MANITOBA PUBLIC UTILITIES BOARD

Re: 2004 MPI RATE APPLICATION

Before Board Panel:
Graham Lane - Board Chairman
Denyse Cote - Board Member
Eric Jorgensen - Board Member

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 12th, 2004

Pages 1 to 215

APPEARANCES

Walter Saranchuk	)Board Counsel
Brian Pelly	)
Roger Cathcart	)
Candace Everard	)
Kevin McCulloch	)MPI
Marilyn Mclaren	)
Barry Galenzoski	)
Wilf Bedard	)
Raymond Oakes	)CMMG
Byron Williams	)CAC/MSOS
Nick Roberts	)MUCDA
Jerry Kruk	)CAA
Margaret Scurfield	)IBAM
George Miller	)
Robert Dawson	)CBA/MBA
Claudio Sousa	)SM
Carol Wilkinson	)Court Reporter

TABLE OF CONTENTS

	Page No.
List of Exhibits	4
List of Undertakings	10
OPENING REMARKS	
MARILYN MCLAREN, Sworn	
BARRY GALENZOSKI, Sworn	
WILF BEDARD, Sworn	
CROSS-EXAMINATION BY MR. WALTER SARANCHUK	66
Certificate of Transcript	220

LIST OF EXHIBITS

Exhibit No.	Description	Page No.
PUB-1	Notice of Public Hearing and Pre-Hearing Conference dated June 15, 2004 - also entered at PHC.	27
PUB-2	Proposed Timetable - also entered at PHC.	27
PUB-3	Draft Rules of Practice and Procedures - also entered at PHC.	27
PUB-4	Transcript of Pre-Hearing conference held July 7, 2004.	27
PUB-5	The Public Utilities Board Procedural Order No. 97/04 dated July 13, 2004.	28
PUB-6	Reminder Notice of Public Hearing dated August 20, ’04.	28
PUB-7	Subsequent Procedural Order No. 107/04 dated August 16, 2004.	28
PUB/MPI-8-1 to 8-50	The Public Utilities Board’s Information Requests and Manitoba Public Insurance’s Responses - 1st Round.	28

LIST OF EXHIBITS (Cont'd)

EXHIBIT NO.	DESCRIPTION	PAGE NO.
PUB/MPI-9-1 to 9-29	The Public Utilities Board's Information Requests and Manitoba Public Insurance's Responses - 2nd Round	28
PUB-10	The Public Utilities Board's Pre-Ask Question.	28
MPI-1-1	MPI 2005 Rate Application - Volume I, filed June 23/04.	29
MPI-1-2	MPI 2005 Rate Application - Volume II, Part 1, filed June 23/04.	30
MPI-1-3	MPI 2005 Rate Application - Volume II, Part 2, filed June 23/04.	30
MPI-1-4	MPI 2005 Rate Application - Volume III, Part 1, filed June 23/04.	30
MPI-1-5	MPI 2005 Rate Application - Volume II, Part 2, filed June 23/04.	30

LIST OF EXHIBITS (Cont'd)

EXHIBIT NO.	DESCRIPTION	PAGE NO.
MPI-2	Affidavit of Catherine Pawella sworn October 1, 2004, with attached exhibits stating all interested parties were served Notice of Public Hearing and Pre-Hearing Conference and rate application dated June 23, 2004	63
MPI-3	Affidavit of Rick Lee Sloan sworn September 29, 2004, with attached exhibits of Notice of Public Hearing and Pre-Hearing Conference dated June 15, 2004 published in the required newspapers.	64
MPI-4	Affidavit of Rick Lee Sloan sworn September 29, 2004 with attached exhibits of Remainder Notice of Public Hearing dated August 20, 2004 published in the required newspapers.	64

LIST OF EXHIBITS (Cont'd)

EXHIBIT NO.	DESCRIPTION	PAGE NO.
CAC/MSOS/ MPI-1-1 to 1-43	Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Senior's Information Requests and Manitoba Public Insurance's Responses - 1st Round.	37
CAC/MSOS/ MPI-2-1 to 2-43	Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Senior's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.	37
CAC/MSOS/ MPI-3-1 to 3-3	Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Senior's Pre-Ask Questions.	37
CMMG-MPI-1-1 to 1-85	Coalition of Manitoba Motorcycle Group's Information Requests and Manitoba Public Insurance's Responses - 1st Round.	54
CMMG-MPI-2-1 to 2-82	Coalition of Manitoba Motorcycle Group's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.	54

LIST OF EXHIBITS

EXHIBIT NO.	DESCRIPTION	PAGE NO.
CMMG-3	Expert Evidence submitted by Hany Rifai, FCAS, FCIA, President, IAO Actuarial Consulting Services Inc. Dated September 27, 2004.	54
CMMG-4-1 to 4-11	Coalition of Manitoba Motorcycle Group’s Pre-Ask Questions.	54
MBA/MPI-1-1 to 1-107	Manitoba Bar Association’s Information Requests and Manitoba Public Insurance’s Responses - 1st Round.	53
MBA/MPI-2-1 to 2-17	Manitoba Bar Association’s Information Requests and Manitoba Public Insurance’s Responses - 2nd Round.	53
MUCDA/MPI-1-1 to 1-15	Manitoba Used Car Dealers Association’s Information Requests and Manitoba Public Insurance’s Responses - 1st Round.	61

LIST OF EXHIBITS

EXHIBIT NO.	DESCRIPTION	PAGE NO.
MUCDA/MPI-2-1 to 2-7	Manitoba Used Car Dealers Association's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.	62
SM/MPI-1-1 to 1-7	Scootering Manitoba's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.	61
SM-2	Scootering Manitoba's Pre-Ask Question.	61

LIST OF UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
1	The particulars relative to the Canadian equity fund investment experience at this point in time, incorporating in the information, the same kind of a table as shown on page 2 of the answer, except it would be with regard to the Canadian experience.	174

--- Upon commencing at 8:05 a.m.

THE CHAIRPERSON: Good morning, Ladies and Gentlemen. I call this MPI General Rate Hearing to order.

The Manitoba Public Insurance Corporation has applied to the Public Utilities Board for approval of its premiums. The Corporation's Application includes references to rates, fees, and other matters with respect to vehicle premiums, drivers' license premiums, motorcycle vehicle-type differentials, commercial vehicles, service and transaction fees, permits, and certificate fees and miscellaneous matters.

This Hearing in Process in accordance with the provisions of the Crown Corporation's Public Review and Accountability Act and the Public Utilities Board Act. In its Application, MPI indicates that premium rates would take effect on March 1st, 2005 and are based on no overall change in written premium revenue.

I am Graham Lane, Chairman of the Public Utilities Board and I'm joined by two (2) other Board members. To my right, Ms. Denyse Cote and to my left, Mr. Eric Jorgensen. And with us today is Mr. Gerry Barron, Executive Director and Secretary to the Board, Hollis Singh, the Associate Secretary, may drop in from time to time and Walter Saranchuk, Board Counsel.

The Board has also retained the services of Price Waterhouse Coopers. Mr. Roger Cathcart is not quite here yet, but he will be and Mr. Brian Pelley of Ecklar Partners will also be coming.

Transcripts of this hearing will be recorded by Digi-Tran and made available on their website as well as in hardcopy.

Our current expectation is that we will sit three (3) days this week, the twelfth, the thirteenth and the fifteenth, the eighteenth and twenty-first next week and hear final arguments on the twenty-fifth of the week following. We do not presently expect to meet on the twenty-second, as was talked on before, and if the Hearing process takes longer than expected, we will set aside additional days and consult with the parties in advance.

We will begin each morning at nine o'clock, adjourn for a break midmorning and again for lunch. IN the afternoon, we'll begin at 1:30 and adjourn at 4:00.

Following closing arguments, the Panel, myself and my two (2) colleagues will sequester ourselves as required with our advisors and deliberate to reach our final determination on the matters before us. In the end, we may accept, deny or vary the Company's Application. Whatever decisions we make will be made very carefully with the implications and consequences as understood as best as possible.

In reaching our decision, we'll be guided by the evidence, written and oral, and our determination of what represents the public interest. We are concerned not only with the short-term economic impact on the Corporation and on its ratepayers, but also the fairness of the impact and the long-term physical and operating health of the Corporation.

I think it goes without saying that our expectations of all that appear before us include: Effective participation and on-the-point wandering presentations or off-the-point inquiries can drive up our cost and time, comprehensive presentation and examinations towards achieving the objective assisting the Panel in making truly proper decisions, the employment of a cooperative approach by all useful evidence and examination being with respect to the objective for the process, which is assisting this Panel in reaching a sound decision on the matters before it.

As with our longstanding practice, the need for civility is understood. People in organizations can disagree. That's to be expected, but the way in which the disagreement is expressed can be helpful to the process or damaging. We have weighty and complex issues before us and I'm confident that we can all approach this process with a view that together we can make it work.

Before dealing with the matters at hand, the

Board notes the presence of Ms. Marilyn McLaren, who is the new President and CEO of MPI. Ms. McLaren takes up her post following the retirement of Mr. Jack Zacharias, spanning three (3) decades and several roles, concluding with that of President. Mr. Zacharias' contribution to MPI ratepayers in Manitoba was significant. The Board wishes -- wishes him well in his retirement, as it wishes Ms. McLaren, who also has a lengthy work record with MPI, most recently as a VP, success in her new post.

I will now call on all the participants at the Hearing to identify themselves, starting with Board Counsel, then MPI, followed by the Intervenors. Mr. Saranchuk...?

MR. WALTER SARANCHUK: Thank you, sir. Good morning, Mr. Chairman, Panel Members, ladies and gentlemen. My name is Walter Saranchuk of the Pitblado Law Firm. I appear as Board Counsel.

Assisting me, to my far left, is My Colleague, Candace Everard from our firm, and we are joined by the Board's advisors, to my immediate right, Mr. Roger Cathcart of the accounting firm of Price Waterhouse Coopers. To my immediate left, Mr. Brian Pelley of the actuarial firm of Ecklar Partners.

THE CHAIRPERSON: Thank you, Mr. Saranchuk. Now, MPI, Mr. McCulloch...?

MR. KEVIN McCULLOCH: Good morning, Mr.

Chairman, my name is Kevin McCulloch, I'm appearing as Counsel for the Applicant today. Good morning also, to the rest of the Members of the Board.

To my immediate right I have, as you have noted, Mr. Chairman, the newly minted President and CEO of Manitoba Public Insurance, Ms. Marilyn McLaren. To her right, we have Mr. Barry Galenzoski, Vice-President of Finance and to my left, we have Mr. Wilf Bedard, who's the Vice-President of Claims.

We also have a formidable back table that I'd like to introduce at this time. Working from my far right, the anonymous Mr. John Douglas, VP of Public Affairs, is seated near the door. Next to him we have Mr. Peter Dyck, and I better get these titles correct. Mr. Dyck is Director of Finance and Corporate Controller. Next to Mr. Dyck we have Mr. Mel Stadnyk, who's the Manager of Financial Services, then Mr. Don Palmer, who's the Manager -- or Director of Actuarial Services at MPI. Next to Mr. Palmer we have Mr. Darko Mensa, who's the Manager of Regulatory Affairs at MPI.

Thank you, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. McCulloch. Now we'll move on to the Intervenors. The first one (1) to make opening remarks would be Mr. Williams, for CAC/MSOS. Mr. Williams...?

MR. BYRON WILLIAMS: Good morning, Mr. Chair, and Members of the Panel. Mr. Chair, are you just seeking introductions right now?

THE CHAIRPERSON: Yes.

MR. BYRON WILLIAMS: I'm Byron Williams. We don't have as complicated of a job title system as Manitoba Public Insurance, so I'm an attorney with the Public Interest Law Centre.

Hidden very close to Mr. Douglas is an articling student from our firm, Ms. Amy Kraft. I'm not sure if you can see her -- oh, there she is. And popping in during the Hearing will be both the Executive Director of the Consumers' Association, Ms. Gloria Desorcy, and also the new Executive Director of the Manitoba Society of Seniors, Ms. Lori Hunt, who I believe you've had occasion to meet in a couple of Hearings.

THE CHAIRPERSON: Thank you, Mr. Williams. Now, for the Coalition of Manitoba Motorcycle Groups, CMMG, Mr. Oakes.

MR. RAYMOND OAKES: Good morning, Mr. Chairman, Board Members, ladies and gentlemen. My name is Raymond Oakes, I'm an attorney with the law firm of Booth Dennehy. I've been the CMMG counsel since 1992, when the CMMG first became a registered Intervenor, and of course we've appeared each year since that time.

You'll notice that this morning we're putting the public in Public Utility Board Hearings. You'll notice a number of CMMG members that have taken time away from their vocations, road through the chilly morning to demonstrate to this Board, their concern over the escalating motorcycle rates. So, we look forward to their participation and our intervention in these Hearings.

THE CHAIRPERSON: Thank you, Mr. Oakes. We'll now move to the Manitoba Used Car Dealers. Mr. Roberts...?

MR. NICK ROBERTS: Thank you, sir. Mr. Chairman, ladies and gentlemen, Members of the Board, for the record my name is Nick Roberts, I'm the Executive Director of the Manitoba Used Car Dealers Association.

Thank you, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Roberts. For the Canadian Automobile Association of Manitoba, CAA, Mr. Kruk.

MR. JERRY KRUK: Thank you, Mr. Chairman, Members of the Board, my name is Jerry Kruk, and unlike the past President of the MPI, some of us that are most recently retired are still here because we love these Hearings so much. So, that's the reason I'm here.

But with me today is the fellow that is succeeding me is the President of CAA Manitoba, Mike Major, to my left, and in behind me is Jeannie Dolman (phonetic).

Thank you, sir.

THE CHAIRPERSON: Thank you. For the Insurance Brokers Association of Manitoba, Mr. Scurfield.

MS. MARGARET SCURFIELD: Mrs. Scurfield.

THE CHAIRPERSON: I apologize.

MS. MARGARET SCURFIELD: No, that’s fine. Good morning, Mr. Chair, and Members of the Board. I represent the Insurance Brokers Association of Manitoba. I’m their Chief Executive Officer and along with me today I have our President, George Miller, he’s with Stewart Greenslade (phonetic) from Portage, Manitoba.

THE CHAIRPERSON: Thank you, Ms. Scurfield. For the Manitoba Bar Association, Mr. Dawson.

MR. ROBERT DAWSON: Good morning, Mr. Chairman, Members of the Board, my name is Robert Dawson of the Winnipeg law firm, Dawson Law Chambers. I appear on behalf of the Manitoba Bar Association, to which this Board has kindly granted intervenor status.

I can indicate that seated behind me in the gallery is Ms. Stacey Nagel, the Executive Director of the Manitoba Bar Association. And as I think the Intervenors and other parties here know, this afternoon we’ll be visited by Ms. Veronica Jackson, who will be making a presentation. Thank you. We’re ready to proceed.

THE CHAIRPERSON: And finally, in

introductions, we have Scootering Manitoba. I think it's Mr. Sousa.

MR. CLAUDIO SOUSA: Thank you, Mr. Chairman, Panel Members. My name is Claudio Sousa, I'm the President of -- and founder of -- Scootering Manitoba. Joining me to my left this morning is our Director of Safety, Mr. Russ Watts.

Like many of the motorcycles this morning, we have a number of moped riders in the audience this morning that also braved the chilly weather and the humiliation of being seen beside a larger bike, so to ride down this morning in -- in protest. So, we are -- we are ready -- ready to proceed and although I'm -- I'm not a -- I'm not a member of the Bar, I did have a very argumentative younger sister, so I feel my litigation skills are probably up to par.

THE CHAIRPERSON: Thank you very much. So, now I would imagine, Mr. Saranchuk, we'll move on to the presentation by MPI. To begin with, Mr. Barron, would you kindly have MPI's Panel sworn or affirmed?

MR. WALTER SARANCHUK: Sir, I think's it's a question of the opening remarks by each of the Participants at this stage.

THE CHAIRPERSON: Okay, we'll go back to that. Mr. Saranchuk...?

MR. WALTER SARANCHUK: Thank you, sir. This

Hearing is with regard to the Application by MPI for approval of its rate bases and premiums charged, that is, MPI’s rates for services for compulsory driver and vehicle insurance under Autopac’s basic automobile insurance plan for the 2005/06 insurance year, that is, for the period from March 1st, 2005 to February 28, 2006.

MPI’s Application was filed on June 23rd, 2004 and the Notice of Public Hearing and Pre-Hearing Conference and the Reminder Notice of Hearing were both published thereafter and served as required.

Pursuant to the Crown Corporation’s Public Review and Accountability Act, the Public Utilities Board Act, the Corporation is requesting approval for basic Autopac rates effective March 1st, 2005, which will leave overall premium revenue unchanged from last year. However, the changes proposed for 2005/2006 will affect average base premiums for the major vehicle classes as follows:

For private passenger vehicles, and there are six hundred and forty-two thousand eighty-six (642,086) of them, a 0.1 percent rate increase.

For commercial vehicles, and there are forty-one thousand seven hundred and fourteen (41,714) of them, a 0.2 percent decrease.

For public service vehicles, which number nine thousand three hundred and sixty (9,360), a 1.1 percent rate increase.

For motorcycles, which number nine thousand one hundred and thirty-three (9,133), a 15 percent increase.

For trailers, a one hundred (100) -- and there are one hundred and three thousand five hundred and thirty-one (103,531) of them, a 22.2 percent decrease, and

And for off-road vehicles, there are twenty-nine thousand, seven hundred and thirty-seven (29,737) of them, a 40.9 percent decrease.

So, overall, for a total of eight hundred and thirty-five thousand five hundred and sixty-one (835,561) registered vehicles, a zero change in premiums overall is sought.

The impact of rate adjustments on the total vehicle population will be distributed as follows:

51.5 percent of vehicles will receive a rate decrease. Most decreases will be less than 50 percent.

1.6 percent of vehicles will receive no change in the rate.

22.9 percent of vehicles will receive a rate increase of up to twenty dollars ($20.00).

18.9 percent of vehicles will receive an increase between twenty dollars ($20.00) and fifty dollars ($50.00).

3.7 percent of vehicles will receive an

increase between fifty dollars ($50.00) and one hundred dollars ($100.00).

And 1.4 percent of vehicles will receive an increase greater than one hundred dollars ($100.00).

Actual changes to an individual's premium will vary depending on the owner's claim experience, driving record, insurance use, territory and vehicle rate-group. The cumulative effect of these variations on individual rates will all fall within the dollar amounts that I mentioned.

The Corporation is proposing to reduce the administration fee for monthly premium payments from eight dollars ($8) to four dollars ($4). No changes are proposed to fleet rebates and surcharges, existing driver's license premiums or accident surcharges, other existing time payment fees or other existing service and transaction fees.

The Corporation proposes the following rate adjustments for policies issued during the 2005 insurance year:

Experience base rate increases and decreases to individual classes, ranging from plus 15 percent to minus 15 percent, with the following exceptions;

First, increases for dealer plates, ranging from 20 percent to 25 percent.

Secondly, increase for mopeds averaging 110 percent, or an average of fifty-three dollars ($53) per moped.

And thirdly, decreases for motor scooters, ranging from 40 percent to 50 percent.

For passenger vehicles and trucks, classification offsets ranging from minus 15.2 percent to 17.5 percent, are -- plus 17.5 percent are being proposed, to achieve revenue neutrality from rate-group adjustments.

For commercial vehicles there's to be an expansion of the Corporation's merit discount program, to include vehicles insured as artisan trucks, less than sixteen thousand three hundred and thirty (16,330) kilograms, and common carrier trucks, delivering within the City or Municipality, or common carrier trucks, delivering within one hundred and sixty-one (161) kilometres in Manitoba.

For motorcycles, no classification offsets from rate-group adjustments are involved, resulting in rate changes between 0 percent and 15 percent, in addition to rate -- to experience adjustments.

There are also to be lower rates for off-road vehicles and most trailers, through a reduction in the allocation of operating costs to those classes, which was begun three (3) years ago.

I now would request that the following documents be entered into the evidence as Exhibits of the Public Utilities Board.

Firstly, Exhibit PUB-1, a Notice of Public Hearing and Pre-Hearing Conference, dated June 15th, 2004.

As PUB-2, proposed -- the proposed time table.

As Exhibit PUB-3, the draft rules of practice and procedure.

As Exhibit PUB-4, the transcript of the Pre-Hearing Conference held on July 7th, 2004.

As Exhibit PUB-5, the Public Utilities Board Procedural Order number 97/'04, dated July 13th, 2004.

As Exhibit PUB-6, the Reminder Notice of the Public Hearing, dated August 20th, 2004.

As Exhibit PUB-7, the Subsequent Procedural Order Number 107/'04, dated August 16th, 2004.

As Exhibit -- as Exhibits PUB-8-1, through to 8-50, that's five zero (50), the Public Utilities Boards Information Requests and Manitoba Public Insurance's Responses on the first round.

As Exhibits PUB-MPI-9-1- through to 9-29, the Public Utilities Boards Information Requests and Manitoba Public Insurance's Responses on the second round.

As Exhibit PUB number 10, the Public Utilities Board Pre-Ask Questions of MPI, or Pre-Ask Question, there was one (1) of them, of MPI.

And as Exhibit PUB number 11, the Book of

Documents that was distributed this morning, on behalf of the Public Utilities Board, by its counsel.

Relative to MPI's Application, cross-examination of the -- or on behalf of the Board, will focus on the following major issues.

Firstly, under the heading Revenue Requirement, the base premiums and rate philosophy, in light of the 0 percent rate change.

Secondly, net income calculation factors, particularly regarding investment income.

Thirdly, claims experience and forecasting, then the rate stabilization reserve, which carries the acronym RSR, and the special risk extension, or SRE and extension transfers.

The DDVL integration, that's the Department of Driver and Vehicle Licensing integration. Also, the claims costs with reference to PIPP, the Personal Injury Protection Plan, and in particular, the operating cost allocation.

Under the heading of Rate Design we'll be dealing with motorcycle rates, including the loss transfer concept, and finally, the rate making model and rate shock considerations.

For the procedure to be followed at the Hearing, I would refer to the procedural outline that has been distributed.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And there you will note the order of matters to be heard, and the order of cross-examination on the second page.

Then as indicated, I can say it by the Chairman, the Board will sit today, tomorrow and Friday this week, then Monday, October 18th, and Thursday, October 21st next week, and on Monday, October 25th, which may or may not be the date for closing argument, depending on how the evidence goes.

We will start at 9:00 a.m. each day, break for lunch at noon, reconvene at 1:30, and adjourn at 4:00 p.m. each day.

There will be a mid morning coffee break each day as well.

Those are my opening comments, Mr. Chairman. Thank you.

THE CHAIRPERSON: Thank you, Mr. Saranchuk. Mr. McCulloch, do you have any problems with those exhibits being put on the record.

MR. KEVIN McCULLOCH: No, Mr. Chairman.

THE CHAIRPERSON: Okay. So, entered.

--- EXHIBIT NO. PUB-1: PUB-1Notice of Public Hearing and

Pre-Hearing Conference dated June 15, 2004 - also entered at PHC.

--- EXHIBIT NO. PUB-2: Proposed Timetable - also entered at PHC.

--- EXHIBIT NO. PUB-3: Draft Rules of Practice and Procedures - also entered at PHC.

--- EXHIBIT NO. PUB-4: Transcript of Pre-Hearing conference held July 7, 2004.

--- EXHIBIT NO. PUB-5: The Public Utilities Board Procedural Order No. 97/'04dated July 13, 2004.

--- EXHIBIT NO. PUB-6: Reminder Notice of Public Hearing dated August 20, '04.

--- EXHIBIT NO. PUB-7: Subsequent Procedural Order No. 107/04 dated August 16, 2004.

--- EXHIBIT NO. PUB/MPI-8-1 to 8-50:
The Public Utilities Board'S

Information Requests and
Manitoba Public Insurance's
Responses - 1st Round.

--- EXHIBIT NO. PUB/MPI-9-1 9-29:
The Public Utilities Board's
Information Requests and
Manitoba Public Insurance's
Responses - 2nd Round.

--- EXHIBIT NO. PUB-10: Public Utilities Board Pre-Ask
Question.

THE CHAIRPERSON: Mr. McCulloch, do you have any opening remarks?

MR. KEVIN McCULLOCH: Mr. Chairman, other than to indicate that the Panel is prepared and the Applicant is ready to proceed, I also can indicate that once the Panel has been sworn, there are some filings that I will have, some original affidavits.

And finally, if we could enter the MPI exhibits at this point. Currently listed in the materials circulated, MPI-1-1 to 1-5, included, which covers the Rate Application -- the volumes of the Rate Application.

We then have Exhibit MPI-2, which is the

Affidavit of Service of Exhibits and the Notice of Hearing.

And Affidavits 3 and 4, which cover the Publication of the Notice of Hearing and the Reminder Notice in the prescribed newspapers.

As I say, once the Panel has been sworn, I'll provide the originals of those last three (3) exhibits, to the Board Secretary for filing.

THE CHAIRPERSON: Thank you, sir. So entered.

--- EXHIBIT NO. MPI-1-1: MPI 2005 Rate Application - Volume I, filed June 23/'04.

--- EXHIBIT NO. MPI-1-2: MPI 2005 Rate Application - Volume II, Part 1, filed June 23/04.

--- EXHIBIT NO. MPI-1-3: MPI 2005 Rate Application - Volume II, Part 2, filed June 23/04.

--- EXHIBIT NO. MPI-1-4: MPI 2005 Rate Application - Volume III, Part 1, filed June 23/04.

--- EXHIBIT NO. MPI-1-5: MPI 2005 Rate Application - Volume II, Part 2, filed June 23/04.

THE CHAIRPERSON: Mr. Williams...?

MR. BYRON WILLIAMS: Yes, good morning again, Mr. Chairman and Members of the Panel.

I can indicate that I have located Ms. Desorcy. Mr. Barron generously escorted her to a spot somewhere behind and to the right of Mr. Cathcart. So, I hope her distance from me is not some signal of her displeasure with my performance in recent weeks.

Ordinarily in the year where there's no overall rate increase sought, we might expect this to be a relatively quiet, peaceful Proceeding. Maybe a status quo Proceeding.

However, as I'm sure going to hear from My Friend, Mr. Oakes, and also my -- my new Friend, Mr. Sousa, those organizations whose members are facing substantial rate increases, are not going to go gentle into that good regulatory night.

So, I suspect that much of this Hearing will be dominated by talk about the relative risks and dangers of choosing to drive a motorcycle or a scooter, versus the impact of successive years of -- of rate increases, upon classes of -- of drivers such -- of vehicle owners, such as motorcyclists.

And I expect, during the course of this Hearing, you'll hear a lot about the plight of those facing very real, very material rate increases.

And from my client's perspective, this is a worthy and important debate. It's a debate, albeit one (1) that we've heard for a number of years, that deserves your full attention.

But as you ponder that important issue, I would urge you on behalf of my clients, not to lose sight of what is in their submission, another very important issue. An issue with far ranging and long term implications for Manitoba Public Insurance and for vehicle owners and drivers in Manitoba.

And that's regardless of what kind of vehicle they choose to drive, because in my client's perspective, and from their perspective, the dominant issue in this Proceeding should be the dramatic escalation in costs that have been experienced by this Corporation over the past few years.

Because, I think when you review the record, you'll agree with my clients that while there is no general rate increase being sought, this is not a status quo rate application, and when you look at the claims incurred and the collision trends, we think you'll agree with my clients that these are not status quo statistics.

Perhaps the best way to put these statistics into perspective is to take a glance at history. Consider that for the better part of a decade, from 1993/'94 to the year 2000/2001, claims incurred never cracked that magic $400 million barrier. In fact, for seven (7) of those eight (8) years, they hovered in the range between three hundred (300) and $350 million.

We finally and sadly surpassed the $400 million barrier in the '01/'02 year and a scant two (2) years later, the $500 million barrier for claims incurred was cracked. So, in just a couple of years, this Corporation has gone from a period of relative claims incurred stability to a far higher plateau and my clients believe that when you look at the -- the collision covers, you'll find a similar trend.

For well over a decade, from the late 1980s through to 2001/'02, collision covers were in the range between seventy-three thousand (73,000) and eighty-six thousand (86,000). Again, in '02/'03, we cracked the ninety thousand (90,000) barrier and in '03/'04, collision covers came within a whisker -- less than a thousand (1,000) covers -- of cracking the hundred thousand (100,000) cover barrier, the five hundred million (500,000,000) for claims incurred, the one hundred thousand dollar ($100,000) barrier for collision covers broken, or on the verge of being broken, and from my Client's perspective these are very disturbing -- frankly bad -- statistics.

So, from my Client's point of view, perhaps the key question for this Panel in this Hearing is whether Manitoba Public Insurance and Manitoba drivers and Manitoba vehicle owners have done everything within their power to curb these escalating costs and the very real economic and social consequences of the choices that we make every day in terms of the type of vehicle we choose to drive, be it an SUV or a motorcycle, and in terms of how we conduct ourselves -- how we drive those vehicles. Have we done everything we can to curb that dramatic change in the status quo?

And on a preliminary basis, we think that you'll conclude, when you look at the data that Manitoba Public Insurance has provided, that we haven't done enough. When we look at the trends in net claims incurred, and in total costs and we compare it to what the sister Crowns are experiencing in Saskatchewan or in British Columbia we'll see, at least at first glance, that Manitoba Public Insurance has performed relatively poorly compared to its sister Crowns over the past decade.

And we think that conclusion may be reinforced when we look at Manitoba Public -- Manitoba's performance -- not just Manitoba Public Insurance -- but Manitoba's performance in terms of road safety, when we look at those key indicators like injuries per a million kilometres travelled and fatalities per million kilometres travelled.

So, from my Client's perspective and preliminary conclusion, much more needs to be done in terms of mitigating the pressures on cost. And they intend to do that both through a rigorous examination of the existing programs that Manitoba Public Insurance is operating and also through what they hope to be an open minded discussion of best practices that are going on elsewhere in Man -- in Canada. What's SGI doing? What's ICBC doing? What is the Workers' Compensation system in Manitoba which operates a no-fault model doing?

So, much of the focus of my client's participation in this proceeding will be on understanding what's driving the costs of the Corporation and in terms of brainstorming about what best practices may be out there to mitigate that escalation.

I note, Mr. Chairman, in your opening comments and I'm very mindful of those words you -- you observed that the Panel may accept, deny, or vary the Application in Manitoba Public Insurance. And, a final point my clients asked me to make is that, last year they endorsed a rate increase that was greater than was sought by Manitoba Public Insurance, out of a concern that the Corporation was not budgeting to break even. And in hindsight, their endorsement and the Board's Judgment in that case, proved to be very prudent.

The point my clients wish to make in this proceeding, is that they are not going to be endorsing any such rate increase, in this -- in the face of the cost escalation. They think it's far more important to understand what's driving these costs and moving to be confident that MPI is moving to aggressively work to mitigate these pressures.

So, just in concluding, my clients, despite the fact that no general rate increase is being sought, they don't see the Hearing as a status quo Hearing, not as a Hearing in which they will take a lot of comfort. They see it as a Hearing for reflection and an opportunity to get ahead of that issue of cost escalation, start a dialogue that may take a couple years in terms of the best practices elsewhere and within MPI that can help us to mitigate and hopefully control some of these costs.

On behalf of my clients, I do wish to say fond good-byes to Mr. Kruk and to Mr. Zacharias, they'll miss them both for their humour and their insight, and a fond good luck to Ms. McLaren, I think she'll need it, and although we're very confident she can achieve all the challenges without any rate increases.

In terms of exhibits, we would ask the Panel to exhibit -- to enter as Exhibit CAC/MSOS/MPI-1; 1-1 to 1-43, the First Round Interrogatories of CAC to Manitoba Public Insurance.

And as Exhibit CAC/MSOS/MPI-2-1 to 2-43, the Second Round Interrogatories of CAC/MSOS to MPI.

And finally, as Exhibit CAC/MSOS/3-1 to 3-3, the three (3) Preasts that were posed by CAC/MSOS to MPI.

Those conclude our opening comments.

THE CHAIRPERSON: Thank you, Mr. Williams. Mr. McCulloch, do you have any problems with these exhibits?

MR. KEVIN McCULLOCH: No, Mr. Chairman.

THE CHAIRPERSON: Okay, so entered.

--- EXHIBIT NO. CAC/MSOS/MPI-1, 1-1 to 1-43:
Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Senior's Information Requests and Manitoba Public Insurance's Responses - 1st Round.

--- EXHIBIT NO. CAC/MSOS/MPI-2-1 to 2-43:
Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Senior's Information Requests and Manitoba Public Insurance's

Responses - 2nd Round.

--- EXHIBIT NO. CAC/MSOS/3-1 to 3-3:
Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Senior's Pre-Ask Questions.

THE CHAIRPERSON: Thank you. Mr. Oakes, do you have any opening remarks?

MR. RAYMOND P. OAKES: Yes, Mr. Chairman. Thank you for that opportunity.

As I indicated earlier this morning, the CMMG has been a Intervenor in MPI's General Rate Application before this Board since 1992. Over the past fourteen (14) years, we voiced our opposition to massive rate shocks visited upon the two-wheeled sector of Manitoba's motoring public. The last decade has seen yearly increases of 15 percent each year, so that the rate has increased over 315 percent over the last decade.

Mr. Saranchuk was good enough this morning to review the rate increases for the major rate-groups. I'd like to bring it home to the Board and those assembled this morning, what it means on an individual basis to the people that are here this morning.

This year, if the MPI Rates Application is approved, six thousand three hundred and eighty-two (6,382) motorcyclists will face increases, more than half of those will have increases in excess of one hundred dollars ($100), many will have increases of more than two hundred dollars ($200), and some will have increases of over five hundred dollars ($500).

If approved, Mr. Chairman, the average motorcycle premium will be in excess of one thousand dollars ($1,000).

On a percentage basis, twenty-five hundred and twelve (2,512) motorcyclists will see a 16.5 percent increases, twelve hundred and thirty-one (1,231) sport bikes will have a 26.49 percent increase, eight hundred and seventy-one (871) touring bikes will have a 17.2 percent increase.

Overall, four thousand six hundred and fourteen (4,614) motorcyclists will have a 19.65 percent increase, with some facing more than a 32 percent increase. This massive rate shock must be prevented and the CMMG looks to the new Chair and to this Board, for protection from unsubstantiated and unjustified increases.

MPI has gotten away for years with claiming that they have a rate requirement each year of some thirty-five (35) or 37 percent. This is even though each year they receive a 15 percent increase and we’ve had a decade of these huge increases.

This imaginary rate requirement is always a moving target. Each year we never seem to get closer, despite these increases, even though the frequency is relatively flat, and the experience only changing with the fluctuations, which appear randomly in a small pool of vehicles, like motorcycles.

MPI seeks to cloak these many subjective conclusions and assumptions with a mantle of science. In this case actuarial science, to justify their predetermined plan for a cash grab of the expense of this very small class of insured. The CMMG will show this year, over the course of the Hearing, the inaccuracy of their conclusions, and demonstrate the lack of validity of key components of the rate making.

An example of this is the issue of credibility, which will be demonstrated by the CMMG expert witness, who testifies on October 21st, 2004, and that is of course the actuary from IAO Actuarial Consultants.

We'll examine the lack of statistical testing of the rate-line adjustment, and deal with such issues of equity, fairness and discrimination, such as the failure of MPI to utilize loss transfer in a no fault environment.

Mr. Chairman, we look forward to the opportunity to assist the Board in testing the Application, and trust that the Board will take a keen interest in ensuring the treatment of this class of insured, is not unfair, prejudicial or inequitable. And those are my comments this morning.

THE CHAIRPERSON: Thank you, Mr. Oakes. Mr. Roberts...?

MR. NICK ROBERTS: Thank you, Mr. Chairman. In this General Rate Application, the Manitoba Used Car Dealers' Association will address the large increase the Corporation is seeking for dealer plates. We look forward to the chance to test the Corporation's Application this year. And those are my opening comments, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Roberts. Mr. Kruk...?

MR. JERRY KRUK: Thank you, Mr. Chairman, I'd like to pick up a little bit on what My Learned Friend spoke about, in terms of costs. And specifically, from CAA's perspective, for the last thirteen (13) years, we have continually emphasized the whole issue of automobile theft. And we've been consistent with saying, we were either setting records each and every year, or I think along the way over the last thirteen (13) that we've participated in, there might have been one (1) year that one (1) of the other Provinces nosed us out.

But we're back on top again, and I -- I want to zero in and specifically talk about this being a cost to all of us that pay Autopac rates, because the system that was set up by MPI, as it related to putting in ignition interlocks, and thereby reducing your Autopac rates by forty dollars ($40), we said a couple of years ago that that made no economic sense to those people that we were asking to buy these particular items.

And in fact, I think the record shows that, because some -- at most a hundred (100) or several hundred (100) people in the whole populous of Manitoba, has gone ahead and done that.

So, it makes no economic sense, and yet the cost of all that -- all those automobile thefts are in fact thrown back on the rest of us ratepayers.

So, from our perspective, that continues to be something that we believe has to be addressed by the entire process here, and -- and like Mr. Williams, we believe that's a cost that we need to address. Other than that, we will continue to be a participant, and -- and have been, as you know, a -- have provided a watching brief on the entire operation, and that's exactly where we'll be coming from. Those are my remarks, Mr. Chairman.

THE CHAIRPERSON: Thank you, sir. Ms. Scurfield...?

MS. MARGARET SCURFIELD: Mr. Miller will bring comments from the Insurance Brokers.

MR. GEORGE MILLER: Good morning, Mr. Chairman, Members of the Board, ladies and gentlemen. I'm here this morning representing the Insurance Brokers Association of Manitoba and acting as President.

The Insurance Brokers Association of Manitoba represents 85 percent of the insurance brokers in Manitoba. This translates into over fourteen hundred and fifty (1450) owners, managers and employees.

Our members are located in every area of the Province, and are heavily involved in local communities and neighbourhoods. Our Association members are proud to be the main distribution system for MPI products and services.

In addition to distributing MPI products, independent brokers offer other services that include homeowner, farm, commercial and health insurance.

Presently, our rural members provide for the issuing of drivers license and photos. All of this goes hand in hand with MPI's mandate to provide auto insurance coverage to all Manitobans. We, at the Insurance Brokers' Association of Manitoba believe that we provide a very valuable service to both MPI and the driving public.

All of our members are trained to provide this knowledgeable, efficient and helpful service. Each year all of our members take continuing education to ensure consistent advice to our clients.

The recent announcement to merge MPI and DDVL Department of the Provincial Government, presents more opportunities to enhance our association's relationship with MPI.

Two (2) of the main goals of the merger between Driver and Vehicle Licensing and Manitoba Public Insurance are to improve customer service and to become more efficient. As a strategic partner with MPI, our association hopes to expand our services to possibly include some DDVL functions and to achieve the two (2) goals I just stated. We also wish to continue to renew the drivers licenses.

Over the past few years MPI has announced several initiatives to improve service for all Manitobans and our members have been there on every occasion. The next initiative, which is right around the corner, is Electronic Document Management Project. The implementation of this project will drastically improve the efficiency of the distribution of MPI products, as well as those that were provided by DDVL. Our association has partnered with MPI to ensure that this project succeeds.

Each of our member offices will have to incur substantial capital costs to get the project operating. In cooperation with MPI and our member brokers, we think that the capital costs will be realized in savings over the next few years. In addition, MPI will realize savings by cutting back on storage of transaction, batching, etc. This will be win/win situation for both brokers and MPI.

I would also like to mention another important initiative, that over the last twelve (12) months, has now been fully developed. The Auto Broker Technical Course for Brokers was completely developed last year and several courses have now been offered. It has proven to be very successful and is a valuable tool for many of our broker offices. This is a fine example of the cooperation and relationship that our association has with MPI. Both of us were heavily involved in the course development and delivery and at the end of the day our consumers will receive more knowledgeable service.

To conclude, our members are professionals and they continually strive to upgrade their skills with continuing education, which in turn, will provide the best service possible for insurance buying Manitobans. We also continue to work with MPI to increase efficiencies and provide the best of service in the distribution of their products.

I'd like to congratulate Marilyn McLaren on her appointment as President and CEO of MPI and to thank Jack Zacharias for his many years of service. Our association looks forward to a long and continuing strategic partnership with MPI. Thank you.

THE CHAIRPERSON: Thank you, Mr. Miller. I move to the Manitoba Bar Association. Mr. Dawson...?

MR. ROBERT DAWSON: Thank you, Mr. Chairman. My colleagues who practice in the area of Family Law often tell me that the majority of disputes, at least between spouses, has something to do with fights over money. And in those cases it seems that even the richest couple always finds that there are limits on their income, and even those who are most generous always have difficulties as to how that money should be spent.

Now at the risk of turning the Public Utilities Board into divorce court, I'm going to suggest to you that a similar dynamic is at work today.

In essence, the Applicant wants money from policy holders and it has a certain idea of how it wants to spend that money. Some policy holders just don't want to give as much as is being asked, while others are objecting to the way in which that money will be spent. So, instead of fighting over, let's say, the purchase of a big screen TV or Prada shoes, substitute reserve funds and injury compensation and you almost have the same fight right here.

In these proceedings, the Manitoba Bar Association intends to leave most of the spousal squabbling, shall we say, to the Applicant and the Parties that appear here every year, actuarial analyses in hand. Now, while these groups are going to presumably act out scenes from "The Honeymooners" or "Married with Children", the Bar Association plans more to paint with a broader brush, and merely give the Board points to consider, as it weighs the Application before it.

Of course revenue largely determines how the Corporation handles and pays out claims, and it follows that any pressures upon available revenue, whether through expenses incurred, such as Mr. Williams was earlier mentioning, or because of lower rates, such as other groups would like to see, it follows that pressures upon those available revenues, will inevitably affect how MPI operates.

Sometimes the effects of revenue driven pressures are going to be inadvertent or even subliminal, however, in this particular Proceedings, the Manitoba Bar Association hopes to show that at least in the case of victims of personal injury sustained arising out of the operation of motor vehicles, there are systemic flaws in the Corporation’s attitudes and operations. And these flaws lead to unfairness and inconsistency.

In short, the evidence will suggest that MPI operates in such a way that some claimants do not enjoy the insurance coverage that they reasonably expected to get, and that the statutory scheme contractually mandated they should receive.

This problem of course is made worse by the fact that according to numbers that were put forward by Mr. McCulloch in the previous year before this Board, only one (1) or 2 percent of personal injury claimants received the help of a lawyer or other advocate when they deal with MPI. Contrast that figure with almost one third (1/3) of claimants who had such expert help in the days before the introduction of PIPP or as it's now commonly sometimes called, the No Fault Insurance Scheme.

Now, this statistic has profound consequences on the way in which MPI ought to pay out and handle personal injury claims, because these claimants almost certainly lack the ability to build a case, ask the right questions, and effectively argue their position. It therefore becomes all the more important that MPI must not adopt an adversarial or even aggressive posture towards claimants.

The consequences of unfairly handling a personal injury claim only compound the suffering of the victim. And although there are internal appeal mechanisms within MPI, and a final decision from the Automobile Injury Appeal Commission, a personal injury claim that is denied in whole or in part, means compensation stops or is cut back until literally months, and sometimes even years past, and a review or an appeal can be heard and decided.

And despite pending changes to MPI legislation that will create claim advisors at the Automobile Injury Commission level -- Appeal Commission level, that initiative does nothing to help the claimants in the -- their dealings with MPI initially itself.

Accordingly, the Manitoba Bar Association intends to adduce evidence that the Applicant is not sufficiently attentive to its contractual obligation to compensate victims of personal injury.

Now, if that is our question -- or our position rather, the question inevitably must arise, why is it being advanced by the Manitoba Bar Association.

In his remarks at the Pre-Hearing Conference before this Board, Mr. McCulloch would have had you believe that the Bar Association is here to begin a revolution against no fault insurance, to seek wholesale legislative change and to return us to what I guess he might call the glory days, when lawyers received healthy contingency fees for suing on behalf of victims of automobile personal injuries.

Now, as I said then, and I'm going to repeat today and perhaps later, the Manitoba Bar Association is very much aware that this is not the place to press for significant changes to the law.

This is not the forum in which to lobby the

Government to undo no fault insurance. The jurisdiction of the Board is statutorily defined, and as a two (2) time Chair of Manitoba's Administrative Law Section, I can assure you that I very much recognize the implications of that and what it means, in terms of recognizing those limits.

We do, however, submit, that it is within the Board's jurisdiction to entertain questions and arguments about the handling of claims and their payment out, and then to make such orders, recommendations or inquiries, as this Board might think necessary.

While everyone would agree that this Board does not and should not concern itself with the minutiae of MPI's day-to-day operations, I think I can say for my closing argument, even if it's necessary, any survey of the statutory and legislative or case law authority that might support this position that would allow the Board to do exactly what I've just suggested.

Now, this afternoon we'll be hearing from Ms. Veronica Jackson, the President of the Bar Association, so I think I can leave it to her rather than taking the Board's time now to explain how the mandate of the Manitoba Bar Association ties in with this legislative interest and oversight reform.

Let me then, just simply pass on to say that in addition to dealing with this question of the treatment of victims of personal injury, the Bar Association will also make very specific inquiries of the -- of the Applicant and suggest perhaps to this Board that there are ways, indeed, for this Applicant to increase its revenues and perhaps even, to some extent, to make small legislative changes that might enable this without prejudicing anything that the Applicant currently does.

I'll simply say in closing that throughout these proceedings we will necessarily be painting with a broad brush. I'm happy to say that I see on the list of -- of the Intervenors that the Bar Association is toward the bottom. Normally I would be offended, but in fact, this is actually a useful outcome because I note that many of the areas that concern the Bar Association and would have to be led into evidence will actually be covered by parties who are leading actuarial evidence. And so we'll be relying on part, on that.

I can also say in case it's -- there's a question as to why the Bar Association doesn't have its own actuary evidence -- and we can deal with this more in closing arguments -- as the tentativeness of awarding costs is certainly an issue that my client is concerned about, especially because it doesn't have its own funds to make that sort of an investment.

So, in short, I'm trying to temper your

expectations. The Bar Association plans, certainly, to make a case, to point out concerns and to put before the Board certain things that it ought to consider.

One (1) of the tactics that we'll certainly be relying upon is the notion of the burden of proof that the Applicant must meet and I expect that Mr. Saranchuk will very soon begin his traditional opening of questions to the MPI president, making it clear that the Corporation carries the onus of proving its case and substantiating its Application and of proving that its rates and its operations are fair and equitable.

And I'll submit that insofar as the handling of payment of personal injury claims, the Applicant will not meet that burden of proof.

That, then, is the case that the Bar Association plans to put before the Board. I understand that Mr. Barron has earlier circulated a proposed list of exhibits, specifically in connection with the Bar Association. There are two (2), that being the first and second round information request together with the answers that were made to the Applicant and we suggest that those be entered into Evidence as the exhibits there-marked on that sheet.

That concludes my remarks, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Dawson. Mr.

McCulloch, do you have any problem with those exhibits?

MR. KEVIN MCCULLOCH: No, Mr. Chairman.

THE CHAIRPERSON: So entered.

--- EXHIBIT NO. MBA/MPI-1-1 to 1-107:
Manitoba Bar Association's Information Requests and Manitoba Public Insurance's Responses - 1st Round

--- EXHIBIT NO. MBA/MPI-2-1 to 2-17:
Manitoba Bar Association's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.

THE CHAIRPERSON: Just returning a bit, Mr. Oakes, do you want to enter your exhibits?

MR. RAYMOND OAKES: Certainly, Mr. Chairman, I've anticipated that it might be done before -- just before commencement of cross-examination, but given that everyone's having theirs in now, we'll ask that the exhibits as listed at page 4 of the exhibit list that was handed out this morning be entered as written.

THE CHAIRPERSON: Mr. McCulloch...?

MR. KEVIN MCCULLOCH: That's acceptable, Mr.

Chairman, yes.

THE CHAIRPERSON: Okay. They're entered too.

--- EXHIBIT NO. CMMG-MPI-1-1 to 1-85:
Coalition of Manitoba Motorcycle Group's Information Requests and Manitoba Public Insurance's Responses - 1st Round.

--- EXHIBIT NO. CMMG-MPI-2-1 to 2-82:
Coalition of Manitoba Motorcycle Group's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.

--- EXHIBIT NO. CMMG-3: Expert Evidence submitted by Hany Rifai, FCAS, FCIA, President, IAO Actuarial Consulting Services Inc. Dated September 27, 2004.

--- EXHIBIT NO. CMMG-4-1 to 4-11:
Coalition of Manitoba Motorcycle Group's Pre-Ask Questions.

THE CHAIRPERSON: We'll now move back to -- back to Scootering Manitoba. Mr. Sousa...?

MR. CLAUDIO SOUSA: Thank you, Mr. Chairman, Panel Members. As a new organization to this process and a new organization to Manitoba, I'd like to use a few minutes I have to describe our organization to you, to provide an overview of our demographics, our activities in the province of Manitoba, what we do for the -- for the benefit of the public.

Scootering Manitoba was founded in July of 2003. That makes us just shy of -- just over a year old. We operate as a non-profit, with free membership open to all. We are supported only by membership donations. We don't have any corporate sponsorships or affiliations of that sort.

Since inception we've grown to a membership of just under two hundred and forty (240) members, making us one (1) of the largest motorbike organizations in the Province and possibly one (1) of the largest in Western Canada.

Our membership demographic spans all age groups. Our sort of claim to demographic fame, as it were, is that our youngest member is sixteen (16), our oldest member is sixty-six (66).

Where our membership is primarily concentrated in the City of Winnipeg where moped use is highest. However, we do have members in Portage La Prairie, Brandon, and if you can believe it, as far north as Gillam, Manitoba, although I'm sure they stopped riding several weeks ago.

Our growth, which -- and the popularity of moped class bikes has been driven by a number of factors. The first of which is the cost of living and the environment. A small engine moped, unlike other two (2) wheeled vehicles is exceeded only in fuel mileage by the most modern of electric hybrid vehicles, and most recently the -- the Mercedes Smart Car.

Our members, by choosing a moped, are choosing an environmentally friendly option and affordable means of transportation.

In terms of vehicle cost, the moped class bike is the most fuel efficient, least cost vehicle available to Manitobans today, with a new sticker price in the two thousand dollar ($2,000) range and used bikes at a fraction of this.

For those on a limited income, buying and using a moped can save money over using even public transportation. For a family on a tight budget who needs a second vehicle, the moped provides an ideal solution for six (6) months of the year, saving in thousands of dollars over a second passenger vehicle.

For a student, the moped can be a money saving strategy, costing less to operate, insure and park, than public transit.

Our members also choose moped as a means of expressing a better environmental choice. On five (5) litres of gas, some of these vehicles achieve a hundred and fifty (150) to a hundred and seventy-five (175) kilometres of City driving, not highway driving, City driving.

My annual one (1) ton challenge for those of you familiar with the Federal Climate Change Initiative, is met within the first three (3) months of commuting to work with my moped. It makes the rest of the year sort of a cake walk in terms of reducing my emissions.

Many employers also recognize the environmental benefits of these vehicles, and encourage their use by offering either extremely affordable, or in some cases, free parking.

The bottom line is that moped class bike is quite simply the most affordable, environmentally friendly choice for private, motorized transportation available in Manitoba.

A common misconception of the moped class bike, and I'll -- I'll share that -- Mr. Williams shared this misconception, that they are primarily a recreational vehicle, an ATV, a Sea-Do of sorts for the streets.

Since the Highway Traffic Act restricts moped use to urban speed limits, the moped class is not a weekend getaway vehicle. We are bound by this lovely ring we call the perimeter, which often limits your -- your driving to and from work, or to and from school.

Our membership uses their moped class bike primarily to commute to work or to school or to run errands from April to October. Recreational use is clearly a secondary purpose.

Our organization was created in part to ensure that the moped remains an affordable and accessible environmental choice for Manitobans.

In addition to creating a community for moped enthusiasts, we are also a clear leader in road safety for this vehicle class.

Our initiatives in road safety began long before our opposition to the proposed rate increase, because we recognize the importance of safety in all forms of transportation.

I want to make it very, very clear to the Board and those present, that our work in road safety is not a reaction to the rate increase proposal. We have been proactive in this area as early as September of 2003.

We have developed a positive working relationship with Mr. Riel Dion (phonetic) of MPI, the Road Safety Manager for -- for vulnerable road users.

We hope to continue our work with him, should MPI be interested in supporting our road safety efforts.

Since our organization's inception, we have provided free safety training to our membership, training over sixty (60) individual Manitobans who ride these vehicles.

We have achieved this exclusively through our own volunteer efforts and the support in the form of classroom facilities from the Manitoba Safety Council.

In January of 2004 of this year, we engaged the Manitoba Safety Council to develop a mooter (phonetic) -- a moped scooter version of the motorcycle safety course. Through our contributions to curriculum design, a national course for moped and scooter safety training is in the final stages of development with the Canada Safety Council and may be offered nation wide.

We hope that in 2005 this course will be made available as a low cost safety training program for Manitoba scooter and moped riders.

We also hope to facilitate a sponsorship program with MPI and scooter and moped dealers in Manitoba, to further reduce the tuition costs of this training initiative, keeping safety training as affordable as the vehicles themselves.

We are here today, because we believe that MPI's proposal to more than double the moped insurance is not based on a fair principled approach to rate setting. We believe that the principle of rate shock has been unjustly set aside for nearly one thousand (1,000) Manitobans, who choose low cost, environmentally friendly vehicles.

Through our testing of evidence at this Proceeding, we aim to convince the Board that MPI's rate proposal for mopeds is flawed, and that the increase must be capped to ensure that all Manitobans receive predictable and stable insurance rates.

We thank the Board for the opportunity to participate in this Hearing, despite our late Application, and for the guidance we've been given on the process, most notably by Mr. Saranchuk, and Mr. Barron. Thank you.

THE CHAIRPERSON: Thank you, sir. Do you want to enter your exhibits?

MR. CLAUDIO SOUSA: We enter Scootering Manitoba Exhibits -- I'll just find them here. Exhibits SM/MPI-1-1 to 1-7, and SM-2 as noted on page 7 of the Order of Proceedings.

THE CHAIRPERSON: Any problem with that, Mr. McCulloch?

MR. KEVIN McCULLOCH: No, Mr. Chairman.

THE CHAIRPERSON: Okay, so entered.

--- EXHIBIT NO. SM/MPI-1-1 to 1-7:
Scootering Manitoba's
Information Requests and
Manitoba Public Insurance's

Responses - 2nd Round.

--- EXHIBIT NO. SM-2: Scootering Manitoba's Pre-Ask Question.

THE CHAIRPERSON: I think maybe we inadvertently missed you about entering your exhibits.

MR. NICK ROBERTS: Yes, we'd like those entered, Mr. Chairman, they're on page 6, MUCDA/MPI-1 to 15, and MUCDA/MPI-2 to 7, our first and second Information Requests.

THE CHAIRPERSON: Mr. McCulloch, any problem?

MR. KEVIN McCULLOCH: No, sir.

THE CHAIRPERSON: Okay, so entered.

--- EXHIBIT NO. MUCDA/MPI-1-1 TO 1-15: Manitoba Used Car Dealers Association's Information Requests and Manitoba Public Insurance's Responses - 1st Round.

--- EXHIBITS NO. MUCDA/MPI-2-1 TO 2-7: Manitoba Used Car Dealers Association's Information Requests and Manitoba Public

Insurance's Responses - 2nd Round.

THE CHAIRPERSON: We're having a quiet moment here. You okay, Mr. Saranchuk?

Okay, then we'll move -- we'll move on now to presentation by MPI. So, if, Mr. Barron, would you now swear or affirm MPI's Panel, so we can proceed?

MARILYN MCLAREN, Sworn
BARRY GALENZOSKI, Sworn
WILF BEDARD, Sworn

THE CHAIRPERSON: Thank you, Mr. Barron. Mr. McCulloch...?

MR. KEVIN McCULLOCH: Yes, Mr. Chairman, with the three (3) witnesses being sworn, I would like to move, first of all to the pre-filed testimony, which is contained in Volume I of the Rate Application. And in this instance, we had pre-filed testimony from Marilyn McLaren, Barry Galenzoski, and Mr. Bedard.

And I'm going to propose to the Board that this pre-filed evidence be accepted as if read in, without having the three (3) individuals go through reading the evidence, it is part of the exhibit, and I'd ask that it be treated as such.

The only correction obviously is in that of Ms. McLaren, at the time the pre-filed evidence was filed in June of this year, she was the Vice-President of Corporate Insurance Operations. As we all know she’s no longer holding that position, but she is the President and CEO. Other than that, I’d ask that the evidence be accepted as filed.

THE CHAIRPERSON: Mr. Saranchuk, does it seem okay to you?

MR. WALTER SARANCHUK: No problem.

THE CHAIRPERSON: Very good.

MR. KEVIN McCULLOCH: The second item, Mr. Chairman, is the originals of the three (3) MPI exhibits, being MPI Exhibit 2, 3 and 4, the affidavits of service, I have the originals here, and I’d ask that they be formally filed with the Board.

THE CHAIRPERSON: Very good.

--- EXHIBIT NO. MPI-2:   Affidavit of Catherine Pawella sworn October 1, 2004, with attached exhibits stating all interested parties were served Notice of Public Hearing and Pre-Hearing Conference and rate application dated June 23, 2004

--- EXHIBIT NO. MPI-3: Affidavit of Rick Lee Sloan sworn September 29, 2004, with attached exhibits of Notice of Public Hearing and Pre-Hearing Conference dated June 15, 2004 published in the required newspapers.

--- EXHIBIT NO. MPI-4: Affidavit of Rick Lee Sloan sworn September 29, 2004 with attached exhibits of Remainder Notice of Public Hearing dated August 20, 2004 published in the required newspapers.

MR. KEVIN MCCULLOCH: Mr. Chairman, it is not the intention of the Applicant to lead any other evidence-in-Chief, so that, in effect, is the -- the Application or the evidence for the Applicant and we'll open the Panel to cross-examination.

THE CHAIRPERSON: Okay, I think we'll have a short break and then we'll start with Mr. Saranchuk -- ten (10) minutes.

--- Upon recessing at 10:09 a.m.

--- Upon resuming at 10:24 a.m.

MR. KEVIN MCCULLOCH: Mr. Chairman, if I could, and I did mention to Mr. Saranchuk, there's two (2) items that I could deal with now.

When I was talking about closing the evidence for the Applicant, I had indicated when CMMG sought leave to file their actuarial evidence beyond the appropriate time as set out in the -- in the timetable, that the Applicant would reserve the right to either file rebuttal evidence or perhaps some information requests.

I could advise the Board that we have prepared some rebuttal evidence that we should be in a position to file by tomorrow and I believe that would give CMMG sufficient time and the Board sufficient time to review that evidence prior to their Witness being called. So, I wanted to notify the Board of that.

As well, we have, for filing, the answer to the PUB MPI Pre-Ask Number 1 and I would ask that that be filed as an exhibit in these proceedings.

THE CHAIRPERSON: Very good. Are you going to distribute it?

MR. WALTER SARANCHUK: The PUB pre-ask question, Mr. Chairman, was already marked in the evidence as Exhibit No. 10, and these are the responses to it.

THE CHAIRPERSON: Very good.

(BRIEF PAUSE)

THE CHAIRPERSON: Any time.

CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Thank you, sir. Let me begin with asking a couple of standard introductory questions of the Applicant's Chief Executive Officer.

Can you confirm, Ms. McLaren that the Manitoba Public Insurance carries the onus of proving its case to substantiate its Rate Application?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: And does the Corporation agree that it bears the onus to establish that its rates are just and reasonable?

MS. MARILYN MCLAREN: Yes, it does.

MR. WALTER SARANCHUK: To begin, we'll just deal very generally with an overview of the Application as we have in the past and so I would ask MPI's Witnesses to confirm the major aspects of this application as follows:

Dealing firstly with vehicle premiums, there is, of course, no change in the base premium revenue being sought; is that correct?

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

MR. WALTER SARANCHUK: And the experience-based rate adjustments are ranging from minus 15 percent to plus 15 percent, as has been the Corporation's standard practice in past years?

MS. MARILYN MCLAREN: Yes, with a few exceptions.

MR. WALTER SARANCHUK: Yes, and there is no change as to how the experience rate adjustment is calculated as indicated in Volume 1 and the Application AP-2; is that correct?

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

MR. WALTER SARANCHUK: And, can you confirm, Ms. McLaren, that this year the rule -- the experience rate adjustment rule as such is not applicable to dealer plates, mopeds, scooters, trailer or off-road vehicles?

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

MR. WALTER SARANCHUK: In terms of the rationale for that particular change, the Corporation responded to the Public Utilities Board Interrogatory Number 1 in the First Round. And just very briefly, I'd like to touch on that at this early stage, if you don't mind. So, I'd ask you to turn to I-PUB-MPI-1-I (phonetic). It's not in the Book of Documents.

And generally, this deals with the exceptions to the experienced rate adjustment rule. So, if you would, Ms. McLaren, please read in the response to Part A of PUB/MPI-1-I, which asked the following question:

"Please explain why the experience rate adjustment rules do not apply to dealer plates, mopeds, scooters, trailers or off-road vehicles?"

MS. MARILYN MCLAREN: "There's a different reason for not applying the 15 percent rule for each classification cited. Dealer plates; this classification has been undercharged historically, due to the data anomaly discussed, and rather than continuing the cost of subsidization for a longer period, as would be the case if the 15 percent rule were followed, the Corporation deemed a larger increase is justified, to lessen the impact on other classes.

For mopeds and scooters, the number of mopeds has recently increased, along with the cost of claims per insured unit for mopeds. For the past two (2) years the average reported incurred claim per unit, has risen to over a hundred and twenty dollars ($120) from five dollars ($5) a few years ago.

There are only forty (40) scooters

registered and there have been no claims over the past five (5) years.

For trailers and off-road vehicles, the decrease is due to removal of the operating cost component from these vehicles.

If there was a limitation to the maximum decrease of 15 percent, the transition process would have taken longer than four (4) -- than four (4) years."

MR. WALTER SARANCHUK: Thank you. And in response to the Part B of that Interrogatory, would you please read it in, the question being:

"Does this reflect a change in practice from prior years?"

MS. MARILYN MCLAREN: "No. Trailers and off-road vehicles had decreases in excess of 15 percent in the last three (3) years. No other special circumstances warranted changes in excess of 15 percent, specifically in the experience adjustments."

MR. WALTER SARANCHUK: And Part C of the question was as follows:

"Please discuss the Corporation's rationale for the experience adjustment rules, limiting experience changes to 15 percent?"

Would you please read in the answer?

MS. MARILYN MCLAREN: "The 15 percent figure was selected many years ago, as a compromise between very high rate increases and the desire to minimize cross-subsidization. This was at a time when the implementation of clear rate-groups had not begun, and actuarial rate making was in its early stages at MPI. Today, in practical terms, a 15 percent limit has little relevance. A quick review of AP-2, shows that fewer than three hundred (300) vehicles would receive experience based adjustments of 14 to 15 percent, except for the exceptions previously noted; the dealer plates, motorcycles, mopeds, trailers and ORVs.

The Corporation places a high value on predictability and stability of its rates, but it also places a high value on fairness and equity. Where emerging trends or new information, or in the case of motorcycles, chronic subsidization of others is in

evidence, large -- larger increases are
required."

MR. WALTER SARANCHUK: Thank you, Ms. McLaren. In terms of the Application overview, the Corporation has included this year, as it has in the past, classification offset adjustments, as indicated in Volume I-AP-3, and that has been introduced as being revenue neutral; is that correct?

MS. MARILYN MCLAREN: Yes, that is correct, with the exception of motorcycles.

MR. WALTER SARANCHUK: Yes, and in terms of those offset adjustments, one (1) of them is the Rate-Group Offset; what is that?

MS. MARILYN MCLAREN: Generally speaking, the new rate-group that the Corporation receives from IBC, the CLEAR rate-groups, tend to move vehicles downward, to lower rate-groups, through time.

If there was not an offset applied, the Corporation would lose revenue simply by applying the new CLEAR rate-groups. So, the rate-group offset ensures that the revenue required for the overall class remains stable, and the relative differences in rate-group amongst the vehicles, is adequately reflected without a loss of revenue.

MR. WALTER SARANCHUK: Yes, and you referred to the acronym CLEAR; could you just explain what that is please?

MS. MARILYN MCLAREN: Manitoba Public Insurance uses data from the Insurance Bureau of Canada, IBC, with respect to establishing the relative risk of all the different private passenger vehicles here in Manitoba. CLEAR stands for the Canadian Loss Experience Automobile Rating, which is a system where the IBC takes loss data from across the country and uses that to predict the relative differences in risk for all the different makes, models and model years of vehicles.

MR. WALTER SARANCHUK: Thank you. And, also included in the offset adjustments is the rate-line offset; what is that?

MS. MARILYN McLAREN: While the rate-group itself is an important reflection of the risk of each vehicle, the rate-line, whereby we charge different rates for vehicles all the way from Rate-Group 0 to Rate-Group 27, we have to continue to make slight adjustments to the relative rate charged for each rate-group to make sure that there is equity within each of those risk classifications.

Som the rate-line offsets, as do the rate-group offsets, ensure that by continuing to improve the equity within those class groupings, there is no overall loss of revenue.

MR. WALTER SARANCHUK: Thank you. And the classification offset adjustments of this year include the extension of the Bonus/Malice (phonetic) concept or system, to include artisan and common-carrier trucks; is that correct?

MS. MARILYN McLAREN: Yes. Again, by the same token we need to make sure that we -- by simply making any change to the classification system, in this case the Merit Discount Program, we don't want to have an unanticipated loss of revenue or a gain in revenue either. So, the offsets make sure that that is revenue neutral.

MR. WALTER SARANCHUK: Yes, and we'll get into the rationale to that -- behind that later, but I did refer to the Bonus/Malice plan and at a very high level, just for the record, could you explain what that is?

MS. MARILYN McLAREN: The Bonus --

MR. WALTER SARANCHUK: Insofar -- sorry, insofar as the extension to artisan and common carrier trucks goes.

MS. MARILYN McLAREN: The Bonus/Malice plan is -- is one of four (4) risk classification factors, whereby we reflect the driving experience of the registered owner of the vehicles, to ensure that good drivers pay less, bad drivers pay more. That Bonus/Malice component on the vehicle merit discount system has been expanded to include those new insurance uses this year.

MR. WALTER SARANCHUK: Yes, and you mentioned that the classification offsets are not revenue-neutral for motorcycles. Why is that?

MS. MARILYN McLAREN: Because the motorcycle class as a whole, needs significantly more revenue to approach revenue sufficiency. The rates charged for the different risk groupings within the motorcycle class, need some significant adjustments, while the vehicles at the higher end of the rate-group scale for motorcycles, are for the most part sufficient at this point in time. The motorcycles at the low end of the rate-group scale are radically insufficient and need larger increases.

So, by making the rate-line changes not revenue neutral, we are able to continue the process of getting those lower rate-groups to where they need to be, without an overall decrease at the higher end, because they are not excessive, they are barely sufficient.

MR. WALTER SARANCHUK: Thank you. And as indicated in Volume I, SM-6.5, and indeed in the Application filed by the Corporation, the major-use changes are resulting in adjustments as between -- of between minus 40.9 percent through to plus 15 percent; is that correct?

MS. MARILYN McLAREN: Yes.

MR. WALTER SARANCHUK: And there's no change in driver's license premiums?

MS. MARILYN McLAREN: That's correct.

MR. WALTER SARANCHUK: And there's no change in service or transaction fees except for the fee for the twelve (12) pre-authorized payment financing plan, which is being reduced to four dollars ($4) from eight dollars ($8)?

MS. MARILYN McLAREN: Yes, that's correct.

MR. WALTER SARANCHUK: Now, in terms of the base premiums themselves, as applied for, the Application sets forth what the impact is on the number of vehicles by dollars and percentages, and this is referred to also in SM-6.6 at page 8, for the record.

In summary, Ms. McLaren, as I understand it, 52 percent of the vehicles will receive a rate decrease, the majority of which are less than fifty dollars ($50); is that correct?

MS. MARILYN McLAREN: Yes, that's correct.

MR. WALTER SARANCHUK: And 1.7 percent or thereabouts will receive no change in rates?

MS. MARILYN McLAREN: Yes, that's correct.

MR. WALTER SARANCHUK: And 47 percent or thereabouts will receive a rate increase?

MS. MARILYN McLAREN: Yes.

MR. WALTER SARANCHUK: On an overall basis, however, the Corporation is requesting no rate increase?

MS. MARILYN McLAREN: Yes.

MR. WALTER SARANCHUK: Now, individual vehicle premiums will be impacted by rate experience adjustments and rate-group changes and offset adjustments, the CLEAR rate-line adjustments, and the rate-line differential adjustments, so although there's no increase in revenue being sought, some 47 percent or approximately three hundred and ninety thousand (390,000) vehicles will be paying more with this Application; is that correct?

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

MR. WALTER SARANCHUK: Now, in its Application, in Volume II, Part 1, the Corporation did indicate, amongst other things, what would be the impact in terms of the five (5) greatest premium dollar increases and decreases, for passenger vehicles and light trucks. This is part of TI-3, Part 4, if you wouldn't mind just turning to that very briefly. This is Volume II, Part 1, and in particular TI-3, Part 4.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Dealing firstly with the five (5) greatest premium dollar increases by territory for passenger vehicles and light trucks at a very high level, can you explain to the Board what the impact is there?

So, for example, as I understand it, in the first line, the ranking of the Territory 1, there's a U-drive truck, a Ford, a Ranger Supercab, 2003 model, which will, as I understand it, incur a dollar increase of some magnitude of -- that I leave it to you to describe?

MS. MARILYN MCLAREN: The dollar change for that particular vehicle is a hundred and ninety-one dollars ($191). As we continue across the page, we get into the details of that change. That particular vehicle is moving from Rate-Group 26, up to Rate-Group 27.

The '04 rate is -- was twenty-three twenty-five (2325). The rate with the rate-group change, just the impact only of the increase from twenty-six (26) to twenty-seven (27), will move it to twenty-three eighty-seven (2387).

It's all affected by a rate-line change that moves it up to twenty-four-o-six (2406). The combined rate-group and rate-line changes work out to a total of twenty-four seventy-one (2471). The offset is -- is a slight decrease, and the total factors in that particular situation, with respect to the rate-groups, result in a change -- a rate totaling twenty-four fifty-two (2452).

It -- the U-Drive truck in Territory 1, also requires an experience base adjustment of 2.59 percent. And overall, the new rate then would be twenty-five sixteen (2516), which I believe is a hundred and ninety-one dollars ($191) more than twenty-three twenty-five (2325).

MR. WALTER SARANCHUK: Yes, thank you. And is there a particular reason, for example, why when we note the first ten (10), if my calculation's correct, the increases there, they pertain to U-Drive trucks? Is there any special reason or particular reason?

MS. MARILYN MCLAREN: No, I think generally speaking, U-Drive vehicles have higher rates than private passenger vehicles, so that makes it more likely that the dollar increase will be higher, even though some of the percentage changes are lower.

MR. WALTER SARANCHUK: And just by way of another example, if we were to take a look at the last line of page 3, it's indicated that under the commuter territory, the all purpose passenger vehicle, a Volkswagen Jetta, a 1992, would experience a dollar change of a hundred and three dollars ($103) more for its premium on an overall basis; is that correct?

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

MR. WALTER SARANCHUK: Moving on to the greatest premium dollar decreases by territory for passenger vehicles and light trucks. On page 1, there is reference to a four hundred and seventy-nine dollar ($479) premium reduction for a 1999 Ford E350 Econoline Cargo; is that correct?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: And again, if we take a look as you described earlier at the 2004 rate of two thousand one hundred and seventy-two dollars ($2,172), and looking at the 2005 rate of some sixteen hundred and ninety-three dollars ($1,693), the overall impact is a premium decrease of four hundred and seventy-nine dollars ($479) when all is said and done?

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

MR. WALTER SARANCHUK: And in terms of that rather major decrease, what are the factors that create that?

MS. MARILYN MCLAREN: Well this -- in this case, the single biggest factor is the experience adjustment factor moving down by 15 percent. But the fact of the matter in this particular scenario, all of the factors are moving down; it decreased by a rate-group, saves a little bit of money through the rate-line as well and cumulatively, you know, the offset factor is -- is down.

So, all -- all of the indicators of the -- four (4) different indicators, the rate-group, the rate-line, the offset and experience based adjustment, are all moving down for this particular vehicle.

MR. WALTER SARANCHUK: Now, is there a particular reason why, with this being a 1999 model year, that it -- it takes to 2004, for example, for this significant kind of an impact to occur?

MS. MARILYN MCLAREN: No, there’s -- generally speaking, vehicles will start to move -- most of the vehicles will start to move down on the rate-group scale, through the CLEAR rating system, before their five (5) years old but as you can see, that -- that really is a smaller factor.

The class as a whole, common carrier trucks over a hundred and sixty-one (161) kilometres within Manitoba, registered in Territory 1, is decreasing by 15 percent. That’s the single biggest factor, and that would be whether it’s a 2004 vehicle, or a 1975 vehicle.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren. Just to complete the overall review of the Application, at a high level, in the Volume I, SM-8, there’s reference to other related matters. And dealing very briefly with those, these arise, would you agree, out of some developments at the Corporation over the course of the last year, as well as responses to a prior Board Order, namely the one (1) last year; is that correct?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: And in terms of the first related matter, if you will, described at SM-8.1, the DDVL or Division of Driver Vehicle Licensing, again at a high level, would you just explain what that is at this particular juncture?

MS. MARILYN MCLAREN: In April of this year, the Government of Manitoba announced that the Division of Driver and Vehicle Licensing would be moving out of the Provincial Department of Transportation and Government Services, to become part of Manitoba Public Insurance. That's what this amalgamation relates to.

There are approximately three hundred (300) employees, who actually just as of last Monday, October 4th, became Manitoba Public Insurance employees.

The fundamental responsibilities of Driver and Vehicle Licensing are related to the regulatory activities around licensing drivers, registering vehicles.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren, we'll have a number of questions to ask about that. I'd ask you now, however, to proceed to SM-8.2, where last year, the Public Utilities Board, ordered that MPI file an RSR, Rate Stabilization Reserve Rebuilding Plan with the Board, if adverse claims experience further deteriorates the RSR.

And as I understand it, essentially the Corporation's response is as in the last paragraph on page 2; is that correct? If you'd just read it in?

MS. MARILYN MCLAREN: Yes.

"The actual RSR for the fiscal year ended February 29th, 2004, was positively

"...impacted by financial results for basic insurance operations during the fiscal year, and the Corporation will continue rebuilding the RSR, primarily from excess retained earnings from the extension in SRE lines of business."

MR. WALTER SARANCHUK: Thank you. And another related matter, if you will, is SM-8.3, dealing with the capping of motorcycle rate increases at 20 percent. Could you again just explain what that is?

MS. MARILYN MCLAREN: Yes. While I mentioned earlier that the Corporation had only applied for rate decreases, in terms of experience based adjustments, of greater than 15 percent over the last few years as it relates to trailers and off-road vehicles, the Corporation did apply last year in its Application before this Board, for a combination of experienced based and rate-line adjustments for motorcycles that would -- would have resulted in an overall increase of 20 percent. That component of the application was changed by the Board, whereas, as it says here, that:

"The motorcycle rate increase was to be capped at 20 percent."

And so, therefore we -- we filed modified rate file, complying with that order.

MR. WALTER SARANCHUK: Thank you. And the next matter is referred to at SM-8.4, dealing with the data and study on the causes of the motorcycle risk. Could you just at -- again, at a high level, explain what was the Corporation's response to that particular request by the Public Utilities Board in last year's Order?

MS. MARILYN McLAREN: The Corporation undertook a significant amount of work in response to that Order. The work -- the results of the work is contained in AI-16, where we did our best to -- to analyse and -- and to begin to analyse and understand motorcycle cost drivers and will be determining how best to use that new information over the course of time.

MR. WALTER SARANCHUK: Yes, and AI-16 is in Volume III, Part 2 of the application?

MS. MARILYN McLAREN: Yes.

MR. WALTER SARANCHUK: The other related matter is addressed at page 4, of Section 8 in Volume I, that's SM-8.5, dealing with the changes in the SIBASE (phonetic) system of the Corporation, that's the Information Technology System. Could you just explain the Corporation's response there.

MS. MARILYN McLAREN: The Corporation has decided to suspend work on the Technology Migration Project.

MR. WALTER SARANCHUK: And of course, the SM-

8.6 deals with the revised schedule for driver and vehicle license insurance premiums, which was filed by the Corporation, pursuant to Public Utilities Board Order 17303, following last year's General Rate Application; is that correct?

MS. MARILYN McLAREN: Yes, that's correct.

MR. WALTER SARANCHUK: Now, having dealt with the Application at a high level, I would now like to hone in, if you will, on the Application itself and begin with the revenue requirement being sought by the Corporation.

And in that regard, I would refer you to Tab 2 in the Book of Documents that have been filed. And this deals with the 2003/'04 Revenue Rate Requirement under Basic Insurance, indicating the forecast that was given and the actual results for that insurance year, namely 2003/'04. This is also dealt with, incidentally, at Volume I SM-7.1, for the record.

Now, in terms of the actual experience of the Corporation last year, at a high level, I guess, Mr. Galenzoski, could you please explain what the results were, looking at TI-13(a)?

MR. BARRY GALENZOSKI: Yes. You have to look at the whole packages here; there's TI-13(a) and then several pages down, there's TI-13(b). TI-13(a) is our forecast based on moderate claims experience, and as you can see, based on that one, it was predicting a net loss of $3.2 million approximately. The actual for the year was a net income of $3.4 million. So, the difference there is $6.5 million.

And what is provided is all the variances that occurred at the various lines on the Income Statement, and the most significant of those is that total claims costs rose by $21.3 million, compared to the forecast. But that was offset by investment income, which rose by $27.3 million. So, that was that particular forecast.

Do you want me to deal with the -- the next one, the high --

MR. WALTER SARANCHUK: Yes, please, TI-13(b).

MR. BARRY GALENZOSKI: TI-13(b) is the -- our forecast based on the high claims scenario, and again, this was with respect to the concerns that were being expressed just prior to getting in the Rate Hearing, about our actual claims experience for the year. And we had seen an abnormal number of significant bodily injury claims, and that was reflected in this particular scenario. This -- this said if that scenario continues, then we would lose $23.7 million.

And as you can see, the results are the same as on A. We had a natural net income of 3.4 million. And again, the major difference being the fact that although the claims were closer to what we predicted on the high scenario, the investment income was much better than we had predicted, by $27.3 million, resulting in the change of $27 million between the two (2) estimates.

MR. WALTER SARANCHUK: Thank you, sir. And, now in terms of the Claims Variance Analysis, just to review some of the reasons for the changes, particularly pertaining to net claims incurred.

Under TI-13(a), Schedule 1, there is reference, for example, to PIPP, and at that line, indicating some three thousand six hundred and ninety-two (3,692) -- I'm sorry, eight thousand nine hundred and thirty-one (8,931) fewer covers, but with the claims incurred experience of some $18.8 million by way of an increase; is that correct?

MR. BARRY GALENZOSKI: Yes, that's correct. That's shown on the right hand side columns under the increase/decrease?

MR. WALTER SARANCHUK: Yes, and I guess that begs the question, if you have some nine thousand (9,000) fewer covers, and the $19 million increase in claims incurred, what is driving that result?

MR. BARRY GALENZOSKI: Well, you have to remember here that you are looking at the actual claims covers themselves, are the ones that are reported during the year, whereas the claims incurred can be impacted by any claim that happens to be on the books from all prior years as well as the current years.

And so there's a -- there's a little bit of a dichotomy there. The -- the actual claim cover account was down, but the seriousness or the severity was up on average, but that severity could have been spread out and in this case was spread out, both on new claims being reported, as well as prior year's losses.

So, overall, we put up almost $19 million more in claims reserves, to pay those PIPP claims.

MR. WALTER SARANCHUK: And just under the PIPP line, looking at the average cost per cover, that would appear to have increased; is that correct?

MR. BARRY GALENZOSKI: Yes, again that's on the smaller count on the cover, divided into the larger claims incurred some of which was for the current year, some of which was for the prior year. You recall when we were looking at Schedule A, I talked about the additional concerns we had because of the increase in the brain injuries that we were seeing for that -- for the current year? Well, there was also that, plus any changes to prior years.

So, the net effect of that was to see an overall cost increase of six hundred and sixty-seven dollars ($667) per cover.

MR. WALTER SARANCHUK: And in the line dealing with the collision experience, as I read that, there was some five thousand one hundred (5,100) -- were five thousand one hundred and seventy-five (5,175) additional covers, with an increased experience for collision losses of some $7 million; is that correct?

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

MR. WALTER SARANCHUK: And comprehensive losses were covered off at some $2.7 million less than the forecast, with there being some one hundred and five (105) fewer covers; is that correct?

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

MR. WALTER SARANCHUK: And when we talk about comprehensive coverage, what does that mean very generally?

MR. BARRY GALENZOSKI: Well, generally that's your -- your total theft, your theft type claims, glass; glass...

MR. WALTER SARANCHUK: And in terms of the experience noted there in the Schedule 1 to TI-13(a), what were the factors that were attributable to the decrease?

MR. BARRY GALENZOSKI: Well, as you can see, the -- it wasn't the -- the number of covers, we -- we experienced pretty much what we expected on the covers, because we were down only a hundred and five (105), so it was on the average cost of the claim, that was being submitted.

We're $2.7 million lower, overall, on the incurred, and there's a little bit of this going back into prior years, but not as much, there's a much shorter tail on this type of a loss.

So, it really resulted in -- in lower volume -- lower severity claims for that particular group of claims. You'll notice that the average cost went down by forty-three dollars ($43) -- not a large amount per claim, but then there's a lot of those types of claims.

MR. WALTER SARANCHUK: So, essentially are we talking about the fact that thefts in terms of -- or other comprehensive losses -- in terms of the experience decreased to the tune of $2.7 million not necessarily because of fewer claims?

MR. BARRY GALENZOSKI: Well, it's not necessarily because of -- of theft. I think you mentioned theft as one (1) of the items. It was more than likely as a result of fewer glass claims compared to the prior years and less hail. We had less -- better hail experience for the year.

MR. WALTER SARANCHUK: All right. And then moving on the Schedule for TI-13(b), a similar schedule -- Schedule 1 for the Claims Variance Analysis, the claims cost, of course, overall came in very close -- that's the Claims Incurred section -- to what was the so-called high forecast; is that correct?

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

MR. WALTER SARANCHUK: Covers on an overall basis were some four thousand two hundred and eighty-seven dollars ($4,287) -- four hundred (400) -- four thousand two hundred and eighty-seven (4,287) fewer than forecast?

MR. BARRY GALENZOSKI: That's for the total basic line, yes.

MR. WALTER SARANCHUK: And the PIPP covers, Personal Injury Protection Plan, on that line indicates that there were some nine thousand five hundred (9,500) fewer covers and yet the claims incurred costs were only some $1.5 million less than forecast; is that correct?

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

MR. WALTER SARANCHUK: And looking at the collision line, there were some -- it was an increase of some five thousand (5,000) covers and an increase in claims incurred of some $7 million; is that correct?

MR. BARRY GALENZOSKI: Yes, the -- the numbers for collision comp and property damage didn't change from the previous schedule.

MR. WALTER SARANCHUK: Yes, thank you. So, in the overall picture, the claims cost difference was primarily for PIPP?

MR. BARRY GALENZOSKI: It was all for PIPP.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Can it be said, Mr. Galenzoski, that the increased claims incurred experience overall of some $19 million when you compare it to the moderate forecast, was attributable to changes in the development and analysis of previous years' claims -- namely the IDNR?

MR. BARRY GALENZOSKI: No, that wouldn't be correct. I think what we're seeing here is the reason -- you have to go back to the reason we re-filed these documents. The reason we re-filed the documents last year with the revised forecast based on the -- the moderate and the high was because of our actual experience for that particular year with respect to the claims being reported for that year.

And as a result, if that had continued, then we were concerned that our estimates were wrong. And we looked into it. I think we explained at the time that we thought this was an aberration -- well, not at that time, but later on we explained that when we did the analysis on it -- and therefore it only affected really, the '03/'04 year and that's what's reflected in these two (2) schedules.

MR. WALTER SARANCHUK: So, that the reason for the high 2003/'04 claims incurred was essentially due to a higher incidence of serious losses?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: Now, subject to check, I would suggest that in the original application filed last year for 2003/'04 you had forecast claims incurred totalling some $470.7 million with PIPP claims being $189.5 million; can you confirm that, sir?

MR. BARRY GALENZOSKI: Subject to check, yes.

MR. WALTER SARANCHUK: And referring to the Corporation's Response to Interrogatory Number 16 in the First Round filed by the Public Utilities Board; this is referred to at Tab 13 in the Book of Documents. Tab 13, being the Corporation's Response to the Public Utilities Board Information Request Number 16 in the First Round and in particular, the third page in Tab 13, where there is reference to the five-year claims incurred comparison.

Is it correct, sir, that the actual claims incurred for 2003/'04 was five hundred and thirteen five hundred and forty-eight million dollars($513,548,000) with PIPP claims coming in at $229.3 million, a $40 million negative variance from the original forecast that I mentioned, but close to the high 2003/'04 forecast?

MR. BARRY GALENZOSKI: Yes, that would be correct.

MR. WALTER SARANCHUK: Now, to what extent does this increase in serious losses impact the forecast for 2004/'05 and subsequent years?

MR. BARRY GALENZOSKI: Well, as we've

indicated, we looked at the reasons behind the increase in the numbers of severe brain injury claims that were reported in ’03/’04 and based on that review, we looked on it as an anomaly, in other words, something that wasn’t going to repeat itself, and therefore we took most of that out of the experience when we predicted levels of claims going forward.

MR. WALTER SARANCHUK: Thank you. And did the Corporation average this unanticipated increase in serious losses over future years? For example, last year, Ms. McLaren dealt with the treatment of some $30 million in unanticipated cost increases being averaged over the next ten (10) years; is a similar approach taken this year?

MR. BARRY GALENZOSKI: No.

MR. WALTER SARANCHUK: Can you explain that then, please?

MR. BARRY GALENZOSKI: Well, we adjusted for what we thought was the abnormal number of claims and -- and took that out of the process. Basically, we started the -- the claims forecasting process over, and took into account that the one year had an abnormal experience, and adjusted that to more normal levels of losses.

MS. MARILYN McLAREN: And if I can clarify that a little bit. When I talked about that last year, I was talking about how we use the historical claims experience for rate-making purposes, not for claims forecasting. And we did take the actual experience last year for the serious losses and averaged them over the ten (10) years, to use in the rate-making process.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren. Returning to TI-13(b) in Tab 2, and actually, TI-13(a) as well, where the investment income reflects a $27.3 million increase for 2003/'04 over that forecast, is it correct that the reason for the gain related to the equity component of the investment portfolio?

MR. BARRY GALENZOSKI: Primarily, that's where that came from, yes.

MR. WALTER SARANCHUK: And, is it a fact, Mr. Galenzoski, that if not for the investment income coming in at that some $27 million above the forecast, that the operating results would have been more in line with the high-loss count (phonetic) scenario, namely a loss of $24 million?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: Now, dealing with the 2004/2005 revenue requirement, that's the year with -- that we are in right now, this is dealt with in TI-14 filed by the Corporation, and itÆs included in Tab 3 in the Book of Documents; TI-14 being in Volume 2, Part 2.

Now, looking at TI-14, again, this is the year that we're in now, and this is also dealt with, incidentally, at -- in Volume 1, SM-7.2.

The revised forecast, Mr. Galenzoski, shows a net loss of $9.3 millions versus a net loss of $1.7 million projected last year, namely a variance of $7.6 million; is that correct?

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

MR. WALTER SARANCHUK: And in your pre-filed testimony, in Volume I, at page 3, this might assist you, that there you reviewed the change -- you reviewed the impact on the forecast, as a result of the changes in the assumptions, as shown in TI-14, in the back couple of pages. As I understand it, the major factors are, for example, that there is an eight point three (8.3) -- sorry $8.1 million increase in claims incurred; is that correct?

MR. BARRY GALENZOSKI: Yes, that's also shown on the statement.

MR. WALTER SARANCHUK: And the claims in TI-14. And the claims expenses have decreased by some $2.5 million, as shown in TI-14?

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

MR. WALTER SARANCHUK: And the operating expense forecast is now decreased by $1.6 million; is that correct?

MR. BARRY GALENZOSKI: That's also correct.

MR. WALTER SARANCHUK: And there is a forecast of a reduction in investment income by some $3.7

million from that forecast last year?

MR. BARRY GALENZOSKI: That’s correct.

MR. WALTER SARANCHUK: Now, the Corporation has filed a second quarter report, as part of AI-11; it’s the multi-coloured document that was referred -- or received about a week ago.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Again, part of AI-11, in Volume III, Part 2.

Do these second quarter results, Mr. Galenzoski, reflect MPI’s best estimate of the results for the current year?

MR. BARRY GALENZOSKI: Well, they’re only the estimates up for the first six (6) months obviously, but they’re -- they’re I think more than estimates, that’s your actuals, unaudited of course, so that would not include some procedures that we do at year end to set up accruals and those types of things, to fine tune it.

MR. WALTER SARANCHUK: Yes, at this stage last year, based on the second quarter results, as I recall, the Corporation filed a revision to its Application. Does it intend to do so at this time?

MR. BARRY GALENZOSKI: No, we would have done that by now.

MR. WALTER SARANCHUK: So, just reviewing the updated results, again, at a very high level, looking at the Statement of Operations for the six (6) months ended August 31, at 2004, reviewing the premiums written line and the claims cost line, and investment income and the net income lines, just those four (4), sir, could you just explain the results as shown?

MR. BARRY GALENZOSKI: Sure, you've got to remember that this is our corporate statement, so this includes our basic compulsory, which is the regulated part of our business, which is also the biggest part of our business. It includes the extension to the basic, where you can buy down your deductible and buy up your public liability, and a number of other specialty products.

It includes the special risk extension, which primarily ensures fleet vehicles and some specialty products that we offered through that line of business, the last two (2) being written in competition with other insurers.

So, this is our overall corporate results for all three (3) lines of business. And if you look at it, you'll see that our premiums written are in -- are higher than the previous year.

Part of that would be with respect to the basic -- and I'll deal with that primarily, with respect to basic, that would start to include the rate increase that was provided through this process last year, or part year of that, as far as the written premiums.

It would include any upgrading that we would normally expect to see, as well as any increase in the size of the fleet. So, those would be the predominant features with respect to the increase in the premium income.

Some portion of that would also be attributable, obviously, to our other two (2) lines of business, which have both seen an increase in their premium base.

The earned revenues are a function of the written. They're earned over a twelve (12) month time period, the cycle of the premiums that were written, and that hasn't changed with respect to how we do that. And that would also equally apply to all of the lines of business.

The claims costs, you'll notice, are only about $10 million/$11 million higher than the previous year, so those are in line with some of our projections with respect to where we think we're going to be on claims.

Expenses, again, they're up from last year, but again, in line with where we expect to be with our expenses. And then investment income is down by $10 million approximately to the previous year, which was a good year, this year is going to be more of a normal year. It's up slightly over what we expected on budget, but not by much.

MR. WALTER SARANCHUK: Can you comment -- and I realize these are six (6) months results -- but are you satisfied with these results at this stage?

MR. BARRY GALENZOSKI: I think the press release that went out there said that I was satisfied with it, if you got that also, whether you might have read that.

MR. WALTER SARANCHUK: Now, dealing with the revenue requirement for basic plan, as reflected in this Application, and in particular for the insurance year of 2005/’06. This is reflected in TI-15, which is at Tab 4 in the Book of Documents. And this is also dealt with at SM-7.3, in Volume I.

And TI-15(a), again this is in Tab 4, deals with the 2004/’05 revised forecast to the 2005/’06 projection. And on reviewing the document TI-15(a), Mr. Galenzoski, it appears that the expected result is an underwriting loss of some $72.1 million, with an investment income of $72.1 million, leaving a net loss of approximately a half a million dollars; is that correct?

MR. BARRY GALENZOSKI: Yes, I think it was a small misstatement on the investment income, but other than that you’re correct.

MR. WALTER SARANCHUK: Okay, let’s make sure that it’s accurate then. The investment income is to be

$71.6 million; is that correct?

MR. BARRY GALENZOSKI: Right.

MR. WALTER SARANCHUK: In other words, the underwriting loss indicates that for the period in question, that's namely fiscal 2005/'06, all claims incurred and operating expenses are projected to be $72.153 million greater than all projected revenues, other than investment income; is that correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: And just looking at the Claims Variance Analysis, which is Schedule 1.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: The projection is that the claims incurred shall total in the order of $537 million, compared to the forecast of some $513.3 million last year; is that correct?

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

MR. WALTER SARANCHUK: So, in the final analysis, we're looking at a negative result of some $24 million more in the way of claims incurred, and yet there is no premium increase proposed in this Application. Could you reconcile that, Mr. Galenzoski?

MR. BARRY GALENZOSKI: Well, I think it's reconciled in the fact that there was a rate increase allowed in the current year, which is -- half of that will flow through to the future, to this year, on the earned side at least, not on the written side.

It reflects the fact that the Corporation expects some additional revenue, because of upgrading, which has happened over the many years that we've been at this forum. As well, there's an increase expected in the number of vehicles insured in the -- in the Province, and that's also reflected in the overall premium -- the overall premiums that we expect to collect during the year.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And of course, when you talked about the premium increase from last year, that is the 3.7 percent increase ordered by this Board, as opposed to the 2.5 percent sought by the Corporation last year?

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

MR. WALTER SARANCHUK: Still with Tab 4, in TI-15(a), as noted, the investment income of $71.6 million reduces the underwriting loss of 72 -- I'm sorry, of, yes, some $72.1 million, to reflect in the final result, a net loss of approximately half a million dollars. Given that negative figure of some half a million dollars, can it be said that that reflects budgeting for a loss?

MR. BARRY GALENZOSKI: No, it's -- it's very close to break even, and as a result -- this is essentially a break even. This is -- remember, this is an estimate. When you add up all the areas where estimates were being made with respect to the premiums written, $633 million, you add up all the claims incurred, $612 million, you add onto that the $71 million in estimate with respect to the investment income, and the $94 million with respect to the claims or to the expenses, you're talking about a billion and a half dollars worth of estimates that can go one way or the other, and we're coming within a half a million dollars. That is very, very good and very close to zero.

MR. WALTER SARANCHUK: Yes, this takes us to the area of the Corporation of a net income -- I'm sorry, the net income of the Corporation overall. And, when we look at that aspect of the Application, it would appear that investment income is usually greater than the underwriting loss, so that the result is usually net income as opposed to net loss, in general; would you agree?

MR. BARRY GALENZOSKI: I think that would be the preferred outcome, but if you look at our revised forecast for '04/'05, you see that's not the case. There has certainly been pluses and minuses during the years, but our preferred outcome would be that there would be a small margin of net income at the end of the day.

MR. WALTER SARANCHUK: Let me ask you, sir, why aren't, why are not, base premiums structured to break even?

MR. BARRY GALENZOSKI: This is break even.

MR. WALTER SARANCHUK: Well, that's after taking into account investment income of some $71.6 million?

MR. BARRY GALENZOSKI: But that's our process in Manitoba, which is quite contrary to what you might see in other jurisdictions, but we take the investment income into account when we're doing the calculation with respect to the rate requirement.

MR. WALTER SARANCHUK: So, just taking up on that, is there a reason why base premiums should not be structured so as to break even, that is, no net income and no net loss, so that -- well, let's just leave it at that for the moment?

MR. BARRY GALENZOSKI: Well, if you're suggesting you'd like to leave us with $71 million in our pocket, for this year, another $80 million for next year, another $100 million for the year after, and go on and on and on with no purpose for that, I would suggest that wouldn't work too well. So, at some point you have to take into account that you've got revenues coming in the door, and this is where it's taken into account.

Now, if you've put that investment income line up in the -- in the income line, at the end of the day you wouldn't see a underwriting loss, you'd see a break even. And we're presenting these statements in accordance with generally accepted accounting principles for our line of business, which shows that the investment income flows in after you've calculated your underwriting income or loss.

MR. WALTER SARANCHUK: Yes, Mr. Galenzoski, no one is suggesting anything, except that perhaps the Corporation should not be relying on its forecast of investment income to the extent that it is?

MR. BARRY GALENZOSKI: Well, we rely on all aspects of our forecasts. So, we rely on the forecasts that we provide to you for our premiums written, our premiums earned. We rely on our forecast with respect to the claims incurred; the expenses.

All of those costs are estimates. None of that is a slam dunk, for sure, and as a result, this entire statement -- as it says up in the -- in the top -- is an estimate. It's a projection for '04/'05/'06.

MS. MARILYN MCLAREN: Mr. Saranchuk, just further to that point, all the components of the financial statement, the Statement of Operations that Mr. Galenzoski referred to, is consistent with what any insurer anywhere doing business would -- would be doing with respect to predicting its outcome. Insurance rates are always charged before you truly know the cost of delivering that product.

One (1) of the key constructs of Manitoba's compulsory insurance program, though, is that ratepayers receive the benefit of the investment income and that's why the rates are established as they are. That's why the investment income is shown as it is and that's why it's used in that fashion. Because it's a key construct of this basic compulsory insurance program that the ratepayers receive direct benefit of that investment income.

MR. WALTER SARANCHUK: Yes. Thank you, Ms. McLaren. We are going to deal extensively with the investment income experience and the forecast by the Corporation but at this juncture what we can perhaps do is review the response by the Corporation to the pre-asked question of the Public Utilities Board and that is part of PUB Exhibit No. 10 where we can -- under the heading of Net Income -- take a look at the various statements of operation that have been filed in response to the question and start with, I guess, the back page because the question asked for a table of approved forecasts, revised forecasts and actual results for net income over the last ten (10) years.

So, for the record, Mr. Galenzoski or Ms. McLaren, could you refer to the results for each of the years filed and perhaps give us a little bit of a comment in terms of the Corporation's overview of the results for each year compared to forecast?

MR. BARRY GALENZOSKI: We probably didn't strictly meet your requirements by providing a table. We didn't think that that was the best possible answer and we wanted to provide a little bit more information. So, what we've done with this particular response is -- is provided you with the income statements that show the various forecasts by year so that you can then look at the components of the forecast rather than just what happened on the bottom line.

Looking at net income, in my opinion, would -- would not really tell much of the story, so you pretty well have to be able to look at each of the income statements for the given year and then comment on the changes that could have occurred or did occur, based on the forecast compared to the actual results achieved.

And so, you asked for a document that goes back over ten (10) years and we provided, starting with -- at the very back -- the last page for the year ending February 28th, 1996, we've provided the -- the approved forecast, the revised forecast, and then the actual results and increase/decrease revised to the actual.

So, we're not giving you the increase/decrease to the approved, but it's a simple mathematical situation to figure that out. And under the -- and the example that we're giving for 1996 -- or the year ending February 28th, '96, you'll see that we had a net income of some -- a net loss, I should say, of some $32.6 million.

The actual results showed a net loss of some $55.5 million so we were worse to that pretty bad projection by some $23 million. And when you look at where that all occurred, you can go back up and see that on our claims that we were some $27 million higher on claims at $390 million compared to $363 and I believe at that year that related to some actuarial adjustments that we were -- we were working with.

Even though earned revenues were $8 million higher -- that's just above that -- our expenses were closer to the projections at $2.6 million and then investment income was down one point seven (1.7). So, the main difference between the two (2) projections, if we just consider the revised forecast and the actual, is the claims incurred being higher by $27 million.

MR. WALTER SARANCHUK: How did you do on investment income?

MR. BARRY GALENZOSKI: Investment income, as you can see there, we were $1.7 million lower compared to the revised forecast.

MR. WALTER SARANCHUK: So, the major

discrepancy was with respect to claims incurred?

MR. BARRY GALENZOSKI: Yes, that was the major discrepancy. That was offset somewhat by total earned revenues being up by $8 million and I'll correct my answer on the investment income. You have to add the investment income and the gain and sale of investments together, and so we were approximately a million dollars less than we had projected.

MR. WALTER SARANCHUK: Thank you, sir. Moving on to the next year.

MR. BARRY GALENZOSKI: For the year ending February 28th, 1997, and I'll compare the revised forecast to the actual results again, and you can see that there was a difference of some $6 million, this time on the positive side with respect to the amount of money that went to net income.

Net income was projected to be $15.8 million, it turned out to be $21.9 million, and again, the major changes were that total earned revenues were up by $6 million. Our claims costs were very close, overall only $1.1 million -- there were actually less than -- than what we had projected so, that is again, a positive thing for the bottom line.

And investment income was pretty much -- so it all was pretty much on earned revenues being higher on that particular year.

For the following year, February 28th, 1998, we got slightly different forecast here. I'll go to the revised forecast to actual. The revised forecast said that we were going to have a net income of $17.8 million. There's an amount going to rate stabilization that came off that, so I'll deal a line at net income.

We actually made $46 million, for a difference of -- to revised forecasts of some $29 million. And again, the big change was on investment income, where we had $38 million more than we had projected on that particular year, even though claims costs were also $19 million higher, that was the offset, the major offset.

Total earned revenues were also up by $13 million.

I'll go to the year ending February 28th, 1999, if that's all right.

MR. WALTER SARANCHUK: Yes, sir.

MR. BARRY GALENZOSKI: And there we see the revised forecast, again looking at the line at net income, we said we were going to make $17.5 million; we made $41.9 million, a difference of $24.3 or $4 million. The major discrepancies this time, total earned income -- total earned revenues were actually lower by $3.4 million.

Our claims incurred came down by $18 million, so there was a positive variance there. Our expenses were under by $4.5 million, and investment income was up by $4.8

million. So, there's the three (3) major variances right there.

If we look at February 29th, 2000, there the revised forecast said $18.4 million was expected. We had a $40.5 million bottom line; that's a difference of $22.1 million. Earned revenues were up $6.6 million; higher than they expected. Claims were under by $10.5 million, so that hits the bottom line positively. Expenses were under by $2.9 million, and investment income was up $2.1 million.

So, that's why we provided this statement, so you can see all the components. You have to look at what really drove all of this.

MR. WALTER SARANCHUK: Yes, just on the investment income line of course, the result was some positive $2.1 million of the actual, compared to the revised forecast. Compared to the approved forecast, there was a difference of some $6.9 million?

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

MR. WALTER SARANCHUK: Okay, please proceed?

MR. BARRY GALENZOSKI: Okay. You look at the end of February 2001, again, the revised said that we were going to have a net income of $43.7 million. Our actual was $38.1 million, a reduction of $5.6 million. And we look at the major components, total earned revenues were up three point eight (3.8), claims were up five point eight (5.8), that’s the big offset, expenses were over by half a million dollars approximately, and investment income was under by $3 million.

And then I’ll move on to February 28th, 2002. Our -- here we show that we were expecting to lose $14.3 million on our revised forecast, and we actually lost $11.7 million; that’s better by $2.6 million. And the difference was is that earned revenues were up $5.7 million. Claims were pretty much on budget at a hundred thousand dollars ($100,000) under, and total expenses were $1.1 million under. Investment income was $4.3 million under.

And then we’ll move to February 28th, ’03, the revised forecast said we should make $10.2 million, we’re actually showing a loss of $30.1 million, a difference of $40.4 million.

Earned revenues was pretty much on budget at about a half a million dollar positive variance. Claims costs were higher by $21.3 million, and investment income was under by $18.1 million. Those were the major reasons for that year.

And then we look at February 28th, ’04, and I’ll deal with the -- we’ve pretty well gone through this. I don’t know if you want to go through that one (1) again?

MR. WALTER SARANCHUK: No, that’s fine. Mr. Galenzoski, I’m advised that in the past five (5) years, three (3) of the years have had actual net incomes considerably at a variance with the approved and revised estimates provided by MPI, so that in one (1) year net income was much greater than approved, but somewhat lower than revised, while in 2001/2002, net income is much lower than estimated.

For the current year, 2004/'05, the revised estimate is again much lower than approved, namely $9.3 million forecast, versus an approved $1.7 million.

In general terms, can you discuss the major reasons for these variations?

MR. BARRY GALENZOSKI: Well, it's part of the difficulty of doing an estimate on something, where you have -- you don't have control of all the factors. And I'll give you some of the factors we don't have control of.

We're doing a better job, in my opinion, on estimating our revenue and earned revenues side of the business over the last several years. Prior to that there was I think some -- some perception that we were always estimating that, and we've taken a lot of -- put a lot of effort into -- into trying to get closer to that, to the point where we're now very, very close to our revenue projections on the total earned revenue side.

The difficult parts are the claims incurred. That's always been a concern as to the accuracy of that with respect to what is actually going to happen in a given year, are you going to have hail losses, are you going to have more bod -- significant bodily injuries, as we did last year?

Is this a -- a multi year occurrence, is it a one (1) time occurrence, how do you reflect that in your future projections?

And so, we -- we work real hard at trying to come up with accurate numbers on that, based on what we know at the time.

And then the other major factor that changes quite a bit is investment income, particularly that related to the equity markets. And we've had some really good results, but we've also had some disappointing results. The last year was a very good result, that offset two (2) previous years of disappointing results, with that specific part of our investment portfolio.

The majority of our investments are in bonds, where it's much more predictable with respect to the results that we're going to achieve, we're not required to record those at market value at this stage, so once that happens, then you're going to start to see some fluctuations in those numbers also.

But primarily it's the claims numbers that -- that is a difficult one (1) to estimate with any great certainty. As well as investment income to some degree.

MR. WALTER SARANCHUK: Is also a major factor the fact that you are forecasting some eighteen (18) months out?

MR. BARRY GALENZOSKI: Well, the time line always has to be considered. You know, obviously we've got the -- the approved forecast is something like eighteen (18) months minimum out. The revised forecast is almost a year out, and then we get a chance to -- to bring that more closer later on, but depending on results, we usually do or do not do anything about that.

MR. WALTER SARANCHUK: Returning to Tab 6 in the Book of Documents, that's TI-17, the comparison of the operating results for the various fiscal years.

Looking at the back of the first page, so that we're looking at the Statement of Operations, TI-17(a), for what is the projected 2005/'06 results, and also the outlook period for the three (3) following insurance years, through to 2008/'09.

I note that the income during the outlook period, remains positive; is that correct, Mr. Galenzoski?

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

MR. WALTER SARANCHUK: And the schedule -- this particular schedule does not reflect any rate increases in any of those years; is that correct?

MR. BARRY GALENZOSKI: That's correct. It does reflect what we would normally expect to see with -- with respect to upgrading and increasing the size of the fleet.

MR. WALTER SARANCHUK: You read my mind, I was going to ask you what factors were to do -- result in that kind of an increase. So, it's the upgrade factor and an increase in the fleet?

MR. BARRY GALENZOSKI: Yes, that's correct. That's stated in the assumptions that are attached to this document.

MR. WALTER SARANCHUK: I note as well that claims incurred and claims expenses in each of the years in the outlook period are increasing. Is that correct?

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

MR. WALTER SARANCHUK: And the underwriting loss in each of these -- those years is increasing?

MR. BARRY GALENZOSKI: That's as planned, yes.

MR. WALTER SARANCHUK: Does this reflect that rates are insufficient to offset the growth in claims costs notwithstanding the increase in revenue projected?

MR. BARRY GALENZOSKI: Well, considering there's no rate increase required and the bottom line is actually improving over the years, I'd say no to that question.

MR. WALTER SARANCHUK: So that -- the rates, as you indicated, are not designed to recover claims costs, and certainly to a large extent, consideration of investment income is taken into account?

MR. BARRY GALENZOSKI: Well, if you want to just worry about claims cost as the only costs that we're recovering, if you -- the claims costs are some six hundred and ninety-six thousand dollars ($696,000), the revenue -- total earned revenues were $722 million, so we are covering the claims costs, yes.

MR. WALTER SARANCHUK: I think you said -- I'm advised, six hundred and ninety-seven thousand (697,000); you meant $697 million?

MR. BARRY GALENZOSKI: That's correct. So, if you look at that -- that statement, the outlook here -- '08/'09 -- it shows that claims costs are expected to be $696,412,000 on earned -- total earned revenues of $722,116,000, you can pretty well look at any of those years and it's the same scenario. We are recovering -- you were asking about whether we were recovering the claims costs out of premiums; yes, we are.

MR. WALTER SARANCHUK: But of course, your rates are to be designed to also recover your operating costs and that doesn't appear to be the case.

MR. BARRY GALENZOSKI: Well, no, that's --

that’s not correct. The rates are covering that because the investment income is taken into account.

When you look at the rate setting side of the application, it clearly provides you the information that says, here’s how much investment income we’re taking into account, so I don’t know where the assumption comes that we’re not covering it all off. The rates for basic Autopac are adequate.

MR. WALTER SARANCHUK: If we can just take a look at the investment income line on TI-17 and TI-17A, we can see that from 2000/2001, some $67.2 million through to 2005/’06, the projection there of some $71.6 million, in between, there was quite a variance from year to year as can be seen in 2001/’02 the investment income was $55.3 million and then down in 2002/’03 to $44 million and going up to 2003/’04 to $108.5 million dollars. Obviously that is what, reflective of the market trends?

MR. BARRY GALENZOSKI: With respect to the portion of our investment portfolio that’s invested in equities.

As I mentioned in my previous answer, for ’01/’02 and ’02/’03, those were years where we were disappointed by the results that were achieved on that. It had nothing with what MPI was doing, it had everything to do with the marketplace and what was actually occurring in the real world.

With respect to ’03/’04, we had very good results, which offset those poor years that we experienced and as a result overall, it’s been -- it’s worked out very well.

MR. WALTER SARANCHUK: And now looking at the outlook period on the flip side of that page, we’re looking at now TI-17A, for the period from 2005/’06 on the investment income line through to the end of the outlook period of 2008/’09, we’re looking at a change from $71.6 million through to $90.2 million.

Can you comment on the -- on that prognostication with the year to year changes, at least to the extent of the amounts?

MR. BARRY GALENZOSKI: Yes, I can. The -- those estimates will -- will take into consideration several factors: One is the fact that interest rates have been lower on the -- on the bonds and short-term investment sides for the last little while, so that’s expected to somewhat continue. But the major factor here is that there’s more money available for investment. On a given year, we could be adding $150 to $200 million to the investment portfolio; that is going to attract some additional income.

The reason we’re able to do that, put more money into our investment portfolio, is that that’s primarily money set aside to pay future claims. So as we -- we set aside the reserve on a given claim, that money is fully invested at all times. In fact, all the Corporation's money is fully invested at all times. There is no money left sitting idle, it's all there working to keep rates low in Manitoba.

MR. WALTER SARANCHUK: Just dealing with the investment income experience, this was the subject of interrogatory PUB/MPI-16 on the Second Round, which is reflected at Tab 35 in the Book of Documents. So that's the -- would you please turn to Tab 35.

And in particular Part F of that particular question, where the question sought a schedule detailing the history of the projected forecast and actual investment income by component source for the last five (5) years.

Now, on reviewing the schedules that were provided for Part F of that question, I guess we should be looking at the last four (4) or five (5) pages, in particular, starting with the last page, which dealt with the experience in 2000/'01.

There, as I understand it, for that particular insurance year, the projection from two (2) years out was a corporate total of $74.4 million for investment income, with the forecast the following year being an increase through to $87.9 million, and the actual result in 2002, for that particular insurance year, being $83.4 million; is that correct, Mr. Galenzoski?

MR. BARRY GALENZOSKI: Yes, keeping in mind that that's for the entire Corporation, not just for basic.

MR. WALTER SARANCHUK: Yes. And that takes us to the bottom two (2) lines in each of those columns, where in the final analysis, the actual results showed that basic's share was $67.2 million of some $83.4 million for the corporate total, namely, an 80.55 percent share; is that correct?

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

MR. WALTER SARANCHUK: Then, looking at the next page, that's for the year 2001/'02, in the final result, the actual for that particular insurance year, and this is under the column 2003 GRA Actual, out of a corporate total of some $68 million investment income, basic's share was $55.4 million, reflecting a percentage of some 81.4 percent; is that correct?

MR. BARRY GALENZOSKI: That's right.

MR. WALTER SARANCHUK: Now, in each case, that is in each of those -- that last two (2) insurance years that we referred to, in 2000 and 2001, and 2001 and 2002, there's a rather significant change in the overall results from the projection initially, through to the next year of forecasts, and then the actual for those two (2) years, was there anything in particular that resulted in the results shown?

MR. BARRY GALENZOSKI: Well you have to look at the components and the components are provided. So, if we just go through 2000/2001 for instance, and you'll see short term interest, we originally projected that to be $1.5 million, later revised that to 3.7 and ended up with 5.2. That tells me that one (1) of two (2) things could have happened, we either had more money in short term investment, or the rates were higher that we achieved.

Long term interest went from 73.2 million to 78.3 million. Several things could have happened there, we -- we more than likely had some gains on sale of long term, because on the long term side we don't expect it to change that rapidly. We also could have had a little bit more money invested than we originally thought.

On the -- you'll see the equity dividends, they were higher, we projected originally a hundred and twenty thousand (120,000), they went to one point three (1.3), that's a function of the market. The equity gains/losses, that was lower than what we had projected, so that -- that wasn't quite a good year, although it wasn't bad, we still had $5.3 million.

Management fees were pretty much status quo. Pension fund transfer, pretty much status quo, as were the --

the rest of it.

If you would like me to do that, I can do that for 2001/'02 also?

MR. WALTER SARANCHUK: Yes, I was just going to ask you that. In terms of the four (4) components above the line there, if you will, for a sub-total of some $90 million, when you take a look at the projection through to the forecast to the actual, there is a trend that's quite apparent. And -- but when you look at the equity gain, it seems to be going the other way. Was there a particular reason that you recall for that?

MR. BARRY GALENZOSKI: Well, we probably suffered some equity losses. There's -- you know, at the end of every given fiscal year, just prior to that, I take a look at all the equities that we're holding, and just -- and we have to make some decision as to whether there's any impaired investments being held. There may have been some in that particular year and we would have written them down to their expected market value at the time.

The gains that had been anticipated, may -- they may have disappeared because of other factors, whether it's foreign exchange, or something else that would have come into that.

MR. WALTER SARANCHUK: I'm looking now at the second page that we dealt with, 2001/2002 insurance year, and in the equity gain line there is a rather significant discrepancy from the projected through to the results actual, in the 2003 GRA column, which is the actual result for 2001/2002. Can you comment on that result, sir, under the equity gain or loss line?

MR. BARRY GALENZOSKI: Yes, I believe for that year we had something that was an index fund on the US investment side, known as equity swaps. And those we had to recognize the market values at specific points in time, and particularly at year end, so you could close your books off properly. And it would have been a function of the market value and that particular equity being less than what we paid for it at the time.

MR. WALTER SARANCHUK: And if you move in to answer one (1) more page, 2002/'03, the result appears to be, at least in terms of a trend, the same on the equity gain or loss line. Can you comment on that, sir?

MR. BARRY GALENZOSKI: Well, this is the second of those disappointing years that I was telling you about earlier in my answer, because when you look at the year that we're hopefully going to talk about next it was much better, obviously. But this was the same occurrence, we had -- we had equity swaps that we had to recognize the market value at year end. They were worth considerably less than what we had originally paid for them, and as a result it was a loss on the US equity side. That would be the prime reason for that number being as big as it was.

MR. WALTER SARANCHUK: So, these results, really just reflect the fact that you really have no control over the equity market, and that it's speculate -- speculative at best?

MR. BARRY GALENZOSKI: Well, I'm not sure I'm going to say that it's speculative. I think we just -- we've got ourselves into a more controlled environment this time around, or right now, because we moved away from funds that were linked to indexes, where we had to recognize values at certain points in time, to now managed funds. And the results were much better as a result of doing that, much more controllable.

On the US side there's still some lack of control with respect to the Canadian dollar, as to where that's going, for instance. And as the Canadian dollar appreciates, you actually lose your income on US equity investments, unless you're like MPI and we happen to hedge that particular part of it, and therefore we were able to retain all of our US equity income as that market went up over the last couple of years.

But there is volatility with respect to that type of -- of investment, and it's just another reason that we require retained earnings or RSR to cushion those times when you have unexpected results.

MR. WALTER SARANCHUK: So you won't agree it's speculative, but you'll agree it's volatile?

MR. BARRY GALENZOSKI: I will agree that it's volatile, but I will not agree that it's speculative. We're investing in -- in things that are on major markets, we're not investing in venture capital.

MR. WALTER SARANCHUK: You did mention -- we will be dealing with investment income in more detail after the lunch break, but let me ask you, sir, you did refer to the fact that at the end of -- or just prior to the end of a particular insurance year, you look at the overall portfolio and, particularly with regard to the equity experience.

Is it you, personally, that looks at that and makes a decision as to whether or not to buy, sell, or whatever?

MR. BARRY GALENZOSKI: Absolutely not. The decision on that is -- is with our professional managers. What we do is we send them a letter near the end of every fiscal year, and ask them to review the portfolio that they're holding, this is the equities only that I'm talking about, and they are to let us know in their opinion, whether they think the investment is impaired.

Now we have set some guidelines as to what we think impairment means, as to the length of time and the degree that the -- that the issuer may have declined over time, and whether that seems to be of a permanent nature.

And if it meets the criteria, even if the investment manager comes back and, you know, we’ve had the situation where one will say, I think this one’s impaired, and another one holding the same investment, will come back and -- and think it’s not impaired, for whatever reason they have in their minds.

We will look at it with respect to the criteria that we’ve established, and that our Board has approved, and if we believe that the investment is impaired, we will write it down to what we expect the fair market value of that investment is. We’ve had to do that only twice, as I recall, it hasn’t involved huge amounts of money, but certainly is something that we have to consider.

What I was referring to where we saw the major change wasn’t an impaired investment, it was the equity swap, and there it’s just linked to a market, and you have to recognize that market value at that particular point in time, which is the end of February of a given year.

MR. WALTER SARANCHUK: So, when you talk about your managers, are you talking about the private sector insofar as the US equities go?

MR. BARRY GALENZOSKI: All of our equity funds are managed by professional managers, either -- we have four (4) managers in Canada and we have two (2) in the United States.

MR. WALTER SARANCHUK: And what role does the Department of Finance play in all of this?

MR. BARRY GALENZOSKI: The Department of Finance has a fairly major role on all of this. They sit on a joint committee, investment committee working group, they -- they attend each of our Investment Committee meetings to report on results.

They are the ones that are -- actually have legislative authority over the investment of our funds as it says in our Act, and as a result, when it comes to things like contracts with external managers, they actually are the person or the group that contracts the services with the external manager, and we're a third party to that transaction.

MR. WALTER SARANCHUK: And what about on the decision to sell? Does the Department of Finance play any role?

MR. BARRY GALENZOSKI: Not with respect to equities, we leave that to the manager, with one exception: we have established a criteria that when -- when market values exceed certain levels of book value, we can request the manager to sell, to bring down that market value. In other words, to realize the -- the income that might be sitting there.

We're not able to recognize market value per se on an equity investment or a bond investment. We can only do that when it's sold. And once it's sold, then GAAP allows us to realize the income.

MR. WALTER SARANCHUK: In the letter that you mentioned that's provided to investment managers, does that also deal with the selling?

MR. BARRY GALENZOSKI: No, it -- it would deal with -- we're talking about the impairment. It would deal with the -- the fact that -- whether the investment is impaired or not. We're not instructing them to sell and we clearly indicate that; that's up to the manager to decide when they want to sell. We're concerned with how much that is being held on our books for, is it a fair value?

So, even if the manager decides to retain the investment, and we decided that it's impaired, then we will write it down to the impaired value, and the manager is then free to do with it as they need to.

MR. WALTER SARANCHUK: So in the overall picture, to what extent does the MPI management, whether it be through the investment committee or otherwise, have control on managing investment levels?

MR. BARRY GALENZOSKI: Well, we have significant control. Working with our Board of Directors, we established the Investment Policy Statement that details all of the parameters with respect to which investments can be made in the Corporation. We do a significant oversight with respect to the investment managers making sure that they're adhering to the investment policy that -- that they're required to.

And you know, occasionally, for instance, when Nortel was really big on the -- on the TSE, we found the odd manager holding more than they're allowable limit, which was 10 percent. And if they didn't voluntarily bring that down to a specific level over a certain period of time, we would then instruct them to do so.

So there's -- there's a lot of oversight that goes on, but we are not stock tickers, we are not stock timers, we provide the funds to the managers, we have a selection process, we do all the things like asset liability studies, we manage it in what we believe is a professional manner, from our side of it, but we don't actually do the investing.

MR. WALTER SARANCHUK: So the decisions to sell an investment are made by the investment managers?

MR. BARRY GALENZOSKI: Yes, with the exception that we can instruct that we want to take gains and to get gains and they have to sell obviously, otherwise they're not going to be able to do that.

MR. WALTER SARANCHUK: Yes, thank you, Mr. Galenzoski. Mr. Chairman, we're going to deal in depth in the next area, which is investment income, and I would suggest that perhaps this might be a convenient time to break, considering then that we'll have the presenters appearing at 1:30, after which I'll continue with my cross-examination, if that suits you.
THE CHAIRPERSON: Very good, sir, we'll break now until 1:30.

--- Upon recessing at 12:00 p.m.
--- Upon resuming 1:36 p.m.

THE CHAIRPERSON: Okay, we're basically here now. So, Mr. Saranchuk, we should begin with the presenters? I believe we have Ms. Jackson from the Manitoba Bar Association. Welcome.
And Mr. Houghton, were are --? You're there. Okay. We'll just follow in alphabetical order. Mr. Houghton, do you want to begin? You might as well come up here sir, and you can use the...

(BRIEF PAUSE)

THE CHAIRPERSON: Whenever you're ready, Mr.

Houghton.

MR. DOUG HOUGHTON: Okay. Thank you, Mr. Chairman, Board Members, MPI Staff and MPI Legal Counsel. I'd like to thank you for this opportunity to speak on this very important issue which affects thousands of Manitoba citizens who enjoy motorcycling, but I'd first like to congratulate Mr. Lane on his earlier appointment as Pub Chair and also congratulate Ms. McLaren on her recent appointment as CEO of the Manitoba Public Insurance and I'm confident we'll see positive changes in -- with future MPI products and rate applications.

I'd also like to thank you for picking this day. The -- our previous Chairman always picked cold, wet, snowy days and it was a -- it's a long ride in from Beausejour at 5:00 or 6:00 in the morning when you're going through the snow.

As you already indicated, my name is Doug Houghton. I'm a motorcyclist and I've been a motorcycle enthusiast for more than forty (40) years. I live and work in Beausejour and I've been employed by the Province of Manitoba for more than thirty-five (35) years.

I'm the father of four (4) grown children, two (2) of which are also motorcyclists and I'd like to ensure that riding continues to be an affordable past-time for them in the future.

I'm also past President and Public Relations Chair of the Coalition of Manitoba Motorcycle Groups, the CMMG. I've been a member for about ten (10) years, serving as Director, Vice-President and President. Although I wholeheartedly support the position of the CMMG, some of the views expressed here will be my own and not necessarily those of the CCMG.

A little bit about motorcycling in general. Motorcycling is not just about riders and their bikes. It's a major Manitoba industry whose future is threatened by escalating insurance rates.

At last year's hearings, the Board heard from Mr. Bob Ramsey (phonetic) of the Motorcycle and Moped Industry Council of Canada and I think Mr. Ramsey will be appearing again this -- next week.

Mr. Ramsey told us that motorcycle and motorcyclist demographics have changed significantly and that the average motorcyclist is now forty-two (42) year old -- years of age. This year I think it's gone up to forty-three (43), I imagine, and has -- has above- average income and has been riding for a minimum of about seven (7) years.

Now, I don't mention this because I want to demonstrate how -- what upstanding citizens and how impressive the motorcyclists are as a group, but really this demographic profile worries me. The age is increasing -- the average age is increasing. Of course, you notice the income group is increasing. What that tells me is motorcycling is no longer affordable for younger people of middle and modest incomes.

Mr. Ramsey also explained that the motorcycle industry in Canada represents approximately 4.6 billion on an annual basis. And in Manitoba the size of the industry was approximately 96 million.

In 2003, according to MMIC’s website, new motorcycle sales, parts and accessories alone were estimated at 1.7 billion.

A little bit about our Manitoba motorcyclists; we reflect the general cross-section of the Manitoba population, and I suspect the demographics parallel that of the natural -- of the national picture.

As a group, Manitoba motorcyclists are a very generous and dedicated members of their communities. In Manitoba, motorcycle organizations have raised hundreds of thousand per year to various charitable groups, such as the Ride for Sight and the Breast Cancer Freedom Ride.

The Ride for Sight is the longest running charity and single largest fundraising initiative for vision research in the entire world. It is also the largest motorcycle charity event in Canada, raising 1.3 million in 2003 alone.

In three (3) short years, the Manitoba Breast Cancer Freedom Ride has raised over a hundred thousand dollars ($100,000) enabling the purchase of mobile breast screening units for rural and remote areas of Manitoba.

And I point these things out to show that motorcycling initiatives and motorcycling activities are also used to create a lot of charitable, positive events in the community. It's not just about riding.

Now, about changes in motorcycle insurance? I hope you'll notice the maple leaf tie I'm wearing today, and I hope you don't notice the little stain of dressing I got on it over lunch. I wear it today, because you can't really see the maple leaf flag that flies on the back of my motorcycle, or the little maple leaves I have on the side of my tank.

The flag is the symbol of the freedoms I cherish as a Canadian citizen, and riding my motorcycle is the ultimate physical and emotional expression of that freedom.

In 1971, when Manitoba Public Insurance was established, we traded some of this freedom, the freedom of choice, in exchange for a compulsory universal insurance system, which in its founding principles, would guarantee access to coverage, and guarantee access to compensation -- compensation for everyone injured by automobiles.

Now, I don't want you to get me wrong here, I’m a strong supporter of public insurance and have been since its inception. I’m old enough to have been insured under the private sector system and its discriminatory rates with respect to young, unmarried drivers.

We now have universally available auto insurance, and unlike the former private sector, MPI does not discriminate on the basis of age, gender, sex, race or marital status. And for the most part it has generally been fair in its determination of premiums.

MPI states its current mission is protecting Manitobans from the human and economic cost of automobile accidents. I believe for the most part that MPI has lived up to its mission, however, in the area of motorcycle insurance, I believe MPI has failed to meet its mandate.

With the implementation of a no fault system, motorcycle premiums have sky rocketed. Manitoba Public Insurance boasts the lowest auto insurance rates in Canada, yet motorcycle premiums have increased an average of 14 percent each year fo the past twelve (12) years. This results in a compounded rate increase of more than four and a half (4 1/2) times of the ’93/’94 rates.

These increases are partly due to experience rate adjustments based on accident data, guaranteed injury compensation, which is generally higher for motorcycle collisions. But due to the fact -- also due to the fact that

MPI has failed to make adjustments to reflect the real dynamics of motorcycle accidents, and the disproportionate fault ratio that exists between motorcycles and other vehicles. The Corporation has in fact remained vehemently opposed to such adjustments.

I'll deal with the idea of loss transfer, which has been brought up many years.

There's a form of systemic discrimination built into the methodology of no fault insurance. As a motorcyclist I expect to pay my fair share of auto insurance, and generally do not dispute the number or cost of accidents, but question the methodology which establishes premium on the cost of all motorcycle accidents, regardless of fault.

Based on MPI data, the following table shows that 70 percent or more -- or more than two (2) thirds of multi-vehicle accidents are the fault of the other vehicle. The motorcycle premiums do not reflect this disproportionate ratio.

Motorcyclists seek a loss transfer or an adjustment, in which premiums reflect the cost of accidents caused by the at fault vehicle category, thereby stabilizing spiralling motorcycle rates.

Other Provinces, such as Ontario, recognizes inequity, and have legislated adjustments in their rate structures.

In such cases it is unfair to charge motorcycles additional premiums when those -- when these victims have no control over the irresponsible actions of other drivers.

In spite of its faults, lost transfer was automatically built into the previous torte system (phonetic), which required a determination of fault, and often lengthy lawsuits before benefits were paid.

In such cases, the at-fault vehicle was responsible to pay the damages to the other vehicle and its occupants. That vehicle belonged to the vehicle class found to be at fault more often than the motorcycle class, the cost of such accidents reflected in the premiums of the vehicle classification to which the offending vehicle belonged.

I believe no-fault insurance was intended to ensure that there doesn't have to be a determination of fault in order for Manitobans to receive compensations for their injuries and vehicle damage. I don't believe that no-fault was ever intended to absolve any particular vehicle class, of responsibility for accidents it causes.

Now, is there a bias against motorcyclists? Now, whether that's an expression of personal views, or simply a corporate attitude, MPI appears to project a bias against motorcyclists in its public relations and media statements. A prime example is illustrated by attached

Appendix A, which I will give you copies of, from MPI’s website, concerning the 2005 Rate Application.

Right at the top of the motorcycle page, in bold letters, are the words, ôInherently Riskyö. The table also contrasts motorcycle and passable vehicle injury rates, et cetera, in bold red letters, suggesting motorcyclists are somehow at fault from the serious nature of their injuries.

In contrast, the corresponding page Appendix B for automobiles, there's no mention of risky Mustangs, or dangerous Firebirds, or any other classification of passenger vehicles. I don't feel it's appropriate for a public insurance corporation to be making subjective opinions on the relative risk of certain vehicles, unless of course it's done objectively for all vehicles and all classes.

A second example of this bias occurred in 2002, when during a pre-hearing conference regarding 2003 Rate Application, MPI requested that the Board exclude CMMG as an official Intervenor, even though motorcyclists were facing the largest increase of any vehicle class.

Perhaps I'm a little over sensitive, but in twelve (12) years of compounded double-digit increases tends to do that. I can't help feel that MPI media statements, even though not intended, tend to discredit motorcyclists and create adverse public opinion towards motorcyclists, by over emphasizing high injury costs, without the corresponding balance of placing such costs in their true overall perspective.

Public relations and media comments refer to the high claims costs, mainly bodily injury, but never mention the disproportionate at-fault ratio between motorcyclists and other vehicles. For example, the July 11th Westbank (phonetic) quotes an MPI representative:

> "Wakefield said motorcyclists pose a much higher risk to the system because when they get hurt in an accident, they sustain major industries [sorry] major injuries"

He said:

> "While the average cost of a passenger vehicle insurance claim is twenty-five hundred dollars and that jumps to fourteen thousand for motorcyclists."

Such statements create a public perception that there is a slaughter of motorcyclists on the streets and highways of Manitoba, thus contributing to high passenger vehicle rates, when in fact, motorcycle injuries and claim costs are a relatively small part of the total insurance payout.

As well, such statements do not reflect the fact that many of these accidents are the fault of the other vehicle, and the lower average car rates are somewhat skewed by the smaller hail and windshield claims, not normally incurred by motorcyclists.

Let’s put motorcycle insurance claims in -- in perspective. MPI likes to quote statistics, so I -- let’s take a little closer look at this data. Appendix D, in my submission is a table which depicts claims information for the vehicle class over a five-year period ending February 28, 2003. This table was prepared by MPI and it was attached to CMMG-2-123, Second Round Information Request, at last year’s Rate Application.

It shows that although motorcyclists represent about 1 percent of the total vehicle population, they had only eleven hundred and fifty-three (1,153) or 0.29 percent or about 1/4 percent of a total of three hundred sixty-eight thousand one hundred and thirty-seven (368,137) collision claims. Of the bodily injuries claims, a motorcycle has accounted for only 1.2 percent, slightly more than our representative population.

By contrast, however, vehicles represent only 78.4 percent of the total vehicle population, passenger vehicles that is, but account for 94.2 percent of injury claims.

The table also shows that the total cost of motorcycle personal injury, PIPP claims, to be about three (3) times our representative population. But this is still only about 3.2 percent of total PIPP claims. This is not as if the public fears were taken, causing them to raise their rates by fifty (50) or 100 percent. It's only 3.2 percent of total claims.

Motorcyclists recognize that our injuries are usually more severe and cost more for rehabilitation and lost wages, et cetera. But this becomes irrelevant when the accident is the fault of the other vehicle. Rates should reflect this factor.

Let's look at overall fatalities. Even though a single fatality is too much, motorcycling deaths account for only 2.3 percent of all fatalities as opposed to 76.3 percent for passenger vehicles. Even bicyclists and pedestrians account for 9.6 percent of these deaths, and of course, are not involved in the program.

If we include only the major vehicle classes, otherwise we exclude passenger vehicles, other vehicles, non-insured vehicles and so on, the corresponding fatalities are 2.8 percent for motorcyclists at 9.1 percent for passenger vehicles.

Last year's report on loss transfer, I believe, is also a reflection of MPI's attitude toward motorcyclists. How can we expect MPI to be unbiased in its review of loss transfer when it has openly stated that is -- that it is philosophically opposed to such loss transfer.

The Board ordered MPI to respond at the 2004 Rate Application by providing evidence and a recommendation on the appropriate methodology to be used in allocating claims costs by class of vehicle that meets the universal test of being fair and reasonable, non-preferential and not unduly discriminatory.

I feel that MPI gave only lip services to the Board’s order as its response included a short five (5) page report by Ernst and Young, which provided only general comments on motorcycle insurance in other provinces. In my opinion, this report was inadequate as it appeared mainly anecdotal and editorial in nature containing statements from unknown sources and, as well, lacking supporting data and reference sources.

MPI methodology that year also included a questionable loss transfer table which couldn’t pass the test of grade school arithmetic. Example, the following table is an excerpt from last year’s Round 2 request, MPI-2/121. The intent of this table was to illustrate the average per vehicle increase/decrease for each vehicle class if loss transfer were applied.

It depicts an average decrease of only thirty dollars ($30.00) for each motorcycle -- I won’t question that -- but also shows that corresponding increases for all other vehicles ranging from about five dollars ($5.00) to one hundred and forty-one dollars ($141.00) per vehicle and again that is in -- is in that report.

If you take these increases and multiply them by the number of units and the decreases in each class to get total cost, the table indicated that it would require over $9.6 million in increased premiums for other vehicles to offset a half million dollar decrease in motorcycle premiums. Of course, unless MPI's administrative costs are extremely high for this process, there is no validity to these rate changes.

Although I believe MPI responded in a later undertaking, the damage is done and we are left without a loss transfer methodology. It is my opinion that the production of such a flawed table is a reflection of MPI's lack of commitment and effort in providing an unbiased response to the loss transfer issue.

Let's assume for a moment that MPI's thirty dollar ($30.00) or 3 percent loss transfer discount for motorcycles was correct. As the following scenarios indicate, the effect of such loss transfer is negligible and can hardly place a financial burden on other vehicle classes.

When transferred over other vehicle groups, the net effect on passenger vehicles is less than the price of a stamp. This is for a thirty dollar ($30.00) decrease. It's -- it goes as high as seventy-three cents (73 cents) for other vehicles, say public vehicle.

Now, if we go back to 1998 and use MPI’s estimate of a 20.8 percent loss transfer, which is about two hundred and eight dollars ($208.00) per motorcycle today, the corresponding increases for passenger vehicles would be less than three dollars ($3.00), hardly an imposition.

Let’s take an extreme example of a five hundred dollar ($500.00) loss transfer effect on passenger vehicles.

If we had a five hundred dollar ($500.00) loss transfer the effect on passenger vehicles would not likely exceed six dollars and fifty cents ($6.50). Of course we’re not even requesting the five hundred dollar ($500.00) transfer, but just -- just to show that the differences in the number of units have very little effect when a decrease is applied on the massive numbers of other vehicles involved.

As well, if a true loss transfer system were applied to all vehicle classes, passenger vehicles as well, might experience rate reductions, which reflect the high at-fault rate of public and commercial vehicles. In this -- in this way, all premiums would reflect the true nature of vehicle collisions.

Let’s talk a little bit about cross-subsidization. MPI stated in it’s 2004 Rate Application that there are no legislative barriers to the implementation of a loss transfer system, but it remains philosophically opposed to implementing such a system.

It's these loss transfer is a form of cross-subsidization from one (1) vehicle -- vehicle class to another.

The term has been thrown around so much that one may think it was coined as a means to legitimize the current unfair methodology.

From what I understand, the basic foundation of all insurance programs is subsidization, essentially those who don't have accidents, subsidize those who do.

Sometimes when inequitable processes or methodologies become entrenched for long periods, they become the norm and people accept it as the proper way of doing things.

In my thirty-five (35) years of working with Government legislation and regulations, I've learned that even with changing times and conditions, there is a natural resistance to change by any large bureaucracy. They become defensive of existing policies and process, rather than proactive in implementing reforms and improvements. And I know I fit into that category myself. People don't want change things that they get used to.

I guess a true equal rate system would have all vehicle owners paying the same premium. However, this would be unfair and totally unacceptable to Manitobans. And as a result, there are already many adjustments built into the auto insurance system to offset inequities that occur. And I'll just mention a few of these.

Some examples include, different premiums to reflect the different accident rates between City and rural areas and for commuter and non-commuter vehicles.

Common private contract carriers, or extra-Provincial trucking, do not pay any premiums, but have the benefit of personal injury protection in Manitoba, the subsidy is paid by other Manitoba vehicle owners.

The CLEAR rating system adjusts rates based on type of vehicle, its repair cost and propensity to be involved in accidents.

There are fleet vehicle rebates.

And basically they're grouping the vehicles into major classes such as motorcycle, passenger vehicle and so on, as a reflection of the vehicle claims costs is also an adjustment in the system to make things fair.

I believe it is unfair to charge victims of accidents, additional premiums, when the victims have no control over the irresponsible actions of others. So, why not make similar adjustments, and implement a system which recognizes the disproportional at-fault characteristics of each vehicle group.

Fault should also be one (1) of the determinations of risk in setting vehicle premiums. Costs should be applied to the liability portion of the offending vehicle's insurance, thereby reflected in the overall premium rate for that vehicle group.

Motorcyclists are well aware of higher injury and many of the contributing factors to accidents. In the end, it's not really about the total cost of claims, but which vehicle class is to be -- to bear those costs and whether there will be a recognition of fault in the assignment of these costs.

There are often other inequities in our motorcycle insurance, and some of these don't necessarily affect our rates.

Loss transfer is not the only inequity either. For example, there are other areas where MPI could be improving its product. Motorcycle rates do not include comprehensive for fire, theft and vandalism, this is an extra cost of about a hundred ($100) to five hundred dollars ($500) per year, depending on the vehicle value. It's not part of the Autopac coverage, and therefore, theoretically open to private sector competition and not subject to public scrutiny.

Motorcyclists cannot get rental insurance when traveling and renting a motorcycle in another -- in another province or country. And as far as I'm aware -- as I'm aware, new vehicle protection and loss of use and lay up insurance is not available for motorcyclists. There are no discounts for anti-theft device, there is no pleasure rate, only all purpose.

There are delays in obtaining adequate insurance as Harley owners cannot obtain immediate comprehensive coverage for the purchase of a used motorcycle, even from a dealer, but must wait for MPI to inspect and photograph the bike. In our rural areas, this is sometimes waiting several days or a week, meanwhile your bike is left uncovered for fire, theft and vandalism, and very often that's when a bike gets stolen, when it's first purchased.

Conclusion. In addition to my recommendation for implementation of a fair and equitable loss transfer and methodology, I would like to make some suggestions to the Board with respect to motorcycle insurance and future hearings.

The Rate Application is in five (5) large volumes, weighing about twenty-five (25) pounds. There's no reason why it can't be reduced in electronic format on CD and on the Internet. This would not only be cost effective, but make the Application more universally accessible to Manitobans.

The opening day and presenter portion of the

Hearing should be held in the evenings, in a larger premises to permit greater public participation. Actually outside today we probably had two (2) blocks of Portage Avenue with motorcycles, but we could only get one (1) block in the room here. I guess the rest went back to work or home.

For the rest of the Hearings, I guess you could hold it in a closet sometimes, because nobody shows up.

Maybe try to pick a Monday or prior or after the Thanksgiving holiday.

PUB should directly commission future studies on loss transfer and other insurance issues directly to an independent consultant.

The PIPP portion of a premium should be listed as a separate item on an Autopac insurance statement, so clients, including motorcyclists, are aware of the relative costs of insurance.

Comprehensive extension coverage, although optional, should be part of Autopac. It’s now open to competition, and in theory -- in theory only, as there is no other insurer prepared to offer this product. We’ve searched the country and in the States and no one will move in to insure a few couple thousand bikes for fire, theft and vandalism.

There also needs to be improvements in the way a motorcycle is inspected prior to obtaining comprehensive extension coverage. It's only required for Harleys, even though Hondas are the most stolen motorcycle in recent years.

Also, we think MPI might focus some of its advertising on motor safety initiatives for motor vehicles and motorcycles. I don't know why a Corporation that has mandatory insurance needs to advertise and promote itself, other than to promote safety.

Motorcycle awareness needs to be incorporated into the highschool driver training program. Several years ago this was dropped, and it hasn't yet been incorporated.

One (1) of the big problems in motorcycle accidents is other vehicle -- passenger vehicles are not aware of us, they don't see us, they don't learn how to see us. Motorcycle awareness is a program that's in many, many states and provinces, and it should be part of Manitoba driver training. This is for the passenger vehicle driver, and it's best that we educate them while they're young and a little -- and they may listen to us.

I'd also add here, that I -- the recent amalgamation of MPI, with the motor vehicles, I hope this is not seen as sort of a means to sort of perpetuate some of the negative attitudes I seem to feel, but I hope MPI uses this as an opportunity to be proactive in initiating new and innovative motorcycle training and motorcycle awareness programs, among the general driving population.

If public insurance -- any inequity and unfairness in the methodology becomes a chink in the armour of public insurance. Open it to criticism by supporters of a private insurance system, which -- which by way, includes many of my colleagues.

If my recollection is correct, I believe it was Ed Shrier (phonetic), former Premier and Architect of public insurance who once stated something to the effect that the measure of a democracy is in how it treats its minorities.

In Manitoba, motorcycles represent only 1 percent of insured vehicles, making motorcyclists the visible minority of the public auto insurance system. We feel discriminated against by a system methodology which continues to emphasize costs and injuries, rather than responsibility for faults.

Thank you for your attention to this matter. If you have any questions I'd be prepared to answer them.

THE CHAIRPERSON: Thank you, Mr. Houghton. Your tables there, do you have copies of your presentation?

MR. DOUG HOUGHTON: Yes, I do.

THE CHAIRPERSON: Mr. Barron, could you...

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you for taking the time to come down.

MR. DOUG HOUGHTON: Thank you.

THE CHAIRPERSON: It's a very interesting presentation, thank you.

Ms. Jackson...?

MS. VERONICA JACKSON: Thank you, Mr. Chairman. Good afternoon, Mr. Chairman, Members of the Board, my name is Veronica Jackson, and I'm the president of the Manitoba Bar Association, and I appear before you today on behalf of that organization.

And the purpose of my remarks, and I'll be very brief, is to set out for the Board the reason for the Manitoba Bar Association's involvement in these Proceedings.

The Manitoba Bar Association, often referred to as the MBA, is the Provincial Branch of the Canadian Bar Association, which represents lawyers, judges, notaries, law professors and law students from across the country.

The Manitoba Bar Association has approximately twelve hundred (1,200) members, and nationally there are thirty-eight thousand (38,000) legal professionals, which the CBA represents.

Like the national association, the purpose of the Manitoba Bar Association goes beyond the promotion of the interests of its membership. Indeed, across the country and certainly here in Manitoba, the Canadian Bar Association and the MBA have consistently and devotedly worked to advance the quality of justice and the fair and effective operation of all legal systems.

Through the work of the Manitoba Bar Association's sections, its committees and task forces, I am proud to say that both the Canadian Bar and the Manitoba Bar Association are regarded as important participants and as objective voices on issues of significance affecting not only the legal profession, but also, and often especially, society as a whole.

The Manitoba Bar Association, through the experience of its Members, shares its expertise with Manitoba Government and its related bodies. These efforts range from appointments to serve on Government boards and committees, to consultation with Government on various legislative initiatives.

In addition, the MBA's committees and sections collaborate with, and encourage, efforts that promote the workings of our legal systems, such as a recent initiative of which this Board is aware, and from which it may benefit, namely the variously named Manitoba Council of Administrative Tribunals or the Council of Chairs.

As can be seen, the work of the Manitoba Bar Association includes advocacy work aimed at the protection and advancement of legal systems which serve the interests of our society as a whole.

The Manitoba Bar Association is, therefore, grateful to the Board for granting us a standing as an Intervenor in these proceedings. We are also appreciative to the Board and its Council, and to Mr. McCulloch, for their kind agreement in allowing me to offer my comments during the time slot normally reserved for presenters.

It is not an exaggeration to say that Manitoba Public Insurance touches almost every person in Manitoba. The setting of its rates impact upon the pocketbooks of the consumers by way of automobile insurance premiums in Manitoba. In turn, it is largely those rates which determine the revenue available to MPI to service its insured.

MPIs relationship with Manitobans involves not only the payment of benefit to those entitled, but also the manner in which those claims are handled. Because the operations of MPI touch so many Manitobans, the Manitoba Bar Association has always had a special interest in the Corporation's governing legislation and in the oversight in that insurance company's operations.

For example, it has been both historically and presently, the position of the MBA that no-fault insurance, as it is commonly called, is not a benefit for the benefit of Manitobans. And while the MBA continues to lobby

Governments, that the trend should be away from such no-fault scheme, we very much recognize and appreciate that this Board is not the forum for us to seek a wholesale change to the way in which automobile insurance is delivered and made available in Manitoba.

At the same time, as our lawyer will argue, it is the MBA's submission, that the function of the Public Utility Board goes beyond the fixing of rates and instead, we submit that such Boards also have a broader power to protect the public interest. And this protective power is derived both from the Board's governing statute and from decision of the Manitoba Courts, and the Supreme Court of Canada.

For those reasons it follows that these proceedings would naturally interest the Manitoba Bar Association, and that the MBA should intervene to ensure and promote fairness and effectiveness for all Manitobans in MPI's operations.

Accordingly as I understand, our lawyer has outlined for you this morning, the Manitoba Bar Association is focussing its attention, during its intervention, upon two (2) broad areas.

The first is MPI's handling of insurance claims made by victims of motor vehicle personal -- motor vehicle accidents for their personal injuries. In essence, these are disputes between -- as between claimants and MPI over the entitlement and obligations that flow from their contract of insurance.

Most of these claimants lack any real understanding of the law, or of the ways in which to marshall evidence to support their position. The Manitoba Bar Association is therefore concerned that, as a result of a claimant's lack of familiarity with the system, and what will and what will not assist their claims MPI may not always be able to evaluate such claims in a fair and consistent manner.

And that not all claimants will receive adequate or effective compensation for losses -- for losses which they have suffered. It is our position that the systemic frailties are properly within the oversighting control of this Board, in the exercise of its protective function of the public good.

The MBA will present to this Board, recommendations for specific legislative changes to MPI's governing legislation, which we suggest, would increase the Corporation's revenues, which would, of course, be beneficial to all Manitobans, without affecting the premiums that Manitobans would otherwise pay.

There can be not doubt that such recommendations are within the power of the Board, especially as these points directly touch upon MPI's revenues that might enable the Corporation to provide a higher level of service to Manitobans.

So, it is for these reasons, that the Manitoba Bar Association has sought to appear before this Honourable Board for these proceedings. I thank you all very much for your time and wish you all a very productive hearing which will be beneficial to all Manitobans.

THE CHAIRPERSON: Thank you, Ms. Jackson, thank you very much.

MS. VERONICA JACKSON: Thank you.

THE CHAIRPERSON: We'll return now to Mr. Saranchuk.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Thank you, sir. We'll now proceed to deal in depth with the investment income aspect of matters pertaining to this application and of relevance are the following references: TI-21, which is at Tab 7 of the Book of Documents; interrogatory PUB/MPI-1-43, that's number forty-three (43) in the first round of questions asked of MPI by the Public Utilities Board, and that's at Tab 26 in the Book of Documents, and also interrogatory PUB/MPI-2-16, which is at Tab 35 in the Book of Documents.

Dealing firstly with the investment allocation filing by the Corporation at TI-21, which is at Tab 7 -- I wonder if I might ask -- and I guess it's you, Mr. Galenzoski -- the schedule that's provided there for the components of the pooled investment income for 2005/2006 -- I wonder if you would explain what that schedule represents and give us an overview of the contents there.

MR. BARRY GALENZOSKI: Certainly. The -- the Schedule of Investment Allocation is just that. It -- it indicates the results of the formula when applied to the allocation of the corporate investment income among the three (3) lines of business being basic, extension, and SRE. It uses average weighted equity balances associated with each of the lines of business to then allocate the investment income that we've earned during the year among the various lines.

MR. WALTER SARANCHUK: So, the overall corporate investment income, as I gather from this schedule, is to be $83.1 million with the basic share being approximately 86.2 percent. Is that correct?

MR. BARRY GALENZOSKI: That's exactly right.

MR. WALTER SARANCHUK: And how is basic share determined, sir?

MR. BARRY GALENZOSKI: It's -- if you look at the formula definition just above that, on paragraph 3:

> "The formula uses each division's average weighted equity balances to allocate the amount of investment income earned to each

division.

This formula assigns all liabilities and equities to each business line and deducts all non interest-bearing assets. The resulting net average weighted equity balances are then used to allocate the pooled investment income between the lines of business."

MR. WALTER SARANCHUK: And just by way of explanation, what is the rationale behind the formula deducting the all non-interest-bearing assets?

MR. BARRY GALENZOSKI: Well, it’s basically deducting not non-interest, but non-cash items, so if there’s something there that hadn’t involved the use of cash one way or the other, it takes it away rather than -- than giving credit for an asset that really didn’t exist that would generate investment income.

MR. WALTER SARANCHUK: Has there been any change in this allocation formula from last year?

MR. BARRY GALENZOSKI: No, there has not.

MR. WALTER SARANCHUK: And the basic share of the investment income is projected at $71.6 million?

MR. BARRY GALENZOSKI: That’s correct.

MR. WALTER SARANCHUK: And as I understand it, the allocation is based on the average investable assets?

MR. BARRY GALENZOSKI: Yes, it’s based on the division’s average weighted equity balances, or the -- it’s -- it’s on an average, based on -- and it says down at the bottom there, portfolio balances and effective rates represent averages. Calculated corporate total for investment income is based on monthly calculations.

MR. WALTER SARANCHUK: Is it appropriate to characterize basic insurance liabilities as being longer term than those for extension and SRE?

MR. BARRY GALENZOSKI: It can be. It depends on which ones you’re comparing to, but overall I would suggest it would be, yes.

MR. WALTER SARANCHUK: And if the asset and liability matching were considered, would this not lead to more investment income being allocated to basic, since the longer term investments are generally higher yielding?

MR. BARRY GALENZOSKI: Well, it depends on the cash flow, and how you’re going to use that cash, so -- and what’s available for investment at the time.

For instance, some of the money is invested in -- in equities for instance. And what you’re looking for is not just the -- the higher yielding, you’re looking for a spread of risk. So you’re moving the money around to different asset bases.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, in general terms, sir, regarding management of the portfolio, as I understand it, it is managed by the Minister of Finance, is that correct?

MR. BARRY GALENZOSKI: It's -- we're required by our Act to transfer all funds available for investment to the Minister of Finance. So, I wouldn't categorize that as being managed by them entirely, I would suggest that they have the legislative right to -- to handle the funds, and to invest them on behalf of the Corporation. But there is a joint management process involving, as I suggested before or indicated before, the Investment Committee Working Group. The Corporation has an Investment Committee of the Board that's involved in that process.

So, we set policy in a joint manner, and manage the -- the funds in somewhat of a joint manner. But they have legislated authority over the funds.

MR. WALTER SARANCHUK: So, when you talk about a joint participation, if you will, and the Investment Committee of the Corporation, is that comprised of Board members and members of the Executive?

MR. BARRY GALENZOSKI: No, the Investment Committee of the -- of the Board, is -- comprises of the --

of the Board Members and the -- the CEO is an ex officio of that.

MR. WALTER SARANCHUK: So you're not a member of the Investment Committee?

MR. BARRY GALENZOSKI: I attend all the Investment Committee meetings and I make presentations to all the meetings, but I'm not a member of the Investment Committee, no.

MR. WALTER SARANCHUK: And did you say all of the members of the Board of Directors are members of the Investment Committee?

MR. BARRY GALENZOSKI: No, I did not, I said that the Board is -- the Investment Committee is made up of Board Members, not all are members of any individual Committee, so they -- they take rotation on different Committees.

MR. WALTER SARANCHUK: So how many of the Board of Directors would be on the -- well, let's put it this way. How many are there on the Investment Committee and how many are comprised of Board Members?

MR. BARRY GALENZOSKI: There's nine (9) on our Board, although we do have one (1) vacancy right at the moment. I believe there's four (4), maybe five (5) of those on the Investment Committee.

MR. WALTER SARANCHUK: And at this time, Ms.

McLaren, ex officio?

MR. BARRY GALENZOSKI: Ex officio to both the Board and the Committees, yes.

MS. DENYSE COTE: Well, excuse me, Walter, how many people on the Investment Committee?

MR. BARRY GALENZOSKI: I believe it's four (4), it could be five (5), you know, I don't have the list in front of me, sorry.

MS. DENYSE COTE: No, how -- how big is the Investment Committee itself, not your representation?

MR. BARRY GALENZOSKI: Four (4) or -- four (4) or five (5) Board members.

MR. KEVIN MCCULLOCH: If I can -- if I can clarify, Ms. Cote, we currently have eight (8) Board members, there's room for a ninth, but there's -- there's a vacancy on our Board, plus the CEOs and ex officio.

That Board is broken up into a number of Committees, so for example, the Human Resources Committee has seven (7) Board members. The Investment Committee, subject to checking, is either four (4) or five (5) Board members. That's the entire Investment Committee of the Board.

MR. WALTER SARANCHUK: So there are no members from the Department of Finance on the Investment Committee?

MR. BARRY GALENZOSKI: That is correct. They attend meetings as I do in a staff relationship. I correct that -- on an advising relationship.

MR. WALTER SARANCHUK: So, in terms of the management of the investment fund, what is the process from the initial concept of taking a certain approach, for example, on equities and the equities market at a particular time through to the actual sale of an -- of some equities.

How does that process work? Is it a question of the matter being raised at the Board of Directors level and then the Investment Committee is called upon to deal with whatever the Board of Directors initially thought about or proposed and then does it go to the Department of Finance for implementation?

What is the process there?

MR. BARRY GALENZOSKI: Okay. First of all, I'll just clear up who's on the Investment Committee. There are five (5) Board members on the Investment Committee out of the eight (8) that are currently there and one (1) ex-officio being the President. So, that hopefully is -- clears that question up. Okay?

With respect to the investments, the Corporation collects premiums, has certain expectations with respect to cash flows throughout its year and knows that some of that money has to be put away for one (1) reason or another for -- and that could be from any line of business that we collect premiums for.

So we have a pooled concept for investments. In other words, we do not have a separate investment fund that deals just with basic, another one that deals just with extension and another one that deals just with SRE. It’s one (1) fund and it includes everything that Corporation is investing, so whatever reason we have money available for investment, it’s in that fund and then we allocate investment income out of that based on the formula that we talked about.

Now, you asked me about the process. The process to determine -- we have an investment policy statement. Now we didn’t always have an investment policy statement, but we’re fortunate. Today we’ve got one and let’s say we want -- on an annual basis we review that investment policy statement.

That investment policy statement lays out a lot of the rules, if not all of them, with respect to how we’re going to conduct ourselves on the investment side. It details our permitted assets that we would have and the allocation of those assets in the investment process. In other words, how much are we going to have into bonds? How much are we going to have in equities? How much in Canadian equities? How much in US equities? What we think we should be keeping on short-term?

All of those parameters are laid out and that is approved by our Board of Directors and the Department of Finance also is sitting in on these meetings and they would bounce that by the Minister of Finance to make sure that they were happy with that whole process.

Now, to get to the asset mix that we're going to have, the Corporation has conducted something called an asset liability study and this is where we've hired external actuarial firms to actually take a look at our liability profiles and come back with a process of -- that will recommend the appropriate asset mix for our type of liabilities.

And you're correct, over the longer term, basics liabilities are going to be on the books longer and we're seeing a change in our average duration of our liabilities change over time from one of being much shorter duration to a longer duration now, and we attempt to match our investment duration with our liability duration.

Now, within that, once we've determined what our asset mix is going to be, then we have to look at how are we going to invest the money? Are we going to invest it in bonds? If we're investing it in bonds, that's all through the Department of Finance. They handle that 100 percent. We have certain parameters as to the type of bonds we're going to have in there, but generally speaking, they handle all of that.

If it's going to be invested in equities, whether it's in Canadian or US, we do that through fund managers and the -- the only thing we do different on the fund managers is look for the style of management and that's one (1) of the -- that's one (1) of the fine tuned things that occurs when we're doing our asset liability review is looking at what style of management.

So you're not having everybody in -- that's handling your Canadian equities, for instance, being on the growth side and there could be different styles of management that you'd want so that you'd have some offset when things are going in -- in a different direction at any particular time on the equity markets.

So, all of those parameters are laid out, they're all approved by our Board of Directors, the Board is involved in the selection process of the managers, and they approve that, as does the Department of Finance, and that's -- on the day to day basis, we manage it through the Investment Committee working group, that reports through the Investment Committee to the Board, on a quarterly basis.

MR. WALTER SARANCHUK: At Tab 27, you'll find the Corporation's response to PUB/MPI-I-44-1. This is at Tab 27, in the Book of documents.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And there is reference to US equity funds and the management thereof. And indeed, as I understand the Corporation's response, the Corporation has indicated that it has hired, or it did hire advisors, and does hire advisors to manage its US equity portfolio.
Is that correct, Mr. Galenzoski?
MR. BARRY GALENZOSKI: Yes, that's how we're managing almost all of the US equity funds that we have invested now.
MR. WALTER SARANCHUK: So, it's not managed by the Department of Finance?
MR. BARRY GALENZOSKI: It's managed through them, they're the ones that actually have the contract with the equity fund managers in the US, we do not have the contract with them.
MR. WALTER SARANCHUK: And with reference to this response, namely Question 44 of the PUB-I-1, how much in the way of funds are these managers looking after, if you will, insofar as the equity, US equity portfolio goes?
MR. BARRY GALENZOSKI: Subject to correction, I believe it's around $70 million Canadian in total.
MR. WALTER SARANCHUK: And in terms of the Canadian equity funds, how much are they and who's investing -- who's in charge of those?
MR. BARRY GALENZOSKI: Well, it's the same

process, the contracts are with the Department of Finance, with four (4) different equity fund managers in Canada. And we would have I would again, thinking around a $130 million, in -- in that neighbourhood.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Galenzoski, while they're conferring I'm just curious. How many investment professionals are represented on the Investment Committee out of the Board members?

MR. BARRY GALENZOSKI: None. Just to expand on that answer, we have no investment -- what I would classify as investment professionals, on our Board of Directors.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: And now in answer to the question posed at number 44 in the First Round by the Public Utilities Board, Section -- or Tab 27, there's an indication that the US equity managers have made returns after expenses, in excess of the Standard and Poor (phonetic) 500 Total Return Index. Do you see that, sir?

MR. BARRY GALENZOSKI: Yes, I do.

MR. WALTER SARANCHUK: And as I understand it, there's a 29.79 percent return, versus the 25.6 percent for the index, according to the chart on page 2, is that correct?

MR. BARRY GALENZOSKI: Yes, on an annualized basis.

MR. WALTER SARANCHUK: Is this the benchmark by which the Corporation will be judging its performance?

MR. BARRY GALENZOSKI: It's the benchmark because that's what they're authorized to invest in.

MR. WALTER SARANCHUK: Can you give us any particulars relative to the Canadian experience at this juncture?

MR. BARRY GALENZOSKI: We can take that under advisement and get back to you on that, certainly.

MR. WALTER SARANCHUK: And if you wouldn't mind incorporating in the information, the same kind of a table as shown on page 2 of this answer, except it would be with regard to the Canadian experience?

MR. BARRY GALENZOSKI: And do you want it over the same time period?

MR. WALTER SARANCHUK: Yes, sir.

MR. BARRY GALENZOSKI: Yes, we can provide that.

MR. WALTER SARANCHUK: Thank you very much.

MR. BARRY GALENZOSKI: And one (1) thing, it will be on a different index, obviously.

MR. WALTER SARANCHUK: Yes, thank you. And we'll take that as Undertaking number 1 then, thank you.

--- UNDERTAKING NO. 1: The particulars relative to the Canadian equity fund investment experience at this point in time, incorporating in the information, the same kind of a table as shown on page 2 of the answer, except it would be with regard to the Canadian experience.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Now, I referred earlier to Tab 26 in this Book of Documents, and that refers to the Corporation's response to Interrogatory Number 43 of the Public Utilities Board on the First Round.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Included in that response and in particular, the question c) is a reference that as at June 30th, 2004 the book value of the investment portfolio is $1,512,099,000 and the fair market value is $1,554,710,000, resulting in an unrealized gain of $42,611,000, is that correct, Mr. Galenzoski?

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

MR. WALTER SARANCHUK: And subject to check, would it appear to you that the market value is about 103 percent greater than the book value?

MR. BARRY GALENZOSKI: I'll accept your calculation.

MR. WALTER SARANCHUK: And again the Corporation realized some of those gains to offset the $9.3 million loss being forecast for the current year?

MR. BARRY GALENZOSKI: We do not believe we can at this stage. The majority of those gains are embedded in our bond portfolio. Taking those gains just as you're suggesting, is really just discounting your future income flows. So it would have an impact on your future income in future years.

MR. WALTER SARANCHUK: And in terms of that actual decision as to sell an investment, for example, who makes that ultimate decision?

MR. BARRY GALENZOSKI: Well, if it's a bond that's made by the Department of Finance. And generally speaking, if they're looking for -- and they do make some gains generally speaking throughout the year.

They're relatively modest, we're looking for, you know, a couple of million dollars if we can get it, out of it. And it's generally speaking a transaction that will benefit us, not only in the short term but longer term. In other words, it's a win/win.

It's not selling off something to get a gain today and getting a lower yield for the future. So they're looking for some spread in the yield curve somewhere down the line. And if those opportunities present themselves, then they do that and they take those gains.

So they're managing that part of it. If it's with respect to the equity portfolio, the majority of those decisions are made by the managers, who on a day to day basis, decide how long they want to hold a particular investment that they're holding. This is on -- irregardless of whether it's on the US or Canadian side.

And they would manage the portfolio, because we are also monitoring their performance over both the short and longer term. And they've got certain guidelines that they've got to meet, in other words, they've got to meet certain performance targets otherwise we may dump them as a manager.

And so far we haven't had to do that, but, you know that's -- that's what they're working towards. They understand we're monitoring that process. So they would make some decisions on a day to day basis. And they may sell something and lose money because they think it's going to go down, so they want to cut their losses.

They may sell something and make a little bit of money. That's their decision because they're being monitored on that basis. On the other part, I indicated earlier this morning, we monitor on a weekly basis our equity portfolio, looking to see if there's an opportunity to take gains that might become available.

And what we're looking at is, generally speaking, we want to see that the -- if the portfolio of equities, this is both US and Canadian combined, exceeds 105 percent of the book value, we may take some gains.

And that's generally speaking how we got a lot of the gains last year. We monitored that portfolio and then if we -- and it would have to be somewhere over that 105 percent, let's say if it was 106 percent, we wouldn't take the gains.

But, if it was 112 percent, we would instruct the managers to take some of those gains, bringing it down to no lower than 105 percent of book value. And that leaves a little bit of a cushion for market fluctuations that can occur over time.

So, we directed then that the manager's

realize those gains. But, we did not direct them on which investments to dispose of or how to do that. It was left up to them. They were just told, we want to get and we give them a dollar amount. We want a million dollars from you in the next two (2) weeks in gains.

And then they would go ahead and they would take care of that. And that's how we manage it and that's how the gains are realized.

MR. WALTER SARANCHUK: Is that how you realized $27 millions in investment income increase last year?

MR. BARRY GALENZOSKI: That's pretty well it.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: We'll deal with this in greater depth shortly, but did the fact that there was some $20 million in losses around the corner being forecast have a bearing, in your direction, to the managers?

MR. BARRY GALENZOSKI: Well, you know, it can have a bearing, obviously, you're not going to ignore that. The fact is, is that when there was money to be taken, and you were looking at potentially having a loss, I guess there was some reason why we went out and looked for a process to do this.

One thing you should remember, is that most of these fund managers are managing pension assets, and they're -- they're basically not in the market of buying and selling to realize gains, because they don't have to.

Most of these funds can recognize those gains on a market value basis, they don't have to actually go out and sell the security to realize the gain or the loss. They take it on a market to market basis.

In our business, we can't do that, we have to actually realize the gain to recognize it, or realize the loss to recognize it, unless we declare it as an impaired investment.

So, that's the reason we developed a policy, and, you know, I think it was a bit of an unusual step for some of the managers to see that there was a policy like that in place and that we were going to exercise it the way we did. But we had no options if we were going to try and realize some of those gains.

On the equity side, if you don't realize some of those gains, you could lose them, and so we felt that there was a need to -- to do something rather than just sit there and watch them disappear over time.

MR. WALTER SARANCHUK: So the gains realized to offset the forecast loss were -- the gains were effectively in equities?

MR. BARRY GALENZOSKI: That was pretty well it. There was some taken on the bond side in the manner that I described previously, this win-win situation I was talking about, but we didn't force taking bond gains just because we happened to have an investment or a bond that had a higher market value than our book value, and just sell it just to get the gain, because that's going to hurt your downstream revenue flows and we're trying -- well, we won't do that, we're not -- we're not interested in -- in taking from tomorrow to pay for today.

MR. WALTER SARANCHUK: And how were those funds reinvested?

MR. BARRY GALENZOSKI: Again, that's left up to the equity manager. They reinvest that money as they deem necessary. We do not direct on any investment, we do not tell an equity fund manager to buy anything or to sell anything, we just tell them that we either want the gains, and once they've done it, then they have -- we leave the money with them to reinvest.

MR. WALTER SARANCHUK: So, is there the possibility that they were reinvested in the same investments?

MR. BARRY GALENZOSKI: There is that possibility, yes.

MR. WALTER SARANCHUK: Now, in the

Corporation's Response to Question 16 of the Public Utilities Board on the Second Round, this is shown at Tab 35 in the Book of Documents.

In Part D to that answer, there is mention made, as you did earlier, Mr. Galenzoski, to the policy adopted to realize capital gains from the equity portfolio, when the ratio of the equity portfolio's market value to book value is greater than 105 percent; you see that?

MR. BARRY GALENZOSKI: Yes, I see that.

MR. WALTER SARANCHUK: And by --

MR. BARRY GALENZOSKI: If I might, maybe I can just correct the record with respect to the investment portfolio, how it's broken down on the equity side.

We currently are holding, this is as at June 30th, so it isn't currently, but as at June 30th '04, U.S. in Canadian dollars, $87.3 million, on the Canadian side, $186.8 million, that's book value.

MR. WALTER SARANCHUK: Thank you, sir. This policy involving the 105 percent, when was that adopted by the Corporation?

MR. BARRY GALENZOSKI: That was adopted about a year ago.

MR. WALTER SARANCHUK: And is it included in the Investment Policy Statement?

MR. BARRY GALENZOSKI: No, it was approved separately by the Board.

MR. WALTER SARANCHUK: And how is the policy going to be implemented?

MR. BARRY GALENZOSKI: Well it's quite simple. On a weekly basis the Investment Department provides me with a schedule that shows the value of the equity investments by manager, both for Canadian and U.S. and it's a pretty simple calculation to see if it's over 105 percent or not.

MR. WALTER SARANCHUK: And as indicated in Part E, of this question, number 16 by the Public Utilities Board on the Second Round, for the five (5) months ended July 31st, 2004, the Corporation realized a $1.2 million gain on the sale of equities, is that correct?

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

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And I'm now looking at this question in depth, literally, five (5) pages in, to the schedule provided for the insurance year of 2003/2004, where it shows the projected forecast and actual investment income for the insurance year that I just mentioned.

And the forecast composition of investment income, indicates that MPI expects to realize some $2.3

million in gains for the current year, is that correct?

MR. BARRY GALENZOSKI: That’s not the one (1) I’m looking at, you’re looking at ’03/04?

MR. WALTER SARANCHUK: Sorry, I’m looking at 2004/05. And looking at that, the page just before it, there’s reference to a forecast of some $2.3 million in equity gains, is that correct?

MR. BARRY GALENZOSKI: That’s correct.

MR. WALTER SARANCHUK: So is the Corporation only going to sell when the market value of the portfolio is a 105 percent of book value? Or are decisions to realize gains made on an investment by investment basis?

MR. BARRY GALENZOSKI: Well, the individual fund managers are still free to buy and sell, and they will do so and they will either make money or lose money on an individual investment. And so that’s generally -- that -- that process is going to happen.

The Corporation will look at the 105 percent scenario that I was talking about, and decide whether or not to take any gains, if they present themselves.

I can tell you at this moment they do not present themselves, and I do not expect to see that before the end of this fiscal period.

MR. WALTER SARANCHUK: Does the Corporation not realize any additional gain until it reaches a 105 percent?

MR. BARRY GALENZOSKI: As I mentioned just a moment ago, if the equity fund manager decides to sell something and it has a gain, then we'll realize that gain, because it -- it' sold, and it's in the bank. But the Corporation will only take it after we've -- we've looked at this 105 percent. The 105 percent is -- is our watermark, it's our -- it's where we -- we decided to -- to look at it, to take the gain.

Now, if it turned out to be a small amount over the 105 percent, we're not likely going to take the gain. And the reason for that is, is that it's probably going to be too distributed amongst the various managers to make it reasonable or economical to do so.

You're only going to take that gain if it probably presents you with an opportunity to take four (4) or five (5) or $6 million in one tranche, otherwise it isn't going to be worth the effort to -- to get out there and do it. You have to sell way too many equities and incur too many fees to do that.

MR. WALTER SARANCHUK: You referred to the fact that you receive a weekly report. With reference to the gain last year, of some $27 million, and the forecasted higher level of claims costs, around the corner, if you will.

When was it then that the decision was made to sell to realize the investment income to cover off those projected losses?

MR. BARRY GALENZOSKI: They weren't sold off to cover those projected losses. What I can tell you is that we, on the monitoring process for the investment portfolio, noticed that the -- the market value was building on the equity side.

And the problem we had was the one (1) that I explained to you before, is that equity fund managers are not generally in the -- do not have as a normal part of their process, a methodology to realize those gains. They generally believe that the market value is realized or doesn't need to be realized, it doesn't have to be sold to be recognized in most situations, for pension funds primarily, that they would just automatically book that, and that would be counted towards any particular gain.

In our situation we actually have to sell the investment to get the gain to be recognized physically on our books. And so when we noticed that we were building a pool of unrealized gains, we started to look around for a process as to how we might extract those gains.

We're trying to manage the portfolio to the benefit of the Corporation obviously. And so we did some work, I have a small Investment Department that put some work together on what would be an appropriate level.

And what we’re looking for is an appropriate level that if you look back on history, isn’t going to generally get you into trouble. In other words, have the equity or the market value, go much lower than the book value at any particular point in time, based on what’s happened over the last few years.

And we selected an amount of that 105 percent as being the appropriate level. Once we did that, then it became a process of managing the managers. In other words, monitoring to see if we got the gains available and once we had sufficient amounts in that four (4) five (5) or higher level, millions of dollar level, then we would instruct the managers to take gains.

And as I said before, we were very explicit with the managers. We would -- we would tell a particular manager, based on the portfolio that they were holding at that time, that we wanted this much money from them. And we’d give them a time frame to realize it. And they went out and did it.

MR. WALTER SARANCHUK: Now, if you don’t have any investment professionals on your investment committee, does the Corporation have any full time investment professionals on staff and involved in advising the investment committee?

MR. BARRY GALENZOSKI: You means besides

myself?

MR. WALTER SARANCHUK: I guess if that's the way you want to consider it, yes.

MR. BARRY GALENZOSKI: Yes, we have a Department -- Investment Department. They're not there to do investing they're there to assist us in developing policies around our investments to help us with the asset liabilities reviews, to work with the investment committee working group.

There's a lot of -- a lot of language around investments. And there's a lot of different charts and processes not easily understood by the lay person. And this group helps interpret it. We have three (3) people with CFA's on staff, working full time for the Corporation and one (1) analyst in this Department. So a Department of four (4) what I would consider professionals.

MR. WALTER SARANCHUK: Included in the response by the Corporation to the question at tab 26, that's number 43 of the first round of the Public Utilities Board questions, is the investment policy statement of the Corporation.

At page 5 of the policy statement, there's a section entitled, investment policy strategy. I wonder if you would please read into the record, sir, the first paragraph?

MR. BARRY GALENZOSKI: This is -- this

relates to the bonds that are managed by the Department of Finance. And it says:

"The Corporation will continue to account for realized capital gains and losses in the current year. In order to be able to manage the fund effectively, the Corporation expects to book approximately $5 million in gains or losses from fixed income assets in each fiscal year. This is a guideline only and does not preclude taking more or less gains in response to changing market conditions or equity market volatility."

And this guideline was put in place to assist the Department of Finance in giving them some guidelines as to what our expectations were for them to manage the bond portfolio, so that they had something to work towards.

MR. WALTER SARANCHUK: And the next paragraph, if you wouldn't mind reading that in, that's the one (1) referring to the working group?

MR. BARRY GALENZOSKI: Yes:

"The working group shall annually provide the investment fund directional plan to the investment committee and the Department by the end of January which will be forwarded for approval of the Board and the Minister."

MR. WALTER SARANCHUK: Okay. Now, on the previous page, under the equity section at the very bottom, there's reference to the working group as well. And I wonder if you would just read that section -- those last two (2) lines in, sir?

MR. BARRY GALENZOSKI: "The working group shall annually review the equity position for the fund including diversification and risk measures which will be forwarded to the investment committee."

MR. WALTER SARANCHUK: So, I guess that leads to the question of who comprises the working committee group?

MR. BARRY GALENZOSKI: The working group consists of three (3) representatives from the Department of Finance, myself as Chair, our investment fund -- our investment department manager, our corporate controller and our manager of budget -- or of treasury and disbursements.

MR. WALTER SARANCHUK: So this isn't the investment committee of the Corporation, as such?

MR. BARRY GALENZOSKI: No, it's the investment committee working group that will then report to the investment committee.

MR. WALTER SARANCHUK: And where does your committee within the Corporation, comprising of your three (3) or four (4) people to make up your little department you were talking about, where do they fit in to the picture?

MR. BARRY GALENZOSKI: They report to me.

MR. WALTER SARANCHUK: So we have in terms of structure, if you will, you have this group of three (3) or four (4) MPI employees reporting to you on investment strategy and management, is that fair to say?

MR. BARRY GALENZOSKI: Well, he also reports to the Board and the investment committee of the Board so he’s -- he’s making presentations every meeting to the investment committee of the Board, also.

MR. WALTER SARANCHUK: When you say "he" who do you mean?

MR. BARRY GALENZOSKI: I mean our investment department manager.

MR. WALTER SARANCHUK: All right, so --

MR. BARRY GALENZOSKI: I can review this if you don’t -- if you want. There’s four (4) people in the investment department.

One of them is the manager, three (3) of those people have CFAs. They -- that department reports to me. I am the Chair and the investment committee working group which comprises of four (4) people from MPI, three (3) people from the Department of Finance.

That group attends -- or not all of them, but almost all of them attend -- all except one (1), attends the investment committee meetings.

The investment committee is made up of Board members with the president being the ex officio member. The investment committee reports through to the Corporation's Board.

MR. WALTER SARANCHUK: So in terms of following up on a particular strategy, who ultimately decides whether to pursue a route of disposing of some equity investments?

MR. BARRY GALENZOSKI: The manager that has that equity investment.

MR. WALTER SARANCHUK: Does the Corporation, through this scheme of committees or line of committees, if you will, direct the manager as to how he should be making that decision or directing him in terms of what decision he should be making?

MR. BARRY GALENZOSKI: Not on individual sales. The -- the contract with the manager outlines the parameters that they can invest in. It tells them what markets they can invest in, it tells them what type of investments they can hold as far as the maximum amount for one (1) investment, the maximum amount in one (1) sector.

Those types of things are laid out for the manager to follow but we do not ever direct them to buy or sell a single investment individually.

With the one (1) exception, when they're over their -- the allotted amount that they can hold on a maximum basis.

THE CHAIRPERSON: Your example of Nortel?

MR. BARRY GALENZOSKI: My example of Nortel and we only had to do that once with one (1) fund manager and Nortel ran up because it became a bigger and bigger piece of the market and once it got to be past our 10 percent hold, then we had to instruct one (1) of the managers, who didn't automatically do it, to bring his holdings down.

MR. WALTER SARANCHUK: Now at this time last year there had not as yet been the gain in the equity side realized, so can you give us a little better idea as to when a decision was made?

MR. BARRY GALENZOSKI: A decision was made every week. We were monitoring this thing and as we saw an opportunity, we started to take the gains and it just happened to coincide pretty well with our fiscal year.

It -- it basically -- you know, we were showing, I think, in that one (1) chart we looked at that we were expecting some healthy gains but we took a fair bit more and that was because we had realized some up to that point, obviously, we weren't predicting that it was going to happen, and the market just stayed strong until about March of this year and then it tapered off again.

MR. WALTER SARANCHUK: So are you saying to me that it due to the vagaries of the market than just some good luck that you realized the gain to offset the loss?

MR. BARRY GALENZOSKI: I'm saying -- I'm saying in this case it was purely coincidental that the market happened to be good. We happened to be having a bad year, also, as far as claims, if you want to call it that, we were basically setting aside more money to pay claims and it worked out fine.

If you look back to the previous two (2) years it didn't work out as fine. You know the market just wasn't there to -- the way we expected it to be and as a result, we had less investment income for those -- those two (2) years.

MR. WALTER SARANCHUK: So, the Corporation doesn't use the investment gains to manage the bottom line in the final analysis, is what you're saying?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: With reference to the investment policy statement, which was filed in the section -- pursuant to Question D in the question shown at Tab 26, the investment policy statement is -- begins five (5) pages in and I would refer to page 13 of the statement, Mr. Galenzoski, where there's a section entitled, "Investment

Objectives". The first one is shown as follows, quote:

"To meet the Corporation's liability commitments, both short and long-term."

End of quote. How is that interpreted by the Corporation?

MR. BARRY GALENZOSKI: Well, that's looking at the duration of our liabilities and trying to come up with a reasonable match for our investment portfolio to that same duration.

MR. WALTER SARANCHUK: Does that influence -- let me put it to you this way. Did that particular objective influence the decision to sell off the equities, realize the gain last year to offset the projected loss?

MR. BARRY GALENZOSKI: No, it doesn't. That is a long-term strategy to meet the Corporation's ongoing liability commitments. So it means that you have to structure the investment portfolio so that over the long-term, it can meet all of the liabilities that the Corporation has. The -- the Corporation's liabilities are not just claim liabilities.

We've got our share of the -- of the pension commitment for the employees is in that fund. There's all kinds of liabilities that could be located -- that are part of that pool of invested funds and so we're not looking to do the short-term thing. This is a long-term objective of the fund.

MR. WALTER SARANCHUK: Although, you'll agree, that the reference there is to both the short and long-term.

MR. BARRY GALENZOSKI: Well, liabilities are both short and long-term. You know, we have some immediate payouts. For instance, if you were in a situation where you had a major hailstorm and you were needing five (5) or $10 million to fund the loss while you were waiting for your re-insurance recoveries, you need to find that money some place. We need the hard cash and this is the short-term and so we manage the thing for that very purpose.

We make sure we've got enough money on hand to meet our day-to-day requirements on the short-term side as well as what are our longer term liabilities? We're trying to maximize the interest returns of the Corporation here, and so we're -- we're looking at setting our assets out in different -- different types of investments so that we match the liabilities over the long and short-term.

MS. MARILYN MCLAREN: Mr. Saranchuk, if I could interject just for a moment, just to sort of emphasize one (1) of the last points Mr. Galenzoski made.

We do the very best job with our investments as -- as possible year in and year out. To consider that we possibly managed the investment portfolio last year because we knew that our claims costs were higher might imply that in some of these earlier years that you were reviewing with Mr. Galenzoski earlier, when our claims costs were coming in lower than predicted, that we somehow would have said, Well, wait a minute, we -- we better let some of those potential, you know, equity returns slide because we don't want to be anymore over budget than we're going to be.

That -- that's not how we operate. We -- we try to maximize investment returns year in, year out based on the investment situation, not depending on whether we need money because claims costs are higher or whether we don't money because claims costs are lower.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren, and that answer holds true when considering the third objective, quote:

"To have investment returns minimize premiums payable by policy holders."

End of quote. Does it?

MR. BARRY GALENZOSKI: Yes, sir.

MR. WALTER SARANCHUK: How does the Corporation interpret its obligation in light of that third objective that I just read into the record?

MR. BARRY GALENZOSKI: Well, you were asking about -- earlier this morning whether or not the premium was sufficient to pay the claims and the expenses of the

Corporation if we weren’t going to take any investment income.

We indicated to you that part of our rating methodology takes in the investment returns, so we have a reliable -- we need a reliable form of revenues from that source, and that money does reduce the premium that the average Manitobans pay. And it is a considerable contribution to every -- each and every policy that we sell in the Corporation.

MR. WALTER SARANCHUK: So let me ask you, in light of this third objective to have their investment returns minimized the premiums payable by the policy holders, wouldn’t you, being faced with a forecast of some $20 million on the claims side, negative, automatically look to your investment portfolio to try to offset that?

MR. BARRY GALENZOSKI: Well, not if it’s going to hurt your long term future. You know, so if we would take money today, and we could sell some of those bonds and get some of that $42 million gain, that’s the short term gain, and but the long term effect is that you’re going to have to reinvest that money at a lower interest rate, you’re therefore going to pass those -- that -- that cost on to the future. And that’s not what we’re trying to do here.

MR. WALTER SARANCHUK: Thank you, sir. Now, still dealing with this particular response and the investment policy. At page 17, there is a table in Section 7.1, and as I understand it, that provides your funds -- asset allocation -- well, let me stop there. Is that correct, for starters?

MR. BARRY GALENZOSKI: It provides the -- the policy for the asset allocation, yes.

MR. WALTER SARANCHUK: And could you, Mr. Galenzoski, just review the information for the record, as provided in that particular table?

MR. BARRY GALENZOSKI: Certainly. It -- this table lays out the -- the parameters of the policy for the assets that the Corporation should be holding in its investment portfolio, and for instance, it has a category, cash and short term. And we can have a minimum of 0 percent of our portfolio in that asset class. We could have a maximum of 5 percent. But normally would be expected at about 1 percent.

And similarly for all the other asset classifications that are showing there. The -- the marketable bonds and non-marketable bonds are shown at 60 percent minimum, 70 percent maximum, 64 percent normal, and so on, for all the different asset classes.

MS. DENYSE COTE: Excuse me, just -- just to sort of make a link, so are you saying then normally the bonds make up 75 percent of your asset allocation, and that’s determined by the Department of Finance?

MR. BARRY GALENZOSKI: Where -- where the money is going to be invested is determined by the -- by the Department of Finance. We've jointly agreed on this policy, the policy's been approved by our Board of Directors, and they've taken it to the Minister of Finance and he's concurred with it also.

THE CHAIRPERSON: We're just going to take a ten (10) minute break, if that's all right, Mr. Saranchuk? Thank you.

--- Upon recessing at 3:00 p.m.
--- Upon resuming at 3:12 p.m.

THE CHAIRPERSON: Mr. Saranchuk...?

MR. WALTER SARANCHUK: Thank you, sir.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Mr. Galenzoski, referring to the table on page 17 of the Investment Policy Statement, the target allocation for equities, as I understand it, is 20 to 30 percent, Canadian 10 to 15 percent, and US 10 to 15 percent?

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

MR. WALTER SARANCHUK: Now, if we take a look at Tab 35, and the table filed in response to PUB-16B in the second round. That table being entitled, Forecast Projected Book Values and Percentages of Assets for Each Asset Class.

I note that the equity weighting falls below 20 percent of the target range, and therefore below the normal range of 25 percent to equities. Can you elaborate on that?

MR. BARRY GALENZOSKI: Yes, we've rebalanced the portfolio to come close to the 12 1/2 percent on the Canadian side, but we have not rebalanced the portfolio with respect to the US side, and hence, when you look at the dollars that were invested, as I put on the record earlier, in Canadian dollars we have about $87 million on the US side, and a $187 million on the Canadian side, as at June 30th.

And so you can see that we are not at the prescribed even minimum for the -- the US side, and there's a reason for that. And the fact is, is that there's a currency exposure on the US side, that is causing us some concerns.

The Corporation has hedged its currency exposure, and as the Canadian dollar appreciated over the last year, that served us very well, in that it preserved all of our -- our earnings on the US side. We didn't -- when the Canadian dollar is appreciating and you've got US investments, you actually earn less because the dollar is worth more, our dollar. When the Canadian dollar is dropping, then you make more.

So, we've hedged the -- the risk with -- associated with the foreign exchange, or the currency exposure, but there's a -- the hedge itself can become volatile. And the Canadian dollar doesn't have to move much, it's nice when it goes up and you make a few bucks on the hedge, and we've -- I think so far this year we've made about $3 million or $4 million on the hedge. But if the Canadian dollar drops, we can lose a lot of money in a short period of time.

And so we're looking for some other alternative to -- to control that -- that volatility on the hedge, and until we do so, we're not moving on the amount of money we've allocated to the US side.

Now we've discussed this with our Board, so they're well aware of it. Our Investment Committee of the Board knows this. We report on our asset allocation at each and every meeting, and explain why we may be over or under on a particular asset class, compared to where we think we should be.

And so that's the situation we're at right now. We're just reluctant to put more money in on the US side.

MR. WALTER SARANCHUK: Is there any consideration being given to the European side?

MR. BARRY GALENZOSKI: No, it doesn’t meet any of our policy standards. As you can see, it’s not in our Investment Policy Statement, so we wouldn’t be putting any money in there.

MR. WALTER SARANCHUK: Now, in Part C of question 16, asked by the PUB on the Second Round, this is still at Tab 35. The Corporation was requested to comment on the success -- its success in meeting its investment portfolio target allocation.

Would you please read in the answer to Part C of that question, sir, which appears on page 3, C at the top?

MR. BARRY GALENZOSKI: Yes, the response is:

> "The process of meeting the target asset allocation set forth in the Investment Policy Statement is still in progress. As of July 31, 2004, the Corporation is within acceptable allocation ranges for a fixed income (marketable non-marketable and real return bonds) and Canadian equities. The Corporation is slightly over its maximum cash allocation range and under the US equity minimums or minimum allocation range."

MR. WALTER SARANCHUK: So, how far below is the US weighting and what action is the Corporation taking to address it?

MR. BARRY GALENZOSKI: I think I just spoke to that word, about half the allocation, so, instead of having twelve and a half (12 1/2), we're probably just under seven (7) right at the moment. We're not going to put more money into the US side until we can get the hedge under control with respect to volatility associated with it.

MR. WALTER SARANCHUK: Thank you, sir. I now refer to the Annual Report of the Corporation for the basic side, which appears in AI-10, in Volume 3, Part 2, and on page 12, Note 5, there's reference for a provision for future employee benefits. And in the section under Financial Information, it is noted that Allocated to Investment Income is $4.9 million.

MR. BARRY GALENZOSKI: Where do you see the reference to $4.9 million?

MR. WALTER SARANCHUK: Right under the heading, Financial Information, there's Plan Expense, and then, this is on page 12, Provision for Employee Future Benefits, Financial Information, in the middle of the page says, Planned Expense $8.8 million and then allocated to investment, or at least actually --

MR. BARRY GALENZOSKI: I have that, yes.

MR. WALTER SARANCHUK: -- allocated away from investment income, as I understand it now, is $4.9 million;

you see that?

MR. BARRY GALENZOSKI: Yes, I see that.

MR. WALTER SARANCHUK: And, again, that figure, $4.9 million, appears on the Provision for the Pension Benefit Plan on page 16.

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: I wonder if you would explain what that allocation is about?

MR. BARRY GALENZOSKI: Well, part of our co-mingled funds in our investment portfolio is the amount of money that we set aside for this particular benefit which is the future pension for employees of the Corporation, the Corporation's share. The employees' money is not here, the employees' money is with the Civil Service Super Annuation, separate fund, this is the Corporation's actuarially calculated liability for its responsibilities for the future pension benefits of the employees or the Corporation. That's both past, present employees of the Corporation.

Part of that fund is allocated some of the investment income that the fund is earned, which is a reasonable thing to do, which is what most funds would do, and this is the allocated portion of the investment income associated with the funds that are available for investment in that particular liability.

MR. WALTER SARANCHUK: So there's no

segregated investment for pensions?

MR. BARRY GALENZOSKI: That’s correct. We keep all of our -- we have one fund, one investment fund, everything is in there.

MR. WALTER SARANCHUK: And is this for essentially all of MPI’s employees, as opposed to out of scope versus in scope?

MR. BARRY GALENZOSKI: All employees.

MR. WALTER SARANCHUK: And in the Annual Report of the Corporation, overall, at page 35, this is the next document in AI-10, there’s reference in the notes of the Financial Statement in Section 4 there, Cash and Investments, and in particular, there is a list of the investments under the heading of, "Bonds", and then reference there to Manitoba’s portion.

Under the section for -- or the line for provincial bonds, there’s a figure there given for the carrying value of $121 million and the fair value of $130 million in round figures for the fair value in 2004.

Could you just explain what is referred to in that particular line? What kind of investments are we talking about there?

MR. BARRY GALENZOSKI: This would be investments in the province of Manitoba. These would be bonds that they would have issued that we purchased over the years and the reason that there's a difference between the carrying value, which is what we paid for them and the market value, that's basically it. It's the market value of those particular bonds.

MR. WALTER SARANCHUK: And the next line relates to municipal bonds. What -- can you give us an example of -- of those?

MR. BARRY GALENZOSKI: Well, for instance, if the City of Selkirk issued a bond to pay for something and we purchased some of it, that's what that would be.

MR. WALTER SARANCHUK: And the hospitals investment. I would think that speaks for itself as is schools, but in terms of other provinces on that line -- what is that all about, sir?

MR. BARRY GALENZOSKI: That's bonds that other provinces have issued. It could be for the Province of Ontario or Ontario Hydro or something along that line. These were all purchased by the Department of Finance.

MR. WALTER SARANCHUK: Now, in general terms, there appears to be very little difference between the book and market value for those investments. Just how marketable are they?

MR. BARRY GALENZOSKI: Well, for instance, when you -- you look at the provincial, those are marketable because there is a difference of some $8 million and when you look at the municipal, hospitals and schools, there's virtually no difference because they're not readily marketable. There is no market.

These things aren't being traded on a regular enough basis that there's an established market price.

MR. WALTER SARANCHUK: And on the next page, page 36, there's a reference to the section under Investment Risk, the second point, Bonds -- Interest Rate Risk, and the effect of rate and coupon rates.

Again, looking at the -- let me ask you first of all, do those reflect market rates?

MR. BARRY GALENZOSKI: The coupon rate is just that. It would be the coupon rate and the effective rate is -- is when you just do the calculation as to the annual interest that you're going to achieve on that. It doesn't impact the market rate

MR. WALTER SARANCHUK: So, in respect of those types of investments, again, based on what you indicated, is it the Finance Department that makes that decision?

MR. BARRY GALENZOSKI: Yes, that would be the -- the group that would make that -- I just want to -- I want to elaborate on this effective rate just a little bit more.

The reason there would be a difference between -- you notice the Federals, it has a coupon rate of between four (4) and eight point seven five (8.75), but the effective rate is two point three nine (2.39) to five point oh five (5.05). Well, we may have paid a premium at the time we bought a bond or we may have received a discount and we're advertising that over the life of the bond and that has an impact as to what the actual yield will be on a particular bond.

MR. WALTER SARANCHUK: Thank you, sir. And going back now to Tab 26, being the response by the Corporation to PUB Interrogatory No. 43, on the first round, and in particular the table filed for Question B -- this is at Tab 26, as of the year end of 2003/'04, it appears that you had $87.8 million in cash and -- cash and short-term investments.

And you were forecasting that those are to be at about $22 million annually out, out through to 2008/9. Is there a particular reason for the high balance for 2003/04?

MR. BARRY GALENZOSKI: Keep in mind that cash in short term investments, short term investment means matures within a year.

The reason that that balance is higher for '03/04, compared to the going forward position, is that we're holding more than our investment policy statement allows at the moment, for the reasons that I stated before, primarily because we have not rebalanced the US equity side.

There could be some other reasons we -- we may have had some increased cash flow for one (1) reason or another, for instance, if we do a -- a reinsurance commutation, that might bring in $10 or $15 million, and so that might have been put into that particular bucket, until we have a chance to -- to put it into some other -- other place.

So we're -- we're monitoring that, as I said before, we report that on a regular basis to our Investment Committee. They know exactly where we're at on that, and the reasons why we're outside of our policy statement.

MR. WALTER SARANCHUK: And what kind of securities are represented by short term investments?

MR. BARRY GALENZOSKI: Well, they're primarily treasury notes from the Province of Manitoba.

MR. WALTER SARANCHUK: And are those investments at market rates?

MR. BARRY GALENZOSKI: They would be at the market rates as determined by the Department of Finance.

MR. WALTER SARANCHUK: And I'm looking at the line down under the investment income section, for the equity gain there's an amount shown of $54.8 million. Noting that the gains in the future are not expected to be at that level, although there is, as I understand it, $42 million in unrealized gains in the portfolio currently.

Can you discuss that, sir?

MR. BARRY GALENZOSKI: I think we've talked about it at least twice before this afternoon.

MR. WALTER SARANCHUK: Well remind me then please?

MR. BARRY GALENZOSKI: The -- I will. I was getting to that point.

The reason that those gains are there are primarily because of the bond portfolio. We do not intend to take those, other than when the Department of Finance will buy and sell something with respect to this win-win situation that I've described.

And so that's why we're seeing a smaller budget going forward, to take equity gains, or to take gains.

MR. WALTER SARANCHUK: And a couple of lines down, indicates:

"Management fees as escalating through to the end of the outlook period."

Is there a particular reason for that?

MR. BARRY GALENZOSKI: There would be two (2) reasons for that. Primarily it's because of the size of the investment portfolio growing, that would be the biggest reason. And then any changes in the rates that we might be charged by our fund managers over time.

MR. WALTER SARANCHUK: So that reflects that there will be more funds under third party management?

MR. BARRY GALENZOSKI: That means that there's going to be more funds totally in the investment portfolio, some of these fees are paid to the Department of Finance as a percent of the portfolio that we have in place. Some are paid to fund managers, based on the size of the portfolio, and the activity that they see, that they actually conduct in that portfolio.

MR. WALTER SARANCHUK: And just with reference to the outlook period from 2006/07 through to 2008/09, the corporate total is forecast as increasing, as is basic share over that period.

Is there a particular reason why the percentage allocated to basic will be increasing?

MR. BARRY GALENZOSKI: Yes, there is. The -- because of the nature of the particularly no fault benefits, the long term nature, the long tail on that particular type of business, that pool of funds is building at a much more rapid rate than the other two (2) lines of business, therefore, the basic is taking an ever increasing share of the available investment income.

MR. WALTER SARANCHUK: Thank you, sir. Unless the Panel members have any other questions relative to investment income, I intend to move on to another area.

THE CHAIRPERSON: I had one (1) question, perhaps I missed it, and if I did, I apologize.

You set benchmarks for the performance on the equities, do you set benchmarks with respect to the larges part of the portfolio, which is the bonds?

MR. BARRY GALENZOSKI: Yeah, the benchmark we're using there is the Scotia Capital Universe. And we measure their performance against that particular benchmark.

THE CHAIRPERSON: Thank you.

MR. WALTER SARANCHUK: Thank you, Mr. Chairman. I intended to proceed now with the area of the upgrade factor and the volume factor, and it will take me some time to do that. I know that you wanted to adjourn in about nine minutes. Is this a convenient time to adjourn or did you want me to proceed with some questions in this line?

THE CHAIRPERSON: How long will it take to work through this?

MR. WALTER SARANCHUK: I expect it will take, by the time we're through, probably twenty minutes for this particular area.

THE CHAIRPERSON: Well, why don't you do ten minutes of it and then we'll ...

MR. WALTER SARANCHUK: Thank you, sir.

I'm now turning to another factor in considering MPI's revenue requirement, and that pertains to what is known as the Upgrade Factor. And the reference here is at Tab 9 of the Book of Documents, which is the Corporation's Response to Question Number 2 in the First Round.

As well, the Corporation filed an Analysis for the Premium Upgrade Factor, at AI-15, in Volume 3, Part II. With reference to AI-15, would you please define and explain the rationale for the need for a vehicle premium upgrade factor?

MR. BARRY GALENZOSKI: Yes. Historically, the Corporation has seen an upgrade factor that's part of the revenue that we will receive on an annual basis. An upgrading, simply put, is when the customer takes an older vehicle, sells that, and buys a newer or new vehicle, and insures that particular vehicle, generally at a higher cost than the previous vehicle that has been disposed of.

And, so over time, we see the overall fleet of vehicles in Manitoba, being upgraded and attracting more premiums associated with it, and that has -- has ranged anywhere from 3.6 to 5.3 percent over the last eight (8) years.

MR. WALTER SARANCHUK: And for the current Application, as I understand it, the premium basis to include a 3.5 percent upgrade factor is shown in the Assumptions in TI-15, which is at Tab 4?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: Now, in general terms, sir, would you explain the processes in the assumptions and the methods used to determine the overall vehicle upgrade factor for an application, for example, is each component determined and then added to obtain the total, or how is it to be done?

MR. BARRY GALENZOSKI: Well, there's a fairly detailed explanation as to how that's done, associated with the response to A. If you'd like, I can go through these, I can read them into the record?

MR. WALTER SARANCHUK: At a high level, if you wouldn't mind, on a summarized basis.

MR. BARRY GALENZOSKI: Okay, on a summarized basis, we used the eight (8) year historical data, that included a 5.3 percent experience for 2000/2001, which we think was an anomaly, and so it wasn't going to be repeated in the future.

MR. WALTER SARANCHUK: This is at Tab 9?

MR. BARRY GALENZOSKI: This is -- sorry, you're correct, at Tab 9.

We then look at the trend line and look for the highs and lows over the eight (8) year history, and we selected the 3.5 percent for consideration for the future.

MR. WALTER SARANCHUK: And, what is actually meant by a 3.5 percent vehicle upgrade? Does this indicate that the premiums for the existing fleet will generate in total, 3.5 percent more revenue in the next application year, or 3.5 percent more in the year after that, or does it mean something totally different?

MR. BARRY GALENZOSKI: I think it means both of what you described. It’s going to generate 3.5 percent more this year and three point five (3.5) more next year, and then three point five (3.5) the year after, until we change the assumption.

MR. WALTER SARANCHUK: Now, at page 3 of AI-15, there is a Table dealing with the historical estimates of the pure upgrade over the last five (5) years, I think it’s more than the last five (5) years, but in any event, there is a reference of the historical estimates.

And at Tab 9, in Response to Question A as to why the 3.5 percent premium upgrade factor is utilized, when the actual had not been that low for more than eight (8) years, in general terms, how did you come to that decision?

MR. BARRY GALENZOSKI: Sorry, as I indicated previously, the -- we’re using an eight (8) year historical data base here. The 5.3 percent per 2000/2001 was -- was indicated as an abnormal result and wasn’t going to be repeated in our opinion.

We looked at the trend line and selected the 3.5 per percent based on our expectations for the future.

MR. WALTER SARANCHUK: And at Tab 40 in the Book of Documents, this is the Corporation's response to parts B and C of CAC/MSOS's Interrogatory No. 27 on the first round.

For the years -- for the last five (5) years, sir, up to 2003/'04, I wonder if you would compare the forecast as compared to the approved upgrade factors?

MR. BARRY GALENZOSKI: Under the table to BC -- MPI-127B and C Upgrade and Volume Factor as Historical Experience, we're showing a table that goes from 1998/1999 through to 2005/'06 and under three (3) headings, Approved Rate Application, they're showing an upgrade in volume percentage. Under Revised Forecast, showing both an upgrade in volume percentage and then we're showing what the actual was -- the upgrade in volume.

And you can see that, if we look at '03/'04, which is the most recently completed year, under the approved rate application we had an upgrade factor of 4.5 percent. Under the revised forecast we said it was still going to be 4.5 percent; in actual it came in at 3.6 percent and the similar history is provided for the prior years.

We can't provide all of the history for the going forward years, of course, because we haven't got there yet.

MR. WALTER SARANCHUK: But in terms of the experience from 2000/2001 through to 2003/2004, there's been a range from a high of 5.6 percent down to 3.6 percent.

Is there a particular reason for that or is it strictly a question of vehicle sales?

MR. BARRY GALENZOSKI: Well, it would be a question of vehicle sales, economic factors, I guess in the province as to how many vehicles people put on the road and it would -- and also whether or not they're buying or selling their vehicles and replacing them. So, we're looking at the actual data that came out of our records as what happened during the year.

MS. MARILYN MCLAREN: The other factor too is that we've been making changes to the -- the rate line -- the relationship between the rates charged for individual rate groups across the rate line. The -- effectively what's happened over the last few years is that the rates per rate group at the upper end of the rate group scale have come down somewhat, and so therefore, there's not the gap that there used to be between the insurance rate for a nine (9) year old vehicle compared to the insurance rate for a newer vehicle.

So that's been dampened so therefore we don't generate as much revenue through the upgrade for that reason as well.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren. Has there been any change in the process of determining premium upgrades over the last few years?

MR. BARRY GALENZOSKI: Well, we have a forecasting process on that side just like we do on the claims side and I think if there's been a change, it's that we've become a fair bit more accurate than you've seen in the past to the point where if I look at what's happening right now, today, we're within just a few hundred thousand dollars of our expectations on the premiums written side.

MR. WALTER SARANCHUK: Thank you.

Mr. Chairman, I'll be going over another area within the scope of this particular section dealing with vehicle premium upgrade and so perhaps this might be a convenient time to adjourn, given the fact that it's 3:44.

THE CHAIRPERSON: Very good, Mr. Saranchuk, so we'll stand adjourned until tomorrow morning at 9:00 a.m. Have a good night.

--- Upon adjourning at 3:44 p.m.

Certified Correct

____

Carol Wilkinson
Court Reporter