

January 14, 2015

Ms. G. Cheryl Blundon
Board of Commissioners of Public Utilities
120 Torbay Road, P.O. Box 12040
St. John's, NL A1A 5B2

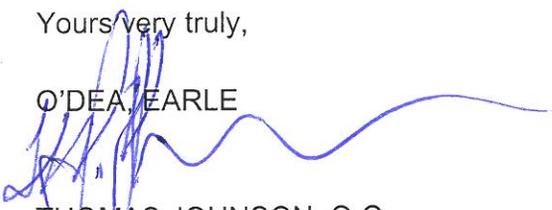
Dear Ms. Blundon:

Re: 2014 – Facility Association Taxi and Limousine Rate Application

Enclosed please find one (1) original and twelve (12) copies of the Reply of the Consumer Advocate to the Final Submission of Facility Association. The same will be filed electronically in due course.

As of today's date a copy of our reply has been sent to Mr. Kevin Stamp, Q.C., counsel to Facility Association.

Yours very truly,


O'DEA EARLE

THOMAS JOHNSON, Q.C.
TJ/cel
encl.

cc: Kevin Stamp, Q.C.
Martin, Whelan, Hennebury & Stamp

IN THE MATTER OF the
Automobile Insurance Act, RSNL 1990,
c. A-22 (the *Act*) as amended; and

IN THE MATTER OF An Application dated
March 6, 2014 by Facility Association to
The Newfoundland and Labrador Board of
Commissioners of Public Utilities seeking
approval of revised rates for Third Party
Liability Accident Benefits and Uninsured
Auto coverages for its Taxis and Limousines
class of business.

To: The Board of Commissioners of Public Utilities (the "Board")

**REPLY OF THE CONSUMER ADVOCATE
TO THE
FINAL SUBMISSION OF FACILITY ASSOCIATION**

January 14, 2015

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1 The Consumer Advocate wishes to make the following comments in relation to Facility
2 Association's Submissions of January 9, 2015:

3
4 1. In its brief (see p. 5, lines 5-7), Facility Association describes the "*Board's Guideline*
5 *Rate Indications*" in Table 3 of Oliver Wyman's report as, "*the Consulting Actuary's*
6 *attempt to estimate rate indications using the Consulting Actuary's assumptions*. With respect,
7 the "*Consulting Actuary's assumptions*" are the Board-approved Auto Insurance Filing
8 Guidelines.

9
10 2. The Facility Association (see p. 10, lines 10-17) attempts to characterize the trend
11 rates used by Oliver Wyman as just another actuary's opinion that happens to differ
12 from Facility Association's opinion. Facility Association also implies that the
13 PUB-approved trend rates are outdated with respect to the time period contemplated in
14 the Facility Association filing. The Consumer Advocate submits:

15 (a) The trend rates used by Oliver Wyman are those adopted by the Board and are
16 from the Board's directive A.I. 2013-02. Even though the Board rates were proposed by
17 Oliver Wyman, once adopted by the Board, those rates acquire more weight than just
18 another actuary's opinion.

19 (b) They are the latest Board-approved trend rates that were available at the time of
20 the Facility Association filing.

21 (c) They are based on the same data that underlie the Facility Association-selected
22 trend rates, except that Facility Association relied on the data going back to 1993.

1 3. The Facility Association, in its brief (see p. 12, lines 15-17), says, “*the industry CV*
2 *trends selected by Facility Association do describe the changes over the period in the taxi*
3 *experience, whereas the Consulting Actuary’s selected trends do not.” However, the question
4 of whether the selected trend rates fit recent taxi experience is not relevant. Both
5 Facility Association and Oliver Wyman agree that the taxi experience is too limited and
6 too unstable to support meaningful trend indications. In particular, see the following
7 references:*

8 (a) Section 2, Page 11, fourth paragraph of the Facility Association filing says, “*We relied*
9 *on industry data because a sufficient volume of stable and credible historical experience does not*
10 *exist for FA for the purpose of selecting trends by sub-coverage”*; and

11 (b) Transcript, 11/7/2014, p. 68, lines 23-25, and p. 69, lines 1-5

12
13 4. The Facility Association, in its brief (see pp. 13-17) attempts to discredit the
14 Board’s approved trend rates by showing that they do not fit the recent historical
15 pattern of taxi loss costs. And yet Facility Association (and the Board) relied on
16 commercial data rather than taxi data to select trends precisely because the historical
17 pattern exhibited by the taxi losses is not credible. The taxi history is essentially a
18 random sequence of numbers that happens to lie closer to the Facility Association trend
19 selection than the Board trend selection, at least for the last few years.

20
21 5. Facility Association’s brief (at p. 22, lines 14-17) states:

22 ... *it would certainly seem appropriate that for Facility Association to satisfy the Board’s*
23 *filing requirement where it chooses not to use the Board guideline trend rates, the*

1 *rationale for use of different factors should reasonably be based in comparative measures*
2 *of "fit".*

3 The Consumer Advocate respectfully submits that comparing measures of fit does not
4 constitute a rationale for the use of different factors. There is far more involved in
5 selecting a trend factor than measuring the fit of a given curve. A line drawn between
6 any two points will result in a perfect fit but not necessarily an appropriate or even
7 reasonable trend factor.

8
9 6. The Facility Association (p. 22, lines 17-19) quotes from the Board's Filing
10 Guidelines:

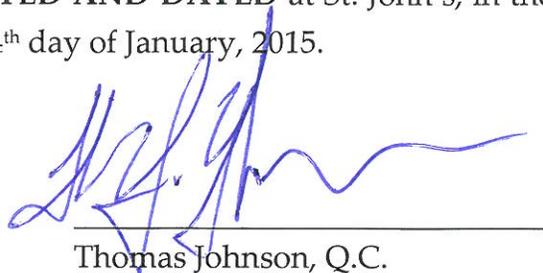
11 *Companies are not required to use the guideline factors, but full rationale for use of*
12 *different factors must be provided and supported.*

13 The Facility Association filing does not provide full rationale (or any rationale) for use
14 of different factors. It did not even acknowledge that the factors it used were not the
15 Board-approved factors. It simply inserted its own factors without any discussion as to
16 why they are different or why it thought they were more appropriate for Facility
17 Association than the Board's factors.

18
19 7. The Facility Association (p. 25, para. 64) is dismissive of the Board trend rates
20 because they do not represent least squares regressions of the data points. To this, the
21 Consumer Advocate submits that an actuary may have a set of data points and a least
22 squares regression produces a trend rate of 10%. The actuary then decides that one of
23 the points is an outlier. When the actuary removes the outlier, the regression produces

1 a trend rate of 8%. Even though the point the actuary removed was an outlier, it was
2 still an actual historical point so the actuary does not want to ignore it completely. So
3 the actuary selects the average of her two curve fits (9%). The selection of 9%, based on
4 the average of two imperfect curve fits, would nonetheless be a perfectly reasonable
5 choice. It would be reasonable even though it would not represent a least squares
6 regression of either set of data points. It would be a reasonable exercise of actuarial
7 judgment.

ALL OF WHICH IS RESPECTFULLY SUBMITTED AND DATED at St. John's, in the
Province of Newfoundland and Labrador, this 14th day of January, 2015.



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