



BY EMAIL and WEB POSTING

June 29, 2023

To: All Rate-regulated Electricity Distributors and Transmitters
All Rate-regulated Natural Gas Utilities
Ontario Power Generation Inc.
All Registered Intervenors in 2024 Rate Applications
All Other Interested Parties

Re: 2024 Inflation Parameters

This letter provides the calculation for the inflation factors and establishes the process for their implementation in applicable 2024 rate applications.¹

The Ontario Energy Board (OEB) has established sector-specific inflation factors.² The calculation of the inflation factor for each sector uses the same data from Statistics Canada and the same basic formula, but differs for each sector based on the weights for labour and non-labour (i.e., materials, capital assets, and equipment).

For electricity distributors, the inflation measure (the Input Price Index or IPI) is set out in the *Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors*.³ For electricity transmitters, the methodology was approved in decisions for several transmitters.

The OEB has calculated the 2024 inflation factor for electricity distributors to be **4.8%**, and for electricity transmitters to be **5.4%**. Tables showing the derivation of the 2024 inflation values, per the approved methodologies, are provided in the attached appendix.

In the past, inflation factors were typically issued by the OEB either in October or November, prior to the start of a rate year. The OEB has decided to issue the 2024 inflation factors earlier to improve regulatory efficiency, allowing for this data to feed into

¹ Price Cap Incentive Rate-setting (IR), Annual IR, Revenue Cap IR, Custom IR, and other similar rate adjustment options made available by the OEB, as applicable.

² Electricity distribution, electricity transmission, and natural gas distribution. EPCOR Natural Gas Limited Partnership uses the electricity distribution IPI for its annual rate adjustments for its two natural gas service territories (as noted in EB-2018-0264 and EB-2018-0336).

³ EB-2010-0379, issued November 21, 2013 and updated December 4, 2013

the annual updates for electricity transmitters and Hydro One Networks Inc. Distribution on a timelier basis. These updates will flow into calculations of the Uniform Transmission Rates (UTRs) and Hydro One Sub-Transmission Rates, which in turn inform electricity distributors' Retail Transmission Service Rates (RTSRs).

Earlier availability of these transmission costs will allow electricity distributors to capture the most up to date costs in the RTSRs billed to customers, to be determined as part of their annual rate adjustments. This approach is expected to decrease amounts accumulated in the transmission variance accounts.⁴

For Price Cap Incentive Rate-setting (IR) and Annual IR applications for electricity distributors, the OEB's 2024 Incentive Rate-setting Mechanism (IRM) model, expected to be posted on the OEB's website in July 2023, will reflect the inflation factor change.

Other utilities which have utility-specific models (e.g., those under Revenue Cap IR or Custom IR) should update any applications, as appropriate, for approval by the OEB.

Any questions relating to this letter should be directed to the OEB's Industry Relations hotline, at 1-877-632-2727 or industryrelations@oeb.ca.

Yours truly,

Nancy Marconi
Registrar

Attachment: Appendix – 2024 Inflation Parameter Calculations

⁴ The transmission variance accounts include Account 1584, RSVA – Retail Transmission Network Charge, and Account 1586, RSVA - Retail Transmission Connection Charge.

**Appendix – 2024 Inflation Parameter Calculations
June 29, 2023**

Electricity Distribution – 2024 Inflation Factor

Table 1: Non-Labour Component - GDP-IPI (FDD) – National⁵

Year	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight
2021	116.4	117.5	119.1	121.0	118.500		
2022	123.6	125.3	126.2	127.5	125.650	5.9%	70%

Table 2: Labour Component – AWE – All Employees – Ontario⁶

Year	Annual	Annual % Change	Weight
2021	\$1,166.72		
2022	\$1,194.21	2.3%	30%

Table 3: Resultant Values – Annual Growth for the 2-Factor IPI Formula

Year	Annual GDP-IPI % Change (Table 1)	Weight	AWE % Change (Table 2)	Weight	Annual IPI	Annual % Change
2021					119.1	
2022	5.9%	70%	2.3%	30%	125.0	4.8%

Sources:

- [GDP-IPI \(FDD\): Statistics Canada, Table 36-10-0106-01 \(formerly CANSIM 380-0066\) - Price Indexes, gross domestic product, quarterly \(2012 = 100 unless otherwise noted\) - 2023 Q1, data accessed June 2, 2023](#)
- [Average Weekly Earnings \(AWE\): Statistics Canada, Table 14-10-0204-01 \(formerly CANSIM 281-0027\), Ontario, Industrial aggregate excluding unclassified businesses, annual \(current dollars\), data accessed June 2, 2023](#)

⁵ As set out in the EB-2021-0212, OEB 2022 IPI Generic Proceeding, Procedural Order No. 1, Fact Sheet, August 27, 2021, the calculations of the “Annual % Change” in Table 1 and Table 2 are based on the logarithmic growth rate, as opposed to the arithmetic growth rate.

⁶ Ibid

Electricity Transmission – 2024 Inflation Factor

Table 1: Non-Labour Component - GDP-IPI (FDD) – National⁷

Year	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight
2021	116.4	117.5	119.1	121.0	118.500		
2022	123.6	125.3	126.2	127.5	125.650	5.9%	86%

Table 2: Labour Component – AWE – All Employees – Ontario⁸

Year	Annual	Annual % Change	Weight
2021	\$1,166.72		
2022	\$1,194.21	2.3%	14%

Table 3: Resultant Values – Annual Growth for the 2-Factor IPI Formula

Year	Annual GDP-IPI % Change (Table 1)	Weight	AWE % Change (Table 2)	Weight	Annual IPI	Annual % Change
2021					117.7	
2022	5.9%	86%	2.3%	14%	124.2	5.4%

Sources:

- Please refer to the Sources for Electricity Distribution, as set out in this Appendix.

⁷ Ibid

⁸ Ibid