ROBERT J. PELLATT
COMMISSION SECRETARY
Commission.Secretary@bcuc.com
web site: http://www.bcuc.com

BRITISH COLUMBIA UTILITIES COMMISSION

LETTER NO. L-82-06

SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. CANADA V6Z 2N3
TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

Log No. 16395, 16780, 16564

VIA E-MAIL
regaffairs@icbc.com
donnie.wing@icbc.com

December 19, 2006

Mr. Donnie Wing, CA
Senior Vice President
Insurance, Marketing and Underwriting
Insurance Corporation of British Columbia
PO Box 2606
349 West Georgia Street
Vancouver, B.C. V7B 3W8

Dear Mr. Wing:

Re: Your Letter of October 11, 2006 and the Follow-Up Filing to the
Commission's Decision of July 13, 2006 ("October Filing") and,

Your Letter of November 10, 2006 and the Confidential Filing of the
Optional and Total Corporation Capital Management Plans ("November Filing")

This letter responds to the above filings made by the Insurance Corporation of British Columbia ("ICBC" or the "Corporation") pursuant to Order No. G-86-06 and the Decision of July 13, 2006 issued concurrently with the Order ("the Decision").

By letter dated September 20, 2006, ICBC advised the Commission that it intends to file an application dealing with both the revenue requirement and rate design issues in the early spring of 2007. Certain directions in this letter, anticipate these future filings.

The Commission notes that it received a letter from the BC Old Age Pensioners Organization *et al*. ("BCOAPO") dated October 25, 2006, which inquires if there will be any process whereby Intervenors in the 2006 Revenue Requirements Proceeding will have the opportunity to comment on the filing made under cover of your letter of October 11, 2006. No such process will be established at this time. It is expected that Intervenors will have the opportunity to address any outstanding issues during the course of the future proceedings anticipated to take place in 2007.

Chapter 1 – IT Capital Spending Filing Framework

In the Decision the following direction was made:

> "The Commission Panel finds ICBC's capital spending of $30 million with approximately half allocated for IT spending is significant and may have a material impact on rates especially for multi-year capital projects. The Commission Panel requests ICBC to provide detail on projects of $500,000 or greater along with an annual capital expenditure plan for review and comment by the Commission prior to these projects being undertaken." (Decision, p. 42)

In brief, ICBC recommends a two stage filing process that would encompass individual project filings supported by an annual IT capital plan. The Commission is generally supportive of the methodology proposed although there are concerns in some areas.

It is not clear in the filed material what the future planning time horizon of the annual IT capital plan might be. An IT capital plan that goes out only one year would be clearly insufficient, both for regulatory and business purposes. The Commission assumes the IT capital plan would look out several years at a minimum (perhaps 3-5 years) and would be in the nature of an annual rolling forecast.

In respect of the suggested individual project review, the Commission is not persuaded that a "trigger" of 0.1 percent of the previous year's written premium, will be sufficient to bring within Commission scrutiny, significant projects. (The Commission had proposed a reporting trigger of $500,000.) The Commission understands that the proposed criteria for review (as listed on page 1-4 of the October Filing) are conditional upon two thresholds that are to be met. That is, in order for a project to cross the proposed threshold, it would have to meet both the Total Project Dollar Threshold and the Risk Threshold.

The Commission still believes that a "trigger" amount of $500,000 is reasonable but in a future proceeding will be open to arguments that would place the trigger at a higher level. In any event, in the context of a comprehensive filing, it should be readily apparent which projects would require narrative support along the lines of what is set out in Section B.3 of the filed material. Erring on the side of complete explanations by ICBC will avoid time-consuming and complex Information Requests.

The Commission agrees that any reporting required of ICBC should not unduly delay any project. Once a mature IT capital planning process is in place, it may be sufficient for Commission purposes to review the annual filing and dispense with individual project review except in exceptional circumstances.

The Commission is of the view that the review process for IT Capital Expenditures should be re-examined in the context of the 2007 Revenue Requirement application. ICBC notes (October Filing, p. 1-7) that the Corporation will be in a position to provide an update on its IT capital planning framework at that time. In the interim, ICBC is directed to report on IT capital spending on an *ad hoc* basis, at a $500,000 threshold, with no exclusion for risk, and as otherwise outlined in its filed material.

Chapter 2 -- ICBC's Road Safety Action Plan

In the Decision the following direction was made:

> "In future filings the Commission will expect to see the use of clear funding tests such as zero-based budgeting type methodology employed for establishing the budget for RSLM programs. Further, all projects should be targeted to produce measurable claims cost reduction outcomes, and periodic or post-project evaluation should be carried out in a manner appropriate to the program."
>
> "…The Commission Panel has determined that if a program does not have measurable outcome targets, or is not being managed by ICBC to ensure its effectiveness in terms of claims cost savings outcomes, it should not be in RSLM" (Decision, p. 56).
>
> "The Commission directs ICBC to file a comprehensive Road Safety action plan, including program objectives, within 90 days of this Decision and to file progress reports on the implementation of the plan on a quarterly basis thereafter. The filing is to show how these programs will be planned and monitored effectively by ICBC in order to achieve the expected results" (Decision, p. 69).

The filed material did not meet the expectations of the Commission and in its view, did not satisfy the direction in the Decision nor address earlier concerns expressed in the January 19, 2005 Decision.

The Commission notes that there are significant costs for Road Safety programs (in the order of $46.6 million for 2005 and $47.3 million in 2006).

The Commission was seeking specific assessment data on Road Safety programs and projects before program implementation, interim evaluations as to progress and likelihood of meeting targets, and after the fact analysis. The Commission was expecting to see detailed assessment methodology supported by empirical data wherever possible.

The Commission has similar assessment issues with respect to expenditures by ICBC in the area of enhanced law enforcement. Just as in the evaluation of road safety projects/programs, ICBC should present detailed assessment methodology supported by empirical data wherever possible.

The Commission is cognizant of the fact that Special Direction IC2 requires the Commission to include costs for road safety and enhanced law enforcement in rates for Basic Insurance. However, the Commission must also be satisfied that that Basic Insurance is being made available in a manner that it considers are in all respects adequate, efficient, just and reasonable.

In terms of next steps, the Commission will add the issues associated with the Road Safety Action Plan to the issues list for the 2007 Revenue Requirements proceeding and will look in depth at the rationale and assessment methodology employed by ICBC to justify expenditures in this area. The Commission expects that the ICBC filing for road safety and enhanced law enforcement will be more detailed along the lines suggested above and will detail the direct benefits that will accrue to Basic Insurance policyholders.

<u>Chapter 3 -- Proposal for Revising the Owner's Certificate to Disclose Non-Insurance Services Costs</u>

In the Decision the following direction was made:

> "The Commission Panel has determined that greater transparency in the detailed cost components of THE TOTAL AMOUNT OWED (as that term is employed on the "Owner's Certificate of Insurance and Vehicle Licence") will serve the public interest and provide the policyholder with a greater appreciation of the non-insurance services provided through the Crown corporation, and the associated costs. This will provide a greater understanding of the true cost of Basic Insurance.
>
> The Commission Panel directs that ICBC report back to the Commission within a period of 90 days from the date of this decision, with a suggested revised format for the Owner's Certificate that would set out all of the non-insurance costs now included in the Basic Insurance premium including, without limitation, such items as:
>
> - The contribution made to government programs under any memoranda;
> - Road Safety and Loss Management programs;
> - Enhanced law enforcement contributions;
> - Premium Tax amounts."
>
> (Decision, p. 75)

In testimony during the 2006 Revenue Requirement proceeding, officials of ICBC were very clear that the existing billing systems at ICBC were capable of providing a detailed line by line statement of the sub-categories of charges that make up the "Total Amount Owed" by each policyholder (Vol. 6, pp. 1245, 1246). The direction to ICBC to suggest the format for presenting such data anticipated showing a dollar amount for each of the various costs that were included in Total Amount Owed.

Instead, ICBC in its filed material has suggested presenting this information expressed as a percentage per dollar of premium. No reason was advanced for not presenting the exact dollar amounts that are payable by each policyholder other than to say that it would be cost effective and charges, expressed as a percentage, would be the same for all policyholders and hence could be printed on the standard forms used. No billing entry would have to be generated. No estimate is given of the assumed higher costs that would be incurred if the exact dollar amounts were presented in the invoice along the lines that were anticipated during the proceeding.

ICBC is directed to design and implement a revised format for the Owner's Certificate showing the specific policy dollar amounts for each "non-insurance" item included in THE TOTAL AMOUNT OWED as was anticipated in the July 13, 2006 Decision. The Commission agrees that the costs of road safety and enhanced law enforcement may be combined but the two subjects or heads of cost causality must be shown in the identifying descriptor. Also, the Commission agrees that "driver and vehicle licensing, vehicle registration, and other services" may be used to include payments made to government under memoranda. Premium tax is to be shown as a separate dollar amount. ICBC is to inform the Commission of the expected implementation date.

A more fundamental policy issue is raised by this change to more detailed billing: Should individual policyholder "non-insurance" costs be based on the variable and driver-specific cost of the "base amount" for Basic Insurance or in the alternative, be flat-rated for all vehicle types and drivers? ICBC is directed to consider this issue and to submit its views as part of the next Revenue Requirement/Rate Design proceedings.

Chapter 4 -- Proposal for Quarterly Reporting

In the Decision the following direction was made:

> "The Commission Panel directs ICBC to report to the Commission, within 90 days of the date of this decision, on what operating parameters the Corporation could provide to the Commission to enable timely tracking of the Basic Insurance line of business and the MCT status of the Optional line of business in order for the Commission to be in a position to track the ability of the Corporation to meet or exceed the various MCT targets established from time to time and to anticipate possible changes to rates. This direction does not preclude ICBC from filing certain information on a confidential basis if this will facilitate fulfilling the intended purpose."
> (Decision, p. 89)

In general, the Commission is satisfied that the reporting regime set out in this chapter responds to the direction in the Decision. The Commission is of the view that the detailed financial information as presented on the two forms attached to the filing, will provide the Commission with the timely data necessary to assess how the Corporation is performing and give advance warning if business and claims results appear to be deviating significantly from plan.

However, the Commission is still of the view that Basic Insurance MCT should be calculated on a quarterly basis. The last reported Basic MCT indicates a fairly significant gap to be closed in order to meet the mandated targets in Special Direction IC2. However, we understand from the testimony at the proceeding that quarterly MCTs are not currently produced, even for internal corporate guidance.

To partly meet the Commission's concerns, the Commission directs that ICBC include in the Quarterly Measures form, a statement of the last calculated MCT for Basic and a management narrative as to what impact the presented quarterly results might have on the year-end Basic and Total Corporate MCTs. ICBC is to provide management's estimate of the expected year-end MCT for Basic. The Commission will consider such estimate for "guidance only", understanding that intervening events and detailed year-end MCT calculations might result in some differences. The interest here is to access the collective wisdom at ICBC as to what (if any) trends may be emerging so that early corrective action (rates or otherwise) can be implemented in a timely way. In result, ICBC is directed to institute such quarterly reporting as filed (but including management's estimate of year-end Basic MCT) and to advise the Commission when the Commission might expect the first quarterly filing.

Optional Insurance and Total Corporation Capital Management Plans

In the Decision the following direction was made:

> "The Commission Panel directs ICBC to prepare, and file within 120 days of the date of this decision, a comprehensive capital management plan for its Optional Insurance line of business and for Total Corporation. The plan is to indicate (1) the DCAT indicated range for a capital management MCT ratio target based on a statutory minimum of 200 percent, and (2) in accordance with accepted actuarial practice how ICBC plans to achieve, by 2010, and maintain thereafter, the MCT result from (1). ICBC may file on a confidential basis if it considers this information to be commercially sensitive." (Decision, p. 29)

The material was filed on a confidential basis because it discusses matters related to ICBC's Optional business line.

The Commission accepts the November 10 confidential filing of the Capital Management Plan for the Total Corporation and the Optional Business, and looks forward to receiving and reviewing planned initiatives to close any gaps between calculated and management targets for MCT for the Total Corporation, Optional and Basic business components of ICBC. In its October 11 filing (page 4-4, paragraph 14), ICBC states "... it is not practical to determine Basic insurance MCT or Optional insurance MCT on a quarterly basis as using interim or estimated information would not provide 'useful or reliable data'". The Commission wishes to have a better understanding of why ICBC feels that quarterly MCT estimates would not be "useful or reliable" as a management tool to assist in timely assessment of changes in rate indications and planning initiatives to ensure compliance with MCT regulatory requirements and management targets.

Yours truly,

Original signed by

Robert J. Pellatt

DC/cms

cc: Ms. Leigha Worth
The British Columbia Public Interest Advocacy Centre
Registered Intervenors ICBC 2006RR