October 3, 2021

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

Dear Ms Long:

EB-2021-0212 – OEB Generic Proceeding – 2022 Inflation Factor

Please find, attached, Final Submissions on behalf of the Consumers Council of Canada in the above-referenced proceeding.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: All parties

FINAL SUBMISSIONS OF THE CONSUMERS COUNCIL OF CANADA

RE: GENERIC HEARING ON 2022 INFLATION FACTORS FOR 2022 RATE APPLICATIONS

EB-2021-0212

Introduction:

On August 6, 2021, the Ontario Energy Board ("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 ("the Utilities") for the year 2022.

The OEB has done preliminary calculations of the inflation factors used for adjusting rates in Price Cap IR, Annual Index IR, Revenue Cap IR and other approved rate adjustment applications for rates effective in 2022. The 2022 values as compared to the 2021 inflation factor values are set out below[1]:

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

The OEB analysis shows that the labour inflation component of the inflation factor, Average Weekly Earnings (Ontario) increased by about 7% from 2019 to 2020 largely because of temporary and permanent layoffs due to COVID-19 restrictions disproportionately affecting lower wage-earning workers.[2] In 2019 the increase in the AWE was 2.7%.

The OEB has initiated this review given the "uncharacteristic" change in the 2022 inflation factors driven by pandemic-related restrictions on the workforce.

The OEB has set out three options for setting rates in 2022 and indicated its intent to also consider other options. These options are:

- Continue to apply the existing methodology and formula (including the existing inflation indices) to the 2022 rate adjustments;

- Extend the approved values for 2021 inflation rates for 2022 rate adjustments;

[1] EB-2021-0212 Procedural Order No. 1, p. 1
[2] Procedural Order No. 1, pp. 1-2

- 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.[3]

OEB Staff prepared a Fact Sheet with relevant information to assist parties with their submissions. These are the submissions of the Consumers Council of Canada ("Council").

Submissions:

The Council agrees with the OEB that there has been an "uncharacteristic" change in the labour component of the inflation factor resulting from the COVID-19 pandemic. The change effectively skews the resulting inflation increase arising from the application of the existing methodology. The 7% increase in the AWE is not reflective of the average change in labour costs across the economy. In addition, it is not at all reflective of increases in utility wages between 2019 and 2020.

The Council submits that unless the OEB corrects this anomaly, 2022 utility rates will be increased by an amount that would not be just and reasonable. Accordingly, the Council does not support Option 1. The increases of 3.3% and 2.5% for electricity and transmission utilities arise from an increase in the AWE that all parties recognized as uncharacteristic. In order to be fair to ratepayers the OEB should reject this approach. This option has the largest impact on 2022 rates.

Option 2 involves extending the approved values for 2021 for the 2022 rate adjustments. The Council is of the view that this approach should also be rejected by the OEB, although we are less averse to this approach than Option 1. The problem with this approach is it does not take into account the most updated changes to the Gross Domestic Product Implicit Price Index for Final Domestic Demand ("GDP-IPI (FDD)"). It represents the largest component of the IPI. For electricity distributors it represents 70% of the index and for transmitters it represents 86%.

The Council takes no position on Option 3. It is unclear, from our perspective, if there is a more appropriate sub-index that is more representative of labour inflation expected to be experienced by utilities in 2022.

Conclusions:

As noted above, the least preferred approach, from the Council's perspective is Option 1. Utilities would receive rate increases based on an anomaly (due to the COVID-19 pandemic) that should not impact their costs. If the OEB adopts this approach it should not necessarily be limited to 2022. Going forward the OEB should consider whether it is appropriate to continue this approach for future years so that 2022 does not represent a windfall for utilities.

[3] Notice of Hearing EB-2021-0212 dated August 6, 2021

The Council submits that the simplest approach for 2022 would be to revert to the approach it adopted for the period 2007-2013 – deriving the IPI using the GDP-IPI (FDD) for electricity distributors. It is also the index used to derive Enbridge Gas Inc. rates for its 2019-2023 rate plan. The OEB has deemed this approach acceptable for years. Consistency between the natural gas and electricity sectors is a good reason to adopt this approach. The COVID-19 pandemic has demonstrated that using the AWE when deriving the IPI creates an uncharacteristic anomaly with respect to the index. Ratepayers should not bear the costs associated with the current approach.

All of which is respectfully submitted.