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December 9, 2020

Manitoba Public Utilities Board
Dr. Darren Christle
Secretary and Executive Director
400-330 Portage Avenue
Winnipeg, MB R3C 0C4

Sent by email: Darren.Christle@gov.mb.ca

Dear Dr. Christle:

Re: Manitoba Public Insurance Rate Rebate Proposal of November 30, 2020

Overview

Recognizing the acute financial hardship imposed on many Manitobans by the COVID19 pandemic, CAC Manitoba supports the Manitoba Public Insurance (MPI) assertion that it would be just and reasonable to vary PUB Orders 159/19 and 176/19 to allow for an additional rate rebate in the 2020-21 year. A rebate is recommended in light of the material improvement in MPI financial circumstances resulting from pandemic related reductions in claims incurred in the current year.

CAC Manitoba agrees with MPI that it would be appropriate to rebate customers a consistent percentage of the premium their policies earned over the period covered by the rebate.

CAC Manitoba also agrees with MPI that it is reasonable to assume a direct one-to-one correlation in terms of costs between collision, physical damage (PD) and personal injury protection plan (PIPP) claims.

CAC Manitoba recommends that the proposed level of the rebate be \$90 million rather than the \$69 million proposed by MPI. CAC Manitoba notes the admission by MPI that a higher rebate would better relieve the serious economic hardships facing many Manitobans. It also notes the MPI concession that a \$90 million rebate would still allow for the 5.0% capital release applied for in the 2021 GRA while being projected to achieve the PUB approved capital target level of 100% MCT at the end of 2022/23.¹

CAC Manitoba estimates a \$90 million rebate would equate to an average \$99 rebate per eligible private passenger vehicle as compared to the average \$76 rebate per eligible private passenger vehicle under the MPI proposal.

¹ CAC(MPI) 1-2(b).

There is a Material Change in Circumstances

Section 26(3) of *The Crown Corporations Governance and Accountability Act*² and s. 44(3) of *The Public Utilities Board Act*³ authorize the PUB to modify an existing order when it is satisfied that a material change in circumstances makes it just and reasonable to do so.

In this proceeding, there is ample evidence suggesting there are grounds for varying PUB Orders 159/19 and 176/19. MPI has provided evidence that “as a result of the COVID-19 pandemic, its financial position continues to improve at a time when the financial position of many of its ratepayers may have substantially declined, creating again an urgent need for support.”⁴ This evidence includes the reality that:

- MPI estimates its 2020/21 net income forecast at \$186.8 million, compared to the \$105.4 million forecasted in the 2021 GRA Rate Update;⁵
- MPI forecasts a \$69 million improvement in claims incurred before provisions in the fiscal year 2020/21 relative to the rate update provided within the 2021 GRA Rate Update;⁶ and,
- MPI expects Basic ultimate collision claims to be almost 9.6% under budget compared to the 2021 GRA Rate Update. This translates to a savings of \$40.1 million in respect of Basic ultimate collision costs, in addition to PD savings of \$4.3 million and PIPP savings of \$14.1 million.⁷

The Proposed Approach to Calculating the Premium is Just and Reasonable

MPI proposes to rebate customers a consistent percentage of the premium their policies earned over the rebate period rather than a percentage of the premium in-force on a particular date.

CAC Manitoba agrees this approach is fair as it reflects the exposure which contributes to the claims experience in the rebate period.⁸ It also is generally consistent with how MPI has calculated past rebates⁹ with the exception that the proposed rebate reflects earned premiums over a specific period (i.e. the pandemic period) rather than a given rating year of earned premium.¹⁰

² CCSM c. C336 at s 26(3): Where The Public Utilities Board is satisfied that the circumstances of a corporation have changed substantially, The Public Utilities Board may, of its own motion or on the application of the corporation or an interested person, review an order made pursuant to this section and modify the order in any manner that The Public Utilities Board considers reasonable and justified in the circumstances.

³ CCSM c. P280 at s 44(3): The board may review, rescind, change, alter, or vary any decision or order made by it.

⁴ Summary Legal Application 2021 Special Rebate Application II November 30, 2020, 5.

⁵ Summary Legal Application 2021 Special Rebate Application II November 30, 2020, 17.

⁶ Summary Legal Application 2021 Special Rebate Application II November 30, 2020, 10.

⁷ Summary Legal Application 2021 Special Rebate Application II November 30, 2020, 10-11.

⁸ CAC(MPI) 1-7.

⁹ Leaving aside the first emergency rebate in the 20-21 year.

¹⁰ CMMG(MPI) 1-2.

The Assumption of Perfect Correlation with PIPP is Defensible

MPI assumes a direct one-to-one correlation in terms of costs between collision, PD and PIPP claims.

CAC Manitoba agrees that this assumption is supported by the updated information filed in this proceeding. It notes that:

- injury claim counts and incurred reductions have continued to track very close to collision trends;
- serious injury claims have largely trended back to normal levels; and,
- injury claims duration continues to be managed close to expectations.¹¹

A \$90 Million Rebate Would be Appropriate

During the General Rate Application, MPI conceded that its formulaic, rules based Capital Management Plan was under “stress” “because the situation is so unusual.”¹²

In its November 30, 2020, Rebate Application, MPI went further and acknowledged that:

this Application represents a departure from the position it advanced during the course of the 2021 GRA, namely, that allowing the CMP to work as intended was preferred over issuing another rebate. However, since the close of the 2021 GRA hearing on November 6, 2020, the adverse effects of the COVID-19 pandemic have increased to such a degree as to warrant providing additional financial relief to Manitobans immediately.¹³

In its information responses in this proceeding, MPI has admitted that:

- this is a time when the financial position of many of its ratepayers may have substantially declined creating an urgent need for support;¹⁴
- it projects a 111.1% MCT ratio in 2021/22 after the 5% release in 2021 rates and the \$69 million rebate requested;¹⁵
- the immediate release of an additional 11.1% of excess capital in Basic could help relieve serious economic hardship facing many Manitobans;¹⁶ and,

¹¹ PUB(MPI) 1-3.

¹² Transcript from October 21, 2020 at 638-42 WILLIAMS/Johnston.

¹³ Summary Legal Application 2021 Special Rebate Application II November 30, 2020, 6.

¹⁴ Summary Legal Application 2021 Special Rebate Application II November 30, 2020, 5.

¹⁵ CAC(MPI) 1-2(c).

¹⁶ CAC(MPI) 1-2(c).

- it is still projected to achieve approximately 100% MCT at the end of 2022/23 even with the 5.0% capital release applied for in the 2021 GRA and a \$90 million rebate.¹⁷

Given its admissions of excess capital and of the dire situation of many of its ratepayers, MPI offers little in support of its position that the rebate should not be higher than the proposed \$69 million rebate. Its sole remaining argument appears to be that providing further rebate relief:

would be a deviation from the approved CMP, whereby the goal of any release is to restore the Basic MCT to 100% over a three year period. MPI seeks a rebate that complies with the approved CMP, to ensure the Public Utilities Board can fully assess its performance and amend the CMP if necessary.¹⁸

This is a frail argument. It cannot be reconciled with the MPI concession that Manitoba ratepayers are in urgent need and that it could do more to address their undue hardship while still achieving its RSR target in 2022-23. If MPI is truly concerned about addressing consumer need while fairly evaluating the CMP, it can always apply to the PUB in the next GRA to extend the time period of the CMP pilot project.

MPI has admitted that the CMP is ill-suited to these times and that the CMP cannot work “as intended” during a pandemic. In recognition of this reality, MPI has fundamentally broken with the Capital Management Plan in seeking two special rate rebates in one year.

The CAC Manitoba proposal offers significantly more immediate relief for MPI ratepayers without unduly prejudicing the 100% MCT target.

A \$90 million rebate is just and reasonable. It is both fiscally prudent and better responsive to the needs of Manitobans.¹⁹

A Rebate by Cheque is not Preferred but is Appropriate in the Circumstances

MPI anticipates the total cost of issuing the rebates will be over \$900,000.²⁰

As indicated in its closing submissions during the 2021-22 GRA, CAC Manitoba would prefer that MPI used more imaginative options for future rebates including options such as e-

¹⁷ CAC 1-2(b).

¹⁸ CAC 1-2(c).

¹⁹ CAC Manitoba also would note: i) MPI has adequate cash on hand with about \$135.8 million according to its application. MPI can fund the 19 entire rebate out of operational cash. No investment assets need to be liquidated – see Summary Legal Application 2021 Special Rebate Application II November 30, 2020, 14. This figure has surely increased in the past two weeks. MPI has Line of Credit with their principal banker to assist in any interim shortfall; ii) Loss ratios for the entire fleet drop dramatically under the lock down – see TC(MPI) 1-2(d). The months of April, May, and November are all ~30%. As we are now looking at least 8 weeks of lockdown, MPI’s cash on hand position is unlikely to be imperiled over the winter months, even with the additional rebate amount; iii) MPI’s overall capital adequacy is not threatened. The \$90 million rebate would not put Basic below 100 MCT for the coming test year and the 2022 GRA can correct the course to 2022/23 year end if needed.

²⁰ Summary Legal Application 2021 Special Rebate Application II November 30, 2020, 24.

transfers. However, exploring these options prior to issuing the proposed rebate might “increase the cost and time required to issue the refund to customers.”²¹

Given the plight many Manitoban consumers currently find themselves in, CAC Manitoba supports issuing the rebate by cheque while encouraging more creative options for future consideration.

Conclusion

While MPI did not support the CAC Manitoba request for an emergency rate rebate during the recent GRA proceeding, MPI and the Manitoba government are to be commended for now proposing a rebate.

A rebate of \$90 million dollars best serves the twin objectives of responding to the urgent need of Manitoba ratepayers while achieving target RSR target levels.

Thank you for your consideration of these comments.

Yours truly,



Byron Williams

Director, Public Interest Law Centre

cc. MPI
CAC Manitoba
Registered Intervenors
PUB Advisers

²¹ CAC (MPI) 1-3(a).