

DECISION AND ORDER**ONTARIO ENERGY BOARD****EB-2021-0212 – Inflation factors to be used in rate adjustment applications for rates effective in 2022****DECISION**

The Ontario Energy Board (OEB) issued a [Decision and Order](#) on the inflation factors to be used to set rates for certain electricity transmitters and electricity and natural gas distributors (collectively, Utilities) for 2022.

The OEB initiated a generic hearing¹ on the matter on its own motion, and has decided that the existing formula and methodology adopted by the OEB in the [Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors](#) (the Report) remain appropriate for calculating the 2022 inflation factors. The OEB considered the needs of and impact to Utilities, customers, and shareholders as well as ongoing inflationary pressures due in part to the ongoing COVID-19 Pandemic.

The 2022 inflation factor to be used by electricity distributors and EPCOR is 3.3%. Electricity transmission utilities will apply an inflation factor of 2.5%. The inflation factor to be used in setting Enbridge Gas Inc.'s rates for 2022 was decided in a separate proceeding and is 1.7%².

BACKGROUND

Typically, Utilities file major rate applications every 5 years and are required to outline, among other things, their go-forward operating and maintenance and planned capital costs for OEB review.

In each of the intervening years between, Utilities file annual applications for a mechanistic inflationary adjustment to their rates. The annual mechanistic adjustment accounts for inflation, offset by a productivity factor and possibly other factors, to reflect the cost pressures and opportunities that Utilities, like firms that operate in competitive markets, face over time.

The inputs in the OEB-approved formula are updated annually by the OEB based on macroeconomic data reported by Statistics Canada.

The OEB's preliminary calculations for 2022 rate adjustments as shown in the table below suggested that the inflation indices typically used in the rate adjustment formulas may not be representative of the inflation that Utilities will experience in 2022. Specifically:

¹ A **Generic Proceeding** enables the OEB to consider an issue that is common to more than one utility. It can be used to establish or review (to confirm or update) an OEB policy, as an alternative to a consultative process. The difference is that the result of a consultation is typically an OEB policy document (such as a Report of the Board, Guidelines, etc.) that records OEB policy, but is not binding, whereas the result of a generic hearing is a binding decision and order. For example, a panel of the OEB can decide to vary from the OEB policy if the facts of the specific application they're adjudicating warrant. The result of an OEB panel's decision in a generic proceeding is a Decision and Order that is generally binding on panels and Delegated Authorities that are deciding on applications in which the generic issue is a consideration.

² EB-2021-0147, EGI_SettlementProposal_20210929, p. 7, September 29, 2021.

- The labour inflation component³ of the inflation factor, Average Weekly Earnings (AWE), (Ontario, all businesses), increased by about 7% from 2019 to 2020, and is a significant driver of the projected increase to the total inflation factor used to set rates for utilities.
- COVID-19 lockdowns and other restrictions disproportionately affected, through removal from the active work force, lower wage-earning employees, relative to higher earning salaried employees, resulting in higher average weekly earnings for the active workforce during the COVID-19 pandemic.

Preliminary Calculated Inflation Factors

Calculated Inflation Factors for 2022 Compared to 2021	ENBRIDGE	ELECTRICITY TRANSMISSION	ELECTRICITY DISTRIBUTION and EPCOR
2022	1.7%	2.5%	3.3%
2021 (approved)	2.0%	2.0%	2.2%

PROCEEDING

The OEB initiated a generic proceeding to review the 2022 inflation factors, and to determine how inflation factors should be set for several 2022 rate adjustment application types in light of uncharacteristic changes in inflation factors due to the ongoing COVID-19 pandemic. The inflation factors were the sole focus of the proceeding.

Three options for addressing the uncharacteristic changes in 2022 inflation factors were initially put forward by the OEB for consideration by participants.

- Option 1.** Continue to apply the existing methodology and formula (including the existing inflation indices) to the 2022 rate adjustments.
- Option 2.** Extend the approved values for 2021 inflation rates for 2022 rate adjustments.
- Option 3.** Update the 2022 inflation rates under the existing methodology but consider using a suitable sub-index of AWE or a related statistic, Average Hourly Earnings (AHE) that is more representative of labour inflation expected to be experienced by distribution and transmission Utilities in 2022.

The OEB also indicated that it would consider other options as presented by parties to the proceeding.

Thirteen parties (intervenors) participated in the proceeding. In addition to making submissions on the three options initially outlined by the OEB, some intervenors also proposed other options for consideration:

- Option 4.** Use of GDP-IPI (FDD) only (*Implicit Price Index for (National) Gross Domestic Product, Final Domestic Demand*).
- Option 5.** Smoothing using a simple average.

³ There are separate IPIs for electricity distribution utilities and electricity transmission utilities based on different weightings of the labour and non-labour components. EPCOR uses the same IPI as electricity distributors. Enbridge has its own IPI with no separate labour component.

In general, most parties noted that the scope of the proceeding was limited to the inflation factor values for 2022 rate adjustment applications, as any adjustment to the formula for 2022 may need to consider future years. Most parties highlighted the unknown duration, extent and recovery of COVID-19 impacts on the labour force, and on the economy generally.

OEB FINDINGS

The OEB has considered the needs of and impact to the Utilities, their customers and shareholders and found that Option 1 is consistent with just and reasonable rates for 2022. The range of 2022 inflation rates calculated from the formula are reasonable despite the increase in AWE from 2019 to 2020.

A typical residential electricity distribution and EPCOR customers will see a total bill increase of 0.6%, and the OEB does not find any compelling reason to vary from its established policy as set out in the Report.

The OEB cited its policy, and specifically the Report in the context of this proceeding, which promotes regulatory predictability, consistency and efficiency for utilities, and other stakeholders, and the OEB's statutory objectives to facilitate the maintenance of a financially viable electricity and natural gas industry. Additionally, the objective to protect customers' interests with respect to prices and the reliability and quality of electricity and gas services was considered.

Contact Us

Media Inquiries

Phone: 416-544-5171

Email: uebmedia@ueb.ca

Consumer Inquiries

416-314-2455/1-877-632-2727

www.ueb.ca

Ce document est aussi disponible en français.

This Backgrounder was prepared by OEB staff to inform Ontario's energy consumers about the OEB's decision and is not for use in legal or regulatory proceedings. It is not part of the OEB's reasons for decision; those may be found in the Decision and Order issued today, which is the official OEB document.