



October 1, 2021

Ms. Christine Long  
Registrar and Board Secretary  
Ontario Energy Board  
2300 Yonge Street  
P.O. Box 2319  
Toronto, ON M4P 1E4

Re: Ontario Energy Board Motion – Values of 2022 Inflation Factor  
AMPCO Submission  
OEB File No. EB-2021-0212

Dear Ms. Long:

Attached please find AMPCO's submission on the inflation factor to be used to set rates for utilities for the year 2022.

Best Regards,

A handwritten signature in blue ink, appearing to read "Colin Anderson".

Colin Anderson  
President  
Association of Major Power Consumers in Ontario

## EB-2021-0212

**IN THE MATTER OF** the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B);

**AND IN THE MATTER OF** a proceeding commenced by the Ontario Energy Board  
on its own motion to consider the values of the inflation factors to be used  
in rate adjustment applications for rates effective in 2022

### AMPCO's Final Submissions October 1, 2021

On August 6, 2021, pursuant to sections 19, 36 and 78 of the Ontario Energy Board Act, 1998, the OEB issued a Notice on its own motion to initiate a proceeding to consider the inflation factor to be used to set rates for electricity transmitters and electricity and natural gas distributors (collectively, Utilities) for the year 2022.

### Background

Between major rate applications, utility rates are adjusted annually using an OEB-approved 2-factor formula that is tied to inflation (using several inflation indices published annually by Statistics Canada) and productivity factor(s) intended to promote efficiency. The inflation rates and productivity factors in the OEB-approved formula are updated annually by the OEB based on macro-economic data. OEB Staff prepared a Fact Sheet<sup>1</sup> on the inflation factor methodology and preliminary calculations of the 2022 inflation factors which was very helpful in the preparation of AMPCO's submission.

The OEB determined that the preliminary inflation calculations for 2022 rate adjustments suggest that the inflation indices typically used in the rate adjustment formulas may not be representative of the inflation that utilities will experience in 2022. Preliminary calculations<sup>2</sup> show the following values compared to the OEB-approved 2021 inflation factor values:

Table 1: Inflation Factor Values

	Electricity Distribution & EPCOR	Electricity Transmission	Enbridge
2021 (approved)	2.2%	2.0%	2.0%
<b>2022 (estimate)</b>	<b>3.3%</b>	<b>2.5%</b>	<b>1.7%</b>
Variance	1.1%	0.5%	-0.3%

The inflation escalator (Input Price Index or IPI) is used to set rates and there is a separate IPI for electricity distribution utilities and electricity transmission utilities based on different weightings of the labour and non-labour components as follows:

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<sup>1</sup> PO#1 dated August 27, 2021 Schedule B

<sup>2</sup> Not expected to materially change when final calculations are made

Table 2: IPI – Weighting of IPI Labour and Non-Labour Components

	<b>Average Weekly Earnings (AWE) (Labour)</b>	<b>Implicit Price Index for Gross Domestic Product (GDP-IPI) (Non-Labour)</b>
Electricity & EPCOR	30%	70%
Transmission	14%	86%

EPCOR uses the same IPI as electricity distributors. Enbridge Gas Inc. has its own IPI with no separate labour component.

The OEB reviewed reasons for the changes in the 2022 inflation rates, and the differences in the inflation rates between the energy sectors of electricity distributors and EPCOR, electricity transmitters, and Enbridge and determined the following:

- The non-labour index, the GDP-IPI shows a 2020 over 2019 change of 1.7%.
- The labour inflation component of the inflation factor, AWE (Ontario, all businesses), increased by about 7% from 2019 to 2020.

According to Statistics Canada, the increases in Average Weekly Earnings and related statistics like Average Hourly Earnings, are largely affected by how COVID-19 lockdowns and other restrictions disproportionately affected, through removal from the active work force, lower wage-earning employees, relative to salaried employees, resulting in a higher average weekly earnings for the active workforce during the COVID-19 pandemic. The OEB concludes this increase in the labour inflation component is a significant driver of the projected increases to the total inflation factors used to set rates for utilities, while employees of utilities are largely higher earning salaried workers in the labour force.<sup>3</sup>

The OEB is considering three options to address the 2022 inflation rates as follows:<sup>4</sup>

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

In terms of ranking the impact of the three options, AMPCO notes Option 2 has the least impact on 2022 inflation factors and customers' bills (no change from 2021), followed by Option 3 and then Option 1.

<sup>3</sup> EB-2021-0212 Ontario Energy Board Notice

<sup>4</sup> EB-2021-0212 Ontario Energy Board Notice

AMPCO does not support Option 1, continuing to apply the formula and the existing inflation indices to arrive at 2022 inflation factors of 3.3% and 2.5% for electricity distribution and transmission, respectively, for two reasons. The first reason is that the labour component change in the inflation component between 2020 and 2019 is unusual and atypical and largely driven by temporary and permanent layoffs due to COVID-19 restrictions, thus, the uncharacteristic nature of the change needs to be further assessed and not just accepted as a flow through outcome for customers. The second reason is the same workforce that experienced these layoffs are also electricity and gas customers and their ability to pay higher hydro and gas bills at the levels calculated for 2022 has been significantly impacted by COVID-19 and their loss of employment. These customers have not gone away. In AMPCO's view it is not in the public interest to pursue Option 1 when other more reasonable options are available that recognize the atypical nature of the labour component changes due to COVID-19.

Similarly, AMPCO does not favour Option 2 to extend the approved values for 2021 inflation rates for 2022 rate adjustments. This option intentionally ignores the changes due to COVID-19. In AMPCO's view the changes, although uncharacteristic, need to be considered in some way by the OEB in determining the inflation factor for 2022.

With respect to Option 3, AMPCO does not support the targeted adjustment of only one of the inputs to the inflation factor calculation by using sub-indices of AWE and AHE. In AMPCO's view, there is little precedent for making such an adjustment to a single input factor. To assume that COVID-19 has only affected the labour component of the calculation is overly simplistic and will likely result in incorrect inflation factors. The GDP (GDP-IPI) component of the calculation measures price changes of goods and services purchased by households and government (the expenditure side of the GDP), plus capital equipment. There is no doubt that COVID-19 will have an impact on this non-labour input and simply adjusting only the labour component to attempt to compensate for the impacts of COVID-19 is heavy-handed and will not yield appropriate results.

The Notice indicates that the OEB will also consider other options as presented, with supporting rationale, by parties. AMPCO proposes another option for the OEB's consideration. AMPCO proposes that the OEB consider taking the average of the last two years of IPI data, 2021 and 2022, to calculate the inflation factor for 2022.

Table 3: AMPCO's Proposed Option

	Electricity Distribution & EPCOR	Electricity Transmission
2021 (approved)	2.2%	2.0%
2022 (estimate)	3.3%	2.5%
<b>Average</b>	<b>2.75%</b>	<b>2.25%</b>

AMPCO's option incorporates the uncharacteristic increase in the labour inflation component of the inflation factor (AWE) but at the same time smooths out the cost impact on customers in recognition of affordability for customers. This approach does not change the existing methodology in a comprehensive and deeply quantitative fashion – it simply suggests that an unsophisticated averaging

(smoothing) of factors may be able to achieve the intended results. AMPCO proposes that this approach (the average of the previous 2 years) remain in place until the impacts of COVID-19 are no longer material drivers of the change in IPI. The OEB has established that rates should be predictable and stable and the price adjustment mechanism needs to be transparent, simple and justifiable.<sup>5</sup> AMPCO submits that its proposal achieves stable rates and is transparent and justifiable, and simple to calculate and understand.

## **Conclusion**

AMPCO proposes that the average of the inflation factor of the latest 2 years (in this case 2021 and 2022) is an appropriate way to calculate the values of the inflation factors to be used in rate adjustment applications for rates effective in 2022 as it incorporates the impact of the atypical change in the labour component of the IPI (2020 over 2019) due to COVID-19 and addresses the affordability issues for customers. This calculation could remain in place until COVID-19 impacts are no longer drivers of an uncharacteristic change in labour or non-labour inputs. In AMPCO's view, its approach is transparent, simple and justifiable.

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<sup>5</sup> Goals and Parameters of an IR Plan Inflation Factor Board staff All Stakeholder Meeting November 2 – 3, 2006 [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKewjoqo29uKfzAhVGEFkFHWorDnkQFnoECAYQAw&url=https%3A%2F%2Fwww.oeb.ca%2Fdocuments%2Fcases%2FEB-2006-0209%2Fstaff-shareholdermeeting\\_081106.pdf&usg=AOvVaw3xz2kCWTFM4iWA\\_C\\_By8ny](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKewjoqo29uKfzAhVGEFkFHWorDnkQFnoECAYQAw&url=https%3A%2F%2Fwww.oeb.ca%2Fdocuments%2Fcases%2FEB-2006-0209%2Fstaff-shareholdermeeting_081106.pdf&usg=AOvVaw3xz2kCWTFM4iWA_C_By8ny)