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
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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 (np)	)
Robert Dawson	)CBA/MBA
Claudio Sousa (np)	)SM
Carol Wilkinson	)Court Reporter

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--- Upon commencing at 8:03 a.m.

THE CHAIRPERSON: Good morning, we're all eager to get going. Mr. Saranchuk...?

MR. WALTER SARANCHUK: Thank you, sir. I want to begin, Mr. Chairman, and Panel Members, with some additional questions with regard to investment income.

(PANEL RESUMES)

CONTINUED CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: I appreciate that we were in the matter of the upgrade factor yesterday, when we adjourned, but just to clean up some of the issues relative to the investment portfolio, I wonder if I can put on the record, a request that the Corporation provide a schedule of, or summary, or table, of its overall return on the investment portfolio for one (1) year, five (5) years and ten (10) years, broken down into the following categories, and comparing them with the industry.

Firstly, money market, secondly, bonds, third, Canadian equities, fourthly, US equities, and fifthly, balanced portfolio.

Would you be able to do that, Mr. Galenzoski?

MR. BARRY GALENZOSKI: Yes, I'm not sure what you mean by balanced portfolio.

MR. WALTER SARANCHUK: Let’s then stop at US equities, and forget about the balanced portfolio aspect of it.

MR. BARRY GALENZOSKI: Okay. And if I said I don’t know what you mean by US equities, can we drop that one (1) off too.

MR. WALTER SARANCHUK: That’s where we draw the line.

--- UNDERTAKING NO. 2: To provide a breakdown of investment income for one (1) year, five (5) years and ten (10) years in the money market, bonds, Canadian equities, US equities and comparing them to the industry.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: And yesterday you indicated that the Corporation really isn’t interested in providing an international component to its portfolio. What’s the reasoning behind that?

MR. BARRY GALENZOSKI: There’s several

reasons, the first one (1) is we don't know much about it. I think that's a big concern.

Second, when we've done our asset liability reviews, that didn't come up as one (1) of the assets that would help us to any great degree over and above the asset mix that we've selected.

Third, there would still be the concerns that we have about foreign exchange or the currency exposure, and that would -- that would be just as great on that side, with most of that being in the Euro at this stage.

So, that -- that would be a significant concern with respect to where we are today on our investment portfolio.

MR. WALTER SARANCHUK: And who actually makes that final decision, not to enter that market?

MR. BARRY GALENZOSKI: Well, the decision as to which markets we did enter was -- was a fairly involved process, where we did the asset liability reviews, using external consultants to assist us in that. We've -- we've done, I believe, three (3) of those over the last five (5) or six (6) years.

And using those studies, that tells you where your efficient frontiers are with respect to the type of asset mix that you should have in your portfolio, and what you're really looking for is what is the best combination of asset mix, that will give you the best return with the least risk.

And based on -- on those studies, we then made recommendations, this is through the Investment Committee working group, we made recommendations to the Investment Committee and the Investment Committee would then accept or -- or modify those. In the situation that we're looking at now, they accepted those recommendations, and then that would be ratified by the full Board.

MR. WALTER SARANCHUK: Is there consideration given to possibly entering the international market on every occasion that there is a review or is this something that just crops up on occasion?

MR. BARRY GALENZOSKI: Well, no the review looks at all available type assets for instance, another asset class that's missing from our investment portfolio is real estate. And it's the same consideration as to whether or not something like that would assist you in -- in achieving the goals that you're looking for, which is the best return at the least risk.

And also, with respect to the -- the EAFE (phonetic) Market, the concern with respect to the currency exposure, would also be an additional factor that you'd have to consider.

MR. WALTER SARANCHUK: And so, was it the working group, was it that level where the decision was made or is it something that the Investment Committee management would decide?

MR. BARRY GALENZOSKI: Well, that would -- that would have been decided at the asset liability review stage. In other words, we would look at the -- at the available asset classes, to determine whether or not that should be included or not. And in the three (3) studies that we've done, that the EAFE was not considered in the asset liability review. So, it came -- it was right at the very beginning of the whole process.

MR. WALTER SARANCHUK: And when you refer to EAFE, for the record, what do you mean?

MR. BARRY GALENZOSKI: I'm not sure what the acronym stands for, but it's -- it's the European investments, there's a -- it's like the S&P 500. It's an index of the European countries, and you can invest in that pool of funds. You'd -- you'd invest in individual securities, but it's part of an overall index.

MR. WALTER SARANCHUK: I'm advised by a little voice in the background -- I guess he's not as sure about it as he thought it was in terms of what the acronym was, but in any event --

MR. BARRY GALENZOSKI: It -- it stands for Europe, Asia and Far East, I'm told, yes.

MR. WALTER SARANCHUK: Thank you. When was the last review conducted. You talked about three (3) of them?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: It's been approximately a year ago.

MR. WALTER SARANCHUK: Is that part of a regular process, or is this something that's on occasionally reviewed, if you will?

MR. BARRY GALENZOSKI: It's something that we probably undertake about every five (5) years. We've done, I believe two (2) for sure. We might have done the third one (1), but we primarily would do it for very specific reasons. We want -- when we're doing a major review of our Investment Policy Statement.

The first one (1) was done when we actually started to do other investments other than bonds and that helped us to determine a couple of things. It helped us to determine both the asset classes that we'd be invested in as well as the amount that we would invest in each of those asset classes.

So, that was an important review when we first got started in the equity-type investments and that would have been approximately five (5) or six (6) years ago. And then we repeated that exercise about a year ago, again to confirm what we should be recommending to the Board with respect to the asset mix that the portfolio should contain.

MR. WALTER SARANCHUK: Is there any involvement of an independent outside consultant?

MR. BARRY GALENZOSKI: Yes, I believe I mentioned that we use an outside consultant to assist us with the asset liability review in the last one that was conducted by -- with using the assistance of Mercers.

MR. WALTER SARANCHUK: And do you have a copy of that review, sir?

MR. BARRY GALENZOSKI: I don't have a copy of it here.

MR. WALTER SARANCHUK: Can you produce it within the next couple of weeks?

MR. BARRY GALENZOSKI: I'm not sure we're going to be able to produce it. That was -- there is some -- I guess -- commercially confidential material in there with respect to the process that Mercers use and that report would have been done with some confidentiality obviously attached to it.

So, I think we would have to check with them before we'd be prepared to -- to file that.

MR. WALTER SARANCHUK: How about a summary of the recommendations? Is that available?

MR. BARRY GALENZOSKI: Well, we can provide you with a summary of the recommendations, because we did things along that line with our Board and certainly we can -- we can do that for you if you'd like if you make that an undertaking.

MR. WALTER SARANCHUK: If you wouldn't mind. Thank you very much.

--- UNDERTAKING NO. 3: A summary of Mercer's recommendations.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: In light of the possibility of your being able to disclose the full report, I just would draw your attention to the fact that it can be accepted by the Board in confidence, so you might want to give that some consideration as well, please.

MR. BARRY GALENZOSKI: Yes, we can -- we'll do that.

MR. WALTER SARANCHUK: Thank you very much. Now, can you, perhaps, give us some indication of the average purchased yield on new non-provincial Manitoba bonds of purchases in 2003 and 2004? Can you do that offhand with reference to some of the information that you have from the back row or is that something that you'd have to delve into?

MR. BARRY GALENZOSKI: Yeah, we'll have to come with that as an undertaking, also. We wouldn't have had that level of detail here.

MR. WALTER SARANCHUK: And what we're looking for is the average purchased yield on new non-provincial Manitoba bonds on purchases in 2003 and 2004 to-date by the following categories: Short; if any, mid-term and long bonds.

MR. BARRY GALENZOSKI: Yes, we can do that. I doubt if there'd be any short in there, but certainly we can do that.

MR. WALTER SARANCHUK: Thank you very much.

--- UNDERTAKING NO. 4: Average purchased yield on new non- provincial Manitoba bonds on purchases in 2003 and 2004 to-date.

MR. BARRY GALENZOSKI: Could we get a copy of that so that we can begin writing or working on that right away? Other -- other than that we'd have to wait for the transcript.

MR. WALTER SARANCHUK: Yes, I'll dictate it to somebody.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: And as a I recall, sir, there was some overall assessment of the Corporation's investment approach, if you will, not too long ago. In fact, I think something was filed before this Board in the recent past.

When was it, if you would please refresh my memory, as -- that there was this analysis or assessment and by whom?

MR. BARRY GALENZOSKI: I'm not sure what you're referring to exactly there. If you're -- we do assessments of the portfolio on a regular basis. We have reviews done on a quarterly basis with outside consultants that compare our results, obtained to both our -- our indexes, we're comparing ourselves against, as well as to the P&C industry in Canada.

And I believe that's what you're referring to where we ended up showing you this chart that indicated our results averaged over four (4) years compared to others that are investing in a similar port -- portfolio than MPI would be in, this would be other P&C companies in Canada. And we would have that information if you'd be interested in seeing that?

MR. WALTER SARANCHUK: Yes, if you wouldn't mind, indeed, in the first undertaking, talking about the overall return for one (1) year, five (5) years and ten (10) years, broken down into the categories that I had mentioned, there was a reference to the request of comparison against the industry benchmark in each case there.

So, bearing that in mind, perhaps in this particular instance you can give us some idea about how the overall portfolio result stands up against the industry in general too?

MR. BARRY GALENZOSKI: Yes, we can provide that. Just one (1) thing, we have not been investing in equities for ten (10) years. So we will not be able to give you a comparison going back that far, but we will be able to tell you the yield in our portfolio, as it existed ten (10) years ago.

MR. WALTER SARANCHUK: All right. And thank you, sir, if you wouldn't mind doing that.

Does the Department of Finance charge an investment management fee to the Corporation?

MR. BARRY GALENZOSKI: Yes, they do.

MR. WALTER SARANCHUK: And how is that fee calculated or is that something documented by agreement?

MR. BARRY GALENZOSKI: They've got a -- a small percentage that they're -- they're charging against the portfolio at a point in time. It would account -- it would amount to approximately eight hundred thousand dollars ($800,000) or so, in fees, on an annualized basis.

And again, I can provide you with the full details as far as how that formula is structured, and the calculation, if you'd be interested in seeing that?

MR. WALTER SARANCHUK: Yes, if you wouldn't mind producing that, sir, it would be appreciated?

MR. BARRY GALENZOSKI: We'll do that.

--- UNDERTAKING NO. 5: To provide full details of how the formula for investment management fees is calculated.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Do you know off hand, whether that management fee by the Department of Finance, or charged by the Manitoba Department of Finance, is charged on short term paper and bonds, domiciled in Manitoba?

MR. BARRY GALENZOSKI: It's on the entire portfolio, other than the -- the MUSH, I believe, but I stand corrected on that and you'll see that when you see how it's calculated. But it would be calculated on things inside and outside of Manitoba.

MR. WALTER SARANCHUK: You mentioned some acronym that I'm not familiar with, I think it was MUSH; what is that?

MR. BARRY GALENZOSKI: That's going to be an extra fee to tell you about that one (1), but that's the Municipal Hospitals and School Bonds that we have in our portfolio, that's the non-marketable portion of the portfolio, with respect to bonds.

MR. WALTER SARANCHUK: Thank you, sir.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Has the Corporation in its experience, been required to top up pension contributions, as a result of insufficient investment returns?

MR. BARRY GALENZOSKI: No. The -- as I said to you before, the Corporation does not have segregated funds with respect to its liability regarding employee's pension.

So, irregardless of what the portfolio does, we provide the pension fund with what we believe the -- the going forward interest rate is for that particular liability. And it's credited with -- with an amount that comes out of the overall investment income pool, before that pool is distributed to the other lines of business.

MR. WALTER SARANCHUK: Thank you, Mr.

Galenzoski. Unless there are any further questions from the Panel, relative to investment income, I was intending to return to the area where we broke yesterday, namely premium upgrade?

THE CHAIRPERSON: I have one (1). With respect to your last answer, Mr. Galenzoski, are you saying that the -- the term and actuarial rate on the pension is independent of the actual return on the investments?

MR. BARRY GALENZOSKI: That's what I'm saying, yes.

THE CHAIRPERSON: So, they're either in excess or a deficiency, relative to the investment earnings?

MR. BARRY GALENZOSKI: It could be that, or it could be right on. But generally speaking, there's been an excess or -- I don't believe we've ever been in a deficit on that side.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Now, Mr. Galenzoski, I'd ask you to refer to Tab 9 in the Book of Documents filed, sir. That refers to the Corporation's responses to question number 2, posed by the Public Utilities Board in the 1st Round of Interrogatories.

And in Part D of that question there was a request for refiling of Documents TI-17 AND TI-17(a) with accompanying RSR Schedules each reflecting a 4.5 percent and 4 percent premium upgrade factor for 2005/'06 and subsequent years. And indeed the Corporation did that refiling.

And so just at the high level that I ask you to review with me the impacts on the RSR relative to the various vehicle upgrade factors namely 4 percent and 4.5 percent.

First of all for the record perhaps we can have you confirm that indeed the upgrade factor or the level of it does have rather significant impact on results, the operating results.

MR. BARRY GALENZOSKI: Yes, it will.

MR. WALTER SARANCHUK: And looking at the filing or refiling of TI-17(a) utilizing a 4 percent upgrade -- this is the 5th page in to the answer.

With reference to the net income, what can you tell us about the results or the impact of a 4 percent upgrade rather than a 3.5 percent upgrade which you are intending on using, on the bottom line, if you will for 2005/'06 and next, the year thereafter?

MR. BARRY GALENZOSKI: This shows that the bottom line has improved from about a half a million dollar net loss to a positive net income of $2.3 million.

MR. WALTER SARANCHUK: Yes, and for 2006/'07 my understanding is and look -- you can quickly at Tab 6 for the outlook period of 2006/'07 and the Statement of Operations filed as TI-17(a) there where the projection is three hundred and ninety five thousand dollars ($395,000) net income. If a 4 percent upgrade were to be utilized, that improves to some $6.2 million; is that correct?

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

MR. WALTER SARANCHUK: So, can it be said that for over a two (2) year period, the impact of a half a percent change in the upgrade factors approximately $9 million?

MR. BARRY GALENZOSKI: Well that's a half a percent compounded over two (2) years so it adds up to the -- and then adding accumulatively, so yes, it would be approximately that.

MR. WALTER SARANCHUK: Thank you. And looking at the next page in -- the answer in Tab 9, namely the impact of 4 percent upgrade on the RSR, the Rate Stabilization Reserve.

We know that with the Application, the projection for the RSR for 2005/'06 is approximately $79 million. In terms of the impact of a 4 percent upgrade for 2005/'06 and to '06/'07, what do we read into the bottom line so to speak for the RSR?

MR. BARRY GALENZOSKI: Well, it's just the arithmetic with respect to the difference between the previous projection and this revised one. And they're both improved. The first one by about $3 million and then the next one by about $9 million in total.

MR. WALTER SARANCHUK: So, just for the record, the projection for 2005/'06 would improve to $81.7 million and for 2006/'07 it would improve to $101.8 million?

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

MR. WALTER SARANCHUK: And indeed utilization of that extra half percent upgrade for the balance of the outlook period, we would then be looking at the RSR balance for 2007/'08 at $129.3 million and 2008/'09 at $162.8 million; is that correct, sir?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: Now, with reference to the refiling of TI-17(a), if you move over to the next page, utilizing a 4.5 percent upgrade, we see that the improvement on the bottom line for the statement of operations, is to result in a $5 million net income; is that correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: And in 2006/'07, in that outlook period, where we would then be looking at approximately $12.1 million as net income, versus the three hundred and ninety-five thousand dollars ($395,000) forecast earlier?

MR. BARRY GALENZOSKI: That's also correct.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And then turning over to the next page, again dealing with the impact of the improved upgrade factor of 4.5 percent, on the Rate Stabilization Reserve or RSR projected balance for 2005/'06, we would be looking at $84.5 million; is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And for the outlook period, for 2006/'07, the $110.5 million, for 2007/'08, $147.5 million and 2008/'09, a $194.6 million?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: Does the change in the upgrade factor impact other areas of the Application, other than vehicle premium revenues?

MR. BARRY GALENZOSKI: Well, it would impact the -- the amounts of earned premiums, obviously. It would impact the amount of service fees indirectly, because there'd be higher premiums to be financed over time. And it would impact the -- both the premium taxes and commissions that are paid.

MR. WALTER SARANCHUK: Thank you, sir.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, another factor to be considered in -- with regard to MPI's overall Application, is the volume factor. I wonder if you would just describe what that is, sir?

MR. BARRY GALENZOSKI: Volume factor relates to the number of insured units on an average twelve (12) months. It would -- in our case, we're suggesting that that is going to increase year over year, as more vehicles are registered and insured in the Province.

MR. WALTER SARANCHUK: And so we're talking about the size of the fleet in general?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: And in determining the appropriate volume factor in its Application, does the Corporation take into account the difference in the improvement of the -- the fleet, if you will, numbers wise, for each major class separately, or how is it done?

MR. BARRY GALENZOSKI: No, it's more -- because it's such a small increase, 1 percent, it's mainly just an overall increase in the fleet.

MR. WALTER SARANCHUK: So, in other words, let me ask you, would a half a percent increase in the volume factor, have the same impact as a half a percent increase in the vehicle upgrade factor?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: Now, with reference to Tab 9 again...

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Let me begin by asking you to confirm that the volume factor, implicit in the Application is 1.5 percent; is that correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: Now, looking at page 4 of the Response in Tab 9, being again PUB/MPI question number 2 on the 1st Round, I wonder if you would just explain what the information is as given in that particular table with particular reference, say, to the last four (4) or five (5) lines?

MR. BARRY GALENZOSKI: This table is attempting to indicate the year-over-year change in the size of the fleet overall and it provides it to -- by -- by insurance year and then it comes down to the last five (5) year average and the last ten (10) year average for information purposes.

MR. WALTER SARANCHUK: And what is the difference between the year-over-year change and the selected volume change factors?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: So, the year-over-year is -- is really the historic factor that’s on an actual basis and the selected is what we put into the Application.

MR. WALTER SARANCHUK: Thank you, sir. Now, I would refer you to AI-15 Part 2 pages 2, 3 and 4. This, of course, appears in Volume III, Part 2.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So, this is Part 2 of AI-15 beginning with the page entitled, "Review and Analysis of Total Vehicle Population Changes." It’s about half-way into the document itself.

MR. BARRY GALENZOSKI: Could you say that again, please?

MR. WALTER SARANCHUK: I’m saying that I’m referring to Part 2 of AI-15 beginning with the document entitled, "Review and Analysis of Total Vehicle Population Changes" --

MR. BARRY GALENZOSKI: We have that.

MR. WALTER SARANCHUK: -- which is about

half-way into the document. Thank you, sir.

I wonder if you'd be good enough to review the information provided as a ten (10) year history on page 2 and in partic -- this is at a high level, in particular the -- say the two (2) -- last three (3) insurance years referred to and then a summary of the statistics along with, again, and at a high level, a summary of the analysis of the trends shown on pages 3 and 4.

MR. BARRY GALENZOSKI: Yes, the chart on page 2 is a little bit more detailed compared to the -- the previous one that we looked at showing the fiscal year accounts of earned units and the year-over-year change as a percent. And in particular, for the last three (3) fiscal years it's showing that the -- the accounts have gone up by one point seven (1.7), one point nine (1.9) and 1.5 percent. It then shows a summary of the last five years, standard deviation, the last ten (10) years with a standard deviation.

We then move into the analysis of trends and I haven't read this over in the last few days, so we'll just simply go through it. It -- it's a -- a simple analysis of the data in Table 1. It just shows what the overall earned vehicles have increased by over the last number of years; it chooses a ten (10) year number. This is a compounded annual increase of 1 percent per year, it's talking about.

The highest annual change was 2.2 percent experienced during the ’97/’98 year. Then it talks about a five (5) year comparison and the -- and the analysis associated with that and then it -- the data was -- the above data analysis as a supplement was simple linear aggression techniques, two (2) estimated regressions as shown in Appendix A and B were considered, the first was based on the last ten (10) years’ data, while the second was also based on the same data -- on the -- on the same -- simple fits; the data into the exponential trend model.

So, it’s basically our -- our methodology for looking at the trends that we see coming out of the increases and what we expect to see in the number of vehicles going forward.

MR. WALTER SARANCHUK: And if you’d turn over the page to page 4, there is a reference to Appendix C, showing the historical data on policies in force, and associated summary statistics.

I wonder if you would if you would just turn to Part C, which is at page 10 of Part 2 of AI-15. And the table is entitled, "Policies in Force as -- at End of February 28/29" -- for each of the insurance years, I guess for some ten (10) years, ending with the last insurance year, 2003/’04, along with the statistics for five (5) year average and eight (8) year average.

Can you comment on the results then please?

MR. BARRY GALENZOSKI: Yes, these are results that are as at a point in time. In this particular case it's as at the end of our fiscal year, February 28th or 29th of any given year, and it shows the actual policy count that we had at that particular time, in a similar format to the previous table that we looked at, and it then shows the year over year change in percentages, providing both the last five (5) years, and in this case, the last eight (8) year averages.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: The previous table, just for clarification, was on earned units. This is on an as at time period.

MR. WALTER SARANCHUK: The previous table being the one (1) on page 2?

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

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, the question of the volume factor and the accuracy of the Corporation in its forecast, with regard to it, was addressed in an Interrogatory on the 1st Round, Number 27, posed by CAC/MSOS, which appears at Tab 40 in the Book of Documents.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Since we are dealing with a volume factor, let’s deal with it first, because the schedule provided on the last page of that Response, deals with both the forecast for the vehicle upgrade factor and the volume factor.

Looking at the volume factor, in terms of the forecast as shown in the extreme left hand column for volume factor, and the actual result shown in the extreme right hand column for volume factor, what can you tell us about the comparisons, for example, for the years 2002/’03, and then 2003/’04?

MR. BARRY GALENZOSKI: In both cases the -- the suggested volume factor in the approved Rate Application was low.

MR. WALTER SARANCHUK: Yes, and that would, as you mentioned, impact the overall statement of operations, would it not?

MR. BARRY GALENZOSKI: Not to the same extent that the increase in the upgrading would, mainly because it’s also -- these factors are also used in the claims forecasting process. And so if you underestimate the number of units in your revenue side, you’re underestimating the number of units on your claims side, and obviously there’s going to be a cost factor that you’re missing that would offset a lot of the revenue factor that’s going to come in if you have a higher revenue factor.

MR. WALTER SARANCHUK: Now, I note for the insurance years 2000/2001 and 2001/2002, there was nothing shown in the extreme left hand column for the initial forecast, and then there was a change or at least there was a forecast as revised, shown at 1.4 percent and 1.2 percent respectively. Is there a particular reason for that?

MR. BARRY GALENZOSKI: Well, I think this is our -- when we were attempting to get a little bit closer with respect to our forecasts on premium growth, related to both the upgrading and volume factors in the previous years we did see some fairly significant differences between what we had projected and what the actuals were.

This is one (1)of -- these things are -- are not easy to project, based on a lot of the economic circumstances within the Province, and so there was a -- there was a revision put forward, that added some volume factor, compared to none being in the original estimate.

MR. WALTER SARANCHUK: Yes. And can you explain at a high level, just what are the factors that are taken into account, and how is it done? Does the Corporation have a department that deal -- that consults with or checks with DDVL to see how many registrations there are, or is there a question of the vehicle sales data that's taken from the dealerships, or how does this -- how is this done?

MR. BARRY GALENZOSKI: Well, a lot of it would be taken from our own data. We -- we handle the registration side as well as the insurance side so, we have a lot of our own historical data with respect to the number of earned units, the number of units as at a point in time, as we've demonstrated in both of the schedules that we've just talked about.

Other than that, we would use some Statistics Canada data, we would look at what the expectations were for growth on that side of the industry, before we -- we come up with the final number.

MR. WALTER SARANCHUK: And who -- actually not necessarily by name, but who is it or what department is it, what group is it that makes the final assessment?

MR. BARRY GALENZOSKI: We have a Revenue Forecasting Committee that's similar in make up to the Claims Forecasting Committee. They're responsible for coming up with the revenue or projections for the Corporation, in a similar manner to the -- what we do with the claims side. And each line of business, being basic extension and SRE would conduct a similar exercise.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Does extension in SRE use basically the same result as the basic?

MR. BARRY GALENZOSKI: No, not necessarily. They would look at their own lines of business and make their own projections for instance, on the extension line of business, they would not only be concerned about how many basic units were registered, they'd be concerned about the take up on their product.

They would be concerned about some of the new products that have been introduced over the last several years, and the impact that that would have on their forecast. On the SRE side, they would have similar concerns.

Many of their customers are not covered by the basic plan, so it would be -- they would be looking at the growth in the trucking fleets in Manitoba, competition in their -- in their geographical area. So, the likelihood of them retaining or getting new business, those factors would be taken into account.

MR. WALTER SARANCHUK: And that would pertain not only to the vehicle upgrade factor, but also -- I'm sorry, to the volume factor, but to the vehicle upgrade factor as well?

MR. BARRY GALENZOSKI: Yes, and you know, I think one (1) of the things you, you know, just looking at this chart that we're looking at right at the moment, when you start to look at the -- the two (2) factors together, the upgrade and the volume, and you start to add the two (2) together, you're going to find that they're generally closer together, compared to the estimate then if you look at them individually.

And you know, for instance, if we look at '03/'04, we were looking at initial approved Rate Application, a 4 1/2 percent upgrade, 1 percent volume, so that's 5 1/2 percent. The revised forecast left it at that, and we ended up with 5.8 percent or 5.9 percent when you'd add the two (2) up on the actual side.

So, you know, there's -- there's some of this trade off that's going to happen on that side of it too, where you may be over or under on one (1), but there's sometimes an offset on the other one (1).

MR. WALTER SARANCHUK: And just as a final look at this chart, dealing with the upgrade factor alone in -- what can you tell us about 2001/'02 and 2000 -- let's put it this way, 2000 -- 2000/2001, and then the insurance year 2001/2002?

MR. BARRY GALENZOSKI: Well again, that was in the time period where we were experiencing larger growth on that side than we had experienced in -- historically in the past. And we had underestimated in our Application as to the impact that then flowed through our income statements and we either made more money or -- or lost a little bit more -- more money, if we hadn't predicted the right number.

And you'll see for those two (2) years that you're talking about, that we initially had suggested that that number would be 3 percent for each of those two (2) years. And when you look at the actuals, the -- they were in the five point five/five point six (5.5/5.6) range. And add that to the volume, and you had a fairly significant change in the numbers, and therefore we had pretty significant variances in our projected premiums written and earned compared to the Application or to the actuals that actually occurred.

That has largely been taken out of the applications in the last couple of years. We're -- we're very much closer to our expected values on the total premiums written for our Book of Business now on basic compared to the previous years when we look back.

MR. WALTER SARANCHUK: And just finally, with regard to that table, there was trend change in the last couple of insurance years; is that correct?

MR. BARRY GALENZOSKI: Well, the upgrade factor is coming down. There are several reasons. I think Ms. McLaren reflected on one (1) of those being the -- the size -- the differentials on our tables where there’s less premium income coming in as a result of that and we’re also seeing the upgrade factor go down over the last several years.

MR. WALTER SARANCHUK: Yes, unless the Panel has some additional questions, I intend to move on to another area.

I’ll now deal briefly with drivers’ premiums and I will be referring to the interrogatories filed by the Public Utilities Board as questions Number 49 on the 1st Round and Number 19 in the 2nd Round. These are at Tab 30 and 36, respectively in the Book of Documents.

At the outset, in Tab 4, which deals with current Application TI-15, reveals that the drivers’ premium is to be in the order of $34.3 million; is that correct?

MR. BARRY GALENZOSKI: Yes, that is.

MR. WALTER SARANCHUK: And in terms of the composition of the drivers’ premiums, there’s a schedule to TI-15 in Tab 4 that sets out the makeup. And if you wouldn’t mind looking at that Schedule 2, entitled, "The Drivers’s Premium Variance Analysis for TI-15"; could you give us a breakdown of the total?

MR. BARRY GALENZOSKI: Yes, for the period March 1 to February ’05 -- again this is a -- a forecast, the basic transactions, we’re looking at seven hundred and seventy-seven thousand eight hundred and seventeen (777,817), total premiums twenty-one million four hundred and thirty-five (21,435,000), with the average being twenty-seven dollars and fifty-six cents ($27.56) per transaction.

The Charge 1 demerit point premiums -- there's expected to be nine thousand seven hundred and two (9,702) for a total premium of one million five hundred and ninety-eight thousand (1,598,000), an average of a hundred and sixty-four dollars and seventy-one cents ($164.71).

And for Charge 2 accident surcharges, we're looking at just under forty-thousand (40,000) on those with eleven thousand one hundred and -- or eleven million one hundred and twenty-eight thousand dollars ($11,128,000) in premium income for an average of two hundred and seventy-eight dollars and twenty-one cents ($278.21) per transaction.

Overall, we're looking at eight hundred and twenty-seven thousand five hundred and seventeen (827,517) transactions totalling thirty-four million one hundred and sixty-one thousand (34,161,000) in premiums, average forty-one dollars and twenty-eight cents ($41.28) each.

MR. WALTER SARANCHUK: And for the year with which we're concerned in this Application, sir?

MR. BARRY GALENZOSKI: For the year that we're concerned within this Application, the overall revenue is staying fairly flat at thirty-four million two hundred and ninety-three thousand dollars ($34,293,000). The average is actually going down slightly from forty-one dollars and twenty-eight cents ($41.28) to forty-one dollars and nineteen cents ($41.19) per transaction.

MR. WALTER SARANCHUK: Yes, and when one looks at the basic line where there's an average of twenty-seven dollars and some fifty cents ($27.50), if you will, what does that constitute? Is that part -- is that MPI's part of the lice -- the driver's license fee charged by DDVL or what is that?

MS. MARILYN MCLAREN: The basic premium refers to the MPI revenue. It -- it's all MPI revenue, it's not any portion of the driver licensing fees. All Manitoba driver licenses have a registration fee that goes to the Government as well as basic insurance premium.

The premium will vary between -- the basic premium varies between -- what is it, forty-five dollars ($45.00) now, but you can pay as little as twenty (20) if you have five (5) merit points. So the average of twenty-seven (27) would indicate that most people are paying closer to the twenty (20) than to the forty-five (45) because of the merit points that they've accumulated through time.

MR. WALTER SARANCHUK: And has that forty-five dollars ($45) been increased of late?

MS. MARILYN MCLAREN: Four (4) years, five

(5) years ago, perhaps, I'm not sure, I'll have to double check that.

MR. WALTER SARANCHUK: In other words --

MS. MARILYN MCLAREN: Not very recently, no.

MR. WALTER SARANCHUK: At least basic share hasn't increased of any -- to any extent? I mean it has but to a very minor extent, a matter of cents?

MS. MARILYN MCLAREN: The basic premium hasn't increased in the last two (2), three (3), four (4), five (5) years. All of these the basic premium, the charge one and the charge two are all revenues that flow into the basic compulsory insurance program.

MR. WALTER SARANCHUK: Yes. Now, turning to Tab 30, just for the record, the demerit point premiums and the accident surcharges that were mentioned in the analysis that you gave Mr. Galenzoski, those referred to the -- a couple of the aspects or the Bonus/Malus System; is that correct?

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

MR. WALTER SARANCHUK: And again just very quickly for the record, the demerit point premiums are what as compared to the accident surcharges?

MS. MARILYN MCLAREN: Demerit point additional premiums are charged to anyone who has at least six (6) demerit points on their driver's license. The accident surcharges are charged to people who have at-fault accidents.

MR. WALTER SARANCHUK: And looking at page 7 of Tab 30, named as being the Corporation's response to PUB question 49 on the 1st Round, there is a table for the driver's license demerit point additional premiums.

And I note that for demerit points zero to five (5), six (6), seven (7) and eight (8), looking at the extreme right hand top columns, 1988 to 2000 and 2001 to present, there was an increase of fifty dollars ($50) for those in 2001; is that correct?

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

MR. WALTER SARANCHUK: As matter of fact that -- that continues right on down the line right up to number -- demerit point twenty (2); is that correct?

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

MR. WALTER SARANCHUK: And demerit point twenty-one (21) column increased by some twenty-four dollars ($24) in 2001 while anything twenty-two -- anyone with twenty-two (22) or more demerit points are still looking at nine hundred and ninety-nine ($999)?

MS. MARILYN MCLAREN: Yes, they are.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, is there a reason why those at twenty-two (22) or more demerit points didn't move up and lock step with everybody else?

MS. MARILYN MCLAREN: Yes and I think we referred to that in the Response at Tab 36 in the response to question 19 in the 2nd Round of the PUB. The driver license system really has a limit of three (3) characters in that field.

MR. WALTER SARANCHUK: And how long has that been the situation?

MS. MARILYN MCLAREN: I'm not exactly sure the year that that system was built, but I believe it was in the 60's -- 1960's.

MR. WALTER SARANCHUK: And with the integration of DDVL is that going to be addressed?

MS. MARILYN MCLAREN: I think that's just one of the limitations that DVL (sic) has been operating with over the last many years. And certainly something that we're going to want to look at over time, is the -- you know, the redundancy that the lack of efficacy with that driver's license system.

Mr. Saranchuk, with respect to one (1) of the -- I guess it was Question B at the tab we looked at just a minute ago, we talked about there being no impact on the Bonus/Malus related to the amalgamation. What we were --

what we intended with that answer is that there is -- is no automatic instant forced impact on the Corporation, because of the amalgamation. We will be able to continue to operate as we have for -- for many years.

We did not intend to suggest that we don't see any need for upgrades in the future, or any need to reconsider how some of these things operate and some of the systems that they're using.

MR. WALTER SARANCHUK: Yes, I think you're referring to Part B of the Question Number 49 of the Public Utilities Board on the 1st Round, and that's at Tab 30; is that correct?

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

MR. WALTER SARANCHUK: Now, in terms of timelines, I mean, would you not agree that it's high time that that particular situation were addressed? Is there going to be some fast tracking here, or is it at the bottom of the list of priorities?

MS. MARILYN MCLAREN: It's not our intention to look at this one (1) very specific issue narrowly, and find a way to address that. I don't think there's much appetite for devoting the resources to change a system that's forty (40) years old, to simply create a fourth field in that particular -- a fourth character in that particular field.

The issues of the driver license system has some urgency associated with it. The issue of the Province's photo licensing cameras has some urgency associated with it.

So, no, we're not going to fast track the fact that people with twenty-one (21) or more demerits can only be charged nine hundred and ninety-nine dollars ($999), but the issues around the driver licensing system will certainly get early attention.

MR. WALTER SARANCHUK: Just for the record, and to put things into perspective, if we take a look at the second page of Tab 36, we aren't talking about very many drivers are we, with over twenty (20) demerit points, when you take a look at the active drivers being fifty-two (52) and suspended being five hundred and sixty-nine (569) for a total of six hundred and twenty-one (621)?

MS. MARILYN MCLAREN: Well, that's right, particularly when you consider the only people paying those premiums are the fifty-two (52).

MR. WALTER SARANCHUK: Yes.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: But, by way of comparison if we go back to Tab 30, and page 27 -- sorry, there is no page 27 -- page 21, and look at the proposed premiums based on the -- again, proposed Bonus/Malus system, if you will, in New Brunswick, there is a significant change or at least significantly higher penalty under that proposed system, would you agree?

MS. MARILYN MCLAREN: Well, if we looked at somebody with twenty-one (21) demerit points, they'd pay nine hundred and ninety-nine dollars ($999) here, they'd pay sixteen fifty (16.50) there, so you know, six hundred and fifty-one dollar ($651) difference.

If -- I'm not sure what the profile of those fifty-two (52) drivers, driving beyond twenty-one (21), twenty-two (2) and so far I -- it -- at some point there would be a very, very significant difference, but you'd probably be talking about two (2) or three (3) or four (4) people.

MR. WALTER SARANCHUK: And in general, how does Manitoba's system stack up against the other public insurers?

MS. MARILYN MCLAREN: They're very similar, with the exception of the SAC in Quebec. Quebec has -- it does the same kinds of things, demerit point, additional premiums and -- and variable premiums on vehicles and -- and drivers depending on their history, depending on the class of vehicle, but it tends to be flatter than the three (3) western provinces.

B.C., Saskatchewan, Manitoba have very similar systems. Saskatchewan provides much smaller discounts at this point in time. They're working on expanding the bonus component of their program. B.C. probably has a more punitive Malus component that Manitoba does, but they're -- they're similar.

MR. WALTER SARANCHUK: Is there some collaboration amongst the public insurers in respect of this Bonus/Malus plan, if you will? Do you compare notes? Do you meet annually? Do you determine what might be reasonable and what might not be, what warrants change and what doesn't?

MS. MARILYN MCLAREN: Certainly we do meet and -- and stay in touch. There's -- particularly, there's consultation when one (1) province will move in -- you know -- in a -- in a more or different direction. Saskatchewan consulted with us as they introduced -- they -- they really just introduced the merit discount, the bonus component, in the last couple of years and then they were -- announced that they're expanding it over the next year or two (2), so certainly we -- we talk with each, we communicate with each other.

But in -- as in all other aspects of the insurance programs, they all have features very specific to their environment and something that would be acceptable in B.C. may not play as well here in Manitoba, so we would never expect that they're going to be identical. There certainly is communication and there certainly is, you know, comparison and analysis of the different programs that are in place.

MR. WALTER SARANCHUK: But when you get down to the point of safe driving, I mean, how much different can the obligation of a driver in B.C. be from a driver in Manitoba when you talk about regional differences? I mean, aren't we looking at basically the same kind of considerations?

MS. MARILYN MCLAREN: Certainly and that's why all three (3) have programs to reward claim-free safe drivers and programs to charge higher rates to those who -- who are higher risk. Absolutely, the principles are -- are fundamental.

MR. WALTER SARANCHUK: I'm particularly concerned about the driver license aspect of the Bonus/ Malus plan and the demerit points there. We're talking about bad drivers in every province and I don't understand your answer when you say there are different regional considerations that have to given in reviewing the demerit plan.

MS. MARILYN MCLAREN: With respect to the driver license component and the demerit point additional premiums, certainly we're talking about bad drivers.

The extent to which the different provinces have systems and structures in place that make higher premiums affordable to keep people in the game -- I think if you look at that table that we talked about before there are a number of people with very high demerit points who aren't suspended, but they don't bother to renew their license. That's a huge issue.

It's a huge issue anywhere and I think one (1) of the things that would be a priority for Manitoba Public Insurance as we start to think about the driver licensing system, is to make sure that there's the same kind of highly effective time payment options for people as we have on the vehicle side.

If you're going to charge people very high premiums based on their behaviour, you want them to stay in the game and you want to make sure that they are going to pay the premiums and they're going to stay insured, they're going to stay registered.

So, I think there's a lot of considerations and if -- one (1) of the considerations for me, personally, is -- is that I believe if we're going to really sort of push that envelope beyond the nine hundred and ninety-nine dollars ($999.00), you'd better have some pretty effective payment plans for people so that they're likely to stay engaged, they're likely not to be opting out of the system. So, there are considerations that -- that we have to keep front and center.

MR. WALTER SARANCHUK: Let me just ask you the pat answer -- I don't mean to dwell on this unduly, but -- the pat answer from the Corporation over the years has been we have to be very careful on this question, because we will have too many people driving around without licenses. Isn't that the case that seems to be the answer over the years and I think it still is?

MS. MARILYN MCLAREN: That's certainly a consideration.

MR. WALTER SARANCHUK: Now, with the no-fault plan, isn't that less of a concern for this reason: If we were talking about somebody who didn't drive with a -- who drove with no license under the torte system then of course you've got limitations insofar as his coverage -- that motorist coverage go for third party liability purposes under the first party system, what we're really concerned about. Under the PIPP plan, where's the concern?

If somebody drives without a license, obviously that individual himself will suffer the consequences but where else is there a problem?

MS. MARILYN MCLAREN: Well I guess a part of the issue is that that individual will suffer some consequences that could potentially be limited to some sort of fine for driving without a license. They are unlikely, and there's very limited situations where people will lose their own right to compensation.

You know, I mean in terms of why do we care if there's uninsured drivers on the road? Because as Manitobans, we're all protected by PIPP, that's certainly true. But there's certainly a minor consideration with -- with respect to the integrity of the program that the fact that you want to make sure that a very high, high percentage of those seven hundred and fifty thousand (750,000) drivers continue to be part of the program

You don't want to create a situation on the vehicle side either where people figure they can maybe just renew and cancel and drive around and not worry about the fact that they're insured. There's huge issues of integrity of the system locked up to make sure that everyone continues to be vested in this insurance program.

MR. WALTER SARANCHUK: Yes, I can appreciate your concern about the integr -- or the -- the system overall and the integrity of the system but again, talking about this pat answer or driving without a license. As a matter of fact if I were not to renew my license but I carried extension coverage, I still have coverage, don't I?

MS. MARILYN MCLAREN: If you don't renew your license and --

MR. WALTER SARANCHUK: I'm involved in a mishap, I still have coverage.

MS. MARILYN MCLAREN: -- you're injured,

you'll have coverage whether you have extension or not.

MR. WALTER SARANCHUK: Right.

MS. MARILYN MCLAREN: If your vehicle is damaged, there is a provision that you will -- that the extension will cover the loss and the basic program won't incur that loss, yes, that's true.

MR. WALTER SARANCHUK: And if I'm driving out of province without a license my third party liability under the extension side still in force?

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

MR. WALTER SARANCHUK: So, that's what I'm getting at. When we talk about yes, the integrity of the system and this pat answer of people driving without a license, I can appreciate where you're coming from. All I'm saying is that perhaps it's time for the Corporation to pay a little less attention to that answer and to start looking to giving some priority to the overall revision or at least reconsideration of the Bonus/Malus system pertaining to bad drivers.

MS. MARILYN MCLAREN: I -- I think there's a number of things that -- that need to be reconsidered with respect to this whole issue. I certainly wouldn't disagree with that at all. I think there's a question to be asked, you know, at -- at what point does somebody with some number of demerit points really give up the right to hold a driver license? You know, I mean maybe they shouldn't be on the road anymore. Those are issues as well.

You accumulate more than -- than twenty-one (21) points and we've still got fifty-two (52) people out there driving. You know, I mean -- I have questions about that. So, I think we certainly have the opportunity now through the amalgamation to look at these issues. We certainly have an interest in looking at these issues. Absolutely.

MR. WALTER SARANCHUK: So, really, that's all we're -- we're looking for. I think it can be said at this stage that there perhaps be some additional priority given to this -- given the fact that the time is -- has now come where with -- you do not really have the impediment of dealing with a separate department namely the DDVL and that perhaps you can now look at the overall Bonus/Malus system a little more closely.

We're going to deal with impact of red light cameras and this type of thing a little later in the cross-examination but given the PIPP experience, which is another matter we're going to be dealing with, what we're really looking for is some concerted effort on the part of the -- on the part of the Corporation to review this closely.

MS. MARILYN MCLAREN: Absolutely. We have opportunities we have not had before and we expect to

maximize them.
MR. WALTER SARANCHUK: Thank you very much. Now, in terms of the extension of the Bonus/Malus system to include artisan trucks and common carrier trucks, dealing with this very briefly, what kind of units are we talking about?
MS. MARILYN MCLAREN: Light trucks, vans, those -- those type of vehicles. They're in the private passenger general category of vehicles but tend not to be sedans and so on. They -- they will either be vans or light trucks, for the most part.
MR. WALTER SARANCHUK: And as I understand it, the reason for the extension of the Bonus/Malus plan to those vehicles is because now there's a stronger relationship or linkage between the drivers and the owners of those vehicles?
MS. MARILYN MCLAREN: Yes, that's right.
MR. WALTER SARANCHUK: And we're talking approximately eight hundred and ninety-three (893) vehicles?
MS. MARILYN MCLAREN: Yes.
MR. WALTER SARANCHUK: And a premium decrease of approximately a hundred and twenty thousand dollars ($120,000)?
MS. MARILYN MCLAREN: Yes.
MR. WALTER SARANCHUK: Yes, thank you. I now

intend to move on to a completely different area, Mr. Chairman, I don't know whether you want to take up this opportunity to call on the mid-morning break or not?

THE CHAIRPERSON: Okay then, we'll adjourn until 10:25. Thank you.

--- Upon recessing at 10:09 a.m.
--- Upon resuming at 10:30 a.m.

THE CHAIRPERSON: Okay. Welcome back. Do you want to start again, Mr. Saranchuk?

MR. WALTER SARANCHUK: Yes, thank you, sir.

THE CHAIRPERSON: By the way, it appears we have another presenter, someone who was unable to come yesterday and -- so we're going to do this right away at 1:30.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Yes, I'd like to now proceed with the question of claims incurred and start with the overall claims experience of the Corporation and in particular, deal with the Corporation's response in Question Number 16 of the Public Utilities Board 1st Round Interrogatories as appears in Tab 13 of the Book of Documents.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And, dealing with the claims incurred experience, since 2002, as shown in the re-filed TI-6, with that Response, I wonder if you would, Mr. Galenzoski, review what is depicted or reflected in that table on a bottom line basis for starters right through to the projection for next year?

MR. BARRY GALENZOSKI: Yes, when you just look at the bottom line, this is on the -- the basic claims incurred showing the breakdowns, obviously, between the accident benefits, the pre-PIPP, the PIPP, collision, Comp, property damage, public liability, which is again the pre-March '94 and the post March '94, to a total of claims incurred for a given year -- or a given fiscal year, I should talk about.

And you'll see in 2002 that we had total claims incurred of four hundred and thirty-three million eight hundred and seventy-three thousand dollars ($433,873,000).

In the following year ending February of 2003, that number increased by $33.8 million to $467 million. 2004 the number went up another $45.8 million to $513.5 million and forecast -- that's the forecast for '05. And the projection for '06 is that it'll go up another $24 million approximately to $537.2 million.

MR. WALTER SARANCHUK: Yes, so that, on quick calculations, it would appear that claims incurred has increased by over $100 million over that five (5) year period.

MR. BARRY GALENZOSKI: Yes, on a projected basis.

MR. WALTER SARANCHUK: And, in terms of the comparisons between the projection of 2006 to -- what was the case in 2002. As I advised -- note, the difference in the PIPP claims is some $31.75 million with 182.3 million compared to 214 million being projected for next year; is that correct?

MR. BARRY GALENZOSKI: Yes, over that five (5) year period.

MR. WALTER SARANCHUK: And collision -- the difference shows some $53.6 million arrived at by subtracting $167.4 million in 2002 from the projected $221 million in 2006?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: And in general terms, before we get actually to the PIPP experience, can you give us some idea as to the reason for the collision cost component increase of some $53 million over that five (5) year period? What are some of the reasons there?

MR. BARRY GALENZOSKI: Certainly. Some of the reasons would involve just the increase in the cost of repairs, whether that be for labour rate of whether that be for part pricing, so there's definitely an increase there.

It would also relate to the fact that vehicles have become a little bit more sophisticated. There's now more airbags in the average vehicle, even the ones that just had front airbags now have side curtains. So, there's a -- a lot more damage caused, even for low impact collision so your average is going to go up as a result of that.

Another factor is the fact that there are more vehicles in the fleet and that the fleet has been constantly renewing itself through the upgrade that we've been talking about this morning earlier. So, those would be some of the major factors involved in -- in that particular side of that.

MS. MARILYN MCLAREN: I guess maybe to put some of that in the language that we were using earlier this morning when we talked about vehicle upgrade in addition to the volume factor, this is a reflection of vehicle upgrade.

MR. WALTER SARANCHUK: Yes, thank you. Now turning to the PIPP line in this re-filed TI-6, we talked about a $31.8 million difference between 2002 and 2006, when comparing, however, the 2002 results to the results last year where the incurred on the PIPP was $229 million, we are looking at about another $15 million over and above the one hundred (100) and -- I'm sorry -- the $31.75 million that I referred to earlier, aren't we, Mr. Galenzoski?

MR. BARRY GALENZOSKI: Yes, the difference is about $47 million between 2002 and 2004.

MR. WALTER SARANCHUK: And in terms of the breakdown of -- of that experience, I would refer to Tab 11, which is the Corporation's response to Question number 13, posed by the Public Utilities Board in the 1st Round of Interrogatories.

And just looking at the components of the PIPP Plan, if you will, Mr. Galenzoski, could you just explain what those are?

MR. BARRY GALENZOSKI: Yes, those are the major heads of coverage that we would be providing, income replacement, death benefits, permanent impairment, personal care, expenses and rehab costs. It's shown by year, and the percent that that particular head of damage or benefit makes up of the total to add up to a 100 percent.

MR. WALTER SARANCHUK: Yes, and with reference to the first line, namely the income replacement, I guess that's also known as the RIR (sic), Income Replacement Indemnity, there appears to be a rather significant increase, namely from $23 million in 1995 through to 112.5 million, some ten (10) years later.

The overall growth and income replacement as a percentage of all PIPP claims in 1995, when the experience was $23.3 million, was 25.8 percent. While in 2004, when the experience was a $125.5 million, the overall percentage was 53.8 percent.

What are some of the reasons for that?

MR. BARRY GALENZOSKI: Well obviously some of the reasons for that would be that 1995 would be a year that had not developed with respect to the direct claims costs that we would have incurred. There would be claims that would have been -- remember, the plan started in March 1 of '94, so we had an incomplete -- well, we would have had a full year with respect to that year, but it would have been undeveloped with respect to the reserve set aside for particular claims. So that would be one (1) of the prime reasons why you'd see some differences.

MR. WALTER SARANCHUK: All right, and is there an indexing factor that also enters into the picture?

MR. BARRY GALENZOSKI: Yes, most of the -- the benefits under the PIPP are indexed, so on an annual basis, beginning on March 1 of every year, they are automatically indexed.

MR. WALTER SARANCHUK: And then looking at the death benefits line, I'm sure there's a reason why there seems to be a trend in the opposite direction where they comprised 7.8 percent, granted on the smaller number in 1995, to 3.9 percent in 2004.

Is the answer basically because of the overall increase in costs?

MR. BARRY GALENZOSKI: Well, that would primarily be increase in costs. Death claims are relatively stable across many years. So you're not going to see -- you're not expecting any real growth on that side, with respect to overall cost.

The percent is lower because there's just a bigger denominator, that's the only reason, the overall dollars are slightly more.

MR. WALTER SARANCHUK: And if we just look at the line 4, Personal Care, there seems to be again, a decrease in the -- the trend of the makeup of the impairment -- sorry, the Personal Care expenses, comprised to the expenses overall. Is there a particular reason for that?

MR. BARRY GALENZOSKI: Well, this would be one (1) of those expenses where indexation would have a big factor to play each year they're indexed, the Manitoba CPI. The personal care grids have changed slightly over the years, and so there would be some impact associated with that.

And primarily it's just the -- the demands placed on the system from -- from claimants.

MR. WALTER SARANCHUK: And what about the expense line, the second last line, 17.5 percent in 1995, going to some 34 percent in 1996, and then on an annual basis, decreasing to 8.4 percent in 2004.

First of all, what kind of expenses are we talking about there?

MR. BARRY GALENZOSKI: These are primarily medical expenses.

MR. WALTER SARANCHUK: And is there a reason for the decrease?

MR. BARRY GALENZOSKI: Well, again, you're looking at the denominator being larger. The overall dollars are higher, when you get out -- you look at --medical expenses were $15.8 million in '95 and they're down to 17.6 for 2004. But the year before that they were 24 million, the year before that they were 32 million. So it -- it comes down to the fact that the reserves were adequately put up in those prior years and so we're at a more normal state going forward.

MR. WALTER SARANCHUK: And then of course as you pointed out they did get as high as $32.3 million in 2002. Is that just a blip?

MR. BARRY GALENZOSKI: I -- I wouldn't call it a blip, I would suggest there that it was the reserving practices, they -- they were strengthened so you -- you may have had a little bit of catch-up for one particular year.

We'd have to go back and take a look, there may have been some financial factors that crept into that that caused us to put more dollars up on that particular head of damage. And then once we get back to a more normal situation that's where we think we're at right now.

MR. WALTER SARANCHUK: Is there -- and I'll touch on this later, but is there an agreement with Manitoba Health that enters into the picture insofar as these expenses go?

MR. BARRY GALENZOSKI: Well not on a claim by claim basis. But on an overall basis we have an agreement that sees us compensate the Manitoba Health system for some monies. That was -- that agreement was put in place in 1994 when we went to the no-fault plan and that's still in place today.

MR. WALTER SARANCHUK: Yes, and can we say then that there was an impact in terms of what MPI paid out to Manitoba Health say in 2002 compared to let's say 2004 when the overall exposure for expenses was approximately half?

MR. BARRY GALENZOSKI: No, there wouldn't be any impact as a result of that in these numbers. So I -- I wouldn't think there's anything in here whatsoever for that.

MR. WALTER SARANCHUK: And in terms of the rehab line, the very bottom line. The corporation I recall the evidence in recent past, has placed an emphasis on the rehabilitation area of its operation and I note that there seems to have been a decline to 4.5 percent of the overall for those expenses in 2004.

What’s the reason behind that?

MR. BARRY GALENZOSKI: Again, I think you’re looking at some volatility within that line but when you look at overall dollars compared to ’95 they’re up by 50 percent from 6.6 million to 9.5 million. The -- when you look at that percent it’s because the denominator being much higher in the 2004 year compared to the 1995 year.

MR. WALTER SARANCHUK: Okay then let’s take a look where the denominator is not quite as high in the base year and look at 2001 where the rehab expenses were some 13.4 percent at $18.8 million and at 9.4 million in 2004, they’re only at 4.5 percent.

Is that reflective of some trend in the approach to rehab?

MR. BARRY GALENZOSKI: No. I think that’s reflective of the reserving practices. Primarily there was just more money put up at that time for that particular type of -- of injury or benefit. And those have been refined over the years to the point where we believe we can use less money on that side and still retain -- get the results that we would like to get.

MR. WALTER SARANCHUK: And if we just again look at the line above that on the expenses compared to the overall, for 2001 they comprise some 16.9 percent of the overall while there's now half of that expended for these expenses in 2004.

Is there a particular reason for that?

MR. BARRY GALENZOSKI: Well it's a fair bit more than half. It's from 23 million down to 17 million. So that would be more than half. And again it would be on the same -- same scenario with respect to reserving practices, how much money was put aside at that particular time compared to what we think we need on a going forward basis today.

MR. WALTER SARANCHUK: So is it a question then of an adjustment in the IBNR at that juncture?

MR. BARRY GALENZOSKI: It could be two (2) factors. It could be the financial provisions that are set aside but it also more directly would be the case reserves on all the files preceding that.

You've got to remember when you see claims incurred for a given year, it isn't just claims reported for that year. It's the change in the incurred for all claims that have -- that have actually -- that are on our books from inception of the plan until that date.

MR. WALTER SARANCHUK: And just for the record, IBNR is the acronym for what?

MR. BARRY GALENZOSKI: That's Incurred But

Not Reported, and I guess one (1) thing I should point out to you that this is just direct claims incurred that we're looking at here, so the financial provisions are not included in this particular schedule.

MR. WALTER SARANCHUK: So now --

MR. BARRY GALENZOSKI: These -- these are reserves that are just in the individual claim files that we set up on a person by person basis.

MR. WALTER SARANCHUK: Yes, thank you for that clarification.

At Tab 12, there is a breakdown of the PIPP experience, in terms of the actual types of injuries. This is information provided by the Corporation in response to Question number 14 by the Public Utilities Board in the 1st Round. And I'd draw your attention to the third line item for brain damage.

There appears to have been a significant increase for 2004, over the prior years. Is that the information that you were referring to earlier, sir, when we talked about the exceptional number of those types of severe injuries experienced?

MR. BARRY GALENZOSKI: Yes, that's specifically it.

MR. WALTER SARANCHUK: Is that just a question of -- and I don't mean to minimize it, but is it a question then of more accidents involving these more catastrophic injuries, is that what it is?

MR. BARRY GALENZOSKI: Yes, we did do a review on that and determined, to our best knowledge, that this looks like it was an abnormal situation, not expected to repeat in the future, and therefore we took it out of our going forward exposures.

MR. WALTER SARANCHUK: Now, we'll all recall that one (1) of the reasons put forth by many, as I recall, who were proponents of the total no fault system, the reason for introduction of it was to try to eliminate the lesser char -- lesser claims, and all the costs that are associated with them, particularly those involving whiplash injuries.

And yet when I look at the third last line on this particular schedule, we see that whiplash injuries have increased to a point where they are now to some -- over twelve thousand (12,000) of them for 2004, compared to, for example, sixty-five hundred (6500) in 1998 and even nine thousand four hundred and twenty-five (9,425) in 2003.

Is there a reason for that?

MR. BARRY GALENZOSKI: There's several reasons for that. I'll just -- if we look at 1996, you'll see that there was nine thousand one hundred and ninety-three (9,193) whiplash claims, that represented about 65.8 percent of the total claims.

If we go jump ahead to 2002, you'll see there was eight thousand seven hundred and forty-nine (8,749), that represents about 61 percent of the overall number of claims. And then when you look at 2004, twelve thousand two forty-nine (12,249) represents 78 percent of the overall claims.

But there's a factor on 2004 that you'll notice that the other category has dropped off quite a bit, it was in the previous year, 2003, four thousand four hundred and thirty-two (4,432) claims, now dropped down to one thousand four forty-nine (1,449).

There was a component of coding as to where these other claims should have been put, and there was a concentrated effort in the last year to more accurately put these things to the -- instead of into a catch all other category, into the most predominant injury that was associated with the claim, and that resulted in some movement of the numbers into the other categories. And I think the majority of that went into the whiplash side, and that's why we've seen that jump up.

And so whiplash claims are still a lot of them. They're not terribly expensive claims, if you want to look at it from the dollar point of view, they're more minor in nature, they would involve some potential -- some medical treatments, medication, this type of thing, maybe a little bit of income replacement.

But there -- there's still a good portion of them, and somewhat in line with what we saw even in the early days of -- of PIPP, the number I referred to in 1996, was there was some six hundred (600) -- or 65.8 percent of the overall claims reported, related to whiplash.

There was still a fairly high component of others and I rather suspect that we would have gone back and re-coded those so there are more significant injury. Some of those would have ended up in whiplash and you'd still be looking at about three-quarters (3/4) of the claims coming in being in the whiplash category.

MR. WALTER SARANCHUK: So it wouldn't appear that much has changed from pre-PIPP --

MR. BARRY GALENZOSKI: Well --

MR. WALTER SARANCHUK: -- to the current.

MR. BARRY GALENZOSKI: I -- I think what's really changed is that we're about -- we're still about half what we would have experienced on the numbers of claims coming in compared to 1993.

And I have to suspect that even though the numbers have risen over the -- the many years from fourteen thousand one thirty-four (14,134) the first year to fifteen thousand six ninety-three (15,693) this year, that without the no-fault, we'd probably have been looking at over thirty thousand (30,000) claims or more from injuries associated with automobile accidents.

MR. WILF BEDARD: If I could just add, Mr. Saranchuk, the last full year of Tort being 1993 -- physical of 1993 -- we had about twenty-three thousand (23,000) injury claims reported under the old Tort system the last year so, again, ten (10) years of PIPP, we're still only at -- at fifteen six (15,6).

MR. WALTER SARANCHUK: Do you recall what it was in the two (2) years prior to PIPP?

MR. BARRY GALENZOSKI: It was rising.

MR. WALTER SARANCHUK: So it -- you don't agree with the suggestion that you're back to stage 1 under the PIPP plan vis-a-vis the pre-PIPP experience for whiplash injuries?

MR. WILF BEDARD: No, definitely not. We're not back to nearly what we were taking ten (10) years ago. If -- if we had that Tort in existence today and followed that trend line, we probably would be somewhere double what we're taking today.

MR. WALTER SARANCHUK: Has there been any study conducted by the Corporation during the PIPP era, if you will, for the last ten (10) years to determine whether, indeed, there have been or that there's -- the incidence of whiplash injuries overall is less, by reason of the accident experience as opposed to other factors which perhaps were considered in the introduction of the PIPP plan?

MR. WILF BEDARD: No, I'm not aware of any study being done, but we do know that with the design of vehicles today, safety equipment in cars, road safety initiatives, all of those things have had an impact on the number of injury claims.

A lot more attention to design and positioning of head restraints as well has had a lot of impact on the frequency of injury resulting in rear end collisions. So those are anecdotally some of the things that have impacted the number of injury claims as well, but to -- to answer your question more specifically, no we have not conducted any formal study in that way.

MR. WALTER SARANCHUK: There is no concern on the part of the Corporation that its PIPP plan is looked at more as a social welfare type of a situation that people can take advantage of compared to, say, the Tort experience?

And I'm looking at particularly whiplash claims. I know that the concern in the past prior to the PIPP introduction was, if you will, everybody and his dog -- to use the vernacular -- with a minor whiplash injury would go run to a lawyer and make a claim.

I'm wondering whether anything has really changed, given the PIPP experience and the relatively generous benefits that are available on a no-fault basis --

first party basis -- where anything has changed or whether, indeed, everybody and his dog, again, is now running to the Corporation for some benefits.

Can you comment on that? Is that outlandish?

MS. MARILYN MCLAREN: The context has changed significantly. You -- you and your dog would -- would run and often not even have to bother going to -- to a lawyer, you know. I mean settlements were made based on precedent and so on, so not everyone -- probably the minority -- went to a lawyer back in those last few years of Tort and what --

MR. WALTER SARANCHUK: I wish you would have raised -- raised that earlier --

MS. MARILYN MCLAREN: -- and what they received -- the heart of the issue at that time -- what they received was a cash windfall. It didn't bear any relationship to what their economic loss had been.

So, if someone, without their dog, comes to us now they're looking for compensation for an expense, that's the difference.

And I think some of the other societal things that have changed over the last ten (10) years, people have a growing interest and perhaps ownership in terms of their own health and well being, people are much more inclined to see physiotherapists and chiropractors, then they were ten/fifteen (10/15) years ago, and there's compensation available for those sorts of treatments.

But what's not available any longer, is you know, in addition to potentially some lost income, or reimbursement for an expense for treatment, they received several thousand dollars of cash payment, they don't get that anymore.

So, no, there's a fundamentally different context. We're not anywhere near heading back to square one (1), and are not concerned that people just see this no fault program as some sort of cash cow.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren. I now refer to the Corporation's Response to Interrogatory Number 9 in the 1st Round, this is not in the Book of Documents, this is still dealing with claims incurred, and from a more in depth, and I guess actuarial perspective.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And I'm looking at the narrative provided in response to Part A, where under the third party liability and bodily injury cover, it is indicated that there's favourable development attributed to both the pre-PIPP and PIPP run off, and claims are being settled at a lower level than expected.

And then under accident benefits, there's a notation that for the more current years there has been a deterioration noticed, but not observed since more adequate reserves are now being posted up front.

Initially there was indication, according to that answer, that a large deterioration in reserves was exhibited for the older years. That was a result of both of the continuing review of the Corporation of its older PIPP claims, as well as the larger RD&R provisions, in light of the growth in the number of serious loss incidents.

So, now looking at the first three (3) pages, namely of the attachment, and dealing with third party liability -- well, first of all, just before we hone in on that.

Dealing with the first three (3) exhibit pages, as I understand it, the exhibits reflect the redundancy or deficiency in the undiscounted, unpaid claims provision, at the end of fiscal 2002/03, as evidenced by the emerged experience during fiscal 2003/04, is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And now just to review the exhibits, while looking into the changes by coverage, implied by the forecast, in terms of the information presented in the -- in these exhibits, in these pages being attached or constituting the attachment, what is in general terms, the information presented.

Can you give us a description, for example, of the first page of page 1 of 3, what are we looking at there?

MR. BARRY GALENZOSKI: Yes, what you’re looking at is just a -- showing you by the experience, by accident year, and showing you the beginning claims, unpaid claims, as at the end of the previous fiscal year. So, if you look at ’02/03, you’ll see the undiscounted, unpaid claims, as at February 28th, 2003, for $6,690,000.

MR. WALTER SARANCHUK: This is for third party liability, bodily injury, right?

MR. BARRY GALENZOSKI: That’s correct, net of MHSC payments. They show you what the paids were in the fiscal year ’03/04, which is the year following that date that we just talked about.

And then they show you what the undiscounted, unpaid claims are at the end of the fiscal period, and whether there’s a redundancy or deficiency in the -- in that particular year.

And that’s done by -- for the year ’02/03, ’01/02, ’00/01, ’99/00, and all prior years. And the far right hand column is the total. And you’ll see that overall there was a redundancy of about $3 million in that particular type of reserve.

MR. WALTER SARANCHUK: And in layman’s terms, what is a redundancy?

MR. BARRY GALENZOSKI: It means you had too much.

MR. WALTER SARANCHUK: Obviously the deficiency speaks for itself. But when you take a look at a third party liability as you have already, can you comment on the redundancies spanning the last four (4) accident years? So, that we're looking at a total of some $3.2 million on $16.5 billion; and that's subject to check of course.

What has led to the claims being settled at a lower level than expected?

MR. BARRY GALENZOSKI: These aren't necessarily all settled. You'll notice that the paids are quite small in -- in the current year '02/'03 there were only four hundred and eleven thousand dollars ($411,000) out of the $6.7 million in the beginning claims provisions or reserves.

And it really comes down to the review as to what's left in those files. And if you take the reserves that you start the year with less the paids, that isn't going to come up with $4.3 million for instance for '02/'03. So something else had to happen. And what else happened was a reduction in -- in claims reserves.

So there was another review or ongoing review of these particular claims where reserves have been set up in the previous year or years and a reassessment as to what the current level of reserve needed for those particular heads of damage were going to be and when you add that all up at the end of the day, it said for '02/'03 files, those are claims that actually happened during that fiscal period, then there was too much in those reserves by almost $2 million.

MR. WALTER SARANCHUK: Yes. I guess what I was referring to was your response in the first paragraph to Part A of that question where under third party liability bodily injury, the -- the response was:

> "This coverage continues to show favourable development attributed to both the pre PIPP and PIPP runoff, claims are being settled at a lower level than expected."

But you say there's an additional factor now?

MR. BARRY GALENZOSKI: No, I'm not saying that. I'm saying that what has happened is that the difference between the beginning reserve, and let's just look at '02/'03. You start off with $6.690 million dollars in -- in reserves. You pay for that year four hundred and eleven thousand dollars ($411,000) but you end up with $4.3 million dollars in reserves.

So what has happened is that although you only paid four hundred and eleven thousand dollars ($411,000) you've removed $1,970,000 worth of reserves. And that tells you that the adjusters looking at it on a file by file basis are deciding that the money they originally setup that -- what they thought the claim was going to cost at an early part in the claim's history was more than what was required at the point of -- of review at this point in time.

So the result is, is that the reserves come down. And it's not based on the paids, it's based on their expectation, based on the development of the claimant and -- and what they're now presenting to us based on subsequent review. And that's quite typically what happens for all the claims that we have under our administration.

You're always looking at them as to the adequacy of the reserve that you have set aside for that claim and whether that's going to be sufficient or not to see that claimant through to the end of the claim whenever that might be.

MR. WALTER SARANCHUK: And so has this experience been recognized in the claims forecast brought to this application?

MR. BARRY GALENZOSKI: Yes, it would be, yes.

MR. WALTER SARANCHUK: Turning to the next page of the response of the attachment. Dealing with the comprehensive coverage, what gives rise to the level of the redundancy in the accident year of 2002/'03 when we're talking about $1.5 million on a total of 10.1?

MR. BARRY GALENZOSKI: Well it’s the very same reasons with respect to those types of claims. You’re -- you’re always reassessing the level of your claims reserve.

You’ll notice that there was a high degree of paid for that particular year. You started off with ten million one hundred and forty thousand dollars ($10,140,000) worth of reserves. These are short tail claims. They’re usually paid in a relatively small time period and so six million six hundred and sixty-one thousand dollars ($6,661,000) was paid during that year that -- that was associated with claims that actually happened during that fiscal period and we ended up with a redundancy of one million four hundred and eighty-eight thousand (1,488,000).

So, when the claim was paid, in most cases these are -- are full and complete claims, they’re paid, they’re done with, and you would have set up a reserve, let’s say, of a thousand dollars ($1,000) for a particular claim, but it finally ended up the repair bills came in, whatever the costs were, eight hundred dollars ($800), you’d remove the thousand dollars ($1,000) off the claim reserve, even though you only paid the eight hundred (800).

And so that cumulatively comes together to the redundancy that you’re seeing there.

MR. WALTER SARANCHUK: But it shouldn’t take long to settle these comprehensive claims. I mean, why is it, at least on the face of it, taking so long?

MR. BARRY GALENZOSKI: Well it doesn't take very long, and that's why I -- as I pointed out, of the $10 million, $6.7 million is paid right away, and then there was a big redundancy, so you're down to only 1,991,000, and there's sever factors that influence that.

One (1) is the -- the aggressiveness that the claimant themselves would seek to get the repair done, because we don't pay until the repair is done. And so that may have some impact on their pocket book, because they have to pay the deductible or some sort. So, some people delay that process.

The other thing that comes into account here is that glass claims are usually claims that take much longer to report. And I'm talking about those chips in your window, the little crack going across the corner of your windshield, are not necessarily going to become an issue with you, until you're ready to dispose of that vehicle, or that little crack suddenly goes all the way across the windshield, and you just can't stand it any longer, so you get it repaired.

And our experience has been that those mount over the years, and -- and whenever we've had a change in deductible, for instance, one (1) of the first impacts we always see is a lot of old glass claims coming to the forefront. So, we hold a little bit of money for that, just in that eventuality happening again.

MR. WALTER SARANCHUK: So, this experience for 2002/'03 is on the face of it, an exception to the -- to the rule, to have that -- to have the redundancy to that extent, is that correct?

MR. BARRY GALENZOSKI: No, I would expect that for the first year out, there -- it's lesser for other years, but remember, this is all for -- this is all regarding one (1) year, so that the total comes out to what we're looking at on the far right hand side.

So we're -- this is broken out by accident year. So, this is telling you what's happening for each of the years. But you expect in most -- on this particular type of damage, I would expect the majority of the movement to occur right after the first year, so you're going to find out more redundancy, or more deficiency in the very first year, for comprehensive type claims.

MR. WALTER SARANCHUK: Are there some aspects of a claim that lead to a comprehensive claim remaining unsettled for a number of years?

MR. BARRY GALENZOSKI: Well, as I explained, that would be unsettled if the person came in, got an estimate and then just didn't deal with it. Didn't do anything with it, kept it in their pocket for one (1) or two

(2) years.

MR. WALTER SARANCHUK: And that happens that often?

MR. BARRY GALENZOSKI: That happens a fair bit. Not to any great dollar value. For instance, when we had hail losses, the big hail losses we had in '96 and the one (1) we had in 2001, those particular losses, there's still people out there that haven't got those repairs done.

You know, so subsequently if they come in to get those repairs made at a -- at a subsequent date, we may have to take other actions, because the car may be written off by this stage as far as -- you know, you're not going to necessarily -- if there was four thousand dollars ($4,000) damage done due to hail, and the person waits long enough, and now the car's only worth a thousand dollars ($1,000), you're not going to put four thousand dollars ($4,000) into repairing it. And so then we would call that car back in and do something else with it.

But there are -- there are procrastinators out there. They have maybe the best intentions until they find out how much the damage is, and then after a few weeks they don't even see it anymore, and it kind of gets hidden under the dust.

MR. WALTER SARANCHUK: Turning to the next page and the cover Accident Benefits Other, can you comment on the redundancy in 2002/'03, and some 13.3 million on a 106 million, in contrast to the deficiency in the prior accident years, namely 33.2 million on 322.7 million?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Yeah, the Accident Benefits Other is -- is all heads of damage other than income replacement and RIB, Retirement Income Benefit, and what I think we're seeing here is there's -- we're more aggressive in putting the reserves up for what we believe the costs are associated with a particular loss compared to what we did in -- in prior years and that's why you're seeing deficiencies for the prior years compared to redundancy for the current years.

When -- when the actuarial review is occurring they're looking at paids and -- and just how quickly those paids are being made associated with the losses that -- or the reserves that we've got set aside and based on the overall factors, you'll see that there was a deficiency totally almost $20 million for all of the years, but that there was a redundancy for the current year.

MR. WALTER SARANCHUK: Is this reflecting a change in case reserving practices?

MR. BARRY GALENZOSKI: I believe it's

reflecting the -- case reserving has become a -- a more important issue in the organization and the Corporation Claims Division are -- are spending more effort on -- on making sure the reserves are adequate and are doing more reserves reviews.

And that's reflected in the fact that the initial reserves are -- are probably better than they were in the prior years and that we're catching up with the others as we're going through.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Has this change -- the experience been reflected in the forecasts in the current application?

MR. BARRY GALENZOSKI: Yes, it has.

MR. WALTER SARANCHUK: I'd now like to review the claims incurred experience, particularly PIPP for one (1) and collision for another in the various schedules to TI-14, 15 and 17 as filed and those are at Tab 3, 4 and 6 in the Book of Documents.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, as indicated on the first page, TI-14, there's an increase in net claims incurred of some $8.2 million from forecast last year.

Is that correct, Mr. Galenzoski?

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

MR. WALTER SARANCHUK: And what factors led -- have led to that increase?

MR. BARRY GALENZOSKI: Well, primarily, that would be just our experience that we would have. We're closer to the time period now on the forecast, so it would be just better information.

MR. WALTER SARANCHUK: And for an indication of the composition of the claims reflecting that increase, I would refer to Schedule 1, namely the Claims Variance Analysis -- it's on the reverse of that very first page -- and as it appears, of the $8.2 million, some $5.5 million can be attributed to PIPP.

Is that correct?

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

MR. WALTER SARANCHUK: And that's related to an increase in severity from two thousand six hundred and seventy-four (2,674) and it covers to thirty-three hundred and two (3,302).

Is that correct? In other words, three hundred and fifty-eight (358).

MR. BARRY GALENZOSKI: That's in the average cost recovery, yes.

MR. WALTER SARANCHUK: And, just turning to Tab 13 very briefly, keeping your finger on Tab 3, the response there to Question 16 of the Public Utilities Board in the 1st Round refers to the increase in -- in the severity.

And is it a fact that the increase is attributable to the adverse income replacement experience in 2003/’04, so that the forecast severity was adjusted up?

Sorry, this is at Tab -- yeah, Tab 13.

MR. BARRY GALENZOSKI: Yes, if you look at the explanation one (1) page over on Tab 13, it says:

> "The majority of the increase relates to income replacement indemnity cover, which increased by 38.1 million, and a decrease of 12.3 million in the medical expense covered."

MR. WALTER SARANCHUK: Yes, and in Tab 11, still keeping your finger on Tab 3, Tab 11 deals with the Corporation’s response to question number 13 of the Public Utilities Board on the 1st round.

And there is an indication of the change from 2003 to 2004, under the Income and Replacement Indemnity of an amount to $112.5 million, from $88.3 million, is that correct?

MR. BARRY GALENZOSKI: Well, that's the year over year increase in the costs. That's -- and this doesn't include IBNR.

MR. WALTER SARANCHUK: But by reason of that experience, the forecast severity was adjusted upward?

MR. BARRY GALENZOSKI: It would be impacted, yes.

MR. WALTER SARANCHUK: And given where you are right now, how much of this experience has actually been incurred?

MR. BARRY GALENZOSKI: Well, we are only six (6) months really into the year, so we would have about half of it.

MR. WALTER SARANCHUK: And in terms of the overall increase of some $8.2 million, for the total claims, what are the factors that -- from the information provided and from your experience, are driving the increase?

MR. BARRY GALENZOSKI: Well, primarily the increases are driven by -- by volume of -- of covers. You'll notice that the volume of covers is increasing, and the average cost will -- I'm talking corporately now, as far as all of the -- the heads of damage, not just the PIPP side, are certainly going to be driven by weather related incidents that are still to be determined, because we haven't entered into our winter season yet.

So there are a number of the traditional factors I think that all come in to play.

MR. WALTER SARANCHUK: And now reviewing Tab 15, which appears at -- sorry, TI-15, which appears at Tab 4, in the Book of Documents.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And on the reverse of the first page, namely at TI-15(a), there's an increase in claims incurred by over twenty (20) -- well almost $24 million, from $513 million to 537 million, is that correct?

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

MR. WALTER SARANCHUK: And in terms of the components of this change, looking at Schedule 1 on the opposite side, similar to the Schedule 1 we looked at in Tab 3, this now being for the period of 2005/'06.

The collision claims would appear to be up by some $14.7 million, is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And with an increased frequency of thirteen hundred and fifty-nine (1359) covers, is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And to what can that be attributed, sir?

MR. BARRY GALENZOSKI: Well, the increased frequency are the overall increase in costs.

MR. WALTER SARANCHUK: Costs?

MR. BARRY GALENZOSKI: Well, I think it's driven by the two (2) -- two (2) factors, the increased frequency is -- is driven largely by the increase in the size of the fleet, and the increased cost is going to be driven by that, as well as the increase in the cost of parts, labour, just the settlement of the claims process.

The average claim is going up, largely on the collision side, not largely, but somewhat, because of the safety equipment that's embedded in these vehicles today. So, even lower level collisions, low impact collisions cause air bags to go off and side curtains sometimes to go off, so the average claim is climbing on that side.

MR. WALTER SARANCHUK: So, nothing has really changed? It continues to climb?

MR. BARRY GALENZOSKI: Well, it -- you know, and we expect this, you know, and when we look at both our short and longer term financial projections, we take that into account with respect to our expectations. And that's part and parcel of the overall forecasting process that the Corporation has is that we have an anticipation that costs are going to be going up on -- on that side, largely driven by volume and just cost to repairs if we're looking specifically at collision and -- and those are undeniable.

The average number of covers is going up by 1.4 percent, as indicated here and we're expecting that the average cost is going to go up by some 5.7 percent, which is a fair bit higher than average inflation and that's what we expect in this particular type of business.

MR. WALTER SARANCHUK: Yes, and looking at the next line, mainly for comprehensive, we see that there's to be an increase in claims incurred of some $4.5 million with an increase of some twenty-one hundred and eighty-nine (2,189) covers. Can you explain that, please?

MR. BARRY GALENZOSKI: Well, that would involve a number of different types of claims, whether it's windshield-type claims, which would be generally lower cost to total theft claims, which would be higher cost. We're expecting to see more volume on this side of it because of, again, the factor that there's more vehicles insured in the Province on an annual basis.

And then we're expecting the cost to go up by -- the average cost -- something like 4.3 percent, again related to the fact that if a vehicle is stolen, it's generally worth more than it was a year ago, they are newer vehicles, particularly. So, vehicles are just getting more expensive to replace and repair.

MR. WALTER SARANCHUK: So, does that contemplate more thefts?

MR. BARRY GALENZOSKI: I don't believe it contemplates any -- any larger number of thefts, but it certainly contemplates that the costs associated with claims are going to be higher. We're anticipating, overall, there's going to be more claims that would be probably proportional to the claims experience for prior years based on the size -- the increase in the size of the fleet.

MR. WALTER SARANCHUK: So, if you had an increase in the size of the fleet by 10 percent you would expect the theft experience to increase by 10 percent, generally?

MR. BARRY GALENZOSKI: Well, I don't know if I'd specifically say on which head of damage it's going to increase. I think what we're looking at here is that overall we think the claims experience is going to increase.

MR. WALTER SARANCHUK: Are you --

MS. MARILYN MCLAREN: Most -- most of the comprehensive claims are glass claims and we're still expecting them to increase a little every year in response to the significant decrease we saw after raising the extension glass deductible a few years ago.

MR. WALTER SARANCHUK: But I -- I'd ask you to agree that a decrease in theft claims isn't incorporated in this forecast, is it?

MR. BARRY GALENZOSKI: I don’t believe it is, no.

MR. WALTER SARANCHUK: Looking at the PIPP experience anticipated, the claims are expected to total some $2 million more, as I understand it, with an increased number of covers of some twenty-six hundred and eighty (2,680); is that correct, Mr. Galenzoski?

MR. BARRY GALENZOSKI: Yes, that’s correct. That’s not claims, that’s covers -- a big difference between that and claims. I should correct that.

MR. WALTER SARANCHUK: Yes, if you’d just explain the difference?

MR. BARRY GALENZOSKI: Well, on a particular claim you could have a number of covers associated with a -- a -- one (1) particular claim so if you have a single accident with one (1) injury coming out of it, that person could be eligible for a number of different types of coverages, whether it’s income replacement, home care, any of the other benefits that might be available; they’re all counted as separate covers. So, multiple covers come out of one (1) incident or one (1) -- one (1) claim.

MR. WALTER SARANCHUK: You mentioned income replacement indemnity. My understanding that there’s a significant fluctuation from year to year that’s been experienced so that in 2000 from the previous year there was an increase of 120 percent, then the following year a decrease of 25 percent, the year after that, namely 2002 compared to 2001 there was a 40 percent increase.

With these fluctuations, is that -- in the income replacement indemnity -- does that show that there's a lack of stability?

MR. BARRY GALENZOSKI: Are you referring to numbers of claims? Are you referring to the costs of those claims?

MR. WALTER SARANCHUK: The costs.

MR. BARRY GALENZOSKI: I -- I don't think that we'd classify it as instability. I believe again, because you're looking at claims incurred numbers, for a given fiscal period, which covers all of the changes in the reserves going back, over the many years, which is back to 1994, you're going to see some of those numbers move.

And that's where -- look at the -- when we were talking about the deficiencies and the redundancies, given a -- a certain head of damage on one (1) particular year, that's what you're looking at. You're looking at changes that occur over time.

MR. WALTER SARANCHUK: Yes, and you also referred earlier to the experience in terms of the PIPP costs being on direct claims incurred. And I would therefore refer you to Tab 33, which is the Corporation's Response to Public Utilities Board Question Number 3 in the 2nd Round of Interrogatories.

In Schedule 1 is provided in response to Part A, which asked for a forecast of the distribution of PIPP costs by coverage for 2004/05, 2005/06 and 2006/07.

So, looking at Schedule 1, in Tab 33, it would appear that all covers are increasing, albeit marginally; would you agree with that, sir?

MR. BARRY GALENZOSKI: Yes, these are the direct claims incurred costs -- are increasing on -- it looks like all of them, yes.

THE CHAIRPERSON: Now, Mr. Saranchuk, we're just going to pause for two (2) minutes.

(BRIEF PAUSE)

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Yes, just continuing now. I would refer you to Tab 6 in the Book of Documents, and deal with the claims cost outlook, in particular, with reference to TI-17(a), which is the reverse side of the first page.

THE CHAIRPERSON: Maybe I should note that the presentation for 1:30 is cancelled, we're going to try and reschedule it for the -- I think it's the 21st.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Looking at TI-17(a)...

(BRIEF PAUSE)

MS. DENYSE COTE: I'm sorry, Mr. Saranchuk, could you remind me of the Tab number, okay?

MR. WALTER SARANCHUK: The Tab is number 6.

MS. DENYSE COTE: Thank you.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Looking at the claims cost line, the claims incurred net forecast at $537.2 million for the year of the Application, increasing through to 610.2 million at the end of the outlook period.

I'm advised that that's approximately a $73 million increase, and when compared to the increase of some one hundred (100) -- so in excess of $100 million in costs, claims costs over the last five (5) years, we're looking at an increase of some $175 million, since 2002 to the end of the outlook period.

What can be said about this trend from the Corporation's standpoint? I mean, the figures speak for themselves, but let's get into the details: What's driving this, and what is the Corporation's concern, if any, about it?

MR. BARRY GALENZOSKI: Well, the Corporation I think, generally speaking, isn't overly concerned. You know, certainly there's concerns about the number of theft claims and -- and injuries that are caused on -- on the roads in Manitoba. But when we look at the overall dollar impact, I think what we're showing is that the plan is affordable, that going forward, we're not looking at proposed rate increases, that the overall natural growth in the -- in the upgrading and the size of the fleet is covering off the costs associated with the plan.

And let's take a look at the numbers that you're referring to, the $537.2 million for '05/06 and the next year, $562 million, that's a 5 percent growth. Considering that you know, a big piece of this is indexed, that's not an unexpected growth factor.

The big factor associated with the part that isn't indexed is that it's associated with the cost of automobiles, part prices, labour rates charged by body shops. So, there's a lot of factors in there that aren't strictly tied to what you and I see in our salaries, normal CPI or Manitoba CPI.

So, you know, these are costs that are not unexpected. We’ve experienced them over the many years that we’ve been in existence, and we expect to continue to see costs like that, going forward in the future.

MR. WALTER SARANCHUK: I don’t mean to put words in your mouth, sir, but is the Corporation not concerned of a $100 million cost increase for the -- over the last five (5) years?

MR. BARRY GALENZOSKI: Well, you know, you’ve got to consider that in -- in 1999, which just inside that time line, a new benefit was added, RIB, that added a component to the income replacement side.

You know, there --

MR. WALTER SARANCHUK: What’s RIB?

MR. BARRY GALENZOSKI: Retirement Income Benefit.

We are seeing you know, fairly substantial benefits being set aside to pay our future claimants, in accordance with the original intent of the plan, over and above that.

And so, we’re -- you know, the dollar number is big, but that’s not unexpected. And I think this is part and parcel of -- of what we do in Manitoba, is that we have a plan that has fairly good benefits, that are paid out over the lifetime of some of these very seriously injured people, and there’s substantial dollars associated with them.

MS. MARILYN MCLAREN: Mr. Saranchuk, in that same outlook period that we're looking at here in TI-17(a), you've referenced the $73 million increase in net claims incurred. During that same period there's an $87 million increase in net premiums earned.

So, it lines up. That hangs together.

MR. WALTER SARANCHUK: And the Corporation is satisfied with that?

MR. BARRY GALENZOSKI: The Corporation is satisfied that the plan is affordable, that it's -- that it's doing what it's intended to do. We're not looking at double digit rate increases like we were under torte.

The expectations prior to 1994 was that we were going to have to have double digit rate increases, just to keep up with the increasing costs of claims, for primarily the bodily injury side.

And when I look at the increase that we're looking year over year on this particular statement, in our total claims incurred, we're talking in that four (4) to 5 percent range, and from that side of it, we think it's -- it's reasonable.

MR. WALTER SARANCHUK: So, I take it there's no end in sight and there's no plateau in sight?

MR. BARRY GALENZOSKI: Well, I guess it depends on how far you look out on this thing, but you know, the -- all other factors are growing at about the same rate, whether it’s the natural increase in the premium base, whether it’s the natural increase in the investment income base. You know, there’s other costs that were -- that are in there, that we are going to see go up over time.

And it’s pretty hard to be in the insurance business and not expect to see cost increases year over year.

MR. WALTER SARANCHUK: That makes sense --

MS. MARILYN MCLAREN: And I guess --

MR. WALTER SARANCHUK: -- sorry.

MS. MARILYN MCLAREN: -- sorry, Mr. Saranchuk.

To put that in a little bit more of a national context, I think is worth talking about. You know, we believe that what we’re here to do is provide Manitobans with not only guaranteed, but -- but ready access to an insurance plan that’s specified by law.

And we have a -- you know, an outlook that shows that we can continue to do that with a break-even context for the bottom line, over the foreseeable future, without rate increases.

If you put that in the national context, what you see in other places is Governments deciding to radically reduce, potentially radically reduce the mandatory coverage that -- that people have to buy and taking significant other steps to try to keep premiums affordable.

We are able to run this plan in an affordable way with a reasonable bottom line, and yes, costs will continue to increase and the revenue will continue to increase, reasonably in step with that.

We know how to reduce claims costs. We know how to reduce claims frequency, and given what we know about Manitobans expectations of this particular plan, we -- we don't -- not only do we not see a need to do that we don't believe that that would be accepted.

We know that simply --

MR. WALTER SARANCHUK: What won't be accepted?

MS. MARILYN MCLAREN: You reduce claims numbers by increasing deductibles, by having a far more punitive Bonus/Malus system, by limiting the access to claims services, by reducing the quality of claims services.

We -- we know how to reduce claims frequency, and you can reduce severity by reducing the coverage. We -- we know how to make -- you know, we know those levers and we know what to do with them. But given the fact that Manitobans, whether they buy it from us or whether they buy it from anybody else, want and most of them do buy a two hundred dollar ($200) deductible on the collision side of this business.

You don’t find that anywhere else in the country, largely because it’s simply not affordable. That’s what Manitobans want and that’s what Manitobans expect. You don’t hear anybody saying you know, for the most part we have the lowest rates in the country, but let’s please drive them lower by reducing the kinds of coverage that’s available under PIPP.

So, you put the program together in the context of the coverage that’s offered, the rates that are charged, and the overall accessibility and affordability of the program, we think we’ve got something that works for Manitobans.

When we see any lack of satisfaction with rates or with the coverage that’s provided, we know how to address those issues, but right now we don’t see any need or desire on the part of Manitobans to change the construct of this program.

MR. WALTER SARANCHUK: Just on the couple of points, you talked about reducing severity, by limiting the coverage. Why is that necessarily so? Can’t you look to the handling of claims, in particular, and try to assess whether or not there can be an improvement at that level to try to get people back into the workplace sooner than they are, and maybe with fewer chiropractic treatments and fewer visits to massage therapists. There’s that aspect of it too, and I guess we're going to get into this later, but I'm just having some difficulty with the comment that you're automatically going to have to reduce coverage?

MS. MARILYN MCLAREN: I don't think we do need to reduce coverage, but that certainly is the clearest and simplest way to reduce severity. And all I guess -- I'm sure we will get into it later, but all the other things that you mentioned, with the extent to which we work with claimants and their care providers, to provide the very best rehabilitative opportunities for them, is something that we pay a lot of attention to. And are certainly not going to stop paying attention to.

So that's clearly part of the -- the benefits of a plan like this that we have the opportunity to do that, we have the where with all and we certainly have the commitment to do that. It's not the only way to manage auto insurance costs.

And -- and I guess when I talked about that, I'm looking at the rest of the country where governments are talking about no frills options, buy-down options versus buy-up options. All kinds of things which really tie back to reducing the coverage.

MR. WALTER SARANCHUK: Well we will deal with it more in depth later. In terms of the commentary that you gave with respect to reducing frequency, there is much more that can be done.

I'm not suggesting that the corporation hasn't taken steps to do so, but would you not agree that there is much more that can be done for example to try to reduce theft claims in terms of reducing frequencies? That's an instance.

MS. MARILYN MCLAREN: Certainly. No argument there whatsoever. I think we continue to search for levers so to speak, on -- on the theft side of things and I guess the -- the point that I want to make in that context though is, in Manitoba claims frequency tracks very, very closely with accident frequency here in Manitoba.

Because there's not huge penalties associated with filing claims. That's not true in other jurisdictions. You can't look at claims frequency in other jurisdictions and use that as a proxy for accident frequency like you may be able to do in a closer way here in Manitoba.

MR. WALTER SARANCHUK: So then that perhaps begs the question as to why is something more is not being done to review the Bonus/Malus system? Do you want to reduce claims, do you want to -- don't want -- and you're talking about penalizing people for making claims of ergo reducing accidents.

Doesn't that mean to look again at the Bonus/Malus system?

MS. MARILYN MCLAREN: No. I -- I said those are things that -- that could be done and are done in other places. I'm not saying that we want to do them here. I think we want to make sure -- given the fact that there are opportunities now with the driver licensing side of things, we want to certainly have a look at the Bonus/Malus system and make sure that it is as appropriate and effective as we can possibly make it.

I don't know that that means there's an overwhelming need to eliminate people's opportunities to file claims against a product that they're obligated by law to buy.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren. I would ask that we now turn to SM-5.2 in Volume 1 of the filings. We'll deal briefly with claims forecasting and forecasting accuracy. And in particular I'm looking at pages 7, 8 and 9.

Again, at a high level if you would, Mr. Galenzoski, explain to us about the claims -- or explain the claims forecasting methodology to us with reference to the three (3) methods, the linear, the expediential and the financial. And explain to us please what the corporation's experience has been. These are pages 7, 8 and 9 of SM 5.2 in Volume 1.

MR. BARRY GALENZOSKI: Sure, we're looking at the three (3) methods. We do the linear cost growth which assumes that the costs will increase or decrease by a fixed cost and absolute amount each year. We -- we look at the expediential cost growths which assumes that costs will increase or decrease by a fixed percentage rather than a fixed amount each year.

And in the financial forecast model which allows cost growth to be more responsive to both the short and the medium term trends that are merging as we see it in the field. And the financial forecast model is the one that we've been using in our rate application for the many years that we've been here.

MR. WALTER SARANCHUK: Can it be said that -- that financial forecast method is a high bred of the actuarial as well as management judgement?

MR. BARRY GALENZOSKI: I think you could classify it that way, yes.

MR. WALTER SARANCHUK: And to what extent does management judgement enter into the picture? Does it -- well you explain it to me then please.

MR. BARRY GALENZOSKI: Well management judgement is -- is not like what do I think about it. It's -- it's what does the team that's doing the forecasting think about it. This is a multi disciplinary team that has the -- the statistics at their fingertips regarding the different types of damages, the costs that they have seen grow over time as well as the information that they would have about the cost growths that they expect to see going forward.

And -- and just a little example on that. If you take a look at, say, the collision repair side of the business, the people involved in that have the expertise. They're right out of the Claims Division. They have the expertise. They have all the -- the statistics with respect to our past history. They know what the cost of repairs have been. They know what the cost of the repairs -- or they -- they have a good idea what the costs of repairs are going to be in the future.

These are the people that are negotiating the labour of body shop rates. These are the people that are -- that are controlling part prices. They are well aware of what part prices are going to be, the use of the aftermarket parts, the use of the salvaged parts.

So, they have very intimate knowledge about that particular part of our business and they feel into the overall forecasting process and -- and that's part and parcel of the financial process.

MR. WALTER SARANCHUK: And the initial forecast is prepared how far out in advance of the Application?

MR. BARRY GALENZOSKI: Well, the initial forecast would be prepared in around the April timeframe for the application that's going to be filed in June for rates that are going to come into effect on March 1 of the -- of the next year.

Now, the other area where we get our feet held to the fire is that we're also expected to come up with projected years past the Rate Application year and then what we see happening is that we're now being asked to explain what the difference is on those projected numbers compared to where -- we thought a year. So, there you're talking about two (2) years in advance of -- of when the numbers are required.

MR. WALTER SARANCHUK: And is the nature of forecasting such that there is an expectation of a difference between the forecast and the actual experience?

MR. BARRY GALENZOSKI: Yes there is.

MR. WALTER SARANCHUK: And the forecast that actuarily indicated rate change for 2006/'07 and '07/08 due to the level of precision and forecasting may differ -- differ substantially from the actual results for the reasons that you just mentioned; is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: Now, referring to the Corporation's Response to Interrogatory Number 10 of the Public Utilities Board on the 1st Round and I don't believe that this is in the Book of Documents. So, this is

Interrogatory Number 10 of the Public Utilities Board questions on the first round.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And as you will note in Table 1, there's a comparison of the variability from projected to actual experience in terms of the claims frequency and then two (2) pages down in Table 3 is the experience projected to the actual in claims incurred.

Dealing firstly with Table 1...

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Can you provide a general overview -- an explanation of the information presented in that table, Mr. Galenzoski?

MR. BARRY GALENZOSKI: Yes, if we just focus on the year 2003/2004 you'll see that there's three (3) columns under that particular year. One (1) is projected; that's the -- the numbers that were provided at the last Rate Application for the '03/'04 year.

They're revised, they're more current; the numbers that were provided at the Rate Application year. And then the actual numbers are the ones that we actually incurred. I'll just correct myself, the -- two (2) years ago that that was actually provided.

And we're now tracking the -- those numbers compared to what we actually saw happen for that particular fiscal year and you can see there's the given counts on the -- the claim frequency comparison, totalling up to total actual claims, two hundred and ninety-one thousand five hundred and two (291,502) on a projected basis.

Two (2) years before that we thought that there was going to be two hundred and eighty-three thousand five hundred and sixty-six (283,566).

Last year we thought there was going to be two hundred and eighty-four thousand and thirty-three (284,033) and so you'll notice that the numbers have crept up a little bit until we got to our actuals.

MR. WALTER SARANCHUK: So, on an overall basis for the frequencies compared at 2001/'02 through to 2003/'04, looking at the results firstly for 2001/'02, what can you say about the -- your prognostication that year?

MR. BARRY GALENZOSKI: We were wrong.

MR. WALTER SARANCHUK: Any explanation?

MR. BARRY GALENZOSKI: Yes, I think there was a big hailstorm that occurred that year so that would have added about twelve thousand (12,000) claims to the total, just off hand.

You'll notice that PIPP is -- the projected initially started out at fifty-three thousand (53,000), then went to fifty-nine (59) and then ended up being almost seventy (70) -- or sixty-nine (69) -- or seventy thousand (70,000).

Collision, same thing happened there. We saw an increase. The comprehensive jumped up dramatically. You'll see it went from forty-eight thousand (48,000) to seventy-nine thousand (79,000), so those are the types of things that are -- come into these numbers.

MR. WALTER SARANCHUK: And without meaning to be facetious, for 2002/2003 looking at the results, were you wrong again?

MR. BARRY GALENZOSKI: No, not too bad. We were -- we were within six thousand (6,000) when you look at the revised numbers, so I would say that's -- that's pretty reasonable. Would you agree?

MR. WALTER SARANCHUK: I'm looking at the projected to the actual.

MR. BARRY GALENZOSKI: But the projection, remember, was done two (2) years before that time so, you know, I think we have to -- we have to give some -- some weight here to the fact that this was some time ago before that those were -- were presented compared to the actual year occurring.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: We, of course, are dealing with a -- a situation where the last actual results are for the 2003/2004 year and the results are two (2) years out given the current forecast for this year.

Does that cause -- or should that cause this Board some concern?

MR. BARRY GALENZOSKI: Well, you know, I -- the other thing I think we should note here is that we're talking about covers not claims and so there can be significant variance just on the -- you know, like, we didn't see, you know, at any year, sixty-thousand (60,000) PIPP claims, for instance. Okay?

We were talking fifteen thousand (15,000) claims -- that we were talking about, so when you -- when you take it to a finer granular amount, you can expect to see more variance in these numbers.

It really comes down to, I wouldn't be so -- so concerned about these numbers and more concerned about the claims incurred numbers themselves or the accidents that we actually -- or the claims that we actually had in the Corporation. This is at the cover level so there's going to be some variability on that side.

MR. WALTER SARANCHUK: And looking for the --

at the year 2003/'04, would you describe your performance as not bad or your were wrong? Or somewhere in between?

MR. BARRY GALENZOSKI: Well, of course, it's wrong. We know that it's -- it's not going to be right on, but it's -- it's pretty good. You know, I would hesitate to use, close enough for Government work, but it might be a good application right here.

MR. WALTER SARANCHUK: Now, looking at your -- performance on claims incurred, which I think you indicated would be more telling, Table 3, of course, deals with those and looking at 2001/'02, how would you describe your performance in terms of the projected, the revised, ending with the actual?

MR. BARRY GALENZOSKI: Well, you can see that we changed a significant amount on the projected. We started off overall at $388.6 million, ended up actual $433.9 million, so obviously there was some major changes in what we thought was going to happen.

When you look up on the chart you'll see PIPP started out at $140 million and ended up at $182 million, approximately. So, a major change right then and there.

And I believe this would have been the year that the RIB was introduced, and so we would have seen, you know, we weren't -- and when we did the projected numbers, we weren't probably anticipating that RIB, the Retirement

Income Benefit was going to be added. And when you did that, you had a substantial increase in reserves, because RIB was provided to all claimants that existed at that point in time.

And so you had to boost up the reserves quite a bit. So there's usually an explanation as to why these things happen. And I think you have to look behind it, rather than just looking back at the numbers and saying, well, that's a forecasting error.

I would suggest to you that that wouldn't be considered a forecasting error in this situation.

MR. WALTER SARANCHUK: So how would you describe your performance?

MR. BARRY GALENZOSKI: Well, you know, I think we -- we ended up with something that wasn't totally expected, when we looked at the projected, which was done two (2) years prior to the actuals happening.

Again, I think we have to be flexible on these things, and that's what the plan has demonstrated that it has an ability to be over time. We have to react to what we're presented with. It's -- it's impossible to come up with a -- with an accurate forecast of exactly what type of claim you're going to have, and how much each and every one (1) of those claims is going to cost.

That's why we see the numbers change over the many years, and we expect that in this business. It’s one (1) of the reasons why we need to have a rate stabilization reserve behind us, because if things line up against you, you can have a negative bottom line, compared to, you know, having a better situation, or one (1) that we would hope for, which is one (1) of break even.

MR. WALTER SARANCHUK: So using your categories in 2001/02, were you wrong or not bad?

MR. BARRY GALENZOSKI: Well, considering that we had to add substantial dollars on the PIPP because of the new head of damage being the retirement income benefit, I would say we probably weren’t bad. We weren’t anticipating that when the original projections were done, obviously.

MR. WALTER SARANCHUK: I wonder if you could just explain what RIB entailed?

MR. BARRY GALENZOSKI: Well, what RIB entails is it’s a Retirement Income Benefit, in the original plan when it was rolled out in ’94, it had a method of -- of taking people off of income replacement over a four (4) year period, after they reached the age of sixty-five (65), for most people. There was some extenuating circumstances on that. And it reduced it by about 25 percent a year.

And what RIB did was it said, we’re going to -- instead of doing that, we’re going to actually provide a level of income replacement, not -- it would be at approximately the same level that you had under the income replacement, but it was stepped down by other income and other benefits that you might have from other plans, so it wasn't totally first party pay, like the income replacement is.

Income replacement it doesn't matter if you have contributions from other sources, like other insurance recoveries that you might make.

In this particular case under RIB, it does matter, and so there is a slightly different benefit, but it -- to those that had no other particular type of income replacement coverage, it meant that they had income going into the retirement years, that they didn't have when the plan was originally rolled out.

MR. WALTER SARANCHUK: And so just very generally, what kind of an impact did it have on claims costs?

MR. BARRY GALENZOSKI: I believe the impact was about $40 million impact that we had to recognize within the one (1) year. Now I stand -- I could stand corrected on that, you know, it's back a couple of years, but it was a fairly substantial impact. There was a -- that had to be recognized, because it didn't just apply to the claimants for that particular year, it applied to all the claimants back to March 1, '94.

MR. WALTER SARANCHUK: Yes, and so when you look at the comparatives for the projected and the actual for 2001/02, under PIPP, there is about a $40 million difference, as you've pointed out.

Looking at 2002/03, there is a difference of some $31 million on the PIPP side, and bottom line wise, we're looking at a difference of approximately $27 million in your forecast.

I wonder if you could comment on those two (2) lines please?

MR. BARRY GALENZOSKI: Well, I would believe that the projected there would also have some impact because of the RIB, that wouldn't have been fully accounted for, because it was introduced in the previous year. So, there would have been -- some of those numbers would have been provided prior to that.

But the revised numbers, compared to the actual are -- are much closer in -- they're within about $11 million. And when you -- you know, so I -- I think that there was -- there might have been some impact there, although I'd have to go back and see where the changes occurred.

MR. WALTER SARANCHUK: And in terms of the bottom line? How would you describe your performance?

MR. BARRY GALENZOSKI: Again, overall, the performance was reasonably good. We're talking a half a billion dollars in total here and there was a change of some -- some $27 million if you go back to a two (2) year before estimate.

MR. WALTER SARANCHUK: That's a new category. Is that meaning, not bad?

MR. BARRY GALENZOSKI: I know I'm going to pay for these things that I'm putting on the record and I don't want to put too many there, because others will take me up on that and I -- I you know, I give enough ammunition throughout this whole process, so I'm going to let you decide that.

MR. WALTER SARANCHUK: Or at least the Board, anyway. Now, looking at 2003/'04, there again, there's a significant discrepancy between the actual and the projected on the PIPP line and the bottom line.

What is the reason there?

MR. BARRY GALENZOSKI: This was the year that we experienced the increase in the number of brain injuries that we talked about and so there was a fairly significant impact on our -- on our actual numbers that we put forward for the -- the PIPP. That wouldn't have been in our projected numbers, obviously.

Our revised numbers did take that into

account, so we did see some change on -- on that side of it. Overall, you're seeing a fairly significant change. There was a fairly big increase on the collision side, again, that would be driven mainly by the factors that we talked about previously. The rest of them are fairly close to the estimates that were provided.

MR. WALTER SARANCHUK: Reasonably good, not bad or wrong?

MR. BARRY GALENZOSKI: I'm not judging any longer, I'm going to leave that up to you and the Board.

MR. WALTER SARANCHUK: In terms of the performance over the last three (3) fiscal years, it would appear that there's this persistent under-projection, particularly in the PIPP claims.

Now you explained those, but in aggregate, is there evidence here of some systemic bias?

MR. BARRY GALENZOSKI: Well, I would -- I don't know if I'd call it systemic bias. I think this is -- again, there's a -- there's a lot of activity and volatility in our claims numbers, mainly because of things that are not necessarily driven by factors that we control, whether on -- the physical damage side enters into it in a big way. Whether that's a hailstorm, whether that's a -- just bad driving conditions and increase in the number of -- of accidents that we're seeing.

We saw some situations occurring last year where we had an increase in the frequency of brain injuries that were significantly more than what we saw in prior years and we've taken that out of -- out of the numbers for the going forward period, so we expect to see some -- some differences in the numbers, you know, and that's part and parcel of what we -- what we're -- we're trying to forecast.

In those numbers -- the -- the years that we've looked at, from our projected numbers to our actual numbers, there were some significant reasons why there was differences. We provided some of those. There, hopefully, won't be that going forward.

You'll see there's a fairly -- a fairly close relationship between the projected and the revised for '04/05, which is the -- the year that we're currently in and the projected year going forward is based on all those numbers together.

MR. WALTER SARANCHUK: Thank you, sir. Mr. Chairman, it might be a convenient spot to break for lunch.

THE CHAIRPERSON: Very good. We'll see you back at 1:30 and again, there's no presentation.

--- Upon recessing at 11:07 p.m.

--- Upon resuming at 1:30 p.m.

THE CHAIRPERSON: Mr. Saranchuk...?

MR. WALTER SARANCHUK: Thank you, sir.

MR. BYRON WILLIAMS: Excuse me, Mr. Saranchuk. Mr. Chairman, if I might.

Just -- I was half listening, I'm always listening attentively, but in terms -- there was a discussion this morning in terms of a report prepared for MPI from Mercers, and there was some discussion about whether there was commercial sensitivity around that report.

And I don't think the document's of particular interest to my clients, but I guess just as a matter of -- of practice, I know my clients have asked me to put this on -- on the record, that they are sensitive to issues of when requests for confidentiality are made, and they think that those -- in terms of granting confidentiality, that those should not be lightly granted.

And it's -- their concerns are for the transparency of the process, and also to make sure that they have the best information upon which to advise the Board.

So, in the event that Manitoba Public Insurance does take the position that this is commercially sensitive, it would be helpful for them to -- in submitting the material, if they choose to in confidence to the Board, to set out the basis for their claim of confidentiality, and hopefully provide at least an abridged version for -- so my clients can review it.

And so that's just a recommendation from my clients. We're not raising an objection, we're just raising a -- a potential concern.

THE CHAIRPERSON: Thank you, Mr. Williams. We understand your concern, and we don't take the matter of confidentiality any less seriously than you do.

On the other hand, we want to ensure that we have sufficient information to be able to reach a -- a judgment, so we'll -- we'll think more on your thoughts and see what we get from the Corporation.

MR. BYRON WILLIAMS: Yes, sir.

MR. WALTER SARANCHUK: Mr. McCulloch has a few comments to make initially.

MR. KEVIN McCULLOCH: Yes, Mr. Chairman, and I might just follow up on -- on what Mr. Williams just said. The concern that was expressed by the Witness this morning, was that without checking the document and without checking the consulting agreement, we didn't know whether there may be elements of the process which Mercer had proprietary interest in, that -- that couldn't be disclosed without their consent.

I don't believe, and I'll -- we will be reviewing the report later today or tomorrow. The concern was not with the recommendations or the results of the report, but rather the process which -- which may be proprietary to Mercers. And we'll certainly address that if we're not in a position to release the entire report, to all of the Intervenors.

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

MR. KEVIN McCULLOCH: I do have two (2) other items to file -- deal with filings, Mr. Chairman.

The first has to do with a discussion of credibility that was contained in the expert opinion and pre-filed evidence filed by CMMG. As I indicated when the Corporation was asked its position on the acceptance of this material, I indicated that the Corporation would reserve its right to either file information requests or evidence by way of rebuttal in response to that report.

What has been prepared on one of the two (2) issues, the discussion of credibility, we prepared the Applicants response on that issue and I would ask that this be accepted as an exhibit MPI Exhibit Number 5, I believe, and have it treated as evidence by Ms. McLaren.

I would also propose rather than have her read the four (4) page discussion into the record, that it be accepted as pre-filed rebuttal evidence from Ms. McLaren.

THE CHAIRPERSON: Are you going to distribute that now?

MR. KEVIN MCCULLOCH: Yes.
THE CHAIRPERSON: Okay.

--- EXHIBIT NO. MPI-5: Evidence by Ms. Marilyn McLaren Response to discussion of credibility.

MR. KEVIN MCCULLOCH: And while that's being distributed, the second item is the Response to CAC/MSOS/Pre-Ask 1 and Pre-Ask 2 and Pre-Ask 3. So, all three Pre-asks filed by CAC/MSOS, we're in position to file those at this time as well.
THE CHAIRPERSON: All of this is fine. Do you have anything else, Mr. McCulloch?
MR. KEVIN MCCULLOCH: No, Mr. Chairman, that's it.
THE CHAIRPERSON: Mr. McCulloch promises. Mr. Saranchuk, your turn.
MR. WALTER SARANCHUK: Yes, thank you, sir. We're just getting our papers in order here on latest -- in view of the latest filings. Just bear with us one moment, please.
(BRIEF PAUSE)

MR. WALTER SARANCHUK: So, I'm assuming Mr.

Chairman, with Mr. Williams concurrence we can have the responses to these pre-asks marked as Exhibits CAC/MSOS-MPI-3, 4 and 5 respectively; is that correct?

MR. BYRON WILLIAMS: That's fine with me. I'm not the expert on marking exhibits.

MR. WALTER SARANCHUK: Well, it's just that we have --

THE CHAIRPERSON: I think -- I think we agree on the numbers.

MR. WALTER SARANCHUK: Yes, thank you.

THE CHAIRPERSON: Subject to check as they say.

--- EXHIBIT NO. CAC/MSOS-MPI-3.1:
Response to Pre-Ask 1.

--- EXHIBIT NO. CAC/MSOS-MPI-3.2:
Response to Pre-Ask 2.

--- EXHIBIT NO. CAC/MSOS-MPI-3.3:
Response to Pre-Ask 3.

MR. WALTER SARANCHUK: Sorry, Mr. Chairman, I'm advised -- I was looking at an old version of the exhibit list so that indeed the exhibit number has already been assigned so that this is CAC/MSOS Exhibit 3.1 through to 3. So, it’s Exhibit 3.1, Exhibit 3.2 and Exhibit 3.3.

THE CHAIRPERSON: Very good.

(BRIEF PAUSE)

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Now, continuing with cross-examination, relative to claims forecasting, I would draw your attention to PUB/MPI-1-11, that’s Question Number 11 by the Public Utilities Board in the 1st Round, and this is not in the Book of Documents.

And in particular, draw your attention to the attachment, which appears immediately after the first four (4) pages of the Response. And dealing with Part A, I wonder if you could provide a brief explanation of the information presented in the attachment, Mr. Galenzoski?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Yes, just clarifying a couple of things here. The -- the chart is set up to show by -- by fiscal year and by injury type or claim type, bodily injury, for instance, ’04/05, we’ll look at that first. It shows the three (3) different methods of forecasting, and in frequency is shown with the minus four point six-five (4.65), that’s compared to the previous year. Severity up 15.49 percent, and loss costs 10.12 percent.

So, that is shown for each of the various types of claim heads of damage that we have.

MR. WALTER SARANCHUK: So, is it appropriate to interpret the information presented for 2005/’06 in each case, as representing movement from an expected level for 2004/’05 to an expected level for 2005/’06?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And focussing on the loss cost trends, how should the Board interpret any significant differences between the financial forecast selections, on which the proposed rates are based, and the comparable fitted exponential trends?

For example, can you comment on the bodily injury at 4.14 percent, versus 7.5 percent, under the exponential trend and for accident benefits weekly indemnity, 4.5 percent versus 6.5 percent under the exponential trend and under collision, 5.52 percent versus the 4.2 percent under the exponential trend and finally comprehensive, 6.19 percent compared to the 8.25 percent under the exponential trend?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: The -- the linear and exponential trends are -- are based on fitted data trend lines that we're seeing in the -- in the data that's presented, compared to the financial forecast approach, which is basically using the financial forecast effort that we have put together on -- on the corporate basis. So, that's just showing the expected growth, year over year.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So, what are the additional considerations that are taken into account in the financial forecast, that are not in -- within the exponential trend considerations?

MR. BARRY GALENZOSKI: The -- the main one (1) on the financial forecast approach is the field expertise that I explained earlier that is brought to the table, so if you take a look for instance at the collision side, there you have people that -- that work in this line of business that have a clear understanding or an intimate understanding of the things that drive the costs associated with collision claims, not only the -- the number of claims, but the severity of those claims and the factors that would drive the costs associated with those claims?

MR. WALTER SARANCHUK: And so, ultimately it’s -- there’s that element of management judgment?

MR. BARRY GALENZOSKI: There’s -- there’s I guess judgment in all of them, but in this case it would be the judgment brought about by the level of expertise from the people that work in those areas.

MR. WALTER SARANCHUK: Does that apply to each coverage?

MR. BARRY GALENZOSKI: Yes, it would.

MR. WALTER SARANCHUK: Now, turning to Part C, namely the next page, the table there, which was in response to Part C of Question Number 11 by the Public Utilities Board of the Corporation in the 1st Round.

Can you provide an explanation of the information presented in that attachment, sir?

For example, I’m advised that it reflects the actual experienced year over year changes in frequency, severity and loss costs?

MR. BARRY GALENZOSKI: Yes, so that’s just giving the historical values for -- for instance, if you look at bodily injury, it’s telling you under each of those three (3) methodologies, what the historical differences were, with respect to year over year change.

MR. WALTER SARANCHUK: And does it reflect the difficulty in the forecasting of the results?

MR. BARRY GALENZOSKI: Well, I believe it does, because if you look for instance at the financial forecast approach for bodily injury, you'll see that there's -- it jumps around a fair bit. In '96/97 it was minus twenty-five point nine (25.9) and then plus twenty-nine point-o-eight (29.08) for '97/98 under frequency. And severity has moved minus six (6) to minus 30 percent. So, you'll see some different -- it does demonstrate the difficulty of estimating.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So, looking at the focus -- or again, just focussing on the loss cost trends, how should the Board interpret the selected financial forecast trend for accident benefits weekly indemnity from Attachment A at 4.51 percent, compared to the recent history shown in Part C, with the decline from 11.6 percent to 2.46 percent over the last six (6) years?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: I think if you're looking at the Chart C -- Part C here, you're seeing that there is some -- some volatility with the numbers, however, if you would average them out over a -- a number of years, it would probably come out to around that 4 percent that's shown on the previous schedule.

MR. WALTER SARANCHUK: So the declining -- the trend to -- the decline that is shown in Part C for weekly indemnity, is not expected to continue?

MR. BARRY GALENZOSKI: No, this is just demonstrating the change year over year.

MR. WALTER SARANCHUK: Which has declined from 11.16 percent through to 2.46 percent?

MR. BARRY GALENZOSKI: Right, but it is a -- you know, it's showing a decline, but it's -- it's -- it's year-over-year decline. It's not just one (1) big decline.

MR. WALTER SARANCHUK: So, in the end result, you're not expecting it to continue?

MR. BARRY GALENZOSKI: That's right.

MR. WALTER SARANCHUK: And for Accident Benefits, Other, there's a selection of 4.13 percent in Tab A versus a recent history ranging from 2.65 percent to 10.62 percent over four (4) years, averaging 7.6 percent; is that correct?

MR. BARRY GALENZOSKI: Subject to check, yes.

MR. WALTER SARANCHUK: And for Comprehensive, there was an original selection of 6.19 percent on Tab -- Part A, versus a recent history ranging from minus 36.1 percent to plus 60 percent -- 60.28 percent over five (5) years, averaging 12.4 percent. This is for Comprehensive.

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

MR. WALTER SARANCHUK: Okay.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Given that kind of a history under Comprehensive, what can you tell the Board in terms of its -- placing reliance on the 6.19 percent in Part A?

MR. BARRY GALENZOSKI: I think you have to understand what underlies the numbers and when you look at the historical numbers shown on Part C, you'll see that in '01/'02 there was a 60.28 percent change and that would have been reflective of the change in deductible on the glass claims so we saw a lot more glass claims and then there was also the hailstorm in '01.

And the -- also, if you -- if you also take a look at '96/'97, we had a hailstorm so there they're showing a 96.24 percent. There were twenty-four thousand (24,000) hail claims come in that year.

MR. WALTER SARANCHUK: Well, what happened in '02/'03 showing a minus thirty-six point one (36.1)?

MR. BARRY GALENZOSKI: Right, well that -- year over year comparison and so if you have the big increase, you're bound to see the decrease in the following year. You'll notice the same thing happened in '97/'98. In '96/'97 it was 96.24 percent increase, the following year, minus fifty-four point two one (54.21).

MR. WALTER SARANCHUK: So, in dealing with the exponential trend shown in Part A, how do you deal with losses such as hailstorms?

MR. BARRY GALENZOSKI: Well, we don't -- we don't budget for -- we're not budgeting for hail loss on an ongoing basis so we smooth out any of the actual occurrences that we've seen over our history.

MR. WALTER SARANCHUK: Thank you, Mr. Galenzoski.

I'll now be proceeding with the --

MS. DENYSE COTE: Walter, before --

MR. WALTER SARANCHUK: Sorry.

MS. DENYSE COTE: -- perhaps before you leave that table, in the weekly indemnity of financial forecast approach, you had said one (1) of the reasons that there was such a big difference -- I think it was 2000/2001 was because of the introduction of RIB. Wouldn't we see it in these -- in these percentages? Wouldn't it show up there, too?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: The impact is spread for that particular situation. You're seeing each of the years shown as separately. So, when we actually had to have the big boost in the claims provisions because of the RIB benefit coming in it would have been spread back to the years where the claims actually occurred and not just show up in the one year.

MR. WALTER SARANCHUK: Yes, I'll now proceed with an entirely different topic and that is the rate stabilization reserve or the RSR. And I'll be dealing with TI-16, TI-17 primarily. That's at Tabs 5 and 6 in the Book of Documents. And that of course is with respect to the RSR schedules there.

Before we get to those, just by way of background, in the annual report of the Corporation overall at page 35, this is filed at AI-10 in Volume III, Part 2, the stated purpose of the RSR is, quote:

> "The basic insurance RSR relates to the compulsory automobile insurance and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors." End of quote.

Is that correct, Mr. Galnzoski?

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

MR. WALTER SARANCHUK: And can you confirm that there’s been no change in the purpose of the RSR over the years?

MR. BARRY GALENZOSKI: I can confirm that.

MR. WALTER SARANCHUK: And in it’s Order 179/’01, the Board reaffirmed its target for the RSR at a range of 50 million to $80 million?

MR. BARRY GALENZOSKI: I’ll accept that.

MR. WALTER SARANCHUK: That is the Public Utilities Board did?

MR. BARRY GALENZOSKI: Yes, I accept that.

MR. WALTER SARANCHUK: And the corporation’s RSR target range of course is 80 million to $100 million?

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

MR. WALTER SARANCHUK: At Tab 5, namely TI-16, at the end of 2003/’04, the RSR is $42.7 million after a net income of $3.35 million and a transfer of $4 billion from SRE; is that correct?

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

MR. WALTER SARANCHUK: And with the current application 2004/’05, the RSR is forecast to be $67.4 million taking into account a $9.3 million loss, a $29.6 billion transfer from RS -- sorry, SRE and a transfer of $4.5 million from extension; is that correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: And that forecasted amount is the figure of sixty-seven thousand three hundred and fifty-nine (67,359)-- sixty-seven million three hundred and fifty-nine thousand dollars ($67,359,000) at the end of this current year. And you would agree that that's within the PUB's range of fifty (50) to $80 million but under the Corporation's range of eighty (80) to $100 million?

MR. BARRY GALENZOSKI: Yes, I would.

MR. WALTER SARANCHUK: Now, in response to a question by CAC/MSOS Number 24 on the 2nd Round of interrogatories, the Corporation filed a DCAT or Dynamic Capital Adequacy Test, report if you will, and I wonder if you'd just refer to that briefly, please.

This is the Corporation's response to CAC/MSOS/MPI-2-24 and it's not in the Book of Documents.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: I have that.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, at the outset, I wonder, sir, if you'd be good enough to read in the

Corporation's Response to that particular Interrogatory by CAC/MSOS Question Number 24 in the 2nd Round of Irs or Interrogatories; the question being:

"How does MPI determine that there is no change to the Company's risk exposure, and there is no need to update the risk analysis?"

MR. BARRY GALENZOSKI: The Response to CAC/MSOS/MPI-2-24:

"Please refer to the transcript for the 2004 MPI General Rate Application, page 375, lines 16 to 19, where it is indicated by Mr. Zacharias, that the Corporation did not intend to update the Risk Analysis Report. In its place, the Corporation uses the Dynamic Capital Adequacy Test, DCAT, to assess risk. The basic DCAT report for the last fiscal year was filed just prior to the start of the 2004/'05 Hearings.

The report for the current fiscal year is just being completed by the Corporation's external actuary, and will be made available prior to the beginning of the 2005/'06 Hearings."

MR. WALTER SARANCHUK: Thank you. I wonder if you would turn to page 8 of the actual report that was filed as an attachment there -- subsequently filed and the reference to the principle goal of DCAT as shown at the beginning of the second paragraph, where it's indicated as follows, quote:

> "The principle goal of DCAT is to help measure capital adequacy, by arming the Company with the best information on courses of events that may lead to capital depletion, and the relative effectiveness of alternative corrective actions." End of quote.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, with reference to that, I wonder if you would take a look at the minimum capital test aspect of the report, mainly a risk, as I understand it, the MCT or Minimum Capital Test being a risk based measure of financial strength, and can you confirm that the Federal Regulatory Minimum Capital Test ratio is a 150 percent; that is the capital available over the capital required?

MR. BARRY GALENZOSKI: That's a 150 -- that's the OSSFI score, that's the Office of the Superintendent of a Financial Institution score that requires insurance companies -- P&C insurance companies to have a minimum of a 150 percent of the Minimum Capital Test, that's determined through the actuarial process, as their requirement to stay in business.

MR. WALTER SARANCHUK: And the reference to Minimum Capital Test is at page 22 of the report, where it's stated in the first sentence that the, quote:

"The Minimum Capital Test or MCT is a measure of financial strength that was officially implemented by Canadian Insurance Regulators and insurance companies on January 1, 2003. The MCT has two (2) major components, the amount of capital available and the amount of capital required." End of quote.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Thereafter it's:

"There's reference to the fact that the Federal insurance regulator --"

And I take it that's OSSFI:

"-- has indicated that although companies should have a ratio greater than 100

percent, they will expect companies to
achieve an MCT result of at least a 150
percent at all times. And therefore the
achievement of a 100 percent margin on
the MCT will generally be regarded as a
minimum level of capitalization."

MR. BARRY GALENZOSKI: Just one (1) correction. I think you said 100 percent and they're saying 150 percent.

MR. WALTER SARANCHUK: Yes, I thought I said that, quote:

"The Federal Insurance Regulators indicated
that although companies should have a ratio
greater than 100 percent, they will expect
companies to achieve an MCT result of at
least 150 percent at all times." End of
quote.

That's what you're referring to, sir?

MR. BARRY GALENZOSKI: No, the next line you read in.

MR. WALTER SARANCHUK: It reads as follows:

"Therefore achieving a 150 percent margin
on the MCT will generally be regarded as a
minimum level of capitalization." End of
quote.

Is that what you're referring to?

MR. BARRY GALENZOSKI: Yes, that was it.

MR. WALTER SARANCHUK: Okay. Thank you. Now, how relevant is this DCAT report insofar as the MPI as a Crown Corporation monopoly goes?

MR. BARRY GALENZOSKI: Well, we think it's relevant from the term -- from the point of measuring risk, that the Corporation faces, it would be used directionally to provide us with information as to the level of RSR that we could potentially have for the future.

MR. WALTER SARANCHUK: What about the relevance of the MCT or Minimum Capital Test for the Corporation?

MR. BARRY GALENZOSKI: Well, it's part of the DCAT process -- an integral part, by the way -- so we think it's a very important component of DCAT and allows a -- a systematic way of looking at the Corporation and determining the various scenarios that are used by the actuary to come up with the DCAT analysis and therefore measure of risk in the Corporation.

MR. WALTER SARANCHUK: I guess the question is whether or not the 150 percent level is relevant to MPI.

MR. BARRY GALENZOSKI: No, we don't believe that the 150 percent is relevant to MPI. We believe that we're going to settle for a number that's somewhat below that, but it does provide us with a way of measuring risk in the Corporation similar to what other companies in our situation are doing and it is sanctioned by the Federal Regulator and we therefore think it's far superior to the homegrown method that we had in place previous to this.

MR. WALTER SARANCHUK: Yes, and in light of those last few answers, sir, I would refer you to page 2 of the report, namely the Executive Summary in the last paragraph, the penultimate sentence which says, quote:

> "Because MPI can establish MPI basic premium levels subject to PUB approval, in essentially a monopoly situation, the levels of RSR that OSSFI tests require are not necessarily appropriate for MPI basic."
> End of quote.

Can you comment on that?

MR. BARRY GALENZOSKI: Certainly. I -- we agree with that. We believe that it isn't necessary to be at the -- the MCT minimum levels -- that's 150 percent or necessarily even at the 100 percent level. So, I -- I would suggest -- I would not only suggest, but I do agree with this statement.

MR. WALTER SARANCHUK: And in terms of the scope of the DCAT process, mainly the development of a base scenario based on MPI's business plan and secondly a testing of several plausible adverse scenarios and their impact on the RSR, can you confirm that the scenarios include consideration of transfers to the RSR from extension and SRE?

MR. BARRY GALENZOSKI: Yes, that's built into our business plan and -- to the extent that it's built into the business plan, it considers that.

MR. WALTER SARANCHUK: And does it also consider the question of re-insurance?

MR. BARRY GALENZOSKI: Yes, it considers re-insurance.

MR. WALTER SARANCHUK: And can you confirm that the base scenario does not exactly correspond with the current Application before the Board?

MR. BARRY GALENZOSKI: Well, I guess you'd have to tell me where you think it doesn't confirm.

MR. WALTER SARANCHUK: Well, are the -- are the differences in the net income levels, for example, important to understanding and interpreting the -- the conclusions drawn? And I'm referred to page 7 of the report, for example.

MR. BARRY GALENZOSKI: Page 7 is the table. It shows results in millions of dollars. Yeah, those are -- those parts of that are going to -- you know, this is the business plan that they were looking at, and you're going to see there's going to be deviation from that.

Just as there -- for instance, were projecting that there’s a deviation from the contribution from the extension and SRE lines of business, that are going to help increase the level of RSR for the current fiscal year.

So, there’s always going to be some level of change, this report actually contemplates much more radical levels of change, and -- and stress tests the -- the risk analysis with respect to our ability to deal with that.

MR. WALTER SARANCHUK: Just comparing the table on page 7, to TI-16 at Tab 5, and the RSR projected balance at the end of the current -- the current insurance year, namely as at February 2005, the DCAT refers to a balance of $56 million, while the forecast in TI-16 is some $11 million over and above that.

MR. BARRY GALENZOSKI: I would suggest to you that that wouldn’t be a material factor.

MR. WALTER SARANCHUK: Yes, thank you, sir. Now, in terms of the conclusion of the DCAT Report...

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Namely on page 2 in the Executive Summary, in the second last paragraph, the last sentence there states, quote:

"Consequently, we have concluded that the

future financial condition of MPI Basic is
not satisfactory."

End of quote.

At page 3 in particular, in terms of a definition of satisfactory financial condition, under each plausible adverse scenario, it's indicated:

"The RSR can be reasonably restored to a
minimum target level within five (5)
years."

Can you confirm that the target level reference there is the Public Utilities Board $50 million minimum level?

MR. BARRY GALENZOSKI: Yes, I don't believe that that's the Public Utility Board's target level, I believe that's the Corporation's target level of 80 to 100 million.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And I'm just referred to page 2, the last sentence of the Executive Summary in that page where it states, quote:

"Nevertheless, they show the current $50
million target for RSR is well below
industry norms."

End of quote.

So that's one (1) of several references to the target level, and that we're -- I'm suggesting to you that that is the target level that's referred to, or referenced on page 3.

Could you look into that a little more closely?

MR. BARRY GALENZOSKI: Yes, we'll take a look at that, but I believe that this is a comment on the $50 million -- or $50 million target set by the Public Utility Board and not the Corporation's $80 to $100 million target. So that it's more of an editorial comment on that particular target, I believe.

But subject to check, I will come back and we'll confirm that.

MR. WALTER SARANCHUK: Thank you.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And the definition of satisfactory financial condition, as referenced on page 3, differs from that used with Federally registered private insurers with less focus on solvency for MPI's DCAT, is that correct?

MR. BARRY GALENZOSKI: Yes, it's because it's at a much lower level, it obviously would be in that situation.

MR. WALTER SARANCHUK: Does the DCAT Report reach a conclusion about an appropriate target RSR level?

MR. BARRY GALENZOSKI: That's not requested of the DCAT Report that we currently have, but I'm not -- I don't believe that this one made any recommendations regarding DCAT level or RSR level either.

MR. WALTER SARANCHUK: And in terms of a reference to industry norms, is that a factor that would have any relevance to a Crown corporation monopoly?

MR. BARRY GALENZOSKI: We don't believe it would. It's of interest just to know where others are. They're suggesting that there are 214 percent of the MCT rather than at the 150 which is the minimum so the 214 is where most companies are operating at. Some would be higher, some would be lower but we do not believe that that's applicable to MPI.

MR. WALTER SARANCHUK: And what conclusions do you suggest that the Public Utilities Board draw about the target RSR levels from this report?

MR. BARRY GALENZOSKI: I think the reasonable conclusions that can be taken from this is that 50 million is probably not enough and that there has to be another number that we come up with that's somewhat higher. But that we don’t need to go to the minimum MCT.

(LONG PAUSE)

MR. WALTER SARANCHUK: So now, Mr. Galenzoski, in a final analysis, does MPI feel that there is a need for an updated risk analysis so as to benchmark the findings of the DCAT report?

MR. BARRY GALENZOSKI: No, we do not believe that the risk analysis is something that’s appropriate to MPI. We haven’t done it for at least three (3) years and would not have the information to -- I wouldn’t propose doing it again quite frankly.

We believe that we’ll use the DCAT analysis as an indicator of where we should be going with RSR and then have a subsequent discussion at what level that should be added in future years.

MR. WALTER SARANCHUK: And what -- to what extent of -- what is the extent of the reliance on the DCAT process and MPI setting up its target RSR level from $80 million to $100 million.

MR. BARRY GALENZOSKI: So far we’re using it as information just for our Board to understand the level of risk that is out there with respect to rate stabilization reserve requirements for the basic line of insurance.

MR. WALTER SARANCHUK: So at 150 percent, that's too high. Is there a target percentage that MPI utilizes?

MR. BARRY GALENZOSKI: Not yet. We're not going to meet the minimum requirement that we have established and we're not going to exceed the maximum established by the Public Utility Board. If our financial projections are correct, by the end of the fiscal year that's in question for this application. So we're not proposing any change to the RSR target for the coming year.

We have -- our Board has agreed that it should stay in place until at least February of '06 and as a result assuming that all of our financials turn out the way we expect they are, then we'll probably be proposing something. A different target for the year following.

MR. WALTER SARANCHUK: So has the corporation adopted the minimum capital test as a basis for setting its range?

MR. BARRY GALENZOSKI: No it has not.

MR. WALTER SARANCHUK: I'd now like to refer to the rebuilding of the RSR, Rate Stabilization Reserve, by transfers from the special risk extension or SRE and extension transfers. And this is referred to at Tab 31 and 32 in the Book of Documents, namely the Public Utilities Board Interrogatories Number 1 and 2 on the 2nd Round.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, the Corporation has undertaken to implement transfers from its competitive lines, that are in excess of approved targets, to rebuild the RSR, is that correct, Mr. Galenzoski?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And at SM-8.2, in Volume I of the Application, there is reference to that as essentially being the RSR Rebuilding Plan, of the Corporation.

Is that correct?

MR. BARRY GALENZOSKI: Yes, that is.

MR. WALTER SARANCHUK: And in the Annual Report, Note 14, this is an AI-10 at page 42, I don't know if you need to refer to it, but it indicates that annually on March 1st, the Corporation will transfer to the basic RSR, retained earnings in excess of approved target levels established to February 28th, 2005, as follows.

For the SRE, the retained earnings to be at $33 million. For extension, $39 million. Is that correct?

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

MR. WALTER SARANCHUK: Now, in general terms, just how does this mechanism work, this transfer as of March 1st?

MR. BARRY GALENZOSKI: Well, what happens is that we complete our fiscal year, prepare our financial statements. Those statements were audited, and once the financial statements have been finalized through the audit process and we've actually got a sign off on the audit statement and we produce our Annual Report, then we're in a position to declare the exact amount that we're over the retained earning targets for each of the two (2) lines of business that were referenced.

When that has occurred, even if it does physically occur a month or two (2) after the year end, we in effect provide the transfer of the excess funds to the basic, giving them credit for the interest that would have been earned on those funds, as though they had been transferred effective March 1 of that fiscal year.

MR. WALTER SARANCHUK: Yes, and looking at Tab 5, which is TI-16 again. Just -- you can confirm, I'm assuming that SRE transferred over 25.1 million on March 1, 2004, and extension transferred over $4.3 million to Basic, as at that date, is that correct?

MR. BARRY GALENZOSKI: I've got slightly different numbers, transfer from SRE, twenty-nine point six (29.6) and then 4.3 million from extension.

MR. WALTER SARANCHUK: Yes, the numbers that I have got were indicated on the financial statement, and I think there was some explanation as to why there was the difference. Perhaps you can just touch on that, sir?

MR. BARRY GALENZOSKI: Yes, we had a discontinued line of operation, which was funded through the SRE retained earnings, and we've wrapped that into the SRE financial results, and as a result, those retained earnings that were there for that run off, have now been wrapped back into the SRE division, and as of now exceeded the target that we'd established for SRE, that money was also transferred to basic.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So, for 2004/2005, can you confirm that the forecast balances, except for the impact of net income is known?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: And looking at Tab 6, and in particular the last page, for the build up, if you will, of the RSR, through to the end of the outlook period of 2008/2009, can you confirm, sir, the following.

That in 2002/'03, there was a $14.5 million transfer from SRE and a $4 million transfer in 2003/'04 from SRE?

MR. BARRY GALENZOSKI: I can confirm that.

MR. WALTER SARANCHUK: And in terms of the period from this current year of 2004/'05, current insurance year, through to the end of the outlook period. In terms of the totals of the amounts to be transferred from SRE and extension.

And I guess this would be subject to check, would -- on the face of it, would you agree that a total of approximately 33.9 million is to be transferred in 2004/'05, the total of approximately 12 million in 2005/'06, approximately 13.9 million in 2006/'07, approximately 14.3 million in 2007/'08 and $13.4 million in, approximately, to be transferred in 2008/'09?

Would you agree with those, sir?

MR. BARRY GALENZOSKI: Yes, I would.

MR. WALTER SARANCHUK: And do you agree that at the end of the current year, the year which -- that we're in -- the RSR will be at the top end of the Public Utilities Board range of -- at -- namely at $79 million?

MR. BARRY GALENZOSKI: No, I wouldn't. That's the application year. At the end of this current fiscal year we should be at 67.4 million.

MR. WALTER SARANCHUK: I'm sorry, I stand to be corrected. So the -- it's at the end of the year with which we're concerned that you expect to be at the top of the PUB range?

MR. BARRY GALENZOSKI: Close to it, yes.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, last year the Corporation was forecasting annual transfers of approximately $4 million up to 2005/'06 and '06/'07 and $5 million in 2007/'08 from SRE. In this application the SRE transfers from 2005/'06 to 2008/'09 are to be more than $7 million each year.
Is that correct?
MR. BARRY GALENZOSKI: Yes, that's correct.
MR. WALTER SARANCHUK: And last year the Corporation was forecasting annual transfers of 4 million in 2005/'06, 5 million in 2006/'07 and 6 million in 2007/'08 from extension.
Is that correct?
MR. BARRY GALENZOSKI: Yes, I believe that's correct.
MR. WALTER SARANCHUK: And the transfers of extension are now to be $4.5 million in 2005/'06, $6.7 million in 2006/'07 and $7.2 million in 2007/'08.
Is that correct?
MR. BARRY GALENZOSKI: Yes, and in addition in '04/05 we were predicting no transfer and we've

transferred $4.3 million this year.

MR. WALTER SARANCHUK: And what factors have led to the increase, then, in the projections of the transfers for both SRE and extension?

MR. BARRY GALENZOSKI: Well, these are estimates, of course, or projections and this is based on the financial models that we've established for these two (2) lines of business and are expected financial outcomes.

MR. WALTER SARANCHUK: And has the Corporation made any changes internally to meet this additional income to be available from the transfer?

MR. BARRY GALENZOSKI: No, the books of businesses are being managed in their normal course.

MR. WALTER SARANCHUK: And given these changes in the forecast, to what extent can the Public Utilities Board rely on these estimates, sir?

MR. BARRY GALENZOSKI: I think we've discussed this in prior hearings and the Corporation is managing to these results. Obviously things can change that can mean that the results can get better as they did for this -- this current year that we're in, or they could get worse and I think we have to be prepared for that eventuality at some point in time, but we are managing towards these -- these numbers that we're putting before you.

MR. WALTER SARANCHUK: And at Tab 31, there is the Corporation’s response to Question Number 1 of the Public Utilities Board interrogatories in the 2nd round and in Part C, as requested by the Corporation -- by the Public Utilities Board -- there’s a schedule comparing the actual versus the forecast net income for 2000/2001 through to 2003/’04 for SRE and extension as shown on the next page along with a commentary on the reasons for the variances.

Is it correct that on the extension side, the history is a couple of years of losses in 2001/’02, followed by a couple of years of positive results than forecast?

MR. BARRY GALENZOSKI: Yes, that’s correct, and if we would have provided information prior to 2000/2001, the extension would have had a few more years of losses before that.

MR. WALTER SARANCHUK: And are the assumptions and the rigour, if you will, used in establishing the extension and SRE forecasts, essentially the same as those for basic?

MR. BARRY GALENZOSKI: Yes, we answered that in Section B of this particular question. We said the major assumptions and component factors underpinning the SRE and extension net income forecasts for ’04/05 and ’05/06, are essentially the same for all lines of business within the Corporation.

MR. WALTER SARANCHUK: And obviously with no forecasts having been provided on the competitive lines, and with that being the case, that the rebuilding plan is therefore pinned on limited information before the Board, would you agree with that?

MR. BARRY GALENZOSKI: Well, I would agree that there is not a lot of information available. However, the Corporation has demonstrated a track record in the last couple of years, and is now managing these businesses in accordance with a very sound business plan that should deliver the results expected.

MR. WALTER SARANCHUK: Well the Corporation has not provided forecasts for the two (2) competitive lines, has it?

MR. BARRY GALENZOSKI: Well, that's not really true, if you look at the -- the numbers that you see in your RSR forecast, it does tell you the amounts of money expected. You went through those in some detail just a few minutes ago, and that went out to I think '06 -- '07/08.

MR. WALTER SARANCHUK: So, those are the forecasts that the Corporation is asking that the Public Utilities Board rely on, in considering the future transfers from the competitive lines?

MR. BARRY GALENZOSKI: Well, they're projections for the -- for the future years, we're only applying for one (1) year's rates right now. So we're really relying on next year’s forecast.

MR. WALTER SARANCHUK: What weight do you suggest that the Board give to those forecasts on the extension and SRE side then, through to the end of the outlook period?

MR. BARRY GALENZOSKI: I think they can accept them as fact, and -- and give it -- give it that strong weighting. In other words, they should expect that the Corporation will deliver those returns until we can -- it either does better or worse, but I would accept it on its face value.

I think if I could just broaden on that answer a little bit. The Corporation has indicated that it -- it provides the same level of rigour to the forecasting process, with respect to those two (2) lines of business as it does for the basic. And this -- these lines are smaller in nature than the basic line of business. We think they’re less volatile by their very nature, and we put high reliance on the estimates that we put forward.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So you would agree though then, that you have provided the net income forecasts, but for the competitive lines of business, but there’s really nothing that has been provided, enabling this Board to test the calculation or prognostication, leading to those net income forecasts?

MR. BARRY GALENZOSKI: Well, I would agree with that. I don't know if there would be any reason for the Board to get into that very deeply. We're within the Board's target for RSR.

I believe that as long as we can demonstrate that the basic line of business is on a break even basis, the rates are adequate to meet our expected future costs. And that if we have some contribution to the RSR from these two (2) extension lines of business, that should be a satisfactory outcome for all concerned.

MR. WALTER SARANCHUK: So in the final analysis, just to conclude on this particular line of questioning. With reference to Tab 6, and the statement of basic insurance RSR, what you're asking the Public Utilities Board to do for the forecasts and the projections from 2004/'05, on the transfers from SRE and extension, through to the end of the insurance year, 2008/2009, is to accept that information as fact?

MR. BARRY GALENZOSKI: Well, I think you can accept as fact, the numbers that are there for '04/05, because those transfers, I can testify, have been made.

So the $29.6 million from the SRE and the $4.3

million from extension are in place right now in the RSR. We're only applying for one (1) year, that's for the '05/06, so we're asking that you accept those projections as being a fact, and the rest of the information is provided for information.

MR. WALTER SARANCHUK: Well, I don't mean to argue with you, but with all due respect, sir, how can you ask this Board to accept those prognostications as fact, when you haven't asked this Board to accept any of your forecasts as fact in any other area, and now you're asking this Board to accept as fact, these projections for the SRE and extension transfers?

MR. BARRY GALENZOSKI: Okay, I'll stand corrected on that. Then I would ask them to accept them as -- as projections, for that -- the '05/06 year, and stop it at that point.

MR. WALTER SARANCHUK: Thank you. And of course we know the Corporation's response, relative to the Public Utilities Board request for its plan to rebuild the RSR and that has been addressed in SM-8.2 by use of the transfers from extension, and SRE.

But the DCAT Study indicated that there may be a need for dedicated surcharges to rebuild the RSR, and it referred to surcharge in the order of 3 percent.

Do you recall that, sir?

MR. BARRY GALENZOSKI: Yes, that's some of the -- the scenarios that were prepared by the actuary that prepared that document. And we've indicated to the actuary that in the past we've had surcharges ranging from 1 to 2 percent, on a -- on an annual basis, and then some of those have been compounded, so in other words, they added up. And in fact, the highest we got was a total of 5 percent.

So, he was using the -- the number of up to 3 percent, thinking that if you got into very serious financial difficulty, there might be some malleability to move the number from what we've seen in the past as being 2 percent a year, up to 3 percent. And we thought that was a plausible scenario, and we allowed that to stay in the report.

MR. WALTER SARANCHUK: So, can I conclude from that, that the Corporation doesn't reject out of hand, the possible requirement somewhere down the line, if need be, for dedicated RSR surcharges to be implemented?

MR. BARRY GALENZOSKI: No, we do not.

MR. WALTER SARANCHUK: Can -- can you give any indication as to what circumstances would lead the Corporation to consider implementing a dedicated surcharge?

MR. BARRY GALENZOSKI: A dedicated surcharge may be necessary, if the financial plan that we were putting forward indicated that due to results that we had that were negative and we run down the RSR to an unacceptably low level, and were unable to show that we thought we'd be able to build it through replenishment by simply transferring excess retained earnings from SRE and extension, that we may need to have an RSR rebuilding plan.

It's the second line of defence, in our opinion, but it is still there.

MR. WALTER SARANCHUK: And as I recall, the first line of defence, namely the extension and SRE transfers, were to be -- or -- the first line of defence is to be implemented over a period of five (5) years, is that correct?

MR. BARRY GALENZOSKI: Well, yes, all of this would be looking at it over a longer time period, likely a five (5) year time period is what we'd look at. And I guess it would really depend on how deep you got into the glue on -- on the loss side.

If you ended up being negative retained earnings or negative RSR, that may change the scenario, compared to say being down to $10 million in RSR.

You know, I'm just throwing numbers out at the moment, but -- so, it would really depend on the circumstances, but I think what we're clearly indicating is our preferred method of rebuilding the RSRs through the transfers from extension and SRE.

And if that wasn't sufficient, then the RSR surcharge would be the next thing that we would want to take a look at.

MR. WALTER SARANCHUK: And I don't want to dwell on hypothetics -- a hypothetical situation, but if after five (5) years the RSR level is outside the corporation's RSR target range, of 80 to $100 million, but withing the Public Utilities Board target range of $50 million to $80 million, would MPI move to the second line of defence?

MR. BARRY GALENZOSKI: Well we haven't so far.

MR. WALTER SARANCHUK: Could you just answer the question?

MR. BARRY GALENZOSKI: It's very hypothetical and I think I'll leave the hypothetical situations to when they become something that's reality.

MR. WALTER SARANCHUK: Thank you, sir. Now turning to the concept or the Public Utilities Board consideration of the over well -- overall wellness of the corporation.

At Tab 8 there is a revised AI-13 filed, dealing with the retained earnings of the corporation. And we know that in order 179/01 at page 51, the Board indicated that it continues to consider the overall financial strength of the corporation for rate setting purposes.

In terms of the RSR balances, the projection -- or the balance as at 2003/'04 for the basic RSR came in at $42.8 million. Is that correct?

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

MR. WALTER SARANCHUK: And that was after a net income of $3.3 million and a transfer of $4 million from SRE?

MR. BARRY GALENZOSKI: Yes. Keeping in mind that that $4 million from SRE came from the previous year.

MR. WALTER SARANCHUK: Yes. And for 2003/'04 the retained earnings for extension is $43.3 million for a total -- I'm sorry, and $58 million for SRE.

So that the combined RSR with the basic insurance of 42.7 is $144.1 million subject to check, do you agree?

MR. BARRY GALENZOSKI: Yes, I agree.

MR. WALTER SARANCHUK: Now looking at the columns for the current year, 2004/'05, the result appears that with $43. -- I'm sorry, with a $67.4 million balance on the basic side and a $43.6 million balance on the extension side and a $40.5 million balance on the SRE side, that the total would be approximately $151 million subject to check, do you agree with that?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And in the year with which we are concerned in this application, taking into account a $79 million balance projected for the RSR on the basic side and a $45.7 million balance projected on the extension side and a $40.2 million balance projected for SRE that the overall total of retained earnings for the corporation would be $165 million approximately, subject to check.

MR. BARRY GALENZOSKI: Yes, I agree.

MR. WALTER SARANCHUK: Would that suggest that the overall financial strength of the corporation is increasing?

MR. BARRY GALENZOSKI: Well if you look at it, the overall financial strength of the basic line is increasing, not necessarily the other two (2) lines because we've -- we've maxed out the retained earnings that they can hold.

And I think what you're -- what we're getting at here is that we tend to agree that the overall financial strength of the corporation's important because of either those two (2)lines became weak it would start to take away from the transfers to the rate stabilization reserve.

But recognizing that the transfers are occurring, that is the transfer of that strength that's built into the rest of the organization to the basic line of business. And that's left with them in their retained earnings, or in their RSR.

And the fact that it’s a one (1) way transfer, basic cannot come to the rescue of these other two (2) lines further indicates that the financial strength of the Corporation has been directed towards the basic line of business.

MR. WALTER SARANCHUK: Yes, and insofar as the extension and SRE balances are concerned, going for the -- as they pertain to the projections for the current year and next year, those are sufficient according to the targets that you were looking to come into play. Correct?

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

MR. WALTER SARANCHUK: Now, looking at Tab 10 of the Book of Documents, this is the information filed by the Corporation in response to Question Number 3 of the Public Utilities Board on the 1st round of Interrogatories.

And in particular I would draw your attention to the RSR schedules for each of the following scenarios, namely a 1 percent vehicle premium increase for 2005/’06, a one and a half (1-1/2) percent vehicle premium increase for 2005/’06 and a 2 percent vehicle premium increase for 2005/’06; within each of those instances a 0 percent increase for 2006/’07 and ’07/08.

So, in terms of the impact of those increases, if we can then turn to the first, if you will, RSR statement reflecting the impact of a 1 percent increase, it can be seen then that for the year with which we are concerned, namely 2005/'06, the RSR balance is at $84.7 million.

Is that correct?

MR. BARRY GALENZOSKI: Yes, it is.

MR. WALTER SARANCHUK: And then taking this beyond the year with which we are concerned through to the end of the outlook period, we would be looking at 105 million in 2006/'07, 130 million in '07/08 and 157 million in '08/09.

Is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And of course, those figures are to be compared with the information provided as the RSR, the balances in TAB 6, referring to the current application.

So that for 2005/'06, according to the information filed in support of the current application, there would have been -- there's expected to be a $79 million balance in the RSR on the basic side, but if we had a 1 percent increase, that would be $84.7 million in the -- according to what is shown in Tab 10.

Is that correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: Then keeping your finger on the RSR balances shown in Tab 6 for 2006/'07 through to the end of 2008/'09, and I guess also the year 2005/'06 -- the one with which we are concerned -- using a 1.5 percent rate increase, we are looking at balances of some 87.5 million in 2005/'06, 111 million in '06/07, 139 million in '07/08 and 170 million in 2008/'09.

Is that correct?

MR. BARRY GALENZOSKI: Yes, it is.

MR. WALTER SARANCHUK: And then just carrying that further through to the next couple of pages and the impact of a 2 percent rate increase, then we talk in terms of a projected RSR balance of some 90 million in 2005/'06, 117 million in '06/'07, 148 million in 2007 and 182.7 million in 2008/'09; is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: Thank you.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And so that, with particular reference to AI-13 for the outlook period of -- I'm sorry for the outlook for the year with which we are concerned, the 2005/'06, in -- looking at the overall financial wellness of the Corporation, and comparing the balances for 2005/'06, taking into account the 1 percent, 1 1/2 percent and 2 percent rate increases, that if one calculates out the overall retained earnings of the Corporation, combining the RSR for extension at SRE, it would appear that the Corporation in terms of overall financial wellness would be sitting pretty if those results were to pan out. Do you agree?

MR. BARRY GALENZOSKI: Yes, I would agree.

MR. WALTER SARANCHUK: I have no further questions on the RSR. Unless the Panel has some further questions, I intend to move on to another area of cross-examination, Mr. Chairman.

THE CHAIRPERSON: Not right now. Why don't we take our break. Then we'll come at 3:00 or 3:02 or something.

MR. WALTER SARANCHUK: Thank you, sir.

--- Upon recessing at 2:50 p.m.
--- Upon resuming at 3:11 p.m.

THE CHAIRPERSON: Mr. Saranchuk, we wait with baited breath.

MR. WALTER SARANCHUK: Thank you, sir. I am waiting...

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Dealing now with

dealer plates. This is dealt -- this is covered at the pre-filed testimony of Ms. McLaren at pages 5 and 6 in Volume I.

Ms. McLaren, can you describe what are the characteristics that make dealer plates different from other categories?

MS. MARILYN MCLAREN: With all other categories, there's a direct relationship between one (1) specific vehicle and a policy and a license plate.

The dealer registration is able to be moved at will, on the part of the plate owner, or on the part of the dealer, from vehicle to vehicle. There's no direct relationship between one (1) vehicle and a dealer plate.

MR. WALTER SARANCHUK: And by way of rough guess, how many dealer plates are there out there, are we talking thousands, are we talking hundreds, what?

MS. MARILYN MCLAREN: Thousands, fewer than ten thousand (10,000), I believe it's somewhere around four (4) or five thousand (5,000).

MR. WALTER SARANCHUK: And the average premium increase, as I understand it, for a dealer plate, in 2005, and the reference that I had here is MUCDA Interrogatory Number 15 in the 1st Round, and it's not in the book. But the information that I have from that is that in terms of the average premium increase for a dealer plate for all uses, appears to be approximately two hundred and sixteen dollars ($216), for motorcycles a hundred and twenty-eight dollars ($128) and for trailers and mopeds it's forty dollars ($40). Does that sound right?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: And dealer plates provide coverage to all passenger vehicles, and therefore receive only experience based rate adjustments, and do not receive CLEAR adjustments, or other rate group adjustments; is that correct?

MS. MARILYN MCLAREN: Yes, that's right, because they're not assigned to a specific vehicle, they can't receive rate group or other CLEAR adjustments.

MR. WALTER SARANCHUK: And what factors underlie the major increase in the experience indicated for dealer plates?

MS. MARILYN MCLAREN: For this particular class this year, it's related to the fact that we found a data error, whereby many dealer claims had not been included as part of the historical claims experience in the dealer insurance use.

MR. WALTER SARANCHUK: Where were they included?

MS. MARILYN MCLAREN: They were included in the unallocated claims costs.

MR. WALTER SARANCHUK: And how were those unallocated claims costs distributed amongst the major classes?

MS. MARILYN MCLAREN: According to each major class' relationship to the vehicle pool as a whole. So, therefore, the private passenger class would have received the vast majority of those claims costs, with the other smaller groups receiving proportionately smaller allocations.

THE CHAIRPERSON: Would that include a charge against the motorcycle group too?

MS. MARILYN MCLAREN: Yes.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: In any given year, how many -- how much of these -- what would be the magnitude of these unallocated claim costs, and what does this adjustment do in that regard?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I can refer you to MUCDA/MPI-1-1, which indicates there were about two thousand (2,000) dealer all uses, except motorcycle claims, over the five (5) year period.

MR. WALTER SARANCHUK: The actuarially indicated rate increase for dealer plates, as I understand it, is from 23 percent to 36 percent?

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

MR. WALTER SARANCHUK: And the Corporation is applying for rate increase of 20 percent to 25 percent which is higher than the traditional experience rate adjustment limit of 15 percent, is that correct?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: And the rationale behind that is or was given by the Corporation in response to the Public Utilities Board question number 1 in the 1st Round as being as follows; quote:

> "Dealer Plates. This classification has been undercharged historically due to the data anomaly discussed. Rather than continuing the cross-subsidization for a longer period as would be the case if the 15 percent rule were followed the corporation deemed that that larger increase is justified to lessen the impact on all other classes."

End of quote.

Could you just elaborate on that, please? In other words why --

MS. MARILYN MCLAREN: Chapter 15 --

MR. WALTER SARANCHUK: -- in other words why not limit the 15 percent and phase it in over two (2) years?

MS. MARILYN MCLAREN: Well it wouldn't have phased in over two (2) years. With the approach that we've taken we think we'll there in two (2) years. At the 15 percent level it would have -- it would have taken longer than that; not in every territory but certainly overall.

And in meantime you continue to require other groups to subsidize that. It's a different issue whether we -- different discussion in terms of which other group subsidizes it, but we really wanted to -- because it is based on solid historical information, we've now corrected the error, we'll continue to have it corrected on a go forward basis. We thought it made sense to fix it in a shorter time period as opposed to a longer time period.

MR. WALTER SARANCHUK: So that's a little bit different than the treatment of motorcycles for example?

MS. MARILYN MCLAREN: Well, I mean, we did ask for an overall 20 percent increase for motorcycles last year because of the historic insufficiency of their rates. But because this was a very defined problem that's been going on for five (5) years, we thought it made good sense to fix it with the way that we've asked to fix it.

MR. WALTER SARANCHUK: So essentially there's an element of management judgment as to when to apply the 15 percent rule and when not to?

MS. MARILYN MCLAREN: I think that's fair, sure.

MR. WALTER SARANCHUK: And is it a fact that the proposal not to recover the full experience adjustment from dealer plates will result in a revenue requirement shortfall?

MS. MARILYN MCLAREN: A revenue requirement shortfall from dealers? Yes. But not corporately because we're asking the other -- other categories to chip in.

MR. WALTER SARANCHUK: Well would that shortfall relate to the commercial class?

MS. MARILYN MCLAREN: We've, at -- we've proposed that the shortfall would apply to all classes, not the commercial class for the specific reasons.

MR. WALTER SARANCHUK: So it's the overall insurance pool including commercial?

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

THE CHAIRPERSON: I thought -- didn't you just say you're excluding the commercial class?

MS. MARILYN MCLAREN: No, we didn't exclude the commercial class. They just received a much smaller portion as opposed to receiving all of it. They -- the commercial class is a small group.

MR. WALTER SARANCHUK: I would refer you, Ms. McLaren, to Tab 20 in the Book of Documents and this is the

Corporation’s response to the Public Utilities Board question number 35 in the 1st Round of Interrogatories

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And in particular the last page with the table being the attachment filed for parts C, D, and E of that Interrogatory.

And those parts C, D, and E asked for the requested revenue adjustment by major use, firstly:

"If the proposed dealer plate adjustments were assigned to commercial class only. If the actuarially indicated dealer plate adjustments of 23 to 36 percent were assigned to the commercial class only ..."

That’s the second scenario, and the last scenario:

"If the actuarially indicated dealer plate adjustments of 23 to 36 percent were assigned to the overall insurance pool."

Just with reference to the second column from the far left and the number of vehicles. Under the private passenger, we’re talking about six hundred (600) -- approximately six hundred and forty-two thousand (642,000) vehicles, as compared to approximately forty-two thousand

(42,000) of commercial vehicles?

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

MR. WALTER SARANCHUK: And in terms of the rate impact, with the three (3) scenarios that I mentioned, I wonder if you would just go through the columns, and in particular, let’s look at the commercial class, and the impact of the premium percent change in the scenarios of C, D and E, shown in that table, where the premium change for C is 9.7, for D it’s 9.7 and for E it’s 1.47 percent, as I understand it.

So, with reference to those, could you please explain what is reflected in this table?

MS. MARILYN MCLAREN: The applied for premium adjustments is the impact of what we’ve asked for in the rate application before this Board. The next column, Applied for Premiums with Adjustments Assigned to the Commercial Use Only, shows the impact if we had not proposed the special treatment whereby all other vehicles chip in for this dealer shortfall, showing that the commercial class as a whole would need that 9.7 percent increase.

And within -- within that, there were many categories of insurance uses in the commercial class, that would have received the full 15 percent maximum increase, because of this.

Generally speaking, the commercial class has lower premiums than premiums overall and premiums in -- in the private passenger class, particularly.

The artisan trucks, for example, have lower premiums than -- than some of the other private passenger vehicles, for example. Heavy farm trucks have low rates, generally speaking.

So, in order to compensate for the shortfall in the dealer class, you'd have a number of vehicle owners with relatively low premiums getting hit with a very -- you know, the maximum 15 percent increase, to compensate for the dealers; that's why we didn't take the approach shown in C.

The effect is the same in column D, because these are really the -- the indicated adjustments, so they'll sit at 9.7, even if you go with the -- with the full weight into the dealer class. Nine point seven (9.7) percent increase overall is what's required, and in this scenario it would come -- if we hit the dealers with the indicated increase, basically the full 9.7 percent increase to the commercial class would all be paid by dealers. That's what's really shown in D.

And in E, if we went for the full indicated increase, but had everyone chip in, which is basically the applied for, in the first column, sort of taken to the max of the requirement, you see that overall, the -- the increases are mitigated somewhat.

MR. WALTER SARANCHUK: So does that mean that in two (2), three (3), four (4) years, all of this will be on the commercial vehicles?

MS. MARILYN MCLAREN: Well, because we've identified the error, and you know, the maximum impact on any particular insurance use territory in the dealer insurance uses would be 36 percent. We expect that by going for 25 percent for them this year, the 11 percent will be handled within normal procedures next year, and so we should be there in two (2) years. The dealers should therefore fully fund their own losses as of next year.

So, we're not -- we're not predicting that next year we will impact other commercial vehicle owners like we didn't want to do this year, no.

MR. WALTER SARANCHUK: And can you confirm, Ms. McLaren, that the adjustment regarding dealer plates is basically situation specific, and is therefore a one (1) time adjustment, that is not to be repeated next year?

MS. MARILYN MCLAREN: Yes.

THE CHAIRPERSON: If I could just ask one (1) follow up question.

So, if I understand you properly in D, it would amount to the full what you're proposing over two (2) years, happening in one (1) year, and just hitting the -- the dealers themselves, it would leave those artisan trucks and everything alone, by taking that approach.

So, in that case the dealers would take a -- a hike of what -- about 45 percent or something?

MS. MARILYN MCLAREN: The maximum would be 36 percent. I think it would range between about twenty-seven (27) and 36 percent in one (1) year.

THE CHAIRPERSON: Do you look at the maximum impact on one (1) individual company at all?

MS. MARILYN MCLAREN: No. No.

THE CHAIRPERSON: You don't go down to that level of detail, so you don't know taking that approach, what the maximum hit on one (1) company would be?

MS. MARILYN MCLAREN: No. And the reason that we don't look at it from that point of view -- I think there -- we -- we basically, I think, have an assumption that a company with fifty (50) dealer plates would have fifty (50) times more capacity to handle an increase than a small guy with one (1) dealer plate, so the dollar impact on a company basis, I'm not sure is reflective of their ability to withstand particular increases.

THE CHAIRPERSON: I was just thinking that in the commercial class the -- the increase would be, in a sense, tax deductible, so I was just wondering what the maximum hit on one (1) particular organization would be if this "D" (phonetic) was applied.

MS. MARILYN MCLAREN: And we didn't do that analysis.

MR. WALTER SARANCHUK: Those are all the questions that we have on dealer plates, Mr. Chairman, and unless the other Panel Members or you have some further questions on that particular area, we intend to move on to another area.

THE CHAIRPERSON: I just had one (1) other question on this. Did your research come about as a result of, I think it was, last year's intervention of the Truck Rental Association or -- I can't remember the exact name?

MS. MARILYN MCLAREN: No.

MS. DENYSE COTE: Could it have come about because of the loss transfer question last year? Because if I remember, the commercial class, with the loss transfer, their -- they would have -- they would -- they're underpaying in that -- well I have this vision of a table that you produced last year.

MS. MARILYN MCLAREN: Yeah. I think the commercial and the public classes would have seen the biggest swings under that loss transfer scenario.

MS. DENYSE COTE: Hmm hmm.

MS. MARILYN MCLAREN: But, just give me one (1) second.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: At some point during last year's proceedings and I -- and we don't remember anymore what exact question drew to our attention that it was something that we couldn't balance properly, so after the hearings we went back and did more research and we found that this is actually a problem that was created during the conversion to the new claims system back around the year 1999/2000, so it had been in place since then.

It was -- because these dealer plates are not associated to a vehicle, we have to identify sort of a --a dummy vehicle number when we have plate numbers and that process didn't happen through the conversion to the new computer system.

THE CHAIRPERSON: After you clean out this charge, if you like, against that account that you were putting it all in, is there anything left in that account that's material?

MS. MARILYN MCLAREN: Again, just give me a minute, please.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: About the only thing left in that pool that wouldn't be allocated somewhere would be claims and -- and I guess, often -- mostly injury claims where the vehicle was unidentified and because it's unidentified we put them in that pool and then everyone shares the cost.

THE CHAIRPERSON: Thank you. Mr. Saranchuk, any time.

MR. WALTER SARANCHUK: Thank you, sir. I'm now proceeding to deal with a topic a little out of order in that we'll be coming back to certain elements falling within the revenue requirement, but we'll now deal with rate design and, in particular, the indicated versus the actual rates experience.

And the reference that we would draw to your attention is at Tab 1, namely Corporations Filing TI-2 and also the Corporation's filing at AI-12, in Volume III, Part 2.

(BRIEF PAUSE)

MS. DENYSE COTE: Mr. Saranchuk, what's the Tab in the Book of Documents?

MR. WALTER SARANCHUK: Tab 1 in the Book of Documents. And AI-12 in Volume III, Part 2.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And I see that Mr. Galenzoski thought I was going to ask these questions of him, so he has hidden behind the pole.

MR. BARRY GALENZOSKI: And with that challenge, I just wanted to put on the record when we looked at the DCAT Report, it is the PUB target of $50 million that was used, the references are throughout the report, and we just took the extra precaution of confirming that with the actuary that wrote the report.

MR. WALTER SARANCHUK: Thank you, sir.

Turning to TI-2, and again, AI-12. As I understand it, TI-2 reflects the financial forecast method of setting rates, is that correct?

MS. MARILYN MCLAREN: Yes, on page 1, that's the financial forecast method.

MR. WALTER SARANCHUK: And AI-12 was provided to increase the transparency of rate setting, is that correct?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: And that was pursuant to the Board Order 2003/'02?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: Now, referring to TI-2 in Tab 1 of the Book of Documents, I wonder if you would refer to the different line items, and walk us through the construction of the required rate changes.

So, for example, if you could just step through the lines and provide a brief commentary on the nature and the basis for each component, and the handling of that component by major class?

So dealing with, for example, claims for starters, and then claims expense? If you could give us that overview at a high level please?

MS. MARILYN MCLAREN: The calculation for claims is -- is a direct calculation of the contribution required, the -- you know, the revenue requirement required per earned unit, to cover claims costs.

And we can see there is some significant differences in claims costs per earned unit in the various major classes, from a low of twenty dollars and sixty cents ($20.60) for ORVs to a high of fourteen hundred fourteen dollars and fifty-two cents ($1414.52) in the public class.

The claims expense is again a --

MR. WALTER SARANCHUK: Just on that point, before you move to that --

MS. MARILYN MCLAREN: Sure.

MR. WALTER SARANCHUK: -- I'm sorry for the interruption. Now, it would be necessary to allocate claims costs not coded by insurance use, to private passenger, commercial and public only.

There's special treatment accorded to accident benefits, other serious claims, with actual serious losses in the last five (5) years replaced with average serious losses over the PIPP history, is that correct?

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

MR. WALTER SARANCHUK: Moving on to claims expenses, if you will please?

MS. MARILYN MCLAREN: Claims expense represents the revenue required from each earned unit to cover the costs of handling claims. And it's calculated as a percentage of the claims incurred, the claims costs.

With respect to road safety, that's --

MR. WALTER SARANCHUK: Well, just on the claims expense item --

MS. MARILYN MCLAREN: Okay.

MR. WALTER SARANCHUK: -- sorry, for the interruption again. It's a flat percentage of claims really not varying by major class, is that correct?

MS. MARILYN MCLAREN: That's right, it varies by the claims, it does not vary by major class, it's a flat percentage calculation.

MR. WALTER SARANCHUK: So, how does that allow for differenced between major classes and the composition of claims by coverage? For example some coverages tend to incur more adjusting expenses than others and coverages in the basic package are not uniform across major classes.

MS. MARILYN MCLAREN: The assumption within this approach is that the more expensive a claim is, the more it will cost to adjust that claim. For example, lifelong injury claims will have significantly higher costs associated with adjusting those claims than a small value glass claim.

MR. WALTER SARANCHUK: All right. Now moving onto the next lined item, operating -- oh sorry, road safety?

MS. MARILYN MCLAREN: Road safety costs are allocated to all classes with the exception of trailers and ORV's. We take our annual road safety budget, divide that amongst the overall earned units and allocate a flat amount to each of the four (4) categories that contribute to that cost recovery expense allocation.

Operating expenses are very similar with respect to the overall total operating costs of the basic program allocated in this particular situation as is road safety actually, to the vehicles that are licensed and registered for roadway use which means we do not allocate operating expenses to trailers and ORV's.

MR. WALTER SARANCHUK: And again, just what was the rationale to that? This is the last year's I understand it for 25 percent.

MS. MARILYN MCLAREN: This is the last year.

MR. WALTER SARANCHUK: Now what was the rationale there?

MS. MARILYN MCLAREN: Initially the corporation took the view that the basic compulsory insurance program is here to the ben -- exists for the benefit of all vehicles. Therefore all vehicles should contribute to that cost of -- of providing the compulsory insurance program.

Also that it really -- our costs associated with having a computer system for example up and running ready to handle a trailer renewal don't -- doesn't vary much from the cost associated to handle a taxi renewal which is significantly more expensive but it's still the same process.

On that basis we had a flat allocation for several years. But we've also had received some criticism for that approach because the actual allocation of the operating expenses were so far in excess of the actual claims costs for those particular units. There was no real strong relationship there.

And the other thing the corporation's been working very hard to move more to a customer focused approach. Back prior to 1995, if you had three (3) auto pack renewals, you got three (3) envelopes. One could be a trailer, one could be the taxi, it didn't really matter. Now we have a customer based approach where if you have three auto pack policies, you get one envelope.

The trailer sort of tags along with the power units and based on that approach we thought it would make a lot more sense to allocate those costs against the power units and against the vehicles that are actually core to the reasons that the compulsory insurance program exists.

So on that approach we've allocated them to the four (4) HTA power units and do not allocate them any longer to trailers and ORV's.

MR. WALTER SARANCHUK: And just on that point. You referred to some -- receiving some criticism. Essentially wasn't that some observation by the -- this Board, the Public Utilities Board at some prior hearing?

MS. MARILYN MCLAREN: It certainly was observation on the part of this Board. I think the stronger word criticism could -- could be used to describe the reaction of many of our customers as they found themselves paying approaching a hundred dollars ($100) for the, you know, fifteen hundred ($1500) or eight hundred ($800) utility trailer.

MR. WALTER SARANCHUK: All right. And moving onto the next line namely the commissions?

MS. MARILYN MCLAREN: Yeah. Commission is a percent of the premiums written, premiums earned and simple reflects the costs that -- of -- of the commission that we pay to brokers to handle this business.

MR. WALTER SARANCHUK: And that's a fixed percentage of premium?

MS. MARILYN MCLAREN: It's a fixed percentage of premium so it tracks with the insurance rates for all the different major classes.

MR. WALTER SARANCHUK: All right and then the next line, premium tax vehicle and after that premium tax driver.

MS. MARILYN MCLAREN: Exactly the same thing for the premium tax vehicle. We are obligated to pay premium taxes and it is a fixed percentage of premiums and just like commissions, tracks along with the -- the insurance rates for the different major classes.

MR. WALTER SARANCHUK: And who sets the premium tax?

MS. MARILYN MCLAREN: The provincial government.

MR. WALTER SARANCHUK: And when was -- what is their current rate?

MS. MARILYN MCLAREN: 3 percent.

MR. WALTER SARANCHUK: And when was it last changed, approximately?

MS. MARILYN MCLAREN: It hasn't changed for a long time.

MR. WALTER SARANCHUK: A decade or two (2)? Decade or two (2)?

MS. MARILYN MCLAREN: It's been at least fifteen (15) years.

MR. WALTER SARANCHUK: Thank you. And in terms of the re-insurance, the casualty and the catastrophe?

MS. MARILYN MCLAREN: Yeah, the casualty re-insurance refers to the costs of insurance for the largest PIPP claims. That -- that is the insurance that we buy for the basic compulsory program is insurance against the largest PIPP claims. And again, you'll -- you'll see we don't allocate costs there for trailers and ORVs so those are not -- they -- they don't incur those costs. Catastrophe re-insurance is related to large physical damage incidents like hail and because motorcycles don't have comprehensive coverage -- they don't have hail coverage through the basic compulsory program, they don't contribute to the catastrophe re-insurance, nor do ORVs.

Trailers do because trailers are often hail damaged, so we allocate those costs on that basis.

MR. WALTER SARANCHUK: And if re-insurance is -- is included as a cost, as it is, then the claims are included net of re-insurance. Is that correct?

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

MR. WALTER SARANCHUK: Okay. Fleet rebates?

MS. MARILYN MCLAREN: We’re now moving into the area where the required rate per insured unit receives a credit. No, we’re not. We’re not quite there yet. Fleet rebates. All vehicles contribute to the fleet rebates which always exceed fleet surcharges, so all of us as vehicle owners in Manitoba contribute to the fleet rebates paid to those customers who own ten (10) or more vehicles.

And again, we have excluded the vehicles that are not part of the fleet rebate surcharge program, so the only ones that are part of this are the public class, commercial class and private class.

Driver premiums offset the amount --

MR. WALTER SARANCHUK: Let me just ask you one (1) question if I may --

MS. MARILYN MCLAREN: Sorry.

MR. WALTER SARANCHUK: -- relative to fleet rebates, are fleets equally common in the major uses that you mentioned?

MS. MARILYN MCLAREN: As a percentage of total vehicles in each class, no, they would -- the public and commercial class I would expect to have a higher percentage of fleet vehicles compared to the private passenger class.

THE CHAIRPERSON: If the -- given that the whole program is basically cost of service, if you want, in a sense, why would the rebates exceed the surcharges?

MS. MARILYN MCLAREN: Well, you know, there's many, many more drivers getting the full 25 percent discount on the -- the discount program for individual vehicle owners compared to those who -- who don't qualify. For the most part, participants in the program are low risk.

You know, the -- the profile of the people who cause accidents is good responsible people who drive for many years without causing an accident and then have an at-fault incident once every dozen or so years. Fleet owners, you know, in a slightly different context, seem -- tend to follow that same profile.

MR. WALTER SARANCHUK: Now, just on the question of fleet rebates, given the difference in the percentages of -- of the fleets in these major classes of private passenger and commercial and public, why is there -- as there appears -- a flat rate of forty-seven dollars and seventy cents ($47.70) across the board?

MS. MARILYN MCLAREN: Ten dollars --

MR. WALTER SARANCHUK: I'm sorry, ten dollars and twenty-six cents ($10.26). Yes.

MS. MARILYN MCLAREN: -- and twenty-six cents

($10.26) across the board. Because -- the principle of the program is that we all have an interest and we all receive the benefit of fleet owners managing those fleets and operating those fleets in a low cost loss prevention kind of way; that's the principle.

The other side of it really ties into the fairness and equity side of it and I think we talked about some of that in previous hearings when we were dealing with the Car and Truck Rental Association issues.

If you have particular insurance uses, and I can think of a few where the majority of vehicles in a particular insurance use are fleet vehicles, then the effect of having only those particular insurance uses fund the rebates when you've got a small number of vehicles in that class that don't have any opportunity to earn rebates, they just have to fund somebody else's rebates, that's particularly onerous for them.

The other thing is that the Fleet Rebate Surcharge Program is constructed on a customer basis. So you have customers that have light trucks and heavy trucks and -- and maybe some U-drives, and all kinds of an assortment of vehicles; it's not constructed on an insurance use basis.

MR. WALTER SARANCHUK: Now, moving on to the driver premium line, what is the foundation for the level of the average driver -- driver premium?

MS. MARILYN MCLAREN: The driver premium contribution, which is really an offset to the amount the vehicle owners would otherwise have to pay is just a distribution of the -- of all earned driver premium that -- that flows into the Corporation.

So, it’s the -- it’s the total of the basic premium, the demerit point additional premiums and the at-fault accident surcharges are all allocated to reduce the amount vehicle owners would otherwise have to pay.

MR. WALTER SARANCHUK: So, is it -- it sounds like there’s quite a bit of arbitrariness in that system, would you agree?

MS. MARILYN MCLAREN: In that we allocate the driver premium to reduce the amount that vehicle owners would have to pay?

THE CHAIRPERSON: He means the selection of the forty-five dollars ($45)?

MS. MARILYN MCLAREN: The forty-five dollars ($45) is -- is not actuarially calculated in any way, shape or form, no.

And there -- there’s very, very little direct link between driver premiums charged, and any particular coverage offered to Manitobans that is not already available through the vehicle program or through PIPP, it is simply a contribution to the insurance fund, to make sure that everyone contributes whether or not they own a vehicle.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: So, can you comment on the fairness of the split between the driver's premiums and the vehicle premiums?

MS. MARILYN MCLAREN: The last time we increased the basic driver's premium was -- what we did at that time, we looked at how vehicle premiums had changed since the last time the driver premium changed, and drew some -- identified that there were some similarities and that the relationship between the driver premium and vehicle premiums is consistent and has -- has continued to be consistent.

Do we think that the -- you know, right now about 90 percent of the revenue comes from vehicle owners and 10 percent comes from drivers. If you are asking whether we think that that's exactly specifically appropriate, whether there are opportunities to move some of it around, I think those are things that we have again, probably some new opportunities to look at now.

MR. WALTER SARANCHUK: Can you give an indication as to what the impact of say a ten dollar ($10) increase in driver's premiums would be? The bottom line?

MS. MARILYN MCLAREN: About $7 1/2 million, I think there's about seven hundred and seventy thousand

(770,000) drivers.

MR. WALTER SARANCHUK: All right, moving on now to the service fees.

MS. MARILYN MCLAREN: Again, that's an offset to the amount vehicle owners would otherwise have to pay. Those are the service fees collected on all the transaction fees and time payment fees that the Corporation charges.

MR. WALTER SARANCHUK: And there's no allocation for trailers or ORVs?

MS. MARILYN MCLAREN: No, they have much, much smaller transaction fees, and I think virtually all of those transaction fees are part of the DVL revenues, not MPI revenues. And they're -- neither of those vehicle types are eligible for the time payment programs. Most of the service fee revenue comes from the time payment program, and they're not eligible, so they don't get the credit for that.

MR. WALTER SARANCHUK: And then I think after that we're getting into the positive lines, namely, for example, the reference to investment income for driver's premium, investment income for vehicle premium, is that correct?

MS. MARILYN MCLAREN: Yes, those continue to be credits to reduce the amount vehicle owners would otherwise have to pay.

MR. WALTER SARANCHUK: And what can you tell us about the allocations, amongst the -- the vehicle classes? They appear to be --

MS. MARILYN MCLAREN: They're --

MR. WALTER SARANCHUK: -- across the board on drivers, and then somewhat -- I'm sorry, about the -- let me deal with driver's premiums first, it's across the board insofar as drivers are concerned?

MS. MARILYN MCLAREN: Yes. Yes, because the driver premium is allocated on a flat basis and it's a percentage premium so the investment income would be flat as well for that reason.

MR. WALTER SARANCHUK: And then obviously there isn't that uniformity in investment income for vehicles premiums. How are those allocated?

MS. MARILYN MCLAREN: They are percent of premium so they track with the rates charged in the different major classes just as commission and premium taxes do.

MR. WALTER SARANCHUK: And then there's the line, required rate raw, what does that mean?

MS. MARILYN MCLAREN: We just add up and -- add up the costs, subtract the credits and that is basically the rate that we receive from that mathematical process.

MR. WALTER SARANCHUK: And then there's an adjustment to get to the required rate of balance. How is that done?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: The required rate, the line above it we were just talking about, is -- is the rate that we need according to our projections, and the balance line simply means that we balance amongst all the major classes just for things like rounding and so on to make sure that it ties back to the 733.11.

MR. WALTER SARANCHUK: And then we get through the total premium balance and the '04/05 average rates followed by a major class drift to get to the '05/06 average rates without rate change. Could you just take us through from the '04/05 average rate through to the '05/06 average rate without rate change?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: The '04/05 average rate comes from the rate model which is a simulation of all the vehicles and all the rates in force at that time as of January of '04. We calculate the major class drift --

MR. WALTER SARANCHUK: Which means?

MS. MARILYN MCLAREN: -- is really a reflection of -- for the most part the vehicle upgrading that we talked about earlier, because what we're trying to do is figure out the -- what -- how will the Corporation's revenue change on that basis alone from the rate model which is taken in January of '05 to the average earning date for policies that will be enforced for the Application before the Board which is the earning date.

It doesn't happen until February of '06. So you have pretty much two (2) years of vehicle upgrading happening there. And that's what -- for the private passenger group for example, is a 9.2 percent increase just related to major class drift.

So then what we end up with based on that drift is an '05/06 average rate without any rate changes incorporating that vehicle upgrade or -- or drift which gives us now an overall rate of seven hundred and thirty-three dollars ($733) which is -- compared to 733.11.

MR. WALTER SARANCHUK: And that comparison then gives the required change with the full credibility?

MS. MARILYN MCLAREN: Yes, that's right. Which means that we assume each major class is statistically credible on its own and we calculate how that rate should change if in fact we assumed that each class stood on its own with respect to credibility.

For example, you can see that on that basis, the motorcycles would need to increase by 61 percent.

The applied for change line, certainly we're not applying for a 61 percent increase, but the applied for change is simply to indicate any difference that there may be between the required change and our applied for change. In this case they are identical, so both of those lines are the same right a way -- all the way across.

We then identify the credibility that we assign to each major class and then calculate the change that we would be looking at after application of the credibility, so again, taking the motorcycles -- our -- our calculations suggest that the motorcycle group on its own should only be credible to 60 percent of the indicated rate for motorcycles on their own and therefore, if we're applying only 60 percent credibility to the motorcycle data, the credibility weight of change would be 36.6 percent.

MR. WALTER SARANCHUK: So, what is the -- the basis for the assigned credit-abilities?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: The Corporation's selected method of calculating credibility was really -- was intended to provide 99 percent credibility to the largest major class.

So when you've got 99 percent credibility on the private passenger class, that -- that was what the calculation was intended to deliver and from that basis we've calculated -- we've calculated the credibility for the other much smaller classes.

MR. WALTER SARANCHUK: So it's intended to provide an objective measure of how the statistics are?

MS. MARILYN MCLAREN: Yes, exactly. It was -- the approach was selected ten (10) years ago in approximately 1994. The Corporation has consistently used it since that time to give an objective means to predict the future costs of the major classes.

MR. WALTER SARANCHUK: If one were to suggest that the credibilities are flawed, what would you say to that?

MS. MARILYN MCLAREN: We've used them for the last ten (10) years. They've been tested over that period of time and, for the most part, produced stable results.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, in calculating the credibility weighted change, where does the balance of the credibility come from?

MS. MARILYN MCLAREN: From the overall requirement for the Manitoba vehicle population.

MR. WALTER SARANCHUK: And what are the

implications then for motorcycles?

MS. MARILYN MCLAREN: It dampens the effect of the motorcycle data itself. If we relied more heavily on the motorcycle history, they would have an increase that looked more like 61 percent.

MR. WALTER SARANCHUK: Now, referring to the last line in TI-2 at Tab 1, we have the credibility weighted change of the balance as shown and that's as reflected in Table 6.3 -- SM-6.3 at page 3 of Volume I, which is the table entitled The Experience Rate Requirement Indicator is the Percent Change and in the financial column we see what is reflected essentially in the last line of TI-1. Is that correct?

MS. MARILYN MCLAREN: Yes, it is.

MR. WALTER SARANCHUK: And then, turning over to AI-12, which deals with the transition, how does one get from that bottom line on TI-2 and as reflected in the financial method in SM-6.3, to SM-6.5 on page 7, which is the Revenue Adjustment Requested?

MS. MARILYN MCLAREN: I think you mentioned AI-12. That's for the most part how you get from the indicated rate changes to the applied-for rate changes and, you know, the -- the initial process is -- is very similar to what we talked about on TI-2, really basic -- basically up to the part where we talked about, you know, the -- the '04/05 average rate and -- and the drift and so on.

So really the original rate model before changes as you see in Column A in AI-12 is really the same thing as we talked about in terms of the '04/05 average rate on TI-2.

So from there, we apply any classification changes that we will be making as part of the application, the clear adjustments, we then calculate the indicated adjustments at an insurance use territory level. Not the major class level, but right down to the detailed insurance use territory for all the different insurance uses and territories.

We then have to balance those and E, I guess, is -- is the big step where we apply all the capping rules. Where, if for example, motorcycles need a 37 percent increase, they're only going to get a 15 percent increase and that's where you see some of the shifting really starting to happen between the other insurance uses as some insurance pick -- as some insurance use and territory combinations pick up some costs from other insurance use and territory combinations.

After we do that, we have to go through a balancing process. Even a simple thing like all of our rates are provided in flat dollar amounts. We don't have cents. When you've got particularly low rates, just the -- the --

the rounding to the nearest dollar can have a significant effect on -- when you've got some low rated vehicle categories.

We go through that process in F and G gives us what we're actually applying for, which you see in the rate file that's in the application and involving one (1) in the AP-1 section.

MR. WALTER SARANCHUK: So, just looking at page 7, and this is the last question, looking -- for today -- looking at page 7 where there's the result for the major class total for motorcycles and there it indicates that there are nine thousand one hundred and thirty-three (9,133) of them.

The original rate model before changes shows an average rate of eight hundred and twenty-seven dollars and eleven cents ($827.11) for a total premium of $7.5 million and then with the classification and clear adjustments in B and the indicated adjustments in C, and the balanced indicated adjustment in D and the capping in E and the balanced cap in F, then you get down to the 15 percent or average rate of nine hundred and fifty-one dollars and twenty-eight cents ($951.28) in the G column for motorcycles.

Is that correct?

MS. MARILYN MCLAREN: Yes, exactly.

MR. WALTER SARANCHUK: I think I have to end on that note for the day, Mr. Chairman.

THE CHAIRPERSON: I have no idea how we'll survive tomorrow without tomorrow. We'll see you on Friday. Thank you.

MR. WALTER SARANCHUK: Well, we won't have to survive tomorrow, I don't think. Oh, yes we do. Okay. I thought you meant in terms of the hearing. So yes, we reconvene on Friday at 9:00 o'clock. Thank you.

MR. KEVIN MCCULLOCH: I presume, Mr. Chairman, we can leave all of the material in the room?

THE CHAIRPERSON: Yes. We have insurance.

(PANEL STANDS DOWN)

--- Upon adjourning at 4:05 p.m

Certified Correct

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Carol Wilkinson
Court Reporter