

PUB (TC) 1-7

Volume and Chapter:	Pre-Filed Testimony of Jeff Crozier and Patrick Bowman 3.2.4 Sensitivity Test on Passenger VFH Credibility, Table 10 and; Appendix 1	Page No.:	21-22, Appendix 1, 4
PUB Approved Issue No:	1. Requested Vehicle Rate and Any Changes to Other Fees and Discounts 12. Claims experience to date of VFH Class		
Topic:			
Sub Topic:			

Preamble to IR (If Any):

Mr. Crozier states in commenting on Table 10;

"The results of this sensitivity analysis show that a modest credibility weighting adjustment, from 0.1000 to 0.4052, can adjust Passenger VFH rates in a manner consistent with established experience adjustment rules. More or less aggressive adjustments can be made to credibility weightings to expedite or delay the achievement of break-even indicated rates for Passenger VFH."

Mr. Crozier makes the observation that:

"Credibility weighting assumptions for Passenger VFH can be modified to accelerate the attainment actuarially indicate break-even rates. Increasing the credibility weighting to approximately 40%, would achieve the effective maximum experience adjustment permitted under current ratemaking rules."

Mr. Bowman states that:

"Based on an appropriate application of the principles underlying monopoly service provision in a regulated environment, MPI should be directed to implement a far more notable price increase to Passenger VFH customers. A move to fully reflect the best available cost data (a 56% increase) should not be rejected. Alternatively, a minimum move on the order of 40% for 2021, which would permit MPI to then reach full cost recovery in one additional year with an increase on the order of approximately 15%, may also merit consideration, if some measure of gradualism is preferred."

Question:

Please indicate what Mr. Crozier and Mr. Bowman recommend for the proposed rate adjustment to be made for the Passenger VFH to attain an adequate rate over what time frame, and why.

Rationale for Question:

To understand the recommended indicated rate for Passenger VFH.

RESPONSE:

As indicated in the response to PUB(TC)1-6(d), for Passenger VFH in this proceeding, the concept of credibility weighting is not meaningful. The rate design objective should be to get the Passenger VFH rates to full recovery as quickly as feasible, in the interests of sending appropriate insurance cost signals to drivers, and avoiding inappropriate market distortions between Passenger VFH and Taxi VFH rates.

The only data-supported outcome is an average cost to Passenger VFH drivers of \$3,112 in 2021 (\$1,995 plus \$1,117 per TC(MPI)-2-3(e)). One alternative the Board may consider that allows a small acknowledgement of existing rates, and the potential limits of the existing data, is to move to an average rate that is short of \$3,112, but which can reach this level in 2022 (assuming the current loss data holds) without a rate impact exceeding 15%. This would be an increase of at least \$711 in 2021 beyond that currently proposed by MPI.

An overall concern, however, with delaying the needed increases in any way is that the existing data is from a relatively small population and in fact is equally likely to be low compared to the proper long-term cost level as it is to be high. In fact, if TNCs grow as is

expected and more professional TNC drivers join the fleet as is understood to be happening (as opposed to occasional ride-share drivers), it may be reasonably expected that losses will increase. Failing to impose a large enough increase today, while loss values remain at the current levels or increase, means that TNC drivers will fall further and further behind the full insurance cost recovery, and face compounding increases over time. This would exacerbate the market distorting signal and not be fair to Passenger VFH drivers nor Taxi drivers alike.