

October 15, 2019

**Undertaking #2**

MPI to provide an explanation for the compound annual growth rate of 7.2 percent for the period from 2018/19 to 2021/22 for the regulatory and appeal expense.

**RESPONSE:**

The Regulatory and Appeal account is an aggregate of several cost centers, which can be grouped into three principal areas:

**1. Automobile Injury Compensation Appeal Commission (AICAC) and Claimant Advisory Office (CAO)**

These budgets are provided to MPI by Manitoba Justice. It includes salaries and overhead. These costs are paid quarterly.

**2. Public Utilities Board**

These costs include PUB's monthly costs (pursuant to Order-in-council 142/1994), PUB advisor and counsel costs, Intervener costs and MPI costs relating to its General Rate Application, such as advertising costs for public notice, overhead, and court reporter services etc.

**3. Other Costs**

Include Rates Appeal Board funding and Public Review Meeting expenses.

The Compound Annual Growth Rate (CAGR) for Regulatory and Appeal for the years 2015/16 through 2018/19 is 0%, only by coincidence, as the CAGR doesn't capture the variability between the start and end points. The 7.2% CAGR represents an escalation in budget mainly attributed to PUB costs. Further detail is provided below.

Figure 1 contains the supporting detail for the 0% CAGR between 2015/16 and 2018/19, and the 7.2% for 2019/20 through 2021/22

October 15, 2019

2020 GENERAL RATE APPLICATION  
Undertaking #2 Transcript Page 380**Figure 1 Regulatory and Appeal CAGR Details**

Line No.	Regulatory and Appeal	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Budget	2020/21 Forecast	2021/22 Forecast
1	(\$000s)								
2	AICAC & CAO	2,558	2,734	2,632	2,477	2,295	2,844	2,844	2,844
3	PUB	1,349	887	1,893	1,586	1,587	1,956	1,956	1,956
4	Other	60	84	66	82	78	85	85	85
5	Total	3,967	3,705	4,590	4,145	3,960	4,885	4,885	4,885
6	CAGR (19/20 - 21/22)								7.2%
7	CAGR (15/16 - 18/19)					0.0%			

**Staff Costs: Regulatory Affairs and Other**

Line 3 in Figure 1 above does not include MPI Regulatory Affairs Department staff expenses, which represent 4 FTEs dedicated to the regulatory process. However, consistent with the testimony of Mr. Giesbrecht, staff salary expenses are included in the Regulatory and Appeal line item in the Statement of Operations. Please see Part V(i) Expenses Figure EXP APP 3-4 for details on staff costs in the Regulatory and Appeal expense item in the Statement of Operations.

Other staff expenses (i.e. legal counsel, accounting and actuarial services and others), are also not tracked in line 3 (PUB) of the CAGR analysis in Figure 1, or in the Statement of Operations. Last year, MPI tracked internal staff hours related to the 2019 GRA at approximately 6,000 hours, and estimated the cost of staff time, at approximately \$493 thousand for the 2019 GRA. Neither estimate includes the Regulatory Affairs team.

**Public Utilities Board Costs**

The PUB costs in line 3 of Figure 1 can be further disaggregated into specific cost drivers. Figure 2 presents those details.

October 15, 2019

**2020 GENERAL RATE APPLICATION  
Undertaking #2 Transcript Page 380****Figure 2 PUB Costs**

Line No.		2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	CAGR 2015/16 to 2018/19
1	(\$000s)						
2	<b>PUB Monthly Costs</b>	344	314	333	313	311	-2%
3	<b>Advisors and Counsel to PUB</b>	478	413	511	637	744	12%
4	<b>Advisor &amp; Counsel to Interveners</b>	382	60	460	261	256	-10%
5	<b>Advisors and Counsel to MPI</b>	38	0	471	336	226	56%
6	<b>GRA Hearing, Notice and Preparation</b>	106	100	118	39	50	-17%
7	<b>Total</b>	<b>1,349</b>	<b>887</b>	<b>1,893</b>	<b>1,586</b>	<b>1,587</b>	

Certain regulatory costs are variable, and difficult to predict at the time of budgeting/forecasting in October of each year. Cost estimates for interveners in the coming year's GRA are difficult to predict in advance of the current GRA being decided, when there is still uncertainty over the number of interveners, the issues, and the experts they may bring. Timing and uncertainty with year-end accruals has also driven year to year variability.

MPI's cost estimates for advisors and counsel also hinge considerably on the forthcoming directives of the current GRA. MPI has reduced these costs in recent years by relying on internal counsel.

MPI has also reduced GRA Hearing, Notice and Preparation costs by internalizing printing operations, and reducing print advertising costs with a smaller, more concise Public Notice of Hearing.

**Growth in the Forecast Regulatory and Appeal Costs**

The 7.2% CAGR in the forecast of Regulatory and Appeal costs is driven largely by an increase in the PUB 2019/20 budget; which flows through the forecast years. MPI's expectation was for an increased regulatory workload in 2019/20, and beyond, anticipating the Driver Safety Rating and product changes, among others, to drive additional process and costs.