



By RESS

July 7, 2023

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

Dear Ms. Marconi:

Subject: Response to Letter of Direction to Produce Evidence - Incremental Locates Costs (EB-2023-0143)

On June 14, 2023 the Ontario Energy Board ("OEB") issued a *Letter of Direction to Produce Evidence* in response to a request¹ from a group of large Ontario natural gas and electricity local distribution companies ("the Large Utilities") for the establishment of a new sector-wide variance account to track incremental costs of locates effective January 1, 2023 related to the implementation of recent Provincial legislation: Bill 93, *Getting Ontario Connected Act, 2022*. The Electricity Distributors Association on behalf of its members also requested² a similar account.

The *Letter of Direction to Produce Evidence* indicated that the additional information was to determine if "a hearing may be required to consider the request for a new generic variance account"³.

Hydro Ottawa is a licensed electricity distributor serving approximately 360,000 customers in the City of Ottawa and the Village of Casselman. Hydro Ottawa is committed to delivering value across the customer experience by providing reliable, safe and responsive services to its customers. Hydro Ottawa was one of the Large Utilities requested to produce additional evidence.

¹ Letter re: Bill 93 (Getting Ontario Connected Act, 2022) Request for Variance Account for Incremental Costs for Locates, (May 11, 2023).

² Electricity Distributors Association, Letter Re: EDA Request for Generic DVA – Locates Services Deferral Variance Account (LSDVA), (May 15, 2023).

³ Ontario Energy Board, Letter re: Request for generic variance account Letter of Direction to Produce Evidence Ontario Energy Board File Number: EB-2023-0143, (June 14, 2023), page 2.



Please find in Attachment A Hydro Ottawa's responses to the OEB request for additional information.

Sincerely,

DocuSigned by:
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April Barrie

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Attachment A: Responses to Direction to Produce Evidence

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 Ottawa's last rebasing rate application, \$3.1M was included in OM&A related to underground cable locates as part of the 2021 test year. Through settlement, Hydro Ottawa agreed to a lower total 2021 OM&A envelope without specific line item reductions. For the purpose of this response, the underground cable locates number provided has not been reduced as a result of the settlement agreed reduction. If Hydro Ottawa were to apply the percentage reduction to these costs, the adjusted amount would be \$3.0M.

Evidence on Hydro Ottawa's estimated locates costs can be found in its 2021-2025 Custom Incentive Rate Application⁴ in Schedule 4-1-4: Operations, Maintenance and Administration Cost Drivers and Program Variance Analysis.

No costs related to Administrative Monetary Penalties ("AMP") were included in the estimate.

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

Please see Table 1 for the number of locates and related costs that were conducted by Hydro Ottawa from 2017-2022 and an estimate for 2023.

Table 1 - Historical Volume of Locates and Associated Costs⁵

	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Estimate
# of Locates (segments)	87,622	102,798	104,064	94,076	87,097	67,992	65,055
Cost included in base rates					\$3,114,336	\$3,114,336	\$3,114,336
Actual Costs of External Locate Delivery Services	\$2,198,940	\$2,756,996	\$2,919,011	\$2,691,177	\$2,354,260	\$2,591,069	\$4,105,529
Incremental Cost of External Locate Delivery Services	N/A	N/A	N/A	N/A	\$760,076	\$523,267	(\$991,193)
Cost per locate	\$25.10	\$26.82	\$28.05	\$28.61	\$27.03	\$38.11	\$63.11

⁴ EB-2019-0261 (February 10, 2020).

⁵ The costs associated with Ontario One Call are included in the figures above



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.

“Bill 93, Getting Ontario Connected Act, 2022 received Royal Assent on April 14, 2022. Among other things, Bill 93 included amendments to the Ontario Underground Infrastructure Notification System Act, 2012 (the Act) that are intended to improve the processes and requirements related to determining the location of underground infrastructure, enabling construction activities in the province to be completed faster and more efficiently, without compromising safety. The amendments to the Act arising from Bill 93 require LDCs to complete locate requests within five days, failing which the LDC is subject to administrative monetary penalties (AMPs) under the Act.”⁶

The government of Ontario has prioritized building infrastructure and housing, and passed legislation (More Homes Built Faster Act, Building Broadband Faster Act, and the Getting Ontario Connected Act) to facilitate this. Key elements included the expansion of the Dedicated Locator process, rigid requirements for locates to be completed in 5 days, and the ability for One Call to administer AMPs for locate timeline non-compliance. In addition, the Government of Ontario proposed legislation to ensure that the cost of AMPs could not be passed on to rate-payers and has indicated plans to engage stakeholders on prohibiting infrastructure owners/operators from charging for locates.

These relevant legislative changes were completed after Hydro Ottawa rebased, and, as such, these incremental costs were not included or contemplated in the estimated revenue requirement that set base rates. The combination of a five day locates timeline with the implementation of AMPs has required utilities and their vendors to significantly scale up resources. Although the AMP framework has been recently updated to be effective April 2024, work has already started to move toward compliance and will continue in order to have utilities align with these newly established requirements and manage the resulting rippling outcomes.

⁶ Letter re: Bill 93 (Getting Ontario Connected Act, 2022) Request for Variance Account for Incremental Costs for Locates, (May 11, 2023), page 1.



A key factor for the cost driver has been the tightening labour market and the wage gap against other similarly paid work. Locate work has traditionally been carried out at near-minimum wage levels and requires substantial training. Bill 93 and other legislation has put pressure and increased volume of activities related to locates. With a tightening labour market, holding onto skilled locates workers has proven challenging. Locates work has become more stressful and difficult to manage with increased tighter timelines and enhanced liability, while also being seasonal work. Other “entry level” work can start at similar or higher hourly rates. Utilities, including Hydro Ottawa are needing to estimate resources required for both compliance and the volumetric locate workload and pay for this service accordingly in this new legislative environment.

Hydro Ottawa currently completes locates work with external vendors and has been working closely with its locates vendor for better management of locate services. This includes more frequent monitoring and analytics for potential compliance issues to minimize disruption to customer projects and minimize future costs. This work is ongoing and efficiencies are being achieved, however, these efficiencies do not outweigh the increased costs related to labour, volume, and new monitoring services and process, including more internal staff time needed to manage and communicate with vendors.

Please see table 1 above for volume and cost increases related to locates. Given the limited experience with the newly established requirements, Hydro Ottawa anticipates further measures may be required to ensure compliance. In addition, the full impact of the increased labour rates will continue into future years. Hydro Ottawa estimates that the external locates delivery cost in 2024 will be in the range of \$4.4M.

2023 estimated locates numbers are based on January to June Actuals with July to December estimated on historical volumes over the last two years. As a result, the volume does not reflect all anticipated increases related to legislative changes. The increase in the 2024 estimate is due to the impact of a full year.

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

Bill 93 came into force April 2022, while the AMP regulation was originally effective April 1, 2023, and is now effective April 2024. It is not unusual for utilities to be required to incur costs or loss of revenue prior to the applicable provisions of the legislation coming



into force. In many situations, costs are incurred to prepare to be compliant and in other cases revenue may be reduced.

The OEB has previously seen fit to provide retroactive relief through variance and deferral accounts, including where government policy resulted in increased costs or reduced revenue for utilities. The OEB retroactively reopened the Pole Attachment Revenue Variance account to record the impact of the regulated methodology change for pole attachment charge as outlined in O. Reg. 842/21, *Electricity Infrastructure (Part VI.1 of the OEB Act)* for those distributors who had “rebased their rates and incorporated an updated pole attachment charge into their rates”.⁷ The effective date aligned with the effective date of the interim rate order⁸ that “suspended the inflationary adjustment for 2021 on an interim basis, in light of the October 1, 2020 mandate letter from the Minister to the Chair of the OEB’s Board of Directors, which identified as an organizational priority for the OEB to “Consider pole attachment policy in the context of opportunities to better serve areas that are currently underserved”⁹ in support of Bill 257, *the Supporting Broadband and Infrastructure Expansion Act, 2021*.

In addition, in relation to the Accounting Order (001-2023) for the Establishment of a Deferral Account to Record Impacts Arising from Implementing the Ultra-Low Overnight (ULO) Regulated Price Plan Option,¹⁰ the OEB aligned the effective date of the deferral account with the date the OEB gave notice of the proposed amendments to the Standard Supply Service Code (“SSSC”) and the Regulated Price Plan (“RPP”) Manual to implement a new optional ultra-low overnight (“ULO”) price plan for electricity consumers on the RPP.

January 1, 2023 would align with the rate/calendar after Bill 93 came into force and when utilities were preparing for and being impacted by the legislative changes, although many started sooner.

⁷ Ontario Energy Board, Letter re:Accounting Guidance for Wireline Pole Attachment Charges, (December 16, 2021), page 2.

⁸ Ontario Energy Board, Decision and Rate Order, EB-2020-0288 (December 10, 2020), p. 3

⁹ Ontario Energy Board, Decision and Rate Order, EB-2021-0302 (December 16, 2021), p. 1

¹⁰ Ontario Energy Board, Letter re:Accounting Order (001-2023) for the Establishment of a Deferral Account to Record Impacts Arising from Implementing the Ultra-Low Overnight (ULO) Regulated Price Plan Option Ontario Energy Board File No. EB-2022-0160, (June 14, 2023), page 2.



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

Please see below for a draft accounting order for the requested locates services costs variance account.

Draft Accounting Order:

Electricity distributors may establish two new accounts effective January 1, 2023:

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

In Account 1508, Other Regulatory Assets, Sub-account Locate Delivery Service Variance Account, utilities may record the revenue requirement related to the incremental costs related to Bill 93 (Getting Ontario Connected Act, 2022). For clarity this account shall record the difference between the actual locates related costs the utility incurs and the approved costs included in base rates (as per its last cost of service rate application).

Distributors are expected to track costs at a sufficiently detailed level or category to assist in a prudence review of the costs incurred.

This account will accrue interest at OEB prescribed rates until final disposition. The balance, if any, will be disposed of as part of the Group 2 Accounts and in accordance with the OEB's direction regarding the disposition of Group 2 Accounts.

Sample Journal Entries

A) To record incremental costs related to locates.

Dr. Account 1508 – Sub-account Locate Delivery Service Variance Account
Cr. Account XXXX –Sub-account Locate Delivery Service Variance Account

B) To record the carrying charges on the monthly opening balance in Account 1508, Other Regulatory Assets, Sub-account Locate Delivery Service Variance Account

Dr. Account 1508 – Sub-account Locate Delivery Service, Carrying Charges
Cr. Account 6035 Other Interest Expense