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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-65-10

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473, as amended
and
the Insurance Corporation Act, R.S.B.C. 1996, Chapter 228, as amended
and

An Application by the Insurance Corporation of British Columbia
for an Order Specifying the Form and Content of, and Review Process for
ICBC Universal Compulsory Automobile Insurance Revenue Requirements Applications
Meeting Specified Criteria

BEFORE: A.W.K. Anderson, Panel Chair/Commissioner
A.J. Pullman, Commissioner
P.E. Vivian, Commissioner

April 6, 2010

O R D E R

WHEREAS:

- A. On May 12, 2009 the Insurance Corporation of British Columbia (ICBC) submitted an application to the British Columbia Utilities Commission (Commission) for an Order Specifying the Form and Content of, and Review Process for ICBC's Universal Compulsory Automobile Insurance Revenue Requirements Applications Meeting Specified Criteria (the Streamlined Regulatory Process Application, or Application); and
- B. On May 26, 2009 the Commission issued Order G-58-09 setting the Regulatory Timetable; and
- C. By Order G-99-09 the Commission issued a Revised Regulatory Timetable for information requests, responses to information requests, letters of comment and reply submission; and
- D. On September 25, 2009 ICBC amended the Application (Amended Application); and
- E. On December 2, 2009 ICBC provided its Reply Submission in accordance with the Revised Regulatory Timetable. ICBC further revised its Amended Application in its Reply Submission (Revised Application); and
- F. By Order G-151-09 the Commission provided an opportunity for Interveners to comment on the ICBC modifications and for ICBC to reply to those letters of comment; and
- G. By letter dated March 2, 2010 the Canadian Office & Professional Employees Union, Local 378 (COPE) requested a delay in any Commission decision. COPE noted that the provincial government in its 2010/11 Budget and Fiscal Plan, proposed to have ICBC remit its excess capital to the consolidated revenue fund on an ongoing basis; and

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- H. By letter dated March 5, 2010 the Commission requested comments regarding COPE's request for a delay. Comments were received from ICBC, British Columbia Public Interest Advocacy Centre, Mr. Frank Duck, Family Insurance Solutions and Pemberton Insurance Corporation; and
- I. By letter dated March 17, 2010 the Commission denied COPE's request for a delay. The Commission found the provincial government's announcement did not impact Basic Insurance and thus was not directly relevant to the decision on the Revised Application; and
- J. The Commission has reviewed the Application, the Amended Application and the Revised Application, and has considered all the information filed.

NOW THEREFORE the Commission orders as follows:

- 1. ICBC's Revised Application for a Streamlined Regulatory Process is approved, subject to the various directives contained in the Reasons for Decision attached as Appendix A to this Order.
- 2. ICBC is directed to incorporate the directives contained in the Commission Determinations from Appendix A into future Revenue Requirement Applications to be filed under the Streamlined Regulatory Process.

DATED at the City of Vancouver, in the Province of British Columbia, this *Sixth* day of April 2010.

BY ORDER

Original signed by:

A.W.K. Anderson
Panel Chair and Commissioner

Attachment



IN THE MATTER OF

AN APPLICATION BY THE INSURANCE CORPORATION OF BRITISH COLUMBIA FOR AN ORDER SPECIFYING THE FORM AND CONTENT OF, AND REVIEW PROCESS FOR ICBC UNIVERSAL COMPULSORY AUTOMOBILE INSURANCE REVENUE REQUIREMENTS APPLICATIONS MEETING SPECIFIED CRITERIA

REASONS FOR DECISION

April 6, 2010

BEFORE:

A.W.K. Anderson, Panel Chair/Commissioner
A.J. Pullman, Commissioner
P.E. Vivian, Commissioner

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1.0 INTRODUCTION

1.1 The Application

The Insurance Corporation of British Columbia (ICBC) applied on May 12, 2009 to the British Columbia Utilities Commission (the Commission, or BCUC) for an order specifying the form and content of, and review process for, ICBC's universal compulsory automobile insurance revenue requirements applications meeting specified criteria (the Streamlined Regulatory Process Application, or the Application). Subsequently on September 24, 2009, ICBC amended the Application (Amended Application). On December 2, 2009 ICBC further revised its Amended Application in its Reply Submission (Revised Application).

1.2 Background

ICBC is a provincial Crown corporation, established in 1973 to provide universal compulsory automobile insurance (Basic Insurance) to all BC motorists. ICBC is governed by the *Insurance Corporation Act (ICA)* and the *Insurance (Vehicle) Act (IVA)*. ICBC operates and administers a plan of Basic Insurance as set out in the *IVA*, with the provisions relating to the calculation of its Basic Insurance premiums found in ICBC's Basic Insurance tariff. In 2003, the provincial government enacted the *Insurance Corporation Amendment Act, 2003*, which designated the Commission as the regulator of ICBC's Basic Insurance rates and service pursuant to the *Utilities Commission Act (UCA)*. Some, but not all, parts of the *UCA* are applicable to ICBC, as set out in section 44(1) of the *ICA*. Those parts of the *UCA* that are applicable to ICBC apply to ICBC as if it is a utility, but section 44(2) of the *ICA* specifically states that ICBC is not a utility.

The Commission assumed jurisdiction over ICBC's Basic Insurance rates and services in 2003. Since then, ICBC has requested changes to its Basic Insurance rates on three occasions. Its actuarial information has been examined in three oral hearings and one written hearing, and its operating cost information has been examined in two written and two oral hearings.

ICBC submits that the framework for the regulation of Basic Insurance rates has been established and the elements involved in the determination of Basic Insurance rates have been subjected to rigorous examination in several Commission proceedings. Further to discussions in the 2007 Revenue Requirements proceeding, ICBC believes that it is appropriate to propose a more efficient and effective regulatory process for Basic Insurance revenue requirements applications. The proposed process involves public participation and ICBC believes that it is transparent and credible and involves an appropriate level of regulatory oversight. (Exhibit B-1, ICBC transmittal letter dated May 12, 2009)

Eight parties registered as Interveners for the proceeding. The Commission received submissions on the Application from the BC Old Age Pensioners' Organization, Council of Senior Citizens' Organizations, Federated Anti-poverty Groups of BC, and End Legislated Poverty (known collectively as BCOAPO), the Insurance Bureau of Canada (IBC), Canadian Direct Insurance Inc. (CDI) and Mr. Frank Duck. Each of the above four Interveners expressed support for some level of regulatory streamlining for ICBC although with differing views on the specific elements of the streamlining proposal.

2.0 THE STREAMLINED REVENUE REQUIREMENTS APPLICATION PROPOSAL

2.1 Rate Change Criterion - Actuarial Rate Indication

ICBC's Revised Application for a Streamlined Regulatory Process is based on an actuarial rate indication analysis indicating the required overall percentage rate of change to ICBC's rates, and is summarized in the following table:

Rate Change Criterion	
Actuarial rate indication	ICBC will file:
Less than -1.0%	Streamlined application
Between (and including) -1.0% and +1.0%	Streamlined application or Actuarial Certificate
Over +1.0% to +2.5%	Streamlined application
Over +2.5%	Non-streamlined application (full revenue requirements application)

Pursuant to *Special Direction IC2*, the Commission is required to fix Basic Insurance rates on the basis of accepted actuarial practice. ICBC uses accepted actuarial practice to calculate its actuarial rate indication.

ICBC proposes a streamlined application for instances where the actuarial rate indication for Basic Insurance is less than or equal to 2.5 percent. In the case of an actuarial rate indication greater than +2.5 percent, ICBC would file a full revenue requirements application.

ICBC selected the 2.5 percent level for the 'rate change criterion' after examining the trend in ICBC's "Basic Insurance loss cost" (average claims costs per policy) over the past ten years. Loss costs are generally the most significant driver of a Basic Insurance rate change. The selected level of 2.5 percent was derived from the annual trend seen in ICBC's loss costs of 2 percent plus an additional margin of 0.5 percent to allow for normal year-to-year variations from the 2 percent trend in any given year.

In the past ten years there were three years when the year-over-year change in claims cost per policy exceeded 2.5 percent. If a similar claims cost trend is experienced in the future and similar variations occur, then applications that fall outside the streamlined application process with rate increases of more than 2.5 percent can reasonably be expected every 3 to 4 years on average.

Since the Commission began regulating ICBC's Basic Insurance in 2003 there have been three occasions where ICBC elected not to seek a rate change and did not file a revenue requirements application. In those years the actuarial rate indication was less than 1.5 percent.

In the Revised Application, ICBC further proposes that if the actuarial rate indication for a particular year is between +/- 1.0 percent, and ICBC is not seeking a rate change, it will have the discretion to limit its filing to a certificate from ICBC's Chief Actuary specifying the actuarial rate indication for that year (Actuarial Certificate); however, if ICBC were to seek a rate change under these circumstances a streamlined application would be required (Exhibit B-5, para. 18).

2.2 Streamlined Application – Proposed Content

ICBC provides the proposed table of contents for the streamlined application in the following table:

Figure 5 – Table of Contents of a Streamlined Revenue Requirements Application

Chapter and Section	Title
CHAPTER 1	APPLICATION
CHAPTER 2	INTRODUCTION Includes an overview of the major items impacting the rate indication and a discussion of the Basic insurance MCT value and the MCT outlook for the year.
CHAPTER 3	ACTUARIAL RATE INDICATION ANALYSIS (See Section C.2.1)
3A	Executive Summary
3B	Recap of Revisions to the Actuarial Rate Indication Analysis
3C	Explanatory notes C.1 Introduction C.2 Indicated Rate Level Change C.3 Trended Premium at Current Level C.4 Claims Cost (Ultimate Loss and ALAE) and ULAE Development C.5 Exposure and Loss Trend Analysis C.6 Prospective Adjustments C.7 Loss Payment Patterns C.8 Retained Earnings and Capital Provision Based on the Most Recent Year-end Basic Insurance MCT Ratio C.9 Expenses C.10 Manual Basic Insurance C.11 Sensitivity Analysis C.12 Filing Actuary's Opinion C.13 Reviewing Actuary's Opinion
3D	Exhibits
CHAPTER 4	CALCULATION OF INVESTMENT YIELDS (See Section C.2.2)
4A	New Money Rate
4B	Yield on Retained Earnings
Appendix 4A	Six Financial Forecasts
Appendix 4B	Investment Policy (if revised)
CHAPTER 5	SUMMARIZED OPERATING EXPENSES (See Section C.2.3)
5A	Background information on changes that have impacted operating expenses since the last revenue requirements application.

Chapter and Section	Title
5B	Schedules of summarized operating expenses and variance explanations for three years actual and one year planned (being the year in which the Streamlined Revenue Requirements Application is being filed, or "forecast year")
B.1	Plan versus Actual Operating Expenses
B.2	Plan versus Actual Number of Full Time Equivalent (FTE) Employees
B.3	Salaries and Number of FTE's by Employee Group
B.4	Operating Expenses by Division
B.5	Operating Expenses by Expense Category
5C	Allocation of operating expenses
C.1	Financial reporting view of Forecast Corporate Operating Expenses and Reconciliation to Basic Insurance Operating Expenses used in the Actuarial Rate Indication analysis
C.2	Year to Year Allocation Percentages to Basic Insurance for three years actual and the forecast year
Appendix 5A	Allocator descriptions
Appendix 5B	Cost allocation tables consistent with the most recently approved updates to the financial allocation methodology as applied to the latest yearend actual operating expense
CHAPTER 6	INFORMATION TECHNOLOGY (IT) PLANS (See Section C.2.4)
6A	IT Strategic Plan Update
6B	IT Capital Expenditure Plan
CHAPTER 7	PERFORMANCE MEASURES (See Section C.2.5)
7A	Introduction
7B	Performance Measure Statistics and Explanatory Notes
CHAPTER 8	OTHER INFORMATION AS DIRECTED BY THE COMMISSION (See Section C.2.6)
CHAPTER 9	GENERAL APPENDICES
Appendix 9A	Basic Insurance Information Sharing Exhibits (See Section C.2.7)
Appendix 9B	Most recent ICBC Annual Report
Appendix 9C	Most recent Service Plan
Appendix 9D	Government directed program information, including updates to Service Agreement and most recent Service Agreement Addendum

Source: Exhibit B-1-2, Figure 5, pp. 27-28

ICBC proposes to include the following information in any streamlined application:

- The actuarial rate indication for the policy year commencing October 1.
- The two investment yields derived according to the methodology proposed in the Application:
 - (i) the New Money Rate, which indicates the expected yield on new investment assets that ICBC will be purchasing with future Basic Insurance premiums related to the policy year commencing October 1; and
 - (ii) the Yield on Retained Earnings which indicates the yield generated by ICBC's current investment portfolio.
- A calculation of the capital provision as determined according to the Basic Insurance Capital Management Plan as then approved by the Commission. This is based on the value of the Basic Insurance Minimum Capital Test (MCT) determined at the end of the prior calendar year. If the MCT is less than 130 percent, then 1/5 of the deficiency is included in the actuarial rate indication analysis as a cost impacting the Basic Insurance rates. If the MCT ratio is more than 130 percent, then 1/5 of the surplus is included in the actuarial rate indication analysis as a reduction to Basic Insurance rates requirements.

In addition, ICBC proposes to provide summary level information on operating expenses in its streamlined applications. ICBC states that it will continue to file Basic Insurance information sharing exhibits and performance measurement information when filing a streamlined application as is currently required when filing a full revenue requirements application.

In addition, ICBC states it is not opposed to providing historical information such as shown below:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Basic insurance only					
Net Premiums Written (\$000's)	\$1,711,703	\$1,761,668	\$1,896,685	\$2,013,721	\$2,049,215
Net Premiums Earned (\$000's)	\$1,692,314	\$1,736,760	\$1,824,477	\$1,957,078	\$2,047,635
Vehicles insured	2,842,000	2,921,000	3,012,000	3,108,000	3,193,000
Average premium of a policy	\$ 593.57	\$ 590.93	\$ 618.68	\$ 638.04	\$ 641.01
Operating cost – Basic insurance (Note 1)	\$259,743	\$258,585	\$263,654	\$274,188	\$280,116
– Non-Insurance (Note 1)	\$88,402	\$91,060	\$78,128	\$71,811	\$80,243
Total	<u>\$348,145</u>	<u>\$349,645</u>	<u>\$341,782</u>	<u>\$345,999</u>	<u>\$360,359</u>
Expense Ratio (Note 1)	15.5%	16.7%	15.3%	15.0%	15.4%
Loss Ratio (Note 1)	97.2%	111.6%	101.5%	95.6%	87.7%
Combined Ratio (Note 1)	112.4%	135.0%	112.7%	107.9%	102.2%
MCT at year-end (Note 1)	42% *	79% *	107% *	136% **	141% **
CORPORATE					
FTE	4,889	4,908	4,994	5,024	5,012
Expense Ratio	19.4%	19.5%	18.7%	18.6%	18.8%
Loss Ratio	83.2%	90.2%	90.4%	83.7%	77.6%
Combined Ratio	101.9%	113.4%	106.4%	101.0%	95.9%

Note 1: Allocation to Basic insurance and Non-Insurance operations is based on methodology approved at the stated year-end and not restated for the most recently approved allocators.

Source: Exhibit B-4, BCUC 1.19

2.3 Streamlined Application – Proposed Review Process

ICBC proposes a simplified review process to provide the opportunity for face-to-face discussion with Commission staff and Interveners at ICBC informal presentations and subsequent review working sessions. ICBC proposes to respond to questions raised either at the review working sessions or by responding to subsequent information requests. The proposed process allows for public participation and review of any streamlined application.

The rationale for this simplified review process is primarily that Basic Insurance rates must be set on the basis of accepted actuarial practice, with the actuarially indicated rate change being included in the actuarial analysis that will be filed as part of a streamlined application. ICBC proposes that a streamlined application be reviewed in a written hearing process. ICBC provides an example for 2009 with the following timelines:

Figure 11 – Timeline for Proposed Streamlined Review Process

Action	Timing	Example for 2009
Notice to Commission staff and intervenors in previous revenue requirements application	Two weeks prior to filing	May 15, 2009
Filing	By May 31	May 29, 2009
Advertisement	3 working days after filing	June 3, 2009
ICBC informal presentation	Within 1 week after filing	June 5, 2009
Matters of interest from Commission staff and intervenors	One week prior to Review Working Session	June 10, 2009
Review Working Session (RWS)	In third week after filing	June 17, 2009
Information requests	Within 3 working days after RWS	June 22, 2009
ICBC responses to information requests	2 weeks after date for information requests	July 6, 2009
Intervenor Letters of Comment	7 working days after ICBC responses to information requests	July 15, 2009
ICBC Reply Submission	Within 1 week of deadline for intervenor Letters of Comment	July 22, 2009
Commission Order	2 weeks after ICBC Reply Submission	Aug 5, 2009
Rates implemented	October 1	

Source: Exhibit B-1-2, Figure 11, p. 44

2.4 Actuarial Certificate - Proposed Content

In its Revised Application ICBC proposes that: (1) if the actuarial rate indication for a particular year is not greater than +/- 1.0 percent, and (2) if it is not seeking a rate change, it will have the discretion to limit its filing with the Commission to an Actuarial Certificate, with no additional information other than reporting on government directed programs being required. ICBC also agreed to provide an explanation of why it chose to file an Actuarial Certificate if it does so (Exhibit B-5, para. 13).

Initially in its Application, ICBC had specified a range of +/- 0.2 percent for the Actuarial Certificate, while ICBC's Amended Application had proposed a range of -1.0 percent and 1.5 percent. In the Revised Application, ICBC further adjusted the proposed range to +/- 1.0 percent.

2.5 Filing Proposal

ICBC proposes the following filing requirements/restrictions regarding the Actuarial Certificate, streamlined application and full revenue requirements application:

- if ICBC files an Actuarial Certificate only for two consecutive years, a streamlined application or a full revenue requirements application will be filed in the third year;
- if ICBC files a streamlined application or Actuarial Certificate for four consecutive years, a full revenue requirements application will be filed in the fifth year; and
- within five years of the date of any Order approving the streamlined regulatory process, ICBC will make an application to the Commission proposing a review of the process. This review may be combined with a streamlined (or other) revenue requirements application.

(Exhibit B-1-2, para. 152)

3.0 DISCUSSION

The Commission Panel has reviewed the Application, the Amended Application and the Revised Application, information request responses, and letters of comment submitted by Interveners. The Commission Panel has also considered Special Direction IC2 requiring the Commission to fix Basic Insurance rates on the basis of accepted actuarial practice.

This section addresses a number of issues which have been raised in the course of the proceeding with respect to ICBC's proposed streamlining regulatory process.

3.1 Minimum Capital Test

A key factor in the Commission's regulation of ICBC's rates is the management MCT target ratio of 130 percent. ICBC's Capital Management Plan, provides for one-fifth of any MCT surplus or deficiency to be applied to reduce or be recovered from future rates.

The Commission Panel is concerned that the proposed streamlined application process might not be able to address, in a timely fashion, the risk of the MCT ratio reaching unacceptable levels if unforeseen events occur or unduly conservative actuarial forecasts are used.

Commission Determination

Within 90 days of any calendar year-end when ICBC's MCT ratio for that year exceeds 150 percent, the Commission Panel directs ICBC to file an application proposing a plan to deal with the excess. For the December 31, 2009 year-end, any such application shall be made on the earlier of 60 days from the date of this direction or at the time of a filing of a revenue requirements application.

3.2 Rate Change Criterion - Actuarial Rate Indication

While ICBC's proposed use of a 2.5 percent actuarial rate indication to determine the point at which a full revenue requirements application would be filed is not specifically challenged by the Interveners, IBC, CDI and BCOAPO expressed concerns about the percentage band used to determine eligibility to file an Actuarial Certificate when no rate change is being sought. The Application specified a range of +/- 0.2 percent; the Amended Application proposed a range of -1.0 percent to +1.5 percent while the Revised Application reduced the range to +/- 1.0 percent. (Exhibit C2-4, p. 4; Exhibit C4-4 p.7; Exhibit C8-3, p.2) ICBC submits that the Revised Application range is not as narrow as the three Interveners proposed, and argues that its +/- 1 percent proposed range is reasonable and appropriate for implementing an efficient and cost effective process (Exhibit B-5, para. 18). ICBC also states that the initial +/- 0.2% range is believed to be meaningless since none of the six years between 2004 and 2009 included an actuarial rate indication within that narrow range (Exhibit B-5, para. 20).

In its final comments, BCOAPO expressed the view that the Revised Application band should be adopted.

ICBC states that a 1.0 percent change in Basic Insurance rates is equal to about \$7 per year per policyholder and that under the Commission's current regulation, ICBC is not required to provide any information if a rate change is not being sought.

Any risk from using this range is further mitigated as the Actuarial Certificate option is only available when no rate change is being sought.

Commission Determination

The Commission Panel makes determinations with respect to additional filing requirements regarding the MCT (Section 3.1) and the Actuarial Certificate (Section 3.7) which provide additional information in conjunction with the streamlining regulatory process proposals of ICBC.

The Commission Panel finds the existing and additional (described above) regulatory filing requirements, together with ICBC's revised proposal should provide sufficient information to enable an adequate, appropriate and more efficient regulatory process. **Accordingly, the Commission Panel approves both the +2.5 percent and +/- 1.0 percent actuarial rate indication levels as criteria for the streamlining regulatory process Application.**

The Commission Panel further finds that the streamlining regulatory process is one which should not be fixed for a specific time period, at least in the initial stages of implementation. The Commission will monitor the process to ensure that it, as well as interested parties are adequately informed by ICBC's filings, and will take steps to change the process should there be shortfalls or inadequacies.

3.3 Operating Expenses

ICBC submits that the operating expense information it proposes to file in a streamlined application is reasonable and appropriate for an application that is intended to be efficient and cost effective. The objective of its Application to the Commission is to establish an efficient and cost effective process to deal with relatively small changes in Basic Insurance rates.

BCOAPO discusses the detail of ICBC's streamlining application and submits "that ICBC should be required to maintain detailed and disaggregated information to allow later review and discovery for years in which a full revenue requirement Application was not undertaken" (Exhibit C2-4, p. 4).

ICBC responds that it collects and maintains information to accord with accounting, reporting and records retention requirements. There is nothing in the streamlining application that will cause ICBC to collect and retain information in any manner other than it has collected and retained information in the past. ICBC states that it has no intention of changing its data collection and retention practices because of its application for a more efficient and cost effective process for dealing

with relatively small changes in Basic Insurance rates. ICBC believes that the information it maintains is sufficiently detailed and disaggregated (Exhibit B-5, p. 16).

IBC devotes a major portion of its submission to argue in favour of more detailed information about operating expenses and to express concerns about cross subsidization between Basic and Optional Insurance.

In response to ICBC's undertaking to explain any "significant" plan versus actual variance and any significant year-over-year variance in operating expenses where annual fluctuations are more than 5 percent unless the net change is not material, IBC submits that these limits are too high when considering issues such as cross-subsidization and prudence of operating costs (Exhibit C4-4, p. 5). IBC also submits that operating expense information at the divisional level and below is necessary if the Commission and the Interveners are going to be allowed to draw any conclusions regarding cross-subsidization. IBC wants the same level of operating expense information as in the 2007 Revenue Requirements Application and the opportunity to ask questions that go beyond the level of detail specified by ICBC (Exhibit C4-4, p. 5).

ICBC submits that the operating expense information that it proposes to provide in a streamlined application is entirely adequate for such a process. Appendix E of the Amended Application presents operating expenses sample mock-up schedules and allocation information to illustrate the type of information that will be provided. ICBC is open to provide historical information as presented in Exhibit B-4, 2009 ST BCUC.19.

Commission Determination

The Commission Panel notes that ICBC has had its financial allocation methodology, functions and factors reviewed and approved by the Commission in previous proceedings. The Commission Panel considers that those previous findings, in the absence of significant changes to either the Basic or Optional components of ICBC's insurance business, are likely to continue to provide appropriate cost allocations between those business components in all material respects. IBC's concerns about cross subsidization accordingly seem unwarranted, and the Commission Panel sees no reason to make any changes to the Application arising from the expressed concern.

The Commission Panel directs ICBC to report, in any filing or application under either the streamlining or full regulatory review models, any changes to its business operations or systems which could require changes to its cost allocation formulae or methods in any significant way.

The Commission Panel notes that a 1.0 percent change in operating expenses leads to an indicated rate impact of approximately 0.1 percent (Exhibit B-1-2, para. 68). The Commission Panel considers the operating expense information as set out in Section C.2.3 and Appendix E of Exhibit B-1-2, in addition to the historical information directed below provides

sufficient operating expense and allocation information for the purpose of reviewing the relatively small rate change indications for a streamlined application.

The Commission Panel directs ICBC to include the historical information as outlined in Exhibit B-4, 2009 ST BCUC.19 as part of the operating expense filing.

3.4 Streamlined Application – Proposed Content - Investment Yields and New Money Rate

In its Amended Application ICBC explains the proposed formulae for forecasting the New Money Rate and the Yield on Retained Earnings (Exhibit B-1-2, Section C2). The Interveners are in general agreement with the forecasting methodologies.

However, Mr. Duck makes several specific observations and requests. He believes that ICBC should be directed to file investment performance reports, that investment management fees should be excluded from the calculation of the yield on retained earnings, and he questions why management fees are not included in the calculation of the New Money Rate (Exhibit C7-3).

ICBC submits there should be no requirement to provide historical investment information in a streamlined application as it will play no part in the rate determination, and the provision of information that is extraneous to the matter being considered is inconsistent with the objective of an efficient and cost effective process. ICBC submits that if a matter such as investment performance is to be discussed, the forum for such a discussion should be a full revenue requirements application proceeding. ICBC also notes that its Annual Report is available on its website, and the Annual Report discusses ICBC's investment portfolio and returns thereon.

ICBC submits that investment management fees are an actual cost and therefore should be included in the determination of the yield and states that Mr. Duck's procedure would not change the cost but would only have the cost appear in a different location in the accounts (Exhibit B-5, para. 46).

With respect to the New Money Rate, ICBC states that the formula proposed for the New Money Rate is based on the key drivers of that rate: (i) the portfolio allocation between bonds, equity and real estate and (ii) the forecast yields of those asset classes. In such a forecast management fees are not of material consequence as compared to those key drivers (Exhibit B-5, p. 17).

Commission Determination

The Commission Panel accepts ICBC's responses to Mr. Duck's concerns on ICBC's proposed formulae for the New Money Rate and the Yield on Retained Earnings to be used in the actuarial rate indication analysis in revenue requirements applications, including the streamlined application. The Commission Panel accepts the proposed formulae for the New Money Rate and the Yield on Retained Earnings. However, the Commission Panel considers that changes to ICBC's Statement of Investment Policy and Procedures could have significant effects on the New Money Rate or the Yield on Retained Earnings. **The Commission Panel directs ICBC to file, with any streamlined application, documentation of any related impacts with respect to any changes in the Statement of Investment Policy and Procedures.**

The Commission Panel has reviewed Mr. Duck's concern of ICBC filing investment performance reports. The Commission Panel notes that the level of investment return information in the ICBC Annual Report is at the aggregate portfolio level rather than at the asset class level. **For greater transparency the Commission directs ICBC to file its investment performance information in the same fashion as was included in Chapter 6.3-2 through 6.3-9 of the 2007 Revenue Requirements Application on an annual basis when filing an Actuarial Certificate, streamlined application or a full revenue requirements application.**

3.5 Streamlined Application - Proposed Review Process - Timetable

Both BCOAPO and IBC submit that the proposed review timetable for a streamlined application is too tight.

BCOAPO states:

"A key procedural concern we have with the SRRA is the limited time available to file IRs [Information Requests] after the Working Session—a mere 3 days (BCUC 5.2). Although ICBC states that we will have about 3 weeks after an application is filed to prepare IRs, participants seek to avoid needless work and reduce the number of IRs by using a workshop for clarification and elaboration. Holding the workshop only 3 days before IRs are due significantly reduces its benefit: Interveners will be compelled to complete most of the work involved in IR preparation prior to the workshop in order to meet the regulatory filing schedule.

It would be preferable to have the workshop scheduled earlier, or alternatively the IR's due a bit later following the Working Session. There would be more room for discovery time when an SRRA is filed by making the effective date October 15 rather than October 1. (BCUC 5.3.2)"
(Exhibit C2-4, p. 2)

BCOAPO suggests that October 15th would be a better date for implementing a rate change.

IBC also argues the timing is too tight and Interveners must be given sufficient time to assess and respond to a streamlined application. IBC suggests 10 working days for information requests after the Review Working Session and 14 days for Intervener Letters of Comment (Exhibit C4-4, p. 8).

ICBC in its Reply Submission responds to the review process timetable stating:

“The Review Working Session was placed where it is in the timetable to allow sufficient time between advertising of the application and the date of the Review Working Session for public participation.”

“ICBC submits that the streamlined process it has proposed can be accommodated within the timetable in the September amended Application, with October 1 being the effective date of Basic insurance rate changes.”

(Exhibit B-5, para. 23, p. 9)

ICBC further submits that seven working days after the ICBC response to information requests is reasonable for Letters of Comment. Letters of Comment would be required approximately 45 days after Interveners receive the streamlined application and almost a month after the Review Working Session (and even longer after the informal ICBC presentation). In this current process the Intervener Letters of Comment were filed eight working days after the ICBC response to information requests, and the ICBC Reply Submission was filed five working days after the Letters of Comment. (Exhibit B-5, para. 22, 24)

Commission Determination

The Commission shares the Interveners' concerns that the timetable is too short to ensure meaningful participation by Interveners. Although the October 1st implementation date is more convenient for ICBC's planning processes, it is not considered a sufficient reason to jeopardize the written hearing schedule. **The Commission Panel directs ICBC to file a revised timeline proposal within 30 days from this Order which allows for 90 days between the date ICBC files a streamlined application and the anticipated date the Commission issues an Order on that application. ICBC must include sufficient time for the directive issued in Section 3.6 of this Reasons for Decision and must consider Intervener comments. The timeline for filing of information requests should be no less than seven working days from the Review Working Session to allow adequate and sufficient review of the application by Interveners.**

3.6 Streamlined Application – Proposed Review Process - Information Requests

Both BCOAPO and IBC are concerned that ICBC will require information requests to be “limited and focused” (Exhibit C2-4, p. 2; Exhibit C4-4, p. 8). BCOAPO submits that ICBC should make all reasonable attempts to fully respond to all information requests and that the onus is on ICBC to demonstrate if an information request is inappropriate (Exhibit C2-4, p. 3).

In subparagraph (j) on pages 46 and 47 of the Amended Application, ICBC stated:

“In keeping with the spirit of a streamlined process, information requests must be limited and focused, and meet the following criteria:

- Information requests must be related to the content of the Streamlined Revenue Requirements Application.
- Information requests must not require a response that will require ICBC to undertake extensive research or time-consuming analysis to produce.
- The extent of the work required by ICBC to respond to an information request must be commensurate with the usefulness of the information requested in the context of the rate change being sought and a streamlined proceeding.”

(Exhibit B-1-2, pp. 46-47)

ICBC provided further information on what it had intended by “limited and focused” information requests in a response to an information request (Exhibit B-4, 2009 ST BCUC.6.1-4). Included in the response were the following:

“For practical reasons, ICBC will make an initial determination as to whether the effort required by ICBC is commensurate to the usefulness of the information requested. However, the Commission remains the ultimate arbiter.”

“ICBC suggests a process under which it will make an initial determination on the usefulness of the information. When information request responses are filed with the Commission, ICBC will indicate which information requests it has not responded to and why. If the Commission disagrees with ICBC’s assessment, the Commission may order ICBC to provide the information in an abbreviated timeframe or, if it deems necessary, extend timing of the streamlined proceedings.”

“The reference point of “the usefulness of the information” is not ICBC or the party submitting the information request, but rather the usefulness to the Commission in making a decision upon ICBC’s application.”

(Exhibit B-4, 2009 ST BCUC.6.1-4)

ICBC submits that in the context of a process that is intended to be “streamlined,” it should be understood from the outset that information requests are limited to material issues which relate to the Basic Insurance rate change that is the subject of that streamlined application. With regard to limited and focused information requests, ICBC seeks to have the

Commission include in its Order (in this proceeding) paragraph 17 of the draft Order in Appendix A of the Amended Application (Exhibit B-5, para. 29).

Commission Determination

The Commission Panel agrees that information requests in a streamlined application process should be limited and focused to the scope of the Streamlined Regulatory Process Application. However, the Commission Panel also recognizes that there may be disputes about the relevance of certain information requests. The Commission Panel denies ICBC's request to include paragraph 17 of the draft Order in the Amended Application described above. **The Commission Panel directs ICBC to adjust the timetable as directed in Section 3.5 of this Reasons for Decision to allow sufficient time for the Commission to rule on disputed or unanswered information requests.**

ICBC is encouraged to anticipate questions which the Commission and/or Interveners may have with respect to any filing and to include additional data where appropriate in order to expedite the streamlining process.

3.7 Actuarial Certificate – Proposed Content

The Revised Application proposes that if the actuarial rate indication for a particular year is at or between +/- 1.0 percent and ICBC is not seeking a rate change, it will have the discretion to limit its filing with the Commission to an Actuarial Certificate, with no additional information other than reporting on government directed programs being required.

Special Direction IC2, section 3(1)(c) requires that the Commission fix Basic Insurance rates on the basis of accepted actuarial practice, thus the Commission requires sufficient actuarial evidence in order to determine a rate change. ICBC argues that the Actuarial Certificate will be sufficient to specify that the rate indication is within the range. In addition, since no rate change will be requested, ICBC argues that the Commission need not receive a full Actuarial Rate Indication Analysis.

IBC, CDI and BCOAPO have indicated concerns for the adequacy of the information to be provided as part of an Actuarial Certificate filing and this, in part, leads some Interveners to suggest a narrower actuarial rate indication range for eligibility to file an Actuarial Certificate or more frequent Streamlined or full revenue requirements applications (Exhibit C2-4, p. 4; Exhibit C4-4, pp. 7, 9; Exhibit C8-3, p. 1).

Commission Determination

The Commission must keep itself informed of ICBC's finances and performance. In years when ICBC files an Actuarial Certificate without a rate change and no revenue requirements application ICBC proposes to file no additional information other than reporting on government directed programs. The Commission finds the proposed information filed under this scenario would be insufficient to keep the Commission informed.

The Commission Panel directs ICBC, when filing an Actuarial Certificate when no rate increase is requested, to include with the filing the Actuarial Rate Indication Analysis, the summarized operating expenses as required in Section 3.3, and the investment performance information as required in Section 3.4. The additional information will be filed for information purposes only and no further process will occur unless initiated by the Commission.

3.8 Filing Proposal

ICBC proposes that if an Actuarial Certificate is filed for two consecutive years, either a streamlined application or a full revenue requirements application will be filed in the third year. ICBC also proposes that if a streamlined application or an Actuarial Certificate is filed for four consecutive years a full revenue requirements application will be filed in the fifth year. Further, ICBC states that within five years of the date of the Commission's Order in this proceeding ICBC will make an application to the Commission proposing a process for a review of the streamlined regulatory process. This review may be combined with a streamlined (or other) revenue requirements application.

In response to an information request ICBC confirmed that since its last revenue requirements application was filed for 2007 it will file a full revenue requirements application by the end of 2012 if not earlier (Exhibit B-4, 2009 ST IBC 2.1).

BCOAPO commented that if a streamlined application was made for four consecutive years at a maximum 2.5 percent, the cumulative increase would be 13.4 percent before a full revenue requirements application would be filed. BCOAPO submitted that the streamlining process should be approved on an interim basis only (Exhibit C2-4, p. 4). CDI proposes that a full revenue requirements application should be filed at a minimum of every three years (Exhibit C8-3, p. 2). IBC feels the timing of the streamlined process is premature (Exhibit C4-4, p. 1).

Commission Determination

The Commission Panel accepts as reasonable ICBC's proposals to file a full revenue requirements application by 2012 and a review of the streamlined regulatory process within five years from the date of the Order approving the Revised Application. As noted above, the Commission will monitor the streamlining regulatory process and will take steps to make any appropriate changes to the process should they be warranted.

4.0 SUMMARY

The Commission is satisfied that the proposed Streamlining process in the Revised Application, together with the directions and modifications identified in these Reasons, will result in a more efficient review and approval of ICBC's revenue requirement applications, while at the same time ensuring the Commission remains informed of ICBC's financial condition. The streamlined regulatory process is expected to be efficient, adequate and transparent for dealing with small rate change indications.

The Commission Panel approves the Revised Application for a Streamlined Regulatory Process as modified by the directives contained in the above Reasons for Decision.