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August 21, 2019

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

Dear Mr. Christle:

Re: Manitoba Public Insurance – 2020 General Rate Application (2020 GRA) – Motion to Compel Round 1 IR Responses

Overview

This letter serves as a reply to Manitoba Public Insurance's (MPI) response to CAC Manitoba's motion to compel responses to Round 1 information requests.

The purpose of the information being sought by CAC Manitoba is to assist the Board in its role as the independent regulator of rates charged by MPI to Basic ratepayers. Manitoba ratepayers rely on the Board to ensure that rates are just and reasonable, based on a review of all available information.

MPI's response to CAC Manitoba's motion appears to limit the role of Public Utilities Board oversight because of the new *Reserves Regulation,* as well as decisions already made by MPI regarding investments.

The reality, however, is that the PUB has broad responsibilities in its role as the independent regulator of Basic rates. The PUB has characterized the key elements of this role as follows:

- Ensuring that forecasts are reasonably reliable;
- Ensuring that actual and projected costs incurred are necessary and prudent;
- Assessing the reasonable revenue needs of an applicant in the context of its overall general health;
- Determining an appropriate allocation of costs between classes; and
- Setting just and reasonable rates in accordance with statutory objectives.[1]

The Board has also stated that its "rate-setting role includes the consideration of evidence that is relevant to these key factors; evidence that can assist the Board in the determination of the issues, including the setting of just and reasonable rates."

1 PUB Order 98/14, p 28; See also PUB Order 5/12 issued January 17, 2012 relative to Manitoba Hydro.

The information requests for which CAC Manitoba is seeking an order to compel responses relate to issues of capital targets, investment portfolios and presumptions for PIPP, which will have both short-term and long-term implications for rates charged to Basic ratepayers.

CAC (MPI) 1-8 and CAC (MPI) 1-14 (Reserves Regulation)

The *Reserves Regulation* has the potential to impact ratepayers both through (i) higher rates to maintain an RSR level higher than that previously approved by the PUB through the use of DCAT scenarios and (ii) causing greater rate volatility given the elimination of a range with both a maximum and minimum threshold.

As indicated in its motion, CAC Manitoba is anticipating filing a Notice of Constitutional question with respect to the *Reserve Regulation*. Pursuant to subsection 7(5) of the *Constitutional Questions Act,* such a notice “shall be served at least 30 days before the date fixed for hearing of arguments.”[2] CAC Manitoba fully intends to comply with this timeline, recognizing that the MPI 2020 GRA hearing is scheduled to begin on October 7, 2019.

While CAC Manitoba has already prepared a draft of its Notice of Constitutional Question, the information sought is likely to assist parties and the Board in understanding how the *Reserves Regulation* fits, if at all, in the existing regulatory framework for the rates charged by MPI for Basic insurance. This regulatory framework includes the interaction of the *Crown Corporations Governance and Accountability Act,* the *Public Utilities Board Act* and the *Manitoba Public Insurance Act*.

Even if the *Regulation* is not determined to be invalid, all available information about the *Reserve Regulation*, including the merits of a 100% MCT target, is likely to assist the Board in determining whether it must ensure that rates for service comply with the Regulation and whether it remains a relevant factor to be considered when setting rates.

CAC (MPI) 1-15(d) (Alternative DCAT)

Should the answers to the issues 18 a., b. and c. lead the PUB to determine that the *Reserve Regulation* is not relevant for purposes of rate-setting, the 1-in-40 scenario in the DCAT may be necessary for the PUB to make a decision with respect to the RSR capital targets.

CAC (MPI) 1-29(a) (Potential Changes to Determination Provisions under PIPP)

While CAC Manitoba has not seen the relevant information being sought through the information request, changes relating to determination provisions under PIPP have the potential to have long-term implications for claims incurred for ratepayers and should be reviewed by the Board.

2 *Constitutional Questions Act,* CCSM c C180, s 7(5).

CAC (MPI) 1-23 and CAC (MPI) 1-24(e) (Shadow Portfolios)

Investment income directly impacts ratepayers given that “MPI typically depends on investment income to break even.”[3] While the Board has recognized that “its oversight role does not extend to directing the Corporation as to the particulars of its portfolio management”[4], it also recognized that “issues concerning MPI's asset liability management extend back over several GRAs.”[5]

The Board found in PUB Order 159/18 that MPI had selected from a range of reasonable options for its portfolios. However, the Board also clearly stated that there may be a foregone opportunity to hedge against long-term risks and that the Shadow Portfolios would assist it to comment further in the 2020 GRA if the Corporation did not employ a reasonable strategy:

> **The Board received with interest Mr. Viola's critical analysis of the Mercer ALM Study and recognizes the merit in his opinion that the Corporation should have a full portfolio designed to mitigate longer horizon risks and achieve higher returns by taking on different risks in a prudent fashion. It may be the case that the Corporation has foregone an opportunity to hedge against long-term risks by rejecting RRBs and reducing real assets. To that end, to test the reasonableness of the Corporation's portfolio, the Board directs that the Corporation set up and run shadow portfolios for the Basic and Pension portfolios effective March 1, 2019, with the inclusion of Real Return Bonds as part of an optimal bond portfolio mix.** Given the numerous variables attributable to such shadow portfolios, the Board directs the Corporation to consult with the Board on the selection and management of the assets chosen for the shadow portfolios. The Board further orders the Corporation to file, in the 2020 GRA, a report comparing the returns of the shadow portfolios with those selected by MPI. The Board expects that the results of that comparison will be of assistance in determining whether the portfolio selected by the Corporation provided optimal returns.
> [...]
> **As is clear from the foregoing, the Board intends to review the results of the Corporation's new Asset Liability Management strategy in the 2020 GRA.** Therefore, the Board directs that in the 2020 GRA, the Board file a post-implementation review of the Corporation's new Asset Liability Management strategy. The review should provide an update on the progress of implementation of the new portfolios, the disposition of the existing portfolio to fund new investment classes, interest rate risk exposure changes, investment income reporting changes including the allocation methodology for balance sheet and investment income and Investment Policy Statement changes.
>
> **The Board expects that the shadow portfolios and the post-**

3 PUB Order 159/18, p 75.
4 PUB Order 159/18, p 9.
5 PUB Order 159/18, p 76.

> **implementation review will serve to inform it, and the Corporation, as to whether the Corporation's Asset Liability Management strategy is reasonable.**[6] [emphasis added]

The methodology used to develop the Shadow Portfolios is directly relevant to the Shadow Portfolios' purpose of being evaluated against the portfolios selected by MPI over the short and longer term. If the methodology used to develop the Shadow Portfolios does not adequately address the concerns raised with respect to MPI's Asset Liability Management Strategy, the exercise of using the Shadow Portfolios to evaluate the portfolios selected by MPI may be of limited value.

While MPI points to costs to ratepayers as the "fundamental concern" with respect to this Information Request, the costs associated with an unreasonable Asset Liability Management Strategy have the potential to be much higher over the long-term.

As a result, the methodology employed by MPI to set up the Shadow Portfolios is entirely relevant to the 2020 GRA, as well as MPI's long-term investment strategy, which directly impacts rates paid by ratepayers.

<u>Conclusion</u>

Please contact the undersigned or Mr. Byron Williams at (204) 985-8533, should you have any questions.

Yours truly,

Katrine Dilay

Katrine Dilay
Attorney
KD/ab

6 PUB Order 159/18, p 89-90.