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## BY EMAIL AND RESS

July 7, 2023

Ms. Nancy Marconi  
Registrar  
Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
P.O. Box 2319  
Toronto, ON M4P 1E4

Dear Ms. Marconi,

### **EB-2023-0143 – Request for Generic Variance Account to Collect Incremental Locate Costs**

This submission is in response to the OEB letter of June 14, 2023. That letter requested certain information be provided in response to a request by Hydro One Networks (“Hydro One”), and other Local Distribution Companies (“LDC”), for a generic variance account to track costs associated with the location of infrastructure and underground cables (“Locates”). As requested in the OEB letter, the named LDCs have consulted on their submissions.

To the request, we offer the following response.

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).

In Hydro One’s recent rates proceeding, EB-2021-0110, the filed evidence shows that Locate costs included in the test year were forecast to be \$13.4 million<sup>1</sup>. The final amount included in the actual revenue requirement includes a prorated Inflation Factor of 5.25% over 3 years less a settlement reduction of 2.0%. Therefore, the net amount included in 2023 rates for Locate costs is \$13.8 million.

2. Evidence on the number of locates that were conducted by each of the Large Utilities in the years 2017-2022.

The table below provides the number of locates performed from 2017-2022.

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<sup>1</sup> See Table 8 on Page 24 of Exhibit E, Tab 3, Schedule 2 from EB-2021-0110

During the requested period, Hydro One has had several acquisitions including, Haldimand Hydro, Norfolk Power, Orillia Power, Peterborough Utilities, and Woodstock Hydro. Collectively, the locates at these utilities represent a small minority of the total for Hydro One (<10%). However, resources have necessarily been allocated to those areas at different times causing volumes to fluctuate. The table below includes Haldimand, Norfolk and Woodstock areas because they have been fully integrated. However, the table omits Orillia and Peterborough as those areas were not included in EB-2021-0110.

As the table below shows, based on a total forecast spend in 2023 of \$26.3 million, the estimated incremental spend above the recovery allowed in rates is \$12.5 million. This represents a year over year increase of approximately 91%.

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>
Number of Locates	216,986	204,151	218,972	228,357	242,278	259,412	244,300
Cost per Locate (\$)	55.90	58.56	55.96	55.77	56.93	61.19	107.73
Estimated Locate Spend in 2023							<b>26.3</b>
Amount in Rates(\$M) <sup>2</sup>							<b><u>13.8</u></b>
Estimated Incremental Cost (\$M)							<b>12.5</b>

- 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.

A combination of several interrelated factors has driven significant cost increases in locates to the point of material impact on utility operations and finances.

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<sup>2</sup> See Part 1 above for explanation of the final amount in rates for 2023.

Most prominent among those factors are:

- **Government Legislation Expected to Drive Higher Volumes:** As noted, the government of Ontario has prioritized the building of infrastructure, and passed several pieces of new legislation including:
  - Bill 23 – More Homes Built Faster Act,
  - Bill 171 – Building Transit Faster Act,
  - Bill 257 – Building Broadband Faster Act and,
  - Bill 93 – Getting Ontario Connected Act.

These bills, along with accompanying legislation, are intended to promote an acceleration of activity in the various areas they impact. 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. While the increase in the volume of locates is not expected to be material in 2023, these increases are coming and will be dramatic.

- **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<sup>3</sup>. Additionally, for regulated utilities, the Government of Ontario passed legislation to ensure that the cost of AMPs is not passed on to ratepayers. Hydro One supports that position. Nonetheless, the combination of rigid requirements on 5 day locates, along with the threat of AMPs, have forced utilities to dramatically scale up 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

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<sup>3</sup> In a letter dated May 11th, The Ministry of Public and Business Service Delivery has agreed to delay the implementation of AMPs until April 1, 2024. However, significant spending on new resources has occurred and more is still anticipated as the implementation deadline approaches. Furthermore, significant spending on new systems to optimize processes is also expected to manage AMP implementation and impact.

industry. Locate work has traditionally been carried out at comparatively low wage levels (depending on location and contract, commonly around \$20/hr). With a tightening labour market, holding on to workers has proven challenging. Comparable, “entry-level” work in other industries can often start at \$25/hr or more. With a strong uptick in economic activity, brought on in part by the new government legislation, the need for workers has meant that the hourly labour rates necessary to retain and grow the workforce have increased significantly.

- **Other factors:** The current locate framework makes it difficult to extrapolate the volume of locate work coming up during the dig season. Previous attempts by certain utilities to engage with project proponents that drive locate requests have generally proven to be unsuccessful. Without a long-term understanding of the volume of work coming up, and with an uncertain regulatory framework that guides compliance priorities, utilities are forced to “guesstimate” resources needed for both compliance and the volumetric locate workload.

Hydro One continually seeks opportunities to reduce locate volumes and costs without compromising public or employee safety. One successful initiative has been Alternate Locate Agreements (ALA). This is where Hydro One allows for certain, low-risk excavation work, such as hand digging to minimal depth, to be completed without the need for a locate in the field. This process lowers costs for the utility and allows companies to begin their work faster. There has been a significant increase in the volume of requests that fall under an ALA which has helped offset rising volumes.

4. An explanation of why the generic variance account should be retroactive to January 1, 2023.

The increase in Locate costs as denoted by the cost drivers listed above, generally began to emerge in the second half of 2022 and early 2023. Bill 93 came into force in April 2022, and by October 2022, discussions were ongoing for the treatment of penalties. Labour market tightening quickly followed Bill 93 introduction. The impacts of Bill 23 are yet to be felt but they are coming.

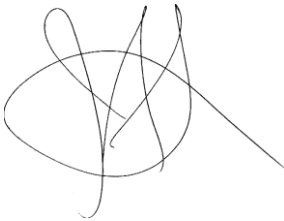
By the time the impact of these changes began to become apparent, Hydro One was well on its way to completion of its latest rate proceeding and did not have an opportunity to adjust its rates for this item. Moreover, the recent approval covers the 2023-2027 period so the opportunity for rebasing is well in the future.

5. Draft accounting order for the requested locates services costs variance account.

See Draft Accounting Order included on the following page.

We trust that the responses provided are satisfactory. If there is a need for further information related to our request, we stand ready to support the Board in its deliberations.

Sincerely,

A handwritten signature in black ink, appearing to be "Jeffrey Smith". The signature is written in a cursive style with a large, sweeping initial "J" and "S".

Jeffrey Smith

**HYDRO ONE DISTRIBUTION ACCOUNTING ORDER**  
**ACCOUNT 1508 – OTHER REGULATORY ASSETS, SUB-ACCOUNT LOCATE DELIVERY**  
**SERVICES VARIANCE ACCOUNT**

Hydro One Distribution proposes the establishment of a new Account 1508 – Other Regulatory Assets Sub-Account “Locate Delivery Services Variance Account” to record the variance between actual locate costs and the approved cost included in base rates.

This account includes costs incurred to enable the locate activities.

The account will be established as Account 1508, Other Regulatory Assets Sub-Account “Locate Costs Variance Account” effective January 1, 2023.

Hydro One Distribution will record interest on the balance in the sub-account using the prescribed interest rates set by the OEB. Simple interest will be calculated on the opening monthly balance of the account until the balance is fully disposed.

The following outlines the proposed accounting entries for this variance account.

<u>USofA #</u>	<u>Account Description</u>
DR/CR 1508	Other Regulatory Assets, Sub-Account “Locate Delivery Services Variance Account”
CR/DR 5070/5040	OM&A

Initial entry to record the variance between actual locate costs and the approved cost included in base rates.

<u>USofA #</u>	<u>Account Description</u>
CR/DR 4405	Interest income
DR/CR 1508	Other Regulatory Assets, Sub-Account “Locate Delivery Services Variance Account”

To record interest improvement on the principal balance of the Locate Delivery Services Variance Account.