MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE

2006 INSURANCE RATES

Before Board Panel:

Graham Lane - Board Chairman

Eric Jorgensen - Board Member

Len Evans - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 3rd, 2005

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APPEARANCES

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Michael Mager	(np)	)CAA
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Richard Loiselle		)

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--- Upon commencing at 9:12 a.m.

THE CHAIRPERSON: Good morning, everyone. We're operating on Newfoundland time. So, I call this GRA hearing to order.

Manitoba Public Insurance Corporation has applied to the Public Utilities Board for approval of its premiums and other proposals and matters. This hearing and process is in accordance with the provisions of the Crown Corporations Public Review and Accountability Act and the Public Utilities Board Act.

In this Application, MPI indicates that the premium rates would take effect on March 1st, 2006.

I am Graham Lane, Chairman of the Public Utilities Board and I am joined by two (2) other Board members. To my right, Mr. Len Evans and to my left, Mr. Eric Jorgensen.

Also Board staff with us today are Gerry Barron, associate secretary of the Board, and Gerry Gaudreau, executive director and secretary to the Board.

Our current expectation is that we will sit this week, Monday through Thursday and hear presentations from five (5) members of the public tomorrow afternoon.

Next week, Tuesday, Wednesday and

Thursday, and hear final arguments the following. If the hearing takes longer than expected, we will set aside additional days as required.

We will begin, excepting this morning, each morning at 9:00. We'll adjourn mid-morning for a break and, again, for lunch. In the afternoon we'll start at 1:30 and conclude at 4:00.

Following closing arguments, the panel, myself and two (2) colleagues will sequester ourself and, as required, involve our advisors and staff and deliberate to reach our determination on the matters before us.

In the end, we may accept, deny or vary the company's Application. Whatever decisions we make will be made carefully with the implications and consequences understood as best as possible.

In reaching our decision, we will be guided by the evidence, written and oral, and our determination of what represents the public interest.

We are concerned not only with the short term economic of the Corporation on its ratepayers, but also the fairness of the impact and the long term fiscal and operating health of MPI and, in general, the wider public interest.

I think it goes without saying that our

expectations of all that appear before us include effective participation, comprehensive presentations and the employment of a cooperative approach.

As per our longstanding practice, in addressing a problem that we are fortunate to never have incurred at these hearings, the need for civility is always understood. People in organizations can disagree, that is -- can be expected, but the way in which disagreement is expressed can either be helpful or harmful.

We have weighty and complex issues before us yet I am comfortable and confident that we will all have reached -- approached this process with a view together we can make it work.

The Board is particularly interested in MPI's new anti-theft strategy, it's reflections on the Board's recent loss transfer decision that follow the special hearing on this past May; MPI's projections of results and financial position going out in time, most recently amended to the positive side; RSR matters, the DVL and transfer related matters first discussed last year and investment-related matters.

That being said, the Board is interested in all matters placed before it. It looks forward to the participation of the Intervenors and their witnesses as well as the positions and comments of MPI's witnesses.

All parties scheduled to participate in this hearing have demonstrated an interest in and an appreciation of MPI and its operations, its effects on its ratepayers and society generally. Past comments have acknowledged the relatively low rates and good benefits the public program has developed.

We are all here today towards ensuring the benefits of the past continue into the future and that the program operates fairly, justly and effectively. Through our participation here through this hearing we will have the opportunity to assist in ensuring these goals are and continue to be achieved.

I would now call on all participants at the hearing to identify themselves, starting with Board Counsel, then MPI followed by the Intervenors.

Mr. Saranchuk...?

MR. WALTER SARANCHUK: Thank you, Mr. Chairman. Good morning. Morning Panel Members and the ladies and gentlemen. My name is Walter Saranchuk of the law firm of Pitblado LLP and I appear as Board Counsel along with my colleague Candice Everard of our firm and she's to my far left.

Joining us are the following, Mr. Brian Pelly of the actuarial firm of Eckler Partners. He is the Board's actuarial advisor. He's to my immediate right.

We also have and joining us the accounting advisors to the Board from PricewaterhouseCoopers Mr. Roger Cathcart to my immediate left and behind Mr. Pelly, Mr. Brent McLean. And we also have joining us the executive director and secretary of the Board Mr. Gerry Gaudreau to my far right.

THE CHAIRPERSON: Thank you, Mr. Saranchuk.

And now we'll move over to MPI. Mr. McCullough...?

MR. KEVIN MCCULLOUGH: Good morning, Mr. Chairman, Mr. Evans, Mr. Jorgensen. My name is Kevin McCullough. I appear as counsel for Manitoba Public Insurance in this general rate application.

And the panel of witnesses that will be produced at this hearing; to my immediate right we have Marilyn McLaren, President and CEO of MPI; next over is Mr. Don Palmer, Chief Actuary and Director Pricing and Economics; and to my far right we have Barry Galenzoski who is the Vice President Corporate Finance, Chief Financial Officer and Chief Administrative Officer. On my left is Mr. Wilf Bedard who is Vice President Corporate Claims.

We have also in attendance the back row panel, and starting from my far right we have Mr. Peter Dyck who is the Director of Corporate Finance and Corporate Controller, Mr. Mel Stadnyk who is the Manager of Financial Services, Mr. Richard Iwuc who is the Manager, Investment Department, Jeannine Savard, Manager of Regulatory Affairs with the Pricing and Economics Department.

Mr. Luke Johnston who is the Manager, Actuarial Services, Pricing and Economics and, finally, Mr. Tom Strutt Senior Solicitor in the MPI legal department.

THE CHAIRPERSON: Thank you, Mr. McCullough. I hope the lights are still on over at the Corporation.

We'll move on now to the Consumer Association and Manitoba Society of Seniors. Mr. Williams...?

MR. BYRON WILLIAMS: Good morning, Mr. Chairman and Members of the Panel. My name is Byron Williams. I'm an attorney with the Public Interest Law Centre.

And, as you've noted, I'm appearing on behalf of the Consumers Association of Canada, Manitoba Branch and the Manitoba Society of Seniors. Ms. Desorcy and Ms. Johnson from those particular organizations will be joining us on Wednesday to view the hearing on that day.

THE CHAIRPERSON: Thank you, Mr. Williams.

The Coalition of Manitoba Motorcycle Groups. Mr. Oakes...?

MR. RAYMOND OAKES: Good morning, Mr. Chairman, Members of the Board. My name is Raymond Oakes. I'm an attorney with Booth Dennehy LLP and I'm supported this morning by a number of the executive of the CMMG as well as concerned public and motorcycle enthusiasts.

THE CHAIRPERSON: Thank you, Mr. Oakes.

Manitoba Used Car Dealers. Mr. Roberts...?

MR. BYRON WILLIAMS: Mr. Chairman, I hate to interrupt but I -- Ms. Desorcy is here and I neglect to introduce her at my peril.

THE CHAIRPERSON: Thank you, Mr. Williams.

Mr. Roberts...?

MR. NICK ROBERTS: Morning, Mr. Chairman, Members of the Board. My name is Nick Roberts. I'm the Executive Director of the Manitoba Used Car Dealers

Association.

THE CHAIRPERSON: Thank you Mr. Roberts.

Mr. Mager from the Canadian Automobile Association?

MS. PAM SHAW: My name is Pam Shaw. I'm the Public Relations and Government Affairs Coordinator at CAA Manitoba appearing throughout the hearing on behalf of Mr. Major, although Mr. Major will be attending at -- probably after the Wednesday this week.

THE CHAIRPERSON: Thank you, Ms. Shaw.

For the Insurance Brokers Association of Manitoba.

MS. SCURFIELD: Good morning --

THE CHAIRPERSON: Ms. Scurfield...?

MS. MARGARET SCURFIELD: -- Mr. Chairman, and Panel Members, I'm Margaret Scurfield, I'm the Chief Executive Officer of the Insurance Brokers Association of Manitoba.

THE CHAIRPERSON: Thank you. Manitoba Bar Association. Mr. Dawson...?

MR. ROBERT DAWSON: Good morning, Mr. Chairman, Members of the Board, my name is Robert Dawson of the Winnipeg firm Dawson Law Chambers. I appear as the Chairman indicated, on behalf of the Manitoba Bar Association.

I can indicate that seated in the gallery this morning is the Executive Director of the Manitoba Bar Association, Ms. Stacy Nagel, and she unfortunately is seated probably as left as possible to the Board, so it may be out of their vision.

I can also indicate that in tomorrow's presentations, the Board will -- has graciously agreed to hear a presentation from the President of the Manitoba Bar Association, Mr. John Stefaniuk. Thank you.

THE CHAIRPERSON: Thank you, Mr. Dawson.

Scootering Manitoba. Mr. Souza...? I don't think I see him here.

MR. RICHARD LOISELLE: Good morning, Mr. Chairman, my name is Richard Loiselle, I'm appearing on behalf of Mr. Souza, who's currently out of the country, but will return for the remainder.

THE CHAIRPERSON: Thank you. Now, for opening remarks I would call on Mr. Saranchuk.

MR. WALTER SARANCHUK: Thank you, sir.

This is the Public Hearing phase relative to the Application by Manitoba Public Insurance for approval of its rate basis and premiums charged, that is the Corporation's rates for service for compulsory driver and vehicle insurance under its basic automobile insurance plan for the 2006/2007 insurance year; that is from March 1st, 2006 through to February 28th, 2007.

MPI's Application was filed on June 24th, 2005, and the Notice of Public Hearing and Pre-Hearing Conference and the Reminder Notice of the Hearing were both published hereafter and served as required.

Pursuant to the Crown Corporation's Public Review and Accountability Act, and the Public Utilities Board Act, the Corporation is requesting approval for basic Autopac rates, effective March 1st, 2006, which will leave overall premium revenue unchanged. However, the changes proposed for 2006/07, will affect average base premiums for major vehicle classes as follows:

For private passenger vehicles, and there are six hundred and fifty thousand seven hundred and twenty-two (650,722) of them, a 0.5 percent decrease.

For commercial vehicles, and there are forty-one thousand nine hundred and forty-one (41,941) of them, a 9.2 percent increase.

For public service vehicles, which number ninety-five hundred and thirty-six (9,536), a .7 percent increase.

Motorcycles, which number ninety-two hundred and eleven (9211), a 12.7 percent increase.

Trailers, and there are one hundred and seven thousand eight hundred and forty-four (107,844) of them, a 4.9 percent decrease.

And off-road vehicles, and there are thirty-two thousand six hundred and forty-five (32,645) of them, a 20 percent decrease.

Overall, for the Manitoba fleet of eight hundred and fifty-one thousand eight hundred and ninety-nine (851,899) vehicles, a zero change in premiums overall.

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

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

4.2 percent of vehicles will receive no change in rate.

20.4 percent of vehicles will receive a rate increase of up to twenty dollars ($20).

12.8 percent of vehicles will receive an increase between twenty dollars ($20) and fifty dollars ($50).

2.6 percent of vehicles will receive an increase between fifty dollars ($50) and one hundred dollars ($100).

And 2.4 percent of vehicles will receive an increase greater than one hundred dollars ($100).

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

No changes are proposed to fleet rebates and surcharges, existing driver's license premiums or accident surcharges, other existing time payment fees, or other existing service and transaction fees.

In terms of the particulars of the application facing the Board, the Corporation proposes the following rate adjustments for policies issued between March 1, 2006 and February 28th, 2007; that's the 2006 insurance year.

Firstly, experience based rate increases and decreases to individual classes ranging from plus 15 percent to minus 15 percent, with the exception of a 20 percent increase on average for mopeds, or an average of thirteen dollars ($13) per moped, and decreases of up to 20 percent for trailers and off-road vehicles.

Secondly, for all vehicles other than motor cycles, trailers and off-road vehicles, classification offsets ranging from minus 5.2 percent to plus 11.08 percent to achieve revenue neutrality from rate group adjustments.

For motor cycles, no classification offsets from rate group adjustments are proposed, resulting in rate changes up to 20 percent in addition to experience adjustments.

For motorcycles, there's the creation of a pleasure use category and the combination of all rate changes have been capped at 20 percent.

I would now ask that the following documents be entered in the evidence and marked as exhibits of the Public Utilities Board:

As Exhibit PUB-1, Notice of public hearing and pre-hearing conference dated June 20th, 2005.

As Exhibit PUB-2, the timetable.

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

As Exhibit PUB-4, the transcript of the pre-hearing conference held on July 5th, 2005.

As Exhibit PUB-5, the Public Utilities Board procedural Order 109 of '05 dated July 11th, 2005.

As Exhibit PUB-6, the reminder Notice of the Public Hearing dated August 18th, 2005.

As Public Utilities Board number 7 exhibit, subsequent procedural Order number 114/05, dated July 22nd, 2005.

As Exhibit PUB/MPI 8-1 through to 8-66, the Public Utilities Board first round information requests and MPI's responses.

As Exhibit PUB/MPI 9-1 to 9-27, the PUB's -- the Public Utilities Board's second round information requests and MPI's responses.

And finally, as Exhibit PUB-10, the book of documents that was circulated by Board Counsel.

--- EXHIBIT NO. PUB-1: Notice of Public Hearing and Pre-Hearing Conference dated June 20, 2005 - also entered at PHC.

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

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

--- EXHIBIT NO. PUB-4: Transcript of Pre-Hearing Conference held July 5, 2005.

--- EXHIBIT NO. PUB-5: The Public Utilities Board Procedural Order No. 109/05 dated July 11, 2005.

--- EXHIBIT NO. PUB-6: Reminder Notice of Public Hearing dated August 18, 2005.

--- EXHIBIT NO. PUB-7: Subsequent Procedural Order No. 114/05 dated July 22, 2005.

--- EXHIBIT NO. PUB-8-1 to 8-66:

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

--- EXHIBIT NO. PUB/MPI 9-1 to 9-27:

The Public Utilities Board's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.

--- EXHIBIT NO. PUB-10: The book of documents that was circulated by Board Counsel.

THE CHAIRPERSON: Very good, Mr. Saranchuk.

MR. WALTER SARANCHUK: I'm not through yet, sir.

THE CHAIRPERSON: I should have known that.

MR. WALTER SARANCHUK: Very briefly,

relative to MPI's rate application, cross-examination of the Board will address the following major issues:

Firstly, under revenue requirement, the base premiums and rate philosophy in view of the zero percent overall rate change.

Secondly, net income, particularly relative to investment income.

Also, the Driver and Vehicle Licencing department merger and the ramifications of that.

Also, the Rate Stabilization Reserve or the RSR with particular emphasis on the target level and the overall financial wellness of the Corporation.

As well, the proposed $40 million allocation for the IIF or the Immobilizer and Centa Fund (phonetic) to combat auto-theft.

And under revenue requirement finally we'll deal with some questions dealing with claims costs and claims forecasting.

Under rate design, there will be some questions relating to motorcycle rates and the application -- the implications, rather, arising out of the recent Board Order following the loss transfer hearing.

And we'll also have some questions dealing with general issues such as operating expenses, capital expenditures plus some other miscellaneous matters.

I would now refer to the procedural outline that has been circulates for the procedure to be followed at this hearing. And firstly draw your attention to the middle of the first page where -- and we are in this process now, we'll be dealing with or hearing the opening remarks from those participants who are so inclined.

In terms of the matters to be heard, their order, firstly we'll have the introduction of witnesses by MPI and the leading of testimony, then the cross-examination of MPI witnesses.

As indicated, presenters will be heard tomorrow, Tuesday October 4th at -- at 1:30 p.m. and we will hear from the witness from CAC/MSOS next Tuesday, October 11th, likely in the morning.

The order of cross-examination will be that the MPI witnesses will be cross-examined by Board Counsel, followed by Intervenors as per the order listed on the first page and then re-examined by MPI Counsel.

Intervenor witnesses are to be cross-examination by MPI Counsel, followed by Board Counsel and Intervenors, again in the order listed, and then re-examination.

As indicated by the Chairman, the Board

will sit for the first four (4) days of this week, that is not this Friday, and will then reconvene next Tuesday, October 11th, the day after Thanksgiving Day, which is next Monday.

Hopefully all of the evidence could be completed after a couple of days next week to enable closing arguments to be heard the week thereafter on the Tuesday, October 18th if possible, but that is yet to be determined.

And as also indicated during this hearing, we'll begin at 9:00 p.m. each day, break for lunch at noon, reconvene at 1:30 and adjourn at four o'clock. There will also be a mid-morning break each day.

Those are my opening remarks, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Saranchuk.

Before going to MPI with any opening comments and beginning the process I'll just ask the various Intervenors if they have any general remarks to make.

CAC/MSOS...?

MR. BYRON WILLIAMS: Yes, Mr. Chairman, I have some brief comments. And, first of all, especially now that Ms. Desorcy is here, I want to welcome back you and Mr. Jorgensen to this MPI General Rate Application. And also, on behalf of my clients, we've seen Mr. Evans at an MPI hearing before but not at a General Rate Application so they wish to welcome him to this -- this occasion.

And from my clients' perspective it's interesting that Mr. Evans is here in this particular hearing with this particular Crown Corporation looking at the rates for basic auto insurance.

And it's interesting because more than a few years ago Mr. Evans was around in the early 1970's when we -- the decision was made to bring public auto insurance to Manitoba. And it was a decision made to introduce a unique, made-in-Manitoba model of public auto insurance that has worked well in bringing accessible, affordable auto insurance to Manitobans.

And we think it's interest -- or my clients think it's interesting that Mr. Evans was there at the time of this -- at the creation of this unique, made-in-Manitoba model. Because, in my clients' view, the approach that the Board takes in this hearing on issues such as the rate stabilization reserve, the investment in auto-theft programming, and in terms of the investment in road safety programming, in my clients' view that approach that the Board takes should be guided by a recognition, first of all, of the inherent advantages afforded to a monopoly Crown insure -- Crown Insurer in the provision of auto insurance, as well as the unique opportunities that a monopoly Crown Insurer enjoys.

And the opportunity that provides to positively effect positive change for Manitobans by proactively seeking out opportunities to reduce the severity and frequency of accidents and of losses such as auto theft.

So, over the course of this hearing my clients will bring their recognition of the unique advantages offered by Crown -- the Crown monopoly to issues such as the RSR. And they'll bring that perspective to what they consider to be the Corporation's ill reasoned effort to more than double the upper bound of the Rate Stabilization Reserve -- the approved upper bound of the Rate Stabilization Reserve from 80 million to 214 million.

And in the course of the discussion regarding the Rate Stabilization Reserve my clients will pose two (2) basic questions.

The first question they will ask is why should this Board reject a made-in-Manitoba target that we've developed over many years set with the assistance of a carefully crafted, quant -- quantitative assessment that directly assesses the risk relevant to the RSR?

Why should this Board reject that in favour of the MPI proposal; a test from a different regime, from a different competitive environment that was not designed to address the issues relevant to the unique Rate Stabilization Reserve in Manitoba?

So, that's the first question.

The second question in terms of the Rate Stabilization Reserve that my clients will pose is whether the Corporation's argument in seeking to more than double the upper target; is the Corporation's argument driven by careful empirical analysis or is it driven by the fact that the RSR, as of February 28th, 2005 stood well above the Board's approved target level?

Put another way, what's driving the Corporation's argument? Is it careful empirical analysis, or is it the fact the RSR is well in surplus of the Board's approved target?

Turning now to issues of loss prevention and road safety, my clients will also bring their recognition of the unique opportunities offered by the Crown's position to the analysis of these issues. They will look carefully at the reasonableness and prudency of the expenditures of MPI, in terms of immobilizers and in terms of -- I'll use the acronym, WATSS.

And they will also test the rigour with which the Corporation allocates its resources in road safety. and they'll ask whether the Corporation has fully realized the potential and the opportunities offered by its unique advantage as a Crown owned monopoly, or whether it squandered that precious opportunity to reduce the frequency and severity of accidents.

My clients in this discussion, will contrast the Corporation's broad and recently expanded approach in terms of auto-theft, versus the arbitrary restrictions on its mandate that it has self imposed in terms of road safety.

And my clients will seek to answer what they consider to be the -- one (1) of the profound questions flowing from this Hearing. When is it appropriate for MPI to assume a leadership role in loss prevention and road safety programming, as it appears to be doing with auto-theft and when is it appropriate for MPI to be a mere follower, to be one among many, as seems to be its predominant approach in terms of road safety.

And my client's argument and their suggestion to this Board, will be that the leadership role should be assumed when careful empirical analysis indicates that there is a positive economic benefit to MPI ratepayers. That same careful empirical analysis should be applied to auto-theft and to road safety.

During the course of the Hearing my clients will also monitor, with interest, a number of other issues, and both the Chairman and Mr. Saranchuk have averted to them in their introductory remarks. They're going to look at the collective bargaining process and the implication that that has on the -- the future costs of the Corporation. They'll watch with interest, the Board's cross-examination on the Corporation's investment portfolio, and also the discussion on the pending PIP review.

And my clients will pay particular attention to the business process review, with an emphasis on issues arising related to the DVL merger, as well as the unrealized potential of bonus/malice.

And as always, my clients, and the Chairman talked about this earlier, will work in this Proceeding in a cooperative manner with Board Counsel, with MPI, and with other Intervenors, recognizing that we all have a role to play in contributing to deliberations in the public interest.

Mr. Chairman, we're ready to proceed. We just ask that in terms of the exhibits of CAC/MSOS,

Exhibit 1 be the First Round Interrogatory Request of CAC/MSOS-2-MPI. Exhibit 2 of CAC/MSOS be the Second Round Information Requests and Responses, and Exhibit 3 of CAC/MSOS be the evidence of John Todd.

Thank you, Mr. Chairman.

THE CHAIRPERSON: Thank you.

--- EXHIBIT NO. CAC/MSOS/MPI-1-1 to 1-110:
Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Senior's Information Requests and Manitoba Public Insurance's Responses - 1st Round.

--- EXHIBIT NO. CAC/MSOS/MPI-2-1 to 2-49:
Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Senior's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.

--- EXHIBIT NO. CAC/MSOS-3: Evidence of J. Todd

THE CHAIRPERSON: CMMG, any opening remarks, comments?

MR. RAYMOND OAKES: Yes, Mr. Chairman, I'd like to note that once again it's a privilege to participate in these Hearings, representing the interests of the motorcyclists in Manitoba.

I'd also like to point out to the Board, that motorcyclists are typically also owners of other vehicles, and so they have interests related to those vehicles as well.

As you know, Mr. Chairman, I've been representing the Coalition for many years, and each year the MPI Rate Application provides us with ample material for debate and discussion. As well as a few surprises. This year, certainly we -- provided some surprises.

The biggest surprises, as Mr. Williams talked about, was that MPI has approached this Board for an increase in the allowable level of RSR, from an upper limit of $80 million to an unheralded amount of $214 million.

Plus, the Corporation wishes to isolate or set aside $40 million in funds from the RSR for the Immobilizer Incentive fund.

Roughly, MPI is proposing to increase the maximum total retained earnings about two point five (2.5) to three (3) times before the excess would be redistributed back to the ratepayers, including motorcyclists.

My clients have a hard time understanding how MPI's risks could have increased so much in the last several years as the Corporation itself was clear several years ago that its Board supported an upper limit of $100 million for the RSR.

One thing that my clients can fathom quite easily, however, is the size of the increase that is being sought from them this year, since they've experienced total rate increases of this large size previously.

It's clear that MPI doesn't compete for business. It's a monopolist on the basic program and a monopoly for extension products due to the lack of any real competition.

Due to its monopoly position, the previous President, Mr. Zacharias, used to describe MPI as having a taxing authority. If it experiences a financial problem it can, subject to proving it's case before this Board, obtain the necessary funds to meet its needs in the event of a significant change in financial circumstances.

It can't lose customers. It can't lose market share.

On the extension business the Corporation is even in a more advantageous position, since those rates are not subject to review by any external body and it is, for all intents and purposes, a monopolist on those lines of business as well.

My clients have many times suggested to me the rates for extension coverage on motorcycles are excessively expensive due to the lack of competition. They understand, however, that this is not a matter the Board has the authority to review.

The Corporation this year has found itself in a position of riches after the last financial year and wants to retain those riches instead of rebating them back to the people who provide the funds, the ratepayers.

They've managed to reach that point because they have an overly conservative approach to financial forecasting.

For 2004/05 the Corporation have a profit of $59.1 million compared to a forecast loss of $13.8 million, as shown by the pre-filed evidence.

This year, we are learning 2005/06 looks much improved with a profit of 16.8 million compared to a loss of $5.7 million that was used to justify the rates in the last Board hearing.

Given this improved performance, and that in -- several years ago when the Board was happy with an

RSR level of a maximum of a hundred dollars ($100) and one (1) -- $80 million had been approved previously, it's hard to understand the reasons for the higher retained earnings.

It does make it clear, however, that ratepayers have been overcharged in the past. Instead of receiving a rebate due to the rate being higher than necessary, the motorcyclists and other ratepayers are being asked to allow MPI to keep their money for them.

To add insult to injury, MPI has chosen to use part of those excesses to establish a special fund that includes only certain vehicle groups, the Immobilizer Incentive Fund.

Motorcyclists cannot, obviously, benefit from this fund nor can large trucks. These groups contributed to the build-up of retained earnings which are based on pac -- practice, it should have been returned to them in the form of a dividend. They are being asked to forgo a dividend and subsidize other vehicle groups.

Of note, that motorcycles cannot benefit directly, since the immobilizers aren't to be installed on motor -- motorcycles, nor can they benefit indirectly since when stolen vehicles have been in accidents, motorcyclists have not typically been the innocent victims.

Motorcyclists who buy a new car with a factory immobilizer are being asked to subsidize customers who choose not to buy an immobilizer-equipped vehicle.

Again, this is an obvious cross-subsidy that the motorcyclists bear on top of the discrimination relative to the type of -- of immobilizer that's being put forward.

The Coalition finds this situation ironic, given that for years, MPI has argued that motorcyclists are being subsidized by passenger vehicles. With the Board's recent ruling on loss transfer, this argument no longer holds, with expectation in the motorcycle community that rates will decline in the future.

Mr. Chairman, the position of the Coalition then, obviously, is that instead of a 12.7 percent application for an increase this should be a year in which the rates are frozen and that certainly the Corporation's in a position to be giving rebates and not increases.

And those are my comments this morning, Mr. Chairman.

THE CHAIRPERSON: Would you like to introduce your exhibits, Mr. Oakes?

MR. RAYMOND OAKES: I'm wondering whether the Board Secretary can take them as read in the manner they're set out, Mr. Chairman. We have certainly no -- no argument with the listing of them.

THE CHAIRPERSON: That's fine. Thank you.

--- EXHIBIT NO. CMMG/MPI-1-1 to 1-110:
Coalition of Manitoba Motorcycle Group's Information Requests and Manitoba Public Insurance's Responses - 1st Round.

--- EXHIBIT NO. CMMG/MPI-2-1 to 2-52:
Coalition of Manitoba Motorcycle Group's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.

THE CHAIRPERSON: Manitoba Used Car dealers, Mr. Roberts...?

MR. NICK ROBERTS: I have no opening remarks, Mr. Chairman.

THE CHAIRPERSON: Thank you, sir.

--- EXHIBIT NO. MUCDA/MPI-1-1 to 1-13:
Manitoba Used Car Dealers Association's Information Requests and Manitoba Public Insurance's Responses - 1st Round.

--- EXHIBIT NO. MUCDA/MPI-2-1 to 2-3:
Manitoba Used Car Dealers Association's Information Requests and Manitoba Public Insurance's Responses - 2nd Round.

THE CHAIRPERSON: Does CAA have anything to say at this point?

MS. PAM SHAW: Yes, we do, Mr. Chairman. Mr. Chairman, members of the Board, ladies and gentlemen, here representing the Canadian Automobile Association of Manitoba we speak on behalf of our hundred and seventy thousand (170,000) members across Manitoba and for all motorists who want to see our auto insurance rates set fairly and properly year to year.

As I stated earlier, I will be joined later in these hearings by the President of CAA and we will be listening attentively to the proceedings. We plan to test evidence when we have questions and to make final arguments at the close of the hearings.

As always, CAA Manitoba values the opportunity to participate on behalf of our membership in Manitoba. Thank you.

THE CHAIRPERSON: Thank you, Ms. Shaw.

We'll move now to the Insurance Brokers Association, any opening remark?

MS. MARGARET SCURFIELD: Yes, I just have some short comments. Good morning, Mr. Chairman, members of the Board, ladies and gentlemen. As I stated earlier, my name is Margaret Scurfield. I'm the Chief Executive Officer of the Insurance Brokers Association of Manitoba.

It's usual for our President to bring greetings at this hearing. Unfortunately he's had an untimely death in his family.

As you know, the Insurance Brokers Association represents 90 percent of the general insurance brokers in the Province of Manitoba. This translates to approximately fifteen hundred (1500) owners, managers and support staff.

Brokers are the main point of contact for Manitoban's renewing their auto insurance and, therefore, the face, most Manitoban's relate to MPI. Our brokers are located throughout the Province and although independent, they are inter-connected through our

Association.

Brokers offer a highly valuable service, both to MPI and its customers. Brokers offer the consumer professional advice, counselling and personal service for all their insurance needs.

As licensed professionals, they are required to obtain continuing education training, annually. Our members have a good rapport with their customers as they live and work in the same community which allows us to provide feedback directly from the consumer on MPI products.

In summary, we would like to emphasize the significant role brokers play as the front line representatives of MPI. We are proud of the professional service brokers provide in literally millions of transactions and inquiries they handle.

As the major strategic partner with MPI we look forward to our continuing liaison to increase efficiencies and provide the best service in the distribution of MPI products.

Thank you, Mr. Chairman. Those are our opening remarks.

THE CHAIRPERSON: Thank you.

Mr. Dawson, for the Bar Association.

MR. ROBERT DAWSON: Thank you, Mr.

Chairman, members of the Board.

The Manitoba Bar Association again appears before this Board, focussing upon the rights of victims of personal injury arising out of the operation of motor vehicles.

Although there will be some tangential issues to explore, that is where my client intends to spend most of its time during cross-examination of the applicant's witness panel.

Last year my client argued that some claimants do not enjoy the insurance coverage which they reasonably expected and which the statutory scheme mandates that they should receive.

The Bar Association further suggested that pressures to control expenses have led to systemic flaws in the applicant's attitudes and operations involving the handling of motor vehicle injury claims.

In its final order the Board was generally receptive to this consideration, and as a result, made several recommendations.

This year my client proposes to look at the same question, but from a different angle. Namely, does the applicant have sufficient revenue or make appropriate use of its revenue, to deal fairly and consistently with the victims of motor vehicle injuries, or is the problem due to other considerations.

And of course, it is well within the jurisdiction of this Board to test whether or not rates that it approves are adequate to discharge the purpose for which the Applicant seeks to collect them. And it is further well within the mandate of the Manitoba Bar Association to interest itself in this question, because my client, as Members of this Board may know, has a long and distinguished record of working to promote the better and improved administration of justice for all Manitobans.

It follows from this public policy approach, that the Board should not expect anything more from my client's intervention, than a high level, but nonetheless helpful overview of this issue.

Turning to the exhibits that are listed in the earlier circulated list, the Bar Association proposes that its First Round Information Request, together with the answers, be entered into evidence, using the numbering that appears on the proposed exhibit list. That concludes my remarks, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Dawson.

--- EXHIBIT NO. MBA/MPI-1-1 to 1-15:
Manitoba Bar Association's Information Requests and Manitoba Public Insurance's Responses - 1st Round.

THE CHAIRPERSON: Scootering Manitoba, any opening remarks?

MR. RICHARD LOISELLE: Thank you, Mr. Chairman, my name is Richard Loiselle, I'm the Director of Media and Public Relations for Scootering Manitoba. Our President, Mr. Claudio Sousa, is out of the country at this time, but expects to return later this week for the testing of evidence and final argument.

Scootering Manitoba continues to promote the small engine, moped scooter, as an environmentally friendly, low cost alternative for Manitobans. With the price of gas at an all time high, our organization is inundated with requests for information, and our website has experienced unprecedented traffic.

When three to five dollars ($3 to $5) a week on a moped class bike can still get you to and from work or school at today's gas prices, there's no doubt the popularity of small engine scooters and mopeds will continue to rise.

Our participation in this Hearing is aimed at ensuring that these vehicles continue to be an affordable, urban transportation choice for Manitobans.

Because our concerns are focussed on a small segment of the Rate Application, and we wish to reduce the cost burden of our participation, we are once again, participating without requesting an award of costs.

Our organization recognizes that safety training and better education for riders has a potential to reduce insurance rates for those vehicles.

In addition to participating in this Hearing, our work with the Manitoba Safety Council has led to the introduction of a scooter equivalent to the Manitoba -- of the motorcycle safety course. Next year we'll be introducing our own safety course as an option for riders, who cannot afford the more expensive but thorough course offered by the Safety Council.

Our organization feels that the rate increase sought for the moped class this year is fair and palatable for Manitobans, however, high risk rental use of mopeds and the claim costs associated with that use continues to be blended with the claims experience of private personal use.

Through our testing of evidence in final argument, our organization wishes to convince the Board that keeping rental use mixed with private use of mopeds is not fair to Manitobans, and due to the small size of the moped rate group, creates a scenario where even a single claim can have a significant impact on MPI's experience adjustments to this class.

We remain optimistic that by educating our own community of riders and working through this process, we can ensure fairness and stable insurance rates for Manitobans, who choose low cost scooters or mopeds. Thank you, Mr. Chairman.

THE CHAIRPERSON: Thank you, sir.

Thank you. We'll put into the records the exhibits from Scootering Manitoba, which are listed here, as well as the Manitoba Used Car Dealers Association exhibits.

--- EXHIBIT NO. SM/MPI-1-1 to 1-2:

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

--- EXHIBIT NO. SM/MPI-2:

Scootering Manitoba's Pre-Ask Question.

THE CHAIRPERSON: Before turning to MPI, just a few other things.

Digi-Tran, which is again handling transcripts, will be posting the transcripts directly to the Board's website, which will simplify access.

We'll now proceed to the presentation by MPI, Mr. Barron, would you mind -- no, first of all we'll do -- I apologize.

Mr. McCulloch, opening remarks?

MR. KEVIN MCCULLOCH: Yes, Mr. Chairman. It's always interesting for me to note the contrast between the -- the rather concise factual opening statements that come from Board Counsel to some of the rhetoric that sometimes creeps into presentations from some of the Intervenors.

I don't intend to enter the fray at this point and for my opening remarks I want to move just to the issue of listing the Corporation's exhibits.

There's a number of clarifications on some of the exhibit numbers and also some new exhibits to enter if I could.

Exhibit number 1 is in five (5) sections contains the five (5) volumes of the General Rate Application filed in June of this year.

Exhibit number 2 will be the Affidavit of Catharine Pawella, sworn September 30th, 2005, covering the notification of interested parties being served with the Notice of Public Hearing and the pre-hearing conference; that's Exhibit 2.

Exhibit 3 is the Affidavit of Zedenka Melnick sworn September 29th, 2005 and covering the publication of the Notice of Public Hearing in the various newspapers and media outlets as directed by the Board.

Exhibit number 4, Affidavit of Zedenka Melnick, also sworn September 29th, 2005 and deals with the publication of the reminder Notice of Public Hearing.

Exhibits 4 to 7 on the exhibit list indicate what items are covered in those exhibits, and I don't believe there's any need to -- to read those into the record.

I'd ask that they'd be accepted as -- as indicated or -- that's Exhibits 5, rather, to 7.

But, there are some new items that need to be entered into the exhibit list. The first, Mr. Chairman, is the rather large collection of materials with a title page, a blue title page, showing a General Rate Application pre-hearing revisions.

This document covers a number of different items. It includes the final dynamic capital adequacy report, DCAP report. It includes revised documents TI-9, 14, 15, 16, 17, 21 as well as AI-13 and it also contains the revised pre-filed testimony of Mr. Galenzoski reflecting the changes in the financial reports that are included in the previous documents.

If workable, I would ask that this be introduced as one (1) exhibit, MPI-8.

THE CHAIRPERSON: That's fine.

MR. KEVIN MCCULLOCH: We then have revisions to two (2) Information Requests, PUB/MPI-1-61(b), a revised response to that Information Request. If we could file that as MPI Exhibit number 9.

THE CHAIRPERSON: Very good.

MR. KEVIN MCCULLOCH: The next would be the revised response to MBA/MPI-1-5 and this is the revised response which attaches a letter from the Crown Corporation's Counsel dealing with an issue that had been raised by the Manitoba Bar at the previous rate application; that would be MPI exhibit number 10.

THE CHAIRPERSON: Very good.

MR. KEVIN MCCULLOCH: And the final item that I have relates to a scootering Manitoba pre-ask, pre-ask number 1 and there's the response to that pre-ask. If we could file that as MPI exhibit number 11.

And that concludes my opening remarks.

THE CHAIRPERSON: Thank you, Mr. McCulloch.

--- EXHIBIT NO. MPI-1-1: MPI 2006 Rate Application - Volume I, filed June 24/05.

--- EXHIBIT NO. MPI-1-2: MPI 2006 Rate Application - Volume II, Part 1, filed June 24/05.

--- EXHIBIT NO. MPI-1-3: MPI 2006 Rate Application - Volume II, Part 2, filed June 24/05.

--- EXHIBIT NO. MPI-1-4: MPI 2006 Rate Application - Volume III, Part 1 filed June 24/05.

--- EXHIBIT NO. MPI-1-5: MPI 2006 Rate Application - Volume III, Part 2 filed June 24/05.

--- EXHIBIT NO. MPI-2: Affidavit of Catharine Pawella, sworn September 30th, 2005 with attached exhibits stating all interested parties were served Notice of Public Hearing and Pre-Hearing

Conference and rate application dated June 24th, 2005.

--- EXHIBIT NO. MPI-3: Affidavit of Zedenka Melnick, sworn September, 29, 2005, with attached exhibits of Notice of Public Hearing and Pre-Hearing Conference dated June 24th , 2005 published in the required newspapers.

--- EXHIBIT NO. MPI-4: Affidavit of Zedenka Melnick, sworn September 29, 2005, with attached exhibits of Reminder Notice of Public Hearing dated June 24th, 2005 published in the required newspapers.

--- EXHIBIT NO. MPI-5: E-mail dated July 8, 2005 from MPI to all recipients of the MPI 2006 Rate Application material revised Section T1.17.

--- EXHIBIT NO. MPI-6: E-mail dated July 20, 2005 from MPI to all recipients of the MPI 2006 Rate Application material replacement pages 23 to 26 of AP.1 re: commuter rates for motorcycles.

--- EXHIBIT NO. MPI-7: Letter dated September 16, 2005 from MPI to the Board attaching copy of revised Baron report referred to in response to PUB/MPI-2-5.

--- EXHIBIT NO. MPI-8: GRA Pre-Hearing revision.

--- EXHIBIT NO. MPI-9: Revisions to two (2) Information Requests, PUB/MPI-1-61(b), a revised response to that Information Request.

--- EXHIBIT NO. MPI-10: Revised response to MBA/MPI-1-5 which attaches a letter from the Crown Corporation's Counsel dealing with an issue that had been raised by the

Manitoba Bar at the previous rate application.

--- EXHIBIT NO. MPI-11: Scootering Manitoba Pre-Ask, Pre-Ask number 1 including the response to that Pre-Ask.

THE CHAIRPERSON: Mr. Barron, would you kindly have MPI's panel sworn or affirmed?

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

THE CHAIRPERSON: Thank you, Mr. Barron.
Mr. McCulloch...?
MR. KEVIN MCCULLOCH: Yes, Mr. Chairman. It's not the intention of the applicant to lead any other direct evidence. The four (4) panellists have all filed pre-filed evidence and by my quick count there's thirteen (13) volumes of evidence that have been filed as both part of and in support of this General Rate Application.
There is an issue that I wish though to deal with prior to turning the Panel over for cross-

examination and that deals with Mr. Palmer and the acceptance of Mr. Palmer as an expert witness in the field of actuarial science.

As early as May of this year Mr. Palmer gave evidence at the Loss Transfer Hearing and at the start of that hearing I went through the process of identifying his professional credentials and his ongoing work within the actuarial profession and at that time the Board did accept Mr. Palmer as an expert witness.

Asking the Board to assume that his abilities haven't declined in the last few months, I'm wondering if the parties would agree that Mr. Palmer can be accepted as an expert without having to go through the formality of his credentials.

THE CHAIRPERSON: Do any of the Intervenors take exception to this proposal?

The Board is quite familiar with Mr. Palmer and we'll accept that please.

MR. KEVIN MCCULLOCH: Thank you, Mr. Chairman.

The Panel is now available for cross-examination.

THE CHAIRPERSON: Mr. Saranchuk...?

MR. WALTER SARANCHUK: Thank you, sir.

CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Let me begin with two (2) standard questions, Ms. McLaren.

Can you confirm that the Corporation understands that it bears the onus of proving its case to substantiate its rate application?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: And do you agree that it is the Corporation that has the onus to establish that its rates are just and reasonable?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: Dealing with the application, by way of an overview, very generally and quickly, hopefully, can someone from the Board -- from the MPI Panel please confirm that the within application reflects no change in base revenue?

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

MR. WALTER SARANCHUK: And it includes experienced-based rate adjustments ranging from minus 15 percent to plus 15 percent?

MS. MARILYN MCLAREN: Yes.

MR. WALTER SARANCHUK: And can you confirm that with reference to Volume I AP2, there's no need to refer to it right now, but that with reference to that part of the application where this is dealt with, there is no change as to how the experience rate adjustment is calculated?

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

MR. WALTER SARANCHUK: And in respect of the experience rate adjustment, could you just define that very generally?

MR. DONALD PALMER: The experience rate adjustment is the amount of change of insur -- rate insurance use/territory combinations based on past experience. So what we expect their expected costs to be in the future.

MR. WALTER SARANCHUK: And can you confirm that this year the experience adjustment rules are not applicable to motorcycles, trailers, off road vehicles, antique vehicles and driveaways?

MR. DONALD PALMER: There are some exceptions to those plus or minus 15 percent rules, yes.

MR. WALTER SARANCHUK: What are driveaways?

MS. MARILYN MCLAREN: Those are rental vehicles that are driven one direction only. They're driven out of the province generally to another location. They're not returned.

MR. WALTER SARANCHUK: And the Corporation, in its methodology, -- rate methodology, includes reference to application of classification offset adjustments as reflected in AP3 of Volume I to achieve revenue neutrality; is that correct?

MR. DONALD PALMER: That's correct.

MR. WALTER SARANCHUK: Can you please define or explain what classification offset adjustments are, with particular reference to rate group offset and rate line offset?

MR. DONALD PALMER: Within each of the insurance use territory combinations, vehicles of different rate groups comprise that group. For example, all purpose passenger vehicles in territory one (1), there are some rate group zero (0) vehicles, rate group one (1) vehicles, all the way up to rate group twenty-seven (27).

When we have our CLEAR adjustments, we are moving those vehicles around.

MR. WALTER SARANCHUK: Excuse me for the interruption, you refer to CLEAR adjustments, can you explain what that is?

MR. DONALD PALMER: The Canadian Loss Experience Automobile Rating system that we use to classify individual vehicles.

MR. WALTER SARANCHUK: Sorry for the interruption, please continue.

MR. DONALD PALMER: When we move those vehicles around within rate groups, there are some overall revenue changes. What the classification offsets do is essentially undue those changes that are introduced because of the CLEAR rate group changes and rate line changes, so that the individual overall revenue from the insurance use territory combinations are unchanged.

MR. WALTER SARANCHUK: And what about the rate line offset?

MR. DONALD PALMER: A few years ago the Corporation introduced an addition to our methodology, that matches our experience by rate group to the rate that we expect to be charged for those rate groups. That is a rate line that is now applied to passenger vehicles, light trucks, motorcycles, motorhomes, and heavy trucks. And that's the matching of the past experience.

Again, it's a relative ranking of all the rate groups, and from that perspective again, we don't want the relative ranking to impact the overall revenue from any of those individual groups. Again, those are offset.

MR. WALTER SARANCHUK: Motorcycle rate line adjustments, however, are not revenue neutral; is that correct?

MR. DONALD PALMER: That's correct. Within the motorcycle group, we have found generally that the lower valued motorcycles are very much underrated. The higher valued motorcycles are probably about right.

Because we have got a fairly large overall rate requirement for motorcycles, we have applied the rate group first, to get some of that requirement -- rate requirement, and then go through an experience adjustment to get the rates -- the rest.

I will add that part of that is -- is simply for clarity. I mean, we -- we could have a classification offset, if our rate group offset, I think this year it's approximately 8 percent, plus or minus a little bit. We could offset that with 8 percent, and then just re-introduce it again with the experience adjustment.

So, basically it's for clarity to ensure that the lower rated motorcycles are -- are properly charged.

MR. WALTER SARANCHUK: And if you were doing it the other way there would -- the net impact would be that there'd be no change in rates, if you were to go the other way?

MR. DONALD PALMER: From -- from the

classification offset that's true, but instead of having an additional experience adjustment of 7 percent, we'd have an experience adjustment of 15 percent.

MR. WALTER SARANCHUK: And can you confirm, as I believe we've already done, but for the record, that the classification offset adjustments are in addition to the experience rate adjustments?

MR. DONALD PALMER: That's correct.

MR. WALTER SARANCHUK: And in total, premium rates are subject to an overriding cap of 20 percent, as set out in last year's Board Order 148 of '04; is that correct?

MR. DONALD PALMER: That's a change within the manual rates. For instance, if -- if a vehicle is changing rate groups, there may be for that vehicle, a rate that changes by more than plus or minus 20 percent, but within the same classification criteria they're capped at plus or minus 20 percent, yes.

MR. WALTER SARANCHUK: Now, an SM 6.5 in Volume I at page 4, there's reference to the major use changes resulting in adjustments from minus 20 percent for ORV's or off road vehicles, to plus 12.7 percent for motorcycles, is that correct?

MR. DONALD PALMER: That's correct.

MR. WALTER SARANCHUK: And in terms of

the motorcycle rate differentials, the changes range from an increase of 20.1 percent for Rate Group Zero to a decrease of 2.1 percent for Rate Group 4; is that correct?

I might mention that the rate changes are indicated in SM 4.3(b) Volume I on page 12.

(BRIEF PAUSE)

MR. DONALD PALMER: That's correct.

MR. WALTER SARANCHUK: Now with reference to those changes on page 12, can you explain what the rate changes are, very briefly, in terms of the table that is shown at the top there?

(BRIEF PAUSE)

MR. DONALD PALMER: The rate line that we briefly discussed basis relative rates for, in this case, motorcycles.

For the lower rated rate groups, Rate Group 0, 1, those require, on a relative basis, a higher rate increase than the other -- than the other rate groups, so the -- so that's where the 20 percent comes from, on the lower rate -- rated rate groups.

The higher rated rate groups are about right with very minor modifications to the rate line.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And can it be confirmed by the Corporation that there is no change in driver's licence premiums?

MR. DONALD PALMER: Confirmed.

MR. WALTER SARANCHUK: And that there's no change in service or transaction fees?

MR. DONALD PALMER: That's true.

MR. WALTER SARANCHUK: And no change in permit or certificate fees?

MR. DONALD PALMER: That's true, too.

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

MR. DONALD PALMER: That's true.

MR. WALTER SARANCHUK: And this year, the Immobilizer Incentive Program is being introduced?

MR. DONALD PALMER: Yes.

MR. WALTER SARANCHUK: Now, in terms of the -- sorry?

MR. DONALD PALMER: Just a slight

correction. That Immobilizer Incentive Program was introduced on June 23rd of this year, not the 2006 rate application.

MR. WALTER SARANCHUK: Thank you, sir. In terms of the overall application and dealing with the base premiums, the impacts on -- of the vehicle premium adjustments on the numbers of vehicles by dollar and by percentages, are reflected in SM6.6 on page 6, and it's in Volume I and in summary, if you turn to the press release by the Corporation which is shown in Tab 1 of the book of documents.

I'd just ask you to confirm, sir, that four hundred and ninety thousand, three hundred and three (490,303) vehicles, or 58 percent will receive a rate decrease, the majority, that is 92 percent of which are less than fifty dollars ($50)?

MR. DONALD PALMER: That's correct.

MR. WALTER SARANCHUK: And that three hundred -- sorry, thirty six thousand, five hundred and twelve (36, 512) vehicles or 4 percent receive no change in rates?

MR. DONALD PALMER: Yes.

MR. WALTER SARANCHUK: And three hundred and twenty-five thousand and eighty-four (325,084) vehicles, approximately 38 percent receive a rate increase?

(BRIEF PAUSE)

MR. DONALD PALMER: That's correct.

MR. WALTER SARANCHUK: On an overall basis, no rate increase is being requested; is that correct?

MR. DONALD PALMER: Overall there is no change, yes.

MR. WALTER SARANCHUK: And individual premiums will be impacted by rate experience adjustments, rate group changes and offset adjustments, clear rate adjustments and rate line differential adjustments as you referred to.

So although there's no increase in revenue being sought, 38 percent of vehicles will be paying more with this application given those considerations?

MR. DONALD PALMER: That's correct.

MR. WALTER SARANCHUK: Now, with reference to Volume I and the table at SM6.3 at page 3, and keeping your finger on that one and turning as well to SM6.5 on page 7, sorry the indicated experience requirement indicators are on page 2.

Can you please, sir, explain what is

reflected in those two (2) tables, one at the bottom of page 2 in SM6.3 and the other at the bottom of page 5 in SM6.5? And distinguish between the two (2)?

MR. DONALD PALMER: What the table on page 2 indicates is the rate requirement by major -- major class -- major classes. Sort of a big grouping of -- of the various distinct types of vehicles; private passenger, commercial, public, motorcycles, trailers and off road vehicles.

This is taking all the experience and if we didn't have all those other rules, experience adjustment rules and caps and what not, these would be based on three (3) different assumptions of the way that we forecast claims costs.

And I'll go into that in a second what we would charge for each of these -- or the rate -- the change requirement for each of these major classes.

Now, the financial forecast is the -- the method that we use to select -- to select the overall rate requirement.

And that's done through the revenue -- or the claims forecasting committee of the Corporation, multi-disciplinary committee that determines or forecasts what we believe our claims costs will be for the forecast period.

There's a couple of other actuarial report -- actuarial methods that we use to essentially as a -- as a comparator. One is a linear forecast. We look at the claims costs and we make the assumption that they will be increasing on a dollar basis per vehicle. Again, on an overall basis.

And also an exponential forecast where we look at the past exponential trends and make the assumption that our claims costs will increase on a percent basis every year. So we take those two (2) forecasts and -- and contrast them with the financial forecast.

It's a reasonableness check as much as anything.

The table on page 5 is what we're actually applying for the changes by major class. And those are after all of the experience rules and the -- the caps and what not that we have just discussed.

So that's -- that's the overall result.

MR. WALTER SARANCHUK: And with reference to the financial column in the table on page 2 with the experience rate requirement indicators and the percentages shown for SM6.5 on page 5; what is the reason for the difference?

MR. DONALD PALMER: The -- the difference is all the caps and -- mainly all the caps and other rules that we have established over the past fifteen (15) years.

And just for example, we're showing off road vehicles, a decrease of minus 40 percent. The Board ruled last year that we were subject to a -- an overall cap of plus or minus twenty (-20), so obviously minus forty (-40) is a bigger change than -- than twenty (20), so that doesn't change our overall requirements.

So even though we can't decrease those ones by minus forty (-40), we -- we still pass on those savings essentially, to -- to everyone else. So -- so there is some -- some crossing, so to speak.

MR. WALTER SARANCHUK: Now as we have in the past, I'd like a brief review conducted of the impact of the rates on certain vehicles. For instance, the five (5) largest premium increases and the five (5) largest premium decreases for passenger vehicles, and this is reflected in TI-13 -- sorry, TI-3, which is in Volume II, Part I. Actually Part IV of that particular section of the Application. This is TI-3.

And turning to TI-3, Part III-1(a), which is entitled, Fifty (50) Greatest Dollar Increases in Private Passenger Class Vehicle Premiums, by Make, Model and Model Year. This is dealing with firstly the increases.

MR. DONALD PALMER: I have it.

MR. WALTER SARANCHUK: Yes. And with reference to the first five (5) vehicles referred to there, there is the 2004 Dodge Caravan, there is also another Dodge Caravan, 2004. The first three (3) appear to be Dodge Caravans, and then there's a Chev Cavalier, 2004, and a 2005 Ford Focus, which reflect dollar changes in the order of three hundred and thirty-two dollars ($332), two hundred and ninety-nine dollars ($299), two hundred and eighty-two dollars ($282), two hundred and fifty-five dollars ($255) and two hundred and fifty-five dollars ($255) in premium increases respectively.

Can you comment on those, sir?

MR. DONALD PALMER: For the specific Dodge Caravan, you'll notice that there are columns on that, that indicate the 2005 rate group and the 2006 rate group.

In -- in general, the -- the rule that we have is that no vehicle would go up by more than one (1) rate group. Obviously from sixteen (16) to twenty-one (21) is more than one (1).

And that one (1) is just a correction of an error that was -- was made when the -- that Caravan came out in 2004, it was assigned the wrong rate group.

It -- it didn't -- didn't follow the -- the rule so to speak, so that's just correcting that.

The -- the other vehicles -- again, there's an increase of rate group of one (1), and then that compounded with all the other factors that we have talked about, results in these rates.

MR. WALTER SARANCHUK: So does that reflect an error in the CLEAR calculation, or is that a reflection of the misinterpretation of the CLEAR?

For example, how was it misclassified in the first place; just very briefly?

MR. DONALD PALMER: We -- we misinterpreted the CLEAR indications, yeah.

MR. WALTER SARANCHUK: And with -- and with reference to the Dodge Caravan, does the comprehensive experience have any impact there, particularly the theft experience?

MR. DONALD PALMER: Not because -- not for the change from sixteen (16) to twenty-one (21). In fact, these are 2004 Caravans, which aren't in our most stolen list, it's the older Caravans that's -- that's that. So, no, the comprehensive changes and the theft experience does not result in this change, no.

(BRIEF PAUSE)

MR. DONALD PALMER: For example, in the 2004 Caravan, they are equipped with factory installed immobilizers, so the clear experience would recognize and reflect that fact within the CLEAR rating.

MR. WALTER SARANCHUK: Now, moving on, some nine (9) pages further into that tab, there's a chart indicating -- or a table the -- reflecting the fifty (50) greatest dollar decreases in private passenger class vehicle premiums by make, model and year -- the model year.

And just honing right in on them, the first five (5) all reflect rather significant decreases for Buick Rendevous vehicles, 2003, 2004 model years.

Can you explain those, please?

MR. DONALD PALMER: Within the CLEAR rating that we get from the Insurance Bureau of Canada, they reflect not only the construction of the vehicles initially, but then the emerging experience that comes from those vehicles after they've been in -- in the Canadian fleet for some period of time.

What this shows is that those have -- have had very good experience. We, within our rate group change rules, we have -- we have eliminated the increases to one (1) -- one (1) rate group, generally.

But if there's decreases shown in rate

group, then we reflect the entire thing.

So for the 2003 Rendevous, for instance, that went from a rate group 26 to a rate group 22, so that would be a fairly large decrease.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And now to conclude the overview portion of this cross-examination, I'm going to ask the Corporation to comment generally on the other related matters indicated in SM-8 and ask that these be addressed at a high level and they are primarily issues arising out of the Board Order last year.

SM-8.1, these are all in Volume I. First topic there is the MPI DVL, that is MPI and Driver Vehicle Licensing merger and the issues arising out of that.

The commentary is there for all to read, but in general terms, it -- can someone from the Board panel just comment on the status of those issues?

MS. MARILYN MCLAREN: Yes, Mr. Saranchuk. As you mentioned, that for the last many years the Corporation has used this SM-8 section to provide specific responses to particular areas of concern identified the Board and it's -- by the Board in it's previous ruling.

With respect to SM-8.1, MPI/DVL merger issues, we addressed the multitude of issues arising from the merger in this section; talked about specific orders and the Corporation's response to those Orders; talked about the fact that we are undertaking a business process review to identify opportunities to really maximize the opportunities that we have now as a result of the merger and gave a bit of a summary of some of the activities that are underway in the Corporation.

MR. WALTER SARANCHUK: And as indicated on page 2, and there's going to be additional cross-examination to this area, obviously, but on an overview basis you're now treating DVL as a fourth, or non-insurance line of business; is that correct?

MS. MARILYN MCLAREN: What we meant when we said that is that we are tracking the costs separately as much as we can and we've disclosed that in our annual report and -- and that's what that comment really was focussed on, yes.

MR. WALTER SARANCHUK: Now at page 7, the second issue addressed is the basic RSR or the Rate Stabilization Reserve, there's lengthy commentary on that and just at a high level, can you just review the Corporation's comments there, Ms. McLaren?

MS. MARILYN MCLAREN: I think the key point here is that while the Corporation's risks have not changed and in having conversations internally amongst ourselves, we really find it very difficult to come up with any situation where the fundamental risks encountered by an insurance company would ever truly fundamentally change.

What has changed significantly is the magnitude of the risk, the scope of the risk. And we've identified three (3) key areas in that regard.

As a matter of fact, just earlier this morning looking through the book of documents, clear evidence that the scope of the Corporation's risk in one (1) -- one (1) area with respect to the amount of primary risk we have now because we are no longer reinsuring it has changed significantly.

So we have gone to a great deal of effort to articulate that the three (3) readily available obvious circumstances in which the scope of the risk has fundamentally changed and provided the background discussion with which our Board of Directors has established a new target.

MR. WALTER SARANCHUK: Thank you. The next issue addressed at SM8.3 on page 11 deals with rate design issues.

And, very briefly, can you comment or update us on that?

MR. DONALD PALMER: The --

MS. MARILYN MCLAREN: This deals most directly with the 20 percent overall cap that we've discussed earlier this morning.

MR. WALTER SARANCHUK: And SM8.4, motorcycle rate bases, as indicated on page 12?

MR. DONALD PALMER: There's two (2) issues addressed in that. The first is the introduction of motorcycle pleasure rates. We have not in the past had pleasure rates for motorcycles. They've all been in the all purpose category and this explains the -- the splitting of the all purpose into a new all purpose and to the pleasure motorcycle.

In addition, it talks about the differential for sport bike -- sport bike rates and the sport bike differentials and that we're currently studying that and have had no change in this year's application to sport bike differentials.

MR. WALTER SARANCHUK: The next topic is at SM8.5 at page 14, broker commissions?

MS. MARILYN MCLAREN: As requested, we've provided an analysis of the change through time of broker commissions in relation to some of the factors that the

Board asked us to do. We've also included a copy of the Commission Schedule which is in a regulation to the Manitoba Public Insurance Corporation Act.

MR. WALTER SARANCHUK: Next is the investment portfolio as indicated in SM8.6 on page 18; any commentary, update there?

MR. BARRY GALENZOSKI: Yes, this provides a little bit of history on the Corporation's investment practices from the time when we were invested 100 percent in bonds to today's asset allocation process that we have.

The fact that we have a governing structure around that that includes an investment committee of the Board. An investment committee working group and we've got a small investment department working within the Corporation now.

It's really just to help the Board understand that the process has evolved over the last number of years. Particularly with the introduction of PIPP in 1994 and the fact that monies are accumulating on the claims side which need to be there to pay the claims in the years to follow.

And that there's more money available for investment. The portfolio is -- is approaching $2 billion as -- as of right now. So it's a sizeable investment portfolio in the Corporation.

MR. WALTER SARANCHUK: And the next topic is at 8.7, auto theft issues on page 21; any update there?

MS. MARILYN MCLAREN: Yes. An update with respect to the information included in here. And, I guess as counsel for one of the Intervenors mentioned, the -- to refer the participants to page 23, 8.7.4 in this document we talk about the Manitoba auto theft suppression initiative which since publication of this document has become the Winnipeg Auto Theft Suppression Strategy.

I can tell you that with respect to theft cost -- theft experience in Manitoba this year -- this calendar year we, overall, have about a 10 percent decrease in theft this year.

But we all need to keep in mind that's after a 30 percent increase last year. So certainly trending the right way, the first time in a very long time. I think, for the most part, the suppression strategy probably gets most of the credit for that change.

But not only are we very pleased with the way that initiative is moving, we are pleased with the current status, and the ongoing positive evolution of the immobilizer strategy as well.

We've had many Manitobans step forward and become part of that program. We've also had many, many installers of the after theft devices step up and take the necessary steps to start selling and installing immobilizers as well. So that initiative is going certainly in the right direction as well.

MR. WALTER SARANCHUK: Thank you. Now turning to SM-8.8, another issue, Claims Incurred, and the Benchmarks, shown on page 29.

Any additional commentary there, Ms. McLaren?

MS. MARILYN MCLAREN: I think with respect to the infrastructure study, I would like to be able to tell you that we have awarded that contract and the work is underway, but it's not quite yet, and probably will -- will not be, until shortly after we have concluded these Hearings this year, but we expect to make a decision on awarding that contract at the end of this month, and are confident that we will be very, very near -- certainly by this time next year, we will certainly be in a position to talk about the results of that work.

May have a good bit of the work well along the way to talk about it when we file the Application next June, but we're confident that the project is about to begin, heading in the right way. And separate from the infrastructure study, we have also in response to this, filed the -- the Barron (phonetic) Report as well.

MR. WALTER SARANCHUK: And there's also at SM-8.9, on page 30, reference to the Bonus/Malice System topic, which was addressed in last year's Board Order.

Any update there, Ms. McLaren?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: Clearly this is something the Corporation does expect to move forward on, but it's not something that we can move forward on right at this point, because we -- we need to have the -- the systems and the structures in place before we can do that. So our -- our intention in this regard has not changed at all, it's still on the agenda.

MR. WALTER SARANCHUK: And finally, SM-8.10, at page 31, there are sub issues there.

Is there any additional commentary at all with respect to those, or does the document just speak for itself and you're prepared to leave it as it is?

MS. MARILYN MCLAREN: Yeah, I think this

document speaks to it -- speaks to the issues well itself, with of course the addition of the letter from the Crown Corp Counsel, that we filed this morning.

MR. WALTER SARANCHUK: Thank you. Mr. Chairman, before I -- I get into more intensive cross-examination with respect to particular areas of the Application, might I suggest that perhaps this is a convenient time to break.

THE CHAIRPERSON: Okay, we'll just take a five (5) minute break, thank you.

--- Upon recessing at 10:38 a.m.
--- Upon resuming at 10:53 a.m.

THE CHAIRPERSON: Mr. Saranchuk, anytime you want to begin.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: We'll now deal with the revenue requirement as an overall topic for cross-examination and start with the document reflected at Tab 3 in the Book of Documents, being Exhibit 10, to the PUB, Public Utilities Board documentation.

And this is the statement of the Corporation's operations for the 2004/2005 year. This is dealt with in Mr. Galenzoski's pre-filed testimony at page 2 as well in Volume I and, as well, it's referred to in SM7.1 for reference purposes.

Now, just reviewing the financial performance actually incurred with that forecast at last year's General Rate Application Mr. Galenzoski, dealing firstly with total earned revenues, do you agree that they reflect an actual amount of some $.7 million lower than forecast?

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

MR. WALTER SARANCHUK: And the claims incurred with the claims and road safety loss prevention expenses now being lower than forecast by some $56.8 million?

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

MR. WALTER SARANCHUK: With other expenses being $.1 million lower than forecast?

MR. BARRY GALENZOSKI: Correct.

MR. WALTER SARANCHUK: Investment income is more than forecast by $12.2 million; is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And I understand that's mainly due to additional earnings from the equity portfolio?

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

MR. WALTER SARANCHUK: Now, as I understand it, the primary reasons for the $68.4 million improvement over the forecast net income last year, firstly, there is the net claims incurred shown in Schedule 2 of TI-13 being part of this Tab 3 where the PIPP and collision costs are some $56.8 million lower; is that correct?

MR. BARRY GALENZOSKI: Yes, well, it also includes the -- all the other heads of damage too, but that's the net of the -- all the lines of -- of the damages that we had for the Corporation at that year.

MR. WALTER SARANCHUK: And in Tab 3 investment income is reflected as being $12.2 million more; is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And can you explain -- we're going to get into investment income and the results later in detail, but just in general terms with reference to that improvement, can you explain just what the experience was there?

MR. BARRY GALENZOSKI: With respect to investment income, this would have been primarily associated with additional gains -- net gains taken on the equity portfolios and on the bond portfolio.

MR. WALTER SARANCHUK: And the actual net income of $59.1 million was a $68.4 million improvement over the forecast $9.3 million loss last year; is that correct?

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

MR. WALTER SARANCHUK: And when was the forecast prepared, sir?

MR. BARRY GALENZOSKI: Well, the forecast -- 04/05 forecast was likely prepared for the application in June of the previous year.

MR. WALTER SARANCHUK: And, in general terms, honing in on the variance in particular; what are the reasons there for the variance?

MR. BARRY GALENZOSKI: Well variances really come down to two (2) components, one (1) being the claims incurred. Claims incurred are lower than had been expected, primarily due to an actuarial review that was conducted, a year end, and that saw the reduction. We were expecting actually to see the -- the IBNR, which is the incurred, but not reported, to increase, and had budgeted for that, and that was included in the estimates that were prepared previously.

The actual was that they came down instead of going up, and that net effect was the majority of that $56 million difference that you're seeing on the claims incurred in that line.

And then obviously the other major difference to the estimate was the investment income. And again, the way we project investment income is based on -- is based on expected outcomes. The gains are not a certainty, and therefore are not part of the -- the forecast process.

MR. WALTER SARANCHUK: Thank you, sir. Now, moving on to the Statement of Operations for the year with -- which we are in, that's reflected at Tab 4 at TI-14. That's for the year 2005/2006.

And that of course was revised on September 28th, just a number of days ago, with the filing of the bundle of documentation by the Corporation, which was marked in the evidence as the Corporation's Exhibit Number 8.

With reference to the latest revised forecast, now showing a net income of some $52 million, versus a net loss of $5.7 million projected last year, that's correct, is it not, Mr. Galenzoski?

MR. BARRY GALENZOSKI: Yes, you'll see that there's three (3) columns there, the first column on the left is the '05/'06 forecast at June '04, and then the revised forecast of June '05, and the -- the revised forecast of September '05. So we've got three (3) sets of numbers that we're dealing with here.

MR. WALTER SARANCHUK: Yes, and that's a $58 million variance?

MR. BARRY GALENZOSKI: Yes, that would be -- you're looking at a $5.7 million projected loss for June of '04, compared to a net income of $52 million after the transfer to the Immobilizer Incentive Fund, and -- and I guess when we're talking about net incomes, that's one (1) of the lines that we have to consider that wasn't considered in the previous forecast obviously.

And those expenses are in the expense category, but our real net income is the -- is the line above that, the $50.4 million.

MR. WALTER SARANCHUK: In terms of the changes in the assumptions and the impact on the forecast, that's shown on the third page in, as the third page of your revision to TI-14.

Can you just comment on those very briefly, sir?

MR. BARRY GALENZOSKI: Well, you can see that there's minor changes with respect to premiums written, which would reflect in premiums earned and that's relating to motor vehicle premiums written, which are 2.4 million more than the '05 forecast, as well as driver premiums which are six hundred thousand dollars ($600,000) less.

We talk about the road safety and loss prevention expenses, are more than budgeted in -- than forecasted in '05. But the real change is investment income, and again, we're seeing a substantial increase, you know, all of that is due to the net gain that we've got on our equity investments, both the Canadian and US dollar investments, as well as gains on the bond portfolio that we're taking.

MR. WALTER SARANCHUK: And now in terms of comparing the latest forecast to the June -- June 2005 revised forecast, and last year's forecast. There's a -- a claims incurred decrease by some $8 million, when referring to TI-14, as originally filed, and that's four (4) pages into Tab 4, the lower left hand corner showing a June 24th, 2005 filing at page 1, and looking at the net claims incurred line, my point is that it reflects an $8 million decrease; is that correct?

MR. BARRY GALENZOSKI: Yes, and that's been maintained for the forecast for September '05, also.

MR. WALTER SARANCHUK: Yes, so that there is a zero (0) change from the forecast in June in the

September forecast, correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: And the claims expense line in the previous or original TI-14 filed June 24, 2005 reflects a 4.4 million dollar decrease in claims expenses; is that correct?

MR. BARRY GALENZOSKI: No, I'm not sure I see that. We see a claims expenses originally forecast in June at sixty-seven million nine hundred and ninety-four thousand (67,994,000) and then that goes down to sixty seven nine thirty-five (67,935) --

MR. WALTER SARANCHUK: Oh, I'm sorry, I meant --

MR. BARRY GALENZOSKI: -- and is maintained.

MR. WALTER SARANCHUK: I'm sorry, yes, okay. The claims expenses shown there, right. But in terms of the overall total expenses line, as originally filed, some $94.6 or $7 million down to $90.2 million in June of this year and of in that $91.1 million as at September 28th; you see that, sir?

MR. BARRY GALENZOSKI: Yes, I see that.

MR. WALTER SARANCHUK: And so there is that change but really from the June forecast to the current forecast, there's still a 4 million dollar variance; is that correct?

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

MR. WALTER SARANCHUK: And dealing now with the investment income line, which as you indicated is the big ticket item; those are my words.

There is an increase of some $11.2 million from that forecast last year when comparing the original filing of TI-14 in June of this year at $82.8 million to the $71.5 million for investment income forecast last year; is that correct?

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

MR. WALTER SARANCHUK: And that now there is, with the latest filing, or looking at the first page of TI-14, there is now a 35.3 million dollar investment income reflection, more than three (3) months ago and $47.6 million from last year; is that correct?

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

MR. WALTER SARANCHUK: With the result that the net income now forecasted is $52 million, compared to $17 million three (3) months ago?

MR. BARRY GALENZOSKI: Again, just a very technical thing, because there is a change in our statements this year. The net income is the line three (3) lines from the bottom; that's the actual income statement that's what it'll read, and then we're for rate setting purposes only, we're adding back the transfer from the Immobilizer Incentive Fund and that's just to assist when we're talking about rate settings, so the real net income is fifty point (50.) -- fifty million four fifty two (50,452,000) is what we're forecasting.

And then the rest, this one million six twenty-five (1,625,000) will come back in the RSR section of the -- it'll be a transfer from the Immobilizer Incentive Fund to the RSR and that will bring that level back up by that $1.6 million.

But for rate setting, we're showing those two (2) together here, just so that you can see where we're -- where we're coming from with respect to the revenues that we're looking at overall, for rate setting purposes.

MR. WALTER SARANCHUK: Now, when will the second quarter report be filed?

MR. BARRY GALENZOSKI: We're hoping that the second quarter report will be handed out at the Legislature today and if that happens early enough, we'll get it to you today. If not, then it'll probably be tomorrow.

MR. WALTER SARANCHUK: Now, does this latest filing of TI-14 reflect the Corporation's best estimate for the results for the current year?

MR. BARRY GALENZOSKI: Yes, it does.

MR. WALTER SARANCHUK: Does the Corporation have any intention of revising the current application in light of these results?

MR. BARRY GALENZOSKI: Could you repeat the question, please?

MR. WALTER SARANCHUK: Does the Corporation have any intention of revising the current application in light of these latest results?

MR. BARRY GALENZOSKI: No, we just re-file the financial data.

MR. WALTER SARANCHUK: Thank you, sir.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: You made reference, sir, to the actuarial review at year end of last year, that is February of this year.

What was the nature of the change in the IBNR?

MR. BARRY GALENZOSKI: There was reductions overall of about $40 million, I believe.

MR. WALTER SARANCHUK: Is that with respect to PIPP?

MR. BARRY GALENZOSKI: It was virtually all with PIPP, yes.

MR. WALTER SARANCHUK: Which, for the record, is Personal Injury Protection Plan. Now, are those expected to have any ongoing impact?

MR. BARRY GALENZOSKI: No.

MR. WALTER SARANCHUK: So, it's a one-time correction?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: Mr. Galenzoski, we are now looking at a net income for rating at some $52 million as compared to $17 million three (3) months ago and then a year ago a $5.7 million loss.

In each and every one of those instances the Corporation is not considering any rate change as such?

MR. BARRY GALENZOSKI: Well, keep in mind that, you know, this change is primarily driven by investment income. And the second thing that you want to keep in mind is that this is for the current fiscal year, not for the application year.

And, you know, we're not forecasting that same good fortune for the future; that is very dependent on where the markets go.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: You made reference to the equity gains in this latest filing, sir, does this represent a change in the strategy related to equities?

MR. BARRY GALENZOSKI: No. It represents a change in the market conditions out there. There's -- it's been a good run for the last -- starting last year. You saw -- you saw that we took about $12 million in gains last year.

This year we've got more gains to be taken and we monitor that on a -- on a constant basis. Every week I'm looking at the gains that are available on our equity portfolio in particular.

We also talk to the Department of Finance about available gains that may be reasonably taken out of the bond portfolio and when things are lined up properly we will take those gains. And things have been going very well, both on the US and Canadian equity market particularly.

MR. WALTER SARANCHUK: Just going back to the PIPP IBNR; what exactly happened that caused that particular reduction?

MR. DONALD PALMER: A lot of it was with respect to the '03/'04 accident year. We had had a lot of serious losses that we put up some provisional reserves expecting them to -- to behave like they had in the past.

And, essentially, it didn't happen. Those increases in case reserves that we expected to see just didn't materialize.

MR. WALTER SARANCHUK: Was that the -- was that the impact of the greater than normal number of brain damage cases?

MR. DONALD PALMER: That's correct.

MR. WALTER SARANCHUK: Now, moving on to the year with which we're concerned in this application, Mr. Galenzoski, in particular Tab 5 in the documentation, "A Statement of Operations Projected for 2006/07".

And comparing the various forecasts, in particular, and this is dealt with at page 3 of your pre-filed testimony, I don't know if there's any need to go there, but in June of this year the expected result was a $75.9 million underwriting loss with an investment income of some seventy-five point seven (75.7) leaving a net loss of $.2 million; is that correct, sir?

MR. BARRY GALENZOSKI: I'm looking at this page under your tab and I don't see those numbers.

MR. WALTER SARANCHUK: Okay. Take a look at page 2 -- or actually page 1 of your filing in June; that is four (4) pages -- five (5) pages into the tab. Five (5) pages in it shows page 1, June 24, 2005 at the bottom. And I'm suggesting to you that the expected result was an underwriting loss of $75.9 million, with an investment income of some $75.7 million, leaving a net loss of $.2 million?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: And in September, going now to the first page in that tab, revised TI-15, the expected result is $7.2 million underwriting loss, with a $77.9 million investment income, reflecting a $2.7 million net income; is that correct?

MR. BARRY GALENZOSKI: Well your underwriting income I think you've got incorrect, it's $75.2 million loss.

MR. WALTER SARANCHUK: Seventy (70) -- oh, I see, okay, I'm sorry. I thought I said that, but a $75.2 million underwriting loss with a $77.9 million investment income, for a $2.7 million net income; correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: In other words, the underwriting loss indicates that, for the period in question, fiscal 2006/07, all claims incurred and operating expenses are projected to be $75.2 million greater than all projected revenues, other than investment income; is that correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: And looking at again, four (4) pages in, if you just keep your finger on -- actually five (5) pages in, this is the TI-15. Or TI-15-A. taking it another page in, as filed in June of this year.

Claims incurred increased by some $24.6 million; is that correct?

MR. BARRY GALENZOSKI: Is this on page 2 you're looking at?

MR. WALTER SARANCHUK: No, I'm looking now on page 1, as filed on June 24th of '05, this is five (5) pages in. And also reflected on page 2, I'm looking at net claims incurred, 555 million, compared to 531 million.

MR. BARRY GALENZOSKI: Yes, that's a change of about 24 million.

MR. WALTER SARANCHUK: Yes. And in the June 2005 documentation I understand there's -- oh, by the way, for the claims incurred there's really no change, it's almost exactly the same for September 2005;

is that correct?

MR. BARRY GALENZOSKI: Yes, that's correct. Now, just keep in mind that you're comparing two (2) different years here, you're comparing '05/'06 forecast to '06/'07 projected.

MR. WALTER SARANCHUK: Well I appreciate that, sir, I'm just going over the differences.

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And now with reference to the June filing, again, now dealing with operating expenses, there was to have been the $2.7 million increase forecast; is that correct?

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

MR. WALTER SARANCHUK: And there's slightly less of an increase now; is that correct? Operating --

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

MR. WALTER SARANCHUK: Now, looking at TI-15-A revised, which is your latest filing, three (3) pages into the Tab numbered 5.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Sorry, taking a look at TI-15-A as filed in June of this year, which is another four (4) pages over, TI-15-A. Three (3) months ago the net income for rating was projected at $.6 million, and now, comparatively speaking, on TI-15 and TI-15-A, there is a $4.5 million net income projected; is that correct?

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

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And you dealt with this, sir, in your pre-filed testimony at page 7, in your revised pre-filed testimony.

Could you just refer to that explanation as given in the second paragraph, that's the one in the middle of the page, beginning with the words "TI-15 revised", this is page 7 of your revised pre-filed testimony.

Just with reference to that paragraph, I don't know if you want to quote it or just review it, but please deal with it.

MR. BARRY GALENZOSKI: I'll read it in.

"TI-15 revised indicates that for the

'06/'07 fiscal year, basic insurance
income statement will record a net
income of 2.7 million which includes
the 1.8 million in anticipated costs
that relate directly to the Immobilizer
Program previously detailed.
The 2.7 million net income will be
allocated to the basic RSR and the RSR
will be credited with the recovery of
1.8 million from the IIF fund,
resulting in a net increase to the RSR
of $4.5 million."

MR. WALTER SARANCHUK: Yes, sir, and so the $4.5 million really arises out of a $1.8 million recovery from the RSR for the -- the IIF, if you will; is that correct?

MR. BARRY GALENZOSKI: It's a recovery from the IIF to RSR, yes.

MR. WALTER SARANCHUK: Now, why is the transfer from the Immobilizer Incentive Fund or IIF shown on the income statement which is TI-15, this is the first page of your revised filing, as it was shown in the TI-15 previously filed.

When in the next tab at page -- Tab 6, in the TI-16 document revised, that's a statement of basic insurance retained earnings, it is shown as part of the retained earnings?

MR. BARRY GALENZOSKI: We're talking the Immobilizer Incentive Fund?

MR. WALTER SARANCHUK: Yes, sir.

MR. BARRY GALENZOSKI: Yes, the Immobilizer Incentive Fund is part of the basic retained earnings. Basic retained earnings has two (2) components now, which it didn't have the previous year.

In the previous years, the basic retained earnings were all allocated to Rate Stabilization Reserve. In the current and future, at least for the next few years, we -- we will see it -- we have two (2) components.

One (1) component will continue to be the Rate Stabilization Reserve and the other component will be the Immobilizer Incentive Fund which will decrease over time as we progress with this project.

MR. WALTER SARANCHUK: Is this in accordance with the GAAP or the general accounting -- accepted rules of accounting practice?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And is there a particular purpose of reflecting the transfer in this manner, bearing in mind that we're going to be getting into it in some detail later, but just in terms of the presentation?

MR. BARRY GALENZOSKI: Yes, the presentation is designed to be, you know, very transparent. It's, you know, I harken back to the days when we had the additional revenues that we were getting to rebuild the Rate Stabilization Reserve and we were required by the Board at that time to make sure that we highlighted where those monies were being accounted for, so that they were explicitly detailed within both the income statement and then within Rate Stabilization Reserve.

And what we're doing here is we're saying that that Immobilizer Incentive Fund is the special purpose fund set aside to deal with the theft project that we've got underway right now.

And that the RSR is a stand alone, separate, discrete discussion, and we're trying to separate the two (2) so that it can be easily seen.

But we also want to make sure that you can see the accounting for it, as to how it's going to work. And so that's why in my testimony, my pre-file testimony I wanted to make it extremely clear as to how we were going to detail that and how the monies were going to flow.

Any future net incomes are still going to flow into the RSR and then the Immobilizer Incentive Fund now, the -- I'll just step back one -- one little bit on that.

Any future net incomes are going to have some costs embedded in that. In other words, they'll be lower because of the Immobilizer Incentive Project that we've got going.

Some of those costs go through the income statement. To offset that, the Immobilizer Incentive Fund reimburses that into the RSR to make that fund whole, as though that program was a stand alone program, which it is.

And it is therefore very easy to determine how much money has been spent on the Immobilizer Incentive Project and what the impact is, then, with respect to the ongoing RSR.

The ongoing RSR will be ongoing. The Immobilizer Incentive Fund is a special purpose fund that has a shelf life.

MR. WALTER SARANCHUK: So you have no --

MS. MARILYN MCLAREN: Excuse me. I'll maybe just add to that slightly. The practical reality is that we have to spend money on the immobilizer incentive strategy before we save money on claims costs.

If we had a perfect matching of expenditures to reduce the cost of theft and the savings in claims costs from those reductions in thefts maybe we wouldn't be working so hard to make it so transparent.

But, the reality is that we need to get sufficient immobilizers out there. We need to fund the program for a significant period of time before we actually see measurable reductions in claims costs; that way, by doing it the way that we have presented it makes a very clear differentiation between what the actual income statement is in the Corporation's, you know, finishing financial year in the annual report and what we truly believe we have as income to deal with, with respect to rate setting purposes.

Otherwise, we would be understating the income, effectively, because we're spending money before we recover the savings.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: I'm not inclined to mediating differences of opinion between accountants, but let me ask you, Mr. Galenzoski, do you have any difficulty with representing in the net income statement transfers from reserves?

MR. BARRY GALENZOSKI: Again, we wanted to make sure that we -- we're showing it to you on this -- on the statements for rate setting purposes. But, you know, to have clarity with respect to the net income statement we've -- we've decided to handle it the way we have.

And there are different -- different ways of handling it, obviously.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Well, do the accounting rules permit taking reserves into account in the calculation of net income?

MR. BARRY GALENZOSKI: Not retained earning reserves. They do take into account any changes in our reserves that are on our balance sheet. And since claims incurred or pension liability, those types of changes are flowing through the income statement.

MR. WALTER SARANCHUK: So this is illustrative of but not reflective of GAAP; is that correct?

MR. BARRY GALENZOSKI: Can you repeat that question please?

MR. WALTER SARANCHUK: So this is

illustrative, but not reflective, of General Accounting -- or acceptable accounting practices; is that correct?

MR. BARRY GALENZOSKI: These are special purpose statements that we're preparing for the -- this particular hearing.

MR. WALTER SARANCHUK: Thank you, sir.

Now, turning to Tab 7 and dealing with the revision to TI-17 that was just filed. With reference to the bottom line, so to speak, the net income for rating as shown in revised TI-17 just filed at page 1; can you discuss the primary reason or reasons for the variation in net income in the -- particularly the last two (2) years, '04/'05 and the current year?

MR. BARRY GALENZOSKI: Yes. We just went through the -- the '04/'05 year where we talked about the change in financial provisions was a major impact and then there was about $12 million in investment gains that were taken; that had the -- those were the two (2) major components with respect to the $59 million net income.

With respect to the -- the current fiscal year that we're in right now, the $50 million. Almost entirely that's relating to investment income increases due to the gains on both the equity and bond portfolios.

So those would be the major changes. If you go back in to the '01/'02 and '02/'03 year, the prime reason for those reductions is because of less investment income than expected.

MR. WALTER SARANCHUK: And turning over to the next page, TI-17(a) as just revised and just filed, can you confirm, sir, that the schedule reflects no rate increases in the outlook period?

MR. BARRY GALENZOSKI: Yes, I can confirm that.

MR. WALTER SARANCHUK: Now, what factors are behind the increase in premium revenue in each of those years?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: The major drivers are -- are two (2) factors, there's the upgrading factor, which we're budgeting for 3 percent upgrading, and then the volume increase for '07/'08, we're showing at 1 1/2 percent and then 1 percent thereafter. So those are the two (2) big factors in the change in the income, or the premium's rate.

MR. WALTER SARANCHUK: And we'll get into this in detail a little more later, sir, but can you just at this time, briefly explain what are the upgrade factors and volume factors?

MR. BARRY GALENZOSKI: Yes, the upgrade factor primarily relates to the vehicle fleet being renewed, as customers dispose of older units and buy newer units. The newer units generally reflect a higher insurance premium, and therefore the revenues are increasing as a result of that.

And then the volume increase is simply what it means, it just means that there's more insured units on the streets.

MR. WALTER SARANCHUK: Also, to be noted is the claims costs increasing in each of the years from some $609.4 million, for just forecast for 2005/06, to $724 million in 2009/2010.

In arriving at the forecast that you do for outlook period, just how do you go about that, sir, and appreciating that we're talking about some four (4) or five (5) years out?

MR. BARRY GALENZOSKI: Yes, well there's a lot of rigour with respect to the -- the increases that we're expecting year over year from our current to our next fiscal period, the period that we're requesting the Rate Application for.

And then after that there's factors that are put towards increasing the costs going forward, based on historical increases that we've seen, any changes that there may be with respect to cover, any changes that we're seeing with respect to trends in our claims patterns.

The claims expenses, those -- that line is primarily our -- our expenses for salaries, building operations, and so we have factors that we would apply against that, as to the expected increases that we would have on those.

And road safety loss prevention, the same thing -- same thing would happen with that.

MR. WALTER SARANCHUK: Now, moving down to the underwriting income or loss line, sir, would you agree that there is a $7.5 million increase in underwriting loss in 2006/07, compared to 2005/06?

MR. BARRY GALENZOSKI: Yes, I'd agree with that.

MR. WALTER SARANCHUK: And then there's a $19 million underwriting loss increase in 2007/08, over the projection for 2006/07; is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: Does this reflect that rates are insufficient to offset the growth and claims costs, notwithstanding the increase in revenue projected, particularly for '06/'07?

MR. BARRY GALENZOSKI: No, in my opinion

it reflects that rates are -- are fairly well stated. You'll look at that bottom line net income loss for rating purposes. Included in that underwriting loss that you're seeing, are the -- the monies that are flowing to the income statement, related to the Immobilizer Incentive Fund, those are offset in that -- in that second line from the bottom.

And for instance, when we look at '07/'08, there's $7.3 million that would be included in that $94.2 million underwriting loss.

And then of course we do consider investment income when we look at rate adequacy, and these are our expected investment incomes that we're -- we're going to have, without the exceptional gains that we've seen in the last year particularly, and the year before that, to some degree.

MR. WALTER SARANCHUK: I just draw your attention to the so called levelling during the outlook period.

Is this a reflection of the Immobilizer Incentive Fund Initiative?

MR. BARRY GALENZOSKI: There would be some of that in the claims projections, yes.

MR. WALTER SARANCHUK: Can you confirm, sir, that rates are not designed to recover claims costs, but rather it's consideration of investment income taken into account?

MR. WALTER SARANCHUK: Yes, investment income is taken into account at MPI.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Is the annually increasing investment income offsetting the underwriting loss in each year, at least to some degree, notwithstanding the Immobilizer Incentive Program expenditures?

MR. BARRY GALENZOSKI: Yes, if you took away the Immobilizer Incentive Fund program costs, the investment income is designed to have that effect that you explained, which is to offset the underwriting loss.

Keep in mind that we're looking to have an extremely loss ratio in comparison to other insurance companies. You know, we're looking to have at least 85 percent loss ratio, so that doesn't leave a lot with respect to your income being able to offset your other operating costs and -- and then come out with a bottom line underwriting profit.

We don't budget for an underwriting profit for basic insurance; this just isn't going to happen because of the way we're structured and the -- and the goals we have with respect to the amount of money we want to provide back to our customers with respect to the loss ratio that we're expecting.

MR. WALTER SARANCHUK: After application of investment income, this is the outlook period of 2007/2008, the Corporation still anticipates a loss.

Can you comment on that, sir?

MR. BARRY GALENZOSKI: Yes, well, 7.4 million or 7.3 million of that is related to the dollars that are included in the income statement that relate to the Immobilizer Incentive Fund, so the net is really a loss of $1.6 million, when we look at it from the higher perspective.

MR. WALTER SARANCHUK: Now dealing with investment income in particular, in some detail. If you just keep your finger on Tab 7 and Tab 9 as well, which is the investment allocation, and this is dealing with the -- the latest revisions, the latest revised filings.

Would you agree, sir, that taking a look at TI-13, 14, 15 investment income is a major component in the operating results of the Corporation?

MR. BARRY GALENZOSKI: Yes, I would agree with that.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And in Tab 7, looking at the investment income line from 2001 to date, can you comment on the variability in investment income?

MR. BARRY GALENZOSKI: Yes, when we look at Tab 7, page 1 you'll see that investment income has in '01/'02, was 55.4 million and it dropped to 44.1 million and went up to 108 million.

That's real variability; there's no doubt in that in anybody's mind about that.

And a lot of that reflected what was happening in the market place and particularly the type of investments we had -- we got ourselves into with respect to some of our equity investments, and just where equities were going at that particular point in time.

When we get to '03/'04 we had a much better experience, again as a result of where the markets were going.

Then it levelled off in '04/'05 and although we were still about 12 million more than we'd expected and then for the current year, '05/'06 we're at a much higher number and again, because the equity markets are very strong right now.

We're also able to take some of our bond gains so that is all reflected within this -- these statements. It's showing the actual experience up to the '04/'05 year and you can see what that is, and there's -- there's lots of documentation that's been presented here with respect to what those actual results were, what we think the results are going to be for the current year that we're in, and then where we think we're going in the forecast period.

MR. WALTER SARANCHUK: Turning to Tab 28 in the book of documents, that includes the Public Utilities Board's interrogatory or Information Request number 5 in the first round and the Corporation's response thereto.

Turning to the last page and that is the attachment that was provided in response to Part D of that inquiry which said, quote:

"Please provide a schedule detailing the history of the projected forecast and actual investment income by asset class in the last five (5) years." End of quote.

I would refer you, sir, to the equity gain/loss line in particular.

MR. BARRY GALENZOSKI: Yes, I have that.

MR. WALTER SARANCHUK: Thank you. And I

wonder if you would please review those and indicate just what that information does reveal in terms of the projected to actual results in that particular line from 2002/03 to 2004/05?

And if you can comment on the variability that would be fine too.

MR. BARRY GALENZOSKI: Sure. I'll look at '02/'03, for instance, where when we looked at the '02 -- 2002 GRA the projected was $14 million. The 2003 GRA the forecast was $10 million and then the actual for '04 was -- was a $27 million loss.

And so that just demonstrates the volatility that there was on that particular market segment at that particular point in time. We -- we ended up not making money on those equity investments, not to the extent that we thought we were going to.

That -- then -- then you look at what happened in the next two (2) years and you'll see that the projected is a lot lower than what the actuals ended up in both of those years.

And, again, that reflects what was happening in the marketplace at the time, that we were able to get some gains out of our portfolios.

MR. WALTER SARANCHUK: Can you comment on what was the driver in respect of those results for

'03/'04 as compared to '04/'05? Were there particular equities that --

MR. BARRY GALENZOSKI: Well --

MR. WALTER SARANCHUK: -- sort of reflect a greater change?

MR. BARRY GALENZOSKI: We're invested in two (2) types of equities; in the Canadian market and on the US side. The US is the S&P 500 and the Canadian is the TSX -- S&P TSX 300.

And primarily we've seen very good results on the Canadian investments. We -- we had our investments in -- if you go back to '02/'03 we were on the US side we were invested entirely in something called equity swaps.

We weren't really invested in any one (1) particular stock. We were invested in an index to the S&P 500 and it had pre-determined settlement dates and that market wasn't doing good. And it was like mark-to-marketing -- mark-to-market, your bond portfolio or your investment portfolio at that time.

We had to make a settlement based on where the market was. And, as a result, things weren't going -- weren't going good for us. We got ourselves out of that type of investment and went to managed funds after that and that had better results for us going forward, particularly on the US side.

Now, the US isn't the biggest component of our equity portfolio, but it is -- it is a significant one with respect to the dollar impact. You would have seen other things that were happening in the market, 9/11 for instance was something that would have caused some difficulties on the stock markets, both US and Canada.

And all that gets reflected in where the markets are going over time. So there was a dip. There was a dip for a couple of years. Then it came back up to something more expected and we've had better results over the last two (2) years.

MR. WALTER SARANCHUK: And given that variability, how would you describe the basis for your establishing assumed investment rates of return?

MR. BARRY GALENZOSKI: Well, we're -- we're somewhat conservative on that. We don't provide an equity premium, for instance, on our -- when we're budgeting for our forecasted income on -- on equities.

In other words, we're basically saying that equities are going to behave something like a bond, Canada 10 year type bond without having some kind of an equity premium just because you're in equities.

It's more of a wait and see attitude with respect to what the results will be. And on that basis, you know, we will -- we will hopefully have reasonable results. Now, over and above that, of course, are the swings that you're seeing in the marketplace.

And if they're -- if they're really positive like they are the last couple of years then you're going to see a bigger impact. If they're quite negative like they were two (2) years prior to that, then you're going to see the opposite side of that coin.

MR. WALTER SARANCHUK: And do the variances from the assumed rates of return have consequences on the RSR?

MR. BARRY GALENZOSKI: Well, they have consequences on the net income earned or not earned on a particular year. Net income or loss flows into the RSR and, therefore, there's a consequence.

If it's negative on the investment income side then it's going to reduce the contribution made to the RSR or even draw down the RSR. If it's positive, like it has been, for instance, this year, then that's going to be a very positive development on the RSR.

MR. WALTER SARANCHUK: Mr. Galenzoski, in terms of the Corporation's investment portfolio, you filed a revised TI-21, which is at Tab 9, both the original filing of the investment allocation, being the second page in that tab, and the first page being the revised filing as at September 28th, 2005.

As I understand it, there's an average investment portfolio there of some $1.898 billion, given the latest tabulation; is that correct?

And I'm talking about the average investment portfolio column, totalling up the 12.1 million for short term, the 1.4 billion long term, and 4.3 million in equities, I have at one billion eight hundred and ninety-eight million (1,898,000,000), broken down with those categories; is that correct?

MR. BARRY GALENZOSKI: I'll give you that one (1), sure.

MR. WALTER SARANCHUK: And overall, as I understand it, you're expecting the Corporate investment income to be $88.2 million; is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And that basic share is 88.28 percent, or $77.8 million?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: Now, with reference to this particular filing, can you explain just how, in general terms, the basic share is determined?

MR. BARRY GALENZOSKI: The basic share is determined, based on average funds available for investment. Average funds available for investment consist of monies that are set aside to pay claims, both case reserves and financial provisions, if they're fully funded.

Any of the -- any of the other cash assets of -- of the -- of the division that we're talking about, whether it's basic extension or SRE, and those are averaged and then we determine the percent that's available for each line of business.

And you'll notice that we're saying basic share is 88.28 percent, where a previous document on the page below, said it was 87.77 percent. So that reflects that there was more cash available for investment on the basic side than there was previously, when we did the allocation.

MR. WALTER SARANCHUK: And can you confirm that there's been no change in determining the allocation percentage from the previous year?

MR. BARRY GALENZOSKI: Yes, I can.

MR. WALTER SARANCHUK: And to what extent does the division of vehicle licensing, which is now included in the extension division, as I understand it, impact the determination of the investment income allocated to basic?

MR. BARRY GALENZOSKI: Well, it wouldn't have any impact at all. It's -- again it's not part of the basic component, therefore it's -- we don't include it in our -- our cash.

Now we're -- we're -- you know, as far as getting a bigger share of the overall portfolio, in the situation that we're currently in where DBL costs are a little bit higher than the monies we're getting in, that depletes the monies available for investment for the extension line of business, with the result that they're going to get a smaller piece, and if they're getting a smaller piece, then somebody else is going to get a bigger piece.

MR. WALTER SARANCHUK: In terms of the overall management of your portfolio, I would refer you to AI-16, which appears in Tab 10, being the Investment Policy Statement of the Corporation. This is Tab 10.

MR. BARRY GALENZOSKI: I have that.

MR. WALTER SARANCHUK: Who authored this particular document, sir?

MR. BARRY GALENZOSKI: Well, this document is -- is prepared by our investment department, it's vetted through our Investment Committee Working Group, which consists of -- of people from the Department of Finance and people from MPI, I chair that particular group.

It then goes to our Investment Committee of the Board, and it is -- it is approved by our Investment Committee of the Board.

MR. WALTER SARANCHUK: Then how does it gain the Corporation's overall approval, taking it right through to the Board of Directors?

MR. BARRY GALENZOSKI: Well, I thought I just explained that, but --

MR. WALTER SARANCHUK: No, I'm talking in terms of what is done from the Investment Committee to the Board?

MR. BARRY GALENZOSKI: Sorry. Okay, the Investment Committee goes to the full Board and recommends acceptance, and the full Board then accepts and then it becomes MPI policy.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And if it were thought beneficial to take a particular gain today, selling some investment, how far down the line of that process that you reviewed does one have to go to implement that?

MR. BARRY GALENZOSKI: Well, I'll explain how we do that. We -- we monitor our investments gains on a -- on a weekly basis, particularly on the equity portfolio and we separate it between the equity and the bond portfolio, and I'll explain the equity portfolio first and then I'll talk about the bond portfolio.

So with respect to the equity portfolio, there's a report prepared on a weekly basis that shows me the gains that are available by investment fund manager, not by particular the investment. I don't need to get down to that level of detail.

Based on -- we have -- we have set a guideline for taking gains on our portfolio and we've -- the guideline says that gains may be taken if they -- if the unrealized gains exceed 105 percent of the book value of the portfolio, in the equity portfolio that's -- we're just talking equities now.

So once -- if the -- if the equity portfolio is greater than 105 percent of book value, and let's say it's at 110 percent, and there's $25 or $30 million available for gains, I can then recommend that we take gains on that portfolio and that's what we've been doing over the last -- last little while.

So what I would do on that process is that I would touch base with the CEO and say we're planning on doing this. I would also touch base with the Chair of the Investment Committee to indicate that this is what we're intending to do and -- and green lights indicate that I then go to the investment department and say go to the investment fund managers and we specifically request them to take a certain dollar gain.

We don't tell them how to do it, we don't tell them which equities to sell, how to deal with that; which equities -- you know, what -- what they should sell, what they should re-buy.

That's left to them as managers, and they manage that part of it for us and we get the gains over a period of about two (2) weeks.

So, hopefully that explains that side. I'll just wait to see if there's any questions on that side, and then I'll go into the bond.

MR. WALTER SARANCHUK: Well, who makes the decision as to which investment would -- to sell?

MR. BARRY GALENZOSKI: The equity fund manager makes that decision. So we have a number of equity fund managers working for the Corporation under contract through the Department of Finance and they make the decision on which specific equities to sell.

We just tell them how much we want them to take.

MR. WALTER SARANCHUK: And once sold, what is the decision process to re-invest?

MR. BARRY GALENZOSKI: That's again up to the equity fund manager. They're hired with the specific objective of investments that they are hired to do and they make all those decisions independent of MPI.

MR. WALTER SARANCHUK: Okay, if you wouldn't mind proceeding onto the bonds.

MR. BARRY GALENZOSKI: On the bond portfolio, that's run entirely by the Department of Finance and their personnel. We obviously know what's going on because we do all the accounting and whatnot on that, but they make the decisions on -- on when to take gains on the bond portfolio and generally speaking, they're -- they're looking at some rough guidelines of about -- they can take up to about $5 million a year in gains.

If they feel that there's more opportunity in the market place to take gains, and when we're taking gains on the bond portfolio, what we're trying to do is not sell our future off.

In other words, when you -- you take a gain on the -- on the bond portfolio, you're really discounting your future income flows, by selling an investment today which is got a market value at a higher rate and then likely having to buy another -- another bond which is going to yield something smaller.

Although you've got more money to invest, so you can buy more bonds, you're likely to lose a little bit of investment income going forward.

What we try to do is not lose too much of that investment income and, in fact, there's been cases, there's a number of them where we can actually find something that we can invest in that will give us a better return in the long run.

So that when we do the gain and look at the future income flows of the replacement investment, that we're actually in a better position than we would have been if we would have done nothing.

That's the situation we're looking for ideally, or close to that if we can get to that, and we monitor on that basis.

So, the decision is up to the Department of Finance, up to the first $5 million in gains. If they feel that there's opportunities to take more than 5 million then they would come to us and say that they think that there's these types of opportunities and we would say, okay, to go ahead on that side.

And again, it would go through the same process I explained before. It would come to me, I would then vet it through the CEO and the Chair of the Investment Committee and if everybody is happy we would then proceed. And that's -- that's how we handle it.

MR. WALTER SARANCHUK: So the ultimate decision is made by MPI?

MR. BARRY GALENZOSKI: The decision to go higher than five (5) is made by MPI. The first five (5) is -- is left up to the Department of Finance.

MR. WALTER SARANCHUK: And who makes the reinvestment decision of those funds?

MR. BARRY GALENZOSKI: The Department of Finance.

MR. WALTER SARANCHUK: Now, with reference to the policy reflected in Tab 10 and, in particular, on page 11 dealing with Section 6, "Permitted Investments," paragraph 6.1 and 6.2; can you comment on the difference between those -- the content of those two (2) paragraphs?

MR. BARRY GALENZOSKI: Yes. The 6.1 relates to the MUSH sector as we commonly refer to it; that's municipals, schools, hospitals. And this is where we actually make a commitment to the Department of Finance that we will buy X number of dollars in -- in bonds. It's usually in the $35 to $50 million a year range.

And they then know that they've got a market for this particular type of investment and we proceed on that basis. So that's -- it's a priority within our overall investment portfolio with respect to bonds.

We've had this right from the start of the Corporation. It's been part of our founding mandate to invest more in Manitoba and so this is how we bring that to life.

The second part relates to supporting other investments that may be available in Manitoba. This is on the bond side. This isn't -- this isn't with respect to equities. And, again, this is the Minister of Finance, through the Department of Finance, their authorization process as to whether they'd like to get involved in some venture.

For instance, the new airport authority is an example of this one. If they decide that this looks good for MPI's portfolio then they would go ahead and buy that for us.

MR. WALTER SARANCHUK: Now, there is reference in the 6.2 of degradation in investment yield or grade and that none is evidence in -- at least the reference is that none is evident in respect of the commitment to support Manitoba enterprise where, on the -- on the advice of the Minister of Finance.

Will the investments in 6.1 consider degradation in investment yield or grade?

MR. BARRY GALENZOSKI: No, this basically says that the investment yield should be at least at what the Canada 10's would be and with respect to the municipal, schools, hospitals, we actually get a little bit of a premium because of the -- there's a bit of a credit risk there.

There's also -- they're also not liquid. I should add that very quickly because we haven't been able to sell any of those bonds and nor are we trying to at this stage.

MR. WALTER SARANCHUK: And who sets the yields for the return on the mush bonds?

MR. BARRY GALENZOSKI: That's set by the Department of Finance. And I should add that the Corporation is satisfied that it's a reasonable rate of return and that the mush bonds are good for our portfolio. We've actually reviewed that and we're very satisfied that that's being handled appropriately.

MR. WALTER SARANCHUK: On page 2 of the investment policy in AI16 there's reference, sir, to a working group in the, I guess, the fourth paragraph from the bottom.

I'm not sure whether you defined that or indicated just who comprises that working group when you talked about the process earlier. But can you just describe now then what is meant by the "working group," so to speak?

MR. BARRY GALENZOSKI: The working group is the investment committee working group. And that consists of members from the Department of Finance. It consists of MPI people which includes myself as chair. It includes Peter Dyck who is our -- our controller, Brian Jackson and Richard Iwuc our investment manager.

MR. WALTER SARANCHUK: And on page 3 in the last paragraph there's reference to the investment fund directional plan that is forwarded to the Department of Finance each January.

What is that document and who prepares it?

MR. BARRY GALENZOSKI: Well, that document is prepared by MPI. It's -- it says:

> "Working group shall annually provide the investment fund directional plan to the investment committee and the Department by the end of January which will be forwarded for approval of the Board and the Minister."

And what that is is it's a -- it's a document that we prepare.

MR. WALTER SARANCHUK: We, meaning who?

MR. BARRY GALENZOSKI: We meaning MPI and the Investment Committee Working Group. So, the document -- I used to prepare this on my own, now that we have an Investment Department, Mr. Iwuc is responsible for preparing the initial draft to that particular report that goes to the Investment Committee Working Group for their input, and based on a finalized report that then goes to our Investment Committee which approves that document. It also goes to the Department of Finance, to the Minister of Finance, for their input and approval also.

MR. WALTER SARANCHUK: And can you comment on Mr. Iwuc's experience and qualifications to deal with that task?

MR. BARRY GALENZOSKI: Well, Mr. Iwuc is a -- is a CFA, and he's been involved in investments for a number of years. He's not doing this on his own, he's got support staff in his departments, two other CFAs in the Department, plus an analyst.

MR. WALTER SARANCHUK: CFA meaning?

MR. BARRY GALENZOSKI: Certified Financial Analyst -- Chartered -- Chartered Financial Analyst, right. You know, there's so many acronyms around, who can keep them all straight.

MR. WALTER SARANCHUK: You don't have to tell me.

MR. BARRY GALENZOSKI: I'm having trouble with my own initials, let alone something else. So in any respect, there is a professional department there that has added a lot to the Corporation's ability to manage its investment portfolio over the last number of years.

And that -- that group is -- is primarily responsible for drafting the initial plan, and then it goes to the full Investment Committee Working Group, and their expertise is then brought to bear on it.

MR. WALTER SARANCHUK: Can you, sir, indicate the scope of authority of the Department of Finance in establishing the Investment Fund Directional Plan versus executing the plan?

MR. BARRY GALENZOSKI: Well their authority in establishing the Investment Directional Plan is no greater than any other member of the Investment Committee Working Group, although I would hesitate to say that if we, as members of MPI, decided to do something that they found objectionable, we'd probably hear about it pretty quick.

In any respect, the Department of Finance has legislative authority over our investment process. And it is only since the -- the advent of the PIPP Program, the Personal Injury Protection Program in 1994, that there was a realization that we needed to do something better than just invest in bonds at a 100 percent basis.

And since then we've had this Investment Committee Working Group, which has worked very cooperatively together to develop our investment strategies and actually execute those strategies to the benefit of Manitobans. And -- and that's what we've been doing in that last little while.

MR. WALTER SARANCHUK: It's now noon, Mr. Chairman. I don't know whether you think that this is a convenient time to break for lunch or not?

THE CHAIRPERSON: We have no problem with lunch, we'll come back at 1:30, thank you.

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

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

THE CHAIRPERSON: Mr. Saranchuk, whenever you want to begin again.

MR. WALTER SARANCHUK: Thank you, sir.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Continuing on with the document at Tab 10 which is AI-16 and, in particular, this being the investment policy statement of the Corporation.

With reference to the role played by the Department of Finance, Mr. Galenzoski, that is dealt with in the second major paragraph on page 2.

And I wonder if you would just briefly paraphrase that information so we can have on record what role the Department of Finance does play in the scheme of things?

And then I'll have some further questions to ask you.

MR. BARRY GALENZOSKI: You'll have to direct me to that again. Page 2...?

MR. WALTER SARANCHUK: That's page 2, beginning with the words "it is a statutory requirement..."

MR. BARRY GALENZOSKI: Yes, I got that.

> "It is a statutory requirement that the Corporation, pursuant to the requirements of the Act, pay to the Minister of Finance ('the Minister') all monies and any reserves established under Section 18 of the Act and such additional monies as are not immediately required for the purposes

of the Corporation as are available for investment. The monies paid will be invested in accordance with the Financial Administration Act. The Minister has charged the Department of Finance ('the Department') with the operational management of the fund."

MR. WALTER SARANCHUK: Yes. Now, what role does the Department of Finance play in the process of establishing the investment policy statement?

MR. BARRY GALENZOSKI: Their role is that of members on the investment committee working group that drafts the investment policy statement. As I indicated before, the investment department will -- will look at the investment policy statement. Look for areas where changes may be necessary. Bring that to the investment committee working group which is a joint group of MPI and Department of Finance people.

And then that goes to -- to two (2) groups. It goes to the Minister of Finance so that we know that they're -- he's on side or she's on side with the particular statement. And then to our Investment Committee of the Board for their approval and eventually to our Board for approval.

MR. WALTER SARANCHUK: And I don't know

that anything could be read into numbers, but in dealing with the group where both the MPI and Department of Finance people convene, in terms of numbers, how large of a group are we talking about and who contributes how many?

MR. BARRY GALENZOSKI: Well, up until recently there were three (3) members from the Department of Finance. There's four (4) members from MPI. Our CEO has been sitting on the committee the last little while to familiarize herself with it; that consists of the committee.

MR. WALTER SARANCHUK: And what role does the Department of Finance play in the operational management of the fund?

MR. BARRY GALENZOSKI: Well, for instance, I'll talk about equities first. On equity's side any -- any contracts that we enter into with investment fund managers are entered into by the Department of Finance in their name on our behalf.

So we're not even signing the contract, for instance, although we're very much involved in the selection of the equity fund manager, as is our Board, through the Investment Committee.

The -- on the bond side they're totally in charge of the -- of the bond side which is the biggest piece of our investment portfolio.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So in terms of percentages, what role would the Department of Finance play in the operational management of the fund?

MR. BARRY GALENZOSKI: You know, it's hard to put a percent on it. I would say the majority of the work is done by MPI, that, for instance, we have -- we have an investment department, so there's more resources coming to the table as a result of that expert resources that we have.

We have our own financial management system for investments that we -- that we run, so everything goes through that.

So we're doing a lot of the hands on. Whenever we're looking for take -- to take gains, for instance, on the equity portfolio, that would be done using MPI resources.

On the other side of the coin, the Department of Finance brings to the table their expertise with respect to the bond side of the equation.

They buy the hedge on the US currency exposure that we have on our US investments.

So, you know, if I was going to put an estimate on -- on percent of involvement, I would probably say one-third (1/3) involvement from them and two-thirds (2/3) from MPI, but, you know, that's kind of subjective and I don't know if it's really fair to do that.

MR. WALTER SARANCHUK: And in terms of administering, if you will, the investment process, is that still about one-third (1/3) two-thirds (2/3's)?

MR. BARRY GALENZOSKI: Well no, on the administration side, they would be involved more equally because they're -- they're equal partners in the Investment Committee working group.

They attend the Investment Committee of the Board meetings so, you know, I would look at them as equal partners on that side.

MR. WALTER SARANCHUK: And are fees paid to the Department of Finance by the Corporation?

MR. BARRY GALENZOSKI: Yes, we do pay fees on the value of the investment portfolio and those would be approximately eight hundred (800) to $1 million -- eight hundred thousand (800,000) to a $1 million a year.

MR. WALTER SARANCHUK: And how are those fees determined?

MR. BARRY GALENZOSKI: There's a formula that I'll have to get the details on, but it's -- it's a small percentage of the overall value of the investment portfolio at a point in time.

MR. WALTER SARANCHUK: And what are the fees paid for?

MR. BARRY GALENZOSKI: Fees are paid for their overall expertise, particularly with respect to the management of the bond portfolio, where there's a significant amount of work.

You know, we've analysed the fee structure that we pay to them and are satisfied that the fees paid on -- on the formula process is in place, is less than if we had gone out and hired a bond manager by itself, just to handle the bond portfolio.

And we get a lot of other expertise from them on -- on other parts of our investment process.

MR. WALTER SARANCHUK: Would you be able to provide, during the course of this hearing, a statement of sorts or some report or some information to reflect that formula that you've been referring to and how it would compare, that is the end result, to what if you were paying a private manager?

MR. BARRY GALENZOSKI: Sure, we can do that. I'll take that as an undertaking.

--- UNDERTAKING NO. 1: MPI to provide Board with statement or some report or information re. formula referred to and how it would compare, that is the end result, to what you were paying a private manager.

MR. WALTER SARANCHUK: Thank you very much, sir.

Now, I'd refer you to Tab 28, Mr. Galenzoski, which again is the Corporation's response to Interrogatory PUB/MPI-55 in the first round.

And this time with reference to the Corporation's response by way of the filing of the attachments in answer to Part C of that Interrogatory which said as follows:

"Please provide a schedule detailing the balance of the Corporation's investment portfolio by asset class for the years 2004/'05 to 2009/'10, the composition of investment income to be earned annually on the portfolio by asset class (dividends interest, capital gains) and the percentage of

the investment income to be allocated
to basic for each of the years"

With the result that the attachment on page 3 was filed by the Corporation and I'd draw your attention to the management fees column which is the fourth or fifth from the bottom.

There's up from basic share, there is the column or the line, rather, of management fees and with reference to those figures going from 2004/'05, at $2.3 million and going out to 3.3 million in 2009/2010, why is there the escalation shown there?

MR. BARRY GALENZOSKI: Well, these fees are -- are for the Department of Finance fees that we talked about previously, as well as fees that we're paying to the Investment Fund Managers that we have working on our portfolios.

And the reason the fees are increasing of course, is because the bond and equity portfolios are both growing over that time period.

MR. WALTER SARANCHUK: Does this necessarily reflect an increase in the amounts under third party management?

MR. BARRY GALENZOSKI: Well it increases, for instance, if you look at -- just above that in the -- in the makeup of the investment portfolio, in the actual

'04/05, equities were $282 million. Going out to '09/10, it's expected that will be almost a little over $500 million. So obviously, yes, they are growing, based on the fact that the overall portfolio is going to grow, and that if we balance our assets to our investment policy each of these classes will grow proportionately.

MR. WALTER SARANCHUK: Does the Corporation pay fees to the Province for management of MPI's investment in Provincial bonds or MUSH?

MR. BARRY GALENZOSKI: Yes, we do.

MR. WALTER SARANCHUK: Has there been any consideration given to addressing that issue?

MR. BARRY GALENZOSKI: No, the -- you've got to keep in mind that the fees that we're paying, you know, based on the formula that I'll provide to you, you know, is just -- it is just that, it's a formula. And you have to look at it, you know, not in its individual makeup of what's in that formula, but overall, what are you going to be paying based on what you could get that service for someplace else. And -- and we think overall it's a fair fee.

MR. WALTER SARANCHUK: I guess the question could be asked as to why there should be any fee paid at all, if you're talking about the provincial investment portfolio?

MR. BARRY GALENZOSKI: Well I think, again, there's administration. We're expecting them to administer this portfolio, and they do. So we would expect to pay fees on that, for that service provided.

MR. WALTER SARANCHUK: In terms of the investment management, is that done by the Investment Management Committee of the Board of Directors? The overall investment management of the fund?

MR. BARRY GALENZOSKI: I'm not sure if I know if there's an Investment Management Committee of the Board of Directors, I don't know what you're talking about there, sorry.

MR. WALTER SARANCHUK: In terms of the decisions to be made by, for example, your Management Committee, does the Management Committee, as such, make any decisions?

MR. BARRY GALENZOSKI: Are you talking about what type of investments or the asset allocation, or --

MR. WALTER SARANCHUK: Let me ask you then in general terms, to what extent does the Management Committee of MPI then, perhaps not of the Board of Directors, I misspoke, if we're talking about Management Committee and MPI's Management Committee, what decisions does the Management Committee make on its own, if anything, if any, on investment decisions?

MR. BARRY GALENZOSKI: Virtually none. The Management Committee is -- receives information on our investment portfolio. I will provide them with the make up of our investments, we have extensive reporting that goes around.

They would know when we're taking gains on the portfolio, but are not asked for decision making capabilities on our investments. The decisions that we're requesting come from the Investment Committee Working Group, and are fed up through to the Investment Committee of the Board, and that's where the decisions are made.

MR. WALTER SARANCHUK: And with reference to --

MS. MARILYN MCLAREN: Mr. Saranchuk --

MR. WALTER SARANCHUK: Sorry.

MS. MARILYN MCLAREN: -- if I can expand on that just briefly. The practice of the corporation though is that everything that goes to the Board of Directors is reviewed with full opportunity for consultation and input by the Management Committee.

So the material being prepared for the Investment Committee of the Board, would first be reviewed by Management Committee. And through time, as the Corporation has discussed and been considering major things like moving to equities from a totally bond portfolio, the input and views of other members of Management Committee would certainly be offered. There would be discussion.

But, ultimately, a decision to go forward on a particular course of action would never be varied at the Management Committee level after it left the Investment Committee Working Group.

If there was compelling new perspectives, then Mr. Galenzoski would take those perspectives back to the working group, and if they concurred and wanted to take a different approach, it would then go to the Investment Committee from that.

So, Management Committee looks at everything that goes to the Board, and all the members have an opportunity to discuss and provide input on everything.

But with respect to investments, there are -- I don't think any of us on Management Committee would -- would say Mr. Galenzoski would expect to represent themselves as anything remotely resembling an investment expert. And we would therefore expect the chain to be through the Investment Committee Working Group, with our review. But the recommendations are clearly from the

Investment Committee Working Group, to the Investment Committee of the Board.

MR. WALTER SARANCHUK: Yes, thank you. And the Corporation does hire advisors to manage the US/Canadian Equity portfolio; that's correct?

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

MR. WALTER SARANCHUK: And what discretion does -- do those advisors have themselves, if any, in making the investment decisions relative to the portfolio that they're handling?

MR. BARRY GALENZOSKI: Well, the investment fund managers would have our investment policy statement so they know the -- the overall parameters under which they can invest. If they're, for instance, the -- on the equity side or the US or Canadian equity there is different markets that they would deal in.

In addition to that, each of the fund managers has a certain style that we are looking for them to adhere to. And they -- you know, we -- we've done our selection of the manager based on -- on -- on both their overall performance but their style of investing also.

And so they would be, first of all, guided by the investment policy statement that would tell them what they could invest in, how much they can invest in different sectors or how much they can invest in an individual investment. Those parameters would all be laid out for them.

And, in addition, then we'd be looking for them to stay within their mandate that they are -- you know, if they're a growth manager then we'd look for them to stay within that type of a mandate. And we would monitor them on a regular basis to ensure that that was occurring.

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

I now have some questions relative to the returns on the investment portfolio and in that regard I would refer you to Tab 30 and the Corporation's response to the Public Utilities Board Interrogatory Number 58 in the first round.

And I would draw your attention to Part B of the Interrogatory which asked:

"Please provide the performance of each of the asset classes against the annual expected return as set out in the investment policy for 2004/'05 and 2005/'06."

And what I'd like to do is deal with the actual and expected returns for the benchmarks shown on page 3 where the table shown there is prefaced with the remarks:

"The performance of each of these asset classes against the annual expected return as set out in the investment policy statement for 2004/'05 fiscal year is set forth below."

With reference to the actual return compared to the expected return, who is managing those funds?

MR. BARRY GALENZOSKI: Well, I think we've already gone over most of that. The -- any of the funds that are invested on the equity side are managed by the individual equity managers.

Any of the funds that are on the bond side or -- and that would include the short-term cash is managed by the Department of Finance.

MR. WALTER SARANCHUK: And in terms of the benchmarks themselves, how did the Corporation determine that those benchmarks are appropriate?

MR. BARRY GALENZOSKI: That was, again, done through review at the investment committee working group level with respect to the available benchmarks that we might look at, the type of investment policy statement that we've got and where our authorized investments are and trying to match those together.

And then we selected the appropriate benchmark and that would have then been approved by both the Department of Finance and our Board.

MR. WALTER SARANCHUK: And I think I know the answer, given what you've already said, sir, but in terms of the cash and short-term investments experience comparing the actual to expected, showing that the returns were actually less than expected; who was managing that portion of the portfolio?

MR. BARRY GALENZOSKI: Well, the actual investment side of that is managed by the Department of Finance. But the -- you know, the variability in the returns can be a number of reasons. It can be the amount of funds we have available, if we had to -- when we had to withdraw compared to when maturity may -- may exist on a particular investment.

So, there's -- you know, we -- it could be back and forth like that.

MR. WALTER SARANCHUK: And I wonder if you can just comment on the expected and actual return results?

MR. BARRY GALENZOSKI: Well, I think you can see, generally speaking, the expected returns were exceeded by -- on the bond side by both marketable and non-marketable.

They were exceeded on the Canadian equity and the US equity side by a considerable amount. We were under on the real return bonds and under on cash and short-term investments.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And relative to the cash and short-term investments and the real return bonds, with the actual being less than what was expected, were there some corrective actions that were taken into account or implemented?

MR. BARRY GALENZOSKI: No, this -- you know, again, you're looking at an index that encompasses a lot of different types of investments. We're only buying certain amounts of these and you may not have selected the same investments in the same weight as the index and you could expect to have better or worse results as a result of that.

So, no, we weren't -- we're not concerned about this particular aspect of that.

MR. WALTER SARANCHUK: And looking at the overall portfolio as shown there, can you comment generally?

Is the Corporation pleased with the results?

MR. BARRY GALENZOSKI: Yes, we're quite pleased with the results. We -- we do performance reviews and the performance has been very good on our portfolio and we compare it to others in our business and it's also been -- it's been good against others in our business.

MR. WALTER SARANCHUK: I would now refer you, sir, to -- just a moment, please.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Does the Corporation foresee any time in the near future where the investment portfolio will stop growing?

MR. BARRY GALENZOSKI: That is some distance in the future that will -- when people are -- PIPP claimants are leaving the program to the same extent that they're entering the program is about the only time I would see that starting to settle down.

But even then, you're probably going to see just growth because of inflation.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And when you we were referring to the returns and the overall benchmarking, you were referring to others in the business; who did you mean?

MR. BARRY GALENZOSKI: Well, we -- we subscribe to API, asset performance reports and they would compare to others in their -- in their universe that they would have in their database.

MR. WALTER SARANCHUK: Can you give us some examples?

Are you talking, for example, private insurers in Canada?

MR. BARRY GALENZOSKI: We're talking pension funds, primarily, endowment funds, this type of thing.

MR. WALTER SARANCHUK: Now, I would refer you, Mr. Galenzoski, to the information in Tab 42 which is the Corporation's response to CMMG Interrogatory Number 26 in the first round.

It's the last part of the book of documents and if you'd look at the overleaf referring to the five (5) fiscal years, can you confirm that the column showing the assumed return is what was used in the Rate Application for each of those components; is that correct?

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

MR. WALTER SARANCHUK: And what is the actual return?

MR. BARRY GALENZOSKI: That's the actual results achieved on our investments.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, with reference to the years for 2003/'04 and 2004/'05, looking particularly at the equities, both Canadian and US, can you comment on the performance there?

MR. BARRY GALENZOSKI: Absolutely, and if you're -- '02/'03 you'll see that we were under our expected return by a considerable amount on both Canadian equities, minus 6.4 percent and minus 18.2 percent on US equities.

However, that turned around and for '03/'04 we were 31.3 percent ahead on Canadian equities and 34.3 percent ahead on US equities, that's as a percent of actual return.

When we look at '04/'05, you'll see we're 15.8 percent ahead on Canadian equities and 10.1 percent on US equities.

Now, that's a percent of the -- of the -- of the return, so that isn't that we were like -- when I've talked about the 31 and 34 percent, we didn't make 31 and 34 percent obviously on those, we were just ahead on the return by that much.

MR. WALTER SARANCHUK: And when you compare the actual composition and share of the portfolio looking, for example, at the Canadian fixed income line, which is the first line for each of the years, it started at 83.3 percent and it's down to seventy seven point four (77.4).

Can you comment on that, sir?

MR. BARRY GALENZOSKI: Yes, that will probably be around that range in that 75 percent range for the immediate future. We're -- we had -- we rebalanced our assets, we are -- got 12 1/2 percent in Canadian equities, we're keeping the US equities at around 6 percent for the time being, and the rest is in money market or other -- other capital, minor amounts in those.

MR. WALTER SARANCHUK: And noting as well under the Canadian equities line, for that particular line, they started at 7.9 percent in 2001 -- 2002/2001, and now comprised at 12.5 percent.

Can you comment on that?

MR. BARRY GALENZOSKI: Yes, that is just showing the evolution of our investment policy strategy over the last number of years. Where we had smaller amounts invested in equities, then we -- as we gained confidence and knowledge about that we put more money into Canadian equities.

On the Canadian side, for instance, if you look at '05/'06, that's going to be 15 percent, we've moved our target up to 15 percent on Canadian equities. So that will show a little bit of movement upwards, but that is just the evolution of our investment process.

MR. WALTER SARANCHUK: And can you comment on the US equities, which started at 5.4 percent 2000/2001, and are now at 6.5, or sorry, 6 percent?

MR. BARRY GALENZOSKI: Yes, our goal right now is to -- is to -- we're not putting any new money into US equities at this stage, we're just letting the portfolio grow through natural growth in the investments themselves. We are still concerned about the -- the currency exposure, we're hedging that at the moment, and so we've decided not to put more into that particular market at this stage.

MR. WALTER SARANCHUK: And can you comment, sir, on comparing the assumed returned column to the actual for each of the five (5) years shown, and whether or not the Corporation is satisfied that those are reasonable results, given the circumstances?

MR. BARRY GALENZOSKI: Well, given the circumstances they're reasonable. A positive outcome in 2000/2001, not so positive in the two (2) years following, and then quite positive after that for the next two (2) years, so, yeah, we're -- we're happy with that.

MR. WALTER SARANCHUK: And has the Corporation come to the conclusion that for 2004/'05, the 7.6 percent return, actual return, is reasonable?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: The numbers will probably change more to the positive, because I don't believe that this schedule was updated since we refiled our financial statements.

Oh, sorry, '04/'05, yes, I think that's -- that's reasonable. Our goal is to, on the equity side, to be a hundred and fifty (150) basis points over the index, and we've met that.

MR. WALTER SARANCHUK: Has the Corporation done any benchmarking on the returns received, relative to what is happening in the industry, and if so, can you provide that information?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Yes, we -- we do have some information on that, and I can take that as an undertaking and provide that.

--- UNDERTAKING NO. 2: MPI to indicate to Board if they've done benchmarking on the returns received, relative to what is happening in the industry, and if so, provide that information.

MR. WALTER SARANCHUK: Thank you, sir.
And has the Corporation also compared the composition of its portfolio with industry study -- standards?

MR. BARRY GALENZOSKI: I believe that information is also available.

MR. WALTER SARANCHUK: You wouldn't mind providing that please?

MR. BARRY GALENZOSKI: That will be part

of the same report, yeah.

--- UNDERTAKING NO. 3: MPI to provide Board with comparison of the Corporation's portfolio with industry standards.

MR. WALTER SARANCHUK: Thank you, sir.
Given the overall returns, as shown in this overleaf, and number 26 of CMMG's First Round Interrogatories, can you comment on your own view or the Corporation's view, I think would be the better question, on the mix given the returns?

MR. BARRY GALENZOSKI: Well, I -- we've reviewed the asset mix several times since we started the change in our investment strategy going to equities. And right now we're -- we're very pleased with the mix that we have. We think that it's appropriate for our particular Corporation at this stage, and it will be reviewed on a reasonably regular basis going forward.

MR. WALTER SARANCHUK: And just on that score, with reference to the portfolio composition and income projections, the range of investments and the target allocation -- allocations are shown in Table 7.1 of your investment policy statement which is AI-16, Tab

10 at page 14.

And I would ask you also, while keeping a finger on that, to turn to page 30 -- I'm sorry, Tab 30 as well which is the Corporation's response to Public Utilities Board Interrogatory number 58 in the first round.

So with reference to those two (2) documents can you comment, sir, in very general terms, by way of a review, of the minimum and normal and maximum ranges for equities and fixed income instruments as shown in Tab 10; that is your policy statement at Section 7?

MR. BARRY GALENZOSKI: Yes. Based on our asset liability reviews that we've conducted in the past, we've determined what we think the best asset mix is for the investment portfolio of the Corporation.

And we've also put some parameters around that for minimum and maximums with the normal being where you're aiming at. So if you're rebalancing you're rebalancing, generally, to the norm rather than to one of the extremes, being the minimum or the maximum.

The -- so we -- we've been reviewing this several times and this is -- the investment policy statement is annually reviewed by our investment committee.

So, they would have -- we would have an

opportunity to change that going forward. And, for instance, recently we did rebalance -- or changed the Canadian equities to 15 percent being the norm with the low and high being 10 and 17.5 percent respectively. And we reduced the US equity side down to 5 percent.

And I think if you -- when you were looking back at the previous document we were at about 6 percent on US equities.

MR. WALTER SARANCHUK: And the idea, of course, is to try to gain the higher returns and diversification; is that correct?

MR. BARRY GALENZOSKI: Well, part of it is diversification, obviously. And then you're aiming at different returns that you would get for the different asset classes.

So you're looking for a mix on that side. But diversification is -- is the main -- the main goal here.

MR. WALTER SARANCHUK: Now, if you would just turn over to Tab 30, sir, and on page 2 there's the reference to the target asset allocation having been changed as you have testified, sir, indicating the new targets for Canadian equities at 15 percent.

Can I ask you, sir, why only 15%?

MR. BARRY GALENZOSKI: Again, that's

based on our -- our asset liability reviews that we've conducted in the past and these are the numbers that came out as being the optimal numbers for our investment portfolio.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Now, this has evolved over time. You know, we've -- as -- as our liabilities are changing from the old tort liabilities to the PIPP that's changed the structure of the investment portfolio based on the asset liability reviews that we're doing.

So you're seeing a movement here structurally, slowly over time and that's the evolution of our investment policy.

MR. WALTER SARANCHUK: Would you be able to provide a document showing the last overall review of the investment portfolio?

MR. BARRY GALENZOSKI: You're talking about the asset liability review?

MR. WALTER SARANCHUK: Yes.

MR. BARRY GALENZOSKI: That was provided last year. We had a very long discussion about it. You'll recall that there was a report that we provided from Mercers and in the final analysis we did not accept the Mercer report.

MR. WALTER SARANCHUK: So there's been -- so there's been no change in the asset liability review although your overall asset make up has changed?

MR. BARRY GALENZOSKI: There's been some change in the asset mix. For instance, we hired a small cap manager in Canada. So we've got a diversification on style that we're looking at as far as -- and also the type of investments that their making.

We've increased the Canadian equity side, because we reduced the US side. We didn't want any more currency exposure coming out of the US side, so we had to do something with that -- those funds.

So those were done in context with the asset liability reviews that we've had done in the past, and we have been able to tweak those a little bit, based on the information we already had.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Is there any particular reason why you have not chosen to penetrate European or Asian markets?

MR. BARRY GALENZOSKI: Yes, we addressed

that, again, last year. We -- we have currency exposure concerns with the Canadian dollar has been strengthening compared to the US dollar, but not necessarily when you compare it to some of the European currencies, particularly the Euro.

And as a result, we are not prepared to take on that additional currency risk at this time.

MR. WALTER SARANCHUK: And given that you've rejected the asset liability review, what are you relying on now?

MR. BARRY GALENZOSKI: We're relying on the asset liability review that was done prior to that, and the very fact that when you, you know, I think if you recall the discussion we had last time, the asset liability review --

MR. WALTER SARANCHUK: I don't, by the way, so, please refresh my memory.

MR. BARRY GALENZOSKI: I was -- you know, I guess I was indicating that by the fact that you keep asking the same questions, but the fact is, is that when we looked at that, the recommended asset allocation that was provided by Mercer (phonetic) and the expected results that the expected results that they were going achieve with that, that they were predicting, were actually less than the results we were achieving with the current asset mix that we have.

And so we -- we didn't feel that there was any compelling reason to move to their -- their particular recommendations, and we rejected their recommendations.

And I think that's part of the management process that you see in an investment fund such as MPI, is we're not just going to blindly accept somebody's advice. We are still responsible for the outcome and we need to put our management judgment into this and we put -- put that to the test.

And this isn't just MPI talking, this is also the department of finance who have a big say in what we do also.

MR. WALTER SARANCHUK: And did you --

MS. MARILYN MCLAREN: Again, Mr. Saranchuk, if I could step in just for a minute. I think we really need to be fully cognizant of the context here. Context is really, really important and I think it's a bit of an over-characterization to say that we simply rejected anything and everything in that study.

We're talking about an organization, we're responsible for an organization here on this side of the room, that in 1998 was 100 percent invested in bonds. One investment strategy, bonds.

And Mr. Galenzoski will help me by telling us and reminding us what our investment portfolio was worth in 1998.

So now what we have is we have a far, far bigger investment portfolio that is only 75 percent in bonds and everything -- all of that other money that's not in bonds today, is in other things.

So we have diversified significantly and likely will continue to diversify. We know that there is risk in failing to diversify, but we also know there is risk in moving into new areas that are not well understood and well known and there are certainly other issues like the currency risk.

So, I think to say that we're just not considering best advice and we're just sort of sitting here with only 15 percent in equities, that that's really not reflective of the context in which we find ourselves and how far this organization has moved in significantly less than ten (10) years.

MR. WALTER SARANCHUK: How about real estate? Has the Corporation considered that investment?

MR. BARRY GALENZOSKI: That was considered and it didn't -- it didn't show up on our asset allocation based on the asset liability reviews that we did.

MR. WALTER SARANCHUK: And by way of summary, then, if you would just again keeping your finger on Tab 10, which I hope you did, and page 14 there, showing the target asset allocation and then the update as at June 30th shown on page 4 of the Information Request number 58 by the Public Utilities Board in the first round, shown in the last page, page 4 of Tab 30.

Can you then just comment about the current composition of the portfolio, at least as at June 30th of this year, relative to the target and obviously there are some differences there and a lot of them have been addressed, but particularly if we're talking about some changes, look at the US equity line and -- and talk about that?

MR. BARRY GALENZOSKI: Sure, you can see that we're -- we're relatively close on -- on most of the asset classes. We've -- we've been conducting some rebalancing exercises in the last few months so we've gotten closer to what we had as our norm, and I'll talk specifically about the US equities.

As I indicated to you previously, we're not putting any new cash into the US equity side, but we are allowing that portfolio to grow naturally as the market increases, and we've decided not to take any money out of that class.

So, it would -- it started off at the 5 percent, but it's been growing, just because of the natural market growth that we've seen in the last couple -- last 18 months or so. And as a result, we're 1 percent higher than both the normal and maximum for that -- that particular asset class.

MR. WALTER SARANCHUK: Now, why would there be no rebalancing, why aren't you taking money out of it?

MR. BARRY GALENZOSKI: Well right now we don't see any particular reason, it's -- it's not an exceptionally large amount to be off side with respect to the asset allocation. We are reporting it to our Board as to what the asset allocation is and what our actuals are, and we're just monitoring it at this stage.

At some point, if it gets a little bit larger, we may decide to take some funds away from the fund managers. But right now, things have been going pretty good and we've decided to leave it where it is.

MR. WALTER SARANCHUK: I now refer you to the document in Tab 28 of the book of documents, sir, that's the Corporation's response to Interrogatory number 55, posed by the PUB in the First Round. And, in particular, Part C to the question, and the attachment which was filed in response to that question, the Part C, which said:

"Please provide a schedule detailing the balance of the Corporation's investment portfolio by asset class for the years 2004/05 to 2009/10, the composition of investment income to be earned annually on the portfolio by asset class, (dividends, interest, capital gains), and the percentage of the investment income to be allocated to basic for each of the years."

And looking at the attachment under the -- or in the equity gain/loss line, for investment income, as opposed to the Corporate investment income portfolio, for 2005/06. The Corporation expects to realize, or expected as at June or I guess it's August 9th, 2005, going by the date at the bottom of this document, to realize $23 million in gains in the current year.

Is that correct, given the information at that time?

MR. BARRY GALENZOSKI: Which? Oh, this is for forecast '05/'06; that would have been correct at the time that this was done, yes.

MR. WALTER SARANCHUK: And can you provide an update of a particular document, considering the revised investment income forecast just filed?

MR. BARRY GALENZOSKI: We'd have to take that as an undertaking and we'll get that for you later on today or tomorrow.

MR. WALTER SARANCHUK: Thank you very much.

--- UNDERTAKING NO. 4: MPI to provide Board with an update of revised investment income forecast just filed.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: I'd also now refer you to Tab 41 of the book of documents, and in particular question number, or Interrogatory number 20, asked by the Public Utilities Board in the Second Round, the Corporation's Response in answer to Part A, which said to:

"Please provide a schedule that indicates the total amount realized to date on the 2005/06 forecast gains on equity investments."

Could you just read in the answer there, sir:

MR. BARRY GALENZOSKI: "Realized gains on

equity investments for the five (5)
months ended July 31, 2005, totalled
thirty-five million two hundred and
fifty-nine thousanddollars
($35,259,000). Basic share is thirty
million five hundred and thirty-eight
thousand dollars ($30,538,000)."

MR. WALTER SARANCHUK: In light of the revisions just filed, sir, would you be able to provide us with updated figures on that -- in that regard?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Yes, we'll provide you those numbers.

MR. WALTER SARANCHUK: Thank you, sir.

--- UNDERTAKING NO. 5: MPI to provide Board with updated figures on revisions just filed.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: And I'm still dealing with unrealized gains, I would refer you to Tab 29 in the book of documents, and in particular, the

Corporation's response to Interrogatory Number 56, posed by the Public Utilities Board in the first round, and the table on the first page in Tab 29.

Can you confirm, sir, that as at June 30th, 2005 the book value portfolio or the cost basis at $1.7 million, or was at $1.7 million -- sorry, billion dollar?

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

MR. WALTER SARANCHUK: And can you confirm that the market value was $1.8 billion?

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

MR. WALTER SARANCHUK: And unrealized gains were in the amount of $109 million?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: Would you be able to provide us with updated information along a similar line given the latest revisions, sir?

MR. BARRY GALENZOSKI: Yes, we can do that as at the end of the last month.

MR. WALTER SARANCHUK: If you wouldn't mind then please, by way of undertaking?

MR. BARRY GALENZOSKI: We'll provide that to the end of August, if that's all right? September has just ended and we wouldn't have that information handy yet.

MR. WALTER SARANCHUK: Would you have it next week?

MR. BARRY GALENZOSKI: Yeah, we can have it next week.

MR. WALTER SARANCHUK: So if you wouldn't mind then to the end of September?

MR. BARRY GALENZOSKI: Okay.

MR. WALTER SARANCHUK: Thank you.

MR. BARRY GALENZOSKI: We'll do that on Friday of next week.

MR. WALTER SARANCHUK: The sooner the better. Thank you.

--- UNDERTAKING NO. 6: MPI to provide Board with updated information concerning Corporation's book value portfolio, market value, and unrealized gains.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Now, let me ask you, Mr. Galenzoski, will investments only be sold when the market value of portfolio is 105 percent of book value or are decisions to realize gains made on an investment by investment basis?

MR. BARRY GALENZOSKI: None of the decisions are made on an investment by investment basis, with maybe one (1) exception, and that would be if we saw an investment that was more than the allowable maximum in one (1) investment; for instance, this is going back a ways and when Nortel was such a big piece of the Canadian equity market and our original investment got to be quite a bit bigger than the allowable holdings then we -- we ended up having to instruct one of the managers to sell to bring it down to the 10 percent.

But that would be the only occasion where we would direct an investment to be sold or part of it to be sold. On -- when we're taking gains, as a minimum, we want to have at least 5 percent over the book value and generally speaking it has to be a fairly sizeable amount over that 5 percent.

So a guideline I would use is that if we had $5 or $10 million above the five (5) then we'd look to start to take some of those gains. You can't take gains in little dribs and drabs because it causes a lot of work for the investment fund managers and may not be worth the effort with respect to the fees that you're going to have to pay for these -- churning of these transactions to occur because we have to actually go out and sell and then buy something in exchange.

So we're kind of cautious about that. And the other thing is, is, you know, you need a little bit of a cushion there sometimes because markets do fluctuate and we've had times where we thought we had a good cushion over the 5 percent and once we took our gains, you know, a couple of weeks later we were down to 102 percent of book value.

So, you know, it can move up and down on you rather quickly. So we have to be fairly careful about that.

MR. WALTER SARANCHUK: And would you just remind me again, who actually makes that decision?

MR. BARRY GALENZOSKI: That decision is made by myself after consultation with our CEO and our chair of our investment committee.

MR. WALTER SARANCHUK: But the investment managers decide what to sell?

MR. BARRY GALENZOSKI: The investment managers are given instructions as to how much to take from their particular portfolio. They decide how to do that.

THE CHAIRPERSON: Mr. Galenzoski, just one question that we're, kind of, struggling with this week, and trying to think through this, you indicated that you were satisfied with the yields that you were earning right now on a portfolio of that size which is very significant.

But you're aware that the -- that the market rates for 10 year bond now is below 4 percent. And you also know where short-term deposits run at.

So we're wondering, how can you manage to get a yield of that level with the mix that you have now?

MR. BARRY GALENZOSKI: Well, I think there's -- there's no wonder in it. You just look at the composition of our -- of our assets in our investment portfolio. Look at the -- at the numbers that we're providing with respect to the income that we're getting out of each of those asset classes and that comes up with an easy calculation.

THE CHAIRPERSON: No, what I'm saying is -- let's just rephrase it. Is that if you did it on market -- on the basis of what the market values of your securities are and you've got roughly, say, 90 percent in fixed income and you know that the current market yield, which is how you get your unrealized gains, presumably on the bond side, our ten (10) year bond is under -- under four (4) in Canada right now, and the thirty (30) year bond is under -- well under five (5).

Trying to imagine not what you've achieved in the past but looking forward, what type of yield expectations do you have with that type of asset mix?

MR. BARRY GALENZOSKI: I think we're provided some information with respect to our expected yields that we are looking from our investment portfolio in our future financial projections; that's information we may have gone over already today, but it's definitely in this book.

THE CHAIRPERSON: No, I see it there and I'm not -- sorry, I don't mean to wear you out with it, but we can read it and just ponder on it for a while.

What I'm saying is that presumably some of your yields on a market basis have come by the fact that the gradual drift down in interest rates that been systemic and very, very long term and the yields now of the existing portfolio on the market for a ten (10) year bond, are under 4 percent.

So, when you look out, if you brought everything up, as you've said, mark to market now, and you looked at the yields that you'd earn on a portfolio that size going forward, the uninformed, which I'll put myself in that category, looking at that would say that it would be -- unless interest rates continued to move further down to provide more unrealized and real capital gains, you couldn't get those types of yields unless you had investments other than fixed income and those other investments, of course, did reasonably well.

MR. BARRY GALENZOSKI: Well, most of the gains we're getting are not coming from the fixed income side. We're taking just -- there's minor gains coming out of that particular side of the portfolio.

If you look at -- at this document that we're looking at right now under Tab 29, PUB/MPI-156 and at the bottom of page 1 it shows the unrealized gains and losses and on the -- on primarily the bond portfolio it's showing an 87 million dollar gain as at June 30th.

We're not bringing that down dramatically. That's the big concern I've got is that if we suck all that out of the portfolio at a point in time, let's say we sold that entire bond portfolio, took all those gains, I'd re-invest that money at a much lower interest rate, therefore discounting my future income flows, and that's something we're adverse to doing.

THE CHAIRPERSON: That was my exact point. Maybe we'll just ponder it a bit, thanks.

MR. WALTER SARANCHUK: Yes, Mr. Galenzoski, let me ask you; does the Corporation use investment gains to manage the bottom line.

MR. BARRY GALENZOSKI: No.

MR. WALTER SARANCHUK: For example, there are a large number of gains realized to offset the unexpected increase in claims costs in 2003/04.

MR. BARRY GALENZOSKI: Yeah, that was -- that was a one time thing, but we have a policy or guidelines in place now where we're not -- like, I'm taking gains right now and I don't need to worry about the bottom line at this moment and we're still taking gains.

So, no, we're not doing that at this stage and no intention to do that in the future and I think that will work itself out of the equation once we get into the new accounting guidelines coming up in another couple of years.

MR. WALTER SARANCHUK: Thank you, sir, that leads me right into the question of a change in the accounting and mark -- the market principle that I have a mind to embark upon.

And at Tab 23, for example, the Corporation has provided some information there in response to the Public Utilities Board Interrogatory number 28 in the first round.

We'll eventually come to that, but right now you have indicated that there will be a change in the accounting for investments that are being considered for 2007/2008.

That is not currently reflected in the present forecast; is that correct?

MR. BARRY GALENZOSKI: Yes, that's not reflected. A couple of reasons why it's not reflected. I think understanding what those guideline changes are going to be fully is still underway.

We have done some work since we asked -- answered this question on what the impacts are likely to look like and how that's going to flow through the financial statements so we can talk a little bit more about that if you'd like.

But one of the problems with respect to putting numbers in future financials is trying to come up with a reasonable number as to what the unrealized gains are going to be at some future point in time.

I can tell you that I'm not properly prepared to estimate what that's going to be, because it's just going to be a -- you know, a -- you know you're going to be definitely wrong on it, okay.

For instance, at the last year end, we had something like $93 million in unrealized gains. But if you look a year before that, it was probably half that or less, so it moves around significantly. And -- and so forecasting on that side of it is -- is not necessarily going to be a good thing, or an easy thing to do.

Second, our interpretation of these new accounting guidelines, this -- this income, supposed income, when it's recognized, doesn't flow through the income statement, it's going to be a balance sheet item only. In other words, your assets are going to get bigger by the market value increase. Your liabilities are going to be bigger, because it's going to go into a special part of retained earnings.

And my opinion is, and I know we'll get into this discussion in the future, is that it will have no bearing on rate setting, and it will have no bearing on RSR target, because it's unrealized still. You still haven't got the cash in your pocket, you're just doing an accounting entry. You're basically upgrading a note that's already in the financial statement and putting it into your financial statements for more clarity.

MR. WALTER SARANCHUK: So, essentially it just reflects a better reflection of fair market value reporting?

MR. BARRY GALENZOSKI: It's a strengthening of -- of that reporting, but there's no more information than what wasn't already in the notes to the financial statements. There's significant amount of detail in the notes, that give you all of this information.

This is now putting it into the financial statements themselves, and to the, you know, to the casual reader it's probably going to be very confusing, because they're -- they're going to see some different statements in there that are going to make it hard to really understand what the bottom line profit for a corporation is, such as MPI, on a going forward basis.

MR. WALTER SARANCHUK: I wonder, sir, if you would just read -- read in the response by the Corporation to Section C of the Public Utilities Board Interrogatory Number 28 in the First Round as shown in tab 23, the question being:

"Please illustrate the accounting implications of adopting mark to market financial reporting for 2006/'07."

And once you've read that in perhaps you can update us as you had suggested you might be able to do.

MR. BARRY GALENZOSKI: Okay, I'll -- I'll read it in:

"The Corporation has not prepared an evaluation impact analysis of CICA Handbook, Section 3855, Financial Instruments, Recognition and Measurement. The Corporation

understands this section is effective
October 1, 2006."

Now, to further update that, I can tell you that we have since been doing some review of this particular handbook section, and we have done some analysis with respect to what we think the impact is going to be on the Corporation. And for instance, I could provide you with what I think the changes would -- would have been, had we -- we prepared last year's financial statements with these accounting guidelines in place.

And it's relatively simple, but I think it will demonstrate, you know, how the -- how the balance sheet's going to change, the new statements that are going to have to be included in the annual report to demonstrate the comprehensive income from other sources, and then we can get into a further discussion about that.

MR. WALTER SARANCHUK: Will it in any way change TI-17 for rate setting purposes?

MR. BARRY GALENZOSKI: No.

MR. WALTER SARANCHUK: Can you -- and you have referred to some of these...

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Could you for the record, sir, just explain what mark to market accounting is?

MR. BARRY GALENZOSKI: Well, as I understand it, it's simply recording your assets at the then known market value at a point in time. For instance, if you're doing a year end or a month end, you would determine what the market value of the -- the investment that you have, let's say it's an equity or a bond, if it's a marketable bond, if that wouldn't include things like MUSH for instance.

And you would record that, you would then have -- you would have the difference between what you paid for the investment and what it's currently worth, plus or minus. So in other words, it could be worth more, or it could be worth less than you paid for it. And then the net amount of that would be the -- the amount that you would record.

MR. WALTER SARANCHUK: And does that adjustment flow through the income statement?

MR. BARRY GALENZOSKI: No. I may just clarify that. It doesn't -- it doesn't go through the income statement. It -- only -- the only thing that goes through the income statement is realized gains or losses; that flows through your normal income statement.

What you would have is a statement of comprehensive income which would record both your net income or loss for the particular year and then this other comprehensive income. This would be recorded as other comprehensive income. And you'd also produce a statement of accumulated other comprehensive income that would be in your annual report also.

So, even in your -- the -- you know, the other side of the equation is that your assets are worth more on your balance sheet. They are going to be increased, as I said last year, by $93 million.

On the liability side, your retained earnings are worth $93 million more also. But they're separately classified as accumulated other comprehensive income within retained earnings.

And for all intents and purposes you can't get your hands on it unless you actually go out and sell that and -- and take the gains so you have the cash to deal with. That's why we don't think it can be taken into account when you're looking at what the RSR targets are going to be or why you can take it into account for rate setting.

MR. WALTER SARANCHUK: Will the change have any impact on forecasting on investment income for future general rate applications?

MR. BARRY GALENZOSKI: No, I don't think it will. It will have an impact on what our total assets and liabilities are. It will have an impact on retained earnings overall for the Corporation.

And assuming that the Public Utility Board agrees that they shouldn't be part of rate setting process then we're okay.

MR. WALTER SARANCHUK: Would you or the Corporation be able to provide a pro forma showing the effect of the new accounting on the financial statements?

MR. BARRY GALENZOSKI: I can provide you with a pro forma of our last year end that shows the appropriate changes to the balance sheet and the new statements that'll have to be shown in our -- in our annual report in the future on a corporate basis if that would be appropriate.

MR. WALTER SARANCHUK: If you wouldn't mind doing so please, by way of an undertaking?

MR. BARRY GALENZOSKI: We'll do that after the break.

MR. WALTER SARANCHUK: Thank you.

--- UNDERTAKING NO. 7: MPI to provide Board with pro forma showing the effect of the new accounting on the financial statements.

MR. WALTER SARANCHUK: Will the accounting change result in the Corporation changing its forecasts such that it will have an impact on how investment portfolio is managed?

MR. BARRY GALENZOSKI: No.

THE CHAIRPERSON: Mr. Galenzoski, just to be helpful here, I've been pondering and listening to it at the same time, but I guess the general question is, is looking at the forecasts going out there appears to be a way of reconciling this discussion.

Your forecasts are calling for an annual revenue income from investment purposes, okay, that give or take a few percentage points, let's say, is 5 percent a year. If you take it over a $2 billion portfolio.

And that's consistent, you could argue or I -- you know, you could impose that question with this asset mix, okay. The question standing back from that is that if you look at other fields, for example, like pension plans and things of that order, they make certain actuarial assumptions as to investment yields going out with interest rate scenarios much like now, okay.

They tend not to be satisfied with yields of that level and that is probably what drives them into different types of asset mix ratios. I guess that's the question that the Corporation, by these forecasts and by that asset mix are inferring satisfaction with a going forward yield of somewhere in the order of 5 percent which, you could argue, is consistent -- considerably lower than the actuarial assumption for most pension plans.

And I leave it with you because it might help reconcile the...

MR. BARRY GALENZOSKI: Well, a couple of comments I could make on that is, I don't think it's appropriate to compare us to a pension fund where they have a different view on asset mix.

I can -- I can tell you my opinion on that is that's probably one of the reasons why a lot of pension funds have shortfalls today is because of their asset mix.

They've -- they got hit pretty hard when -- in the equity market downsized a couple of years ago and they're trying to make that back today. I don't think --

THE CHAIRPERSON: I believe --

MR. BARRY GALENZOSKI: -- that's the solution for MPI and also --

THE CHAIRPERSON: I'm not arguing as to

the solution. The only reason I was saying the pension plan was because pension plans have a general theory is infinite life, which is similar to your organization, that's all.

MR. BARRY GALENZOSKI: Well that's for a part of our business, yes. But it's -- yeah, we believe that there's different criteria have to -- you have to look at. We do asset liability review studies.

I'm not sure if pension plans do the same rigour with respect to their investment process, but certainly I know what we're putting into it and I think we have extremely good governance around our -- our investment process and that has helped us achieve some pretty good results in the last couple of years.

THE CHAIRPERSON: Thank you.

MR. WALTER SARANCHUK: Will the Corporation be updating the asset liability review?

MR. BARRY GALENZOSKI: No, not in the immediate future. That's something you probably do every four (4) or five (5) years. We just finished doing that a year or so ago and I think we've had enough of that for the time being.

MR. WALTER SARANCHUK: Thank you, Mr. Galenzoski. I now will be moving on to deal with the vehicle upgrade factor and the volume factor, unless the

Chair or any other members of the panel have questions dealing with investment income.

THE CHAIRPERSON: We're satisfied for now.

MR. WALTER SARANCHUK: Thank you, sir. Dealing with the vehicle upgrade factor, Mr. Galenzoski, and this is referred to, for example, in Tab 12 which is the -- which is comprised of the Corporation's responses to PUB Interrogatories number 2 on the first round and number 1 in the second round. Tab 12.

MR. BARRY GALENZOSKI: I have that.

MR. WALTER SARANCHUK: And, of course, you earlier defined the vehicle upgrade factor again, just very briefly can you explain what it is?

MR. BARRY GALENZOSKI: Yes, that's the phenomena that happens as people dispose of older vehicles and purchase new vehicles and they become a larger component of the fleet, that they attract a higher premium and therefore we have an upgrade to the -- the factor that we consider in our Rate Application.

MR. WALTER SARANCHUK: And can you confirm that the vehicle upgrade factor assumption made in this General Rate Application uses 3 percent per annum for 2005/'06 and onwards?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And can you confirm that this assumption is reduced from 3.5 percent used in last years' General Rate Application for 2004/'05 and onwards?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: Now, from a comparison of the response to PUB/MPI-1-2(a), with TI-17 as filed in June of this year, which is at Tab 7.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Five (5) pages in.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Can you confirm that the impact on the 2006/07 net income of an increase in the vehicle upgrade factor from 3 percent to 3.5 percent for 2005/06 and onwards is about $4.4 million; that is $4.9 million less six hundred and one thousand dollars ($601,000), as filed in June?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Yes, that would be the impact on the premium side.

MR. WALTER SARANCHUK: And on the net income side?

MR. BARRY GALENZOSKI: Not necessarily, because we -- when we -- when we made that change in assumption we didn't, you know, take a look at our claims experience, because if you're not upgrading as many vehicles, then you're going to have a lower claims experience, because you're not having as many higher valued vehicles out there. So we didn't analyse the impact of that.

MR. WALTER SARANCHUK: So in changing the vehicle upgrade factor to 3.5 percent, sorry, from 3 1/2 to 3 percent, have you -- did you take that into account in your forecast for claims incurred?

MR. BARRY GALENZOSKI: Yes.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And looking at your response to 1-2(a), where you filed TI-17 with the information as an attachment, showing the $4.996 million net income for rating, compared to the six hundred and one thousand dollars ($601,000) that income -- that income for rating in the TI-17 that you filed in June

2005 of this year, would you be able to provide an update of this information and give us, for example, what the impact would be in view of the latest revisions?

MR. BARRY GALENZOSKI: I think you could pretty well take -- the latest revisions basically resolve -- revolve around changes on investment income, and so the -- you know, the net change is only going to be the -- the difference that you see between the two (2) versions, off of whatever we've given you with respect to the updated investment income documents. So it isn't going to be a huge amount of impact.

MR. WALTER SARANCHUK: All right. Thank you, sir.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And now, with reference to the attachment provided in response to PUB-1-2B, that's on page 3, showing the upgrade and volume factor historical experience.

Dealing only with the vehicle upgrade factor at this juncture, and in particular the actual results, could you explain the information provided with reference to the upgrade factor, and in particular, noting the upward climb in the actual vehicle upgrade factor from 1996 to '97, to 2000 to 2001, and the decline from 2001 to 2004/'05?

MR. BARRY GALENZOSKI: Yes, you can see we provided three (3) columns, the approved Rate Application and what our upgrade factors were at that particular point in time, then the revised forecast, and then what it actually came out as. And there was that fairly steep increase in the late '90s and early 2000 years, which has now tapered off and is -- is dropped down to 2.9 as being the actual for '04/'05, and our expectation is, is that it will stay somewhere around that at this stage.

MR. WALTER SARANCHUK: And with reference now to the response to the PUB-I-1(a), in the Second Round, the question was:

"To what forces does the Corporation attribute the observed decline in actual upgrade factors over the period from 2000/2001 to 2004/2005."

Could you please read in the Corporation's response, sir?

Mr. Palmer...?

MR. DONALD PALMER: The major factor is the rate line differentiating rate -- between rate groups has flattened out at the top of the rate line over the last few years.

As a result, the difference between older vehicles' rate and newer vehicles rate has decreased resulting in a lower upgrade. In addition, as shown in TI19 page 19, new vehicle sales have been relatively flat over the past five (5) years.

The rate line adjustment strategy started in full in 2001 after full discussion at the 2000 PUB hearing.

MR. WALTER SARANCHUK: And if new car sales are enjoying some success in recent months as they appear to be, what effect would this have on the actual vehicle upgrade factor?

MR. DONALD PALMER: There may be some increase in the upgrade. But there is a better link between that upgrade and the increased claims cost because of the matching of the rate line.

MR. WALTER SARANCHUK: In selecting the 3 percent assumption for vehicle upgrade, does the Corporation believe that this decline has bottomed out?

MR. DONALD PALMER: I think there will be consistency over the next few years. You know, historically this table went back about ten (10) years. Before that we were regularly seeing numbers in the 1 and 1 1/2 percent range.

You know, I think the 3 percent is a -- is a good forecast factor. But to say that that's as low as it can be historically hasn't proven that. The -- the important part is that as that moves up and down, claims costs will be moving up and down in concert with that.

So, whether we're off a little bit on that -- that assumption how that will translate into the bottom line when we actually get there is probably not very much.

MR. WALTER SARANCHUK: Now, moving on to the volume factor, if you wouldn't mind defining that term again, please?

MR. BARRY GALENZOSKI: The volume is the increase in the total number of registered or insured units on a -- on a full year basis.

MR. WALTER SARANCHUK: And as I understand it, the Corporation is using the assumption in this general rate application of 1.5 percent per annum for 2005/'06 to 2007/'08 and 1 percent thereafter; is that correct?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And can you confirm that the -- the volume factor assumption made in last year's general rate application used the 1.5 percent per annum factor for 2004/05 to 2005/06 and 1 percent thereafter?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: And to what does the Corporation attribute the assumed increase in volume factor for 2006/07 and 2007/08?

MR. BARRY GALENZOSKI: Well, it's obvious that people are insuring more vehicles for longer periods of time. In other words, they're getting a full two (2) months. If they have two (2) units for six (6) months each then that's one (1) full year. If they've got three (3) then it's one and a half (1 1/2).

So it's just that there's -- people are able to afford the insurance or they need the -- the vehicles and they're registering and insuring more vehicles. And obviously the population growth in Manitoba. There's some recent statistics, I think, for the last full year about seven thousand (7,000) new Manitoban's come into the province last year.

MR. WALTER SARANCHUK: And to what does the Corporation attribute the assumed decline in vehicle -- in volume factor from 2007/'08 to 2008/'09?

MR. BARRY GALENZOSKI: Again, I think that's just, you know, where our estimates are going with respect to the increase that we see in the longer term. And as -- as indicated by Mr. Palmer earlier, the -- the claims are going to be very close to that anyway.

If you -- if that factor goes up there's going to be a close correlation to the increase in the claims costs also.

MR. WALTER SARANCHUK: Still referring to Tab 12 and the response by the Corporation to Public Utilities Board Interrogatory 21(d), comparing that with TI-17 filed in June of this year at Tab 7.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: And just before you ask the question, the obvious answer is that we did not restate the claims when we did this. We just simply did the arithmetic on the change in the -- in the factors.

MR. WALTER SARANCHUK: The question I was going to ask you is, can you confirm that the impact on the 2006/07 net income of a increase in volume factor from 1.5 percent to 2 percent for 2005/06 to 2007/08 is about $4.4 million; that is the 5 million -- thousand -- 5 million dollar figure, compared to the six hundred and one thousand (601,000) dollars as filed in June, in terms of the net income for rating line.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Yes, although that number for June was changed when we re-filed again in September.

MR. WALTER SARANCHUK: Yes, I appreciate that. Now, focussing on the volume factor only, can you explain the information provided in response to Public Utilities Board Interrogatory number 2(b) in the first round, again in Tab 12, where the question was: Please explain the differences between the actual historical volume factor shown in this response, versus TI-19 section 219, table 1 and the response was that the table shown in PUB/MPI-1-2(b) shows the growth in premium transaction counts TI-19 section 2.1, table 1, shows the growth in earned units.

And noting the general upward climb in the actual volume factor from 1980 -- 1998, 1999 to 2004/'05, would it be fair to say that there's been a pattern of underestimation of the volume factor?

MR. BARRY GALENZOSKI: There's obviously been a -- an underestimation on the volume factor that wouldn't have been in the estimates, but then also there would have been an underestimation of the claims impact as a result of the change in that volume factor.

MR. WALTER SARANCHUK: Can you give some indication as to what is believed to be causing the noted actual increase -- actual increase in the volume factor in recent years?

MR. BARRY GALENZOSKI: I think, you know, it's speculation on my part. Primarily it would be a number of factors. More people in the province, number 1. Number 2 would be the ability of people to insure vehicles and put them on the road, that would probably -- and then incentives that dealers are using to entice people to buy new vehicles.

MR. WALTER SARANCHUK: And with reference to the Corporation's response to question 1(c) asked by the Public Utilities Board in the second round, the question was: Please summarize the rationale for selecting a volume factor of 1.5 percent for 2005/06 and 2006/07 considering actual volume factors have exceeded this level (averaging 2 percent) since 2001/'02.

The answer being as follows, quote:

> "The 1.5 percent volume factor selected represents the latest eight (8) year average." End of quote.

Let me ask you, Mr. Galenzoski, then, how -- with reference to that response and given the increasing actual volume factor and the apparent pattern of underestimation, how does the Corporation justify the degree of responsiveness implied by use of an eight (8) year average in the selection of the volume factor assumption?

MR. BARRY GALENZOSKI: Pardon me. It's just an assumption and, as I stated before, any change in that assumption would be reflected equally on the other side of the coin which is the losses that are equally understated, if we've understated the -- the increase in the number of units being insured and on the road.

MR. WALTER SARANCHUK: Thank you, sir. I don't know whether this is an opportune time to have a break, Mr. Chairman, but I leave it to you please.

THE CHAIRPERSON: I think we will. We'll see you back in ten (10) minutes. Thank you.

--- Upon recessing at 2:54 p.m.
--- Upon resuming at 3:14 p.m.

THE CHAIRPERSON: Mr. Saranchuk, you want to take us home tonight?

MR. WALTER SARANCHUK: We'll try to get you there, sir.

THE CHAIRPERSON: These things will probably read funny in the transcripts.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: I'm now going to proceed, very briefly, to deal with drivers' premiums and in that regard I'd draw everyone's attention to Tab 5 which is TI15. And the drivers' premiums experience for '06/'07 is not really forecast a change in the September '05 revised filing over that filed in June.

Where, in Schedule 1 -- sorry, Schedule 2, on page 4, Tab 5 there's reference to drivers' premiums expected to be in the order of $35 million. And in that regard, I would ask that perhaps someone explain the composition of the premiums, namely the source of the fees shown in schedule 2 at page TI-15 which is page 4 of the initial filing?

(BRIEF PAUSE)

MR. DONALD PALMER: The driver's premium has, essentially, three (3) components. The first component is the basic premium on drivers' licences which is an amount of forty-five dollars ($45) less five dollars ($5) per merit and that's for all drivers in the province.

The second component are charge 1 surcharges which are based on demerits or conviction, Highway Traffic Act and Criminal Code convictions.

The third component are charge 2's which are the accident surcharges which are assessed to drivers who have accidents.

MR. WALTER SARANCHUK: And in terms of the additional premiums, that relates to what, sir?

How does one end up in a situation where additional premiums are assessed?

MR. DONALD PALMER: If -- if a driver has accidents, under certain conditions -- at-fault accidents, or has convictions, speeding tickets, going through red lights, apart from photo radar which aren't included, then they're -- then they're assessed extra driver's premium.

MR. WALTER SARANCHUK: And the additional premiums range from two hundred dollars ($200) for a six (6) demerits for convictions under the Highway Traffic Act to nine hundred and ninety-nine dollars ($999) for twenty-one (21) or more demerits, is that correct?

MR. DONALD PALMER: That sounds about right, yes.

MR. WALTER SARANCHUK: And, of course, in the past much has been made of the fact or at least noted of the fact that the computer limitation is at three (3) fields; has that changed?

MR. DONALD PALMER: Not yet.

MR. WALTER SARANCHUK: What does the future hold by way of a prospect for that?

MR. DONALD PALMER: Until we do our entire business process review and this will all tie in to the bonus/malice program that we've talked about, I don't know that I'll speculate on the expansion of that nine hundred and ninety-nine dollars ($999).

MR. WALTER SARANCHUK: So despite the integration of the DVL, the driver's vehicle licencing division, if you will, with the MPI operations, it's still -- that is the limitation of three (3) fields hasn't, as yet, been addressed?

MR. DONALD PALMER: That's correct.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: I now refer everyone to Tab 31 and the response there by the Corporation to question number 61 by the Public Utilities Board in the first round, noting that there has been filed today revision to part B of that question.

And in that regard, the revision pertains to the response by the Corporation to the questions posed in part B which asked this question:

"Further to the response to PUB-1-48(b) at last years' GRA, please advise whether the Corporation has prepared any analyses with respect to the following and if so, provide a summary of the results."

First, small letter i:

"I) The impact of red light cameras in Winnipeg on projected claims frequency and severity and/or the bonus/malice system; and next

ii) The impact of graduated licensing on claims frequency and severity, and/or the bonus/malice system."

So now with reference to the revision, could someone from the Board's Panel please speak to it and bring the Board up to speed in terms of what the latest information is?

MR. WILF BEDARD: Yes, I can respond to that, Mr. Saranchuk, we do have a report that was filed here this morning, which is a preliminary review of what experience we've had with the graduated driver's license program over the past number of years.

MR. WALTER SARANCHUK: But just before we get to that, sir, the Corporation in response to the (I) that I question, as I understand it, has not conducted any analysis on the impact of red light cameras in Winnipeg at all; is that correct?

MR. WILF BEDARD: Yes, that is correct.

MR. WALTER SARANCHUK: Are you expecting to do one (1) in the near future?

MR. WILF BEDARD: No, we are not.

MR. WALTER SARANCHUK: And the reason being?

MR. WILF BEDARD: It's not our jurisdiction to conduct a survey on the -- the operation of the red light cameras and its impact in Winnipeg.

MR. WALTER SARANCHUK: So, that is the Corporation's position in respect of the Board's inquiry on that score?

MR. WILF BEDARD: Yes, that's correct.

MR. WALTER SARANCHUK: Okay, now moving on to the second phase of the response to 61(b) in the First Round, the questions posed by the Public Utilities Board, please elaborate on the response?

MR. WILF BEDARD: Yes, I'm sorry for the confusion a little earlier. What we have done is had our internal department look at the experience to date, with regard to graduated driver's licensing. And as I was saying, the document was filed this morning. I first had the opportunity to -- to review this -- to review this, this morning, myself.

And the indications are, although this is -- is interim, and not totally exhaustive in terms of analysis, that it is indicating that there is clearly a reduction in the number of claims made, a reduction in the number of collisions made, and the number of injuries associated with graduated driver's license operators, since the introduction of this plan a few years ago.

MR. WALTER SARANCHUK: And in terms of the results, did they surprise you, sir?

MR. WILF BEDARD: Personally I -- I think I am surprised, yes, favourably surprised. I would have anticipated intuitively that there would have been a reduction as a result of this program, but I'm very pleasantly pleased with the degree to which the indicators that have been measured have reduced from the control group of young drivers prior to the introduction of the GDL.

MR. WALTER SARANCHUK: And just on that score, looking at the first page of the attachment, or the enclosure, it indicates that the four (4) year statistical analysis shows that in terms of the findings, the internal review indicates that the injuries decreased by 57.4 percent; is that correct?

MR. WILF BEDARD: Yes, that's correct.

MR. WALTER SARANCHUK: And that is with respect to the new drivers, so to speak, from ages fifteen (15) to nineteen (19); is that correct? It's in that category?

MR. WILF BEDARD: Yes, that's correct, but that does not include the novice drivers. There are people who come to Manitoba, or are already Manitoba residents who are just getting a learner's -- a learner's license and embarking in a driving career, it's not all just individuals aged fifteen (15) to nineteen (19) as mentioned.

MR. WALTER SARANCHUK: And damage claims have dropped 55.2 percent, with accidents falling by 54.7 percent and convictions declining by 69.4 percent; is that correct?

MR. WILF BEDARD: Yes, that's true.

MR. WALTER SARANCHUK: Now, the reference in the first line on the paragraph following that information on the first page says that:

> " The findings are based on an internal review of claims information, driver records, and convictions of drivers fifteen (15) to nineteen (19) years of age, between 2000 and 2004."

So, are you saying this does not then reflect just that particular age group experience?

MR. WILF BEDARD: Yes, as I was mentioning, there are other individuals who are driving for the first time in the province that are not within that age group. But that age group does represent twenty-seven (27) -- pardon me 77 percent of the participants in the GDL program.

MR. WALTER SARANCHUK: And is this a result reflected in any way in the forecast for the current rate application?

MR. BARRY GALENZOSKI: They'd be reflected with respect to the claims forecast as the trends are evident in the statistics that we see. So that will be reflected over time. But not necessarily to the full impact of what we're seeing in the -- in this study that we've just seen.

MR. WALTER SARANCHUK: Now, does the Corporation -- well, first of all, has the Corporation had an opportunity to review the impact of this in terms of the extent to which it can be expected to continue or is this a one-time phenomenon or what is the Corporation's view?

MR. WILF BEDARD: We are going to continue to analyse this over time. We are just working out the framework of having a third party independent assessment being done once the program has been maturing, if you will. We're looking at 2007 to do that and we're working with an independent firm right now to design a framework to do a more comprehensive analysis.

MR. WALTER SARANCHUK: Now, with reference to the bonus/malice system that was referred to by Mr. Palmer earlier, SM 8.9 in Volume I refers to the fact that the changes to the current bonus/malice program will not occur until there is the business process review.

But at page 30 in the second last paragraph of SM8.9 there is reference to a key element of the new plan as being quote:

> "The establishment of a multi-step 'risk rating scale' which would be applied to all Manitoba drivers regardless of whether or not they own a vehicle."

Can you give us any indication by way of a heads up on what that entails?

MR. DONALD PALMER: What that would entail is depending on an individual driver's record with regard to accidents and convictions, that they would be placed on a scale with -- with a good side and a bad side, so to speak.

And then, regardless of whether they were vehicle owners or not, they would be assessed the same sort of penalties and that could possibly be administered with -- with all premiums.

You know, not necessarily a separate driver's premium system and a vehicle premium system.

MR. WALTER SARANCHUK: All right. Thank you, Mr. Palmer.

Just bear with me for a moment please.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Can you comment, Mr. Palmer, on the trend to the demerit infractions over the last ten (10) years -- I'm sorry, the last five (5) years?

MR. DONALD PALMER: I can tell you that the demerit points and demerit surcharges have decreased steadily, probably at least over that period of time.

MR. WALTER SARANCHUK: And to what would you attribute that?

MR. DONALD PALMER: I would attribute that to decreased enforcement.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Well, given that we now have red light cameras, why would you attribute it to lower enforcement -- surcharges?

MR. DONALD PALMER: There's no surcharges on red light cameras or the photo radar. Sorry, demerit points on photo radar or red -- red light cameras.

MR. WALTER SARANCHUK: Now in terms of the answer that you gave Mr. Bedard about the red light camera impact not being, I guess, within MPI's interest or jurisdiction, what is the reason for that?

Why are studying, for example, the GDL and not the impact of red light -- red light cameras at the same time?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I think the short answer to that, Mr. Saranchuk, is that the Corporation has a more direct relationship and collaborative working relationship with the Department of Transportation with respect to GDL and statistics about drivers and statistics about accidents, collisions and claims.

I mean, if you look at the information

that we've used in that sort of snapshot GDL study, it's about drivers. Clearly an area of responsibility of the Department of Transportation who's -- who did release that information, not the Corporation and even before the amalgamation, the Corporation worked closely with DVL with the Department of Transportation on issues involving drivers and claims and accidents.

When it comes to the Winnipeg police photo radar initiative, red light camera initiative, it is their initiative. They have been reporting on the results of that work and as Mr. Galenzoski said, you know, this GDL information is not anything that we would impose on a claims forecasting process, neither would be any police reported results of the photo camera and the red light camera situation.

If claims experience accident frequency deceases in Winnipeg, it may be as a result of those programs, might be as a result of something else, but when it decreases it will be reflected in our claims experience, and our claims forecast going forward.

MR. WALTER SARANCHUK: Thank you, Ms. McLaren. We'll now proceed to deal with the DVL question and that's, of course, pertaining to the Driver and Vehicle Licensing division.

This is referred to, as we earlier alluded to, in Volume I at SM-8.1 and correct me if I'm wrong, but Ms. McLaren, as I understand it, the goal behind the merger was essentially to save costs with the intent that the merger at the same time would not negatively impact insurance rates, is that correct?

MS. MARILYN MCLAREN: Yes, I think that's fair. But in addition to save costs, clearly to find ways to improve service as well.

MR. WALTER SARANCHUK: And as a result of the merger, are there any cost consequences in this Application insofar as the basic insurance division is concerned?

MS. MARILYN MCLAREN: No, there are not.

MR. WALTER SARANCHUK: I would refer you now to SM-8.1.1 which is again, Volume I at the very beginning which deals with the first recommendation by the Board in it's Order of 148/'04, last year, which stated, quote:

> "Manitoba Public Insurance reconsider its decision to include DDVL operation within the extension division and reallocate the operations of DDVL to basic insurance and report to the Board by no later than the next General Rate Application." End of quote.

As I understand it now, with reference to the Corporation's filing at page 2, in the second paragraph from the top, the indication is that the decision has now been made to treat DVL as a fourth, non-insurance line of business.

Could you explain that, please, Ms. McLaren?

MS. MARILYN MCLAREN: Yes, that refers to the fact that there's pretty clear information, significant disclosure, transparency, with respect to the financial effect of the merger on the Corporation's financial situation.

That disclosure took place in the annual report that has been tabled in the legislature and that is really why we used the language here that we did, in terms of effectively treating it as a fourth, non-insurance line of business because the operation of that line has been disclosed of itself.

MR. WALTER SARANCHUK: And now with reference to AI15 being your agreement with reference to DVL that's reflected in Volume 3 part 2.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: This is not in the book of documents. With reference to the agreement what is the annual funding in the agreement, Ms. McLaren? I guess I should refer you to paragraphs 4.01 and 4.04 on page 6; it's the annual funding, it's just under $21 million.

Now, paragraph 4.04 on that same page 6 of the agreement, specifically refers to the Corporation gaining the sole and exclusive benefit of any operation efficiency arising out of the merger; is that correct?

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

MR. WALTER SARANCHUK: Now, referring to Tab 24 of the book of documents and the Corporation's response, in particular, to question 34 Section B of the first round of interrogatories served by the Public Utilities Board with reference to the attachment showing the DVL costs on page 1 -- actually it's the attachment in response to the question -- part B of the question.

Looking at the bottom line will that set amount of $21 million annually that the Corporation is to receive in the way of funding be sufficient to offset DVL's operating costs?

MR. BARRY GALENZOSKI: As you can see from the statement that is not sufficient to offset the operating costs in a status quo situation. In other words if we leave things as we found them when we walked in the door, then they wouldn't do that. You can see the numbers as we move forward are increasing year over year and so the challenge to the Corporation is to ensure that that is reduced and/or eliminated.

MR. WALTER SARANCHUK: And through what line of business, specifically, is the Corporation absorbing that cost?

MR. BARRY GALENZOSKI: Right now it's all an extension.

MR. WALTER SARANCHUK: Is that a qualification when you say, "right now?"

MR. BARRY GALENZOSKI: No, it's not a qualification. As of right now that's where it is.

MR. WALTER SARANCHUK: Is there some thought to moving it?

MR. BARRY GALENZOSKI: I think over time we're -- we're going to have to reconsider our position on that because as we amalgamate the organization there's going to be certain parts of it that are going to go into other parts of the -- of the business.

There'd be always something, a big piece of it, that will stand out as being DVL and stand alone as DVL as we know it today. For instance driver testing is a good example of that and it's likely that that would always exist as a standalone thing that we can easily identify associated with the old DVL.

But, as you move forward, for instance, on the accounting side of it, on the information technology side and many others, call centre or whatever we -- wherever we can get effective amalgamation, those lines are going to blur. And people that started off doing 100 percent DVL work are probably going to end up doing, you know, some other proportion of DVL; Basic, Extension, SRE, whatever needs to be done in the overall corporate context.

And it'll be our challenge to come up with some way of allocating that into the various lines of business along with recovery associated with that.

MR. WALTER SARANCHUK: Will this be dealt with in the business process review?

MR. BARRY GALENZOSKI: This will be partially dealt with on that side as well as just how we are able to gain the efficiencies. For instance, once you take, let's say, the finance people and -- and amalgamate them and just what ends up happening to that group of people.

You know, those -- those things will come out over time.

MR. WALTER SARANCHUK: Now, given the

impact on extension net income, will it also have an impact on the amounts transferred to basic; that is the RSR transfers? For example, as a negative net financial impact grows the transfers to basic are reduced.

MR. BARRY GALENZOSKI: Yes, and or eliminated if it continues to its numbers that we're showing here because the losses would be greater than the income that may be realized on that line of business.

MR. WALTER SARANCHUK: And then looking at the next five (5) years, given the bottom line, it would appear that there will be an approximately $40 million cumulative deficit; would you agree with that, sir?

MR. BARRY GALENZOSKI: Well, this is, again, a do nothing scenario. We've provided it for information. But this is certainly not our business plan going forward.

MR. WALTER SARANCHUK: Well what steps is the Corporation taking to stop the bleeding, so to speak, given that the agreement and the funding arrangement appear to be final?

MR. BARRY GALENZOSKI: The steps are the business process review that's underway right now and that's the big step that we'll be taking to move this to the right direction.

MR. WALTER SARANCHUK: Is there any contemplation of resuming discussions to review the agreement to address the deficient funding and if not, why not?

MR. BARRY GALENZOSKI: No. The agreement is in force. It's -- it's final and we're moving on that basis.

MR. WALTER SARANCHUK: Now, who says that it's final? Is the Corporation saying that it's final or is the government saying that it's final?

MR. BARRY GALENZOSKI: Just by the wording of the agreement itself. If you look at it it does talk about any future changes and we may be getting into some cost sharing discussions if we're asked to do more than we're doing today.

We keep any efficiencies that are gained out of the process; that indicates that it's final.

MR. WALTER SARANCHUK: Now, if you would refer, sir, to SM8.1.2 dealing with the recommendation number 2 and the commission cost sharing arrangement. Can you explain the arrangement that was cancelled last year?

MR. BARRY GALENZOSKI: Well, effectively, the Corporation was recovering just under $6 million a year with respect to commissions paid to brokers relating to things that the brokers were doing related to DVL. That agreement was terminated just prior to the end of the previous fiscal year and we are now absorbing that cost in our overall cost structure.

MR. WALTER SARANCHUK: So the result is that the projected results for basic are depressed by approximately $6 million a year?

MR. BARRY GALENZOSKI: That's correct. Plus we had a 1 percent rate reduction as a result of the Board order which magnified that by two (2) so we're absorbing basically $12 million a year loss.

MR. WALTER SARANCHUK: And the forecasted losses also depress the otherwise forecasted earnings of the unregulated line, for example, reduces the transfers to basic RSR?

MR. BARRY GALENZOSKI: Those will reduce the -- you know, again, we're looking at a shortfall for this year, maybe somewhat next year. But after that we're expecting to see those reduced significantly.

MR. WALTER SARANCHUK: Can you explain the rationale for entering into an agreement with the province to assume DVL given that it is projected to result in a $12 to $18 million loss in net income of MPI overall than would have been the case if DVL had not been assumed?

MR. BARRY GALENZOSKI: The expectation is better service for customers of the Corporation and DVL, Manitobans, generally speaking, and that we'll be able to achieve that through the processes that we already have in place, the existing computer systems that we have and our ability to do systems reviews and business projects.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And thus far, how much cumulatively has been lost as a result of the program cancellation?

MR. BARRY GALENZOSKI: Well, first of all, the share cost recovery was a stand alone thing. It wasn't related to the transfer of DVL to the Corporation; that was likely going to happen no matter what happened with DVL. And -- because it had been on the table for discussion many times over the number of years preceding this and finally came to some -- some conclusion. So that is a stand alone thing.

Second, I believe that we had a small loss last year in our last fiscal year of something like a hundred and twenty-five thousand dollars ($125,000).

We're expecting a $4 or $5 million dollar hit this year; there might -- they'll probably be some continuation into the next year and at that point we'll see how much we are able to achieve through the business process review.

MR. WALTER SARANCHUK: Why was the Corporation reimbursed monies by the province?

MR. BARRY GALENZOSKI: Which monies are you talking about?

MR. WALTER SARANCHUK: As I understand it, it referred to the $5.7 million, for example, for broker fees.

MR. BARRY GALENZOSKI: Again, that was a negotiated agreement we had between ourselves and DVL and the provincial government relating to the services being provided by the brokers to collect monies for DVL and there was -- that was considered appropriate compensation back to MPI, 'cause all the compensation to the brokers is paid through the insurance premium.

Nothing, virtually nothing was paid based on DVL transactions; registration fees and things along that line. So, as a result, we negotiated from the early years of the Corporation, a financial reimbursement that has been adjusted several times over it's history and then finally eliminated last year.

MR. WALTER SARANCHUK: Was the Corporation provided any rationale by the government for cancellation of that initiative or that reimbursement?

MR. BARRY GALENZOSKI: Not really. They decided that -- the Treasury Board decided that they were going to make this budget cut and a cut was made.

MR. WALTER SARANCHUK: Is the Corporation aware of any review or study conducted by the government leading up to the elimination of the 5.7 million dollar payment?

MR. BARRY GALENZOSKI: No, I am aware though that this was a topic of discussion for many, many times in front of Treasury Board by DVL in many -- in the years leading up to the final decision.

MR. WALTER SARANCHUK: Do you recall or do you have any indication of what some of the arguments in the sales pitch by DVL were made at that time?

MR. BARRY GALENZOSKI: We were not asked to participate in that discussion at that time.

MR. WALTER SARANCHUK: Given that the reimbursement was in the order of $5.7 million, according to evidence last year, is it correct that the cumulative value of the loss of that recovery would be in the order of $28.5 million over the next five (5) years?

MR. BARRY GALENZOSKI: I guess you could put any number you want to it, it doesn't matter at this stage. That money is not coming from the government at this stage.

MR. WALTER SARANCHUK: Now referring to S -- well, let's put it this way. That would have an negative financial impact on the amounts transferred to basic, though, wouldn't it?

MR. BARRY GALENZOSKI: No, that was within basic so that -- that amount of money had a negative impact with respect to the financial results of the basic program.

However, we've managed to overcome that over the last two (2) years and there hasn't had any real negative bottom line impact.

MR. WALTER SARANCHUK: Well, I'm looking at SM-8.1.2 and parts A and B at the top of page 3. SM-8.1.2 and the reference to, in particular, the Corporation's view that the agreement provides a reasonable framework to ensure the effective operation of DVL functions and a fair sharing of costs into the future.

Does the Corporation still hold that view?

MR. BARRY GALENZOSKI: Yes, we do. The matter of cost sharing on the commissions is a different issue. It was outside of this agreement and is separate in our minds.

MR. WALTER SARANCHUK: But budgeting for

a deficit isn't really a fair sharing of the costs, is it?

MR. BARRY GALENZOSKI: Budgeting for a deficit based on the status quo is information that we're providing and we'll be providing updated information as we do the business process review and provide information with respect to how we can mitigate what we -- what the do nothing scenario would indicate.

MR. WALTER SARANCHUK: So did you indicate that the service performed by the broker for DVL did lead to the $5.7 million reimbursement or did not?

MR. BARRY GALENZOSKI: It was the basis for the reimbursement and it was -- it was based on -- on a percent of the overall commissions paid to the brokers as, you know, several years prior to that there had been some -- some analysis done as to the value of that work.

I believe it was done by the internal audit of the Provincial Government and they came up with the formula at that point in time.

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I think a fair bit of this conversation, Mr. Saranchuk, we did have last year. The Corporation was told by the government that the cost share agreement was gun -- gone, done, closed.

Thus the last statement by the Corporation on the top of page 3 at the end of Section 8.1.2, the matter of the discontinuation -- discontinuance of the cost sharing arrange -- agreement is closed; it's done.

The agreement itself, when it was in force, probably went back to the early '70's around the time the Corporation was established and there was a mechanism to recognize that brokers did some work for the Government as well as for the insurance company and there was also a recognition on the other side that brokers who -- who renewed driver licences did some work for the insurer as well as for the Government.

And a lot of the work that has been gone on back and forth through then is a reflection of cost sharing arrangements that used to be in place between the two (2) organizations to account for the same facts as MPI staff did work for the government and DVL staff did work for the insurer, and those ended. It was decided that there's enough of a quid pro quo, we -- we did stuff for them, they did stuff for us.

There was no transfer of money. There was this legacy cost share of the commission arrangement that was revisited a number of times and different people looked at it, but at the end of the day there was significant pressure, we understand, on the costs of the Province and they told us they were not going to contribute any more and they stopped. That's it, it's done.

To somehow put that cost share agreement discontinuance in the context of whether or not it's responsible to budget for losses, they're totally separate issues. We're not going to get anywhere if -- if we continue to sort of mix those two (2) issues up.

And I can only imagine the conversation we'd be having here if the Corporation came forward with a budget that showed we expected to break even on every aspect of DVL operations down to the $20.9 million without any solid idea today as to how we were going to do that.

So, this is a worst case scenario. It's even worse than status quo because not only is it driving up the costs of the existing organization with no improvements, it contemplates some investments in new technology without a dollar paid back for any of the investments. It's a worst case scenario. As soon as we have better ones you'll be among the first to -- to get copies of them.

MR. WALTER SARANCHUK: Yes, you can appreciate the Board's concern, though, when it sees the observation or commentary made by the Corporation that this is a fair sharing of costs.

MS. MARILYN MCLAREN: The amalgamation is a long-term arrangement. We don't expect it to end any time soon, if ever. It costs money to bring organizations together and we have every expectation that we will find opportunities to reduce costs. Any amalgamation that I've ever learned about, read about, heard tell of, has increased costs at the beginning and then with reasonably prudent management is able to reduce costs over the longer term.

The $4 or $5 million loss that we expect to incur this year falls into that category, that it's an expected outcome of an amalgamation exercise and we would expect in future years to reduce and hopefully eliminate any shortcoming.

MR. WALTER SARANCHUK: Are the brokers still performing a surface -- a service for DVL? Are they collecting fees, for example?

MR. BARRY GALENZOSKI: A broker's work has not changed as a result of this amalgamation at this stage.

MR. WALTER SARANCHUK: Any consideration been given to the brokers billing the government directly?

MR. BARRY GALENZOSKI: I think you missed the point --

MR. WALTER SARANCHUK: Then --

MR. BARRY GALENZOSKI: -- when -- when it was pointed out that the matter of the discontinuance of the cost sharing agreement is closed. We're not bringing forth any recommendations on that to government.

MR. WALTER SARANCHUK: So, do you agree or disagree with the comment that, effectively, Basic is effectively subsidizing the operations of the Extension side?

MR. BARRY GALENZOSKI: Absolutely not.

MR. WALTER SARANCHUK: And the reason being?

MR. BARRY GALENZOSKI: If you're referring to the fact that the transfer from Extension to the retained -- to the retained earnings for Basic are reduced and that's a subsidy by basic, I think you're forgetting the fact that the -- it's a voluntary transfer of funds from extension to the basic. It's not something that's mandatory.

It's something that management and the Board has agreed to do because we're managing it to that extent where we're trying to benefit all of Manitobans. So it's -- it's -- and I've said it before, this is more like a gift than it is anything else.

It's not something that's mandated. It's not something that's required. It didn't happen in prior years. So I can't -- I can't -- you know, I can't see this in the situation where it's a subsidy by basic. I can't turn it away that -- that far.

MR. WALTER SARANCHUK: So it can be revoked at any time?

MR. BARRY GALENZOSKI: Absolutely. The transfers from extension and SRE could be revoked. We've got a business plan that says that that's not going to happen and I think we've emphasized that when the Board has expressed some concerns about the control that they have over extension and SRE and whether they can rely on those transfers.

We're managing both of those business units to produce a positive transfer to the RSR. Now, we are showing you numbers that says, well, that could change based on what's happening with DVL.

But, as has been pointed out by -- by Marilyn, that's the worst case scenario; that's taking the existing costs when we took DVL over, adding other costs that -- that, for instance, like pension liability, inflation on wages, any changes we've had to make in the short-term to facilitate the transfer, adding a huge amount of money for systems changes that we don't know whether we really need or not at this stage; that's all part and parcel of those future estimates going forward, worst case scenario and we expect it to be better.

And I guess we're asking for some indulgence that this is going to be proven to you over time. And, you know, you'll start to see some improvement in the coming years.

But, you know, we can't give you anything better than what we're giving you. We're giving you the worst case scenario. We don't think it will get worse than that. We think it will definitely get a lot better than that and time will tell whether that's right or wrong.

MR. WALTER SARANCHUK: Please understand, Mr. Galenzoski, it's not a question of anyone being critical of the Corporation's approach here.

The question comes down to what measure of comfort can the Board gain in the Corporation's earlier assurance, if you will, that there will be every effort made to transfer a certain amount from SRE to basic and from extension to SRE in the future?

What measure of comfort can the Board gain from that when you say it can be revoked at any time and you're faced with situations where the extension side is

getting some $6 million less a year from the government?
It's cos -- there's -- it's going to bear a $40 million deficit over the next five (5) years. I appreciate it's in the worst case scenario but, again, where do you expect the Board to go with this?
Should it pay any attention to it at all?
MR. BARRY GALENZOSKI: Well, it has to pay attention to it otherwise why are we providing all this information and why are we having all these discussions. Obviously, you know, it's got to be paid attention to and we're paying attention to it.
What we've told the Board and our policy is, is that the transfers are being made based on a business case. We're managing towards that business case. The DVL situation we believe is shorter term as far as the downside on it and that we're managing around that right at the moment.
We're showing you worst case numbers; that's all included in the financial projections going forward for basic and the RSR impact. And so you can see that basic RSR is expected to continue to grow even over the years where we're showing heavy deficits related to DVL.
And, again, based on worst case scenario. So my expectation is, and I think the Board's expectation

should be that those numbers will actually be better than what we're showing you right now. And that time will prove us right when we go back and review this in the next two (2) or three (3) years going forward.

MR. WALTER SARANCHUK: Thank you, Mr. Galenzoski. Unless there are some questions from the Panel in this regard, I intend to move on to another area completely and I would suggest that this would be an opportune time to break, Mr. Chairman.

THE CHAIRPERSON: Yes, this would be a good time to break and we'll start up again tomorrow morning. And if we have more thoughts along those lines we can introduce them then. Thank you.

See you all tomorrow at 9:00.

(PANEL RETIRES)

--- Upon adjourning at 4:00 p.m.

Certified Correct,

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Carol Wilkinson, Ms.