.4
9 percent. And whatever the case may be, at the low, it
10 would increase the premium by thirty-six dollars and
11 twenty-two cents ($36.22) a month for each individual,
12 or thirty-six dollars and ninety cents ($36.90) per
13 month. It would increase the current eighty-two
14 hundred dollar ($8,200) premium to eighty-six hundred
15 dollars ($8,600) -- well, eight thousand six hundred
16 forty-two dollars eighty cents ($8,642.80) per month.
17 Now, the importance of these numbers
18 needs to be understood in the context of how Unicity
19 and Duffy's are operated. And they wanted me to convey
20 to you that -- and make sure that you understood that
21 Unicity and Duffy's are -- the owners of the taxis are
22 individual owner/operators. They are shareholders in
23 the companies known as Duffy's and Unicity, but those
24 companies are essentially the dispatch companies. But
25 each individual car that you will see out on the road

is owned by an individual person and operated as his or her own business.

The relevance of that came to a discussion over the weekend with both Unicity and Duffy's when they reviewed the testimony of Mr. Guimond that he gave to the Board last week, which puzzled them because on October 22nd, Mr. Guimond told the Board -- and I'm quoting from what he said:

> "If you look at taxis, you look at the loss ratios of taxis, for example, and the fact that taxis, through the owner/operator approach of registering a vehicle, have opted out. The owners have opted out of the fleet rebate program."

So with that comment, what we did was we went to look at the material put out by MPI with respect to the fleet program and understood that there are cost benefits or cost savings for fleet programs. But those fleet programs require ten (10) or more vehicles registered, which would include vehicles under repair on the first day of a customer month, and they need to be insured for a minimum number of days.

But in the case of Unicity and Duffy's, because they are individual owner-operated businesses,

they cannot take advantage of the fleet program. And if it is the case that -- and the suggestion is that they've opted out of the fleet program, well, they really haven't opted out because the nature of the business can't allow them to get in.

So we -- that is, Unicity and Duffy's -- are saying that MPI is aware of the ownership structure and that if in fact there is a benefit to participating in a fleet program, that MPI should be working with the taxi industry, given how it operates here in the City of Winnipeg in particular, where you'll find the most number of vehicles, to try to work with them in a way that recognizes that they are shareholders in the dispatch company. But they all run their own businesses, but in some way should be able to take advantage of all the fleet program or to work with them in a way that would allow them some benefit that is afforded to fleet programs, which is perhaps one of the most important points that they have asked me to stress.

Because they are also individual owner/operated, they typically would make their own claims to MPI. They would have to. But periodically, and I think often, they request of the management of the dispatch companies to provide correspondence

1 confirming when these vehicles are off the road and not
2 in service, and need to provide that material to MPI.
3 I -- I asked for that evidence from the
4 people at Duffy's, and they weren't gathering it, not
5 understanding the importance of it today. Unicity did
6 provide to me four (4) circumstances between January
7 and August -- or September of this year, and seemed to
8 suggest to me that those vehicles were not off the road
9 and requiring MPI benefits and service frequently.
10 So although we're -- have not today had
11 the opportunity to do all of this research, the two (2)
12 points essentially are, 1) that some research needs to
13 be done to justify this amount, and in the written
14 material we weren't able to find it. And secondly,
15 it's not really the case that MPI -- that the taxi
16 companies have opted out of fleet program. If there
17 was a way that they could opt in or work with MPI to
18 get those benefits, they would like to do so.
19 And in short, those are the two (2)
20 points that I wanted to make today. And I think that
21 you will see me back here now as both the general
22 managers of Unicity and Duffy's know that they not --
23 they need to start keeping better records, because when
24 we come back here we will be presenting in greater
25 detail.

1 But leaving you with these two (2)
2 points really that a need to be certain that they
3 really are a cost factor to suggest that there is a --
4 looking at them and the way they operate as perhaps in
5 the nature of a fleet but of a different sort, and
6 working with them is something that could be done in
7 going forward, and that they'd be willing to work with
8 MPI for that purpose. Thanks very much.
9 THE CHAIRPERSON: Okay. Thank you, Mr.
10 Minuk. Are there any questions of Mr. Minuk from the
11 panel?
12
13 QUESTION PERIOD:
14 MR. REGIS GOSSELIN: I have a question
15 in relation to the request you've made. Have you
16 actually attempted to meet with MPI, or at least the
17 owner/operators, have they attempted to meet with MPI
18 to address the concerns you have around the fleet
19 program, and being able to --
20 MR. MARTY MINUK: To my knowledge they
21 have not -- to my knowledge they have not met with
22 them, and I don't think that anyone has actually
23 confronted this particular issue. And I'm not going to
24 claim any particular brilliance on this other than I
25 was directed to the passage. I read it, and it struck

1 me that this was an issue that I should be raising with
2 the industry, that they need to not sit back and just
3 think that this isn't available to them. They should
4 perhaps not wait, but also go forward.
5 So in a sense we're putting it out on
6 the floor today for MPI, along with the companies, to
7 sort of see is there a way that we can get together.
8 MR. REGIS GOSSELIN: Now, have you had
9 an opportunity to examine the application and the
10 materials that go along with it?
11 MR. MARTY MINUK: We've seen that, and
12 seen that the -- the -- essentially the main raise of
13 all of the categories is for six hundred and forty-five
14 (645) vehicles in the taxi industry, which seemed to be
15 getting the most significant raise.
16 And when we did the math of how many
17 taxis there are in Manitoba, it seemed to the taxi
18 industry, at least Duffy's and Unicity, that this raise
19 excluded limousines for the most part, and that taxis
20 were being asked to take this -- or being -- the -- the
21 taxis themselves were being asked for a 5.4 percent
22 increase.
23 Because the average number didn't really
24 tell the story, and we looked at one (1) page it
25 averaged out the number of month public service

1 vehicles from sixteen hundred ($1,600) plus dollars to
2 almost seventeen sixty-seven (1,767). It didn't look
3 like a big raise, more than a hundred dollars ($100),
4 but then when you dig deeper in you see that the six
5 hundred and forty-five (645) taxis are actually -- form
6 a small, particular group of which the increase is
7 being looked at, at about 5.4 percent.
8 MS. ANITA NEVILLE: Just one (1)
9 question. Have you or the companies costed out the
10 advantages to you if they were a fleet, what the
11 difference would be?
12 MR. MARTY MINUK: We haven't costed it
13 out because we don't really have that fleet
14 information. And -- and in order to do so, it would
15 require, essentially, a complete reconfiguration of
16 these companies because -- unless there was some way to
17 retain individual ownership and work within the
18 framework, it couldn't work at all because people would
19 be asked to be giving up their businesses.
20 MS. ANITA NEVILLE: Thank you.
21 THE CHAIRPERSON: Okay, thank you very
22 much, Mr. Minuk. We appreciate you coming and
23 presenting on behalf of Unicity and Duffy's.
24 MR. MARTY MINUK: Thank you all. And
25 hopefully I'll see you all back again.

1 THE CHAIRPERSON: Okay, thank you.
2 MR. MARTY MINUK: Enjoy the rest of the
3 hearing.
4 MR. REGIS GOSSELIN: Before you go, Mr.
5 Minuk, it strikes that -- one (1) observation. And --
6 and we've been trying to repeat the same mantra to
7 everybody that appears before us. You know, don't wait
8 for a hearing to try to discuss with MPI the concerns
9 that you have. In other words, when you come back
10 next, if you come back next year, we'd -- I'd like to
11 be able to ask the question: Have you talked to MPI?
12 MR. MARTY MINUK: Oh, I -- I do
13 acknowledge that. I think that's a good way of sort of
14 approaching the issue. Rather than waiting for the
15 last moment, let's hope to discuss it before we get
16 here. Thanks. Have a great day.
17
18 CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:
19 MS. CANDACE GRAMMOND: Thank you, Madam
20 Chair. I'll continue then with cross-examination
21 relative to investments.
22 Ms. Reichert, I would ask you to go back
23 to Tab 8 of the Board book of documents. This is the
24 summary of investment income. I just have a couple
25 questions for you about the pension expense that we see

1 reflected there.

2 MS. HEATHER REICHERT: Yes.

3 MS. CANDACE GRAMMOND: I'm sure it will

4 be upon the screen shortly. So I'm looking on page 5,

5 which is the first page at Tab 8. If we look -- thank

6 you, Diana. It's just a little bit down from -- from

7 there, close -- yeah, there, the pension expense line.

8 We see that last year, so in the

9 2013/'14 year, the Corporation had, according to what's

10 reflected here, about 190 million in investment income,

11 which was reduced by about 18 million due to the other

12 expenses listed, about 11 million of which was pension

13 expense.

14 Are you with me so far?

15 MS. HEATHER REICHERT: Yes.

16 MS. CANDACE GRAMMOND: And I understand

17 that that pension deduction is there because the

18 Corporation does not maintain a separate investment

19 portfolio to maintain its pension obligations.

20 Is that right?

21 MS. HEATHER REICHERT: That's correct.

22 MS. CANDACE GRAMMOND: And can you give

23 the panel an indication of why that's the case?

24 MS. HEATHER REICHERT: Simply -- simply

25 stated, having a $2.4 billion portfolio and investing

1 it as a portfolio as opposed to taking and segregating
2 off approximately 2 -- 280, 300 million relative to
3 pension and separately investing that, it was felt that
4 keeping it as a -- as a larger portfolio in -- in its -
5 - in its entirety we would have a better rate of return
6 than by having two (2) separate funds and segregating
7 in that -- in that way.
8 So that's my understanding of why it
9 hasn't been segregated in the past and why we continue
10 today not to -- not to segregate separately the pension
11 -- pension assets from our other assets.
12 MS. CANDACE GRAMMOND: Thank you. Now,
13 we see from this document that the pension expense in
14 the year before last year, so in 2012/'13, was some
15 17.1 million. Now, I understand that that amount has
16 been restated due to a change in accounting rules.
17 Are you familiar with that?
18 MS. HEATHER REICHERT: I don't believe
19 the -- the amount itself has not been restated. The
20 new rules as related to IFRS number 9, I believe it was
21 -- or it might have been number 19. I'm sorry, I'll
22 have to get back the right reference.
23 Any investment or -- sorry, any
24 evaluation gain or loss on pension funds, rather than
25 flowing through net income, now flows through OCI,

other comprehensive income, in the -- in the income statement.

So the amount would not have been restated. It was just where -- where the gain or loss on the valuation of our pension liability flows through. And it now flows through OCI. And just to confirm, that's IAS-19.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Okay. Ms. Reichert, we had touched earlier today on the fact that the share of the investment income to the Corporation that is allocated to Basic last year was about 85.5 percent. And then we see here just at the bottom of this particular table that that number is forecast to decrease slightly for current year and through the outlook period to 83.8 percent.

Do I have that right so far?

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

MS. CANDACE GRAMMOND: And the allocation is based in essence on the weighted net equity balances of each line of business.

Is that right?

1 MS. HEATHER REICHERT: Generally
2 speaking, yes, that's true.
3 MS. CANDACE GRAMMOND: Now, I
4 understand that MPI proposed a slight change to that
5 methodology for this year; that is, that the allocation
6 should be based on an average of the past three (3)
7 years rather than the past four (4) years.
8 Is that right?
9 MS. HEATHER REICHERT: Yes, that's
10 correct. And the -- the reason that we made that
11 change in this year is, in the fourth-last year, there
12 was actually a negative equity position in one (1) of
13 the lines of business which absolutely skewed the
14 allocation percentages among the four (4) lines of
15 business.
16 So in order to not have that
17 inappropriately impact the allocation methodology and
18 the resulting allocation rates, we took a three (3)
19 year average this year. So next year, we can again go
20 back to a four (4) year average because that negative
21 equity position is no longer within the -- within the
22 prior four (4) years.
23 So it is just a one (1) year -- a one
24 (1) year average change. If we had noted it last year,
25 we would have made the same recommendation to not

1 include something that was obviously an anomaly within
2 the four (4) year average.
3
4 (BRIEF PAUSE)
5
6 MS. CANDACE GRAMMOND: So back to
7 investment income and this particular issue, Ms.
8 Reichert. We did ask an IR on it. It was PUB/MPI I-
9 17. So we can maybe pull that up just for context.
10 While we're -- while that's happening,
11 Ms. Reichert, I've heard your evidence about the four
12 (4) year average versus the three (3) year average. I
13 understand that, pursuant to I-17(a), if we can just
14 scroll down a little bit, we see there the percentage
15 difference.
16 So going to a three (3) year from the
17 four (4) year has taken it down roughly by a percent or
18 maybe by .9 of a percent, something like that?
19 MS. HEATHER REICHERT: Point eight-nine
20 (.89).
21 MS. CANDACE GRAMMOND: Right. And this
22 would mean about 1.6 million less in investment income
23 for Basic between the current year through 2016/'17.
24 And that's just found on the next page under (b).
25 Does that sound about right?

1 MS. HEATHER REICHERT: Sure. Yes, it
2 does.
3 MS. CANDACE GRAMMOND: I'm adding there
4 the three hundred and five thousand (305,000) plus the
5 five hundred and thirty thousand (530,000) plus the
6 eight ninety-eight thousand (898,000). So that's
7 roughly one point six (1.6) over a three (3) year
8 period. MS. HEATHER REICHERT: Yes, I see that.
9 MS. CANDACE GRAMMOND: So just so that
10 we're clear, in terms of the shift from the four (4)
11 year average to the three (3) year average, which year
12 then was excluded? Was it the earliest year, like
13 2011, just going back for that time frame, or...
14 MS. HEATHER REICHERT: Yes. My -- my
15 understanding is it was the fourth-past year.
16 MS. CANDACE GRAMMOND: Okay. So -- so
17 on --
18 MS. HEATHER REICHERT: I'm saying that
19 correctly.
20 MS. CANDACE GRAMMOND: No, I -- I think
21 I understand. On this chart that's on the screen, it
22 would be the 2010/'11 year, which had an allocation to
23 Basic of 87 percent and change.
24 MS. HEATHER REICHERT: Correct.
25 MS. CANDACE GRAMMOND: So which line of

1 business was it that had the nequitive -- nequitive --
2 negative equity position?
3 MS. HEATHER REICHERT: It was a non-
4 Basic line of business.
5 MS. CANDACE GRAMMOND: And how -- where
6 would we find that on the allocation schedule? It's --
7 it's not in this IR response, it's not in the
8 investment income Section 9.5 which deals with this
9 issue.
10 MS. HEATHER REICHERT: No, because the
11 9 -- Section 9.5, as well as this IR, is -- is dealing
12 with the information as it relates to the Basic
13 allocation. So it does not detail out the -- the non-
14 Basic allocations.
15 MS. CANDACE GRAMMOND: So it's just not
16 in the filing?
17 MS. HEATHER REICHERT: No, it's not in
18 the filing.
19 MS. CANDACE GRAMMOND: I'm going to ask
20 you then to go to Tab 13 of the book of documents.
21
22 (BRIEF PAUSE)
23
24 MS. CANDACE GRAMMOND: This is the
25 question and answer at PUB/MPI I-21 relative to

1 unrealized gains. Now, I appreciate that we asked a
2 pre-ask question, in particular number 1. Just leave
3 this up on the screen, but just for the purposes of the
4 record, we just -- to update this information?
5 MS. HEATHER REICHERT: Yes.
6 MS. CANDACE GRAMMOND: So I will refer
7 to that in a moment. But if we look at this IR first -
8 - and, Diana, if you can just scroll down to basically
9 the last page of the IR response.
10
11 (BRIEF PAUSE)
12
13 MS. CANDACE GRAMMOND: Thank you. We
14 see here -- and this is as of -- although in the top
15 left-hand corner it's indicating revised September 5th,
16 this information is as of May 31st, 2014?
17 MS. HEATHER REICHERT: Yes, that's
18 correct.
19 MS. CANDACE GRAMMOND: And as at that
20 date, the Corporation had -- I'm now looking bottom
21 right-hand corner of the screen -- 115.5 million in
22 unrealized gains?
23 MS. HEATHER REICHERT: Yes, that's
24 correct.
25 MS. CANDACE GRAMMOND: And that would

be comprised of, looking up that column, the 22.3 million in US equities that we see just above, and then at the top right-hand corner of the table, 93.1 million in Canadian equities.

Is that right?

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

MS. CANDACE GRAMMOND: And as I had indicated, these numbers have been updated on the record, but they haven't changed all that much pursuant to Pre-Ask 1. And I don't know if you'll need Diana to go there, but --

MS. HEATHER REICHERT: No, I have the -- I have the information. It -- it -- the gains have actually decreased almost $4 million in -- since May to -- to September.

MS. CANDACE GRAMMOND: Right. They've decreased to 111.7 million. US has actually gone up and Canadian's gone down.

MS. HEATHER REICHERT: Yes.

MS. CANDACE GRAMMOND: Okay. So has the Corporation realized any of these gains, either in what we see on the screen or what we see at Pre-Ask 1?

MS. HEATHER REICHERT: Depending on what our -- our investment managers do with their

1 respective equity portfolios, in our -- in our
2 forecast, in our General Rate Application forecast, we
3 estimate that about 20 percent a year of equities will
4 turn over. So that's what we do on our forecast. What
5 the equity managers themselves do, they -- they might
6 be a slightly more frequent turnover or slightly less.
7 So I don't have the exact number in
8 front of me right now, although the second quarter
9 financial report and the note that we were looking at
10 previously which I'm going to pull out --
11 MS. CANDACE GRAMMOND: Note 6, page 17,
12 I think.
13 MS. HEATHER REICHERT: Yes, note 6,
14 page 17. We actually did have -- we did have a gain on
15 the sale of equities in the first six (6) months of
16 this year of about $11 million. So that would be
17 through the -- our investment managers and through
18 their -- through their management of our equity funds.
19 In some cases, they will sell. And so we did actually
20 realize -- as -- as far as I understand, that is a
21 realized gain, yeah, realized gain of about $11 million
22 in the first six (6) months.
23 MS. CANDACE GRAMMOND: Thank you.
24 MS. HEATHER REICHERT: About 10 -- 10
25 percent of the total.

1 MS. CANDACE GRAMMOND: Now, I
2 understand that pursuant to the Corporation's
3 investment policy statement the Corporation can request
4 that a gain be realized if the book-to-market value of
5 the portfolios exceed 105 percent.
6 Is that your understanding, as well?
7 MS. HEATHER REICHERT: Yes. Within the
8 investment policy statement there is -- we have the
9 flexibility that we may generate a gain providing that
10 we keep it at the 105 percent.
11 MS. CANDACE GRAMMOND: So could the
12 Corporation realize some additional gains of what we're
13 seeing is available?
14 MS. HEATHER REICHERT: Theoretically,
15 yes, we could. But what we have done and what we have
16 done fairly consistently in the past is let the active
17 equity managers that are hired to manage the equity
18 funds make the determination of when the best time to
19 buy and sell the equities are.
20 As I've already stated, we did make a
21 decision through the investment committee working group
22 to take an actual action with respect to the US
23 equities last year. And then in the case of when we
24 need to rebalance, we take action at that point.
25 So how we've been managing the funds is

1 to allow the -- the equity managers to make the
2 determination. And we monitor. And we will take
3 action if we need to from a rebalancing perspective.
4 MS. CANDACE GRAMMOND: I'd like to
5 learn your views and the Corporation's views on -- on
6 this issue. And appreciating what you've just said, in
7 the context of this particular application, with the
8 Corporation asking for a rate increase, the one point -
9 - or the 1 percent, pardon me, rebuilding fee, because
10 it would appear looking at the ratio of market-to-book
11 value that we see on the screen, and I know that that's
12 May 31st, that there -- if the Corporation took the
13 step to realize some gains, that there could be
14 significant impact to the bottom line in the current
15 year which may mitigate the need for what's being
16 requested.
17 So can -- can you comment about that?
18
19 (BRIEF PAUSE)
20
21 MS. HEATHER REICHERT: So, yes, while
22 it -- it is possible that the Corporation could
23 generate some gains by -- by exercising that particular
24 option within the investment policy statement, by doing
25 that, that will then impact on the possibility of

1 future gains. So it'll -- it would be a one (1) time
2 impact now that would then influence the 20 percent
3 turnover and what we forecasted to the future on a --
4 on an ongoing and a more stable -- stable basis.
5 MS. CANDACE GRAMMOND: So the
6 Corporation has elected not to take that step, but
7 instead to maintain the portfolio and apply to the
8 Board, as it has?
9 MS. HEATHER REICHERT: Yes. I mean, we
10 -- we do anticipate, as I said, and we do forecast to
11 sell 20 percent of equity portfolio every year, and to
12 achieve the gains that -- hopefully, gains that would -
13 - would transpire from that.
14 So we -- we take a longer term view not
15 to sell off a larger portion of our -- of our
16 portfolio, and then limit the ability to achieve that
17 20 percent turnover and -- and gains as a result of
18 that turnover.
19 It also smooths -- depending on what's
20 happening in the equity markets it helps to smooth if -
21 - if there are volatility, as there often is within the
22 equity markets, it smooths that over the -- the five
23 (5) year forecast period.
24 MR. REGIS GOSSELIN: I guess -- I guess
25 we're kind of talking apples and oranges though.

1 Correct me if I'm wrong, because I heard you say that
2 the management of the Canadian equity portfolio is
3 managed by independent operators. I mean, that you
4 hire them but they operate independently rotating at 20
5 percent a year. So they're making a decision about
6 what to buy, what to sell.
7 So it -- it -- I guess what I -- what I
8 heard there was that you are not making the decision --
9 say for example you're holding a Royal Bank that's done
10 really well. Okay, let's sell that one. Let's realize
11 the gain. Put that in the -- the kitty. You earlier
12 said that the manager is making that decision as
13 opposed to you.
14 Now, what you've just said is that --
15 you also said that the -- the only time you would sell
16 is if you're rebalancing the portfolio. In other
17 words, if you have more of a US equity value than you'd
18 want to have, you'd sell that portion of the US equity
19 and put it somewhere else, as I understand it.
20 So the question that's being posed
21 though is that you are sitting on realized gains --
22 pardon me, unrealized gains, very significant
23 unrealized gains. And you -- it's open to you to
24 realize those gains independently of the investment
25 manager. And the question is:

1 Why not do that if you think that you've
2 done really well in investment and have that available
3 in case -- you know, have that available in your rate
4 stabilization reserve?
5 So it's all about -- you know, there's a
6 gain that's available -- I mean, we all -- we all face
7 -- you know, those of us who are invested in the
8 marketplace -- in the equity markets all face that
9 issue. You know, you have -- you're sitting with a
10 good -- good holding. You've made some good money on
11 it. When do you -- when do you pull the plug on it and
12 say, Okay, I'm going to -- I'm going to pull out of
13 that position because I've done really well?
14 And that's really the question here,
15 right? You're saying, You're sitting on a -- on a
16 portfolio that's worth something but instead of
17 realizing on gain we're going to go and talk to the
18 ratepayers and say, Let's give us more money because we
19 think we need it to maintain the -- the ship on an evil
20 -- an even keel.
21 So I'm -- I'm trying to get at how you
22 make decisions not to realize gains when that is
23 clearly an option available to -- to the management
24 group.
25 MS. HEATHER REICHERT: Based -- so I

1 guess what I -- what I'm trying to say is that we go by
2 the investment policy statement that we have, and while
3 I acknowledge that it does have the flexibility if we
4 so cho -- choose to on our own exercise when we sell
5 equities, what we do is we rely on the equity managers
6 as you -- as you have said to make the best
7 determination on when it -- when is a good time to buy
8 or sell specific equities, and then we monitor that.
9 So we monitor how well they're doing
10 vis-a-vis the benchmark for the Canadian equities, and
11 someone will whisper in my ear what benchmark we used
12 to do that. And we also monitor based on from a risk
13 perspective if our investment portfolio in equities
14 gets too high, and we have too much money in equities,
15 then the risk to us of a -- of a correction in the
16 market where the value of those equities decreases
17 substantially and -- and quickly, then we take action
18 through the investment committee working group to
19 rebalance.
20 And at that time is when we make an
21 active decision to have our investment managers -- we -
22 - we essentially say, We're taking money away from you,
23 and they make a decision on which equities they sell in
24 order to give that money back to us. And we invest it
25 then in another not -- not as risky investment from our

1 perspective.
2 So our investment portfolio first and
3 foremost is there to pay our claims liabilities. So
4 that's first and foremost. And then second to that is
5 enhancing and increasing the yield of our investment
6 portfolio. So from the insurance company perspective,
7 it is to mitigate the risk of not having funds
8 available to pay our claims. That's our first and --
9 and most significant priority.
10 And from that perspective, we have
11 allocations within each of the different areas such as
12 equities to say, If equities get to be too high of a
13 percentage of our portfolio, that is a risk that we
14 will not accept, and then we rebalance.
15 So those are the driving things on
16 rebalancing as opposed to us taking the decisions away
17 from those investment managers that we are paying
18 significant fees to, to make those educated and
19 professional decisions on when the best time to -- to
20 buy and sell the equities are.
21 I hope -- does that help to answer the -
22 - the question?
23 MR. REGIS GOSSELIN: Well, I think it
24 does because I think that you -- you indicated to the
25 panel that, just from a Canadian equities standpoint,

1 that -- that you have -- have made the decision to give
2 that to an independent portfolio manager to -- to buy
3 and sell the commodities and realize the gains as they
4 see fit. So -- and that's a fair -- it's a fair
5 decision. A number of other entities have made a
6 similar decision.
7 I'm trying to get at, you know, when
8 faced with -- with -- when faced -- from a corporate
9 standpoint, when faced with a -- you know, sitting on a
10 unrealized gain, a fairly substantial unrealized gain
11 that could be triggered, you have said -- said -- made
12 the decision, We're going to ask for a rate increase to
13 supplant what otherwise would be available from a --
14 from an equity -- from an equity sale.
15 MR. LUKE JOHNSTON: If -- if you look
16 at investment income page 5, kind of that main summary
17 in the investment income section -- I think Diana will
18 probably bring it up -- if you look at the line
19 "Canadian Equities Realized Gains," it's about mid-
20 page.
21 So it's not that -- so you're -- you're
22 correct. We do have unrealized gains, but if you were
23 to realize a significant portion of those gains today,
24 these numbers would reduce significantly.
25 We are -- the -- the rate in -- the rate

1 proposal includes the assumption that you're going to
2 realize a lot of those gains that you have and brings
3 down the rate indication. Like these -- the --
4 particularly in the rating period, you can see the 16.4
5 million and the 31 million of assumed realization of
6 equity gains.
7 If we had nothing in the unrealized
8 gains bucket, so to speak, right now, these numbers
9 would be much lower or non-existent. So if we were to
10 take more gains now, our rate increase would actually
11 go up because there'd be -- these wouldn't be flowing
12 through. The RSR balance would improve, for sure,
13 right? But it's at the expense of future years' rates.
14
15 (BRIEF PAUSE)
16
17 CONTINUED BY MS. CANDACE GRAMMOND:
18 MS. CANDACE GRAMMOND: Just further to
19 that, can you comment on what the modelling is of the
20 level of unrealized equity gains?
21 MS. HEATHER REICHERT: So -- so we --
22 we model for 20 percent turnover for Canadian and --
23 well, not the US, but the Canadian equities. And then
24 we model, as I've said before about rebalancing.
25 So if it gets beyond the maximum target

1 range for equity percentage for two (2) quarters in a
2 row, then it will -- the model will rebalance, which is
3 what you're seeing if you look at the -- the Canadian
4 equities realized gains.
5 See the 31 million in '16/'17, on that
6 line? That is higher than the previous years and the
7 subsequent years because there is a rebalancing that
8 occurred at that time because of -- of the money that
9 was in equities and the percentage exceeding the target
10 for two (2) quarters.
11 MS. CANDACE GRAMMOND: I think you mean
12 there will be a rebalancing --
13 MS. HEATHER REICHERT: Yes.
14 MS. CANDACE GRAMMOND: -- in that year.
15 MS. HEATHER REICHERT: There will be a
16 rebalancing.
17 MS. CANDACE GRAMMOND: Right.
18 MS. HEATHER REICHERT: The model is
19 anticipating a rebalancing in that year, all
20 assumptions coming to fruition.
21 MS. CANDACE GRAMMOND: Okay.
22
23 (BRIEF PAUSE)
24
25 MS. CANDACE GRAMMOND: So, Ms.

1 Reichert, just further to that, do you model the amount
2 of the gains that are unrealized?
3 MS. HEATHER REICHERT: Ye -- yes, we
4 do. We model that. And it would be in the OCI, and
5 then in the accumulated OCI in the -- on the balance
6 sheet.
7 MS. CANDACE GRAMMOND: Can you give us
8 an indication of how much it's growing each year?
9 MS. HEATHER REICHERT: One (1) moment.
10
11 (BRIEF PAUSE)
12
13 MS. HEATHER REICHERT: Okay, so if --
14 if I can refer you to, let me make sure I get the right
15 reference, the pro forma section, PF.2.
16
17 (BRIEF PAUSE)
18
19 MS. CANDACE GRAMMOND: So PF.2 is Tab 5
20 of the book of documents, just for the record.
21 MS. HEATHER REICHERT: Okay.
22
23 (BRIEF PAUSE)
24
25 MS. HEATHER REICHERT: Okay, if we can

1 just scroll down to the -- to the bottom of that page.
2 Thank you. So where it says, "Accumulated other
3 comprehensive income," is where the unrealized --
4 unrealized gains on equities during the year would flow
5 into the accumulated other comprehensive income. I'm
6 sorry, I don't have, like, the annual other
7 comprehensive income, which would be the -- the annual
8 amount, but if you just look at the -- the changes in
9 that particular line.
10 So at the end of -- at the end of
11 2013/'14, which is the first column, we had in "other
12 comprehensive income" 70 -- approximately 7 mil -- $70
13 million. So as I indicated, the financial model will
14 increase that balance based on the reali -- or sorry,
15 based on our overall forecast of a 7.3 percent return
16 on equities.
17 The portion -- like, about 5 percent
18 that we said was a -- was the amount of the gains that
19 we estimate, to the extent that we are saying that
20 there's a 20 percent turnover, 20 percent of that 5
21 percent gain will actually get realized in net income.
22 And then the balance will stay in this "accumulated
23 other comprehensive income."
24 So because -- because this forecast is
25 taking a long-term view and we're using 7.3 percent as

1 a long term, the twenty (20) year 5 percent amount for
2 equity return, and what you're seeing in the -- the
3 document that was updated for September, you're seeing
4 higher gains in there because the equity markets have
5 done extremely well. They're doing much better than an
6 overall 5 percent capital gain. They're -- they're in
7 double digits, depending on -- on the -- the mix of the
8 equities.
9 So that's why, if you're trying to
10 understand, that's why what you saw in that September,
11 119 million, is not reflecting in here because again
12 this is taking a long-term view. It's a long-term
13 forecast of using 7.3 percent overall, which would be a
14 5 percent proximate capital gain of which 20 percent is
15 recognized a year based on what we see our -- our asset
16 -- our equity manager's actually doing with the
17 portfolio.
18 Does that help?
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: Thank you, Ms.
23 Reichert. I'm going to move then to a discussion on
24 operating expenses.
25 MS. HEATHER REICHERT: Okay.

1 MS. CANDACE GRAMMOND: So, first of
2 all, we'll deal with perhaps the overall corporate
3 normal expenses to start with. So we'll go to Tab 3 of
4 the Board's book of documents. This is an excerpt from
5 the expense section of the filing. In particular,
6 we'll go to page 7 found at that tab. So if we can
7 just scroll down a bit, Diana, so we've got the whole
8 table. Perfect.
9 So we see there roughly in -- or I --
10 sorry. It moved again. If we look at the 2015/'16
11 year, which is the third year reflected on the table,
12 we see that corporate normal operating expenses are
13 forecasted to be 262.6 million for 2015/'16.
14 Is that right?
15 MS. HEATHER REICHERT: Yes, that's
16 correct.
17 MS. CANDACE GRAMMOND: And the amount
18 to be allocated to Basic is about 75 percent of that,
19 about 199 million. And that reference is found just a
20 couple of pages earlier.
21 Do you accept that? We can certainly go
22 to page 5 if --
23 MS. HEATHER REICHERT: Yes. So the --
24 the amount of -- we're looking at '15/'16. So the
25 amount of that two hundred and sixty-two (262) that was

1 allocated to Basic was 75.7 percent. So it came out to
2 the hundred and ninety-eight eight fifteen (198,815).
3 MS. CANDACE GRAMMOND: Right. Okay.
4 So that's from page 5 at the same tab. And maybe,
5 Diana, we will just go to page 5. I just have a couple
6 of other questions about what we see there.
7 So Basic's share of claims and other
8 operating expenses, we -- we see that the one ninety-
9 eight (198) moves because a couple of smaller amounts
10 get added to it for implementation expenses and ongoing
11 expenses, so that the total to Basic is about 209.1
12 million.
13 Is that about right?
14 MS. HEATHER REICHERT: That's correct.
15 MS. CANDACE GRAMMOND: And that would
16 comprise about 22 percent of Basic's overall costs for
17 2015/'16. I'm not sure that that figure's here. I
18 think that's something that we've calculated.
19 MS. HEATHER REICHERT: It does. On the
20 -- on the next page, 6, underneath operating expenses,
21 the second line, Basic operating expenses --
22 MS. CANDACE GRAMMOND: Okay. There you
23 go.
24 MS. HEATHER REICHERT: -- of 209.1
25 million represent 22.2 percent of total Basic

1 expenditures, which, for these purposes, is defined as
2 Basic net claims incurred plus the Basic share of
3 corporate operating expenses plus premium tax and
4 commissions.
5 MS. CANDACE GRAMMOND: Okay. So as
6 we've seen, these costs have the three (3) components:
7 the normal operating expenses, which is that big chunk;
8 then implementation and ongoing expenses.
9 MS. HEATHER REICHERT: Correct.
10 MS. CANDACE GRAMMOND: Okay. Now, we
11 know that compensation is by far the largest -- largest
12 operating expense incurred by the Corporation.
13 Is that right?
14 MS. HEATHER REICHERT: Of -- yes. Of
15 the operating expenses, yes.
16 MS. CANDACE GRAMMOND: Yes, yeah, of
17 operating expenses. I apologize if I didn't --
18 MS. HEATHER REICHERT: Yeah.
19 MS. CANDACE GRAMMOND: -- specify that.
20 I'm going to ask you a few more questions about
21 compensation expenses and a couple of other categories.
22 I'm going to ask you to go to Tab 15 of the Board's
23 book of documents. This is PUB/MPI 1-59. In
24 particular I'm going to ask you to go to the attachment
25 in response to sub (c).

1 MS. HEATHER REICHERT: Yes.
2 MS. CANDACE GRAMMOND: So we see --
3 thank you, Diana. If we look just at the first
4 horizontal line that goes across that table, we have
5 several compensation categories. And, of course,
6 there's a note from the Corporation that some of the
7 subcategories aren't available for a period of years.
8 But if we just look at the subtotal
9 line, and I appreciate this is a long time frame, from
10 1999/2000 fiscal year through to 2012/'13, but we do
11 effectively see a doubling of the compensation expenses
12 over that long time frame. Would that be right?
13 MS. HEATHER REICHERT: Yes, generally
14 speaking. And that of course is, you know, due to the
15 many factors that I was talking about on Friday
16 afternoon. So many things will impact obviously
17 compensation. The general wage increase, change in the
18 staff mix being -- you know, the experience of staff.
19 The other being actual change in the number of staff,
20 either increasing or decreasing. And then in -- for
21 this particular line as well, the changes in both the
22 type and the cost of benefits.
23 MS. CANDACE GRAMMOND: And a
24 significant bump, as well, would have come when the
25 Corporation took on the driver and vehicle licencing --

1 MS. HEATHER REICHERT: Abso --
2 MS. CANDACE GRAMMOND: -- because that
3 was some three hundred (300) bodies, right?
4 MS. HEATHER REICHERT: Absolutely.
5 MS. CANDACE GRAMMOND: Okay. We also
6 see here on this historical spectrum data processing
7 costs initially in '99/2000 were about 7 million, and
8 stayed quite constant up and down for a number of
9 years. Towards the end of the time frame that we see
10 here, we do see a general increase in that last year,
11 2012/'13, being thirteen point one (13.1).
12 So that would be not -- not quite double
13 over that particular time frame?
14 MS. HEATHER REICHERT: That -- that's
15 correct. I mean, data processing expenses are going to
16 be related to the amount and the -- the intensity of
17 the information technology systems that we have at --
18 at MPI, which as the Board knows has been -- has been
19 increasing with all of the significant business process
20 re-engineering projects that were undertaken in the
21 2008/'09/'10 year, with the IT optimization that has
22 just recently occurred in the last couple years,
23 disaster recovery.
24 So very much impacted by the -- the
25 amount of -- of systems that MPI has to support based

on -- on the strategic initiatives that they've undertaken over the last, well, eight (8) -- eight (8) years or so.

MS. CANDACE GRAMMOND: And -- and I appreciate that this is historical, so we're not going to spend any more time on that. I'm going to ask you to turn a couple of pages ahead to the attachment at sub (f) of this IR. This is, in part, the same information but it covers a later time frame. So it starts much later in 2009/'10 and then goes through the outlook period 2018/'19.

And we also have here compounded annual growth rates having been calculated for different time periods. So if we again look at that subtotal line for compensation we see between '29/'10 -- or 2009/'10 and 2013/'14, so that four (4) year period, of five point -- compounded annual growth rate year over year in compensation. Do you see that?

MS. HEATHER REICHERT: Excuse me, yes. That -- that is true, and it was in those particular four (4) years where the Corporation had -- the general wage increase was increasing at 2.9 percent based on the contract that had been negotiated for the -- pretty much those same four (4) -- that four (4) year period. So that would be a significant driver of the overall --

1 overall increase.

2 MS. CANDACE GRAMMOND: And the main

3 reason why that rate of growth is about the level of

4 inflation?

5 MS. HEATHER REICHERT: Right, because

6 2.9 percent at the time that that was negotiated would

7 have been in -- in excess of what inflation was running

8 at that time. And I -- I know we have that somewhere,

9 but it was something less than 2.9.

10 MS. CANDACE GRAMMOND: Now, we see for

11 the next block of years, so from 2013/'14 to 2016/'17,

12 a more positive forecast in terms of growth rate; that

13 would be 3.6 year over year, so an improvement from the

14 5.7.

15 Is that right?

16 MS. HEATHER REICHERT: That -- that's

17 correct. And this would now start to embody the -- the

18 next contract -- four (4) year contract that saw two

19 (2) years of zero, and then two (2) years of 2.75. And

20 that does carry into a -- appreciate into the '15/'16

21 year, as well.

22 So I think the important thing that --

23 that -- to note on this particular page is the fact

24 that we are forecasting that our overall growth in

25 compensation is going to decrease.

1 MS. CANDACE GRAMMOND: Right, the
2 growth is going to -- the rate of growth is going to
3 decrease, but there will still be overall increases?
4 MS. HEATHER REICHERT: Correct. And
5 the -- the -- again, the major driver of that,
6 especially in the -- in the '16/'17 -- those two (2)
7 years, is still the -- the impact of the general wage
8 increase that's been negotiated, the 2.75.
9 MS. CANDACE GRAMMOND: And in terms of
10 dollars then for the year of the application, 2015/'16,
11 the forecast is 121.6 million?
12 MS. HEATHER REICHERT: That's correct.
13 MS. CANDACE GRAMMOND: And that would
14 be about 61 percent of Basic's share of normal
15 operating expenses?
16 MS. HEATHER REICHERT: Subject to
17 check, yes.
18
19 (BRIEF PAUSE)
20
21 MS. CANDACE GRAMMOND: Okay. You've
22 given some evidence with respect to compensation
23 expense increases. I -- I'm going to ask you to go to
24 Tab 3 of the Board's book of documents. We do have
25 there some excerpts from the expense section of the

1 filing. I'm going to ask you to go to page 7, where we
2 -- oh, I'm sorry, I think I have the wrong reference.
3 Just give me a moment.
4
5 (BRIEF PAUSE)
6
7 MS. CANDACE GRAMMOND: No, I have the
8 right reference. So on that -- and I appreciate we --
9 we looked at this a moment ago relative to the overall
10 corporate normal operating expenses. We see -- and
11 just looking at the top part. Diana, if you could just
12 go down a little bit to the very top part of that
13 section -- sorry, the top part of the table. I
14 misspoke.
15 Under, "Compensation," there we see the
16 various categories: salaries, overtime benefits. We
17 see the subtotal. And then we see the percentage
18 increase. So from 2014 actual to 2015 projected, we
19 see a 1.4 percent increase. And then from current year
20 to year of application 2015 to 2016, we see a 4.5
21 percent increase followed by a 4 percent increase.
22 Can you comment on the reasons for those
23 shifts? And I -- I appreciate it will have something
24 to do with the collective agreement. But if you could
25 flesh that out for us, we'd appreciate it.

1 MS. HEATHER REICHERT: Sure. I think
2 it would be helpful if we could go to page 12 of that
3 same tab in the book of documents.
4
5 (BRIEF PAUSE)
6
7 MS. HEATHER REICHERT: Now, I -- I
8 appreciate -- if -- if I can just -- as it relates to
9 page 7, the line titled, "Compensation - Salaries,"
10 that is a line that is further analyzed on page 12. So
11 that'll be the -- the focus of -- of my discussion is
12 on the -- on that salary, that total net. On page 12
13 there's a line that says, "Total net salaries," about
14 three (3) down.
15 So that's the same line as compensation
16 salaries on the -- on page 7, just for your -- for your
17 reference. So what this -- this table -- and I -- I
18 appreciate and I apologize, it is a rather busy table.
19 But what this -- this table is showing is what portion
20 of the overall compensation is gross salaries, and then
21 the impact of a vacancy allowance that we need to
22 manage each and every year in order to achieve the net
23 salary budget.
24 So if you look at 20 -- or, sorry, 2014
25 actual, the very first column that's there, our total

1 gross salaries was 124 million and change. We actually
2 had a vacancy allowance, an actual vacancy allowance,
3 that was achieved of 4.8 million to arrive at net
4 salaries. So expense -- salary expense of a hundred
5 and nineteen point seven (119.7).
6 Why the -- the overall percentage
7 increase to -- being forecasted for 2015, which is the
8 next column, you can see that there's an increase in
9 gross salaries of 3.5 million, that top line. But
10 there's also an increase in the vacancy allowance
11 amount of 1.1 million.
12 So what that is saying is that we are
13 forecasting to keep more positions vacant in the
14 '14/'15 year than what we had kept vacant in the
15 '13/'14 year. And then, subsequent to that, in
16 2015/'16, it increases again by another two hundred and
17 sixty-nine (269), and in '16/'17, the vacancy allowance
18 increases by another two hundred and fifty-seven (257).
19 So that is increases in needing to keep
20 positions vacant in addition to -- in addition to
21 actually achieving an FTE reduction in -- in '14/'15,
22 like planned budget, of a seven (7) position, which is
23 at the very bottom of that table where it says FTE
24 reduction of seven (7) FTE, where it says four hundred
25 and forty (440).

1 So over these three (3) years, the
2 vacancy allowance plus actual reduction in permanent
3 FTE adds up to, I believe, 1.8 -- approximately $1.8
4 million. So what that is saying is that we need to
5 keep vacant the equivalent additional 1.8 million of
6 positions and add approximately sixty thousand dollars
7 ($60,000) a position.
8 That equates to thirty (30) positions
9 that are in addition to what we are currently keeping
10 vacant. So an additional thirty (30) positions that
11 are being kept vacant over the forecast period, which
12 is the thirty (30) positions that had been referenced
13 in the rate application with respect to FTE reductions.
14 So we have forecasted to reduce those
15 thirty (30) positions through the vacancy allowance
16 adjustments and the FTE adjustments that you see on
17 this page. So I wanted to -- to make sure that that
18 was clear to the Board.
19 So because of the significant increase
20 in the vacancy allowance that we are showing for the --
21 the '14/'15 fiscal year, that is showing as an overall
22 smaller increase in salaries.
23 So rather than being a two point (2.) --
24 as -- as we were talking about the other day, as
25 opposed to being the 4.5 percent increase or something

1 like that for both general wage increase plus the merit
2 -- not merit, steps on scale increase, it's less than
3 that because of a significant increase in vacancy
4 management allo -- amount to -- to compensation. So
5 that's the -- the 2 percent.
6 So that -- I know I'm only referring to
7 the one (1) line that is on page 7, but that helps to
8 explain why overall, when you look at that subtotal,
9 it's showing an increase of only 1.4 percent from the
10 prior year.
11 And then why it goes to the four point
12 five (4.5) and the four (4) is again because you don't
13 have as significant an increase in vacancy management
14 in those subsequent years.
15 MS. CANDACE GRAMMOND: Okay. I -- I
16 appreciate all that, and I have some specific questions
17 about the thirty (30) additional vacancy positions,
18 which I'll come to in a moment.
19 But if I hear what you're saying
20 correctly, if we look at page 7, which is where we
21 started, right, and the 1.4 percent increase compared
22 with a four point five (4.5) and then a four (4),
23 you're saying the anomaly, if I can use that word, in
24 that range of numbers is the one point four (1.4) which
25 was able to be lower because of adding more vacancies,

that it's not that the four point five (4.5) in the year of application is a huge jump, it's actually that the year before was significantly lower --

MS. HEATHER REICHERT: That is correct.

MS. CANDACE GRAMMOND: -- from the norm.

MS. HEATHER REICHERT: From the norm. That is correct.

MS. CANDACE GRAMMOND: Okay.

MS. HEATHER REICHERT: So -- and then you're -- you're taking a 4.5 percent increase on a much lower base, as well.

MS. CANDACE GRAMMOND: Right. Okay.

THE CHAIRPERSON: Ms. Grammond, is this a good time to take a break or...

MS. CANDACE GRAMMOND: Absolutely.

THE CHAIRPERSON: Okay. I think that's what we'll do. We'll take a fifteen (15) minute break, and we'll return at a quarter to 3:00. Thank you.

--- Upon recessing at 2:31 p.m.

--- Upon resuming at 2:51 p.m.

THE CHAIRPERSON: Okay. Welcome back. We'll continue with Ms. Grammond's cross-examination.

1 CONTINUED BY MS. CANDACE GRAMMOND:
2 MS. CANDACE GRAMMOND: Thank you, Madam
3 Chair. So, Ms. Reichert, we're talking about
4 compensation expenses. And you had directed us to page
5 12, which we have up on the screen. So I -- I want to
6 go back over some of the points that you made just to
7 make sure that we're all clear.
8 But I'll start with a couple of
9 questions on what we see here. So you had made
10 reference to compensation increases for the year of the
11 application, so I'm looking under the 2016 heading, and
12 looking down under the "General Wage Increase Analysis"
13 section, so sort of the bottom part of the table.
14 You're with me? So we see 2.75 percent
15 increase listed as economic. That's pursuant to the
16 collective agreement, right?
17 MS. HEATHER REICHERT: Correct.
18 MS. CANDACE GRAMMOND: And then we see
19 one point seven five (1.75) increase for steps in
20 scale, and those two (2) numbers together comprise the
21 4.5 percent that we saw on page 5.
22 MS. HEATHER REICHERT: That's correct.
23 MS. CANDACE GRAMMOND: Okay. Now, if I
24 understand the steps in scale 1.75 percent, that
25 relates to about 50 percent of the Corporation's staff

moving up the pay scale, or the pay grade so to speak.

Is that right?

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

MS. CANDACE GRAMMOND: And I understand that they would be moving up -- those that are moving are moving up by about 3 1/2 percent, and because it's estimated that it's half of the staff that are moving up, the increase is shown as a 1.75 percent overall.

MS. HEATHER REICHERT: That's correct.

MS. CANDACE GRAMMOND: Okay. Now, just as an aside, I think the evidence that was given earlier was that this 50 percent of the staff moving was a bit of an assumption.

And I -- we're wondering about why that's an assumption as opposed to an actual count?

MS. HEATHER REICHERT: It is -- it is based on what we see happening, but it is still -- we -- we don't budget by each individual person within the Corporation. We budget by number of positions, the types of positions, and by departments.

So it is -- we -- we check it against what we see actually happening in any given year, but for purposes of forecasting within the -- the rate application we use the one point seven five (1.75) as a

very good and solid assumption.

MS. CANDACE GRAMMOND: And does the human resource management system that we've talked about before play any role in that process?

(BRIEF PAUSE)

MS. HEATHER REICHERT: No, not directly. And just to clarify what I was saying about it being an assumption, the other reason why it's an assumption is that everyone does not move up on a scale at the same time of year. It depends on when they started with the organization. So if it's -- their one (1) year anniversary date may be in June, it might be in December, so we have used this assumption as being a very good estimate of what the overall impact has been to the Corporation in the past.

MS. CANDACE GRAMMOND: Okay. Still on page 12 but just going back to the current year, so we were just speaking about year of application, right, and the 4.5 percent increase. If we go back to what's shown here as 2015 we see, looking at the same line items, the economic increase of one point one five (1.15) which we know flows from the collective agreement. We see the same one point seven five (1.75)

for steps in scale.

Can you comment on what we see just underneath that for "Other salary account adjustments"? We see a cost of a million -- or, sorry, a change of a million.

Can you just explain what that is, what would fall under "Other"?

MS. HEATHER REICHERT: Yes, I can. Actually, if -- Diana, if you could go to page 13, so just the next page, near the bottom of that page. It discusses there under, "Other salary adjustments" -- so that'll include lots of different items: severance, retirement payments, sick leave provision, banked vacation.

So as it -- as it outlines there, that -- that's what included in the other salary adjustments estimate.

MS. CANDACE GRAMMOND: Thank you. Now, before we leave page 12, we also see a line item -- or sorry. Thank you, Diana, for going back to page 12. We see there the FTE reduction of seven (7) FTE, which has a cost savings of about four hundred and forty thousand dollars ($440,000). And you did reference this earlier.

Can you tell us where those positions

1 were eliminated? Do -- do you have that information
2 readily available?
3 MS. HEATHER REICHERT: I know that we
4 have within -- just give me one (1) moment.
5
6 (BRIEF PAUSE)
7
8 MS. HEATHER REICHERT: I'm -- I'm
9 sorry, I thought it was in one (1) of the schedules
10 that was included within the expense section. And it's
11 -- it's not where I thought it was.
12 MS. SUSAN PROVEN: Excuse me. I think
13 I see it on the next page.
14 MS. HEATHER REICHERT: Is it --
15 MS. SUSAN PROVEN: Like, on the next
16 page, page 14, it spells out where it happened.
17
18 CONTINUED BY MS. CANDACE GRAMMOND:
19 MS. CANDACE GRAMMOND: Okay. Thank you
20 very much, Board member Proven. That's wonderful.
21 Perfect. So it's community and corporate relations and
22 service operations division in the legal department and
23 the identity verification and data and integrity
24 departments respectively?
25 MS. HEATHER REICHERT: Yes. Sorry.

1 Thank you. I thought it was here somewhere.
2 MS. CANDACE GRAMMOND: Okay. Thank
3 you. That's helpful for everyone. I appreciate it.
4 So I -- I am going to have some more questions about
5 the vacancy provision and the thirty (30) positions
6 that you referenced, but I just want to go through a
7 couple of other things related to this topic. And then
8 we'll come back to those.
9
10 (BRIEF PAUSE)
11
12 MS. CANDACE GRAMMOND: Sorry about
13 that. So we know from the evidence on the record, and
14 this was discussed a little bit with Mr. Guimond last
15 week, that the Corporation has implemented a hiring
16 freeze for an indeterminate period of time. And I
17 believe the evidence was that that hiring freeze does
18 not apply to frontline people.
19 Is that right?
20 MS. HEATHER REICHERT: That's correct.
21 MS. CANDACE GRAMMOND: And those would
22 be about 60 percent of the overall staff of the
23 Corporation?
24 MS. HEATHER REICHERT: Approximately,
25 correct.

1 MS. CANDACE GRAMMOND: And I -- I don't
2 think that this was discussed last week, which is why
3 is it that the hiring freeze doesn't apply to that
4 group?
5 MS. HEATHER REICHERT: It -- it doesn't
6 apply to that group because the Corporation still fully
7 intends to meet all of our -- our goals and objectives.
8 And one (1) of -- as you'll know, one (1) of the value
9 equation components is service to our customers. So we
10 did not want to negatively impact the service that our
11 customers have come to expect and having the ability to
12 access service centre customer service reps, if you
13 will, when they -- when they want to receive them.
14 As also Mr. Guimond mentioned last week,
15 based on the age of our staff, there's right now
16 approximately two hundred and fifty (250) staff that
17 could retire. So the other aspect of a hiring freeze
18 is not to -- not to negatively impact our ability to
19 manage retirements by eliminating too many positions
20 from the -- from the establishment.
21 So again, it's a -- a policy decision
22 that was made to ensure that we could keep and maintain
23 customer service appropriately, management retirements
24 at the same time, and yet still, as I indicated,
25 forecast within the General Rate Application a

1 reduction of thirty (30) full-time equivalent positions
2 within the -- within the rate application.
3 MS. CANDACE GRAMMOND: Thank you. So
4 that relates to the 60 percent that are not subject to
5 the hiring freeze, which would leave 40 percent that
6 are. There was a -- an article in the Free Press, and
7 I have a copy of it if you want to see it. I think Mr.
8 Williams may have referred to it last week. And
9 according to that article, the 40 percent that are
10 subject to the hiring freeze may still have hirings
11 being done on a case-by-case basis.
12 So can you just talk about that a little
13 bit?
14 MS. HEATHER REICHERT: Yes, I can. So
15 again, in order to be able to continue to manage
16 operations, we are not in control of who decides to
17 retire when or who decides to potentially leave to go
18 to another position in another organization.
19 So we have to look at the individual
20 cases to determine, and that's what we're doing, is we
21 look at every single position that becomes vacant
22 during the year to decide whether or not the work that
23 was being done by that position can now be more
24 efficiently done by splitting it off to other
25 individuals within the organization, or whether or not

1 it's a critical position that needs to -- to be filled.
2 So an example would be, in my own
3 division, in the finance division, I have a position
4 that's the manager of risk control and forecasting.
5 Absolutely critical position, as it relates to pulling
6 together the information in the forecasts and risk
7 management as it relates to this very process that
8 we're in, the General Rate Application and the -- the
9 hearing process.
10 So that individual just left the
11 position very recently. We have not yet filled it, but
12 we are looking at that position to say, Is -- is -- do
13 we need to fill that exact position? Should we be
14 looking to see if we can take the responsibilities of
15 that position and put it onto other individuals within
16 the finance area? And the determination is that that
17 is such a critical position to the finance division
18 that we will eventually fill that.
19 Now, we are not -- we did not fill it in
20 advance of this individual leaving in order to have a -
21 - a cross-over and a training. But we will be filling
22 it, so there will be some portion of that position that
23 remains vacant for -- throughout the year that
24 contributes towards the vacancy allowance, the vacancy
25 management allowance that I was just talking to.

1 So we've increased the vacancy
2 management allowance over the rating period, over the
3 next three (3) years, by thirty (30) positions, as was
4 indicated in our application, so that it's now -- on
5 average, it's about a hundred and ten (110) or a
6 hundred and twenty (120) positions, full-time
7 positions, that we need to manage and keep vacant
8 throughout -- throughout the year while not impacting
9 on customer front-facing service.
10 MS. CANDACE GRAMMOND: Still with the
11 topic of the hiring freeze, does it apply to
12 implementation operations staffing? It's not clear to
13 me whether those -- that category would fall within the
14 60 percent or the 40 percent. This is -- I'm -- I'm
15 looking at a specific IR. It's II-23.
16 MS. HEATHER REICHERT: If you're
17 referring to implementation expenses that relate to
18 initiatives that are being undertaken -- so these would
19 be -- an example is the fiscal damage re-engineering
20 initiative that is currently underway.
21 So to the extent that there are
22 individuals that are working on that project to keep it
23 advancing, should one (1) of those individuals leave
24 during this period, again, we would look at it
25 critically to say, What is happening in that project?

1 Do we need to fill that position at this time?
2 I would say we would likely fill it
3 because, as an improvement initiative, it has a finite
4 budget which is -- is bound by time as well. If you
5 have an initiative that takes a lot longer than what
6 you expected it to take because you have fewer
7 resources put to it, it is going to overall cost you
8 more.
9 So we would look at it very much from
10 the perspective of what was the position that had
11 become vacant, what's the -- what is the current
12 timeline and situation that that specific improvement
13 initiative is -- is under, and then make a decision on
14 whether or not it's advantageous to -- to fill that
15 position.
16 MS. CANDACE GRAMMOND: Okay. Thank
17 you. Diana, if you can just scroll down a little bit
18 to the answer at 'B'. My specific question on this
19 category, Ms. Reichert, was related to this IR. We had
20 asked for the corporate staffing levels for
21 implementation operations for a period of years, which
22 obviously has been provided.
23 And we had noted that in every year the
24 actual number of FTEs were under budget. So you --
25 we're trying to learn whether any of this was pursuant

1 to the hiring freeze, or perhaps did these numbers
2 predate the hiring freeze?
3 MS. HEATHER REICHERT: Definitely the
4 numbers that you see in front of you predate the hiring
5 freeze. But I would like to just point out that for
6 the 2013/'14, you'll notice that starting in that year
7 we were much more accurate with respect to the
8 assessment of the number of temporary staff that we
9 would need to work on this specific operations. So
10 you'll see there's very little of a -- of a variance in
11 that year.
12 And as well, within the overall
13 implementation of initiatives budget, we also have a
14 vacancy allowance amount that we manage. So while
15 there is sixteen point five (16.5) positions noted
16 there, within the dollars that are allocated for those
17 sixteen point five (16.5) positions we actually have a
18 vacancy allowance amount of three hundred thousand
19 (300,000).
20 Again, recognizing that you do the best
21 you can to plan and -- and anticipate what resources
22 you're going to need during the year for any particular
23 project, but that sometimes there are gaps in -- in --
24 when you need those resources, and therefore we
25 actually acknowledge that sixteen point five (16.5) may

not be needed for the entire -- like sixteen point five (16.5) full-time equivalents might not be needed for the entire year. So we made a provision, just like we do for the overall compensation in the organization, of three hundred thousand (300,000) to -- to mitigate the sixteen point five (16.5) budget.

MS. CANDACE GRAMMOND: Thank you. Now in addition to the hiring freeze that we've been speaking about, there were other initiatives identified by the Corporation in cost containment. One (1) related to out-of-town travel. Another related to meeting costs for internal meetings. And we were also advised that there was a committee that had been formed to identify further items, or cut discretionary spending and so forth.

What I'd like to know is whether the Corporation is in a position to attribute dollar amounts to each of those items? So it would include the hiring freeze which was the first item on the list and to the rest, either savings that have been incurred or savings that are expected to be incurred?

Is that something that could be provided?

MS. HEATHER REICHERT: Yes. I -- I will take that as an undertaking. And we can provide

1 dollar amounts to this point in time as it relates to
2 those -- those areas.
3 Just with respect to specifically though
4 the cost containment committee and the work of that
5 committee, the work of that committee, we are embodying
6 within the budget process that we're currently
7 undergoing for the '15/'16 fiscal year. So right now
8 we -- in our rate application for '15/'16, you -- you
9 saw that we have a forecast, a projection of what the
10 budget is for that particular year. That's what we use
11 as our guideline when we actually do our detailed
12 budget.
13 So when we're doing the forecast, it's a
14 higher level, and then we do our actual detailed budget
15 by division. So the work of that cost containment
16 committee is to assist each of the respective divisions
17 in identifying areas where they may be able to reduce
18 their budget from what the guideline is from what we've
19 got in front of you today.
20 I do not expect, because as I've already
21 shown or talked about when we did the presentation on
22 Friday, our non-compensation operating expenses are not
23 increasing by more than inflation. So I do not expect
24 that there is going to be significant -- significant
25 dollars that are going to come out of those budgets.

1 But we are looking at that. And that's what the cost
2 containment committee is looking at, where can we
3 reduce the budgets from what is already a less than
4 inflationary increase.
5 THE COURT REPORTER: So what is the
6 undertaking?
7 MS. HEATHER REICHERT: The undertaking
8 is that I will undertake to provide what we have --
9 what we have demonstrated to date as savings as it
10 relates to the hiring freeze, the reduction or the
11 restriction of travel, and meetings expense.
12 MS. CANDACE GRAMMOND: Internal meeting
13 costs.
14 MS. HEATHER REICHERT: Internal meeting
15 costs.
16 MS. CANDACE GRAMMOND: And are you able
17 to provide any anticipated savings?
18 MS. HEATHER REICHERT: Not -- not at
19 this point because they have not been full vetted and
20 have not been reflected yet in -- in the detailed work
21 of the budget.
22
23 --- UNDERTAKING NO. 24: MPI to provide what they
24 have demonstrated to date
25 as savings as it relates to

1 the hiring freeze, the
2 reduction or the
3 restriction of travel, and
4 internal meeting costs
5
6 CONTINUED BY MS. CANDACE GRAMMOND:
7 MS. CANDACE GRAMMOND: Now, the -- the
8 items on the list that we've been discussing, so the
9 hiring freeze, the restriction on out-of-town travel,
10 and the restriction on internal meeting expenses, were
11 those initiatives of the committee that we've been
12 talking about, or were all four (4) initiatives in --
13 put into action at the same time?
14 MS. HEATHER REICHERT: All four (4)
15 initiatives were put into action at the same time.
16 MS. CANDACE GRAMMOND: Okay, so just
17 pursuant to a management decision?
18 MS. HEATHER REICHERT: It was a
19 management committee decision to -- to do all four (4)
20 of those specific things.
21 MS. CANDACE GRAMMOND: Okay. And who
22 sits on the -- the committee? The -- the application
23 says it's a committee of senior managers.
24 MS. HEATHER REICHERT: It is a
25 committee of senior managers. There are two (2)

1 representatives, executive director level
2 representatives, from each of the divisions within the
3 Corporation that sit on that committee, as well as the
4 manager of internal audit sits on that committee.
5 MS. CANDACE GRAMMOND: So does someone
6 from that committee report to you?
7 MS. HEATHER REICHERT: Yes. The -- the
8 co-chairs of that committee both are staff that report
9 directly to me, the -- the controller and executive
10 director of finance and the director of corporate
11 services. They co-chair the committee and both of them
12 report to me.
13 MS. CANDACE GRAMMOND: So I know you
14 said that the committee's working on initiatives for
15 the upcoming budget for next year. So has any of the
16 work of that committee yet been put into action, or are
17 they still in the preparation or -- phase?
18 MS. HEATHER REICHERT: The -- there
19 have been some smaller things that -- that have been
20 started to be implemented. But as I said, most of the
21 work that they're doing right now is in rationalizing
22 the current budget within the guidelines that -- that
23 we provided in the general rate application.
24 MS. CANDACE GRAMMOND: So are any
25 savings relative to these four (4) initiatives

1 incorporated into the forecasts that are before the
2 Board?
3 MS. HEATHER REICHERT: Yes. As it
4 relates to the hiring freeze and the thirty (30)
5 positions that were noted in the General Rate
6 Application, as I explained, that's reflect in our rate
7 application through that vacancy allowance increase,
8 the million -- the four hundred thousand (400,000) in
9 reduced staff, the additional two hundred (200) and
10 something for each of '15/'16 and '16/'17.
11 So that thirty (30), which is the
12 largest of those initiatives, that is reflected in the
13 General Rate Application.
14 MS. CANDACE GRAMMOND: And just before
15 I get to a couple of questions on that vacancy
16 provision, one (1) of the things that was discussed
17 last week at some length was the listing of, I believe,
18 five (5) items where the Corporation says, We can't
19 reduce costs in these areas because we, I think, 'would
20 never' was the word used, take these steps, like
21 offshoring certain services and -- and so forth.
22 And one (1) of the comments that had
23 been made in Mr. Guimond's evidence was that there
24 could be significant savings in some of these. And I -
25 - I know in one (1) of the items relative to offshore

1 services, he had said it could be seventy (70) cents on
2 the dollar. And obviously he explained the view of why
3 the Corporation wouldn't want to take that step.
4 Would that be something that you could
5 give us the dollar amount on? Like, what -- when we
6 say seventy (70) cents on the dollar, what are those
7 costs and what the savings would be?
8
9 (BRIEF PAUSE)
10
11 MS. HEATHER REICHERT: That would be a
12 very difficult number to arrive at because in order to
13 actually know the exact amount that you could achieve,
14 you would actually have to -- to go and tender to see
15 what the market would be willing to do and provide for
16 -- for the specific cost.
17 MS. CANDACE GRAMMOND: Okay. I guess
18 using his seventy (70) cents on the dollar as sort of
19 the yardstick, can you confirm maybe what the
20 Corporation's current costs are in that category?
21
22 (BRIEF PAUSE)
23
24 MS. HEATHER REICHERT: We have, as you
25 know, Gartner consultants that work with the -- with

1 the Corporation, so we could consult and ask them to
2 give us an indication of -- of -- you know, based on
3 our -- our situation what we could anticipate to be
4 able to -- to gain through offshoring those specific
5 types of services.
6 I don't think we have a problem in doing
7 that -- in -- in getting that information, but just to
8 make sure that the -- the Public Utilities Board
9 understands, it is not something that is in the -- it
10 is not the objective of Manitoba Public Insurance not
11 to use as much as possible Manitoba employees. And Mr.
12 Guimond did show the economic impact that we have on
13 the Province of Manitoba, and would not want to do
14 anything that would significantly deplete that impact
15 on Manitoba's economy.
16 MS. CANDACE GRAMMOND: That's
17 understood. We're -- I'm not so much asking about the
18 substance of the Corporation's position as the amount.
19
20 (BRIEF PAUSE)
21
22
23 MS. CANDACE GRAMMOND: So for the
24 record, since I know the court reporter is going to
25 ask, so the undertaking is to inquire of Gartner what

the potential savings to -- I guess there are -- the first two (2) bullets on the list that relate to this. One would be outsourcing the contact centre to offshore, and the other would be offshoring IT staff. That's the undertaking. And that's at slide 24 of Mr. Guimond's PowerPoint.

(BRIEF PAUSE)

MR. DAN GUIMOND: Just to add to that. We can work with Gartner to get a typical benchmark of what a company our size could save on offshoring. I just want to make sure that the Board wants us to spend the money to actually find that because if -- if that's not something that will ever happen, I just want to make sure that we can go to Gartner. We can go get the information. We can go get the benchmarking. I just want to make sure that the regulator wants us to spend the money to go get that information.

MS. CANDACE GRAMMOND: I would be happy to take instructions from the Board on that. I don't want to com -- have the Corporation commit to additional expense without getting those specific instructions. But I'm -- I'm wondering if we can't tie it back to the estimate of seventy cents ($.70) on the

1 dollar, and if you can just give us the number of what
2 the Corporation currently spends.
3 I mean, it -- it's just a -- like a
4 thumbnail calculation, but it -- it would give us a
5 sense of the answer to the same thing.
6 MR. DAN GUIMOND: When I was talking, I
7 was talking about it could be significant savings and
8 would be significant savings, but if you really want to
9 know, like we're going to have to go spend the money to
10 go find those -- those benchmark from Gartner. And I -
11 - we can do that. It will be significant, but I was
12 giving an example as how it could be significant.
13 But if you want to know the numbers, I -
14 - I just want to make sure that the regulator is really
15 contemplating doing that, and they want us to spend the
16 money to go get the information.
17 MS. CANDACE GRAMMOND: We think not. I
18 see some shaking heads.
19 MR. REGIS GOSSELIN: No, I think that
20 the -- the point's been made. At least the light went
21 on for me when you indicated that the savings would be
22 significant for some of those activities.
23 So I think that the -- that the -- I
24 think what we're trying to get at is the fact that
25 we're seeing benchmark values for MPI that were higher

1 than -- than the -- the average, and trying to
2 understand what was going on with MPI. And I think
3 that the two (2) elements you raised, from -- at least
4 from my perspective, I can't speak for other Board
5 members but certainly from my perspective the light
6 went on, Okay, yeah, I get it.
7 You know, we are paying a price for
8 having people work in this province. Now, CAC and
9 others may not have the same view of -- of the
10 importance of that, but certainly from our perspective
11 I don't suggest you should go out and spend more money
12 to -- to get a ballpark number.
13 MS. SUSAN PROVEN: I certainly don't
14 want to be accused of managing the Company. I think
15 all we want to do is get to, you know, maybe see if we
16 could, just what it's taking financially and then weigh
17 that against the benefits. And, you know, the
18 Corporation has pointed out what the benefits are of
19 having Manitobans doing these jobs. And, you know, so
20 I guess, in the end, we have to weigh all that. But
21 we're -- I don't think I want to go there, especially
22 if it's going to cost a lot of money.
23
24 CONTINUED BY MS. CANDACE GRAMMOND:
25 MS. CANDACE GRAMMOND: Thank you. Some

1 questions then --

2 THE COURT REPORTER: So there is no

3 undertaking, sorry?

4 MS. CANDACE GRAMMOND: No. Some

5 questions then on the vacancy provision that you've --

6 you've given some evidence on, Ms. Reichert. So you've

7 told us about the additional thirty (30) positions that

8 the Corporation is looking to eliminate or incorporate

9 into the vacancy provision.

10 The evidence that the Corporation had

11 provided in the IR process was that the vacancy

12 provision for the year of the application, 2015/'16,

13 was based on the average vacancy rate of approximately

14 seventy-five (75) staff. And I think that that was the

15 same number that we see in another part of the filing

16 as well, which I'll come to.

17 But based on the evidence that you've

18 now given, do we understand correctly that the goal is

19 seventy-five (75) plus thirty (30)? So more -- I know

20 you gave a range of a hundred and a ten (110) to a

21 hundred and twenty (120), so I'm -- I'm just trying to

22 get a handle on the numbers.

23 MS. HEATHER REICHERT: Yeah. So I did

24 talk about an incremental thirty (30) on top of the

25 vacancy management amount that we did achieve in

1 '13/'14, which was 4.8 million. So I'm talking about
2 an additional thirty (30) positions on top of that.
3 And one (1) of the -- one (1) of the
4 differences between the two (2) calculations that --
5 that you are pointing out is that number of seventy-
6 five (75) positions was calculated using a fully
7 loaded, if you will, compensation or salary -- pardon
8 me, compensation number for an average position within
9 MPI. So that's fully loaded with all the benefits,
10 pension, et cetera.
11 The actual vacancy allowance amount is a
12 reduction of salaries excluding benefits and all of
13 those other things. So the actual correct amount to
14 divide into the vacancy allowance is more in the
15 neighbourhood of sixty thousand dollars ($60,000),
16 which is why, when you take sixty thousand (60,000) and
17 -- and divide that into the 2015/'16 number for vacancy
18 allowance, which is 6.2 million, you get a hundred and
19 four (104) positions.
20 And then it goes up from there in -- in
21 2015 -- 2016/'17, so a hundred and ten (110), a hundred
22 and twenty (120). Again, the sixty (60) is just an
23 average -- average calculation.
24 So that -- that's -- what I'm trying to
25 do is explain why the IR had inadvertently used a

1 fully-loaded cost of a position, whereas the vacancy
2 allowance amount is an actual reduction of salaries as
3 opposed to salaries, benefits, et cetera, et cetera.
4 MS. CANDACE GRAMMOND: I think I
5 understand that distinction between the dollar amount,
6 salary or salary and benefits, and the number of
7 bodies. I -- I guess -- I'm not sure that I'm fully
8 clear on all of it, so I just want to ask a couple of
9 follow-up questions.
10 We have the -- the reference to the 4.8
11 million that we looked at on page 12 at Tab 3 of the
12 book of documents.
13 Is it the case that the Corporation's
14 goal here is based on dollars, or is it based on number
15 of bodies?
16 So when the Corporation says, We're
17 going to try to add thirty (30) FTEs to the vacancy
18 provision, is the driver really thirty (30) FTEs, or is
19 the driver the -- the resultant dollar amount that
20 would be saved? I -- I'm trying to get my head around
21 that.
22 MS. HEATHER REICHERT: Either -- either
23 way. Like the -- the dollars that we're driving for
24 equate to, in my opinion, to approximately thirty (30)
25 full-time equivalent. So the dollars is what actually

1 drives our rate applications. So from that
2 perspective, we have put forward a forecast of the
3 dollars that we intend not to spend on salaries.
4 So from that perspective, the dollars is
5 the driver, which equates to approximately an
6 additional thirty (30) full-time equivalents.
7 MS. CANDACE GRAMMOND: And that dollar
8 amount, again on page 12 -- thank you, Diana, for
9 bringing that up -- that's the 5.9 million for the
10 current year, up to 6.2 million for year of
11 application?
12 MS. HEATHER REICHERT: And then 6.5 for
13 the second year, rating year.
14 MS. CANDACE GRAMMOND: Okay. Now, let
15 me ask you this. Last year, so in -- in the 2013/'14
16 year, we see the actual vacancy allowance savings was
17 about 4.8 million. We went and looked back -- or Mr.
18 Cathcart went and looked back at last year's filing.
19 Last year's target was 5.8. So the Corporation was
20 shooting for 5.8 last year. It hit fi -- 4.8, so it
21 was about a million off of its budget.
22 Why does the Corporation think it'll
23 meet the 5.9 in current year if it didn't do so last
24 year? Like, what's changed?
25 MS. HEATHER REICHERT: Because we've

1 actually implemented the hiring freeze that has us
2 looking at each and every position when it becomes
3 vacant and assessing whether or not it will be filled.
4 So we are doing much more active management of
5 vacancies than what was -- what was evident last year.
6 MS. CANDACE GRAMMOND: Okay.
7
8 (BRIEF PAUSE)
9
10 MS. CANDACE GRAMMOND: Sorry, Ms.
11 Reichert, just to confirm one (1) last time. So for
12 current year, the estimated savings are 5.9 million,
13 according to page 12 that we have up in front of us.
14 That equates to over a hundred
15 positions?
16 MS. HEATHER REICHERT: Yes,
17 approximately a hundred positions.
18 MS. CANDACE GRAMMOND: Okay. And in
19 this discussion that we've been having about vacancy
20 allowance and so forth, we're only talking about MPI
21 staff positions, we're not talking about any consulting
22 or contractor positions.
23 Is that right?
24 MS. HEATHER REICHERT: That -- that's
25 correct. There are no consultants within our

compensation information in front of you.

MS. CANDACE GRAMMOND: Those are my questions with respect to staffing. I don't know if the Board has any followup. Okay.

Okay, so I'm going to go then to some questions about capital expenditures, so a bit of a shift, but I think it's still you and I, Ms. Reichert.

MS. HEATHER REICHERT: M-hm.

MS. CANDACE GRAMMOND: So if we go to the expense section of the filing, page 23. This is E.4, page 23.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: And sorry, I know it's up, but I still want my hard copy in front of me because I might have notes on it.

Okay, so we see here that Basic's share of capital expenditures for the year of the application, 2015/'16, would be about three point -- 32.5 million, pardon me.

Do I have that right?

MS. HEATHER REICHERT: That's correct.

MS. CANDACE GRAMMOND: And Basic's sh -- pursuant to the first section of this table, so

1 within that 32.5 million for diverred -- deferred
2 development capital and implementation expenses is
3 about 29 -- 26.9 million.
4 Is that right?
5 MS. HEATHER REICHERT: Correct.
6 MS. CANDACE GRAMMOND: And do all of
7 those items relate to IT, those three (3) items?
8 MS. HEATHER REICHERT: All of those
9 items would have a significant component that's related
10 to information technology. But any information
11 technology initiative these days is -- is much broader
12 than just the information technology system itself.
13 There will be other aspects, change management, other
14 process changes that -- that do impact on the overall
15 cost of the project.
16 MS. CANDACE GRAMMOND: Thank you.
17 MS. HEATHER REICHERT: But generally,
18 yes, they're IT initiatives.
19 MS. CANDACE GRAMMOND: Okay. So this
20 is sort of the overall picture with respect to capital
21 expenditures. I have a few more specific questions.
22 I'm going to ask you to go to Tab 15 of
23 the book of documents just on, specifically, data
24 processing. And then we'll come back to some other
25 specific items. So this would be PUB/MPI 1-59(f).

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: And I appreciate
4 this is operating expenses, not capital, but just kind
5 of keeping with the IT theme for the moment. We had
6 looked at the data processing costs. We see -- and
7 again this is quite a time frame between 2009/'10 and
8 2018/'19, but we do see very substantial increases in
9 data processing costs. That's near the top of the
10 table.
11 In particular, between 2009/'10 and
12 2013/'14 we see a compounded annual growth rate of
13 about 25 percent. Is that something that you can
14 comment on?
15 MS. HEATHER REICHERT: I can comment on
16 it from the perspective of if I'm reading this table
17 correctly, this is a combination of both normal
18 operating expenses as well as implementation expenses
19 relating to IT projects. So from that perspective, you
20 have a mix of one (1) time expenditures within the data
21 processing line, as well as ongoing maintenance-type
22 expenditures, if you will.
23 So that -- that is why you would see
24 such a significant compound annual growth when --
25 especially in -- in '09/'10, '10/'11, '11/'12, there

1 was still significant, significant activity going on
2 with respect to the business process re-engineering.
3 So what I would really like to draw your
4 attention to is the fact that, yes, there were very
5 high growth years, '09/'10 to '13/'14, but since then
6 '13/'14 to - - to '16/'17 it -- it's down
7 significantly. And it's actually now showing a -- in
8 the next two (2) years, which includes one (1) of the
9 rating years, a negative growth.
10 So what we're seeing is that we think we
11 have -- have reached the peak of the initiative
12 expenditures as it relates to -- to initiatives and --
13 and IT projects. That we are starting to stabilize
14 that particular investment.
15 MS. CANDACE GRAMMOND: And if we look
16 at the compounded annual growth rates for the period of
17 time that you just mentioned after that 25 percent from
18 '13/'14 to '16/'17, we see five point two (5.2). And
19 as you indicate, then a decline over the next two (2)
20 years at a decrease of 2.9 percent.
21 MS. HEATHER REICHERT: Correct.
22
23 (BRIEF PAUSE)
24
25 MS. CANDACE GRAMMOND: So there's no

1 question that the time frame from 2009, and even prior
2 to that, in terms of IT has grown significantly. And,
3 as you say, in the view of the Corporation has reached
4 a peak and is now on the downturn. Or will be on the
5 downturn.
6 MS. HEATHER REICHERT: Well, and will
7 stabilize.
8 MS. CANDACE GRAMMOND: Okay. One of
9 the -- coming back to capital items, one of the
10 significant projects that the Corporation has filed
11 evidence on this year is the Physical Damage Re-
12 engineering Project. And if we go to the expense
13 section of the filing, we had looked at page 23 a
14 moment ago, if we go to page 24 we see a table provided
15 by the Corporation reflective of total capital
16 expenditures over a period of years.
17 We see that the Physical Damage Re-
18 engineering Project is just at the top of that table at
19 the top of the screen at the moment, and we see those
20 expenses in the year of the application are about 15.9
21 million, which I believe is about 59 percent of the
22 overall capital expenditures for that particular year?
23 MS. HEATHER REICHERT: Subject to
24 check. So fifteen point nine (15.9) of the total
25 thirty-two point six (32.6), or actually of the -- more

1 -- more appropriately of the twenty-six point nine
2 (26.9). So, yes, it is the -- the most significant
3 project with respect to the next three (3) year
4 forecast.
5 MS. CANDACE GRAMMOND: And we have
6 evidence in the book of documents with respect to the
7 overall cost of the project. This is at Tab 17,
8 PUB/MPI 1-75, where we have the breakdown of the $65.5
9 roughly million dollar budget. It's just at the
10 response to sub (b). And we looked at this briefly
11 last week. This is the most recent cost estimate or
12 most current cost esti -- estimate that's available for
13 this project?
14 MS. HEATHER REICHERT: That's correct.
15 MS. CANDACE GRAMMOND: Now, we heard
16 Mr. Guimond's evidence with respect to the anticipated
17 savings of this project, that that has changed since
18 this IR was answered. If we just scroll up a little
19 bit we see at the answer to 'A' the previous number, of
20 the 13.3 million in expected savings. And Mr.
21 Guimond's advised that that's evolved and it's now
22 expected to be about 8 million. He mentioned the
23 software cost being a factor of that.
24 Would you be able to provide the Board
25 with an update in terms of the -- what that 8 million

1 would be comprised of, I guess updating what we see on
2 the screen to the current expectation?
3
4 (BRIEF PAUSE)
5
6 MS. HEATHER REICHERT: Okay, just to --
7 to clarify what Mr. Guimond was commenting on last
8 week, so it is anticipated that we are going to save
9 13.3 million from implementing the physical damage re-
10 engineering project. So these cost savings and -- and
11 where they're expected to occur is still as best an
12 estimate as we can provide.
13 Mr. Guimond's comment last week was
14 that, while we will be saving 13.3 million in these
15 various areas, there will be other areas impacted
16 negatively, if you will, from this Physical Damage Re-
17 engineering Project and will actually have increased
18 costs in some areas so that the net is 8 million. So
19 savings of 13.3, additional operating expenditures of
20 approximately 5.3.
21 MS. CANDACE GRAMMOND: So that
22 additional 5.3 of operating expenses are in addition to
23 the 65.5 million of capital expendi -- expenditures
24 that we see at the answer to 'B'?
25 MS. HEATHER REICHERT: Correct, they're

1 operating expenditures, not capital expenditures.
2
3 (BRIEF PAUSE)
4
5 MS. CANDACE GRAMMOND: So would it be
6 possible for the Corporation to provide an updated
7 document that builds on the two (2) tables that are on
8 the screen and that incorporates the reference to the -
9 - the 5.3 million per year in additional operating
10 expenses? Like, as you can appreciate, the Board's
11 trying to get a sense of the overall picture here with
12 respect to this project.
13 MS. HEATHER REICHERT: Yes, we can do
14 that. And just to -- to help the Board. We were
15 talking earlier today about 2.6 million in software
16 licencing as it related to collaborative estimating;
17 that is part of the additional cost of the 5.3 that Mr.
18 Guimond was referencing. So 2.6 of it is -- we're
19 already starting to incur of that 5.3 million.
20 But, yes, we can do an undertaking to
21 provide the breakdown of the 5.3 estimated increased
22 operating cost as a result of the PDR initiative.
23
24 --- UNDERTAKING NO. 25: To provide the breakdown of
25 the 5.3 estimated increased

1 operating cost as a result
2 of the PDR initiative
3
4 CONTINUED BY MS. CANDACE GRAMMOND:
5 MS. CANDACE GRAMMOND: So was the
6 software expense unanticipated by the Corporation when
7 it prepared the business case for the project?
8 MS. HEATHER REICHERT: I -- I wouldn't
9 say that it was unanticipated. It may just not have
10 been picked up and reflected as early as possible
11 within the rate application. So that's why you see it
12 as the -- the increase that you saw that we were
13 talking about this morning.
14 MS. CANDACE GRAMMOND: Now, can you
15 tell us what the expected total amortization for the
16 project will be when it's put into effect?
17
18 (BRIEF PAUSE)
19
20 MS. HEATHER REICHERT: Okay. So you
21 won't see the beginning of the amortization of the
22 Physical Damage Re-engineering Project because it's not
23 slated to be completed until after the forecast period.
24 So, generally speaking, just to give you
25 an idea, if all of the estimates currently come to

1 fruition, the total deferred costs relating to the
2 physical damage re-engineering are about -- about 56
3 million as it relates to Basic.
4 Those costs will get amortized over a
5 five (5) year period once the project is completed. So
6 you are looking at approximately 10, 11 million in
7 deferred amortization once the project is completed.
8 MR. REGIS GOSSELIN: Isn't that what's
9 showing up in the last column there at the very bottom,
10 about a $12 million increase. The very last column on
11 '18/'19, it's showing an increase from 12 million to 24
12 million.
13
14 (BRIEF PAUSE)
15
16 MS. HEATHER REICHERT: Sorry, you're
17 looking on -- on page 25?
18 MR. REGIS GOSSELIN: I'm looking at
19 page 1 -- PUB/MPI 1-59. It's showing Basic expenses by
20 category. And what that's showing is a significant
21 increase in deferred development costs amortization of
22 about close to $12 million.
23
24 (BRIEF PAUSE)
25

1 MS. HEATHER REICHERT: Sorry, I'm
2 having trouble finding your specific reference, but
3 that does sound right. And then actually you can see
4 it on our own page 26. If Diana can go to page 26 of
5 the expenses section, so right on the very top line
6 where it says "Ongoing Expenses Physical Damage Re-
7 engineering," there -- there's very -- some small
8 ongoing expenses. But the -- you see where the
9 amortization of deferred expenditures takes into effect
10 in 2019. So this should be fairly close to what you
11 were looking at on 1-59.
12 MR. REGIS GOSSELIN: The -- your
13 comment earlier -- we talked about -- I'm trying to
14 find my notes here. You talked about data processing
15 and the compound annual growth, and you mentioned, you
16 know, the two (2) -- two (2) pieces of it: normal
17 operating expenditure, development initiatives, the two
18 (2) things you mentioned. And you referred to
19 development initiatives at one (1) time.
20 Now, if we're looking at the IT
21 expenses, on that line -- I'm -- I'm going back to the
22 previous table, Diana, which is page 1 -- 1-59 --
23 looking at that data processing line, I mean, all of
24 those expenditures on that line would be the one --
25 would be operating -- normal operating now, wouldn't

they, with the development initiatives at the bottom to the deferred development costs, wouldn't they?

Like a new normal for MPI with respect to its data processing is now at the level of 24 million, is what I read out of that.

MS. HEATHER REICHERT: This -- this is not -- this particular schedule, as I see it, is not just -- is not just basic normal operating. So this includes implementation expenses, as well.

So to the extent that implementation expenses are data processing, not cap -- not capital but just data -- data processing expenses relating to a specific project, it will be included in that line that says "data processing". So that does include data processing implementation expenses.

MR. REGIS GOSSELIN: So -- so that would suggest to me that post '18/'19, once that Physical Damage Re-engineering Project is done, the related implementation expenses would come down, which would bring us down from 24 million, all things being equal.

MS. HEATHER REICHERT: All things being equal, correct.

MR. REGIS GOSSELIN: So my -- my infer -- the inference I was drawing, that -- you know, the

1 new norm for IT expenditures Basic going forward beyond
2 '17/'18 at 24 million is wrong.
3 MS. HEATHER REICHERT: No, but --
4 correct.
5 MR. REGIS GOSSELIN: Okay.
6
7 CONTINUED BY MS. CANDACE GRAMMOND:
8 MS. CANDACE GRAMMOND: Ms. Reichert,
9 just to make sure that we understand, so we talked
10 about the amortization costs of about 11 million per
11 year. We've talked about the savings, the net overall
12 savings of about 8 million per year.
13 So does that not give rise to a loss of
14 about 3 million per year for the first five (5) years?
15 MS. HEATHER REICHERT: I'm -- I'm
16 sorry, can you just repeat the question?
17 MS. CANDACE GRAMMOND: Yeah, for sure.
18 So if -- if I have the evidence correctly, amortization
19 costs of about 11 million per year for the first five
20 (5) years, net savings overall 8 million for the first
21 five (5) years, doesn't that mean a loss of 3 million?
22 MS. HEATHER REICHERT: It -- no. On a
23 -- on a specific year basis, yes, there would be a net
24 of those amounts. But when we look at any particular
25 capital project, we look at what the total capital

costs of that project is and then what the -- the savings will be generated from that capital project.

So the depreciation will end after five (5) years, and then you'll have much limit -- much more limited operating expense impact for that specific project which the savings will far exceed whatever additional costs there are on a go-forward basis.

MS. CANDACE GRAMMOND: Okay. So paying for the first five (5) years, if I can call it that, and then...

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: So -- so paying for the first five (5) years meaning net losses, and then the benefits kick in year six (6) and forward.

MS. HEATHER REICHERT: And as I think Mr. Guimond mentioned last week, other -- other off -- other benefits from the Physical Damage Re-engineering -- you maybe got a little bit of a sense of that from the presenters this morning, that we are working with body shops on what the repair rates will be.

The more that we can streamline that, the more that we can continue to ensure that those costs don't go up as dramatically as they otherwise

1 would. So there's also those benefits that the
2 Corporation is going to see, and it -- and benefit from
3 once the -- the Physical Damage Re-engineering Project
4 is complete.
5 MS. CANDACE GRAMMOND: And what do you
6 anticipate will be the useful life of the project?
7 We're talking about the first five (5) years, and then
8 year six (6) and on, but what do we think that time
9 frame would look like?
10 MS. HEATHER REICHERT: I'm not sure,
11 but it's going to be longer than the five (5) years
12 that we amor -- deferred amortization -- or the
13 deferred expenses over. So I don't know that we can
14 keep IT programs without doing major enhancements, or
15 refreshes of them like we did in the past where no one
16 touched an IT project for twenty (20) years. I mean,
17 that's not the norm anymore.
18 But it should be -- it should be able to
19 sustain the Corporation for much longer than five (5)
20 years. I just don't know what that number would be.
21 MS. CANDACE GRAMMOND: Thank you. I
22 just have a few questions on provision for future
23 projects. And then we can wrap up the capital
24 expenditures cross and -- from me and probably call it
25 a day.

1 So if we go back to expense Section 4.2,
2 so this is E.4.2, page 24. We did look at it very
3 briefly in the beginning of the discussion on physical
4 damage re-engineering. If we look at the bottom of
5 that page, thank you, Diana, we see the very last item
6 on the table is the provision for future projects.
7 We see there 7.6 million roughly for the
8 year of the application. And I understand that these
9 are -- or this is a forecast for project expenses that
10 have yet to be formalized. Is that correct?
11 MS. HEATHER REICHERT: That's correct.
12 MS. CANDACE GRAMMOND: So how does the
13 Corporation then forecast the amount if it's for things
14 that are unknown at this point?
15 MS. HEATHER REICHERT: Basically, we
16 have determined that the capacity of -- of MPI going
17 forward and -- and being able to complete improvement
18 initiatives, IT initiatives, is in and around, on a --
19 from a Basic perspective, is in and around 16 to $20
20 million a year.
21 So when you look at 2015/'16, we know
22 that the Physical Damage Re-engineering Project is
23 still going very strong and -- and is going to take a
24 lot of time and energy and resources in that year. So
25 the forecast for additional future projects in '15/'16

is less because we don't have the capacity within our resources to be able to take on a lot more than the physical damage re-engineering.

And then you see as the Physical Damage Re-engineering Project starts to take less resources and less effort, the provision for future projects increases. So we know there is always demands on being able to enhance and -- and update and upgrade the systems that we have. We need to do that.

So we've determined that a reasonable capacity is in and around the -- the 20 -- $20 million amount, and that's how we budgeted for those future provisions.

As it relates to the breakdown of the future provision between deferred capital and expense, we are getting better at trying to estimate and anticipate whether or not it'll be deferred expenditures that we incur, whether it's capital or whether it's implementation expenses, by looking at what the breakdown has been in other projects.

And so that's -- once we determine the overall amount for the -- the future -- future projects, we are breaking it down within deferred capital and implementation expense based on what we have seen in -- in prior projects.

1 MS. CANDACE GRAMMOND: Thank you. I'm
2 going to ask you to go to PUB/MPI 1-74.
3
4 (BRIEF PAUSE)
5
6 MS. CANDACE GRAMMOND: So if we look at
7 the attachment at item (a). Thank you. I'm looking at
8 that top part of the table, so under the heading,
9 "Deferred development for the '13/'14 fiscal year," so
10 that top left box of numbers. We see the last line
11 item, "Other," which would, I believe, be the provision
12 for future projects.
13 The Corporation was budgeting 2.3
14 million. The actual ended up being zero. So there was
15 that, in essence, 2.3 million difference -- positive
16 difference at the end of the fiscal year.
17 So would that be -- would that represent
18 an overstatement of what the Corporation was expecting
19 or is it a matter of timing when projects are actually
20 being attended to?
21 MS. HEATHER REICHERT: No, actually.
22 When you look at the 2014 GRA column, so at the time of
23 doing the 20 -- 2014 GRA, the 2013/'14 year was just in
24 -- in process. So that 2.3 million, to the extent that
25 that represented unidentified projects, they were in

1 fact identified and then budgeted during the '13/'14
2 budget, capital budget.
3 So they're actually contained -- this
4 doesn't show what the -- the budget was, but if -- if
5 we had the 2014 -- 2013/'14 budget for capital
6 expenditures, you would -- you would see it was
7 something in and around these numbers.
8 But essentially what I'm trying to say
9 is that the future provision is a future provision
10 until the year that we're in. And then those dollars
11 are specifically allocated to initiatives that we know
12 are going to take place.
13 So there will never be an actual against
14 the future provision because that future provision is
15 not a project. It's not a -- a budget unto itself or a
16 -- a budget for a project. It is an allowance, if you
17 will.
18 It's a contingency that then gets
19 allocated to specific projects the year after the
20 future provision is put into the GRA. And it's
21 incorporated into the budgets for each of -- well, in -
22 - in this case, it was probably allocated into a
23 portion of the IT optimization or some other -- some
24 other of the -- the projects.
25 MS. CANDACE GRAMMOND: So in other

1 words, that amount -- using that example of 2.3
2 million, that -- those dollars weren't removed from
3 expenditures, they were just moved within expenditures
4 to a different item.
5 MS. HEATHER REICHERT: Correct.
6 MS. CANDACE GRAMMOND: Okay. And the
7 same would be the case under the 2014/'15 year along
8 the same line item where we see the -- the difference
9 of 5.9 million from year to year?
10 MS. HEATHER REICHERT: Yeah.
11 Unfortunately, this particular line says
12 "Other/Provisions." So there will be some other like
13 small -- small projects that are included in that. And
14 that's why you actually -- in the -- you know, see
15 remaining amounts there in the 2015 GRA of a thousand
16 ninety (1,090).
17 MS. CANDACE GRAMMOND: Thank you. Now
18 just a couple of other questions before we leave the
19 topic.
20 Are capital expenditures for improvement
21 initiatives under consideration by the Corporation as a
22 potential cost containment initiative?
23 MS. HEATHER REICHERT: Yes, they are.
24 We are looking at improvement initiatives that may not
25 have started yet to see whether or not it's appropriate

1 to defer them and push the expenditures into different
2 years or whether or not there are aspects of a
3 particular project that can be done at a -- a lower
4 cost.
5 So, yes, we are looking at improvement
6 initiatives as -- as well as general operating
7 expenses.
8 MS. CANDACE GRAMMOND: Can you give us
9 an indication of what improvement initiatives those
10 might be?
11 MS. HEATHER REICHERT: Not at this
12 time, no.
13 MS. CANDACE GRAMMOND: Thank you.
14 Madam Chair, I don't have any further questions on that
15 topic, so perhaps we can break and return in the
16 morning. I can indicate that the plan from my
17 perspective for tomorrow is to have Mr. Pelly online
18 and to start off with actuarial questions. So Mr.
19 Johnston can perk up, and we'll go from there.
20 THE CHAIRPERSON: Thank you very much,
21 Ms. Grammond. Have a good evening. This ends the
22 hearings for today, and we'll commence tomorrow at 9:00
23 a.m.
24
25 --- Upon adjourning at 4:00 p.m.

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3 Certified Correct,

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7 Cheryl Lavigne, Ms.

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