Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

October 15, 2021

Ms. Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Long:

Re: Ontario Energy Board (OEB) Staff Reply Submission
Generic Hearing on 2022 Inflation Factors for 2022 Non-Cost of Service Rate Adjustment Applications
OEB File Number: EB-2021-0212

Please find attached OEB staff's reply submission in the above referenced proceeding, pursuant to Procedural Order No. 1.

Yours truly,

Georgette Vlahos
Digitally signed by Georgette Vlahos
Date: 2021.10.15 15:03:48 -04'00'

Georgette Vlahos
Advisor – Electricity Distribution: Major Rate Applications & Consolidations

Encl.

cc: All parties in EB-2021-0212

Ontario

ONTARIO ENERGY BOARD

OEB Staff Reply Submission

Reply Submission on the 2022 Generic Inflation Factor for 2022 Rate Adjustment Applications

EB-2021-0212

October 15, 2021

OEB Staff Reply Submission

OEB staff maintains its recommendation in the October 1, 2021 submission that either option 1 or option 3 (using the Fixed Weight Average Hourly Earnings) is a reasonable course of action for setting the 2022 Input Price Index (IPI) rate.

OEB staff notes that other parties made submissions and recommendations on the options identified by the OEB in the Notice and Procedural Order No. 1, and some parties also proposed two other options: (1) Use of GDP-IPI[1] only and, (2) Smoothing using a simple average. OEB staff addresses these new options and provides additional thoughts on option 1.

GDP-IPI Only

Some parties submitted a new option; that GDP-IPI be used as the sole inflation factor for 2022 rates. These parties noted that GDP-IPI is already used as the single-factor inflation measure for Enbridge's rate adjustment applications. Parties also noted that, as was also documented in the Fact Sheet, GDP-IPI was the inflation factor for electricity distributor IRM applications from 2007 until 2013, when it was replaced with the 2-factor IPI per the EB-2010-0379 Report.

While noting GDP-IPI was used as a single-factor inflation measure historically (and currently for Enbridge) and is a plausible option, OEB staff does not prefer it. OEB staff had indicated a preference for a two-factor IPI as discussed in the staff submission in the Enbridge proceeding.[2] Notwithstanding the OEB's decision in the Enbridge proceeding, it is OEB staff's view that a temporary adjustment to remove the labour component entirely from the formula applicable to electricity distributors and transmitters is not appropriate in this proceeding. This type of change should only be considered in a proceeding or consultation that is intended to review the methodology in its entirety.

Smoothing Using a Simple Average

Another alternative option for the 2022 IPI from one of the submissions was to average the inflation factors of the latest two years and to continue doing so until the impacts of COVID-19 are no longer drivers of an uncharacteristic change in labour and non-labour inputs. In this proceeding that would result in the average of the 2021 approved IPI and the 2022 IPI:

- For electricity distributors and EPCOR: 2.75%
- For electricity transmitters: 2.25%

[1] Implicit Price Index for (National) Gross Domestic Product, Final Domestic Demand
[2] EB-2017-0306/EB-2017-0307, OEB Staff_Sub_EGDI_Union_Amalgmtn_Rate Setting_20180615, June 15, 2018, p. 12 (link)

OEB staff submits that the smoothing proposal is transparent, simple and justifiable, but OEB staff does not recommend it. The concept of averaging inflation indices was explored in the EB-2010-0379 consultation but ultimately rejected by the OEB, as doing so would embed any extreme swings in the IPI into the inflation factor over the averaging period.[3] Further, the term of this option is open-ended and uncertain and the test of when the uncharacteristic change is no longer a driver is undefined. By accepting this option, the panel would presumably be committing to its continued use and would have to provide a determination on the thresholds to be met to end the use of this option.

Option 1

Two parties, the Coalition of Large Distributors (CLD) and the Electricity Distributors Association (EDA), expressly recommended that the OEB adopt option 1, continue to apply the existing Average Weekly Earnings (AWE). OEB staff wishes to comment on the following three aspects of those submissions:

- Regulatory Stability
- Rates Beyond 2022 and the Reverse Effect
- Other Inflationary Pressures

Regulatory Stability

As noted in its October 1 submission, OEB staff agrees with the CLD and EDA that the OEB must assess whether a change to the inflation factors for 2022 rate setting is appropriate, by weighing any change against the benefits of regulatory predictability, consistency, and efficiency.

While relying on established policies and processes, the OEB also needs flexibility to address on a timely and appropriate basis, situations that are, or appear to be, significantly out-of-the-ordinary, such as the government enforced shutdowns due to the COVID-19 pandemic. These shutdowns disproportionately affected lower wage earners, resulting in an unforeseen increase in AWE.

OEB staff submits that, based on the information and analysis available to it, and from credible agencies like the Bank of Canada and Statistics Canada, the OEB appropriately commenced this generic hearing on the inflation factor values for 2022 rate applications in order to consider what appear to be COVID-related impacts on, specifically, labour statistics, and on energy rate impacts, in order to ensure that rates

[3] EB-2010-0379, *Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors*, November 21, 2013 and corrected December 4, 2013, p. 6

remain “just and reasonable” for 2022 and beyond.

Further, the OEB has already shown that it can and will pivot accordingly in response to unanticipated events. With the declaration of the state of emergency and lockdown at the onset of the COVID-19 pandemic, the OEB quickly issued an accounting order establishing a deferral account by which utilities could track incremental costs that utilities might incur during the pandemic. The state of emergency was declared March 16, 2020, and the accounting order issued March 25, 2020. The OEB conducted a consultative process in subsequent months engaging utilities and other stakeholders on what would be legitimate costs for subsequent recovery and conditions under which costs would or would not be recoverable.[4] In this case the OEB acted swiftly – it did not wait for evidence demonstrating that its existing policies – for rate regulation generally or specifically for existing deferral and variance accounts –were “shown to be unsuitable”.

Rates beyond 2022 and The Reverse Effect

Most parties have noted that the OEB is considering only the inflation factor values for rate adjustment applications for 2022 and that any adjustment to the formula for 2022 may also need to be done for 2023 and possibly even 2024, depending on the progress of the pandemic and economic recovery.

OEB staff concurs with the comments of parties, and notes that OEB staff raised the same point in its submission.[5] There is limited recent actual data of how the economic recovery is proceeding. 2021 Q2 GDP data at a national level was released on August 27, 2021, and Q3 results will not be known until the end of November. Annual provincial GDP data for 2020 were released on March 2, 2021. Monthly AWE and average hourly earnings (AHE) data for July 2021 were released on September 28. 2021, and these numbers are preliminary and subject to change.

The annual 2021 GDP-IPI and AWE data should be published by the end of March 2022, this may indicate how the pandemic and economic recoveries are proceeding, and what trends in statistics are emerging. The degree of any “reverse effect”, and whether any further correction or adjustment needs to be considered for the 2023 IPIs can begin to be considered at that time. The OEB has been clear that the scope of this proceeding is limited to the setting of 2022 rates. OEB staff submits that in pursuing any of the options, adjustments to 2023 and beyond can be dealt with at that time to the extent they are necessary.

[4] EB-2020-0133, Consultation on the Deferral Account – Impacts Arising from the COVID-19 Emergency
[5] EB-2021-0212, OEB staff_SUB_GPIF_20211101, October 1, 2021, p. 11

Other Inflationary Pressures

Both the CLD and EDA have submitted that there are other inflationary pressures affecting utilities, "such as those arising from supply chain issues." [6] As well, the EDA stated that:

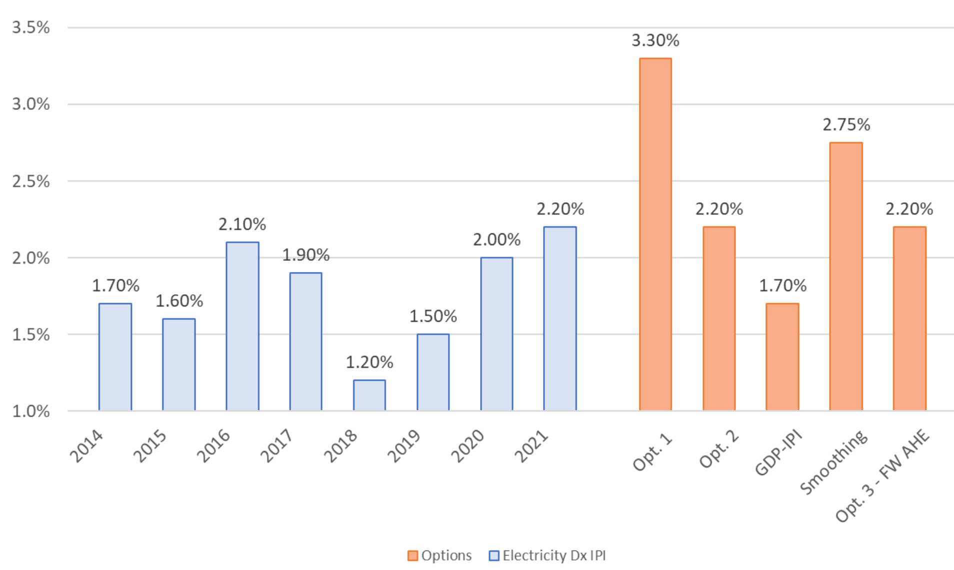
> [o]ur members have recounted several situations since the start of the pandemic where they have experienced atypical increases in the prices for materials and parts, consistent with recent reports that the economy is experiencing inflationary pressures.[7]

OEB staff submits that the argument and examples are items largely captured by non-labour inflation, i.e., GDP-IPI. The argument and examples do not provide sufficient insights into the labour inflation affecting utilities, which is the scope of this proceeding. OEB staff submits that the Panel could consider such information if it is provided in reply submissions.

Conclusion and Summary Graph of Options

OEB staff considers that its recommendation under Option 3, specifically using Fixed Weight AHE (Ontario, All Businesses except Unclassified), remains preferable based on conceptual grounds, if the OEB was inclined to change the existing formula in any way.

Chart 1 – Historical Actual 2-Factor IPI & Various 2022 Options



~All of which is respectfully submitted~

6 EB-2021-0212, CLD_SUB_GPIF, 20211001, October 1, 2021, p. 3
7 EB-2021-0212, EDA_SUB_GPIF_20211001, October 1, 2021, p. 3