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Energy
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BY EMAIL and WEB POSTING

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**To: All Rate-regulated Electricity Distributors
All Intervenors in 2019 and 2020 Electricity Distribution Rate Applications
All Rate-regulated Natural Gas Distributors, Rate-regulated Electricity Transmitters, Ontario Power Generation Inc. and the Independent Electricity System Operator
All Other Interested Parties**

Re: Adjustments to Correct for Errors in Electricity Distributor “Pass-Through” Variance Accounts After Disposition

This letter provides notice of the Ontario Energy Board's (OEB) approach to addressing accounting or other errors in respect of certain electricity distributor variance accounts through retroactive adjustments in appropriate cases. This generic approach will apply to the variance accounts listed below for so-called “pass-through costs” that have been cleared by a final order of the OEB on and after the date of this letter.

Background

“Pass-through costs” are amounts that relate to certain commodity, Independent Electricity System Operator and other third party charges that electricity distributors have paid or that are payable and that are intended to be passed through to their customers without earning a profit or incurring a loss. Variances in respect of these costs are captured in the following Group 1 variance accounts (including any sub-accounts) until such time as the residual balances are disposed:

- Account 1550 (Low Voltage Charge Account)
- Account 1551 (Smart Meter Entity Charge Account)
- Account 1580 (Wholesale Market Service Charge Account)
- Account 1584 (Retail Transmission Network Charge Account)
- Account 1586 (Retail Transmission Connection Charge Account)
- Account 1588 (RSVA Power Account)
- Account 1589 (Global Adjustment)
- Account 1595 (Disposition and Recovery/Refund of Regulatory Balances)

These variance accounts are designed to ensure that customers ultimately pay no more and no less than what their distributor paid, and that costs are tracked for recovery on the appropriate basis.

Accounting and other errors in these pass-through variance accounts can, depending on the circumstance, benefit the distributor at the expense of customers, benefit customers at the expense of the distributor, or benefit one group of customers at the expense of another group with no financial impact on the distributor. Such errors, which have been discovered in a number of cases after an account balance has been disposed of through a final order, are of particular concern given the potential for the balances – and by extension the associated implications for customers – to be very large. For most electricity distributors, the cost of electricity can be the single largest cash item that flows through their monthly accounting records and can be the single largest component of a customer's bill.

Correcting Errors through Retroactive Adjustments

Where an accounting or other error is discovered after the balance in one of the above-listed variance accounts has been cleared by a final order of the OEB, the OEB will determine on a case-by-case basis whether to make a retroactive adjustment based on the particular circumstances of each case, including factors such as:

- whether the error was within the control of the distributor
- the frequency with which the distributor has made the same error
- failure to follow guidance provided by the OEB
- the degree to which other distributors are making similar errors¹

Consistent with the OEB's past practice, an asymmetrical approach to the correction of the error may be appropriate. For example, if a distributor repeats an error, and if correcting the error is solely to the benefit of the distributor, the OEB may not approve part or all of the correction and of any associated carrying charges.

The OEB expects electricity distributors to disclose errors that have been discovered in their accounting records and to record correcting adjustments to the affected accounts in the year in which the error is discovered. The OEB also expects electricity distributors to bring these correcting adjustments to the attention of the OEB for consideration as part of the distributor's next rate application.

¹ For example, the OEB recently provided extensive accounting guidance for electricity distributors related to Accounts 1588 and 1589 (the commodity pass-through accounts).

The OEB also takes this opportunity to remind electricity distributors that it is their responsibility to ensure that all of their account balances are accurately reported when seeking approval for disposition from the OEB.

This letter is intended to inform electricity distributors and other interested parties of the OEB's generic approach to correcting errors in relation to the above-noted variance accounts, and should not be understood as limiting the OEB's discretion in dealing with errors in respect of other accounts held by electricity distributors or in respect of accounts held by other rate-regulated entities as may be appropriate in any given case.

Any questions relating to this letter should be directed to Industry Relations at Industryrelations@oeb.ca.

Yours truly,

Original Signed By

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Registrar and Board Secretary