

Uncertainty and Pandemic: Lower Rates, Cross Subsidy and Project Nova Risk

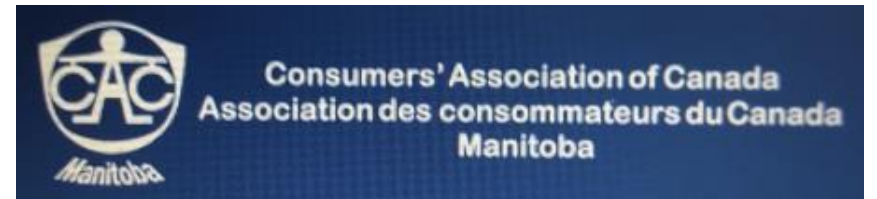
Opening Statement of the Public Interest Law Centre on behalf of the Consumers' Association of Canada (Manitoba Branch)

October 19, 2020

2021/22 Manitoba Public Insurance (MPI) General Rate Application (GRA)

CAC Manitoba

- Close to three decades of rate hearings under Crown corporation governance legislation
- Core Consumer Rights
 - To be informed
 - To choice (or be involved in the regulatory process as a proxy for choice)
 - To have a voice in marketplace decision-making
 - To consumer education



Developing the CAC Manitoba Position

- Ongoing and regular consumer contact
- Consumer engagement, “focus group”-like engagement and quantitative surveys
- CAC Manitoba Board
- Advice from expert advisors

The test

- Just and reasonable rates
 - [*Public Utilities Board Act*, s 77] [*Crown Corporations Governance and Accountability Act*, s 25]
- The burden of proof upon the owner
 - [*Public Utilities Board Act*, s 84(2)]
- In setting just and reasonable rates, “(t)he PUB has two concerns when dealing with a rate application; the interests of the utility’s ratepayers, and the financial health of the utility. Together, and in the broadest interpretation, these interests represent the general public interest.”
 - *Consumers' Association of Canada (Man.) Inc et al v Manitoba Hydro, Electric Board*, 2005 MBCA 55, at para 65.

Setting Just and Reasonable Rates

- Ensuring that MPI's forecasts are reasonably reliable;
- Ensuring that actual and projected costs incurred are necessary and prudent;
- Assessing the reasonable revenue needs of the Corporation in the context of the overall general health of MPI;
- Determining an appropriate allocation of costs between classes; and
- Setting just and reasonable rates in accordance with statutory objectives.
 - [PUB Order 98/14, p.28]

Given COVID-19, is the revenue requirement for 20-21 and 21-22 just and reasonable?

- Is the ongoing impact of COVID-19 on claims incurred sufficient to trigger further review and variance of the Capital Management Plan either in the form of an additional rate rebate or a higher than 5% capital release?
- Is a “return to normal” forecast for the 21-22 year a just and reasonable approach to balancing the interests of ratepayers and MPI or is ongoing regulatory monitoring and supervision necessary to protect ratepayers?

Are claims incurred forecasts reliable?

- Amid ongoing volatility, are PIPP claims incurred forecasts, management and cost control still suffering from long standing challenges with the roll-out of the BI3 initiative?
- Have collision severity forecasts been skewed upwards by challenges with the roll-out of the PDR?
- What are the implications of new driver safety technology on claims frequency and claims incurred?

Is the business case for Project Nova demonstrably and reasonably prudent?

- Is last year's business case for Project Nova undermined by:
 - a) \$12 M in "unexpected licensing costs;
 - b) the significant risk of diminished broker commission savings; and,
 - c) uncertainty surrounding FTE savings amounting?
- In the absence of evidence of the promised rebasing of Project Nova, should we conclude that the business case for Project Nova is fundamentally unsound?
- Has Project Nova's big bang approach to multiple system replacement assumed undue risk?

Balancing multiple interests with the overall health of the corporation

- Is the “negative option” approach to extension deductibles unfair to captive ratepayers and the competitive market?
- Does the CMP pilot offer reliable protection given statements by the Corporation that “it is conceivable that Extension profits could be utilized for purposes other than transfers to Basic.” (PUB 1-28 b))

Cross Subsidization and Rates that are not unduly discriminatory

- Is it still appropriate to make a finding that the existing vehicle premium discount is not unduly discriminatory given the enduring cross subsidy of other ratepayers by the 300,000 drivers at DSR Level 15?
- Should the first review of territories in 58 years be given higher priority?

Thank you!