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October 15, 2021

Christine Long
Registrar
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long,

RE: EB-2021-0212 - Review of Inflation Factors Used to Set Rates for the Year 2022 – Reply Submissions of London Property Management Association

Introduction

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 on August 6, 2021.

This notice was prompted by preliminary calculations of the inflation factors for 2022, as compared for 2021. While the change for Enbridge Gas Inc. ("Enbridge") (which is not impacted by labour inflation) was a decrease from 2.0% to 1.7%, the increase for electricity transmitters was from 2.0% to 2.5% and for electricity distributors and EPCOR was from 2.2% to 3.3%.

In Procedural Order No. 1 dated August 27, 2021, the OEB invited parties to file submissions on whether it was appropriate to apply the existing methodology and formula or whether two other options put forward by Board staff should be considered. The OEB also invited parties to present other options. A number of parties made submissions on October 1, 2021.

The OEB also made provision for reply submissions. The following are the reply submissions of the London Property Management Association ("LPMA") with respect to the inflation rates to be used for 2022.

Reply Submissions

LPMA has reviewed all of the submissions filed by the parties in this proceeding. The following reply submissions are limited to the submissions of the Electricity Distributors Association ("EDA") and the Coalition of Large Distributors ("CLD"). Both the EDA and CLD propose that the OEB should continue to apply the existing methodology and formula in setting the inflation rate for 2022.

The submissions of the EDA and CLD are very similar in that they both stress the need for the OEB to adopt a principles decision-making process and to stick with it until a thorough evidence-based review results in the status quo or in a new methodology and formula.

Both parties stress the need to maintain a stable regulatory regime that is predictable, understandable and benefits all stakeholders. As the CLD noted, an ad hoc departure from the OEB's principles-based rate-setting methodologies run counter to the predictability of rate setting, which is an important goal and outcome of regulation.

LPMA agrees that deviating from established methodologies, without expert evidence and a fulsome discovery process, sets a precedent that deviations can be made on an ad hoc basis.

Both the EDA and LDC reference the recent consideration of prescribed interest rates for deferral and variance accounts. LPMA believes that is a good illustration of what happens when the OEB departs from a principles-based approach. In its letter of June 16, 2020, the OEB set the 2020 Q3 prescribed interest rate using a methodology that deviated from the methodology approved and used by the OEB for many years. The OEB did this unilaterally, without any consultation with parties. After a number of stakeholders, LPMA included, asked the OEB to use the existing approved methodology, the OEB reverted back to the existing methodology. This current proceeding is an improvement in process as the OEB is consulting with stakeholders before making a decision.

As noted in its October 1, 2021 submissions, LPMA's main concern with maintaining the current methodology and formula is that the consideration in this proceeding is limited to the inflation factor for 2022. In fact, LPMA noted that the benefit of Option 1 is that it maintained the current approved formula used to calculation the inflation factor, with no changes in the use of the AWE as the labour component of the calculation. LPMA also noted that changes in the labour component of the formula should only be done as part of a comprehensive review of alternative indices.

In its October 1, 2021 submission (page 2), LPMA noted this concern in limiting the discussion of the inflation factor in this proceeding to 2022 only:

> *"… if the OEB were to determine that it would continue to apply the existing methodology and formula, including the existing indices, to the 2022 rate adjustments, then it should continue to do this in the determination of the 2023 rates regardless of what the indices are that would be used in the 2023 determination. As an example, the significant increase in the AWE of approximately 7% in 2020 is driving up the inflation index calculated for 2022. If the actual AWE for 2021 (used to calculate the 2023 inflation index) is close to zero, or even negative, as the number of lower paying jobs begins to recover to pre-pandemic levels, then the OEB should not use a different approach for 2023. It would not be just and reasonable for ratepayers to shoulder the burden of a higher inflation rate for 2022 but not benefit from a lower rate in 2023. Similarly, if the OEB were to determine that a lower inflation rate should be used for 2022 than results from the formula, it would not be appropriate to revert to the formula for 2023 in the AWE is significantly lower than usual (or negative). This would not be fair to the distributors."*

LPMA is encouraged that both the EDA and CLD recognize that a principles-based approach in setting the inflation rate does not end with 2022. In particular, the EDA states at page 4 of its submissions that:

> *"We advocate for a fact-based approach that considers the effect on 2022 rates **<u>and the rates in the following years</u>**, where forecast rates are estimated using a range of reasonable input data."* (emphasis added)

The EDA then indicates that the OEB should analyze the AWE for whether it will self-correct in 2023 (or in a later year) and revert to normal values; if it will reflect a longer-lived disruption to the labour market; if the labour market is experiencing a restructuring; and if the economy is entering an inflationary phase. All of these are relevant issues and they are just as relevant for 2023 and future years as they are for 2022.

The CLD makes a similar statement at pages 7-8 of its submissions:

> *"To the extent that the driver of increased AWEs is "in part" due to the impact of pandemic measures on below-average income earners in the workforce, it is anticipated that this will be* ***corrected naturally through lesser than expected growth in the AWEs index in subsequent years*** *as those individuals re-enter the workforce on a more sustained basis."* (emphasis added)

In summary, LPMA submits that if the OEB determines that it will maintain the current approved methodology and formula for setting the 2022 inflation rate based on maintaining a principles-based approach to rate setting, then it should continue with that approach in subsequent years as well.

Yours very truly,

Randy Aiken

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