



BY EMAIL and WEB POSTING

June 20, 2024

To: All Rate-regulated Electricity Distributors and Transmitters
All Rate-regulated Natural Gas Utilities
Ontario Power Generation Inc.
All Registered Intervenors in 2025 Rate Applications
All Other Interested Parties

Re: 2025 Inflation Parameters

This letter provides the calculation for the inflation factors and establishes the process for their implementation in applicable 2025 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 parameters 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 2025 inflation factor for electricity distributors to be **3.6%**, and for electricity transmitters to be **3.7%**. Tables showing the derivation of the 2025 inflation values are provided in the attached Appendix.

For Price Cap Incentive Rate-setting (IR) and Annual IR applications for electricity distributors, the OEB's 2025 Incentive Rate-setting Mechanism (IRM) model, expected to be posted on the OEB's website in July 2024, will reflect the inflation factor change.

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.

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.

Statistics Canada Data Revisions

The OEB notes that on November 30, 2023, Statistics Canada revised certain GDP data.⁴ At the same time, Statistics Canada changed the reference year (or base year) for this GDP data from 2012 to 2017.⁵

In calculating the 2025 Inflation Parameters, the OEB has relied on the latest (revised) Statistics Canada data. This is in accordance with OEB policy, which stipulates that “the most recently available annual change” is to be used.⁶

As a result of the Statistics Canada changes, the calculation for the 2025 Inflation Parameters uses the revised price data for 2022, which is different than the 2022 price data used in the calculation for the 2024 Inflation Parameters. In other words, for the 2025 Inflation Parameters, 2023 price data was compared against the revised 2022 price data, while for the 2024 Inflation Parameters, the original 2022 data was compared against 2021 data.

Using the original 2022 data for the 2025 Inflation Parameters calculation would not result in an accurate calculation because of the changes from Statistics Canada. However, the OEB concludes that comparing the 2023 price data to the revised 2022 price data yields a result that is reasonable.⁷

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 – 2025 Inflation Parameter Calculations

⁴ Statistics Canada, The 2020 to 2022 [Revisions](#) of the Income and Expenditure Accounts, November 30, 2023.

⁵ The reference year (or base year) was changed by Statistics Canada from 2012=100 to 2017=100.

⁶ EB-2010-0379, Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors, issued November 21, 2013 and updated December 4, 2013, pp.10 & 11.

⁷ For comparison, the Canadian Consumer Price Index (CPI) rose 3.9% on an annual average basis in 2023: Statistics Canada, [The Daily](#), January 16, 2024.

**Appendix – 2025 Inflation Parameter Calculations
June 20, 2024**

Electricity Distribution – 2025 Inflation Factor

Table 1: Non-Labour Component - GDP-IPI (FDD) – National⁸

Year	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight
2022	114.3	116.1	117.1	118.4	116.475		
2023	119.1	120.4	121.4	122.8	120.925	3.7%	70%

Table 2: Labour Component – AWE – All Employees – Ontario⁹

Year	Annual	Annual % Change	Weight
2022	\$1,193.26		
2023	\$1,231.95	3.2%	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
2022					125.0	
2023	3.7%	70%	3.2%	30%	129.6	3.6%

Sources:

- [GDP-IPI \(FDD\): Statistics Canada, Table 36-10-0106-01 \(formerly CANSIM 380-0066\) - Price Indexes, gross domestic product, quarterly \(2017 = 100 unless otherwise noted\) - 2024 Q1, data accessed May 31, 2024](#)
- [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 May 31, 2024](#)

⁸ 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.

⁹ Ibid.

Electricity Transmission – 2025 Inflation Factor

Table 1: Non-Labour Component - GDP-IPI (FDD) – National¹⁰

Year	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight
2022	114.3	116.1	117.1	118.4	116.475		
2023	119.1	120.4	121.4	122.8	120.925	3.7%	86%

Table 2: Labour Component – AWE – All Employees – Ontario¹¹

Year	Annual	Annual % Change	Weight
2022	\$1,193.26		
2023	\$1,231.95	3.2%	14%

Table 3: Resultant Values – Annual Growth for the 2-Factor IPI Formula¹²

Year	Annual GDP-IPI % Change (Table 1)	Weight	AWE % Change (Table 2)	Weight	Annual IPI	Annual % Change
2022					124.2	
2023	3.7%	86%	3.2%	14%	128.8	3.7%

Sources:

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

¹⁰ Ibid.

¹¹ Ibid.

¹² Note that the Annual % Change in Table 3 is calculated to be 3.7% excluding rounding impacts.