

OFF BALANCE AND OUT OF TOUCH: THE MPI MONOPOLY AND CAPTIVE RATEPAYERS

Opening Statement of the Consumers' Association of Canada (Manitoba Branch)

Prepared by: The Public Interest Law Centre
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Manitoba Public Insurance (MPI)
2023/24 General Rate Application (GRA)

CONSUMERS ARE UNDER EXTRAORDINARY STRESS

- 30-year highs in inflation
- Rising interest rates
- Uncertainty in financial and labour markets
- The stressful grind of belt-tightening and struggling to make ends meet

NOW MORE THAN EVER, CONSUMERS RELY ON THE PUB FOR BALANCE

The 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.¹

¹ *Consumers' Association of Canada (Man.) Inc et al v Manitoba Hydro, Electric Board*, 2005 MBCA 55, at para 65.

THE MONOPOLY'S ONUS

- Are forecasts reasonably reliable?
- Are actual and projected costs necessary and prudent?
- Are revenue needs reasonable in the context of the overall general health of the monopoly?
- Is there an appropriate allocation of costs between ratepayers?
- Are the proposed rates just and reasonable rates in accordance with statutory objectives?²
- Is the Crown Monopoly credible?

² PUB Order 98/14, p 28.

A DATED APPROACH TO FORECASTING CLAIMS COSTS: OUT OF STEP WITH STANDARD CANADIAN PRACTICE

- “Our concerns generally relate to MPI’s limited statistical modeling of claims costs.”³

³ Oliver, Wyman Limited, “Review of Rate Application Submitted by: Manitoba Public Insurance” (Intervener Evidence filed October 7, 2022 on behalf of CAC Manitoba) at I, Executive Summary.

IS NOVA OUT OF CONTROL?

- Behind schedule, dramatically over-budget with two substantial resets
- A collapsing NPV
- A new general contractor hired without tender
- Multiple top tier consultants
- Very definition of a project in trouble

WORRYING SIGNS RELATED TO PRUDENCE

- Surprising growth in operating costs
- Material steps backward in terms of FTEs
- A flawed approach to investment leading to excessive volatility and diminished returns in times of high inflation (a liability portfolio modeled assuming nominal rather than real interest rates)

MANAGEMENT PRACTICES OUT OF TOUCH WITH EVERYDAY CONSUMER REALITIES

- Why isn't this Crown Monopoly tightening its belt?
- Why isn't MPI taking the opportunity for sober, second thought?

THE BROKEN PROMISE OF THE CAPITAL MANAGEMENT PLAN

- Financial targets that appear out of step with the needs of the Crown Monopoly and the objectives of the RSR
- The failure to use excessive Extension earnings for the benefit of Basic ratepayers
- The use of automobile insurance funds (Extension transfers) for a government purpose (DVA)
- Concerns regarding the directives of the Executive branch related to the management of the Crown Monopoly
- Do excessive Basic reserves incent imprudent management actions?

ONGOING OVERPAYMENT BY VEHICLE OWNERS WHO ARE GOOD DRIVERS

- MPI's glacial pace of improvement and reform in the DSR, despite long-standing evidence of cross-subsidy

ACKNOWLEDGING THE STRESS OF MPI EMPLOYEES

- Our clients acknowledge the hard work and sincere efforts of MPI employees during what must be a stressful time of transition
- Fundamental changing of the guard at the senior management level
- Many, many consultants
- Given its responsibilities, has the Corporation stuck to its knitting, its statutory mandate, and core role? Or are its actions out of step with the responsibility of statutory monopoly offering a homogenous product to a captive market-place?

CREDIBILITY

- Is there a disconnect between MPI's words and the evidence?
- Are MPI communications with the public clear, candid and transparent?
- Is the GRA application consistent with the high standard the monopoly has set for itself in the past?
- Is the MPI application responsive to the realities of a Crown Monopoly insurer offering a homogenous product in times of great economic stress? Or are they out of step and out of tone with Manitoban realities?

RECOMMENDATIONS IN THE PUBLIC INTEREST

- Findings of fact on the reasonableness of forecasts, the prudence of expenditures and investment practices, the appropriateness of financial targets and the fairness of rates between different groups of consumers
- Recommendations regarding rates that are just and reasonable, incent prudence and better balance the interests of captive ratepayers and the Monopoly

THANK YOU TO OUR TEAM OF EXPERTS

- Independent actuaries Mr. Rajesh Sahasrabuddhe, Ms. Paula Elliott, & Mr. Chris Schneider of Oliver, Wyman Limited provide expertise from a cross-Canada practice in regulatory rate-setting for auto insurance.
- Mr. Valter Viola brings over three decades of experience in institutional portfolio management and investment research with a focus on risk management.
- Mr. Scott Greenlay joins CAC Manitoba's team as a consultant with extensive experience overseeing IT transformations, including as the National Director of Technology Consulting for a large national consulting firm.
- Mr. Peter Dyck is an accountant with decades of experience in regulated entities, including MPI, and brings significant insight and expertise to CAC Manitoba's intervention.

**THANK YOU TO THE CAC MANITOBA BOARD AND THE
MPI GRA ADVISORY GROUP**

- Gloria Desorcy cannot be replaced and is sorely missed
- We are very grateful for the ongoing guidance of the MPI GRA Advisory Group and the CAC Manitoba Board of Directors⁴

⁴ CAC Manitoba is guided by core consumer rights, which include the right to be informed, to have a choice in marketplace decision-making, to be heard, and to consumer education.

THANK YOU!

