

November 29, 2018

Ms. Cheryl Blundon  
Board Secretary,  
Board of Commissioners of Public Utilities  
P.O. Box 21040  
St. John's, Newfoundland and Labrador  
A1A 5B2

Subject:  
**Facility Association  
Newfoundland and Labrador -Taxis, Jitney's & Liveries  
Category 2 Rate Application**

Dear Ms. Blundon:

### **Introduction**

We have reviewed the rebuttal response by Facility Association (hereafter referred to as FA) dated November 21, 2018 to our report dated October 25, 2018 on its Taxi, Jitney and Liveries (hereafter referred to as taxi) rate application. We provide our comments to FA's rebuttal response herewith regarding two issues: (1) the rate level impact of the combination of alternative assumptions we discussed in our report and (2) the estimate of the ultimate loss amounts.

### Overall Rate Level Impact of Alternative Assumptions

As noted by FA, the Oliver Wyman report presents the rate level impact of alternative combination of assumptions on three different bases referred to as Scenario A, B and C. We understand the Board will decide upon which alternative assumption(s) it finds appropriate and reasonable in the circumstance and direct FA to present final indicated and proposed rate level changes on that basis.

As noted in our report, our findings are subject to review and validation by FA, and we appreciate FA's efforts to do so. In its rebuttal response on pages 8-9, FA has presented what we

# OLIVER WYMAN

Page 2

November 29, 2018

Ms. Cheryl Blundon

Board of Commissioners of Public Utilities

understand to be an “additive” view of the combination of alternatives, which is different than the integrated-multiplicative view of alternatives as is traditionally presented; and is the basis of our report findings for Scenario A, B and C. We assume this was for ease of presentation purposes by FA.

Most of the rate level impacts for the individual alternative assumptions were provided to us by FA in response to our questions. We note that FA has presented its (perhaps new) estimates of these alternative assumptions. In particular:

- The HST adjustment alternative assumption, in response to Question #4 dated August 24, 2018, FA provided the overall rate level based on the Oliver Wyman HST adjustment alternative at +9.5%, rather than the +10.2% rate indication calculated by FA using its HST adjustment, a difference of 0.7 percentage points. It is unclear to us why FA now presents a different HST adjustment alternative at 0.5 percentage points.
- Similarly, for the servicing carrier adjustment to a level similar to that of New Brunswick, FA provided an overall rate level reduction of 4.6 percentage points in response to Question #2d dated September 7, 2018. It is unclear to us why FA now presents a different finding for the servicing carrier adjustment alternative at 4.2 percentage points.

The items above combined with rounding differences<sup>1</sup> may explain the differences in the “additive” summary to the rate level indication estimates presented by FA on pages 8 and 9 of its response.

In addition, we have reviewed our calculations of Scenario A, B and C rate level indication findings that result in indicated overall rate level changes of +4.6%, +1.3% and -3.4%, respectively. We notice, inadvertently, there was no adjustment to the fixed expense provision in our findings for Scenario C. Making a change to include this fixed expense adjustment would increase Scenario C from -3.4% to -2.9%; a 13.1 percentage point difference from FA’s proposed rate level increase of +10.2%.

## Selection of Ultimate Losses

FA explains that the increase in the TPL loss cost per taxi for Accident Year 2017 at \$6,611 from \$4,771 for Accident Year 2016 (+38.5%) is attributed to its Appoint Actuary’s (AA) selection of the

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<sup>1</sup> FA’s responses regarding rate level impact were generally provided to one decimal place.

# OLIVER WYMAN

Page 3

November 29, 2018

Ms. Cheryl Blundon

Board of Commissioners of Public Utilities

Weighted Method. There is no other reason provided - such as a large increase in the number of claims. The AA gives little weight to the actual loss experience that has emerged with its selection of the Weighted Method. We are not aware of the use of this method in other rate applications.

As stated in our report, there are a range of reasonable estimates for the AA to select. It is important to note, while the results of the Weighted Method may be the FA AA's best estimate, – another actuary reviewing the same data could (and likely would) have a different best estimate. We further note that “best estimate” is defined contextually. That is, a “best estimate” in the context of liability estimation may be different than a “best estimate” in a ratemaking context.

It is our opinion, the B-F Method (the mid-range estimates) instead of the Weighted Method provide a reasonable estimate of the ultimate loss amounts in a ratemaking context.

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# OLIVER WYMAN

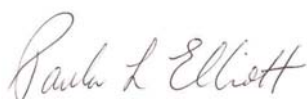
Page 4  
November 29, 2018  
Ms. Cheryl Blundon  
Board of Commissioners of Public Utilities

## Considerations and Limitations

- For our review, we relied on data and information provided by FA without independent audit. Though we have reviewed the data for reasonableness and consistency, we have not audited or otherwise verified this data. It should also be noted that our review of data may not always reveal imperfections. We have assumed that the data provided is both accurate and complete. The results of our analysis are dependent on this assumption. If this data or information is inaccurate or incomplete, our findings and conclusions may need to be revised.
- Our conclusions are based on an analysis of the FA application and data and on the estimation of the outcome of many contingent events. Future costs were developed from the historical claim experience and covered exposure, with adjustments for anticipated changes. Our estimates make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in historical databases or which are not yet quantifiable.
- While this analysis complies with applicable Actuarial Standards of Practice and Statements of Principles, users of this analysis should recognize that our projections involve estimates of future events, and are subject to economic and statistical variations from expected values. We have not anticipated any extraordinary changes to the legal, social, or economic environment that might affect the frequency or severity of claims. For these reasons, no assurance can be given that the emergence of actual losses will correspond to the projections in this analysis.

Please call us if you have any questions or require additional information.

Sincerely,



Paula Elliott, FCAS, FCIA