Undertaking #23

MPI to provide information as to the financial impact to the Corporation of a rate indication in the 2019 GRA based on a standard interest rate forecast or a 50/50 forecast.

RESPONSE:

Refer to the figure below which shows the breakeven rate indication including net Capital Maintenance Provision (CMP) for the 2019/20 rating year for various interest rate scenarios.

Figure 1 2019/20 Rating Year Rate Indications

Line No.	Scenario	New Money Yield as at Sep 1, 2019	Breakeven Rate Indication	Breakeven Rate Indication Including Net CMP
1	**Based on information as of Sep 28, 2018***			
2	**Forecast - Naïve**	3.40%	-0.26%	1.80%
3	**Forecast - 50/50**	3.57%	-0.60%	1.00%
4	**Forecast - SIRF**	3.79%	-1.02%	0.40%
5	**Based on information as of Feb 28, 2019**	2.92%	0.74%	2.80%

In *2019 GRA PUB Order 159-18*, the Public Utilities Board ordered a rate increase of 1.80% for the 2019/20 rating year. The order was based on the naïve interest rate forecast, updated based on information available as of September 28, 2018. The rate increase of 1.80% included a net CMP of 2.06%.

Based on information available as of February 28, 2019, i.e. the day before the 2019/20 rates would have come into effect, the required rate increase, including net CMP, for the 2019/20 rating year would have been 2.80%. The higher rate requirement is due to a decline in the new money yield of 48 basis points from 3.40% to 2.92%.

The difference in the required rate increase of 1.00% (from September 28 to February 28) means that 2019/20 rates are deficient by approximately $10M. The deficiency would have been higher had the required rate increase be based on the 50/50 or SIRF forecast. Based on the 50/50 and SIRF forecasts, the deficiencies would be approximately $18M and $24M respectively. A deficiency in the prior year's rates does not impact the current year's AAP rate indication, but it will have an expected impact on future capital available and MCT scores.