MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE
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 4th, 2006
Pages 243 to 463

APPEARANCES

Walter Saranchuk, Q.C.	)Board Counsel
Candace Everard	)
Kevin McCulloch	)Manitoba Public Insurance
Raymond Oakes	)CMMG
Byron Williams	)CAC/MSOS
Myfwany Bowman	)
Nick Roberts	)Manitoba Used Car Dealers
	)Association (MUCDA)
Michael Mager (np)	)CAA
Jeanie Dalman	)
Robert Dawson	)CBA/MBA
Patricia Reilly (np)	)Manitoba's Chiropractor's
	)Association (MCA)
Claudio Sousa (np)	)Scootering Manitoba
Patricia Fitzpatrick	)TREE/RCM
Randall McQuaker (np)	)
Peter Miller (np)	)

TABLE OF CONTENTS

EXHIBITS

UNDERTAKINGS

No.	Description	Page No.
4	MPI to supply Board the number of stolen automobiles that have been involved in fatal accidents or injuries.	263
5	MPI to supply Board with the numbers for the immobilization program as of September 30th.	273

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

THE CHAIRPERSON: Okay, good morning everyone. Welcome back to day two of the MPI GRA. Just a note for the record that Mr. Hollis Singh will be acting secretary for the day and joining us I think for the rest of the proceedings.

Ms. Everard, do you want to begin?

BARRY GALENZOSKI, Resumed
DON PALMER, Resumed
MARILYN MCLAREN, Resumed
WILF BEDARD, Resumed

CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman. For the members of the MPI panel, we'll now be proceeding to some questions in the area of anti-theft initiatives. And, in particular, we'll begin with the WATSS program, the reference being SM-8.12.5.

(BRIEF PAUSE)

MS. CANDACE EVERARD: It's on page 29.

Okay. And if someone could review for the

Board the salient features of the WATSS program?

MS. MARILYN MCLAREN: This is a strategy started by the Provincial Auto Theft Task Force, which really is primarily a partnership between the Winnipeg Police Service and Manitoba Justice, the Corrections Branch.

MPI plays a role with respect to the task force, the Provincial Task Force, and we have certainly provided some funding. But, the operation of the program is really the responsibility of the WPS and Corrections.

And what it involves is placing significantly more than normal monitoring on who -- on kids who are the majority of auto thieves who had been convicted of theft and are sentenced to time spent in the community with conditions and the monitoring involves making sure they are complying with those conditions.

The most, very worst likelihood to re-offend are monitored extensively several times a day. And the concept is that if you keep a lid on the worst of the worst, your auto theft should -- rates should decline in the short term.

MS. CANDACE EVERARD: And what is the expected duration of this program?

MS. MARILYN MCLAREN: Manitoba Public Insurance made a funding commitment for two (2) years.

I'm not sure what the expected duration of the program is.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So is MPI's financial commitment then capped at two (2) years or is there a possibility that that would be extended?

MS. MARILYN MCLAREN: The Board of Manitoba Public Insurance might decide to extend it. There's been no discussions about any of that yet. It -- the commitment will not expire until mid 2007.

MS. CANDACE EVERARD: And what is the financial commitment of MPI to this particular program per year and if it may assist you, this is discussed at PUB/MPI-1-9 in the first round.

MS. MARILYN MCLAREN: I believe it's just under nine hundred thousand dollars ($900,000) a year.

MS. CANDACE EVERARD: And has MPI made any commitments to this programs besides that dollar amount?

MS. MARILYN MCLAREN: No. Other than the oversight and the Steering Committee participation.

MS. CANDACE EVERARD: Again, referring your attention to question 1-9 asked by the Board which is at Tab 18 of the book of documents, can you expand for the Board on the reasons why the program is being curtailed?

MS. MARILYN MCLAREN: The program is being curtailed? I'm not sure what you mean. Did we use that word in here somewhere?

MS. CANDACE EVERARD: That's probably our word, not yours. But in -- in your pre-filed testimony, Ms. McLaren, there was reference to -- that it would be at least a two (2) year program and it was our understanding that the program has shown mixed results and that perhaps the -- the commitment was less than may have been originally anticipated, but if we're wrong, then tell us.

MS. MARILYN MCLAREN: Okay. No, I really wouldn't used the word, 'curtailed'. The program may very well have -- we -- we may have had an expectation that it would continue beyond two (2) years when we first started it; that may very well be true. But the -- the commitment to all parties was for two (2) years.

We always talked about this as nothing other than a bridging strategy; something that had the best hope to get us some relief on auto theft until the immobilizer strategy kicks in. The immobilizers are the long-term solution to auto theft.

We need to look where we will be next summer. The program has had some mixed results, but we expect that that will improve over the second year. But whether it improves or not really the -- you know, we will have to make our decision not only -- and is the program effective, but do we continue to need it? Where are we with respect to immobilizers?

MS. CANDACE EVERARD: So would it be fair to say that the program was always intended to be a short-term solution and the immobilizers being the long-term solution?

MS. MARILYN MCLAREN: Absolutely.

MS. CANDACE EVERARD: Referring you still to the answer at number 9 in the first round which is at Tab 18 of the book. There's reference in the answer to Sub B and this explaining about the -- the comment that the program had mixed results.

And there's reference to the third bullet under Sub B, there being a rotation of staff and that being perhaps a contributing factor. Is that something that -- that the Corporation had any input into or -- or control over or is that something that -- that was done externally?

MS. MARILYN MCLAREN: Staffing decisions are solely within the discretion of the Winnipeg Police

Service.

MS. CANDACE EVERARD: So at this point, I take it from your evidence, that it's the plan of the Corporation to -- to proceed with the commitment that's been made and continue to -- to monitor and to determine the results as things go?

MS. MARILYN MCLAREN: Exactly.

MS. CANDACE EVERARD: Okay. All right. Moving then to the Immobilizer Program specifically, which is referenced as SM-8.12.6 which is page 30, perhaps you can just give the -- the Board an overview of the history and the salient features of the program?

MR. BARRY GALENZOSKI: Yes. The Corporation began a program of encouraging customers to immobilize a number of years ago, and over a five (5) year period we offered a financing option for those that would like to have gotten involved in that.

And over that time period approximately twenty-six hundred (2,600) customers took advantage of that, where they were able to get an immobilizer installed at their cost and the Corporation would provide funding and financing that at -- at no interest.

We then changed that program to get a lot more, I guess, involved in the process of having immobilizers installed. We decided that that was the best way of solving the problem -- long term solving the problem for auto theft in Manitoba, and in particularly Winnipeg.

And we began the program by offering 50/50 cost sharing on an immobilizer, where we had negotiated a standard price for a basic installation of two hundred and eighty dollars ($280) for the immobilizer. We partnered with private sector companies for the installation. We partnered with CAA, in particular, for installation as well as for quality control inspections.

We got heavily involved, as I was explaining yesterday, with respect to establishing the dealer network or the service network, that would be the installers, including the training of those installers so that they were authorized to properly install these particular units. We set the standards with respect to the type of employee. Criminal background checks were mandatory; things along that nature.

Set up an appointment system so that customers could call our call centre and from that appointment process they could -- they could find the location at their convenience, either the closest or the most -- the closest to them or the most -- the soonest available appointment. And they could then make an appointment and know when they would bring their vehicle in and have it taken care of.

We also set up the back office to handle the payment of our share of the 50 percent for the customer. So the customer, in reality, could walk in and not have to put any money out. They were -- we set up the financing option so they could finance their half of the installation at no interest, no fee, for five (5) years. And that would have entailed them making a payment of over a year of about twenty-eight dollars ($28).

We would also give them an immediate forty dollar ($40) discount, so they were ahead about twelve dollars ($12) physically in a full year. And they would get forty dollar ($40) discount in the future.

There was some initial success for that. We -- we also provided that same benefit to those twenty-six hundred (2,600) that had originally come in under the offer that we started with and they got their hundred and forty dollar ($140) refund, or they were credited to their account if they had a time payment outstanding.

But the initial reaction was good but it didn't persist. In other words, we started to -- we started to not be able to fill all the appointments that we had available in the City of Winnipeg particularly.

So we then came up with a process where we determined a most-at-risk list which contained a hundred and fifty (150) vehicle types. And as I explained yesterday that involved a lot more than a hundred and fifty (150) vehicles. There's hundreds of different types of vehicles that would be included in this vehicle type.

Those we offered a program with an end date on it of free immobilizer. That encouraged a lot of people to come forward. We retroactively went back to the -- all other customers that we'd dealt with prior to that that would now be on that most-at-risk list, even if it was the twenty-six hundred (2600) that originally came in, or those that had came in under our first offer of 50 percent cost sharing, and we provided a full rebate to them if they had -- if they were a most-at-risk vehicle.

The public liked this option and have gotten onboard quite heavily. So we've had very good response and we're not losing many appointments. And as I indicated yesterday we've got something like a little over -- one (1) second -- can't find my stats right off-hand here, but we've got something like forty thousand (40,000) vehicles that are -- have been immobilized.

The actual number is thirty thousand, four hundred and ninety-six (30,496) at the -- this is at September 27th that have been immobilized already.

Forty-three thousand six hundred and ninety-nine (43,699) have either been immobilized or have an appointment to be immobilized. So the difference would be those that are in the stream of getting immobilizers installed in their vehicles.

And we have a waiting list now of something like just under fifteen hundred (1500) vehicles to be -- to have immobilizers installed. That waiting list involves customers that have preferences about where they want to get the work done. And so they're waiting to go into a particular shop that's already completely booked for the time that we're taking bookings.

So that process has -- has really moved along quite well. In addition to the immobilizer program that we had established we also looked at other areas that were causing problems and this involved vehicles that were coming into the Province -- new vehicles -- or these were older vehicles being brought into the Province either by motor dealers or by private individuals when they moved to Manitoba that were on the most-at-risk list.

And there's been some recent changes to the laws that indicate that those vehicles have to be immobilized before they can be registered. The Corporation is paying the cost of installing those immobilizers, the basic cost.

And that has met with very good response, also. We've had quite a number of customers taking advantage of that.

Additionally, laws were changed that if a vehicle that is on the most-at-risk list, was stolen after September 1, they're required now to have them immobilized before they can be put back on the road. And that has had a very big impact.

Last year there were seventeen hundred (1,700) most-at-risk vehicles that were stolen a second time. So that just tells you -- you know, how often these things can be stolen. These people were really at risk of being stolen. So we had -- we were very much encouraging the Government to do something about that. And that certainly has happened.

For the first month of that program requiring vehicles that are most-at-risk that have been stolen to be immobilized, approximately three hundred (300) have fallen into the category where they now must be immobilized before they can be put back on the road after being stolen from September 1.

So that again is very indicative that this is going to be a program that's going to help with respect to reducing the occurrence of multiple thefts of the same vehicle, over and over again.

And I'm not just talking about vehicles being stolen just once or twice; sometimes they're stolen three (3) or four (4) times. So it's quite easily obviously just to keep doing that type of activity.

So the program, I think, is quite extensive. We've set aside initially $40 million from the rate stabilization reserve in the immobilizer incentive fund, to fund the cost of installing these immobilizers plus the administrative costs, the administrative costs associated with the immobilizer program. We went -- that was a program that extended to Winnipeg and surrounding area initially. We expanded that program to include all of Manitoba -- all of Manitoba to -- on an equity basis.

And we added another $10 million into that fund from the rate stabilization reserve. So we set aside a total of $50 million. To date we've, I think, expended close to $9 million of that money.

So that program is, in my opinion, really going to be the method of solving auto theft. Not completely, obviously, but solving it to the extent that it was -- it's such a huge problem in Manitoba. It should eliminate a significant number of auto thefts over time.

THE CHAIRPERSON: Mr. Galenzoski, is my understanding correct that new or used cars coming into the Province have immobilizers installed on them by the dealers?

MR. BARRY GALENZOSKI: In most cases if they were brought in for sale by dealers, that would be the case. If they were brought into the Province by private individuals that are just moving into the Province, then they're required to have those installed before they can have the vehicle registered.

THE CHAIRPERSON: Dealer brought in --

MS. MARILYN MCLAREN: Just a point of clarification on that. The legislation -- the regulation specifies that where the dealer does not install an immobilizer they have to inform the customer that there is not one and that it has to have one before it can be registered.

So there's no requirement on the part of dealers. But, in particular, the Used Car Dealers Association has been really, really proactive working with us trying to find a way to get the vast majority of these immobilized before they're sold.

THE CHAIRPERSON: But they can't be insured unless they're immobilized?

MS. MARILYN MCLAREN: Can't be

registered. Right. Which means we're right in there behind it insuring them. And in most cases the dealers are providing that value added. They are going to immobilize them as opposed to have to tell their customer that it doesn't have an immobilizer but they're going to have to get one before they can register and insure it.

THE CHAIRPERSON: When did that provision come in?

MS. MARILYN MCLAREN: September 1.

THE CHAIRPERSON: Someone just buying a used car from Alberta themselves and bringing it back, they're not obligated?

MS. MARILYN MCLAREN: If it's on the most-at-risk they are as well.

THE CHAIRPERSON: They are as well.

MS. MARILYN MCLAREN: Also settlers coming from other places with a most-at-risk vehicle, they are caught in this provision as well.

THE CHAIRPERSON: There's a fair amount of traffic of older vehicles coming into Manitoba, is there not?

MS. MARILYN MCLAREN: Six thousand (6,000) a year. More than you would think. Yeah, and the majority come in through auto-brokers and through dealers. Small minority come purchased by Manitobans for their own use here and small minority coming with people moving to Manitoba.

THE CHAIRPERSON: If you -- if you owned a car that was stolen five (5) times would you get it insured in any other province other than Manitoba?

MS. MARILYN MCLAREN: The vehicles that are most-at-risk of being stolen here in Manitoba, because they're older vehicles, they really can't buy theft even if it's never stolen in private sector jurisdictions. They are very selective about the age at which they stop offering for sale collision coverage and theft coverage; things like that. They just don't offer it on older vehicles.

THE CHAIRPERSON: When a car is stolen more than one (1) time, even before the new rules come in, I presume MPI would contact them suggesting to them directly that they install an immobilizer. I realize now they have to.

MS. MARILYN MCLAREN: Right. Now they -- and, again, though, not only do they have to we've made it a completely transparent process for them, as long as they agree to us doing it while we're repairing the vehicle for the theft damage, they don't even have to go out of their way to get it done.

THE CHAIRPERSON: If you car was stolen

two (2) or three (3) or four (4) times, what's your experience with their responses? Why wouldn't they proceed to have it immobilized?

MS. MARILYN MCLAREN: It's my right not to have to put something in my car that I don't want to put in my car; that tends to be a fairly frequent one of this hardcore group. There's not that many of them but they're a tough group.

THE CHAIRPERSON: Have any of those cars that have been stolen been involved in fatal accidents, injuries?

MS. MARILYN MCLAREN: I don't believe fatalities. There were some injuries and this -- we did some research on this back in the springtime; that's when we first realized the extent to which there were multiple thefts of the same vehicle. And I think we were able to identify maybe twenty (20) or thirty (30) injury claims related to these multiple theft vehicles there. We can find that. It was part of a news story that we did get some pretty good coverage on that back in the springtime and I can find that for you offline.

THE CHAIRPERSON: Please. Thank you.

--- UNDERTAKING NO. 4: MPI to supply Board the number of stolen automobiles

that have been involved in
fatal accidents or injuries.

THE CHAIRPERSON: It's escaped me. I had another question. I'll come back to it.

MR. BARRY GALENZOSKI: Just to finish off what I was saying, with respect to the immobilizer program.

We did also have a very extensive communication plan with our customers to alert them to the need to immobilize their vehicles. This was generally through direct mails, that would be targeted right at groups of individuals, particularly the most-at-risk vehicles or more recently, and we are continuing with that particular program.

That has helped keep the activity, you know, moving forward with respect to people wanting to make appointments. We're reminding them quite frequently that this is something they should be considering to do; something that is needed.

Plus, the media reports that you see from time to time about stolen vehicles, you know, whenever something like that happens we get a flurry of phone calls to our call centre. You know, there was recently where somebody had a vehicle from out of the province, a

Hummer, that was stolen and that got a lot of notoriety and things along that line.

People definitely react to stories like that and now that the Corporation has a number that they can call and find out about immobilizers; they can look on our website and find out about immobilizers. So we've put a lot of effort into the communications strategy with respect to alerting customers to the dangers that are out there, plus what they can do to make things better.

THE CHAIRPERSON: These cars that are stolen, the question has come to me, the cars that are stolen more than once, do any of them end up being a total write-off for cash settlements?

MR. BARRY GALENZOSKI: Well, of course, that would happen depending on the level of damage, particularly on an older vehicle. It wouldn't need a lot of damage to -- to write the vehicle off. If that does happen now, the -- the vehicle -- if there was a lot of damage done to the vehicle we would write the vehicle off and it would likely not be put back on the road again.

THE CHAIRPERSON: So the car was stolen three (3) or four (4) times and eventually it ended up being a write-off. The insured owner would still not pay any deductible and receive the cash settlement value?

MR. BARRY GALENZOSKI: That's right.

THE CHAIRPERSON: Thank you. Ms. Everard. Mr. Evans has a questions.

MR. LEN EVANS: Just a couple of brief questions. When -- I know you stated it somewhere, but when was the program extended outside of Winnipeg? You talk about rural Manitoba, I imagine you mean anywhere out of the City of Winnipeg?

MR. BARRY GALENZOSKI: We mean province-wide now and that was I believe in June of this year.

MR. LEN EVANS: June of this year.

MR. BARRY GALENZOSKI: Pardon -- pardon me. The program always extended to people in Manitoba on a 50/50 basis, but for the 100 percent for most-at-risk, that was extended in -- in I believe June of this year to all of the Province and that's when we added the additional $10 million to the fund.

MR. LEN EVANS: I had a conversation with a friend in Brandon earlier this year, and I was saying what a great program MPI was offering for immobilizers and he said, Well, I can't take advantage of it. But maybe he didn't understand that he could, but it wouldn't be totally paid for.

But I'm sure -- I'm very pleased personally, that it is extended to the whole province because people out there always accuse governments and agencies of primoritis (phonetic) and they don't understand what's going out there, et cetera, et cetera.

Whether they're right or wrong I'm not saying, but I was really amazed when this person who's a teacher and does a lot of reading saying he couldn't get the same advantage out there in Brandon as a person living in the City of Winnipeg. So I'm glad that that has been rectified. An editorial comment.

MR. BARRY GALENZOSKI: We like it. Keep it coming.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. Mr. Galenzoski, just following up on a couple of the -- the comments you made just so that we're clear the vehicles that are coming into the Province from outside and being insured and -- and are having immobilizers installed, that's being done still at the Corporation's cost?

MR. BARRY GALENZOSKI: If they're most-at-risk, yes. If they're not most-at-risk we would pay 50 percent.

MS. CANDACE EVERARD: And just with respect to the -- the older vehicles, one (1) of the things you had said yesterday when Mr. Saranchuk was asking you some overview questions was that some of the older vehicles, ten/fifteen (10/15) years old, may have other problems associated with their electrical wiring systems or -- or other mechanical systems.

If problems like that arise, does that mean that there's an additional cost that -- that comes up to install the immobilizer and -- and if so is the Corporation bearing that cost?

MR. BARRY GALENZOSKI: The Corporation's not bearing that cost. I -- I guess what I was alluding to there is that there can be -- there are standard installations and then there's more difficult installations. Okay?

There's some -- some vehicles where it may be impossible just because their wiring system might be in such poor shape to -- to actually complete the installation and customers are so advised.

We have partnered with CAA in particular with respect to quality control and when there's problems encountered with, you know, some mechanical difficulty as a -- people might think was attached to the installation of an immobilizer, CAA does help resolve those issues between the customer and the installer.

It really isn't an MPI issue, although we kind of get tagged with it because we're so intimately involved in the whole process. You know, customers do make the appointments through MPI. We're the one sending the letters out saying here's something that you should be doing. We've been involved in the training of the installers and a lot of other -- and we provide the money obviously.

So we have a -- we definitely feel that there's some onus on us to help solve these issues. But, you know, in some situations it could be difficult to complete an installation on certain vehicles.

MS. CANDACE EVERARD: And is -- is not being to install the immobilizer something that is happening with some regularity?

MR. BARRY GALENZOSKI: It happens with -- with some regularity. Not -- it's not a major problem and, you know, I -- I mentioned it kind of in passing. I don't want to make too much out of that, okay?

I'm just saying that there can be some difficulties just because of the -- the physical condition of a vehicle, but you know, more than likely it's more difficult to install it in a vehicle that's got the after market remote start installed in it.

There is more issues there and there are some additional costs associated with that, that the customer has to bear. The Corporation doesn't bear that. Although we will assist in financing those additional costs at no interest, no fee, over the five year time period.

MS. MARILYN MCLAREN: Just another way to answer the same question. There's been fewer than ten (10) situations in the last year and a bit where the installer has had to say, I'm sorry, I'm not going to put an immobilizer in your car; I'm not going to work on this car. So fewer than ten (10), very few.

What sometimes also happens though, is after the immobilizer is successfully installed, someone with an older, not particularly well maintained car will come back, often to MPI and say, my taillights used to work before they put the immobilizer in.

And then we get involved in the quality assurance process that we've partnered with the two (2) providers of the after market devices and we -- you know -- we provided support to them and they are responsible for the quality assurance.

Sometimes they'll come back and say, Yeah, you know what there was a problem with that installation. And so they will address that and they'll fix it. Sometimes they will have that -- be the independent proof that, No, I'm sorry, there was no relationship between your taillights and your immobilizer installation. Because you're working on older vehicles, there's those kinds of things that can happen.

But, the other thing that can happen is someone can get into installing it and then realize that there are some other issues that will take more time and they will charge the customer for that time.

MPI won't pay for that. MPI pays two hundred and eighty dollars ($280).

MS. CANDACE EVERARD: Thank you. Mr. Galenzoski, you were earlier looking in that binder in front of you with respect to the numbers for the immobilization program as of September 30th.

Can you just give us a reference for that information?

MR. BARRY GALENZOSKI: No this is confidential I can't let you have any of this. Sorry, this is my information. We haven't filed any of this, this is just reference material that I have that I'm looking at.

MS. CANDACE EVERARD: Okay, can you give me the numbers again then because I didn't get to write them down.

MR. BARRY GALENZOSKI: Sure, okay. The numbers for total installs that have been processed to date, this is to September 27th, were thirty thousand four hundred and ninety-six (30,496).

The total participants to date, which is appointments plus installs are, forty-three thousand six hundred and ninety-nine (43,699) at that time period. And the in total waiting list was one thousand four hundred and fifty-six (1,456).

And of the total installs these are the ones that have already been installed which are -- that are most-at-risk, that represents 68.25 percent of all of the installs so far.

So we're aiming this project, or this program at the most-at-risk and they are definitely responding to the program.

MR. WALTER SARANCHUK: Just for the record, there is a rule of evidence that says if you're going to refer to a document you should be tendering it in the evidence, Mr. Galenzoski, but I don't know that the Board necessarily wants to impose that today.

MR. BARRY GALENZOSKI: We can provide this document, I'm just joking when I said it's confidential. The fact is that this -- with this group, nothing is confidential. I've learned that. I've been here since -- this is my eighteenth year at Hearings in front of the group.

So I'm perfectly willing to provide this document. It has some colour photocopying and I could --

I'd have to send it out to get it done in the same process, but we'd be happy to provide that to you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you.

MR. BARRY GALENZOSKI: Would you like the document?

MS. CANDACE EVERARD: Yes. After all that, we better not say no.

--- UNDERTAKING NO. 5: MPI to supply Board with the numbers for the immobilization program as of September 30th.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay, if I could refer you then to Tab 16 of the book of documents, which is the answer to question 7 asked by the Board in the first round. And this IR relates to the immobilization program.

Looking at the first attachment, which is refiling from last year's hearing. If I'm reading this correctly, so this is as of August of '05, the Corporation was expecting to be purchasing five thousand

(5,000) in the '06/'07 fiscal year and then another forty-two thousand, one hundred and seventy-three (42,173) in the '07/'08 year, for a total through the outlook period of a hundred and seventy-one thousand, nine hundred and ninety-two (171,992).

Am I reading that correctly?

MR. BARRY GALENZOSKI: Yes you are.

MS. CANDACE EVERARD: And then if you flip to the next page at that IR, which is this years chart further broke down with some further detail; if I'm reading this correctly the total number of immobilizers over the same period is a hundred and thirty-four thousand, four hundred (134,400).

So my question is, why the decrease of about forty thousand (40,000) immobilizers?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Could you repeat the question?

MS. CANDACE EVERARD: Sure. On last year's answer it appears that the Corporation was predicting that there would be about a hundred and seventy-one thousand (71,000) immobilizers purchased. And then on this year's filing, which is the next page, it appears that the same -- under the same category, the Corporation is now projecting about a hundred and thirty-four thousand (134,000).

So if -- maybe I'm reading it incorrectly, but if I am reading it correctly, it appears to be a difference of about forty thousand (40,000). And with the program being taken up seemingly well, we're just wondering why it's changed by about forty thousand (40,000)?

MR. BARRY GALENZOSKI: It's just different assumptions made between the two (2) years. In the '05 year we were making the assumption that we had to have 90 percent of all the vehicles immobilized. And in the current one we're saying that we had -- we wanted to get 90 percent of the most-at-risk immobilized and we didn't keep that same level of immobilization for the rest of the fleet. So that's the only real differences in the numbers. Where -- our concentration is on most-at-risk right at the moment.

MS. CANDACE EVERARD: And on that score, still looking at the second attachment, which is this year's table, which does break things down into the most-at-risk vehicles and all other vehicles, if I'm reading this correctly it would appear that it's the Corporation's intention that 90 percent of the most-at-risk vehicles will be immobilized by the end of the '07/'08 fiscal year?

MR. BARRY GALENZOSKI: Yes. That's correct.

MS. CANDACE EVERARD: And, again, if I'm reading this correctly under the column for 2006/2007 there have been seven thousand, two hundred and one (7,201) immobilizers purchased in the previous fiscal year, and the Corporation is expecting an additional thirty-six thousand (36,000) in the current year which will be a total of forty-three thousand, two hundred and one (43,201) by the end of February of '07?

MR. BARRY GALENZOSKI: Yes. That's correct. And based on those numbers I quoted you, as of the end of August, or end of September, we may be exceeding that at this stage.

MS. CANDACE EVERARD: So, again just looking at this document, under the '06/'07 heading, according to this document, the plan was that the most -- of the most-at-risk vehicles there would be 64 percent without an immobilizer by the end of the year, but you're saying that that number, in fact, may be exceeded by the time the end of February of '07 comes?

MR. BARRY GALENZOSKI: Yes. It may be exceeded. We've had 68 -- over 68 percent of the -- of the thirty-thousand, four ninety-six (30,496) our most-at-risk vehicles already. Those are the ones that have had immobilizers installed. So if we exceed our targets it's a good possibility that we'll exceed this -- this target also which is good news.

MS. CANDACE EVERARD: So would it be fair to say then that the Corporation is confident that the 90 percent of most-at-risk vehicles target will be reached by the end of the '08 fiscal year?

MR. BARRY GALENZOSKI: We're very hopeful that that will happen. A large part of it depends on the cooperation of people coming in voluntarily to have this done. And it's hard to judge what the reaction will be when you get a little bit further out as to whether people will want to continue with the program on a voluntary basis.

There are some involuntary portions of that which we've already talked about. But, you know, there are still some question as to whether that will all happen.

MS. MARILYN MCLAREN: Yeah, I think the Corporation's position would be that it is hopeful, not confident. I'm not prepared to say that we're confident that we will be there by February of '08.

As we talked about -- I think I talked

about in my testimony and also in response to some of the Information Requests, what we saw before when we started the program with the 50/50 cost share, it started out very positively, but when it fell off it fell off hard and it fell off fast.

You know, we recently, as a response to another IR, provided a copy of the next generation of letters to most-at-risk vehicle owners. We have modified that letter slightly to reflect the fact that they are now at even greater risk as their peers immobilize and they don't so we've added that into the letter.

The strategy has been working as well as we could have hoped, but to say we're confident it will actually carry the day, that's probably too -- too strong a word.

MS. CANDACE EVERARD: Would it be fair to say though that having 90 percent of the most-at-risk vehicles immobilised by the end of February of '08 is the Corporation's best estimate at this stage?

MS. MARILYN MCLAREN: With all the information available to us right now, based on the way people have been behaving, yes.

MS. CANDACE EVERARD: And does the Corporation have monthly forecasts that it's relying on, in terms of the take-up, or is it just thirty-six thousand (36,000) a year equals three thousand (3,0000) a month?

MR. BARRY GALENZOSKI: We have overall forecasts that, you know, that you see in front of you, but we're also tracking appointments going forward. So we open up appointment blocks about three (3) months in advance and customers are -- are booking appointments.

And every day we're tracking how we're doing to that plan. And the document I'm going to provide you you'll find is -- is very detailed. It actually is tracking a lot of activity on a daily basis and a lot of very senior people in the organization are looking at this on a regular basis.

And the reason we're doing that is we want to keep in touch with how this program is -- is moving forward. In other words, is it losing steam? You know, do we have to do something else to tweak it to keep the levels up? In other words, we may have to send out another group of letters, another fresh reminder, something else that we have to do to keep the level of activity up.

We're -- one of the -- one of the things we're monitoring, and you'll see on this document when I hand it out some time in the next couple of weeks, just how many unused install capacity we have on a daily basis in Winnipeg. And so we -- that's a key indicator right there to indicate whether or not we're meeting our goal of keeping our install capacity occupied at -- at all times.

In other words, we don't want to see two hundred (200) appointments are not being met, or a hundred (100) appointments not being met in a -- in a particular day. If you look at the document I have in front of me, when you finally get that, you'll see that it goes from a low of zero to a high I think of about thirteen (13) appointments missed in any one (1) particular day and that's very good.

So we're -- we're really keeping an eye on this thing. We're doing a lot of monitoring to keep on top of it.

MS. CANDACE EVERARD: Ms. McLaren, you may have sort of alluded to this already. But one (1) of the questions that I wanted to ask you in terms of the -- the take-up to the 90 percent for the most-at-risk vehicles, you -- you mentioned in your pre-filed evidence on page 3 that if, you know, the take-up wasn't there that the Corporation may be looking to apply for a surcharge at the next rate application in June of '07, and so I guess what we're wondering is if the -- the target is at the end of February of '08 then what would the Corporation be looking at in -- in June of '07?

What is the level that -- that might trigger that kind of a request?

MS. MARILYN MCLAREN: The -- the key measure really is how may most-at-risk people phone every day to make an appointment for an immobilizer.

Once that falls off we'll know we're in trouble. As long as it continues we know we will get there and get there early to the extent that it's going right now.

Our -- our goal really is to -- our -- our goal had been to help facilitate four thousand (4,000) appointments a month in the City of Winnipeg. We've exceed that. There's fifty-two hundred (5,200) now a month. Our goal was always to keep the four thousand (4,000) full. You know, we will work hard trying to keep the fifty-two hundred (5,200) full.

If we start with frequently having growing numbers of unused capacity, that will be the trigger that causes us to move forward with the surcharge.

MS. CANDACE EVERARD: Can you give us an indication, either by the number of appointments in a month or by the overall percentage of -- of where you might see that -- that trigger being?

MS. MARILYN MCLAREN: You know, we

haven't done the homework on this, so this is really fairly speculative at this point, but generally we have between a hundred (100) and a hundred and fifty (150) new appointments every day so if it falls below a hundred (100) and stays below a hundred (100) I think we'll be in some difficulty.

THE CHAIRPERSON: If MPI hits its target of 90 percent with immobilizers by the end of February 2008, will not the remaining 10 percent bear a higher risk than is now the case?

MS. MARILYN MCLAREN: And they already are, absolutely. And that's what we were talking about. Just since March of this year, those who had not immobilized have a one (1) in thirteen (13) chance of having their vehicles stolen, compared to a one (1) in twenty-two (22) chance just in March of this year.

The kids will search them out. They will have a higher risk. The fact that there are so few of them, limits our exposure. I'm not sure that it does much, in terms of public risk. You know, the social risk of the kids still finding these vehicles and driving them.

And the other thing that we've talked about here last year and again, you know, I'm sure we'll be talking about again, there will be some -- we have not started to see it this year, but there will be some migration. The kids will learn to steal something else, somewhere down the road. So there will be some others, as well.

But, there really are some significant risks to the people who simply fail to come forward.

THE CHAIRPERSON: Will there not -- the 10 percent that remain -- let's assume you hit your target. I'm just talking about the group that you're looking at right now, without going into the larger population.

Will not that 10 percent represent, as well, a risk to the other drivers and pedestrians; a risk that extends to higher than otherwise required premiums for the other 90 percent?

MS. MARILYN MCLAREN: I think that's true. I think certainly, you know, the other motorists and the pedestrians, that's sort of the social -- the community risk that I spoke of a minute ago. I think that's very true.

And I think the other thing that we've talked about last year and again this year, is that you know, the additional cost that these ratepayers are not paying today is about two hundred dollars ($200) per vehicle per year.

But, if you reduce that so that there's only 10 percent of them available to be stolen and the kids are truly searching them out, the two hundred dollars ($200) will probably be closer to two thousand (2000) when there's that few of them left.

I don't know that that's the right number, but it would be more than two hundred (200), if we were truly to actuarially calculate it, based on what's the cost to the system of the 10 percent.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Still looking at Tab 16 of the book of documents and number 7, question 7, in the first round.

Looking at last year's answer which is the first attachment, under the line, "total impact on income statements", it would appear that -- and again this is last years, the Corporation was anticipating about a $79/$80 million positive impact on the income statement as a result of the immobilizer program?

MR. BARRY GALENZOSKI: Yes that's correct.

MS. CANDACE EVERARD: And looking at this year's document, which is the following page, again if

I'm reading this correctly, it would appear that the total impact that the Corporation is anticipating as a result of the immobilizers is about 130 million.

So to what does the Corporation attribute these increased cost savings given that we're actually expecting to install about forty thousand (40,000) less immobilizers?

MR. BARRY GALENZOSKI: Well, for starters there's an extra year in the projection, so that would add a significant amount of funds. The other is just, you know, more refinement with respect to the calculations as we -- based on our experience that we've got.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Has the Corporation had occasion to encounter immobilized vehicles, already immobilized vehicles, that have had attempted thefts or have there been any successful thefts of immobilized vehicles?

MS. MARILYN MCLAREN: No, there's been no successful thefts of an immobilized vehicle, not only in Manitoba, but no where in Canada, no where in the world that uses this standard of after market immobilizers.

There's never been a successful theft, other than someone stealing the keys and driving the vehicle away. There have been some attempted thefts, but very few. They are less likely -- attempted thefts are down significantly in the most-at-risk vehicle category.

The kids know what those little stickers mean. So we're not seeing increased costs due to them trying and failing to steal the cars. They are not trying.

MS. CANDACE EVERARD: So I take it then, that when the consumer gets the immobilizer installed they're given some kind of a sticker or the installation shop puts a sticker right on the vehicle that indicates that there's an immobilizer there?

MS. MARILYN MCLAREN: Yes.

(BRIEF PAUSE)

MR. LEN EVANS: Thank you. As an economist I think of demand and supply. We're talking about, I guess, the supply side corrections or solutions. But on the demand side I'm thinking of the kids that are involved.

Have you or has the police done any study of the young people, I presume mostly young people, who are engaged in these thefts and whether there's anything to be learned from these studies as to how to cope with the, so-called, demand for -- for these types of vehicles?

I would imagine somebody's done some study and whether there is any solution that the MPI could, in cooperation with the police, offer, you know, to somehow or other curtail the -- the young people from engaging in these crimes?

MS. MARILYN MCLAREN: We do a great deal of work in that area. In addition to funding the monitoring program for the worst of the convicted young thieves, there is just a page full on page 27 of SM-8 where we've detailed what we try to do in the community; things like the choices youth program and shifting gears diversion program.

We have people from MPI as well as police and other community workers who go into schools to talk about the kids or the consequences on their lives of auto theft; consequences on people who've been injured in auto theft related crashes; even the graffiti art programming. There's just any number of things that we do with our own staff participating but also through funding community groups to try to get a broader number of legitimate constructive options for these kids to do with their time.

I'm not sure if that answers your question. You know, we try to work with the kids who have been -- have become involved in stealing cars and we try to do work with the other kids who are at risk of becoming involved but haven't yet.

MR. LEN EVANS: What about the laws? Is there any thought of changing -- I'm not a lawyer by any means, but is there any thought of changing some of the laws?

Well, some people would suggest stiffer penalties, you know. I know -- my observation is that many American states, I'm not saying we should necessarily follow suit, but are very tough on people who steal cars and the like and --

MS. MARILYN MCLAREN: That's very true. You know, last year Mr. Bedard and I were at a conference, the Research Council of Automotive Repair, which is an organization of insurers who also have research facilities to learn how to repair vehicles better and in a more cost effective way.

Having conversations with our counterparts from the US and, you know, not to be too flippant about it but they -- they think it is beyond the realm of ridiculous that Canada would have problems like this because down there they just lock the kids up and throw away the key. This country has a very different approach.

You know, I think the suppression strategy that we are -- are helping to fund is a really appropriate strategy for this country, for this province, for this city. It monitors the kids. It helps them establish relationships with their probation officers. It helps them learn how to function outside of jail in a way that keeps them out of trouble.

You know, we're part of that because we think that's a good idea. We devote our energy and our dollars to that as opposed to lobbying the Federal Government to, you know, lock kids up and throw away the key.

THE CHAIRPERSON: We understand your commitment to this effort. One question would be, does the Winnipeg Police Service share the same zeal in this respect?

MS. MARILYN MCLAREN: It's hard to assess attitudes but their behaviour would indicate that they do not. They do not put the kind of attention and strategic focus on changing the resources within the auto theft unit that I believe would be helpful.

They are actively participating though on the provincial auto theft task force. So they -- you know, I think there is -- there is a mixed answer to that. As Mr. Galenzoski spent the last period of time talking about, this -- you know, this -- we live and breathe this at Manitoba Public Insurance. It wouldn't seem that the Winnipeg Police Service does. That doesn't mean that there are not individuals in that force that work very hard to try to assist in this problem.

THE CHAIRPERSON: You're investing nine hundred thousand dollars ($900,000) in this particular venture.

You suggested somewhere that 30 percent or more of the current car thefts are coming from new participants, if you want, and increasingly older participants in the practice.

Has the suppression approach been amended to reflect the changed demographics, if you like, of the thieves?

MS. MARILYN MCLAREN: There's not too much this program can do with the adult thieves. But yes, in terms of -- of the new kids coming in they have accelerated their movement through the stages. There is a -- a more ready movement of these kids into the most-at-risk highly monitored category. So they have definitely been responding to that, yeah.

THE CHAIRPERSON: Are you getting value for the money, for the nine hundred thousand dollars ($900,000) a year?

MS. MARILYN MCLAREN: The results have been mixed. If you looked just at calendar 2006 conclusion would have to be no because there's been more thefts in 2006 calendar year than there was in 2005. But I -- I -- you know I think it -- last year there was some early success with this program and I think we will have success again.

But if you -- you know, depending on the period of time you measured it and you want just a straight black and white yes/no answer, if you're looking at the first nine (9) months of '06, the answer would have to be no.

THE CHAIRPERSON: And a pessimist might suggest that you took a two-tracked approach to ending the problem, if you like. You're left with a higher chance of success with the immobilizer.

MS. MARILYN MCLAREN: I would agree and we always knew that that where's the real success would lie. We thought this WATSS strategy might buy us some time.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Just going back to the -- the question of the stickers that are put on the -- the after market immobilizers, with respect to vehicles that come with a factory installed immobilizer, and many of which don't have any indication on the -- the body of the vehicle that they have that factory installed immobilizer, does the Corporation have available or have any involvement in -- in stickers for those vehicles so that the prospective thieves are clear that -- that there is an immobilizer in those vehicles as well?

MS. MARILYN MCLAREN: You know, that -- we have spent a lot of time talking about that issue within Manitoba Public Insurance and it's a tough one because sometimes the manufacturers do put stickers on windows. There's probably GM's with stickers on the windows and quite frankly their immobilizers are no good.

So it's a problem. We would have to actually find a way to place -- and you can't just sort of mail a couple of stickers to the vehicle owners, right, so it's a hugely labour intensive process to -- to basically register the right vehicle and get that vehicle stickered. And quite frankly we haven't figured a way to do that reasonably and effectively.

We know that a year from now every vehicle rolling off the production line for sale in Canada will have an approved factory installed immobilizer. We know it's a short-term problem, but how do we identify the vehicles that truly have an effective factory installed device compared to the ones that have none or that have an ineffective factory installed device? We -- we don't have an answer to that right now.

MS. CANDACE EVERARD: Could the vehicles be identified by looking at those which are receiving the premium discount of forty dollars ($40) for having an immobilizer?

MS. MARILYN MCLAREN: Oh, no, we -- we know which vehicles they are and there's -- there's a lot of them. There's maybe seventy-five (75), eighty (80), a hundred thousand (100,000). We'll check on the number.

The -- we know the vehicles, but how do you get -- let's say it's eighty thousand (80,000) -- how do you get those eighty thousand (80,000) vehicle owners to come forward or do we send a staff member to them to affix the stickers on the cars' windows, right?

I mean this is very cumbersome. It's very labour intensive and it -- it's not simple. Do you ask the brokers to do it? What are the controls in place?

The other thing is, is the vehicle -- the VSIB, the Vehicle Safety -- I can't remember what it stands for, but they are the body that's responsible for the integrity of the after market immobilizer program in this country.

They're not comfortable with issuing these stickers to insurance brokers and relying on them to get them stuck on the right cars. Right now, we don't have a requirement for people to bring the car they're renewing to the broker's office.

So if you think about the administration of it, it's not simple. It could be extremely fraught with error, expensive and therefore marginally effective.

We've talked about it a lot and we don't have a ready answer as to how to get those eighty thousand (80,000) vehicles, if that's the number, properly labelled. A hundred and thirty-eight thousand (138,000) have factory installed devices as of the last month or so --

MR. BARRY GALENZOSKI: July 1.

MS. MARILYN MCLAREN: July 1.

MS. CANDACE EVERARD: Would I be possible to send some kind of a sticker out in the insurance renewal --

MS. MARILYN MCLAREN: Absolutely not, no, no. The stickers are -- they're controlled stock, they're highly controlled, as are the documentation that people receive when the vehicle is immobilized.

You have to make sure that the sticker gets on the right vehicle. You can't just mail them out and say, please put this on your -- you know, put it on the blue one, don't put it on the green one.

It has to be done by an authorized person to make sure that they are properly labelled.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Ms. McLaren, we'll move off of this issue right away, but I just have one (1) other question.

In terms of the sticker, and I appreciate its importance and significance, but isn't it similar or tell me why it's not similar to the little sticker that the registered owner puts on the license plate which you get when you renew your insurance?

If the vehicle owner is permitted to have the responsibility for putting the sticker on the license plate to confirm that the insurance is valid, just explain to me why they're two (2) different things, if that's what they are.

MS. MARILYN MCLAREN: They're two (2) different things, first of all, because this national board, the VSIB, controls the after market immobilizer documentation forms and stickers. They have everything to say about how those documents and stickers are issued and controlled. So it's outside of our bailiwick first of all.

Second of all, its related to the need to continue to be able to say, you know, this truly is a protected vehicle. Someone in authority with the proper training has certified that that vehicle truly is a protected vehicle.

Stick them in the mail and you can't do that. If somebody wants to renew their Autopac through the mail and let's say they were, you know, for nefarious purposes they renewed their trailer and went home and went home and put the sticker on their car; well, the car is still not registered and insured. So there's huge consequences to them downstream of that kind of fraudulent activity.

There's a direct cause and effect consequence of something like that. The need to make sure that only truly protected vehicles are labelled as such is -- you know, if we thought this was a good solution we could just send stickers to everybody and not pay to immobilizer the vehicles.

There's a real direct link between

labelling it as protected and truly having it protected.

MS. CANDACE EVERARD: Okay. Just before we move into another sub-area --

MR. LEN EVANS: I wonder if I could interject for another supplementary footnote question. I'm just thinking and there's so many administrative details and problems but, what about the procedure whereby you ask the broker where the person comes in to renew and so on, to just ask -- have the broker ask the person, you know, What about your sticker, you got -- is your sticker on, you know, is it properly placed?

It's like a survey, it's just an ordinary routine thing that the insurance broker would be involved in, asking his customer this question.

MS. MARILYN MCLAREN: I think that -- you know, I mean that's helpful conversation between the broker and the customer, but that doesn't meet the standards of control that the VSIB requires for these objects of proof that a vehicle has been immobilized to a national standard.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: So just one (1) more small question then on the immobilizer issue. Looking at Tab 14 of the book of documents, which is the

Corporation's response to question 5 asked by the Board, particularly at the bottom of page 3 which is sub-paragraph (d), the Corporation has stated that the free component of the immobilizer program extends from April 6th, 2006 to February 28th, 2007.

Is it the case that the Corporation has only committed to the free program to the end of the '07 year or is that intended to read '08?

MS. MARILYN MCLAREN: No. The official program of access to free immobilizers was initially for a three (3) month period. We extended it. And as long as interest stays high we will absolutely continue to extend it.

It's sometimes helpful when you're trying to incent people to behave a certain way to let them think that there is a time-limited opportunity here and that's really what the date is about. So don't tell anyone.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, Ms. McLaren, just a follow-up question to that. If the program does continue beyond the date as you hope that it will, will there be another transfer necessary or is that already taken into account?

MS. MARILYN MCLAREN: No. We think the forty (40) and an additional ten (10) for the total of $50 million is adequate.

MS. CANDACE EVERARD: Okay. The next area dealing with anti -- anti-theft initiatives is the expansion of the free program to the other territories. And perhaps to begin if someone could just describe for the record the five (5) territories.

MR. DON PALMER: The five (5) territories that we currently have are Territory 1, Winnipeg; Territory 2 is Southern Manitoba; Territory 3 is Northern Manitoba; Territory 4 is Central Manitoba; and Territory 5 isn't really a territory, it's commuters which -- people that live in Territory 2, Southern Manitoba, and commute to Winnipeg, Territory 1.

MS. CANDACE EVERARD: Okay. Now, it's my understanding that territory is one of the factors that the Corporation considers in assessing the risk for a particular insured?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And would it be fair to say that generally Territory 1 or Winnipeg constitutes a greater risk than the other territories?

MR. DON PALMER: I would say Territory 1

is greater than Territory 2. There are higher risk considerations in Northern Manitoba. But if you want to separate Winnipeg and the surrounding rural Territory 2, I would agree with that.

MS. CANDACE EVERARD: And the higher risk in Northern Manitoba relates to theft or relates to some other risk consideration?

MR. DON PALMER: All risk considerations.

MS. MARILYN MCLAREN: Generally speaking, if you look through the rate file included in the application, private passenger vehicles are sometimes a hundred dollars ($100) or more expensive to ensure in Thomson or The Paw than they are here in Winnipeg. Sometimes the other way depending on the insurance use. But they're very close. Winnipeg the North and the near north are very close.

It costs more to repair vehicles up there. Labour rates are a little bit higher. Shipping the parts up there costs money.

And in those areas injury claims tend to be quite severe. They tend to be costly. But, no, it would not be related to theft, particularly. The theft rates in the North and the near North are actually quite a bit -- significantly lower than Winnipeg.

MS. CANDACE EVERARD: I knew I would do

that sooner or later. On that score, if I can just direct your attention to AI-20 Sub A, which are the Winnipeg theft number.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So AI-20 reflects that in 2004/2005 the number of theft claims, and this is Territory 1 Winnipeg only, was eight thousand nine hundred and ninety-seven (8,997) which dropped to seven thousand six hundred and seventy (7,670) in the '05/'06 fiscal year; am I reading that correctly?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. The corresponding dollar amounts for the '04/'05 year are 28 million and change and for the '05/'06 fiscal year are 25 million and change, is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now, if I ask you to keep your finger on AI-20 Sub A and also turn to Tab 13 of the book of documents, which is the answer to question 4 asked by the Board in the first round and contains similar charts for Territories 2, 3, and 4. It would appear -- and if -- we'll just focus on the '05/'06 numbers. For Territory 2 there were one thousand three hundred and ninety (1,390) claims with a corresponding dollar amount of $5.4 million for '05/'06, is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And it would appear that on this chart which is -- covers a five (5) year span the highest number of claims and highest dollar amount for Territory 2 was in the 2004/'05 year being just over fifteen hundred (1,500) claims and a corresponding dollar value of just under $6 million?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: On the next page of that tab is -- or are similar charts for Territory 3 which reflect fifty-claims (55) theft claims for the '05/'06 year with a corresponding dollar value of a hundred and seventy-nine thousand (179,000)?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And on the following page, for Territory 4, reflects for the same year twenty-five (25) theft claims with a corresponding dollar value of fifty-four thousand (54,000)?

MR. DON PALMER: That's correct, too.

MS. CANDACE EVERARD: So just if we do some quick math for the '05/'06 year for those three (3) territories, being 2, 3 and 4, we've got about 5.7 million in costs and about fourteen hundred and seventy

(1,470) theft claims?

MR. DON PALMER: Subject to check, yes. And Mr. Galenzoski is rapidly checking.

MS. CANDACE EVERARD: As --

MR. DON PALMER: It's correct.

MS. CANDACE EVERARD: Thank you. As Ms. McLaren said, I think, a moment ago, the majority of theft claims obviously are in Winnipeg and in her pre-filed testimony she said it was about 85 percent of theft claims are in Winnipeg?

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

MS. CANDACE EVERARD: Now, I understand that the most-at-risk list, the top hundred and fifty (150) vehicles, that the Corporation has prepared which is at AI-20 Sub B is -- is the MAR list for Winnipeg or the most-at-risk list for Winnipeg?

MR. DON PALMER: It was created for -- based on Winnipeg experience, yes. It is now the standard list utilised for the entire province, but the original compilation was because of Winnipeg experience.

MS. CANDACE EVERARD: So the content of the list doesn't reflect actual statistics from the other territories, it's just Winnipeg?

MR. DON PALMER: That's correct although they're very, very close. The -- the theft itself or the

-- the vehicles themselves and -- and their inclusion in the list would be very, very similar. The odds of theft would be different in the other territories outside of Winnipeg.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Chairman, this might be a good time to take our morning break. I'm -- I'll continue with this section afterwards if that's all right?

THE CHAIRPERSON: You still have more questions in this area?

MS. CANDACE EVERARD: Yes.

THE CHAIRPERSON: Very good. We'll have our break and come back at 10:30. Thank you.

--- Upon recessing at 10:16 a.m.
--- Upon resuming at 10:35 a.m.

THE CHAIRPERSON: Okay. Ms. Everard...?

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: So just continuing on, on the issue of extending the free program to the other territories. If I can direct your attention to our that is the Board's fourth interrogatory in the first round, which is at Tab 13 of the book of documents, and in particular, Exhibit 2, which is the second last page.

Am I correct that the column entitled, Earned Units, is really number of vehicles or does earned units mean something else?

MR. DON PALMER: It's close. It's -- an earned unit is one (1) car for twelve (12) months.

MS. CANDACE EVERARD: So if we look under Territory 1 on Exhibit 2, for the '05/'06 year there's seventy-three thousand six hundred and seven (73,607) earned units, would be -- which would be like that number of vehicles?

MR. DON PALMER: Close enough, sure.

MS. CANDACE EVERARD: For the purposes of our discussion we can say that?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Okay. Okay. And continuing on with Exhibit 2, on the same line there were three thousand nine hundred and eight (3,908) theft claims for those vehicles in the '05/'06 year; with a corresponding dollar value of about 9.6 million, is that right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the second last column on this Exhibit, which is entitled, Odds Of Theft, can you just explain for the record the meaning of the numbers under that column.

MR. DON PALMER: That's the total theft claims divided by the earned units, which is for every, on average, for every nineteen (19) cars there's one (1) that will be stolen, in a given year.

MS. CANDACE EVERARD: Okay. Thank you. Continuing on in the same Exhibit, under the heading, Territory 2, for 2005/2006, there were sixty-five thousand one hundred and twelve (65,112) earned units and seven hundred and seventy-three (733) theft claims?

MR. DON PALMER: Again, this is for most-at-risk vehicles, yes.

MS. CANDACE EVERARD: Thank you, yes. So just to compare, for Territory 2, according to this document the odds of theft were one (1) in eight-four (84), whereas for Territory 1, the odds were one (1) in nineteen (19)?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And the last column on the Exhibit which is entitled, Incurred Per Unit, I take it is what?

MR. DON PALMER: That's dollars of claims divided by the number of earned units. So on average, the cost to provide insurance for these vehicles, for this particular peril, theft, the loss cost would be a hundred and thirty-two dollars ($132) per vehicle.

MS. CANDACE EVERARD: And that's a hundred and thirty-two dollars ($132) in Territory 1 for the '05/'06 year compared with thirty-four dollars ($34) for the same year in Territory 2?

MR. DON PALMER: Yes.

MS. CANDACE EVERARD: And on the same document we've also got Territories 3 and 4, and also looking at the 2005/2006 numbers, for Territory 3 the odds of theft are one (1) in ninety-four (94) and in Territory 4 the odds of theft are one (1) in eighty-three (83)?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: Now, just to ensure that I'm understanding things correctly, if we look at the most-at-risk list which is at AI-20(b) and this is, as you had indicated earlier, a list based on Winnipeg information, I see that if you look at the 150th vehicle or the last vehicle on the list which is the Ford Taurus, model year 1985 through 1989, the odds of theft are listed as one (1) in seventy-four (74)?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: So if we take that entry on the most-at-risk list and look back at Exhibit 2 at Tab 13, we've got the 150th vehicle on the MAR list having an odds of theft of one (1) in seventy-four (74). And looking at the three (3) rural territories, 2, 3 and 4, we've got odds in theft ranging from one (1) in eighty-three (83) to one (1) in ninety-four (94).

So if my conclusion is correct it is that the odds of theft of the 150th vehicle on the Winnipeg list are still worse odds than the odds for Territories 2, 3 and 4 on Exhibit 2?

MR. DON PALMER: With that particular comparison. The only modification that I would attach to that is the most-at-risk list, and those odds are based on three (3) years of data and not just one (1).

MS. CANDACE EVERARD: Now, if I could direct you to Tab 36 of the book of documents which is the third question that the Board asked in the second round. And I think you had indicated earlier that the Corporation has not prepared most-at-risk lists for Territories 2, 3 and 4?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And can you explain for the record why those lists haven't been done?

MR. DON PALMER: There's a number of reasons. Initially the theft problems was for Winnipeg vehicles. And so that's -- that's the list that was published, I think, to have more than -- more than one (1) most-at-risk list certainly would be confusion to consumers, especially when there isn't that much variance in them.

The volumes of vehicles in those other territories, Territory 3 and 4, for instance, the odds of theft would be -- you know, there would be very, very few vehicles in some of those categories really to make the statistics almost meaningless.

So for -- for both statistical purposes and for ease of use there's only the one (1) most-at-risk list.

MS. CANDACE EVERARD: You indicated, I think, just now and you said earlier that the -- if there were MAR lists prepared for the other territories they would be similar to the Winnipeg list.

How do you know that if you haven't prepared the list?

MR. DON PALMER: When we first -- the first MAR list ever produced was for Manitoba as a whole. And then when we were focussing our efforts on Winnipeg we created the Winnipeg list, and those two (2) particular lists were very close. So I'm expand -- I'm expanding that thesis basically to say if -- the pieces would be about the same as well.

MS. MARILYN MCLAREN: Ms. Everard, I think there's something else participants to this proceeding could do as well with respect to Tab 13, Exhibit 1 and Exhibit 2.

MR. BYRON WILLIAMS: Sorry, which tab?

MS. MARILYN MCLAREN: Tab 13. Exhibit 1 is the all vehicles by territory. Exhibit 2 are the most-at-risk vehicles. If you look at Territory 2 on Exhibit 1, the odds of theft, they're all more than a hundred and fifty (150). One (1) in a hundred and fifty (150).

Flip the page and look at Territory 2 and the most-at-risk. They're all less than a one (1) in a hundred (100) chance. The same holds true in every territory.

So clearly the most-at-risk vehicles are significantly more at risk wherever they are in Manitoba.

(BRIEF PAUSE)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. If you could now turn your attention back to Tab 36 of the book of documents, which is the third question asked by the Board in the second round. I believe the second listing in the last attachment at that tab is the MAR list or the Winnipeg list that's being -- that has included in it statistics from Territories 2, 3, and 4, but for the Winnipeg MAR vehicles, that's right?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And in particular there appear to be a few documents -- or a few vehicles rather, referenced on this list that have had no or very little theft experience in the other territories. For example, number 12 on the list, the Eagle Vision model years 1995 through 1999, there appear to have been no claims in Territories 2, 3, and 4?

MR. DON PALMER: This is exactly the statistical reliability that I had been talking about earlier, yes.

MS. CANDACE EVERARD: But just to confirm this -- the -- the vehicles on this list are the -- the top two hundred (200) most stolen vehicles in Winnipeg and the -- the theft claims statistics that are here relate to the other territories. So while the Eagle Vision in Winnipeg is the number 12 vehicle on the list, it's never been stolen or -- for the time period to which the list relates -- hasn't been stolen in any of the other territories?

MR. DON PALMER: I would agree with that.

MS. CANDACE EVERARD: And there appear to be a couple of other similar examples on the list. In particular I direct your attention to number 81, the Buick Regal model years 1980 through 1984, where there was one (1) claim out of two hundred and ninety-eight (298) earned units, but there is no cost indicated for claims incurred for that particular item?

MR. DON PALMER: I see that, yes.

MS. CANDACE EVERARD: And the same is the case for number 87 on the list, the Toyota 4Runner?

MR. DON PALMER: Yeah.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Now, looking at the Winnipeg list, which is the first listing at this particular tab, it's the -- the top two hundred (200) so not just the -- the top one fifty (150) most-at-risk, but it's the top two hundred (200) most stolen vehicles for Winnipeg, or Territories 1 and 5 I should say, 1 and 5.

If we look at the vehicle at number 151 on the list, the Chevrolet CR, if I'm reading this correctly there is an odds of theft for that particular vehicle of one (1) in seventy-five (75)?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And for number 152 on the list and -- and continuing the odds of theft range from let's say the hundred and fifty first (151st) to the hundred and sixtieth (160th) vehicle, of one (1) in seventy-five (175) to one (1) in eighty-five (85), is that right?

MR. DON PALMER: That's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And if we relate those number back to Tab 13 which we were speaking of a moment ago, and again Exhibit 2, which is the MAR listing for the -- or the MAR statistics for all territories, if I'm reading this correctly, it would appear that the -- some of the vehicles on the Winnipeg list, starting at number 151 and continuing actually have worse odds of theft than the other territories do, according to Exhibit 2, is that right?

MR. DON PALMER: That's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Has the Corporation given any thought to perhaps using the odds of theft as a criteria for the vehicles that would be eligible for the free immobilizer, rather than extending the free program to vehicles in rural Manitoba that has better or more favourable odds of theft than Winnipeg vehicles that are between one fifty (150) and two hundred (200) on the Winnipeg list?

MS. MARILYN MCLAREN: Instead of expanding it to the rest of Manitoba, no. No.

I think through time, we may find that the most-at-risk list will expand as other vehicles potentially start to have worse and worse theft experience, they will need to be included on the list. We see that happening in the future.

The other thing that hasn't been referenced yet; Mr. Palmer talked about you know, ease of administration and the complexities of having more than one (1) list. The MAR list, the most at vehicle -- most-at-risk vehicle list is in regulation; that's what drives these new forced immobilizers where vehicles have been stolen and vehicles new to Manitoba.

You have to have a fixed group of vehicles to deal with, particularly when you're talking about regulatory requirements. So I think we will find ourselves needing to expand the MAR list somewhat through time. But no, we do not have any intention of doing anything that would restrict access outside of the City of Winnipeg.

We talked about that right at the beginning of this process with my pre-filed testimony. It's actually on page four (4) of my pre-filed testimony. We know there's not the same business case for expanding it outside Winnipeg.

We believe that it is an issue of equality of access. It is a reasonable approach and we've done it on that basis. In the interests of expanding equality of access to the program is why we expanded it.

And clearly, we've demonstrated through that Exhibit in Tab 13, that there -- as a group they are must more at risk wherever they are in Manitoba.

MS. CANDACE EVERARD: And I'm sorry if I wasn't clear, rather than suggesting that it shouldn't be provided outside of Winnipeg at all, what I was wondering was, rather than taking the Winnipeg list of the top one hundred and fifty (150) most stolen vehicles and importing that list into the other territories where some of the vehicles haven't had claims and things of that sort, did the Corporation consider using the odds of theft criteria as the trigger point, in that any vehicle in Manitoba with a certain number for odds of theft could be eligible for the program?

MS. MARILYN MCLAREN: No, because of the need to tie it to this one (1) solid list that is linked to the regulations for the mandatory requirements; that's our main reason for not thinking of another approach.

We have to have an easy way to let all Manitobans know which vehicles are in and which vehicles are out.

MS. CANDACE EVERARD: Did the Corporation think about using or consider using the Manitoba-wide most-at-risk list that Mr. Palmer referenced a moment ago, rather than the Winnipeg list?

MS. MARILYN MCLAREN: No, because the heart of our problem really is here in Winnipeg and it would be far less statistically dependable and far less reasonable from my perspective to use anything other than a list that is clearly linked to 85 percent of your problem.

MS. CANDACE EVERARD: Just to be clear, the vehicles on the list that have not had any claims experience in the territories 2, 3 and 4 will still be -- those vehicle owners would still be eligible for a free immobilizers?

MS. MARILYN MCLAREN: Yes absolutely. And if they are stolen in or around Winnipeg, for example, they're still going to be required to have an immobilizers, as well. They're on the list. All of the MAR provisions apply to them.

MS. CANDACE EVERARD: So if some individual moved to Manitoba, say to Territory 2, 3 or 4, with one of those vehicles that's had no claims experience they would still be required to install an immobilizer?

MS. MARILYN MCLAREN: Absolutely. As long as they were within 100 kilometres of an installation facility. There's still a tiny part of the Province that doesn't have ready access to immobilizer facilities. Very few. There is more installers all the time.

MS. CANDACE EVERARD: So the list, I think you've said, is now part of the legislative regulation that governs this issue?

MS. MARILYN MCLAREN: Yes. That's right.

MS. CANDACE EVERARD: Is the Corporation able to advise how much of the claims costs savings relating to the free immobilizer program relates to Territories 2, 3 and 4 at this point?

MS. MARILYN MCLAREN: The forecast that the Corporation put forward as part of its application included cost savings in Winnipeg and commuter territories.

MS. CANDACE EVERARD: But --

MS. MARILYN MCLAREN: It didn't -- didn't project any savings in the other territories.

MS. CANDACE EVERARD: Okay. So the Corporation isn't predicting specific cost savings for Territories 2, 3 and 4 for the expansion?

MR. BARRY GALENZOSKI: Yeah. There's nothing in there. There's also nothing in our forecast with respect to the changes that were brought about with respect to vehicles coming into the Province, these most-at-risk vehicles, as well as the stolen vehicles that are now required to be immobilized because those -- those things all happened after we'd completed our forecast.

MS. CANDACE EVERARD: Is -- as the -- there is take-up of the free immobilizer program in Territories 2, 3 and 4 is the Corporation going to track whether there are cost savings relating to those expenditures?

MR. BARRY GALENZOSKI: Those cost savings will become evident through the statistics and so we'll be able to track that type of thing.

MS. MARILYN MCLAREN: Yeah. And we wouldn't necessarily wait to see the savings flow through. We will watch the take-up and predict savings based on the take-up in the next forecasting cycle.

MS. CANDACE EVERARD: Which brings me to my next question of what is the take-up to date in Territories 2, 3 and 4?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Just under six hundred (600) have been install -- taken up so far.

MS. CANDACE EVERARD: And how does the appointment schedule look?

MR. BARRY GALENZOSKI: We don't keep the same detailed document that we're going to be handing out in a minute or two here with respect to the rural. I guess, suffice it to say is that the take-up in rural areas has not been as strong as Winnipeg.

MS. CANDACE EVERARD: What is the dollar amount associated with the take-up to date? You said there was in and around six hundred (600).

MR. BARRY GALENZOSKI: There would be six hundred (600) that would have been taken up in the rural so it would just be a calculation of the six hundred

(600) times the two hundred and eighty (280).

MS. CANDACE EVERARD: So about a hundred and sixty-eight thousand (168,000)?

MR. BARRY GALENZOSKI: I'd take that as correct, yeah.

MS. CANDACE EVERARD: So just so that I'm clear, from a purely economic standpoint, is there support or what was the rationale for expanding the program to Territories 2, 3 and 4?

MS. MARILYN MCLAREN: The rationale for expanding it is -- was to address concerns expressed by Manitobans outside of Winnipeg that the quality of access to subsidy like this to help them protect their communities and protect their vehicles was important to them. And on the basis of that equality of access we expanded the program.

We think there are still longer term benefits to do so. We think there will be a payback. Nowhere near the one (1) to two (2) year payback through the Winnipeg commuter situation.

MS. CANDACE EVERARD: And your expected timeframe for a payback will be?

MS. MARILYN MCLAREN: Again, you know, subject to take-up I think we -- we're talking something like eight (8) or nine (9) years.

MS. CANDACE EVERARD: So would it be fair to say then that extending the free program to Territories 2, 3 and 4 was more in the way of a public policy decision than an economic decision?

MS. MARILYN MCLAREN: Yes. That would be fair.

MS. CANDACE EVERARD: Now, I understand that, and I think it's been said in evidence, that there's been an additional $10 million from the RSR set aside for the expansion of the program to Territories 2, 3 and 4.

How does the Corporation reconcile that allotment of funds from the RSR for a more public policy rather than economic initiative?

MS. MARILYN MCLAREN: Well, because I think there's still significant likelihood that over the next seven (7), eight (8), nine (9) years very many of these people -- remember if -- again if you go back to Exhibit and Exhibit 2 in Tab 13 there's as many of those most-at-risk vehicles outside of Winnipeg and commuter as there are inside. The -- the numbers are very high so if you look at half of them, 50 percent as opposed to 90 percent participating, $10 million is a reasonable amount of money.

I think this is a long-term initiative.

We wanted to make sure that -- that we could back up this equality of access and in terms of a lower percentage coming forward, we still expect a significant percentage to come forward and the $10 million is a reasonable reflection of about a 50 percent take-up.

MS. CANDACE EVERARD: Is it fair to say that the expansion of the program to Territories 2, 3, and 4 is an unforeseen event?

MS. MARILYN MCLAREN: I think the expansion of the program to Territories 2, 3, or 4 is consistent with the action the Corporation took a year ago with respect to establishment of the Immobilizer Incentive Fund. And that strategy was -- was accepted by this Board and allocating the further $10 million was consistent with that context. It was not considered in the context of RSR.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, Ms. McLaren, just -- just following on that, isn't it fair to say though that the expansion of the program to rural Manitoba would be a foreseen as opposed to an unforeseen event?

MS. MARILYN MCLAREN: It didn't happen to us, we did it.

MR. BARRY GALENZOSKI: Perhaps I can just add a little bit to that response also. The -- you know, we -- we've got about seventy thousand (70,000) most-at-risk vehicles in -- in -- outside of the Winnipeg area, and as Ms. McLaren says if half of those take the program up at two hundred and eighty dollars ($280) that's $9.8 million.

So that's how we came to the rationale with respect to the $10 million. The rationale is taking the $10 million out of RSR is exactly the same as it was taking the $40 million out of the RSR. We're setting aside some funds to recognize that this is a major initiative that will reduce risk over the longer term and have an impact on the bottom- line of the Corporation.

MS. CANDACE EVERARD: And so just to confirm then at this point in time if the take-up to date has equalled about one hundred and sixty thousand (160,000) there's still about 9.8 million that's not spent at this stage?

MR. BARRY GALENZOSKI: That's correct. There's still considerable sums of that money in the IIF Fund.

MS. CANDACE EVERARD: And obviously the Corporation is tracking that?

MR. BARRY GALENZOSKI: We're tracking it and we are reporting on that on an ongoing basis, yes.

MS. CANDACE EVERARD: And is the Corporation tracking the uptake or the take-up in Territories 2, 3, and 4 on account of the 10 million, separately from the take-up in Winnipeg, on account of the 40 million?

MR. BARRY GALENZOSKI: Well, we -- we have the ability to do that. We're reporting it on a total fund basis with respect to the Immobilizer Incentive Fund. It's on our balance sheet so that's being reported on a -- on a global basis, but we have the ability to track the take-up as you've seen from all the statistics that have been put forward so far.

MS. MARILYN MCLAREN: The other factor is that the expansion across the province is the newest feature of this program. It -- it's only been in place since June.

And for example when we announced the expansion there was no capacity to install after market immobilizers in the City of Thompson. So nobody came forward from Thompson in the early months because there was no one up there who could install them. Now there is.

So as the capacity continues to expand

outside the City of Winnipeg we expect the take-up will -- will follow.

MS. CANDACE EVERARD: And can you confirm for the Board that the -- the 10 million that's allocated for Territories 2, 3, and 4 would not at any point be used to fund Territory 1, the 40 million is insufficient?

MR. BARRY GALENZOSKI: No, it's -- it's a fund. It's not earmarked specifically for a given territory. We've put aside certain amounts of money. We give you the rationale as to why we chose $10 million, but you know, we'll see how this -- this program goes.

And as long as the money's being spent on the immobilizing function we're going to be quite happy with that as the process and I'm not going to worry too much about whether some of that has been earmarked out of the original forty (40) or out of the latest ten (10) that was put into it.

MS. CANDACE EVERARD: And so why has the Corporation taken that approach? Why would the funds be transferred as between the territories?

MR. BARRY GALENZOSKI: There's no reason to keep track of it that way as a fund. What -- we have the ability to track the take-up on the program. We have the ability of tracking how many most-at-risk vehicles exist in each of the territories that we talked about.

So we know where we're at with respect to the risks that we have, but there's no need to keep track of it that way with respect to the fund itself. The fund is -- is a global fund that we're taking the -- we're using for the initiative itself.

MS. CANDACE EVERARD: If at some point, when next years rate application is forthcoming and the Corporation finds itself requesting a surcharge as a result of the Winnipeg take-up not being sufficient; would that surcharge also apply to Territories 2, 3 and 4?

MS. MARILYN MCLAREN: No. We would expect to apply for surcharges that are statistically driven, that are based on the actual costs in a particular area. They may very well expand to 2, 3 or 4, but it would based on some pretty solid emerging data that I don't have today.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And just -- on the issue of the possible surcharge generally, would it be fair to say that the Corporation won't be making its decision on whether or not that will be requested in the next GRA until probably close to the time that that's GRA is going to be filed?

MS. MARILYN MCLAREN: No, no, I don't think that's fair. I think we find ourselves in a circumstance related to the regulatory lag that Mr. Palmer spoke of yesterday.

Right now, there is no rationale to move forward with a surcharge any earlier than to do so in next year's application. It's not likely, but possible, that we could walk out of here and by the middle of November demand would disappear.

So we don't have another opportunity to come forward other than with the next rate application. There's a possibility that demand may fall off before the end of this calendar year and we might find ourselves in the position of, you know, a year and two (2) months from the end of this calendar year, trying to restart the immobilization capacity, if we were lucky enough to receive a surcharge.

We will make the decision no later than April/May of next year as we put the rate application together, but if -- you know, if this initiative turns against us, we may find ourselves with evidence that we have no other choice far earlier than that, but no opportunity to act before that.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Ms. McLaren, if my memory serves me, the Corporation implemented the immobilization program without Board approval or prior to Board approval?

MS. MARILYN MCLAREN: We set up the immobilizer incentive fund and we announced the 50/50 cost share program without PUB approval, yes.

MS. CANDACE EVERARD: So couldn't the Corporation do the same with respect to a surcharge?

MS. MARILYN MCLAREN: No, that would be a rate. And by law, we are not allowed to charge a rate that has not been approved by this Board.

MS. CANDACE EVERARD: Has the Corporation given consideration to an interim approval from the Board rather than waiting until next year's GRA?

MS. MARILYN MCLAREN: That option is available to us. It's often challenging to put together something like that and move forward on it publicly within a very short period of time. It's certainly not something I would preclude from -- from doing. But it's not something we've had any substantive discussion within the Company at this point.

MS. CANDACE EVERARD: Okay. I think that

concludes our questions on anti-theft initiatives. I will now be moving to the area of investment income.

THE CHAIRPERSON: Just before you go there, Ms. Everard, I have one question I wouldn't mind asking. I'll be going somewhere with this so don't -- by your application I think it's fair to say that the rates are currently adequate to meet the present costs of the programming, including the current dreadful theft experience?

MS. MARILYN MCLAREN: Yes. I agree.

THE CHAIRPERSON: Table 16 of the PUB book of documents includes a table that projects a cumulative net gain from the immobilizer effort of 130 million to the end of 2013/20014 for Winnipeg and the commuters; is this correct?

MS. MARILYN MCLAREN: Yes.

THE CHAIRPERSON: Correct to say that the table projects an annual gain of 38.762 million in 2013/14 from the effort; is this correct?

MR. BARRY GALENZOSKI: Yes, that's correct.

THE CHAIRPERSON: Would it be fair to say then that the project, if successfully concluded, has a present value that's far in excess of the cumulative savings to 2013/14 and far in excess of the 38 million projected for 2013/14?

In other words, if the savings continued, so to speak, forever the -- today's value of that would exceed the projections that's provided on this table?

MR. BARRY GALENZOSKI: Yes. We can agree with that.

THE CHAIRPERSON: Then would it also be fair to say that with a successful immobilizer program the prospects for rates and RSR are brighter than without?

MS. MARILYN MCLAREN: Yes. Absolutely.

THE CHAIRPERSON: Thank you.

Ms. Everard...?

MS. MARILYN MCLAREN: Ms. Everard, just one further point before we leave theft. Mr. Chairman, I can tell you that from the period January 1 of 2005 to March 31, 2006 there were eleven (11) injury claims associated with crashes of vehicles who -- which had been stolen more than once. Eleven (11).

THE CHAIRPERSON: Thank you.

MR. KEVIN MCCULLOCH: And also, Mr. Chairman, since Ms. Everard has indicated that, for the time being, she's leaving the immobilizer issue, I do have copies of the chart that Mr. Galenzoski was referring to. It's a chart detailing immobilizer activity and results and with the permission of the Board I'd file that as MPI Exhibit 10.

THE CHAIRPERSON: Thank you, Mr. McCulloch.

--- EXHIBIT NO. MPI-10: MPI chart detailing immobilizer activity and results.

THE CHAIRPERSON: Mr. Singh, would you mind distributing it.

(BRIEF PAUSE)

THE CHAIRPERSON: Ms. Everard...?

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Turning then to investment income, as a general statement would it be fair to say that investment income is a major component of the operating results for the Corporation?

MR. BARRY GALENZOSKI: Yes, it would.

MS. CANDACE EVERARD: If I could direct

you to Tab 7 of the book of documents which is TI-17, which contains a history of operating results for the Corporation.

We look at the line entitled, Investment Income. It would appear that from -- or in 2002/2003 there was about 44.1 million in investment income, in 2003/'04 about 108.5 million, in 2004/'05 about 76.6 million, and '05/'06 approximately 145 million with the forecast for the current fiscal year being about 103 million and the projected for the year of the application being about 84 million; am I right?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: Now, if I could ask you to look at Tab 29 of the book of documents which is question 56 asked by the Board in the first round and in particular the attachment at 56B we start with the 2003/2004 fiscal year. It would appear that the Corporation had originally projected about 64.6 million in investment income which was revised at the GRA to be 81.2 million and as it turned out was actually about 108.5 million; am I right?

MR. BARRY GALENZOSKI: That's with respect to basic's share, yes.

MS. CANDACE EVERARD: Yes. Thank you for clarifying that. And in the next year, 2004/2005, the originally projected amount was about 68.1 million which was reduced at the GRA to sixty-four point four (64.4) and then increased actually in that fiscal year to about 76.6 million?

MR. BARRY GALENZOSKI: Correct.

MS. CANDACE EVERARD: And for last year, the 2005/2006 fiscal year, the original projection was about 71.5 million increased to 118.1 at the GRA and which ended up being about 145 million at the end of the day?

MR. BARRY GALENZOSKI: Those are all correct numbers.

MS. CANDACE EVERARD: So looking at those three (3) years the Corporation essentially consistently projected less than it actually made at the end of the day?

MR. BARRY GALENZOSKI: Yes, and that contrasts to the previous fiscal years before that, the previous two (2) where we -- it was exactly the opposite.

MS. CANDACE EVERARD: Given the variability over the last number of years, could you describe generally the basis for establishing the assumed investment rates of return?

MR. BARRY GALENZOSKI: Basically take a look at the investment portfolio that we have along with the expected increases that we would expect over the next year in the -- for the application that we're applying for and then the forecast going forward, the increases that we would see in the size of the portfolio, the asset allocation that we currently have where that money is expected to be and then what the returns would be.

Now, we have very specific information when it relates to things like bonds because we have -- we have payment patterns of -- of interest and -- and principal repayment, things along that line that we can take into account.

With respect to equities we use a -- a methodology for coming up with an equivalency with respect to the interest that we might get which is based primarily on a Canada ten (10) year bond.

MS. CANDACE EVERARD: Now, is it true that variances from the assumed rates of return would have consequences for the RSR and if so, can you elaborate?

MR. BARRY GALENZOSKI: They have consequences for the -- the bottom line results for a given fiscal period and that would then flow through to the Rate Stabilization Reserve at some point in time.

So if you've done better in -- then that would add more to the Rate Stabilization Reserve. If you haven't achieved the goals that you originally set, as you can see for '02/'03 and '01/'02, that was the case, then you're going to have usually a negative bottom line which also has impacts in the Rate Stabilization Reserve or for the overall retained earnings of that line of business.

MS. CANDACE EVERARD: Thank you. Staying at Tab 29 and just flipping back to the previous attachment which relates to 156A, if I could turn your attention there, this document or the -- the top chart on the page appears to set out the size of the portfolio which for the -- for last year, the '05/'06 fiscal year was about 1.8 billion, which is forecasted for the current year to be about just under 2 billion and projected for the year of the application to be just over 2 billion, am I correct?

MR. BARRY GALENZOSKI: Yes, that's correct but that's on the Corporate investment portfolio; not just relating to the basic.

MS. CANDACE EVERARD: Okay. And looking at last year's numbers, the '05/'06 fiscal numbers, it would appear that for cash and short-term investments, the Corporation had just over 90 million, for equities just under 400 million, 397.2; for long terms bonds about 1.3 billion, as well as 20 million in an equity linked note?

MR. BARRY GALENZOSKI: Yes, that's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And if we compare last's years composition for the Corporation with what is forecasted for the current year and then the year of the application it would appear that the -- under the cash and short-term investments category, it's expected that the -- the content will be significantly reduced from about 90 million down to 15 and half.

Can you confirm that rationale for that particular decrease?

MR. BARRY GALENZOSKI: Just the fact that the way the cash projections going forward are set and how we expect the money to be invested with respect to the Department of Finance putting money into bonds.

And a lot of -- the you know the actuals that you see at the end of a given year, we were higher than where we would normally have been, but it comes down to a timing issue with respect to when we put certain investments into play.

MS. CANDACE EVERARD: Otherwise, with

respect to equities, long term bonds and the equity linked note; it would appear that things are staying relatively similar from the '05/'06 to the '06/'07 year.

With respect to the venture capital line, can you first define for the record what venture capital is?

MR. BARRY GALENZOSKI: Venture capital is investments in funds that are primarily concerned with new start up businesses. We have a small allocation towards that type of investment. It primarily relates to this type of fund that would invest in Manitoba start up companies.

MS. CANDACE EVERARD: Can you explain why there's a decrease being forecast from last year of the 7.3 million to the current year to 1.1. million?

MR. BARRY GALENZOSKI: Yes, that's primarily related to just looking at the way we have venture capital also includes some private equity.

And we had included those together under one (1) category. That is now -- the private equity is now included, I believe, with our bond portfolio.

MS. CANDACE EVERARD: And can you explain for the record the rationale behind the Corporation investing in venture capital?

MR. BARRY GALENZOSKI: We have a very

small allocation of about a half of percent associated with venture capital. And it's just part of the overall policies of the Corporation to provide some allocation towards this type of fund, particularly as it relates to start-ups in Manitoba.

MS. CANDACE EVERARD: Okay. Staying with the page that we're looking at, the attachment to 156A but shifting now to the second table entitled, "Investment Income"; it would appear that the Corporation is expecting investment income for the year of the application being 2007/'08 of about 95.86 million?

MR. BARRY GALENZOSKI: Yes, that's on a corporate basis with about 84 million of that allocated to basic.

MS. CANDACE EVERARD: So basic's share according to this document is about 87 and a half percent?

MR. BARRY GALENZOSKI: 87.58 percent, that .8 makes a big difference.

MS. CANDACE EVERARD: Fair enough. And can you explain how basic share is determined?

MR. BARRY GALENZOSKI: The investment income is allocated to the lines of business, based on pools of money available for investment. We have an approved formula for doing that through our Board. We've been applying this for a number of years and so this is the methodology that we use to -- because we have a -- we have a -- one (1) fund that we invest and then we have a methodology for allocating the investment to the various lines.

MS. CANDACE EVERARD: So the way that the percentage is determined is consistent with that which has been done in previous years?

MR. BARRY GALENZOSKI: Yes. It is.

MS. CANDACE EVERARD: And according to this particular chart the percentage allocation from last year through the outlook period ranges from about 87.06 percent to 88.11 percent?

MR. BARRY GALENZOSKI: Yes. That's correct.

MS. CANDACE EVERARD: Now, looking at the line entitled "basic share", as we've indicated for the year of the application the projection is going to be -- or is about 84 million whereas in the year that we just finished, the '05/'06 fiscal year, the income was about 145 million and the period for the current year in between is about 103 million.

To what does the Corporation attribute the change from '05/'06 to '06/'07 and, finally, '07/'08?

MR. BARRY GALENZOSKI: It's attributed

specifically to the gains that we may take with respect to our equity and bond portfolios and we're not in -- we're not projecting any gains in the periods '07/'08 and going forward.

The actuals are reflected in the '05/'06 year. Those were what we would normally have expected for investment income plus the gains that were taken on the bond and equity portfolios.

You'll notice they're expected to be down for '06/'07. We're -- we're -- and that is the difference in those two (2) would be specifically the gains that would be available on both the equity and bond portfolios. There's a lot less available this year.

MS. CANDACE EVERARD: That was going to be my next question, so thank you.

Turning then to Tab 10 of the book of documents which is the revised blacklined investment policy statement which is part of the response to MPI Question 69 in the first round which is also attached at that tab, can you confirm for the record who is the author of this particular document?

MR. BARRY GALENZOSKI: The author of this document is MPI management. Very specifically, we have an investment department that would -- would put this document together under supervision of management obviously and then it is presented to our investment committee of the board of directors.

MS. CANDACE EVERARD: And is that how the document ultimately gains approval is by the board.

MR. BARRY GALENZOSKI: I missed a step on that. We -- we have an investment committee working group. This consists of people from both MPI as well as the Department of Finance. We jointly would work on -- on this document with respect to making sure that everybody in the Department of Finance that needs to be happy with it and everybody in MPI that needs to be happy with it would do so and then it would be submitted to our board of directors through the investment committee and they would approve the document and recommend it to our full board of directors to accept it as a new policy.

MS. CANDACE EVERARD: With respect to the -- the investment committee that you mentioned, is that the same as the working group that's mentioned on page 4 of the document?

MR. BARRY GALENZOSKI: There's two (2) groups. One (1) is the investment committee working group comprising of MPI and Department of Finance personnel. And then there is the investment committee of the Board which consists of board members, a sub-committee of our full board of directors.

MS. CANDACE EVERARD: There is reference in the policy to the investment fund direction plan that is forwarded to the Department of Finance each January; that's on pages 4 and 5.

Can you confirm for the record what that document is and who prepares it?

MR. BARRY GALENZOSKI: That document is a joint effort of an investment committee working group, spearheaded with a lot of effort with respect to our -- our investment department. The document is -- is directional plan with respect to the coming year and a little bit past that for that group as to what they're planning on accomplishing.

It is -- it is jointly issued and it is given to our investment committee of the board for their information and approval.

MS. CANDACE EVERARD: Now, can you confirm what the scope of authority of the Department of Finance is in the piece in terms of establishing the directional plan and executing the plan?

MR. BARRY GALENZOSKI: The Department of Finance has ultimate authority over our investments. They have that through statute, our -- through our Act. I can't remember the specific section but I think it's Section 12 something or another.

So they have complete authority over our investments, but over the years we've established an extremely good rapport between the two (2) organizations and we've entered into this investment committee working group which is the real joint management of the investment portfolio that the Corporation has.

So pretty well everything that happens on that investment portfolio is vetted through this particular group and the Department of Finance folks take care of getting any authorities they need from the Department of Finance itself and then we jointly take together any recommendations and other things that we would report to our Board through the investment committee of our Board of Directors.

MS. CANDACE EVERARD: So is it fair to say then that establishing the investment policy statement, this document, and the operational management of the fund are done jointly between the Department of Finance and the Corporation?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: And is it the same for acquiring the various investment instruments and administering the investment process?

MR. BARRY GALENZOSKI: Not for acquiring the various investment instruments. The Department of

Finance is fully responsible for the bond portfolio. They handle our hedging strategy on foreign investments. So they have very specific roles to play. They enter into all the agreements we have with our equity fund managers. They are the ones that sign the contracts; we don't sign the contracts.

Everything else is done on a joint basis so if we're looking to select a new investment fund manager, any -- any other changes we want to make to policies, all the discussions we have around our investments, that's done on a joint basis.

MS. CANDACE EVERARD: Now, as I mentioned a moment ago the investment policy statement that's at Tab 10 and is the black lined copy for the purposes of the record meaning that it sets out recent changes that were made to the statement, if I could direct your attention to page 5 of the document under the heading, Fixed Income, at the top of the page which reads:

> "The working group shall annually review the fixed income position for the fund including diversification and risk measures and will report the results to the investment committee."

Sorry, do you have it in front of you?

MR. BARRY GALENZOSKI: Yes, I have that.

MS. CANDACE EVERARD: The -- the page numbers on this document are small but they're right at the bottom on the right-hand side underneath the date of March the 22nd, 2006.

So with respect to that first paragraph which is black lined under the heading of, Fixed Income, can you confirm what reporting has been given to the investment committee and what the recommendations were that were put forward?

MR. BARRY GALENZOSKI: This is a newly added section and there has been no report so far. This is a to do, on our list.

MS. CANDACE EVERARD: There's another black line changed on that page under the second heading which is, Investment Policy Strategy, and that's the second paragraph which now reads:

"The Corporation may from time to time request external equity investment counsels to realize capital gains that have accumulated in the manager's account. The ability to realize gains is subject to the ratio of the market value to book value of the total of both the Canadian and US equity portfolios in their native currencies

exceeding [I'm not sure if that's 105
or 10.5 percent]. The market value --"

MR. BARRY GALENZOSKI: It's a hundred and five (105).

MS. CANDACE EVERARD: Okay. Thank you. The black line sort of obliterates some things.

"The market value to book value ratio
must not fall below 105 percent as a
result of the gains taking process."

And can you explain the rationale behind this particular change to the policy?

MR. BARRY GALENZOSKI: Yes, the -- in a number of years in the past when we had opportunities to take gains on our portfolio we were really doing so on an ad hoc basis without any real methodology in place to do that. And when we started asking fund managers about best practices in that area as to, you know, to help guide us we found that there was very little.

Because most funds particularly funds that would look a lot like ours, pension funds, they don't have the same accounting issues that we have, they recognize the gains based on just the market value.

They don't have to actually sell the investment to get the gain. MPI under GAAP accounting rules to recognize the gain currently, has to actually divest itself of that investment, realize the gain in real terms and then it can record the gain that it takes.

So what we did was, a couple of years ago we studied the problem and we came up with this process, the rules that you see here.

And so it gives us some guidelines as to when it would be appropriate to take gains and those guidelines are designed to not put us too much at risk with respect to having taken gains and then if the market turns on you, slipping below the 100 percent or book value.

And I can say that, in most cases, that's worked out pretty well but not every single time, okay? And we will not take gains, just at the 105 level, let's say the report showed -- and I get a report on this every week pretty much; and if the reports show that there was 106 percent -- we were 106 percent of the book value; I wouldn't take gains at that level because first of all, it's spread among five (5) equity managers in Canada and two equity managers in the United States and that would just be too thinly spread across the portfolio, it wouldn't be worth the effort to go out and do that.

And, you know, I generally even leave a little bit of a gap on top of that 105, just to be on the safe side until we're really satisfied that those gains are going to be there for a period in time.

Because what, in effect, you do when you take the gains and you solidify them, you leave that money with the manager; they go out and buy other investments you've now -- you've now increased your book value.

And the risk is, is that if the market does turn on you, you know, you don't have very much of a cushion there to prevent you sliding under the book value that you've got recorded on your books, with respect to the investment's values.

So we have to be kind of careful about this and this is the policy that we put in place a few years ago and the Board was aware of that, we told them about that, but it was decided that would be a good idea to have it in our investment policy statement.

And that's why you see it as a new addition to the investment policy statement this year.

(BRIEF PAUSE)

MS. CANDACE EVERARD: I assume you're referring to MPI Board of Directors or this Public Utilities Board?

MR. BARRY GALENZOSKI: No I mean our

Board of Directors, this is a statement that goes to -- and is approved by our Board and you receive it as information.

MS. CANDACE EVERARD: Turning to page 12 of the policy statement and, in particular, paragraph 5.2 we have --

THE CHAIRPERSON: Just before she gets there on the point that Ms. Everard was dealing with before; are you suggesting that the Corporation takes gains based on large part the level of unrealized gains relative to book?

MR. BARRY GALENZOSKI: That's exactly what I'm suggesting, yes. And it has to be for the two (2) equity portfolios and I'm not suggesting that on the bond portfolio, I'm suggesting that for the equity portfolio.

The two (2) equity portfolios being the Canadian Equity portfolio and the US equity portfolio, we look at them in their totality, the two (2) together, in their native currencies and we then make decision as to whether or not we're going to ask the managers to take gains.

We would then direct managers to take specific dollar gains within their portfolio, if there was monies available in their portfolio.

THE CHAIRPERSON: Would the direction depend on the situation and prospects with respect to the securities, rather than paper profit or loss relative to MPI's books?

MR. BARRY GALENZOSKI: It's -- we leave the decision as to which securities are to be dealt with to the investment manager.

We would say to an investment manager, your book value or your market value compared to book value, let's say there was a $3 million gain available and we might say to that manager could you take a million dollars worth of gain over the next couple of weeks.

And we leave it to them as to how they're going to execute, the timing of that execution, which investments they're going to divest and what they would buy in replace of that.

THE CHAIRPERSON: You're not concerned the market may be thin and they get out of the stock simply to produce a gain and then they have to presumably reinvest it in another stock?

MR. BARRY GALENZOSKI: We're not hopefully concerned about that. That's why we set the policy at 105 percent. You know, you want to leave yourself some room. But the fact is, is that that's generally not been a problem with respect to times when we've taken gains with respect to what they've replaced it with as far as another investment.

THE CHAIRPERSON: But there's lots of times in which investment portfolios are below water, so to speak. They're below cost and I'm just wondering do you -- is the investment manager permitted to sell a security, take a gain and then reinvest right back into it?

MR. BARRY GALENZOSKI: Yes. They are. They can do that. I can tell you that our experience is that we've had very few situations where our portfolio is under water with respect to book value. That would be on the total of the two portfolios put together.

There has been times, and I -- I'm sure we'll see it in the future where individual fund managers may have a situation where they may have dropped below, but we try to protect against that to some degree. Like, if we -- if the overall -- if the two (2) investment portfolios in their native currencies indicated that we're at 110 percent of book value and I may instruct them that we want to take some gains, I'm going to not want to take gains from certain portfolios just because they may be widely dispersed and it may be very difficult to get the gains.

So we take a lot of those things into

consideration but we use this as a guideline as to when it would be appropriate and that guideline is approved as policy through our Board. So that is not just management's deciding when to do this or not. We're also not obligated to take any gains just because we happen to be over the 105 percent.

MR. LEN EVANS: Excuse me, just as a follow-up question, taking gains, what about taking cash? Instead of reinvesting, taking cash and bringing it into the system?

MR. BARRY GALENZOSKI: Well, we have no need for the cash as far as cash flow problems. That isn't an issue with MPI generally speaking. We plan our cash out quite a ways in advance. So that hasn't been an issue and we have never taken cash away from a manager. We've always left them with the reward of what they've accomplished by leaving that cash in their portfolio.

The only time we would consider that is if our overall asset allocation started to get skewed with respect to our asset allocation that we have in our policy. We've come close on the Canadian side recently because there was good gains to be taken in the last couple of years. But we haven't had to actually take cash away from anybody yet for that specific reason.

MR. LEN EVANS: Thank you.

THE CHAIRPERSON: So when you say that you could -- that there's no restrictions on trading back into the same security that you've just left to produce a gain, does that hold for bonds too?

MR. BARRY GALENZOSKI: I -- I don't think that's ever happened with bonds. The Department of Finance, generally when they are buying and selling bonds, they're doing it for the reasons that they've got another opportunity and they've got an investment in their -- our portfolio that they can -- generally speaking what we're looking at when we take gains on bonds is we want a situation where we're not going to just take from Peter to pay Paul.

We don't want to take a gain for today's book of business with a long-term reduction in investment income going forward. We have to -- we look at the whole picture and make sure that it's a solid transaction with respect to the long-term view on bonds rather than just a short-term view.

So we're not going to take a gain of $5 million on a bond and lose $6 million on the reinvestment. We want to -- we want to actually have a win, win on that.

I'd like to take a gain and make a little bit more on the investment downstream. And that's the opportunities they're looking for. So they're generally not going back into the same instrument to do that.

THE CHAIRPERSON: Thank you.

Ms. Everard...?

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: So looking then at page 12 of the investment policy and, in particular, paragraph 5.2 which we have an amendment to, and this paragraph deals with risk measures, can you confirm who it is that monitors the risk and what it is that is considered an appropriate level of risk?

MR. BARRY GALENZOSKI: Yes. We've put this into the policy. Again, this is on our to-do list as far as reporting to the Board and establishing a level of risk. We are -- we have, for some time, been monitoring through the value at risk calculations the risk that each individual equity manager brings to the table through the portfolio that they have.

Part of our diversification strategy on the equity portfolios is to look for different styles of investments and different types of portfolios. For instance, the US versus a Canadian type portfolios. We have -- we have different styles of management. We -- we have large Cap, small Cap managers. So those are the diversification things that we're looking for, so we can measure the risk that those managers bring to the table.

And the goal for the future is to establish almost like a budget for risk that we're prepared to take and -- and monitor that on an ongoing basis and if necessary make adjustments to our portfolio that would keep us within the risk tolerances that we're -- we -- we have decided to take on.

So this is again one (1) of those newer issues, a new "to do" issue for us to report to the Board at some time in the future but not -- we haven't reported on it at this stage.

MS. CANDACE EVERARD: So the Corporation is essentially developing a risk management infrastructure to monitor risk in advance of expanding diversification of the portfolio?

MR. BARRY GALENZOSKI: Well, it's not just with respect to -- in advance of establishing the diversification. We -- we feel that we've been constantly diversifying the portfolio just by the selection of managers even within the same asset class like the Canadian Equity Class by taking on different styles of management and by having them invest in different parts of the Canadian equity market. So that -- that we've been moving along with.

So when we look at the next level of moving forward as I indicate yesterday the possibility of looking at other types of investment asset classes, whether it's, you know, another foreign investment, whether it's real estate, that would be considered in the context of everything that we've already done to diversify our policy. We would do an asset liability review that would support any decisions that we make to move towards those other things.

MS. CANDACE EVERARD: So what is the -- the next level that's going to be involved in developing the -- the framework?

MR. BARRY GALENZOSKI: The framework for what?

MS. CANDACE EVERARD: The risk framework.

MR. BARRY GALENZOSKI: The risk framework is going to be based on -- on the work that we've been doing actually for some time now with respect to monitoring. We monitor on a monthly basis our -- our value at risk on the overall portfolio as well as the risk that each of the managers brings to the table.

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

MS. CANDACE EVERARD: And is it anticipated that there are going to be any cost implications associated with this process?

MR. BARRY GALENZOSKI: The costs wouldn't be great; they'd be relatively minor. Considering, you know, the level of our investment income I think they're -- they would be considered as very appropriate expenditures.

We're not talking about spending $10 million to do something like this. We're not talking about spending $1 million to do something like this. We're probably talking in the -- maybe a couple hundred thousand dollar level to look at appropriate software and -- and maybe some outside services to assist us, but we're not talking a huge expenditure here.

MS. CANDACE EVERARD: So will some individual or entity be contracted outside the Corporation to do the monitoring?

MR. BARRY GALENZOSKI: Not -- not likely. We'll likely do that in-house. We have an in-house investment department that has a significant skill set available to it through its own resources and likely that's where that will all reside.

MS. CANDACE EVERARD: Okay. If I could turn your attention to AI-24. Oh, sorry, rather I'm mistaken it's at Tab 10; it's the same document.

Page 17 of the policy statement at Tab 10 under 7.1 -- paragraph 7.1 it's correct that the listing reflects the range of investments that the Corporation has established for itself?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: So with respect to cash and short-term investments there would be a minimum of 0 to 5 percent?

MR. BARRY GALENZOSKI: Yes, and I guess one (1) of the things when we were talking about the level of cash that we had at the end of the year, if that's going to be your next question, one (1) of the rationales for having more money in there than we normally would expect was that we knew we had a $58 million rebate coming up and we had to get our ducks in a row to make sure we had the cash ready to do that.

MS. CANDACE EVERARD: And for fixed income investments the range set out on the document is between 60 and 69 percent?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: And for equities or, I guess, venture capital and private equity; it's

between 10 and 23.5 percent?
MR. BARRY GALENZOSKI: Could you repeat that, sorry?
MS. CANDACE EVERARD: Under the heading of venture capital and private equity, the total --
MR. BARRY GALENZOSKI: You're looking at between zero and 1 percent there.
MS. CANDACE EVERARD: Oh, I see it was underlined, which I assume meant it was a heading. If I can direct you attention then to the bottom line of the chart which is entitled, Total Equity, that would be a range of 10 to 23.5 percent?
MR. BARRY GALENZOSKI: Yes, that's correct.
MS. CANDACE EVERARD: And the US equities component thereof, would be between 0 and 5 percent?
MR. BARRY GALENZOSKI: Yes, that's correct.
MS. CANDACE EVERARD: And can you explain the rationale for that particular range for US equities?
MR. BARRY GALENZOSKI: Well, the US equities -- we actually had a higher allocation to that but, again our concerns with respect to currency loomed large and we actually capped off what we had invested in the fund and we said that's all we're going to put in

that fund for the time being.

When we do another asset liability review, we'll review that policy at that point in time.

MS. CANDACE EVERARD: Now, going back to the heading venture capital and private equity, there's an asterisk and the note that relates to that indicates that it represents committed capital.

Can you explain what that relates to?

MR. BARRY GALENZOSKI: Yes, what that means is that at any point in time, you make an arrangement with a manager of that type of fund that you're going to provide them with 'x' number of dollars. Okay.

But, at the point in time they may have only requested a portion of those funds. And we don't want to just make -- our decision on whether we have the money available to put into more of these funds is based on how much we've actually committed to that equity class, rather than what the cash that we've got in there.

So, for instance, if we said to somebody we're willing to give you a million dollars worth of capital and they've only requested a hundred and fifty thousand dollars (150,000) at this point in time; well the difference is still available, we don't want to make sure we over-commit in that class, so we count the million dollars rather than the hundred and fifty thousand dollars ($150,000).

MS. CANDACE EVERARD: So in essence, the figure reflects what might be utilized as opposed to necessarily what has been utilized?

MR. BARRY GALENZOSKI: Yes, it represents what our commitments are to funds rather than the actual investment at that point in time.

MS. CANDACE EVERARD: Mr. Galenzoski, can you explain the rationale for having equities as a component of the portfolio?

MR. BARRY GALENZOSKI: Well, there's several rationales for that. We obviously want to get some spread of risk. We used to be 100 percent bonds. And when we went into the PIPP plan and this is where I think Ms. McLaren was talking about the intuitive part of management here with respect to we knew that PIPP was going to change the dynamics of the Corporation in many respects.

And one (1) of the major changes was with respect to investments. We knew that we were going to have an ever growing fund and that fund has been showing to grow quite quickly over the last number of years and it's expected to continue to do that, depending on where the markets go, you know, in the next five (5) or six (6) years we could be talking of a fund that's anywhere from 2.5 billion to $3 billion.

So, if we were going to stick with the strategy that we had, which was primarily invested in bonds, of those primarily investment in Manitoba; there simply wasn't going to be the type of bonds available that we were going to need to fill the fund. We were going to have money that we were going to have to chase something with, okay?

So it was decided that through -- we at that point in time did our first asset liability review and we look at other asset classes and although we were somewhat cautious to begin with, I think we capped our equity investments at no more than 10 percent to get a learning curve going there for the Corporation, not only just for management and the investment committee working group, but also our Board. At that time we established our first investment committee of our Board of Directors.

So we started to think about the need to hire more expertise. So there's a lot of things that went into the decision making process.

Where we are today, is a result of several asset liability reviews that we've done and our experience that we've built up over time with respect to our knowledge of this types of investments.

Where we're heading tomorrow will also rely on, first, the education that we get inside the organization and our knowledge of the assets that we're looking at potentially investing in plus doing another asset liability study, probably within the next few months.

MS. CANDACE EVERARD: If I could turn your attention to Tab 30 of the book of documents which is the question and answer I-57 asked by the Board and, in particular, the attachment to that answer.

The first column or the first column on the left which is entitled, Target, sets out, on the lower portion of the chart, the target percentage for each of the various headings, cash and short term investments being 3 percent, equities being 20 percent, long term bonds being 76 and a half percent and venture capital or private equity being a half a percent, that's right?

MR. BARRY GALENZOSKI: Yes. That's correct.

MS. CANDACE EVERARD: And these percentages are obviously in accordance with the policy statement that we looked at a moment ago?

MR. BARRY GALENZOSKI: Yes. I believe so.

MS. CANDACE EVERARD: Mr. Chairman, I'm about to move into a line of questioning dealing with returns on investments. It might take about ten (10) or fifteen (15) minutes for that particular section. Would you like me to go ahead with that at this point or do you want to adjourn for lunch?

THE CHAIRPERSON: I think we'll wait until after lunch. Thank you very much. We'll come back at 1:30.

--- Upon recessing at 12:08 p.m.

--- Upon resuming at 1:35 p.m.

THE CHAIRPERSON: Welcome back, everyone. Ms. Everard, do you want to begin again?

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

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Before we continue on with questioning on investment income I'm just going to return to one (1) of the auto theft initiatives for a moment and that's the WATTS strategy.

There's reference to that at SM 8.12.5 which is page 29 and it's my understanding and it's reflected at that section that the WATTS initiative is one that's been operational since August of 2005; is that right?

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

MS. CANDACE EVERARD: And, Ms. McLaren, as you indicated earlier the WATTS initiative is a joint initiative between MPI, Manitoba Justice, and the Winnipeg Police?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And it's indicated here at SM 8.12.5 that MPI's monetary contribution to the initiative goes directly towards the cost of hiring fourteen (14) additional positions within Manitoba Justice?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And can you explain for the Board the nature of those positions and what their functions are?

MS. MARILYN MCLAREN: My understanding is that they are all or virtually all probation officers, the people who are actually engaged in working with the offenders who have been sentenced to time in the community with conditions. They are calling the kids, meeting with the kids, knocking on the doors of their homes, that sort of activity.

MS. CANDACE EVERARD: And what is the function of the police service or the role of the police service in the initiative?

MS. MARILYN MCLAREN: When the probation officers identify someone who has breached their conditions they notify the police and the police pick them up, bring them back before the Court and depending on circumstances sometimes the conditions are adjusted; sometimes they're incarcerated.

The other thing that happens is when through their own processes the police arrest auto thieves they also link back into this program to find out if they are one (1) of the kids being closely monitored, whether or not they were sentenced with conditions, and whether in fact the arresting process can tie back into a breach through that end as well.

MS. CANDACE EVERARD: Now, as is set out in SM-8.12.5 the program was quite successful during the first quarter of its implementation which would have been roughly the last quarter of 2005 and there's also reference to a subsequent spike in auto theft rates and there's a comment that the task force is going to be taking a look at that.

Ms. McLaren, in your evidence earlier you, I think in response to a question from one of the Panel members, made a comment about the input or the approach of the police service. Can you expand for the Board what it is that the police are doing or not doing, as it were, that gave rise to your earlier comment and concern?

MS. MARILYN MCLAREN: What I had in mind specifically at that time was the wholesale turnover of the Winnipeg Police Service auto theft unit. Within a very few weeks the entire unit was replaced; that's very contrary to what happens, as I understand it, in Regina with respect to their auto theft unit. It's a very strategic, very targeted cycling people through that unit.

It's seen within the Regina Police Service as very advantageous to one's career to be assigned to the auto theft unit. They choose very carefully when they move people in and out of that unit; that's what I meant in terms of -- that's what I had in mind when I gave that response.

MS. CANDACE EVERARD: And is that an issue that the Corporation has taken any steps to address with the police service?

MS. MARILYN MCLAREN: The issue has received a lot of attention, as I understand it, at the provincial auto theft task force which we have representation on, definitely. Yes.

MS. CANDACE EVERARD: And do you have any information about what it is expected to be happening over the duration of the MPI commitment to the program in terms of turnover?

MS. MARILYN MCLAREN: There is no commitment in that regard at this point that's been imparted to the provincial auto theft task force. There's discussions at that level but there's no corresponding response back from the WPS formally to that forum.

MS. CANDACE EVERARD: And is a response something that the Corporation is waiting for at this particular stage?

MS. MARILYN MCLAREN: We would certainly welcome one. I don't know that there's been a commitment to provide a response.

MS. CANDACE EVERARD: So, does the Corporation anticipate taking any further action on that issue?

MS. MARILYN MCLAREN: Yeah. Separate from the provincial auto theft task force, we certainly do have conversations with management of WPS and this is something that we have talked about in the past few months and will continue to pursue. Definitely.

MS. CANDACE EVERARD: Ms. McLaren, can

you indicate whether the participation on the part of Manitoba Justice in the initiative has been of concern or has it been what was expected?

MS. MARILYN MCLAREN: The leadership of Manitoba Justice, the Assistant Deputy Minister who is responsible for this program they've been highly engaged and very involved in finding ways to modify the program in response to the results.

THE CHAIRPERSON: Do the police receive any direct compensation from a party to enable them to staff this venture appropriately?

MS. MARILYN MCLAREN: Manitoba Public Insurance provides, I believe, about a half a million dollars a year to fund the Winnipeg Police Service auto theft unit.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: So, Ms. McLaren, when the Corporation is going to be making its decision about whether or not to continue with this program beyond the commitment that's already been put forward, would the Corporation be requiring anything further by -- in the way of commitment to enable it to continue?

MS. MARILYN MCLAREN: The decision will be based on results achieved to date when it comes time to make that decision, the efficacy of this program in relation to the immobilizer strategy. You know, there -- there's some possibility that it might not be that necessary anymore if the immobilizer strategy is very successful and the third thing would be something along those lines. If it was to continue what -- what can we create as -- as a contract of participation within that context?

MS. CANDACE EVERARD: And, Ms. McLaren, prior to the decision being made as to whether or not the Corporation would continue with the program, does it intend to take any steps in the interim to try to improve the situation either for more dialogue to occur or for any new parties to become involved or for more funds to be expended?

MS. MARILYN MCLAREN: I don't have any expectation at this point that we would be expending more funds. I think we are -- are very engaged as I mentioned earlier with respect to dialogue and discussions and -- and project oversight and -- and planning with respect to the next year of that program.

You know, within this auto theft context and within any discussion around MPI funding of this initiative but also MPI funding of the Winnipeg Police Service Auto Theft Unit, it's a very, very important objective that they hold very, very high on the list of priorities at the WPS, that they must control their resources. Anything that we've done with them in terms of assisting and funding is for a particular project with intended outcomes.

But they always, always must -- and that happens in every jurisdiction, not just here -- police services need to have control over the assignment of their own resources.

So we can certainly consult and dialogue and -- and collaborate but there's certainly no expectation that we would ever have control over exactly what happens at the WPS.

THE CHAIRPERSON: Leaving aside the matter of the staff rotations and things like that are the police upholding their end? Are they going to check up on these young offenders and taking them back to the courts and checking to find out if they're obeying their curfews and things of that nature? Are all those things happening?

MS. MARILYN MCLAREN: I think as we pointed out in -- in some of the material that the turnover in resources really hurt the program there for a while. They -- they were not connected into that process nearly as well as they needed to be.

But for the most part, over the -- the full duration of the program and again more recently the answer is yes, definitely. And there's been some really very positive anecdotal results in terms of, you know, three (3) hours between someone breaching and them being picked up and re-incarcerated. They -- they are doing that and as the new unit starts to become more effective together it -- you know, September was a very good month on auto theft. It was significantly reduced over September of last year. So I think it is starting to come together.

THE CHAIRPERSON: So the evidence is when Justice and the police cooperate and fulfill their responsibilities under the arrangement, there are contributions from this particular segment of the program to the overall effort?

MS. MARILYN MCLAREN: Yes, absolutely and one (1) of the things that is unmistakable since this WATTS program has started is that the communication, the collaboration, the teamwork between those organizations is greatly enhanced over what it's ever been before.

THE CHAIRPERSON: Thank you.

MR. LEN EVANS: Could -- could I just ask a detail question? Maybe I should know the answer from the material, but what is the payment to Justice for the fourteen (14) positions?

MS. MARILYN MCLAREN: It's about nine hundred thousand dollars ($900,000) a year.

MR. LEN EVANS: And that's in addition to the half a million to WATTS?

MS. MARILYN MCLAREN: It's a half a million to the Winnipeg Police Service for their auto theft unit and nine hundred thousand (900,000) to Justice for the probation officers.

MR. LEN EVANS: And that's an ongoing commitment to Justice is it or indefinite?

MS. CANDACE EVERARD: We are now in the second year of a two (2) year commitment to Justice and the commitment on the police service is really a year-to-year commitment.

MR. LEN EVANS: Okay. Thanks.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Ms. McLaren, just to confirm then the expenditure for WATTS is -- is about the nine hundred thousand (900,000) or the eight hundred and ninety-six thousand (896,000) to Justice and in addition another approximately half million per year or is it included?

MS. MARILYN MCLAREN: It's not. The --

the half million a year has been in place since the mid-90's, early 90's, as we started to watch theft accelerate Manitoba Public Insurance partnered with the Winnipeg Police Service; that's been there for a long, long time.

It's not directly associated with the WATTS program at all.

MS. CANDACE EVERARD: Okay. Thank you. Turning back to Mr. Galenzoski for the moment, I just wanted to confirm a couple of things Mr. Galenzoski on Exhibit 10, the document that we spoke of earlier that's now been entered into evidence.

Specifically, looking at the bottom right-hand corner of the chart, I gather that that last column relates to the 27th day of September and the numbers for example, the one thousand four hundred and fifty-six (1,456) that's the total number of individuals on the waiting list for an immobilizer as of the 27th of September? That was the number that you gave us earlier?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: And just below that, the number for the total installs processed cumulative would be the thirty thousand four hundred and ninety-six (30,496) and that was also a number that you gave us earlier?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: And under the very last line on the chart, Mr. Galenzoski, referencing the percentage of total installs which are most-at-risk or which are the most-at-risk vehicles, would be 68.25 percent, if I'm reading that correctly?

MR. BARRY GALENZOSKI: Right.

MS. CANDACE EVERARD: Okay. Thank you. That's what I had for that document and I think, Mr. Galenzoski, you had an answer from this morning that you just wanted to correct for the Board?

MR. BARRY GALENZOSKI: That's correct, under you Tab 30, when we look at the attachment PUB/MPI 1-57A we were talking about up in the dollar amounts the venture capital and it was the $7.3 million number then dropping down to $1.14 million.

I just wanted to point out that that line is really the venture capital in private equity. And the numbers going forward are going to change significantly because of a couple of things.

First of all, we're expecting some maturities of some of the venture capital and the private equity, we've got total commitments today on private equity of about $15 million. So there's -- these numbers will move going forward. So of that -- most of that information wasn't known at the time this document was done up, but will be reflected in future documents when we re-file.

MS. CANDACE EVERARD: Turning then to return on investments, if I could direct your attention to Tab 34 of the book of documents which is the question and answer asked at I-70 by the Board.

The attachment or the chart at that answer sets out a number of benchmarks and compares results with those benchmarks if I'm reading that correctly?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: Mr. Galenzoski, if you could explain how the Corporation determined that these particular benchmarks were the appropriate ones?

MR. BARRY GALENZOSKI: Well the benchmarks are basically -- you look at the asset class and we've got benchmarks that are spelled out in our investment policy statement, and so they're matched to that.

MS. CANDACE EVERARD: Now, on this particular chart, under the year ending February of 2006, so the first column, at the entry relating to large capitalization equities, it would appear that the actual return was 4.9 percent and the benchmark was 9.9 percent.

Is that right?

MR. BARRY GALENZOSKI: Yes that's correct, that's under the US equity section.

MS. CANDACE EVERARD: Yes. And similarly under the US equity section, under the heading small to mid-capitalization equities, the actual return was 3.2 percent, although the benchmark was 17.4 percent.

And with respect to those -- two (2) sets of figures could you explain why the benchmarks were not met?

MR. BARRY GALENZOSKI: Well, that's a sixty-four thousand dollar ($64,000) question. If we could explain all that away, in fund managers, we have two (2) fund managers on the US side, didn't have a very good year.

And that's pretty obvious by the fact that their benchmark was considerably higher than their actual returns that they achieved.

It's also another reason why we had not as much gains to be taken on that side of the portfolio as we did on the Canadian side. So, you know, we're obviously working with the managers, looking for explanations from them, looking for their plan of attack as to how they're going to improve, but largely it was -- it was poor sector and stock selection that would have caused them the problems. Simply put as that.

MS. CANDACE EVERARD: I noticed in the previous year for the US equities large capitalization equities the actual return was 14.9 percent which was quite in excess of the benchmark of 8.5 percent?

MR. BARRY GALENZOSKI: That's correct. And when the managers were both selected they were both superior performers based on past history and that was one of the reasons they were selected.

MS. CANDACE EVERARD: Now, again, staying with this particular chart and the results for 2006, under Canadian equities and the large capitalization equities it would appear that the rate of return was 24.9 percent over a 24.6 percent benchmark.

And in 2005, one column over, the actual return was 15.8 percent over a benchmark of 13.5 percent. So would it be fair to say that the return on the Canadian investments has been better than that on the US investments?

MR. BARRY GALENZOSKI: The Canadian market has performed substantially better and our particular managers that we have performed substantially better than the US managers that we have.

MS. CANDACE EVERARD: So, would you say then that there was an issue with the managers specifically or was it just a situation of a poor market?

MR. BARRY GALENZOSKI: Are you referring to the US side?

MS. CANDACE EVERARD: Yes.

MR. BARRY GALENZOSKI: As I pointed out, it's an issue with the managers selecting the wrong sectors and the wrong stocks; that's primarily it. So, they had good history going into this when we hired them and they've hit a rough spot. And a lot -- sometimes that can be just the style of the managers and so, you know, we do analyse them. We try to give them a little longer period than just an annual period. We generally look at a four (4) year review period.

We're not going to wait for four (4) years to go by before we do more work with these particular managers. But, you know, normally that's what you would look at, a measurement period over a longer period of time.

But because the performance has been particularly poor we are looking at that now.

MS. CANDACE EVERARD: And that was going to be my next question is, what, if any, steps would the Corporation be taking or does it take when benchmarks are not achieved?

MR. BARRY GALENZOSKI: Well, we -- we sit down with the managers and have a chat with them. We would -- there's a couple of venues for that. We would bring them into the investment committee working group meetings and have them explain their performance, both good and bad.

They would also generally on -- they would meet with the investment committee of the board also and their performance would be -- would be reviewed as well as their plan of action, any changes that were going on in the organization like staff changes, things along that line.

In this specific case we are planning some visits to meet with them in their locale and we've already had some chats with them about their past performance and we're looking for a plan of action as to what they're planning on -- what they can do to improve that and we may have to make some decisions regarding the individual managers. But that's for the future.

MS. CANDACE EVERARD: Mr. Galenzoski, still looking at this attachment at question 70 in the first round, it would appear that it's only been in the last couple of years that the Corporation has implemented benchmarking for US investments?

MR. BARRY GALENZOSKI: Well, it's only the last few years that we've had US investments, that's one of the reasons for that. So we're showing you our experience, even if there wouldn't have been a benchmark -- well, we've always had a benchmark, you know. Sorry, whenever we hire a manager there's always a benchmark that we've identified that we're going to measure him against. So this would just indicate that we've just got recent experience with US managers.

MS. CANDACE EVERARD: With respect to the Canadian equities, what is the Corporation's comment on the performance of its outside investment managers? And is the Corporation generally satisfied with their returns?

MR. BARRY GALENZOSKI: Oh, generally, we're very satisfied with the returns. You'll notice back in the years when -- when things weren't going so well our managers outperformed the index, even though you look back in '02 -- February 28th, '02, their benchmark 2. -- minus 2.4 percent. They achieved positive 1.6 percent. So that was very good performance in that particular down market.

In the following year the benchmark dropped by 11 percent and they achieved minus 6.4 so they -- they -- in a down market they outperformed the market quite substantially by almost five (5) basis points. So that's actually very good -- or five hundred (500) basis points I should say.

So, you know, we look at it over the longer term and measure them over a four (4) year running -- a four (4) year moving average and monitor that and if there is a specific problem with any specific investment fund manager we have closer discussions with that particular set of managers.

MS. CANDACE EVERARD: Mr. Galenzoski, if I could ask you to look at Tab 5 of the book of documents which is TI-15 and in particular page 5 under the heading, Investment Income, under the column of, Assumptions, the second bullet point reads:

"The long-term investments are expected to yield an average of 5.2 percent on the current portfolio and new purchases. Re-investments are expected to yield 4.6 percent."

That's correct?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: If I can get you to turn back to -- or rather turn to Tab 32 of the book of documents which is question I-59 that the Board asked in the first round at -- that particular response in the second paragraph, second sentence:

"The Corporation has indicated that it had a four (4) year annualized return of 8.6 percent."

Can you for the record reconcile that particular statement with the assumption for the upcoming year of 5.2 percent?

MR. BARRY GALENZOSKI: Well, the 5.2 percent was with respect to long-term investments and the -- the numbers you're seeing under the Tab Number 32 is with respect to the entire portfolio and so there you're getting the effects of what's happened with the equities and we had some pretty good gains on that side and that -- that moved the numbers up.

MS. CANDACE EVERARD: Now, staying at Tab 32 and question 59, in particular the attachment or the graph, can you interpret the graft -- interpret the graph, pardon me, for the Board and just explain where MPI sits relative to the indices?

MR. BARRY GALENZOSKI: The graph is -- is fairly simple. It basically shows where MPI sat in relationship to this overall universe of invested funds that this particular outfit is monitoring and it indicates that we were in the area of high return and low volatility. I would like to stay there obviously but, you know, hopefully over time that'll be the -- the case.

So we've been showing that way over a longer period of time. This is also, I should point out a four, (4) year annualized return so it's showing not just the one (1) year returns that are in here; they're annualized.

THE CHAIRPERSON: If you don't mind, I just want to clarify something so I fully understand what's being said.

When you're measuring your returns, correct me if I'm wrong, the returns on your tradeable portfolio, not the MUSH bonds, is based on market. So in other words it would capture -- include unrealized gains on securities on the bonds; is that correct?

MR. BARRY GALENZOSKI: Yes, that's correct.

THE CHAIRPERSON: Okay. On the MUSH bonds where you hold them to maturity, it's straight book value and book return, is that correct?

MR. BARRY GALENZOSKI: Yes, that's correct.

THE CHAIRPERSON: Okay. So during a period of time in which interest rates are falling you would generate unrealized gains on the bond portfolio?

MR. BARRY GALENZOSKI: There would be unrealized gains on the bond portfolio, yes.

THE CHAIRPERSON: Which would tend to show a higher yield during that period of time?

MR. BARRY GALENZOSKI: Yes, that would be on the marketable part of the portfolio, not on the MUSH sector of course.

THE CHAIRPERSON: So just to understand, so if the interest rates flattened out and stayed flat and didn't change, the yield in the long haul would be the new portfolio rates that you're talking about in this other T-115?

MR. BARRY GALENZOSKI: Well, it wouldn't be all the new portfolio because you're not going to switch your entire portfolio over at any one time.

THE CHAIRPERSON: No, but --

MR. BARRY GALENZOSKI: So you've got -- you've got returns that could be higher or lower from prior periods.

THE CHAIRPERSON: No, I'm just saying if interest rates never changed, just stayed absolutely flat on the market, your return in the future would be the market rate of interest on the marketable bonds and the coupon rate on the MUSH bonds. A blend of the two (2).

So there would be no more unrealized gains contributing to the yield --

MR. BARRY GALENZOSKI: Yeah --

THE CHAIRPERSON: -- that's correct, is it not?

MR. BARRY GALENZOSKI: On the bond portfolio, yes.

THE CHAIRPERSON: So, just to follow it through to completion, if interest rates changed and started to all, okay, then the situation you would then have, the MUSH situation wouldn't change at all because you're still on book value and coupon rate.

But, on your marketable bonds, instead of unrealized gains you'd have unrealized losses that would depress the yield below the market rate, is that not correct?

MR. BARRY GALENZOSKI: Depending on how far that occurred. You're saying that if interest rates were dropping?

THE CHAIRPERSON: Rising?

MR. BARRY GALENZOSKI: In a rising environment, yes. And it would depend how far they rose as to the impact that it would have on the portfolio. And that's part of the risks that we face that isn't reflected when you look at an investment time horizon of two and a half (2 1/2) years that we were talking about in our -- in that formula that is being used currently to set the RSR.

THE CHAIRPERSON: I understand. The graph that you have, this MPI 159 which plots you versus the other funds; the yield that you're showing there, is it a composite of the MUSH bonds at coupon rates and market rates on the rest, or is it the whole thing based on market rates?

MR. BARRY GALENZOSKI: It's -- they have no choice but to use the MUSH at book and the rest would be at market.

THE CHAIRPERSON: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Mr. Galenzoski, just to confirm, on this particular graph, MPI's situation is reflected by the three (3) big black dots?

MR. BARRY GALENZOSKI: Yes, that's correct. The dots represent -- and under normal circumstances you can see these little numbers under there also, but they're all relatively close. It represents the portfolio as a whole and then there's MPI with no hedge and MPI with the hedge.

So -- the third one is the MUSH at implied market value, okay. There is some methodologies that we employ to look at which embedded gain is in the MUSH portfolio and that's shown on this graph also.

MS. CANDACE EVERARD: So essentially this graph sets out MPI's representation of benchmarking compared to the industry?

MR. BARRY GALENZOSKI: It's a benchmark, one of the many benchmarks you could employ. If this is at a very high level rather than at a -- by type of investment or by investment manager, which is a little bit more precise and you know, gives you a little bit more direct knowledge on what's going on.

MS. CANDACE EVERARD: Okay. And if I'm reading the graph correctly, in the upper left-hand corner would represent high returns with low volatility.

The lower left-hand corner would represent low returns with low volatility. And the top right-hand corner would reflect high returns with high volatility?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: Okay. Moving then to the Corporation's projections with respect to investment income. If I could turn your attention to Tab 29 of the book of documents which is the question and answer by the Board in the first round of number 56.

And we had touched on this document briefly with respect to the variability and investment income. I note under the heading of investment income there are two entries on the listing; one is equity dividends and the other is equity gain or loss.

Could you please explain the process of

forecasting equity returns and the separation between dividends and the gain or loss line?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Okay. I just needed a little clarification. The equity dividends are just the -- the dividends that are being paid by the individual equities that are being held by the various managers and the estimate going forward.

The equity gains and losses, we -- we don't try to predict that we're going to get gains on the portfolio over and above the return of Canada ten (10) year bonds. So that's what that is showing here. That's just assuming a modest rate of return on the amount of money that's invested based on Canada Tens.

MS. CANDACE EVERARD: Staying with this chart relating to investment income at question 56 on the equity gain line, it would appear that the Corporation had an actual gain for the '05/'06 year of 70 million and is forecasting 40 million for '06/'07 and 15 million for '07/'08.

Can you just explain, for the record, the rationale for that decrease?

MR. BARRY GALENZOSKI: Sure. In the --

the actual for '05/'06 represents the actual gains we took on the portfolio. We nearly doubled our investment expectations with respect to the investment income for that particular year because of good returns on the equity market and some of the gains coming out of the bond market.

What we see in the forecast for the current year is that our expectations are less. In other words, we believe we've pretty much taken all the gains for this year that was taken within the first part of the year and we don't see any -- any potential for taking additional gains for the balance of the year. So we've reduced our expectation on that side.

And then going forward that's basically predicting a rate of return -- a very static rate of return based on what we could get from Canada ten (10) year type bonds rather than coming up with some estimate that we are going to get some kind of unusual gains coming out of the portfolio because the market is improving.

MS. CANDACE EVERARD: Okay. So the -- the projected increase for the outlook period from 18 to 21 to 23 million is simply based on bond rates?

MR. BARRY GALENZOSKI: And the size of the portfolio that you're expecting to have at that point in time.

MS. CANDACE EVERARD: Okay. Moving then to some questioning on the equity risk premium to which some reference has been made, can you state for the Board the Corporation's understanding of what an equity risk premium is?

MR. BARRY GALENZOSKI: That would be the amount that you may expect to get as a reward for investing in equities over and above just putting your money into something that might be more predictable and stable, like bonds.

MS. CANDACE EVERARD: So would it be fair to say that the premium recognizes the greater risk associated with equities over bonds?

MR. BARRY GALENZOSKI: Well, the premium, in theory, suggests that if you're going to invest in equities you should be rewarded for that because it is more risky. I guess the other side of that coin is, is that there's risk associated with investing in the equity market and, therefore, when we budget going forward we do not include an equity risk premium in our forecast.

MS. CANDACE EVERARD: And so the numbers included in the chart that we were looking at a moment ago, in terms of the outlook period, do not include an equity risk premium; is that right?

MR. BARRY GALENZOSKI: That is correct.
MS. CANDACE EVERARD: Okay. If you could turn to Tab 40 at the book of documents, which is the question and answer to number 13 in the second round, posed by the Board.
The answer to question (a), which was, what is the generally established equity risk premium for each of the Corporation's equity classes, i.e. Canadian market, US market? The answer was:
"For organizations that use -- that use risk premium estimates the range is generally 1.5 to 2 percent.
What is the Corporation's source for that range of 1.5 to 2 percent?
MR. BARRY GALENZOSKI: It's just general rule of thumb information we get out of literature. It's -- there's nothing scientific about that.
MS. CANDACE EVERARD: Has the Corporation referred to the Ibbitson Rules on this issue?
MR. BARRY GALENZOSKI: We seem not to know what the Ibbitson Rules are so we'll have to be informed about that. We have the Galenzoski rules, but that's -- you're not asking about those.
MS. CANDACE EVERARD: My understanding is that Ibbitson is a book that provides equity returns

between -- and long-term bond returns and provides guidance on what the equity risk premium would be in both the Canadian and US markets.

MR. BARRY GALENZOSKI: Could you repeat that? No, we're not familiar with that and I -- that's all I can say about that.

MS. CANDACE EVERARD: If I can direct your attention to TI-17A which is part of Tab 7 of the book of documents and specifically TI-17A is the second page in at Tab 7 I note that with respect to the line dealing with investment income there is 83.9 million projected in investment income for the year of the application, the '07/'08 year, is that correct?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: And if you can keep your finger on that page and turn to -- back to Tab 40 for a moment which is PUB/MPI-2-13 and in particular the TI-17A that appears at that tab which is the third page in.

This, as the question reflects, was a recasting of TI-17A utilizing a 1.5 percent equity risk premium.

MR. BARRY GALENZOSKI: Yes, I believe that's correct, yes.

MS. CANDACE EVERARD: And according to the recasting, looking at the line for investment income using a 1.5 percent equity risk premium the projected income for the year of the application '07/'08 would be 90.6 million, so it would be about 6.7 million more than what is projected pursuant to the original TI-17A?

MR. BARRY GALENZOSKI: Yes, that's assuming the 1.5 percent equity risk premium, yes.

MS. CANDACE EVERARD: And so instead of a net loss from operations on the original TI-17A of 6.4 million this is before taking into account the transfer from the IIF, we would have almost a break even point or a -- a small net income of two hundred and sixty-three thousand (263,000)?

MR. BARRY GALENZOSKI: That's what it shows, yes.

MS. CANDACE EVERARD: Staying at Tab 40 and turning the page to the recast TI-17A which reflects a 3 percent equity risk premium, looking at the investment income line there appears to be, utilizing a 3 percent equity risk premium, projected investment for the year of the application of 97.7 million, is that right?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: And if my math is right that would be 7.1 million more than the projection using the 1.5 percent equity risk premium.

MR. BARRY GALENZOSKI: That's pretty close, yes.

MS. CANDACE EVERARD: And continuing to look at the recast TI-17A which reflects the 3 percent equity risk premium there would be a net income to the Corporation of about 7.2 million?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: So just to sum up, in the original TI-17A the income or investment income that's project is 83.9 million. When it's recast at a 1.5 percent equity risk premium it jumps to 90.6 million and with a 3 percent equity risk premium it jumps to 97.7 million?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: Would it be fair to say that if an equity risk premium of, say, 5 percent were used, which I am told is what Ibbitson provides, that the increase would be probably between 20 and $25 million more than no equity risk premium?

MR. BARRY GALENZOSKI: That's probably correct, yes.

MS. CANDACE EVERARD: Can you explain, Mr. Galenzoski, what the rationale is for the Corporation not using an equity risk premium?

MR. BARRY GALENZOSKI: Yeah, we've taken the approach that there is no guarantee associated with that particular market earning the kind of equity risk premium -- any kind of equity risk premium and in fact our history has shown that that has indeed been the case for some of the years and in other years we've earned considerably more than what you would have added in under any of these formulas that you've just mentioned.

So the approach we've taken is a very consistent approach where we do not forecast based on an equity risk premium.

MS. CANDACE EVERARD: Mr. Galenzoski, can you confirm that if MPI were to increase the amount of equities in its portfolio or increase the equity component, what would the implications be from a standpoint of volatility of returns?

MR. BARRY GALENZOSKI: Well, it's hard to predict what that would be. I guess the only thing I could point out is that what we've seen in the past would be magnified by whatever increase in the asset allocation that we made to -- to equities. So in the years where things have been very good we potentially could make more money. In the years where things haven't been so good we have a potential of earning a lot less money.

So we increased the volatility with

respect to the overall portfolio as you increase the percent of equities that you have in the portfolio.

MS. CANDACE EVERARD: Thank you. I'm going to move then to a line of questioning dealing with unrealized gains in the Corporation's portfolio.

And to that end if you could look at Tab 31 of the book of documents which is PUB/MPI-1-58...

(BRIEF PAUSE)

MS. CANDACE EVERARD: Looking at the attachment Sub B of 1-58 it would appear looking at the box relating to 2006 that as of the end of February 2006 there were about 81.5 million in unrealized gains; is that right?

MR. BARRY GALENZOSKI: Yes, that's correct.

MS. CANDACE EVERARD: And we've seen, and it's not in the book of documents, but in response to an Information Request posed to the Corporation by CAC/MSOS, namely Number 35 in the first round, the Corporation has indicated that as of June 30th, of '06 it holds unrealized gains of approximately 8.3 million?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: Now, I understand

that at this time last year, so October of '05, 2005, the Corporation held unrealized gains of over 100 million; is that consistent with your recollection?

MR. BARRY GALENZOSKI: Yes, I believe that's correct.

MS. CANDACE EVERARD: What's the current balance, Mr. Galenzoski, of the unrealized gains in the Corporation?

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just a ballpark?

MR. BARRY GALENZOSKI: I believe it's in around the $55 million range right now.

MS. CANDACE EVERARD: So if there was 8.3 million as of the end of June and let's say as of the end of September there was roughly 55 million it's been an increase of approximately 47 million over three (3) months, is that about right?

MR. BARRY GALENZOSKI: That's correct.

MS. CANDACE EVERARD: Mr. Galenzoski, looking back at 1-58(b), the attachment and the chart which reflects unrealized gains going back a number of years, it would appear that typically from 1998 through to about 2003 the unrealized gains as at year end seem to fluctuate between twenty (20) and 30 million and obviously in the last couple of years that number has increased quite substantially.

Can you explain the rationale behind the recent increases?

MR. BARRY GALENZOSKI: Well, a number of -- parts of the reason are as follows; overall size of the portfolio has gotten a lot bigger in those intervening years. The allocation to equities has also grown. You'll notice the allocation to equities, when we looked at equity investments in, for instance, 2001 we had about carrying value $85 million. When you look at carrying value in '06 we're looking at $397 million.

And so there is a -- is a bigger difference in the size of those respective portfolios. And then it's a point in time, you know, as to what's happening with interest rates, what's happening with the market itself.

So we've seen fluctuations and this is a pretty volatile part of our balance sheet. It doesn't get on the balance sheet currently but in the future, starting March 1 of '07, we're going to be recording these numbers on the balance sheet and we're going to see a lot of variability on those numbers.

MS. CANDACE EVERARD: Can you confirm for the Board how the unrealized gains impact rate setting?

MR. BARRY GALENZOSKI: Unrealized gains should not impact rate setting. The unrealized gains section of the portfolio is something that's off balance sheet at the current moment.

When -- when, as I alluded to just a few minutes ago, the accounting rules change and we're going to be recognizing this under other comprehensive income and so you will get a -- you'll get an increase to the balance sheet which reflects itself in retained earnings for the various lines of business at the end of that next fiscal year; that shouldn't be taken into account with respect to rate setting because it's not earned income. It's not dollars in the bank.

It couldn't be relied on, for instance, if we decided to include that in the level of rate stabilization reserve or retained earnings for the basic line of business and the Board ordered a rebate based on the amount of money that was in there. We wouldn't have the cash to rebate because that wouldn't have been -- it wouldn't have been realized at that point in time.

So there's -- you know, there's very specific reasons why it shouldn't be and I think our actuary is anxious to jump into the fray and tell you why it's not a good thing from an actuarial sense.

MR. DON PALMER: The hand was poised. Remember, too, that rate setting is the expected value of the future loss transfer. So, we're offsetting the costs with expected investment income which wouldn't include past realized or unrealized gains. Again, it's a projection of the future.

MS. CANDACE EVERARD: Now, I understand that the amount of unrealized gains do affect the MCT calculation, is that right?

MR. BARRY GALENZOSKI: Yes. They play a part on that. There is some credit given to unrealized gains in that particular calculation that reduces the amount of money you need for the MCT calculation.

MS. CANDACE EVERARD: So, just to confirm, all other things being equal, would a large change in the amount of unrealized gains affect the MCT ratio? For example, if unrealized gains were, say, $8 million in June and moved to $108 million two (2) months later?

MR. BARRY GALENZOSKI: It would affect the calculation that you did at those points in time. Yes.

(BRIEF PAUSE)

THE CHAIRPERSON: Ms. Everard, should we take our mid-afternoon break now?

MS. CANDACE EVERARD: We could.

--- Upon recessing at 2:30 p.m.

--- Upon resuming at 2:47 p.m.

THE CHAIRPERSON: Okay. Ms. Everard...?

MS. CANDACE EVERARD: Thank you.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. There's one (1) more section on investment income which is going to relate to the change in accounting policy. If I could refer the Panel to Tab 33 of the book of documents which is PUB/MPI-1-61 from the first round, that's the reference for this line.

Just as an overview can someone confirm for the record for what reason this change in accounting is coming about?

MR. BARRY GALENZOSKI: Well, I think this is just for better disclosure on the financial statements. The CIC handbook has come up with some recommendations that have been accepted and with respect to MPI they apply for the beginning of our next fiscal period which is starting March 1, 2007.

MS. CANDACE EVERARD: And can you confirm how these changes to the accounting regulations will affect the Corporation's income statement?

MR. BARRY GALENZOSKI: There won't be any impact to the income statement.

MS. CANDACE EVERARD: Okay. And just to confirm, the income statement that I was referring to was the Annual Report.

MR. BARRY GALENZOSKI: Well, the Annual Report contains an income statement but it also contains balance sheet and a number of other statements in there. It will affect the balance sheet and what will end up happening there is that under a heading of, Other Comprehensive Income, we'll be required to show the unrealized gains at a point in time when we -- when we do reporting for either quarterly or annual financial purposes.

This -- this contrasts now in the Annual Report that we issued today whereas a note to the Annual Report we show the book value and market value by asset class of our investments. So this is -- what is happening is that we're -- we're moving from recording this as a note to the financial statements to actually physically recording the value of the unrealized gain on the balance sheet. It'll appear in the Retained Earnings section as other comprehensive income.

What'll happen in the future as you realize gains you'll -- you'll -- then that'll follow through the income statement as it does today and if nothing else happens you'll reduce the balance in the unrealized gains, but as we know it's going to bounce all over the place as you've seen from the numbers that we were looking at just before the break.

MS. CANDACE EVERARD: But it will be booked at the balance sheet dates; is that right?

MR. BARRY GALENZOSKI: It'll be booked at whatever dates we're reporting at which is typically month end or quarter end or at year end.

MS. CANDACE EVERARD: At the IR at Tab 33 number 61 at Sub C the answer on page 2 the Corporation has indicated that TI-17 and AI-14 will not change as a result of this accounting change. Can you indicate to what extent rate setting will be affected by the policy change?

MR. BARRY GALENZOSKI: Well, I guess that'll be up to the Board to decide that but our recommendation would be that there is no impact on rate setting whatsoever.

MS. CANDACE EVERARD: And can you just, again for the record, summarize the reasons for that view?

MR. BARRY GALENZOSKI: Well, the reasons are as we stated both -- and I'll -- I'll let Mr. Palmer also talk about it from the actuarial perspective, but this is still unrealized income and subject to a lot of volatility and change over time and that if it was taken into account with respect to setting rates it would be setting it on an unrealistic expectation.

And I'll let Mr. Palmer finish that off.

MR. DON PALMER: Again we're talking about an expectation from a rate setting perspective. If we ever got to a point where we would have a -- either a surcharge for a deficient RSR or a rebate again, of course, but that's apart and separate from rate setting.

So, but the actual required rate to assume the risks, there would not be a change.

MS. CANDACE EVERARD: Can you confirm whether, in your view, this change will have any impact on the forecasting of investment income for future applications?

MR. BARRY GALENZOSKI: No. It won't.

MS. CANDACE EVERARD: And will the change have any impact on how the investment portfolio is managed?

MR. BARRY GALENZOSKI: No, it will not.
MS. CANDACE EVERARD: But if -- if I'm understanding your evidence, the information will still be part of the application for filing purposes?
MR. BARRY GALENZOSKI: Yes. We'll be providing you with our annual report which will show you the numbers that are in there. And so it'll be part of the overall application.
MS. CANDACE EVERARD: So will the figures be reflected in the rate setting schedules?
MR. BARRY GALENZOSKI: No, they will not. This is a balance sheet situation. It's nothing to do with income statement. Nothing to do with rate setting. Very clearly, distinctly separate.
So it's just going to be a balance sheet issue that you're going to be looking at here.
MS. CANDACE EVERARD: If I can turn your attention to PUB/MPI-2-11 which is not in the book of documents.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Oh, it is? Since I made the book of documents I guess I should know that. It's not in mine. 2-11?

MS. MARILYN MCLAREN: It's at the back of Tab 33.

MS. CANDACE EVERARD: Oh, that's were I'm -- I'm at Tab 33. Okay. Thank you.

I like to be stand -- stand -- have someone stand me corrected, if that makes sense.

MR. BARRY GALENZOSKI: You just didn't know how efficient you really were.

MS. CANDACE EVERARD: Yeah, or my assistant is; one (1) of the two (2).

All right. So with respect to 2-11, and in particular Sub B, if I could just have someone read in the response?

MR. BARRY GALENZOSKI: "The Corporation
will be required to classify portfolio assets into the following categories under the new accounting standards.
Held for trading. Assets including derivatives acquired for active selling and buying to generate profits in the near term.
Or held to maturity. Assets with fixed maturities that the entity has both intent and ability to hold to maturity.
Available for sale. The default

classification of assets that are not
held to maturity or held for trading."

MS. CANDACE EVERARD: So can you explain how the Corporation will be reallocating or reclassifying the portfolio accordingly?

MR. BARRY GALENZOSKI: Not precisely. We're still working on that. But it's likely to be a combination of several of these categories.

For instance, the Held To Maturity would likely fit the MUSH type sector because there is no market value to that.

Available For Sale, is likely to be the rest of the portfolio but we still have some work to do on that.

MS. CANDACE EVERARD: Now, it's my understanding that the change will have the impact of reducing retained earnings by about 10 million.

Is that your understanding?

MR. BARRY GALENZOSKI: No. Not mine. This change will, in effect, have -- increase retained earnings by the amount of the -- the unrealized gains in the overall portfolio; that will be shown in this account I've talked about, Other Comprehensive Income, which is -- is part, of retained earnings that the Corporation will be reporting on its financial statements.

So, for instance, I'll just continue on while you guys talk, that if we had $93 million unrealized gains that would be the increase in the -- in the retained earnings section.

MS. CANDACE EVERARD: Fair enough. Thank you. Can you confirm that the new policy change is within GAAP?

MR. BARRY GALENZOSKI: That's what's generating the change.

MS. CANDACE EVERARD: You had mentioned CICA before -- earlier?

MR. BARRY GALENZOSKI: Well, CICA has a handbook and that reflects GAAP, and so they're pretty much interchangeable.

MS. CANDACE EVERARD: With respect to the -- the answer at 2-11 asked by the Board, and specifically part (c) of that answer, can you confirm that the Corporation anticipates that it will have assets in each of the three (3) categories and can you give any indication of how much might be in each category?

MR. BARRY GALENZOSKI: Not at this time. It says we may -- it may result in assets in all categories. I indicated where I thought at least one (1) of the major categories, the MUSH sector may end up.

But, we still reserve the right to have a study on this and know where we're going before we're going to make any final pronouncements.

MS. CANDACE EVERARD: And do you have a sense of when that study might be completed?

MR. BARRY GALENZOSKI: Before I have to start issuing financial statements in the new fiscal year.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: I guess I could add one (1) little -- other little tidbit of information is that the Department of Finance has to approve our annual -- format of our annual report. So we are currently in discussions with both the Department of Finance and our external auditors with respect to how this is going to appear.

So there is a -- you know, at some point in the not too distant future, we'll have a better idea as to where we're going with this and be making recommendations to out audit committee of the Board and then that will just flow through in our reporting.

MS. CANDACE EVERARD: Okay. Can you indicate whether one of the outcomes of using comprehensive net income for rate setting would be increased volatility?

MR. BARRY GALENZOSKI: It shouldn't change volatility. We're not going to use it for rate setting, so no change.

MS. CANDACE EVERARD: And is it possible, in your view, that another outcome or a possible outcome could be that net income in a given year is not influenced by managing the timing of sales of securities?

MR. BARRY GALENZOSKI: I don't know if I understand that, but we're going to manage the sale -- the taking of gains in a very similar manner to the way we've been doing it for the last number years.

MS. CANDACE EVERARD: Okay. Thank you. I don't have any further questions at this stage.

(BRIEF PAUSE)

THE CHAIRPERSON: Just to return to investments, just for a brief moment. Turning to the reference again to your yield results, the MUSH securities which a lot of them were bought at time where rates were like considerably higher than today and held at cost in your balance sheet to maturity.

They're assisting the overall yield right now; that's true, is it not?

MR. BARRY GALENZOSKI: Well MUSH would assist the overall yield no matter when we bought the investment because we're generally getting a lift on those types of bonds, compared to say, buying straight Province of Manitoba.

So, no matter when you compare it, it should provide you with some form of lift compared to just buying something else.

THE CHAIRPERSON: Now, I assume you're referring to normally a spread over the -- if you want to call it, riskless investment, which would be a Government of Canada say --

MR. BARRY GALENZOSKI: That's correct.

THE CHAIRPERSON: Okay. But, when you look at your annual statement where you list the various categories and you talk about the range of the yield and knowing the MUSH are held at cost, you'll see when you look at that that a lot of the MUSH categories like school, municipals and hospitals, I guess, you got yields in there that go into the double digits which are radically different than today's interest rate market, where the spreads have narrowed between Canada's and corporates and things like that.

So I'm just trying to suggest to you that a good portion of your current relatively high yield situation compared to others, may be driven by this MUSH component with much higher yields than current market conditions.

I'm just looking to confirm that.

MR. BARRY GALENZOSKI: Well, I'll partially confirm that. I don't want to over emphasize that part of it, because it only represents about $300 million out of the overall portfolio. So it's a percent of the portfolio that continues to grow as we add more money into that sector.

It does provide that -- another reason that it stays somewhat a little bit higher is that there is no opportunity to sell those investments to take the gains that are embedded in them, because they're liquid.

And we've never been able to -- we've never actually sold a MUSH type investment to take a gain on it, for instance. And so that would mean that you're holding it, obviously as you indicated to maturity and if you did get higher yields in those earlier years, that's where you're going to end up.

And I guess you're looking at the note on page 50 of our Annual Report that --

THE CHAIRPERSON: Yes.

MR. BARRY GALENZOSKI: -- shows the yields and it does show it being a little bit higher obviously than the Federals and provincials that we're currently getting, yes.

THE CHAIRPERSON: And the new one's coming in as you point out. The report also talks about $80 million of MUSH securities bought in the last fiscal year. Presumably they would be at much lower yields, so it's just a matter of time if you like.

MR. BARRY GALENZOSKI: Absolutely. There's only a certain equity or premium that we're getting on those and it isn't that great that it's going to change the equation that much over time.

THE CHAIRPERSON: And again with MUSH they're not traded because that was never the intention. It was one (1) of the objectives of the Corporation, was it not, to invest in Manitoba?

MR. BARRY GALENZOSKI: Well, one (1) of the overall founding principles was to invest in Manitoba and that accomplishes that. But in addition, you know, we -- we haven't been able to find a market for it and that's -- that's another problem. If we were really pushed I presume that we could find some form of a market if we really needed to sell those, but we haven't been in that situation at this stage.

THE CHAIRPERSON: But that wasn't the point in the exercise was it? It was to --

MR. BARRY GALENZOSKI: Absolutely.

THE CHAIRPERSON: -- help the municipalities and the school divisions and the hospitals find a market for their debt securities.

MR. BARRY GALENZOSKI: I think the reality is that it helps the Department of Finance easily find a market for the sale of those things because, you know, for instance on schools we're pretty much the market in Manitoba.

THE CHAIRPERSON: I would imagine. For the general understanding, you're indicating that for rate setting purposes and for looking at the filings, unrealized gains are not reflected. But I just want to confirm, something else you said was that management or the investment committee or your working group, you direct the sales of securities.

So in another sense you have the opportunity to time your sales and your realizations of any gains that are there?

MR. BARRY GALENZOSKI: We -- we look at -- we would tell the manager how much we would expect him to get our of their particular portfolio without giving them any direction whatsoever on what to sell or what to buy. When they have sold something they just know they're going to be able to keep the cash.

THE CHAIRPERSON: But you have to have --

MR. BARRY GALENZOSKI: We don't -- we don't try to time the market or anything along that line. We simply look at what is available to take and if it looks like it's something we're interested in, then we take that.

THE CHAIRPERSON: But there's no requirement for you to take any gains. Like for example, the test in your policy I think it was, was that if you didn't have a 105 percent of book you wouldn't be selling, so presumably you'd be making your decisions on some basis as to when you're going to sell?

MR. BARRY GALENZOSKI: Absolutely. And there is no requirement for us to take them at any point in time in that policy. It is just a guideline as to when we could take them, not that we should take them.

THE CHAIRPERSON: But on a trading portfolio, particularly under the new accounting rules the decision's up to management as to when you decide to sell?

MR. BARRY GALENZOSKI: Not entirely. The bond -- the fund managers on the equity side are free to buy and sell as they see fit under normal day-to-day operations and they do that. And they will take gains and they will take losses as they want to move their portfolio around.

So we would only direct under the very specific requirement of trying to take some gains that we see buried in the or imbedded in the portfolio.

THE CHAIRPERSON: But when you're judging their performance you're judging them on the basis of market?

MR. BARRY GALENZOSKI: We're judging them on the basis of -- of market returns based on capital initially invested.

THE CHAIRPERSON: Right. Like, for example if their market value was one (1) and -- and at the end of the year it was two (2) you'd assume they'd made 100 percent gain?

MR. BARRY GALENZOSKI: That's right. If we gave them one (1) to start with that would be the -- that would be the returns that we would have.

THE CHAIRPERSON: Even if that one (1) happened to be a security that wasn't sold, it was just moved into that portfolio. So in other words the whole one (1) would be unrealized?

MR. BARRY GALENZOSKI: It definitely could be unrealized. You're -- you're managing and -- and you're -- you're monitoring your managers based on the movement in market --

THE CHAIRPERSON: The --

MR. BARRY GALENZOSKI: -- not necessarily on what's realized for our accounting purposes.

THE CHAIRPERSON: Yes. Okay. And you indicated before that you have a partner in this venture, the Department of Finance that has some, in fact a significant degree of involvement with respect to the equities?

MR. BARRY GALENZOSKI: Yes, I would classify us as their partner. They're the ones in charge and we -- we're there at, you know, on a voluntary basis that they're allowing to happen and -- and many years ago when the Corporation was 100 percent bonds, we had zero to say about how that money was invested. We just gave them the money and they did it and they just sent us the invoices saying here's what we invested in, folks.

THE CHAIRPERSON: But when you say, Mr. Galenzoski, that you make the call when you want to sell or to realize a gain, is it MPI making the call or is it your partner?

MR. BARRY GALENZOSKI: It's MPI making the call. We've agreed, in that working group, that MPI is the one making the call because MPI is responsible for the financial outcomes of the Corporation.

THE CHAIRPERSON: Okay. Taking a

different tact, what happens if the -- your unrealized gains compared to the size of the portfolio is not stupendous. I mean, it's certainly under 10 percent, probably under 5 percent of the total value of the portfolio.

So, the market goes south and the market value of the securities goes far below the cost value, how do you go about making the call then when to decide to sell or not and what's the implications for rate setting, if any?

MR. BARRY GALENZOSKI: Well, we wouldn't decide to sell at all and we wouldn't give any instruction for the manager to sell. Just -- I think we've only given managers instructions to sell on very rare occasions. One (1) I can think of is where the market value of the -- of the particular issue was higher than the 10 percent allowable that they were supposed to hold. And they were hanging on, hanging on, and we said, hold it, sell, okay. That happened to be Nortel and it was a good call on our part.

THE CHAIRPERSON: I would say so.

MR. BARRY GALENZOSKI: But, when it comes down to what would happen if the portfolio was underwater with respect to market value, we have a process for evaluating that, and that is any impaired investments that we would have in our portfolio, annually, we sent a letter to each of the fund managers asking them if, in their opinion, they're holding anything that is impaired.

And we have a definition as to what we think impaired is. We then do our own evaluation of the portfolio that they're holding to see if we either agree or disagree with what they have to say. Generally speaking, our experience has been is that they under-report what they think is impaired.

Now, if we think -- if an issue is impaired under our definition that we have, then we will write it down at the year end. And we take that to our board and we say, we believe that this is an impaired investment and we will write that investment down and will take the hit in the fiscal year that we're reporting on. And we deal with it that way.

And that's what we would do. But there's -- there's criteria for meeting this and it wouldn't be just a short-term reduction in the market. It would have to be something that would be there for a longer sustained period of time.

THE CHAIRPERSON: So, just to confirm, I understand that you're saying, if you had a -- there's nothing in the current policy or approach being taken by the Corporation that would encourage one of the investment traders to hold a sub-par security?

MR. BARRY GALENZOSKI: That's correct because they're being -- they're being monitored on market value, and if they've got a loss in there it's going to count against them whether they hold it or not.

THE CHAIRPERSON: So they're neither punished nor rewarded for doing what the security itself suggests be done?

MR. BARRY GALENZOSKI: That's correct. And that's another strength in the policy that we've got with respect to when we take gains because that -- that 105 percent of book value includes all the losers in the portfolio also, okay. So they're already accounted for and you're only looking at what's over and above that.

THE CHAIRPERSON: Okay. I just have a couple of others on a different subject. I understand that in dividing up the investment revenue between the different groups you run it on a, sort of a, pool basis.

So I understand that. You arrive at a certain percentage to do with basic and you send the money over there. You arrive another amount that presumably goes to extension and SRE, and I think you have a pension component, if I recall from a previous hearing?

MR. BARRY GALENZOSKI: That's correct.

THE CHAIRPERSON: Okay. So, and you divide it up without favour or disfavour to any group; it's just based on your formula?

MR. BARRY GALENZOSKI: It's based on the pools of money that are available for investment. So it's very measurable.

THE CHAIRPERSON: And it doesn't matter whether the pool is -- it's just the full pool?

MR. BARRY GALENZOSKI: It's the full pool of money. But it's the pools of money available for investment by each line of business that's important, okay. So, for instance, you can identify very directly the outstanding claims reserves that are sitting for a line of business. You can identify very directly the retained earnings or rate stabilization reserve. Those types of things are very easily identifiable by line of business.

And those that aren't easily identified, we have ways of -- of allocating those out also.

THE CHAIRPERSON: Okay. So, I'm coming to the question now. The -- so you talked at one point in the -- there's differences, presumably, by the line of business, if you like, at the -- at the liability asset duration match?

MR. BARRY GALENZOSKI: Yes. There would

be.

THE CHAIRPERSON: For example, extension claims might have a different length of tail compared to basic?

MR. BARRY GALENZOSKI: And SRE the same way.

THE CHAIRPERSON: Would you assume that basic, which has the no fault benefits in it, would have a longer average lifetime on the unpaid claims reserves than the other ones?

MR. BARRY GALENZOSKI: Generally speaking, yes.

THE CHAIRPERSON: Have you -- but you don't give any specific consideration in the distribution that different types of assets might be held for different types of businesses?

MR. BARRY GALENZOSKI: No, we're not -- because we don't hold those assets based on the type of business. We hold those assets based on the overall liability or the profile of the Corporation for a duration of the liability.

And so we're trying to come close to matching it on a Corporate basis, rather than on a line by line basis.

THE CHAIRPERSON: Yes, okay. So what

you're treating it as one (1) pool.

MR. BARRY GALENZOSKI: Correct.

THE CHAIRPERSON: But, you grant that in that pool, one (1) section could have actually a different liability duration than another?

MR. BARRY GALENZOSKI: That's true, but that's, I guess again, a risk mitigation in the investment portfolio for the individual lines of business is that you're spreading that out.

THE CHAIRPERSON: But, there's nothing in there to suggest to you, for example, a different asset mix might be more beneficial for one (1) line of businesses compared to another, given the fact that the liability duration is different?

MR. BARRY GALENZOSKI: No, we don't look at it by line of business.

THE CHAIRPERSON: Thank you. Covered off mine. Thank you.

Mr. Evans...?

MR. LEN EVANS: Just a couple of quick supplementary questions, in the area of MUSH holdings.

I was wondering what, if you could tell us, what is the basis of your purchase of MUSH bonds?

MR. BARRY GALENZOSKI: We have -- the only basis we have is that the Department of Finance is responsible for purchasing all of our bonds.

They tell us at the beginning of the year as to the level of commitment that they would like us to set aside for bonds. And it could be say, $30 to $50 million on an annual basis.

And we give them that amount of money set aside to purchase those types of bonds and they purchase them as they come up.

MR. LEN EVANS: I see. So you don't really have much discretion in this area. You're advised that this is the amount of funds that they'd like to see put into MUSH and you followed suit by allocating those monies?

MR. BARRY GALENZOSKI: Yes. They're our investment manager on that side. They're the bond fund manager.

MR. LEN EVANS: I see.

MR. BARRY GALENZOSKI: And so they use their discretion as to where that money is going to be allocated on the MUSH side.

MR. LEN EVANS: So there's no overall policy guidance in MPI as to what percentage of your total holdings should be MUSH?

MR. BARRY GALENZOSKI: No, if you looked at our overall holdings in Manitoba, including the MUSH sector, as well as the Provincial bonds that we would be holding and maybe any corporate bonds, we're holding considerably more Manitoba bonds than a portfolio like ours would normally hold, based just on the size of Manitoba's bond portfolio over all, compared to all of Canada.

But, that's part of our founding principle. And so you know, we take that into account when we're doing what we do with respect to the asset mix.

But, if we were located in a different Province and we didn't have that -- or even in Manitoba without that being in our mandate, we'd be holding considerably less Manitoba bonds than we do today.

MR. LEN EVANS: Thank you. I note in the material of -- among I think this is PUB/MPI-172(c), in around that area regardless, the Mercer Investment Consulting, who you have retained.

It recommended more real return bonds and they suggested that future MUSH bond purchases should be reduced or eliminated to facilitate the purchase of real return bonds.

So do you have any reaction to that recommendation?

MR. BARRY GALENZOSKI: Well, it was one

of the reasons we didn't implement any of their recommendations.

One thing that a good advisor has to do is consider who you are when they're making their recommendations to you.

And we told them who we were and that kind of got ignored in some of their recommendations. Now, you know, they did what they thought was best for the overall portfolio. They're giving you their theoretical, best asset allocation from their standpoint.

We decided not to take their advice on that particular side of it and we didn't implement any of their recommendations, although we are holding more real return bonds than we were before this whole process started.

MR. LEN EVANS: Yes. I notice -- thank you. I notice also that they recommend a reduction of the percentage holdings of equities from -- they say the current policy is 12 1/2 percent Canadian equity, 12 1/2 percent US and their recommendation is 10 percent and 10 percent so overall reduction of 5 percent.

MR. BARRY GALENZOSKI: Well, but then they allocated that to, I think, OSFI. They were making some recommendations --

MR. LEN EVANS: Yeah.

MR. BARRY GALENZOSKI: -- that we go with

-- so they were just reallocating what was in the equity side without getting it much bigger.

MR. LEN EVANS: I see. Right.

MR. BARRY GALENZOSKI: And our current situation today is that we're -- we're holding a little bit more on the Canadian side and -- and a fair bit less on the US side today.

MR. LEN EVANS: Well, thank you.

THE CHAIRPERSON: You also indicated by the way that your investment committee was considering some diversification; that's true, is it not?

MR. BARRY GALENZOSKI: That is true. I -- I alluded to that the first day and we are -- we are going to take some look at that over the next few months.

THE CHAIRPERSON: Thank you. Ms. Everard...? Saranchuk.

MR. WALTER SARANCHUK: Thank you, sir.

CONTINUED CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: And I now have a series of questions to address the rate stabilization reserve or the RSR being the acronym.

And let me begin by asking Mr. Galenzoski whether you could confirm the stated purpose of the RSR as indicated on page 48 of the Annual Return -- or sorry, the Annual Report of the Corporation for the fiscal 2005 year which is at AI-11 in the filings.

MR. BARRY GALENZOSKI: Yes, that is unchanged.

MR. WALTER SARANCHUK: And just to quote, it says that:

"The basic insurance rates stabilization reserve relates to basic, compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors."

And that essentially as you indicated has not changed over the years, has it?

MR. BARRY GALENZOSKI: That's been pretty much standard for quite a while now.

MR. WALTER SARANCHUK: Yes. And do you recall, sir -- you've been at this game for some eighteen (18) years, I think I have you by two (2) years. and I've been here since 1987 I guess it is. But do you recall that there was in a discussion relative to the purpose of the RSR, a discussion over the years relating to a catastrophic element that was meant to be addressed?

MR. BARRY GALENZOSKI: First of all, I'll acknowledge that you're a lot older than me. Second -- second, that wasn't going to be part of the RSR; that was going to be part of the retained earnings for the Basic component of the Corporation.

The Board, many years ago, had actually set a policy that once we'd attained our RSR target levels which we never seem to get to that we would set aside, I believe it was, $10 million which represented two (2)times our then current retention on our catastrophe program for reinsurance as a catastrophe reserve; that never, ever materialized in -- in our financials.

MR. WALTER SARANCHUK: And just to continue with the barb, I won't talk about the colour of our hair. But anyway --

MR. BARRY GALENZOSKI: Yours looks like it's waving goodbye too.

MR. WALTER SARANCHUK: There is an element of -- of an unforeseen factor obviously in this description of the RSR, isn't there, sir?

MR. BARRY GALENZOSKI: Sorry, you'd have to maybe explain that.

MR. WALTER SARANCHUK: Okay. Well, we talk about an unexpected non-recurring event and I'm suggesting to you that the rationale in large measure, means that there's an unforeseen event that occurs that's to be addressed.

MR. BARRY GALENZOSKI: Well, unforeseen or -- or one (1) time occurrence is I think what we were referring to there.

MR. WALTER SARANCHUK: Isn't it a fact, sir, though that the purpose of the RSR was intended to address a catastrophic, unforeseen loss, non-recurring such as a major hailstorm or a flood?

MR. BARRY GALENZOSKI: No, we have a reinsurance program that addresses that. The unforeseen events would be increases in your reserves required through, you know, just some analysis that indicated you were generally unreserved, a change in benefits where we apply those benefits retroactively to the existing claimant group, a number of situations like that that could occur, a loss -- a precipitous loss of investment income that you think it is a one (1) time event.

A number of different things that could occur from time to time that have a serious impact that isn't necessarily going to continue or isn't going to continue on into the future.

And, therefore, you do not want to pass on, as a rate requirement, going forward. You want to be able to have your base rate going forward to be equivalent to the costs you're expecting to go forward. Not for a makeup of costs that you didn't have accumulated someplace else. That's what the RSR is there for.

MR. WALTER SARANCHUK: If I were to suggest to you that one of the underlying aspects of the RSR purpose was described by some of your predecessor members of the Panel, or perhaps even your colleagues on the Panel, as a fund to address a major increase in rates that would arise out of an event such as a major hailstorm, would you confirm or deny that?

MR. BARRY GALENZOSKI: Well, they may have -- they may have put that on the record at some point in time. But I think in the many years of discussions we've had of that, we've clarified a lot of that to the point where we understand today that if you have a major hailstorm and there's an un -- uninsured portion of that with respect to our reinsurance, let's say the deductible if you get hit with many occurrences and you've got a lot of your retentions that you have to absorb, or the loss is bigger than the overall program and, therefore, you're back on the hook for it, or the reinsurers can't -- can't respond or won't respond to the loss because of other financial commitments that they have, those can't be made -- they shouldn't have to be made up by future ratepayers.

The whole idea of it is that future rates are supposed to cover the costs of the future claims, not what's happened in the past. And that's the idea that we've been -- we've been, I think, honing in on over the last little while.

And so you may be able to go back in the record and find where somebody, you know, put something on the record that may have sounded, you know, different than that, but I think over the years that we've been discussing it we've pretty much honed in on this as -- as what's been going on in Manitoba Public Insurance.

MR. WALTER SARANCHUK: So, if I were to suggest to you that it's MPI that has been tweaking the purpose of the initiative -- or of the fund to some extent and interpreting it so that, for example, it would cover legislative changes we heard suggested earlier in this proceeding, would you confirm or deny that?

MR. BARRY GALENZOSKI: Oh, I think as we get more history and -- and things happen in an organization like MPI you're going to see things being tweaked. Nothing ever stands solidly still, no matter what it is.

It comes down to it that a legislative change -- for instance, I think Mr. Palmer talked about the retirement income benefit that was put in place a number of years ago. When a company like MPI is -- is -- has a policy of applying those benefits to past claimants that are still on the books, still active claimants, whereas a private sector insurer would only give those benefits to prospective claimants. They wouldn't even consider giving it to the older claimants; that's a very significant policy decision that's been made.

And it isn't -- it is reasonable to charge that component of it against the rate stabilization reserve because it -- that's what it's there. It's a one (1) time thing.

Now, the going forward costs must include, in the base rate, the cost of that benefit for the future claimants and so that the future rates are adequate to cover the known costs that you're expecting. And that's exactly what we do at MPI.

MR. WALTER SARANCHUK: So I take it you deny, sir, that in establishing or providing the purpose for the RSR, that it was addressed to meet rate increases that would arise out of an act of God as opposed to an act of man? You deny that?

MR. BARRY GALENZOSKI: I think it's there to -- act of God, act of man, you know, whatever is one (1) time. Whatever is -- is in the history or in the past, not what's going forward.

We've always -- I think you have to concentrate on the definition of -- of rate adequacy. The -- either the actuarial term or the working man's knowledge term about this, it must cover the costs of the known -- the known costs going forward for the policy that you're selling today.

So if you set a rate today it must cover all the costs to operate the organization, all the costs to pay the claims, that has to all be included in -- in the costs you're putting to your customer today so that you don't have somebody else having to pay the bill.

Now, if you are not able to identify all those costs accurately and you subsequently come to the conclusion that you didn't get enough money for those prior years, that is usually recognized as a one (1) time event and something that goes against rate stabilization reserve.

MS. MARILYN MCLAREN: Further to that point, Mr. Saranchuk, the Corporation's position is that we have not been tweaking the purpose of the RSR. Perhaps we should have been tweaking the drafted definition of that purpose.

If we were writing this today, we might write this to say that it's intended to protect motorists, you know, from large, special surcharges to rebuild the RSR made necessary by unexpected events and losses.

We're not talking in this context, about rates going forward to meet the cost of the future loss transfer. We're talking about rate increases made necessary to replenish the RSR; that's what that context is.

MR. WALTER SARANCHUK: Is that what is meant by rate shock? I don't think so.

I thought rate shock was a major consideration in establishing the RSR; to avoid rate shock, and act of God, a major hailstorm, a flood, whereby there's a sudden impact on costs, $56 billion, $55 million, whatever it might be, and to avoid a hit of a 20 percent premium increase the following year, rate shock had to be addressed and that's what the purpose of the fund was.

MS. MARILYN MCLAREN: I disagree with that history that you have put that particular interpretation on. The formal -- the formal formulation of this definition and strat -- formal strategies around RSR and targets for RSR and rebuilding strategies and corporate policies with respect to decreasing it when it was in excess, really have transpired within the last ten

(10) years.

And at the time, we were creating this more formal process around these matters -- you know, look what happened in 1995 and 1996. The dollars that you've just referenced were real dollars in the Corporation's experience.

But, those were related to unexpected increase in cost of liabilities already on the Corporation's books. And they were absolutely, absolutely in everyone's mind. And I would argue participants to these proceedings as appropriate consideration for establishing a rate stabilization reserve.

MR. WALTER SARANCHUK: Well, that might be your interpretation, but I gather from what you're saying that events such as a legislative change, as was addressed by Mr. Palmer in the retirement income benefits, are therefore captured under the purpose of the RSR, is that right?

MS. MARILYN MCLAREN: I wouldn't argue with that.

MR. WALTER SARANCHUK: Who was involved in the legislative change that gave rise to the RIB, to use the acronym; that's a government step obviously to pass the legislation?

MS. MARILYN MCLAREN: Yes, required a change to the Act.

MR. WALTER SARANCHUK: Yes, and did the Corporation have any involvement in that, at all?

MS. MARILYN MCLAREN: The unexpected context in that, Mr. Saranchuk, comes with respect to -- the increased benefit was not expected when the reserve was established. And at a point in time, when we were informed that legislation was going to happen or, in fact, had happened, one or the other, we then had to revisit all our reserves and re-establish them based on that new information.

That makes it unexpected when the reserves were established.

MR. WALTER SARANCHUK: So that's your interpretation then of -- one (1) of the purposes of the RSR?

MS. MARILYN MCLAREN: Agreed.

THE CHAIRPERSON: So you're saying that an RSR, if it's large enough, would enable a change to be made in the current day that provides benefits flowing backwards?

MS. MARILYN MCLAREN: Yes. And I guess, more importantly what we're saying is that in our history, benefit improvements have been retroactive.

That's the reality. And we can't foresee the kinds of changes that may happen in the future.

There are fewer -- you know, when you have unlimited medical coverage, as part of your program, versus the days when it used to be twenty thousand dollars ($20,000) and then upwards to a hundred thousand dollars ($100,000) it's a different circumstance, but in our history, benefit improvements have been retroactive.

THE CHAIRPERSON: But, you said that the -- you didn't -- you weren't seeking to use the MCT to set a rate stabilization reserve for the same reasons as the private sector needed the MCT.

So this is basically the support for that statement then?

In other words the private sector uses the MCT to ensure that it's reserves are sufficient to worry about things like insolvency, their ability to write policies and hold their business, et cetera, et cetera.

You have granted in response to one (1) of the IR's put forward by the Board that the factors are basically true, but you're advancing a different thing because you said before that the private sector would never institute a benefit that would go back retroactively for which no premiums had been paid?

MS. MARILYN MCLAREN: I -- I think this

is an area that we have some financial risk that private sector companies in my experience with their practices would not have.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: So as I understand it, and I won't flog the dead horse, but let me ask you, there is still an agreement I take it on the part of the Corporation that there has to be some element of unexpectancy, if you will, or unforeseen event in the normal course of business that would justify use of the RSR?

MS. MARILYN MCLAREN: Yes, that's -- that's the context.

MR. WALTER SARANCHUK: And in that context perhaps you can reconcile the utilization of the RSR for the establishment of some $50 million for the immobilizer fund?

MS. MARILYN MCLAREN: If necessary we can pull up some of the transcripts of the proceedings from last year. But when we dealt with that issue in this forum last year the Corporation made a case for the fact that there were compelling arguments to set up that fund to fight auto theft, that had a benefit to all Manitobans for the -- continuing on into the future, that creation of that fund did not meet the definition of the rate stabilization reserve use. No argument there.

MR. WALTER SARANCHUK: Can you contrast the purpose of the RSR with that of the PAD or Provision for Adverse Deviations included in the provision for unpaid claims in the Corporation's balance sheet for basic coverage?

Is there an overlap between the two?

MR. DON PALMER: No, there is not. The Provision for Adverse Deviation is a requirement of the liabilities under the Standards of Practice of the Canadian Institute of Actuaries. The minimum capital test or the -- includes for -- more unforeseen changes to the liabilities. So I don't see there's any overlap there.

MR. WALTER SARANCHUK: And in last year's order you'll recall that the Board established a target range of $65 to $100 million for the RSR?

MR. DON PALMER: I recall that, yes.

MR. WALTER SARANCHUK: And at the same time the Corporation proposed a range for the basic RSR of a $107 million to $214 million, is that correct?

MR. DON PALMER: That's correct.

MR. WALTER SARANCHUK: The Board target reflected an adjustment for inflation as applied to a $50 million to $80 million range approved in 2001 based on the results of the then latest risk analysis as indicated in last year's order, is that correct?

MR. DON PALMER: That's correct.

MR. WALTER SARANCHUK: And the Corporation's proposed range was based on a selection of 50 percent to 100 percent of capital required under the MCT or Minimum Capital Test, is that correct?

MR. DON PALMER: That's correct.

MR. WALTER SARANCHUK: Now, with reference to Mr. Galenzoski's pre-filed testimony at pages 4 to 6 in Volume I, could you, Mr. Galenzoski, please elaborate on the Corporation's position relative to establishing the RSR target this year.

MR. BARRY GALENZOSKI: The Corporation has left the RSR target based on the MCT calculations that we had for the previous year which is the $107 to $214 million.

We've indicated that because of the concerns with respect to the level of RSR for rate setting purposes that the Board has used, up to $100 million, that we were -- we were -- the Board had authorized that we no longer transfer any further retained earnings from the extension and SRE lines of business pending the outcome of our discussions this year.

And I think, as alluded by Ms. McLaren, the Corporation has put forth additional information, arguments, and we'll be presenting some witnesses, or a witness besides the witnesses that you see in front of you, that support our position with respect to where we think the RSR should go in the future.

MR. WALTER SARANCHUK: Yes. And the MCT was mandated by OSFI for private insurers for solvency purposes, is that correct?

MR. DON PALMER: That's one of the uses of it. It really is formulated as a test of financial strength. And one of the offshoots of that for OSFI was solvency.

MR. WALTER SARANCHUK: Yes. Thank you, sir.

With reference to the Interrogatory PUB/MPI-22, on the first round, shown at Tab 24 in the book of documents, this was alluded to earlier but I would suggest that we should have this placed on the record of the viva voce evidence.

So I'm going to ask you or some member of the Panel to read in the Corporation's response to this question which asked as follows:

"Please respond to each of the

following considerations raised by the Board for not adopting the MCT test as a determinant for the RSR target range and advise what has changed since last year's application.

(a) Private property and casualty insurers are subject to risks not extant with a monopoly Crown Corporation.

(b) Policyholder enhanced regulator concerns with respect to insurer solvency are of a different magnitude and kind compared to a situation with a Crown Corporation.

(c) An MPI policyholder has no risk that a proper claim will not be honoured.

(d) MPI can reasonably expect favourable consideration of future proposals for rate increases if necessary to meet appropriate forecast costs.

(e) A private insurer cannot be assured that a rate increase will not result in diminished business and

increased solvency risk.
And (f) A Crown Corporation, with a province as its sole shareholder, has an ability to influence legislation and regulation not available to a private insurer in a competitive market."

Somebody please read in the response?

MS. MARILYN MCLAREN: The Corporation's response to PUB-22, in the first round,(a) through (f):

"Nothing has changed. As well, MPI does not disagree with the statements in (a) through (f). MPI's requesting that the PUB reconsider its position on the level of RSR and the use of MCT. MPI takes the position that it has provided compelling arguments for doing so in AI-15. The MCT is a tool to measure the risk of impairment of capital. The most extreme consequence of impairment of capital for a private insurer would be insolvency. MPI is not recommending the use the MCT as a solvency mitigating tool as is required by OSFI of private property and casualty insurance companies. Rather, MPI is recommending the use of the MCT methodology which has been created by experts of the industry, sanctioned by the Country's Office of the Superintendent of Financial Institutions, to assist in calculating a supported risk-based value RSR which would balance the capital required to the capital available. This represents the 100 percent MCT target. Private property and casualty insurance companies are required by OSFI to meet a target of 150 percent or higher for solvency reasons. The board of directors, supported by MPI management, judgmentally has set the basic insurance RSR target in a range of 50 percent to 100 percent of MCT. This judgment is anchored and centered on the Corporation's goal of financial and rate stability. In other words, the target range would minimize rate increases. The Corporation needs to do everything in its legitimate power to mitigate rate increases and significant rate variations under all circumstances and, furthermore, the basic insurance RSR would mainly be expected to be funded by transfers of excess retained earnings from the competitive lines of business. Also please see 2007 rate application pre-filed testimony PT.MGM page 6."

MR. WALTER SARANCHUK: Thank you, Ms. McLaren. Now, we dealt with the purpose of the RSR, can someone indicate why MCT should be adopted for purposes of setting the RSR target which was not established for solvency purposes?

MS. MARILYN MCLAREN: It's a test of financial position. It's a test of financial strength. I said the other day when the Corporation reviewed its submissions last year, it's testimony on the public record and when we reviewed in the information from this section of Board Order 150/'05; it became clear to us that there was still a disconnect between the Corporation's understanding of the issue and the Board's.

These items (a) through (f), for the most part relate to solvency concerns. If we look at (a), private property and casualty insurers are subject to risks not extant with a monopoly Crown corporation.

We don't disagree with that. But, probably you know, as I understand it, those risks would be (b) and (e); issues of solvency, issues of losing market share if they have to increase rates when others in their market are not.

Let's hope that (c) is true. I certainly believe that (c) is true, an MPI policyholder has no risk that a proper claim will not be honoured. But that consideration is not consistent with the stated purpose of the RSR.

It's not about making sure we can pay claims. It's about mitigating the effect of significant unforeseen costly events on future rates or special surcharges to rebuild the RSR, that's what we're talking about.

And you know, again as I mentioned the other day, we can reasonably expect favourable consideration of future proposals for rate increases if necessary to meet appropriate forecast costs.

We have some solid experience in that regard. This Board, the PUB has approved increases for Manitoba Public Insurance of 9.7 percent and 6.6. percent. And other such what we would consider fairly high, you know, annual rate increases.

Sometimes back in those days, it was to

help replenish RSR. Sometimes it was to cover projected future costs. We understand that. But as I said the other day, the ability to provide predictable rates and stable rates for Manitobans is what the RSR is all about at Manitoba Public Insurance.

And you know, again with respect to f), we've talked about the fact and certainly we do have a role to play with influencing legislation and regulation. But let's not think for a minute that the Insurance Bureau of Canada wouldn't say that they have a role to play, as well.

And particularly, in parts of eastern Canada if you look what's happened over the last couple of years with significant, significant reductions in the coverage available to people. They would say that they've been very successful in influencing legislation and regulation.

And the other -- only other point I would make on that is that as we talked about our history of retroactive benefit improvements, when we do things to restrict coverage, whether it's something like limiting an injury benefit or increasing a deductible; that's never retroactive. That's never retroactive.

So we've had a lot of conversations around the difference between balance sheet items and income statement and the purpose of the rate stabilization reserve is clearly to protect stability and predictability of rates going forward for Manitobans this -- these considerations did not reflect our understanding of the issue; both related to MCT as the test that it is and the separate issue of the target that you use once you understand and run the test.

Nor some of the specific comments related to consideration somewhat being at odds with our understanding and our stated purpose of the RSR itself.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren. I would ask that the Corporation please read in its response to the IR PUB/MPI 1-24 in the first round, that's Interrogatory 24 shown at Tab 25 in the book of documents.

And the question asked three (3) parts. The question was as follows:

"(a) Please clarify the rationale for selecting a 100 percent MCT ratio as the upper limit for the RSR target range and what makes 100 percent a better choice than 90 percent or 100 percent, and

(b) Please clarify the rationale for selecting a 50 percent MCT ratio as the

lower limit for the RSR target range.
What makes 50 percent a better choice
than 40 percent or 60 percent, and
(c) What MCT ratio does the Board's
approved RSR range of $65 million to
$100 million represent for rate setting
purposes as of February 28th, 2006?"

MR. BARRY GALENZOSKI: The response to (a), the 100 percent MCT target is the point that capital required is equal to capital available on a risk adjusted basis as required by OSFI.

The 90 percent or 110 percent figures do not fulfill this requirement. As stated in the guideline Minimum Capital Test, MCT, for property and casualty insurers from the Office of the Superintendent of Financial Institutions the quote is:

"OSFI believes that each institution should establish a target capital level that provides a cushion above the minimum requirements both to cope with volatility in markets and economic conditions and to provide for risks not explicitly addressed in the calculation of policy liabilities or the MCT." End of quote.

The Corporation believes that these additional risks are the types of risks that are not as applicable to a monopoly government insurer. Therefore, increasing the upper limit of the RSR beyond 100 percent MCT was judgmentally deemed unnecessary and excessive for MPI.

Response to (b). The 50 percent MCT target as the lower limit was selected judgmentally and was anchored and centred on the Corporation's goal of rate stability in -- in the content -- in the context also of the RSR receiving transfers from competitive lines.

Rate stability considerations led to a decision that even with these transfers, anything less than 50 percent would be too low. With the ability to receive transfers to RSR, 60 percent would be unnecessarily high in the Corporation's judgment.

Answer to (c). Per the 2007 general rate application Volume III AI-17 Appendix J, if the equity line for February '06 were to be changed to $65 million and $100 million respectively, the respective MCT ratios would be 41 percent and 57 percent.

MR. WALTER SARANCHUK: Thank you, sir. Now, in the Corporation's response to the interrogatory that you've just quoted or just addressed there's reference to the -- what was judgmentally deemed necessary by the Corporation, and what was selected judgmentally.

And in the previous interrogatory that we referred to at Tab 24, which was the Interrogatory 22 asked in the first round by the Public Utilities Board there is again reference by the Corporation in its response to the Board of Directors supported by MPI management judgmentally setting the basic insurance rate in a range of 50 percent to 100 percent and that this judgment is anchored and centred on the Corporation's goal of financial and rate stability.

Let me ask the question, why should the judgmental application of MCT on the part of MPI supercede the Public Utilities Board adoption of the risk analysis?

MR. BARRY GALENZOSKI: We're putting forth our arguments with respect to why we think the MCT is a better choice and I guess it's up to the Board to decide whether that will supercede them or not. We've -- we've contrasted the two (2) processes. We've suggested some improvements to the old test. All of this is for the information of the Board. We can't do more than that, put it in front of them for their decision.

MS. MARILYN MCLAREN: More specifically,

to follow up on that response the Corporation puts forward the reason that the Board should adopt the Corporation's policy in this regard and -- and, therefore, be modifying its own policy in this regard is because the MCT is a better reflection of the risks, financial risks the Corporation faces today versus the risk analysis and that the target that the Corporation has selected is appropriate for Manitobans in the context that we have today to provide that kind of stability, largely because of the transfers which, for the -- to a significant extent have supported the rebuilding of the RSR over the last few years and are expected to continue. That's why we would argue for as low as 50 percent. We don't think lower is appropriate. We don't think higher is necessary.

So, the reasons we are asking the Board to substitute its judgment last year for a new judgment is for the body of evidence that we have put on the record. We are not asking that this Board substitute its judgment for ours.

We have put forward a body of evidence that we believe gives compelling arguments for them to substitute their judgment of last year and adopt a different judgment this year.

MR. WALTER SARANCHUK: Adopting MPI's

judgment?

MS. MARILYN MCLAREN: I would not ask this Board to replace their judgment with ours. We have put the evidence on the record that we think puts them in a position to reach a conclusion that is similar to identical to that conclusion reached by Manitoba Public Insurance. But we fully expect and understand and would wait for their judgment in this regard. We are not asking them to substitute last year's judgment -- their last year's judgment for ours. No. That's not what we're doing.

MR. WALTER SARANCHUK: So, in effect, correct me if I'm wrong, what you want this Board to do is to reconsider its decision last year by virtue of the decision made by MPI's board of directors judgmentally to accept MCT?

MS. MARILYN MCLAREN: MPI's board made that decision quite some time ago. That's not new this year. What we're asking this Board to do is reconsider its decision of last year based on a body of evidence that's been put forward this year.

MR. WALTER SARANCHUK: Well, no one is suggesting that the board of directors of MPI judgmentally made its decision this year. But the decision that it made was based on the judgment of its members; am I correct?

MS. MARILYN MCLAREN: Yes. Certainly.

MR. WALTER SARANCHUK: By way of an undertaking, I guess would be the best way to approach this question that I'd have, that I'd ask the Corporation to provide this undertaking please, would you please provide an indication of the past occasions where benefits and improvements were introduced or benefit improvements were introduced retroactively?

And in that respect could you provide the change, the date of the change, the effect on earnings in the year of the change and the effect on rates going forward?

MR. BARRY GALENZOSKI: That might be very difficult to do. I can tell you that specifically with respect to some of our -- our accident benefits in past years, prior to PIPP, we would periodically increase the -- some of the levels of weekly indemnity payments.

They were -- they would be left stagnant at one (1) level for a number of years and then they'd be raised to offset inflation over a period of time and they would be applied then to the entire base of claimants that were receiving that benefit at that point in time.

I don't know if we're going to be able to easily find in our records, you know, how often that has occurred and then what the specific cost was and did that impact earnings that year or was it -- did it impact the rate stabilization reserve if we even had one at that point in time.

I think you're asking something that we'd be very hard pressed to respond to. I can assure you -- I can tell you that in my many years of history with MPI, and I'm sure that Mr. Bedard can support this, that there was very specific times when those benefits were improved and they were made available to all the claimants that were on the record at that point in time.

MR. WALTER SARANCHUK: If I were to qualify that request for an undertaking by suggesting that it be only in respect of major incident, if you will, such as RIB, would that facilitate matters?

MR. BARRY GALENZOSKI: That would have been the only major change with respect to PIPP. But I can tell you, for instance, when we -- when we moved into PIPP and we had still our old accident benefit claimants, at that point in time those benefits were not indexed and we made a decision that instead of offering periodic changes to those -- those benefits which we would -- which we would do in the past and make those retroactive to all the claimants, we made a decision that we would index those benefits; as of every year we would do that.

So I believe March of every year all of those benefits were indexed. There's a guarantee now that those claimants will get indexation on their -- on their benefits. And that was applied to the total existing claimant base at that point in time.

And that would have been a fairly significant cost of probably in and around $20 million at that point in time.

That would be probably two (2) examples of the largest times when that has happened, but I guess the point that we're making here is that when there is benefit increases that is made available to everybody; it's not just the perspective claimants that are going to get those.

MR. WALTER SARANCHUK: Thank you, sir. I'll seek instructions and we'll see whether that is to be pursued, this request for the undertaking.

THE CHAIRPERSON: Well, just a quick follow-up question there. The request for information was basically looking for if you've had a major change in benefits that was substantial and material and affected the past and that's what you've been talking about.

And you're saying that any time there's a restriction on benefits if that ever occurred, that would simply be going forward, but each time when a change is made a decision presumably is reached. Actuarial liabilities have to be calculated, the provisions have to be reset. If it's material enough it would affect presumably the rate application in that particular year.

We already have the history of your rate changes in each particular year, but when you say that the Corporation has always made the changes retroactive to the past, a change that has to do with income indemnity weekly payments or something like that that comes into being, that reflects inflation of the last year is just ongoing; isn't it?

MR. BARRY GALENZOSKI: Well, not with respect to a private sector company. They would have said this is the benefit that you got and it's an unindexed benefit. Our benefit was unindexed then also. There was no -- nothing in the -- in the policy that said that you were going to get an index benefit, you got a benefit and it was frozen in time. And over time as we would all know that would be eroded in value and so periodically the Corporation did step up to the plate and change those benefit levels to reflect what had happened with respect to inflation.

But if that was the Wawanesa Insurance Company covering a policyholder with similar circumstances they would not do that. They would leave that customer with the benefit and if it was a hundred and seventy-five dollars ($175) a week they were getting, they get a hundred and seventy-five dollars ($175) until they're no longer a claimant and that could be forever.

THE CHAIRPERSON: No, I don't think the question was aimed at debating the practices of other organizations but when MPI changes a benefit you presumably calculate out the effect of it and a choice is involved. It doesn't happen -- the computer doesn't go in and do it itself.

MS. MARILYN MCLAREN: Got it.

THE CHAIRPERSON: Management makes the choice.

MS. MARILYN MCLAREN: Yes, we agree.

THE CHAIRPERSON: The Board approves it or the Government changes the law. There's some significant event and any major change presumably to, like, RIB, would be presumably costed with the effect on the future; things of that particular nature. That would be the case, would it not?

In other words, if a judge reached a decision that had an impact that was retroactive, well, that would certainly be an unexpected event, but if the Corporation decided to, I don't know, increase all benefits by 30 percent when inflation was 2 percent, that would be a decision reached by the Corporation presumably and its Board and it would be a choice thing; it wouldn't be something that was, if you like, done to the Corporation.

MS. MARILYN MCLAREN: Understood and agree. We agree with that and in the case of the RIB we went through a process to say this is what it would cost on an annual basis to add this benefit and if we were to make it retroactive this is what it will cost with respect to increasing existing claims liabilities. So we went through that two (2) step process.

THE CHAIRPERSON: If at that time of the cost going back the Corporation did not have that money in retained earnings that potentially could have affected the decision then I take it?

MS. MARILYN MCLAREN: Potentially.

THE CHAIRPERSON: I'm just saying, if you didn't have it in reserves, right? And you've made it retroactive then you'd be -- then you'd have to up the premiums to be able to build the RSR back to its --

MS. MARILYN MCLAREN: Yes.

MR. BARRY GALENZOSKI: We're building it through the rate stabilization rebuilding plan not building it through setting rates for the future.

THE CHAIRPERSON: Well, I'm just saying,

you'd have to take into account, if you had the retroactive amount in your reserves you could use it apply and then ongoing. If it wasn't there you'd be into some form of premium surcharge or something.

In other words, you'd have to be -- there would be clearly an accountability factor for the cost of it going forward and back if you'd ever had the reserves to take it?

MS. MARILYN MCLAREN: Yes. The only other point I would make on that is, you know, those kinds of considerations feed into the decision point as to whether you move ahead at all. And in our experience we --

THE CHAIRPERSON: Yes.

MS. MARILYN MCLAREN: -- are unlikely to do something for the future that we can afford but not retroactively because it's not affordable. They really tend to come together at Manitoba Public Insurance.

THE CHAIRPERSON: I understand. And I think Mr. Saranchuk's question was just seeking, you know, discrete examples of where it occurred and clearly this RIB is one of them.

MS. MARILYN MCLAREN: The RIB and the decision to index no fault benefit claimants who were on the books prior to 1994 was the second one that's happened within the last -- those two have both happened within the last ten (10) years.

MR. WALTER SARANCHUK: I intend to move on to another line of questions, sir, in respect of the RSR and I'm wondering whether this is a convenient time to break.

THE CHAIRPERSON: Maybe if it wouldn't be too much of an imposition, Mr. Saranchuk, you could wait until tomorrow.

MR. WALTER SARANCHUK: Thank you, sir.

THE CHAIRPERSON: We'll adjourn for now.

(PANEL RETIRES)

--- Upon adjourning at 4:04 p.m.

Certified Correct

____

Wendy Warnock