



November 9, 2020

To: All Rate-regulated Electricity Distributors and Transmitters
All Rate-regulated Natural Gas Utilities
Ontario Power Generation Inc.
All Registered Intervenors in 2021 Rate Applications
All Other Interested Parties

Re: 2021 Inflation Parameters

This letter establishes the process for the implementation of the inflation factor for use in 2021 rate adjustment applications.¹ In light of the continued uncertainty regarding the COVID-19 pandemic, the OEB is establishing options for utilities to consider. The approach laid out in this letter provides increased flexibility with a range of options, taking into account pressures on customers and given potentially unique utility needs and circumstances.

The OEB has established sector specific inflation factors². 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.⁴ For Ontario Power Generation (OPG), the methodology was approved in the OEB's most recent decision on OPG's Custom IR plan.⁵

¹ Price Cap Incentive Rate-setting (IR), Annual IR and Custom IR update applications

² Electricity distribution, electricity transmission, natural gas distribution and Ontario Power Generation's regulated hydroelectric generation facilities.

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

⁴ EB-2018-0218, EB-2019-0082, EB-2018-0275 and EB-2019-0178

⁵ EB-2016-0152

The OEB has calculated the 2021 inflation factor for electricity distributors to be **2.2%**, and for electricity transmitters and OPG to be **2.0%**. Tables showing the derivation of the 2021 inflation values per the approved methodologies are provided in an appendix.

In light of the continued uncertainty regarding the severity and duration of the COVID-19 emergency, and its impact on electricity utilities and customers alike, the OEB is allowing utilities the discretion of electing the calculated IPI level per the OEB-approved methodology (offset by the applicable stretch factor and other adjustments for some plans) or a lower value. Utilities also have the discretion to forego the inflationary increase entirely.

An election lower than the calculated IPI level per the OEB-approved methodology would reduce rates for 2021 than otherwise would be the case, and the OEB's expectation is that this shortfall will not be restored by a compensatory increase in any subsequent year remaining in the incentive-rate setting term.

In applications for rate adjustments for 2021 rates, utilities should document the level of IPI that they are electing, up to the calculated value for their sector. For example, for an electricity distributor with an assigned stretch factor of 0.3% that chooses an IPI for 2021 rates of 1.5% instead of the calculated value of 2.2%, its net inflation adjustment would be 1.2%. Utilities that have filed applications for January 1, 2021 rates must make their election by November 19, 2020 by filing a letter on the record of their 2021 rates proceeding. Utilities that have filed or are planning to file rate applications for May 1, 2021 rates must do the same by February 5, 2021.

All queries on the inflation parameters should be directed to the OEB's Industry Relations hotline, at 416-440-7604 or industryrelations@oeb.ca. The OEB's toll-free number is 1-888-632-6273.

Yours truly,

Original Signed By

Christine E. Long
Registrar

Attachment

Appendix: 2021 Inflation Parameters by Industry Sector

2021 Input Price Index for Electricity Distributors

Year	Inputs and Assumptions											
	Non-Labour GDP-IPI (FDD) - National							Labour AWE - All Employees - Ontario			Resultant Values - Annual Growth for the 2-factor IPI	
	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight	Annual	Annual % Change	Weight	Annual	Annual % Change
2018	109.4	109.9	110.6	111	110.225			\$ 1,021.38			108.6	
2019	111.4	112.2	112.6	113.3	112.38	1.9%	70%	\$ 1,049.51	2.7%	30%	111.0	2.2%

Sources:

- [GDP-IPI \(FDD\): Statistics Canada, Table 36-10-0106-01 \(formerly CANSIM 380-0066\) - Price Indexes, gross domestic product, quarterly \(2012 = 100 unless otherwise noted\) - 2019 Q4, data accessed August 28, 2020](#)
- [Average Weekly Earnings \(AWE\): Statistics Canada, Table 14-10-0204-01 \(formerly CANSIM 281-0027\), Ontario, all businesses excluding unclassified, annual \(current dollars\), data accessed August 28, 2020](#)

2021 Input Price Index for Electricity Transmission Revenue Cap Plans

Year	Inputs and Assumptions											
	Non-Labour GDP-IPI (FDD) - National							Labour AWE - All Employees - Ontario			Resultant Values - Annual Growth for the 2-factor IPI	
	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight	Annual	Annual % Change	Weight	Annual	Annual % Change
2018	109.4	109.9	110.6	111	110.225			\$ 1,021.38			108.4	
2019	111.4	112.2	112.6	113.3	112.375	1.9%	86%	\$ 1,049.51	2.7%	14%	110.6	2.0%

Sources:

- [GDP-IPI \(FDD\): Statistics Canada, Table 36-10-0106-01 \(formerly CANSIM 380-0066\) - Price Indexes, gross domestic product, quarterly \(2012 = 100 unless otherwise noted\) - 2019 Q4, data accessed August 28, 2020](#)
- [Average Weekly Earnings \(AWE\): Statistics Canada, Table 14-10-0204-01 \(formerly CANSIM 281-0027\), Ontario, all businesses excluding unclassified, annual \(current dollars\), data accessed August 28, 2020](#)

2021 Input Price Index for OPG's Prescribed Hydroelectric Price Cap IR Plan

Year	Inputs and Assumptions											
	Non-Labour GDP-IPI (FDD) - National							Labour AWE - All Employees - Ontario			Resultant Values - Annual Growth for the 2-factor IPI	
	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight	Annual	Annual % Change	Weight	Annual	Annual % Change
2018	109.4	109.9	110.6	111	110.225			\$ 1,021.38			108.4	
2019	111.4	112.2	112.6	113.3	112.38	1.9%	88%	\$ 1,049.51	2.7%	12%	110.6	2.0%

Sources:

- [GDP-IPI \(FDD\): Statistics Canada, Table 36-10-0106-01 \(formerly CANSIM 380-0066\) - Price Indexes, gross domestic product, quarterly \(2012 = 100 unless otherwise noted\) - 2019 Q4, data accessed August 28, 2020](#)
- [Average Weekly Earnings \(AWE\): Statistics Canada, Table 14-10-0204-01 \(formerly CANSIM 281-0027\), Ontario, all businesses excluding unclassified, annual \(current dollars\), data accessed August 28, 2020](#)