



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

BY EMAIL and WEB POSTING

October 20, 2022

To: All Rate-regulated Electricity Distributors and Transmitters  
All Rate-regulated Natural Gas Utilities  
Ontario Power Generation Inc.  
All Registered Intervenors in 2023 Rate Applications  
All Other Interested Parties

**Re: 2023 Inflation Parameters**

This letter provides the calculation for the inflation factors and establishes the process for their implementation in applicable 2023 rate applications.<sup>1</sup>

The OEB has established sector-specific inflation factors.<sup>2</sup> The calculation of the inflation factor for each sector uses the same data from Statistics Canada and the same basic formula, but differs for each sector based on the weights for labour and non-labour (i.e., materials, capital assets, and equipment).

For electricity distributors, the inflation measure (the Input Price Index or IPI) is set out in the *Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors*.<sup>3</sup> For electricity transmitters, the methodology was approved in decisions for several transmitters.

The OEB has calculated the 2023 inflation factor for electricity distributors to be **3.7%**, and for electricity transmitters to be **3.8%**. Tables showing the derivation of the 2023 inflation values, per the approved methodologies, are provided in the attached appendix.

For Price Cap Incentive Rate-setting (IR) and Annual IR applications, the OEB will adjust the price escalator in each applicable electricity distributor's 2023 Incentive Rate-setting Mechanism (IRM) model, on behalf of the distributor. As a result, the 2023 electricity distribution rates will be adjusted using the OEB's adjustment formula which

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<sup>1</sup> Price Cap Incentive Rate-setting (IR), Annual IR, Revenue Cap IR, Custom IR, and other similar rate adjustment options made available by the OEB, as applicable.

<sup>2</sup> Electricity distribution, electricity transmission, and natural gas distribution. EPCOR Natural Gas Limited Partnership uses the electricity distribution IPI for its annual rate adjustments for its two natural gas service territories (as noted in EB-2018-0264 and EB-2018-0336).

<sup>3</sup> EB-2010-0379, issued November 21, 2013 and updated December 4, 2013

consists of the inflation factor minus the X-factor, based on a distributor's approved rate-setting methodology.

Other utilities which have utility-specific models (e.g., those under Revenue Cap IR or Custom IR) should update any applications, as appropriate, for approval by the OEB.

Any questions relating to this letter should be directed to the OEB's Industry Relations hotline, at 1-877-632-2727 or [industryrelations@oeb.ca](mailto:industryrelations@oeb.ca).

Yours truly,

Nancy Marconi  
Registrar

Attachment: Appendix – 2023 Inflation Parameter Calculations

## Appendix – 2023 Inflation Parameter Calculations October 20, 2022

### Electricity Distribution – 2023 Inflation Factor

Table 1: Non-Labour Component - GDP-IPI (FDD) – National<sup>4</sup>

Year	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight
2020	113.4	113.5	114.0	114.7	113.900		
2021	116.2	117.4	118.9	120.8	118.325	3.8%	70%

Table 2: Labour Component – AWE – All Employees – Ontario<sup>5</sup>

Year	Annual	Annual % Change	Weight
2020	\$1,126.33		
2021	\$1,166.75	3.5%	30%

Table 3: Resultant Values – Annual Growth for the 2-Factor IPI Formula

Year	Annual GDP-IPI % Change (Table 1)	Weight	AWE % Change (Table 2)	Weight	Annual IPI	Annual % Change
2020					114.7	
2021	3.8%	70%	3.5%	30%	119.1	3.7%

Sources:

- [GDP-IPI \(FDD\): Statistics Canada, Table 36-10-0106-01 \(formerly CANSIM 380-0066\) - Price Indexes, gross domestic product, quarterly \(2012 = 100 unless otherwise noted\) - 2022 Q2, data accessed August 31, 2022](#)
- [Average Weekly Earnings \(AWE\): Statistics Canada, Table 14-10-0204-01 \(formerly CANSIM 281-0027\), Ontario, Industrial aggregate excluding unclassified businesses, annual \(current dollars\), data accessed August 31, 2022](#)

<sup>4</sup> As set out in the EB-2021-0212, OEB 2022 IPI Generic Proceeding, Procedural Order No. 1, Fact Sheet, August 27, 2021, the calculations of the “Annual % Change” in Table 1 and Table 2 are based on the logarithmic growth rate, as opposed to the arithmetic growth rate.

<sup>5</sup> Ibid

### Electricity Transmission – 2023 Inflation Factor

Table 1: Non-Labour Component - GDP-IPI (FDD) – National<sup>6</sup>

Year	Q1	Q2	Q3	Q4	Annual	Annual % Change	Weight
2020	113.4	113.5	114.0	114.7	113.900		
2021	116.2	117.4	118.9	120.8	118.325	3.8%	86%

Table 2: Labour Component – AWE – All Employees – Ontario<sup>7</sup>

Year	Annual	Annual % Change	Weight
2020	\$1,126.33		
2021	\$1,166.75	3.5%	14%

Table 3: Resultant Values – Annual Growth for the 2-Factor IPI Formula

Year	Annual GDP-IPI % Change (Table 1)	Weight	AWE % Change (Table 2)	Weight	Annual IPI	Annual % Change
2020					113.3	
2021	3.8%	86%	3.5%	14%	117.7	3.8%

Sources:

- Please refer to the Sources for Electricity Distribution, as set out in this Appendix.

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<sup>6</sup> Ibid

<sup>7</sup> Ibid