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BY EMAIL and RESS

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Our File: EB20210212

Ontario Energy Board
2300 Yonge Street
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Toronto, Ontario
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Attn: Christine Long, Registrar

Dear Ms. Long:

Re: EB-2021-0212 – 2022 Inflation Factor – SEC Reply Submissions

We are counsel to the School Energy Coalition ("SEC"). Pursuant to Procedural Order No.1, these are SEC's brief reply submissions.

Current Methodology Would Not Lead to Just and Reasonable Rates

There is general agreement amongst ratepayer groups that the AWE component of the OEB's Inflation Factors for 2022 will result in a rate increase to customers that is neither just nor reasonable and thus requires the OEB to make some form of change to the calculation. The evidence from Statistics Canada is very clear that the 7% annual change in the AWE between 2019 and 2020 is not reflective of actual changes in wages, but unique workforce compositional changes caused by COVID-19.[1]

SEC continues to believe the annual change in the AHE (Ontario) Fixed Weight index is the best alternative to the AWE. OEB Staff takes a similar view.[2] In the alternative, SEC submits using the annual change in GDP-IPI as the basis for the entire inflation calculation as an appropriate option and is shared by LPMA.[3]

Response to the EDA and CLD

The Electricity Distributors Association ("EDA") and the Coalition of Large Distributors ("CLD") oppose any changes to the labour component of the 2022 Inflation Factors, yet do not actually contest the underlying problem in the AWE data related to COVID-19 identified by Statistics Canada. Their objection is primarily based on the view that current methodology is important to maintain a stable and

[1] Preliminary Calculations of 2022 Inflation Factors for 2022 Non-Cost of Service Rate Adjustment Applications, Fact Sheet of Statistics Canada and Bank of Canada Data and Description of Possible Alternative Inflation Indices for 2022 Rates Compiled by Ontario Energy Board Staff ["Fact Sheet"], p.4

[2] OEB Staff Submission, p.18

[3] LPMA Submission, p.7; CCC Submission, p.3; VECC Submission, p.5

predictable ratemaking framework and the OEB should, as the CLD characterizes this process, as an "ad hoc" adjustment.[4]

SEC does not disagree that in normal circumstances the OEB should avoid making singular adjustments to part of its rate-making methodology, but this is a unique situation. Here, the OEB is faced with a specific problem caused by a once-in-a-generation pandemic. One of its mechanistic inputs to the Inflation Factor, AWE, no longer does what it was meant to do – reflecting the annual change in wage rates in the Ontario economy. In light of this, the OEB on its own motion, has initiated a generic proceeding to allow a full record with two rounds of submissions to help it determine what, if anything, should be done. This was the correct course of action.

Both the EDA and CLD reference the recent consideration of prescribed interest rates for Deferral and Variance Accounts as an example of a situation where, after criticism from stakeholders, the OEB reversed its originally decision and determined it would not change methodologies, even with significant volatility in the data caused by COVID-19.[5]

SEC submits that the two situations are not at all analogous. With respect to prescribed interest, the OEB without consultation with stakeholders decided it would set the Q3 2020 interest rates based on the average of the Q2 and Q3 rates, using the approved methodology as a way to smooth the impact of the significant decline due to changes in market conditions caused by COVID-19.[6] SEC, amongst others, objected and noted that interest rate methodology was doing exactly what it was intended to do, reflect market conditions and be responsive to changes.[7] Here, the problem is that the methodology is not doing what it is intended. The labour component does not reflect changes in wage rates but something entirely different, changes in workforce composition due to pandemic-related shutdowns.

Further, in the prescribed interest rate discussion stakeholders commented that the process was not fair. The OEB made its determination without seeking input from any affected stakeholders.[8] In contrast, the OEB has initiated a generic proceeding with respect to the Inflation Factors, to hear from all affected parties based on an evidentiary record before it renders its decision.

CLD argues that "there is no evidence on the record of this proceeding that maintaining the existing approach to determining the inflation factor (*i.e.*, Option 1) will not result in rates that are appropriate."[9]

SEC disagrees. The evidence is clear regarding the problems with the AWE data for 2020, and as a result it no longer is reflective of its purpose, i.e. to reflect changes in the Ontario wage rates. The inclusion of AWE results in Inflation Factors that are materially incorrect

CLD further argues, in support of maintaining the status quo, that "there is no evidence indicating that the preliminary 2022 inflation numbers calculated by the OEB for 2022 (the highest of which is 3.3%)

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[4] See EDA Submission, p.5; CLD Submission, p.8
[5] CLD Submission, p.5; EDA Submission, p.5
[6] OEB Letter, Re: Re-establish the 2020 Q3 Prescribed Interest Rate for Deferral and Variance Accounts, July 30, 2020
[7] SEC Letter, Re: Q3 Prescribed Interest Rates, June 18, 2020
[8] The OEB asked for comments only for the Q4 prescribed interest rates. See OEB Letter, Re: 2020 Q3 Prescribed Interest Rates, June 16, 2020, p.3
[9] CLD Submission, p.8

are so materially out of line with inflation that utilities could experience in 2022 as to warrant an ad hoc change to the measures used for determination of the inflation factor."[10] The evidence indicates the exact opposite. Over the same period as the AWE is calculated (annual change between 2019 and 2020), the general Ontario utility sub-index of the AWE not only did not increase by anything close to 7%, but actually *decreased* by 0.6%. Similarly, the AWE sub-index for Ontario electric power generation, transmission, and distribution sub-index *decreased* by 1.3%.[11]

SEC does agree with the CLD in one regard, that it would be unfair to make a one-year adjustment to the methodology.[12] As SEC discussed in its initial submissions, the OEB must ensure that any decision regarding 2022, be it a change in methodology or not, must the same for 2023 and potentially 2024. As the workforce returns to a more normal post-pandemic balance, the same problems causing the annual change in the AWE to be uncharacteristically high in 2022, will likely result in an annual change in AWE that is too low in 2023 and 2024. A consistent approach for these years is of the utmost importance for fairness for both ratepayers and utilities.

Summary

SEC submits, that the OEB should adopt as the labour component of its 2022 Inflation Factors the annual change in AHE (Ontario) Fixed Weight index to correct the distortionary impact caused by COVID-19. In addition, whatever decision the OEB does make, it must ensure that it makes a consistent decision in 2023 and likely 2024, when the AWE calculation for those years may result in an annual change that is unusually low and potentially deflationary.

All of which is respectfully submitted.

Yours very truly,
Shepherd Rubenstein P.C.

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Mark Rubenstein

cc: Ted Doherty, SEC (by email)
Intervenors (by email)

[10] CLD Submission, p.6
[11] Fact Sheet, p.26
[12] CLD Submission, p.4