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
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Pages 234 to 442

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8	MPI to provide written responses to each of the public presenters.	400
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--- Upon commencing at 9:08 a.m.

THE CHAIRPERSON: Good morning, everyone. Sorry for the delay. Reflecting on yesterday afternoon a bit, from our perspective yesterday afternoon we closed on a relatively difficult note with Board Counsel's cross-examination of MPI's witnesses with respect to DVL.

As matters discussed early in the GRA often affect later segments we have decided to provide some preliminary views for the reflection and consideration of the parties.

We know of no party to these hearings that has expressed opposition to DVL being a component of MPI.

2. This Board last year and years prior has expressed the view that the integration of DVL functions within MPI was to be encouraged and provided opportunities for improvements in bonus/malice system and other aspects of MPI and road safety.

3. While not the response sought by the Board in its order following last year's GRA the Board is nonetheless appreciative of the efforts undertaken by MPI in its annual report and this Hearing to provide a degree of transparency to the results and prospects of DVL within Extension.

4. We further appreciate the

forthrightness of the MPI's witnesses yesterday in their accounts of the origins of the Commission offset matter and plans with respect to DVL functions within Extension and MPI. We also appreciate MPI's indication that in time the functions and results of DVL will become more difficult to identify and measure within MPI as various functions may be integrated into other current functions of MPI.

One consequence of such events would be of course to lose the ability to assess the impact of DVL amalgamation on Basic, directly or indirectly.

6. We can provide, subject to further examination that may arise out of cross-examination to follow by Intervenors in closing statements, conditional support for MPI's plans to engage in business process re-engineering with respect to DVL operations within Extension and MPI.

In the absence of detailed review and concrete action it seems clear that the current revenue expense imbalance that's been forecast would persist without meaningful improvement for MPI's policyholders.

7. We find it reasonable that expenditures would be required above the level of expenditures of DVL under status quo operations given the oft-stated condition of the technology and its

limitations and MPI's commitments to improving the bonus/malice system, road safety, accident prevention and service to policyholders.

All that being said, we have reservations about the decision that ended provincial support for Basic broker functions and Commission expense and with respect to the contract and resultant transaction that marks the devolution of DVL from the Province to MPI in the Extension line.

As well, we are unclear as to the quantum of the factors driving the projected deficits for DVL non insurance line going out. We understand that the deficit in the first year, based on comments made yesterday by MPI, that the deficit in the first year following devolution to MPI was in the order of four hundred thousand dollars ($400,000), and if I recall properly.

And we infer from comments made that a large part of the projected increased annual deficits thereafter, first, to the range of 6 million and then to twelve (12) have to do with changed management to bring about service improvements. And we also note that MPI has indicated this is the worst case scenario.

We would like to understand this with much more clarity to help us form a proper perception of MPI's acquisition of DVL and the consequences that can be expected therefrom. We seek more clarity as to the cause and objectives of the new spending and more information supporting MPI's view that, in the end, the acquisition will work to the benefits of policyholders.

And, finally, and we recognize that DVL is within Extension, we would appreciate more information on the decision making involved. We appreciate MPI's attribution of the contracts designed to the Province but we would appreciate knowing MPI's Board's role in this. Presumably, the Board would have acted only upon receiving the business case analysis and a recommendation from its management.

Accordingly, it is our current inclination, which may or may not change over the remaining course of the Hearing as a result of more evidence being placed on the record, to consider whether MPI should request its external auditor to redo the cost allocation study, because that is the means by which the division of expenditures between Basic and the unregulated lines is derived under our understanding.

By such an exercise, to be reported at presumably the next GRA, the Board would be able to hopefully be able to determine to what degree Basic is subsidizing Extension or not in the form of the new DVL.

This review could take place with the

auditor being apprised of the Board's comments at this Hearing and its particular interest in the details of the new DVL expenditures and the cessation of the provincial payment towards the Basics broker commissions.

The auditor could, in a sense, answer the question that went unanswered last year and apparently this year: Is there a business case for ceasing the payments?

Finally, we wonder as to the possible production of an item that would give us more insight into the Board deliberations with respect to the loss of the commission offset and, finally, the decision to acquire DVL.

Presumably, again, they would contain projections and implications for policyholders and assessments of fairness. In the absence of this information the Board may, depending on the evidence, find it difficult to find the transactions acceptable from the perspective of ratepayers as to the implications of finding that the transactions were not acceptable from that perspective. Hopefully this will not be the case once more information is available.

In closing on these matters now, we will be, of course, considering these matters in the context of the overall situation and the multifaceted goals set for MPI.

And, finally, at this time, in closing, we would just simply say we would appreciate any such other illumination or support that MPI can bring to this matter prior to the conclusion of this Hearing.

Now, I'll turn back to Mr. Saranchuk.

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

MARILYN MCLAREN, Resumed

DONALD PALMER, Resumed

WILF BEDARD, Resumed

BARRY GALENZOSKI, Resumed

CONTINUED CROSS-EXAMINATION BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: We'll now proceed to deal with the topic of the rate stabilization reserve.

MS. MARILYN MCLAREN: Mr. Saranchuk, if I could just briefly attempt to respond to some of the comments put on the record just now.

And if I misunderstood or misinterpreted some of your comments please bear with me because I'm just trying to remember them, assimilate them and provide some sort of a reasonable response a little bit on the fly here.

THE CHAIRPERSON: You could take your time if you want. We'll be here for quite a few days.

MS. MARILYN MCLAREN: Okay. We will do that. But just -- but just some initial comments, I think, in terms of the -- the process that has happened and how we intend to move forward.

The -- and I'm not sure whether or not you were talking about a business case or -- or some sort of decision making process on the part of the Corporation with respect to the Cost Share Agreement; we were told is disappearing.

That the Board did not consider a cost benefit analysis, as to whether the cost share arrangement with Government should continue or should cease. We were told it's done, it's gone.

We were told after it ended, that in fact it had ended, for the most part, in terms of the timing. You know, we were told I think it was January or February, that's it, you have already received your last payment, it's gone.

And again, you know, many organizations through time, including Manitoba Public Insurance have put on the public record that they believe either an amalgamation with DVL or a much better alignment of practices and administration would be in the best interests of Manitoba vehicle owners. Many people have put that on the record.

But again, there was no cost benefit analysis of a particular scenario under which that would happen. It was a decision of Government. We were told, it was announced in the throne speech a year and a half ago that it was going to happen.

It was not a take over on our part. It was not a negotiation on our part. The Government announced that it was going to move those functions into the Crown Corporation.

The negotiation really was within the context of the Master Agreement that you have in front of you, in terms of okay, well if that's what's going to happen, what role can Manitoba Public Insurance play then, to make sure that it happens in the most viable context for us, in terms of our own business processes and decision making.

How do we make sure that the finances are arranged reasonably, and how do we move forward to make this as constructive as possible. That's where we had those conversations and the Board was certainly involved with me and with senior management in establishing, sort of, the -- the terms of reference, to negotiate the final Master Agreement.

With respect to the external auditor having a look and making decisions, I think we need to set our eyes forward. We really need to -- to think about the future and figure out where we go in the future. To ask the Corporation and/or its external auditors, to continue to, sort of, focus on what was done and how things worked and what they cost, isn't going to be helpful to us.

The thing that we have to all get our head around, I think, is the fact that we're talking about drivers and vehicle owners. And in both sides, whether it's the driver's license, or whether it's the vehicle registration process, you've got registration fees and you've got insurance premiums.

We're not talking about ratepayers subsidizing vehicle registrants, or we're not talking about driver license holders subsidizing vehicle owners. I mean, for the most part they're all one and the same person. They're all one and the same person.

At some point, Manitoba Public Insurance will get to a position where it is administering a number of very, very specific licensing and regulatory functions, like driver testing, managing the oversight of medical fitness of drivers, and how to deal with drivers who break the law X number of times; that has nothing to do with the insurance framework.

So, I think everything else though, that we do, whether it is done by brokers, whether it's done by ourselves in terms of licensing drivers on a regular basis, managing vehicle registration and insurance, it's all integrated, it's all insurance and licensing. There's -- there's -- that's -- that's the beauty of Autopac, right? It's highly integrated, it's -- it's immutable; you can't separate them.

So, we will get to a point where we're doing a whole bunch of stuff that is virtually transparent as to whether it's exactly registration or insurance, and then we'll have this other stuff that's clearly registration oriented and -- and regulatory oriented. We will know the costs of those programs.

We'll know what it costs to maintain the driver improvement and control program. We'll know what it costs to test drivers across the Province, and all those other pure DVL functions. We'll know what that costs. Then we'll have a bunch of other stuff that is completely stuff, technical term, highly integrated.

And we know that the costs of those pure regulatory oversight functions couldn't possibly exceed $20.9 million. And then you've got this integrated stuff.

So, that's what we'll be left with, and then, I think, in the future we'll be talking about how is that, sort of, going to shake out in terms of what is it -- what is the Government's contribution to the ongoing operation of MPI as a whole for which it gets the collection of, at this point, about $100 million in registration fees of one (1) form or another.

We collect that money for them through brokers and we also do some functions that have nothing to do with insurance.

So, the extent to which this is always going to be clear and understandable and -- and priced and then there will be the other highly integrated activities that really for all intents and purposes are intended to collect our six (6) or $700 million a year and their $100 million a year.

So, that's where we're going to end up. And I think when we move down that road we're going to have to make some decisions about what can we clearly isolate and -- and cost, but what will we have to rely on our cost allocation methodologies to figure out what is fair and reasonable.

And that's where we're going to go and I would ask you to think more than twice about asking us to, sort of, redo some cost consideration process based on what was.

THE CHAIRPERSON: I appreciate your comments and I'm sure we'll reflect on them.

Mr. Saranchuk...?

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Thank you, sir. To begin, Mr. Galenzoski, I'd refer you to Tab 21 in the book of documents which is the Corporation's response to Public Utilities Board Interrogatory Number 26 in the first round.

And the first question posed was: Has the intended purpose of the Basic insurance RSR changed in the last twelve (12) months?

And just read in your one (1) word answer there, sir, please?

MR. BARRY GALENZOSKI: "No."

MR. WALTER SARANCHUK: Now, referring to the annual report which is at AI-10, I'd ask you to take a look at page 39 and the heading, Basic Insurance Rate Stabilization Reserve, which is defined there. And I wonder if you would read that into the record, please?

MR. BARRY GALENZOSKI: Yes.

"The Basic Insurance Rate Stabilization Reserve relates to basic compulsory

automobile insurance and is intended to
protect motorists from rate increases
made necessary by unexpected events and
losses arising from non reoccurring
events or factors."

MR. WALTER SARANCHUK: Yes. Now, I'd refer you to page 10 of that same report -- sorry, page 16 of the same report. And there's reference to the Basic Rate Stabilization Reserve in the third paragraph from the top on the left-hand side.

I wonder if you'd read in that first sentence?

MR. BARRY GALENZOSKI: "The Basic Rate
Stabilization Reserve (RSR) provides
the financial resources to protect
basic Autopac rates from vola --
volatility caused by unexpected events.
This fund is primarily built from
surpluses generated by our competitive
lines of business, Autopac Extension
and Special Risk Extension.
We have no need to generate shareholder
returns so we can challenge profits
into the RSR."

MR. WALTER SARANCHUK: Yes, thank you.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Thank you. Now, just focussing in on the second reference to the RSR if you will, on page 16 there's reference to the word 'volatility' which doesn't appear in the traditionally explained or the standard definition that we've heard in the past with reference to the RSR.

Do you -- or should the Board read anything into the use of the word 'volatility'?

MR. BARRY GALENZOSKI: No, the -- the definition that's in the notes to the financial statements is the one that I would stand by.

MR. WALTER SARANCHUK: So, there was no intention there to refer to, for example, solvency?

MR. BARRY GALENZOSKI: No, I guess this is, you know, one of those things when the people that draft the annual report, I'm constantly looking for where there's definition changes creeping into the wording and this is maybe one where there -- something crept in.

But, it's not something that we would accept as official with respect to the notes to the financial statements which I would stand by.

MR. WALTER SARANCHUK: Thank you, sir. I'd now refer you to Tab 35 and the Corporation's response to -- to question number 8 in the second round Interrogatories posed by the Public Utilities Board.

And the question posed was:

"The Corporation has confirmed that the stated purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors. How does the Corporation reconcile the $40 million allocation for the IIF with this stated purpose?"

I wonder if you'd read in the response please, sir?

MR. BARRY GALENZOSKI: "The basic rate stabilization reserves stated purpose does not change. What has changed is that the basic insurance retained earnings have been appropriated into two (2) funds, Basic Rate Stabilization Reserve and the Immobilizer Incentive Fund. The Immobilizer Incentive Fund is a temporary fund with a specific purpose to combat theft."

MR. WALTER SARANCHUK: And I guess

focussing in on the question, the -- the question that I would ask you now, sir, is: How does the $40 million -- or how does the Corporation reconcile the $40 million appropriation with the stated purpose; basically the creation of two (2) funds?

MR. BARRY GALENZOSKI: Right. Okay, I think we have to go back a step. You know, there was, possibly, a bit of a shortcut taken in the financial statements by referring to basic retained earnings as RSR fund. We've always done that for the last number of years.

In effect, what happens in the background is that any -- the net income or loss for the year goes into retained earnings for the basic line of business. All of those retained earnings were allocated to RSR and so we just called it the RSR. We didn't call it retained earnings as we do for the other two (2) Extension lines of business.

So, what we've now -- we're -- doing is we're doing something a little bit more official with respect to how you would normally see a financial statement line up and it would show that there's retained earnings. And we're not showing the appropriation from retained earnings to the two (2) funds.

We're still all -- moving it all through the RSR and we stated that in my testimony. We're showing you how that works because the other fund is a temporary fund. It's only going to be there for five (5) or six (6) years, however long it takes to get this program up and running in a full manner.

So, the intent will be to go back to the RSR at some point in time as being the only component of retained earnings for basic. But, right now, we've got two (2) components. It fits within the overall concept of retained earnings for a line of business and we believe that it's all appropriate.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, turning to Tab 6 which is TI-16, the statement of basic insurance retained earnings; the latest filing in September and also the one in June of this year. In the absence of -- I'm looking at the 2005/2006 column for the forecast.

In the absence of having created the IIF would the balance in the RSR be $206 million rather than the $167 million as of the year end of 2005/06?

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

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Just referring back for a moment to the Annual Report, AI-10 at page 35, and the top table there, Mr. Galenzoski, given the previous evidence by the Corporation to the Board, and indeed as confirmed by your testimony this morning, I take it then that the basic retained earnings and the Basic Insurance Rate Stabilization Reserve can be considered as the same?

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

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now with reference to Tab 32, sir, and this is the Corporation's Response to the Public Utilities Board Interrogatory number 2 in the Second Round, and in particular, Part B of that Interrogatory, where the question was:

> "Please refile TI-17 and TI-17(a), to reflect the deferral of all program costs over the life of the program, matching the costs of the year the benefit occurs, i.e., projected $40

million of costs/projected 80 million
in savings -- $80 million in savings,
therefore one dollar ($1) of expense
realized for each two dollar ($2)
benefit realized in any given years."

And in response the Corporation filed the attachment indicated, it's headed, Immobilizer Incentive Project Matching Costs to Benefits, page 3.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And if you'll just turn to TI-7, I'm sorry, TI-17, at page -- Tab 7 of the book of documents, and in particular, the TI-17(a), filed in June -- or actually it's dated July 8th, 2005. It also has -- it also has page 2 at the bottom.

So, keeping your finger on that, that is again the TI-17(a) as filed on July 8th, 2005, and now moving to the TI-17(a) and I'm sorry, I think I said page 3, but I'm looking at page 2 -- I'm sorry, page 1 of the attachment 32.

And what I want to do is compare the two (2) documents, TI-17(a), dated July 8th, 2005 and TI-17(a), filed in response to Interrogatory 2B.

And with reference to the bottomline, so to speak, over the projection for the year with which we're concerned, 2006/07 and the outlook period for the additional three (3) years, can you comment, sir on the difference shown in the net income for rating in RI-17(a) as originally filed and the net income shown in the attachment to 2B in Tab 32?

MR. BARRY GALENZOSKI: Yes, under Tab 32, we're showing a net income of five hundred and seventy-two thousand dollars ($572,000) and under Tab 7, we're showing a net income of six hundred and one thousand (601,000).

There's not -- not a lot of difference there, because there's no real claims impact on these numbers so we're -- just a deferral of the IIF costs are happening on Tab 32. So, there's virtually no difference when you look at the numbers after the transfer to immobilize -- from Immobilizer Incentive Fund on Tab 7.

MR. WALTER SARANCHUK: Okay. And if you just continue through the outlook period.

MR. BARRY GALENZOSKI: And when you look at the outlook period, the second year is somewhat similar also, again because there's not much in the way of claims. But when the amortization starts and on -- on the Tab 32 on -- in the outlook periods '08/'09 and '09/'10, you see that the net loss is quite a bit bigger going forward than if you looked at it -- the net income loss for rating purposes, because of the recovery from IIF fund on Tab 7.

So, that -- that's the major difference in these two (2) statements.

MR. WALTER SARANCHUK: Could you explain then, sir, the deferral methodology that is reflected in this response to 2B?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Yeah, what's happening in the amortization one is that costs for the program are accumulated until, I believe, '08/'09 and then we start amortizing those costs over a five (5) year period going forward.

So, as new costs are added, they're added into the pool and then everything is amortized, going forward five (5) years.

MR. WALTER SARANCHUK: Looking at TI-17(a) as revised and filed on September 28th, and this is the second page into Tab 7; the new TI-17(a) if you will.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Is it a fact that the expenditures for the immobilization -- immobilizer fund strategy are in the road safety loss prevention line, if you will, up into the net claims incurred section?

MR. BARRY GALENZOSKI: Yes, that's where the majority of those costs would be.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So, now with reference to the column for 2008/09 and 2009/10 in T-17, filed in response to 2B, why are the safety -- road safety loss prevention expenses similar to the road safety loss prevention expenses shown in the TI-17 as last resort -- revised?

MR. BARRY GALENZOSKI: Well again --

MR. WALTER SARANCHUK: There could be no deferral, for example?

MR. BARRY GALENZOSKI: Yeah, there's no -- there's no deferral on these. It's just, the costs are stabilizing on the IIF program. In other words, we're anticipating certain take-up on the program going forward over those years and that stabilizes those costs going forward.

MR. WALTER SARANCHUK: Can you explain, sir, why the deferral method wasn't implemented by the Corporation?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: We were -- we're classifying those as period expenses. The claims reductions don't occur for a few years and so we're -- we're putting it through as a period expense and setting aside the funds out of the rate stabilization reserve -- out of retained earnings, I should say, in the -- in the retained earnings section as the fund that that money would be appropriated from to pay for the program over the longer term.

MR. WALTER SARANCHUK: Yes, I appreciate that's what you've decided to do. But the question is, does it make that much of a difference when you are looking at benefits being derived as quickly as we now understand them?

MR. BARRY GALENZOSKI: Yes, it does. You know, it -- it -- first of all, it sets aside the funds that are going to pay for this program over a longer period of time. In other words, the five (5) or six (6) years that we're anticipating.

It -- it tells the reader of the financial statements that the Corporation has set aside these funds over the longer term. So, when you're looking at the financial situation of the Corporation there's an understanding that there's something that's changed here from the previous years; that we've -- we've committed to a longer term expenditure and that it's a sizeable expenditure.

So, rather than just put a note to that in the financial statements, we felt it was important to bring that out in the financial statements.

MR. WALTER SARANCHUK: But given the benefits derived isn't the program essentially self-financing?

MR. BARRY GALENZOSKI: No. There's -- there's no guarantee that it's self-financing that takes -- that will be determined by the take up of the program. And -- and therefore, you know, we have to look at how that's going to -- how it's going to roll out over the next several years.

We've got a fairly high take up now on a voluntary basis in the initial stages of this program. Whether that will continue or not will remain to be seen. If we do not get a substantial take up then those claims benefits that we show in our financial projections will not necessarily occur and that's the key to this whole process is making sure that there's a critical number of immobilizers installed so that there is a deterrent on the theft side.

MR. WALTER SARANCHUK: But, and we'll get into this later, you are looking at an $80 million benefit to be derived?

MR. BARRY GALENZOSKI: There is a prediction of an $80 million benefit. But that's given a certain take up on immobilizers being installed. If that does not happen then that $80 million will not occur and that's the key to this program.

MS. MARILYN MCLAREN: Just a little further clarification on that point, we need the take up of the program and we need to get immobilizers though into the right vehicles. There's always the possibility that you could, you know, spend a fair bit of money even if the only people who come forward and take advantage of this program are people who own vehicles which can be stolen but are not particularly the vehicles of choice.

So, you could spend money and not get the claims savings because those vehicles are not being stolen to the extent of, for example, the top one hundred (100) are.

MR. WALTER SARANCHUK: Why would you not

defer it and then, once you've had the experience for a few years, then, if necessary, take it up as an expense at that time?

MR. BARRY GALENZOSKI: That would then be a shock to the system and we don't believe that that would be appropriate to -- you know, you would end up having a big write off at some point in time and that would have a very negative impact to the bottomline for one particular year and we didn't think that that was appropriate.

Also, you know, we -- keep in mind my earlier comments that this is a substantial expenditure that the Corporation is planning on making over a number of years and we felt it was important for that to be noted in our financial statements.

MR. WALTER SARANCHUK: But all indications are that this is going to be very successful and you, indeed, have proceeded with the methodology that you have looking to an $80 million benefit at the end of the day.

So why is it now, as it appears from your evidence, you seem to be so pessimistic about it?

MR. BARRY GALENZOSKI: The early take up in the program has been very encouraging. But there are -- you know, we -- we still have no guarantees that we're going to get the vehicles that we really need to get as -- as Ms. McLaren has already spoken to.

So we have to be somewhat cautious on that. Okay. You know, the financial projections are just that. They are projections based on assumptions. Those assumptions can be right but they can also be incorrect.

And if the assumptions are not fulfilled that we've predicted then there's going to be a change in those financial results. The 80 million may or may not be -- be actually changed on our financials going forward -- or realized. And on that basis, we have to -- we have to put forth some caution.

MR. WALTER SARANCHUK: If the voluntary take up doesn't work for targeted vehicles, what would the Corporation consider in the way of addressing that issue, to keep the business case on track?

MR. BARRY GALENZOSKI: The Corporation --

MR. WALTER SARANCHUK: For example, are we talking surcharges, or what are we talking about?

MR. BARRY GALENZOSKI: Well, there's a number of different things that can be done, we're not talking specifically about things like surcharges at this stage, we want to push hard on the voluntary aspect of it. We've got a number of different things that we can do to encourage that.

As -- as I indicated to you already, the initial results and take up has been very encouraging and, you know, people are -- are jumping on the bandwagon. Our -- our biggest roadblock so far has been install capacity.

Once we get that in place, and that will be in place shortly, then we'll see how the -- if we can match the install capacity to the take up on the program. And we've got a number of levers that we can pull on that first before we have to start thinking about other alternatives.

The only thing I'm putting out on the record today, is that we have to be somewhat cautious, because it is a voluntary program. And on that basis the projections may be realized or they may not be realized. We've got fairly optimistic projections with respect to the reduction in theft, based on a very healthy take up with the correct vehicles entering the program.

So, there's a number of assumptions both on the claims side as well as on the take up side of the program and, you know, we're working on that part of it hard right now, we're putting a lot of effort into making that occur, and then we'll worry about what the next step is if we can't get the voluntary take up.

MR. WALTER SARANCHUK: Mr. Galenzoski, you can appreciate that from the Board's standpoint, it has to assess the evidence and determine whether, indeed, this is a -- a matter that it can endorse, since, of course, the Corporation has sought the Board's approval.

Let me say to you, though, that given all the indications, and given that, as I think you alluded to earlier, there's an element of conservatism in your forecasts and you're talking about an $80 million benefit at the end of the day, with all indications being that this will be positive and successful, why do you think that the Board should endorse this $40 million allocation out of the RSR?

MR. BARRY GALENZOSKI: Well, I believe that the Board should look at it in a positive light, because this is probably the largest step that's been taken in Manitoba to overcome a very significant problem in Manitoba. And -- and I think it's a responsibility that the Corporation has stepped up to, and -- and is doing an admirable job in trying to control.

Now, when you talk about conservatism in our numbers, you know, I'm not necessarily in agreement with that. With respect to the claim savings that are going to occur, I think they're -- they're fairly optimistic at this stage, okay, like we -- it does, as I said, depend very much on the take up, and that the right vehicles are taking advantage of this program.

In other words, the top one hundred (100) right now are the ones that we're aiming at, and those are the ones that we're giving some priority to, so that we can get them into the program, and really make it a lot more difficult for those people that are out there casually stealing cars and -- and running them around for an hour or so, and then abandoning them after they've done some damage. We want to try and stop that if we can.

And there's a number of initiatives that you're aware of that we're doing. This is the biggest of those initiatives, and has the most far reaching impact, and -- and has the promise of having the ability to really control the theft problem in Manitoba. And this is the only jurisdiction in Canada, that's really trying this type of a program, and a lot of people are going to keep an eye on that and see how it might work.

MR. WALTER SARANCHUK: I don't think anyone's going to quarrel with the basic premise, in terms of the objective to be met.

But let me ask you, did the business case, in the Corporation's view, support this program or didn't it?

MR. BARRY GALENZOSKI: The business case obviously supported this program, but the business case has assumptions, as all business cases have. And the assumption I keep going back to you is the take up on the program, and the take up has to be there.

And right now it's a voluntary take up and we believe that that has a good chance at success. And that's one (1) of the major assumptions in the business case that we put forward on this program.

MR. WALTER SARANCHUK: But on an overall basis, at this time, your assessment is that you're optimistic?

MR. BARRY GALENZOSKI: Yes, we're very optimistic but, you know, things can change pretty quickly in this side of it. Okay, you know, we've gotten a very enthusiastic response from our customer base so far, and we hope that that will be able to be continued.

But as everything else, you know, usually your early adaptors present themselves very soon in a program like this, and then the people that are harder to convert to something will be -- need to be convinced that it's the right thing for them to do, and that'll be our job to try and make that happen.

MS. MARILYN MCLAREN: Another point that Mr. Galenzoski focussed on early but I think really bears repeating is that we were searching for a mechanism that gave us the most transparency.

We want this to be absolutely clear as to what we're doing, and separating it like that in the -- with a separate fund, using retained earnings in the financial statements gives us that transparency.

This is something that -- the Corporation has never done anything, to my knowledge, remotely like this before. We're giving people money to buy something. It's not -- you know, we're not setting aside money to have different kind of insurance discount. That's not what this is about.

People who take advantage of the program certainly qualify for an insurance discount, but we're taking cash and helping people buy a piece of hardware. That's a fundamentally different thing than this insurance company has ever done in its history, that we don't know of any other jurisdiction where any organization has done that.

It's fundamentally different; it is out there on the leading edge of efforts to solve this problem and we wanted to make sure that it was absolutely understood what we were doing and how we were funding it.

MR. WALTER SARANCHUK: I'd refer you to Part C of question 2 on the second round of

Interrogatories served by the Public Utilities Board and the -- this is in Tab 32 and the question was:

"Please summarize the alternatives considered by the Corporation to finance the implementation of the vehicle immobilization program and indicate the reasons for the Corporation's decision to opt for the establishment of a $40 million reserve."

Could you please read in the answer?

MR. BARRY GALENZOSKI: "The Corporation considered funding the vehicle immobilizer program by establishing the Immobilizer Incentive Fund an appropriation from basic insurance retained earnings, to minimize the impact on rate string implementation of the program.

Alternatively, the Corporation could have allowed the costs of the program to flow through normal operations and allowed the rates during implementation to be impacted either negatively or positively.

It should be noted, once the program is successfully implemented, the program is expected to result in a net benefit to the bottom line and basic insurance rates."

MR. WALTER SARANCHUK: And the question posed in Part E of that Interrogatory was:

"Given the benefits to be derived from the investment and the immobilizer program, please explain why the program could not be funded from existing operations on an annual basis until 2013/'14, negating the need for a reserve fund."

And what was the answer by the Corporation, Mr. Galenzoski?

MR. BARRY GALENZOSKI: "Please see C above."

MR. WALTER SARANCHUK: So would you please elaborate on that?

MR. BARRY GALENZOSKI: Well, what we're saying is that there's going to be expenditures that are going to be made here that there is -- there's -- we're estimating that there will be a benefit at some point in time, but that benefit is not a guaranteed benefit.

It's made -- it's based on an assumption of benefits and, as a result, we wanted to make sure that there was no impact on the future rates, resulting from the implementation of this program, and so we chose to set aside the $40 million fund out of the retained earnings to -- to fund the program going forward.

MR. WALTER SARANCHUK: And in addition to this alternative that was recommended or at least suggested in this Interrogatory, isn't there a third alternative, namely to defer and amortize?

MR. BARRY GALENZOSKI: Well the defer and amortize is somewhat of the same ilk in that, you know, you're -- you're making the assumption in that -- in that particular methodology that the benefits are going to accrue, as predicted in the business case.

And without a -- some guarantee that that's going to happen, in other words, that the take up is going to be sufficient, that the take up is going to be with the vehicles that are -- that are really targeted for theft right now in Manitoba, it makes that somewhat inoperative, in my mind.

MR. WALTER SARANCHUK: One of the other major projects that we heard about was the Winnipeg Police Service Initiative. Do you agree that was a fairly large initiative, not in the order of $40 million, but that was a fairly large project, as such -- capital project?

MR. BARRY GALENZOSKI: I don't believe there was any capital involved. This is -- are we talking about where we're funding the stolen auto theft unit for the City of Winnipeg Police?

MR. WALTER SARANCHUK: Yes.

MR. BARRY GALENZOSKI: You see, that is a period cost because there it's -- it's an annualized cost which we are just charging to operations on an annual basis. There is no guarantee of any kind of a benefit whatsoever to the Corporation.

We're assuming that by -- by funding this that there will be some positive impact on thefts. But over that time period thefts have actually risen. So, you know, there's -- there's a problem there. You're not going to amortize those costs. For what -- what purpose would you amortize those costs?

That's a pure period cost. We record it in the period and start over the next year.

MR. WALTER SARANCHUK: Then why not give consideration to a $20 million allocation, as opposed to forty (40), for the IIF?

MR. BARRY GALENZOSKI: Well, because our business case indicated that we'd come close to spending the $40 million, and we wanted to make sure that the funds were there over the long term. What would be the purpose of starting a program and having only half the funds to fund it, having to stop that in the event that something occurred that those funds weren't available.

To me it wouldn't make any sense at all. You can't start a program and then end it prematurely because a successful program, let's say it was being -- it was successfully being implemented, because you run out of funds.

We've got the funds. We set aside the funds. We did the business case on it. We said, this is what we think we're going to spend on it. And so that's the reason we established 40 million as the amount.

MR. WALTER SARANCHUK: The RSR was built up over the years by a number of factors including surcharges implemented and paid by motorists; is that correct?

MR. BARRY GALENZOSKI: That was a number of years ago to overcome a deficit position and to assist us to get back to some reasonableness with our rate stabilization reserve; that is correct.

But those are a number of years past and the majority of funds that have come into the RSR in the last few years have come from the Extension lines of business and then the second part of that would be from operations itself.

MR. WALTER SARANCHUK: And I think it's your evidence, and we'll get into this in detail later, but once that fund, if it were to drop to a certain level, then the Corporation would consider surcharges again to be paid by the motorists; right?

MR. BARRY GALENZOSKI: Yes. The policy is there in the event that that happens. Our business case indicates that that shouldn't be happening in the foreseeable future. But that is -- that is part of the policy that we have with respect to our retained earnings and rate stabilization reserve for the basic insurance line of business.

MR. WALTER SARANCHUK: And so, I guess you can appreciate that the Board, again, on realizing or taking into account the fact that motorists, in the past, have contributed to the RSR by way of additional surcharges, may well have to, in the future, if there is some negative impact, and considering the overall purpose of the RSR, will be facing the decision as to the reasonableness of the Corporation's approach to setting aside $40 million in an initiative that it now appears to have some confidence in, and yet, also, at the same time, is in a quandary or has had some reservations about its success.

So why would you appropriate $40 million out of reserves in those circumstances?

MR. BARRY GALENZOSKI: I think we have to look at the positive side of the business case. The business case is very positive. It will have long-term benefits for Manitobans from a monetary standpoint with respect to insurance rates and from a social aspect with respect to auto theft in Manitoba.

Those are very important goals, and I think it's a very important project that we've put in place here. It's innovative, it has a very good chance of being very successful in addressing the very large problem that we've developed over the last few years.

We have -- it's an extraordinary problem that we have with auto theft in these are -- this is an extraordinary measure to deal with it. But I think it needs the support of this Board. I think it deserves the support of this Board, and we need to be encouraged to try and make this thing successful.

MR. WALTER SARANCHUK: Moving on to the RSR target level, Mr. Galenzoski, you'll recall that in Order 179/01, the Board reaffirmed the target of $50 million to $80 million, for the RSR; is that your recollection?

MR. BARRY GALENZOSKI: Yes, the Board has been stuck on that number for some years.

MR. WALTER SARANCHUK: And in Order 148/04, last year, at page 73, the Board found that its range for the RSR required a minor amendment, in that it did not provide any inflation factor, with the result that the Board amended its range for the RSR to increase it annually to match the percentage increase in MPI's gross written premiums; is that correct?

MR. BARRY GALENZOSKI: Yes, although there was no numbers provided with that, so we're not really sure what that means with respect to the actual level of the RSR that the Board has in mind. In other words, the Board didn't put a number to it.

MR. WALTER SARANCHUK: Let me ask you, have you done any calculations to determine what the estimate of the RSR level would be, based on the Board's approved -- current approved methodology?

MR. BARRY GALENZOSKI: No, I have not.

MR. WALTER SARANCHUK: So, there's nothing that the Corporation has done to determine what the impact of the inflationary factor would be?

MR. BARRY GALENZOSKI: It would be minor.

MR. WALTER SARANCHUK: And in that regard, do you have any figures at all that you can refer to?

MR. BARRY GALENZOSKI: No, we've not looked at it.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Mr. Todd, in his report, that we'll hear about, I think referred to a range of 55 million to $90 million. Can you comment n that?

MR. BARRY GALENZOSKI: Well, I haven't done a check on -- on Mr. Todd's numbers. I presume he can crunch numbers, and I would be prepared to accept that as a range.

MR. WALTER SARANCHUK: And the Corporation has indicated through your prefiled testimony, Mr. Galenzoski, that there are a number of changes and risks faced by the Corporation now; is that correct?

MR. BARRY GALENZOSKI: No, that's not correct.

MR. WALTER SARANCHUK: To what extent is it not -- not correct?

MR. BARRY GALENZOSKI: We're not facing new risks, we're facing risks that are -- the risk that we're facing is associated more with the monetary value of those risks increasing quite a large amount over the last number of years.

MR. WALTER SARANCHUK: So, is it a newly calculated risk?

MR. BARRY GALENZOSKI: Not newly calculated, no. This is something that's been growing over the years, and needs addressing.

MR. WALTER SARANCHUK: In your prefiled testimony, sir, as revised in September, at page 4, or at least starting at page 4, and continuing on to page 5, there are a number of risks, at least three (3), that have been addressed and described as quote, "Changing risks," end of quote.

So, is that a better phraseology, as opposed to new risks?

MR. BARRY GALENZOSKI: Yes, they're not new risks, and I think I pointed that out in -- in my testimony, as well as in responses to some of the -- the questions that were asked.

When we say "changing," we're -- we're really specifically talking about things that are changing in our environment with respect to the quantum of the risk that we're facing, because of just the sheer size of our investment portfolio, the sheer size of our -

- our liabilities respecting claims, and the very fact that our reinsurance -- ability to buy reinsurance at a -- at a reasonable rate at the lower levels has changed.

So, those are the changes that I'm referring to, and that's what I enunciated in my -- in my testimony, at least that's what I was hoping to enunciate in my testimony.

MR. WALTER SARANCHUK: I wonder, sir, for the record, if you would read in the Corporation's Response to the Interrogatory number 27, sir, by the Public Utilities Board in the First Round, which appears at Tab 22?

Two (2) questions having been posed there:

"A. To what extent are these three (3) cited issues new considerations leading to the Corporation now choosing to adopt a higher RSR target?"

And the second one was:

"If they are not new considerations, what factors have caused them to become of sufficient concern to now justify the change in the RSR target?"

MR. BARRY GALENZOSKI: Response to a) and b):

"The three (3) cited issues are not

new. However, the magnitude and therefore potential impact on the RSR has and will continue to grow.

The Corporation has been providing the PUB with data on DCAT and MCT since the 2001 GRA. The OSFI methodology for calculating MCT has been recognized as best practice in the property and casualty business for many years.

In Ms. McLaren's pre-file testimony, Volume I at page 6, last paragraph and through the first three (3) paragraphs of page 7, Ms. McLaren clearly outlines that the Corporation has never agreed that the PUB target for RSR of 50 to 80 million was adequate to provide the basic insurance fund with the required level of financial stability.

Ms. McLaren also explains why this was not an issue at recent hearings and provides some insight as to what can create financial variability.

In his prefile testimony Volume I at page 4, beginning with the third paragraph and continuing on page 5, Mr.

Galenzoski provides more specific information on the variability that can negatively impact short term financial results, thus requiring a higher RSR target.

The main factors can be summarized into three (3) main components: the transfer of risk back to the Corporation due to an inability to purchase lower levels of reinsurance for bodily injury and PIPP serious losses.

The inherent risk in the basic insurance expodential growth in unpaid claims provisions, a 5 percent change to this 1.1 billion dollar provision would negatively impact results by 54 million dollars.

Five (5) years ago the comparable number was 31 million and five (5) years hence, the comparable number is estimated to be 88 million dollars.

Basic insurance share of the investment portfolio was 1.4 billion dollars as at February 28, 2005, up 180 million

dollars from the previous year.
Emerging GAAP will require the portfolio to be valued on a market to market basis in the new future. This will cause significant variability in evaluation point in time.
A 1 percent rise in interest rates would negatively impact the market value of basic share of the portfolio and reported financial results by $53 million."

I must just add to that, that that reported financial results, we've probably now would realize isn't going to necessarily flow through the income statement and so there would be some -- some movement on my thought on that at this point in time.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: I think you indicated yesterday, Mr. Galenzoski, that the mark-to-market reporting would have no impact on rates, so does that mean that this last risk is no longer valid?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: No, it's still valid, you know. There is going to be concerns with respect to overall retained earnings for the Corporation although, you know, I said and I'm going to be providing you with some documentation that says that I don't think that the mark-to- market part would -- should be considered as part of rating and I also don't think it should be considered as part of the RSR target levels.

So, we'll -- as we provide you more information on that, you'll see what we're talking about on that.

MR. WALTER SARANCHUK: Can you indicate, maybe even in terms of ranking, the order of magnitude of each of these risks that you've identified?

MR. BARRY GALENZOSKI: Well, of course, the biggest risk is on the claims side, because those numbers can change and have changed significantly in years past and I've got to expect that in the future that will also occur.

The second big risk in my mind right now is the reinsurance side. We're buying -- we're keeping the first $3 million of every major loss in our own retention today. I'm expecting that by January 1 that could be as high as $5 million that we would be keeping in our net retention. And it's simply because we just can't effectively buy reinsurance protection for losses that are expected to occur on a regular basis.

It just doesn't make any sense to trade dollars some many years in the future, with our reinsurers.

And then the third risk is the -- is the investment risk. Investment risk is more associated with the annual performance of investments, as we've now gotten more clarity with respect to the new accounting rule changes.

MR. WALTER SARANCHUK: Why does MPI describe its unpaid claims as, "growing exponentially?"

MR. BARRY GALENZOSKI: Well, because they are. You know, those -- look at the numbers that I talked about. You know, there's -- there's a 1.1 billion provision on -- on unpaid claims. There's -- we're adding several hundred million dollars a year into unpaid claims provisions, for the basic plan alone.

And so that's a fairly significant exponential growth.

MR. WALTER SARANCHUK: I would now refer you to Tab 20 which is the Corporation's response to Interrogatory number 24 of the Public Utilities Board in the first round. And that, of course, addresses the reinsurance issue that you've identified with reference to the information shown on that page, and I guess on the overleaf as well.

Can you explain what is reflected here to identify or reflect the increased risk?

MR. BARRY GALENZOSKI: There's two (2) areas of the Corporation's reinsurance program that present some financial risk to the Corporation. And I'll deal with the easy one first, that's the catastrophe program where we're buying protection for -- in Manitoba's context, hail is the big -- is the big risk that we're reinsuring ourselves for.

Followed by flood would be the second major peril. But we're presently buying a program that has a retention of $5 million. But even the next layer up is 5 million, excess of that 5 million retention, excess of the first $5 million in losses already.

So, in other words, we really have to have almost $10 million of losses in a given year before we start recovering and that layer is in doubt as to whether we're going to buy it. So we could end up having a retention of about $10 million for any particular hail event that might hit us in Manitoba.

And that sounds like a lot of money. But in the great scheme of things, with respect to reinsurance, it isn't a large amount. Particularly for a company the size of MPI. So it comes down to the economics about whether you're going to buy that or not.

Second --

MR. WALTER SARANCHUK: Just on that point though, excuse me. If there's a $10 million claim, you keep 5 million of it don't you?

MR. BARRY GALENZOSKI: Well, right now we keep -- let's say a year ago we would have kept 5 million; that would have been our retention. Like, for instance, when we had the loss in '96 which was $52 million, our cost was $5 million plus some reinstatement premiums.

When we had the loss in 2001 which was about $22 million, $5 million was our retention, okay. But, today if we would have had that loss of 2001, let's say we had that in 2005, we would actually not recover anything until after the first $10 million.

So, we have to have -- that -- there's -- there's an aggregate deductible on top of the five (5) -- excess of five (5) in today's cover. So there's additional exposure to the Corporation and that's not in our -- we don't budget for that type of an event happening in our rate setting process.

So, that's the exposure on the catastrophe side.

MR. WALTER SARANCHUK: But what -- what would have been the cost to keep that insurance at $5 million without that additional deductible, if you will?

MR. BARRY GALENZOSKI: The cost to keep that -- I don't know what the cost would be to keep that because by giving a $5 million aggregate deductible on top of our program you get some relief on the premium which pretty much equates to the $5 million that you're taking on as additional responsibility.

In other words, reinsurers would have wanted compensation in the tune of probably $3 1/2 to $4 1/2 million to give up that -- for that extra $5 million in protection. And the reason they don't need the full $5 million or wouldn't give you the full $5 million credit is that they don't expect to pay out every year so they do expect that they're going to be able to put some of that money in their pocket and keep it year over year.

So, there would be a hefty cost to eliminating the $5 million aggregate deductible. And the reason we put it in was to try and keep the cost reasonable and yet keep some level of protection as we were transcending from a lower level of retained earnings on the basic side to a higher level of retained earnings.

In other words, we didn't want to have a situation develop that would damage our balance sheet too badly. So we bought some additional protection and we kept that $5 million aggregate in there.

MR. WALTER SARANCHUK: Thank you, Mr. Galenzoski. Now, moving on the casualties layer; what can you tell us about that?

MR. BARRY GALENZOSKI: On the casualty this is saying, well what if you -- you know, what would be the class to go back to the previous cover, where you have -- you have more protection, and we're saying that would cost about $3 1/2 million more, to add that in.

Well, you know, at some point reinsurers won't even give you a price on the lower levels, because they expect the losses to be there, they're -- they're not there to protect you against expected losses. We're really buying a casualty reinsurance program to protect us against increase in frequency or severity.

In other words, the expected costs of the program you should be keeping within your own retention, you shouldn't be reinsuring that. There's -- there's no -- there's no reason in the world to provide money to reinsure and then ten (10) years later come back and negotiate a commutation for a particular layer of coverage, where you've now got exposure to the credit risk of giving money to somebody else, and the negotiating risk of them agreeing to the dollar numbers that you come up with, and them settling on that dollar amount.

So, if we have expected losses on the casualty program, we have to have that priced into our product now.

In past years, the reinsurers didn't understand this program as good as they do today. They've got a lot of years of statistics, okay. They actually subsidized our program to the tune of tens of millions of dollars where they -- they basically have paid more in claims than the premiums that they got from this Corporation.

They caught on to that, okay, they -- these guys are a lot smarter than they used to be, okay. I carry my actuary in my back pocket now when I go to meetings with these people, because they've got actuaries on the other side of the table.

It's -- it's much more a numbers driven game, and they look at the statistics with great -- a great deal of -- of concern, they send their own teams in to audit our files on a more regular basis than we've seen in the past, and they're much more business oriented when it comes down to dealing with our reinsurance program, because it has cost them money over the years.

So, on that basis alone, they're not just going to be the good guys and -- and give you the cover, because we are who we are. They need to make money on this over the long term, and they haven't on our program.

MR. WALTER SARANCHUK: Does the Corporation bring in anybody from the outside, in terms of assisting them in making the decision?

MR. BARRY GALENZOSKI: Not in making a decision, but certainly in assisting in placing the program. We have resources within the Corporation to make the decisions on our own.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Just before we leave Tab 20 though, sir, I wonder if you would just explain for the record the, or describe rather, what is reflected in the casualty section?

MR. BARRY GALENZOSKI: It's a layered program that we're buying. The working area is the 2 million excess $3 million. That's where you -- you expect more claims to be, in previous years we've had that down as low as $1 million retention. And so there would have been a layer below this that would have -- would have paid for those claims.

Then when you get higher you get the $5 million excess, five (5) to ten (10) excess, ten (10) and thirty (30) excess twenty (20), those are more higher working levels, they're -- they're clash areas, you're basically there expecting multiple injuries coming out of one (1) incident, that -- that fabled bus crash where you might get four (4) paraplegics coming out of it.

You know, four (4) deaths coming out of it isn't going to make the bottom retention layer, but four (4) paraplegics coming out of it is definitely going to cost you a ton of money and you need to have this level of protection. And so we buy a layered program.

Reinsurers themselves want to be participating in different layers of programs because of their either ability to take on risk, or their inability to take on risk. They get paid a lot less for the thirty (30) excess twenty (20) layer, than they would for the two (2) excess three (3), where you're closer to the bottom -- the loss from ground up.

So that's how -- that's -- it's a pricing strategy, it's a marketing strategy from their standpoint as to where they want to be on a particular program for a particular company.

MR. WALTER SARANCHUK: Has the Corporation made any retrospective analysis, modelling, alternative retention approaches, using past years data?

MR. BARRY GALENZOSKI: Oh, yeah, we've -- we do that, we provide that information, for instance, when we -- we have that information available when we're marketing our program. It's -- it's one, you know, it's one thing when you're sitting across the table from a reinsurer that you've cost several millions of dollars to, and when you had the old program.

Now you're trying to get them to buy into your new program. And so what you do is you say, Well, had we had the new program going back to these old years where you lost your shirt, you'd have made money on this thing, okay.

And you try to convince them to get on board at a reasonable rate. That's the kicker is -- is the rate going to be a rate that we can -- we -- is sustainable as far as our business case is concerned on that.

So, yes, we do retrospective back casting of claims.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: How much did the Corporation save or avoid in new costs on an annual basis by increasing the retention?

MR. BARRY GALENZOSKI: Well it says right here on the -- on the casualty it would have cost us about another 3.5 million dollars if we would have bought the same level of protection.

The -- the thing that this doesn't address is, is the market available at any price and I think that's the kicker there is that you may be able to find a company or two (2) that would support you at a given -- given rate on line for a particular layer of reinsurance, but you may not find enough companies to buy the entire program.

These are -- this program, in particular, is placed on an annual basis and so on an annual basis you're trying to fill 100 percent of each of the layers that you're marketing. And you may find somebody who will give you a price of X, the next company will be X plus ten (10) and the company after that might be X plus 20, and you're not necessarily going to choose the X price, because that won't sell throughout the whole market.

You know you need to get 100 percent participation on -- on the program if you're going to cover it off.

And so we have to be careful about how we price this thing and the price that we try to go to market with.

MS. MARILYN MCLAREN: Just further to that point, for the benefit of others in the room, it really is a multi-faceted business. We've got a clear depiction here of how the reinsurance program is placed in different layers, but what's not clear and maybe just to elaborate a little bit on what Mr. Galenzoski started to talk about is the fact that we have many, many re-insurers on most of the lawyers.

Some reinsurance companies will take 10 percent of the two (2) excess three (3) layer, particularly when it comes to the catastrophe reinsurance we've got some re-insurers that take 2.5 or 5 percent of a particular layer.

So you could have ten (10) or more re-insurers on each of these layers and if you can't get 100 percent subscribe to each layer, then we assume that risk ourselves.

So we may be re-insure away 70 percent, but we're still carrying 30 percent ourselves.

So in addition to the layers, there's many, many players on each layer, if you can get them.

MR. WALTER SARANCHUK: And will the -- the two (2) major catastrophic losses down south in recent past affect Corporation's ability, you think, Mr. Galenzoski, in terms of obtaining the reinsurance in the future?

MR. BARRY GALENZOSKI: Not on the catastrophe side. We -- we believe that that will be available. There may be some -- some price hits as a result of that program. But you got to keep in mind the way we place our program, we place it -- we've got the only program in Canada that's placed on a multi-year basis, so I already have two-thirds (2/3) of the 2006 program placed and I know the rate for that.

So it's just the one-third (1/3) going forward that we could get hit with a rate increase on that particular program.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Would you please refer to Tab 23 in the book of documents and the Corporation's response to Interrogatory number 28, served by the Public Utilities Board in the first round. And particularly section A and the table that was provided in response to the question as follows:

"Please provide a table which compares the reinsurance recoveries over the

last ten (10) years with those amounts
restated, using 2005 reinsurance
terms."

So would you please explain what is in this table, Mr. Galenzoski?

MR. BARRY GALENZOSKI: Okay. The recoveries that are shown on the left hand side, show the recoveries that would have been made on -- for the various years that we're talking about, both for the catastrophe and casualty programs.

And the total, it was 108 million worth of recoveries, and that -- when I say "recoveries" that's what we would book. It did not necessarily cash at this point in time.

The -- the catastrophe ones are pretty much all paid for. There's only a small amount outstanding there but the casualty wouldn't be all paid for in cash, but we would have booked it as a recovery.

If we look at the program that we currently have and said what type of recoveries would we make on that, given the same level of experience for the years that we're talking about, you can see that we would have recovered about $10 million less on the two (2) catastrophe claims and we'd recover nothing under the casualty.

And so instead of recovering $108 million we would recover $48 million. And that's just a little bit of a demonstration as to the risk that is facing -- that the Corporation is taking back onto its own book.

MR. WALTER SARANCHUK: And, of course, that's over a ten (10) year period and not in any given year?

MR. BARRY GALENZOSKI: Well, that's right. That's -- this is -- this is over the longer term.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So it would appear that your exposure of $38.4 million was in 1996 and 10.3 million in 2001; what were those two (2) exposures?

MR. BARRY GALENZOSKI: Those were both catastrophe hail losses. I referred to both of them before that. We had our major loss, hail, for -- in 1996. Followed by another one five (5) years later in 2001. Both of them occurred in the City of Winnipeg.

MR. WALTER SARANCHUK: When you look at 1995 and the period from '97 through to 2000 and then 2002 to 2004, where there were no events leading to recoveries, doesn't that indicate that, when you consider all those years, eight (8) out of the ten (10), that perhaps this concern for the risk increase or change is overstated?

MR. BARRY GALENZOSKI: No. I wouldn't agree with that at all. The very fact that reinsurers paid out 38 mill -- would have paid out 38 million when they actually paid out more than that. The fact is when you look at their experience they had lost any of the profits that they made on our book of business on the casualty program when that big hailstorm happened in 1996.

They started to recover from that because there was no losses in the subsequent years. And then, bang, they got hit again in 2001, and they went negative again. And I'm talking about when you look at the whole book, all of the participants on our reinsurance treaties on the -- on the CAT program.

They weren't making money on that. So, you know, this -- the pricing strategy of reinsurers is that they're not going to have a loss on every account, that they're going to have losses on their book of business. And they try to estimate that through whatever techniques they use.

But they can't predict that they're going to have a major loss on the Corporation's particular cover, or not. And as a result, their pricing strategy is pricing it at something that's going to be really taken in over a period of years and that they're trying to make dollars based on their overall book of business, not just based on their relationships with MPI.

MR. WALTER SARANCHUK: Given the significance of reinsurance to the RSR levels, and in the end, premium risks, does the Corporation involve outside experts?

MR. BARRY GALENZOSKI: We involve outside experts to assist us with placing the program, recommending what coverage changes we might make to the program, market knowledge that they bring to the table with respect to what is doable in the marketplace, both in Canada as well as internationally.

So, yes, we do have outside experts help us.

MR. WALTER SARANCHUK: Does the Corporation assume any risks from other insurers?

MR. BARRY GALENZOSKI: No, it does not.

MR. WALTER SARANCHUK: Mr. Chairman, I now intend to proceed into another area dealing with this RSR target level. I don't know if this is a convenient time to break or not. I leave it to you please?

THE CHAIRPERSON: I think it would be

fine. See you back in about ten (10) minutes. Thank you.

--- Upon recessing at 10:30 a.m.
--- Upon resuming at 10:55 a.m.

THE CHAIRPERSON: Any time you're ready, Mr. Saranchuk.

CONTINUED BY MR. WALTER SARANCHUK:

MR. WALTER SARANCHUK: Thank you, sir. Mr. Galenzoski, I'd now ask you to turn to the document at Tab 36 in the book of documents. And this was the Corporation's response to the Public Utilities Board question number 11 in the second round.

The question posed was:

"With reference to the basic AutoPac operations and investment risk analysis report [that is the risk analysis] please provide the relative advantages and disadvantages of the risk analysis approach versus the MCT approach to setting an RSR target level."

And what was the Corporation's response?

MR. BARRY GALENZOSKI: "The risk analysis

report was an early, in-house attempt
to quantify operational and investment
risk within basic automobile.
The approach taken was unique to the
Corporation and as it was only applied
to basic auto could not be validated
over a larger user community.
The MCT approach is the industry best
practice in Canada. Accordingly, the
MCT approach is more relevant to the
Corporation in its RSR or capital
requirement setting an analysis."

MR. WALTER SARANCHUK: And now, of course, the Corporation is adopting or looking to adopt the MCT or Minimum Capital Test as opposed to the risk analysis, correct?

MR. BARRY GALENZOSKI: Yes, we're proposing or we've -- the Board has agreed and that we accept the MCT at 100 percent as the -- the top end of the target for the RSR.

MR. WALTER SARANCHUK: The MPI Board has agreed?

MR. BARRY GALENZOSKI: That's the MPI Board, yes.

MR. WALTER SARANCHUK: And can you, in

general terms, explain the relative strengths and weaknesses of the two (2) approaches, given the Public Utilities Board reliance on the risk analysis earlier?

MR. BARRY GALENZOSKI: Well, you know, I'll focus on -- on the MCT. The MCT is -- is something that has evolved over time in the Canadian insurance industry, in the PNC industry.

It used to be the Minimum Asset Test and now it's the Minimum Capital Test. It's certainly -- it's a risk based approach to -- to analysis of the capital requirements of an insurance company in Canada.

It uses risk factors to determine which -- which are tested in the industry in Canada and applied to all the companies in Canada, that OSFI is -- is -- has oversight on.

It provides some relief with respect to off sheet balance items that are considered such as capital gains that may be available on your investment portfolio. It allows up to 50 percent of that to reduce the requirement for capital in an organization.

So, we just looked at the overall -- the overall approach taken; the fact that it is -- it is rigorous in its analysis; the fact that it has been tested in many environments; the fact that it has been adopted by the Insurance Corporation of British Columbia, is being considered for adoption by the Saskatchewan Government Insurance.

All of these factors we looked at with respect to what would be appropriate to MPI and its circumstances and we believe that it's just a better test of what the capital requirements are for the Corporation.

MR. WALTER SARANCHUK: And would you refer to the risk analysis please for comparison?

MR. BARRY GALENZOSKI: Yes, the risk analysis is something that was developed, primarily in house. It did use some external consultants to assist. The VAR analysis is -- is somewhat of a -- of a known factor in that it's used by others in -- in -- particularly in some of the larger pension funds in addressing the risk associated with investments as one component.

We were marrying the -- the VAR analysis and the risk analysis together to come up with an overall operational and investment risk analysis. It had -- it was discussed at some considerable length over a number of years in this format.

It was constantly being challenged with respect to the validity of different approaches that were taken within it, to the point where, you know, the discussion was outweighing any benefit, in my opinion, as to where we were -- what we were doing with this particular report and the usefulness of it.

A lot of questions were raised. The very fact that it was only be used -- it was only being used by MPI and not validated over a larger use group is, I think, a concern because it -- it doesn't necessarily mean that it's -- it's a good test of the capital requirements of -- of MPI.

MR. WALTER SARANCHUK: You referred to the VAR, could you just explain what that acronym was or is?

MR. BARRY GALENZOSKI: VAR is -- is Value At Risk; that's an analysis of the risk associated with an investment portfolio.

MR. WALTER SARANCHUK: And that's part of the overall risk analysis?

MR. BARRY GALENZOSKI: Yes. We had contracted with two (2) companies at the time to assist us with that. One of them did the VAR component and the other did the risk component.

MR. WALTER SARANCHUK: What is the actual purpose of the MCT or minimum capital test?

MR. BARRY GALENZOSKI: Well, the purpose is to -- is to provide a measure of the capital required for insurance companies to meet the OSFI requirements that have been put in place.

They have -- the MCT comes up with a particular score and the OSFI is indicating that the minimum from their requirements is to be at 150 percent of the -- of the MCT score. And most companies in Canada are at a higher level than that.

In other words, they want to have a cushion so that in the event if they have some downturn in their business cycle that they can absorb that without having to go out and acquire more capital. So, the average in Canada today is 224 percent of MCT.

Our -- for MPI's purposes we're -- we're indicating that 100 percent of MCT would be sufficient.

MR. WALTER SARANCHUK: Essentially MCT is a solvency test for private insurers; isn't that correct?

MR. BARRY GALENZOSKI: No. It's a method of calculating the amount of capital that you would require. The DCAT is an -- an assessment of the risks that the Company could face under various scenarios and when you apply the -- when you compare the two (2) the risks under the DCAT compared to the capital that's required under the MCT that tells you when you run into a solvency problem or not.

MR. WALTER SARANCHUK: But the intent of the legislation or the edicts from OSFI, the Office of the Superintendent of Financial Institutions, is to address the solvency of private insurers; is it not, in--

MR. BARRY GALENZOSKI: No. It's to provide a test that would indicate when they have to become concerned about an insurer in Canada. And that's why they have set the requirement at 150 percent of their -- of their MCT test.

And that's also why companies carry a much higher level than that, simply because they don't want to have to start to come under the scrutiny of OSFI in the event that they approach the 150 percent level.

MR. WALTER SARANCHUK: Can you confirm that MPI is not subject to OSFI rules?

MR. BARRY GALENZOSKI: I can confirm that.

MR. WALTER SARANCHUK: And can you confirm that MPI has no share capital to protect, in other words, no share -- shareholder expectations to meet?

MR. BARRY GALENZOSKI: No, I couldn't confirm that.

MR. WALTER SARANCHUK: Why not?

MR. BARRY GALENZOSKI: Well, because our -- the expectations, you know, are that we will be financially viable. You know, the provincial government hasn't -- hasn't written me a letter saying that they don't ever want to see us slip below zero on our retained earnings side of it, but the very fact is, is that we know that provincial finances being what they are, that we can't go back to them with our -- our hand held out and saying, give me a cheque for a $100 million, because we just happen to have a little bit of a problem on our side of the equation.

So, there -- there is certainly shareholder expectations out there, that we maintain ourselves in a -- in a viable situation. That our base rates are adequate to meet our expected costs going forward, and that we have -- that we follow GAAP accounting rules, that we reserve appropriately, we invest our monies appropriately. There's -- there's a lot of governance around all of those issues, including the need for some form of -- of capital, as -- as a cushion against adverse developments that could occur in the Corporation's history.

MR. WALTER SARANCHUK: But you have no need to generate shareholder returns?

MR. BARRY GALENZOSKI: Well, in fact, our legislation prohibits shareholder returns for basic and Extension insurance. So, we're not interested in doing that, and that's not what the Government is requiring.

What we are doing is we're running this as -- as a viable business. Now, I guess on the other side of the coin because of balanced budget legislation and summary budget requirements, you know, there is some concerns that would be expressed on the other side of -- in -- in the legislature, with respect to poor financial performance by this Corporation, and any reduction even in our retained earning levels.

MR. WALTER SARANCHUK: Are there any income tax ramifications for a private insurer exceeding the OSFI requirement?

MR. BARRY GALENZOSKI: None that I'm aware of.

MR. WALTER SARANCHUK: Of course MPI doesn't pay income tax, does it?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: So, what you're saying essentially is that the shareholder that you answer to is the Government of Manitoba, and therefore the people of Manitoba, the motorists?

MR. BARRY GALENZOSKI: Yes, we appear in front of standing committee of the Legislature and report on our progress, and they approve our -- our Annual Reports on a regular basis. We just finished going through that in the last few weeks. We -- and we report on -- on an annual basis through our Annual Report to the Legislature and people of Manitoba.

MR. DONALD PALMER: If I can just add to what Mr. Galenzoski has said, in Federally regulated companies it's not just stock companies that have to comply with the MCT, also mutual companies.

MR. WALTER SARANCHUK: Thank you, Mr. Palmer. Can you confirm that MPI has a complete monopoly for basic insurance coverages, with effective rate making authority over the motorists?

MR. BARRY GALENZOSKI: Well, we have a monopoly, we don't have effective rate making, because we have to come to the Public Utility Board for approval.

MR. WALTER SARANCHUK: Subject to the PUB approval?

MR. BARRY GALENZOSKI: PUB and Cabinet approval, yes.

MR. WALTER SARANCHUK: And since MPI is not subject to OSFI oversight, it would have the luxury of time to recover if its surplus were stressed by some adverse event, could it not, so that it could possibly recover or avoid -- and avoid insolvency?

MR. BARRY GALENZOSKI: Well, in fact that's why we chose a target less than a 150 percent of the MCT. And that's why we do not require to have 224 percent of MCT; that's why we're choosing a target of a 100 percent at the upper end, and 50 percent at the lower end.

MR. WALTER SARANCHUK: Has the Corporation applied retrospective modelling using MCT on past MPI balance sheets?

MR. BARRY GALENZOSKI: No.

MR. WALTER SARANCHUK: Would you agree that in terms of your overall operation, the GAAP accounting bills in some conservatism in the financial statement presentation of the surplus, so that for example, you'll have a provision for adverse deviation or the pad?

MR. BARRY GALENZOSKI: Yes, I wouldn't call that conservatism though, that's a requirement that we have to have to get a signed off annual report, so I -- you know, I don't look at that as being conservative at all.

MR. WALTER SARANCHUK: And overall of course, the Corporation is, if you will, backed by the Government of Manitoba, in the final analysis, correct?

MR. BARRY GALENZOSKI: Again, I would suggest that that would not be the case. You know, when the Corporation -- the basic insurance had retained earning levels below zero, we didn't get a cheque from the Provincial Government to help us out. We had to work our way out of that hole ourselves.

And then basically that was handled through things like surcharges on the premiums, and -- and just making profits on -- on the -- having the rates so they can make some profits for awhile.

MR. WALTER SARANCHUK: Now you referred to DCAT or the Dynamic Capital Adequacy Test, could you explain generally what that is?

MR. BARRY GALENZOSKI: Yes, that's a process that our external actuary has -- goes through on an annual basis that will look at the business case that the Corporation is putting forward, our financial business plan, that's more -- more exact.

And then under various scenarios, adverse scenarios, they will -- they will run analysis as to how we would -- how we would do under those adverse scenarios, compared to our business plan that we -- we think we're going to have if we don't have those adverse scenarios.

They develop the adverse scenarios based on their knowledge of what could happen in the marketplace, for instance, whether you would have claims exceed expectations or investment be poorer than you expected.

Those types of adverse scenarios are -- are run, their detailed and they determine what the financial impact of that could be, both in the long and short term of the Corporation. And then they would tell you, based on that analysis, what the financial outcome would likely be from a -- your net income side as well as what would happen to your balance sheet and your retained earnings.

MR. WALTER SARANCHUK: Yes, just before I pursue that further, relative to your commentary regarding the relationship between the Corporation and the Province of Manitoba, wasn't it the late '80's when the Province, in fact, paid monies to the Corporation to bail it out, if you will, in respect to the general lines?

MR. BARRY GALENZOSKI: That was the general lines and that was a one time deal and all that money was paid back to the Provincial Government by the Corporation.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So doesn't that give you some confidence that, if a scenario like that arose, and I'm not talking about general lines, obviously, but that somewhere down the line the Corporation could look to the Government of Manitoba in dire straights?

MR. BARRY GALENZOSKI: No, that doesn't give me any confidence at all.

MR. WALTER SARANCHUK: Can you confirm that the -- just going back to the DCAT now, the DCAT based scenario represents a projection of MPI's operations looking forward from February 28th, 2005? And I'm talking about the very latest DCAT filing.

MR. BARRY GALENZOSKI: Yes, it takes our financial business plan and -- and uses that in its modelling.

MR. WALTER SARANCHUK: Yes, and just for the record, the latest revisions that were filed by the Corporation did include a new 2005 DCAT report, correct?

MR. BARRY GALENZOSKI: That's correct.

MR. WALTER SARANCHUK: Was the base scenario developed by Ernst & Young, your actuaries, in consideration of the applications projections of MPI operations, for example, TI-17(a) as originally filed in June or as more recently updated?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: It didn't include the latest updates to the financials, no. Now, you got to keep in mind that that was just a one (1) year impact with respect to the current results that we're getting, not the long term outlook which would be similar in both situations.

MR. WALTER SARANCHUK: So it was linked to your filing in June of this year then?

MR. BARRY GALENZOSKI: Yes.

MR. WALTER SARANCHUK: Can you confirm if there are differences between the base scenario projections versus those of the General Rate Application?

MR. BARRY GALENZOSKI: Yes, there would be some small differences that would be caused by the actuary doing their thing on the analysis.

In other words, they -- they look at a slightly different than what our base case might look at.

MR. WALTER SARANCHUK: Would they be considered material to the DCAT process?

MR. BARRY GALENZOSKI: No, not in my opinion.

MR. WALTER SARANCHUK: How about to the purpose of the rate application?

MR. BARRY GALENZOSKI: No.

MR. WALTER SARANCHUK: Can you give us

some idea as to the nature of the reliance on the DCAT results in this Application?

MR. BARRY GALENZOSKI: Well, the -- we filed the previous years' DCAT and we're relying on the DCAT analysis to assist us -- in the DCAT and the MCT analysis which is part of that, to assist us in establishing the RSR levels with respect to our Board of Directors.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: There is a reference to the satisfactory financial condition in the DCAT. Can you give us some idea of what that actually is?

MR. BARRY GALENZOSKI: Yes. It says that the financial condition is not satisfactory because there is scenarios that are there that would show us having no retained earnings left in the basic insurance division.

MR. WALTER SARANCHUK: And what is Ernst & Young's conclusion in that regard?

MR. BARRY GALENZOSKI: That our financial condition is unsatisfactory.

MR. WALTER SARANCHUK: To what extent is MPI relying on the DCAT to defend its -- or support its recommendation for an increased RSR target?

MR. BARRY GALENZOSKI: We think it provides substantial support.

MR. WALTER SARANCHUK: But it's not cited as one of the three (3) reasons that you referred to as increased risks?

MR. BARRY GALENZOSKI: We provided you with -- with some anecdotal information with respect to increased risk in those three (3) scenarios that we went through earlier today.

This is more empirical evidence with respect to the analysis that is provided by our external actuary and should be very heavily relied on by this Board. It is evidence that is independent of MPI. It uses the Corporation's business plan going forward with respect to its financial outcomes.

It looks at adverse scenarios that could be -- that could be possibly hitting the Corporation at some point in time. And it makes some assessments with respect to the Corporation's overall financial condition. And it says, point blank, it's unsatisfactory.

MR. WALTER SARANCHUK: And we earlier alluded to the term, "satisfactory financial condition;" would you define that please?

MR. BARRY GALENZOSKI: Satisfactory

financial condition is that under adverse scenarios you'd be left with at least one dollar ($1) in retained earnings.

MR. WALTER SARANCHUK: And if MCT were to come to be accepted by the Board as a basis for setting the RSR target, would the Corporation expect to incorporate MCT forecasts to its projections, for example, TI17A, or continue to rely on the DCAT as the source for MCT levels?

MR. BARRY GALENZOSKI: No. We would -- we would be running the MCT analysis and putting that into our forecasts with respect to the potential increases in -- in RSR requirements going forward in an outlook period.

MR. WALTER SARANCHUK: Can you confirm, Mr. Galenzoski, that the Corporation's target RSR was previously $80 million to $100 million?

MR. BARRY GALENZOSKI: Yes, I can confirm that prior to this year that was the target.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: With reference to your prefiled testimony in Volume I, sir, on page 5 -- your revised prefiled testimony. The middle paragraph begins with the words, "as a result..." and deals with MCT.

And the paragraph thereunder talks about the underlying policy for setting the RSR target. Just for the record, I wonder if you would please read in the two (2) paragraphs continuing right on to the bottom of the page?

MR. BARRY GALENZOSKI:

"As a result, the Corporation has adopted the Office of the Superintendent of Financial Institutions (OSFI) minimum capital test (MCT) at 100 percent as the target for the basic insurance RSR effective March 1, 2005. This was a necessary and important step to ensure that the potential variability in the growing claims liabilities, $1.1 billion, and supporting investment portfolio, $1.4 billion, can be managed within the context of a stable and predictable rate structure.

The MCT is a measure of financial strength and provides a sound industry best practice methodology to objectively calculate the RSR based on relevant basic insurance factors that are readily comparable to others in the private and public sectors.

The Corporation has selected the 100 percent MCT level, $214 million, which is a target considerably lower than OSFI's minimum target of 150 percent, $326 million, and the industry average of 214 percent of MCT, $469 million.

The underlying policy for setting the RSR target, as approved by the Corporation's Board of Directors, includes, targets set annually based on the most recent year's minimum capital test at 100 percent.

The primary funding source is the retained earnings in excess of the target set for the Extension and SRE lines of business.

A special basic insurance rate increase to fund the RSR will only be sought if the basic RSR falls below 50 percent of the MCT calculated target.

For the year ending February 28th,

2007, the RSR target is $214 million."

MR. WALTER SARANCHUK: Thank you, sir. You referred to the 100 percent MCT target as the Corporation's Board approved upper limit on the basic RSR target range.

Given your proposal of a 50 percent MCT as the point requiring replenishment, does this mean that your target RSR range is 50 percent to 100 percent MCT?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: Yeah, it's -- it's 50 percent of the MCT calculated target at a 100 percent. So, if you did the calculation of MCT at 50 percent, that would come up with a different number, and I'm not sure what that number would be. What we're saying is that our target is the $214 million in this case at a 100 percent MCT.

The lower end, before we take any action, would be 50 percent of that target, which is $107 million. So it -- it would be a slightly different calculation if it was a calculation at MCT at 50 percent, compared to 50 percent of the MCT at a 100 percent.

Hopefully I got that across without too many 50 percents being rolled in there.

MR. WALTER SARANCHUK: So, in a nutshell the Corporation's range is 107 million to 214 million?

MR. BARRY GALENZOSKI: In this example, yes.

MR. WALTER SARANCHUK: Isn't that a rather significant or large range for an RSR?

MR. BARRY GALENZOSKI: Well, I think it's a practical range. In other words, it -- it's a large enough range to allow some variability to occur, without having to impose some kind of surcharge on premiums. It also provides a stop where you're going to say at some point you have to take some action to replenish the -- the reserves.

Keeping in mind, you know, the second point in that policy is the primary funding source is the retained earnings in excess of the target set for the Extension SRE lines of business. Our business plan expects that we'll be able to keep our -- our retained earning levels, or our RSR levels for basic, in line with where our expectations are through this policy that we've put in place.

MR. WALTER SARANCHUK: Is it not true that over a $100 million is from the basic and the RSR, as opposed to the replenishment?

MR. BARRY GALENZOSKI: Sorry, I don't

understand the question.

MR. WALTER SARANCHUK: The net income in the last couple of years?

MR. BARRY GALENZOSKI: What is the question?

MR. WALTER SARANCHUK: Well, wasn't that contributing a hundred thousand dollars ($100,000) from basic to the RSR?

MR. BARRY GALENZOSKI: Well again, we've had some pretty good experience in the last couple years --

MR. WALTER SARANCHUK: A $100 million, I'm sorry.

MR. BARRY GALENZOSKI: Yes, we've had -- we've had some good experience on investments primarily, and -- and we -- we're contributing more than we normally would.

Keep in mind, in the long term we expect to break even on basic insurance, and we've defined that several times in these Hearings. And so we -- we're not budgeting, normally, to make $50 million on -- on the basic insurance when we come for rate setting. If -- if we had that as -- as a scenario, you'd obviously have some different things happening within the rate setting process.

We're usually coming to the table at very close to a zero number, plus or minus a few million dollars, and you know, it -- it has happened over the last couple of years that we've done better than that.

Last year it was because of release of financial provisions and improvements on investments. This year it's almost all attributed to improvements on the investment income side.

MR. WALTER SARANCHUK: Of course this is all on the basic side of the business?

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

MR. WALTER SARANCHUK: The first bullet on page 5 in the bottom paragraph refers to targets set annually based on the most recent year's minimal capital test at a 100 percent.

What was the rationale for choosing a 100 percent?

MR. BARRY GALENZOSKI: Well, the rationale for choosing a 100 percent is that the -- the process automatically calculates what the value would be at a 100 percent. And then we looked at values at 50 -- at a 150 percent, and then at -- at the industry average.

And we felt that there would be sufficient protection, even in spite of the fact that the DCAT analysis is indicating an unsatisfactory result could occur because some of the adverse scenarios.

So, it's -- it's just basically the capital that would be available versus the capital that is required.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Why would 100 percent be appropriate for a Crown Corporation insurer?

MR. BARRY GALENZOSKI: Well again, I think I just explained that. The fact that we believe that the adverse scenarios that are developed in the DCAT, there's a few of them that would show that we would -- we could lose all of that in some adverse scenario but that, over time, we could -- we could recover from that.

It is a number that we feel comfortable as -- as having retained earnings or RSR at that level to carry us forward in our business plan without having too many situations develop where we would need to have a premium surcharge to recover in the event we had adverse scenarios.

MR. WALTER SARANCHUK: The second bullet at the bottom of page 5 refers to the primary funding source being the retained earnings in excess of the targets set for Extension in SRE lines of business.

What are those targets, sir?

MR. BARRY GALENZOSKI: The targets are 10 percent earnings for each of the lines of business based on their premium...

Are you talking about the retained earnings targets?

MR. WALTER SARANCHUK: Yes.

MR. BARRY GALENZOSKI: Sorry, I was answering the wrong question then. The targets -- the targets for retained earnings for both of two (2) Extension lines of business are -- just one second, I'll get the exact...

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Is it now 37 million for SRE and 35 for Extension?

MR. BARRY GALENZOSKI: Yes, those are the numbers.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: The numbers changed just at the beginning of the year by 4 million dollars each way. In other words, SRE went up by 4 million and Extension went down by 4 million.

MR. WALTER SARANCHUK: And who actually set that target?

MR. BARRY GALENZOSKI: That target was set through the same process using the MCT analysis but at -- at industry levels, and that was approved by our Board of Directors.

MR. WALTER SARANCHUK: Was there a particular reason for the change?

MR. BARRY GALENZOSKI: Well again, you know, we have to have a process for the ongoing requirements for those two (2) lines of business. Both of those are growing lines of business, in particular the Extension.

They each have different risk profiles with respect of the type of risks that they are presenting to the Corporation.

The MCT is very good at picking that up and dealing with that and providing us with the rationale as to how to set the retained earning level that would be sufficient to keep those lines of business in good shape.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Turning to Tab 7

for a moment and in particular the statement of basic insurance retained earnings, as indicated on page 5 of the original filing, this is the last page in the Tab.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: And just reviewing the transfers from SRE and Extension for the years 2005/06 -- projected forecast for 2005/06 and projected for '06/'07, would you agree that they are in the order of magnitude of some 30 million dollars in total for those two (2) years?

MR. BARRY GALENZOSKI: Yes.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, noting the reduction that you referred to in the Extension target, from 39 million to 35 million dollars, why are the projected transfers from Extension to basic after 2005/06 decreased?

MR. BARRY GALENZOSKI: Well, I think you already know the answer to that and that's because of the reductions as a result of DVL under financing.

MR. WALTER SARANCHUK: I might know the

answer but it still has to be reflected in the record, sir.

MR. BARRY GALENZOSKI: It's because of the DVL impact.

MR. WALTER SARANCHUK: Thank you.

MR. BARRY GALENZOSKI: Under the worst case scenario, I've been asked to add.

MR. WALTER SARANCHUK: So are we to take it from that answer where you have added the addendum of it being the worst case scenario that when we look at 2005/06 out through to 2009/10 that those figures reflect the worst case scenario for SRE and Extension transfers?

MR. BARRY GALENZOSKI: No. That's not what we're saying. If you look at '05/'06, for example, the $8.4 million from SRE and the $11.0 million from Extension are done deals. Those are not going to change. Those are actual numbers that were transferred in.

What you were looking at with SRE are -- are financial projections based on an estimate of about 10 percent profit on premiums written and those are likely to occur. And when you see on the Extension side is the same but with the reduction due to DVL at worst case scenario.

So, it's only the -- the Extension line that's impacted with DVL reductions.

MR. WALTER SARANCHUK: So is it not a fact that the worst case scenario is represented by these projections for the outlook period with the result that, in all likelihood, the RSR will be higher than what is indicated?

MR. BARRY GALENZOSKI: The RSR -- you know, I --

MR. WALTER SARANCHUK: Given your categorization of it as the worst case scenario?

MR. BARRY GALENZOSKI: Yes. In -- on the Extension side, we expect that we'll be able to do better than that going forward. But our financial projections are based on the worst case scenario as we talked about yesterday.

MR. WALTER SARANCHUK: Will the underlying policy for primary funding be maintained in years where the basic RSR target has been reached under your formula?

MR. BARRY GALENZOSKI: When you say the "primary funding;" from the two (2) Extension lines of business"?

MR. WALTER SARANCHUK: Yes.

MR. BARRY GALENZOSKI: Yes, I anticipate it will.

MR. WALTER SARANCHUK: What policy does

the Corporation have in place to be applied where the basic RSR target has been exceeded?

MR. BARRY GALENZOSKI: Well, that policy hasn't changed. It's not enunciated in this particular document that I've put in front of you. But once we've exceeded our targets and the money is in the bank then we would look at having a surplus discount as we've had in previous years.

Anything over the required target level would be eligible for that in the future.

MR. WALTER SARANCHUK: And with reference to the third bullet, if you will, at the bottom of page 5 of your prefiled testimony, as revised in September of this year, sir, you'll see that it indicates, quote:

> "A special basic insurance rate increase to fund the RSR will only be sought if the basic RSR falls below 50 percent of the MCT calculated target."

End of quote. Bearing that in mind and turning to Tab 37 in the book of documents and, in particular, the Corporation's response to Section A of the question numbered 12 in the second round of Interrogatories served by the Public Utilities Board, the question there was:

> "Please advise as to the rationale for

the Corporation's policy to seek a
special basic insurance rate increase
to fund the RSR only if the basic RSR
falls below 50 percent of the MCT
calculated target?"

I wonder if you would read in the answer please?

MR. BARRY GALENZOSKI: The response to A:

"The policy is a special basic
insurance rate increase to fund the RSR
will only be sought if the basic
insurance RSR falls below 50 percent of
the MCT calculated target. The 50
percent level was selected to ensure
that there was a mechanism to consider
a rebuilding plan at a point that would
not impair the basic insurance
financial viability."

MR. WALTER SARANCHUK: And what is meant by quote, "financial viability," end of quote?

MR. BARRY GALENZOSKI: Well, in other words, we don't want to see the RSR level slip to such a low level that you now are going to require significant rate increases to overcome that in the future. We want to be able to recover in a -- in a reasonable number of years. That would be, for instance in the past, we were looking at about a five (5) year time line.

MR. WALTER SARANCHUK: Is it solvency that's the concern?

MR. BARRY GALENZOSKI: No, it's not solvency. It's the -- it's the rebuilding of the rate stabilization reserve, just to protect the -- the interests of -- of our share -- of our policyholders.

MR. WALTER SARANCHUK: Why was the 50 percent figure chosen?

MR. BARRY GALENZOSKI: Again, it's -- it's a level that was selected, just to ensure that there -- we had some mechanism in place. So we had to set some lower level policy, and that was -- that level was selected and approved by our Board, based on management's recommendation.

MS. MARILYN MCLAREN: I think we need to go back and ask why the 100 percent was selected first. It is okay with the Corporation that we have an unsatisfactory financial condition at a 100 percent level, because of who we are.

Why did we select a 100 percent; because we think we do have the opportunity to rebuild over time. Why do we think that we don't need to concern ourselves with all the financial viability issues that a private sector insurer would have to consider; because of who we are.

Financially viable operations in Manitoba Public Insurance consistently comes down to stability, rate predictability, rate stability. And that's why we believe we have the opportunity to rebuild over a number of years. And we have an upper target, the upper limit of the target, the money that we think we need to have is based on a scenario that creates a judgment of unsatisfactory financial condition. We're okay with that because of who we are.

The target itself needs to be considered in terms of the evolving state of the art, the best practises in this regard as well. When the Corporation was first established, there was no such thing as MCT. Many insurance companies didn't have any real reserves to -- to speak of, with respect to retained earnings, or any measurement of that.

The best practice in the late '80's when Judge Kopstein look at the operation of Manitoba Public Insurance, was a percentage of premiums. And he recommended that the Corporation have 15 percent of premiums written, because at that time industry best practice was that private sector companies had about 30 or 33 percent of...

So again, we're about half, at that time, and again today, we're about half of what other people in our industry believe they need. They have more considerations than we do, but the scope of the risk out there is no different with respect to publicly owned, privately owned, publicly traded, privately held, the risk is out there.

What levers do you have in response to that risk, we have some of them, and therefore we think we need about half of what the rest of them do, exactly what Judge Kopstein thought in 1988/1989.

MR. WALTER SARANCHUK: Now, acknowledging that the Board does not regulate Extension insurance, let me ask you though in general terms, Mr. Galenzoski or Ms. McLaren, should purchasers of the Extension coverage be concerned with the future pricing of that product, given the impact of DVL and Extension?

MR. BARRY GALENZOSKI: I don't believe they need to be concerned about that. That isn't going to enter into the rate setting for those lines of business, that's a separate and stand alone issue that we're dealing with on that basis.

MR. WALTER SARANCHUK: So if your targets aren't met on the Extension, how would you make up the difference?

MR. BARRY GALENZOSKI: We're not going to make up the difference by setting different rates by those lines of business, we're going to make up the difference by fixing the business plan and ensuring that the results that are in those financial plans are better than we are predicting at this stage, on worst case scenario.

MR. WALTER SARANCHUK: And you have alluded to the $107 million figure earlier, sir, and I would just ask you, for the purposes of the record in that regard, to read in the Corporation's response to Part D of the Second Round Interrogatory Number 12, shown in Tab number 37, and the question there was:

"Please provide the RSR balances reflecting a 50 percent and 75 percent target MCT ratio as at February 28th, 2007?"

And the Corporation's answer was?

MR. BARRY GALENZOSKI: I should indicate that this answer may change a little bit because this is based on 50 or 75 percent of the 100 percent MCT, not doing a calculation based on MCT at 50 percent or MCT at 75 percent.

So I'll read the answer in now.

"At 50 percent MCT, the RSR target

would be approximately 107 million as
at February 28th, 2007 and at 75
percent MCT, the RSR target would be
approximately 161 million as at
February 28th, 2007."

MR. WALTER SARANCHUK: Thank you.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: I'll guess I'll add, after having discussions here with Mr. Palmer, that changing that equation to do the calculation at 50 percent or 75 percent of MCT isn't going to change the answer that materially, so I think the answer provided is probably sufficient.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: If the RSR is over 107 million, I take it then that no increase in premiums would be sought by the Corporation?

MR. BARRY GALENZOSKI: Well, no increase would be sought to rebuild the Rate Stabilization Reserve. If that's the specific question you're asking, yes.

MR. WALTER SARANCHUK: Does that mean that the Board can take that to mean that this suggests that anything over $107 million could be refunded?

MR. BARRY GALENZOSKI: No.

MR. WALTER SARANCHUK: Why not?

MR. BARRY GALENZOSKI: The target upper limit is $214 million. That would be the part -- our policy would cut in at that point saying that if the money was in the bank, in other words if it had already been earned, audited and -- and was there, then in subsequent years that could be returned to the public in the form of a -- of a surplus discount if we were looking at a process similar to what we did a few years ago.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now, with respect to the claim that higher retentions increase risk of -- or an increased risk to the Corporation, did MPI in deciding to increase retentions, take into account the view that higher risk means a need for a higher RSR and that a higher RSR means higher premiums for policyholders?

(BRIEF PAUSE)

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

MR. WALTER SARANCHUK: I don't blame you. I don't blame you.

MR. BARRY GALENZOSKI: Well, first of all, I wasn't listening, so --

MR. WALTER SARANCHUK: Well, secondly, I can't read an accountant's writing.

Also, with respect to the claim that higher retentions increases risk to the Corporation, did the Corporation, in deciding to increase retentions, take into account the view that higher risk means a need for a higher RSR, and that a higher RSR means higher premiums for policyholders?

MR. BARRY GALENZOSKI: Our higher RSR does not mean higher premiums for policyholders. We -- you know, we're talking about the major funding as -- you know, I'll go back to this point, where the major funding for the RSR is coming from the Extension and SRE lines of business.

So, that doesn't entail any rate increases necessary by policyholders on basic.

Now, with respect to the risk associated with -- with the retentions on the reinsurance, that is something that is automatically taken into account when you calculate the MCT.

So, the MCT, again, that's one of the nice parts about this whole process is it takes the relevant business requirements of the Corporation. It's future financial outcomes that we're -- we've shown in our business plan and uses that to calculate the level of MCT required.

And so, yes, there will be some increased risk associated with that to the Corporation but that's included in the formula basis under OSFI's MCT and would be accounted for in that process as we go forward when we just put in the relevant numbers relating to MPI's basic plan.

MR. WALTER SARANCHUK: Thank you, sir. I'd ask you now to refer to Tab 38 in the book of documents which is the Corporation's response to question number 15 in the second round of Interrogatories served by the Public Utilities Board.

And the question there was:

"Please provide the actual MCT ratio result for 2005/05 and the most recent forecasted MCT ratio results from the DCAT based scenarios for 2005/06 through 2009/10 for each of basic, Extension and SRE and for the

Corporation overall?"

If you would please read in the response and then we'll deal with the attachment that is included with that response?

MR. BARRY GALENZOSKI:

"The DCAT report and the MCT analysis
for fiscal year ended February 28th,
2005 is currently in progress.
However, attached is the requested
information resulting from the DCAT
report and MCT analysis prepared for
the year ended February 29th, 2004.
Also, please see AI-19."

MR. WALTER SARANCHUK: Now, turning to page 1 of 4, and I guess the same would apply to 2 of 4 and 3 of 4, the difference being that the first deals with the total corporate situation or scenario the second with the universal compulsory -- that's the basic plan and the third page dealing with Extension, the fourth I note deals with the SRE.

With reference to each of those, can you identify or explain the first line where it says, "capital available" and then "equity"?

What is that line representing?

MR. BARRY GALENZOSKI: Well, that just

represents the -- the overall equity that we have in the Corporation and then there's some adjustments, for instance, on the investment side where it -- it gives you credit for the unrealized gains in the investment portfolio.

MR. WALTER SARANCHUK: Does equity equal retained earnings?

MR. BARRY GALENZOSKI: Overall retained earnings, yes.

MR. WALTER SARANCHUK: And with reference to the bottom lines -- the bottom two (2) lines in each of those tables, can you explain what they represent?

MR. BARRY GALENZOSKI: Well, the bottom two (2) lines, I guess, or the bottom three (3) lines; line where it says "number 29, minimum capital required" is through the test it tells you how much capital you are -- you should have.

And then the line 89 is the excess capital available over capital required. In this case they're all not in excess. They're deficit. So, it shows that we do not have the capital required.

And then the bottom line, ninety (90), is showing a percent of -- of line 29. So it just shows you what percent you're at. So, in, for instance, for February '05 on total corporate it says we're at about 76 percent of total capital required.

MR. WALTER SARANCHUK: So, the bottom line is, the MCT ratio?

MR. BARRY GALENZOSKI: That's right.

MR. WALTER SARANCHUK: Now, turning to page 3 which is the Extension division, in the equity row is it correct that the values have increased to some $43 million?

MR. BARRY GALENZOSKI: Yes. Those numbers are taken prior to the transfer of any excess retained earnings to basic. So to this extent they're a little bit overstated because that isn't going to be the result of that line of business.

In other words, it should be set -- that number, you know, to be technical, should be set at what our target is and left at that target because this -- this doesn't contemplate some of that money being moved to another line of business.

MR. WALTER SARANCHUK: The threshold for the transfer is 35 million, correct?

MR. BARRY GALENZOSKI: For Extension, that's correct.

MR. WALTER SARANCHUK: Now, given that the target is consistently exceeded, are you saying there is or there isn't an expectation of ongoing transfers, noting, for example, the high MCT ratios, which are in excess of 300 percent for Extension?

MR. BARRY GALENZOSKI: Yes, that -- that still says that the transfers are going to occur, we set our -- our retained earnings level for that line of business at $35 million going forward, and any excess over that is transferred to -- to the basic insurance.

MR. WALTER SARANCHUK: And of course, turning over to -- to the overleaf for the SRE Division, the MCT ratios are in excess of 200 percent, right?

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

MR. WALTER SARANCHUK: So the inclusion of Extension in SRE, given the high MCT ratios, really enhances the overall strength of the Corporation as a whole, compared to basic on its own; is that correct?

MR. BARRY GALENZOSKI: Well, keeping in mind that we're still running these as separate lines of business, and that you know, we're making transfers one (1) way to basic, I guess I could answer a qualified yes to that.

MR. WALTER SARANCHUK: Thank you.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Has OSFI, to your knowledge, declared that the MCT will be affected -- been affected by the mark to market accounting rates, and if so, how? Have the -- are the rates to be affected?

MR. BARRY GALENZOSKI: You're having trouble reading the actuaries questions too, I see?

MR. WALTER SARANCHUK: That's true.

MR. BARRY GALENZOSKI: I haven't talked to OSFI about that in particular, but OSFI's formula takes this into account, and I presume that that will occur in the future.

MR. WALTER SARANCHUK: So if a 109 million -- if a 109 million in unrealized gains were added, where does that put your MCT?

MR. BARRY GALENZOSKI: Well it reduces the MCT by -- you know, they take 50 percent of whatever is attributable to the line of business we're talking about, and then say basic of that, last year -- let's use the number that we had last year, $93 million, about 80 some percent of that would be attributable to the basic line of business, and 50 percent of that number would reduce the capital requirements for that line of business.

MR. WALTER SARANCHUK: Now, turning to Tab 8, which is AI-13 as revised on September 28th, 2005 you'll see that also forming part on the next -- of that tab, is a second page which is the attachment filed by the Corporation in response to Question 7A asked of the Corporation by the Public Utilities Board in the Second Round.

And looking at the RSR balances for Basic Extension and SRE, for 2005 -- that is 2005/06, is it correct that the total retained earnings for Basic and Extension and SRE, that is the total, is in the order of $296 million?

MR. BARRY GALENZOSKI: Correct.

MR. WALTER SARANCHUK: And for 2006/07, that total is in the order of the $312 million?

MR. BARRY GALENZOSKI: It's 311 million, but that's correct.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: Now at Tab 11, the Corporation, in answer to the very first Interrogatory served by the Public Utilities Board, this is in the first round, refiled, as requested, TI-17(a) and accompanying basic retained earnings schedules to reflect a premium decrease of 1 percent, a decrease of 2 percent and decrease of 3 percent.

Looking at the results in the second -- shown on the second page, reflecting a 1 percent rate decrease, keeping your finger on that one, Mr. Galenzoski, and turning to TI-17(a) filed in June of this year, on page -- it shows page 2 with the date July 8th, 2005 in Tab 7, so this is TI-17(a) as originally filed, as the date of July 8th, 2005 and page 2 at the bottom, it'd be six (6) pages into Tab 7.

MR. BARRY GALENZOSKI: I have that.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So what can you tell us about the impact on the projections of a 1 percent rate decrease over the initial filing by the Corporation in June of this year in terms of the net income for rating line?

MR. BARRY GALENZOSKI: Yes, under Tab 7 we're showing a six hundred and one thousand dollar ($601,000) net income for rating purposes without any rate reduction, and with the rate reduction in '06/'07 of 1 percent we're showing a loss of $2.5 million approximately.

In the second year, in the outlook here '07/'08 under -- with no rate reduction we're showing a loss of -- for rate setting purposes of $6.6 million, with a 1 percent rate reduction we're showing a loss of $12.9 million.

And then that -- those -- that loss of that full 1 percent of about $6.5 to $7 million is reflected in future years under the 1 percent rate decrease scenario under Tab 11.

MR. WALTER SARANCHUK: Thank you. And now turning over two (2) pages in Tab 11 to the impact of a 2 percent rate decrease, how do those figures for '06/'07, '07/'08 for example, compare to what was originally filed?

MR. BARRY GALENZOSKI: Again, with the original filed numbers, Basic has a net income for rating purposes in '06/'07 of six hundred and one thousand dollars ($601,000).

Under the 2 percent reduction for '06/'07 it shows a loss of $5.5 million.

In the next year we're -- under the previous scenario dated July 8th, 2005 in -- in -- under Tab 7, showing a $6.6 million loss for '07/'08.

In the 2 percent rate decrease situation for '07/'08, we're showing a $19 million loss.

And in the subsequent years that's in about a $14 million loss per year.

MR. WALTER SARANCHUK: Turning over to the next two (2) pages in Tab 11, the impact of a 3 percent rate decrease as compared to the original filing sir, please.

MR. BARRY GALENZOSKI: Okay. For '06/'07 with the 3 percent rate decrease, you're looking at a loss of $8.6 million compared to the no decrease showing the six hundred thousand dollar ($600,000) net income.

In the subsequent year, '07/'08, you're looking at a loss of $25.3 million compared to the original filed of $6.5 million loss and then in the subsequent years under the 3 percent rate decrease, you're looking at about a $21 million loss per year.

MR. WALTER SARANCHUK: Thank you, sir. Would you be able to re-file those, considering the latest documentation filed with the revisions, so that we can determine what the impacts would be using the latest information filed by the Corporation?

MR. BARRY GALENZOSKI: Well, the latest information filed by the Corporation is just mainly a revision to '05/'06, so there wouldn't be any real change to the scenarios going forward, so I don't see any point in re-filing.

MR. WALTER SARANCHUK: So in terms of the impact of those rate reductions, you're saying that they essentially would be in the same order as shown?

MR. BARRY GALENZOSKI: That's right.

MR. WALTER SARANCHUK: Do those, scenarios, if you will, constitute an option to the Corporation to reduce current RSR levels if they were, for example, to be considered excessive?

MR. BARRY GALENZOSKI: No, they do not. I think that's been firmly agreed in this format that budgeting for a loss by reducing rates is just not on. It's just not an acceptable policy.

MR. WALTER SARANCHUK: Have you received any opinions from the Crown Corporation counsel relative to the MCT and similar issues, for example, the RSR target?

MS. MARILYN MCLAREN: We certainly have ongoing discussions with the Crown Corporation counsel. I'm not sure that they have put anything recent on the public record. But they regard the MCT as an industry best practice, absolutely.

MR. WALTER SARANCHUK: So there's no continuing dialogue between the Corporation and the Crown Corporations counsel on this score or there is?

MS. MARILYN MCLAREN: Yes, there is. There is ongoing dialogue. What I said is I'm not sure to what extent they have put anything on the public record with respect to a position on the Corporation's new target.

But the conversations with staff particularly from the Crown Corporation counsel have not spoken to their board directly myself, but conversations with staff they believe that adopting best practices is what the Corporation ought to be doing.

They view the MCT as a best practice. And they also recognize that the -- the test against that industry best practice ought to be somewhat different for a Crown Corporation as opposed to the industry as a whole, i.e., they would be supportive of a decision to accept a target that was based on MCT but not at a 224 percent level that the rest of the industry has.

MR. WALTER SARANCHUK: So as has the Crown Corporations counsel approved these targets that you're proposing?

MS. MARILYN MCLAREN: I don't believe that it's something that they would approve or disapprove. Conversations with staff indicate that they are very supportive of the Corporation's actions in this regard.

MR. WALTER SARANCHUK: Now, just to wrap up this particular area dealing with the RSR and, in particular, the applicability of the OSFI rules to the

Corporation and also the government backing, if you will, of the Corporation.

Firstly, when New Brunswick was looking at consideration of a public insurance, my understanding is that the Corporation supported that initiative; is that correct?

MS. MARILYN MCLAREN: Yes. We supported the work of the legislative committee with respect to helping them understand the Manitoba program.

MR. WALTER SARANCHUK: And initially, of course, it would be the fact that New Brunswick would have little reserves to begin with?

MS. MARILYN MCLAREN: That certainly would have been one option for establishing a Crown Corporation in that jurisdiction, yes. That's what happened in Manitoba in 1971, as we had virtually no reserves to start with.

MR. WALTER SARANCHUK: And did the Corporation provide New Brunswick with the information concerning its own beginnings and experience?

MS. MARILYN MCLAREN: Yes, I believe that we did. I believe it was within the context of demonstrating that the public insurance plan stood on its own and had not been, nor was it currently, the recipient of any form of government funding or subsidy.

MR. WALTER SARANCHUK: And just finally, my understanding is that in the early '80's -- we talked about the late 80's, for example, when the Corporation received funds from the government relative to its general lines problems; is it not a fact that SGI ran into problems like that, not necessarily with regard to general lines, but in the early 80's where the government came through and, if you will, bailed them out?

MR. BARRY GALENZOSKI: The Government did provide SGI with an interest free loan for a period of years and they've since repaid that.

(BRIEF PAUSE)

MR. WALTER SARANCHUK: So can a conclusion be drawn from that, sir, that, in general, these Crown Corporations, such as the MPI, and this is the ones involved in public insurance such as the Corporation, don't really have to be concerned about solvency because they can always turn to the government for support?

MR. BARRY GALENZOSKI: I guess if we got the same support as we did on the loss of the share costs, we'd be in great shape.

MR. WALTER SARANCHUK: Is that answering

my question? I don't think it is.

MR. BARRY GALENZOSKI: No, it's not answering your question, sorry. I -- I would say we cannot rely on -- on that as a foregone conclusion.

Provincial finances are -- are a lot different than they were in the past and governments are under -- they've gotten balance budget legislation that they have to deal with and different fiscal responsibilities to deal with and I do not think they would contemplate in their wildest dreams that they'd have to hand over a cheque to the Corporation of any sizeable amount in the future.

MR. WALTER SARANCHUK: Thank you, sir.

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you. We'll shut down now for lunch and I believe we have the presenters starting at, is it 1:30? 1:30, thank you.

--- Upon recessing at 12:05 p.m.
--- Upon resuming at 1:35 p.m.

THE CHAIRPERSON: Good afternoon, everyone. For those that are continuing, we're engaged in the Manitoba Public Insurance General Rate Application and I'm Graham Lane.

I'm the Chairman of the Public Utilities Board. To my left is Mr. Eric Jorgensen and to my right Mr. Len Evans who are my colleagues on the Panel.

And the primary purpose of our -- of a GRA is to look into revenue crime and rates. At each hearing we've always provided an opportunity for public -- members of the public to provide comments on interests -- items of interest to them and I see today we have five (5) presenters and I think what we'll do is we'll just take them in the order that I have them here.

And following your presentation, if any member of the Panel have a question, we'll ask. Everything that you say goes into the record and is posted in our transcript on the PUB website tonight, so it will be there.

So Mr. Stefaniuk, the President of the Manitoba Bar Association, you can begin, please.

PRESENTATION BY MR. JOHN STEFANIUK:

MR. JOHN STEFANIUK: Good afternoon Mr. Chairman and members of the Board. My name's John Stefaniuk and I appear on behalf of the Manitoba Bar Association as its President.

The Manitoba Bar Association is a Provincial branch of the Canadian Bar association. And the Canadian Bar Association or the CBA, as it's known, represents lawyers, judges, notaries, law professors and law students from across Canada.

The Manitoba Bar Association has approximately one thousand two hundred (1,200) members, and the Canadian Bar Association, represents nationally, approximately thirty-five thousand (35,000) members.

Now, members of the Manitoba Bar Association are interested in more than the promotion of lawyers, and lawyers' interests. At the direction of its members, the Manitoba Bar Association has consistently advocated upon issues of public concern, that relate to the promotion of justice, to access to the legal system and on laws and regulations and programs, that affect not only its members, but also the public at large.

The Manitoba Bar Association locally, and the Canadian Bar Association nationally, has served as a voice on numerous matters of public and societal concern, through a variety of presentations and representations on a number of issues.

The Manitoba Bar Association and the Canadian Bar Association include a number of practice related sections, made up of lawyers, practising in different practice areas, and also conferences representing different lawyer groups through which members lend their expertise through the consideration of a number of public interest issues.

And we certainly appreciate the opportunity to participate in these Proceedings in that capacity.

As my predecessor, Ms. Veronica Jackson, stated in her presentation before this Board in previous hearings, Manitoba Public Insurance touches or has the potential to touch the lives of all Manitobans, whether as insured parties, or as actual or -- or potential claimants.

And in the context of these Hearings, and as has been indicated by our counsel, Mr. Dawson, we attempt to focus our interest and concern in these public issues.

First, insured parties who have paid premiums at rates authorized by this Board, and who find themselves in a position where they are collecting personal injury benefits, should have assurance that the benefits that they receive, and the assistance in obtaining these benefits is appropriate.

Second, we're also of the view that a review on the bar on private litigation in specific areas, such as where personal injury is arising out of or is contributed to by the negligence of vehicle parts manufacturers or vehicle manufacturers, may provide enhanced benefits and compensation for accident victims, and have a positive impact on premiums for others, as is the case with Workers' Compensation models.

The Manitoba Bar Association continues to make its positions known, not only through these proceedings, but also through direct contact with the Government. We trust that the Board will find the participation of the Manitoba Bar Association in these proceedings to be of assistance to the Board, and a consideration of the broad issues that combine to form the basis for your decisions in this current Application.

Thank you again for your time, and if you have any questions I'd welcome them.

THE CHAIRPERSON: Thank you, sir. Thank you.

MR. JOHN STEFANIUK: Thank you.

THE CHAIRPERSON: Next up is Mr. Philip Zubrycki. Mr. Zubrycki...?

(BRIEF PAUSE)

THE CHAIRPERSON: Hello, welcome.

MR. PHILIP ZUBRYCKI: Good afternoon.

THE CHAIRPERSON: There, you're away.

PRESENTATION BY MR. PHILIP ZUBRYCKI:

MR. PHILIP ZUBRYCKI: Okay. Mr. Chairman, and Members of the Board, I'm here as a private citizen who has been riding and involved in motorcycling since 1959. I've ridden in Manitoba and throughout North America.

I've heard a Manitoba Public Insurance Corporation representative say, car drivers should not have to subsidize motorcycles. Nothing could be further from the truth, as I believe motorcycles are now subsidizing car and commercial vehicles and their drivers.

In my opinion, Manitoba Public Insurance spokespersons regularly make statements that are blatant misdirection and incongruent when it concerns motorcycles and motorcycle riders.

Motorcycle subsidies -- subsidizes -- motorcyclist subsidize dual track vehicles in many ways and some of them are -- and some of these are illustrations of the misdirection and incongruencies in their statements.

For instance, I've heard at some of these previous hearings the statement that motorcycles are inherently vulnerable. Well, that is not true. A motorcycle -- a motorcycle gas tank is no more vulnerable than a car's fender. It is the human being. It is the human body that is vulnerable whether walking or in a car or on a motorcycle or taking a bath. I mean, you can fall taking a bath and be hurt seriously.

Words to the effect that car drivers are protected by being surrounded by steel, I heard that on the news last night by MPI spokesman, and therefore safer and less costly than motorcycles riders is a misdirection.

The human is hurt when involved in a threefold crash. The threefold crash is when the vehicle is abruptly caused to come to a stop. When the human body is abruptly caused to come to a stop and when the human's internal organs are abruptly caused to come to a stop. And it doesn't really matter what kind of a vehicle you're in or on. Could even be a horse.

The cause is not the motorcycle but, in fact, the crash and its results. In my experience a motorcycle rider has a chance of being thrown clear and not coming to an abrupt stop, whereas the car passenger is trapped inside a steel box and violently restrained.

Motorcycle riders are subject to colliding with dual track vehicles, I'll allow that. However, we've seen it on racing, I've seen -- as a matter of fact I was watching Real TV the other day, I'm retired so I get lots of time to watch TV, and there was a fellow came off his motorcycle and this was timed at the Bonnyville Salt Flats -- Salt Flats and he came off at 174 miles an hour. He went into a wall.

And he repaired the motorcycle and went back two weeks later and came off. So he wasn't very badly injured. He had a few scrapes and so on.

A couple of weeks later he went back, tried it again, came off at almost 200 miles an hour and broke a leg and an arm and the motorcycle was destroyed. So, I think he gave up trying for a speed record.

But, you know, things can happen like this. So, it's really not the motorcycle that is inherently dangerous or inherently vulnerable. It's the circumstances of each individual accident or crash I prefer to call them.

Motorcycles, on the other hand, are inherently safe. Motorcycles being more manoeuvrable and free of vision restrictions, except maybe some helmets, are inherently safe.

And consider that a motorcycle with pedestrian crashes are not usually occurring. I believe they're almost non-existent. In my forty-five (45) years I can remember one (1) pedestrian being hit by a motorcycle. Now, I don't know all the facts because Autopac has them carefully guarded.

Motorcycle with bicycle crashes are not usually occurring.

Motorcycle with motorcycle crashes are not usually occurring even though we ride in groups regularly.

But motorcycle with dual track crashes are occurring and the car is usually at fault 70 to 85 percent of the time.

And that, we might conclude that if it were not for cars and single vehicle motorcycle -- if it were not for cars -- and is wrong, single vehicle motorcycle crashes, there would be no motorcycle crashes.

In a single vehicle motorcycle crash there is not usually a way to determine if a dual track vehicle was involved and left the scene. It is the dual track vehicles that are unsafe especially to motorcycles.

The -- I'll come back to that. The cost per crash we're continuously told that they're paying out much more than the premiums they get. Well, the motorcycle insurance premium does not include fire and theft. So, when we're talking about these rates we're paying we have to remember that doesn't include fire and theft -- theft and in some cases that can be as much as the primary insurance.

In a single vehicle motorcycle crash I don't think it is recorded if it is a tip over when stopped, such as in a parking lot or at a red light. But such a tip over could still cost several thousand dollars and could still be classed as a single vehicle accident.

With all the fairings and plastic on these bikes they can fall over and you can do considerable cosmetic damage even though the bike is still serviceable.

How does this type of a crash add to the cost? Motorcyclists are forced to carry collision and upset no-fault insurance even when they do not want to.

The availability of public liability and property damage only -- only should greatly reduce the cost to motorcyclists.

This reduction is based on comparisons of insurance in Alberta, where it is possible to insure a motorcycle with only PL and PD. Fire and theft is extra, just like it is here, is optional similar to MPI.

Of course, in up to 85 percent, dual track and motorcycle crashes, the dual track vehicle would pay and collision insurance would be unnecessary for a motorcycle.

Now the thing is, an '85 Goldwing in Alberta costs two hundred and eighty-five dollars ($285) to insure. But that's without collision or comprehensive. It has fire and theft, though, with that two hundred and eighty-five dollars ($285).

So when we compare these insurance rates, we don't get a true picture. But yet, as I say, 85 percent of time, collision would not be used in Alberta.

Deciding costs per crash does require proper investigation and also, I won't bother reading the -- well, over twenty (20) years ago Harry Hurt (phonetic) discovered that he had built a terrible concern that motorcycles were getting a bad rap in traffic accidents investigations.

And the famous motorcycle accident cause factors and identification of countermeasure, better known as the Hurt report was his effort to counter that bias with an objective accurate analysis.

The same passion for scientific accuracy and unbiased motorcycle research still drives him today. Recently, Hurt sat down with and it was the author of this article, and discussed the state of contemporary motorcycle research.

In fact I believe MPIC might fund some

proper research into accidents and crashes with motorcycles. If the true causes of crashes were known, proper prevention could be practised, properly determining the causes of crashes should be important for the motorcycle education and motorcycle accident prevention to be effective -- affective, effective and valid.

As a motorcyclist with over forty-five (45) years of riding, I could tell many instances of wrong conclusions or perceptions that are commonly believed to be true.

What is the problem with present research and what should be the proper research? This is just hearsay, but I heard of an accident just recently where a motorcyclist was killed. There were two (2) of them riding along and a vehicle crossed the centre line, hit the second motorcyclist, just narrowly missing the first.

And from hearsay evidence I heard that he -- the driver of that vehicle had said, oh, glare or something, maybe the motorcycle headlight blinded him.

Yet an investigation showed you could see where the car had come off and hit the shoulder, over corrected and come across the line and hit the motorcyclist.

So, I mean, that's just one of the things we face when we're out riding.

Some further comments by Dr. Harry Hurt. Studying the anatomy of crash studies, beyond the helmets, through motorcycle safety and crashes are poorly understood.

Hurt passionately believes that because many investigators don't understand the difference between single track and dual track vehicles and they approach the subject with a car-centric bias instead of looking to find what's there, rather than what seems to have happened.

He used the common example of a bike riding off the road when, in reality, it may have been forced off the road for some reason. He insists that investigators also need to be riders themselves. If they aren't motorcyclists they can't accurately evaluate motorcycle accident cause factors.

To that end, Dr. Harry Hurt's life work has been to develop a common international mythology or OECD for investigation in co-operation with dynamic research, if it is followed and doesn't exclude something simply because of financial issues, or preconceived agenda, it should produce accurate data.

It may be hard for the uninitiated to appreciate how critical this point is. But just remember the old saying, junk in, junk out.

MPI claims large personal injury claims by motorcyclists results in large premiums. This seems questionable and may not even be fair because -- and I've attended some of these meetings and some of this is what I believe; maybe I'm misinformed.

But I believe that large personal injury claims are amortized over a predicted life span and may not be fully paid as they are only paid out until death.

Manitoba Medical pays medical bills and is not directly billed, although I understand Autopac gives them a grant or something.

The medical care is the same as if not insured. So by having the Autopac I don't get any better medical care, I don't go some place and get some super operation, I'm stuck here in the medical system right here along with everybody else.

So whether I've got the insurance or not, doesn't really benefit me. A retired, or an unemployed person, such as myself, does not receive a loss of wage benefit. There is no compensation for pain and suffering.

And yet, because people figure they're in this -- because people figure they're in this car and they're protected, but if you're in an accident -- I know of one (1) fellow who was in an accident three (3) years ago and he's still suffering and he's still disabled and he's still seriously hurt, but he doesn't get anything for all his pain and suffering and the inconvenience and everything else that he's been put to.

According to previous testimony by MPI, and now I might be corrected on this. But I understand all claims over twenty thousand (20,000) are covered by reinsurance anyhow.

Environmentally friendly, that's one (1) thing in our benefit I think we should be getting a rebate for. An often overlooked fact is motorcycles are environmentally friendly. Some of the obvious ways a motorcycle is environmentally friendly are: The small impact on infrastructure; you use a little amount of the road, little space for parking, et cetera. Economical use of resources, i.e., fuel, tires, and again space.

Now, I'm sure someone can say, well fuel, you only have one (1) or two (2) passengers, whereas in my car I can put in four (4) or five (5) even eight (8) in some cases. The fact is, you look around, most cars are driving around with one (1) person.

So if we're all driving motorcycles and scooters, we wouldn't need fantastic road systems and everything else. Mind you in Manitoba, we'd only be able to do it for five (5) months.

Air pollution. Again, I submit with the smaller engine there's less air pollution. And motorcycles are extremely recycled, and so it results in economical use of resources. You don't see any motorcycle wrecking yards. Usually motorcycles are fixed and they're fixed and they're fixed, or else they're left in the garage because they're too expensive to insure. But you don't see them in wrecking lots.

When using something when an environmental cost, a surcharge is applied, there should be a rebate to motorcycle premiums for our friendliness to the environment. We should be getting part of that environmental cost that's charged to people, we should be getting it as a rebate.

A recent letter to the editor of the Winnipeg Free Press, that I received this by e-mail some time ago. It has been interesting to follow Linda Reynolds' column regarding an accident between a bicycle and a car. MPIC has deemed it their responsibility to go after the person on the bicycle for costs.

I refer to a quote by Mr. Smiley of MPIC and Linda's February 4th column.

"Media Relations Officer Brian Smiley says, the Corporation is just doing what Manitobans want. The responsible person has to be held accountable. He said, if a bike without a brake crashes into your car and you are stuck with the deductible, how happy will you be. This is what the taxpayers want."

If, in fact, he says the responsible person should be held accountable, then why is the MPIC so against loss transfer in motorcycle accidents. And I would -- just on the side, I would congratulate the committee on their -- on their wisdom in -- in coming to the compromise on that. I think that it -- it certainly indicates there was something wrong and something is being addressed towards it.

So, that's still an issue, but not as much of an issue. I think the -- okay, a study by Ernest Jung, commissioned by MPIC, showed that there would be a significant savings to motorcyclists, while a small overall rise to automobile rates. This would, as Mr. Smiley says, make the responsible person accountable.

Now, my footnote says 49 percent, I believe it was 42 percent, I think I just typed that in wrong. These statements and further comments by MPI Media Relations Officer, Brian Smiley, made on City TV news at six o'clock, that MPI wants to be fair, or words to that affect, must be carefully examined.

And I pasted in a piece from a brochure from their website which explains their fair practices and I won't go into those.

But let me sum up. Unfortunately, even with statements such as those on page 3 by MPI, the motorcyclists in this Province are becoming disillusioned with the process, and MPI's apparent unfairness towards motorcyclists.

Many motorcyclists are discouraged because after years of presentations, excellent witnesses, many valid arguments and contrary to MPI assertions, it seems MPI receives a rubber stamp for their proposals, as long as they avoid rate shock.

It seems it's always 12, 13, 15 percent. Hearing MPI testify they use accepted industry practices is like Enron saying they used accepted accounting practices. Our premiums are now paying for the former government Department of Motor Vehicles which, among other things, will now give MPI exclusive access and control of all motor vehicle statistics which we haven't been able to get anyhow.

The accepted industry practices that may now be used to massage this data will never be known unless that data is available in its raw state.

Transparency has been avoided by MPI up to now by claiming competitive secrecy.

Well, they have no competition in this province. Motorcyclists should get a rebate because of the unfairness and discriminatory practice by MPI to motorcyclists. Should any rollback be found reasonable, a suggestion will not result in any change.

I would strongly suggest that the PUB order MPI to comply for 2006 as I am sure, given a choice or a chance for further study, such a rollback would never happen.

To avoid rate shock, or in MPI's case premium shock, a 15 percent year for ten (10) years rebate to offset the overcharge since inception of MPI, is what I suggest. And that would be a fair practice.

I'm open to questions and thank you for your attention.

THE CHAIRPERSON: Thank you, sir. Thank you for coming and thank you for your remarks. And, again, it's -- the transcript is on the website so you can follow it to your heart's degree.

MR. PHILIP ZUBRYCKI: Thank you very much.

THE CHAIRPERSON: Next up is Mr. Lorne Chartrand.

Mr. Chartrand...?

MR. LORNE CHARTRAND: I just need somebody to hit the buttons on the microphone.

THE CHAIRPERSON: Sure.

PRESENTATION BY MR. LORNE CHARTRAND:

MR. LORNE CHARTRAND: There we go.

Good afternoon. Anyways, yeah, my name is Lorne Chartrand. I'm representing the Canadian Paraplegic Association. And we're interested -- and they're interested in the -- the compensation to Manitoban's who sustain catastrophic injuries in automobile accidents. Clients who have sustained catastrophic accidents and Manitobans who will, in the future sustain, catastrophic injuries in accident -- in automobile accidents.

It's one of the things that we think always happens to someone else but the catastrophic automobile accident can happen to anyone, any time, anywhere. And then it suddenly becomes very personal. Such an unfortunate occurrence could happen to anyone in this room or any -- anywhere else. And they could be a driver, a passenger or an innocent bystander, perhaps a pedestrian.

On rare occasions Manitoban's sustain such catastrophic injuries that they require personal care that approaches twenty-four (24) hours a day. Now, this is rare. Most often it is less than that.

It is the -- it is only the most severely injured and most vulnerable victims of automobile accidents for whom the allowance for personal assistance provided under the Manitoba Public Insurance Act does not provide adequate coverage.

Section 131 of the Manitoba Public Insurance Act sets the allowance for personal assistance at three thousand dollars ($3,000) in 1996. It has increased with the consumer price index and in 2004 was roughly thirty-six, sixty-seven (3667) a month.

The current -- at approximately eleven dollars ($11) an hour the cost for twenty-four (24) hour care would approach around close to eight thousand dollars ($8,000) and that's only eleven (11) hours per day and not thirty-six (36) -- or sorry, not -- twenty-four (24).

Those who are catastrophically injured and need personal assistance beyond the amount allotted suffer undue hardship when they are newly injured and forced to deal with funding for their personal care when it comes from different sources.

They may have arrangements made by MPI as well as by Manitoba Health. This complicates the arrangement at the very time that they are dealing with the greatest psychological strain of adopting (sic) to their injuries.

Certainly Manitoba Health is available to cover the amount over and above what Manitoba Public Insurance is liable for. But there are limits to that coverage. Anyone wanting to leave the province must apply to another province to ensure that they will be accepted into the provincial healthcare program in that province.

And what also must be noted here is that I believe Manitobans would believe that all of their personal care needs would be supported by Manitoba Public Insurance when they pay premiums to that body, agency, to cover those needs.

When you buy automobile insurance coverage you think that in the unfortunate event that you do sustain catastrophic injury, that the insurance that you've been paying all the years that you've been driving, would cover those needs.

And I think that Manitobans would be interested to know that they could become, to a certain degree, wards of the state and they would be subject to the legislation that covers Manitoba Health and decided upon case by case, rather than having an insurance set up that is there to cover all of their needs and that their -- their needs will be assessed and they will have the freedom to -- to control their lives in the manner that they so choose, and not be subject to changing health policies.

Often there are also jurisdictional battles over who will pay for services as it is in the interests of all organizations and insurance practitioners to reduce their costs.

First Nations peoples are particularly subject to these complications which makes it difficult for them to return to their traditional homes or to have their personal assistance needs covered in pursuit of education and employment. And this can happen to any -- any citizen of Manitoba.

Personal assistance supports are crucial in adapting to and living with spinal cord injuries and other injuries like brain injuries, sustained in automobile accidents.

Adequate levels of personal assistance allow those with severe injuries to be successful in adopting to a new way of living, to completing their education, acquiring employment, and even to be successful in their personal relationships and their families.

Therefore the Canadian Paraplegic Association of Manitoba would like to see the limit on personal assistance eliminated from the Manitoba Public Insurance Act, and funding for personal assistance be based on needs rather than cost controlled and an arbitrary line.

Coverage that considers the dignity of the individual and the emotional needs of families at a difficult time is a measure of the responsibility of the public insurer and reflects the values of a civil society.

We would -- CPA would hope that the government would take a lead, and in untying the hands of MPI and allowing them to make an assessment and to provide coverage for catastrophic injuries that are based on what are the true needs rather than having Manitoba Health or another public utility step in to support and cost -- and cover what MPI won't.

It is really the legislatures that are in control of what insurance coverage Manitobans will get and therefore we need to know what the effects would be on insurance rates if complete coverage was insured so that Manitobans will know and that proper coverage can be given.

Legislation can and should provide guarantees that the needs of the catastrophically injured persons would be met by public insurance policies. And insurance agencies, especially in conditions of monopoly, have an ethical responsibility to ensure that Manitobans are adequately protected in the case of catastrophic injury.

Also Manitobans who pay their premiums to their only insurer on the market, deserve the peace of mind of knowing that their needs will be met in the event of catastrophic injury.

We believe the costs associated with supplying complete coverage to Manitobans through the public insurer will be a sustainable expense.

What we require is open and honest reporting of the numbers and confirmation of what the ideal response to catastrophic automobile accident injuries would cost Manitobans in insurance premiums.

To that end, we are seeking answers to the formal question presented today and that is, if the costs of removing CAT were to be distributed equally among all drivers insured by MPI starting in 2006, how much would insurance rates of the average driver be affected?

And then there are further details to the question within my submitted documents and that would be what we're looking for is how -- how rates would be effected if legislation untied the hands of MPI and allowed them to cover catastrophic injuries as they need to be.

And that they also -- the important thing is, it's a very small amount of people that are affected, so that's why we believe the cost containment could be handled by MPI.

And there's also a sliding scale so that as -- as the needs arise, for very few individuals it will be a larger amount. But for the most part, it would be sort of within the range it currently is, but for the few Manitobans who would need more we would hope that it would be covered by MPI when they're paying -- Manitobans are paying insurance to that organization.

And that's my presentation; open to questions.

THE CHAIRPERSON: Thank you, Mr. Chartrand.

Do you have any questions?

MR. LEN EVANS: Thank you, Mr. Chartrand, for your presentation.

Yes, unfortunately it's outside the mandate of the Board here, but I was really surprised to hear and read your statement that -- that there is legislation that sets the limit on personal assistance from MPI. I don't dispute what you say, but I find that -- well, how constraining is that?

Is that a serious limitation?

I always thought MPI had some flexibility in its PIPP program, for example.

MR. LORNE CHARTRAND: Well, occasionally people need more personal assistance than MPI will provide, so they are forced to -- or Manitoba Health steps in. And I mean, like I said, it -- it really does affect people, especially in the initial phase of their injury.

We just had one (1) member who was catastrophically injured, and he went -- I discussed things with him, and he went through -- he was going through a difficult time dealing with MPI's home care coverage, and then also Manitoba Health provides home care. So he was dealing with two (2) different agencies and he was very frustrated with this.

And in the beginning, in his setup he didn't have enough care in the beginning, and so there was a lot of emotional strain on his family. And unfortunately he passed away before he could sort out his health care needs, so he spent the final year of his life dealing with this situation.

And to -- to move to another Province you have to apply to their Provincial Health Care program to be accepted over and above what your coverage for your automobile accident initially enabled you to get support for.

And the reason I -- I believe that we would make a presentation here today, and that the Public Utilities Board would be -- be able to compel MPI to give us the information of what it would cost, how many clients do they have whose needs surpass the limit on personal care assistance, and what it would cost MPI if -- if they could identify those clients, and if their entire personal assistance needs were covered by Manitoba Public Insurance. We believe it's a small number, and we believe it's sustainable.

What -- what we need is the information from MPI, so that when we ask for legislative change the answers won't simply be, well, rates will sky rocket. We believe it'll be a small amount, if -- if rates need to go up at all. And that's the point of my presentation.

MR. LEN EVANS: Okay. Thank you.

THE CHAIRPERSON: Well, thank you, sir, we have a copy of your presentation. We'll take your comments under advisement. MPI representatives, of course, are here and are listening along with us and they also have a copy of the presentation. So, thanks again for your participation.

MR. LORNE CHARTRAND: I just want to clarify, you said it's outside of the mandate for the Public Utilities Board to compel MPI to --

THE CHAIRPERSON: No, I think the comment was that it's outside of our mandate normally to get involved in questions of benefits and legislation.

We're mainly concentrated on the fairness and justness of the rates and the adequacy setting up of the revenue requirements, to meet a program that's -- whose leg -- whose benefit parameters are basically established in the legislation and the regulations.

MR. LORNE CHARTRAND: But, it is within your mandate to -- to compel MPI to give an estimate of how much the rates would rise if these costs were covered?

THE CHAIRPERSON: It is possible for us to ask those questions, yes.

MR. LORNE CHARTRAND: Thank you.

THE CHAIRPERSON: So. we'll take it under advisement. Thank you.

MR. LORNE CHARTRAND: Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: Now, Ms. Booker, you're up next. I was going to -- you came a little bit later, but my name is Graham Lane, I'm the Chairman of the Public Utilities Board, this is Eric Jorgensen and Len Evans, who are Colleagues on the Board as well.

And I think you heard a little bit about the general mandate of the Board. And these are -- this is the Rate Application that comes on an annual basis from MPI. And we always provide an opportunity for members of the public to come and make comments if they so choose.

MS. RICHELLE BOOKER: Okay.

THE CHAIRPERSON: So, you've come and I see that you've prepared a paper here, which is now being distributed. So you can proceed.

PRESENTATION BY MS. RICHELLE BOOKER:

MS. RICHELLE BOOKER: Thank you for the opportunity to -- to appear before you today. After Mr. Chartrand's presentation, mine certainly seems a bit trivial, so I apologize for that.

As a new driver in Manitoba, I respectfully submit to the Board that the practice of failing to award equivalencies in merit points while awarding demerits from another jurisdiction, I think it's a bit discriminatory in practice.

I think everyone's probably familiar with the practice in which we have to prove our driving record for a period of five (5) years to MPI in order to qualify for a premium discount of 25 percent. While that period of five (5) years is sufficient to satisfy MPI's criteria, by being an out-of-province driver the maximum number of merit points that I can receive, having a perfectly clean driving record, is one (1).

And so, with that, I submit that either one (1) merit point is sufficient for all Manitobans, if that's all that's sufficient for a new driver and I ask everyone in the room to consider giving up all of their merits and drive with one (1). Or perhaps, sir, there may be a way to look at a driver's record from another jurisdiction within Canada and find a way to transfer merit points as other provinces would do from a Manitoba resident moving into another province in Canada.

I've spoken with a number of different people in MPI, the Department of Vehicle and Licensing, the Minister of Transportation, the Honourable Ron Lemieux and the Minister in charge of the Public Insurance Corporation, Gord Mackintosh and I've received the same kind of response from all of these people in that there is no way to adequately compare a driving record from another jurisdiction.

However, they are able to transfer demerit points. So, are able to compare negative or adverse offences and convictions.

However, when somebody can prove a completely clean driving record from a Department of Motor Vehicle and Licensing from another province, as well as an insurance claim history that has no claims, the maximum merit point awarded would be one (1). And I submit that that practice is discriminatory based upon the fact that simply I wasn't born in Manitoba and had the unfortunate experience to be transferred here with the RCMP which is completely beyond my control.

There is a provision in the Manitoba Highway Traffic Act under which Canadian Forces members are entitled to submit their driving history, their driver's record, as well as their claims insurance history and they are eligible for consideration of their complete driving record for awarding merit points.

And so they are eligible as Canadian Forces members to receive merits as they are so deserving of. However, for the Royal Canadian Mounted Police, we do not fall under that particular section of the Highway Traffic Act and I would submit that that is also a discriminatory practice.

THE CHAIRPERSON: I hope your entire experience in Manitoba hasn't been --

MS. RICHELLE BOOKER: Well, I moved here and my parents came to visit me, their car was stolen, someone rear-ended me. It's been going okay since then. It's a great province and I don't -- I haven't had any difficulty with Manitoba Public Insurance.

But certainly Manitoba isn't a province that people move to as frequently as they do to other regions of Canada. And as a newcomer to the province I certainly felt that was, kind of, an unwelcoming gesture on behalf of the Provincial Government.

So -- and I have spoken, as I work with the RCMP, I certainly have a lot of colleagues who have come from other provinces and feel the same way as I do that, you know, it doesn't seem fair that their clean driving record will not transfer but their spouses terrible driving record with offences, convictions and demerits transfers no problem.

So, there seems to be some way of comparing a jurisdiction for the sake of gaining more premiums or earning more money, perhaps, but when it benefits the driver, the insured party, it doesn't seem to be an equitable transfer of points.

THE CHAIRPERSON: Well, you raise an

interesting question. There's no doubt about that. And the Corporation has demonstrated a significant interest in customer service and things of that ilk. So, I think you'll have to leave it with us and with them for now.

But we appreciate your coming and making the presentation and we have a copy of it here. Thank you.

MS. RICHELLE BOOKER: Thank you. I appreciate that.

THE CHAIRPERSON: Next up is Professor Miller who the Board knows in other capacities at other utility meetings. So, we're pleased to welcome Professor Miller to our midst.

So, you've heard the introduction that I've given before to the other presenters, so you can start any time you'd like. Thank you. And we have your presentation here.

PRESENTATION BY MR. PETER MILLER:

MR. PETER MILLER: Thanks very much. And greetings to the Board and staff and MPI and other participants.

As the Chair said, I've been here before as an Intervenor. This time I'm a presenter. Didn't simply have the time and so I have to confess that I haven't gone through the MPI filing except for the particular questions that are related to our object of concern, the pay as you drive concept.

The two (2) organizations I represent, and I do this as a volunteer, not as a lawyer, are Resource Conservation Manitoba and Time to Respect Earth's Ecosystems. They are two (2) environmental, non-government organizations that are basically advocating a more sustainable society.

And for the purposes of these Interventions, we have based our -- our -- that the principles that we have used -- tried to interpret their relevance for the proceedings, as justice, which itself has multiple meanings, and sustainability, as defined in the province's Sustainable Development Act.

There are thirteen (13) principles and guidelines in that Act and we believe those should provide a framework for evaluating what happens.

The early part of the brief points out that MPI has a legal obligation as a Crown Corporation under the Sustainable Development Act and the PUB has an obligation, I guess, to enforce the laws of the land in -- within its sphere of jurisdiction.

And so maybe I went overboard there, but there's a little bit of residue from a previous hearing where it was -- was an issue and I think it shouldn't be an issue in principle here. Whether it is in practice is basically for the Board to determine.

So, I've singled out some of those principles at the end of the Sustainable Development Act: Stewardship, prevention of adverse impacts, wise use of resources, conservation, the fact that many issues require a global approach, can't solve them all by yourself.

That doesn't mean that you don't have obligations in facilitating that global approach.

And, in particular, guideline 1 on page 4 of this document, efficient use of resources of -- gives some specifics, talks about full cost accounting; that is consideration of social and environmental perspectives, not just the internal costs to the Corporation or even just the cost to the Corporation and its immediate clients, but from a society-wide perspective.

And that's the framework which we submit, the Sustainable Development Act, not only encourages but requires to be adopted in the operations.

And some of the ways in which that can be implemented is the demand management incentives and so on that are lined up with principles of sustainability.

So that's the framework that we think that

MPI should be operating in and the Board in evaluating its -- its submission.

Now we're all familiar and indeed in hearing of some of the impacts and costs of transportation and the particular area that is of concern to the public and that MPI insures.

But we all know that there are many other impacts besides those insurable items and -- from the -- the great cost of vehicles and infrastructure and their maintenance, the -- the -- and it seems to be ever growing, the health issues that arise from exhaust and, in particular, of course, greenhouse gases and climate change.

This is very prominent in the news because in a months' time, roughly, I guess a little more than that, Canada will be chairing the next part, the council of the parties to the United Nations Framework Convention on Climate Change. And the -- the agenda is both to -- to lock down Kyoto that is now in force, it has been since last February, and to begin the negotiations for the next phase after 2012.

So, thinking then of Canada's obligations, that is a 6 percent reduction over 1990 levels of greenhouse gas emissions, when up through the end of 2003, we had already experienced a 24 percent growth, creating a 30 percent gap that has to be met. This is very challenging to say the least.

And there's no magic bullet, there's no single party who can pull it off. It's -- it's a responsibility that is spread around, and in particular the Sustainable Development Act, outlining principles of sustainability says the Crown Corporations have obligations in this regard.

The transportation sector in Manitoba counts for almost one third of the emissions in the province. Fortunately we have a -- a cleaner electrical generation than most provinces, but the two (2) big ones are agriculture and transportation. And so if we're going to make significant reductions, those are the areas where we must be successful.

Now, that gets me to pay as you drive, and I guess I didn't even notice my beginning time here, so I'll -- I'll try to be -- there has been a paper exchange on this in the -- in the record. A couple of the Interrogatories from the Board and Responses from MPI.

So. I'm hoping that the parties are -- are familiar with the -- the concept.

And the -- there -- now that there are a number of merits that are -- are claimed for, and which I believe, to characterize it, but I note the skepticism in the -- in MPI's responses.

At the very basic level in terms of cost responsibility it -- it would seem that, other things being equal, including, you know, risk behaviour and -- and driving records and all the rest, someone who -- who largely leaves their car parked in the driveway in the garage, or -- or maybe not even -- and -- and seldom takes it out, a very low mileage client, pays the same rate as someone who -- who drives extensively.

And -- and yet each additional kilometre that is travelled is another kilometre in which a moving accident can occur. I recognize that there are other, you know, hail and vandalism and so on, are other things that are covered by insurance. But at least a -- a major portion of it, and presumably some of the larger costs are related to the coverage while the vehicle's moving.

And so just in terms of the equity, it -- this is one of the major things. But the -- the other features that stem from this proposal, are based on the economic principle that if you charge more, you -- you tend to discourage a particular behaviour.

And so the -- the question of reduced mileage overall, generally reducing, because someone can save not only in the gas tank, but on their premiums by reducing their mileage, provides an added incentive to reduce.

There is, attached to this, just some news articles about the sharp reduction in driving that -- that occurred with the most recent gasoline price spike. So there is elasticity, based on the variable costs of -- of driving. And that's -- that's the -- the economic principle that's employed here.

Now, let me just finish by considering some of the points in MPI's position which I've put in a series of bullets there on page 8. They complain that there aren't actuarially based studies and from earlier comments just since I've been sitting here and also from a case that I cited in BC, it seems that insurance companies do not readily part with their actuarial information.

They don't -- their statistics and so on, a lot of people want to get at them, including us. But you can't really complain that no one's providing them if you're not providing them and there are business reasons why these things aren't -- aren't released.

And so this leaves it up to you, really, to do your own study because you have the access to the database. We do know, and we can operate on indirect information, that other insurers, who presumably have their own databases, they have initiated trials of -- of pay-as-you-drive.

And so they presumably thought that there was a prospect for a profitability to charge lower rates for lower -- lower mileage customers and still make a buck off it because they'll be involved in less and fewer accidents.

So that's a bit of indirect evidence, given the proprietary nature of the knowledge that these companies operate on and presumably yourselves from earlier remarks. We know that a survey in the UK indicated nine (9) out of ten (10) people like the idea.

We know that there is a trial of Iva who insures my home, has a trial in Ontario. Ontario residents have had an opportunity to subscribe, Manitobans have not. And that's because we have a monopoly situation.

And if one of the roles of the PUB is to be a surrogate for a competitive market situation then -- then perhaps they should look just from the standpoint of customer choice of seeing that this option is explored and made available.

The benefits to the PUB -- pardon me, to MPI should be greater, given its monopolistic situation, if there is a -- a reduction in -- in accidents because they are more likely to be insuring both parties to the accident. Whereas a private insurer is less likely to be insuring both parties to -- to one of their clients.

I do offer some comments on what I see as the two (2) underlying principles. I mean, MPI talks about it as theoretical and -- and treats that as -- as perhaps a bad situation but the underlying theories are -- are really quite fundamental in terms of how much exposure does -- does a vehicle present to accidents and this elasticity of demand based on price.

And if they have -- you can deny it but your denial is theoretical too, unless you can produce the empirical evidence. So, in other words, if -- if you are denying those -- those underlying principles of pay-as-you-drive your position is just as theoretical unless, from your own database, you can provide the proof to show that, in fact, there is no distance-related risk and cost.

It's not enough simply to accuse the other party of not doing it. There is a Minnesota study which is one of the attachments where they are doing an independent experiment on -- on the elasticity trying to encourage drivers to engage in -- in pro-social behaviours and using a financial incentive. That's -- it's not an insurance thing it's -- it's an incentive study. But that gets at the other thing.

And since this is being done by the Minnesota Department of Transportation, presumably, it would be easier to get your hands on that, than it would be on someone else's actuarial database.

So, in conclusion, I've outlined the principles that we think rates should be set by and we acknowledge the need for more data experience and analysis and we -- we make some suggestions there.

It may be that, in your own database, you have enough for some preliminary analysis and, if not, you should enrich your database.

One way to do it is simply to record odometer readings more frequently for vehicle registration and insurance renewals, that kind of thing, and then when someone has an accident, you can -- you can relate that to the -- to the, you know, the driving distances that people have gone.

But I also think that you should begin your own pilot and like other jurisdictions to get that specific experience with -- with the concept.

And we're asking the PUB to see that the sustainable development framework is -- is used to evaluate the filings and to -- to ask MPI, if it's not front and centre, to make it so in future filings.

And this would include a wider social

analysis of -- of the transportation sector as full cost accounting requires and then what MPI's role is in it and how various policies might affect, not just the rates and the cost to the Corporation but the wider social benefits and costs.

And I would hope that, at the next hearing, some kind of study could be presented which would explore the alternatives for MPI engaging in implementation, plus a report on whatever they've been able to glean, in the meantime, of additional information on the concept.

Thank you very much.

THE CHAIRPERSON: Thank you, Professor Miller. Before I make a few comments, do you have anything.

MR. LEN EVANS: No, that's fine.

(BRIEF PAUSE)

THE CHAIRPERSON: You make some interesting points and we appreciate your presentation. We'll take them under advisement, you have some advice in this paper for us as well as for MPI.

MR. PETER MILLER: Yes.

THE CHAIRPERSON: We're struggling with

some of these issues with respect to the Sustainable Development Act and its applicability to the PUB as well as crown corporations, so it's very interesting concept.

If I may at this time, if following some past practice, if I could ask the MPI if they would kindly review the presentations and provide a written response to each.

I think you have the copies and that, and if you could give a copy of the Board -- copy to the Board on the Corporation's position with respect to the points that were raised, I think that would be respectful of the presenters who have taken the time to come here and I'm sure it fits in your customer service mandate in any case.

And so thank you again, and that concludes our --

MR. PETER MILLER: Thank you, could I just make one other point. Paul Nielson has done a lot of searching out of information and he prepared a bibliography which arrived just as I was leaving for this and I will make copies available to the parties for those who want to look into it further.

THE CHAIRPERSON: We'd appreciate it, thank you very much for coming.

--- UNDERTAKING NO. 8: MPI to provide written responses to each of the public presenters.

MR. BARRY GALENZOSKI: Mr. Chairman, if its needed for the record, the Corporation will indicate that, yes, written presentations will be prepared for all the presenters and shared with the Board.

THE CHAIRPERSON: I greatly appreciate it.

Mr. Saranchuk, before we have our mid afternoon break, if you have a section that you think you could undertake at this point? Or do you prefer we take a short break now and then come back to it?

MR. WALTER SARANCHUK: It might be advisable to take a break now, sir.

THE CHAIRPERSON: Very good, we'll take a ten (10) minute break and then we'll return for the balance of the afternoon, thank you.

--- Upon recessing at 2:37 p.m.

--- Upon resuming at 2:55 p.m.

THE CHAIRPERSON: Welcome back. Mr.

Galenzoski, I understand you have something to add?

MR. BARRY GALENZOSKI: Yes, just to complete the discussion from the Public Utility Board's point of view regarding rate stabilization reserve, at least as I would see it, I'd like to just refer to last year's order 148/04 at page 73.

And midway down that page there is a statement that says -- it's talking about:

> "unlike a private insurer MPI is a Crown Corporation possessing a monopoly with the Government as its titular shareholder. Solvency concerns are not present with MPI as they are with private insurers. As well, MPI has other reserves and protective measures that it may rely upon including..."

And this is the section I'd like to talk a little bit about. There was -- there was a few points, A and D which I will leave alone, but points B and C -- point B said:

> "Actuarial reserves held with the provision for unpaid claims."

And point C was:

> "Unrealized gains on securities held in this investment portfolio."

And just a point I would like to make about these is that, for instance, on the point B, actuarial reserves held with the provision for unpaid claims, these are required based on the actuarial reviews that are conducted twice yearly with the Corporation's liabilities.

And I would not view those as being something that would avoid having rate stabilization reserve in place. Similar with unrealized gains on our securities held in our investment portfolios, this is again something that I wouldn't think would offset the need for rate stabilization reserve.

Although, in the MCT they do give 50 percent credit. The things is, is that these are, first of all, not guaranteed that they'd be there on a going forward basis. And, second, to get that you'd have to sell your portfolio to realize those gains and then that would start to -- to deteriorate the income flows for future years.

So, I just wanted to point out, for both of those points, I'm not -- I don't really believe that there are strong reasons why the Corporation would need less retained earnings or -- for the basic plan or RSR we've been talking about.

THE CHAIRPERSON: Thank you, Mr.

Galenzoski. I don't think that we have an argument with you on that point.

Ms. Everard...?

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

CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Moving on to some questions about motorcycles and, in particular, the process that we understand is being undertaken at this time with respect to the updating of the rate lines for motorcycles.

Could someone explain that process please?

MR. DONALD PALMER: As with other vehicles we are looking at the actual experience of vehicles within each rate group and tying the rate charged to that particular rate group.

For motorcycles we have a little different situation than with other vehicles in which injury costs comprise a very large percentage of total motorcycle costs; I think we're 85 to 90 percent. Those particular costs don't vary very much regarding the value of the motorcycle.

We have people getting serious injuries on a one thousand dollar ($1,000) motorcycle as well as a forty thousand dollar ($40,000) motorcycle. So, there really is a different relationship within the rate line.

What we have done over the past two (2) years and are continuing to do this year is raise the bottom. We're taking that rate line and essentially pivoting it from the top in order to bring the relative cost of the lower value -- or the premium of the lower value vehicles closer to that of the higher value vehicles.

MS. CANDACE EVERARD: If I could refer you to the material at SM-4.3 in Volume I of the Application, and in particular, page 12 where there is a table that reflects the rate groups for motorcycles and the average rate changes by percentage per rate group.

Do you have that?

MR. DON PALMER: I have it.

MS. CANDACE EVERARD: Can you explain to the Board the characteristics of the vehicles in rate groups zero through 3 and how they differ from rate groups 4 through 9?

MR. DON PALMER: The rate groups are determined purely on declared value, so I don't have the exact dollar ranges. I can get them for you and I think they're probably even on our rate tables.

But rate group zero would be a declared

value of a thousand dollars ($1,000) or less and then it moves up all the way up the line to rate group 9 which I think is thirty to forty thousand dollars ($30,000 - $40,000).

MS. CANDACE EVERARD: Mr. Palmer, you said that this process of updating the rate lines began a couple of years ago?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And for how long does the Corporation expect this process will continue?

MR. DON PALMER: I think over the next two (2) years we should have most other than the rate group zero just about at the right level. The rate group zero really is undervalued and that would probably take a period of five (5) to eight (8) years.

MS. CANDACE EVERARD: Sir, if I could turn your attention to Tab 27 of the book of documents --

MR. DON PALMER: Ms. Everard, just as a point of clarification, the rate groups are contained in AI-8 Part I if you want to see the exact dollar values for those declared value ranges.

MS. CANDACE EVERARD: Great. Thank you. So, turning then to Tab 27 at the book of documents, and in particular the Corporation's answer to PUB/MPI Interrogatory 1-52, can you confirm that this answer sets out the phasing in of the rate line adjustments and shows that that phasing in will be completed by 2010?

Am I reading that correctly?

MR. DON PALMER: I think that that's within the context of all else be equal. With other rate changes that are required, that may vary and depending on how experience emerges, that may vary.

This is what we see currently as -- as the plan, but that doesn't mean that that's what's going to happen.

MS. CANDACE EVERARD: Are you saying that the timeline may change or that the percentages of change may be altered?

MR. DON PALMER: Probably both.

MS. CANDACE EVERARD: Can you give the Board some examples of the factors that might cause those types of changes?

MR. DON PALMER: For example, if we see bigger rate increases for motorcycles as a class, that we needed 15 percent overall, it's more difficult to have individual classification changes if you need 15 percent from the group as a -- overall.

On the other hand, if we were to see a decrease in the requirement for motorcycles, there may be an ability for us to push the rate line ahead a little bit, if there was an overall rate decrease of 10 percent for motorcycle maybe we could get twenty-five (25) on the lowest value for a net fifteen (15).

There's lots of different ways that we could accomplish that.

MS. CANDACE EVERARD: Thank you. We understand that in response to the Board Order from the last years' GRA, MPI has introduced a new pleasure class for motorcycles; is that correct?

MR. DON PALMER: That's correct.

MS. CANDACE EVERARD: And I understand that it was the Corporation's expectation that approximately 37 percent of riders would take up the pleasure class.

Can you tell the Board what has been the experience in that area to date?

MR. DONALD PALMER: We don't have actual experience. Where that 34 -- or 37 percent came from last year, as part of our motorcycle risk study was included a survey and that was one (1) of the questions that we included within the survey, is, Do you ride your motorcycle to school or work?

Sixty-three percent of individuals said that they did ride to school or work.

We don't have any other data to go from so we used that data as the best we have at the time.

MS. CANDACE EVERARD: Now I understand that the Corporation has adjusted the rate between the pleasure and the other class of motorcycles, and that there is a 10 percent differential between the two (2). Can you explain to the Board how that 10 percent differential was arrived at?

MR. DONALD PALMER: Again, we don't have any data on which to come up with a differential for pleasure, motorcycle rates. So in that case what we have to do is look at other vehicle types, and use those other vehicle types as a proxy.

Now for private passenger vehicles, the differential within rate groups is -- is 13 percent, between pleasure and all purpose.

That was used as a guide, and as far -- and we picked ten (10), just to be a little bit on the conservative side. The higher differential that you have, the higher you're going to force all purpose motorcycle rates, or the -- may I call it the new all purpose motorcycle rates.

So, the bigger differential, the more that you're going to increase the all purpose rates. So somebody who is currently in that blended all purpose rate, the bigger the differential that you pick, the more you're going to see those rates increase.

And you know, given that there is some sensitivity to motorcycle rate increases, we thought it was probably better to be on the conservative side at this time.

MS. CANDACE EVERARD: And I understand, sir, from the material, that the intention is that pleasure rates will be about 6.5 percent lower than the blended rate and all purpose rates will be about 3.8 percent higher than the blended rate; am I correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Mr. Palmer, has the Corporation taken any steps or will the Corporation take any steps to ensure that motorcyclists are properly classified as between pleasure and all purpose?

MR. DONALD PALMER: The same steps that we take with regard to all purpose and pleasure passenger vehicles and all purpose and pleasure trucks. It's self reporting, it's essentially at the time of -- that we have a reason to check the registration, that we verify that.

For example, at the time there's -- there's an accident, that's part of the investigation process, to determine where they were going and what at the time of the accident, so that's essentially the verification process.

MS. MARILYN MCLAREN: But with respect to the introduction of a brand new insurance use, what the Corporation does in practice, is: Provide written notice to everyone in the new year's policy guide, provide specific notice to motorcycle owners in their renewal envelope, make sure brokers are aware of the change, and require that brokers' draw motorcycle owner's attention to the fact that they now have a choice, and they have to declare that choice.

MS. CANDACE EVERARD: Thank you. If we can go back to Tab 27 of the book of documents, and in particular, the second Information Request found at that tab, which was number 54, asked by the Board in the First Round, which deals with claim frequencies during and outside of the riding season.

Can you confirm whether the average riding season has, in fact, been extended beyond that which was contemplated when the Corporation decided to implement seasonal rates for motorcycles?

MR. DONALD PALMER: I don't know if the riding season has increased. Our recognition of it hasn't changed. We're still looking at a five (5) month riding season.

MS. CANDACE EVERARD: Has the Corporation found though that riders are taking advantage of the opportunity to extend the season and, if so, are there any implications towards rate adequacy for motorcyclists?

MR. DONALD PALMER: It depends on the year. There are some years that the weather is better and there is more opportunity for riding. There are some years where there isn't even much of a opportunity for riding during the season. And the '03/'04, or '04/'05 summer, for instance, very rainy and cold and had a lot less opportunity for riding than previous years. And that's reflected in our -- our experience.

As far as whether there's more people taking advantage of the seasonal rules, I think that's to their benefit. Certainly, with our motorcycle experience, because we're using that to rate the motorcycle rates, it'll find its own level.

We were very clear with that when we went to a seasonal policy in 2001, I think, that we picked five (5) months with the proviso that even though that's going to be our earning period, we understand that if people ride more then there may be more accidents and the rates will find their own level.

MS. MARILYN MCLAREN: Further to that point, in 2000 when we were talking about this change for the upcoming riding season we talked in this forum about the fact that in the Corporation's view the rating practice being monthly earning of motorcycle premiums was likely artificially depressing motorcycle usage by -- by those owners.

So, we've eliminated that artificial depression of their usage. We knew that that would likely happen. I don't think we are considering any extension of the earning period. Earning it during the core riding season makes sense.

This change was because the Corporation found it reasonable and a better reflection of the use of motorcycles to earn during the five (5) month season. Certainly it has met with support from the motorcycle community.

If that started to change and there was arguments amongst -- arguments coming forward from that group that they thought it made -- that there was a significant number of their peers that absolutely totally only wanted to ride during July and August and they thought they were somehow subsidizing other people we'd have to think about whether or not the practice ought to continue.

But that, in no way, shape or form, has happened. So, I think riding practices have changed because we were artificially depressing something before.

MS. CANDACE EVERARD: Looking then further at the response to Information Request 54 and the number of claims that have occurred outside the riding season; can you comment on whether the Corporation was at all surprised by the number of claims?

MR. DONALD PALMER: I don't know if we're surprised by it. I don't know that I had necessarily any -- any preconceived notions of what those numbers would be.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, is there any cause for concern in looking at these number of claims?

MR. DONALD PALMER: No.

MS. CANDACE EVERARD: Okay. Moving on then, I want to discuss a little bit the implications of the Board's decision this past spring following on the special hearing dealing with loss transfer.

And, firstly, I understand that the current rate application does not reflect any of the ramifications flowing from that decision; is that correct?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Can you advise

whether the Corporation has undertaken any modelling of the impact of the changes to the implemented on claims attribution?

MR. DONALD PALMER: We have started that work. Nothing that's available for prime time. We are currently doing our -- our testing on the data.

With the -- the ruling, we didn't have the data in the format that was required, so we're having to build an entire new table to -- for use for rating purposes.

And that work is under -- being -- being done as we speak, sort of.

MS. CANDACE EVERARD: So is there any indication, at this stage, of the expected direction or order of magnitude of these changes?

MR. DON PALMER: No.

MS. CANDACE EVERARD: If I can turn your attention then to SM-8.4.2 which is at page 13 of Section SM-8.4

There's a discussion, at the bottom of page 13 and continuing on to the top of page 14, about the issue regarding classification of sport bikes.

Can you advise the Board if there is any updates to the commentary that appears at the top of page 14, that is that the process is underway and CMMG is analysing the classification listing?

MR. DON PALMER: I have had a conversation with one of the members of the CMMG at these hearings, as a matter of fact, and they said that they're almost finished at their part of that process.

So we likely will be in -- in a position to have more data at next years' rate hearing. I'm not going to quite commit to that, but I think the -- that at least my belief is that process is well under way.

MS. CANDACE EVERARD: Thank you. Moving then, briefly, to claims expenses. I'll direct your attention to Tab 25 of the book of documents, which is the Corporation's response to question 36, posed by the Board in the first round of Information Requests. And before we look at that, specifically, perhaps someone can state for the record exactly what claims expenses represent.

MR. BARRY GALENZOSKI: Claims expenses would be: The expenses related to the settlement of the claim that would be in MPI's situation, the buildings that we have, their claims centres, the staff that's in those, the supplies that they use, things along that line.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Turning then to schedule 1, attached to the answer at number 36, and looking at, in particular, line 6, which I understand is the ratio of claims expenses to claims.

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

MS. CANDACE EVERARD: It would appear that comparing the actual numbers for 2005 to the projected numbers for 2007 that there's going to be an increase of just over thirty-six dollars ($36) per claim. Is that correct; that's -- that's the forecast -- or projection, pardon me?

MR. BARRY GALENZOSKI: You're comparing the '06 forecast to the '07 projection?

MS. CANDACE EVERARD: No, I'm comparing '05 actual, the three hundred and twenty-seven twenty-seven (327.27) to the projection for '07 of three sixty-four ninety-eight (364.98) which I think is a little over thirty-six dollars ($36) difference?

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

MS. CANDACE EVERARD: Okay. And is there a particular explanation for that expected increase?

MR. BARRY GALENZOSKI: You have to understand what drives this number. What drives the number is two (2) main characteristics. First of all is the expenses that we're going to incur year over year for the claims expenses and that entails the costs that I've mentioned previously; our building operating costs, salaries, things along that line.

And then when you're looking at doing it on a claims expense per claim, then obviously the claims volume can comes into play. And so you're going to see changes based on the actual experience related to claims volume, whether it's higher or lower than expected. And then the claims expenses themselves.

So, what's -- what would be one (1) of the things that would drive, or some of the things that would drive the actual operating or the claims expenses themselves, would be increases in salary, whether we're increasing in the numbers of staff that would be associated with the claims adjusting process. That would be the main types of expenses.

And then offsetting that or -- or making it appear higher than you might expect, would be the change in the volume of the claims, and so we'd have to look at both sides of that.

MS. CANDACE EVERARD: I note that the projected figure for 2007 of three hundred and sixty-four dollars and ninety-eight cents ($364.98) is an increase over the last three (3) year average shown in the far right hand side column, and as well is an increase over the six (6) year average, shown in the column second from the left.

Is there any additional information that you can provide to explain the increasing trend?

MR. BARRY GALENZOSKI: Well, no the -- again, those -- I would expect those type of changes when you're looking at longer time periods, because just the inflation on salaries, for instance, and costs to run our claims centres, those types of costs go up a fair bit more than inflation, generally speaking.

I mean, you look at the claims volume, which is shown down on line number 13, "Number of Claims." There you can see that for 2005, for instance, where two hundred and fifty-five thousand eight hundred and four (255,804), projection for 2007 is two hundred and fifty-six thousand zero five nine (256,059).

So, the number of claims isn't increasing that rapidly, but the costs of them -- of the actual claims expenses is going up, because of the staffing and building operating costs.

MS. CANDACE EVERARD: Okay. Turning then to line 4 of this particular schedule, the claims expense ratio, it would appear that the projection for 2007 is in line with the figure for the last three (3) year average, shown in the far right hand column. Is the increase in claims expense because of -- simply because of an increase in the number of claims, in your view?

MR. BARRY GALENZOSKI: No, it has nothing to do with the -- the ratio, it has to do with the -- the increase in the expenses compared to the -- the denominator which is going to be your premium base. And you'll see that we're staying at -- for '05, we're at 11.7, and for '07 projection, we're at 11.8, and that shows somewhat of a -- of a level change from year over year.

And you'll notice it's down quite a bit from years prior to that, where it was over twelve (12). So that's fairly consistent, is what we would have expectations for.

MS. CANDACE EVERARD: I'd just ask you to -- continuing to look at Tab 25, to turn a couple of pages ahead. In addition to Information Request 36 in the First Round you'll find, at Tab 25, the Request number 17 from the Second Round, posed by the PUB.

And there's an attachment to the response. This response or the schedule being provided in response to Part C, asking that the schedule be restated, eliminating the impact of extension SRE, and DVL operations.

I note that, in looking at the schedule, there are a number of lines that rather than numerical information being presented, it simply says N/A, which I assume stands for not applicable?

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

MS. CANDACE EVERARD: Okay. And can you confirm why that's the case?

MR. BARRY GALENZOSKI: Well, it would be -- a lot of these calculations are run just on a corporate basis, rather than on a per line basis, or line of business basis.

And our claims expense per claim would -- basic claims -- claims are not just basic, they're usually basic and extension, so they would -- the expenses are not categorized that way, so you really can't make that as a comparison looking at it, just isolating it for basic.

So, it would be similar for the other ones that are showing N/A.

MS. CANDACE EVERARD: So you're saying that it's not possible to separate the numbers for the two?

MR. BARRY GALENZOSKI: That's correct.

For instance, you know, as I said, for instance, on the claims, if we have salary expense, for instance, we don't -- we don't run those expenses by line of business.

You know, the claim centre staff handle all the claims that come in the door. Costs are allocated based on -- on overall claims incurred dollars and not based on just the basic claim.

And, therefore, doing this kind of comparison doesn't work when you're looking at by line of business, basic as being a line of business.

MS. CANDACE EVERARD: Okay. We'll get into a little bit on operating expenses then. If I could turn your attention to TI-7 included as part of the Application?

MR. BARRY GALENZOSKI: Is that in the book?

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: I have that.

MS. CANDACE EVERARD: For everyone else that's Volume II, Part 2. I'd ask you to look at page 1 after the cover page. The first schedule at TI-7 and, in particular, line 5 relating to, I believe, a ratio between operating expenses per policy.

There appears to be an increase from the 2004 figures to the 2005 figures up from sixty ninety-eight (60.98) to sixty-seven, ninety-two (67.92) which I gather is a percentage increase of about 11.3 percent.

Is there a particular explanation for that significant increase?

MR. BARRY GALENZOSKI: Yes, that increase includes the DVL staff costs that were added. So it's not a very comparable number to the previous ones. And I believe that we did some numbers that eliminated the DVL at some point in one of the Information Requests we had.

You're not going to be able to compare these numbers on the expense side with the DVL staff included in there because there's no history on that with respect to how that would play out for prior years.

So, it's a one-time increase that even though there's an offset because we recover a lot of that money from the Provincial Government that offset isn't shown in here.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: If you go back to your book of reference material under Tab 25 the schedule we were just looking at, that one eliminates the DVL and is more comparable if you're looking at it with respect to the impact on basic.

And there when you look at the operating costs per policy you're looking at a change up to the fifty dollars and fifty-seven cents ($50.57) for the projection for '07.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: And if you want I can give you an explanation as to why that's going up by 7.11 percent?

MS. CANDACE EVERARD: Yes, please.

MR. BARRY GALENZOSKI: And the reason for that is that in the projections going forward there's a contingency put forth with respect to some expenditures. It probably wasn't spent in the previous years.

In addition, we -- we lost some of the amortization costs for previous systems in the previous years which aren't -- which would reduce the previous years. So, there's an offset there.

(BRIEF PAUSE)

MS. CANDACE EVERARD: While we're looking at Tab 25 of the book of documents and Schedule 1 in response to question 36 in the first round, if I could direct your attention to line 11 relating to operating expenses and there appears to be a significant increase in operating expenses from the 2005 column of $57 million to the 2006 forecast column of seventy-four (74).

I'm wondering what the reasons for that increase would be.

MR. BARRY GALENZOSKI: It's my excuse number 2, that concludes DVL, so those numbers are in there.

MS. CANDACE EVERARD: Thank you.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay, continuing on with operating expenses, if we could look at TI-9. First the original TI-9(a) that was part of the June filing.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: I have that.

MS. CANDACE EVERARD: In particular, page 1, TI-9(a) and the line item second from the bottom entitled, Special Services. There appears to be a fairly significant increase according to this version of the document from the '05/'06 forecasted to the '06/'07 projected, an increase of approximately --

MR. BARRY GALENZOSKI: $2 million.

MS. CANDACE EVERARD: -- 2 million.

MR. BARRY GALENZOSKI: Yes, that would be a contingency for future projects.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is that something that has been allocated in previous years?

MR. BARRY GALENZOSKI: Yes, you would have seen that in previous years, where we would have that contingency and then when you do the actual numbers for the prior years, if that wasn't spent, then of course that drops out and including in the forecast that would have dropped out if it wasn't expected to be spent.

But, we would budget for that in the going forward year, and that's why you see that little bit of a bump up in that particular year.

MS. CANDACE EVERARD: So, for the year of the Application, what types of projects may we be looking at?

MR. BARRY GALENZOSKI: Again this is a

contingency, so it allows some funds for things -- to take things on that wouldn't necessarily be clearly defined today. They could relate to some of the projects that we've already talked about, whether it's the business process review or something that might fall out of that.

It could relate to something that might come out of an employee opinion survey. A whole variety of different reasons why we may have a need to spend some money and we need to have some amount budgeted just in case there's something that comes along.

(BRIEF PAUSE)

MR. BARRY GALENZOSKI: And if I refer you to CAC/1-21(c) there's a whole schedule there that details all the special services for '04/'05 actual, '05/06 forecast, and '06/'07 projected. And in there you'd see that special services other is up by about $2 million.

And we give you all the breakdown of where the other special services costs are and then we breakdown that special services other which is up by the 2 million and we show that there's a contingency for consultants development, environmental energy et cetera, or no, contingencies for the new projects; that's basically what that's for.

So that's all documented under CAC/MSOS-1-21(c).

(BRIEF PAUSE)

MS. CANDACE EVERARD: If we could look at now part of MPI-8 which contains the revised schedules that were forthcoming late last week, there is a revised version of TI-9(a) included in that package.

MR. BARRY GALENZOSKI: I have that.

MS. CANDACE EVERARD: Dealing with the special services line, again second from the bottom, it would appear that the forecast number for the '05/'06 year has increased by about five hundred thousand (500,000) over that which was set out in the June document.

Is that because there's more certainty at this stage, now that we're a few months later, or is there some other explanation for that change?

MR. BARRY GALENZOSKI: No, it would just be that explanation. You've got another couple of months of actual experience, we would have made some commitments with respect to certain projects that we might be looking at, and so there was an additional five hundred thousand dollars ($500,000) identified.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Thank you. Moving then to capital expenditures for a moment. If I could direct your attention to Tab 40 of the book of documents, which contains the Corporation's response to the Board's Information Request at number 19 in the Second Round, relating to the business process review.

MR. BARRY GALENZOSKI: I have that.

MS. CANDACE EVERARD: I understand at sub A of the response, that the total capital expenditure budget for the business process review is $20 million over the next number of years; is that correct?

MR. BARRY GALENZOSKI: Yes, that's our preliminary review of what we think the amounts might be.

MS. CANDACE EVERARD: We've heard a little bit of evidence from the Panel about one (1) component of the business process review, that is dealing with DVL. But perhaps someone can provide a general overview of what the BPR will entail, and what areas of the Corporation's operations will be addressed in the business process review?

MR. BARRY GALENZOSKI: Well the business process review will be quite far ranging with respect to DVL, and it will encompass all aspects of the operation of DVL.

How it will be configured in the future, the -- it'll take -- take into account some of the immediate concerns we have with respect to things like the photo cameras that are currently in use for taking the pictures for the driver's license and then the ongoing systems and how that will all function in the future, as well as the amalgamation of -- of like functions that currently exist within DVL, and currently exist within MPI.

So, it -- it will be a complete business review of that entire business segment.

MS. CANDACE EVERARD: So, if I understand you correctly, the review will relate to DVL and the amalgamation of DVL into the Corporation, but nothing beyond that; is that what I'm hearing?

MR. BARRY GALENZOSKI: Well the business process review is -- is centred on DVL operations, okay. So it is -- it is -- it's focussed on that and it will -- it will deal with that. But, it will obviously have to have some tentacles that go into other parts of the organization, just because there is an overlap of some of the services.

For instance, if you look at the IT Services, there's -- there's people that work in IT in -- in DVL, as well as Information Technology at MPI. However, you know bringing those together, is there -- is there synergies? Can we save on certain staff positions? Is there going to be a reassignment?

Those types of things, will all be part of that particular review.

MS. CANDACE EVERARD: What about bonus/malice system, will that be looked at?

MS. MARILYN MCLAREN: Yeah, I was just going to expand a little bit on what Mr. Galenzoski said. The business process review is really fostered by the amalgamation announcement. It is about DVL.

But, we're not limiting our efforts to considering how to do the work of DVL better. We are considering how to meet any broader needs that the Corporation has, now that we have the opportunity to do so.

So, clearly any decisions that we make about enhancing the efficiency with which DVL does its work, has to also have full consideration to something like corporate needs with respect to a better way to deal with, you know, giving good drivers a break, and surcharging bad drivers in general terms.

So, I think the other things that we'll look at as well, may very well move into the claims area with respect to potential opportunities to maximize the work that we've done in claims in many years with respect to standards of performance of vehicle repair shops, and DVL responsibility for accrediting vehicle standards shops.

So, there may be some -- and that's why we say we're not limiting it just to the work of DVL. It will stretch beyond that as a corporate exercise, but we're not simply going to review something that was done only at MPI before the amalgamation and take this opportunity to have a hard look at that to figure out if there's a better way to do that work. It's really within the opportunities created by the amalgamation.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Following up on my question of the review of the bonus malice system, if I could direct your attention to SM-8.9, part of Volume I, page 30?

(BRIEF PAUSE)

MS. CANDACE EVERARD: There is reference at the bottom of page 30 and continuing onto the top of page 31 relating to the completion of the business process review and how that ties in to the review of the bonus malice system.

Can the Corporation give an indication of when the scope and timing of the business process review may be established and where that will take things with the bonus malice system?

MS. MARILYN MCLAREN: By the end of this fiscal year we will have made most of our decisions about the kinds of changes we want to make with the DVL organization and areas of responsibility.

Just based on what I understand at this point, I would expect that we would be to the point of having serious conversations about a new bonus malice structure in probably at the '08 proceedings in -- in early 2007 we may be very well be talking about what we might be in a position to do in 2008.

MS. CANDACE EVERARD: That would be the GRA for the '07/'08 insurance year?

MS. MARILYN MCLAREN: GRA for the '08/'09 insurance year, taking place in 2007.

MS. CANDACE EVERARD: Okay. Just getting

into the -- the scope of the business process review in a little bit more detail. If I can just ask you to turn back within SM-8 to page 5 from page 30.

The business process review is described there as a corporate-wide review and there are a list of a number of questions that the review is expected to answer.

Could you perhaps go through that list and give some examples of areas that you may see relating to each bullet?

MS. MARILYN MCLAREN: Some of it might be a bit of a stretch. We're very early in the process but I'll give it a shot.

"How can we serve our customers better?"

One of the very, very basic situations that many Manitobans find themselves in is, you know, don't you people who take care of vehicles ever talk to those people who take care of drivers? Why do I have to tell both of you when I move? Something very simple as that.

"Where can we add value?"

I think that we're certainly hoping to find answers to that question in the area of road safety, road safety data. What can we do to really influence driving behaviour?

"How can we make better use of our resources?"

I think that comes down to some of the examples that Mr. Galenzoski talked about where you're going to have someone in the call centre answering a call about a driver license fee or where can I get my driver license photo taken and the next time answering a claims question and the next time, within the same few minutes, answering a question about time payment rules and time payment processes.

When you've got two (2) separate call taking facilities they are significantly less efficient than if you can put them together.

Streamlining processes, I think for the most part what springs to mind there is clearly work related to DVL. You know, they still, for the most part, operate the way Manitoba Public Insurance operated with respect to vehicle registration and insurance, prior to 1995.

It still takes people many, many weeks to get their permanent documentation in the mail, if they have to make a change to their driver licence information.

We need to do a better job of that.

And what can we do before that we can do now? I think we have opportunities in terms of maximising -- potentially maximising some of the services that take place in different locations.

I think we can pull some of that together, create opportunities for people to get more done with less trips to government offices and things along those lines.

MS. CANDACE EVERARD: Thank you. Can the Corporation advise of who is going to be conducting this review?

(BRIEF PAUSE)

MS. MARILYN MCLAREN: I think we responded to an Information Request somewhere along the lines in that regard. We are conducting the work, primarily, with in-house resources, getting some external expertise at this time, primarily from EDS who's responsible for maintaining our core business systems are working with us on this project but it's primarily done with internal resources.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Was the external consultant engaged as a result of a tendering process or was it done some other way?

MS. MARILYN MCLAREN: With the negotiated contract that we have to support our core business systems with EDS, we have the opportunity to at -- sort of a preferential rating structure, to add work to that contract on an annual basis.

It was done through that process.

MS. CANDACE EVERARD: So is there a specific document by way of amendment to the larger contract that exists that could be produced to the Board dealing with the business process review?

MS. MARILYN MCLAREN: Yes, what the process is, a signed change request. I'd have to check to see if there was any sort of confidentiality or privacy concerns, but assuming there's not, that's something that we could do.

MS. CANDACE EVERARD: You will undertake to do so then?

MS. MARILYN MCLAREN: Once I confirm that that's something we can disclose, I will.

--- UNDERTAKING NO. 9: MPI to produce for Board the signed change request.

MS. CANDACE EVERARD: Thank you. Looking back at Tab 40 and the response to Information Request number 19 in the Second Round, at sub (a) which sets out the budget going forward, can you advise of when the amortization period will begin and over what period of time it will extend?

MR. BARRY GALENZOSKI: Amortization generally begins when the business process review is completed and the amortization period is five (5) years.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Will the business process review include a review of IT upgrades on the DVL side?

MR. BARRY GALENZOSKI: A big piece of this will be information technology costs associated with changing systems or amalgamating systems.

You know, the likelihood is, is that a lot of this could be delivered out of the AutoPac online system that currently exists with some modifications.

MS. CANDACE EVERARD: So which line of business would bear the cost of any upgrades?

MR. BARRY GALENZOSKI: Well, it's all -- right now that's all being charged to the extension line of business.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. So the Corporation has budgeted 2.6 million for 2005/2006 with respect to the business process review.

Can you advise of whether the Corporation is on target to this point?

MR. BARRY GALENZOSKI: Yes, I believe we're pretty close to on target right now.

MS. CANDACE EVERARD: And is the budgeted total of $20 million going forward still an appropriate figure?

MR. BARRY GALENZOSKI: It's appropriate for right at this moment. That amount could change based on more information coming forth as this process completes by the end of the year.

MS. CANDACE EVERARD: And if I can refer you then to Tab 26 of the Book of Documents, which contains the Corporation's answer to Question 44, posed by the Board in the First Round of Information Requests. And in particular the attachment -- the first attachment to that response, which is numbered 1.

The last line in the table represents

organizational and developmental costs. Can you please identify the nature of the projects giving rise to the amounts budgeted over the last five (5) years?

MR. BARRY GALENZOSKI: These would -- these would be projects involved -- you can see the actuals are -- are not very large. We had big forecasts in projected amounts because we -- we would always have a fairly substantial amount put aside for things like the side based project that we were looking at and we talked about over the last couple of years that never went ahead.

But, there was -- there was significant amounts of money set aside in the event that that was going to move forward.

When you look at the schedule, and let's just deal with one (1) -- one (1) of the years, let's deal with '03/'04 for instance, and you look at that organization development costs, we're showing an actual forecast and a projected. The actual was a hundred and sixty-six thousand dollars ($166,000). The forecast was 5.3 million and the projected was 8 million.

Well, that was because there was some big contingencies set aside for some of these projects like the side based, that was a big one (1) at that point in time that didn't proceed. We determined that the urgency of that wasn't as great as it was originally thought and we deferred that project.

So, even though there was big -- a large component set aside in the budget, on the capital side, not on the expense side, that wasn't actually proceeded with. And if I look down in, for instance, in '04/'05, you'll see we had an actual of zero, forecasted of 2 million and a projected at eight (8).

Again, the same thing happened there. There was some amounts of money set aside, some of it was for specific objectives, others was more of a contingency, and it was only being spent once we determined we had a real reason to spend it. In this case we didn't spend any of that money.

MS. CANDACE EVERARD: Looking specifically at the figures for 2005/'06, can you give an explanation for the increase in the projected figure of 2 million to the forecasted figure of 3.3 million?

MR. BARRY GALENZOSKI: Well that would have to do with some information with respect to the business process review, which would be part of that number that would be in there. I think we were looking at a number of 2 1/2 million or $2.6 million, that we're talking about for that one (1) alone.

So, that would have been updated, and even though the projected -- the projection would have been something that was provided some time ago, and this is now more precise information. And then when we get into the actual we'll fill that in once the year's complete.

MS. CANDACE EVERARD: Okay. Next if I can direct your attention to TI-12, which is not in the Book of Documents, but was included with the Application, and specifically page 1 of TI-12, Volume II, Part II.

MR. BARRY GALENZOSKI: I have that.

MS. CANDACE EVERARD: It would appear under the heading, "Data Processing Equipment, Additional and Replacement," that actual expenditures in 2004/2005 were just over 3 million, and looking at the subsequent schedules for 2005/'06 and 2006/'07, that the expenditures under that heading are expected to be in and around the $3 million mark; is that correct?

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

MS. CANDACE EVERARD: And is that something that's expected to continue beyond 2006/2007?

MR. BARRY GALENZOSKI: Yes. This demonstrates a -- you know, a renewal of equipment on a cyclical basis. So as -- as equipment is -- reaches its replacement date, then it is -- that would occur. That would also include upgrades to -- to existing hardware that we might have for things like communication, and those types of things.

MS. CANDACE EVERARD: Thank you.

Sorry, Mr. Chairman, I'm at a good place to pause. I note the time is five (5) to 4:00; would this be an appropriate time to adjourn for the day?

THE CHAIRPERSON: That would be just fine. Thank you very much. We'll see you all tomorrow.

(PANEL RETIRES)

--- Upon adjourning at 3:55 p.m.

Certified Correct,

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Carol Wilkinson, Ms.