



July 7, 2023

Ms. Nancy Marconi
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Marconi:

EB-2023-0143: Request for generic variance account to track the incremental costs of locates in 2023 and future years

On June 14, 2023, the Ontario Energy Board (OEB) issued a letter to a group of large Ontario natural gas and electricity local distribution companies, and the Electricity Distributors Association, requiring additional information in order to determine whether a hearing may be required to consider the request for a new generic variance account.

The letter requested evidence on the following points:

1. Evidence on what costs related to locates are currently included in each of the Large Utilities' approved revenue requirement (and hence already included in base rates).
2. Evidence on the number of locates that were conducted by each of the Large Utilities in the years 2017-2022.
3. Evidence on the incremental costs due to an increased volume of locates requests, and the incremental costs due to the need to meet the new requirements under Bill 93. Further, the utility should provide evidence on the materiality of these incremental locates costs, and a general description of how the utility plans to incur the incremental costs prudently.
4. An explanation of why the generic variance account should be retroactive to January 1, 2023.
5. Draft accounting order for the requested locates services costs variance account

The table below summarises the information requested in points 1 to 3 above for Oakville Hydro:

Oakville Hydro	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Estimate
Number of Locates Requests	18,240	18,296	18,946	19,165	19,012	17,117	18,463
Cost of Locate Delivery Services Included in Base	\$806,672	\$813,932	\$823,699	\$837,702	\$851,105	\$874,085	\$901,181
Actual Cost of External Locate Delivery Services	\$666,572	\$809,964	\$905,952	\$876,482	\$879,040	\$730,257	\$1,621,806
Incremental Cost of External Locate Delivery Services							\$(720,625)

The costs related to locates currently included in Oakville Hydro's rates, and hence already included in base rates, are \$901,181 for 2023. This represents \$772,200 (\$825,000¹, reduced by 6.4% general OM&A reduction in Settlement Agreement) included in the approved 2014 Revenue Requirement from Oakville Hydro's Cost of Service application for 2014 rates, adjusted by the cumulative OEB inflation factors of 16.7% used to adjust rates in subsequent years. Forecast actual costs of \$1,621,806 in 2023 are \$720,625 above the amount included in approved rates, significantly higher than Oakville Hydro's materiality threshold of \$220,000.

For 2023, Oakville Hydro costs per locate of \$87.84 are on average 105% higher than for 2022 (\$42.66) and are effective from January 1, 2023. The factors driving this increase are:

- *Introduction of Compliance Penalties:* In order to enforce the desired acceleration in activity, a feature of this new legislation, specifically Bill 93, is the introduction of the 'absolute liability' language related to the requirements for locates to be completed in 5 days, and the ability for Ontario One Call ("OOC") to administer Administrative Monetary Penalties ("AMPs") for locate timeline non-compliance. Additionally for regulated utilities, the Government of Ontario passed legislation to ensure that the cost of AMPs is not passed on to ratepayers. The combination of rigid requirements on 5 day locates, along with the threat of AMPs, has forced dramatic upscaling of locate resources to avoid penalties that will be borne directly by the utility and its shareholders. It should be noted that the policy work on the key elements of the AMPs regime was not completed until late 2022/early 2023. Therefore, the required increase in scale to avoid AMPs is difficult to forecast given that the forward-looking volume of locate requests remains difficult to assess.
- *Changing Labour Market:* A key factor for the cost increases in locate services has been the tightening labour market and the wage gap of these jobs compared to other work in the broader construction industry. Locate work has traditionally been carried out at comparatively low wage levels (depending on location and contract, typically less than \$20/hr). With a tightening labour market, holding onto workers has proven challenging. Comparable, "entry-level" work in other industries can often start at \$24/hr or more. With a strong uptick in economic activity, brought on in part by the new government legislation, the need to hire hundreds of additional workers has meant that hourly labour rates to retain and grow the workforce have increased significantly.
- *Government Legislation Expected to Drive Higher Volumes:* As noted, the government of Ontario has prioritized the building of infrastructure and housing, and passed several pieces of new legislation intended to promote an acceleration of activity in the various areas they impact. What is common among the bills is that they strive to increase the volume of construction and in many of those cases, understandably, this new construction requires the location of underground infrastructure. In combination, these bills are expected to drive a large increase in the volume of locate activity; well beyond what was expected, even a few months ago.
- *Other factors:* The current locate framework makes it difficult to extrapolate the volume of locate work coming up during the dig season. Without a long-term understanding of the volume of work coming up, and with an uncertain regulatory framework that guides compliance priorities, utilities

¹ See Exhibit 4, Tab 3, Schedule 1, Page 2 of 3 from EB-2013-0159

are forced to guestimate resources needed for both compliance and the volumetric locate workload.

Other avenues, including process enhancements and internal resources, are being explored to optimise the administration of locate services so as to ensure incremental costs are incurred in the most prudent manner possible.

Oakville Hydro believes that the generic variance account should be retroactive to January 1, 2023 as this coincides with when the regulatory regime regarding AMPs was finalized and utilities had to begin incurring costs to ensure compliance. This included significantly higher external contract costs for 2023 driven by the factors referenced above.

A draft accounting order for the requested locates services costs variance account is included below as Appendix 1.

Should there be any questions, please do not hesitate to contact the undersigned.

Respectfully Submitted,

Original signed by

Scott Mudie
EVP and Chief Energy Transformation Officer

Appendix 1 - Draft Accounting Order

Account 1508 Other Regulatory Assets – Sub-Account Locate Delivery Services Variance Account

Oakville Hydro proposes to establish two new deferral accounts effective January 1, 2023, to record the net incremental costs of locates in 2023 and future years arising from the implementation of recent Provincial legislation: Bill 93 (Getting Ontario Connected Act, 2022). The incremental costs of locates are those costs not covered by current rates.

This account “1508 Other Regulatory Assets – Sub-account Locate Delivery Services Variance Account” will accrue carrying charges based on the OEB’s prescribed interest rates.

The accounts to be set up are as follows:

1. Account 1508 – Other Regulatory Assets, Sub-Account Locate Delivery Services Variance Account
2. Account 1508 – Other Regulatory Assets, Sub-Account Locate Delivery Services Variance Account, Carrying Charges

The journal entries to be recorded are as follows:

DR/CR 1508 Other Regulatory Assets – Sub-Account Locate Delivery Services Variance Account

CR/DR 5070 OM&A Expenses

To record the incremental costs of locates in 2023 and future years arising from the implementation of recent Provincial legislation: Bill 93 (Getting Ontario Connected Act, 2022), until the effective date of the next cost-based rate order.

*DR/CR 1508 Other Regulatory Assets, Sub-Account Locate Delivery Services Variance Account
Carrying Charges*

CR/DR 4405 Interest and Dividend Income

To record carrying charges on the principal balance in the sub-account Locate Delivery Services Variance Account.