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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE (MPI)
GENERAL RATE APPLICATION
FOR 2007/08 INSURANCE YEAR

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 3rd, 2006
Pages 1 to 242

1 APPEARANCES

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3 Candace Everard)

4

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6

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12 Nick Roberts) Manitoba Used Car Dealers

13) Association (MUCDA)

14

15 Michael Mager) CAA

16 Robert Dawson) CBA/MBA

17 Patricia Reilly) Manitoba's Chiropractor's

18) Association (MCA)

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20 Claudio Sousa) Scootering Manitoba (SM)

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22 Patricia Fitzpatrick) TREE/RCM

23 Randall McQuaker)

24 Peter Miller (np))

25

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1 --- Upon commencing at 9:04 a.m.

2

3 THE CHAIRPERSON: Good morning. I call
4 this MPI General Rate Application Hearing to order.

5 Manitoba Public Insurance Corporation has
6 applied to the Public Utilities Board for approval if its
7 premiums. The Corporation's application includes
8 references to rates, fees, and other matters with respect
9 to vehicle premiums, driver licence premiums, motorcycle
10 vehicle type differentials, commercial vehicles, service
11 and transaction fees, permits and certificate fees, and
12 miscellaneous matters.

13 This Hearing in process is in accordance
14 with the provisions of the Crown Corporation's Public
15 Review and Accountability Act and the Public Utilities
16 Board Act.

17 In its application MPI indicates that
18 premium rates would take effect on March 1st, 2007, and
19 would provide an average 2.6 percent decrease with
20 respect to previously insured vehicles.

21 I am Graham Lane, Chairman of the Public
22 Utilities Board and I am joined by two (2) of my
23 colleagues Len Evans and Eric Jorgensen. Also with us
24 today is Gerry Gaudreau, Executive Director and Secretary
25 to the Board, at the back; Gerry Barron, Associate

1 Secretary of the Board; Walter Saranchuk and Candace
2 Everard, Board Counsels.

3 The Board has also retained the services
4 of Price Waterhouse's Mr. Roger Cathcart, who is in
5 attendance as will be Mr. Brian Pelley of Ecklar Partners
6 at a later date.

7 Transcripts of this Hearing will be
8 recorded by Digi-Tran and will be made available on our
9 website. Our current expectation is that we will sit
10 four (4) days this week, four (4) days next week, and
11 then as necessary.

12 We will begin each morning at nine
13 o'clock, adjourn for break mid-morning and again for
14 lunch. In the afternoon we'll begin at 1:30 and adjourn
15 at 4:00.

16 Following closing arguments the Panel,
17 myself, and my two (2) colleagues, will sequester
18 ourselves with staff counsel and advisors and deliberate
19 to reach our final determination on the matters before
20 us. In the end, we may accept, deny or vary the
21 company's application. Whatever decisions will be made
22 will be made carefully with the implications and
23 consequences as understood as best as possible.

24 In reaching our decision we'll be guided
25 by the evidence, written and oral, and our determination

1 of what represents the public interest. We are
2 concerned, not only with the short-term economic impact
3 to the Corporation on its ratepayers but also of the
4 fairness of the impact on the long-term fiscal and
5 operating health of the Corporation. As well, the Board,
6 as a Crown agency, has obligations with respect to the
7 Sustainable Development Act.

8 I think it goes without saying that our
9 expectations of all that appear before us include
10 effective participation, comprehensive presentations and
11 examinations, the employment of a cooperative approach,
12 useful evidence and examination being in accord with the
13 objective for the process, assisting this Panel in
14 reaching a sound decision on the matters before it.

15 The need for civility is always
16 understood. People and organizations can disagree. The
17 way in which the disagreement is expressed can be helpful
18 to the process or damaging. We have weighty and complex
19 issues before us and I am confident that we will all
20 approach this process with a view that together we can
21 make it work.

22 I now call on Mr. Saranchuk for his
23 introductions followed by introductions by MPI and the
24 Intervenors. Mr. Saranchuk will give his opening remarks
25 and then we will proceed with the swearing in of the MPI

1 witnesses after we hear from the others.

2 Mr. Saranchuk...?

3 MR. WALTER SARANCHUK: Thank you,
4 Mr. Chairman, Board Members, and ladies and gentlemen.
5 My name is Walter Saranchuk of the law firm of Pitblado
6 LLP and with me is my colleague Candice Everard of our
7 firm. We appear as Board Counsel.

8 Joining us are the Board's advisors. To
9 my right, Mr. Roger Cathcart of the accounting firm of
10 PricewaterhouseCoopers, and to my left in the back row is
11 Jerry Gaudreau the Public Utilities Board Executive
12 Director. The Board's actuarial advisor, Mr. Brian
13 Pelley of Eckler Partners will be with us next week.

14 THE CHAIRPERSON: Thank you, Mr.
15 Saranchuk. And with that background I'll now call on the
16 parties present to provide any opening comments they may
17 have.

18 MR. WALTER SARANCHUK: I think at this
19 stage it's firstly the introductions, Mr. Chairman.

20 THE CHAIRPERSON: We can do that,
21 Mr. Saranchuk.

22 MR. WALTER SARANCHUK: Thank you.

23 THE CHAIRPERSON: We'll start with Mr.
24 McCulloch.

25 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman,

1 members of the Panel. With me this morning and forming
2 the panel that will be giving evidence throughout this
3 Hearings, to my immediate right, Marilyn McLaren,
4 President and CEO of MPI. Moving even further right, Mr.
5 Barry Galenzoski, who is the Vice President of Finance,
6 Chief Financial Officer and Chief Administration Officer
7 with MPI. And to his right, Mr. Don Palmer, who is the -
8 - sorry, they've switched seats. Mr. Palmer who is the
9 Chief Actuary and the Director of Pricing and Economics
10 at MPI. And to my left we have Mr. Bedard, Vice
11 President of Claims.

12 I'd also like to take this opportunity to
13 introduce the back row for the PUB hearings. Just
14 checking the order, starting from my far left in the back
15 row we have Kathy Kalinowsky, who is a senior solicitor
16 in the Legal Department at MPI; Jeannine Savard, who is
17 the Manager of Regulatory Affairs; Luke Johnstone,
18 Manager of Actuarial Services; Glenn Bunstone, Manager of
19 Investments; Steve Perlmutter, Manager of Financial
20 Reporting, and Mr. Peter Dyck who is the Director of
21 Finance and the Corporate Controller.

22 And we also have Mr. John Douglas, the
23 Vice President of Public Affairs, who has taken up the
24 position at the far right end of the back row. And
25 that's the MPI representatives, Mr. Chairman.

1 THE CHAIRPERSON: Thank you, sir.

2 For Consumers Association of Canada and
3 Manitoba Society of Seniors, Mr. Williams?

4 MR. BYRON WILLIAMS: Yes, good morning,
5 Mr. Chairman. Apparently you know my name, which is
6 Byron Williams. I'm from the Public Interest Law Centre.

7 To my left is my colleague Ms. Myfwany, M-
8 Y-F-A-N-W-Y, Bowman. Seated back in the second row from
9 the Manitoba Society of Seniors, in the central position,
10 is Ms. Lori Hunter. And also here as interested observer
11 in the third row by the water, is Mr. Daniel Rempel who
12 is an articling student with the Public Interest Law
13 Centre. Good morning.

14 THE CHAIRPERSON: Mr. Oakes, with the
15 Coalition of Manitoba Motorcycle Groups?

16 MR. RAYMOND OAKES: Thank you, Mr.
17 Chairman. Good morning, Raymond Oakes of the Law firm of
18 Booth Dennehy, for the record. I'm also pleased to
19 indicate that Mr. Douglas Houghton, one of the executives
20 of the CMMG is in attendance, and we look forward to the
21 commencement of the Hearing. Thank you.

22 THE CHAIRPERSON: Thank you, sir. Mr.
23 Roberts, Manitoba Used Car Dealers.

24 MR. NICK ROBERTS: Good morning, Mr.
25 Chairman, Board Members. My name is Nick Roberts, I'm

1 executive director of the Manitoba Used Car Dealers
2 Association.

3 THE CHAIRPERSON: Thank you. And next up
4 we have Mr. Mager for the Canadian Automobile Association
5 of Manitoba.

6 MR. MICHAEL MAGER: Good morning, Mr.
7 Chairman. My name is Mike Mager and I'm with CAA
8 Manitoba and I am here with my colleague to my right,
9 Jeanie Dalman. Thank you.

10 THE CHAIRPERSON: Thank you. Manitoba
11 Bar Association?

12 MR. ROBERT DAWSON: Good morning, Mr.
13 Chairman. My name is Robert Dawson, I appear on behalf
14 of the Manitoba Bar Association. I can indicate that
15 seated in the back row of the gallery on the left side is
16 the Executive Director of the Bar Association, Ms. Stacy
17 Nagle.

18 And I can also advise that the Board has
19 kindly allowed the President of the Manitoba Bar
20 Association, Messer Antoine Hacault, to appear before the
21 Board and give a presentation this afternoon.

22 Thank you Mr. Chairman.

23 THE CHAIRPERSON: Thank you, Mr. Dawson.
24 We have a new intervenor, the Manitoba Chiropractors'
25 Association.

1 MS. PAMELA REILLY: Good morning, Mr.
2 Chairman and Board Members. I'm Pamela Reilly, I'm
3 pleased to be here at this hearings on behalf of the
4 Manitoba Chiropractors Association.

5 In the row behind me and to my left is
6 also seated Dr. Ernest Myron (phonetic) who is President
7 of the Manitoba Chiropractors Association.

8 THE CHAIRPERSON: Thank you. I see Mr.
9 Sousa is back, Scootering Manitoba.

10 MR. CLAUDIO SOUSA: Thank you, Mr.
11 Chairman. My name is Claudio Sousa, I represent three
12 hundred (300) plus members of the scootering community in
13 Manitoba, and please to attend at this, our third
14 hearing.

15 THE CHAIRPERSON: Thank you, Mr. Sousa.
16 I don't see Dr. Miller here. Is anyone here from
17 Resource Conservation Manitoba or TREE?

18 MR. RANDALL MCQUAKER: Yes, Mr. Chairman.
19 My name is Randall McQuaker. I'm Executive Director of
20 Resource Conservation Manitoba. Dr. Miller will be
21 guiding our intervention but he is out of town right now,
22 so I'm here in his place. With me is Patricia
23 Fitzpatrick who is secretary to the Board of Resource
24 Conservation Manitoba.

25 THE CHAIRPERSON: Thank you, sir. So

1 with that knowledge, we will proceed with opening
2 comments.

3 Fair enough, Mr. Saranchuk?

4 MR. WALTER SARANCHUK: Thank you, sir.
5 This is the public hearing process relative to MPI's
6 application for approval of its rate basis and premiums
7 charged, that is its rates for service, for compulsory
8 driver and vehicle insurance under Auto Pac's basic
9 automobile insurance plan for the 2007/'08 insurance
10 year, being from March 1, 2007 to February 28th, 2008.

11 MPI's application was filed on June 14th,
12 2006 and the notice of public hearing and the pre-hearing
13 conference and a reminder notice of hearing were both
14 published thereafter and served as required.

15 The application was filed pursuant to the
16 Crown Corporation's Public Review and Accountability Act
17 and the Public Utilities Board Act. And in it the
18 Corporation is requesting approval for basic Autopac
19 rates, effective March 1, 2007, which would decrease its
20 overall premium revenue by 2.6 percent.

21 However, the changes proposed for 2007/'08
22 affect average base premiums for the major vehicle
23 classes, as follows.

24 Firstly, for private passenger vehicles,
25 and there are approximately six hundred and fifty

1 thousand (650,000) of them, there's proposed a 3 percent
2 decrease.

3 For commercial vehicles, and there are
4 approximately forty-one thousand (41,000) of them,
5 proposed is a 5.4 percent increase.

6 For public service vehicles, and there are
7 almost ten thousand (10,000) of them, proposed is a 2.4
8 percent decrease.

9 For motorcycles, and there are
10 approximately ninety-five hundred (9,500) of them, an 8.4
11 percent increase is proposed.

12 Trailers, and there are approximately one
13 hundred and twelve thousand (112,000) of them, are to
14 receive a 14.1 decrease with off-road vehicles, and there
15 are approximately thirty-six thousand (36,000) of them to
16 experience no change in rates, for an overall 2.6 percent
17 decrease in premiums.

18 The impact of the proposed rate
19 adjustments on the total vehicle population is
20 distributed as follows: 74.5 percent of vehicles would
21 receive a rate decrease with most decreases less than
22 fifty dollars (\$50); 66.2 percent of vehicles are to
23 receive no change in rate; 13.2 percent of vehicles will
24 receive a rate increase of up to twenty dollars (\$20); 4
25 percent of vehicles would receive an increase between

1 twenty dollars (\$20) and fifty dollars (\$50); 1.4 percent
2 of vehicles would receive an increase between fifty
3 dollars (\$50) and one hundred dollars (\$100); and 0.7
4 percent, that's less than 1 percent of vehicles, are to
5 receive an increase greater than one hundred dollars
6 (\$100).

7 Actual changes to an individual's premium
8 vary depending on the owner's claim experience and
9 driving record, insurance use, territory, and vehicle
10 rate group. The cumulative effect of these variations on
11 individual rates all fall within the dollar amounts that
12 I mentioned. No changes are proposed to fleet rebates
13 and surcharges, existing driver's licence premiums or
14 accident surcharges, other existing time payment fees, or
15 other existing service and transaction fees.

16 The Corporation proposes the following
17 rate adjustments for policies issued between March 1,
18 2007, and February 29th, 2008.

19 Firstly, experience-based rate adjustments
20 ranging from plus 15 percent to minus 15 percent for
21 individual classes with the exception of mopeds -- excuse
22 me, trailers twenty-five hundred dollars (\$2,500) or less
23 in value, and off-road vehicles.

24 Secondly, the combined classification
25 offsets ranging from minus 3.31 percent to plus 11.11

1 MR. WALTER SARANCHUK: As Exhibit PUB-3,
2 the Board's Rules of Practice and Procedure.

3

4 --- EXHIBIT NO. PUB-3: Manitoba Public Utilities
5 Board Rules of Practice and
6 Procedure.

7

8 MR. WALTER SARANCHUK: As Exhibit PUB-4,
9 the transcript of pre-hearing conference held June 23rd,
10 2006.

11

12 --- EXHIBIT NO. PUB-4: Transcript of Pre-hearing
13 conference held July 5th,
14 2006 (sic).

15

16 MR. WALTER SARANCHUK: As Exhibit PUB-5,
17 the Public Utilities Board Procedural Order Number 10306
18 dated July 6th, 2006.

19

20 --- EXHIBIT NO. PUB-5: Public Utilities Board
21 Procedural Order Number 10306
22 dated July 6th, 2006.

23

24 MR. WALTER SARANCHUK: As Exhibit PUB-6
25 the reminder notice of public hearing dated August 16th,

1 2006.

2

3 --- EXHIBIT NO. PUB-6: Reminder notice of public
4 hearing dated August 16th,
5 2006.

6

7 MR. WALTER SARANCHUK: As Exhibits PUB-7-
8 1 through to 7-81 the Public Utilities Board's first
9 round Information Requests and MPI's responses thereto.

10

11 --- EXHIBIT NO. PUB-7.1 to 7.81:

12 Public Utilities Board's
13 first round Information
14 Requests and MPI's responses.

15

16 MR. WALTER SARANCHUK: As Exhibit PUB-8-1
17 through 8-17, the Public Utilities Board's second round
18 Information Requests and MPI's responses thereto.

19

20 --- EXHIBIT NO. PUB-8.1 to 8.17:

21 Public Utilities Board's
22 second round Information
23 Requests and MPI's responses.

24

25 MR. WALTER SARANCHUK: As Exhibit PUB-9-1

1 to 9-7, the Public Utilities Board Information Requests
2 in the third round and MPI's responses thereto.

3

4 --- EXHIBIT NO. PUB-9.1 to 9.7:

5 Public Utilities Board third
6 round Information Requests
7 and MPI's responses.

8

9 MR. WALTER SARANCHUK: As Exhibit PUB --
10 Exhibits PUB-10-1 through to 10-9, the Public Utilities
11 Board's Information Requests of CAC/MSOS, Canadian
12 Association of Consumers and the Manitoba Society of
13 Seniors responses.

14

15 --- EXHIBIT NO. PUB-10.1 to 10.9:

16 Public Utilities Board's
17 Information Requests of
18 CAC/MSOS, Canadian
19 Association of Consumers and
20 the Manitoba Society of
21 Seniors responses.

22

23 MR. WALTER SARANCHUK: And finally, as
24 Exhibit PUB Number 11, the Public Utilities Board book of
25 documents that was circulated this morning.

1 --- EXHIBIT NO. PUB-11: Public Utilities Board book
2 of documents, circulated
3 October 3, 2006.
4

5 MR. WALTER SARANCHUK: With respect to
6 MPI's rate application --

7 THE CHAIRPERSON: Very good, Mr.
8 Saranchuk.

9 MR. WALTER SARANCHUK: Yes, well, I was
10 going to say, Mr. Chairman, with respect to MPI's rate
11 application cross-examination on behalf of the Board will
12 pertain to the following major issues.

13 Under revenue requirement the base
14 premiums and rating methodology in view of the two point
15 six (2.6) proposed overall premium decrease.

16 Net income is another topic to be
17 canvassed; particularly investment income.

18 Also, anti-theft initiatives including
19 expansion of the engine immobilizer program to rural
20 Manitoba at a \$10 million cost.

21 As well, the rate stabilization reserve,
22 or the RSR, relating to the target level, in particular,
23 and the methodology to calculate it. And also claims
24 costs and claims forecasting.

25 Under rate design questions will be asked

1 relative to MPI's rate making model. Also, motorcycle
2 rates and the implications arising from the Board's order
3 97 of '05 following the loss transfer hearing last year.

4 In terms of general issues we will also
5 deal with operating expenses, safety initiatives and
6 sustainable development issues.

7 Now, I would like to refer everyone to the
8 procedural outline that has circulated. And very
9 briefly, in terms of the orders of matters to be heard,
10 we'll proceed obviously, with the introduction of
11 witnesses by MPI and leading of testimony and then the
12 cross-examination.

13 I just would draw to everyone's attention
14 that the presenters, as you indicated, sir, are to be
15 heard this afternoon at 1:00 p.m.

16 And, finally, direct examination and
17 cross-examination of MPI and CAC/MSOS expert witnesses
18 will begin on Wednesday, that's a week from tomorrow, at
19 9:00 a.m. and will continue into Thursday, October 12th
20 at 10:30, if necessary.

21 As indicated by you, Mr. Chairman, the
22 Board is to sit for the remainder of this week and
23 reconvene next Tuesday, October 10th, the day after
24 Thanksgiving Day. The Board will preside for the
25 remaining four days of next week, if necessary, by which

1 time all of the evidence and the testimony, hopefully,
2 will be completed. Closing arguments can then be heard
3 the following week on a date to be determined. Those are
4 my comments, Mr. Chairman.

5 THE CHAIRPERSON: Thank you, Mr.
6 Saranchuk. The exhibits are entered. We'll begin now to
7 move on to receive opening remarks from the other
8 parties.

9 We'll start with CAC/MSOS. Mr.
10 Williams...?

11 MR. BYRON WILLIAMS: Thank you, Mr.
12 Chairman and good morning to the other Board Members.
13 It's with great pleasure that I'm here today on behalf of
14 the more than seven thousand (7,000) members of the
15 Consumers Association of Canada, Manitoba Branch, and the
16 Manitoba Society of Seniors.

17 In their view, the defining reality in
18 this proceeding is a corporation awash in excess retained
19 earnings. We know that the retained earnings on the
20 basic side, as of February 28th, 2006, were over \$170
21 million, far in excess of the PUB target of between \$65
22 and \$100 million for basic. And we know that the
23 retained earnings on the allegedly competitive lines of
24 MPI, extension and SRE, are far beyond what even MPI
25 would claim is necessary for those lines of businesses.

1 In total, as of February 28th, 2006, the
2 Corporation has over one quarter (1/4) of a billion
3 dollars in retained earnings, 263 million; a figure, my
4 clients would suggest, is likely to satisfy any
5 independent and objective observer that the Corporation
6 has more than enough retained earnings for a company
7 selling a compulsory auto insurance product with a
8 legislated monopoly and the implied backing of the
9 Province of Manitoba.

10 The Corporation, of course, begs to
11 differ. Its position, as I understand it on behalf of my
12 clients, is to deny this fundamental reality. As I
13 understand their position, they would argue that its
14 retained earnings for basic are not in excess of a proper
15 target. They would suggest, rather, that the PUB simply
16 has the wrong target.

17 And so the Corporation offers its options
18 to the risk analysis. The made in Manitoba carefully
19 refined method for determining the RSR which the Board
20 has considered over many years of deliberation and the
21 MPI options are either the MCT, a test that the Public
22 Utilities Board has already rejected as the wrong test
23 for the wrong market, or a revised risk analysis altered
24 in such a way as to be grossly at odds with academic
25 credibility.

1 And I'm not sure who else beside
2 Mr. Saranchuk and myself have been in these Board
3 Hearings for this -- this many years, except for MPI.
4 But, of course, this is not the first time that the
5 Corporation has taken a position on the RSR that might be
6 seen to defy any reasonable principled approach.

7 Out of a sad sense of masochism before
8 coming into the Hearing today, I took an opportunity to
9 review the history of the RSR and to see just how many
10 arguable untenable positions the Corporation has taken on
11 this issue in the past.

12 Back in 1998, of course, there was a
13 suggestion that we should assume perfect correlation and
14 which was rejected by the Public Utilities Board. Back
15 in '99, there was a suggestion that we should be using
16 variances from long term averages.

17 Then in 2000, there was mine -- I'm sure
18 it's Mr. Galenzoski's as well, personal favourite, the
19 two (2) horseman of the MPI apocalypse; dread and social
20 context. I never did quite understand what those were
21 supposed to be; which again the PUB rejected.

22 And for the 2002, 2004, 2005 and 2006 GRA,
23 we've had the pleasure of learning more about the MCT, a
24 test which has been rejected because it addresses the
25 wrong issue in the wrong context.

1 It's a simple point that I wish to make
2 from that sad review of history, is that at least based
3 upon history, the position of this Corporation has been
4 drive not be commitment to a rigid, and rigorous and
5 analytical approach to the RSR, but by a commitment to a
6 number; to higher retained earnings than the regulator in
7 its wisdom is prepared to accept.

8 And my clients would respectfully request,
9 that a key question for the regulator in this proceeding
10 is to ask itself: Is the position of MPI on the RSR
11 intellectually credible or is the MPI position driven by
12 a desired result, rather than an intellectually
13 sustainable approach?

14 Of course, if my clients are going to
15 throw stones, if they're going to suggest that the MPI
16 approach on the RSR is both stale and results driven, it
17 behoves my clients to take a new, outside the box look at
18 the issue themselves.

19 And so notwithstanding the yeoman service
20 that Mr. Todd performed on behalf of CAC/MSOS for many
21 years, my clients took the opportunity in this proceeding
22 to retain two (2) new experts, two (2) highly qualified
23 economists from the University of Manitoba, Dr. Derek Hum
24 and Dr. Wayne Simpson, and they've brought a fresh
25 approach to the issue.

1 And when the Board, in the course of this
2 Hearing, reviews the evidence of Dr. Hum and Dr. Simpson,
3 we'd suggest to them that they consider not only their
4 stellar academic credentials and their outstanding and
5 lengthy real world experience, we suggest that the Board
6 also consider that they also bring to this issue a unique
7 sense of academic independence.

8 They have no vested financial interest in
9 the outcome of this proceeding. They have no prior
10 commitment to any of the positions of any of the parties.

11 So as this Board considers whether the
12 MPI's position is credible, we would ask you to look
13 carefully at the expert opinions of Dr. Hum and Dr.
14 Simpson, founded on many years of experience and grounded
15 in a true sense of academic independence.

16 Apart from the RSR there are three (3)
17 other important issues that my clients intent to focus on
18 in cross-examination. The first question they will ask,
19 and I will -- or we will ask on behalf of our clients,
20 and I'll get some assistance from Ms. Bowman on this
21 area, is whether the excess retained earnings of the
22 Corporation have led it to be less than rigorous in its
23 financial practices over the last couple of years?

24 We're just posing the question, we're not
25 offering a conclusion at this point in time. And so

1 we're going to look to the merits of the rapid growth in
2 operating expenses between 2005/'06 and 2007/'08. And as
3 well, like Board Counsel, we'll be looking to the
4 reasonableness of the new \$10 million appropriation from
5 retained earnings for the IIP.

6 A second key question, apart from the RSR
7 that my clients will be asking themselves, relates to the
8 merits of an overall 2.6 percent rate reduction. And in
9 answering that question, my clients will be asking some
10 sub-issues. They will be asking whether or not the
11 Corporation is budgeting for a deficit in 2007/'08 and if
12 it is, whether that approach is appropriate.

13 In the course of that discussion my
14 clients will also carefully consider the reasonableness
15 of the Corporation's projected -- projections, both for
16 premiums earned as well as for claims incurred.

17 And as to the merits of the 2.6 percent
18 proposed rate reduction overall my clients at this point
19 in time remain agnostic. They'll offer their opinion at
20 the close of this Hearing.

21 The final query that my clients will be
22 focussing on in cross-examination relates to the
23 Corporation's business planning and program evaluation
24 approach. And like Board Counsel will be considering
25 areas such as the IIP, WATSS, W-A-T-S-S, and road safety.

1 And we'll be asking ourselves on behalf of our clients
2 whether the Corporation's practices are consistent with
3 the practices of a modern well-run Crown corporation.

4 There are other areas that my clients are
5 very interested in but -- which I believe through
6 reviewing the interrogatories they're also the subject of
7 interest of some of the other parties in this room
8 including the Chiropractic Association and the MBA as
9 well as Board Counsel.

10 So my clients are also will -- also follow
11 with interest issues related to DVL, to investments, to
12 PIPP, P-I-P-P, to client services, and to pay as you
13 drive, which of course is of great interest to TREE and
14 RCM.

15 And we'll be following those issues. We
16 may ask a few -- a few cross-examination questions in
17 those areas, but we'll generally leave those to other
18 parties.

19 On behalf of the Consumers Association of
20 Canada Manitoba Branch, and the Manitoba Society of
21 Seniors I want to thank the Board for their opportunity
22 to appear here today and subject to any questions those
23 are the close of my comments. Thank you.

24 Oh, thank you to My Learned Friend from
25 the MBA Exhibits, Mr. Chairman, and I'll -- I don't have

1 an exhibit list in front of me, but I believe that the
2 Board will have exhibits from CAC/MSOS from the first
3 round, second round, third round, as well as the pre-
4 filed evidence of Drs. Hum and Simpson and their
5 interrogatory responses. So I'll ask the Board's
6 assistance in filing those as exhibits.

7 THE CHAIRPERSON: Very good, Mr.
8 Williams, we'll look into it.

9 Okay. We'll move now to Mr. Oakes. Mr.
10 Oakes for Motorcycle Group?

11 MR. RANDY OAKES: Thank you, Mr.
12 Chairman, Members of the Board, ladies and gentlemen.
13 This year again the CMMG accepts the responsibility of
14 being an intervenor in what I would submit is going to be
15 a very long and arduous Hearing. It's a good thing that
16 the Board has the two (2) weeks available; I think that
17 we'll use all of them.

18 Arguably though a pundit might say the
19 hardest part of this Hearing would be the task of the MPI
20 executive coming forward and with a straight face asking
21 to hang onto \$150 million of the public's money at this
22 juncture.

23 We've seen rates overall, primarily
24 private passenger but overall, staying the same for the
25 last eight (8) years. We've seen the evident use of

1 conservatism and especially as demonstrated by the fact
2 the investment income seems to always exceed the forecast
3 substantial issues.

4 And so the main target of examination
5 obviously will be the RSR. We won't let that overshadow
6 of course the fact that this is the first year that the
7 methodology related to the new loss transfer will be in
8 play. We won't let that overshadow the fact that they're
9 asking for an average 8.4 percent increase for
10 motorcyclists.

11 That may not sound like a huge sum,
12 especially given the fact it's been double-digit for well
13 over a decade, but when the Board considers that some of
14 these premiums are fifteen hundred (1,500) or two
15 thousand dollars (\$2,000), 8.4 percent is a very
16 significant increase in terms of a dollar value.

17 We'll be examining sport bikes. And the
18 average increase there, Mr. Chairman, is 15.9 percent
19 increase; a very significant, substantial increase.

20 We'll be asking questions relative to
21 pleasure use, operating costs, investment in safety, rate
22 line, declared values and vintaging, conservatism in the
23 rate calculations, single and multi-vehicle fault data,
24 judgment and looking at other reserves the Corporation
25 has; the minimum capital test as well as territories. And

1 we look forward to doing that in a cooperative and
2 responsible fashion as in past years.

3 At this juncture, Mr. Chairman, I would
4 ask that the exhibits for CMMG, which are rounds 1 and 2
5 of the Interrogatories be marked when the Board marks
6 Mr. Williams' exhibit. And those would be our comments
7 this morning.

8 THE CHAIRPERSON: Very good, Mr. Oakes.
9 Thank you.

10 Mr. Roberts...?

11 MR. NICK ROBERTS: Thank you, Mr.
12 Chairman, members of the Board, ladies and gentlemen.

13 Again, my name is Nick Roberts. I'm glad
14 to be here to represent approximately thirteen hundred
15 (1,300) car dealers in the Province of Manitoba.

16 Our main interests, of course, every year
17 are dealer plate rates. This year a little lower than
18 the last few years but, nonetheless, we're always
19 interested in those and hopefully we'll get some closure
20 on the data anomaly from a few years back about dealer
21 plates.

22 We also want to be talking about the
23 effects of loss transfer and I'll jump on the RSR
24 bandwagon, that's of great interest to us also, and also
25 the immobilizer program. We've been working with

1 Manitoba Public Insurance on that and it's of great
2 interest to us.

3 And, last but not least, I'm here hoping
4 that -- to see if Mr. Galenzoski can top his statement
5 from last year of the Banjo picking friends from
6 Saskatchewan.

7 I would also -- I'll follow Mr. Oakes in
8 saying that we'd like to have our interrogatories marked
9 into exhibit. Thank you.

10 THE CHAIRPERSON: Thank you, Mr. Roberts.
11 Mr. Mager...?

12 MR. MICHAEL MAGER: Morning, Mr.
13 Chairman.

14 I just want to advise that we're here on
15 behalf of a hundred and seventy-five thousand (175,000)
16 members of CAA Manitoba to protect their interests as
17 they drive on our city streets. We're really here from a
18 briefing perspective and we may or may -- may or may not
19 ask questions as we proceed through the Hearing, and we
20 are also very interested in the reserve levels. Thank
21 you.

22 THE CHAIRPERSON: Thank you, sir.
23 Mr. Dawson...?

24 MR. ROBERT DAWSON: Thank you, Mr.
25 Chairman.

1 On behalf of my client, the Manitoba Bar
2 Association, let me again express thanks to the Board for
3 granting Intervenor status to the Bar Association. In
4 many ways when we look at the table of the Intervenors
5 here the Bar Association perhaps brings a unique and
6 hopefully helpful perspective to the Bar -- to the Board.
7 Rather than advancing views that are particularly
8 favourable to its members necessarily, it generally takes
9 a broader public policy approach to some of the issues.
10 And I think that that approach will be especially helpful
11 this year and may provide the Board, rather, with helpful
12 insight.

13 There are two broad areas that the Bar
14 Association has proposed its Intervenorship to stand on.
15 The first is a familiar topic that has been raised in
16 past years by the Bar Association, namely the way in
17 which the applicant handles claims for personal injury
18 arising out of the operation of motor vehicles, and the
19 second, and I think in this year's hearing at least will
20 be the more prominent one, will relate to broad public
21 policy and legal issues.

22 If I can revisit the first topic, namely
23 the way in which the applicant handles claims for
24 personal injury arising out of the operation of motor
25 vehicles, it certainly is the Bar Association's

1 continuing view that the no-fault system is, as I like to
2 put it in shorthand, still no good.

3 At the same time, the Bar Association
4 recognizes that it's well beyond the jurisdiction of this
5 Board to raise that particular issue here. So it is
6 quite happy to merely mention that and then to raise that
7 issue at the appropriate political and other forums.

8 Instead, it has been the Bar Association's
9 position, at least as long as I've had conduct of the
10 file, to focus on the interests of victims of personal
11 injury arising out of motor vehicles. And in the past
12 years we've asked essentially, the question: Are the
13 persons who are entitled to those benefits, whether under
14 the law of Manitoba or under their contract with MPI or
15 their insurance contract, receiving what they should when
16 they should, and in the way they should.

17 And if we look over the past two (2)
18 years, in 2005 the Board was very -- seemed very, at
19 least, very receptive to that approach. And the Board
20 made a number of suggestions and what I would interpret
21 to be welcoming comments in its order on that subject
22 which resulted in the Bar Association's Intervenorship
23 last year essentially following up on those points.

24 If I may say, the Board's order last year
25 seemed to close off many of those issues and I'm not one

1 to take the Board's time except through long winded
2 opening statements, to revisit issues that perhaps the
3 Board has not particular interest in, in this year.

4 Instead it's notable that this is the year
5 in which MPI has begun a benchmarking study relating to
6 PIPP and it might be more useful to focus, perhaps only
7 in passing, upon that particular study which hopefully
8 will help us in future years, decide how and when and in
9 what way claims should be handled relating to PIPP
10 claimants.

11 And so that's the extent of the Bar
12 Association's intended focus relating to the way in which
13 the applicant handles claims for personal injury.

14 By far the major issues that the Bar
15 Association is concerned in this year, relate to issues
16 of public policy and general legal concerns. And in that
17 context, to some extent, it may be said, given the fact
18 that really the Bar Association is independent on that
19 point, that we offer a unique perspective that may be of
20 some assistance to the Board.

21 The first topic that received tremendous
22 interest from the Board when it was first raised at the
23 special hearing last year, related to the pay as you
24 drive topic. I know that many of the intervenors and
25 certainly Board Counsel will be covering that off.

1 And it is a difficult issue. On the one
2 hand, the Board recognizes that the Environment Act in
3 Manitoba compels it to pay attention to that issue.
4 Sadly, the drafters of that particular legislation
5 provide very little guidance. Then we have worthwhile
6 efforts from environmental advocates who would have pay
7 as you drive seriously undertaken. And on the other side
8 we have MPI which understandably says, how can we
9 practically incorporate those concerns?

10 So the Bar Association's position is very
11 much to observe how this debate plays out and to offer
12 any assistance, either through questions or perhaps in
13 closing remarks, on what evidence comes before the Board
14 on that particular topic.

15 The RSR and rate trans -- or reserve fund
16 transfers is another issue that comes up. It may very
17 well be -- based on earlier conversations with other
18 intervenors be covered off by the time the Bar
19 Association takes its questions to the panel, but
20 nonetheless, that's one (1) particular issue.

21 There are then two (2) other quick issues
22 that the Bar Association has noted less -- certainly they
23 all touch upon revenue and its use, one is the way in
24 which MPI funds prosecutors to pursue those who have been
25 involved in auto theft.

1 One question is: Is it an effective use
2 of money? A broader public policy question may be: Is
3 it even a good idea?

4 And the last public policy issue that the
5 Bar Association proposes to review, is the way in which
6 DVL has been using information that it collects, perhaps
7 and this will come out in the evidence, to generate
8 revenue or perhaps as a public relations gesture.

9 And again that use of information
10 collected by DVL may prove to be problematic. Certainly
11 from a revenue generating perspective, it may in fact be
12 more problematic than anyone anticipates.

13 So that then is the way in which the Bar
14 Association proposes to conduct its intervenorship.
15 Subject to any questions that the Board might have now,
16 it's proposed that two (2) exhibits be entered; namely,
17 the first round information request of the Manitoba Bar
18 Association, as well as the replies received from the
19 applicant, and the second exhibit, would obviously relate
20 to the second round information requests and their
21 replies.

22 Thank you, Mr. Chairman.

23 THE CHAIRPERSON: Thank you, Mr. Dawson.

24 Ms. Reilly for the Manitoba Chiropractic
25 Association?

1 MS. PATRICIA REILLY: Thank you, Mr.
2 Chairman. The Manitoba Chiropractor's Association
3 appreciates and of course, thanks the Board for the
4 opportunity to participate as an intervenor for the first
5 time in these Public Hearings.

6 The Manitoba Chiropractors Association has
7 been operating as a regulatory body and a professional
8 association since 1945. The Association has two hundred
9 and fifty-nine (259) members and those members treat
10 approximately one hundred and fifty thousand (150,000)
11 Manitobans annually, with chiropractic care.

12 Of that one hundred and fifty thousand
13 (150,000) total, approximately seven thousand (7000)
14 Manitobans seek chiropractic care as a result of motor
15 vehicle accidents. And then that seven thousand (7000)
16 figure represents almost half of the total number of the
17 approximately fifteen thousand (15,000) Manitobans who
18 are injured in motor vehicle accidents on an annual basis
19 and claim benefits through their Manitoba Public
20 Insurance -- Manitoba Public Insurance policies.

21 And I offer those numbers to the Board
22 simply to illustrate how the Manitoba Chiropractors'
23 Association obtains knowledge of the perspective of the
24 injured Manitoba ratepayer who accesses the medical and
25 rehabilitative services that funded through their

1 Manitoba Public Insurance rates.

2 And it's that perspective which the
3 Association brings to these hearings to assist the Board
4 when exercising its jurisdiction in approving or setting
5 the applicant's rates.

6 The Association starts with the stated
7 premise in the applicant's materials and that is that to
8 be effective any approach to injury case management has
9 to focus on the needs of the claimant. And so the
10 Manitoba Chiropractors' Association through its
11 examination of the applicant's witnesses during the
12 course of these hearings will focus on two (2) broad
13 areas to test that approach.

14 First, the area that we'll be looking at
15 will be the area of medical and rehabilitative services
16 offered to claimants and that will include the various
17 review and appeal processes that the claimant has access
18 to. And then we'll take a second brief look at the
19 income replacement indemnity benefit.

20 So the Association trusts that the Board
21 will consider these matters to be compelling policy
22 considerations and also relevant elements of insurance
23 coverage affecting insurance rates.

24 And with that, Mr. Chairman, I'd also ask
25 that two (2) exhibits be entered on behalf of the

1 Association; the first exhibit our first round questions
2 and responses, and the second exhibit the second round
3 Information Requests and responses. Thank you.

4 THE CHAIRPERSON: Thank you, Ms. Reilly.
5 Okay.

6 We'll move now to Mr. Sousa, Scootering
7 Manitoba.

8 MR. CLAUDIO SOUSA: Thank you, Mr.
9 Chairman, Members of the Board, Fellow Intervenors,
10 ladies and gentlemen.

11 Scootering Manitoba is pleased to
12 represents the interests of the scootering community,
13 particularly since the changes proposed to scooters and
14 mopeds in this year's rate application are nothing less
15 than profound.

16 This past year the North American market
17 has seen a rise of between 20 and 30 percent in the sale
18 and use of scooters and mopeds largely driven by the need
19 for more fuel efficient and environmentally sound
20 transportation. The scooter and moped is becoming an
21 increasingly popular choice for Manitobans with the
22 number of moped class bikes and motor scooters nearly
23 tripling over the past five (5) years. Our membership
24 has grown in proportion into -- with this increase.

25 Elsewhere in Canada it might interest the

1 Board to know that jurisdictions like the City of Toronto
2 have extended free parking to all motorcycles, scooters,
3 and mopeds in recognition of their environmental benefits
4 as an incentive to the citizens to choose these vehicles
5 as a means of personal transportation.

6 Other provincial jurisdictions have also
7 modernized moped and scooter legislation to effectively
8 administer access to these vehicles.

9 Sadly, in Manitoba we have not kept pace
10 with this growth and trend in scooter and moped use. Our
11 legislation and therefore aspects of our insurance
12 definitions which are based on that legislation are
13 terribly out of date. This makes moped and scooter
14 vehicle registration difficult for MPI to administer and
15 frustrating and confusing to the public at large.

16 While the Highway Traffic Act itself is
17 not germane to this rate application, aspects of the
18 vehicle definitions contained therein and reference by
19 MPI are most definitely germane.

20 It may interest the Board to know just how
21 out of date these laws and insurance definitions are. In
22 Manitoba a moped-class vehicle cannot exceed 50
23 kilometres an hour even though the major commuting
24 arteries in the city are virtually all 60 kilometres an
25 hour or faster.

1 A moped-class vehicle cannot carry a
2 passenger even if it has a passenger seat, but you can
3 carry an infant if you have a child carrying seat.

4 A moped-class vehicle must be driven as
5 close as possible to the curb and should not be entitled
6 to a full lane of traffic. I've taken a lot of safety
7 training and no one's ever taught me to do that on any
8 kind of motorcycle or motor-scooter.

9 When you add all of this up -- actually
10 there is one (1) more item. A moped-class vehicle is not
11 subject to any form of safety inspection upon
12 registration, resale or re-registration.

13 When you add all of this up one realizes
14 that the current laws and insurance definitions are
15 really designed for a power-assisted bicycle. Manitobans
16 need the accessible and affordable choice which the moped
17 class represents.

18 A simple approach to dealing with this
19 conundrum or this out of date legislation and insurance
20 definition is to simply take a blind eye and say, Well,
21 let's make them all motorcycles, get everybody geared up,
22 make everyone take their Class 6 license and we'll be
23 done with it. That fails to recognize that Manitobans
24 deserve the right to choose an accessible and affordable
25 form of personal transportation for five (5) to seven (7)

1 months of the year.

2 Scootering Manitoba has taken action to
3 modernize moped and scooter legislation, presenting a
4 petition and a proposal for reform to both MPI, Driving
5 Vehicle Licensing, and the Deputy Minister of
6 Transportation.

7 Our hope is to bring about a modern reform
8 to the Highway Traffic Act and MPI's rate groups
9 surrounding scooters and mopeds to embrace, encourage --
10 and encourage scooter and moped use while also ensuring
11 that they remain affordable and accessible.

12 We continue our drive towards encouraging
13 safer riding and participated, with enthusiasm, as both
14 MPI and the Province have included our organization in
15 several important safety initiatives, ranging from public
16 awareness campaigns, road safety committees and redesign
17 of driver's education curriculum.

18 Our memberships is pleased that as part of
19 this rate application MPI is introducing a moped rental
20 class, an insurance use which we believe has tainted the
21 claims experience of the moped class for the past several
22 years. The new rental class will allow claims experience
23 and eventually rates to be reflective of the risks for
24 each use.

25 MPI has also proposed to harmonize rates

1 of the motor scooter class with those of the moped class
2 with a significant rate reduction of approximately 70
3 percent from current levels. We believe this is a
4 recognition that the motor scooter rates have
5 historically been unjustifiably increased along with
6 motorcycles, perhaps for as long as ten (10) years,
7 without regard to the very good claim experience and the
8 small rate group that the motor scooter represents.

9 While we do support this harmonization, we
10 would like to recommend some refinements to the rate
11 groups in order to better position MPI's insurance
12 classifications for future legislative reform.

13 In this rate application MPI has asked for
14 an exception to Board rule on the subject of rate shock
15 and proposed to increase moped class rates by nearly 100
16 percent. We believe that MPI may have, once again,
17 reached the conclusion that an average increase of sixty
18 (60), seventy (70), eighty (80) or perhaps even a hundred
19 dollars (\$100) does not constitute rate shock. We also
20 believe that perhaps MPI has not done much in the way of
21 research to support this assertion.

22 It is important that the Board recognize
23 that while mopeds and scooters are the most affordable
24 new vehicle on the market, averaging between two (2) to
25 three thousand dollars (\$3,000) when purchased new, a

1 high number of buyers, as many as 20 to 30 percent
2 according to some local dealers, still actually finance
3 the purchase of that vehicle.

4 This tells us something about the users
5 and owners of scooters and mopeds. They not only choose
6 these vehicles for the environment and for gas savings,
7 they choose them because they may not have the financial
8 means to form other -- to afford other forms of personal
9 transportation.

10 If the Board it to accept MPI's proposed
11 increase to the moped class of nearly 100 percent the
12 Board must also accept that the claims experience of this
13 class is accurate and untainted.

14 And this is where our membership expresses
15 concern, we believe there are inconsistencies and
16 troubling aspects to how moped and scooter insurance
17 policies and claims are administered by MPI. During
18 cross-examination and examination of MPI's evidence we
19 hope to highlight these concerns to the Board.

20 Through -- our organization wishes to
21 ensure that the Board's previous ruling of a 20 percent
22 cap on increase to mopeds is observed ensuring that all
23 Manitobans are protected by the spirit and intent of this
24 rule, regardless of the type of vehicle they drive and
25 income level that they represent.

1 We are confident that our participation in
2 this Hearing, combined with proactive work with MPI and
3 the Department of Transportation, mopeds and scooters
4 will continue to be accessible and affordable for years
5 to come.

6 At this time, Mr. Chairman, I would like
7 to also ask that Scootering Manitoba's first and second
8 round Information Requests and MPI's responses be entered
9 as evidence.

10 Thank you, Mr. Chairman.

11 THE CHAIRPERSON: Very good, Mr. Sousa.
12 Thank you.

13 Mr. McQuaker, RCM/TREE?

14 MR. RANDALL MCQUAKER: Thank you. I will
15 ask Ms. Fitzpatrick to make our remarks.

16 MS. PATRICIA FITZPATRICK: Mr. Chairman,
17 Members of the Panel and other participants today, good
18 morning.

19 Once again I'm Patricia Fitzpatrick,
20 Secretary to the Board of Resource Conservation Manitoba,
21 or RCM for short. We are joining with Time To Respect
22 Earth's Ecosystems or TREE to intervene in this Hearing
23 into the rates for Manitoba Public Insurance.

24 As mentioned earlier, Peter Miller will be
25 leading the intervention but he is out of town today. I

1 would begin by expressing our appreciation for this
2 opportunity to once again, act as an intervenor in these
3 Hearings.

4 RCM and TREE are both environmental
5 organizations committed to the promotion of a more
6 sustainable society and economy in Manitoba. For our
7 part, since 1998 RCM has been involved in transportation
8 related programs, from a climate change and
9 sustainability perspective.

10 We currently offer walk to school programs
11 and work place trip reduction services and we also
12 organize the annual commuter challenge. With TREE we
13 have previously intervened in the rate hearings for
14 Manitoba Hydro and Centra Gas to promote conservation
15 programs, rates and rate structures that better reflect
16 the principles of sustainability and social justice.

17 We intend to pursue the same ends in this
18 MPI Hearings. We were pleased to hear the Board
19 recognized that they are subject to the Manitoba
20 Sustainable Development Act. Our intervention focuses on
21 this aspect.

22 In particular, Mr. Chairman, we wish to
23 call attention to Guideline 1 of the Act. Guideline 1
24 state -- surrounds the efficient use of resources which
25 means, and this is quoting from the guideline:

1 "A) Encouraging and facilitating
2 development and applications of systems
3 for proper resource pricing, demand
4 management and resource allocation,
5 together with incentives to encourage
6 efficient use of resources.

7 And:

8 "B) employing full cost accounting to
9 better provide information for
10 decision-makers."

11 We wish to explore the implications for
12 this directive for MPI. What does it mean to employ full
13 cost accounting, demand management, proper resource
14 pricing and incentives to encourage efficient use of
15 resources?

16 How can these concepts be applied to a
17 Crown corporation in the transportation sector, in a
18 province governed by a Sustainable Development Act, whose
19 government has repeatedly indicated that they wish to
20 assume leadership in reducing greenhouse gas emissions as
21 part of a sustainable economy?

22 As has been mentioned by a number of
23 intervenors today, one (1) innovation in the
24 transportation insurance industry, that combines
25 insurance principles with demand management is a distance

1 based insurance or pay-as-you-go principle. We believe
2 that such a rate structure may have a role to play as one
3 way to implement this sustainable development directive.

4 TREE and RCM would like to assist the
5 Board and MPI in considering the features of this concept
6 so that we all might learn more about its potential as a
7 means to promote resource efficiency in this Province.

8 And as a final point, for the record, we
9 would also ask that RCM/TREE's participation in the two
10 (2) rounds of questions be extended as Exhibits --
11 entered as Exhibits.

12 Thank you Mr. Chairman.

13 THE CHAIRPERSON: Thank you, Ms.
14 Fitzpatrick and thank you, Mr. McQuaker.

15 Mr. McCulloch ...?

16 MR. KEVIN MCCULLOCH: Mr. Chairman,
17 having sat for approximately half an hour, a few minutes
18 longer than that, listening to the opening comments from
19 what really can be termed a very wide range of intervenor
20 interests; there's a great temptation as counsel for the
21 applicant to jump in and in opening remarks address some
22 of the comments and the observations made by the
23 intervenors or by their counsel.

24 But, I think that's a temptation that has
25 to be resisted and I'll tell you why. I believe the

1 proper time to respond to comments and concerns that have
2 been raised in opening remarks is in closing argument or
3 closing statements, after the Board has heard the
4 evidence, after the Board has all of the information
5 before it to make the decisions that its asked to make.

6 The only thing that I would again try to
7 highlight and bring back to the Board is that we are here
8 for a rate application. We are here to consider rates
9 that will take effect in the next insurance year and even
10 though there may be issues, broader issues, that may have
11 some -- in some cases very peripheral impact on those
12 rates I'd ask that we do have to focus ourselves on the
13 task at hand.

14 In that regard I can advise the Board that
15 once the Panel has been sworn I will be leading direct
16 evidence from both Ms. McLaren and Mr. Palmer. I don't
17 expect that to be a lengthy process.

18 It's largely an intent to focus from the
19 various evidentiary items that are already before the
20 Board; answers to Information Requests, parts of the
21 application. It's an attempt to focus the applicants'
22 evidence in certain areas to provide to the Board a
23 cohesive explanation or position that is being taken by
24 the Corporation on certain areas.

25 The other thing I would like to do is deal

1 with some preliminary exhibits. I'll be guided by Board
2 Secretary, I believe. Obviously the application and all
3 the supporting documentations have already been entered
4 as exhibits.

5 I have three (3) affidavits dealing with
6 service on intervenors and publication of notices; the
7 first being the affidavit of Catherine Powella dated
8 September 29th, 2006. The second and third are
9 affidavits of Zdenka Melnyk and this is dealing with the
10 publication of notices and those affidavits are dated
11 September 29th and September 19th. So if those three (3)
12 affidavits of service can be entered as exhibits.

13 Also to be entered as an exhibit and I'll
14 be guided by the Board Secretary for the appropriate
15 number, are the MPI Information Requests to CAC/MSOS and
16 the responses to those requests.

17 THE CHAIRPERSON: Thank you, Mr.
18 McCulloch. Okay, Mr. McCulloch, I think we'll have Mr.
19 Barron swear in the Panel.

20 Mr. Barron...?

21 MR. BYRON WILLIAMS: Mr. Chairman, if I -
22 - if I might -- Byron Williams for CAC/MSOS -- the -- I
23 just note in the second row now Mr. Isley replacing Ms.
24 Hunter as Ms. Desorcy from the Consumers' Association.
25 So -- I neglected to introduce her before.

1 THE CHAIRPERSON: Very good.

2

3 BARRY GALENZOSKI, Sworn

4 DON PALMER, Sworn

5 MARILYN MCLAREN, Sworn

6 WILF BEDARD, Sworn

7

8 THE CHAIRPERSON: Thank you, Mr. Barron.

9 Mr. McCulloch, you can begin at your leisure.

10 MR. KEVIN MCCULLOCH: Yes, Mr. Chairman,
11 I'm going to begin the direct evidence portion with a few
12 questions for Ms. McLaren.

13

14 EXAMINATION-IN-CHIEF BY MR. KEVIN MCCULLOCH:

15 MR. KEVIN MCCULLOCH: Ms. McLaren, as you
16 know and has been noted by a number of the intervenors in
17 their opening comments, the issue of rate stabilization
18 reserve has been a topic of discussion before this Board
19 for a number of years.

20 Why has the Corporation decided to bring
21 an MCT-based RSR proposal to the Board as part of this
22 General Rate Application?

23 MS. MARILYN MCLAREN: Well, Mr.
24 McCulloch, we presented our rationale last year,
25 rationale, to use the MCT with what we believe an

1 appropriate target for Manitoba Public Insurance. It was
2 largely based on management judgment and deep, deep
3 knowledge of our business. And I have to tell you that
4 in my two (2) years of -- as president of Manitoba Public
5 Insurance I've learned that the senior, very experienced,
6 members of the executive team that you see here before
7 you have an incredibly deep, intuitive knowledge of our
8 business and what's right for our business.

9 As a team, we are fully convinced, without
10 any hesitation, that the basic Autopac program needs an
11 RSR of more than \$100 million to provide the kind of rate
12 stability and predictability that Manitobans value. This
13 issue is of utmost importance to Manitoba Public
14 Insurance and to Manitobans.

15 So we spent significant time, after
16 receiving the last order, reviewing last year's
17 submission and testimony, and concluded that we had a
18 responsibility to provide more analysis and more
19 documentation to more fully establish our rationale on
20 the public record.

21 The PUB provided direction with respect to
22 how it expects the Corporation to proceed should it wish
23 to revisit the matter of RSR. We followed that direction
24 and I believe we've provided a very solid case in support
25 of our position with respect to the use of the MCT and a

1 particular target that the Corporation has selected.

2 MR. KEVIN MCCULLOCH: Ms. McLaren, can
3 you identify what new information the Corporation has
4 brought forward on the issue of MCT and the RSR in this
5 General Rate Application?

6 MS. MARILYN MCLAREN: We've provided a
7 detailed comparison of the MCT and the risk analysis.
8 We've contrasted and compared them. We've identified a
9 number of shortcomings with the Corporation's original
10 approach to developing the in-house risk analysis. And
11 we're bringing forward, not only the expert testimony of
12 our chief actuary, but also the expert testimony of
13 another nationally respected actuary.

14 The totality of the Corporation's evidence
15 in this matter is broader, is deeper, and it's more
16 substantive than ever before. The PUB has before it
17 significantly more detailed documentation to consider.

18 MR. KEVIN MCCULLOCH: Why does the
19 Corporation believe that MCT is an appropriate way to
20 determine the RSR?

21 MS. MARILYN MCLAREN: The MCT is a tool
22 that measures financial risk; put it another way, a tool
23 to measure an insurer's financial position at a point in
24 time.

25 In order to have an informed discussion

1 about MCT we all have to be able to separate the matter
2 of the financial test itself from the matter of the
3 particular company's required MCT score. You have a test
4 and you have a target; they're separate issues within the
5 same discussion.

6 MCT is entirely an appropriate test for a
7 government-owned monopoly insurer's financial position.
8 It's not appropriate, nor has MPI ever proposed, for such
9 an insurer to adopt retained earnings targets equal or
10 even similar to private sector insurers operating in a
11 competitive environment.

12 Every insurer in the country uses the MCT,
13 including three (3) public auto insurers, to measure
14 financial strength. None of the three (3) public auto
15 insurers have chosen an RSR target that's anywhere near
16 as high as what's imposed by OSFI, the Officer of the
17 Superintendent of Financial Institutions, or maintained
18 in practice by private companies operating in a
19 competitive environment.

20 MR. KEVIN MCCULLOCH: Can you comment on
21 the financial risks faced by MPI and compare them with
22 private sector companies and with risks faced by SGI and
23 ICBC?

24 MS. MARILYN MCLAREN: There's been no
25 real disagreement among all the interested parties that

1 MPI is faced with many of the same financial risks as any
2 other insurer; investment volatility, large catastrophes,
3 economic conditions, interest rate risk, inflation,
4 internal risks and so on.

5 Many of the participants have identified a
6 risk that MPI does not face; loss of market share. Let
7 me say two (2) things about that.

8 First, it's this specific risk that causes
9 OSFI to drive its minimum capital requirements for
10 private sector companies from 100 percent to 150 percent;
11 that's what drives that increase. But next, let me point
12 out that losing market share for competitive insurers is
13 not only a risk but it's often a business strategy.

14 When companies are in need of capital a
15 common response is to shrink the number of policyholders,
16 aggressively select which customers or types of risks it
17 wants to retain; that's not an option for Manitoba Public
18 Insurance. The size of the scope of the basic Autopac
19 program isn't open to strategic manipulation to
20 compensate for a shortage of capital. We take on all
21 risks; that's what we were created to do and that's what
22 we will continue to do.

23 So the MCT is a recognized and credible
24 tool to measure financial risk; capital required versus
25 capital available. And that's the 100 percent MCT score.

1 And then based on the business entity in question,
2 decisions have to be made with respect to an appropriate
3 retained earnings target, within that MCT framework.

4 MR. KEVIN MCCULLOCH: Ms. McLaren, in
5 Order 150/'05, the Board set out considerations for not
6 adopting the MCT test.

7 What are your comments on those
8 considerations?

9 MS. MARILYN MCLAREN: We responded to the
10 PUB information request, 1-22, by saying we didn't
11 disagree with the PUB's considerations with their
12 statements in that regard. But, we provided compelling
13 arguments for the PUB to reconsider its position that its
14 taken based on those considerations. I also did want to
15 speak briefly about one (1) of those statements.

16 As the participants in these proceedings
17 change through time, I think it's helpful to reflect on
18 some of our past experiences. The PUB stated that MPI
19 can reasonably expect favourable consideration of future
20 proposals for rate increases, if necessary, to meet
21 appropriate forecast costs.

22 Again, we wouldn't disagree or challenge
23 that statement, but the way that the RSR is to protect
24 Manitobans is by mitigating the effect on future rates,
25 of non-recurring unexpected events, increases in costs.

1 In the late 1990's, MPI applied for and
2 received, from the PUB over four (4) short years, rate
3 increases equal to 15 percent of annual Autopac rates,
4 specifically to rebuild the RSR. The RSR was depleted
5 and a rebuilding plan was proposed and approved; a 2
6 percent increase in 1996, a 4 percent increase in 1997, a
7 5 percent increase in 1998, and another 4 percent in
8 1999.

9 On top of that, there were two permanent
10 rate increases in at least two (2) of those years. And
11 in 2000 we reduced rates by 4 percent to eliminate the
12 rebuilding charge.

13 In our view, that doesn't amount to a heck
14 of a lot of stability and predictability for Manitobans.
15 So even though the PUB has told us we can reasonably
16 expect favourable consideration for future proposals for
17 rate increases if necessary, Manitobans have a right to
18 expect us to manage our affairs in a way that avoids such
19 increases and then a decrease, as we had in the late
20 1990's.

21 We believe the Corporation's RSR strategy
22 is target range, rebuilding primary through transfers and
23 extension lines. Prudent management is the best way to
24 deliver on that expectation that Manitoban have of us.

25 MR. KEVIN MCCULLOCH: Ms. McLaren, can

1 you be more specific as to why you believe MCT provides a
2 more reliable test than the risk analysis?

3 MS. MARILYN MCLAREN: Yes. The risk
4 analysis measures the difference between forecast and
5 actual. Most of the time, when we've had a significant,
6 unexpected costly event, it was through a balance sheet
7 item, not through unexpected changes to our annual
8 operating activities.

9 In 1987, we had to significantly increase
10 policy liabilities. We had to do the same in 1995 and
11 1996. In 2002, we had a significant shortfall in
12 expected investment income that year, but we also again,
13 had to increase policy liabilities. MCT measures balance
14 sheet strength, which we see as much more appropriate
15 than comparing forecast to actual.

16 I spoke a minute ago about management's
17 conviction that the basic plan needs an RSR greater than
18 \$100 million. I spoke about our intuitive understanding
19 of the business; that's not another way to say we just
20 think we're right; that's a way to say that five (5)
21 years ago as we began to understand the extent to which
22 the balance sheet was going to grow and grow quickly,
23 primarily driven by PIPP, we understood that the RSR
24 would need to grow, as well.

25 Inflation or interest rate worsening can

1 hurt us a little on an annual basis, that worsening has a
2 major leverage defect on the balance sheet; on the value
3 of the overall investment portfolio and on the value of
4 the policy liabilities.

5 We pointed this out in our response to PUB
6 Information Request 1-28, where we demonstrated how a 1
7 percent increase in inflation above expected would have a
8 \$400 million effect on annual operations and a \$70
9 million impact on PIPP claims reserves.

10 This leveraging effect, while real, is
11 just not accounted for in the risk analysis. And this
12 leveraging effect, clearly adds to the Corporation's risk
13 profile, as the size of the total unpaid claims reserves
14 increase, the size of the potential variation also
15 increases.

16 And we also provided the example of the
17 impact of a medical breakthrough; for example, something
18 along the lines of a new very expensive treatment for
19 spinal cord injuries. A new \$1 million treatment would
20 cost about \$6 million on an annual operating basis. And
21 it would increase the cost of our existing reserves by
22 \$70 million.

23 Again, this kind of -- this magnitude of
24 variability is simply not addressed in the risk analysis
25 and quite frankly we failed to mention another really

1 critical point with this example.

2 This is a risk that the basis Autopac
3 program faces that other private sector insurers
4 wouldn't. First, private sector insurers in Canada limit
5 their coverage for medical expenses. The basic Autopac
6 program does not. Unlimited medical coverage is part of
7 the PIPP program.

8 But second, since the Corporation was
9 established, improvements to injury benefits have always
10 been retroactive, always available for all existing
11 claimants.

12 Private sector insurers have traditionally
13 applied the coverage that was in force when the policy
14 was in sold. Period.

15 MR. KEVIN MCCULLOCH: Given the growing
16 balance sheet risk, why is the Corporation proposing such
17 a low bottom end for the RSR target?

18 50 percent is far lower than any other
19 insurer including the two (2) other public auto insurers.

20 MS. MARILYN MCLAREN: There's really only
21 one (1) answer to that. The basic Autopac program is the
22 only insurance program that I know of that has been and
23 will be able to continue to rely on excess retained
24 earnings from other lines of business to help support its
25 RSR target of 50 percent to 100 percent of the MCT.

1 Without this source of additional capital I expect we
2 would have selected an RSR target much closer to that of
3 SGI and ICBC.

4 And with respect to the 100 percent upper
5 target, I think Mr. Christie did an excellent job of
6 demonstrating the need to consider intergenerational
7 equity when determining an appropriate RSR target. The
8 lower the target, the more likely we'll -- we'll create
9 intergenerational inequity when it comes to rebuild the
10 RSR.

11 So I guess I would just like to sort of
12 conclude this comment of mine by saying that again the
13 MCT is a tool to measure the risk of impairment of
14 capital. The most extreme consequence of impairment of
15 capital for a private insurer would be insolvency.

16 We're not recommending that PUB adopt the
17 use of MCT as a solvency mitigating tool as is required
18 by OSFI of private property and casualty insurance
19 companies. But rather we're recommending the use of the
20 MCT methodology created by experts of the industry
21 sanctioned by the country's Office of the Superintendent
22 of Financial Institutions to assist in calculating the
23 supported risk-based value for the RSR which would
24 balance the capital required to the capital available.
25 This represents the 100 percent MCT target. Again, we're

1 rate making methodology where we use forecasted
2 investment returns in determining the required rates, if
3 the actual income is less than expected investment
4 income, the Corporation's rates will be deficient.

5 I would say that all of the -- the various
6 methodologies in -- in testing the financial strength do
7 look at investment income. In the current risk analysis
8 approach that's been adopted by the Board there are two
9 (2) pillars of that, the operational risk analysis and
10 the investment risk analysis, through the value at risk
11 report.

12 The MCT that we're putting forth last year
13 and -- and this year does adjust for investment
14 volatility. It's a -- a risk load on -- on the various
15 types of investments. The dynamic capital adequacy test,
16 which is used by all insurance companies now to -- to
17 test financial condition, also takes into effect changes
18 -- possible changes in investment income.

19 MR. KEVIN MCCULLOCH: Is the current rate
20 setting environment influenced by timing constraints?

21 MR. DON PALMER: Sure.

22 MR. KEVIN MCCULLOCH: And can you
23 identify what those timing constraints are and the impact
24 that they have?

25 MR. DON PALMER: First, there's a

1 forecasting lag. For example, we started our forecasting
2 for the 2007 rates in March of this year, a full twelve
3 (12) months before the rates are to be implemented.

4 Secondly, there's a regulatory lag. With
5 annual policies and the annual regulatory cycle we're
6 pretty much limited to annual rate changes.

7 And, finally, there's a policy year
8 effect, in that any rate change actually takes two years
9 to work through our financial results.

10 And let me walk you through an example.
11 You might want your pens -- pens and paper handy for this
12 one. Just suppose that effective today, inflation
13 increases by 1 percent over the expected level which,
14 again, could be categorized as an unforeseen non-
15 recurring event. So that means for the 2006/'07 year our
16 claims costs will be over expected by 1 percent of five
17 (5) months of claims, or about \$2.5. So that's a
18 forecasting lag of at least five (5) months.

19 That also assumes, by the way, that we
20 would recognize the trend and if we didn't right away,
21 say, well, there's a trend there, if we didn't do that
22 that could add another twelve (12) months to the
23 forecasting lag.

24 It's -- if that happened it's also too
25 late for us to do anything about the 2007/08 forecasts.

1 So that's another \$6 million or 1 percent of claims that
2 will be short because of the annual PUB process. And
3 that's what I refer to as regulatory lag.

4 But then half of the earned income for the
5 2008/'09 year is at 2007/'08 rates because of the policy
6 year effect, so we'll be short another \$3 million. So
7 that's \$11.5 million that we'd have to take out of the
8 RSR right off the hop.

9 But there's even a more insidious effect,
10 and this was referenced by Ms. McLaren as well, and
11 that's on our claims reserves. A 1 percent increase
12 inflation has a leveraged effect on the \$1.2 billion that
13 we currently have for unpaid claims and that's pretty
14 much all inflation sensitive. That would increase our
15 PIPP reserve requirements by about \$70 million which has
16 to go then through our operating statement. So that 1
17 percent, all of a sudden, translates to an \$80 million
18 loss before we can take any rate action at all.

19 MR. KEVIN MCCULLOCH: You've given an
20 example of the impact of the 1 percent increase in
21 inflation and the impact that that can have on unpaid
22 claims and you've identified the leveraged effect of such
23 an inflationary increase.

24 Could such a loss be smoothed over time?

25 MR. DON PALMER: Not through a strict

1 rate increase. Actuarial principles state that a rate is
2 an estimate of the expected value of future cost. So
3 really the only source of that \$80 million that I
4 referenced would be the RSR?

5 MR. KEVIN MCCULLOCH: So what you're
6 saying is that the current regulatory scheme, that in
7 that scheme rates can't be instant -- instantaneously
8 adjusted, is that correct?

9 MR. DON PALMER: That's correct.

10 MR. KEVIN MCCULLOCH: Now, Mr. Palmer, do
11 you agree that the stated purpose of the RSR is to
12 mitigate against an unexpected, non-recurring loss event?

13 MR. DON PALMER: I would agree with that.

14 MR. KEVIN MCCULLOCH: Do issues or
15 questions of liquidity have any bearing or role to play
16 in determining the appropriate RSR level?

17 MR. DON PALMER: Really only to a very
18 limited degree.

19 MR. KEVIN MCCULLOCH: And can you explain
20 that?

21 MR. DON PALMER: Most of the losses that
22 run through the financial statement are long tail losses
23 and the source of fluctuation would be injury claims or
24 PIPP reserves.

25 When were put -- were required under

1 actuarial and accounting principles to fully fund losses,
2 so even though there may be that -- I'll go back to that
3 \$70 million reserve adjustment, that would be paid out
4 over some very long period of time. So, really liquidity
5 doesn't become an issue. The minor effect that I did
6 say, if there's some large physical damage loss, maybe a
7 catastrophic hail storm or something, may put some --
8 some strain on our immediate cash assets, which would be
9 liquidity.

10 But, any of the balance sheet changes, no
11 liquidity really doesn't come into it.

12 MR. KEVIN MCCULLOCH: So would it be fair
13 to say that liquidity issues may come into play in the
14 immediate need to pay a short-term loss, but have no role
15 to play in assessing responsibility or exposure for long-
16 term personal injury losses?

17 MR. DON PALMER: You're must more
18 eloquent than I am, Mr. McCulloch.

19 MR. KEVIN MCCULLOCH: Do you believe that
20 a legislated change in benefits could be classified as an
21 unforeseen or non-recurring event?

22 MR. DON PALMER: I would agree with that.

23 MR. KEVIN MCCULLOCH: And can you provide
24 the Board with a panel of -- sorry -- can you provide the
25 Panel with an example of such a legislated change?

1 MR. DON PALMER: Sure. In 1999 there was
2 a benefit called the retirement income benefit, I may
3 slip into the acronym and call it RIB, that was given on
4 a retroactive basis. So any open claim at that time,
5 which would be a life-time claim, would get retirement
6 income benefits.

7 MR. KEVIN MCCULLOCH: And is that an
8 example of the comment that Ms. McLaren spoke to about
9 how when benefit changes in the MPI system are
10 introduced, they're introduced retroactively; they apply
11 to all existing claimants? Whereas in the private
12 sector, if there were to be a change in coverage, it
13 would only apply to future or ongoing claims?

14 MR. DON PALMER: It's applied
15 retroactively, yes.

16 MR. KEVIN MCCULLOCH: At MPI?

17 MR. DON PALMER: That's correct.

18 MR. KEVIN MCCULLOCH: Do you agree with
19 the observation that MPI has demonstrated a remarkable
20 accuracy in its forecasting over the years?

21 MR. DON PALMER: I think we've done pretty
22 well, yes.

23 MR. KEVIN MCCULLOCH: And in looking at
24 that historical accuracy, do you see any bias, either
25 positive or negative, in those forecast when compared to

1 actuals?

2 MR. DON PALMER: No sir.

3 MR. KEVIN MCCULLOCH: And can you explain
4 that?

5 MR. DON PALMER: Well over the last
6 twelve (12) years, the average difference between actual
7 and expected underwriting income has been eight hundred
8 and forty-five thousand dollars (\$845,000) per year.

9 I think eight hundred and forty-five
10 thousand dollars (\$845,000) on a total revenue of \$700
11 million is certainly insignificant; doesn't indicate any
12 bias at all. In fact, that has been put forward in some
13 of the evidence as being an evidence of bias.

14 If you had asked me that same question
15 last year, Mr. McCulloch, it would have shown a negative
16 bias, if you use that word, of about seven hundred
17 thousand dollars (700,000) per year. So one (1) year
18 fluctuation from eight hundred thousand (800,000) plus,
19 to negative seven hundred thousand dollars (\$700,000) on
20 \$700 million of income, is certainly insignificant.

21 MR. KEVIN MCCULLOCH: Also in looking at
22 what constitutes a non-recurring, unexpected event
23 there's been discussion of a catastrophic event that
24 might occur one (1) in forty (40) years.

25 If a one (1) in forty (40) events occurs

1 in 2006, what is the likelihood of it occurring in 2007?

2 MR. DON PALMER: It would still be one
3 (1) in forty (40).

4 MR. KEVIN MCCULLOCH: So if I would
5 suggest to you that having a one (1) in forty (40) event
6 occur in 2006, would reduce the chance of it occurring
7 again in 2007, would be one (1) in sixteen hundred
8 (1,600), what would your response be?

9 MR. DON PALMER: If you suggested that,
10 Mr. McCulloch, I'd have to say that you were wrong.

11 MR. KEVIN MCCULLOCH: Mr. Chairman, that
12 completes the direct evidence of Mr. Palmer and the Panel
13 is ready for cross-examination.

14 THE CHAIRPERSON: Thank you, Mr.
15 McCulloch. Good start to the Hearing. I think we'll have
16 a short break now and come back in ten (10) minutes.
17 Thank you.

18

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

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

21

22 THE CHAIRPERSON: Okay. Welcome back,
23 everyone.

24 I'll start off by calling Mr. Saranchuk
25 with respect to the exhibits.

1 MR. WALTER SARANCHUK: Thank you, Mr.
2 Chairman. There is going to be an exhibit list
3 distributed. I would just draw to everyone's attention
4 that there's one (1) correction to be made in respect of
5 the PUB exhibits as shown in that exhibit list and that
6 is with respect to Exhibit PUB-4 and the date of the pre-
7 hearing conference should be corrected to June 23rd, 2006
8 as opposed to July 5th, 2006.

9 Moving on to the exhibits of CAC/MSOS, as
10 Exhibit CAC/MSOS-1-1 through to 1-93, the Consumers
11 Association of Canada Manitoba Inc. and Manitoba Society
12 of Seniors Information Requests in the first round and
13 Manitoba Public Insurance's responses should be entered.
14 As CAC/MSOS Exhibit 2-1 through to 2-48 the Consumers
15 Association of Canada Manitoba Inc. Manitoba Society of
16 Seniors Information Requests on the second round and
17 MPI's responses. As CAC/MSOS Exhibit 3-1 through to 3-8
18 the Consumers Association of Canada Manitoba Inc.,
19 Manitoba Society of Seniors Information requests on the
20 third round and MPI's responses; and as CAC/MSOS Exhibit
21 4, the pre-filed evidence of Professors Derek Hum and
22 Wayne Simpson.

23

24 --- EXHIBIT NO. CAC/MSOS-1.1 through to 1.93:

25 The Consumers Association of Canada

1 Manitoba Inc. and Manitoba Society of
2 Seniors Information Requests in the first
3 round and Manitoba Public Insurance's
4 responses.

5

6 --- EXHIBIT NO. CAC/MSOS-2.1 through to 2.48:

7 The Consumers Association of Canada
8 Manitoba Inc. Manitoba Society of Seniors
9 Information Requests on the second round
10 and MPI's responses.

11

12 --- EXHIBIT NO. CAC/MSOS-3.1 through to 3.8:

13 The Consumers Association of Canada
14 Manitoba Inc., Manitoba Society of Seniors
15 Information requests on the third round
16 and MPI's responses.

17

18 --- EXHIBIT NO. CAC/MSOS 4:

19 The pre-filed evidence of Professors
20 Derek Hum and Wayne Simpson.

21

22 MR. WALTER SARANCHUK: Moving on to the
23 exhibits of CMMG, as I understand it to be marked as the
24 first Exhibit CMMG-1 is the -- and that will be through
25 to 1-81 -- CMMG Exhibit 1-1 through to 1-81 the Coalition

1 of Motorcycle Groups Information Requests in the first
2 round and MPI's responses. And for CMMG -- Exhibit CMMG-
3 2-1 to 2-30 the Coalition of Manitoba Motorcycle Groups
4 Information Requests on the second round and MPI's
5 responses.

6

7 --- EXHIBIT NO. CMMG-1.1 through to 1.81:

8 The Coalition of Motorcycle Groups
9 Information Requests in the first round
10 and MPI's responses.

11

12 --- EXHIBIT NO. CMMG-2.1 to 2.30:

13 The Coalition of Manitoba Motorcycle
14 Groups Information Requests on the
15 second round and MPI's responses.

16

17 MR. WALTER SARANCHUK: Moving on to
18 Manitoba Bar Association's exhibits. Exhibit 1 through
19 to 1-25, Manitoba Bar Association's Information Requests
20 in the first round and MPI's responses. And then Exhibit
21 MBA-2

22

23 ---EXHIBIT NO. MBA-1.1 through 1.25:

24 Manitoba Bar Association's Information
25 Requests in the first round and MPI's

1 responses.

2

3 MR. WALTER SARANCHUK: The Exhibit MBA 2-
4 1 through to 2-18, that's Manitoba Bar Associations
5 Information Requests in the second round and MPI's
6 responses.

7

8 --- EXHIBIT NO. MBA-2.1 through 2.18:

9 Manitoba Bar Associations Information
10 Requests in the second round and MPI's
11 responses.

12

13 MR. WALTER SARANCHUK: Dealing with the
14 Manitoba Chiropractor's Association Exhibits, MCA-1-1
15 through to 1-7, will be Manitoba Chiropractors request in
16 the first round and MPI's responses.

17

18 --- EXHIBIT NO. MCA-1.1 through 1.7:

19 Manitoba Chiropractors request in the
20 first round and MPI's responses.

21

22 MR. WALTER SARANCHUK: As Exhibit MCA 2-1
23 through to 2-5, the Manitoba Chiropractor's Association
24 Information Requests in the second round and MPI's
25 responses.

1 --- EXHIBIT NO. MCA-2.1 through 2.5:

2 Manitoba Chiropractor's Association
3 Information Requests in the second round
4 and MPI's responses.

5

6 MR. WALTER SARANCHUK: Moving to Manitoba
7 Used Car Dealer's Associations Exhibits. That would be
8 MCUDA Exhibit 1-1 through to 1-11. That would be
9 Manitoba Used Car Dealer's Association Information
10 Request in the first round and MPI's responses.

11

12 --- EXHIBIT NO. MCUDA-1.1 through 1.11:

13 Manitoba Used Car Dealer's Association
14 Information Request in the first round and
15 MPI's responses.

16

17 MR. WALTER SARANCHUK: And then dealing
18 with the Resource Conservation of Manitoba, Time to
19 Respect Earth's Ecosystems Exhibits, that would be the
20 first Exhibit RCM/TREE Exhibit 1-1 through to 1-7, The
21 Resource Conservation Manitoba Time To Respect Earth's
22 Ecosystems Information Requests in the first round and
23 MPI's responses.

24

25 --- EXHIBIT NO. RCM/TREE-1.1:

1 Resource Conservation Manitoba Time To
2 Respect Earth's Ecosystems Information
3 Requests in the first round and MPI's
4 responses.

5
6 MR. WALTER SARANCHUK: For Exhibit
7 RCM/TREE Exhibit 2-1 through to 2-6, would be Resource
8 Conservation Manitoba Time to Respect Earth's Ecosystem
9 Information Request in the second round and MPI's
10 responses.

11
12 --- EXHIBIT NO. RCM/TREE-2.1 through 2.6:
13 Resource Conservation Manitoba Time to
14 Respect Earth's Ecosystem Information
15 Request in the second round and MPI's
16 responses.

17
18 MR. WALTER SARANCHUK: And moving to
19 Scootering Manitoba's Exhibits, there would be -- the
20 first Exhibit SM 1-1 through to 1-3, Scootering
21 Manitoba's Information Request in the first round and
22 MPI's responses.

23
24 --- EXHIBIT NO. SM-1.1 through 1.3:
25 Scootering Manitoba's Information Request

1 in the first round and MPI's responses.

2

3 MR. WALTER SARANCHUK: And for the second
4 Exhibit, SM 2-1 through to 2-4, Scootering Manitoba's
5 Information Request in the second round and MPI's
6 responses.

7

8 --- EXHIBIT NO. SM-2.1:

9 Scootering Manitoba's Information Request
10 in the second round and MPI's responses.

11

12 MR. WALTER SARANCHUK: For Exhibit 3 --
13 SM-3-1 and 3-2, Scootering Manitoba's pre-asked questions
14 and MPI's responses.

15

16 --- EXHIBIT NO. SM-3.1 through 3.2:

17 Scootering Manitoba's pre-asked questions
18 and MPI's responses.

19

20 MR. WALTER SARANCHUK: In the list of
21 exhibits to be circulated, there is another correction to
22 be made and ask that the record be corrected that in
23 respect of the first round interrogatories or Information
24 Requests to be marked as a CMMG Exhibit 1, that should be
25 CMMG Exhibit 1-1 through to 1-100.

1 In other words, at the very end of the
2 list of CMMG Exhibits in the first round, there are two
3 typographical errors and that shows after CMMG Exhibit 98
4 -- 1-98, where it shows following that 1-79, that should
5 be 1-99 and where it indicates 1-81, that should be 1-
6 100.

7 So those are the exhibits, subject to --
8 marked at this time, subject to whatever else is to be
9 added by Mr. McCulloch on behalf of MPI.

10 THE CHAIRPERSON: Mr. McCulloch ...?

11 MR. KEVIN MCCULLOCH: Mr. Chairman, I'm
12 going to suggest that I leave this until the start of
13 this afternoon's hearing so that I can complete the list
14 of MPI exhibits, if that's acceptable to the Board?

15 THE CHAIRPERSON: Absolutely. Thank you.

16 Okay, Mr. Saranchuk, you can begin your
17 examination.

18

19 CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

20 MR. WALTER SARANCHUK: Thank you Mr.
21 Chairman.

22 I'd like to begin this cross-examination
23 by asking two (2) standard introductory questions.

24 Ms. McLaren, can you please confirm that
25 the Corporation understands that it bears the onus of

1 proving its case to substantiate its General Rate
2 Application?

3 MS. MARILYN MCLAREN: Yes, Mr. Saranchuk.

4 MR. WALTER SARANCHUK: And does MPI agree
5 that it carries the onus to establish that its rates are
6 just and reasonable?

7 MS. MARILYN MCLAREN: Yes.

8 MR. WALTER SARANCHUK: And by way of an
9 overview, very briefly, of the application by MPI, I
10 would ask for confirmation of these various aspects.
11 First of all that there is a 2.6 percent reduction in
12 base revenue that arises out of this application?

13 MR. DON PALMER: That's correct.

14 MR. WALTER SARANCHUK: And the
15 experience-based rate adjustments shown in Volume 1 of
16 the application being AP-2 are to range from minus 15
17 percent to 15 -- to plus 15 percent; is that correct?

18 MR. DON PALMER: With a couple of notable
19 exceptions, yes.

20 MR. WALTER SARANCHUK: Could you explain
21 what the experience-based rate adjustments involve?

22 MR. DON PALMER: The experience
23 adjustments are looking at -- largely looking at
24 historical data and projecting that into the future to
25 determine the expected cost of claims for all the

1 different classification categories.

2 MR. WALTER SARANCHUK: And in addition
3 classification offset adjustments are made as shown in
4 AP-3 in Volume 1 of the application and that is to
5 achieve revenue neutrality, is that correct?

6 MR. DON PALMER: That's correct.

7 MR. WALTER SARANCHUK: And in the
8 classification offset adjustments there's reference to
9 rate group offset and rate line offset. Could you
10 explain each of those, sir?

11 MR. DON PALMER: Sure. First rate group
12 offset. For the vast majority of our vehicles, that
13 would be passenger vehicles and light trucks, we have a
14 system that we purchased from the Insurance Bureau of
15 Canada called CLEAR or Canadian Loss Experience
16 Automobile Rating. We get rate groups for all vehicles
17 and those change from year to year, largely with older
18 vehicles going down rate groups.

19 What we have done is we've said just that
20 change in rate groups, we're not going to let it effect
21 our rate requirements within themselves so if there was a
22 -- a vintaging effect of 2 percent on a given
23 classification category, then we would offset with a
24 classification offset of plus 2 percent in order that we
25 still maintain the same revenue.

1 the application specifically SM 6.5 page 8, I don't know
2 that you necessarily have to look at it, but as I
3 understand it the major use changes result in adjustments
4 of between minus 14 percent or 14.1 percent for trailers
5 to plus 8.4 percent for motorcycles, is that correct?

6 MR. DON PALMER: That sound about right,
7 yes.

8 MR. WALTER SARANCHUK: And it's a fact
9 isn't it, sir, that experience adjustments or the rules
10 pertaining thereto are not applicable to mopeds, motor
11 scooters, trailers, off-road vehicles, antique vehicles,
12 or drive-aways, is that correct?

13 MR. DON PALMER: That's correct.

14 MR. WALTER SARANCHUK: And just by way of
15 a brief explanation for the record what are drive-aways?

16 MR. DON PALMER: As I was looking at the
17 -- the transcripts of last year I remember this exact
18 same question.

19 MR. WALTER SARANCHUK: And there might be
20 many more.

21 MR. DON PALMER: And I forgot -- and I
22 forgot the answer from then too. So I'm going to defer
23 to Ms. McLaren.

24 MS. MARILYN MCLAREN: It's simply a
25 registration class for vehicles that are driven one way

1 for delivery purposes. They're then registered and
2 insured in another location away from Manitoba.

3 MR. WALTER SARANCHUK: Thank you,
4 Ms. McLaren.

5 And in Volume I, specifically SM-4 at page
6 12, there's reference to the motorcycle rate
7 differentials and, again, you don't have to necessarily
8 look at this but as I understand it the changes range
9 from an increase of 20.1 percent for rate group zero to a
10 decrease of 1.9 percent for rate group 3; is that
11 correct?

12 MR. DON PALMER: That's correct.

13 MR. WALTER SARANCHUK: Dealing with
14 drivers' license premiums very briefly, they are
15 addressed specifically at SM3.2 in Volume I of the
16 application. There's really to be no change in drivers'
17 license premiums; is there?

18 MR. DON PALMER: That's correct.

19 MR. WALTER SARANCHUK: We are advised,
20 however, that last month they were converted to be
21 aligned with motor vehicle insurance premiums in terms of
22 the renewal date; is that correct?

23 MR. DON PALMER: That is correct.

24 MR. WALTER SARANCHUK: Can you, at a high
25 level, sir, just explain how that process works? Or

1 Ms. McLaren.

2 MS. MARILYN MCLAREN: Yes, Mr. Saranchuk.
3 What we've begun to do with driver license renewals is to
4 line them up with the Autopac renewal date which is four
5 months from the individual's birth date. Right now all
6 driver license renewals are at the end of the birth
7 month.

8 So we've started with the people born in
9 September and then they receive their driver license
10 renewals in late August, early September, they were only
11 for a four month period, minus a few days depending on
12 their actual birth date, to take that license to the
13 Autopac renewal date. The vast majority of driver
14 license holders are also vehicle owners. When they come
15 back in January they will then have one transaction per
16 year from that point forward.

17 MR. WALTER SARANCHUK: Thank you,
18 Ms. McLaren.

19 And very briefly in terms of other issues
20 to be addressed, can you confirm that there's no change
21 to be made in service or transaction fees?

22 MR. DON PALMER: I'll confirm that.

23 MR. WALTER SARANCHUK: And there's to be
24 no change in permit or certificate fees?

25 MR. DON PALMER: That's correct.

1 MR. WALTER SARANCHUK: And no change in
2 the forty dollars (\$40) discount provided to customers
3 with approved anti-theft devices?

4 MR. DON PALMER: That is also correct.

5 MR. WALTER SARANCHUK: Can you confirm as
6 well that the immobilizer incentive, that's the anti-
7 theft initiative that is in place, that it's being
8 expanded this year with the offer of free immobilizers to
9 most at risk vehicles throughout the province?

10 MR. DON PALMER: I'll confirm that. Yes.

11 MR. WALTER SARANCHUK: Now, in respect of
12 that expansion, and very briefly, at a high level, and in
13 particular, I'm looking at the pre-filed testimony of Ms.
14 McLaren at page 4 at the top, can you please review the
15 rationale for that expansion? And we're talking about at
16 a very high level at this stage?

17 MS. MARILYN MCLAREN: Yes. What we --
18 what I said in my pre-filed testimony that we believe
19 it's reasonable and appropriate use of retained earnings
20 to provide financing to make this expansion across the
21 province. It really is a matter of fairness and equality
22 of access with respect to this program.

23 Most people who live in Manitoba come to
24 Winnipeg at some point and we know that many of the
25 vehicles that are stolen -- many of the vehicles owned by

1 people outside Winnipeg, when they're stolen, they're
2 stolen in Winnipeg.

3 But also there is theft across other parts
4 of the province as well as Winnipeg, particularly these
5 most at risk vehicles. There's not the same financial
6 business case with respect to this particular expansion
7 but we believe it's a reasonable use of funds and an
8 appropriate response to public concerns about fairness
9 and equality of access.

10 MR. WALTER SARANCHUK: In terms of a
11 financial payback, that really can't be demonstrated in
12 respect of this expansion, is that correct?

13 MS. MARILYN MCLAREN: It very well can be
14 demonstrated, it's just over a much longer period of
15 time. I think it's something like about an eight (8)
16 year payback where the Winnipeg business case is a much,
17 much shorter, in a year or two (2).

18 MR. WALTER SARANCHUK: Thank you Ms.
19 McLaren. In terms of the overall question of the base
20 premiums, the impact of the premiums applied for is
21 addressed in SM 6.6 at page 9 of Volume I of the
22 application.

23 And that deals with the impacts of the
24 premium adjustments on the number of vehicles by dollar
25 and percentage. In summary, I just draw everyone's

1 attention to -- document at Tab 1 of the Book of
2 Documents.

3 There is addressed the highlights of the
4 application and can you confirm, Ms. McLaren or Mr.
5 Palmer; that 75 percent of the vehicles, about six
6 hundred and forty-four thousand (644,000) of them will
7 receive a rate decrease with the great majority,
8 approximately 96 percent being less than a hundred (100)
9 dollars?

10 MR. DON PALMER: I think you said six
11 hundred and forty-four thousand (644,000) would go down,
12 in fact, that's will decrease or stay the same.

13 MR. WALTER SARANCHUK: Yes, and my
14 understanding is that there are about fifty-three
15 thousand (53,000) of the vehicles, approximately 6
16 percent will receive no change in rates?

17 MR. DON PALMER: That's correct.

18 MR. WALTER SARANCHUK: With approximately
19 19 percent or a hundred and sixty-seven thousand
20 (167,000) receiving a rate increase?

21 MR. DON PALMER: That's correct.

22 MR. WALTER SARANCHUK: So that on an
23 overall basis, a premium rate decrease of 2.6 percent is
24 being requested in this application?

25 MR. DON PALMER: That's correct.

1 MR. WALTER SARANCHUK: And as we heard
2 individual vehicle premiums will be impacted by rate
3 experience adjustments, rate group changes, offset
4 adjustments, CLEAR rate line adjustments and rate line
5 differential adjustments.

6 So, although a 2.6 percent decrease in
7 vehicle rates is being sought, approximately 19 percent
8 of vehicle owners will be paying more with this
9 application, given those adjustments?

10 MR. DON PALMER: That's correct.

11 MR. WALTER SARANCHUK: And if we consider
12 the indicated experience adjustments by major use, this
13 is addressed in the table at SM 6.3 in Volume I on page
14 2; and compare that to the -- that's the financial
15 column, then compare that to the required rate
16 adjustments by major use and territory in SM 6.5 at page
17 8; I wonder if at -- again, at a high level, you can just
18 comment on the difference between those two (2) tables?

19 MR. DON PALMER: The table on page 2, is
20 the experience rate indicator from our actuarial
21 methodologies, without worrying about caps, that kind of
22 thing.

23 When we run it through our rate model and
24 put in all the caps and the adjustments and balance it
25 back to our revenue requirement we get the actual rate

1 changes that we're requesting from this Board on page 8
2 of 6.5.

3 MR. WALTER SARANCHUK: Yes, and just for
4 the record for clarification, when you refer to that
5 table -- you mean the -- which table on page 8?

6 MR. DON PALMER: The top table.

7 MR. WALTER SARANCHUK: Yes, thank you.
8 Now, in AI-12, in the filing in Volume III, part 2, the
9 Corporation has dealt as requested by the Board in the
10 past, dealt with the transition from the required to the
11 applied for rate adjustments.

12 And obviously that is very technical
13 detailed transition. I'm just wondering, Mr. Palmer, if
14 you would be good enough, at a high level, if that can be
15 done given the detail and the technical aspects of the
16 matter; whether you can, at a high level, explain what is
17 involved in that transition?

18 MR. DON PALMER: First I'll correct you,
19 Mr. Saranchuk. I believe it's AI-13 that you're
20 referring to.

21 MR. WALTER SARANCHUK: Oh, I'm sorry, AI-
22 13.

23 MR. DON PALMER: What we've done in this
24 table is to try to itemize all the various steps along
25 the way with all the rules, the capping, the experience

1 indicators, and -- and break it down into smaller chunks
2 that you can see the impact on the various adjustments
3 that we -- we undergo.

4 So we -- we start with rates before any
5 changes are made; that's the two (2) columns under
6 Heading A and then we apply any classification changes
7 and CLEAR adjustments, run that through the model and
8 result in what you see as the columns under "B". And
9 there's -- there's totals at the bottom to -- to indicate
10 what the total impact of each -- each one of these
11 changes is.

12 Then we apply the actuarially indicated
13 adjustments; that's in "C". We have to balance those to
14 our overall revenue requirement so that balancing process
15 is shown in the columns under "D".

16 We're then subject to the capping rules
17 that I had talked about earlier and that's in columns
18 "E". We then balance those capped indicated adjustments
19 again to -- to get back to our total revenue requirement
20 of 2.6 percent and then that is balanced once again to
21 come up with our final applied-for adjustment and that's
22 "G" and those are the final indicators that are part of
23 this application.

24 MR. WALTER SARANCHUK: So this exercise
25 occurs every year essentially, correct?

1 MR. DON PALMER: That's correct.

2 MR. WALTER SARANCHUK: And that basically
3 is the process for getting us to the stage from the --
4 the indicated experience adjustments by major use as
5 shown in SM 6.3 in the table there at page 2 under the
6 financial forecasting method through to the required rate
7 adjustments by major use and territory shown in the
8 application?

9 MR. DON PALMER: That's correct.

10 MR. WALTER SARANCHUK: Now, still
11 continuing with an overview of the application at a high
12 level, I would ask that you turn to SM 8 in Volume 1 of
13 the application and deal with the issues that are
14 addressed there at SM 8.1 through to SM 8-12 and this
15 would be very briefly with these -- these issues
16 primarily arising out of the Board Order last year,
17 that's Board Order 150/05 of last year; is that correct?

18 MR. DON PALMER: That's correct.

19 MR. WALTER SARANCHUK: Dealing firstly
20 with SM 8.1 under the heading of Premium Rebates, the
21 section obviously speaks for itself, but in terms of an
22 elaboration at a high level could someone from the MPI
23 panel just explain for the record what is being addressed
24 there?

25 MS. MARILYN MCLAREN: Yes, this is with

1 respect to how the \$58 million was distributed as ordered
2 by the Board last year.

3 In 2001, we distributed about \$80 million
4 by reducing the amount people had to pay for their next
5 year's automobile insurance through their basic Autopac
6 rate. This most recent year we mailed cheques and this
7 is really an assessment of how that process went and the
8 Corporation's recommendation that if in the future PUB
9 finds itself in a position to order another rebate, our
10 strong recommendation is to do it the way we did in 2001
11 for the reasons we've articulated here.

12 MR. WALTER SARANCHUK: Thank you, Ms.
13 McLaren. The next section is SM 8.2 and the risk
14 analysis. We've already heard through direct examination
15 of MPI witnesses about that. But, again, at a high level
16 and while considering that we will be getting into this
17 in great detail, if you wouldn't mind just explaining
18 what is addressed in SM 8.2 dealing with the risk
19 analysis?

20 MR. DON PALMER: The order last year by
21 this Board was to update the risk analysis and what we
22 took that to mean is update the risk analysis, the
23 methodology that was approved by the Board in Board Order
24 179/'01.

25 We did that. We updated using the same --

1 the same assumptions that was -- was used back in 2001
2 and then we took a look at some of those assumptions and
3 -- and felt that there was some areas for improvement and
4 those three (3) areas are shown in SM 8.2.

5 MR. WALTER SARANCHUK: Thank you, Mr.
6 Palmer.

7 Moving to driver and vehicle licensing, SM
8 8.3, that's a relatively lengthy section but I would ask
9 you, or some member of the Panel, to deal specifically
10 with that section with particular emphasis on SM 8.3.1,
11 that's the business process review, again, at a high
12 level. And then at SM 8.3.2 the basic and extension
13 allocations.

14 So beginning with the progress on merger
15 related activities and the overall approach, the project
16 structure and the projects?

17 MS. MARILYN MCLAREN: Yes. There's a --
18 there's good deal of information there with respect to
19 the overall approach to project management at Manitoba
20 Public Insurance and I think it is fairly comprehensive
21 on its face here in the material. But I'll speak more
22 specifically to the initiatives that have been adopted by
23 the Corporation if we look forward beyond the driver
24 license system onto the projects that are listed on page
25 6 of that section.

1 I spoke briefly about the driver license
2 changes that are coming. Not only are we aligning the
3 dates, we are introducing a much enhanced driver license
4 photocard that has more security features and provisions
5 built into that process as well as the card itself.

6 We also are increasing the access to
7 driver license services within the large centres in the
8 province. Brokers handled driver license transactions in
9 the small towns across this province for many, many years
10 but did not do so in Winnipeg, Thomson, Dauphin, Brandon
11 and Portage. As of November of this year there will be
12 three hundred (300) and some odd driver licensing service
13 outlets just as there are Autopac service outlets through
14 the brokers of Manitoba.

15 Lining up the dates, increasing the access
16 to service is going to make some significant service
17 advantages to Manitobans and the improvements in the
18 process themselves really starts to position the Manitoba
19 driver license as one that is required within emerging
20 standards, both in this country and others, with respect
21 to driver license documentation and security.

22 Service centres, I think, really holds out
23 one of the really significant opportunities to reduce
24 some costs but also, again, to -- to improve service.
25 Right now, the City of Winnipeg has driving testing

1 services in three (3) offices in Winnipeg. Through this
2 initiative we'll be expanding them to the Winnipeg Claim
3 Centres which moves that from three (3) to five (5).

4 The other thing that we'll be doing -- the
5 same thing in rural Manitoba. Right now, DVL staff
6 travel from Dauphin to Swan River, for example. And what
7 we'll be doing under service centres is maximizing the
8 use of that claims centre and providing a physical
9 presence in all of those communities where we have a
10 claims centre where today we don't have DVL offices.

11 In the places where we have DVL offices
12 and claims centres we will, for the most part, be giving
13 up those DVL offices and moving the staff into the claims
14 centres and that's where some of the costs savings comes
15 from. So I think there's a lot of promise with that
16 particular one.

17 Driver safety rating; that is the name
18 that we have adopted for the merit discount program, the
19 driver license surcharge system and Bonus/Malus, as it's
20 fondly become to know -- come to be known in these
21 circles.

22 Architecture really just means what is
23 this business process need in terms of systems support
24 and systems structure. One of the things that's
25 happening that you'll imagine over the next few days and

1 probably few years, you'll start to hear about
2 initiatives like service centres, are significantly
3 changing the way Manitoba Public Insurance does its work.

4 For many years we were an insurance
5 company that had a front end unit that was responsible
6 for issuing policies and answering questions from brokers
7 and the customers. And we had a claims organization.

8 And they worked together on new products
9 and changes to products, but that's really about it. And
10 the rest of the organization supported those two (2)
11 functions.

12 With service centres, you're going to have
13 computer systems and physical premises serving very, very
14 broad parts of the Corporation. And the extent to which
15 we really need to integrate our systems and position
16 ourselves to really be able to adequately support
17 integrated service delivery is really what the BPR
18 Architecture process is all about.

19 And decommissioning, there is still a
20 great, big cumbersome, mainframe computer system running
21 lots of driver license activities. And we're not going
22 to be completely off of that mainframe system even at the
23 end of this next fiscal year when we complete the
24 transition to the new driver license system.

25 We have to deal with completely and

1 permanently moving ourselves off that mainframe and
2 moving all of the processing and transactions into the
3 MPI computer infrastructure.

4 And I'll let Mr. Galenzoski talk about the
5 allocation of costs.

6 MR. BARRY GALENZOSKI: The allocation of
7 costs, we've indicated that we're going to be looking to
8 hire an external consultant to assist us with this.

9 We have delayed this to some extent, just
10 to get the full effect of some of the projects that Ms.
11 McLaren was talking about to show the ramifications as to
12 how staff will be moved around the organization.

13 So I expect that that will be a project
14 that will be completed in the next fiscal year.

15 MR. WALTER SARANCHUK: And does that
16 external advice that you're seeking include, as indicated
17 in SM 8.3.2 page 15, the Board's recommendation to
18 reconsider -- to have MPI reconsider its decision to
19 include DVL operations within the extension division?

20 MR. BARRY GALENZOSKI: Yes, that will
21 look at where activities -- work activities are occurring
22 and where the staff are currently located or would be
23 located at that point in time and also address the issue
24 of the funds transfer that we're currently getting from
25 the Provincial Government.

1 MR. WALTER SARANCHUK: Thank you. Moving
2 onto SM 8.4, Ms. McLaren touched on this and basically
3 this is the new driver's safety rating system to replace
4 the existing Bonus/Malus system and this, of course, to
5 be the subject of a special hearing next year, is that
6 correct Ms. McLaren?

7 MS. MARILYN MCLAREN: Yes.

8 MR. WALTER SARANCHUK: And moving onto SM
9 8.5 and PIPP cost allocation is there anything there that
10 elaborate on?

11 MR. BARRY GALENZOSKI: Just that this is
12 the first rate application that uses the data as
13 configured according to PUB Order 97/05, that was the
14 loss transfer hearing.

15 So this is just confirmation that we have
16 done that and applied that allocation methodology to the
17 rates presented this year.

18 MR. WALTER SARANCHUK: Thank you. And SM
19 8.6, at page 17 of SM 8 deals with road safety and the --
20 again the section is quite lengthy.

21 But, at a high level with emphasis on the
22 two (2) Board recommendations, number four (4) and five
23 (5) in last year's Order; could some member of the MPI
24 Panel just elaborate on the information given in that
25 section?

1 MR. WILF BEDARD: Yes, the two (2) Board
2 recommendations are highlighted in this section. The one
3 (1) being to the MPI to commission an independent study
4 on traffic prevention and driver education which is
5 highlighted as you mention on page 18 and 19.

6 The outcome of the activity over the
7 course of the past year is highlighted there. The
8 recommendation five (5) was that MPI consult with the
9 RCMP, the Winnipeg Police Service and the Province to
10 address the perceived diminished enforcement resulting
11 from the red light camera installations throughout the
12 City.

13 And members of our road safety division
14 have been meeting with those principals over the course
15 of the past year on a number of occasions and dealing
16 with -- with that issue with the activity highlighted in
17 -- in this section.

18 MR. WALTER SARANCHUK: As I understand it
19 there has really been no commitment according to this
20 information in SM 8.6, a commitment by the Winnipeg
21 Police Service to increase its involvement to -- to
22 increase, actually, the enforcement. Is there any change
23 anticipated there?

24 MR. WILF BEDARD: There's ongoing
25 discussions that are taking place. You're quite right.

1 We have no commitment from the Winnipeg Police Service to
2 -- to increase enforcement. They also are not committed
3 in writing to the 2010 targets but we are continuing to
4 work with them and hopefully we'll see some change in
5 their position over the course of time.

6 MR. WALTER SARANCHUK: Dealing with SM
7 8.7 and particularly claims handling PIPP and cost
8 benchmarks; this is at page 22, is there anything in the
9 way of an update that can be given there?

10 MR. WILF BEDARD: No, not really, it's
11 still a -- a work in progress. We've been spending a lot
12 of time analysing what we would like to -- to see develop
13 there. There really hasn't been any firm decisions made
14 with respect to ultimately how the Corporation is going
15 to manage this move forward and -- and fund this
16 initiative. It's still a work in progress at this time.

17 MR. WALTER SARANCHUK: Can you give us
18 any timeline?

19 MS. MARILYN MCLAREN: I expect by the end
20 of this fiscal year we will have reasonably firm
21 decisions made with respect to changes we want to make
22 and our ability to handle PIPP claims.

23 MR. WALTER SARANCHUK: Yes, just for the
24 record the acronym, PIPP has been referred to a number of
25 times thus far. It means the Personal Injury Protection

1 Plan of the Corporation, the Autopac automobile insurance
2 scheme.

3 Dealing with SM 8-8 and just briefly with
4 respect to mopeds and motorcycles could someone elaborate
5 on what appears as the information in that section?

6 MR. DON PALMER: There was a concern
7 raised by Scootering Manitoba last year that U-drive --
8 there was a U-drive moped industry out there that their
9 belief was it had higher claims costs than -- than
10 regular privately owned and operated scooters.

11 We don't have the data to support that
12 because we don't have proper classification, so what
13 we've done this year is we are separating into an all
14 purpose and pleasure moped category and also a U-drive
15 moped category. We haven't made any rate changes to
16 those vehicles that will fall into a U-drive, but it will
17 give us the ability to track the experience on a
18 separated basis.

19 The second recommendation with regard to
20 motorcycles was for us to update and refine our
21 definition of sport bikes and we have done an analysis of
22 that with some input from the CMMG to -- to come up with
23 -- to move some of the bikes that we formerly had
24 classified as sport bikes into other motorcycle
25 categories.

1 MR. WALTER SARANCHUK: Thank you, sir.
2 SM 8.9 deals very briefly with environmental matters.
3 With MPI accepting the recommendation of the Board in its
4 order last year that MPI consider in more depth a concept
5 such as pay as you drive insurance could someone from the
6 Board -- from the MPI panel please give us an update on
7 matters there? Again, this is at a very high level just
8 by way of an overview.

9 MS. MARILYN MCLAREN: With respect to the
10 specific recommendation and the Corporation's
11 acknowledgement that it accepts that recommendation we
12 have not begun to pursue initiatives such as pay as you
13 drive. The Corporation's position continues to be that
14 this is a very problematic concept for this particular
15 Corporation.

16 There is a lack of credible examples in
17 the Canadian context, but we have made the commitment to
18 -- to look into matters like this and, you know, the
19 broader statement along with other initiatives that would
20 enhance sustainable development objectives. We certainly
21 acknowledge that the Sustainable Development Act applies
22 to Manitoba Public Insurance.

23 We have done a number of things that have
24 been widely recognized as proactive and helpful in this
25 regard and we continue to look for other opportunities to

1 make appropriate decisions and, perhaps, to start
2 appropriate initiatives that really fit with the context
3 of this insurance company and, particularly, in the
4 context of the basic compulsory insurance program.

5 MR. WALTER SARANCHUK: And the
6 initiatives that you have alluded to as having been
7 adopted or implemented, those are primarily internal, I
8 take it?

9 MS. MARILYN MCLAREN: Yes. Things with
10 respect to the way we chose to construct the two (2)
11 newest claims centres outside Winnipeg; things of that
12 nature.

13 MR. WALTER SARANCHUK: Dealing with SM
14 8.10, the investment portfolio, could someone from the
15 MPI Panel just address that at a high level at this
16 juncture.

17 MR. BARRY GALENZOSKI: Yes. This
18 particular section attempts to correct a little
19 misunderstanding that was in the previous Board Order
20 with respect to the yield on the portfolio which was
21 shown in the order at 5.75 when the actual yield at
22 previous fiscal year was 7.6 and over a longer average
23 was 7.7 percent.

24 I can advise the Panel or the Board that
25 the Corporation is certainly considering other

1 diversification initiatives with respect to its
2 investment portfolio. We're not expecting to see any
3 immediate changes to that.

4 But in discussions with our board of
5 directors we have a -- we have a process that's starting
6 to look at the investment asset allocation with potential
7 exposure being sought in real estate, potentially EAFE,
8 foreign bonds and infrastructure bonds.

9 So we are continuing to look at our asset
10 allocation process. We've done a lot to change that over
11 the last ten (10) years or so and we'll continue to do
12 that in the future.

13 MR. WALTER SARANCHUK: I think you
14 referred to an acronym EAFE, could you give the letters
15 of that and explain what it is?

16 MR. BARRY GALENZOSKI: Yes. That's the
17 EAFE, is the letters and that's Europe and the Far East.
18 Europe, Asia and the Far East. Or Europe, Australia and
19 the Far East, sorry. You can understand that we need to
20 do some education for myself on this.

21 MR. WALTER SARANCHUK: Now you know why I
22 asked the question.

23 Dealing briefly with SM 8.11, management
24 fees, can you elaborate on that, Mr. Galenzoski?

25 MR. BARRY GALENZOSKI: Yes. As it's

1 indicated, we did bring this matter, as requested, to the
2 government's attention and we believe that -- well, we
3 understand that they have undertaken some internal study
4 with -- using an external consultant on this. However,
5 we have not been advised of the results of that and
6 currently are not expecting much change.

7 I should add that the Corporation, I
8 think, is on record indicating that we believe the
9 overall fees charged by the provincial government for the
10 investment activities that they do on our behalf are
11 reasonable and I think there was -- the main concern was
12 how it was being calculated that the Board was concerned
13 with.

14 So that's all I have to report on that.

15 MR. WALTER SARANCHUK: Well, what about
16 the element of why the Board -- or why the Corporation is
17 being charged at all?

18 MR. BARRY GALENZOSKI: Well, I think when
19 we looked at -- at the fees that were being charged we
20 determined that they were considerably less than we would
21 be charged if it was being done by an outside independent
22 consultant, particularly on the bond side.

23 And it was more of a discussion, the way I
24 understood it, with respect to the methodology in what
25 was being included in the asset base that they were using

1 to calculate the fee on, not whether there should be just
2 any fee whatsoever.

3 MR. WALTER SARANCHUK: Has there been a
4 change in that asset base, namely the exclusion of
5 Government of Manitoba bonds?

6 MR. BARRY GALENZOSKI: No, there has not.

7 MR. WALTER SARANCHUK: And, finally, I
8 would ask that a member of the MPI Panel please deal with
9 the auto theft initiatives section in SM 8.12? That is a
10 rather lengthy section from page 25 through to 34 but it
11 has a number of interesting sub-headings and would
12 someone please elaborate on each of those under this
13 section of auto theft initiatives?

14 MR. BARRY GALENZOSKI: Yes. This
15 outlines part of the major strategy the Corporation is
16 employing with respect to auto theft overall and it's
17 broken out into a number of different sections.

18 The 8.12 is the auto theft initiatives and
19 then 8.12.1 is auto theft statistics and costs for 05/06.
20 We're indicating that the statistics are starting to move
21 in a favourable direction.

22 However, they're moving from a high point
23 and so we're seeing improvements but, it's against a base
24 of very -- of record thefts. So we are hoping that that
25 will continue to show a downward trend.

1 We move into 8.12.2 which is youth at risk
2 and how we're trying to discourage youths from getting
3 involved in this particular activity. I can also add
4 that we continue our very active process of seeking
5 restitution from youth that are involved in car theft;
6 that's part and parcel of our overall strategy to bring
7 this under control.

8 There's an awareness program again, this
9 is under 8.12.3 which is designed to assist customers in
10 being more aware and pro-active in protecting their own
11 vehicles from loss; making sure that they are taking the
12 keys out, parking it in appropriate spaces that are lit,
13 things that customers can do to prevent vehicles from
14 being broken into and subsequently stolen.

15 MR. WALTER SARANCHUK: Just dealing with
16 the youths that at risk for a moment; I take it the
17 Corporation is satisfied that it is a realistic process
18 or realistic prospect; to pursue recovery or restitution
19 from the youthful individuals who are precipitating these
20 crimes?

21 MR. BARRY GALENZOSKI: It's useful, it's
22 long-term in nature though, because quite frankly a
23 twelve (12) year old doesn't have much of an ability to
24 pay back even if they do have a paper route, they're not
25 going to make a lot of money on that.

1 So we're looking at the longer term
2 prospects on this and we're making sure that the youths
3 understand -- that are getting involved in the process,
4 that they do have some responsibility with respect to
5 paying these funds back.

6 Generally that occurs, years later when
7 they become more productive with respect to having full-
8 time employment. They need to have a driver's license,
9 need to have a vehicle in their own name, so that they
10 can get to work; thing along that line.

11 And we're finding that we're usually more
12 successful once they get a little bit older in the
13 process and make some recoveries.

14 MR. WALTER SARANCHUK: Thank you, sir.
15 Moving on to 8.12.4, dealing with offenders.

16 MR. BARRY GALENZOSKI: Again, this is
17 with respect to support that are being provided to assist
18 in the prosecution of offenders, whether they're young or
19 old, that are involved in the car theft.

20 It talks about the specialized auto theft
21 prosecution team. I think one (1) of the Intervenors has
22 suggested that that may not be an appropriate thing. I
23 guess we'll have some discussion about that during the
24 Hearings.

25 The support that we provide to the

1 Winnipeg Police Services and the support that we provide
2 with respect to fingerprinting stolen vehicles.

3 So the Corporation again is putting up
4 some money and a lot of effort in attempting to come to
5 grips with the theft problem, not just from the
6 immobilization side which is our big ticket item; but
7 with respect to other things that can assist in deterring
8 and actually catching thieves.

9 MR. WALTER SARANCHUK: Yes, the next
10 section is the Winnipeg auto theft suppression strategy
11 at SM 8.12.5.

12 MR. BARRY GALENZOSKI: Yes, this is a
13 program that's been fully operational since August of
14 2005, targeting youths considered to be chronic re-
15 offenders.

16 And they have the prospect of being --
17 having bed checks and other things done if they've been
18 convicted of auto theft and had some terms put on their
19 release, which is generally at large.

20 It's been fairly successful, particularly
21 in its early stages, although we're beginning to detect
22 that it's less successful because the youths are tending
23 to ignore some of this.

24 So it is a costly program, very labour
25 intensive with respect to try and keep track of where

1 there youths are. So we don't see that as a long term
2 solution.

3 And that's one of the main reasons why we
4 went into the immobilizer program as our major initiative
5 with respect to solving the auto theft problem in
6 Manitoba.

7 MR. WALTER SARANCHUK: Yes, and just
8 using that segue at SM 8.12.6 there's reference to
9 vehicle owners and the immobilizer incentive plan, could
10 you just address those please -- those comments?

11 MR. BARRY GALENZOSKI: Yes, this has been
12 a program that the Corporation has had a lot of
13 discussion with, both at this venue as well as in the
14 media with respect to how we're tackling our major
15 incentive with respect to solving the auto theft problem
16 in Manitoba.

17 It's been a very large learning experience
18 for the Corporation with respect to putting a program
19 like this in place. I think you can -- if you understood
20 all the ins and outs of -- of the intricacies of -- of
21 not only getting businesses to agree to be installers, to
22 setting up an appointment process where customers can
23 call into our call centre and make an appointment with
24 any of the authorised installers.

25 All of the installers that are authorised

1 have been educated generally through MPI's initiative to
2 educate them in the proper installation methods for this
3 particular -- these particular devices.

4 We've --we've got business partnerships
5 with -- with groups like CAA of Manitoba to assist in
6 quality control as well as installation of these
7 particular devices. It's -- it's been very gratifying to
8 see the public's response.

9 We've had to make a number of significant
10 changes to the program particularly in the last twelve
11 (12) months with respect to -- we started off just
12 offering financing and over a five (5) year period we got
13 about twenty-six hundred (2,600) customers of ours
14 involved in the program of installing immobilizers when
15 we just offered free financing.

16 We've moved now to a program where
17 everyone that gets an immobilizer, an approved
18 immobilizer installed at one (1) of our facilities that
19 is partnering with us is going to get at least half the
20 cost of that basic installation cost for that
21 immobilizers paid for by MPI.

22 They're eligible for financing of the
23 remainder of that cost which is currently a hundred and
24 forty dollars (\$140) for their responsibility. They can
25 finance that over five (5) years at no fee, no interest.

1 They're eligible for an immediate forty dollar (\$40)
2 discount on their vehicle and forty dollars (\$40) every
3 year thereafter.

4 So if -- if they did finance that initial
5 hundred and forty dollars (\$140) with us and they were
6 making payments on that, their net cash in their pocket
7 would be the twenty-eight (\$28) they're paying on an
8 annual basis for that less the forty dollar (\$40)
9 discount they're getting from us, twelve bucks (\$12) in
10 their pocket.

11 And -- and that went so far to get the
12 program up and running, but not far enough to really keep
13 it sustainable and we saw a drop off in -- in customer
14 acceptance to the program and to make sure we didn't lose
15 our install capacity that we had out there with all the
16 effort we put into getting that as well as training all
17 the installers, we offered an incentive with respect to
18 free immobilizers for the most at risk vehicles.

19 And we determined as list of a hundred and
20 twenty-eight (128) vehicle types; it's a lot more than a
21 hundred and -- a hundred and fifty (150) vehicle types.
22 I'm sorry. There's a lot more than a hundred and fifty
23 (150) vehicles on this list.

24 There's -- I -- I don't even know if I
25 know a count of the total number of makes and models and

1 -- and all the vehicle types that are out there, but in
2 this hundred and fifty (150) most at risk vehicle list
3 those are now eligible to get a free immobilizer, basic
4 free immobilizer, worth two hundred and eighty dollars
5 (\$280) installed in their vehicle and the take-up on that
6 has been quite gratifying and we're seeing that -- that
7 is seeming to be a sustainable program right now.

8 Now, not to say that there hasn't been,
9 you know, a few bumps in the road. Lots of -- there's
10 issues with respect to a lot of the vehicles that are
11 getting immobilizers installed in them because they're
12 not shiny off the lot brand new vehicles that we're
13 installing these units in.

14 A lot of them are -- are older vehicles,
15 ten (10) -- fifteen (15) years old or older with their
16 own problems that they may have associated with their
17 electrical wiring systems and their other mechanical
18 systems.

19 And -- and a lot of Manitobans have
20 decided that they want remote starts in their vehicles
21 and that's a bigger complication when you're installing
22 these things because now you have to overcome that when
23 you're -- they have to -- these two (2) devices have to
24 work together and so there's a -- there's an additional
25 effort associated with that.

1 So, you know, working with our installer
2 groups, working with the -- the groups that we've got on
3 quality control, I think we've solved most of these
4 problems.

5 We're getting a very high customer uptake.
6 As at the 27th of September we had a little over thirty -
7 - almost thirty thousand five hundred (30,500) installed
8 units with a total of forty-three thousand seven hundred
9 (43,700) that are either installed or have appointments
10 to have them installed. Our install capacity has risen
11 from under -- just under four thousand (4,000) units per
12 month in -- in the province to -- in November we'll have
13 a capacity of fifty-six hundred (5,600) units to be --
14 that can be installed.

15 We're monitoring on a daily basis the
16 activity associated with calls that we're getting into
17 our call centre, appointments that are being made, the --
18 the lost install capacity, in other words the unused
19 install capacity that might exist on a day-to-day basis.

20 And the whole idea here is to manage this
21 so that our installers can keep this thing going and that
22 the public can take advantage of it. And we're seeing --
23 we're very gratified to see that this is happening. The
24 Corporation has put a very large effort into notifying
25 its customers of the risk that they have with respect to

1 their vehicles that can be stolen.

2 They started off, I believe with about a
3 one (1) in twenty-two (22) chance and now they're at
4 about -- those at most risk vehicles, because a lot of
5 them are now starting to get immobilized, if you've still
6 got an unimmobilized most at risk vehicle, your chance of
7 having it stolen has now increased to one (1) in thirteen
8 (13), I believe it is at this stage. And that's since
9 March.

10 So that's telling you that the program's
11 having an effect. It's a favourable effect for those
12 that have got it successfully immobilized. Not a very
13 favourable effect for those that haven't. But we're
14 letting those customers know, as we speak, that they are
15 at greater risk and hopefully the rest of them will come
16 in and get their vehicles done.

17 There's also been a couple of, and I'm
18 kind of moving ahead on this thing, but I'm on a roll now
19 so I might as well, but --

20 MR. WALTER SARANCHUK: You're going to
21 deal with SM 8.12.7 and SM 8.12.8 and SM 8.12.9?

22 MR. BARRY GALENZOSKI: I'm going to talk
23 until I'm hoarse and then I'm going to stop.

24 MR. WALTER SARANCHUK: Okay, but don't
25 talk past twelve o'clock because that's when we have to

1 break.

2 MR. BARRY GALENZOSKI: I won't do that.
3 I promise.

4 We have had a couple of significant
5 changes with respect to the laws in Manitoba respecting
6 vehicles that are coming into the province that are most
7 at risk. They are going to be required to be immobilized
8 before they can be registered. There is a little bit of
9 grace periods in here.

10 The Corporation has agreed to pay for
11 those immobilizers. Again, the basic installation of
12 those immobilizers and we are getting no push back on
13 that at all from the customers. We are getting very
14 favourable response to that.

15 I think it's good news for the customer.
16 Not necessarily good news to find out that you're moving
17 into a high theft area when you move into the City of
18 Winnipeg, but it's good news to know that the insurance
19 company that you didn't even know when you come in here
20 is willing to help you with that problem. And so we're
21 getting pretty good response from that group of people.

22 In addition, there's vehicles that are on
23 the most at risk list that have been stolen and if they
24 have been stolen after September 1 they are now required,
25 before they can be re-registered, that they have an

1 immobilizer installed. And, again, we're not getting any
2 push back from customers on that because a lot of
3 customers are anecdotally saying things like, you know, I
4 was meaning to do that, okay.

5 And after the first or second time of
6 getting their car stolen since September 1 they're now
7 getting it done, okay. So it's very -- very gratifying,
8 again, to see that as we've had cooperation from the
9 legislature with respect to getting these rules in place
10 and I think it's for the benefit of all in Manitoba and
11 we're not getting any adverse publicity or adverse push
12 back from customers on that.

13 And that's, I think, pretty well all I
14 have to say about that.

15 MR. WALTER SARANCHUK: And, of course,
16 there's the expansion of the most at risk no cost
17 enhancement province wide as dealt with at SM 8.12.10 as
18 dealt with briefly earlier.

19 MR. BARRY GALENZOSKI: Yeah.

20 MR. WALTER SARANCHUK: Can you just tell
21 us about that?

22 MR. BARRY GALENZOSKI: Yes, that's
23 correct. We have, as the -- as people in the room will
24 know, the Corporation did initially set aside \$40 million
25 for this program out of the rate stabilization reserve.

1 We set aside a separate section of retained earnings.

2 All the costs for the immobilizer
3 incentive program run through our income statement and
4 that's why, I guess, one of the Intervenors is suggesting
5 we've got a problem because we're budgeting for a loss
6 next year.

7 The reality is, is that a lot of that --
8 or most -- all of that is costs associated with the
9 immobilizer incentive program that has to run through our
10 income statement. We show a small loss, I think, of
11 about \$6 million.

12 When we get to the balance -- or into the
13 retained earnings section there is a transfer of \$10
14 million from the immobilizer incentive fund that offsets
15 that cost that's buried in our income statement. So at
16 the -- at the RSR level everything gets put back to where
17 it's supposed to be and hopefully we'll be able to show
18 that to the Intervenor that has a problem with -- with
19 our rate application from that side of it.

20 We expanded that program. The board of
21 directors agreed with management's assessment that we
22 should expand that program to all of Manitoba with
23 respect to the free for the most at risk and we added \$10
24 million to the immobilizer incentive fund.

25 And at the end of the day, I guess I

1 should add that when this program is complete and we've
2 got almost all of the vehicles that we want immobilized
3 and the free program, at some point, may come to an end,
4 not for those that are legislated but certainly for some
5 of the others, whatever is left in that immobilizer
6 incentive fund still belongs in the retained earnings for
7 basic and will likely just flow back into the rate
8 stabilization reserve.

9 So that money, even if there's a little
10 bit more than might be necessary today, who knows as to
11 where it's all going to come out? Whatever is going to
12 go -- stays with the basic plan.

13 And the reason that we wanted it
14 segregated like that on our balance sheet, is to
15 demonstrate how those costs were flowing out of that
16 program. So that it was very clear to Manitobans, very
17 clear to this Board as to how that money was being
18 handled back and forth.

19 And we hope that that's being accomplished
20 in the way that we're demonstrating this on our balance
21 sheet and through our income statement.

22 MR. WALTER SARANCHUK: Just a final
23 question before we leave that area. Is there any other
24 jurisdiction that the Corporation is aware of where this
25 kind of a immobilizer program has been implemented; or is

1 the Corporation breaking trail on this one?

2 MR. BARRY GALENZOSKI: Well, I think I'll
3 let Ms. McLaren answer that one.

4 MS. MARILYN MCLAREN: We're breaking
5 trail on this one, there's not another insurer, public or
6 private, who has been as aggressively leading the fight
7 against auto theft, particularly I guess, with respect to
8 after market immobilizers as Manitoba has.

9 MR. WALTER SARANCHUK: Thank you Ms.
10 McLaren. Mr. Chairman, I will be proceeding on a
11 completely different area of my cross-examination and
12 there are presenters to be heard at 1:00, so is this a
13 convenient time to break?

14 THE CHAIRPERSON: Okay, we'll break now.
15 See you all back at 1:00. Thank you.

16
17 --- Upon recessing at 11:55 a.m.

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

19

20 THE CHAIRPERSON: Welcome back, everyone.
21 I do enjoy that noise.

22 Anyway, so this is the point in the
23 process in which we receive presenters and presenters are
24 not subject to cross-examination and state their views
25 and hopefully we'll hold to the ten (10) minutes that we

1 sit at this one.

2 THE CHAIRPERSON: I think that's a good
3 idea. Please, whenever you're ready.

4 MS. MICHELLE GIBB: I will sit up front
5 when it is time. I was told I was second.

6 THE CHAIRPERSON: Perhaps I have a
7 different list.

8 MR. WALTER SARANCHUK: That's my
9 misinterpretation. I thought that Mr. Hacaault was going
10 first; that's all.

11 THE CHAIRPERSON: Are you prepared to go
12 first, sir?

13 MR. ANTOINE HACAULT: Yes, I am.

14 THE CHAIRPERSON: We're all ears.

15

16 PRESENTATION BY MR. ANTOINE HACAULT:

17 MR. ANTOINE HACAULT: Thank you, Mr.
18 Chairman, Members of the Board. My name is Antoine
19 Hacaault; I'm the president of the Manitoba Bar
20 Association and I'll be referring to our association as
21 the MBA. I would like to thank the Board for granting
22 Intervenor status to the MBA.

23 The MBA represents approximately twelve
24 hundred (1,200) law students, law school teachers, judges
25 -- I'm getting some feedback, I don't know -- and lawyers

1 both in public and private practice. We are the voice of
2 the legal profession on various matters related to the
3 administration of justice. As in the last two (2) years
4 Mr. Robert Dawson has agreed to represent the MBA in
5 these proceedings.

6 One (1) of the roles of the Canadian Bar
7 Association of which the MBA is a branch, is law reform.

8 Other roles include improving the law,
9 improving the administration of justice and promoting
10 access to justice. Examples include, ongoing
11 relationships with representatives of both the Provincial
12 and Federal Government; supporting public interest law
13 centre, which I understand is here today which provides
14 free legal advice to the vulnerable.

15 Advocating for an effective court
16 challenge program for minority and equality rights
17 issues. Advocating for adequate Legal Aid so that the
18 poor and the marginalised also benefit from legal
19 representations.

20 Appearances before legislative committees
21 are also made to suggest various improvements to proposed
22 legislation. Further example of the Canadian Bar
23 Association's and MBA's involvement in law reform as its
24 feedback and input on the no-fault legislation in
25 Manitoba.

1 The experience of our members and that of
2 our clients, which they serve is that no-fault is not in
3 the public interest because it has the effect of leaving
4 most claimants without independent and effective advice.
5 The coverage is also not as comprehensive.

6 Most claimants are unsophisticated, they
7 do not understand the burden of proof, how to file and
8 pursue a claim, or what questions they should ask.

9 MPI is, in our view, a sophisticated
10 bureaucratic monopoly, although the insurer is
11 legislatively mandated to provide benefits to which a
12 claimant is entitled and claims advisors have recently
13 been introduced at the appeal's level; there is no
14 independent and effective advice available, especially to
15 personal injury claimants from the beginning of the
16 claims process.

17 Although reform of no-fault goes beyond
18 the jurisdiction of the PUB, we acknowledge that, and the
19 MBA continues to pursue the issue through other political
20 and public forums.

21 Instead and making the best of the current
22 no-fault system, the MBA has taken up the interests of
23 victims of personal injury before the PUB, testing the
24 current system to ensure MPI's system provides victims
25 the benefits to which they are entitled, and these

1 benefits are provided in a cost effective way to the
2 advantage of all ratepayers.

3 In addition, in the course of its
4 participation in these hearings the MBA reviews other
5 issues that touch upon the public interest providing a
6 broad public policy approach that offers a framework to
7 the PUB when it considers the specific submissions of
8 parties on particular issues.

9 In closing, I thank the Board again for
10 allowing the MBA to intervene on behalf of victims and
11 for it giving attention to the presentation which will be
12 given.

13 THE CHAIRPERSON: Thank you, sir. Ms.
14 Gibb, are you ready to go now?

15 MS. MICHELLE GIBB: Sure.

16 THE CHAIRPERSON: You might as well come
17 and take the mic up at the front here.

18 MS. MICHELLE GIBB: My name is Michelle
19 Gibb and I'm an occupational therapist. I don't know the
20 formalities of this so I'm just going to --

21 THE CHAIRPERSON: We are pretty informal
22

23 PRESENTATION BY MS. MICHELLE GIBB:

24 MS. MICHELLE GIBB: Okay, good. I'm an
25 occupational therapist. I have a degree in medical

1 rehabilitation and for approximately the past ten (10)
2 years, I'd been working with the Corporation as an
3 independent consultant.

4 I've seen a lot of changes over the last
5 ten (10) years in how the plan is administered and the
6 difficulty that claimants have trying to extract benefits
7 from the Corporation.

8 There's no way I could address everything
9 in ten (10) minutes. I usually talk a lot longer than
10 that, but I've given a copy of my presentation and I'll
11 just go over the fourteen (14) points that I was going to
12 elaborate on.

13 I'm not a claimant advisor and I'm not an
14 advocate, all that I'm looking for in working with the
15 Corporation is fairness and the plan be administered in a
16 non-punitive and non-adversarial way.

17 But I've seen -- as of late that it's
18 become more adversarial and claimants aren't in a
19 position to really be able to effectively substantiate
20 their claims.

21 Some of the things that I've noticed that
22 make it difficult is claimants are not told the specifics
23 of the medical information they need to substantiate
24 their claim. So if they are saying they can't return to
25 work because of a brain injury, what might be needed is a

1 neuro-psychological evaluation. If they're not told
2 that's what's needed, they can't provide it and therefore
3 they can't substantiate their claim.

4 Reports obtained by claimants sometimes
5 aren't recognized by the Corporation so it has to be --
6 the questions have to be initiated by the Corporation and
7 how you phrase a question can affect the answer that you
8 get.

9 If I want to ask my doctor for a letter
10 saying that I'm unable to complete work duties because
11 I'm on a narcotic medication and I can't operate heavy
12 machinery; if the Corporation were to ask that question
13 they might say that, pain is not a medical impairment
14 therefore you can't consider pain, is there any objective
15 reason why this claimant can't work?

16 Well, no, if we take pain out of the
17 picture and any medication out of the picture there isn't
18 a reason why they can't work. So the -- the answer is
19 actually opposite depending on what question you're
20 asking.

21 The claimant is dependent on the
22 Corporation and its representatives for all information
23 and direction. So the policy and procedures manual is
24 not online. The only way you know this manual exists is
25 if you have one because it's in the manual that tells you

1 how to get the manual.

2 So if the claimant does know it exists and
3 does purchase it I'm told that there are no updates
4 provided to claimants. So it might be an out of date
5 manual two days after it's provided.

6 Legal representation is -- is very limited
7 for anybody that wants to take action against the
8 Corporation. The claimant has no financial resources to
9 hire legal representation or healthcare assessments. So
10 a claimant could hire an independent assessor such as
11 myself if they can pay the fee which is -- the standard
12 is about \$90 an hour and most claimants don't have that
13 financial resources.

14 There's minimal compensation for
15 substantiating a claim in the appeal process. There's no
16 independent body to assist claimants until the appeal
17 process and by that time the file can be very biased in
18 the information that has been gathered and there's delays
19 in the appeal process and the MPI decision stands. So
20 somebody might go without benefits for two (2) years
21 until a decision has been overturned.

22 Services of OT's, occupational therapists
23 are not chosen by the claimant but by the Corporation and
24 there has been increasing pressure for individuals such
25 as myself to provide answers which are better for the

1 Corporation. So in terms of denying a claim instead of
2 substantiating a claim.

3 Conflict of interest. The Corporation has
4 representatives, an employee, as an independent assessor.
5 And on two occasions I've gone to the Corporation and
6 asked them and they've told me that the arrangement no
7 longer exists but on both occasions it still was in
8 place.

9 Personal care benefits. When somebody's
10 assessed for personal care benefits they receive two
11 letters; a formal decision letter and an informal -- and
12 an informal letter. This first one speaks to the
13 benefits that the person is entitled to under the Act.
14 The second one refers to what MPI would like to pay them.
15 The second letter stands and is not appealable.

16 So because it's not an official decision
17 letter nobody can appeal it. So even though the person
18 doesn't have the maximum that they're entitled to, there
19 is no way of trying to get the maximum amount.

20 I've had some of my professional reports
21 mis-represented. I made an opinion that somebody wasn't
22 able to work full-time at their duties. A decision
23 letter went out from the Corporation. It omitted parts
24 of pages of my reports and omitted entire reports and
25 claimant was denied benefits based on my reports.

1 The information on file that substantiated
2 the claimant's claim was not released to the claimant or
3 his legal counsel.

4 Violations of the Personal Health
5 Information Act. Some of my reports have been used -- my
6 -- the claimant's name has been whited-out, used on a
7 different file for a different claimant. Not all
8 identifying information was omitted and I went to the
9 Corporation to discuss this and they said that because
10 they had purchased the report from me they could use it
11 in any way that they see fit.

12 Healthcare and other professionals hired
13 to assist claimants are provided the claimant's file and
14 personal health information before they get the consent
15 of the client.

16 There's no screening of consultants by the
17 Corporation. They don't check licences. They don't
18 check criminal records. They don't check child abuse
19 registries.

20 Assessing consultant services, they're not
21 based on quality or cost effectiveness or customer
22 service. I'm not sure what they're based on and I have
23 been fired on files for -- I -- I was asked to provide an
24 MPI favourable outcome on an assessment and I refused and
25 I was told that my services were no longer required on

1 the file.

2 I've been told not to put recommendations
3 in writing and told not to recommend certain items even
4 if the client would benefit from them and being told not
5 to consider quality of life issues.

6 One (1) thing when reading the Public
7 Utility Board hearings I noticed that files where
8 claimants didn't maintain eye contact were flagged to be
9 looked at as possibly fraudulent. That discriminates
10 against almost every Aboriginal person in this province
11 as maintaining eye contact is considered disrespectful.

12 Cultural differences are ignored causing
13 discriminatory treatment of claimants.

14 Files are initially handled by those in
15 the claims department with the least experience. There's
16 no initial rehab assessment formed and impairment ratings
17 which are monetary amounts of money are also done by
18 those with the least experience.

19 Assessments are requested to substantiate
20 MPI's decision but they're avoided when the results could
21 substantiate claimant entitlement to benefits and
22 assessments are requested to substantiate decision making
23 instead of requesting assessments to guide decision
24 making.

25 So usually -- or what I've seen on

1 occasion is that the decision is made and then they
2 decide what test to do to prove their decision was
3 correct instead of doing an assessment to guide the
4 process.

5 From the Director/VP level I've been told
6 that it would not be unusual to expect that any
7 corporation would question the advisability of conducting
8 business with someone who disagrees with the manner in
9 which the corporation conducts its business. Ms. Gibb
10 has the right to discontinue doing business with MPI.
11 The problem is they have a monopoly on the business that
12 I'm involved with them.

13 I think there's a lot of changes in terms
14 of how this plan's administered. I don't think the plan
15 necessarily needs to be thrown out, but I think we have
16 to really look at where the accountability is within the
17 system and make sure that -- that the plan is doing what
18 it's intended to do.

19 THE CHAIRPERSON: Thank you, Ms. Gibb,
20 you make a number of comments of very serious nature.
21 This is clearly not the Corporation that we see at this
22 table when we're dealing with rates and revenue
23 requirement so your report is disturbing, I think we'd
24 say. Our normal practice is we ask the Corporation to
25 review it and to provide a response in due course and

1 that's what we'll do in this case as well. Thank you for
2 attending.

3 Now, Mr. Toker has submitted a written
4 presentation and we'll enter that into the record without
5 comment.

6

7 PRESENTATION BY EDWARD TOKER:

8

9 September 20, 2006

10

11 Chairman and Board

12 Public Utilities Commission

13 330 Portage Avenue

14 Winnipeg, MB

15

16 Greetings

17 To Whom this may concern:

18

19 The writer is making this presentation in this manner as

20 I will be out of Manitoba on October 2, 3, and 4th.

21

22 It is my view, after reviewing, their brochures, and
23 internet material, that the rate adjustment ought to
24 decrease premiums by 10 to 20 percent. MPI quotes in
25 some documents that Manitobans are amongst the lowest

1 premium contributors in Canada, agreed, however, we ought
2 to paying \$200 lower if their rates were fair and just.

3

4 Indeed, if they did not fund questionable adventures then
5 the rates could be much greater.

6

7 MPI, through regulation, are circumventing the procedure
8 through the legislature, where full disclosure would be
9 necessary and publicly debated and scrutinized.

10

11 I for one, demand a detailed and transparent accounting
12 of dollars taken in, where they go, and who benefits from
13 administration decisions, I am not talking about
14 percentages of a pie, but actual departmental spending.

15

16 If we knew just what unnecessary and unwarranted projects
17 are being funded, there would be an outcry to be heard in
18 Moscow. While there may be merit, is there legal
19 authority, and does the public know?

20

21 I will now touch briefly on Thefts, C.L.E.A.R. and
22 Advertising. For example, there is no other department
23 in Manitoba, advertising and explaining statutes. It has
24 long been the requirements by the Courts that citizens
25 ought to know the law. The only requirement to advertise

1 in the papers is the upcoming P.U.B. hearings.

2

3 I would stand first in line to defend socialistic Auto
4 Insurance, but I am standing in line to question the
5 practice of spending on dubious misadventures, no matter
6 how noble they appear.

7

8 I object in the strongest terms the immobilizer program.
9 Sure there is great value, but why should I subsidize the
10 \$280.00 costs.

11 a) I park my car in a garage, therefore
12 the likelihood of theft is greatly
13 minimized, if not altogether eliminated.

14 b) I presently drive a 2004 Dodge
15 Caravan, which came with a factory
16 installed immobilizer.

17

18 I agree immobilizers should be mandatory, before
19 registration, but why should they be subsidized? The
20 irony here is that I have a 1990 Buick presently
21 registered. As soon as I bought it I paid the \$140 and
22 had the immobilizer installed. Low and behold, within
23 six months I got my \$140 back. (Absolutely ludicrous)

24

25 Enclosed are a couple of comparisons on some vehicles.

- 1 a) 1992 Cavalier....All purpose....\$916 Value \$2,000
- 2 b) 2004 Cavalier....All purpose....\$1,506 Value 9,000
- 3 c) 2004 Hummer.....All Purpose....\$1,449 Value 25,000
- 4 d) 2004 Dodge Caravan...All Purpose..1,185 Value 14,000

5

6 This process smacks of deception, discrimination and
7 dishonesty and breeds contempt for the process.

8 If one takes last year's auction stats, 85 percent are
9 all other vehicles and perhaps 15 percent are Cavaliers.
10 Clearly, the system used by MPI is either flawed or
11 deliberately designed to mislead or both. MPI's argument
12 to use the CLEAR method is designed to confuse the
13 public.

14

15 I would like to touch on MPI prosecutors. How many are
16 there? How much do they actually costs? What is the
17 price of support staff? And finally, what ware the
18 benefits?

19

20 These prosecutors when compared to the poor overworked
21 slobs in the Provincial ranks are laughing all the way to
22 the bank.

23

24 How, have the contributors been enriched with this
25 1,000,000 boondoggle. For instance, an MPI release

1 states "Top 5 Frauds" The fines totalled \$5000 (which
2 probably went to the Province) only the tooth-fairy will
3 believe these fines are deterrents. No one goes to gaol
4 for theft, does it really matter who prosecutes. Three
5 years ago, I had two cars stolen nobody went to gaol.
6 The reality is, hiring prosecutors was a colossal
7 judgmental failure for which I am asked to make an huge
8 contribution, in other words finance a dream.

9
10 Let me quote from the 2005 guide, "CLEAR matches your
11 rate to your vehicle's risk." Let me quote from an
12 insert when I renewed my Driver's license, "one of the
13 reasons drivers are charged insurance premiums is because
14 it is (by and large) the driver who causes accidents to
15 happen." So, why are Cavalier owners subsidizing all
16 other owners? In the example at page 2, it is clear the
17 premium assessed to 2004 Cavaliers is unconscionable and
18 quite frankly, immoral.

19
20 Which is true and who is spinning the story and why,
21 except to justify premiums. In reviewing the insurance
22 benefits, it really does not matter whether a Mustang car
23 runs over and kills you, whether you are killed by an
24 army tank or a Cavalier, the payout is the same. Is this
25 gouging, is this legal, is this even constitutional?

1 In summation, it is my view, and every person I have
2 discussed premiums with, than an exhaustive review is
3 necessary to determine the truth about how this monopoly
4 administrates the public's funds.

5
6 Indeed, your order should include that funds be set aside
7 for a class action to determine whether MPI discriminates
8 under the Charter. After "Nortel" and "Crocus" I could
9 be excused for disbelieving those in power, and that's
10 leaving the federal Liberals out of it.

11
12 Respectfully submitted,
13 Edward Toker
14 (with 9 pages of attachments)

15
16 THE CHAIRPERSON: Next up is Mr. Keiller.
17 Mr. Keiller, are you here? Perhaps you wouldn't mind
18 coming up to the front row because you can use the mic;
19 it's easier.

20 And Mr. Keiller has provided us with a
21 brief note. Ms. Gibb, I believe as I was following her
22 she went along. She prepared a presentation which was
23 distributed to everyone, which we have, and Mr. Keiller's
24 got a one (1) page, I presume synopsis of what you're
25 going to say which we've got.

1 So you can proceed, sir, at your own
2 convenience.

3

4 PRESENTATION BY MR. GRAEME KEILLER:

5 MR. GRAEME KEILLER: Thank you, Mr.
6 Chairman, Members of the Board. My name is Graeme
7 Keiller and I promise we'll only take a couple of minutes
8 of your time.

9 In this brief letter, over the years we've
10 seen a steady increase in the insurance rates for
11 motorcycles in the province of Manitoba. Now, MPI
12 insists that these rate hikes are necessary due to the
13 high payouts of motorcycle claims. They, MPI, pays out
14 more for bikes than they bring in. Reports of a dollar
15 sixty (\$1.60) for every dollar brought in, have been
16 mentioned.

17 If this is true, we the riders of Manitoba
18 are a liability not an asset. Now anyone in the
19 insurance business, or any other for that matter, knows
20 that having assets is preferred over liabilities.

21 After all MPI is a business, like any
22 other and being profitable is the only way they can
23 continue to provide service to Manitobans. Like other
24 business, they are either having to increase rates to
25 compensate for these liabilities, or to find ways to

1 minimize them.

2 Now, since the present structure does not
3 allow for motorcycles to be without insurance, we will
4 continue to see these increases.

5 I would like to suggest a solution that
6 would be beneficial to both MPI and the public.
7 Independent insurance brokers for motorcycles only.
8 Since motorcycles are such a drain on MPI resources, this
9 would provide a simple solution that would benefit
10 everyone.

11 Motorcycles are free to insure elsewhere,
12 car drivers will no longer have to endure the drain
13 motorcycles place on MPI. And MPI will reduce their
14 liabilities, motorcycles; while retaining their assets,
15 cars.

16 This is an ideal solution for MPI, if you
17 approached any agency enabling them to eliminate high
18 risk clients while retaining low ones, I'm sure they
19 would jump at the opportunity.

20 Very simple, that's it.

21 THE CHAIRPERSON: Well, it's certainly a
22 novel approach. I suggest you might want to pursue it
23 with your legislative friends because it's clearly
24 outside our jurisdiction, but, we thank you for your
25 presentation.

1 MR. GRAEME KEILLER: And thank you, I
2 just wanted to make it a matter of record. Thank you.

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: Okay, the next one up
7 is the Amanda Hyworren:

8 MS. AMANDA HYWORREN: I have a copy of my
9 presentation I would like to distribution.

10 THE CHAIRPERSON: Thank you. Mr.
11 Goudreau will help you. We'll just wait until every one
12 has it. Thank you by the way, for going to the trouble
13 of preparing this and basically photocopying it.

14 MS. AMANDA HYWORREN: It's okay --

15 THE CHAIRPERSON: If you ever come back,
16 I'm sure we can find the resources to photocopy for you.
17 Okay.

18 MS. AMANDA HYWORREN: The first thing I'd
19 like to say is I'll apologize in advance, I was told 15
20 minutes and that's what my presentation is based on.

21 THE CHAIRPERSON: Well, I don't want you
22 rush too fast. The others have been fairly quick so if
23 you can do it in 15 minutes, we'll allow it.

24

25 PRESENTATION BY MS. AMANDA HYWORREN:

1 MS. AMANDA HYWORREN: I would like to
2 thank you very much for the opportunity to present here
3 today. Allow me to introduce myself. I am Amanda
4 Hyworren and I am a Winnipeg Free Press newspaper
5 carrier.

6 I would like to address the Board with
7 respect to the MPI rates regarding the common carrier
8 local portion of the insurance rates and how it pertains
9 to the approximately five hundred (500) Winnipeg Free
10 Press newspaper carriers.

11 Free Press newspaper carriers are not
12 employees of the Winnipeg Free Press but we are
13 considered to be dependent contractors; doing only
14 customer deliveries and no servicing stores or newspaper
15 coin boxes.

16 Please allow me to walk you through the
17 process involved from production to delivery of a
18 newspaper to the final end user. I promise I'll use the
19 Reader's Digest condensed version.

20 Just so you understand the process,
21 carriers leave home and drive to work, which is the place
22 they pick up their papers, hereafter I'll call that the
23 depot.

24 There are several depots located
25 throughout the City, so each carrier is able to pick up

1 their papers in accordance with the proximity to their
2 roots. Once they have their papers loaded into their
3 cars, they drive to their root and begin their
4 deliveries, which are relatively nearby.

5 This is often accomplished through minimal
6 use of their vehicles, as carriers often walk large
7 portions of their routes at a time, advancing their
8 vehicles forward depending upon the ratio of papers they
9 can carry and delivery in one (1) go.

10 Vehicle usage is never constant. In my
11 own experience during my eleven (11) years as a carrier I
12 have never heard of any carrier having an accident while
13 delivering which was found to be their fault.

14 We have had a few horrific accidents with
15 drunken drivers and carriers and carriers were never
16 found to be at fault.

17 I would like to speak -- I'm sorry, I
18 would like to speak on the following points as they
19 relate to the aspect of the insurance plan in order to
20 exhibit the reasons I believe should exempt us from
21 falling under the common carrier local umbrella.

22 One, the time of day our vehicles are used
23 for delivery. Pre-press newspaper carriers deliver
24 between the hours of 3:00 a.m. and 6:30 a.m. weekdays and
25 4:00 a.m. and 7:30 a.m. on weekends, for a maximum

1 moving only approximately a half an hour throughout the
2 course of my deliveries as I repeatedly park to
3 accommodate the apartment complexes on my route and go
4 into one apartment after another.

5 Inversely, most couriers work full eight
6 (8) hour shifts. Even pizza delivery drivers work at
7 least six (6) hour shifts and some longer during times
8 which typically have much heavier traffic conditions to -
9 - to use.

10 Number three, location and size of the
11 delivery area. I'd like everybody to please refer to the
12 map that I gave you. I know it didn't show up too well
13 on the photocopier but these two (2) areas are actually
14 two (2) different colours. One's pink and one's red.

15 I've chosen at random a section of
16 Winnipeg and highlighted each carrier's route within that
17 section, in a different colour, to demonstrate the size
18 and scope of the specific delivery area. This is merely
19 a sample. The entire city is divided similarly into
20 delivery areas which are then assigned to carriers. You
21 will note that each defined area is residential and
22 covers only a few blocks with the total kilometres
23 travelled during delivery being minimal.

24 As alluded to above, stores and newspaper
25 coin boxes are not serviced by carriers falling under the

1 blanket that I am referring to today, but rather by Free
2 Press employees and their sub-contractors. The amount of
3 traffic encountered on a route would, in many cases, be
4 next to non-existent.

5 In my own case, I seldom see more than a
6 handful of moving vehicles while delivering and actually
7 I deliver on St. Anne's Road and Dakota so, I mean, those
8 are pretty busy and it's seldom that I see very many
9 vehicles going by.

10 Conversely, couriers travelling during
11 busy daytime hours may traverse the whole metropolitan
12 area thus exposing themselves to much higher potential
13 for collisions and injuries.

14 Number four, distances travelled and
15 speeds reached. Because the routes are small in size and
16 area any advancement required of a vehicle usually is
17 well below the maximum speed limit as typically the
18 distance moved might only encompass a block or so. While
19 our incomes depend on the volume of deliveries, speed is
20 not a factor as there is no opportunity to increase the
21 number of deliveries based on the finishing time. A
22 carrier's number of deliveries depends upon route size
23 alone.

24 Contrarily, the nature of the courier
25 business requires them to traverse large -- larger areas

1 of the city and at far greater speeds as their income
2 depends on the volume of deliveries they do, so speed
3 becomes tantamount.

4 Number 5, how the Winnipeg Free Press
5 handles late papers. Whenever a newspaper production
6 problem arises, which does happen, resulting in papers
7 being delivered late from the Free Press building to the
8 depot where carriers pick them up the Free Press itself
9 takes responsibility for the situation.

10 In such a circumstance, the carrier is
11 allowed to take as much time as is needed to complete his
12 or her route which means that a carrier is not under
13 pressure to finish quickly. This policy insures safer
14 working conditions both on and off the road.

15 Couriers on the other hand are dependent
16 on speed to make money, a perfect example being the old
17 Domino's motto of thirty (30) minutes delivery or free,
18 which we all know was a disaster on the road.

19 Number 6. All purpose coverage by nature
20 covering -- covers driving to and from work. Carriers
21 currently have all purpose MPI coverage on their vehicles
22 as well as the common carrier local insurance. Since
23 common carrier local is an additional coverage over and
24 above the all purpose designation, carriers have to have
25 both.

1 When considering exempting us from the
2 common carrier local added insurance please consider the
3 fact that the insurance should only be necessary to cover
4 actual kilometres utilized while delivering.

5 Since the all purpose designation that we
6 already have covers kilometres to get to and from work
7 just like your all purpose insurance would have covered
8 you to come to work today, the bulk of our driving for
9 work is comprised of the drive to work and home as
10 provided for in our all purpose coverage which we already
11 have.

12 Please note as well that this driving that
13 is covered by the all purpose coverage that we already
14 have on our vehicles is being done outside of rush hour
15 conditions with extremely reduced traffic in the middle
16 of the night. Where then is the need for extra insurance
17 when we clearly fall into a reduced risk group rather
18 than an increased risk as a courier would?

19 Perhaps what I should have been asking for
20 is a reduction in our rates for all purpose insurance as
21 well.

22 I do believe that couriers are at risk and
23 that -- and that this has been amply demonstrated by
24 observing the consistent increase in the common carrier
25 local rate.

1 On my own vehicle it has escalated from
2 roughly thirty dollars (\$30) at its inception a few short
3 years ago to a rate today of three hundred and twenty-
4 five dollars (\$325) and this is with my 25 percent
5 discount applied.

6 I would like to point out that this cost
7 for most newspaper carriers is a burden and is a hardship
8 to many, however, I would agree with it if I felt it was
9 justified in our field of employment, but I hope you will
10 agree that the case I have presented for our exemption
11 from it is a good one.

12 In my humble opinion newspaper carriers
13 were not the high risk group MPI policy makers were
14 intending to target, to hold accountable, with the
15 implementation of the common carrier local insurance and
16 instead issued a blanket policy for all people who
17 deliver.

18 Yes, the speed necessary to earn higher
19 income, the hours of use, minimum eight (8) for most
20 couriers, the times of use during increased traffic
21 conditions and distances travelled for most couriers have
22 obviously resulted in greater claims to justify the rate
23 increase, but I do not feel that newspaper carriers fit
24 under this umbrella since these conditions do not apply
25 to our situation.

1 In conclusion I would like -- I would
2 request that you give sincere consideration to the
3 inequities between newspaper carriers and couriers and
4 choose to relieve the paper carriers of this inapplicable
5 fee.

6 Thank you for your time and consideration
7 and if you have any questions I would like to answer
8 them.

9 THE CHAIRPERSON: Thank you very much for
10 your well done presentation. We appreciate it very much.
11 We'll ask the Corporation to have a look at it and
12 provide us a response. Thank you.

13 MS. AMANDA HYWORREN: Thanks.

14 THE CHAIRPERSON: Mr. Houghton, welcome
15 back.

16
17 (BRIEF PAUSE)

18
19 THE CHAIRPERSON: Okay, Mr. Houghton,
20 the floor is yours.

21
22 PRESENTATION BY MR. DOUG HOUGHTON:

23 MR. DOUG HOUGHTON: Thank you. Good
24 afternoon Mr. Chairman, Board Members, MPI staff, PUB
25 legal counsel and MPI legal counsel.

1 I'd like to thank you again for this
2 opportunity to speak to this years General Rate
3 Application and its effects on Manitoba motorcyclists.

4 As with this mornings presentations, I'll
5 try to keep this at a high level too, I assume that means
6 keeping it simple. I've only got an hour left on the
7 metre, so I'll try to make it quick.

8 I'm a motorcyclist and I've been a
9 motorcycle rider and enthusiast for more than forty (40)
10 years. I'm a father of four (4) grown children, two (2)
11 of which are also motorcyclists.

12 I live in Beausejour and retired last year
13 after thirty-six (36) years with the Province of
14 Manitoba. I retired so I could enjoy motorcycling and
15 now that I'm on pension, increased motorcycle premiums
16 have much greater impact than before.

17 Also as President of the Coalition of
18 Motorcycle Groups, the CMMG, I fully support the position
19 of the CMMG as presented by its solicitor Mr. Raymond
20 Oakes, who you heard from this morning and I'm sure
21 you're going to hear more of throughout the next couple
22 of weeks.

23 Today, however, I'm speaking on my own
24 behalf and some of the views expressed will be my own and
25 not necessarily those of the CMMG.

1 Manitoba motorcyclists reflect a general
2 cross-section of the Manitoba population and I suspect
3 with demographics parallelling the national picture. As
4 a group Manitoba motorcyclists are very generous and
5 dedicated members of their communities and through their
6 various organizations raise hundreds of thousands per
7 year to various charitable groups, such as the Ride for
8 Sight and Breast Cancer Freedom Ride.

9 Motorcycling is a major Manitoba industry
10 whose future may be threatened by escalating insurance
11 rates. According to the Motorcycles and Moped Industry
12 Council of Canada's website, 2005 motorcycles business
13 accounted for approximately \$1,142,000,000 in retail
14 sales, an increase of 55.8 percent since 2000. New
15 motorcycle sales accounted for 80.25 percent while parts
16 and accessories add the other 19.75.

17 In Manitoba with 2.68 percent of total
18 units sold, sales alone represent an estimated \$30.6
19 million and I've just extrapolated this in a population -
20 - or on a percentage of units sold basis.

21 Although the number of units sold has
22 increased 62.8 percent since 2000, Manitoba sales remain
23 only at 2.68 percent of national sales, which is
24 proportionately less than its 3.73 percent share of
25 Canada's population.

1 In spite of a recent upswing in the
2 motorcycle industry, I believe that continual insurance
3 increases may cause a levelling off or decline as it
4 brings the cost of motorcycling beyond the reach of
5 lower, average income
6 earners.

7 Much of the recent upswing might be
8 attributed to baby boomers and early retirees, as well as
9 a sharp increase in moped in scooter sales. The latter
10 itself is partly a reaction to increased insurance costs.

11 It has often been argued that insurance
12 rates do not directly impact motorcycle sales. However,
13 it is my opinion that this may not be the case. Manitoba
14 sales have levelled off from a 2003 high of twenty-two
15 hundred and twenty-six (2226) units down to twenty-one
16 hundred and thirty (2130) units in 2005.

17 It cannot be said that climate is the
18 determining factor as we're told, well it's fewer people
19 register motorcycles in Manitoba because it's colder
20 here.

21 Alberta with about 10 percent of Canada's
22 population, accounts for nearly 17 percent of motorcycles
23 sold. In Alberta motorcycle insurance although very
24 limited coverage, can be bought for several hundred
25 dollars. And although less significant, Quebec with 24

1 percent of the population has 28.2 percent of the sales.

2 Apparently, Quebec separates a vehicle and
3 bodily injury insurance. Even in the Northwest
4 Territories and Yukon Territories, the percentage of
5 sales exceeds the proportional population, and I think
6 it's colder there.

7 Nationally, there's been a 98.8 percent
8 increase in scooter sales since 2001. This alone
9 accounts for some of the overall sales increase, but it
10 is my opinion that it is also represent a shift, not only
11 to more fuel efficient vehicles, but to a type of
12 motorcycle which is substantially less expensive to
13 insure.

14 For example, the proposed 2007 premium for
15 a four thousand dollar (\$4000), two hundred and fifty
16 (250) cc motorcycle is one thousand and eighty-five
17 (\$1085). Whereas a scooter of two hundred and fifty
18 (250) cc's, will pay only a hundred and forty-seven
19 dollars (\$147).

20 In June of 2005, this Board ordered MPI to
21 develop a new rate-setting methodology for the allocation
22 of PIPP costs commencing with the 2007/'08 insurance
23 year, which is the one we're dealing with.

24 PIPP costs are to be allocated equally
25 among MPI insured vehicles involved in the accident. In

1 a case of hit and run, bicycle and pedestrian injuries,
2 50 percent of total PIPP costs would be allocated equally
3 per MPI insured vehicle across the rating categories to
4 which the MPI insured vehicles belong. The remaining 50
5 percent allocated across all vehicle rating categories.

6 The Board also appreciated that MPI could
7 experience some difficulty in interpreting the direction
8 at a technical level during implementation and in this
9 respect I would urge this Board to examine all proposed
10 motorcycle premium increases to ensure that such
11 interpretation has been effected within the spirit and
12 intent of the order and that motorcyclists are not
13 unfairly incurring costs not intended by the order.

14 The Board has also -- has -- sorry, the
15 Board also suggested that MPI consider the feasibility of
16 extending the new allocation methodology to all accident
17 costs such as collision and comprehensive. Although
18 comprehensive insurance is not a part of the basic
19 motorcycle insurance package, I would urge the Board to
20 order such a change for collision insurance.

21 I should recognize some of the positive
22 results of recent orders. A pleasure rate, which is 10
23 percent lower, has been introduced for motorcycles and
24 negotiations between MPI and the CMMG have resulted in
25 145 bikes removed from the sport bike category. These

1 owners should see a decrease for 2007.

2 MPI has also consulted with the CMMG to
3 implement safety initiatives including the incorporation
4 of motorcycle awareness and driver's ed programs and a
5 new training video to be used in driver's ed and
6 motorcycle training courses.

7 Now, dealing with the 2007 premium
8 increases or the proposed increases, it's encouraging to
9 see a moderation in motorcycle premium increases.
10 However, in spite of implementing the new rate
11 methodology for 2007 Manitoba Public Insurance is still
12 proposing an average of 8.4 percent increase for
13 motorcyclists. This too is a very misleading figure as
14 this does not, at all, reflect the diversity of rate
15 impact.

16 Actual premium increases vary
17 substantially from a minus 79.59 percent decrease to a
18 plus 99.33 percent increase depending on the rate group,
19 classification, and territory in which you are located.

20 Generally, the lower the value of the
21 motorcycle the greater the percentage increase will be.
22 If one looks at provincial averages on the table next to
23 the paragraph, motorcycles at 1501 to \$50,000 value will
24 see minor or negligible increases with some actually
25 receiving a small decrease.

1 Regionally, however, rates vary
2 considerably and except for sport bikes and mopeds many
3 motorcycles in territory 1, which is Winnipeg and area
4 and territory 3, Northern Manitoba, will have decreased
5 premiums.

6 The greatest increases, however, are in
7 territory 2, which is most of Southern Manitoba,
8 territory 4, far north, and -- excuse me, not the far
9 north but the -- The Pas area and commuter.

10 Even if we exclude moped and scooter
11 rates, all purpose increases are as high as 16.46 percent
12 for sport bikes and 11.2 percent for touring bikes and
13 the adjoining table illustrates some of these changes --
14 or proposed changes.

15 I don't wish higher premiums on any
16 motorcyclist. However, I'd like to ensure that they're
17 fairly applied to all territories and classes and, as
18 well, reflect actual loss experience.

19 For example, touring motorcyclists in
20 territory 1 will average a minus .17 percent decrease in
21 premiums while tourers in territory 2 would endure a plus
22 11.2 percent increase.

23 It seems unusual that there is such a
24 discrepancy between territories 1 and 2 when the 2006
25 rate application did not identify such a large gap. In a

1 single year, have accident rates and costs actually
2 increased in territory 2 so disproportional to territory
3 1?

4 Do these rates actually reflect facts in
5 data or is MPI merely shifting costs to territory 2 which
6 has lower rates, so as to avoid increases in territory 1
7 which now experiences higher rates?

8 Is this closing of the gap a reflection of
9 accident costs or assumed public policy? The table below
10 illustrates some specific example of this premium shift
11 to territory 2 as it applies to the three rate group
12 samples shown.

13 An extreme -- the extreme increases in
14 territory 2 as well as the more moderate increases in
15 territory 4 may also be a reflection of another oddity
16 which appears in the rate application. Territory 1,
17 including Winnipeg, Headingly, East and West St. Paul
18 comprises 56.5 percent of Manitoba's total population,
19 but only 39.98 percent of registered motorcycles
20 including mopeds.

21 On the other hand, territory 2, including
22 commuter, territories 3 and 4 only have 43.5 percent of
23 the province's population but 60 percent of registered
24 motorcycles. This is not the case for other vehicle
25 classes.

1 Although it's possible that rural areas
2 have a higher per capita motorcycle ownership, I question
3 whether this inverse ratio should be as high. Could it
4 be that some Territory 1 residents are registering their
5 motorcycles in Territory 2 using the addresses of friends
6 or relatives?

7 Now that MPI is responsible for vehicle
8 and driver licencing as well as insurance, this is an
9 area that needs further investigating.

10 Now, I'm going to talk about some other
11 inequities in -- in the insurance system that apply to
12 motorcycles. Some of these, I admit, apply to the
13 comprehensive coverage which is not part of the
14 motorcycle package, but there's really no other forum in
15 which to address these and they are in a sense related to
16 the overall cost of operating a motorcycle or insuring a
17 motorcycle.

18 Motorcyclists do not enjoy some of the
19 products available to passenger vehicle owners.
20 Motorcycle rates do not include comprehensive for fire,
21 theft, and vandalism. This is a extra cost of about a
22 hundred (100) to five hundred (500) per year attending on
23 the -- depending on the vehicle value. It's not part of
24 the Autopac coverage and, therefore, theoretically open
25 to private sector competition and not subject to public

1 scrutiny.

2 Motorcyclists cannot get rental insurance
3 when travelling and renting a motorcycle in another
4 province or country.

5 As far as I'm aware new motorcycle -- new
6 vehicle protection, loss of use and lay-up insurance is
7 not available to motorcycles. With the seasonally
8 adjusted rates annual fees are paid over the five (5)
9 summer months. However, if one chooses not to ride
10 during the summer months, they would still have to pay to
11 maintain comprehensive coverage and the latter does not
12 include any liability protection which requires fully
13 basic Autopac protection.

14 No one wants to pay three to five hundred
15 (500) a month when the vehicle's in the storage and not
16 in use for the -- over the summer.

17 There are no discounts for anti-theft
18 devices. There are delays in obtaining adequate
19 insurance as Harley owners cannot obtain immediate
20 comprehensive coverage for the purpose of a used
21 motorcycle, even from a dealer, but must wait for MPI to
22 inspect and photograph the bike.

23 In conclusion I request the Board to make
24 the following orders and recommendations to Manitoba
25 Public Insurance. Order MPI to extend the new rate

1 setting methodology to collision insurance as well.
2 Recommend that the liability, collision and PIPP portions
3 of premiums be listed separately on Autopac insurance
4 statements so clients are aware of the relative cost and
5 this is -- as an aside, particularly concerning the
6 motorcyclists who try to relate insurance to the cost of
7 the vehicle and really that's not where the true cost
8 lies. I don't think this would be a difficult thing to
9 implement.

10 Recommend that MPI investigate the
11 possibility of including comprehensive extension coverage
12 for motorcyclists as an optional part of Autopac but
13 available exclusively through MPI. This of course may
14 require a legislative change.

15 Recommend that MPI improve the way
16 motorcycles are inspected prior to obtaining
17 comprehensive extension coverage. It's now only required
18 for Harley's even though sport bikes are among the most
19 stolen motorcycles in recent years.

20 Recommend that MPI give discounts for
21 anti-theft devices such as GPS locators which are
22 probably more applicable or useful on a motorcycle than a
23 motion detector or an immobilizers since they can be
24 picked up when they're stolen.

25 Recommend that MPI implement a loss of use

1 and lay-up package so that motorcycles can be adequately
2 insured for liability when in storage and recommend that
3 MPI consider rental insurance for motorcycles.

4 Recommend that MPI ensure that all
5 applications for insurance, drivers, and vehicle licences
6 contain both civic and mailing addresses so as to reduce
7 incidents of improperly registered and insured -- sorry -
8 - and insured vehicles. This may solve some of the
9 Territory 1/2 differential.

10 And finally, recommend that MPI collect
11 data to determine the relationship between the territory
12 where an accident occurs and the territory where the
13 motorcycle is registered. At present costs are based on
14 where the motorcycle is registered.

15 Thank you very much for your attention to
16 this matter. If you have any questions I'd be pleased to
17 answer.

18 MR. LEN EVANS: Thank you for your
19 presentation, a lot of interesting information; a lot of
20 ideas. Just a very minor thing I'm sure, in your last
21 page, "Other Inequities" you state:

22 "Motorcyclists cannot get rental
23 insurance when travelling and renting a
24 motorcycle in another province or
25 country."

1 Well, if you're renting a motorcycle, say,
2 in another province can you not get private insurance in
3 that province?

4 MR. DOUG HOUGHTON: Yes, and I think
5 where this applies is there's many fly and ride programs
6 some of the motorcycle companies have if you're
7 holidaying in the winter, say, in Texas or California
8 that you can rent motorcycles there but very often you
9 have to get motorcycle coverage at the -- or proof of
10 coverage at the location.

11 I think if you have a private vehicle or
12 you're renting a vehicle, a passenger vehicle, you can
13 get the coverage in Manitoba on your Autopac. You cannot
14 get that with motorcycles.

15 THE CHAIRPERSON: Thank you very much,
16 Mr. Houghton. You have sure -- you have definitely put a
17 lot of time into this and it's appreciated.

18 MR. DOUG HOUGHTON: Thank you.

19 THE CHAIRPERSON: I imagine you shared
20 this with Mr. Oakes?

21 MR. DOUG HOUGHTON: Obviously given him a
22 copy.

23 THE CHAIRPERSON: I can see that you've
24 been busy in your retirement.

25 MR. DOUG HOUGHTON: Oh yeah. I've got

1 kids that got a lot of building projects for me.

2 THE CHAIRPERSON: Very good then. Again
3 with the others, we'd appreciate if the Corporation would
4 review Mr. Houghton's ideas and provide us with a
5 response. Thanks again.

6 The last presenter we have listed is a Mr.
7 McNaught.

8

9 (BRIEF PAUSE)

10 THE CHAIRPERSON: Welcome, just sit there
11 and when you're ready to speak you hit the button.

12

13 (BRIEF PAUSE)

14

15 THE CHAIRPERSON: You just press it, it
16 will come on and --

17

18 PRESENTATION BY MR. BRENT MCNAUGHT:

19 MR. BRENT MCNAUGHT: Thank you. My name
20 is Brent McNaught. The reason I'm here today is
21 basically I'm going to try and offer up a perspective
22 really from the dealer point of view, with regards to the
23 classification and the rate change proposals for the
24 moped classification and the motor scooter
25 classifications.

1 We opened in July 2005 as Vespa Winnipeg
2 and to date, from December until the end of -- December
3 2005 until the end of September, we've seen just under a
4 hundred (100) units sold. About 80 percent of which have
5 fallen in that moped classification because they're under
6 49 cc and restricted to 50 kilometres an hour.

7 And specifically what I wanted to do is
8 just offer that perspective, because we're in a unique
9 position. We're the only retail scooter detail that we
10 know of in the Province of Manitoba that is also affixed
11 with an Autopac accredited repair facility.

12 So, we've seen both sides of it. We've
13 seen the retail sales. We know quite a bit about what
14 our customer demographic is about and we are also dealing
15 directly with MPIC, with regards to the repairs and the
16 adjustment of claims.

17 Specifically, what we've seen is that
18 about 80 percent again of our sales consisted of the
19 under 50 cc classification. We would have sold more, but
20 specifically our customers are very sensitive to the
21 issue of insurance premiums and a lot of them opted to go
22 to 49 cc scooters so that they could get the moped
23 classified scooters.

24 Out of those ninety-seven (97) units we
25 saw five (5) come back with Autopac claims due to

1 collision. And out of those five (5), two (2) were
2 written off; we've seen average salvage values of about a
3 thousand dollars (\$1000) across the board, regardless of
4 model, year or mileage. And the remaining three (3)
5 claims had average repair of about fifteen hundred
6 dollars (\$1,500).

7 My point being is that I don't think that
8 there has been as great an incident of claim in that
9 moped classification, based on our population of sales.

10 And the fact that we have seen beyond our
11 own customer base, we've seen another three (3) or four
12 (4) from other dealers come back in for repair. And
13 again, the average rate of claim is you know, basically
14 about 5 percent and we're seeing on average, about
15 fifteen hundred dollars (\$1,500) per unit.

16 But, specifically what we see is that
17 going forward, we saw about a 50 percent increase in
18 sales from our original forecast, which was fairly
19 aggressive. And what we've seen nationally and what
20 we're going to see in the near future is, specifically
21 we're going to see about a geometric -- geometric
22 increase in sales across the board. We're expecting to
23 see two hundred (200) next year, probably four hundred
24 (400) the year after.

25 And the main reason is that our customers

1 are purchasing them -- is specifically they're very price
2 sensitive to the cost of fuel and these are very fuel
3 efficient. And also for many of our customers it's the
4 cheapest most viable source of transportation that they
5 can incorporate beyond really taking the bus.

6 Finally, I would say about 20 percent of
7 our customers are purchasing, you know, reduced speed or
8 limited speed mopeds and scooters specifically for the
9 positive environmental impact that they've had. And I
10 think going forward that, as awareness becomes -- is
11 going to be increased, we're going to see more and more
12 of that.

13 Again, I think what -- what I'd like to
14 see going forward on behalf of, really, our customers
15 because, you know, is certainly who we're here to speak
16 for is -- Autopac doesn't really have, like, a
17 classification system and basically a guideline for
18 repairs for motor scooters and for mopeds.

19 And what we're seeing quite often is, is
20 that it's very reactive and we're seeing a lot of claims
21 adjusters calling, you know, our dealership up and
22 saying, what's it worth? You know, and how much to
23 repair and, you know, basically do they -- you know,
24 should we write it off or should we repair. And I really
25 feel like we shouldn't be involved in that decision

1 obviously because we have our own agenda and we're not
2 really -- we're not really objective about that.

3 Saying that, going forward, there's a
4 proposal in the increase in the rate classifications so
5 that motor scooters at 100 cubic centimetre capacity are
6 going to be decreased and, sort of, lumped in with the 50
7 cc motor scooters. And we did a -- a quick poll with all
8 of the dealers in the city and we found that right now,
9 for sale, there is no 100 cc classified scooter available
10 on the market. They basically go 49 cc and then from
11 there they're 125 and 150 cc and up and there is no 100
12 cc scooter available.

13 We do see that there will be an increase
14 in 150 cc and 200 cc motor scooter sales. Basically, if
15 you -- if you go forward with the proposed reduction --
16 we're all for that, obviously, that 70 percent reduction,
17 because we see right now that a lot of the customers
18 didn't purchase motor scooters, not because they couldn't
19 afford them but specifically because with the cost of
20 insurance on them, specifically in the 150 and 200 cc
21 category, they wouldn't have -- they wouldn't have
22 purchased them -- or they didn't purchase them because
23 the premiums were the same as the 460 cc.

24 Specifically a lot of them did the math
25 and decided, well, if I'm going to pay twelve hundred

1 dollars (\$1,200) for -- for a forty-two hundred dollar
2 (\$4,200) scooter, I might as well pay twelve hundred
3 dollars (\$1,200) a year for a sixty-five hundred (\$6,500)
4 scooter and they went into bigger bikes.

5 What I think is going to happen is you're
6 going to see that -- there's going to be a huge increase
7 in -- in sales next year and the year going forward but
8 specifically about a third of the customers would be
9 adversely affected to any increase in the base premiums
10 for the 50 cc, because really they're -- they're
11 comparing that purchase and the insurance and the overall
12 cost of use to public transportation.

13 And if those -- if those premiums go up,
14 even, like, eighty dollars (\$80) a year, they're going to
15 be priced out of their budget and I thank you for your
16 time.

17 THE CHAIRPERSON: Thank you, Mr.
18 McNaught. Interesting profile on this aspect of
19 operations.

20 Okay. Well, thank you very much. We
21 leave that over to MPI. If there's something in here
22 that you want to respond to, you feel free.

23 So we'll move now back to Mr. Saranchuk
24 and he can begin his cross-examination.

25 MR. WALTER SARANCHUK: Thank you, Mr.

1 Chairman. Dealing now with the general topic of the
2 revenue requirement --

3 THE CHAIRPERSON: By the way, I just
4 mention to the presenters, the transcripts of our
5 Hearings end up on our website which if you're interested
6 you can have a look at them. They'll probably be there
7 in another day.

8

9 CONTINUED CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

10 MR. WALTER SARANCHUK: Thank you, sir.

11 And what I'd like to do is review the
12 performance of the Corporation in the past insurance year
13 and deal with its prognostications for the upcoming year.
14 And let us begin with the filing at TI-13 which is Tab 3
15 in the book of documents, being the statement of
16 operations for the 2005/'06 insurance year.

17 The insurance year which ended February
18 28th of this year.

19 MR. BARRY GALENZOSKI: I have that.

20 MR. WALTER SARANCHUK: Now, Mr.
21 Galenzoski, this is dealt with at page 2 of your pre-
22 filed testimony and also in greater detail in SM 7.1 in
23 Volume I. And dealing with the financial performance
24 actually incurred with the forecast at last year's
25 General Rate Application, on looking at TI-13 we see that

1 in terms of the total earned revenues you were almost
2 bang on.

3 Do you see that?

4 MR. BARRY GALENZOSKI: Yes, I do.

5 MR. WALTER SARANCHUK: And in respect of
6 claims incurred, the claims and road safety loss
7 prevention expenses, they were lower than forecast by
8 some \$10.2 million?

9 MR. BARRY GALENZOSKI: Yes, that's
10 correct.

11 MR. WALTER SARANCHUK: And total expenses
12 were higher than forecast by some \$3.5 million dollars?

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

15 MR. WALTER SARANCHUK: Investment income,
16 as I read it, is more than forecast or was more than
17 forecast by some \$26.9 million dollars. And as I
18 understand it as well that's mainly due to the additional
19 earnings from the equity portfolio, is that correct?

20 MR. BARRY GALENZOSKI: Yes.

21 MR. WALTER SARANCHUK: In terms of the
22 primary reasons for the \$33.5 million improvement in net
23 income from operations over the forecast for 2005/'06 the
24 first, as I understand it, is the net claims incurred
25 were lower by some \$10.4 million as shown in Schedule 1,

1 just two (2) pages over in TI-13?

2 MR. BARRY GALENZOSKI: Yes, that's
3 correct.

4 MR. WALTER SARANCHUK: So that when you
5 look at the results for PIPP and collision,
6 comprehensive, property damage, and bodily injury,
7 virtually all the categories except pre-PIPP accident
8 benefits there was an improvement. And can you just
9 address that briefly.

10 MR. BARRY GALENZOSKI: Yes, they were all
11 a little less than was forecast in the previous column
12 that we were looking at with respect to '05/'06 fiscal
13 year. Specifically, PIPP was -- was under by \$16.7
14 million. Pre-PIPP was up 14 -- or they were \$14.7
15 million higher and you can see collision comp, and
16 property damage, the differences that occurred there.

17 So they netted out to \$10.4 million.

18 MR. WALTER SARANCHUK: Now, dealing with
19 each in general terms is there something that you can
20 tell us about the rather significant improvement in
21 respect of PIPP claims?

22 MR. BARRY GALENZOSKI: Yes, a fair bit of
23 this is because of reserving practice changes. For
24 instance on the pre-PIPP an increase of \$14.7 million.
25 There was a change to the mortality tables relating to

1 those claimants and that caused the increase in reserves.

2 Similarly, on the PIPP side there was some
3 reserving practice changes that occurred there and that
4 resulted in slightly lower claims costs overall.

5 MR. WALTER SARANCHUK: When you're
6 talking about the mortality rates I take it -- what is
7 that from -- in layman's terms the fact that you
8 recognize people are living longer?

9 MR. DON PALMER: That's correct. We had
10 seen as -- we had seen a bit of a deterioration in our
11 results for those old pre-PIPP claimants and we adjusted
12 the tables just accordingly.

13 MR. WALTER SARANCHUK: And that terms of
14 the adjustment showing that rather significant
15 improvement on PIPP claims of over \$16 million, can you
16 comment on that, Mr. Palmer?

17 MR. DON PALMER: We -- when we were
18 looking at our mortality and -- and morbidity tables,
19 morbidity referring to recovery, we were probably or we
20 were over-reserved on the -- on the PIPP reserves and
21 under-reserved on the pre-PIPP reserves.

22 MR. WALTER SARANCHUK: Thank you, sir.
23 The other significant improvement contributing to the
24 bottom-line was the investment income which of course is
25 addressed in PUB/MPI -- it's the interrogatory PUB/MPI

1 Number 58 in the first round which is addressed or it's
2 shown at Tab 31.

3 And with reference to the first schedule
4 there, Mr. Galenzoski, can you give us a little bit of an
5 overview of what contributed to the improvement?

6 MR. BARRY GALENZOSKI: Yes, the schedule
7 there indicates that the major items contributing to the
8 improvement were, long term interest was higher by \$30.5
9 million. We had equity dividends higher than expected of
10 \$1.3 million. The equity gains on the portfolio, that
11 would have been both for the Canadian and US side, were
12 \$26.4 million. This is where the market value is
13 increasing on the portfolio, compared to what we paid for
14 it.

15 So that came up with a subtotal of \$31.2
16 million. That was offset a little bit by higher
17 management fees and then some -- we transferred some
18 money for the pension fund. And then there was an
19 amortization of bond discount and premium that kind of
20 offset that.

21 So a total net -- corporate total of \$30.9
22 million increase.

23 THE CHAIRPERSON: If I may, Mr.
24 Galenzoski, when you're talking about the improvement on
25 the equity side, that's on actual sales, that's not

1 marked to market is it?

2 MR. BARRY GALENZOSKI: Yes, that's actual
3 sales. And particularly in the later part of the year we
4 saw a pretty big uptake on the stocks and we were able to
5 take advantage of some of those gains that were built
6 into the portfolio.

7 But, that was actual sales, we actually
8 have to realize it before we can recognize it.

9 THE CHAIRPERSON: Thank you.

10

11 CONTINUED BY MR. WALTER SARANCHUK:

12 MR. WALTER SARANCHUK: Now, when was the
13 2005/'06 forecast prepared?

14

15 (BRIEF PAUSE)

16

17 MR. BARRY GALENZOSKI: This, I believe,
18 is the original forecast that would have been prepared
19 and filed with the PUB in June of the previous year.

20 MR. WALTER SARANCHUK: And in terms of
21 the reasons for the variance, can you address those?

22 MR. BARRY GALENZOSKI: Are we talking
23 about investment income or other variance --

24 MR. WALTER SARANCHUK: Just in -- you can
25 deal with actually the investment income as well as the

1 earned revenues and -- well, more so the total claims
2 costs and the investment income.

3 MR. BARRY GALENZOSKI: Well, the main
4 reasons on the claim costs changes are because of the
5 reserving practices. Some of those were instituted just
6 prior to the start of that fiscal year and then finished
7 of in that fiscal year. So that was the big reason for
8 that change.

9 The expenses were higher than budget. A
10 big piece of that was premium taxes; were up \$1.7
11 million. Commissions up two hundred and forty-nine
12 thousand (249,000). Our operating expenses were up
13 slightly by six hundred and fifty-four thousand dollars
14 (\$654,000) and regulatory and appeal costs were also up
15 eight hundred and fifty-two thousand dollars (\$852,000).

16 So we can -- or they're pretty obvious
17 where the expense increases occurred. Investment income
18 was the big positive to the bottom-line and that was, as
19 I just recently explained, primarily because of
20 fortuitous gains on the equity portfolios, particularly
21 in the later part of the year.

22 MR. WALTER SARANCHUK: And in terms of
23 the reserving practices that you referred to, relative to
24 the claims incurred, is that what you were referring to
25 earlier when you talk in terms of the addressing of the

1 mortality and the morbidity?

2 MR. BARRY GALENZOSKI: Yes that's right.

3 MR. WALTER SARANCHUK: Now, turning to
4 tab 4 in the book of documents. This is the current
5 insurance year statement of operations and is TI-14 in
6 the filings.

7 The revised forecast shows a net income
8 from operations of some \$24 million versus a net loss of
9 \$1.4 million projected last year; in other words, a \$25
10 million variance. This is addressed by you, Mr.
11 Galenzoski, at page 2 of your pre-filed testimony and in
12 SM 7.2 of Volume I of the application.

13 Can you then, with me, review the changes
14 in the assumptions and the impact on the forecast, for
15 example, beginning with the total earned revenues being
16 some \$6 billion higher.

17 MR. BARRY GALENZOSKI: Yes, there's two
18 (2) contributing factors there. The first is on the
19 driver's licenses. They're up by -- earned premiums are
20 up by \$3.1 million and that's primarily due to the
21 changes that we're making with respect to the timing of
22 the driver's licenses.

23 There's an offset which turns into revenue
24 require -- or an increase in revenue, re-insurance costs
25 are down by \$4 million. And that's basically because we

1 purchased a different re-insurance program. We're taking
2 on a little bit more liability, so those costs were
3 decreased because we didn't buy certain coverages. And
4 I'm sure we're going to get into that at some point in
5 the proceedings.

6 Total claims costs are up by \$8 million
7 when we look at that with the big item there being the
8 road safety loss prevention which is up by \$8.8 million;
9 that's all related to the immobilizer incentive program,
10 as I mentioned earlier, when we were talking about road
11 safety initiatives or the -- the immobilizer initiative;
12 that those costs have to flow through the income
13 statement.

14 This is the point where they flow through
15 the income statement, or the majority of the costs flow
16 through the income statement and they're recognized
17 there. We then -- there's nothing much to talk about on
18 total expenses. They're pretty much where we expected
19 them to be other than regulatory and appeal costs which
20 are \$726,000 higher than we had anticipated.

21 Investment income is up \$28.1 million. We
22 -- early in the year -- early in this fiscal year there
23 was a continuation of gains that were available to be
24 taken based on the methodology that we employ and we took
25 those. We're not seeing that in the portfolio any longer

1 so I'm not expecting any additional gains for the balance
2 of the fiscal year. And those were reported -- those
3 were -- those sales were actually made and taken so those
4 are in the bank.

5 So we have a net income increase from
6 operations of \$25 million. You'll see the transfer from
7 the immobilizer incentive fund to get us down to the net
8 income for rating purposes; that's the \$8.8 million that
9 I referred to earlier. That's going to come in the -- in
10 the retained earnings section of the -- of the balance
11 sheet. So it -- but we show it here just for rate
12 setting purposes; that in reality the line of business
13 made \$34.3 million for the year, of which most of that
14 came from investment gains.

15 MR. WALTER SARANCHUK: Thank you, sir.

16 When addressing these various changes, let
17 me ask you, first of all, do you have -- is the second
18 quarter report for the Corporation's operations available
19 as yet?

20 MR. BARRY GALENZOSKI: We're expecting
21 that to be available this week and as soon as it is
22 available it will be made available here. The process
23 that needs to be followed is that this needs to be walked
24 around the legislature before it can be released publicly
25 and that is in process as we speak.

1 So as soon as that happens then we'll make
2 that available to everyone. It'll be a public document
3 then.

4 MR. WALTER SARANCHUK: Thank you. Just
5 with reference to the first quarter report which was
6 filed by the Corporation in response to Interrogatory
7 CAC/MSOS-2, this is not in the book of documents, but can
8 you deal generally with the status of the earned revenues
9 line, the total claims costs and the investment income
10 given the first quarter report, with the knowledge,
11 obviously, of the fact that there's the second quarterly
12 report to be forthcoming, as you mentioned?

13 But there is an improvement generally,
14 isn't there, in respect of the line items that I
15 mentioned?

16 MR. BARRY GALENZOSKI: Yes. I think
17 without saying too much with respect to the basic, what I
18 expect to see for the end of the year is reflected in TI-
19 14, the document that we just went over.

20 In other words, we're expecting that we're
21 going to be further to the good as -- with respect to the
22 bottom line on basic, approximately where we see the
23 numbers now. In other words, not much has changed from
24 the numbers that we've provided.

25 When we did do the numbers that you see on

1 TI-14 they would have included what we already knew about
2 the first quarter of the year which is covered in this
3 document that you're referring to me now. And then we
4 would have extrapolated where we -- where we thought we
5 were going for the balance of the year and we're pretty
6 much we're, I think -- I think this is going to be where
7 we'll end up, unless there's some other -- other
8 situation arises like an actuarial change when the
9 external actuary does their work in October and February
10 of this coming year.

11 MR. WALTER SARANCHUK: So it's fair to
12 say that TI-14, in Tab 4 of the book of documents,
13 reflects MPI's best estimate of the results for the
14 current year, for 06/07?

15 MR. BARRY GALENZOSKI: Yes. From a
16 bottom line perspective there might be some changes with
17 respect to individual lines within there. But generally
18 speaking, from the bottom line, yes.

19 MR. WALTER SARANCHUK: Now, moving on to
20 Tab 5 in the book of documents, this is the filing TI-15
21 and 15A in the application, dealing with the year with
22 which we're concerned in this application, namely
23 insurance year 2007/'08.

24 This is dealt with at page 3 of your pre-
25 filed testimony, Mr. Galenzoski, and in SM 7.3 in Volume

1 1 with reference to the filing TI-15A, as I understand it
2 the expected result is an underwriting loss, an
3 underwriting loss of \$81.9 million which with an
4 investment income of \$84 million -- \$84.3 million will
5 leave a net income of \$2.4 million from operations; is
6 that correct?

7 MR. BARRY GALENZOSKI: Well, that's prior
8 to any rate changes occurring. Yes.

9 MR. WALTER SARANCHUK: Now, in other
10 words the underwriting loss indicates that for the period
11 in question, namely fiscal '07/08 all claims incurred and
12 operating expenses are projected to be \$81.9 million
13 dollars greater than all projected revenues other than
14 investment income; is that correct?

15 MR. BARRY GALENZOSKI: Yes.

16 MR. WALTER SARANCHUK: Now, dealing with
17 the before and after rate and program changes in TI-15,
18 Schedule 1 which is on page -- just after page 5 -- this
19 is page 6 of that particular filing -- indicates that
20 claims incurred are expected to increase by some \$25
21 million dollars; is that correct?

22 MR. BARRY GALENZOSKI: Yes, that's
23 correct.

24 MR. WALTER SARANCHUK: And there is to be
25 a \$4 million increase approximately in total expenses?

1 MR. BARRY GALENZOSKI: Yes, that's
2 correct.

3 MR. WALTER SARANCHUK: And after the rate
4 changes, the forecast is, or projection is for a \$6.5
5 million loss from operations and that notwithstanding
6 that fact the Corporation is proposing a 2.6 percent rate
7 decrease; is that correct?

8 MR. BARRY GALENZOSKI: Yes, that's
9 correct but keep in mind that what we're looking at for
10 rate setting purposes is -- is the line two (2) below
11 that which after recovery from the Immobilizers Incentive
12 Fund indicates a positive bottom line of \$4.6 million.

13 MR. WALTER SARANCHUK: Yes, this is
14 addressed at page 8 of your pre-filed testimony, sir,
15 where you've indicated that in effect the net income for
16 rating is projected at \$4.6 million. That arises, given
17 that explanation, from what, sir?

18 MR. BARRY GALENZOSKI: Well, that again,
19 as I explained earlier this -- this morning and in
20 previous rate hearings, we take the net income which in
21 this case is the net loss from operations, the \$6.5
22 million, that flows through to the rate stabilization
23 reserve.

24 The rate stabilization reserve at the --
25 in the -- on the balance sheet is replenished through the

1 Immobilizers Incentive Fund by the amount of money that
2 flows through the income statement relating to the
3 installation of immobilizers and that is \$11.1 million as
4 shown in this document.

5 And that's the reason we -- we provide
6 this particular statement so that we can clearly
7 demonstrate that for rate setting purposes the bottom
8 line that we're really looking at once you eliminate
9 those expenses, which are already accounted for through
10 our retained earnings side.

11 In other words, that's the reason we set
12 that money aside in the retained earnings, to clearly
13 identify the pool of funds that we're going to -- that
14 are going to deal with the immobilizer program and how
15 that was going to be replenished through that process.

16 MR. WALTER SARANCHUK: So essentially
17 we're talking about for illustrative purposes?

18 MR. BARRY GALENZOSKI: No, we're talking
19 in real terms. This is the number that we would have
20 considered when we set rates in that we knew that even
21 after the changes that we were proposing there would
22 still be a bottom line that was in a small manner
23 positive. \$4.6 million is -- is obviously a positive
24 bottom line, but it's -- it's a reasonable amount over
25 zero I guess.

1 will be that if all else is equal and everything turns
2 out the way we've shown it here, that the RSR is actually
3 going to go up by \$4.6 million for the year.

4 MR. WALTER SARANCHUK: Now, turning to tab
5 7 in the book of documents, this is the documentation
6 filed with TI-17.

7 On read of this particular document and
8 the column on the first page to the extreme right-hand
9 side, the projected results for 2007 and '08, is it
10 correct that the investment income of some \$84 million
11 reduces the \$90.4 million underwriting loss to a net loss
12 of \$6.5 million?

13 MR. BARRY GALENZOSKI: Yes, for the exact
14 same reasons we just finished discussing.

15 MR. WALTER SARANCHUK: Now, is budgeting
16 for an underwriting loss the standard practice of the
17 Corporation?

18 MR. BARRY GALENZOSKI: Well, it is for
19 this Corporation, you have got to recall that we're
20 budgeting for losses to be at least 85 percent of our
21 premium base. And then you have your expenses over and
22 above that which are approximately half of what the
23 private sector has.

24 So you are usually budgeting for
25 underwriting loss before you apply your investment

1 income. And, in fact, you know we're generally even you
2 know, higher than that 85 percent with respect to our
3 claims incurred and expenses that go into that line.

4 MR. WALTER SARANCHUK: And of course, the
5 investment income is usually greater than the
6 underwriting loss, so that usually the result is a net
7 income, as a result, is that correct?

8 MR. BARRY GALENZOSKI: Well, keeping in
9 mind that you know, we've got additional costs flowing
10 through this particular -- we've got some very
11 specialized statements for the next two (2) years.

12 And again this is, you know, re-
13 emphasizing why we set up the immobilizer incentive fund.
14 Is that we knew that we were going to have run all these
15 costs through the income statement that we're incurring
16 with respect to the mobilizer installations that are
17 going on as we speak right at the moment.

18 So those costs are flowing through the
19 income statement. And they're, in fact, inflating our
20 normal operating costs. They're a specialized type
21 expenditure and they're inflating what we would normally
22 see with respect to our road safety expenditures.

23 And you'll see road safety and loss
24 preventions is at \$19.7 million. That compares to the
25 forecast for 06/07 where it's 19.5.

1 But, look at the years prior to that.
2 11.0, 7.2 and that tells you what's happening. The
3 immobilizer incentive fund project has really pushed a
4 lot of costs into the income statement.

5 Therefore, we can live with the fact that
6 we're going to have a higher underwriting loss than our
7 investment income, knowing that we're going to make this
8 recovery at the balance sheet level in the retained
9 earnings section.

10 And in this case, it's \$11.1 million for
11 the 07/08 year, that compares to \$10.7 million for the
12 previous year.

13 MR. WALTER SARANCHUK: So that's the
14 essential explanation as to why the Corporation doesn't
15 budget to break even?

16 MR. BARRY GALENZOSKI: In this particular
17 timeframe, okay? Under normal circumstances we wouldn't
18 be doing that, but this is a very specialized timeframe.
19 And it should have a -- it should have a window on it of
20 another two (2) or three (3) years potentially and then
21 that will stop.

22 But, right now this is where we're at.
23 And that's why you know, we're so careful to try and
24 explain exactly how we're handling this, that's why we
25 wanted to have that fund set up as a segregated fund

1 within retained earnings so that everyone can see exactly
2 how the money flows back and forth.

3 MR. WALTER SARANCHUK: So is the
4 reduction arising out of the anti-theft initiatives -- or
5 reduction in terms of the loss cost reflected in this
6 document?

7 MR. BARRY GALENZOSKI: Yes. As -- as we
8 think they're going to apply for this particular year and
9 that will magnify itself as we become more successful in
10 having more vehicles immobilized over time.

11 THE CHAIRPERSON: Your forecast as you go
12 further out clearly indicates that?

13 MR. BARRY GALENZOSKI: Yes.

14 THE CHAIRPERSON: By the way, I imagine
15 one (1) of your supports for you arguments on the MCT is
16 the very point that Mr. Saranchuk raised about the fact
17 that you require the investment income to offset ongoing
18 -- underlying -- in other words, the investment income
19 has become of significant importance?

20 MR. BARRY GALENZOSKI: In -- in our
21 situation, which is unlike a lot of private sector
22 companies, all of the investment income that we make is
23 ploughed back into the rate setting process. We do not
24 provide any dividends to anybody out there.

25 So all of the money that we have, whether

1 it's earned revenues from premiums or whether it's
2 investment income that we make, is ploughed back into the
3 rate setting process. And so you're exactly right on
4 that.

5

6 CONTINUED BY MR. WALTER SARANCHUK:

7 MR. WALTER SARANCHUK: Is that what can
8 be termed loosely as cash flow underwriting?

9 MR. BARRY GALENZOSKI: No. Not in our
10 case. Cash flow underwriting might apply to a private
11 sector company that is -- you know, generally speaking,
12 that's a very negative connotation; cash flow
13 underwriting.

14 It means what -- in private sector
15 vernacular what that means is that they're putting risks
16 on the book without really regard to what it might cost
17 them downstream. They're simply interested in getting
18 the premiums on the books today so they can invest the
19 money and hopefully make some return on that before they
20 have to pay the claim without really understanding
21 whether they're going to make their money overall on that
22 particular policy that they put on the books.

23 And, of course, that doesn't apply to our
24 situation at all.

25 MR. WALTER SARANCHUK: So cash flow

1 underwriting, to your understanding, doesn't just mean
2 the utilization of the investment income to offset the
3 losses?

4 MR. BARRY GALENZOSKI: No. Absolutely
5 not. No. It's a -- it's a very negative term in the
6 insurance industry and it usually means bad business
7 practices by whoever is applying it.

8 MR. WALTER SARANCHUK: Turning to TI-
9 17A --

10 MS. MARILYN MCLAREN: Mr. Saranchuk, if I
11 can interrupt just briefly before you move on to that
12 area. While we're looking at -- never mind. I thought
13 you were moving to a different tab. You're going to the
14 exact area I wanted to speak to. Thank you.

15 MR. WALTER SARANCHUK: Dealing with TI-
16 17A and in reviewing what is reflected here for 2007, the
17 projections 2007/08 throughout the outlook period to
18 2010/2011, can the Corporation confirm that no rate
19 increases in any of the years are reflected in this
20 schedule?

21 MR. BARRY GALENZOSKI: Yes. That's
22 correct. What it does reflect is the reduction requested
23 for the 07/08 year and then going forward there's no --
24 no changes.

25 MR. WALTER SARANCHUK: And what --

1 THE CHAIRPERSON: If you don't mind,
2 Mr. Saranchuk, I think we'll take our short break now.
3 Thank you.

4
5 --- Upon recessing at 2:30 p.m.
6 --- Upon resuming at 2:49 p.m.

7
8 THE CHAIRPERSON: Welcome back, everyone.
9 Mr. Saranchuk, whenever you're ready to begin, the Panel
10 looks like they're ready to receive your questions, as
11 long as they're polite.

12 MR. WALTER SARANCHUK: Thank you, sir.

13
14 CONTINUED BY MR. WALTER SARANCHUK:

15 MR. WALTER SARANCHUK: We have confirmed
16 that, Mr. Galenzoski, with reference to Tab 7; that's TI-
17 17A, that the schedule of the projections from 2007/08
18 throughout the outlook period reflect no increases in any
19 of those years.

20 Therefore, when you look at the premium
21 revenue in each of the years and, in particular, the fact
22 that the revenue is increasing, what are the factors
23 behind the premium increases?

24 MR. BARRY GALENZOSKI: The factors are
25 shown on the facing page to that, under the assumptions,

1 under premiums written. You can see there is -- rate
2 changes showing as zero and upgrading is shown at 3
3 percent per year and volume increases are shown at 1.75
4 for the first year and 1 and a half percent for the
5 following two years. So that would account for the
6 changes in the premium base.

7 MR. WALTER SARANCHUK: Yes. And we'll be
8 dealing with those shortly. In terms of the total claims
9 costs, can you comment on the projection of those given
10 that in 2006/'07 we were looking at approximately \$647
11 million?

12 MR. BARRY GALENZOSKI: Yes, well again,
13 some of that is relating to the -- the reserving practice
14 changes that we referred to earlier and then we -- we
15 have a forecasting process that would look at our normal
16 claims growth that we would see based on size of the book
17 of business, the cost inputs that we see and the -- and
18 the increases that we're going to see year over year on
19 that, which generally are -- are higher than -- than
20 inflation, less any savings that we're going to have from
21 other processes and cost saving measures we put in place.
22 So that would reflect in the forecasts that you see in
23 front of you.

24 MR. WALTER SARANCHUK: Is there any
25 concern from the Corporation's standpoint considering an

1 increase of some \$100 million in total claims costs over
2 that outlook period?

3 MR. BARRY GALENZOSKI: No, it's -- it's
4 demonstrating that -- that it's affordable with respect
5 to the plan considering there's no rate changes. You
6 have to consider that there's, you know, an increase in
7 the vehicle fleet size overall. Costs are going to be
8 increasing as the fleet renews itself over time. There's
9 more valuable vehicles out there so it's all built within
10 our plan and is -- is -- we can handle it with no rate
11 increases unless there's something unusual.

12 MR. WALTER SARANCHUK: Particularly for
13 the years 2007/'08 and 2008/'09 is it reflected that the
14 rates are insufficient -- insufficient to offset the
15 growth and claims costs notwithstanding the increase in
16 revenue projected?

17 MR. BARRY GALENZOSKI: No, it doesn't.
18 That's again exactly the same reason we were talking
19 other than you'll see a small deficiency for rate setting
20 purposes in '08/09 of \$1.5 million, but other than that
21 that's just the effects and I think I'll let Mr. Palmer
22 talk about the effects of how rates change over time.

23 MR. WALTER SARANCHUK: Okay. But just
24 before you do that, Mr. Palmer, I'm thinking more in
25 terms of the net income from operations as opposed to the

1 very bottom line after taking into account the transfer
2 from the IIF or Immobilizer Incentive Fund.

3 MR. BARRY GALENZOSKI: Yeah. Well, again
4 that reflects exactly to what I was talking about with
5 the Immobilizer Incentive Fund. You have to take that
6 into account because there's -- there's other costs
7 buried in that income statement.

8 And for instance if you look at the loss
9 we just talked about the loss in -- for '07/'08, \$6.4 --
10 \$6.5 million it's offset by a transfer from the
11 Immobilizer Incentive Fund of \$11 million. That \$11
12 million cost is built into that income statement.
13 Similarly, when you look at '08/'09, there's an
14 additional \$3.5 million worth of costs imbedded in that
15 income statement that are being offset there for rate
16 setting purposes and that's exactly why we provide this
17 at this forum.

18 MR. WALTER SARANCHUK: Yes, Mr. Palmer,
19 did you want to comment on that because I was looking to
20 the insufficient offset in terms of the rates versus the
21 growth and claims costs notwithstanding the revenue
22 increase.

23 MR. DON PALMER: Remember that the
24 '08/'09 premium, earned premium, half of that is based on
25 the '07/'08 rates that are being approved in this

1 hearing. That's the post-year effect that I referred to
2 this morning. So we set rates on a break-even basis so
3 if you look at the combination between the '07/'08 and
4 '08/'09 fiscal years, that's what we're setting our rates
5 for and you've got a small profit of \$4.6 million the
6 first year and a small loss of \$1.5 the second year.

7 On a policy year basis that is break even.

8 MR. WALTER SARANCHUK: And just for the
9 record the policy year for the Corporation is from the
10 beginning of March to the end of February in the
11 succeeding year?

12 MR. DON PALMER: That's correct.

13 MR. WALTER SARANCHUK: And when is the
14 fiscal year?

15 MR. BARRY GALENZOSKI: The same. It's
16 exactly the same as the policy year. We switched that a
17 few years ago to align the two.

18 MR. WALTER SARANCHUK: Yes, okay.

19 MS. MARILYN MCLAREN: But the point is
20 the last policy sold on '07/'08 rates is sold on the last
21 day of February in '08, so the half -- the -- the half
22 mark in terms of earning revenue based on the rates that
23 we're applying for here through these proceedings, the
24 half mark for earning those rates is the last day of
25 February in '08.

1 So you really need to look at both of
2 those years to determine whether or not we are budgeting
3 for a loss as you've said or breaking even and \$3 million
4 positive net income, add the two (2) years up, divide up
5 by two (2) and it works out to 3 -- you know the \$3
6 million is the net sum of that. Yes, we are budgeting to
7 break even over the rating period for which these rates
8 will be effective.

9 The other thing in terms of whether we're
10 budgeting for a loss or not, you have to look back at the
11 actuarial indicators. The actuarial indicators said we
12 need to reduce rates by 2.6 percent.

13 If it said we needed to reduce rates by
14 1.5 percent and we were here with a 2.6 percent rate
15 reduction; that would beg the question are you budgeting
16 for a loss. The application is based on the actuarial
17 indicators that say we should reduce rates to the extent
18 we've applied to do so.

19 MR. WALTER SARANCHUK: Thank you Ms.
20 McLaren. Perhaps you can indicate to me, or for the
21 benefit of the Board; to what extent the forecast savings
22 related to the business process review is reflected in
23 the outlook period?

24 MS. MARILYN MCLAREN: No, any savings
25 related to the business process review would flow through

1 the -- DVL area of the Corporation, which right now is
2 flowing through the extension line of business.

3 So there's no impact on BPR cost savings
4 to these statements of operations.

5 MR. WALTER SARANCHUK: With reference
6 then to TI-17A and the last page in particular, what
7 about the transfers that are reflected there?

8 MR. BARRY GALENZOSKI: Well, if you're
9 talking about the transfers from extension to -- from
10 extension and SRE to basic, is that what you're referring
11 to? Or are you talking about the transfers from the
12 immobilizer incentive fund?

13

14 (BRIEF PAUSE)

15

16 MR. WALTER SARANCHUK: I think the point
17 to be addressed is, whether with all the money that is
18 being expended on the business process review, something
19 in the order of now \$28 million or so, are you saying
20 that there's to be no benefit derived by basic?

21 MS. MARILYN MCLAREN: Basic is not
22 spending that money.

23 MR. WALTER SARANCHUK: I'm just asking
24 you the question?

25 MR. BARRY GALENZOSKI: That's correct.

1 MR. WALTER SARANCHUK: Thank you.

2

3 (BRIEF PAUSE)

4

5 MR. WALTER SARANCHUK: Now, dealing with
6 the vehicle upgrade factor, this is addressed at tab 7,
7 page 3 as pointed out by Mr. Galenzoski in the book of
8 documents, but also is addressed at interrogatory PUB/MPI
9 2, in the first round which is also in the book of
10 documents at tab 12.

11 Now, you did indicate, Mr. Galenzoski,
12 that while no rate increase is projected over the outlook
13 period, there is reference to inclusion of an upgrade
14 factor and volume factor in premiums written.

15 Dealing firstly, with the vehicle upgrade
16 factor or the VUF acronym, what does that represent?

17 MR. DON PALMER: Largely that's the
18 effect of new cars coming into the fleet replacing older
19 cars, and hence at a higher premium.

20 MR. WALTER SARANCHUK: And what other
21 aspects are captured?

22 MR. DON PALMER: Any classification
23 change will be captured within that drift. For instance,
24 if there's a trend for people to move into the City from
25 territory 2 into territory 1.

1 Say if there was a trend to move from
2 Neversville (phonetic) to Winnipeg that would be included
3 in that trend. There's a trend that more people don't
4 have accidents than have accidents, thank goodness for
5 that.

6 And there's a slightly higher discount
7 factor. That would be included in that. If you had some
8 economic change and people going from pleasure insurance
9 use to all purpose insurance use, that could be included
10 in that, as well.

11 But, I would say the vast majority would
12 be the vehicle upgrade that I mentioned before.

13 MR. WALTER SARANCHUK: Would that also
14 capture vehicles leaving the fleet, the old vehicles?

15 MR. DON PALMER: It's net of.

16 MR. WALTER SARANCHUK: Just before we
17 proceed any further on this topic, I'm advised that at
18 Tab 27, this is going back to the benefit of the business
19 process review and that, in effect, basic -- the basic
20 divisions will not benefit at all, I am looking -- I'm
21 advised that at Tab 27, being the Interrogatory asked by
22 the Public Utilities Board as number 38 in the first
23 round in page 2 in section B in response to the question
24 dealing with the initiatives of the business process
25 review; what is the source of funding for these

1 initiatives, the answer in B is, the source of funding is
2 driver safety rating basic and all other projects DVL.

3 Can you reconcile that with your answer
4 earlier, Ms. McLaren, that this is a cost being borne
5 strictly by extension?

6 MS. MARILYN MCLAREN: My answer was in
7 the context of your question with respect to cost savings
8 going to basic. The driver safety rating hasn't been
9 proposed and isn't intended to be a cost saving
10 initiative.

11 MR. WALTER SARANCHUK: And looking over
12 three (3) or four (4) pages to the Corporation's response
13 to Interrogatory number 8 in the second round by the
14 Public Utilities Board, there's a table that was provided
15 in response to the question to provide a breakdown of
16 expenses earlier listed by project. This is with
17 reference to the business process review, again, there's
18 reference to some \$7 million being paid out for driver
19 safety rating.

20 Again that, as I understand it, is to be
21 borne by basic and there is still to be no benefit?

22 MS. MARILYN MCLAREN: No. I didn't say
23 there was going to be no benefit. I said it was not
24 intended to be a cost saving initiative.

25 MR. BARRY GALENZOSKI: In other words,

1 what that means is that there's -- it's to have no bottom
2 line impact. Whatever -- whatever costs are going to be
3 absorbed by the changes that are going to be brought
4 about by this process.

5 MR. WALTER SARANCHUK: So, in answer to
6 the question whether the basic division will benefit from
7 the business process review, what is the answer?

8 MS. MARILYN MCLAREN: Basic insurance
9 policyholders, ratepayers will benefit from the business
10 process review because, by definition, they are also
11 vehicle owners and payers of registration fees and, for
12 the most part, they are driver license holders. Will
13 basic ratepayers benefit from the business process
14 review? Yes, in two key ways.

15 First, as vehicle registrants and, for the
16 most part, driver license holders they will benefit from
17 the service improvements. They will also benefit
18 specifically with respect to the administration of the
19 basic compulsory program through the driver safety rating
20 initiative.

21 They will not benefit necessarily through
22 lower costs, but there are other benefits. We can pull
23 out that section of the Corporation's material if you
24 wanted to discuss that in more detail.

25 MR. WALTER SARANCHUK: I think what we

1 can then conclude is that there's no benefit to basic in
2 terms of reduced rates?

3 MS. MARILYN MCLAREN: With respect to
4 driver safety rating, yes, that's true.

5 MR. WALTER SARANCHUK: Thank you. Moving
6 back to the vehicle upgrade factor, I'm sorry for the
7 interruption there, Mr. Palmer, but can you confirm that
8 the positive vehicle upgrade factor contributes to the
9 overall premium revenue of the Corporation regardless of
10 whether the application seeks a rate increase, decrease,
11 or that the status quo be maintained?

12 MR. DON PALMER: Yes. In relative terms.
13 Let me also say that newer cars coming in also increases
14 claims costs. A new car with an accident will likely
15 have a higher claims cost than an older car and that's
16 reflected in the rate. So the revenue is higher but I
17 would say the claims would be higher as well.

18 MR. WALTER SARANCHUK: And can you
19 confirm, sir, that the vehicle upgrade factor assumption
20 made in this General Rate Application uses a 3 percent
21 per annum for 2006/'07 and onwards?

22 MR. DON PALMER: I'll -- I can confirm
23 that.

24 MR. WALTER SARANCHUK: And can you
25 confirm that this assumption is unchanged from that used

1 in last year's General Rate Application for '05/'06 and
2 onwards?

3 MR. DON PALMER: That's correct.

4 MR. WALTER SARANCHUK: Now, is the actual
5 vehicle upgrade factor experienced for 2005/'06, 3
6 percent as shown in the response to Public Utilities
7 Board Interrogatory Number 2 on the first round as shown
8 on the second page of Tab 12 or 3.3 percent as shown in
9 the response to CAC/MSOS Interrogatory Number 32B in the
10 first round?

11 The reference is CAC/MSOS Question Number
12 32 in the first round and Part B. This is not in the
13 book of documents, but certainly the reference to 3
14 percent for 2005/06 is apparent in Tab 12 on the second
15 page.

16

17 (BRIEF PAUSE)

18

19 MR. BARRY GALENZOSKI: The actual upgrade
20 factor is shown as -- for '05/06 at 3.3 percent in that
21 document.

22 MR. WALTER SARANCHUK: That being the
23 case, can you explain the rationale for maintaining the
24 status quo for the vehicle upgrade factor assumption in
25 light of the elevated actual VUF experienced in '05/'06?

1 MR. DON PALMER: There's difference in
2 measurement time whether you look at the earned upgrade
3 factor or an upgrade factor that's implied through the
4 financial statements, slight difference, so I can take an
5 undertaking to -- to reconcile those two as to -- to what
6 the factor is, but it's probably a timing issue.

7
8 --- UNDERTAKING NO. 1: MPI to explain the rationale
9 for maintaining the status
10 quo for the vehicle upgrade
11 factor assumption in light of
12 the elevated actual VUF
13 experienced in '05/'06.

14
15 MR. WALTER SARANCHUK: Thank you, sir.
16 If new car sales are enjoying some success in recent
17 months -- if new car sales are enjoying some success in
18 recent months what effect would this be expected to have
19 on the actual volume upgrade factor -- vehicle upgrade
20 factor?

21 MR. DON PALMER: If there's an increase
22 in -- in sales I would expect the upgrade factor to be
23 higher.

24 MR. WALTER SARANCHUK: And is there any
25 recognition given to that by the Corporation taking into

1 account the experience or the -- the new car sales
2 experience in more recent months after the, in this case,
3 3 percent is targeted?

4 MR. DON PALMER: New car sales, a
5 projection of new car sales, is included in our
6 deliberations to -- to select the upgrade factor. What
7 we've seen in the last few months is -- is a trend to --
8 maybe an increase in new car sales but not an increase in
9 smaller cars.

10 There has certainly been a trend away from
11 vans, from SUV's; SUV's in particular which would have
12 higher rate groups and -- and would accelerate that. So
13 in past years if -- if you have -- if there's higher
14 small car sales that may not necessarily improve the up -
15 - increase the upgrade factor.

16 MR. WALTER SARANCHUK: And when looking
17 at the new car sales then is it a question of the higher
18 cost that's taken into account, the higher price rather
19 of the vehicles?

20 MR. DON PALMER: Partially. With the
21 CLEAR rating system it includes the -- more than the
22 price of the car it's the damageability of the car and
23 the cost to repair that car plus also the cost of
24 injuries to occupants of that car. They're all taken
25 into consideration.

1 MR. WALTER SARANCHUK: So that the CLEAR
2 adjustments play a significant role in this target
3 setting, so to speak?

4 MR. DON PALMER: The expected rate that's
5 generated from the CLEAR adjustments. I will also say
6 that over the past few years, we talked briefly this
7 morning about rate line adjustments.

8 And the rate -- one (1) of the trends that
9 we've seen in the rate line adjustment, is that the top
10 is actually come down a little bit and if you refer to
11 the chart in Tab 12 that we were looking at, the
12 historical upgrades; you'll see that they have actually
13 gone down over the last few years.

14 We were at -- five (5) years ago or so, we
15 were at 5.5 percent, that has dropped to in the 3 range
16 and that's mainly because -- it's because of sales, but
17 it's also the combination of the effect of the rate line
18 adjustment, as well.

19 MR. WALTER SARANCHUK: And dealing with
20 the volume factor or the acronym of VF, what does that
21 represent? In other words, what aspects are captured
22 there, sir?

23 MR. DON PALMER: That's purely the size
24 of the fleet. We have more cars being insured in
25 Manitoba than we used to have and that is continuing to

1 grow.

2 MR. WALTER SARANCHUK: And can you
3 confirm that the positive volume factor contributes to
4 the overall premium revenue of the Corporation regardless
5 of whether a rate decrease or increase or status quo is
6 maintained?

7 MR. DON PALMER: It's the same answer as
8 I had for the upgrade factor, that yes, there is an
9 increase in premium regardless of whether we increase
10 rates or not. But, with more cars on the road, there's
11 also an increase in claims and that's included in our
12 claims forecast.

13 MR. WALTER SARANCHUK: And in terms of
14 the volume factor, can you confirm that the assumptions
15 made in this application use a 2 percent per annum for
16 '06/'07 to 2007/'08 and then 1.75 percent for 2008/'09
17 and 1.5 percent for thereafter?

18 MR. BARRY GALENZOSKI: Yes it was 2 for
19 '07/'08 and as you stated, 1.75 and 1.5 for the other two
20 years.

21 MR. WALTER SARANCHUK: Can you confirm
22 that the volume factor assumptions made at last year's
23 application used a 1.5 percent per annum for 2005/'06 and
24 '06/'07 and 1 percent thereafter?

25

1 MR. BARRY GALENZOSKI: I don't believe we
2 can confirm that without looking back.

3 MR. WALTER SARANCHUK: If you wouldn't
4 mind and letting us know in due course.

5 MR. DON PALMER: We'll do that.

6

7 --- UNDERTAKING NO. 2: Confirm Volume Factor
8 assumptions from last year's
9 application.

10

11 CONTINUED BY MR. WALTER SARANCHUK:

12 MR. WALTER SARANCHUK: Thank you. Based
13 on the response to the Public Utilities Board
14 Interrogatory 2 on the first round as shown in Tab 12,
15 can you confirm that the actual volume factor experienced
16 for 05/06 was 1.5 percent, which is consistent with the
17 assumption made at last year's GRA?

18 MR. BARRY GALENZOSKI: Yes, that's right.

19 MR. WALTER SARANCHUK: And can you
20 indicate to what key factors the Corporation attributes
21 the assumed increase in volume factors for '06/'07,
22 '07/'08 and '08/'09?

23

24

(BRIEF PAUSE)

25

1 MR. DON PALMER: It's our assessment
2 through the forecasting using both demographic trends and
3 historical trends. I think there's a -- or there is a
4 breakdown of that forecast in T1-19, I think. I'll check
5 that.

6 MR. WALTER SARANCHUK: Thank you.

7 MR. DON PALMER: Yes, the revenue
8 forecast book in T1-19 has the specifics of the upgrade
9 and the volume factor.

10 MR. WALTER SARANCHUK: Thank you, sir.
11 Now, again with reference to the Corporation's response
12 to the Public Utilities Board Interrogatory Number 2 in
13 the first round, that's the last page shown in Tab 12,
14 and the information provided in the table in Part B of
15 the Corporation's response to Interrogatory Number 32 of
16 CAC/MSOS on the first round; can you explain the
17 differences in the actual volume factors shown and could
18 you indicate which response is more suitable for gauging
19 the past accuracy in the selection of volume factor
20 assumptions?

21

22 (BRIEF PAUSE)

23

24 MR. DON PALMER: I'll take that as an
25 undertaking, Mr. Saranchuk.

1 MR. WALTER SARANCHUK: Thank you, sir.

2

3 --- UNDERTAKING NO. 3: MPI to explain the
4 differences in the actual
5 volume factors shown and
6 indicate which response is
7 more suitable for gauging the
8 past accuracy in the
9 selection of volume factor
10 assumptions.

11

12 CONTINUED BY MR. WALTER SARANCHUK:

13 MR. WALTER SARANCHUK: Now, dealing with
14 driver's premiums, these are dealt with at SM 3.2 in
15 Volume I of the application and also I would draw your
16 attention to TI-15A in the book of documents at Tab 5.

17 In TI-15-A which is the second page of Tab
18 5, the revenue expected from driver's premiums is shown
19 as approximately \$34 million, is that correct? This is
20 for the projection for 2007/'08?

21 MR. DON PALMER: That's the earned
22 driver's premium, yes.

23 MR. WALTER SARANCHUK: Can you, with
24 reference to Schedule 2 in this documentation in Tab 5,
25 this is the last page, with reference to the drivers'

1 premium variance analysis, that's Schedule 2, can you
2 review the composition of the premiums, namely the source
3 of the fees that contribute to that \$34 million income or
4 revenue?

5 MR. DON PALMER: There are three
6 components to the drivers' premium. The basic drivers'
7 premium which is an amount of \$45 per driver, less \$5 a
8 merit. There is also a charge 1 demerit point premium;
9 that's a surcharge based on conviction record of the
10 driver, and charge 2 accident surcharges, that's a
11 surcharge that's assessed for at-fault claims that have
12 happened to that driver.

13 MR. WALTER SARANCHUK: And in terms of
14 the demerit point additional premiums, is that relating
15 to the \$200 for six demerits to \$999 for 21 or more
16 demerits?

17 MR. DON PALMER: That's correct.

18 MR. WALTER SARANCHUK: And that is, of
19 course, the source of some consideration in that there's
20 a limitation in the computerization to three fields; is
21 that correct?

22 MR. DON PALMER: The highest demerit
23 charge 1 premium is \$999, yes.

24 MR. WALTER SARANCHUK: And, of course,
25 the limitation to the current system of drivers' premium

1 rating will be addressed in the driver rating system to
2 be reviewed next year; is that correct?

3 MR. DON PALMER: Yes.

4 MR. WALTER SARANCHUK: Now, moving on to
5 driver and vehicle licensing, and known by the acronym
6 DVL, the reference here is at SM 8.3 in Volume I and also
7 PUB/MPI-1.38; that's question 38 on the first round of
8 interrogatories by the Public Utilities Board and
9 question number 8 in the second round of interrogatories
10 by the Public Utilities Board addressed at Tab 27 in the
11 book of documents.

12

13 (BRIEF PAUSE)

14

15 MR. WALTER SARANCHUK: Can you just
16 provide some background or brief history to the
17 provincial government department that -- in terms of its
18 having become merged with MPI operations?

19 MS. MARILYN MCLAREN: In April of 2004
20 the Government announced that it was merging the
21 activities, the division of driver and vehicle licencing
22 which until that point had been part of the Department of
23 Transportation and Government Services of the Province of
24 Manitoba, that they were basically amalgamating that unit
25 of three hundred (300) staff with Manitoba Public

1 Insurance.

2 Since the inception of Manitoba Public
3 Insurance the two (2) organizations have had to work very
4 closely together on an operational basis. The Division
5 of Driver and Vehicle Licencing was responsible for
6 registering and insuring drivers, the processes around
7 that.

8 MPI was responsible for registering and
9 insuring vehicles. We had to work on safety initiatives
10 together, certainly on systems changes and legislative
11 changes and the Corporation took the position for many
12 years that service could be improved and costs could
13 likely be reduced if the two (2) organizations were
14 brought together under one (1) umbrella.

15 The Government moved in that direction,
16 announced it in April of 2004, made it official on
17 October 1st of 2004, and since then we have certainly
18 been part of the development of a new piece of
19 legislation given Manitoba Public Insurance legislated
20 responsibility for administering those programs.

21 All of those government programs still are
22 government programs. They happen for the most part under
23 the Act and regulations of either the HTA or the New
24 Drivers and Vehicles Act and we've begun to figure out
25 how to maximize the advantages to Manitobans presented

1 now that the merger has happened.

2 MR. WALTER SARANCHUK: Is it safe to say
3 that the intention or at least the goal, if you will, was
4 two (2) part, namely to reduce costs and to insure that
5 rates were not negatively impacted?

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

7 MR. WALTER SARANCHUK: And there was a
8 decision to include the DVL into the extension side of
9 the Corporation's business and basically treat it as a
10 fourth line of business; is that correct?

11 MS. MARILYN MCLAREN: It is being treated
12 as a fourth line of business where the -- sort of the --
13 the bottom -- all of the detail of the DVL line of
14 business is tracked and reported separately and its
15 bottom line impact flows through the extension book of
16 business, yes.

17 MR. WALTER SARANCHUK: And can you give
18 us some indication as to the rationale behind including
19 it into the extension division?

20 MS. MARILYN MCLAREN: Well, I think the
21 first rationale that I'd like to talk about is -- is the
22 reason that we really wanted to make sure the -- to the
23 extent we could in the early stages of that amalgamation
24 we kept it separate. We kept the reporting as separate
25 as we possibly could so that we could keep a handle on it

1 and understand it and the reason we flowed it through the
2 extension line is really another -- a strategy to keep it
3 separate from the basic compulsory program.

4 And it's -- it's really important on -- in
5 the view of the Corporation that we make sure that the
6 insurance program that we know as the basic Autopac
7 program, a compulsory program guaranteed access to all
8 Manitobans, is allowed to stand on its own, that we
9 understand what costs are flowing through that line of
10 business, the revenue associated with it and that was the
11 main driver for wanting to keep the impact of DVL costs
12 separate from basic compulsory program which people are
13 obligated to insure through and obligated to be part of.

14 MR. WALTER SARANCHUK: Was there any
15 consideration given to the fact that the DVL would then,
16 with the inclusion of it in the extension side, would not
17 be coming under the scrutiny and mandate of the Public
18 Utilities Board?

19 MS. MARILYN MCLAREN: You know, I don't
20 think there's any difference to the way we've handled it
21 or what would have happened under that. The scrutiny --
22 the process has been very transparent and I don't know
23 that any greater scrutiny could have occurred with
24 another reporting option that the Corporation might have
25 proposed.

1 There's a fixed amount of money coming
2 from the government. We have been open about the costs
3 to MPI to provide those services in relation to that
4 fixed amount of money.

5 As I just said, virtually all of the
6 services we provide to the government are for programs
7 that are constructed under an Act and regulations. It's
8 not up for debate within MPI or in any other forum. It's
9 the purview of the government.

10 So I think we've been very transparent in
11 terms of the financial impact and in terms of the
12 activities that we are undertaking to maximize the
13 opportunities presented with the merger.

14 So I'm not sure there would have been much
15 difference.

16 MR. WALTER SARANCHUK: Although the DVL
17 costs are tracked separately and the net income or loss
18 is included in a separate line in the financial
19 statements for the extension division, correct?

20 MS. MARILYN MCLAREN: Yes they are.

21 MR. WALTER SARANCHUK: In terms of the
22 cost consequences in this application to the basic
23 division, as a result of the merger with DVL or DVL with
24 the Corporation; could you comment on that given the
25 figures provided in MPI's response to Public Utilities

1 Board Interrogatory 38 in the first round as shown at Tab
2 27 and in particular, the response to Part D of the
3 question?

4

5

(BRIEF PAUSE)

6

7 MR. BARRY GALENZOSKI: I can provide that
8 response with respect to DVL costs. And you can see here
9 that we're showing the net costs of DVL for '06/'07
10 totalling \$29.5 million. And those costs are
11 extrapolated out to the year 10/11, where they're shown
12 at \$26.8 million.

13

14 The recovery of \$21 million is the
15 recovery we're making from the provincial government and
16 you can see the net financial impact. That net financial
17 impact is a hit right now to the extension line of
18 business.

19

20 And so the extension line of business is
21 funding any shortfall with respect to the costs
22 associated with DVL as we see them right at the moment.

23

24

(BRIEF PAUSE)

25

26 MR. WALTER SARANCHUK: Last year the
27 Corporation indicated that a business process review was

1 being undertaken as a result of the DVL integration
2 process. And we've seen reference to the business
3 process review, as such and the components of it.

4 Can you describe what is the business
5 process review without necessarily regard to the
6 components, but what is the overall purpose of it?

7 MS. MARILYN MCLAREN: At the highest
8 level, the purpose is to identify ways that Manitoba
9 Public Insurance can maximize the benefit to ratepayers
10 and vehicle registrants and driver license holders;
11 available through the merger.

12 MR. WALTER SARANCHUK: And as I
13 understand it, last year the Corporation advised that the
14 cost of the business process review would be
15 approximately \$20 million and the updated figure as shown
16 in the Corporation's response to IR -- PUB IR-8 -- PUB
17 IR-8, II which is the second last page in Tab 27; has
18 indicated that the cost is now at approximately \$28.8
19 million. What are the reasons for the increase?

20 MR. BARRY GALENZOSKI: Well, the reasons
21 for the increase would be that we have a better idea as
22 to what the overall costs are by the various components
23 that you see before you. Plus the addition of the DSR,
24 driver safety rating project, which accounts for \$7.1
25 million.

1 MR. WALTER SARANCHUK: So the driver
2 safety rating system is essentially a cost attributed to
3 the business process review?

4 MR. BARRY GALENZOSKI: It's one of the
5 costs that we're going to be undertaking with respect to
6 the driver safety rating and I think that was explained
7 earlier. The impact on -- that's a basic cost and that
8 is expected to have no impact on the bottom line with
9 respect to the basic's results once it's implemented.

10 MS. MARILYN MCLAREN: And rather than a
11 stand alone basic insurance rating initiative, it was
12 included under the umbrella of business process review
13 because we are able to do things today that we would not
14 have been able to do if it were not for the merger.

15 We have opportunities here to look at
16 Manitobans as real live people who have driver licenses
17 and vehicles for the most part. Sometimes one, sometimes
18 not the other. But previously we were working in two
19 separate worlds. This is absolutely an advantage of the
20 merger that we're able to take a very creative, proactive
21 and appropriate approach to driver safety rating that we
22 couldn't have done without the merger.

23 MR. WALTER SARANCHUK: Can a portion of
24 the \$7 million attributed to the driver safety rating be
25 attributed to basic at all?

1 MS. MARILYN MCLAREN: All of it.

2 MR. WALTER SARANCHUK: I'm sorry, to --
3 to the DVL?

4 MS. MARILYN MCLAREN: No. I'm not sure
5 on what basis. It completely has to do with the rating
6 and the insurance premium payable by drivers and by
7 vehicle owners. As we indicated in the document we put
8 together, the driver safety rating initiative is looking
9 at potentially reallocating the collection of about \$60
10 million out of the total \$700 million we collect from
11 drivers and vehicle owners today.

12 It is solely related to the component of
13 the risk classification system that varies an
14 individual's rates based on their personal individual
15 risk profile. It's insurance and nothing but insurance.

16 MR. WALTER SARANCHUK: And with reference
17 to the line shown for service centres, some \$10 million
18 in costs there, aren't service centres where the basic
19 program, basically -- or the features of the basic
20 program are seen and experienced by the motoring public?
21 When they apply for PIPP benefits, when they make their
22 statements to adjusters, as a result -- following
23 accidents, those are the factors that I'm taking into
24 account?

25 MS. MARILYN MCLAREN: Yeah, today service

1 centres are claim centres, absolutely. Sometimes SRE
2 claimants. More frequently extension claimants and
3 always basic claimants.

4 MR. WALTER SARANCHUK: So is there or is
5 there not a benefit to basic for that particular
6 expenditure?

7 MS. MARILYN MCLAREN: No. There won't
8 be. The claims centres are there. They are running.
9 They are well-constructed and well-furnished and
10 appropriate, for the most part, for the staff who need to
11 work within those claim centres. The claims operation is
12 adequate and meeting the needs that we have of that
13 claims operation today.

14 This \$10 million is associated with the
15 costs of physically modifying virtually every claim
16 centre to accommodate non-claims staff, to accommodate
17 people who test drivers, for the most part. So it's not
18 related to selling basic policies, for the most part, or
19 anything else related to insurance. It is building the
20 capacity to handle DVL -- pure DVL activities, for the
21 most part, inside what are today claims centres.

22 There is money in that project to change
23 the premises but for the most part, I mean, there's 19 of
24 them, so it adds up, but the changes are fairly modest in
25 almost every case. It is, sort of, tweaking the

1 interior. There is not wholesale renovations of any of
2 the facilities. A lot of the money that's been set aside
3 is to develop systems that will allow a much greater
4 level of cohesion and automation and ease of customer
5 service on the DVL side of things particularly.

6 And we can talk in as -- as much detail as
7 you like about some of the highly unautomated very
8 labour-intensive manual processes that DVL staff use
9 today whether it is written tests, road tests, clerical
10 staff related to scheduling people for appointments for
11 such tests. There's a lot of automation within that \$10
12 million dollars.

13 And this service centre project, there is,
14 you know, a business case to do it so we spend \$10
15 million and we save that amount of money over a four (4)
16 to five (5) year period because when you have more
17 support, more automation and can really facilitate
18 enhanced productivity through the claim centre
19 environment we'll need far fewer staff doing that work.

20 Now, under the terms of the amalgamation
21 all DVL staff are guaranteed employment with Manitoba
22 Public Insurance. Permanent staff are guaranteed
23 employment. The people who no longer have to manually
24 write down appointments for, you know, people coming in
25 for their road test will be redeployed to other work

1 within Manitoba Public Insurance.

2 So the \$10 million is really associated
3 with pure DVL work and it will save money in a reasonably
4 decent period of time.

5 MR. WALTER SARANCHUK: And in terms of
6 the overall original construction cost of these claim
7 centres, which division bore that cost?

8 MR. BARRY GALENZOSKI: Well, one (1)
9 division doesn't bore -- bear the costs of any
10 construction project for a physical building that we put
11 up. What happens is that there are -- an amortization
12 process that goes on with respect to the cost of the
13 building that's amortized over a forty (40) year time
14 period.

15 So each fiscal year a building, a
16 particular building would have a certain cost associated
17 with that and then whoever occupies that building, that
18 cost would be distributed by a line of business and it
19 would be for other things like heat, light, and water,
20 cleaning the building, amortization of the original
21 building costs; all that would be taken into account.

22 Yeah, and then we -- we allocate those
23 costs by -- by specifically -- by line of business so in
24 -- in -- we have an allocation process covering the
25 entire Corporation that will look at all of our

1 operations and those costs will get allocated. So basic
2 gets -- gets their cost, Extension, SRE. If there's
3 activities like that going on in -- in that location they
4 all bear some of those costs; they share in those and DVL
5 would be the same.

6 MR. WALTER SARANCHUK: Now, in terms of
7 the initiatives that are being taken or undertaken as
8 part of the business process review the Corporation
9 addressed a number of them as SM 8.3 page 5 in Volume 1
10 of the application as we heard this morning.

11 With reference to the response to question
12 number 8 in the second round, that's PUB Interrogatory
13 Number 2 in the second round, this again is the second
14 last page in Tab 27, can an update be provided in respect
15 of each of those projects that are listed?

16 MR. BARRY GALENZOSKI: I don't believe an
17 update would be required at this point. We don't
18 continually change these numbers. As we move forward we
19 have contingencies built into the projects so that if
20 there's any changes that occur they can be taken out of
21 those numbers so I think these numbers would -- would
22 hold quite firmly at this stage, so I don't know if there
23 would be any benefit to doing an update on this.

24 MR. WALTER SARANCHUK: In terms of
25 completion dates, can you comment on those in respect of

1 each of these projects generally?

2 MR. BARRY GALENZOSKI: Well, generally
3 you can look at the timelines that they see the money's
4 being expended and that would give you a good idea as to
5 when completion would be expected and that's when
6 amortization of the costs begin also.

7 MR. WALTER SARANCHUK: So for example in
8 terms of the architectural review, the driver safety
9 rating in the service centres you're looking at about two
10 (2) years -- three (3) years down the road for a
11 completion date?

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

14 MR. WALTER SARANCHUK: Is there any
15 annual cost savings calculation that is anticipated from
16 each -- for each initiative?

17 MR. BARRY GALENZOSKI: Well, in certain
18 cases as you get to different phases in some of these
19 projects you would start to see changes specifically in
20 the assignments of staff with respect to the work that
21 they do as things change.

22 And as that occurs and staff are
23 reallocated to other parts of the organization through
24 attrition that we would have normally occurring in the
25 organization then you would start to see some savings

1 related to individual initiatives. And that's occurring
2 throughout the process.

3 MS. MARILYN MCLAREN: With the two (2)
4 big projects specifically, the driver license system is
5 expected to save about \$2 million a year. And that
6 includes building in the amortization costs of the
7 project itself.

8 The service centre project is expected to
9 save about \$3 million a year, again after having
10 accommodated the amortization of the project costs.

11 MR. WALTER SARANCHUK: Now, with
12 reference to the schedule in 38D, this is four (4) pages
13 in from the beginning of Tab 27; is there to be any issue
14 of cost sharing that will have to be addressed in the
15 future for the projects?

16 MR. BARRY GALENZOSKI: I'm not sure I
17 understand what you mean by cost sharing?

18 MR. WALTER SARANCHUK: Well, as between
19 basic and extension or DVL and basic.

20 MR. BARRY GALENZOSKI: Are we talking
21 about the response to 138 part D?

22 MR. WALTER SARANCHUK: Yes.

23 MR. BARRY GALENZOSKI: Again that's going
24 to rely on the work that I alluded to earlier where we
25 look at the allocation of costs with respect to the DVL

1 and also the recovery that we make from the government --
2 the \$21 million.

3 So that's the study that we're undertaking
4 in the future.

5 MR. WALTER SARANCHUK: And who is doing
6 that work?

7 MR. BARRY GALENZOSKI: Well, we haven't
8 assigned that yet, we haven't begun that portion of the
9 work. That's going to probably begin in the early part
10 of the new year.

11 MR. WALTER SARANCHUK: Is there any
12 target date in terms of when the report might be ready?

13 MR. BARRY GALENZOSKI: No at this stage,
14 no.

15 MR. WALTER SARANCHUK: Now, with
16 reference to the information provided in SM 8.3.2 on page
17 15 of SM 8, in Volume I; in terms of the Corporation's
18 seeking external advice relative to the allocation of DVL
19 operations, that is the reallocation particularly to the
20 basic division, can you update the Board on that?

21 MR. BARRY GALENZOSKI: That's what I was
22 just updating the Board on. That's the response I just
23 provided.

24 MR. WALTER SARANCHUK: I see so we're
25 talking about the same thing, when we're talking about

1 reallocation -- possible reallocation to the basic side?

2 MR. BARRY GALENZOSKI: Potentially, yes,
3 I don't want to preclude what may happen out of this
4 thing, but that's a potential outcome, yes.

5 MR. WALTER SARANCHUK: I see. Thank you.

6

7 (BRIEF PAUSE)

8

9 MR. WALTER SARANCHUK: And in terms of
10 overall completion of the business process review, with
11 reference to the response in IR -- PUB/IR 8, II, can you
12 give us an idea of the completion date for that?

13 MR. BARRY GALENZOSKI: That essentially
14 is the end of that fiscal year, the way this thing is put
15 together here.

16 MS. MARILYN MCLAREN: These are the
17 projects we've identified at this point. We've talked
18 that -- explained that they virtually will all be
19 concluded by sometime in 2009.

20 But, the other point we did make in our
21 response to PUB 8 in the second round, clearly there is
22 still a negative net financial impact. We are continuing
23 to review options for mitigating or potentially
24 eliminating that negative impact.

25 And you know, we will continue to pursue

1 this. So anything else that we identify as a legitimate
2 mechanism to sort of maximize the opportunities to
3 Manitobans and to lower overall costs, would likely be
4 under that business process review umbrella.

5 This is where we're at today, these are
6 the projects we've identified today. We've come up with
7 \$5 million in savings. We don't consider our work to be
8 done, in that regard.

9 MR. WALTER SARANCHUK: In terms of the
10 Corporation's response to Part H of Interrogatory 38 of
11 the Public Utilities Board in the first round, with
12 reference to the schedule that was provided in answer to
13 the Interrogatory it deals with \$27.1 million in costs.
14 Can you comment, in very general terms, as to the items
15 that comprise that overall cost?

16 MR. BARRY GALENZOSKI: The largest
17 portion of the \$27.1 million is compensation which is at
18 \$14.2 million that relates directly to the DVL employees
19 that were taken into the Corporation.

20 The next biggest one is building expense.
21 That relates to the cost of the facilities that we
22 currently occupy; that would be facilities like 1075
23 Portage Avenue in Winnipeg. Then printing stationery and
24 supplies would be the next larger cost there, \$2.3
25 million, that could relate to a whole variety of forms, I

1 believe even license plates might be in there. It's not
2 in there, okay. It's a lot of forms.

3 So it's -- it's -- they're costs that we
4 would budget in going forward year over year.

5 MS. MARILYN MCLAREN: Further to that
6 point, for the sake of transparency, a good, good piece
7 of that printing, stationery and supplies would be
8 postage. Mailing driver license renewals; that's
9 something that in the new environment where driver
10 license renewals and vehicle registration and insurance
11 renewals go out in the same envelope; that would be an
12 item that would be for cost sharing between those two (2)
13 lines of business.

14 And that's the kind of thing where it,
15 with respect to some of the compensation, these are
16 actuals. They're historic. There was no amalgamation
17 really of functions when this fiscal year ended.

18 As we move ahead into the next number of
19 years there will be more sharing of responsibilities by
20 individual employees. With service centres we will have
21 our call centre staff scheduling people for a written
22 test to get their very first driver's license. We will
23 have them scheduling people for immobilizer appointments.
24 We'll have them scheduling people for claims.

25 So when one (1) individual person starts

1 to do work for a different number of lines of business
2 and many different functions it becomes more complicated
3 in terms of allocating the costs; that's the kind of
4 challenge we have before us.

5 And if you think in terms of the
6 facilities themselves, we don't ever expect to have staff
7 handling claims and conducting road tests for people to
8 get their driver license. But people doing both of those
9 as separate individuals will be under the same roof.
10 They're not today. So those are some of the challenges
11 with respect to determining how to fairly and reasonably
12 allocate costs under the new business model going
13 forward.

14 MR. WALTER SARANCHUK: And I think,
15 Mr. Galenzoski referred to some job security component
16 dealing with the compensation line and how do you propose
17 to deal with attrition?

18 MR. BARRY GALENZOSKI: Well, the
19 Corporation has structured itself so that a lot of
20 positions that could be applicable to move DVL staff into
21 are being filled on a temporary or term basis right at
22 the moment so that we have a high percentage of term
23 staff that are working in the organization and those are
24 specifically designed to create spaces for full-time DVL
25 employees that would potentially move into those jobs

1 which are amortized over five (5)
2 years. This contrasts to immobilizer
3 costs which are not considered assets
4 of the Corporation."

5 MR. WALTER SARANCHUK: In a nutshell,
6 there's no merit to the approach suggested?

7 MR. BARRY GALENZOSKI: Yes, I agree with
8 you.

9 MR. WALTER SARANCHUK: And when you use
10 the acronym GAAP, you mean generally accepted accounting
11 principles?

12 MR. BARRY GALENZOSKI: That's what I
13 mean, yes.

14 MR. WALTER SARANCHUK: Well, those are
15 all the questions that we have in this particular area of
16 cross-examination, Mr. Chairman. We intend to proceed
17 with a major topic of anti-theft initiatives and another
18 one of investment income and I'm wondering whether this
19 wouldn't be a convenient time to break for the day in the
20 circumstances?

21 THE CHAIRPERSON: I think the mood is for
22 closure today so we'll return again for a fresh start
23 tomorrow. It's a good start.

24 Mr. McCulloch...?

25 MR. KEVIN MCCULLOCH: Mr. Chairman, I can

1 fill a few more seconds. I can advise that the second
2 quarter financial report is available. It's been
3 distributed to the Legislature. It's now a public
4 document and we can file that as MPI Exhibit Number 9 if
5 my count is correct.

6 THE CHAIRPERSON: Most welcome. Thank
7 you. Good reading for tonight.

8

9 --- EXHIBIT NO. MPI-9: Second Quarter Financial Report.

10

11 --- Upon adjourning at 3:52 p.m.

12

13

14 Certified Correct

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19 _____
Wendy Warnock

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