



# **Opening Statement of the Public Interest Law Centre on behalf of the Consumers Association of Canada (Manitoba Branch)**

2019/20 MPI GRA  
October 15, 2018

# CAC Manitoba

- Over two decades of rate hearings
- Core Consumer Rights
  - To be informed
  - To choose (or be involved in the regulatory process as a proxy for choice)
  - To have a voice in marketplace decision-making
  - To consumer education



**Consumers' Association of Canada**  
**Association des consommateurs du Canada**  
**Manitoba**

# Developing the CAC Manitoba Position

- Day to day consumer contact
- Consumer Engagement
- CAC Manitoba Board
- Advice from expert advisors

## Experts who are highly qualified and independent

- It is your duty to provide evidence that:
  - Is fair, objective and non-partisan;
  - Is related only to matters that are within your area of expertise; and
  - Your duty in providing assistance and giving evidence is to help the Public Utilities Board. This duty overrides any obligation to the Manitoba Branch of the Consumers' Association of Canada.

# The Test

- Just and reasonable rates

[Public Utilities Board Act, s 77] [Crown Corporations Governance and Accountability Act, s 25]

- *The burden of proof to show that any such increases, changes, or alterations are just and reasonable is upon the owner seeking to make the increases, changes or alterations*

[Public Utilities Board Act, s 84(2)]

# Setting Just and Reasonable Rates

- Ensuring that forecasts are reasonably reliable
- Ensuring that actual and projected costs incurred are necessary and prudent (justified)
- Assessing the reasonable revenue needs of an applicant in the context of its overall general health (including necessary reserves, if any)
- Determining an appropriate allocation of costs between classes (and between drivers and vehicle owners)
- Setting just and reasonable rates in accordance with statutory objectives

[PUB Order 98/14, p.28]



**Ensuring that forecasts are reasonably reliable**

## Are Interest Rate Forecasts Reasonably Reliable?

*Given that interest rates have begun to rise in recent months, the Board does not accept that the naïve forecast should be relied on for rate-setting purposes.*

*The only expert testimony before the Board on interest rate forecasting was from CAC Manitoba's expert, Dr. Simpson. The Board accepts the evidence of Dr. Simpson that the 50/50 interest rate forecast is the appropriate approach for rate-setting and target capital purposes at this time.*

[Order 130/17, s.6.8]



# Are Interest Rate Forecasts Reasonably Reliable?

- Does the selection of a naïve forecast unreasonably inflate the revenue requirement?
- Has MPI presented new evidence sufficient to disturb prior findings by the PUB rejecting the use of naïve forecast of interest rates?
- Alternatively, have events over the past years simply reinforced the unsuitability of naïve interest rate forecasts for future looking rate setting and DCAT modelling purposes?



**What are the implications of central reserving on forecasts of Personal Injury Protection Plan [PIPP] claims?**



**Necessary and Justified [prudent] management**

## Necessary and Justified Managements of the Investment Fund

- *Ultimate responsibility for the Fund rests with MPI*

[Order 130/17, s.6.8, p.67]

- Has MPI assumed undue risk with its basic insurance investment portfolio while foregoing significant opportunities?
- In optimizing its basic portfolio, has MPI justified its decision to assume away real interest rate risk and focus on nominal interest rate risk?

# The Investment Fund – a Hockey Analogy

A Team: Great forwards and a great goalie

B Team: A lousy goalie and good defencemen

*Assuming a real liability benchmark for modelling, removing Real Return Bonds significantly reduces an opportunity for improvement at lower risk levels*

[MPI Exhibit 12]

## Challenges in Addressing Complex, Long Term Personal Injury Files

- In terms of complex, long term Personal Injury Protection Plan (PIPP) claims, what were the factors that led to existing guidelines “not being followed post-B13 implementation”?
- What, if any, institutional challenges occurred in diagnosing the failure to follow existing guidelines or in implementing the Centralized Reserving team remedy on a timely basis?

[CAC (MPI) 1-37]

## Significant Write-offs of Information Technology Investments

What are the factors leading to the closing down of the Customer Claims Report Systems (CCRS) and to significant write-offs of information technology investments related to CCRS (in excess of \$15 M) and High School Driver Education Phase 2 (in excess of \$2 M)? (PUB 1-63)

## A Negative Business Case for the Physical Damage Re-Engineering Project

- What are the explanations for the fundamental shift in the assessment of the Net Present Value (NPV) of the Physical Damage Re-Engineering project (PDR) from positive (\$13 M) to materially negative?
- What was the role of external evaluators such as Gartner Group in evaluating the PDR and what, if any, lessons have been learned about the limits of the reliability of these evaluations?
- Has MPI demonstrated through external bench marking that its information business process are reasonably mature?



# A Flawed Light Vehicle Accreditation Agreement

A key flaw in the \$81 premium is that MPI is required to pay it on all jobs performed by a DR repair shop, not just DR jobs. Paying a premium for the roughly 80% of non-DR jobs creates a direct mismatch in costs and benefits, when no efficiencies are created.

[PUB 1-37]

# A Flawed Light Vehicle Accreditation Agreement

- Can payments to the repair industry of the \$81 premium in the period between 2017 and 2019 be considered prudent and reasonable?
- To the extent that these expenditures are imprudent and unreasonable, what is the magnitude of these payments?

## How do information technology staffing levels compare to benchmarks?

Has MPI demonstrated through external bench marking that information technology staffing levels (overall as well as consultants) are reasonably consistent with industry norms or do they appear to be unreasonably high?

## Acknowledging Risks to Ratepayers from Legacy Information Technology Projects

Given:

the potential magnitude of future investments in Legacy systems such as CARS and AOL; and

demonstrated challenges of the Corporation in managing the PDR project and delivering net positive value to ratepayers;

how, if at all, does MPI intend to update the PUB regarding its investment decisions outside the formal rate hearing process?

## Exploring the Supporting Evidence for the High School Driver Education business case?

- Does the value management business cases associated with High School Driver Education reasonably assess the veracity and strength of the available evidence that the training program is likely to reduce teen driver crashes?
- Or should caution be taken in interpreting the results of the cost-benefit analysis?



# **Overall Health of the Corporation – Including Risk**

## Has MCT become the dominant driver of the Rate Stabilization Reserve (RSR) Level?

- Does the Capital Maintenance Provision (CMP) proposed by MPI effectively reintroduce the previously rejected Minimum Capital Test (MCT) as the dominant tool for determining the actual level of the Rate Stabilization Reserve?
- Has MPI offered any new evidence to suggest that the rejected MCT is appropriate for determining the actual level of a Rate Stabilization Reserve for a regulatory Crown monopoly that does not face the type of insolvency risk of a private company in a competitive marketplace?

## Does the MCT serve to cushion poor management decisions?

- Does the MCT analysis by incorporating a significant cushion for operational risk effectively incorporate protection for poor management that is inconsistent with the stated purpose of the RSR?
- In the context of the current rate application, does the CMP cushion serve to shield MPI from accountability for unreasonable or imprudent management choices?



Has the hypothesis of ever increasing risk for the corporation been demonstrated?

Has the overall risk for basic program ratepayers been reduced as suggested by the most recent Dynamic Capital Adequacy testing results?

## Does the term “consensus” exclude the consumer perspective

- For technical conference purposes, does the word “consensus” imply only a meeting of minds between MPI and PUB advisors or does “consensus” envision the intervener perspective?
- If the PUB intend the term “consensus” to include MPI, Board Advisors and interveners, why does MPI persist in maintaining that a “consensus” flowed from CMP deliberations?



**Has MPI introduced a flawed measure of risk to its  
Asset Liability Matching analysis?**

## Does the proposed RSR range comply with PUB direction?

- Are the lower and upper bounds of the RSR target range consistent with PUB directions from the last General Rate Application?
- To the extent that the proposed RSR target range diverges from the PUB directions, has MPI met its onus of demonstrating the case for non-compliance?



**An appropriate allocation of costs between classes  
(and between drivers and vehicle owners)**

## What are the next steps for Driver Safety Rating?

What are the Corporation's plans for consumer and stakeholder dialogue and engagement?



**Setting just and reasonable rates in accordance with  
statutory objectives**

## Has MPI unreasonably overstated its revenue requirement?

- Does the MPI application unreasonably inflate the revenue requirement by relying upon a naïve interest rate forecast?
- Does the MPI application unreasonably inflate the revenue requirement by relying upon a capital maintenance provision?



## Other Key Themes

- Reconciling transparency and improved disclosure of information
- Good Practice Consumer and Stakeholder Engagement in the Rate Setting Process



**Thank you**